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# The political economy of Kazakhstan: A case of good economics, bad politics?☆

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**Abstract**

Can autocracies and their associated institutions successfully implement economic policies that promote growth and investment? Can "good economics" somehow offset the effects of "bad" politics? Kazakhstan is a case where an autocratic regime has actively projected market-friendly policies and attracted significant amounts of incoming investment. These policies are to some extent reflected in the country's governance ratings, although there has been a significant amount of investment disputes that question the attachment to the rule of law. Moreover, the political regime has remained strongly personalized around the founder President, his family and associates. This is reflected in the economics of the autocracy whereby a large public sector and a set of privately held businesses coexist to mutual benefit. The latter have been formed around a very small number of highly connected individuals whose initial accumulation of assets allows them also to act as necessary gatekeepers for entrants. Competition as a result remains limited in both economic and political domains. Yet, uncertainties over the future leadership, along with latent rivalry over access to resources and markets, make the political equilibrium quite fragile, as the events of January 2022 have underlined. In short, "bad" politics both squeezes the space for, and distorts the benefits from, "good" economics. At the same time, the limits of "good" economics are reflected in the extraordinary concentrations of ownership, control and wealth that have occurred.

*Keywords:* political networks, autocracy, investment.
*JEL classification:* D72, H11, L14, P26.

☆ This paper forms part of a wider research programme on the political economy of autocracies.

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## 1. Introduction

Investors routinely have to weigh up the balance between political and economic risks. Autocratic political systems, particularly where entrenched nodes of power and economic interest have been formed around the autocrat, family and selected associates, will tend to carry some particular, and often accentuated, risks. Those may, for example, relate to succession or turnover but also to the behavior of key players and government. What happens when that risk is seemingly abated by economic policies that promote domestic and inward investment and are supported by ratings from international and commercial organizations that suggest market-friendly institutions and safeguards are in place? Can the economic and financial context trump the risks that can be traced to its political and governance arrangements? In other words, does "good" economics dominate "bad" politics?

Although the question is obviously highly simplified, the choice — albeit with many nuances — is one that is common for both investors and policy makers. Indeed, many autocratic regimes have sought actively to motivate investment, particularly when their domestic resource base has been limited. In some contexts, even when domestic assets — such as natural resources — have been significant, autocratic regimes have pursued policies that are commonly deemed to be market-friendly, not least to tap into technology and skills that are unavailable domestically.

There has long been a debate about the relationship between political systems and economic performance and the channels by which they are connected. What is clear is that autocracies can, and do, grow rapidly but over longer periods of time, they struggle to maintain momentum. Moreover, autocracies are given to imploding under the weight of internal disputes arising from the ways in which power is held and deployed. The protests — some violent — that erupted in Kazakhstan in January 2022 are an indicator of precisely such fallibilities. However, much of comparative analysis has shifted away from a broad focus on the types of political regime to a focus on institutions. Economic performance is considered to depend on having appropriate institutions which, in turn, tend to be associated with particular political systems. For example, in their widely read book — "Why nations fail"—Acemoglu and Robinson (2012) draw a contrast between inclusive and extractive institutions. The former includes the rule of law and an independent judiciary, established property and contracting rights, the provision of public services, as well as incentives and constraints on economic actors of a market-based nature. The executive is accountable, there is political turnover and there are safeguards for civil and other rights. In contrast, extractive institutions lack all or some of these attributes and tend to be associated with political systems where turnover is either absent or occurs outside of a predetermined and constitutional framework. Although countries with extractive institutions can succeed in generating substantial growth, they are unlikely to be able to sustain this due to the nature of their institutions.

Despite scepticism about the longer run benefits of varieties of autocracy, some autocracies have tried to square the circle by promoting more transparent economic governance and by providing incentives for investment, including by foreigners. In fact, attracting foreign investors has often been an important motivation for trying to improve the wider business environment, triggering changes to some institutions. Another common response has been to simplify the procedures and lower the costs of establishing a company, even if changes to the broader legal and political framework and rights have not necessarily been implemented. An obvious question that then arises is whether selective measures to establish a more market-friendly and transparent framework for businesses and investors can adequately substitute the risk that is inherently associated with political regimes that are based on unaccountable, or weakly accountable, power and where institutions provide few safeguards? And, if they can, under what conditions?

In answering this broad set of questions, the example that is used most commonly to make the case that economic growth can occur even with autocracy and an absence of sound institutions is, of course, China. That country has successfully attracted foreign investment averaging $130 billion per annum over the past 20 years while — if official numbers are to be believed — achieving double digit growth rates. Further, due to its size and complementary investments — such as in infrastructure and human capital — it has created advantages that most other autocratic regimes lack. It might be argued that these combined features make it an almost exceptional case. Yet, many other economies that lack the same advantages of scale and scope for policy have nevertheless put in place codes of behavior and institutional features aimed at limiting the scope for discretionary action either by governments or regulators.

In this paper, we look closely at one such example — Kazakhstan. A political system dominated for three decades by one man with a now entrenched, largely family-based, autocracy has co-existed with an economic system that has quite deliberately aimed to make the country an attractive place to invest. In the past decades, a series of government programmes have given priority to encouraging investment. The most recent example has been the so-called "100 concrete steps" programme launched in 2015 with the objective of making the country one of the top 30 most competitive countries.[1] Indeed, significant inward investment has been attracted and the country has also devoted time and resources to enhancing its image abroad. A commonly cited metric has been the World Bank's Doing business which presently ranks the country 25th out of 190 countries, putting it as high as 7th for protection of minority investors and 4th for contract enforcement.

Despite such improved ratings, the strategy of combining autocracy — with its web of connections and preferences flowing from the political set-up — with an apparent openness to investment and trade has had mixed results. A series of recent analyses have noted the persistence of distortions and unfair practices that ultimately result from the political system.[2] Further, despite selective attempts at improving governance and investor rights, when conflicts arise with the ruling elite (including within that elite), such constraints can be toothless or irrelevant. That this is the case is ultimately attributable to the nature of the political system and the organization of power in the country. In common with experience from other autocracies, it suggests that there will always be binding limitations on the ability to introduce better governance when it runs into conflict

[1] As of December 2020, it was reported that 71 out of 100 steps had been completed. Yet, according to the World Economic Forum's Global Competitiveness Report, Kazakhstan's ranking of 42nd in 2016 slipped to 59th in 2017–2018 and 55th in 2019.

[2] For example, Chatham House (2019).

with the interests — and even the whims — of powerful incumbent families and interest groups. However, even if this is the case, a more complex and critical question concerns the dynamics of the set of political and economic institutions. In particular, will an entrenched elite that has grown out of its connections to political power maintain the same type of behavior that it has pursued in the past, placing asset accumulation, rent seeking and the avoidance of institutional and market-based disciplines as the central pillars of their strategy? Or will that elite evolve in ways whereby a combination of self-interest and longer-term survival leads naturally to a diminution of discretionary and arbitrary behavior? It is these questions about the organization of political and economic power and their likely dynamics that this paper addresses.

The paper is organized as follows. The first section sets the scene by considering how the economy has fared in the thirty years since the state was created out of the ruins of the Soviet Union. The focus is on economic performance, as measured by growth in GDP, income per capita as well as productivity, including with respect to comparable economies in the region and elsewhere. In addition, there is a short discussion of broader measures, including for education.

The second section then looks at how Kazakhstan stacks up in terms of many, widely used, measures of institutions, governance and political systems. We also see how the country lies relative to other countries in the region, at similar levels of income and with similar political systems. Country-wide measures or indices of governance are used.

The third section looks at Kazakhstan's ability to attract investment, especially foreign direct investment as well as the sectoral disposition of that investment. It also focuses on the environment facing investors. Whilst the country has undoubtedly managed to attract a fairly significant inflow of foreign direct investment, it has also managed to engender a number of significant disputes with investors. The reasons for those disputes have varied but a common feature has been the use of arbitrary or unconstrained decision-making which can, ultimately, be traced back to the political system.

The fourth section then proceeds to look directly at the nature of political power in Kazakhstan and the likely dynamics for the regime. It is clear that power has been highly personalized being formed around the ex-President and his family. There is a surrounding elite that has benefitted from the regime. However, the scope for future disputes, especially given underlying succession issues, is very much present, as made manifest by the protests in early 2022. Although attempts to ringfence or limit the scope for the exercise of arbitrary power have helped improve Kazakhstan's country risk ratings, the nature of political power and decision making has left the door wide open to arbitrary actions, including by parts of the population dissatisfied with the current dispensation. As such, it demonstrates very clearly the limits of partial, selective reforms in a context where political power is still highly concentrated and where dynastic and other considerations continue to play a major role.

The fifth section examines the economics of the autocracy. The large size of the public sector and the state and the way its governance is arranged testifies to a persistent politicization of decision making. These arrangements have implications for the treatment of private business including those specific businesses that are favored by politicians and government. What has resulted includes large concentrations of wealth and assets in those closely connected to the regime by birth, marriage or otherwise. Indeed, the power of connections that link political individuals and business is shown to be a defining feature of the regime. There are, as a consequence, relatively few new entrants into those parts of the economy that benefit from such connections while entry, when it does occur, requires accommodation or outright partnership with one or more of the incumbent players. The consequence is that the extent of rivalry and competition is attenuated as large state-owned enterprises (SOEs) and connected private businesses dominate the formal part of the economy. The rest of the economy is populated by smaller firms most of whom operate at low levels of productivity and with little or no access to formal finance.

## 2. Economic performance

There is no doubt that in the past thirty years, the Kazakh economy has seen very substantial growth. At present, Fig. 1 shows that the country's economy is roughly two and a half times larger than it was when the state was founded. Fig. 2 also shows that after the stagnation of the 1990s, per capita growth accelerated

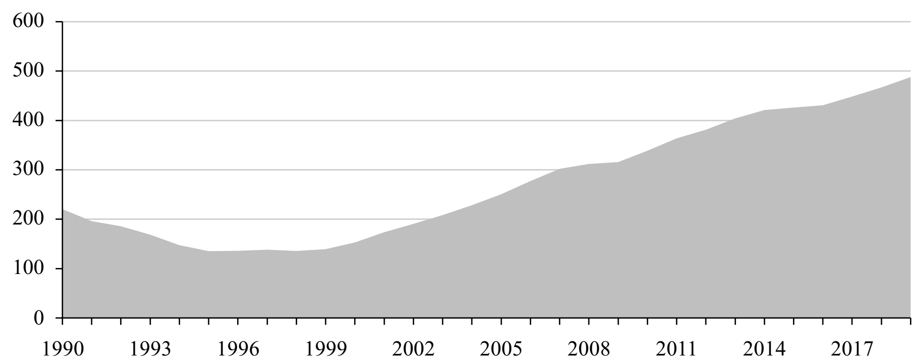


**Fig. 1.** Kazakhstan GDP (PPP, constant 2017 international dollars), 1990–2019 (billion U.S. dollars).

*Source:* World Bank (2019a).

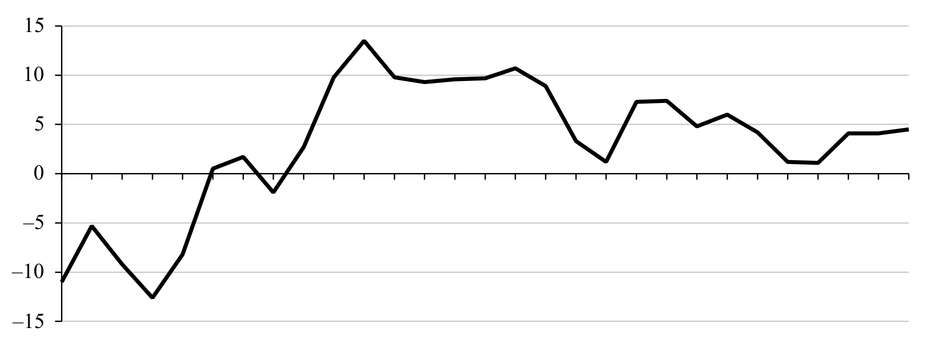


**Fig. 2.** Kazakhstan GDP per capita growth (PPP, constant 2017 international dollars) 1991–2019 (%).

*Source:* World Bank (2019a).

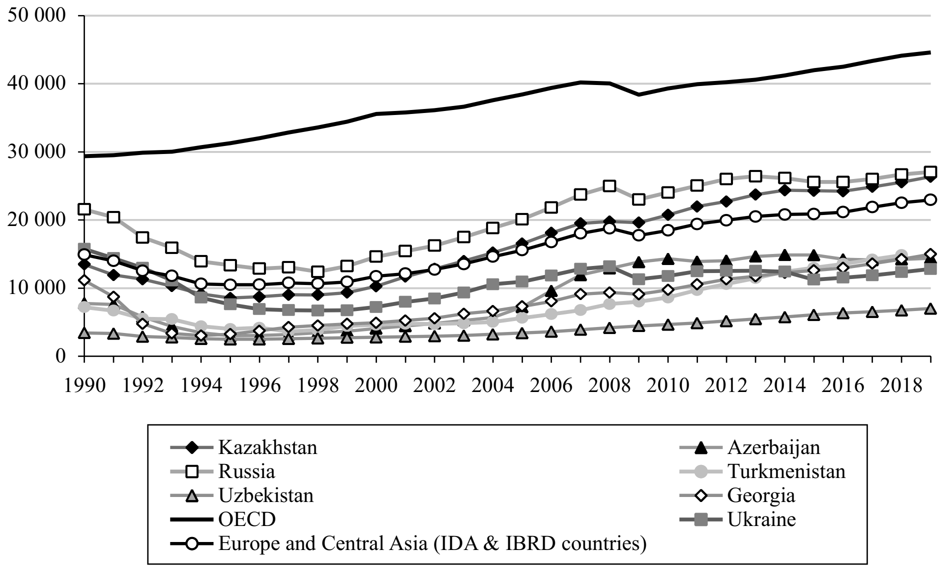


**Fig. 3.** GDP per capita (PPP, constant 2017 international dollars) for Former Soviet Union (FSU) economies and OECD, 1990–2019 (U.S. dollars).

*Source:* World Bank (2019a).

to nearly 10% per annum between 2000–2009. In the subsequent decade, growth has been more volatile but has still averaged around 4.5% pa. What this has meant is that per capita incomes have doubled between 2000–2009 and increased by a further 30% between 2010 and 2019. Labour productivity also nearly doubled between 2000 and 2009 and increased by a further 40% in the following decade.

The dramatic improvement in Kazakhstan's economic performance has been linked to its ability to attract investment which we discuss in more detail below. Indeed, most of Kazakhstan's growth — as well as incoming investment — has been attributable to oil and gas. In recent years, oil's share in total GDP has been around 20–25%,[3] with oil exports comprising 55–60% of total exports and oil-based revenues around 35% of total fiscal revenues. Non-oil revenues have remained stable at around 13–14% over the last decade. As such, the economy remains squarely based on extractive industries with oil and gas and some mining as the main pillars. Despite a variety of announced policies aimed at promoting diversification, the results have been both slow and limited in the coming.

How does Kazakhstan's performance compare to other successor states to the Soviet Union? Fig. 3 shows that at its birth, Kazakhstan was actually one of the richer Soviet territories. Per capita incomes were considerably larger than its neighbors elsewhere in Central Asia or the Caspian region and were at a similar level to Ukraine, although slightly poorer than Russia. Presently, the gap with its immediate neighbors has widened further, while the country's per capita income level is more than double that of Ukraine and still similar to that of Russia. In short, Kazakhstan has largely outperformed countries that had some similar institutional and other initial conditions carried over from the Soviet period.

[3] An alternative measure using natural resource rents from the World Bank Development Indicators shows a peak of nearly 26% of GDP in 2000 falling to around 18% in 2019/20.

**Table 1**
Cross country comparison using human development indicators.

| Indicator | Kazakhstan | Russia | Azerbaijan | Georgia | Europe & Central Asia |
|---|---|---|---|---|---|
| Human Development Index | 0.819 | 0.823 | 0.754 | 0.805 | 0.779 |
| Population living below income poverty line, national poverty line (%) | 4.3 | 3.7 | 5.1 | 20.1 | 11.6 |
| Urban population (%) | 57.4 | 74.4 | 55.7 | 58.6 | 63.2 |
| Education | | | | | |
| Education Index | 0.822 | 0.823 | 0.711 | 0.851 | 0.743 |
| Programme for International Student Assessment (PISA) score in mathematics[a)] | 423 | 488 | 420 | 398 | – |
| Programme for International Student Assessment (PISA) score in science[a)] | 397 | 478 | 398 | 383 | – |
| Literacy rate, adult (% ages 15 and older) | 99.8 | 99.7 | 99.8 | 99.4 | – |

[a)] OECD average is 489.
*Source:* UNDP (2020).

Given their common dependence on natural resources and a similar, long-term dominance of the political system by one autocratic family, Kazakhstan's neighbor — Azerbaijan — provides an interesting comparison. The latter's per capita income was roughly 25% lower than that of Kazakhstan at the time of the Soviet Union's disintegration. That gap has now expanded to over 45%. Other indicators — such as educational enrolment, poverty rates and income disparities — also suggest that Kazakhstan has performed significantly better. Even so, Kazakhstan displays many of the characteristics of autocracies: a centralization of decision-making and the accumulation of income and wealth in limited numbers of families and businesses, the common feature of which is their close connection to power.

Finally, Table 1 looks at how the country has fared in terms of indicators other than GDP. Using the UNDP's Human Development Index which brings in health and education as well as income, Kazakhstan comes out roughly comparable to Russia and better than the wider regional average. Concerning education, both the index relating expected and actual years of schooling, as well as the PISA scores for mathematics and science also show that the country has performed relatively well. Although the scores fall below Russia and the OECD average, they are generally superior to the regional average. Poverty rates remain low.

## 3. Governance and its measurement

Kazakhstan has seen significant institutional improvements. For example, the EBRD's transition indicators or qualities show that Kazakhstan scores better on competition and governance than its Central Asian neighbors, although it still sits well within the frontier (EBRD, 2020). However, in making assessments of institutions, the possible gap between theory and practice needs to be taken into account. For example, despite having a well-framed Presidential Constitution with a clear delineation and separation of powers, the judiciary presently lacks independence and a weak parliament exerts little effective oversight over the executive. Political competition is very limited as the ruling party faces almost no real challenge from a small number of tame parties. New political formations are effectively excluded. At the same time, constitutional arrangements have often been modified when required. For example, power that was earlier concentrated in the Presidency has been subsequently qualified as — most recently — parallel organizations, such as the Security Council, have become alternative loci of decision making. Such changes in the balance of powers and to the constitution have almost exclusively been driven by the interests and objectives of the former President, N. Nazarbayev. With regard to political risk, despite the changeover in President in 2019 — following Nazarbayev relinquishing the Presidency — there are obvious succession issues not so far beneath the surface; issues that could potentially open the doors to future political turmoil. As such, they reflect the challenge of transferring power that afflicts almost all autocracies, particularly those where incumbents and their connections have large resources to protect.

Some recent reviews of Kazakhstan's political and legal institutions have concluded that instead of addressing institutional failings, such as with regard to the judicial system and the rule of law, the government has followed instead a strategy of setting up islands or enclaves of relative transparency.[4] Prominent examples are the Astana International Financial Centre and the International Arbitration Centre that were established in 2018 with a view to boosting investor confidence and safeguards.[5] In addition, the country had earlier signed up to the Energy Charter Treaty, as well as a host of bilateral investment treaties.[6] In all instances, the aim has been to signal compliance with international norms in helping attract inward investment, notably to its oil and gas sectors, as well as mining and telecoms. Yet — as we shall see in Section 3 — there have been a number of cases where foreign investors have been expropriated or had their interests materially impaired or diluted. Such commercial disputes have often become protracted and, in some cases, the government has chosen to ignore arbitration decisions and international legal judgments.

Improving the rule of law and institutions outside these islands or enclaves has made limited progress, although civil and commercial courts appear to function quite effectively, particularly when high-level interests are not involved. Arbitrary behavior and abuse of authority, alongside significant levels of corruption across public agencies, are, as a result, enduring features. One indicator of high-level corruption is the issuance of unexplained wealth orders in excess of 100 million pounds in the UK against members of Nazarbayev's family. Perhaps most fundamentally, it has been argued that there is one set of rules for the country's elite — notably the family and associates of the for-

[4] See, for example, Chatham House (2019); Kay and Traversi (2021); Satubaldina (2017).

[5] The AIFC is a form of special economic arrangement with companies locating in it exempt from taxation until 2066. It has its own court which is independent of the Kazakh legal system and is based on English common law and language. The IAC is an independent entity set up under New York arbitration rules with a panel of international arbitrators.

[6] These are listed on UNCTAD's website: https://investmentpolicy.unctad.org/international-investment-agreements/countries/107/kazakhstan

mer President — and one for other citizens (Kay and Traversi, 2021). In sum, the available evidence suggests that despite selective improvements and frequent declarations of intent for improving the quality of institutions, there is still very substantial scope for action.

How has the country been judged to perform? An obvious way to answer this question is by recourse to the ratings that international financial institutions, such as the World Bank, as well as other research and commercial agencies, assemble precisely with a view to rating the country and to facilitating comparison over time and place or other countries. We now draw on a variety of these ratings to look at how Kazakhstan is evaluated in terms of some key economic-cum-institutional criteria as well as in terms of political stability. Those criteria are (A) the rule of law; (B) government effectiveness; (C) regulatory quality, (D) corruption, (E) voice and accountability and (F) political stability. Using a number of different sources also permits assessing the degree to which these ratings offer converging or diverging assessments. In addition, we place Kazakhstan's ratings in a comparative context set against other countries in the region, as well as relative to those with similar levels of income per capita.[7] Figs. 4–9 start by plotting the evaluations of these six components over time using the available sources.

For the rule of law, Fig. 4 shows that there has been gradual improvement over time — since 2006/7 in the case of the World Bank Governance indicator, as also with the Doing business Enforcing Contracts measure. The two other measures — the Global Innovation Index and the World Justice Project — show small improvements since 2014. In contrast, the additional Doing business indicators for the quality of judicial processes and strength of legal rights suggest that there have been particularly sharp improvements over the last five years. Using the World Bank Governance indicator and when placed in a comparative regional context, Kazakhstan ranks highest of the six countries and has seen the strongest improvement since the early 2000s.[8] However, other former Soviet countries (excluding the Baltics) — such as Georgia or Moldova — have attained a higher level and seen more improvement. Compared with other autocracies, Kazakhstan's score of around 40/100 is significantly lower than either China or Vietnam. Relative to countries with similar income levels, it is also much lower, notably with respect to some democracies.

Fig. 5 now plots scores for government effectiveness. These show a clear improvement across all indicators over the last 5 years. Put in comparative context, Kazakhstan — along with Russia — has seen the strongest improvement, although significantly less than either Georgia or China, for that matter. Again, this improvement has brought the score to around the mid-point which obviously indicates considerable scope for further improvement. Placed against other countries with similar income levels, Kazakhstan is one of the weaker performers.

Fig. 6 looks at regulatory quality. This also reports a clear improvement since 2015 in the case of the World Bank and Global Innovation Index (GII). Other measures are mostly consistent. However, some indicators — notably the GII and Doing business starting a business scores — show quite a sharp improvement that started

[7] Figures reporting scores for comparator countries are available on request.
[8] The other regional countries are Kyrgyzstan, Russia, Uzbekhistan, Tajikistan and Turkmenistan

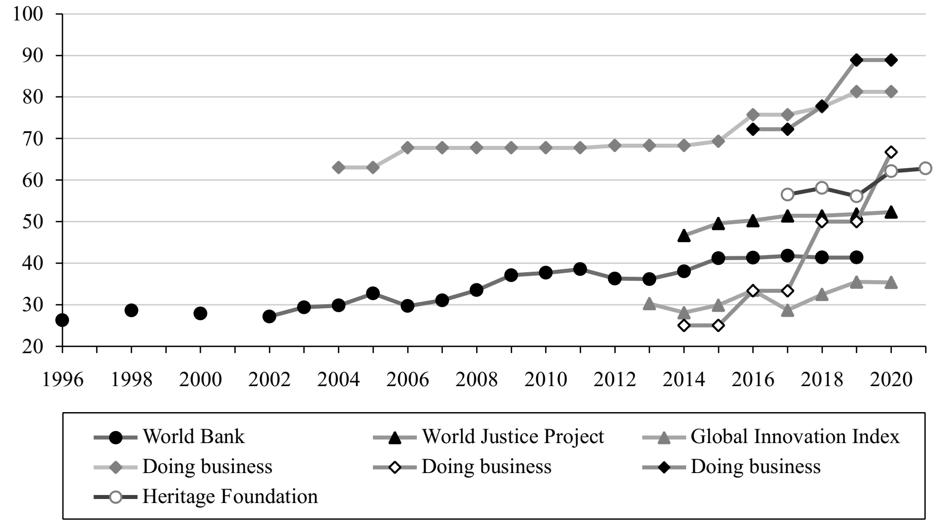


**Fig. 4.** Rule of Law indicators for Kazakhstan, 1996–2021
(0 — weak performance to 100 — strong performance).

*Sources:* World Bank (2020b); World Justice Project (2020); WIPO (2020); World Bank (2020a); The Heritage Foundation (2021).

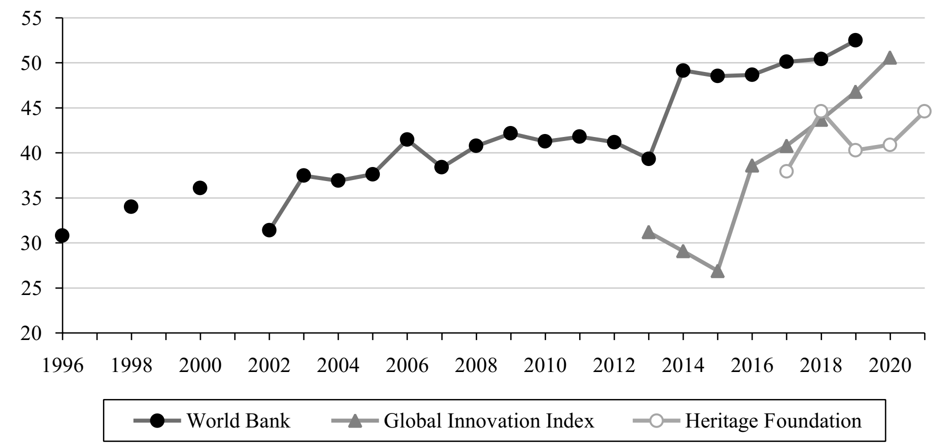


**Fig. 5.** Government effectiveness indicators for Kazakhstan, 1996–2021
(0 — weak performance to 100 — strong performance).

*Sources:* World Bank (2020b); WIPO (2020); The Heritage Foundation (2021).

even earlier. Although Kazakhstan scores better than its immediate neighbors and a bit lower than some other FSU states, when compared to countries at similar income levels, it lies substantially below the best performers, such as Latvia.

Fig. 7 reports information about corruption using three indicators. The World Bank and Transparency International ratings mirror each other and show a slight improvement since 2013. The Doing business measure which covers the extent of corporate transparency — a somewhat different but relevant measure — shows, however, a very sharp improvement after 2015. Again, relative to its Central Asian neighbors, Kazakhstan comes out strongest with the largest improvement. In terms of a wider set of FSU countries, it lies in the middle of the distribution as

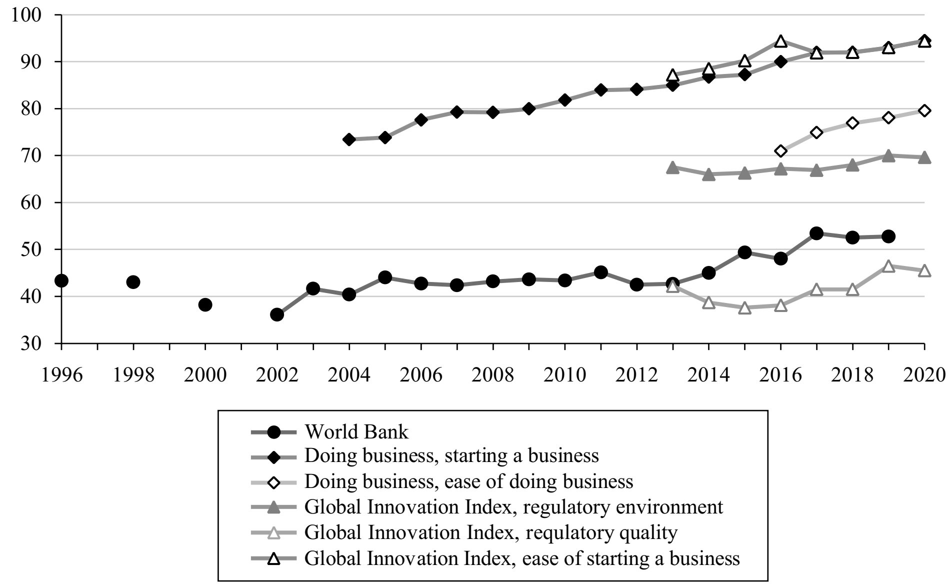


**Fig. 6.** Regulatory quality indicators for Kazakhstan, 1996–2020
(0 — weak performance to 100 — strong performance).

*Sources:* World Bank (2020a); WIPO (2020); World Bank (2020a).

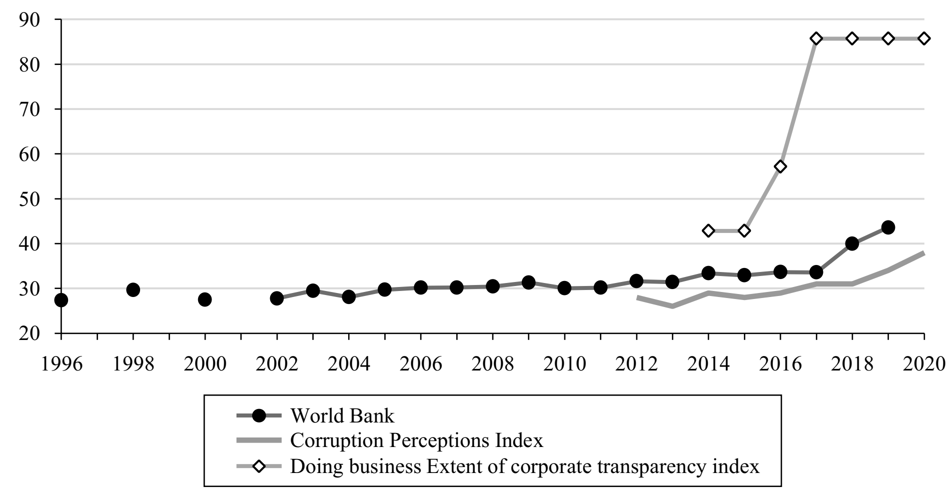


**Fig. 7.** Corruption indicators for Kazakhstan, 1996–2020
(0 — weak performance to 100 — strong performance).

*Sources:* World Bank (2020b); Transparency International (2020); World Bank (2020a).

it does relative to other autocracies. Compared with countries at similar income levels, although both the World Bank and Transparency International measures show that it lies above Russia, Kazakhstan remains very much near the bottom of the distribution.

Fig. 8 is for Voice and Accountability where the World Bank indicator shows a deterioration pre-2012 followed by a subsequent stabilization. The Freedom House indicator gives a small uptick after 2019. Relative to its neighbors and other FSU states, Kazakhstan sits in the middle of the distribution, although

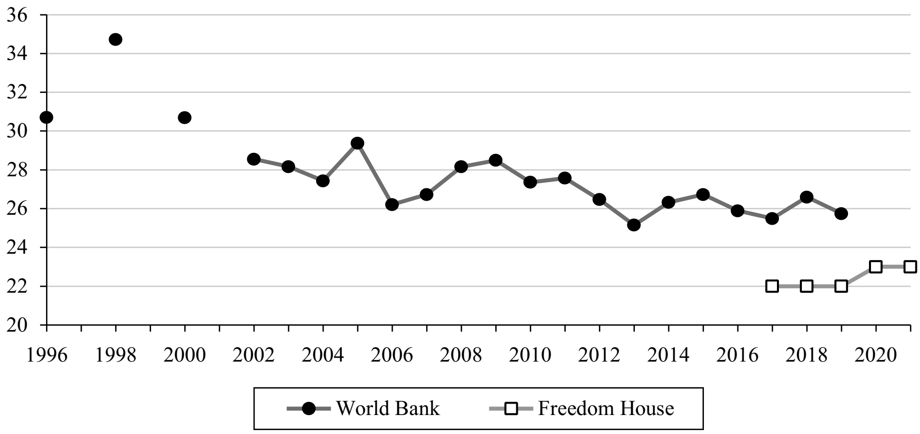


**Fig. 8.** Voice and Accountability indicators for Kazakhstan, 1996–2021
(0—weak performance to 100—strong performance).

*Sources:* World Bank (2020b); Freedom House (2021).

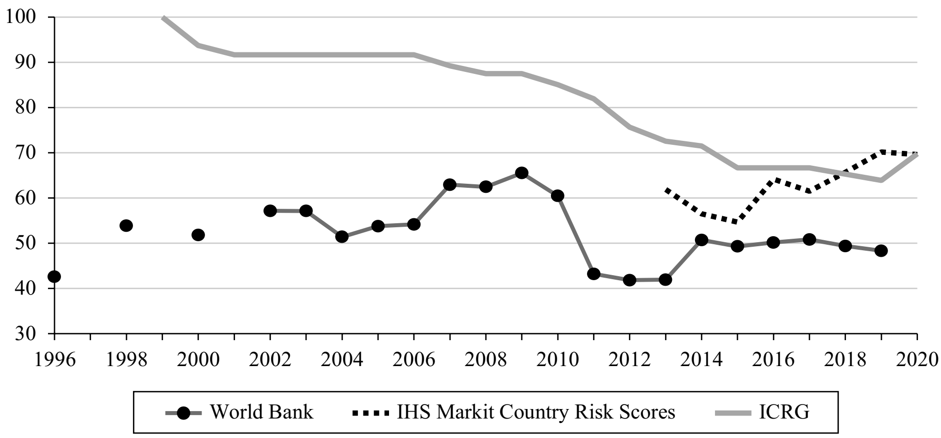


**Fig. 9.** Political stability indicators for Kazakhstan, 1996–2020
(0—less stability to 100—more stability).

*Sources:* World Bank (2020b); IHS Markit (2020); The PRS Group (2020).

slightly better than other autocracies. However, when scaled in terms of income, Kazakhstan sits at the bottom of the stack and very substantially below other countries at the same level of income per capita.

Finally, Fig. 9 for Political Stability reports some increase in instability post-2008 or earlier when using the World Bank and ICRG measures. The IHS Markit score suggests an improvement in stability since 2014. Compared with its Central Asian neighbors and other FSU states, Kazakhstan ditsplays greater stability throughout most of the last twenty years. Placed against other autocracies, it lies near the middle of the distribution, falling to near the bottom when compared to countries with the same income per capita.

What can we conclude for these summary measures? Certainly, when held up against its neighbors and most other FSU states (excluding the Baltics), Kazakhstan appears to perform better, both with respect to the level of the scores and also with respect to their evolution over time. However, for certain measures there has been a deterioration, particularly relating to political arrangements and their consequences. Further, when placed against other countries with similar income levels—including new and established democracies—Kazakhstan emerges with significantly poorer scores for most of these indicators. The overall picture that emerges is that while the broad tenor of the political system has remained unambiguously autocratic (of which more later in Section 4 below), there have been partial improvements to other indicators but to levels that are very substantially within the frontier. To the extent that this is a case of stable "bad" politics but "better" institutions or economics, the scale of increment in the latter has not been that impressive.

There is a further feature that emerges from these figures that deserves some comment. The World Bank's Doing business scores generally offer a more positive evaluation than the other indicators and are something of an outlier. Why might this be the case? Part of the explanation lies with the way Doing business compiles its rankings. The results are drawn from responses to surveys sent to around 10,000 law firms in participating countries. The survey covers a set of topics including, inter alia, starting a business, getting electricity, registering a property and enforcing contracts. The data are based on a reading of the laws and regulatory arrangements. To allow comparison across countries, the data are collected for a hypothetical enterprise: a private, limited liability firm that is domestically owned, with exporting accounting for no more than 10% of sales and at least sixty employees located in the country's largest business city.[9] In other words, what is being measured are lawyers' judgments rather than a survey of actual firm-level respondents. This gives rise to a discrepancy between hypothetical and actual situations. For example, although the administrative costs of starting a business are relatively low in Kazakhstan—itself perhaps a conscious response to the way in which Doing business focuses on this dimension—other evidence suggests there are still significant barriers to entry for both domestic and foreign firms, with those barriers being particularly pronounced in network sectors, such as electricity. Further, the operative regulatory setting is actually complex. Although procedures governing exit of companies appear well designed and efficient on paper, the fact remains that there is a highly differentiated approach to insolvency with state-owned companies, large firms and financial institutions all being able to access bailouts. A true measure of insolvency would reveal a big gap between the notional framework and actual application.[10] A further reason probably lies with the way in which the survey is designed and the likely bias that is imparted.[11]

## 4. Attracting investment—but also disputes

Since 2000, Kazakhstan has managed to attract on average around $7 billion per annum and foreign direct investment has accounted for a substantial share of total investment in the economy. Most parts of the economy are in principle open to foreign investors with the exception of mass media, fixed-line telecom, agriculture and forests where limits on foreign equity are in place.[12]

[9] The method is described in Besley (2015) as also on the Doing business website—www.doingbusiness.org
[10] See OECD (2018b).
[11] See Commander and Tinn (2007) for a critique.
[12] See OECD (2017b).

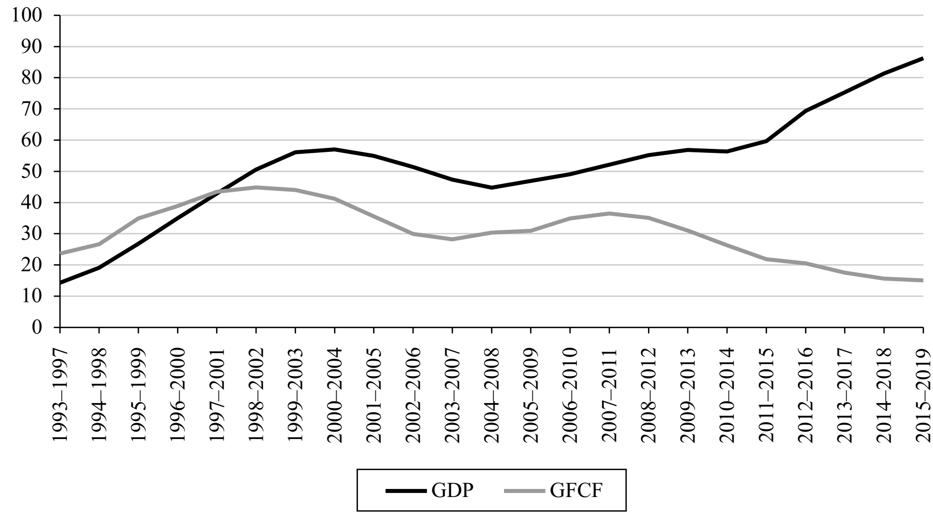


**Fig. 10.** Kazakhstan: FDI stock relative to GDP and GFCF (% year rolling averages).
*Source:* UNCTAD (2020).

Fig. 10 provides rolling five-year averages for the period from 1995–2017 for the stock of foreign direct investment (FDI) relative to the size of the economy (GDP) and also relative to Gross Fixed Capital Formation (GFCF). It shows a sharp increase — from a very low base — in the 1990s followed by a similar spurt after 2007, at least relative to GDP. Relative to GFCF, there has actually been a downward trend since the early 2000s.

As regards composition, natural resources — mainly oil and gas — have accounted for around three quarters of FDI. Production Sharing Agreements (PSAs) have been the principal vehicle used for the main fields. This is an approach that has also been pursued by its neighbor, Azerbaijan and, at an early stage, by Russia. PSAs are, of course, one way of dealing with country-specific risk through limiting the extent to which national laws and regulations can affect an investment and associated activity. One consequence is that the terms of most PSAs also tend to favor the foreign investor. However, it might have been expected that over time with an improvement in the business environment that PSAs would have given way to other investment modes. In fact, the government had announced that there would be no new PSAs as far back as 2012. Even so, the three largest, majority foreign-owned PSAs have remained in place and have successfully mobilized substantial rounds of investment. However, these three massive PSAs effectively exist as enclaves in the economy and are hence subject to different treatment from other — mostly smaller — investors. Nevertheless, PSA investors in recent years have complained of growing bureaucratic hurdles and procedures along with the imposition of wider obligations on the main projects, including local content, labor and other regulations. In another important sector — mining — there has also been very limited investment resulting in less than 15% of reserves being presently exploited (Chatham House, 2019, pp. 26ff). Further, for both fossil fuels and mining, the environment for smaller investors has remained far less favorable and more arbitrary.

Clearly, there has been a significant mobilization of investors, but it is also striking that a significant number of investments have soured. Between 1996 and 2021, 21 investor state disputes covered by treaties have been filed with over 75% being posted since 2007.[13] The largest number (eight) have been adjudicated in favor of the investor with nearly the same number (seven) in favor of the state. In the 70% of cases where judgment is neither pending nor confidential, nearly 60% of the total disputed investment amount was adjudicated in favor of the investor.[14] Most of these disputes have taken at least 3–4 years to settle with some stretching on for over a decade, mostly due to the sovereign refusing to conform with the various legal judgments.[15] The total value of all the claims posted since 1996 has approached \$12.5 billion. Expressed differently, at the peak in 2009 and 2010 the investment under dispute amounted in both years to between 4.1–4.7% of the total stock of FDI. In 2008 and 2013 the equivalent ratio was between 1.5–2%.

The two largest claims have been in a case involving Anatolie Stati and others — also referred to as Tristan Oil — relating to an investment in the oil sector with a claim of over \$2.6 billion and, secondly, World Wide Minerals (WWM) — a uranium miner — with a claim of \$1.6 billion. Awards of > \$500 million[16] and \$53 million[17] respectively have been handed down. Aside from the length of time taken to get judgment (22 years in the case of WWM), the Kazakh government has also refused to settle, despite judgments passed in foreign courts. In the case of Stati et al., a Swedish tribunal found in favor of the plaintiffs in 2013 and this was upheld by the Swedish Supreme Court in 2017 and again in 2020. Further proceedings for enforcement in US courts have also led to judgments in favor of the plaintiffs. Failure to settle has then led to the seizure of Kazakh government assets, the value of which is several multiples of the judgment.[18] Defying judgments issued through established arbitration procedures raises obvious questions about Kazakhstan's commitment to the terms of the Energy Charter Treaty, as well as other bilateral investment treaties. Clearly, commitment to the rule of law retains a discretionary — hence undermining — aspect.

What have these disputes been about? The extended details of each dispute are provided on the UNCTAD and ICSID websites[19] and discussed at more length in Kay and Traversi (2021). However, there are some common themes that run through these various disputes. In over 50% of cases and in all the largest disputes, expropriation has been the main, cited cause. In a further 20% of cases, the principal reason has been a lack of fair and equitable treatment (FET), sometimes in common with expropriation. In other words, most disputes have involved some form of action by government aimed at taking away assets or rights to activity from investors, as well as treating them unfairly.

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[13] Clearly, there have been other disputes — mostly smaller and involving domestic players — which are not covered under treaty-based disputes procedures

[14] In seven cases, the case has been settled in favor of the state and in eight cases in favor of the investor. The former amount to 41% of total claims with the latter accounting for 59%

[15] The size of the amount in dispute is strongly and positively correlated with the length of time to settlement.

[16] See King & Spalding (2016).

[17] See Jones Day (2019).

[18] See Ascom Group S.A. (2020). Kay and Traversi (2021) also provide a detailed discussion of these disputes.

[19] See: UNCTAD Investment Policy Hub, https://investmentpolicy.unctad.org/country-navigator/110/kazakhstan; ICSID, https://icsid.worldbank.org/cases/case-database

How does Kazakhstan's history of publicly known, treaty-based investor-state disputes compare to other countries with similar resource bases or in the same region? Looking at Russia, of the 26 acknowledged cases, nearly two thirds are either related to the invasion of Crimea and consequent loss of assets or to the infamous Yukos case. In Ukraine, there have been 26 cases and in Azerbaijan, there have been five cases. However, neighboring Kyrgyzstan has registered seventeen but mostly of smaller scale and associated with its persistent political turmoil. This suggests that it is not necessarily in the amount of cases that Kazakhstan stands out, but more in relation to the nature of the disputes and, in particular, the exercise of arbitrary actions by the state.

What can we conclude? Kazakhstan has undoubtedly managed to attract a substantial amount of investment from abroad. Most of it has been for natural resource exploitation.[20] The largest investments flowing to the three major oil projects in the country have continued to operate on a PSA basis, suggesting that country-risk is still a factor. Some of the investments that have been attracted have also soured. The total value of all claims launched is equivalent to at least 8% of cumulative FDI up to 2020. Reading the narratives of these cases, the reasons for these disputes have mostly been attributable to expropriation or dilution of interests by the state or, even — sometimes in byzantine fashion — by persons closely connected to political power. For example, an agricultural project — Ruby Roz — pitted its initial owner against the family of the ex-President's son-in-law. When the latter himself fell out of favor, his relations who had forced out the original owner then alleged that they in turn had been forced into a sale, this time to the eldest daughter of Nazarbayev.[21] In short, it is clear that both the scale and the nature of those disputes need to be understood in the context of the political system and the ways in which that system functions, notably with respect to the scope for discretionary influence and differences in treatment.

## 5. Political system and dynamics

Fig. 11 provides assessment of the political system in Kazakhstan over time. The Polity V database, which has the longest temporal dimension, indicates that the country has actually become more autocratic over time with a clear increase in autocracy in the early 2000s.[22] The Freedom House score also rates the country as a stable and highly autocratic country since 2015 while the Economist Intelligence Unit evaluates it as becoming slightly more autocratic post 2006. These summary judgments clearly do not suggest a shift towards greater democracy.

Looking inside the summary ratings, aside from the attenuation — and periodic downright suppression — of political opposition and rivalry, the country's autocracy has also acquired strong dynastic dimensions. Children and other relations of the former President hold prominent positions, both of a political and business nature. The elder daughter was, until 2020, Speaker of the Parliament and has been touted as a future President. Complementary to this has been the system of

[20] According to data from National Bank of Kazakhstan as of 31st July, 2020.

[21] Kay and Traversi (2021) summarize the series of actions.

[22] In the original scaling employed by Polity V, the scale for autocracy runs from –10 (Saudi Arabia or North Korea) to –1. In the 1990s, Kazakhstan was between –3/4 but since 2003 it has been rated at –6

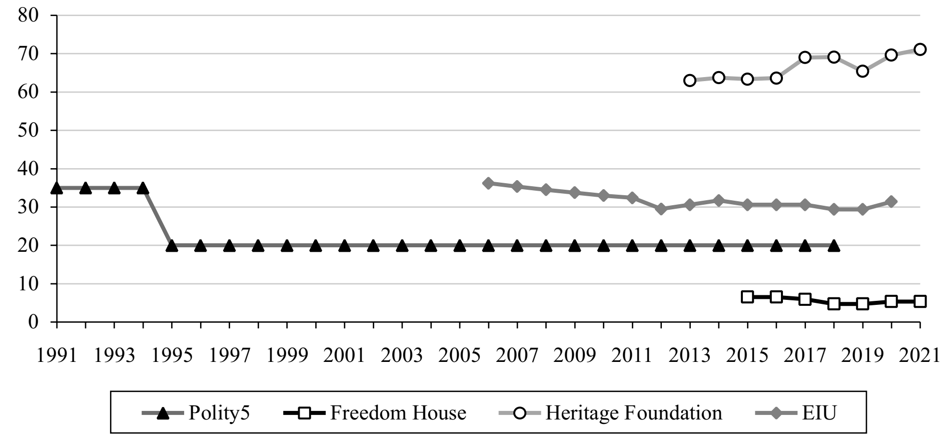


**Fig. 11.** Political system indicators for Kazakhstan, 1991–2021 (0—strongly autocratic to 100—strongly democratic).

*Sources:* Center for Systematic Peace (2018); Freedom House (2021); The Heritage Foundation (2021); EIU (2020).

oligarchic control that has been carefully constructed over the past three decades. As we shall see in the next section, this has allowed individuals to acquire valuable assets and to leverage, either directly through ownership or through access to public and financial sector resources, the very significant levels of natural resource rents that have been generated. Aside from preferential finance, public resources have also funded periodic bailouts that connected parties have received. When coupled to the dilution of competitive pressures, this has conferred enormous advantages on those with connections to power. Such access has come through consanguinity but also through other links, including partnering with relatives or others close to power. Further and persistent features of Kazakhstan's political arrangements include the ways in which government agencies, such as the security services, have played a role in structuring the returns to connections. At the same time, participation in government or the ruling party has been able to confer privileges, even if these might be more transitory in nature.

This system of decision-making continues to reflect the interests of a relatively small group of players, whether counted in terms of individuals or their business vehicles or holdings. Moreover, these features have impeded movement in the direction of a more open, competitive society with supportive institutions. It has preserved instead a system of narrow elite dominance and rent extraction. Even so, autocracies of the Kazakh variety often struggle to remain stable under the combined pressures of the inefficiencies they create, as well as the many points of tension that arise from dynastic succession (an increasingly pressing issue) and maintaining the political equilibrium. This is because the succession problem potentially opens the door wider with respect to intra-elite conflict, as well as conflicts with the wider population.

The growing preoccupation with the succession problem is mirrored in several recent actions. For instance, the election of a new President—Tokayev—in 2019 not only set off open political debate (Kapparov, 2019), but has also been accompanied by the powers of the Presidency being trimmed or qualified. At the same time, the former President has set about agglomerating a series of leadership positions—often for life—in other institutions, such as the Security and Constitutional Council, as well as the ruling political party. A decree in 2019 gave Nazarbayev, by virtue of being head of the Security Council, a consultative role in the appointment of regional governors, heads of the security services and, indeed, most cabinet positions.

An obvious interpretation is that these changes have been introduced with a view to constraining the scope for policy changes by the current leadership. What is blindingly obvious is that, despite some nuances, Nazarbayev's role is still pivotal. Perhaps the best way to summarise it is to think of him acting as the main arbiter for the main elite groups. Now that many of the rights to resources—mostly natural resource assets but also finance—have been allocated, his role is largely to try and ensure that there is no threat to those rights and hence to the stability of the system that has been crafted over the past thirty years. Threats to that stability could, in principle, come from any successor outside his immediate family who might wish to build his or her own network of connections and clients. But it can also come from conflicts within the elite—conflicts that have so far been quite successfully contained.

Part of the reason for the success in limiting intra-elite conflict can be traced to the way in which the arbiter's power has been deployed to dampen competition among the elite.

In some of the neighboring autocracies—Azerbaijan and previously Uzbekistan—control has been exercised through a highly vertical structure with very substantial concentration of powers in the hands of the President. In Kazakhstan, the system has been less vertical in its own organization but in many key dimensions, both the ability to make decisions, as well as arbitrate, has also been concentrated in, and around, the former President. At this juncture, with a relatively stable allocation of rents and control rights having been established, this has also facilitated the preservation of the political equilibrium.

Nevertheless, the substantial value of those rents and control rights will always make it attractive for others to try and secure those privileges. This has the potential for unleashing forms of elite rivalry that can be highly disruptive. At the same time, attempts at partial reform that improve inclusion and limit rent appropriation also carry risks of a political backlash from powerful vested interests. Perhaps not surprisingly, the new President and Government have signalled few substantive departures from the policies inherited from their predecessor. Further, experience in other similar political settings suggests that when elite groups are faced with uncertainty, they mostly try to consolidate their privileges rather than broaden access. Consequently, threats to—or even elimination of—an elites' rents may not give birth to a competitive market economy but lead, rather, to disorder and, possibly, violence. To avoid that, North et al. (2009) have argued that certain preconditions or thresholds—including the rule of law for elites and "perpetual life for both organizations and the state"—have to be met. To the extent that they are, impersonalized transactions can come to dominate. This can allow the transformation of highly personalized privileges into impersonal rights for the elite. But such transformation occurs when elites believe that their privileges will be more secure by allowing intra-elite competition (North et al., 2009, pp. 192ff.). As yet, the evidence as to whether these conditions are being gradually met is actually quite ambiguous. As we shall see, the well-entrenched local elites that were formed in the first decade after independence still appear focused on exercising privileged access to public and other resources. To the extent that entrants and rivalry are permitted, it appears that this is occurring through partnerships or business associations with those entrenched interests. Whilst this may be quite effective in co-opting potential competitors and limiting intra-elite rivalry, it also has consequences for market structure and market power and, hence, ultimately for efficiency, let alone innovation. Finally, the ways in which businesses and wealth have been acquired make them vulnerable to expropriation or dilution by new administrations, not least to free resources for reallocation.

This context leads us to an obvious question — how durable is the current political configuration likely to be? There is, of course, no straightforward answer but rather a set of factors that are likely to be of material significance. Perhaps the most significant concerns the continuing availability of the resources that effectively fund much of this dispensation. These — as we have already noted — primarily originate with natural resources, both oil and gas, but also the various mining assets that the country possesses. These are of critical importance not only because they are the main source of funding for the budget but also because they lie in sectors and activities that sustain many of the businesses where connected individuals are present. Diminished resources in this sort of political economy are likely to provoke greater rivalry among the elite, thereby raising the chance of more disruption. Absent such resources, it would also be very problematic to sustain the public spending programmes, along with the large public sector, that Kazakhstan presently maintains. The aggregate size of government is now around 20% of GDP whilst, in recent years, outlays on social assistance have approached 2% of GDP — a level roughly the same as that of Russia (IMF, 2020). And, as we shall shortly see, much of the economy is still dominated by public enterprises.

We now turn in the following section to looking in more detail at the ramifications of the political system and, in particular, to the intersecting webs of influence and connections that link public and private interests and form a significant feature of the economic landscape.

## 6. The economics of autocracy

The country's continuing dependence on natural resources and the associated ways in which its political system has developed place a heavy imprint on the structure of the economy. Not only is there a large public sector but the way in which some of the privatizations have been carried out has also left an enduring mark, not least the accumulation of sizeable assets — mostly in natural resources — by a combination of politically-connected local businessmen and politicians. Outside of these parts of the economy, there exists a private sector which, however, operates mostly at relatively small scale and without the same access to finance or other inputs that the state and connected parties enjoy.

The most striking — and persistent — feature is the size and scope of the state sector. Despite some privatization of a few large and many smaller entities in earlier decades, continuing attempts to privatise the larger SOEs have mostly stalled (Dentons, 2021). The reasons for this can be traced to a variety of factors including opposition by incumbents, the international context and weak demand for those assets, whether from domestic or foreign investors. What this means is that the economy is still dominated by the remaining state-owned enterprises. This is especially true for larger companies (OECD, 2017a). Between 2016–2019 the share of SOEs in gross value added (GVA) averaged 16.5%, albeit on a slightly declining trend. This share was particularly substantial (>40%) in health, mining, information and communications and transportation (EBRD, 2020). Aside from pervasive deficiencies in governance, including lack of transparency regarding financial performance (EU Reporter, 2020), SOEs have benefitted from easier access to credit and financing arrangements that are largely not available to the private sector.[23] This has included amassing significant foreign exchange denominated debt facilitated by government backing (Kapparov, 2016).

Many of the SOEs are grouped into a number of holding companies, the most prominent of which is Samruk-Kazyna or the National Welfare Fund. This encompasses, inter alia, the rail and postal services, the state-owned oil and gas company — Kazmunaigaz — the uranium company — Kazatomprom — and Air Astana. Some of these companies were meant to be privatized in 2020 but, once again, this has been pushed back to future years. As a consequence, Samruk-Kazyna and the other holding companies still control assets that averaged 53% of GDP between 2016–2019 (Fitch Ratings, 2020). Expressed differently, Samruk-Kazyna's revenues in 2019 amounted to over two-thirds of the total revenues of the top 10 listed and unlisted companies in the country. As regards composition, roughly 40% of Samruk-Kazyna's assets are in oil and gas, metals and mining, a further >20% in financial services with the remainder being stakes in transport, energy, communications, chemicals and real estate.[24] In recent years, the fund has reported a return on equity (ROE) of nearly 10% with its ROCE, a measure of the allocative efficiency of the capital employed, at 6.5% in 2019.[25]

Another holding group is JSC Baiterek National Management Holding, one of whose aims is to promote diversification of the economy. Its assets, which amount to roughly 7% of GDP, include the Development Bank of Kazakhstan, an entrepreneurship development fund and a savings bank for housing construction. These are among the nine subsidiaries of the holding which also has some ownership interest in nearly 50 other companies. It is financed by the government through low interest credits. Yet, despite its objective of promoting diversification, the bulk of its activity involves financing state-owned companies and commodity producers. It appears that the fund's ROE has hovered around 4/5% in the five years up to 2017 while its ROCE has ranged between 0.4% and 1% in the same period.[26] There has been a slew of corruption scandals around the top management with successive board chairmen and a deputy chair being charged and jailed for corruption.[27] A further

[23] Recent measures including the "National Project on the Development of Competition" have the intention of eliminating competitive advantages for SOEs along with a further programme of privatization for 2021–2025 that includes some of the large companies in the energy and transport sectors.

[24] https://sk.kz/investors/portfolio-companies/?lang=en

[25] https://kase.kz/en/news/show/1438814

[26] See ABD (2020).

[27] For further details, see KIAR (2018, 2020), Putz (2018a, 2018b), Sorbello (2017, 2021), KazTAG (2018), ACCA (2020).

holding — JSC National Management Holding Kazagro — has focused on agribusiness, comprising over 50 companies with ownership rights assigned to the Ministry of Agriculture. However, Baiterek and Kazagro were merged in March 2021 (Fitch Ratings, 2021).

Whatever the configuration of the holding companies and their individual firm components, it is absolutely clear that decision-making in, and governance of, the SOEs is heavily influenced by politicians. This extends also to the top management of the holding companies where relatives of the ex-President or close political associates have held those positions — such as Chairman of Samruk-Kazyna — for most of their history. In addition, the Management Boards are dominated by politicians with ties to Nazarbayev and the government. Perhaps unsurprisingly, the performance of these holding groups has been very mixed, although a deficit of transparency makes detailed assessment of their performance difficult.

The use of these holding companies carries further implications. One is that the SOEs that they contain effectively operate outside of the budget process and the scrutiny of the Parliament. In fact, control seems to have been devolved to a mix of incumbent managers and the management of the holding companies. As already noted, the latter are highly politicized. Second, they ensure that the absence of a centralized ownership structure weakens oversight and helps sustain the underlying system of discretion and, with it, the opportunity for connections to be leveraged. In addition, ministries with ownership functions are also regulators of their respective sectors. This means that ministers hold influential positions on the boards of directors of the holding companies which they are also charged with regulating.

Outside the state-owned part of the economy, there is a dualistic structure. On the one hand, there is a numerous SME sector that, however, contributes a relatively low share of value added — around 26% — while accounting for nearly a third of total employment (OECD, 2018b). There is also a sizeable and small-scale informal sector which may itself account for around a further 20% of employment. Both informal and formal SME components tend to be composed of low productivity entities with labour forces that lack skills and have limited access to credit. In contrast, there is the universe of a limited number of privately held larger firms, the most important of which tend to be contained in a business group. It is in this segment where considerable market power has been acquired and where insiders — family or associates of the former President — have established a presence and where connections are paramount. Insiders have benefitted from preferential access to assets and finance, as well as favorably priced inputs. Regulatory actions have also provided further and selective advantage to connected entities and/or individuals on the basis of their proximity to power.

A final point at this stage. The large and persistent size of the state sector is not just a function of constraints on the speed and scale of privatization. After all, both facets are ultimately choices about the design of economic policy as well as its timing. A more fruitful way of thinking about this is to consider the dynamics of the economy. In this context, there is a symbiotic coexistence of significant numbers of SOEs occupying valuable economic space — notably in natural resource sectors — and the parallel holding companies or business groups assembled by connected individuals and politicians.

There are also business vehicles that have been explicitly formed as partnerships between government and connected parties, such as Kazchrome, an integrated mining and metals business, 40% of which is owned by the Ministry of Finance and 60% by the Eurasian Resource Group, whose founders have close connections to power. These facets of the economy knitting together government, the public sector — notably the SOEs — and connected parties form the cornerstones of the broader system. One prominent feature in this symbiosis is the transfer of resources and contracts from publicly owned assets — and in some instances from the government budget directly — to companies controlled by connected individuals or families. In short, the dilatory pace of privatization is no accident. To date, the main players have seen sufficient advantage in keeping major assets in public ownership. Whilst sometimes presented as a political choice, in reality this is more about a confluence of economic and financial interests.

### *6.1. Connections and networks*

The size and scope of the public sector obviously ensures that the role of politicians remains central. This is reflected in numerous ways, not least their governance. In addition, despite the use of holding companies and targets, the degree to which financial and other discipline binds has tended to be compromised by the pervasive interference of politicians and political objectives.

But what about the private sector that has emerged since 1991? Here, the difference with the state sector is less pronounced than might have been expected. Among the larger, formal sector firms that comprise an important component of the private sector, proximity to government and politicians has been a key ingredient for success. As a result of the political system, along with the aim of building an independent state and economy post–1991, as well as the dynamics resulting from the ways in which transfers of ownership and control through privatizations occurred, pervasive (and, often, highly rewarding) connections by larger businesses to politicians and power have been a defining feature.

How should we think about connections? Clearly, there may be a connection between a businessman or company and a politician or SOE that is effectively bilateral in nature. However, comparative analysis suggests that connections commonly tend to form part of a wider set of links and form strands in what, in effect, are networks. Networks are, in fact, ubiquitous, providing foundations for how societies function, both for good and bad (Putnam, 2021). Think of cooperative societies but also think of the mafia. As such, networks not only represent relationships but also provide some form of structure for those relationships.

It is also clear that political regimes exert a powerful influence on the ways in which networks are organized and function. Among autocracies, networks not only tend to be less integrated but are commonly formed around individuals and families, and their associated interests. These in turn tend to revolve around, or emanate from, some strong central hubs, whether the unique political party or the autocrat himself. Such arrangements result not only from the structure of power but also the way in which, almost by definition, autocracies try to subvert the formation of networks that might provide a challenge to their system of

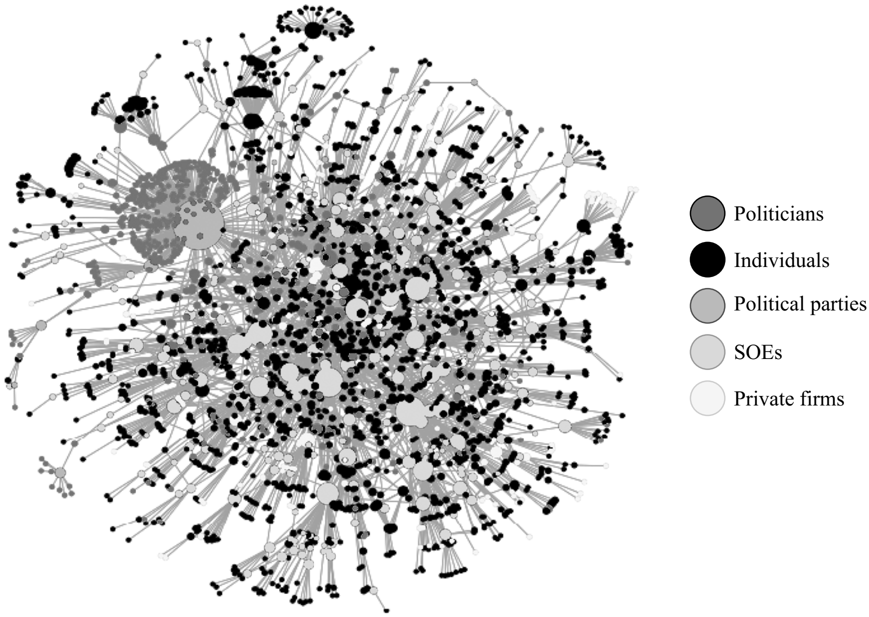


**Fig. 12.** Network map for Kazakhstan.

*Source:* Commander and Poupakis (2020).

power (Commander and Poupakis, 2020). And, of course, the ways in which networks in autocracies are configured will often be informative about the sort of opportunities that exist and the sorts of individuals or entities able to gain access to those opportunities.

When measuring connections and networks, the main descriptive elements are nodes — denoting individuals or entities — and edges or links between those nodes. Networks are also commonly represented in terms of degree (the number of links sent to a node) and density (as indicated by the ratio of ties in a network to the total possible number of ties). What sorts of network exist in Kazakhstan? One way is to use information collected about politically exposed persons or PEPs and their connections. A PEP is defined as an individual in a politically exposed position, as well as their close relations and associates, whether they be people or businesses. Using one such dataset,[28] Fig. 12 provides a mapping of Kazakhstan's network of connections for the largest component (which is defined as a subset of nodes where all its members are connected with at least one other node of the same subset). The largest component is an indicator of the extent of integration of a network and has been found to be positively associated with a country's level of democracy.[29] Not surprisingly, because of its political system, Kazakhstan's largest component is significantly smaller than in established democracies. Fig. 12 shows that there is effectively a unique political party with a relatively small cluster of politicians linked to it. The main characteristics of the network space are the large number of state-owned enter-

[28] For a detailed description of the dataset and its properties see Commander and Poupakis (2020).

[29] Kazakhstan's largest component comprises 0.4 which is higher than its neighboring autocracy, Azerbaijan (0.2), but smaller than a mature democracy, such as the UK (0.6).

prises, many of which have a significant number of links or edges (as denoted by the size of the node). There are also links between them and politicians, as well as other individuals. In addition, we can observe a reasonable number of private firms, although they have far fewer links than the SOEs.

Although the network map provides a useful overview, it is almost certainly a partial representation. That is, because it does not adequately represent the way in which connections have been concentrated in, and around, a very limited number of political actors and their relations and/or associates. One way of visualizing the groups of influential persons and their networks is to think of a large web composed of a series of circles with differing degrees of overlap and connection. At the center of this web lies the circle belonging to Nazarbayev and his immediate family. Aside from exerting influence, members of this circle are themselves, as we shall see, major owners of assets on and off-shore. Their interests straddle the economic and financial but also have some explicit political dimensions, whether through holding positions in the main political party or by sitting on strategic bodies, such as the Security Council. At the intersections of this core circle are various individuals who have established and maintained close connections to the family circle over the past decades. These include businessmen but also advisers and figures with sinecures in major public institutions. Among them are regional interests whether formed by common interest or through historical, sometimes clan-based, links — and including the various *akims* or heads of local government appointed by the Presidency. Further circles of influence include other businessmen and businesses including those belonging to individuals with non-Kazakh roots or other foreigners.

### *6.2. Emergence of business groups and role of connections*

The non-SME part of the economy contains a number of industrial holdings which combine the assets — mostly in extractive industries as well as finance — of a small number of rich and connected businessmen. These holdings were often put together in the 1990s, including through some of the privatizations that were then conducted. One feature that stands out is that all of the main figures from this epoch have moved in and out of government — often holding ministerial or other high-level positions — and have built their fortunes on their close connections to power. For the most part, once assets have been acquired, the main characters have stepped back from visible involvement in government or politics to concentrate on managing their portfolios.

Further, as assets have been accreted, most owners have set up, or subsumed their interests into varieties of business groups, sometimes termed Financial and Industrial Groups. These are diversified holdings and they have arisen across many former Soviet economies in the past couple of decades. Their diversified structures have normally been composed of a finance entity — mostly a bank — along with industrial and other assets. The latter tend to include a mix of real estate, construction, telecoms, retail and, occasionally, utilities, as well as oil and gas and mining interests. While they bear some relation to the Japanese *keiretsu* model, in reality they suffer from even less transparency and opacity of governance. They do, however, resemble in many respects the business groups that are pervasive throughout Asia, not least because some of them are effectively founder and/or family-based business groups, even if increasingly they have recourse to non-family members for management positions (Commander and Estrin, 2022).

Why do a number of the larger and more entrenched groups own financial institutions, principally banks? The answer appears to lie in the way that ownership facilitates access to finance for the groups' projects. As such, there is limited competition among the main banks as their main function is to fund their connected corporates. It is sometimes argued that the advantage of this relationship is not primarily about the cost of capital but more about the terms of access, notably the ability to avoid, or lower, the amount of collateral that is required.

Among the different business groups, there are variations in the extent to which they are connected to political power. Such connections confer a range of benefits. These include getting access to contracts and business with state owned enterprises and/or government, but also, crucially, the ability to leverage bailouts. This has been clearly the case for banks. Most of the major banks have, at some point, been in receipt of public bailouts.[30] In 2017 alone, bank bailouts amounted to more than a quarter of the total government budget (Chatham House, 2019, p. 30). The main beneficiaries of these transfers are those institutions owned or controlled by politically connected persons. In fact, repeated bank failures, often accompanied by bailouts, have been a persistent feature of the business landscape.

### *5.3. The connected—some major examples*

Probably the most visible example of a first-generation—and now very well entrenched—connected person is Timur Kulibayev and his wife, Dinara—the younger daughter of Nazarbayev. Their primary business vehicle is Almex LLP, a pillar of which is their majority stake in Halyk Bank, the twelfth largest entity in the country (Forbes Kazakhstan, 2021). But Almex also contains a number of other entities with exposure to a wide range of sectors and activities, including oil and gas, as well as mining and metallurgy. Although Kulibayev has not held explicit government positions for at least a decade, he is still Chairman of some of the most significant SOEs, remains the head of an energy lobbying group, Kazenergy, and sits on the board of Russia's Gazprom.[31] He is widely understood to be a major—if not the main—domestic player in the oil industry and has been the partner for a variety of foreign companies' investments—such as that by Vitol.[32] Perhaps not surprisingly, there have been a litany of allegations about his business practices.[33] For example, recent reporting has suggested that Kulibayev received a share of the profits from pipeline contracts granted to ETK, a company owned by a Russian businessman, Alexander Karmanov.[34] Those contracts were granted as part of the Asia Gas Pipeline, a large project between Kazakhstan and

[30] They include Halyk, BTA, ATF and Tsesna

[31] https://peoplepill.com/people/timur-kulibayev

[32] https://www.publiceye.ch/en/media-corner/press-releases/detail/how-vitol-became-king-of-oil-in-kazakhstan

[33] A criminal investigation has been launched against Timur Kulibayev in Switzerland for money laundering to the approximate tune of $600 million. See: https://en.odfoundation.eu/a/29,criminal-investigations-against-timur-kulibayev-in-switzerland/

[34] http://stories.publiceye.ch/vitolinkazakhstan/index.html#group-Welcome-to-Kazakhstan-5wog5bxK4Z

China put together at a time when Kulibayev was head of the country's Sovereign Wealth Fund (Samruk-Kazyna). Among other facets of the deal, ETK bought pipes from plants in Ukraine and Russia but first sold those same plants the steel to make the pipes at a huge mark-up from the price it had paid for the metal (Burgis, 2020). It has been alleged that the corporate structure was designed to facilitate the bulk of these profits being channelled not to ETF, but to Kulibayev through an offshore entity.[35]

Consider also the case of another leading first-generation oligarch and now one of Kazakhstan's richest individuals with a net worth of $3.5 billion in 2021 — Bulat Utemuratov.[36] His rise from little or no wealth has been rapid and mirrors very well the nexus between political power, connections and business opportunities.[37] In particular, his close ties to Nazarbayev appear to be the main factor behind his ascent.[38] At various times, he has held positions in government, including as a diplomat, along with acting as an adviser to the then-President.[39] Indeed, several Wikileaks documents have a US diplomat describing him as Nazarbayev's "personal financial manager" and a "billionaire who has never had a business".[40] An early return from this connection was the acquisition of co-ownership of KazZinc, one of the mining and natural resource companies privatized in the late 1990s.[41] Other close associates of Nazarbayev also acquired interests through major privatizations of the time. For example, Vladimir Kim — another billionaire and former Assistant to Nazarbayev — became co-owner of Kazakhmys (Forbes Kazakhstan, 2021), while ENPC, which consolidated plants and mines in the chrome, aluminium and ferro-alloy industries in Kazakhstan, also fell into the hands of other close associates of Nazarbayev.

Utemuratov now holds a very diversified portfolio of interests but his early business model appears to have been to acquire ownership over public enterprises and then resell them to foreign corporations. In the mid 1990s, he also set up, in collaboration with a Dutch company, the Almaty Merchant Bank (ATF). The first Chairman of the bank was Timur Kulibayev. In 2007 the bank was sold to UniCredit for $2.1 billion. UniCredit had to write down its value by $500 million within a year, subsequently selling ATF in 2013 for just $500 million (Patridge, 2020a).

Currently, Utemuratov's main business vehicle is Verny Capital which was founded in 2006 as a private equity firm managing around $4 billion in assets.[42] The portfolio includes 15 firms in a variety of sectors; real estate and hotels, transportation, mining, telecoms and media, retail as well as a controlling stake in Forte and, previously, Kassa Nova Banks. It has been alleged that some of the deals that have been done through Verny have been to the detriment of other

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[35] https://eurasianet.org/financial-times-kazakh-leaders-son-in-law-skimmed-millions-from-chinese-loans

[36] https://www.forbes.com/profile/bulat-utemuratov/?sh=7093da4617ed

[37] http://gtarchive.georgiatoday.ge/news/10524/Family-of-Bulat-Utemuratov:-from-Cinema-to-Burger-King; https://www.oligarchsinsider.com/the-man-who-sold-kazakhstan-for-his-own-independence/

[38] For more details, see Lillis (2020) and KIAR (2018, 2020).

[39] https://kz.linkedin.com/in/bulat-utemuratov

[40] https://wikileaks.org/plusd/cables/07ASTANA1848_a.html; https://wikileaks.org/plusd/cables/09ASTANA1762_a.html

[41] This interest was later sold and the company is now 60% owned by Glencore and 40% by Samruk-Kazyna.

[42] https://vernycapital.com/en/portfolio

shareholders due to large, undeclared transfers by foreign investors to their politically connected sponsor in Kazakhstan.[43]

Kulibayev and his wife, along with Utemuratov, as well as Vyacheslav Kim and Vladimir Kim are the principals of the most visible, but also the most clearly connected, groups of companies. In 2021, the combined wealth of these five individuals was estimated at over $18 billion (Forbes Kazakhstan, 2021). Yet, even if there is considerable concentration in wealth, they are far from alone. The fruits of connections to politicians and power — and notably to the ex-President — have been harvested by a broader — albeit not that large — constituency of businesses and individuals.

To get a better sense of this landscape, the list of the fifty wealthiest individuals in Kazakhstan compiled by Forbes over the past four years (2018–2021) is a good starting point. To give some sense of the value of the assets held by these fifty individuals, their total wealth in 2021 was estimated at nearly $38 billion or around 20% of GDP (after averaging $26 billion between 2018–2020). Just over 50% of these assets were held by other than the five individuals already mentioned. The businesses that they own and that are represented in this list are mostly diversified (45%) with a further 20% mainly involved in either oil and gas or metals, sometimes both. The others have their main interests in finance, retail, construction, transport or pharmaceuticals.

Although the fact that the top tier of individuals and businesses is still dominated by the group of first-generation oligarchs, it is of interest to understand whether the enlarged list is mainly a fixed group or is there some churning, with entry and exit from the top ranks. Further, it is of obvious interest to understand what part of this group has benefited from connections to politicians and power. With respect to the first question, between 2018 and 2021 there has been only very limited change in the list and ranking. For example, in the top 10 there were 2 new entrants in this period; in the top 25 the number was 5 and in the whole 50, there was a maximum of 13 entrants. In 2021 the combined wealth of these entrants amounted to around 22% of the total wealth of the top 50 but, again, there is considerable concentration as nearly three quarters of that 22% is held by just two persons. Moreover, in nearly half of the cases of entrants since 2018 there are clear links to politicians including some of the main, first generation players.

Consider, in particular, the case of Mikhail Lomtadze, the current CEO of a fintech company — Kaspi — that through its mobile payments and banking apps has rapidly gained market share.[44] Kaspi and Kaspi Bank presently are the eighth and ninth ranked by revenues among listed companies in Kazakhstan. Kaspi has nearly 70% market share of electronic transactions in the country. It has also developed strong links to government, becoming a major conduit for settling tax claims and even distributing benefits payments for the state during the COVID-19 pandemic. In 2021 — the first year in which Lomtadze entered the list as the third richest businessman — his wealth was estimated at $3.9 bil-

[43] The most high-profile partnership is with Glencore. Prior to the IPO launch, several politicians, journalists and activists sent an open letter to Glencore's investors to express their concerns, claiming it was a process of money laundering by high-ranking Kazakhstan civil servants. See: http://kazakhstanvoice.blogspot.com/2011/05/to-investors-of-glencore-on-kazakhstan.html and article covering Glencore Report: https://kiar.center/bulat-utemuratov-and-glencore-report-the-truth-about-glencores-business-in-kazakhstan/

[44] https://forbes.kz/ranking/object/1061 (in Russian).

lion. Yet investigation has revealed that most of this wealth has come from his association with Vyacheslav Kim, who also happens to be the Chairman of Kaspi (Dawkins, 2020). Indeed, it appears that the 23% ownership stake that Lomtadze holds in Kaspi has been accumulated through transfers of shares from Kim. Moreover, Nazarbayev's nephew — Keirat Satybaldy — originally held up to 30% of Kaspi prior to late 2018, at which point he exited, possibly to facilitate Kaspi's future IPO on the London Stock Exchange. As someone unambiguously politically connected, Satybaldy's continuance as a major shareholder might have compromised the IPO. However, some observers have suggested that the exit may be more cosmetic than real with others, including Lomtadze, in effect becoming placeholders for Satybaldy's interest in the company (KazakhSTAN 2.0, 2019). In other words, although the company in question is certainly relatively new and increasingly successful, its ownership is firmly in the hands of very well-entrenched, first-generation politically connected individuals.

Another new entrant in 2021 is Timur Turlov, whose >$2 billion wealth can be traced to his ownership of Freedom Flame, a retail brokerage based in Kazakhstan that taps the wider post-Soviet market. It has also acquired Kassa Nova bank from Utemuratov at the end of 2020. In this instance, it appears that the company has offered a new range of financial services to Kazakh and other consumers in the former Soviet space, even if on terms that would sometimes not be sanctioned in more regulated economies. It has been alleged, however, that Turlov has links to Satybaldy, who remains a key player in the financial sector (KazakhSTAN 2.0, 2020b). Whether that is the price for staying successful or was, in fact, one of the reasons for the business' success is unclear.

In short, there has been some entry, along with a limited amount of exit. But looking closely at the persons and businesses that have entered, the majority still have clear political connections, mostly to first generation oligarchs, to members of the Nazarbayev family or to other political interests, including at a regional level.[45] It is difficult to avoid the impression that the most common and potent connections from individuals and their businesses continue to flow into, and out of, no more than ten highly connected individuals. As indicated earlier, the network structure that this suggests is therefore one where these few individuals and their business vehicles possess very considerable centrality in the network and hence, a powerful ability to exploit their strategic location. Those central nodes in the network can exploit their access to political power and government to derive advantage, let alone assets.

To summarize, there has been a significant accumulation of wealth in the hands of a limited number of persons and businesses, most of which operate as diversified business groups. Most of those individuals and their business vehicles owe their origins and success to the connections that they have had with politicians. Indeed, in earlier years, the overlap of politics and business was explicit and highly visible. Once assets were acquired, however, the main focus has shifted to their preservation which, in turn, has required continuing access to power through connections. Those connections help sustain their market position. Moreover, that

[45] For details on other Kazakh billionaires and their connections see KazakhSTAN 2.0 (2017, 2018, 2020a, 2020c, 2020d, 2021a, 2021b); EUbusiness (2020); Patridge (2020b), Kimble (2020, 2021); Oligarchs.eu (2020); Dawber (2010); Hess (2019) and Cobus (2019).

most of these businesses are quite diversified reflects not just an opportunistic process by which assets have been acquired, but also a strategy for abating risk; a way of ensuring that a group's assets are not too concentrated and hence potentially susceptible to expropriation or dilution. The latter risk remains, of course, present given the political system and the scope for discretionary actions. Finally, this has made Kazakhstan a country with severe inequality in its wealth distribution. In fact, its distribution is quite similar to that of Russia with just 3–3.5% of adults holding wealth in excess of $100,000. This is very different from the group of advanced economies where the same share ranges between 40–50% (Credit Suisse Research Institute, 2020). Expressed differently, in Kazakhstan only 162 persons account for around half of total wealth (KPMG, 2019).

### *6.4. Market structure and power*

What does the combined presence of a large state-owned sector and influential privately held business groups imply for market structure? A useful starting point is provided by the OECD which compiles indicators on competition and regulation across a number of economies and sectors, both in advanced and emerging economies, including Kazakhstan (OECD, 2018c). This also allows comparison with other countries. The indicators are constructed by using the responses of governments themselves to a structured and closed questionnaire. They do not constitute judgments of experts or outside observers. As such, if the responses were to betray a bias, it seems more plausible that the bias would be to improve their rating.

What emerges from this detailed, self-reporting exercise is that Kazakhstan's regulatory context creates significant barriers to competition when compared to the OECD average, although the situation appears comparable to some other emerging markets, such as Turkey, Brazil and Argentina. Part of the reason for why Kazakhstan has these competition-limiting features can be traced — as we already noted in Section 6 — to the pervasive role of the state in the economy and in particular, the large state-owned enterprise sector. State ownership cuts across manufacturing and financial services and also includes all the network sectors, such as water, gas, electricity and transport, where the government has equity stakes in the largest companies. Further, the extent of direct public control over SOEs — and hence the level of political interference — is high and contributes to the manifest weaknesses in their governance. SOEs are mostly not covered by the same laws as private firms and hence benefit from preferential treatment. At the same time, other dimensions of government behavior, particularly public procurement, have major shortcomings. In Kazakhstan, direct procurement is commonly used, as against the use of tenders which could allow a more transparent process.

The OECD attempts to summarise the scope of the state's involvement with judgments about the extent of distortion such involvement introduces. This is expressed in a range from 1 to 6 where the latter is the most distortionary. Most Western European economies fall between 1 and 1,5 with an OECD average of 1.7. Kazakhstan is placed near the top of the scale at 2.7, roughly equivalent to Brazil and South Africa and only below Indonesia (Fig. 13).

Concerning competition, the evidence suggests that there is also a persistent bias towards state-owned companies but, in addition, the lack of an independent com-

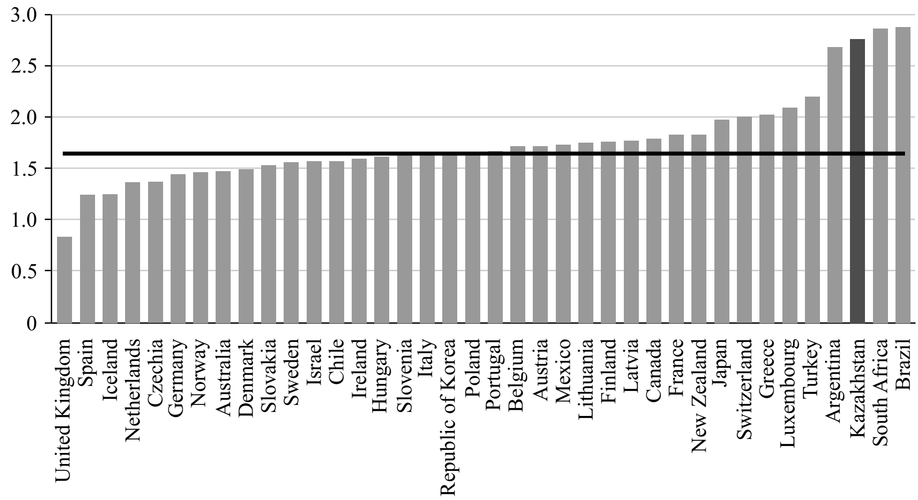


**Fig. 13.** Distortions induced by state involvement, 2018
(Index scale 0 to 6 from least to most restrictive).

*Source:* OECD (2018).

petition agency — competition policy is the remit of individual ministries — means that incumbents and well-connected companies tend to have advantages. At the same time, the instruments of competition policy are far from best practice, notably with respect to network related services.

When it comes to barriers to trade and investment, the picture is mixed. In general, Kazakhstan ranks worse than the great bulk of OECD economies, the extent of its restrictiveness compares to South Korea, Argentina, Brazil and Mexico. Breaking down the dimensions, barriers to FDI along with tariff barriers show that Kazakhstan is not very different from most OECD economies. It is more with regard to the treatment of foreign suppliers and trade facilitation that the country does less well.

The implications for the structure of the economy can also be observed in the extent of concentration. To get a better sense of this, we calculate some concentration ratios, specifically for the 5, 10 and 25 largest firms in the country. These ratios (CR5, CR10, CR25) represent the total revenues of a specific company in 2019 expressed as a share of the country's GDP. As some of the companies are not listed, either because they are state owned or because they are privately held, the concentration level is calculated for both listed and un-listed companies.

Table 2 shows that economic concentration is indeed significant. For example, the share of the top five and ten firms (CR5 and CR10) — listed and unlisted — is between 10–13% and 15–20% of GDP respectively.[46] For only listed companies, that share is 10% and 13%. Taking the top 25 companies, the share rises to 25–28% and 16%, respectively. These are quite high levels of concentration when placed in a comparative context. For example, compared to other Asian economies, they are higher than in China or India, comparable to Malaysia but

[46] The larger estimate is when including an estimate of those parts of the Samruk-Kazyna holding that are not individually listed.

**Table 2**
Economic concentration in Kazakhstan, 2019/2020 (5, 10 and 25 firm Revenue/GDP concentration rations).

| | Unlisted and listed | Listed |
|---|---|---|
| CR5 | 10−13 | 10 |
| CR10 | 15–19 | 13 |
| CR25 | 25−28 | 16 |

*Source:* Bureau van Dijk (2020).

far lower than South Korea or Thailand.[47] They are also significantly higher than in the USA. What this confirms is that there is major concentration not only in the large state-owned companies but also in those private, often listed, companies that are linked to prominent, connected business persons. One outcome has been to limit the extent of competition and rivalry.

Finally, to understand the nature of market structure also requires understanding how political considerations feed through. Competition among the main business groups and their components is not intense. In fact, it appears that the main oligarchs try to avoid competition either by electing cooperation with other main players or working in an environment where market segmentation is significant. This is not as blatant as in neighboring Azerbaijan where a highly vertical structure allows the President to ensure that rivalry is radically abated or absent among elite groups (Commander and Ramazanov, 2015). In Kazakhstan, this centralizing or vertical dimension has been rather more nuanced and qualified. But it is far from absent and many of the same motivations exist, principally the aim of limiting or nullifying the likely disruptive consequences of greater rivalry among the elite. Of course, rivalry has several dimensions, economic and political. With regard to the former, the result has been to limit competition, with regard to the latter, those individuals that have dissented and tried to challenge the political equilibrium have ended up in exile or worse.

## 7. Conclusion

It is widely assumed that successful countries mesh together political competition and open societies with economic policies that similarly prioritise competition and the rule of law and adequate redress. These attributes are also commonly subsumed under judgments about the nature of institutions and the extent to which these enable or restrict competition and transparency, among other attributes. Autocracies — defined as countries where political competition is absent or attenuated — are generally thought to create and sustain institutions that offer unfair advantages to those in and around power and flout — often flagrantly — the rule of law and associated civil, political and economic rights.

Yet, this dichotomous way of viewing the world can obviously obscure nuances. More importantly, the underlying regularity that is asserted — that "good" politics and economics are necessarily complements — appears to fall down when considering which countries have performed best over the last half century. Certainly, the rise of China, Vietnam and other countries in Asia with autocratic regimes has been used to suggest this complementarity is not a necessary precon-

[47] Commander and Estrin (2022) contains similar calculations for the main Asian economies.

dition, at least when considering economic performance. This discrepancy has, indeed, been quite commonly cited elsewhere to promote the merits of autocracy. More significantly, a number of autocratic regimes have effectively pursued a strategy of maintaining a lack of political competition and openness while promoting economic policies aimed at stimulating investment and some degree of economic competition. Kazakhstan is one such example. Unlike a number of its neighbors, the country has adopted an explicit strategy of advertising its openness to investors along with measures providing some degree of protection or ring-fencing, albeit in a way that appears to have created islands or enclaves rather than more generalized protections.[48]

The paper has examined the impact of these attempts at creating "good" economics and associated institutions whilst keeping an autocratic political system. Indeed, a closer examination of how that approach has played out reveals a complex and ambiguous set of outcomes. For a start, the scale of improvements in institutional and economy-related measures is quite patchy and, in some areas, has actually deteriorated. Compared with countries at similar income levels, Kazakhstan almost invariably falls at or near the bottom of the distribution. In addition, using the measure with the longest temporal aspect, Kazakhstan's extent of autocracy has actually increased. Expressed differently (and simply), measures for Kazakhstan's politics have got worse and those covering its institutions and economy have mostly registered some — but hardly dramatic or sustained — improvement.

On a positive note, Kazakhstan's economic performance and associated investment in infrastructure — physical and human — has been relatively strong. Much of its growth has been driven by the large oil and gas projects that have attracted the great bulk of the investment entering the country. The economy as a whole, along with the budget, remains highly dependent on revenues from its natural resources. Diversification has been limited. Whilst the ability to attract investment has been impressive, some part of that has soured, mostly on account of expropriations and/or unfair treatment. Although a signatory to the Energy Charter Treaty and other bilateral investment treaties, in some cases — notably Stati/Tristan Oil — the government has refused to settle despite judgments against them in international arbitration tribunals and courts. In fact, the legacy of investment disputes can be traced to the country's political system and the high degree of discretion that has resulted and which has undermined the avowed commitment to the rule of law and protection of investor rights.

Although power has not been as vertically organized as in some other neighboring countries, the place and role of the ex-President has been persistently central. This centrality was initially critical in the allocation of resources and assets in the first fifteen years of the country's existence. Subsequently, it has remained critical in preserving the system that had been created. The recent handover to a handpicked new President was designed to ensure that the ex-President remained the central figure in the political equilibrium, acting, in effect, as the arbiter. Around him have developed clusters of dependents and associates, some

[48] Even so, the Ministry of Investment and Development pilot project in 2015 of a one-stop-shop for investors giving assistance with information, permits, licences and starting administrative procedures failed to become widely known to both domestic and foreign investors. See OECD (2018b).

related by birth or marriage, others formed through common interest, sometimes fealty. These political arrangements—marked as they are by the importance of connections to power—have materially influenced the shape of the economy. Specifically, there has been a combination of a large—and politicized—public sector including many strategic SOEs alongside the private holdings—often contained in varieties of business group—of those close to, and often dependent, on power. These symbiotic groupings have themselves been fuelled—quite literally—by revenues from the country's natural resource wealth. The pace of privatization of SOEs has in part reflected the common interests of their management and politicians as well as the private businesses that transact with them.

The emergence of substantial private business holdings has been accompanied by a large accretion of wealth in the hands of a relatively small number of individuals and their business vehicles. At the same time, this elite—some of whom are relations of the ex-President—has exhibited considerable stability in its composition with relatively few new entrants. Those that are new have, in effect, formed very close connections to the cohort of first-generation oligarchs and their business interests. Indeed, it is unlikely that new business can thrive—and certainly grow to scale—without having links to, and the approval of, both business and political incumbents. Not surprisingly, this has translated into a high degree of concentration and a lack of rivalry. Indeed, a driving feature of the political system is precisely to limit both economic and political rivalry and in these aims it has, so far, been largely successful.

However, as with many autocracies, two latent sources of tension have emerged. The first derives from dissatisfaction among the wider population with both political and economic arrangements. The second comes from rivalries within the elite, notably in between the new and ex-Presidents. The former's tentative attempts to encroach on the powers and interests of the elite appear to have triggered a counter-reaction. Both streams of discontent flowed into the unrest of January 2022. While popular discontent have so far been suppressed, intra-elite tensions are unlikely to subside. Yet, it would be wishful thinking to assume that they will give rise to greater competition and openness. Rather, it is far more likely that they will involve some turnover within the ranks of the elite but without fundamentally altering the structures of ownership and control.

In this context, an enlightened policy agenda would have to focus on breaking down the substantial barriers to political and economic entry that presently exist. Facilitating political competition would, at a minimum, presuppose the right to form new political parties and movements and for them to function freely. Facilitating economic competition would be aided by limiting the substantial benefits flowing to connections and incumbency, including through the establishment of more independent regulatory and competition authorities. At the same time, a transparent privatization of parts of the large state-owned sector would be beneficial. However, none of these steps seem likely, or even feasible, under the current system. The pattern of signalling more openness, better governance and improved transparency has clear limits that are imposed by the imperatives of preserving the core of the current arrangements.

Yet, without such changes, the costs of the current system in terms of economic efficiency—static and dynamic—are far from trivial. Whilst the current system has been able to raise mean incomes and radically limit the incidence of poverty, it provides weak foundations for a more innovative, human capital-based growth model. Further, the scope for disruptive contests among the elite is evident. As such, autocracy's habitual challenge of how to organize the orderly passage of power and influence, let alone sustain economic growth and development, has not been solved. The massive centralization of power, influence and economic assets in such limited hands opens the door to future disputes both within the elite as well as throughout the society.

The paper started by asking whether improving institutions — promoting "good" economic policy — could offset the continuing presence of "bad" politics; autocracy by name. On closer inspection, the question turns out to be somewhat mis-directed. Not least because "bad" politics has so conditioned the underlying disposition of resources that the ability to press home institutional and other policy improvements remains radically circumscribed. This is something that is directly reflected in the configuration of the economy, let alone something that numbers of expropriated or thwarted investors have come to rue. In sum, "bad" politics both squeezes the space for, and distorts the benefits from, selective applications of "good" economics.

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