

January 31, 2022

Two Power Plays in Kazakhstan

Over the past month, unrest has developed in Kazakhstan. The unrest began as protests against rising fuel prices, but it soon blossomed into broader, more widespread, and violent civil disorder that had the appearance of an inter-elite conflict. Although Central Asia doesn't usually garner the world's attention, instability in the region could affect larger countries, such as China, Russia, and India. The volatility in Kazakhstan was also something of a surprise as the country has tended to be stable during its period of independence since the fall of the Soviet Union.

Despite being often overlooked by the Western media, Kazakhstan is an important country. It's a major oil producer and the world's dominant supplier of uranium. Oil prices, already elevated, rose further on fears that the Kazakh disorder would lead to additional supply disruptions. Uranium and associated equities also rose in price on the reports. In this report, we begin with some background on Kazakhstan, including a short history and a discussion of the region's role in Russia's imperial behavior. We next delve into the reasons for the January unrest and the way it played out for Kazakh and Russian leaders. As always, we conclude with market ramifications.

Geography, Economy, and Society

Kazakhstan is the biggest Central Asian nation and the ninth largest country in the world, covering 1.05 million square miles (see Figure 1). However, its population is

just 18.3 million, giving it a population density of 17 people per square mile, [the world's 17th lowest](#).

Figure 1



Kazakhstan and its Central Asian neighbors.
(Source: Wikipedia)

According to the [statistical review of energy](#) published each year by BP (BP, 32.18), Kazakhstan has 30.0 billion barrels of proved oil reserves, the 12th highest in the world. Its oil production has recently been about 1.8 million barrels per day. The country also produces about 3.1 billion cubic feet of natural gas each day. If that weren't enough to make Kazakhstan an energy powerhouse, the country also [accounts for some 12% of the world's reserves of uranium and is the largest producer](#) of the metal.

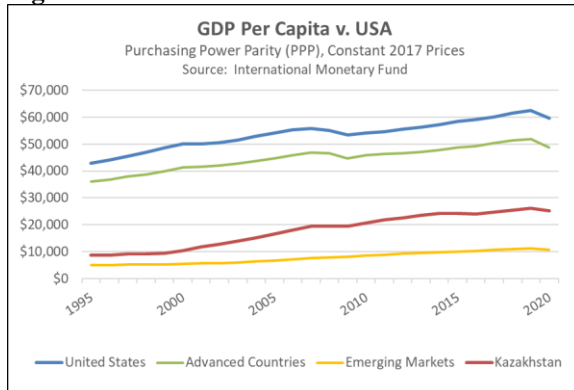
Kazakhstan's mineral resources, coupled with its small population, means it has a high reserves-to-population ratio similar to that of the Persian Gulf nations. Extracting and exporting these resources generates

significant income (see Figure 2), helping to make the country’s gross domestic product the largest in Central Asia. The International Monetary Fund estimates that Kazakhstan’s per-capita GDP stood at approximately \$26,500 in 2020, after adjusting for the purchasing power of its currency (see Figure 3). In comparison, Turkmenistan, the next-richest country in Central Asia, had an adjusted GDP per capita of just \$16,700. Nations with extensive extractive industries and low population can choose to widely distribute their income, but accomplishing that feat requires a low level of corruption. Sadly, [Transparency International](#) ranks Kazakhstan as the 94th least corrupt country worldwide, ranking similarly to countries like Brazil and Ethiopia. The result has been extreme inequality in wealth and income.

Figure 2



Figure 3



History

Kazakhstan’s history since the 1700s has been marked by its interactions with Russia. At the beginning of this period, Kazakhstan was populated by nomadic groups that often raided Russian territory, prompting Russia to build a series of forts to thwart the raids. By the mid-1700s, these fortifications were in place. During the “Great Game” of the 1800s, when the British and Russian empires vied for territory in Central Asia, the Russian state began to expand into the region. By the mid-1800s, it completely controlled what is now Kazakhstan. As is often the case with empires, resistance movements began to develop in Kazakhstan by the late 1800s. In response, Russia encouraged its citizens to immigrate to the region. During the 19th century, 400,000 Russians and about one million others (such as Slavs and Germans) moved into the region. During World War I, just prior to the Russian Revolution, the Central Asian Revolt occurred. Initially, the revolt was against conscription of Muslims into the Imperial Russian Army, but later it was directed against the Bolsheviks. There was a brief period of Kazakh independence but that ended by 1919.

The Kazakh Soviet Socialist Republic was formed in December 1936, making it one of the 15 republics within the U.S.S.R. Stalin used the region for internal exile and deportation, creating gulags in the region, including one specifically for the [wives of political prisoners](#). Similarly, he designated Kazakhstan as the “home” of 400,000 “Volga Germans,” ethnic Germans that were originally settled in a separate Soviet republic which was disbanded after the Nazi invasion of the U.S.S.R. Kazakhstan was also the area where the Soviets tested nuclear weapons. The first nuclear bomb test was conducted on Kazakh territory in 1949, and hundreds of tests were conducted

there until 1989. Given Russia's treatment of Kazakhstan, it made sense for the region to consider independence as the U.S.S.R. disintegrated. Kazakhstan declared its independence on December 16, 1991, making it the last Soviet republic to do so. Ten days later, the U.S.S.R. officially ceased to exist.

The first president of Kazakhstan was Nursultan Nazarbayev, who held office from April 1991 until March 2019. He created a cult of personality and, despite the trappings of democratic procedures, a dictatorship. Elections were held occasionally, with Nazarbayev usually winning 90% or more of the votes.

In March 1919, due to his advancing age, Nazarbayev resigned from the presidency and was succeeded by Kassym-Jomart Tokayev. Tokayev was part of Nazarbayev's inner circle. Although Tokayev was at one point a deputy prime minister, he spent most of his time as a career diplomat. After he formally resigned, Nazarbayev continued to control the country's security apparatus. Selecting Tokayev to replace him while holding onto national security suggested that the former leader intended to remain in effective control of the state. Since Tokayev was mostly involved in foreign policy, it was unlikely he had a lower power base. But, as we note below, recent developments have shown the folly of that assumption.

The January 2022 Unrest

Kazakhstan may have seemed stable, but the sudden unrest in January 2022 showed that domestic discontent and geopolitical intrigue were intensifying under the surface. [The rioting started on Sunday, January 2, when a western province lifted price controls on liquified petroleum gas, which is used in the energy-rich region for auto fuel.](#) Prices for

the gas doubled, sparking demonstrations that quickly spread to the rest of the country, including the main city of Almaty. In response, the government imposed a ban on mass gatherings, implemented a curfew, arrested thousands, and [even issued an order for security forces to shoot protestors without warning.](#) By Tuesday, January 11, the protests had ended, but only after [hundreds were killed.](#) We think it's useful to look at these events from both a domestic and an international perspective:

Tokayev's Domestic Power Play. The domestic dimension of the January crisis reflects political frustrations over the continued influence of Nazarbayev, his family, and his cronies, as well as economic stress stemming from Kazakhstan's longstanding inequality and today's global commodity inflation.

- **Tiring of Nazarbayev.** As described above, Nazarbayev had built his three-decade rule on the foundation of a personality cult that celebrated him as the nearly infallible, almost deified "father of the nation." That alone could have ended up being unsufferable, but the last straw was apparently Nazarbayev's effort to keep controlling the country after his retirement through his leadership of the national security council. Reports indicate many of the protestors who took to the streets in January were openly calling for Nazarbayev to relinquish all his power. It appears that Tokayev had also begun to chafe at the former leader's continued meddling. In sum, the political frustrations of both the up-and-coming Tokayev group and the wider population had clearly reached a boiling point by the end of 2021.
- **Tiring of Inequality and Inflation.** To make matters worse, [Nazarbayev had](#)

[used his long presidency to ensure that he and his supporters controlled most of Kazakhstan's wealth.](#) Corruption has been rampant in the country since its independence, and Nazarbayev, his family, and his cronies reportedly own vast swaths of the Kazakh economy's riches, while most of the population struggles economically. On top of that, rising commodity prices around the world haven't spared Kazakhstan. Like many people in both developed and emerging countries, Kazakh citizens have been struggling with a higher cost of living. As we've written before, periods of rising global commodity prices often spark social unrest in less-developed countries, so it should be no surprise that Kazakhstan's January 1 energy price hike led to protests.

- **Pushing Out Nazarbayev, Shifting Policy.** It is still unclear whether President Tokayev instigated the January riots in a premeditated effort to oust Nazarbayev and his supporters, or whether he simply took advantage of the unrest to solidify his political position. [Press reports indicate the protests began peacefully but were ultimately hijacked by violent thugs, suggesting the Kazakh security forces or other actors were deliberately trying to fan the flames.](#) In any case, Tokayev quickly used the unrest to sack his prime minister and his entire government. [He also arrested the chief of the government's intelligence service, a key Nazarbayev supporter, and had him charged with treason.](#) In a later address to parliament, [Tokayev promised economic reforms to reduce inequality and redistribute the ruling elites' ill-gotten wealth.](#) However, it is not certain that Tokayev will follow through on those pledges. It seems just as likely that Tokayev's "reforms" will merely transfer wealth from the

Nazarbayev family and its supporters to Tokayev and his supporters.

Putin's International Power Play. As discussed above, Russia has sought to control Kazakhstan for centuries. Nazarbayev worked hard to maintain his country's independence from Russia and had considerable success in doing so, much to the chagrin of the Kremlin. It therefore wasn't surprising that Kazakhstan's unrest and Tokayev's battle with Nazarbayev presented an opportunity for President Putin to reassert Russia's influence in the country. Fortunately for Putin, he had a ready tool in hand to do so, in the form of the Russian-dominated Collective Security Treaty Organization (CSTO). Now that Putin has boosted his influence over Kazakhstan, he will be in position to bolster his strategy of using energy to wring economic and military concessions out of Europe.

- ***The CSTO to Tokayev's Rescue.*** Since Nazarbayev had handpicked Tokayev to succeed him, and because Nazarbayev had retained influence via the country's national security council, Tokayev was probably unsure whether he could move against the former president, even though he had clearly been building his political base since taking office. It made sense for Tokayev to seek outside support from Putin, and the CSTO offered cover for the gambit. Formed in 1992, the CSTO is a mutual-defense alliance consisting of Russia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Armenia. Russia has long sought deeper military ties among the CSTO countries, and it spearheaded a series of joint CSTO military exercises in the summer of 2021 to warn the new Taliban government in Afghanistan against destabilizing the region. [Tokayev formally requested CSTO help under the alliance's mutual-defense provisions,](#)

[and a Russian-led force was deployed to Kazakhstan to guard government facilities while Kazakh police and military forces focused on suppressing the unrest.](#) The Russian force numbered some 2,500 troops, bolstered by a small number of troops from other CSTO countries. [The CSTO troops were quickly pulled out of Kazakhstan after the unrest subsided,](#) but Putin has now established himself as an essential patron for Tokayev, giving him leverage over Tokayev’s government.

- Tokayev As a New Agent of Russian Foreign Policy?** As with Tokayev, it isn’t clear whether Putin had a hand in starting the Kazakh unrest, or whether he just took advantage of it. In any case, Putin’s new patronage of Tokayev gives him several advantages. In contrast to Kazakhstan’s more independent stance under Nazarbayev, the country now will come more clearly under the “sphere of influence” that Putin is trying to build among the former Soviet republics. It will also serve as a better “buffer state” against geopolitical risks in Central Asia. Perhaps most important of all, [Kazakhstan could now play a supporting role to Russia’s energy politics.](#) Russia already provides a large share of Europe’s oil and natural gas, and it hasn’t been shy about using that relationship as leverage over Europe. Kazakhstan also provides a large amount of energy to Europe and other key countries (see Figures 4 and 5), so under stronger Russian influence, it could bolster the Kremlin’s energy leverage.

Figure 4

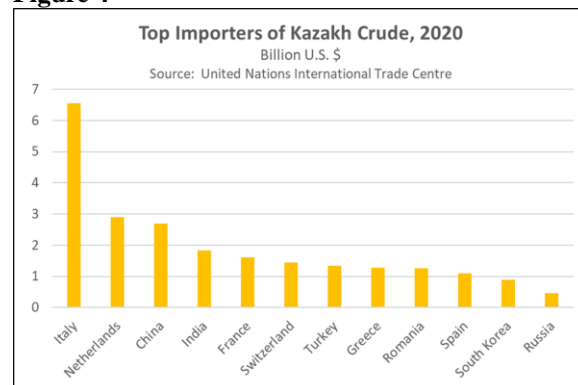


Figure 5



(Source: U.S. Energy Information Administration)

Ramifications

Although Nazarbayev dropped out of sight during the January unrest and was rumored to have fled the country, [he ultimately emerged in late January and announced that he had given up his position on the national security council and fully supported Tokayev’s government.](#) It appears that the Kazakh crisis has subsided with both Tokayev and Putin strengthened. As of now, further violence doesn’t appear to be a risk.

[It also appears that the crisis will inflict no lasting damage on Chinese-Russian relations.](#) Since China has a long border with Kazakhstan and significant investments in the country, many observers at the start of the crisis wondered whether China might feel that its interests were at stake, sparking

tensions with Russia. Stripping Nazarbayev and his intelligence chief of their remaining power was especially ominous from China's perspective, since they had been closely allied with China. Indeed, they had been instrumental in pushing through Beijing's "Belt and Road" infrastructure investments in Kazakhstan. In the end, however, it appears that China's highest priority was Central Asian stability. The quick deployment of the Russian-led CSTO troops to help quell the protests and their nearly immediate withdrawal were appreciated by Beijing, especially since they were carried out at the request of the Kazakh government and cast in the light of preventing outside forces from fomenting another "color revolution" that would topple an authoritarian government. The crisis has left Russia strengthened vis-à-vis China in Central Asia, but both sides can claim the intervention was consistent with their priority of noninterference in a country's domestic affairs.

Going forward, however, we do see risks arising primarily from Russia's bolstered

geopolitical position in Central Asia. As discussed above, President Putin will now be in a stronger position to exercise his geopolitics of energy. Putin now could potentially have much more leverage over Europe and other key countries by threatening to cut off their energy supplies or promising unfettered supplies in return for respecting Russian interests. For investors, a key risk is that if Putin is emboldened in this manner, he could spark increased volatility in energy prices. Withholding energy supplies to key countries would naturally boost prices for oil, natural gas, and uranium. The downside is that such higher prices could also cause economic damage and push down financial markets. Increased geopolitical power for revisionist countries like Russia and China has the potential to spark financial volatility to the detriment of investors.

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