

Insights into embedded policy paradigms and Kazakhstan's future trajectory

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CHAPTER 9

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Introduction

This book provides an assessment of policies in different sectors of Kazakhstan's economy, how policies have changed over time, since 1991, and how successfully they transformed the sectors. The collection also offered insights into policy areas beyond those in specific sectors. These areas include procedural justice in public service delivery, water–energy–food (WEF) nexus governance, public–private partnerships (PPPs) as a tool for public management, and policy development for monotowns. How do conclusions drawn from the book's chapters link to each other? What can one learn from them? Importantly, what are the implications for Kazakhstan's future policy and governance in light of the ambitious *Kazakhstan-2050* strategy that is on the nation's agenda since its adoption in 2012? This chapter aims to answer these questions, at least in part.

While investigating policies and their implementation in various parts of Kazakhstan's economy, as well as intersectoral practice, a number of ideas and themes have been reiterated by the authors throughout the book. The overarching theme is sustainability; that is, policy and governance have to ensure the nation's sustainable development. In the book, this theme has been discussed in detail, although at times implicitly, making use of a large variety of analytical tools and concepts, with regard to many sectors and policy areas, and Kazakhstan's economy in general. This is hardly surprising: every country needs to ensure sustainability, although in every country a set of resource constraints, historical legacy, and broader political and economic reality shape its developmental pathway. In Kazakhstan, although since 1991 the

nation achieved remarkable progress in many fields by taking advantage of the sale of its vast natural resources, the future of some industries does not appear to be resting on policies that are best suited to serving the *Kazakhstan-2050* strategy, and would ensure sustainability in the 21st century.

In addition to sustainability, the book chapters emphasise other themes that can be viewed as the means to achieve sustainability. They may be summarised as calls to ensure:

- economic restructuring;
- participatory governance;
- intersectoral thinking, rather than departmentalisation; and
- policy integration, rather than fragmentation.

It is worth noting that the themes are overlapping, and the means to achieve sustainability are to a certain degree interdependent. For example, participatory governance might not only better inform policy and, as a consequence, ensure better outcomes, but also contribute to policy integration, and intersectoral policymaking.

What do the themes' narratives tell us about the suitability of the nation's policies to meet the challenges of the 21st century? Is the country on track to achieve the objectives set in the *Kazakhstan-2050* strategy, or is it necessary to shift some policies? Do the ideas within the themes (that could be viewed as recommendations for improvement) align with the *Kazakhstan-2050* strategy? If there is misalignment, there might be a mismatch between the achieved result and the strategic objectives set. The ideas put forward in the book go beyond the boundaries of a specific industry. They should not be viewed as a plan of action with defined resource allocation, set timeline, and clearly delineated expected outcomes. Rather, the ideas

highlight elements of the policies that could be shaping Kazakhstan's economy and society in general for years ahead. The *Kazakhstan-2050* strategy leaves significant room for identifying ways to achieve its objectives, and this book takes advantage to offer insights into what these ways might be. At the policy level, most of the book's ideas are conceptual, although occasionally (eg regarding agriculture, education, or PPPs) the book also presents a practitioners' perspective. Each theme will now be discussed in greater detail.

Sustainability as an overarching theme

In many chapters, the sustainable development concept transpires indirectly, as a result of analysing specific conditions, or changes in a sector. For example, the study of agricultural reforms over 30 years, since 1991, showed that only in the 21st century environmental and social dimensions became part of the policy objectives in this sector; and it took about ten years (beginning approximately in 2010) for various actors to start paying adequate attention to these dimensions (see Chapter 3). One might argue that in the 1990s, during the most turbulent time of transition to a market system, policymakers naturally focused on the sector's survival; that is, its economic durability. Although this might be true, the focus on survival lacked the accompanying development of market relations in agriculture. In light of expanding market relations, the use of instruments suitable for a market economy would have been more appropriate.

Despite significant improvements over three decades, agriculture has been and still is relying on government subsidies, which is hardly a tool that supports market relations. Rather, a subsidy, whether in agriculture or any other sector, typically indicates and/or even reinforces a producer's inefficiency, as the subsidy pays for part of the production costs. As this book emphasises, the economic sustainability of agriculture depends on developing market relations,

which would allow to attract private investment and, over time, reduce and ultimately phase out subsidies.

However, it is worth recognising the trade-off between a policy aiming at developing efficient, competitive, and overall sustainable agriculture, on the one hand, and social policy supporting the rural population and their livelihood, on the other. As subsidies ensure continuity of agricultural producers' livelihood and employment in rural areas, one would agree that terminating subsidies across the sector in the near future is neither realistic, nor desirable. However, in the long run, agriculture cannot rely on subsidies as a policy paradigm and, in the future, efficiency considerations may prevail. The solution to this dilemma (efficiency versus social support) may lie in a paradigm shift, when at least two approaches may be implemented at the same time: policymakers might consider a gradual, incremental phasing-out of subsidies over a long period (10 to 20 years) for most cost-inefficient products, and also implement novel, innovative methods in agriculture, such as cluster development based on deploying renewable energy-generating facilities.

Another area in which sustainability is often discussed is the energy sector. The debate about the role of fossil fuels in Kazakhstan's sustainable development often transforms into a discussion on energy security. Over 30 years, policymakers emphasised security of supply as the energy sector's primary objective. Drawing on their own research in Kazakhstan, the editors of this book offered, in earlier publications, a novel conceptualisation of energy security, which is particularly applicable to resource-rich nations and aligns well with the concept of sustainability, and the objectives set in the *Kazakhstan-2050* strategy (Koulouri and Mouraviev 2019; Mouraviev and Koulouri 2019a, 2019b). Energy security could be viewed as a sustainable use of renewables, which means the purposeful and ever-increasing utilisation of

renewable sources for the production of power, and a corresponding decrease in reliance on non-renewable sources, complemented by resource efficiency programmes (Koulouri and Mouraviev 2019). Owing to climatic conditions, Kazakhstan has significant potential for renewable energy generation, and over the past ten years the government has designed legal and institutional frameworks for the promotion of renewables. However, high dependence on fossil fuels persists, while the share of renewables in the nation's energy mix remains very small (see Chapter 7 about embedding WEF nexus in policymaking). The country might significantly benefit from adopting a new energy security concept, which would ensure the paradigm shift required for long-term sustainable development based on continuous increases in the utilisation of renewables (Mouraviev and Koulouri 2018).

Why does sustainability often appear a subtle, rather than a pronounced, policy perspective? This occurs because some policies lack coherence or might be contradictory, which does not allow sustainability objectives to be achieved (in addition to Chapter 3 on agricultural policy, see for example Chapter 2 on the oil sector, Chapter 6 on PPPs, and Chapter 8 on monotowns). Therefore, sustainability as a concept unifying economic, social, and environmental dimensions of development in a field is yet to be embedded in policymaking and governance.

Theme 1: Ensure economic restructuring

Economic restructuring is relevant to the energy sector (Chapter 2), agriculture (Chapter 3), monotowns policy (Chapter 8), and, in fact, the entire economy. In addition to investigating conditions in the oil sector, this book draws on studies in agriculture, energy, nexus governance, and monotowns to emphasise the importance of the economic restructuring that Kazakhstan has been trying to accomplish for many years, although with limited success.

It is worth emphasising the use of the term restructuring as opposed to diversification. At the corporate level, diversification typically means adding a new product to the company's portfolio, which usually pursues the goal of expansion to a new market and/or of spreading the risk over a broader range of products, so that any particular product's exposure to risk is reduced (Baysinger and Hoskisson 1989; Miller 2004; Guerras-Martina et al 2020). Similarly, at the regional or national level, diversification would usually mean a larger variety of assets and/or industries. However, does a larger variety of industries ensure reduced risk of dependency on fossil fuels? Not necessarily, as each of the newly added industries might bring a tiny, or no tax revenue to the budget. After 30 years of independent economic development, the country has a range of industries, such as the manufacturing of furniture, clothing, electrical equipment, as well as services provided by small businesses, but they do not bring any significant budget revenue. Therefore, diversification as an objective in policy documents or government programmes becomes a somewhat misleading goal, as it might be emphasising the need to create a new industry without necessarily reducing the size of the oil sector and, hence, the corresponding budget dependency on oil revenue.

A new paradigm appropriate for the *Kazakhstan-2050* strategy requires restructuring of the economy, which means investment in new sectors, and their development to the extent that they bring sizeable tax revenue. Ultimately, this would mean a corresponding decrease in dependence of the budget on oil revenue. In this manner, the economy would be increasingly relying on the new sectors, while gradually reducing its dependency on the oil industry. As an additional illustration of what needs to be done, it is worth emphasising that restructuring is not about just creating new sectors or sub-sectors, for example in agriculture. The objective is to ensure that both new and existing sectors and sub-sectors are profitable, and therefore do not require subsidies and, ideally, yield tax revenue to the budget.

The restructuring theme is also critical for the discussion of the oil sector and its role in Kazakhstan's economy. Although the government skillfully implemented its energy policy from the 1990s to the present to ensure that vast natural reserves served well to secure budget revenue for the country's development, there are growing concerns about the depletion of fossil fuels, and the ecological damage resulting from the use of oil, gas, and coal (see Chapter 2). More broadly, concerns are mounting regarding whether the oil sector's and the nation's overall developmental pattern are economically and environmentally sustainable in the long run. Will Kazakhstan be able to join the ranks of the 30 most developed nations, as stipulated by the *Kazakhstan-2050* strategy, amid uncertainty about economic and ecological sustainability, which inevitably undermines the social dimension of the country's development? The calls for a paradigm shift, ensuring gradual departure from the country's reliance on fossil fuels as the dominant source of government revenue, to a restructured economy that would provide stable and significant tax revenue streams from many sources, rather than one, are not new. However, over time these calls intensified and will be intensifying further as long as restructuring remains slow or stalled.

On a smaller scale, the concept of restructuring is pertinent to the development of monotowns. Although this policy area is where for many years the focus was on diversification, minimal results have been received in terms of reducing the towns' dependency on a single large enterprise (see Chapter 8). Some diversification was achieved, however it created insignificant additional employment opportunities, while the historically formed dominance of a single major local employer remains in many towns. As Chapter 8 shows, efforts to develop small businesses failed to change the employment structure in small towns. The deeply embedded policy paradigm that does not acknowledge the towns' economic restructuring as a primary

objective requires a shift, which would need to align with broader policy objectives for restructuring the entire economy.

Theme 2: Ensure participatory governance

A few chapters raised concerns about path dependency in policymaking when the traditional top-down approach dominates, while citizens and/or local governments are not invited to participate. In the political reality of Kazakhstan with centralised decision-making, it would be unwise to call for completely different methods of policy design. Nonetheless, strengthening the nation's statehood and achieving a certain degree of decentralisation are viewed by the *Kazakhstan-2050* strategy as critical objectives that would facilitate the country's competitiveness. Without replacing the centralised approach to decision-making, this could be achieved by participatory governance, resting on much greater engagement of citizens, local authorities and organisations representing relevant industries. The input of the local-level actors would offset the deficiencies of top-down policy design and implementation, and would complement the centralised model (Chhotray and Stoker 2009; Gustafson and Hertting 2017).

This need for participatory governance is vividly observed in such areas as higher education (Chapter 4), and monotown development (Chapter 8). For example, in higher education many of Kazakhstan's universities are prepared to provide significant input in how the learning processes and research need to be managed. To this end, they would benefit (as the international best practice shows) from more autonomy and greater accountability, which might transform the educational sector based on the application of participatory governance, and, importantly, ensure education quality at the level of the most advanced economies in the world.

In another example, path dependency in policymaking using the traditional top-down approach set serious limitations to the development of monotowns. As Chapter 8 explains, many monotowns experienced continuous decline over the past 30 years, show high levels of unemployment, and persistent outflow of the labour force. These towns will not be able to transform their economy without significant investment by the national government. However, local authorities, rather than the national-level governing bodies, are best equipped to assess their territories' needs, design development plans, and implement investment programmes. A participatory approach would not only better satisfy the local needs, but might also lead to the much desired economic restructuring on a broader (regional or national) scale (Cornwall 2008). A possible paradigm shift in the direction of participatory governance could therefore be viewed as a realistic possibility to transform policymaking in education, monotown development, as well as agriculture and other sectors of the economy.

In another area, WEF nexus, the need for participatory governance is particularly vivid as the nexus concept is fairly novel for Kazakhstan (see Chapter 7). Participatory governance strongly links to stakeholders' relational equity (for details, see Koulouri and Mouraviev 2020), which emphasises the critical importance of engaging actors, seeking and managing their contributions to the overlapping sectors in order to apply an integrated approach to policy and governance. In turn, this might deliver better outcomes regarding economic sustainability of all three sectors, and ensure environmental and social sustainability (Mouraviev and Koulouri 2020).

Theme 3: Ensure intersectoral thinking, rather than departmentalisation

Departmentalisation might be viewed as a Soviet legacy and a feature of time, from the 1990s to present, when the country focused on transforming its key sectors from the command system

to a market-based one, a transformation currently manifested as an embedded paradigm in many policy areas. Building a competitive economy with the goal to become one of the 30 most developed nations requires a different approach, in which intersectoral thinking would provide coherent, rather than isolated, solutions, with spillover benefits for the entire economy, rather than just serving sectoral priorities.

The theme of intersectorality has been discussed in all chapters, and illustrated by a range of examples of narrowly focused policy actions and governance solutions that constrained the overall effectiveness of programmes, impeded the achievement in full of the stated objectives, and led to unforeseen negative impacts in other policy areas. Sector-focused decisions have been observed for many years in the oil industry, agriculture, water management, small town and rural development, higher education, transport, and utilities infrastructure, often without any attempt to identify the consequences of isolated decisions on other sectors. For example, the current minimal application of the WEF nexus concept to the governance of the agriculture, water, and energy sectors serves as a most vivid illustration of isolated sector-focused policymaking (see Chapter 7). Another example is in the field of PPP governance, where poorly integrated decisions have led, in recent years, to a disproportionately large number of investment projects, labelled as a PPP, being deployed, significantly increasing the potential government liability if some risks (eg insufficient revenue streams, or construction failures) materialise (see Chapter 6).

Theme 4: Ensure policy integration, rather than fragmentation

Fragmentation might considerably reduce the effectiveness of governance, and it is not surprising that a number of chapters in this book emphasised the need for effective governance. However, effectiveness is not just about “getting things done”. Policy and its implementation

need to be holistic, where different parts support each other, and ensure consistency. This is not always the case in Kazakhstan. For example, Chapter 2 notes that the world demand for oil will be increasing in the coming years (of course, after the COVID-19 virus is defeated) as many nations will require more energy resources to serve their needs in a time of economic growth, and Kazakhstan intends to take advantage of this by selling more oil. Is this intent part of the embedded policy paradigm that focuses on continuous and ever-increasing sales of fossil fuels? If so, how will this be reconciled with the strategic intent to increase energy generation from renewable sources and reducing the country's dependency on oil revenue?

Another example highlighting the need for policy integration comes from agriculture. In recent years, one of the new policy objectives adopted for this sector stipulated the development of export orientation of selected producers and products, such as wheat. As a result, the country exports wheat, cabbage, carrots, potatoes, buckwheat, sugar, and a range of other agricultural products. Although this might serve as an incentive to improve product quality and, in the long term, increase competitiveness, the export orientation is supported by significant budget expenditure for agriculture. Does export-oriented policy have the capacity to continue if budget spending is reduced? The agricultural policy, therefore, might be streamlined and clearer when its different parts are better aligned with each other.

In higher education, although part of the policy supports greater autonomy of universities, which means greater faculty involvement in how academic programmes are formed and run, the other part requires universities to follow the nation-wide centralised regulations that take away flexibility (see Chapter 4). For example, in each taught course (ie a semester-long module) there should be two units of assessment – a mid-term exam and a final exam – regardless of the module design, learning objectives, and teaching methods.

The holistic approach to governance has yet another dimension. Investigating the process of public service provision, Chapter 5 argued for the need to ensure procedural justice, rather than just using numbers to show how many services have been provided, and how many citizens have been served. Procedural justice, therefore, refers to the need for governance to be responsive, equitable, and inclusive, although currently the public service delivery seems to focus primarily on efficiency. Treating governance holistically, rather than paying greater attention to one aspect and downplaying the other, is an important point, which is yet to be fully embedded in Kazakhstan's practice.

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