



## Address on the Challenges of Kazakhstan

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It is an honor to address this group of distinguished guests and business leaders. I want to thank the American Chamber of Commerce in Kazakhstan and the U.S. Chamber of Commerce for organizing this timely event to discuss the future of Kazakhstan, its potential, and its challenges.

Our nation's foreign policy and economic/commercial interests are intricately tied together. U.S. businesses have and continue to demonstrate a commitment to expanding investment in, and trade with, our friends and allies around the world. In doing so, the U.S. business community has played a key role in sustaining long-term growth in the global economy, creating jobs and improving the standard of living of nations around the world. Domestically, increased exports and foreign investments have led to the creation of new businesses, good jobs for American workers, and better choices for U.S. consumers. I am pleased that so many U.S. companies are represented here today – and I hope you find the program useful and helpful.

Kazakhstan's economic and political well being is of interest to the United States. This interest was exemplified by the recent visit of Secretary Rice to Kazakhstan and the messages in support of good bilateral relations between our two countries and support of continued reform that she delivered there. Of course Kazakhstan's economic development provides investment opportunities for U.S. firms. Kazakhstan is an important example of hope and economic prosperity to its neighbors. Since its independence, Kazakhstan has set examples in this region with bold economic reforms that have attracted investment, created jobs, and established a vibrant banking system. The Government of Kazakhstan has also made wise choices to begin diversifying its economy and ensuring that its vast oil wealth can become a source for social mobility, not social stagnation.

To this end, Kazakhstan has taken commendable steps in implementing market reforms, particularly in terms of privatization and liberalization of financial markets. Such efforts enable it to play a special role in demonstrating that economic, and for that matter democratic, reforms are a way of mitigating sources of conflict and instability by creating the foundations for prosperity. The USG wants to continue to partner with Kazakhstan to strengthen its ability and commitment to be an example to the region.

The United States supports Kazakhstan's efforts to thrive economically. As Kazakhstan's economy continues to develop it will be an engine for growth within Central Asia. Its neighbors - Kyrgyzstan, Tajikistan, Uzbekistan and Afghanistan - would benefit immensely from Kazakhstani investment and energy exports to stimulate growth and create jobs.

Central Asia has a long history of hosting some of the world's richest trading centers and trading routes. Today, regional economic trade can once again be a powerful engine of economic growth and opportunity. The United States is committed to high-level engagement with Kazakhstan and with its neighbors to stimulate cross-border trade and investment in energy, transportation, agriculture, and other sectors.

The State Department's economic team works closely with other U.S. economic agencies to partner with our counterparts in the Kazakhstani government to bolster trade and investment and to promote growth. The Central Asia Trade and Investment Framework Agreement, or TIFA, which we signed with the five Central Asian states in 2004, offers promise as a vehicle for removing trade and investment barriers in the region and accelerating economic integration. We held constructive consultations under the TIFA in May 2005, and look forward to further work in this area.

As we work toward reform it is essential that Kazakhstan's actions meet their commitments. I'd like to take a moment to urge Kazakhstan to honor its obligations under our Bilateral Investment Treaty or BIT. This includes promptly paying international arbitration awards. In one such case an American insurance company won an \$8 million award arising from an expropriation but after almost two years it still has not received payment. After several consultations between our governments, Secretary Rice raised this case with President Nazarbayev and the Government of Kazakhstan promised to pay the award. Although we are encouraged by this progress we also know that Kazakhstan can do better.

Additionally, Kazakhstan must do a great deal more to fight corruption, which is simply a tax on the poor. The farmers, and shopkeepers, and school teachers of Central Asia must know that government officials cannot arbitrarily seize their property. They must know that they will be able to withdraw from the bank all of the hard-earned money that they deposited. And they must know that no unjust obstacles stand in their way of buying a house, or winning a contract or starting a business.

Despite some challenges, the U.S. remains the largest foreign investor in Kazakhstan, with FDI of nearly \$9 billion. Chevron's and ExxonMobil's investments in the Tengiz oil field are the largest; AES Corporation and Phillip Morris are also big investors in Kazakhstan. Kazakhstan purchased \$320 million worth of U.S. goods and services last year, and shipped \$540 million worth of exports, largely energy-related, to the United States.

We support Kazakhstan's accession to the World Trade Organization and want to work with Kazakhstan to strengthen its protection of intellectual property and create a modern and open economy that offers a level playing field for foreign goods and services and a dynamic environment for innovation. We have had ongoing discussions with Kazakhstan toward conclusion of a bilateral agreement on WTO accession, and we look forward to further work in Geneva on Kazakhstan's multilateral commitments.

Now let me turn briefly to the energy sector. Given the scope of the energy challenge we face both today and in the years ahead, Kazakhstan has the potential to play a critical role in addressing the world's energy needs. The US Energy Information Administration forecasts that the world is likely to consume over 120 million barrels per day of oil in 2025, an increase of about 50% from today's global consumption of 80-85 million barrels per day.

Through energy diplomacy abroad, as well as complementary efforts at home, we need to continue to press for the removal of barriers to trade and investment in energy production, transportation and refining. A large part of our international efforts have and will continue to be on new areas of major production potential like the Caspian.

The challenge for Kazakhstan is whether it can continue to build on both its momentum and resources to realize its potential as one of the world's elite energy suppliers. Given Kazakhstan's reserves, there are two major variables that will determine the pace and extent of Kazakhstan's growing role in the global oil equation over the decades ahead.

First, is developing and expanding transit options for its energy reserves. The second, also critical, is the climate for investment in both production and transit capacity. With an aggressive and flexible approach to expanding new and existing pipeline capacity and adherence to a predictable and reliable investment regime, Kazakhstan will increase production dramatically, and both Kazakhstan and the global economy will benefit.

In these days of high prices, I would like to add one strong note of caution. High oil prices can reduce the incentive for governments in major oil exporting nations to continue with economic reforms and liberal investment regimes that promote the efficient development of natural resources. However, it is precisely with the boost of

added income that governments should move boldly with economic reforms as well as domestic investment in infrastructure. Energy producers need to avoid backtracking on reforms and be sure to maintain a central role for private investment, which fosters efficiency and increases benefits available to the general population.

We strongly support the work of U.S. energy companies in the Caspian region. Those firms, led by Chevron, ExxonMobil, ConocoPhillips, and their partners, are now focused on ramping up production, improving transportation to markets, and improving energy security. U.S. energy companies were among the first non-CIS foreign investors in Kazakhstan; we hope that American companies will be active in the region for many years to come.

Some believe that these and other economic reforms are all that are needed to guarantee lasting prosperity, but this not the case. As Secretary Rice said in Kazakhstan recently "Wise statesmen know and history has demonstrated that political and economic freedom must advance together, and complement one another. History also teaches us that true stability and true security are only found in democratic regimes."

As we work to confront the economic challenges that face us, America also encourages our friends in Kazakhstan to recognize that democracy and economic reform are not only wise, but also good for business and for the well being of its citizens.

Ambassadors, Ministers, special guests, business leaders - thank you for the opportunity to join you today.

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