

Address of the President to the people of Kazakhstan 1 March 2006

Kazakhstan's strategy of joining the world's 50 most competitive countries

Kazakhstan is on the threshold of a major breakthrough in its development

Dear people of Kazakhstan!

Distinguished members of the Parliament and Government!

Ladies and Gentlemen!

Today, Kazakhstan stands on the doorstep of a new stage of social and economic modernization and political democratization.

My understanding of the essential components which will allow us to claim a place in a group of countries representing the top of world ratings consists of the following.

First, the foundation of a flourishing and dynamically developing society can only be based on a modern, competitive and open market economy which is not confined only to the extracting sector. It is an economy based on respect and protection of private property rights and contractual relations, initiative and entrepreneurship of all members of society.

Second, we are building a socially oriented community in which the elder generation, motherhood, childhood, and youth are all surrounded with care and attention. We are building a community which provides high quality and advanced social standards of life for all strata of the population of our country.

Third, we are building a free, open and democratic society.

Fourth, we are creating and reinforcing a law and order state which is based on a system of checks and balances.

Fifth, in Kazakhstan we guarantee and ensure full equality and harmony among all religions. We respect and nurture the best traditions of Islam and of other world and traditional religions while we are building a modern secular state.

Sixth, we strive to preserve and develop the ancient traditions, language and culture of the Kazakh people while also providing interethnic and intercultural harmony and progress of the single nation of Kazakhstan.

Seventh, one of our most important priorities is positioning Kazakhstan as a rightful and responsible member of the international community, carrying out important functions to provide geopolitical stability and regional security.

Today, in annual address to you, my fellow countrymen, I want to present key priorities in Kazakhstan's advance to the group of the world's most competitive and dynamically growing countries of the world.

Priority I: Kazakhstan's successful integration into the world economy is the basis for a qualitative breakthrough in the country's economic development.

We want to see Kazakhstan as a country developing along the global economic trends, as a country which is embracing all that is new and progressive, as a country which holds a small but its own specific niche in the world economy, and as a country which is quickly adaptable to new economic conditions.

We should be ready for fierce competition and use the advantage of it in our best interests. Kazakhstan can and must actively participate in multilateral economic projects which promote our integration into the global economy and are based, among other factors, on our beneficial economic and geographical location and available resources.

The state, for its part, must clear all legal, administrative and bureaucratic barriers from the path of business initiatives and provide direct support to promising new business start ups in the private sector.

Considering integration in the world economy as an essential condition for qualitative breakthrough in Kazakhstan's economic development, I believe we should concentrate our efforts in the following directions.

1.1. Implementation of breakthrough international projects, development of industries and production of goods and services competitive in specific niches on the world market.

We should establish and develop manufacturing projects with a focus on exporting the end products; joint ventures in oil and gas, transportation, and other areas of machine building, metallurgy, chemical industry and agriculture.

We should develop biotechnology centers with active international participation. Our Information Technology Park should be developed as an IT center for the region.

The Government must develop and put to work special programs aiming to support competitiveness of national goods and services. We ought to have specialized organizations supporting private businesses and promoting their goods and services in the world market. We need to carefully study the experience of such organizations globally and adapt it to our conditions.

1.2. Integration into world economy by participating in regional and international economic unions and associations.

Kazakhstan can and must actively participate in multilateral international projects. Such actions will assist our integration in the world economy and support our exporters.

In terms of regional partnerships we intend to support further broadening of mutually beneficial cooperation within the Eurasian Economic Community and contribute to establishing of the Single Economic Space.

We should also focus our attention on projects of the World Bank, the European Bank for Reconstruction and Development, the Asian Development Bank and the recently established Eurasian Development Bank.

1.3. Joining the WTO will be an additional tool for economic modernization and strengthening Kazakhstan's competitiveness on the world markets.

The negotiations on Kazakhstan's accession to the WTO are moving ahead at full speed. A major part of our laws regulating international trade regime either have already been harmonized in accordance with WTO requirements or are under discussion in the Parliament.

I strongly believe our country's accession to this international economic organization opens vast opportunities for strengthening Kazakhstan's competitiveness on the world markets. These opportunities, however, must be skillfully and fully utilized.

We should eliminate all economically unjustified limitations on foreign investors' participation in equity of local companies in those sectors where we have not done it already.

1.4. State support for development of export-import financing.

Support and financing for export of processed goods and import of high tech equipment should become a priority.

Today our export of finished goods is only US\$2 billion per year. This volume has been stable for almost a decade. Today it is necessary to achieve sustainable and continued growth of export of finished goods. We should rely on best international practices and actively cooperate with foreign export-import agencies.

1.5. Kazakhstan's participation in equity of international companies involved in research and development of new technologies.

As an addition to internal scientific capacity, I believe it is time for Kazakhstan to take the initiative and participate in the international business of new technologies through equity investments in high tech companies including those at the very early stages.

Our Innovation Fund has a key role in this task and will be responsible for this work.

We could follow the examples of other countries which have purchased equity stakes in new high tech companies across the world in order to gain access to advanced technologies in the most breakthrough directions of economic development.

By doing so we can become owners of intellectual property rights and patents. For such projects we must more broadly involve our honorary consuls in foreign countries.

The Government should carefully explore the issue of Kazakhstan's technological initiatives internationally.

1.6. Establishing favorable conditions in Kazakhstan for production of goods protected by intellectual property rights and registered trademarks.

I am sure that strengthening Kazakhstan's reputation as a tough guarantor of intellectual property rights and registered trademarks will allow us to speed the diversification and development of new sectors of our economy.

I believe Kazakhstan should implement a broad public campaign aimed at establishing a cultural intolerance of counterfeit products, and should institute measures of administrative and criminal punishment for those who violate intellectual property rights and are involved in the fraudulent production of trademark goods. I am confident such procedures will gather support and encouragement from international producers of high technology and science intensive goods and will create an additional inflow of foreign direct investment and diversify Kazakhstan's economy.

1.7. Establishment of science centers and educational institutions meeting the highest international standards.

We should establish and develop modern scientific centers and technology parks with international participation. We should support the process of implementation of new technologies and the formation of a flexible system of personnel cross training.

Development of scientific potential should be aimed at narrowing the gap between applied research and actual production and businesses.

We should establish necessary preconditions for attracting leading academic centers and institutions to Kazakhstan. To do this, we need to utilize so called incubation projects for joint development of branches of international educational institutions in Kazakhstan.

I believe in order to stimulate development of incubation projects the Government should resolve a number of organizational issues including free grants of land for development of science centers as, for example, it has been done in India, financial grants for start up capital and for establishment of basic infrastructure.

1.8. Development of a modern and competitive transport and communications infrastructure.

The essential task for Kazakhstan's transport and communication complex is its integration with the Eurasian transport system. Development of a transportation and communications complex should fully utilize the advantages of the geostrategic location of our country as a bridge between Europe and Asia.

We should reach final agreement with our neighbors on implementation of streamlined procedures for cargo shipments.

All of these tasks should be stated in the Transport Strategy of the Republic of Kazakhstan till 2015 and implemented under that Strategy.

While implementing these tasks we should pay particular attention to the development of public-private partnerships.

1.9. Pursuing an open policy on natural resources exploration.

We have started and will continue carrying out an open policy for natural resources exploration in the future, providing transparent and stable conditions for cooperation with transnational corporations and our major neighbors. This will strengthen Kazakhstan's reputation as a promising and reliable partner, contributing to global energy security.

Our attention should be focused on diversifying and ensuring stable channels for delivery of energy resources from Kazakhstan to world markets and on an accelerated development of facilities for deep processing of oil and gas.

1.10. Development of Almaty as a regional center of financial services and a business hub.

Dynamic development of Almaty as the main financial center in Central Asia should be focused on creating favorable conditions and opportunities for large financial institutions in Kazakhstan to become major providers of credit, insurance and other of financial services for major regional business projects.

In order to provide for the effective work of this financial center it is necessary to create appropriate infrastructure, primarily telecommunications. It is obvious we should also concentrate on attracting management which has an excellent business reputation and experience in creating and managing such centers and free economic zones abroad.

We should pay particular attention to development of auxiliary services in free financial and economic zones.

1.11 Practical implementation.

To implement in practice the First Priority I instruct the Government:

- Carry out an analysis and introduce amendments to the existing legal and normative base in 2006. Draft new versions of laws of the Republic of Kazakhstan "On competition and limitation of the monopolist activities", "On concessions" and "On the city of Almaty as a regional financial center".

- Carry out reforms of the tax and customs administration, redirect the government assistance to domestic producers, modify domestic standards of technical regulation in accordance with international standards of the WTO, and continue reforms of the financial services market.

- Develop and implement special economic "adaptation program" as Kazakhstan moves towards accession to the WTO which will allow supporting certain industries of our economy during the transition period, particularly our agriculture by developing agricultural products' processing.

- Continue focused research in all sectors of the global economy where Kazakhstan can be a competitive supplier and based on the results of this study establish a specific and focused program fostering international competitiveness of national products and services.

- Create a list of specific medium and long term projects in collaboration with development institutions and leading Kazakhstan companies. Further work on creating industrial zones, in particular in Astana, as well

as special economic zones, transportation and logistics centers. Special attention should be paid to the development of the Khorgos center of cross-border cooperation with China.

- Establish a managing company which will consist of all state institutions of development to coordinate their activity.

- Approve the Transportation Strategy of the Republic of Kazakhstan till 2015 this year which will ensure effective cooperation with businesses in developing infrastructure based on public-private partnership. Establish at least two to three aviation hubs to provide a high quality transport between Europe and Asia. Establish technical maintenance center in Astana to cater for the aviation industry.

Priority II. Further modernization and diversification of Kazakhstan's economy as a basis for sustainable economic growth.

In order to support sustainable and robust growth of our economy, the state has to encourage demand for high quality products and services using the instruments of fiscal and monetary policy and those of state regulation of efficient redistribution of principal factors of production.

To be more specific I believe that we have to focus on the following areas to further modernize and diversify Kazakhstan's economy.

2.1. Monetary policy.

The main objective of monetary policy is to ensure inflation is kept in check. It is the responsibility of the National Bank and the Government. They have all the necessary powers and instruments for that.

The other objective of monetary policy is to ensure financial market stability, support needed flexibility of a real exchange rate to reduce negative effects of growing inflation and at the same time stimulate economic growth.

The National Fund has an important role to play in this regard. I believe that the Government will ensure a transparent and effective way for the Fund's resources to be accumulated and used.

2.2. Fiscal discipline and effective tax policy.

Tax and customs policy reforms have to become important instruments of the entire economic modernization policy.

It is important to use a flexible fiscal policy providing incentives for diversification and development of the new industries, attracting foreign capital and know how to these sectors.

I believe that the value added tax rate has to be reduced in order to develop and expand production.

It is worth considering establishing a special department in the Tax Committee of the Ministry of Finance to check tax revenues from the biggest taxpayers. The department has to employ big independent international auditors who do not have any conflicts of interests.

We must maintain stringent fiscal and budget discipline.

2.3. Improving the effectiveness and economic returns from energy and mining sectors.

We should open up new niches in domestic and global markets through developing high value refining and processing in oil, gas and mining industries.

Every oil and gas field is to be considered as an integral enclave for development of entrepreneurship in areas from modern utility services to the latest engineering and software.

Kazakhstan has to have the reputation of a reliable supplier among consumers.

This year I expect the Government to start implementing a complex master plan of petrochemical production development in Kazakhstan for the next ten years.

2.4. Effective state asset management.

The Government has to establish a transparent and clear state asset management system. It is necessary to make an inventory of state ownership and establish a single database for the country. Unified criteria have to be applied in making decisions on rehabilitation and bankruptcy. Bankruptcy is to be the last resort if it is not possible to rehabilitate loss making state owned enterprises.

The practice of inviting the same bidding managers preferring bankruptcy as the most profitable way of state asset management has to be stopped and as much as possible a competitive environment has to be created in this area. International companies should be engaged if needed to manage the largest state assets.

2.5. Improve effectiveness of economic relations between the Government and private sector based on market principles.

We have to optimize the Government's participation in the economy through administrative reform.

New economy requires new management solutions which can be only made by state managers who think in a modern way and are result oriented.

To develop contractual relations in the society and strengthen the institution of private property it is necessary to introduce additional legal and administrative measures as well as an independent dispute settlement and arbitration process.

Both representatives of the authorities and all the other economic agents have to bear economic, administrative and even criminal responsibility for infringing contractual obligations.

It is very important for us to have adequate legislation to protect minority shareholders' and founders' interests. Legal guaranties against renationalization have to be also considered.

I would like to especially underline the need to introduce an e-Government system as quickly as possible. It would improve effectiveness of Government agencies, resulting in reducing corrupt practices and administrative barriers.

2.6. Providing wide scale Government support for entrepreneurship, while expanding and strengthening small and medium sized businesses.

The Small Entrepreneurship Development Fund has to become a real source of financial resources and expertise for a wide section of the population willing to utilize their entrepreneurship potential and initiative. The representative network of the fund has to be expanded, and efforts aimed at entrepreneurship support in the regions have to be strengthened.

The hidden monopolies in metallurgy, banking, insurance, chemicals and other sectors are to be destroyed. This has to be done by reforming anti-monopoly legislation as well as by establishing attractive and transparent conditions for new companies, both domestic and foreign, in other words, by increased competition in these sectors.

We must also block bureaucratic attempts to establish control of industrial assets.

2.7. Creation of regional engines for economic development through establishment of regional corporations of social development and entrepreneurship.

The Social Entrepreneurship Corporations (SEC) are stable business entities doing business for profit from production and sale of goods and services. The main difference of an SEC from a commercial corporation is that it reinvests its profits for social, economic and cultural purposes of the people living in the region in the interests of whom the SEC was established.

SECs could be incorporated in different regions of Kazakhstan by transferring to them municipal property, land, non-profitable but working enterprises which could be used to start new businesses.

Each SEC has to become a regional development institution and could operate as a holding company managing government assets in its region of the country.

Afterward, as management experience and capitalization of the SECs develop, their areas of responsibility could be expanded and diversified allowing them to operate regionally and internationally.

Their operation will be aimed at bringing in new projects, developing small and medium sized businesses, and strengthening business cooperation.

In the end, the SECs would become large employers and engines of the country's development, and not be a burden to the state because they will not create a need for more government employees.

2.8. Territorial development corresponding to the needs of balanced economic development.

Today we need a new strategy of territorial development aimed at speeding up economic activity in developed regional centers which are able to become the engines of economic modernization of the country

as a whole and facilitate effective economic specialization of each region. All these have to be reflected in the Kazakhstan's Territorial Development Strategy until 2015.

2.9. Development of Astana as a city of modern international standards and one of the largest centers of international interaction in Eurasia.

Astana has already become the largest modern and fastest growing city in the country in a very short period of time. It can become a model capital in the Eurasian region and serve as a basis for ensuring sustainable development of our country.

We have to implement a number of large scale projects to this end.

A modern, innovative and fast growing cluster of medical services is to be established on the left bank of the Ishim River in Astana based on a new center offering modern medical care.

A prestigious international university to create a unique academic environment must be established in our capital.

Also we have to secure development of an industrial zone where building material production, furniture, food and other competitive industries will be concentrated.

Every builder has to spend a part of its capital to develop the social sector of the city. It is an important factor to involve business and the people in the process as the city develops.

We have to pay special attention to renew the city image as an attractive place for the world business community, business tourism, scientific and cultural international events.

In the future, development of the city has to develop into a regional growth zone including the cities of Temirtau, the Karaganda agglomeration, and the Schuchinsk and Borovoe resort zone.

2.10. Practical implementation

To implement in practice the Second Priority I instruct the Government:

- To complete developing regulations under the Law "On foreign exchange regulation", streamlining foreign exchange transactions.

- Reduce the VAT rate by 1% starting from 2007 and by an additional 1-2% from 2008 to 2009.

- Reduce the social tax by 30% on average which has to provide incentives for employers to increase salaries.

- Introduce fixed income tax rate of 10% for all individuals starting from 2007. To keep the income level of low paid employees, I propose deducting a minimum wage, instead of a monthly calculated index, from their taxable income.

- Introduce a reduced single tax rate for small businesses starting from January 1, 2007.

- Work out specific proposals in six months to establish the abovementioned special department within the Tax Committee.

- Start active implementation of the complex master plan of petrochemical production development for the next ten years during 2006.

- Develop the Single Registry of state owned property defining clear goals for its use and effectiveness criteria.

- Develop and submit for discussion a set of additional measures aimed at increasing responsibility for fulfilling contractual obligations.

- The National Bank and the Agency on Oversight and Regulation of Financial Markets and Financial Institutions need to develop a law to protect the rights of investors, shareholders, and founders, possessing minority interests in chartered companies.

- Speed up the implementation of e-Government. To do that, pass a law “On national identification number registries” and to make necessary amendments to the law “On informatization” during this year. In practice it will be done in the following way: every citizen will have a universal personal code instead of the existing variety such as taxpayer registration number, social individual code, passport number, and so on.

- Submit proposals on improving anti-monopoly and competition protection legislation in the next six months.

- Complete development of a Territorial Development Strategy of Kazakhstan until 2015 this year.

- Develop the Concept of incorporating Social Entrepreneurship Corporations in the next three months and incorporate SECs in specific regions by September 2006.

- Begin implementation of a Strategic plan for the development of Astana development until 2030 and a State program of social and economic development of Astana for 2006-2010.

- Introduce amendments to the legislation on the Samruk state holding company and develop a program for offering public shares in national companies on the stock market in the next six months.

Priority III: Developing a modern social policy, protecting the most vulnerable groups of the population and supporting economic development

The following are major priorities for the further modernization in the social area.

3.1. Supporting the most vulnerable groups of the population.

The Government, as before, will continue the financial support of socially vulnerable groups of the population.

I consider it is possible and necessary to increase the level of state support for veterans of regional armed conflicts and certain other groups of the population.

There is a need to remove current imbalances in pension payments to armed forces and law enforcement agencies pensioners and put the system in order.

The time has come for private sector participation in providing social services, especially in the areas of education and new vocational training, as well as increasing the responsibility of businesses for the stability of the society.

3.2. Reorienting the social support system according to conditions of the market economy.

The most effective social policy has been and remains the policy of sustainable employment. I believe the Government should bear full responsibility for the support of only those members of the society who really need help.

In this connection, the policy of social support should be focused within the frameworks determined not by “the needs of social layers” but by “the training of capable citizens to enter the workforce”. The state system of citizens’ support should be constructed to stimulate their retraining and learning new profession.

During my live TV session with the people of Kazakhstan in August last year, I received many proposals about payment of pensions and social payments month to month. This issue will be solved.

In order to expand the sphere of social care and the volume of social services and to improve their quality, the list of guaranteed and additional social services should be developed and legally approved and changes in the order of their allocation should be introduced.

It will be necessary to introduce state standards for social service, obligatory licensing of organizations involved in social care services and accreditation of their employees.

3.3. Issues of housing construction and real estate market development.

This is the third year of housing program implementation. We have had enough time to fully appreciate its advantages.

Only in the year 2005, using all sources of funding more than 5 million square meters of housing were built, exceeding the 3 million square meters stipulated by the program. This figure is 1.8 times higher than the level of 2004.

We need to thoroughly study the successes and failures of this work and correct the housing program.

We should create incentives for large scale development of individual housing construction.

It is necessary to develop further the system of housing construction savings for citizens whose income does not allow them to use the mortgage system.

The market for leased housing should be developed in country in accordance with world standards and made transparent for the authorities and attractive to business.

3.4. Transfer to modern principles and standards in healthcare.

Implementation of the State Program of Healthcare Development and Reforms has generally proved the correctness and effectiveness of chosen strategic directions.

At the same time, given the new tasks, I consider it is necessary to complete this year the work of implementing a package of legislative and administrative reforms in the healthcare sector taking into account the change to international standards.

We need to attract leading foreign companies to establish and manage modern clinics in Kazakhstan at the highest levels.

New approaches to the payment system for medical workers have to be implemented reflecting the final results of their work, including its quality, volume and complexity of medical assistance, as well as their qualification level.

3.5. Ensuring environmental protection according to international standards.

In 2006, an Environmental Code should be adopted aimed at harmonizing our environmental legislation with leading multilateral pacts. We should change to new standards and improve the system of state control.

On the whole, by 2010 we should create basic environmental standards of sustainable development of society.

3.6. Introduction of international standards of social responsibility for business.

Kazakhstan's business already stands firmly and is starting to realize its social responsibility and structure its activities accordingly. Our national companies and large investors serve as examples by donating money to charity, educational projects, healthcare, sport and culture, and providing real support for unprotected citizens.

This practice should become the norm for all business communities, as is the case in the developed countries.

For example, joint activities of business and the educational system in training qualified personnel for the economy serve the interests of both companies and the country.

It is evident that a serious educational campaign is needed, as well as a program of support for business initiatives.

I believe the time has come to develop commonly acceptable rules of social accountability of businesses and increase their social responsibility in solving national tasks based on the best international experience in this area.

Standards of social responsibility of business are determined in the United Nations Global Compact.

3.7. Creation of an effective system to develop labor resources.

We need a modern concept of migration policies.

The current favorable social and economic situation in Kazakhstan creates conditions for inflow of a foreign workforce.

The Government, considering the experience of other countries, needs to develop a mechanism for conducting a one time legalization of labor migrants illegally working in Kazakhstan by registering them with internal affairs and other appropriate authorities.

Moreover, we need to develop mechanisms to attract highly qualified and professional workers to Kazakhstan who could work in our country on a permanent basis.

We should not forget, however, educating, improving qualification and professionalism of our own workers.

Our attention should be focused more on creation of conditions for preparatory training in special centers, and the adaptation and integration of oralmans (Kazakh repatriates) into our society. If they are taught the language and a profession, as is the case in other countries who have returnees, they will adapt to new conditions more quickly.

3.8 Practical Implementation.

To solve the above mentioned tasks of social protection, I charge the Government with the following:

- increase the wages of civil servants and of those paid from state budget on average by 30% starting from 2007;
- as of July 1, 2006, increase the size of special state allowances:
 - for persons equalized to war veterans, by 2.4 times (from 2,472 tenge to 5,974 tenge);
 - for persons equalized to disabled war veterans, by 1.2 times (from 5,871 tenge to 7,313 tenge);
 - for widows of soldiers killed during the Great Patriotic War, by 1.6 times (from 2,781 tenge to 4,326 tenge);
 - for families of killed (dead) servicemen, by 1.5 times (from 2,884 tenge to 4,429 tenge);
 - for spouses of disabled veterans of the wars who died later, by 2.7 times (from 927 tenge to 2,472 tenge);
 - for persons, decorated with orders and medals of the former Soviet Union for selfless work during the Great Patriotic War, as well as for persons, who worked (served) not less than six months on the home front, by 2 times (from 1,030 tenge to 2,060 tenge).
 - for persons who participated in liquidating the catastrophe at the Chernobyl Atomic Energy Plant in 1988-1989, by 4 times (from 515 tenge to 2,060 tenge);
- from July 1 of this year make the one time differentiated increase of pensions for armed forces and law enforcement pensioners.

Moreover, I entrust the Government to conduct a number of actions to improve the social system in our republic:

- From 2007 on, switch over to paying pension and social payments in current month by allocating about 30 billion tenge for these purposes.

- In 2007 develop the draft Code of Healthcare and the healthcare system.

- Develop a Program of education and professional training for qualified domestic personnel working in specialties through a system of professional technical and higher education institutions.

The program should use the potential of foreign companies working in Kazakhstan and our private businesses by creating incentives and mechanisms for them to participate in the system of professional and technical education.

- In 2006, it is necessary to adopt a Labor Code, the concept of which meets all international standards, the requirements of the International Labor Organization and the World Trade Organization.

- In 2006, the Government should develop objective criteria for inclusion of oralmans in the immigration quota based on their education and qualification.

Dear people of Kazakhstan! While increasing our economic prosperity, we should not forget about the people who in different times and under different circumstances sacrificed their lives and health when it was needed for their motherland, and we should not forget their families and dear ones.

Kazakhstan never forgets its social responsibility to these people. From 2002, annual expenditures in the national budget for providing social assistance and social security including those allocated for 2006 increased from 160 billion tenge to 362 billion tenge, more than twice.

As you can see, the state will continue to increase the size of its assistance as the opportunities allow.

Priority IV: Development of modern education, with a continuous increase of qualification and retraining of personnel bringing further prosperity of culture of the people of Kazakhstan

4.1. Development of a system of modern education and training to produce qualified personnel.

Education reform is one the most important instruments which allows ensuring the real competitiveness of Kazakhstan.

We need a modern system of education, appropriate to the needs of our economic and social modernization.

This is why as we move toward twelve year education, we should not eliminate an option of ten year secondary education for those who wish to continue their education in professional and technical institutions. The conditions for lifelong education should be created.

We should develop proposals for a twelve year educational system for those wishing to receive a higher education.

The system of higher education needs optimization of higher educational institutions with special focus on the development of technical education. In order to train modern government policy makers Academy of Public Administration should be transformed into a National Public Administration School with the participation of foreign partners and meeting highest international standards.

In order to stimulate the development of the system of education, the partnership between private and public sectors should be strengthened. The system of providing joint public-private educational loans should be improved.

There is a need for differentiating the cost of state grants depending on the status of the higher education institution or specialty.

4.2. Reinforcing the role of culture in the process of forming Kazakhstan's statehood based on its multiethnic and multi-religious nature.

It is now the time to optimize the public-private participation in the development of culture, in creating conditions when our talented individuals can have decent life based on their creative activities. This should include state support of large international auctions of art in the country, support of talented musicians and performers, and the creation of a private company with minimal state participation for insuring and transporting art exhibitions and other measures.

Employment in cultural activities is a huge source of flexible local labor demand which will immediately reflect upon the wellbeing of our population.

Priority V: Further development of democracy and modernization of our political system

As you know, during the last year a discussion of the National Program of Democratic Reforms began on a large scale across the country. The National Commission on Democratization and Civil Society summarized the results of those discussions.

We will continue large scale political reforms in the country aimed at increasing the efficiency of political system and the state structure of Kazakhstan.

It is necessary to consider both general laws of building a democratic and prosperous state and the important cultural and historical features and traditions of our society.

The unity demonstrated by the people of Kazakhstan during the presidential election last December left no doubts about the consolidation of our society. Our citizens clearly recognize that it is a necessary condition for the sustainable development of our country. For the first time during an election campaign, we faced a phenomenon such as the worry of citizens, and in some cases the shear fear of possible destabilization in the country, especially so that some were counting on that.

And we remember how our citizens were relieved after the election.

We should recognize that the lack of deep traditions of democracy and the perception of freedom as permissiveness are quite capable of destabilizing the country destroying all our plans for the future and throwing us far back. This is the lesson which we have learned from the presidential race.

One of the reasons for our misconceptions is that the liberalism of authorities is perceived simply as its weakness and inability to put a stop to some of the “pranks” and “whims” of willful ambitious men. We should get rid of illusions and misconceptions.

That is why without looking at criticism inside the country and abroad, as we develop our democratic traditions we should also envision a strict enough system to protect them. We should finally be tough in prosecuting the infringement of laws and define measures of responsibility for slander, bribery, violence, and in case there is a need, we need to revise appropriate laws.

Ensuring the execution of Constitution and laws of the country by its citizens is the responsibility of law enforcement bodies. They should not think about what will be said somewhere or by whom, but follow the clear rule: “If somebody violated the law, they must bear responsibility under the law”. Otherwise, we will end up repeating the Soviet maxima, “A law is just a sound”.

Those of the leaders of law enforcement bodies who do not follow this rule, cannot remain in their positions. Otherwise, we will not be able to build a lawful state and a democratic society.

We must put a firm barrier against the spread of religious extremism.

We should actively involve nongovernmental organizations in the development of the social sphere and in monitoring the execution of development programs in the country. At the same time, we should not allow their activities which are not envisioned by laws.

The Assembly of Peoples of Kazakhstan has for more than 10 years been perfectly solving issues of unification of Kazakhstan’s multiethnic nation. I do not recall even a case when we did not consider the position of Assembly during the process of taking important decisions for the country and its people. I believe we should strengthen the role of this public institution. The State Commission on Democratization should carefully consider all of these issues.

Priority VI: Implementation of a national security strategy which is adequate to modern threats and challenges.

Most important directions of strengthening national security of our country are as follows.

6.1. New National Security Strategy for 2006-2010.

Strengthening the statehood, national sovereignty and unity of Kazakhstan has to be implemented according to a new military doctrine. It has to include creating a professional army capable of rapid deployment of forces and supplies, which will meet top international standards.

Kazakhstan's armed forces must be equipped with modern military and technical arms and equipment. The armed forces are rightly expecting the most advanced defense technologies which can meet the threats specific to Kazakhstan and the current international situation.

Detailed calculations of required resources have to be made and taken into account in the military doctrine. At the same time, government defense expenditures should be increased in order to accomplish all given tasks.

6.2. Policy for reaction to religious extremism and the fight against international terrorism and drug trafficking.

Strengthening and broadening international cooperation in the fight against terrorism, organized crime, illegal proliferation of weapons, drug trafficking and other similar threats require Kazakhstan's active participation in the development and practical implementation of applicable international treaties and agreements. We should strengthen our cooperation with countries in the Central Asian region in order to meet current challenges, and that should involve participation in joint military exercises within the framework of the Collective Security Treaty Organization and the Shanghai Cooperation Organization, as well as antiterrorist initiatives and operations jointly with NATO.

6.3. Consistent implementation of a comprehensive national program of fighting corruption which is a threat to national security and social stability.

We consistently fight corruption and improve the situation in this area. However, the lack of transparency in cash flows of some financial and industrial groups and their illegal enrichment through hiding profits, transfer of capital and property abroad, tax evasion and shadow economy are becoming serious hindrances to our development. Their representatives are the ones who are shattering the air with empty calls to support the fight against corruption. At the same time, this is exactly where major losses of the budget are hidden. It is time to move from words to actions.

Laws must be amended to make that certain activities and cash flows of national companies, state owned enterprises, and large scale private companies are transparent. The amendments also need to ensure transparency in the process of privatization, decision making in the area of tax policy, subsoil usage, and land relations.

I believe now is the time for responsible and deliberate consideration of the amnesty of capital and property which were taken out of legal circulation. Open and transparent procedure of capital and property amnesty could become one of the most important elements in building a transparent economy in Kazakhstan. Of course, speaking of the need to consider this issue, I do not mean those incomes which were earned as a result of criminal activities such as illegal drug trafficking, banditry, illegal weapons trade, and others.

I would like to underline that capital and property amnesty should not be for free. Assets that were taken out of legal circulation or transferred abroad were not subject to taxation and did not benefit the national budget. These debts have to be compensated via a special tax of 10% of the value of legalized assets which

will be paid into the national budget. This is not an expensive price for the profit which was earned as a result of taking capital out of legal circulation.

This is an offer from the state to pay a small tax as an investment in our country's development and, through a special ownership certificate, to get the right to hold assets legally and live in security.

We will not insist on repatriation of assets to Kazakhstan if 10% of their value will be paid as tax. We understand that all the assets are not simply hidden; they work for the benefit of their owners bringing them profits. In this respect we could reasonably ask, why, for example, an American citizen, who owns assets outside the USA, pays income tax on the profits earned abroad, and our citizens do not?

That is common international practice.

If people want to bring their money to Kazakhstan and make them work in the country, legal procedure of the amnesty should provide such opportunity.

Many people hide their real estate property and companies. These assets are out of the circulation and no one can mortgage them. The legalization of the whole property is profitable both for the citizens and the country.

A simple and effective mechanism should be introduced which will guarantee protection from any prosecution to owners of legalized assets. We have already carried out legalization once, and it was a positive experience. The mechanism should be understood and brought to the attention of each citizen of Kazakhstan and the international community.

At the same time, everybody has to understand that after legalization special measures will be taken to find assets which in the past were taken out of legal circulation. This work will be done in cooperation with international law enforcement organizations. Then, those who have not taken this opportunity should not hold grudges.

The Government, during the first half of this year, has to prepare and submit to the Parliament a bill which will set an efficient mechanism regulating all possible aspects of this complicated issue.

The Presidential Administration and the Government must elaborate and implement a package of measures to explain the aims, mechanism and importance of this action.

Priority VII. Further implementation of a balanced and responsible foreign policy reflecting the interests of Kazakhstan and the dynamics of regional and world developments.

Our foreign policy priorities remain unchanged. Kazakhstan will always be a responsible and reliable international partner.

7.1. Development of strategic partnership with Russia on the basis of broad integration processes between our countries.

The Kazakhstan-Russia relationship is on a high level of confidence and strategic partnership.

The Russian dimension is the most important priority in Kazakhstan's foreign policy.

There are no problems between Kazakhstan and Russia which cannot be resolved through constructive dialog and consideration of mutual interests. This relates to both political and economic issues.

Now main issues are in the area of widening trade and economic collaboration and development of regional integration within the Eurasian Economic Community, the Single Economic Space, and the Shanghai Cooperation Organization. Strengthening security is also an important issue. In all these areas Kazakhstan and Russia have similar or close positions.

7.2. Strengthening mutually beneficial cooperation with China.

We will continue to implement bilateral treaties on economic and political cooperation with the People's Republic of China. Kazakhstan understands there is no alternative to mutually beneficial relations with this rapidly growing country. Economic collaboration should be reinforced by active political dialog on issues of international security.

We also intend to coordinate our policy on migration and regional security issues within the framework of the Shanghai Cooperation Organization and also on the basis of specific bilateral initiatives and agreements.

7.3. Strengthening the high level mutual relations with the USA.

Kazakhstan and the USA have built relations of a long term and stable partnership which are characterized by a broad range of cooperation on issues of international energy stability and security, the fight against terrorism and religious extremism, and further democratic transformations.

The agenda for our relationship includes further development of economic cooperation, creating favorable conditions for attracting American investments and introducing advanced technologies to Kazakhstan.

7.4. Development of cooperation with the European Union.

Kazakhstan is interested in making cooperation with the EU more substantial in the area of regional and international security, economy, and social and cultural development. We have to create favorable conditions for our European partners to invest in and help implementing large international projects, attracting advanced technologies and know how to our country.

It is necessary to strengthen our relations with the OSCE in solving modern problems and challenges, ensuring peace and security, and providing basic human rights and freedoms.

7.5. Cooperation with Central Asian countries.

It is important to keep a steady pace of regional integration. We have to develop comprehensive relations with neighboring countries in Central Asia with whom we share common culture and history. Our interaction in trade and economic and cultural and humanitarian areas offers promising prospects.

Our efforts should be focused on their further development.

7.6. Development of relations with the countries of the Muslim world.

It is natural for us to participate actively in organizations of international cooperation and cultural exchange with the countries of the Muslim world. We also actively develop mutually beneficial and mutually profitable bilateral relations with most of the Muslim countries and nations of the Arab East.

The international community has already recognized our consistent policy of ensuring tolerance, inter-religious and inter-ethnic unity of representatives of all ethnic groups who live in our country and make up the people of Kazakhstan. These are the people who actively build a modern, competitive and secular state.

That is the main reason for me to repeat that Kazakhstan is ready to act as one of the centers of inter-cultural and inter-religious dialog at international level, especially because we already have the practical experience.

I believe that by cooperating with a number of countries in the Muslim world who are also interested in widening and deepening of the dialog of civilizations we could launch a number of initiatives aimed at connecting the thinking of the East and West on key issues of modern world order.

Dear people of Kazakhstan!

Distinguished members of the Parliament and Government!

Ladies and Gentlemen!

Not long ago, you provided me with the highest support and once again have entrusted me with your future and the future of our Motherland.

In principle, we have always been of a single mind without any grounds for mistrust. My promises were never hollow, and your support has always been sincere, promising and inspirational for greater achievements.

Today, I have presented for your consideration the Strategy which will allow Kazakhstan to claim its rightful place in the community of developed and competitive states, identifying the tasks we need to complete.

When the people are united and live in peace and prosperity, anything is within their grasp, and everything is equal to task.

We have proven this by our selfless work, by our unity for the sake of prosperity of our Motherland.

My hopes are with you. As always, I rely on your understanding and support in these endeavors, and I wish you the success.

Thank you.

Astana, 1 March 2006