CHAPTER - V

Consequences of Industrialisation in Kazakhstan
INTRODUCTION

Kazakhstan was essentially a colony of Tsarist Russia before the Great October Revolution. It was a mere source of raw materials for the factories of the central regions of the country. The region was predominantly agricultural, technically backward and industry was confined to primary processing of agricultural produce. There is some truth in the claim that the face of Kazakhstan was completely altered during the Soviet rule. This is because industrialisation came to Kazakhstan only in the twentieth century. Now Kazakhstan's former capital Almaty, has become a major centre of diversified industries: mechanical engineering, light and food processing industry, machine-tool equipment manufacturing, instrument-making. Production of a variety of consumer goods, transport, electricity and oil extraction had grown dramatically under the Soviet rule.

The disintegration of former Soviet Union created several obstacles, like:

- The Soviet legacy of economic isolation from the outside world;
- The lack of economic institutions for building a market economy;
- Imbalance production structures; inadequate resources for technological up-gradation of production;
- The lack of trained managerial cadres for a market economy.

To overcome these problems, it has adopted the “process of market economy” with industrialisation initiative. This chapter explores the extent to which Kazakhstan succeeded in its industrialisation process and what are the implications for its development.

5.1 INDUSTRIAL GROWTH AND STRUCTURAL CHANGE

Structural change cannot be viewed simply in terms of industry in total output or employment. It is important to know whether there has been a shift in the composition of output produced within industries. Similarly, Kazakhstan has shifted its priority from agriculture to industry due to a wide fluctuation of agricultural products in 1990s. In
particular, there has been a substantial drop in grain output (the main traditional crop) since 1992, owing mainly to badly implemented reforms, poor weather and a slow shift to other crops.\textsuperscript{1} It is only after 1996 that Kazakhstan economy showed signs of revival. However, the agriculture output contracted in 2000, as grain production shrank because of unfavourable weather.\textsuperscript{2} Kazakhstan registered much stronger economic performance in 2000 than 1999.\textsuperscript{3} The GDP expansion was particularly robust in Kazakhstan and was backed by the strong performance of industrial sector and growing domestic demand. There are well-established statistics regarding the Kazakhstan’s industrial growth and national income. In 2002, the annual average real GDP growth became as high as 9.5 percent. This was driven by industrial output growth of 9.8 percent and construction growth of 19.3 percent\textsuperscript{4}.

The steady revival of national economy has increased the need for industrial equipment. "The basic purpose of the development of the industrial sector is the expansion of primary manufacture and a transition mainly to production of competitive products of technological purpose for the greatest possible provision for the national economy with necessary machines, equipment and spare parts, guarantee and post-guarantee service and increase of opportunities for export."\textsuperscript{5}

The composition of Kazakhstan's industrial output has also changed significantly in recent years, with the growing importance of oil and gas processing industries. Within the manufacturing sector, the output share of individual branches have fluctuated considerably in the first half of 1990s, in response to shortage of imported inputs and the loss of external markets, e.g. industries based on local inputs, such as textiles and food processing, became more important in the early 1990s as they had

\textsuperscript{5} \textit{Kazakhstan in Focus: Ten Years of Independence} (Almaty, Centre for Foreign Policy and Analysis, 2002), p. 117.
continued access to raw material supplies and enjoyed relatively steady levels of demand.\(^6\) By contrast, the machine building, metallurgical and chemical industries all suffered a decline due to input shortages during this period. The situation changed dramatically after 1992, when poor food and cotton harvests prompted a fall in the output of the textile and food processing industries. This in turn, stimulated an increase in the relative shares of the other industries although their absolute production levels usually fell below the corresponding figures for 1990.

In comparison to agriculture, industry has increased its output till 2003 (Table-5.1). The real GDP growth of agriculture has seen a downslide from 1996 (-5.0) whereas industry shows positive growth (0.3). In 2002, industry sector growth is 9.8 percent whereas agricultural sector increased only 2.7 percent, which is lower than industrial growth.

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<td>Real GDP Growth in percent (1991-2002)</td>
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<td>21.6</td>
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<td>-</td>
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<td>-14.4</td>
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<td>Trade and catering</td>
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<td>-6.3</td>
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<td>-</td>
<td>-</td>
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<td>0.9</td>
<td>8.0</td>
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<td>Total</td>
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<td>-12.6</td>
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In general, fast growing economies tend to have a relatively rapid manufacturing growth and conversely, slow growing economies tend to have a slow growth of manufacturing.\(^7\) This relationship is not found for agriculture where there is normally no relationship between agricultural growth and national income.\(^8\) On the other hand, service sector has some contribution to national income, but their role is seen as passive in responding to growth in productive activity of the developing countries.

The principal structural change had occurred in early 1990s in Kazakhstan due to increase of service sector in the economy. The service sector increased to 6.8 percent in 2000 in comparison to 1993, that was −0.9 percent (Table 5.1). Its share of the GDP has grown from 26.2 per cent in 1993 to 29.8 percent in 1995. Without doubt, Kazakhstan has experienced real growth in such services as trade and health—primarily through the development of commercial activity in the non-state private sector. Moreover, expansion of the service sector in 1994 occurred even though the rate of growth for prices in that sector underwent a substantial decline.\(^9\)

Among the Central Asian Republics (CARs), the intensity of structural changes in the GDP was greatest in Kazakhstan. This is particularly evident if one examines the structure of production in current prices. Thus, between 1993 and 1997, agriculture’s share of GDP fell from 16.4 percent to 11.4 percent and further it deteriorated in 1998 i.e. 1.89 percent. However, it revived to 2.7 percent in 2002 (Table 4.3). Conversely, the share of the service sector rose from 26.2 percent in 1993 to 35.6 percent in 1997 (Table 5.2). The structure of the GDP (calculated in constant prices of the middle of the decade) did not suffer such significant changes, but does show an increase in the service sector. The sharp increase of prices on services and industrial goods has substantially exceeded the growth of prices in the agrarian sector, but the latter sector has also


\(^8\) Ibid.

experienced a profound drop in output. Further it increased gradually and became 29.5 percent in 2000, which is almost to the 1995 level (Table 5.2), whereas the share of agriculture declined and industry showed uneven growth (Table 5.2). Although this growth partly reflected the influence of inflation, expansion of service sector does reflect a general tendency in the economy during the first half of the 1990s. In 2002, the share of industry in GDP was 29.3 percent whereas the share of agriculture is only 7.9 percent to the whole GDP. Undoubtedly, the service sector experienced real growth primarily through the development of commercial activities in the non-state private sector. Moreover, expansion of the service sector in 1994 occurred even though the rate of growth for prices in that sector underwent a substantial decline. However, it has increased gradually and the growth becomes 29.5 percent in 2000.

5.2 PRODUCTIVITY AND PERFORMANCE

The slump in industrial production was an inevitable consequence of the break-up of the single, integrated market of the former Soviet Union. This factor alone accounts for approximately two-thirds of the decrease in production. No other post-Soviet country has had to confront problems of this magnitude that confront Kazakhstan as it pursues economic reforms.

After the difficult years of early 1990s, Kazakhstan finally expected to see an end to recession by 1995. This was the first sign of recovery since 1991, when it started moving towards a market economy. They were on the path to positive growth in 1997. The achievement reflected the progress in reforming the organizational, institutional and policy frameworks of formerly planned economies to suit the needs of modern market economies.

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12 Ibid, p.205.

13 Ibid. p. 207.
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**Industrial Performance: An Appraisal**

Since independence, Kazakhstan has been beset with extensive economic difficulties. Industrialization is not excluded from this quagmire. There was an annual contraction in all sectors of the Kazakh economy in 1991-94, and the output was severely hampered by widespread payment arrears between enterprises.

Industrial production fell by 15 per cent in 1992, owing to the disruptions in interstate trade and shortages of certain imported inputs, particularly from other states of the former Soviet Union. Output was also constrained by obsolete equipment and inefficient production methods. The overall fall in industrial output marked large variations in performance between the energy and non-energy sub-sectors.

The non-energy industrial sector contracted sharply; fall in the output of various food products ranged up to 50 percent, while various branches of metallurgy

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experienced a decline of around 20 percent. The production of machinery and
equipment for cattle breeding fell by 31 per cent and chemicals by 27 percent.\(^{15}\)

In the first sixth months of the year almost a third of Kazakhstan’s enterprises
recorded a decline in production volume over January-June 1994, resulting in a shortfall
in output of 83.1 billion tenge. In other words, the overall industrial production target
for the first six months of the year was 26.7 per cent behind schedule. Nevertheless, the
production slump slowed with industrial output declining 15.9 per -cent in the period
under review, compared to a 29 per cent fall in the first six months of 1994. Goods and
services produced in the first half of 1995 were valued at 301.3 billion Tenge at current
prices.\(^{16}\)

Electricity generation fell 2.9 per cent, oil extraction 6.1 per cent and oil refining
7.1 per cent. Market forces took their toll of light industry, the food industry and the
construction materials industry, which were 60.1 per cent, 41.7 per cent and 35.9 per
cent short of their output targets respectively.

In early 1990s, Kazakhstan joint-venture agreement with several foreign companies
particularly, to develop its deposits of petroleum and natural gas. By early 1996, some
40 per cent of the construction of a new oil pipeline had been completed. In 1994 it was
reported that, Kazakhstan accounted for the impressive share of total foreign investment
in the former USSR and Eastern Europe.

Revised growth figures for 1999 put real GDP growth at 2.7 per cent, instead of
the earlier figures of 1.7 per cent. This was owing to a recovery in industry and
construction in the last quarter of 1999, when the economy began to recover from the
after-effects of the 1998 Russian financial crisis.\(^{17}\) Real GDP growth accelerated to 9.5
percent in 2000, its fastest rate since independence, owing to high year on year


increases in oil and metal export volumes. The government expects growth to slow in 2001, although it is not expected to be less than 4 per cent, and industrial production is expected to rise by 7.5 per cent year on year. Industry expanded strongly in the first two months of the year, with output rising by 9.8 percent year on year.

Industrial production expanded at a rate of 14.6 percent in 2000, driven by increases in oil, gas and metals output, in addition to production increases in iron ore, coal and non-ferrous metals. Mining output increased by 21.5 per cent in 2000 and semi-processing activities expanded by 15.6 percent. Construction activity expanded by 24.7 per cent compared with the earlier period. Owing to recovery of trade, transport activities rose by 17 per cent in real terms year on year, with communications increasing by 25.3 per cent.

Along with rising investment, the economy benefited from sharply rising export volumes. The state owned rail company, Kazakhstan Timir Zholy (KTZ), transported 156m tonnes of cargo in 2000, an increase of 26 percent year on year. There was a 15.3 percent year increase in export volumes of oil and refined products, to 17.6m tonnes. KTZ's most important shipment was of coal: a total of 74m tonnes was transported in 2000, a 27.2 percent increase.18

Kazakhstan's metal industry is the second largest industrial sector and exporter after oil and gas19. It has posted a second year of broad-based growth. Mining of ferrous and non-ferrous metals rose by 33.5 per cent year on year. Output tends to be concentrated in a few large firms that are either foreign-owned or foreign managed. As a result, these firms are benefiting from higher levels of investment and experienced management. The copper sector dominated by Kazakhamys, which owns Kazakhstan's two main copper smelters and accounts for almost all copper production. Samsung Deutschland owns a 42.4 per cent share of Kazakhamys and also manages the states 35 percent stake. Total investment in 2000 rose to US $ 82m, up by 54.7 per cent year on

year. Similarly a British steel company, Ispat, now owns troubled Karaganda Metallurgical Kombinant. The new firms, Ispat Karmet, produced 5m tonnes of steel in 2000, of which 3.4mn tonnes were exported; earning Kazakhstan US $ 800m in export revenue, about 9 per cent of total exports. The company plans to invest a further US$ 640m in the plant over the next five years.

By contrast, Almaty Power Consolidated (APC) formerly owned by Tractebel (Belgium), is now back in Kazakh hands, with a majority stake owned by KazTransGas (a wholly owned subsidiary of KazTransOil). Under Tractebel, APC turned delinquency rates of around 80 per cent in to payment rates of around 70 per cent. The company became increasingly unpopular since it insisted on the timely payment of energy bills. The Kazakh government pressurised Tractbel into leaving the country and it sold its interests in Kazakhstan for US $100m in 2000. The new management of APC is struggling with the same problems as Tractbel, but not as successfully. APC is now behind on its receivables, having collected just Tenge 14bn (US $ 98.5) out of Tenge 22bn owned to it. As a result, APC’s new management has cut back on its Tenge 4bn investment programme. Another problem facing APC is that utilities prices were frozen after the April 1999 devaluation of the Tenge, so that it cannot pass on any increase in costs to consumers.

However, industrial output recovers driven by raw materials. Post-independence collapse had driven total industrial production down. It was a cumulative 51.7 percent between 1990 and 1995, still the sector made an uncertain recovery fuelled by foreign investment in oil and metals. There was a moderate 0.3 per cent recovery in 1996 and a stronger 4.1 per cent increase in 1997 (according to the new data series, which includes small industrial companies as well as large and medium-scale enterprises). The recovery was short-lived, however, as industrial production shrank by 2.1 per cent in 1998 as a result of falling demand in the Russian export market and low metal and oil prices. Industrial output in 1999 grew by 2.2 per cent, mainly as a result of increased metals
and oil production-spurred by the recovery of global prices. In 2000 industrial production leapt ahead by 14.7 per cent, thanks to a 15.9 per cent increase in oil output, a 28.2 per cent rise in coal production and a 31.7 per cent expansion in metals output.

Kazakhstan has delayed restructuring in many industrial sectors, allowing insolvent companies to stay in business by not paying their suppliers, creditors or workers. Traditionally, agricultural and industrial sectors have been of equal importance to the economy of Kazakhstan, each accounting for 30-35 per cent of GDP. The fluctuations in agricultural production given the changing price relatives have resulted in a dramatic increase in the share of the industry in total output from 21 per cent in 1990 to approximately 45 per cent in 1992-1993.

Industry’s share of output initially declined from a peak of more than 31 per cent of GDP in 1992 to just 21.2 per cent of GDP in 1996, but recovered to 31.9 per cent of GDP in 2000 due to rising oil output. However, the legacy of specialisation has not been overcome and to be sure the industrial sector has become more concentrated with the two main export sectors i.e. oil and semi-processed metals, which are now dominating industrial output and the contribute to the growth of the industrial sector.

Kazakhstan Economic Growth 2002

The Kazakhstan government’s official forecast of annual real GDP growth was 6 percent in 2002. Whereas, it exceeded 9.5 percent in the same year. In gross value-added terms, GDP grew by 9.7 percent, as output growth exceeded that of net taxes. Industrial output growth slowed from 13.5 percent in 2001 to 9.8 percent and economic

20 The Economist Intelligence Unit, Kazakhstan Country Profile (London: 2001), p.27.
21 Ibid.
24 Ibid.
expansion in 2002 was boosted instead by the construction sector, which grew by 19.3 percent.\textsuperscript{25}

![Figure 5.1](image)

**Figure 5.1**

Sectoral growth (percent change year on year)


A number of industrial sectors experienced double-digit year-on-year growth in the first two months of 2003, in particular construction materials, output of which grew by 25 percent year on year\textsuperscript{26}. Nonetheless, tough growth in other industrial sectors, like textiles and food, implies that Kazakhstan’s productivity base becoming broader.

### 5.3 THE PROBLEM OF RISING UNEMPLOYMENT

For the first time, Kazakhstan has had to face the problem of unemployment, which has steadily increased and now represents one of the most burdensome consequences of the

\textsuperscript{25} Ibid.

\textsuperscript{26} Ibid.
transition to a market economy\textsuperscript{27}. The real scale of unemployment is now approaching 20 percent in Kazakhstan, although the number of people who are officially registered as jobless amounts to only 1.2 percent of the workforce. This is "hidden" unemployment i.e. employees are not dismissed but are laid off without pay. This practice resulted from the fact that, until mid 1995, Kazakhstan did not have a law on the bankruptcy of enterprises; since firms could not be declared insolvent, plant managers did not dare to make large-scale reductions in their workforce\textsuperscript{28}. Moreover, those furloughed from their jobs, became involved in private trade and earned a good income under conditions of high inflation. The unemployment problem became thin by the migratory exodus, which has been particularly pronounced in the industrial regions. In 1992-95, migration from Kazakhstan reduced the number of unemployed by approximately 700,000 people.

At the present time, however, the situation is rapidly deteriorating. As enterprises declare bankruptcy, managements attempt to adapt to market conditions by reducing the number of employees. Unemployment has contributed to the political and social instability within Kazakhstan.

Although not impossible, it is very difficult to measure both labour productivity and enterprise profitability in the republics of the former USSR. "This is due in part to the fact that the fulfilment of a production plan rather than attaining, let alone maximizing profit was the principal objective of the Soviet enterprises"\textsuperscript{29}.

**Measuring Labour Market Status in Kazakhstan**

Unemployment is not a novel phenomenon in Kazakhstan of the former Soviet Union (FSU). The magnitude of unemployment that is expected during the transition from centrally planned to market economy is new. In Kazakhstan, production has declined


\textsuperscript{28} Ibid.

\textsuperscript{29} The Economist Intelligence Unit, *The Central Asian Republics of Kazakhstan, Kyrgyzstan, Tajikistan Industrial Development Review Series* Published for UNIDO (Vienna: 1996), p.47.
continuously across all sectors and by 1995; GDP had fallen to 46 per cent of its 1990 level. The expected impact of both the decline in output and changes in enterprise and labour law show a dramatic increase in unemployment such as that seen in some Eastern and Central European countries, where unemployment rates have ranged from 10 to 15 per cent.

Previously, the Soviet government placed significant constraint on most labour decisions, from wages and employment to types of permitted activities and their location\(^\text{30}\). Under the 1987 Soviet Enterprise Reform Law, employers obtained the right to set wages and the 1990 Kazakhstan Employment Law gave employers the right to lay off workers.

In Kazakhstan, the downward adjustment of wages has mitigated the expected increase in unemployment. By 1994 average wages were only 61 percent of their January 1992 levels and the minimum wage stood at only 13 per cent of its January 1992 level.\(^\text{31}\) Non-monetary compensation, usually in the form of social services such as housing, health and childcare, are however an important component of total labour benefits. Although details of non-monetary benefits are not available for Kazakhstan, in Russia it has been shown that enterprise-level provision of non-monetary benefits amounted to about 40 per cent of wages in 1992\(^\text{32}\) and has become relatively more significant over time\(^\text{33}\). The existence of such non-monetary benefits helps to explain a new form of underemployment seen in Kazakhstan: continuing attachment to firms by


workers whose monetary wages are in arrears or who have been put on reduced working hours or unpaid leave.

A clear understanding of the extent, structure and changes in unemployment and underemployment is necessary for labour market policies to assist workers during the economic transition by providing relevant and timely services and to provide income support to help protect the newly unemployed and their families from sliding into poverty. Unfortunately, most of the key types of information for the design of government policy in this area simply do not exist in Kazakhstan. Data on employment and unemployment are taken from increasingly non-representative establishment and administrative data. Moreover, the concepts used to measure the labour force for a centrally planned economy are inadequate for policy makers in the period of transition to a market economy.

Concepts and Measurement

The basic labour force statistics published by the Kazakh government are still based on the concept and definition of labour held in the Soviet centrally planned economy. This involves methods of data collection and measurement that are substantively different from those used in market economies. The sources of the differences between official labour statistics in Kazakhstan and what a market economy would produce are essentially twofold:

- First, differences are due to the two divergent concepts of the economic system. The underlying definitions used in FSU countries are based on the model of the Centrally Planned Economies (CPE). For market economies, the definitions are standards developed by the International Labour Organisation (ILO).

- Second, there are important differences in the way that data is collected: the FSU countries rely on administrative data while market economies rely on household level data.

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34 Representative Household Level Data on Labour Market Behaviour is Practically Non-Existential.

35 Jeni Klugman and Kinnon Scott, “Measuring Labour Market Status in Kazakhstan” in Bartomirj 217
Data Collection Methods

Market economies use a system of national sample surveys of households to collect information on employment, un- and under-employment and labour force characteristics. Based on probability sampling, such surveys can capture changes in labour market activity and the labour force without the number of establishments or their economic activities being known. As long as the sample of households interviewed is correctly drawn, the data will provide accurate measurement of the labour force.

In contrast, Kazakhstan, like other centrally planned economies, depends on administrative data to calculate national statistics on labour; data on employment and underemployment come primarily from the administrative records of enterprises, and unemployment data are obtained from Employment Service Offices' administrative records. As the administrative data system relies on universal coverage to provide precise measurement of economic activities, a continuous effort to incorporate new economic entities into the system and enforce data reporting requirements needed to maintain accuracy.

The transition period in Kazakhstan is expected to have brought about a decline in the quality of the administrative data on labour. Structural changes occurring in the economy have led to an increase in the size of the private sector, as new firms are created and existing ones privatised. At the same time the government’s ability to enforce compliance has decreased and new firms have significantly less incentives to comply with data reporting requirements. Even prior to independence administrative data probably underestimated employment as the second economy activities for private gain or illegal activities) 36 was not included. As coverage declines, the administrative data will generate a less accurate picture of overall employment in the economy.


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Employment

Labour markets under the former Soviet system were characterized by certainty and security. Employment was guaranteed; wages were paid in cash and were relatively undifferentiated and there was generous additional support through a comprehensive system of transfers, social security and special allowances. With the deterioration of the Kazakh economy, this situation changed dramatically. The sharp drop in output resulted in increasing unemployment in Kazakhstan and exposure to both foreign technology and managerial methods is expected to increase the productivity of domestic firms. Rampant unemployment strengthens the case for FDI. However, the empirical evidence suggests that foreign investment does little to alleviate unemployment.

Recent research by Aitken and others argue that foreign-owned firms prefer to hire skilled labour37. Unemployment rates among skilled labour are low in Kazakhstan. Consequently, foreign capital is unlikely to play an important role in reducing unemployment for Kazakhstan.

In Kazakhstan, economic decline and industrial restructuring since independence has resulted in a dramatic increase in unemployment from negligible levels to about 9 percent in mid 1996. This estimate includes both official (or open) unemployment and hidden unemployment38, with the latter accounting for more than half of the total. Enterprises are often reluctant to terminate employees' contracts because of social and political pressures on them to avoid mass labour shedding.

To mitigate the negative social impact of the transition to a market economy, the Kazakhstan government's efforts has been directed at creating job opportunities in rural areas and improving social safety nets for vulnerable groups.


38 Hidden unemployment includes people who, although have formal working contracts, are actually on uncompensated forced leave or working without choice.
Differences in estimates of the level and structure of employment stem primarily from dissimilar methods of data collection. With the continuing economic transition, very reliable administrative data is not available. This will result both in decline in total employment and an underestimation of the share of employment of sectors where private sector activity is important.

The use of household level data instead of administrative data would be expected to provide higher estimates of the levels of employment and labour force participation. A nationally representative survey of households should not suffer from omissions of subsectors of the economy; as the sample is properly maintained over time, employment data will remain accurate. Additionally the household level data would not suffer from the uneven quality of the numerator and denominator found using administrative data.

Thanks to the policy of employment protection in state enterprises and encouragement of the development of the private sector, the start of the economic reforms did not lead to a great rise in unemployment. In July 1991 the Supreme Council adopted a law on the creation of the state unemployment benefits. In 1991 the number of unemployed people was estimated at 650,000: around 40 per cent of these people were included in the category of ‘wishing to work’ (mainly women with children)\(^\text{39}\).

Only 4,100 people were registered as unemployed. By the end of 1996 as many as 282,000 people were at the employment service, and the unemployment rate was 4.2 per cent. However, if those who do not register themselves at the employment service are also considered unemployed, their number would reach 1 m, or 15 per cent of the economically active population of the country. In this respect Kazakhstan is behind only Armenia and Georgia.

Despite its efforts the government failed to fully resolve the employment problem. The unemployment rate increased again after the bankruptcy crises of 17

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Employment

Labour markets under the former Soviet system were characterized by certainty and security. Employment was guaranteed; wages were paid in cash and were relatively undifferentiated and there was generous additional support through a comprehensive system of transfers, social security and special allowances. With the deterioration of the Kazakh economy, this situation changed dramatically. The sharp drop in output resulted in increasing unemployment in Kazakhstan and exposure to both foreign technology managerial methods is expected to increase the productivity of domestic firms. Rampant unemployment strengthens the case for FDI. However, the empirical evidence suggests that foreign investment does little to alleviate unemployment.

Recent research by Aitken and others argue that foreign - owned firms prefer to hire skilled labour. Unemployment rates among skilled labour are low in Kazakhstan. Consequently, foreign capital is unlikely to play an important role in reducing unemployment for Kazakhstan.

In Kazakhstan, economic decline and industrial restructuring since independence has resulted in a dramatic increase in unemployment from negligible levels to about 9 percent in mid 1996. This estimate includes both official (or open) unemployment and hidden unemployment, with the latter accounting for more than half of the total. Enterprises are often reluctant to terminate employees' contracts because of social and political pressures on them to avoid mass labour shedding.

To mitigate the negative social impact of the transition to a market economy, the Kazakhstan government's efforts has been directed at creating job opportunities in rural areas and improving social safety nets for vulnerable groups.


38 Hidden unemployment includes people who, although have formal working contracts, are actually on uncompensated forced leave or working without choice.
August 1998 and 5 April 1999 in Russia, which caused the bankruptcy of many Kazakh enterprises. According to the committee for economic planning of Kazakhstan, run by the Ministry of Power, Industry and Trade, the number of unemployed (including those not registered by the employment service) was more than 800,000 in 1999. The actual level of unemployment is estimated at around 9.3 per cent. The total workforce of Kazakhstan numbers approximately 8.6 m. The structural character of unemployment impedes solution of the problem. Whereas in 1991 half of those who approached the employment service were placed in jobs, in 1992 only one third of them found employment.

The anti-unemployment programme is financed from the employment fund, specially created by the state. The share of those who get allowances (in the total number of unemployed) increased from 38 per cent in 1993 to 68 per cent in May 1997. The average size of the allowance is considerably higher in Kazakhstan than in other CIS countries, except Moldova.

In recent years, rural unemployment has grown caused both by a reduction in production in the countryside and curtailment in construction and services. In the mid-90s half of all those registered as unemployed in the republic lived in the countryside.

Unemployment

In 1930, unemployment was officially abolished in the USSR by fiat; as the state guaranteed all workers jobs there could be no unemployment. For this reason, there was little discussion of unemployment in the FSU until the late 1980s. Individuals who could not be categorized as employed were labelled as 'non-working', a concept that included those without jobs both voluntarily (e.g. housewives) and involuntarily. There is nonetheless consensus among observers that unemployment only disappeared from statistics, rather than in reality, especially in the growing populations of Central Asia.40

It has been estimated that in Central Asia between one and three and a half million persons were unemployed at the end of the 1980s.\(^4^1\)

The changes brought about by *perestroika* led to official recognition of unemployment. But definitional differences still exist between the unemployment measurement used by the Kazakhstan official statistical system and the ILO mode. The 'unemployed' in Kazakhstan are those who fulfil the requirements set out by the state in the 1990 Employment Law, in particular:

- Being 16 years or older;
- Registered at an Employment Services Office;
- Visiting the local Employment Services Office fortnightly and
- Not having refused more than two ‘suitable’ jobs offers. An additional restriction is that one must be officially registered as a residential of the area where one is registered as looking for work.

In contrast, the ILO definition of unemployment is any person without a job who is both actively searching for work and presently able to accept a job offer. This is expected to lead to higher unemployment numbers than obtained under the model presently used in Kazakhstan.

Beyond definitional differences, the associated source of data in the Kazakh system—the official register of unemployed—would also tend to underestimate unemployment, even if all people applying to the Employment Service were automatically classified as unemployed (which they are not). The low unemployment benefits—equal to the drastically eroded minimum wage up to September 1995—have not offered enough incentives for registering. Even after the September 1995 increase of the unemployment

benefit to three times the minimum wage, the benefit is still well below average wages. It has been estimated that as few as 17 per cent of all lay off workers register\(^\text{42}\).

**Underemployment**

A recent innovation in Kazakh official statistics has been the calculation of the number of people working short hours or on unpaid leave. This type of visible underemployment, or hidden unemployment as the government labels it, comprises:

(i) All individuals who work for non-operational or partly shutdown enterprises;

(ii) Half of the workers who are officially on forced leave or reduced hours; and

(iii) All workers subject to imminent layoff (as reported by enterprises).

The assumption under (ii) apparently seeks to avoid double counting with (i), but is clearly arbitrary. Nor does this definition distinguish between those working short hours involuntarily and voluntarily. It would appear to represent an upper bound, probably overestimating visible underemployment.

The narrower ILO definition of visible underemployment includes persons who are working involuntarily for less than the standard number of hours in their occupation and are able and willing to take on further work. It is important to note that the ILO standards consider underemployment to be a subset or type of employment while the CPE definitions consider underemployment as a type of unemployment. It is important also to note that official statistics make no mention of invisible underemployment (over qualification of a person in his or her job, low productivity, low earnings) and there is no way to calculate this from the data provided. Thus all estimates of underemployment discussed in this paper underestimate total underemployment.

Structure of Employment

The inherited structure of employment in Kazakhstan reflects the dominance of industry, agriculture and construction relative to Western market economies. Trends in the structure of employment reflect some degree of adjustment and restructuring since 1991. The role of industry has decreased, from 31.5 per cent in 1991 to 26.5 per cent in 1994, while the share of services in national employment has, over the same period, increased from 44.2 to 49.3. Official layoffs by sector suggest tariffs for industry, transport and construction have been the hardest hit.

The KLFS suggests a slightly different pattern of employment. Services have a greater share of overall employment than shown in the official statistics and agriculture a smaller share. The former finding is not surprising, as new, private economic opportunities would tend to be in the service sector. It is, however, not clear why agriculture's share in employment is less, as household surveys should capture private plot activity that would not be included in official data. To the extent that private agriculture is a secondary, rather than a primary activity, the KLFS will not show increased levels of employment in agriculture. An additional explanation may be that informants simply do not consider this activity as work and hence, even with probing by the interviewers, these activities were not fully accounted for. (Figure 5.2)


Industrial Policy and its Impact on the Labour Market

Replacing a centrally planned economy with a full-fledged market economy is a significant problem for Kazakhstan. The main message, which was sent to all state enterprises in Kazakhstan is that it should now operate in a different manner – private ownership, competition, capital markets.

The economic transformation of employment and the labour market means that Kazakhstan made an end to the system of guaranteed employment, which people enjoyed prior to transition. This is an inevitable consequence of the closure of unprofitable enterprises. Kazakhstan, for the first time, in the beginning of 1990,
introduced the provision of employment, defined both its size and form and tried to tackle unemployment. This has caused new problems for governments such as job creation, creating new employment legislation and providing unemployment benefits.  

This paper addresses three main questions, which must be understood in order to successfully, assess the labour market situation during the transition period in Kazakhstan.

- The chapter attempts to evaluate the impact of transition on the labour market. Kazakhstan’s recognition of employment as a phenomenon is a new element in the labour market. The paper also examines the extent to which the current unemployment is inherited.

- The chapter shall analyse the possible changes in patterns of labour utilisation as well as test the hypothesis of the possible reallocation of redundant labour from industry to the service sector.

- The chapter shall endeavour to understand how Kazakhstan government can prepare for any future unemployment and their attempts to rationalise and reallocate labour resources. Without doubt, the human security implications and the politics of employment issues are linked with both a general macroeconomic policy and decision-making. “The often conflicting interests of various social groups involved, the differences in the economic philosophies of the governments and the various patterns of linkage in the global economy explain why most of the existing theories fail to provide a comprehensive explanatory framework and are consequently inadequate to guide comprehensive policies”. (Simai 1995:4)

The chapter begins with an evaluation of aggregate and industrial output; it goes on to assess the labour market in Kazakhstan during the period of privatisation and

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restructuring and looks at governmental economic policies regarding this matter; and finally, it draws some conclusions on the issues discussed throughout the chapter.

At the beginning of the 1990s, Kazakhstan dropped central planning in favour of a market economy. Since then, the economy has to cope with enormous challenges that are inherent in the reform process. The economic disintegration of the Soviet Union had broken trading links not only between former republics but between production systems as well. As a consequence, GDP of Kazakhstan fell to less than half of their 1989 levels during the first half of the 1990s. In terms of output, Kazakhstan registered sharp declines between 1991 and 1997.

The Kazakhstan economy was the most industrially developed in the Central Asian region prior to transition. The composition of its industrial output has changed substantially during the years of transition, with its strong emphasis on the extraction of oil and gas and, in real terms, the virtual disappearance of manufactured products. The industrial sector has become more oriented towards the extraction of raw materials at the expense of manufactured goods. At present, industry consists of two main exports oil and semi-processed metals. Industry's share of GDP declined from 31.2 percent in 1992 to 20.2 percent in 1997, but the industry's share of employment has remained unchanged. This was due to a decline in aggregate employment. Production is mainly concentrated on oil, lead, zinc, copper, iron and steel. A few large enterprises are mostly located in Northern Kazakhstan. About 60 cities depend on just two or three large enterprises for the bulk of their employment. With privatisation, a major part of large industrial enterprises are under foreign management and some shares of these enterprises are foreign-owned. Oil production is located in Western Kazakhstan but the number of employees in this sector is few.

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46 Ibid, p.97.
47 ESCAP, 1997,p.34.
48 Kalyuzhnova, no.45, p.8.
5.3 PRODUCTIVITY, EMPLOYMENT AND RESTRUCTURING IN THE YEARS OF TRANSITION

Changes in the sectoral shares of GDP have led to changes in employment patterns. The change in the share of industry in total employment is reflected in a substantial drop in industry and construction. Open unemployment has become one of the common features of Kazakhstan. Between 1993 and 1995, the number of officially registered unemployed people increased three times in Kazakhstan49.

Until 1995, the initial decline in productivity in Kazakhstan economy was followed by steady periods of further decline. In 1996, this decline slowed down and then stopped. In general terms, the decline in industrial productivity is sharper than that in aggregate productivity.

In productivity terms, it is important to consider that the use of labour productively does not necessarily indicate an increase in output as raising employee productivity is done at the expense of not employing less productive workers. Raising productivity by means of investment can be difficult for the national economy as resources must be used both for supporting the less productive members of the workforce as well as the capital investment.

In 1995, employment appeared gap to have stabilised in all Central Asian countries, except in Kazakhstan that stood at -3.8 in 1997. This situation in Kazakhstan could be due to outward migration, which registered nearly 260 thousand in 199750. Another factor could be the sharp decline in industrial and agricultural employment.

In analysing the dynamics of employment during the transition period, it would be useful to observe the impact of privatisation. It is, however, premature to claim that the private sector has already become an instrument for job creation, this being an expected result of privatisation. In the academic literature, there is no consensus regarding this

50 Ibid. p. 101.
matter. In his research, for example, O. Blanchard came to the conclusion that restructuring could "lead to an increase in unemployment..."\textsuperscript{51}. Another group of scholars found that once subsidisation was either stopped or reduced significantly when privatisation and restructuring were taking place, there was a positive effect on employment\textsuperscript{52}.

### Table 5.3

**Sectoral Distribution of the Employed, 1997 (percent of total)**

<table>
<thead>
<tr>
<th>Sector sector</th>
<th>Private sector</th>
<th>Joint ventures (with foreign partners) with mixed ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>32.7</td>
<td>48.5</td>
<td>18.8</td>
</tr>
</tbody>
</table>


In Kazakhstan the number of those employed in the private sector, which stood at 48.5 per cent, is not as substantial as in the previous two cases. In any case, official unemployment rates are very low, i.e. 4 per cent in Kazakhstan. This indicates two things: surplus employment still exists in all enterprises in Kazakhstan and a large number of those jobless who are willing to work did not register themselves as unemployed\textsuperscript{53}.

In the 1996 Occupational Labour Measurement Survey in Kazakhstan, jobless adult respondents were asked the number of times they had applied for work. More than fifty percent of the respondents said they gave up applying after one to two attempts and only 1.25 per cent tried to apply for a job seven to twelve times \textsuperscript{54}. This information


\textsuperscript{54} Ibid., p.107.
leads us to conclude that the labour market can be characterised as sclerotic, consistent with the unemployed who have a small belief in their ability and potential to eventually find a job. In this situation, unemployment is a stagnant pool.

Another interesting example can be taken from the monthly survey conducted by the Association of Sociologists and Political Scientists of Almaty city within the Centre for Euro-Asian Studies (Reading, UK). In January 1998, 48.7 per cent of adult respondents in Almaty city did not have a job. At the same time, official unemployment figures for Almaty was only 8,040 out of a population of more than one million. Lack of employment contributes to a growing class of poor people in the region.

Labour mobility and its implications for job creation hence reducing unemployment is crucial for the labour market. The labour market in Kazakhstan has likewise a low mobility. For instance among the respondents across Kazakhstan who wish to acquire a new profession and find a new job, only 22.5 per cent were completely ready; 12.7 per cent were ready; 9 percent had not made up their mind; and the rest of the respondents were not much ready or not ready at all.

This indicates that current growth depends on reactivating the existing capacity. By 1996, fixed capital investment in Kazakhstan was 10 per cent of the 1989 level. By 1997, fixed capital investment increased by 120 per cent in comparison with the previous year but was still far below the 1989 level.

The 1997 average nominal wage in Kazakhstan grew by a factor of 1.2 (8550 Tenge or US$113.4). At the same time, the differentiation of wages by the sectors of the economy took place. The highest wage was fixed in ministries and other bureaucratic institutions at 17401 Tenge (43.4 per cent); in the financial and insurance sectors at 16822 tenge (26.4 per cent); and, in the commercial sector 13074 Tenge (51.5 per cent). However, in the health, education and social security sectors, average wage was very low. It is remarkable that in a sector, which nearly disappeared from the Kazakhstan

55 Ibid., p.106.
industry, e.g. light industry, the average wage was lower than the maximal average wage in the most successful sector in industry, energy by a factor of 4.5.

Theoretically, restructuring would lead to gap increased employment and improvement in productivity. The experience during transition, however, indicates that it is possible to see "unemployment rising only slowly, suggesting that restructuring is de facto quite limited and labour is kept on the payroll even when output declines strongly".57

**Macroeconomic Policies**

"To present a complete picture, it is interesting to look at the evolution of the perception of reforms through the eyes of the people who are directly affected by the reform process. The Association of Sociologists and Political Scientists of Almaty city within the Centre for Euro-Asian Studies (Reading, UK) conducted a survey of public opinion in 1997 in Kazakhstan oblast towns of Taraz, Karaganda, and Almaty."58

Evaluating their own economic situation, respondents in Taraz, Karaganda, and Almaty who have jobs think that they lost during the transition period, with 61.6, 59.4, and 68.6 per cent respectively. Only 2.2, 1, and 3.5 per cent in each oblast consider that they gained during this period. By the end of 1997, perceptions of the current situation were highly negative and expectations were quite pessimistic.

The key questions which arise are: how should Central Asian governments respond to reduce the negative impact on labour market and whether they should allow unemployment to increase by activating a bankruptcy law and closing down unprofitable firms? Experiences of other transition countries indicate, "attempts by enterprises to maintain employment in many cases led to a substantial and growing

56 Ibid., p.103.
financial deficit. The logical step for governments would be to introduce a bankruptcy law while at the same time recognising the major enterprises which could be (or even were) profitable as rash of bankruptcies could cause complete destruction of the industrial sector. For instance, 50 per cent of current enterprises in Kazakhstan are not profitable. In this case, there is hardly a promising future for this particular sector of the economy.

Unemployment is the painful price, which all countries in transition have to pay in order to reach a market economic structure. In theory, the newly established private sector will provide new employment and, in some respect, replace the jobs lost in the state sector. However, to rely completely on a small private sector as a panacea for unemployment troubles would be an expensive mistake. Instead, it seems that the realistic method is for Kazakhstan to seek an active labour market policy, which should be introduced by the governments. This policy should include creation of re-training centres for the population as well as a strong sociological service, which could provide a constant monitoring of the situation in the labour market. This method though will require substantial funds as well as involving a number of specialist organisations.

Another concept, which could be less popular with governments, includes not only an active labour policy but also an active industrial policy in order to assist enterprises. If governments decide to go ahead with this, it will require, in some respects, the continuation of a policy of soft budget constraint but in a necessarily selective manner. It should target only enterprises that have good prospects for further development and which are operating in areas of sharp economic affliction. In this case, an eligibility list, which includes only economic points for selective support, would be necessary. In such conditions, the government would solve a lot of delicate problems regarding loans, taxation and other matters. The duration of this temporary support is important. It should not only be temporary but it should also set specific targets, which should be achieved by the end of the temporary period.

59 Ibid.
An interesting question for which there is no easy answer is, which sector of Kazakhstan can create new jobs? In theory, the answer is services and trade. I would make quite the opposite argument. It is the manufacturing sector that is important for Kazakhstan. Some countries have already realised this. In Kazakhstan, for example deputy Prime Minister U. Zhandosov recognised that the time has come to reconsider the orientation towards oil and gas industries to the production of manufactured goods. In order to develop the industrial sector, an intensely competitive labour market is required.

Assessment of the Labour Market Situation in Kazakhstan

Kazakhstan’s labour market underwent changes in the post Soviet period. The major shift was that one third of the labour force is now engaged with the private sector, since independence. Unemployment is rising quickly but is still low relative to the scale of output decline. Movements out of the labour force have probably been large and have helped to limit open unemployment. The financially troubled state enterprises are in the process of restructuring, which may lead to visible underemployment. This may well foreshadow future unemployment.

• The first lesson to be learnt from the assessment of industrial policy and the labour market in Kazakhstan is to recognise the strong correlation between these two economic variables and their strong influence on each other. Statistics in Kazakhstan economies demonstrated a sharper decline in industrial production than the decline in aggregate output, which led to changes in the employment patterns. There is evidence of a shift in the employment structure from industry to other sectors of the economy. Industrial employment failed in absolute and relative terms in Kazakhstan.

• The second lesson is derived from the analysis of productivity, which is one of the major labour indicators. From 1991 to 1996 the aggregate labour productivity in Kazakhstan declined constantly and this continued to affect the decline in output and maintenance of surplus employment by production units. In this paper, I proposed to measure and to consider productivity based on the output of working age population.
This measurement could be useful for an in-depth evaluation of the situation in the labour market and to estimate the non-participation rate more precisely.

- The third lesson concerns the apparent surplus employment in Kazakhstan. It should be remembered that official unemployment figures in Central Asia are generally under-reported by a large margin. It is difficult to distinguish between voluntary and involuntary employment. The Kazakhstan labour market can be characterised as hard. Unemployment is a stagnant pool.

- The fourth lesson is mainly concerned with the lack of mobility of the labour force. This can be explained by the fact that the Kazakhstan population is psychologically reluctant to move into a position of insecurity such as that caused by poorly paid and unattractive jobs, not to mention the shortage of jobs. The situation is aggravated by a certain degree of restraint in the state administration. The newly created private sector has not established itself as a real substitute for the state sector in terms of the creation of new jobs.

- The fifth lesson is related to the process of restructuring and its impact on the labour market. After the initial stages of privatisation, restructuring requires both a private sector and capital. The main constraint for investment in Kazakhstan is low profitability and high borrowing costs as well as pressure to distribute spare cash into wage or tax payments. Fixed capital investment could be a good indicator for further development of enterprises, which will lead to job creation. A lack of finance, aggravated by inter-enterprise arrears is a common phenomenon in transition. This leads to a situation where delays in wage payment coupled with wage arrears become destabilising factors to macroeconomic stability. Such delays push the working population to find extra jobs. Hence, secondary employment is increasingly apparent in Kazakhstan.

- This leads us to the sixth lesson, which is a natural conclusion of the industrial analysis. Low real wages and often the complete absence of wage payments hinder the process of improving labour productivity and production efficiency. The problematic
point is that the government should either adopt a policy, which might increase unemployment by basically recognising the bankruptcy law, or make the necessary attempts to accelerate growth in output towards a rate that will surpass employment growth.

- The seventh lesson is the recognition that active labour policy plays a strong role in economic development. The government could target unemployment through the public works mechanism or it could address underlying economic problems, which could then lead to job creation.

- The continuation of a governmental strategy that combines industrial and labour policy is clearly the eight lessons to be learnt. The regime has to make up its mind regarding the continuation, for a short period of time, of a soft budget constraint for some selective enterprises as well as maintaining constructive rationalism towards certain industrial sectors, which the country is likely to develop.

- The ninth lesson is in the answer to the question, which industrial sectors are likely to generate jobs? The argument, which I have made in this paper, is that the manufacturing sector could potentially create new jobs. This is demanding and time consuming and, in some respects, expensive for the government. However, it is an investment for the creation of a competitive labour market.

5.4 INDUSTRIALIZATION AND TRADE STRATEGY

Economists and policy makers in developing countries broadly agree that governments need to provide infrastructure, promote market efficiency, and promote a stable macroeconomic environment\textsuperscript{60}. However, the trade policy is a debatable issue. It can be characterized as outward oriented or inward oriented. An outward-oriented strategy provides trade and industrial incentives, which are neutral between production for the domestic market and exports. The essence of an outward-oriented strategy, there would be no restrictions in export and import. On the other hand, in an inward-oriented

\textsuperscript{60} World Development Report 1987 p.8.
strategy trade and industrial incentives are biased in favour of domestic production and against foreign trade. This approach is often referred to as an import substitution strategy.

In practice, trade policy contains elements of both approaches. Differences arise as much from the choice of instruments as from the absence or presence of intervention. Overall protection is lower under an outward-oriented strategy than under inward orientation; equally important, the spread between the highest and lowest rates of protection is narrower.

Inward-oriented strategies typically prefer quantitative restrictions to tariffs, and they involve a higher overall level of protection, together with greater variation across activities. Exchange rates are generally overvalued because of high protection and the use of quantitative restrictions. Industrial incentives are administered by an elaborate and expensive bureaucracy.

The World Development Report presented a study of forty-one economies which shows that outward-oriented economies tend to perform better than inward-oriented economies. Their overall output grew faster. In other words, strongly inward-oriented economies performed badly in industrial development than outward oriented economies.

**Trade policy reform**

Like most policy changes, the shift toward outward orientation inevitably involves transitional costs. Major shifts in resources accompany trade liberalization, as some activities contract and others expand in response to the changes in prices that the reforms must entail.

Stable macroeconomic policies are also crucial for the success of trade reforms because it aimed at reducing inflation and preventing the currency from fluctuation.

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61 Ibid, p.8
Many trade liberalization efforts have found it due to poor macroeconomic policies rather than poor trade policies. Once the reforms are undertaken, their fate often rests mainly with the balance of payments—and this is the outcome of macroeconomic policy. Export performance is also closely related to the level and stability of the exchange rate. On the other hand, using the exchange rate to stabilize domestic prices is inconsistent with trade reform.

The evaluation of recent history of trade policy reforms suggests that three elements seem to matter most in their design:

- The first is the move from quantitative restrictions to tariffs. This links domestic prices to foreign prices.
- The second is the reduction of the variation in rates of protection alongside reductions in its overall level. Otherwise, protection accorded to value added in some sectors may increase, because as a result of reduced tariffs and quotas the prices of inputs may fall faster than the prices of outputs.
- The third element is the direct promotion of exports to offset the bias arising from import tariffs.

Change in Comparative Advantage

The major source of industrialisation is the transformation of international trade. Through import substitution and the expansion of manufactured exports, developing countries shift away from the specialization in primary products that is characteristic of early stage of development, as well as economies of scale based on a growing domestic market for manufactured goods. Countries with small populations have relatively specialized economies and a high share of trade in GNP, but the trade share declines markedly with increase in population size. A country’s natural resources and how they are exploited, have

62 Ibid
a substantial impact on its comparative advantage; this is more pronounced in small countries and at low-income levels. The effects of geo-strategic factors tend to be accentuated by differences in national policies: large countries have been prone to adopt inward oriented policies, which appear more feasible to them than to small countries. "Trade liberalisation changes the attractiveness of countries as a base for manufacturing production, and can trigger—or postpone—industrial development. The process we describe abstract from many important aspects of reality." 64

**Integrating with world economy**

In pre-independence Republic of Kazakhstan had no experience in conducting foreign trade and hence lacked the conceptions, institutions, and personnel needed to perform this task. Instead, central all-union institutions in Moscow handled the entire foreign economic activity of the enterprises of Kazakhstan, including foreign trade. This did not mean that its foreign economic activity was marginal. On the other hand, being an integral part of the national economic complex of the USSR, Kazakhstan was actively participated in the foreign trade of the former Soviet Union because it was endowed with unique, rich mineral resources. Indeed, Kazakhstan occupied one of the leading places in the USSR in terms of the volume of exports for a number of goods-nonferrous metals, rare and rare-earth metals, ferroalloys, chromite ore, and phosphorus 65. In the 1980s, more than 180 enterprises were active in producing goods for export. Its array of export goods included about 200 items; the geographical destinations for these goods included eighty countries around the world, with about 60 percent of the total volume of export going to countries in the Council of Mutual Economic Assistance. 66

The economy of Kazakhstan was always closely connected with that of the other former union republics. In the late 1980s, it imported products from 103 industries from


66 Ibid.
other republics and exported those of 89. But after independence, efforts were made to forge productive links with countries outside the CIS and the Baltic Republics. The close economic links characteristics of the Soviet Union were come to an end. As a result of this, only 40-60 per cent of the financial obligations between CIS states in the first half of the 1990s were honoured.

The expansion of steel and engineering industries increased Kazakhstan’s trade dependency on Russia and Ukraine during the Second World War. Besides that, the trade statistics in the Soviet period ignored ‘shuttle trade’ effected by travellers between the Union Republics, even though much of the vegetables, dairy produce and flowers was brought to markets in Russia from the republics to the south. Such personal traffic has expanded since independence as travel restrictions for citizens have been relaxed and include many foreign countries. By the report of the Customs Statistics for the Republic of Kazakhstan, the volume of ‘shuttle-traders’ imports consists of half of the imports of Kazakhstan economy. This phenomenon has occurred due to the loss of jobs in industry and agricultural sector. According to mid 1996 data, these shuttle-traders and shopper-tourists business was especially profitable during the years of shortage of consumer goods. China, India and Turkey are the source of much of this ‘shuttle trade’: the Kazak aircraft destroyed in the mid-air collision with a Saudi plane near Delhi in November 1996 had been chartered for a shopping spree in India. When, the domestic consumer market became saturated by beginning of 1995 the profit margin from the shuttle-trade dropped 30 percent to 70 percent. The trade returns generally cited are those registered by the customs authorities, but for Kazakhstan the Statistical


Committee and the National Bank were compiling unrecorded trade, of which imports greatly exceed exports.\(^{70}\)

The construction of two Trans-Kazakhstan railways after the Second World War\(^ {71}\) fostered the expansion of minerals exports, while the establishment of steel and engineering industry required imports of metals, semi-fabricates and components.

The trade of Kazakhstan was severely disrupted at the time of independence, mainly due to the collapse of the inter-republican payments system, the downward spiral of aggregate demand and the collapse of the FSU defence industry. Almost all its dealings in foreign markets had affected by the economic crisis in Kazakhstan. There was a marked growth in bartering activities, which led to a reduction in the amount of currency coming into the country, because most items exported were raw materials exchanged for consumer goods\(^ {72}\). Currency brought in through export proceeds was commonly used for the purchase of consumer, rather than for developing industrial production or for the introduction of new technologies. Exports of goods from Kazakhstan to the world market also suffered a downward turn. It was necessary for the country to work towards accumulating its own currency reserves, and to adopt new payment practices in trading operations with CIS partners. The marked reduction in capital derived from exports and from foreign commercial loans compelled Kazakhstan to limit purchases outside the commonwealth by 8.2-10.3 times in 1992-94, compared to the 1990 level taking the value of imports from outside the CIS and the Baltics to the level of 1974\(^ {73}\).

Kazakhstan has benefited from the overall increase in energy prices in the FSU and energy and mineral resources now dominate export trade. In 1995, the main exports were

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71 Extending the Karaganda/ Balkhash line from Moynty to Chu and connecting the western Uzbek line to Astrakhan.

72 Which often did not have an equivalent value.

oil and gas condensate, copper, nonferrous and ferrous metals. Although new export
markets have been developing, especially in Western Europe, the most important trading
partner is still the Russian Federation, it accounted for nearly one half of total trade in 1995
and 1996.

Out of Kazakhstan’s total $4,990 million exports in 1995, $2,817 million (56
per cent) went to the ‘near abroad’, of which $2,813 million went to Russia, $160
million to Uzbekistan and $ 121 million to Ukraine. The European Union took $ 1,082
(of which $523 million was recorded to the Netherlands, $170 million to Germany and
$98 to the UK); among other substantial buyers of Kazak goods were China ($304
million), Turkey ($71 million) and the United States ($49 million). In contrast to its
heavy import deficit with the CIS in 1994, Kazakhstan achieved an almost precise
equilibrium of trade with that group in 1995, by increasing exports.

The Kazak Action Programme for the Deepening of Reforms followed a similar
programme for 1994-1995, laid special emphasis on encouragement of investment: in
1995 foreign direct investment a $723 million. Against this Kazakhstan continues to run
a current account deficit of about $800 million over 1994-6. But in 1995 the visible
balance had swung positive. Kazakhstan’s exports (as recorded by customs statistics)
$3,231 million in 1994 to $4,990 million in 1995 and were forcast at$6 billion in
1996. This offset rising imports to shrink the visible deficit (recorded and un-
recorded trade) from $923 million in 1994 to $223 million in 1995 and swing to a
surplus in the first quarter of 1996 ($668 million). Rising unit-values, which may prove
temporary, played a big part in the export gains, but it is possible now to see
Kazakhstan as moving ahead on foreign investment and export-led growth.

74 Michael Kaiser, The Economies of Kazakhstan and Uzbekistan (London, The Royal Institute of
International Affairs, 1999) p.54.
75 Ibid, p.56
76 Kazakhstan Economic Trends, Second Quarter 1996, p.p. 17 -22. Unrecorded exports seem to have
been only $140 million, but unrecorded imports are large.
In 2002 the current-account deficit became half of the previous year. According to customs data, the trade surplus on a balance-of-payments basis was US$2.4 billion, to some extent lower than the trade surplus. The NBK estimates unrecorded imports, which results in discrepancies between the two sets of data. Exports on a balance-of-payments basis rose by 12 percent to US$10 billion, slightly higher than the export receipts recorded by the customs service. On a balance-of-payments basis, imports dropped by 2.6 percent to US$7.6 billion, 18 percent more than import costs as reported on a customs basis. The claimed drop in import costs seems odd, given rising demand for consumer goods and capital goods, implying that the NBK import figure is likely to be revised.

Table 5.4

<table>
<thead>
<tr>
<th>Current account (US$ million unless otherwise indicated)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Exports fob</td>
</tr>
<tr>
<td>Imports fob</td>
</tr>
<tr>
<td>Trade balance</td>
</tr>
<tr>
<td>Services balance</td>
</tr>
<tr>
<td>Net income</td>
</tr>
<tr>
<td>Current transfers (net)</td>
</tr>
<tr>
<td>Current-account balance</td>
</tr>
</tbody>
</table>

(Percent of GDP) | -5.5 | -1 | 3.7 | -5.5 | -2.4 | -200 | 270 | -650 | -340 |

Note: Totals may not sum owing to rounding.


The services and income balances remained in deficit in 2002, largely a result of the accelerating pace of oil sector development. Such costs are expected to rise further.

in 2003, owing to the expansion programmes at Tengizchevroil (TCO) and Agip KCO; the government is thus expecting the current-account deficit grow to US$603m (2.3 percent of GDP) in 2003. This will not present a financing problem, since Kazakhstan can still rely on substantial foreign direct investment (FDI) inflows. Although Kazakhstan attracted less FDI in 2002 than a year earlier, total net FDI nonetheless reached US$2bn, or 8.2 percent of GDP.

In July 1996 Kazakhstan signed Article VII of the IMP Agreement, committing itself to refrain from restricting current-account transactions or from implementing discriminatory currency arrangements. The tenge is hence convertible on current account and floats. Building on that basis, “the Kazak Securities Commission promoted in London the country's first bond issue in December 1996, explaining that although the country did not urgently need the funds ...our objective is to establish a track record and open the international capital markets for Kazak borrowers”; ABN Amro Hoare Govett was the lead manager when the $200 million bond was successfully floated on 9 December 1996.

“During 1995-96, Kazakhstan dismantled the centralised system of trade arrangements, by cancelling monopoly rights of the state trading organisations, eliminating non-tariff trade restrictions, abolishing export surrenders, and terminating the requirement to register export contracts at the community exchange, although registration requirements were reintroduced for certain agricultural products in1997”. Development of Foreign Trade

In a post-recession period (1992-1994) the volume of export-import operations in Kazakhstan increased which was noted in the country’s foreign economic activities. The

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78 Ibid.
79 IMF Survey, 12 August 1996.
80 Financial Times, 3 and 10 December 1996.
The total volume of export-import operations was $10.5 billion in 1996 (120 per cent of 1995) the export being $6.2 billion (125 per cent). However, in 1995-1997, after a revival of foreign economic activities, a new recession in export and import operations began in 1998. According to an estimate from the statistical committee of the CIS, Kazakhstan’s foreign trade turnover, including unorganised trade, laws $13.7 billion, and 9 per cent less than 1997. The reduction in exports amounted to 17 per cent and in imports about 1 per cent. The trade balance, which was favourable in 1995-96, showed a marked decline.

Although, Russia was Kazakhstan’s biggest trading partner, its share of the total volume of Kazakhstan’s exports declines continuously. On the other hand the Russian Federation accounted for 45 per cent of Kazakhstan’s total exports in 1996, this shrank to 29 per cent in 1998. Besides other major consumers are Italy, Great Britain, China, Switzerland, Germany, the Netherlands, and Ukraine.

Kazakhstan never misses an opportunity to demonstrate either its independence or the ‘rigidity’ of its foreign economic policy. This has been made manifestly clear by a series of decisions. For example, when Russia toughened it’s a customs rules in 1995, President Nazarbaev followed quickly with his own decree, which also regulated tariffs on imported goods and introduced new, more stringent rules. Customs tax has now been imposed on articles imported by citizens in the course of the so-called non-trade turnover, including those bought for personal use. As a result virtually all more or less valuable goods imported into the republic are subject to taxation. The toughening up of customs duties was a measure intended to improve the economy of the republic.

Every year the share of goods manufactured by joint ventures accounts for more of the total volume of foreign trade. Jvs exported goods worth $685 million in 1996 ($12 million in 1991), with imports worth $446 million and 28 million respectively.

82 Ibid p.67
By the estimation of Ministry of Economy the foreign trade balance in 2000 increase of 35 per cent over the previous year i.e. US $ 15.7 billion. Exports were worth US $ 8.9 billion, while imports were registered at US $ 6.8 billion. The foreign trade surplus was therefore estimated at US $ 2.1 billion. (In 1999 the surplus, at US $ 343.7 million, was achieved for the first time in last years.\(^{84}\))

Kazakhstan’s export increased its competitiveness due to floating exchange rate of Tenge introduced in April 1999 and improvement of favoured world economic situation simultaneously. During 2000 the bulk of exports was accounted for by the production of the oil and gas industry (43 per cent) as well as of ferrous metallurgy (10 per cent). In 2002, current-account deficit narrowed to 2.4 percent of GDP on the back of a strong trade surplus\(^{85}\). The structure and direction of trade in 2002 remained largely unchanged from the previous year. The risk of an oil price collapse can make Kazakhstan’s current-account surplus vulnerable because the large-scale development projects in the oil sector limit the scope for import contraction in the event of a significant fall in export revenue.

The pronounced state intervention, in government’s economic policies, which are also likely to add to Kazakhstan’s investment requirements, despite its attempts to encourage import substitution. The impact of investment on imports will be particularly evident in invisibles imports, since economic development is likely to draw in foreign contractors\(^{86}\). According to customs data, Kazakhstan ran a trade surplus of US$3.2bn (13.2 percent of GDP) in 2002.\(^{87}\) Export revenue reached US$9.7bn, a 12 percent increase that far outpaced a 2 percent rise in import costs to US$ 6.5 billion. Although the agricultural sector managed to increase its exports in 2002, crude oil accounted for over half of exports, and its share is likely to continue rising in coming years.

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85 Ibid, 2003, p.3.
86 Ibid 2003 p.11.
87 Ibid p.31.
Table 5.5
Commodity composition of exports, 2002

<table>
<thead>
<tr>
<th>Commodity</th>
<th>US$ million</th>
<th>Percent Change, Volume terms</th>
<th>Percent of total</th>
<th>Percent Change, US$ terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>5,339</td>
<td>15.5</td>
<td>55.0</td>
<td>n/a</td>
</tr>
<tr>
<td>Crude oil &amp; gas condensate</td>
<td>5,037</td>
<td>18.0</td>
<td>51.9</td>
<td>-2.5</td>
</tr>
<tr>
<td>Refined products</td>
<td>119</td>
<td>-8.0</td>
<td>1.2</td>
<td>21.1</td>
</tr>
<tr>
<td>Coal</td>
<td>183</td>
<td>-18.0</td>
<td>1.9</td>
<td>-7.9</td>
</tr>
<tr>
<td>Metals</td>
<td>1,277</td>
<td>1.7</td>
<td>13.1</td>
<td>n/a</td>
</tr>
<tr>
<td>Iron ore</td>
<td>119</td>
<td>41.0</td>
<td>1.2</td>
<td>6.8</td>
</tr>
<tr>
<td>Ferro-alloys &amp; products</td>
<td>341</td>
<td>8.0</td>
<td>3.5</td>
<td>-6.9</td>
</tr>
<tr>
<td>Copper</td>
<td>576</td>
<td>-5.0</td>
<td>5.9</td>
<td>-3.1</td>
</tr>
<tr>
<td>Zinc</td>
<td>156</td>
<td>-1.0</td>
<td>1.6</td>
<td>-10.8</td>
</tr>
<tr>
<td>Alumina</td>
<td>30</td>
<td>-17.0</td>
<td>0.3</td>
<td>-8.8</td>
</tr>
<tr>
<td>Lead</td>
<td>55</td>
<td>0.0</td>
<td>0.6</td>
<td>-3.8</td>
</tr>
<tr>
<td>Agricultural products</td>
<td>434</td>
<td>7.4</td>
<td>4.5</td>
<td>n/a</td>
</tr>
<tr>
<td>Wheat</td>
<td>329</td>
<td>3.0</td>
<td>3.4</td>
<td>-22.0</td>
</tr>
<tr>
<td>Cotton fibre</td>
<td>105</td>
<td>24.0</td>
<td>1.1</td>
<td>-15.1</td>
</tr>
<tr>
<td>Total including others</td>
<td>9,709</td>
<td>12.3</td>
<td>100.0</td>
<td>n/a</td>
</tr>
</tbody>
</table>


According to customs data, in 2002, Kazakh import costs reached US$ 6.5 billion, which is a slower increase in nominal terms than it was seen in 2001. Strong economic growth has been pulling in imports in recent years, but the 2002 import data, combined with data showing broader industrial output growth suggest that import substitution is gradually taking place.
Foreign Investment and Trade in Kazakhstan

Since December 1991 Kazakhstan has moved toward an open market, export-oriented economy. As with other post-communist countries, Kazakhstan needs to resolve the problems of transferring property from the state, miniaturizing the economy, and developing market-supporting institutions. It also must cope with inherited economic distortions and develop its own trade and financial systems. The economic legacy inherited from Soviet centralized planning makes the process of economic recovery and transformation very difficult. The principal tasks of the government’s economic policy in 1995 remain financial stabilization, industrial revitalization, marketisation of trade and investment, and increasing the solvency of both enterprises and the population.

For Kazakhstan, investment in the restructuring and re-tooling of production is necessary for its economic vitality, its adjustment to a new economic environment and its integration into the world economy. A small domestic market forces Kazakhstan to pursue an aggressive export strategy. Lacking domestic investment, Kazakhstan is seeking foreign investment to fuel internal capital formation and propel economic self-development. Thus, the politics of foreign investment and external trade are an extremely important part of the economic reform in Kazakhstan.

However, the trade regimes of Kazakhstan are unique, a combination of low import restrictions, high export taxes and import subsidies. On the other hand most developing economies use import restrictions and export subsidies. It has been argued by some scholars that foreign investment is often welfare reducing for Kazakhstan type trade regimes. It means, that, either FDI or the expansion of export zone is more likely to reduce welfare under Kazakhstan type trade regime than the traditional developing trade regime.

The typical Central Asian economy exports include fuels, minerals, metals and cotton. But on the other hand the middle income transforming economies of Eastern and Central

Europe export manufactured products. Imports for Kazakhstan are finished products such as machinery, equipment and consumer goods. The flows of FDI into Kazakhstan were high by developing economy standards. Given data suggests that foreign investment has flowed mainly to export sectors. More recently, foreign investment has appeared in service sectors such as hotels and manufacturing industries.

So, Verreux and Bryan Roberts observed that, Kazakhstan possesses unusual trade regimes in the sense that it taxes exports heavily and imports lightly, in contrast to the typical developing country trade regime. They also suggested that, in a Kazakhstan type regime, capital inflow is more likely to reduce welfare than under the typical developing-country regime. In particular FDI and the expansion of an export zone are more likely to be immiserising. This finding is tough for non traded-goods sector and quotas. Consequently, Kazakhstan should simultaneously reform it trade regimes and liberalize foreign investment. The policy maker should eliminate import subsidies and export restrictions or transform into import tariffs before capital flows are liberalized.

**Prospects for Foreign Trade and Foreign Investment**

In future, Kazakhstan is expected to be mainly an exporter of raw materials, especially crude oil, and an importer of equipment, machines, technological know-how, and consumer goods. The main task facing Kazakhstan is to create better conditions for its raw material exports. The crucial issue is to resolve the problem of transporting oil to the international market.

Liberalization of Kazakhstan's external trade should allow the country to diversify its economic links and provide the most effective and profitable investment policies. Because following argument can be important for Kazakhstan. Puga and Venable from London school of economics argued:

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economy, which seem to be important, and provides some new insights on the effects of trading arrangements on industrial development. It offers an explanation as to why firms are reluctant to move to economies that have lower wages and labour costs, and shows how trade liberalisation can change the incentives to become established in developing countries. It provides a mechanism through which import liberalisation can have a powerful effect in promoting industrialisation. And it suggests that import liberalisation may create or amplify differences between liberalising countries with the possible political tensions this may create. While these features are consistent with the world economy, they of course fall far short of providing convincing empirical support for the approach.\textsuperscript{91}

Using this approach, numerous conclusions can be drawn about the effects of trade liberalisation.

- Unilaterally liberalising imports of manufactures can promote development of local manufacturing industry. The mechanism is forward linkages from imported intermediates, but this may be interpreted as part of a wider package of linkages coming from these imports.

- The gains from liberalization through PTA membership are likely to exceed those that can be obtained from unilateral action. (i.e. South-South PTAs will be sensitive to the market size of member states, and North-South PTAs seem to offer better prospects—for participating Southern economies, if not for North and excluded countries.)\textsuperscript{92}

- The effects of particular schemes (on, for example, the division of benefits between Southern economies) will depend on the characteristics of the countries, and cross-country differences in these characteristics. We have not yet conducted systematic investigation of the sensitivity of our results to such differences.

The implementation of projects aimed at developing Kazakhstan’s infrastructure and increasing the economy’s export potential will play an important role in promoting


\textsuperscript{92} Ibid, p.27.
foreign trade. Among these projects are: (1) the rehabilitation and development of a transportation network through reconstruction of the Druzhba rail station and railways from Aktogayt to Druzhba and from Druzhba to the Chinese border, the reconstruction of the international seaport at Aktau, the reconstruction of runways at the Almaty, Karaganda, and Akmola airports, the rehabilitation of internationally significant highways, the construction of bridges, and the protection of roads from flooding; (2) the construction of a domestic oil pipeline from western Kazakhstan to Kumkol and an export oil pipeline; (3) the construction of the Aktyubinsk power station; (4) the construction of the Zhanazhol oil and gas refinery and the reconstruction of the Atyrau, Shimkent, and Mangistau refineries; (5) the reconstruction of enterprises in the mining and metallurgical sector, including the Celinniy mining and chemical plant, the gold processing factory in Srepnogorsk, and Zhilandin mining in the Zhezkazgan region; and (6) the development of an Asian-European communication network. Attracting official development assistance, or soft loans, totalling $3 billion and commercial credits from foreign banks and direct foreign investment of approximately $4.5 billion, will finance the cost of these high-priority projects.

5.5 REGIONAL CO-OPERATION AMONG CENTRAL ASIAN REPUBLICS AND TRADE IN KAZAKHSTAN

In the international sphere, the world is moving towards a transparent, non-discriminatory, open trading environment. Conceptually, it is also a hard reality that trade is increasingly becoming regional, intra-regional and consequently less open owing to the formation of regional trading blocks, non-tariff barriers such as environment, human rights, labour consideration etc. These factors also influence trade and implicit protectionism is noticeable in the highly competitive trade environment. The trading blocks like European Union, North American Free Trade Area, Association of South East Asian Nations, Asia Pacific Economic Cooperation, Western Hemisphere Free Trade Area, Japan-Korea-Russia Free Trade Area etc., are examples of growing momentum of

transition from multilateral to regional economic integration and suggests that economic
benefits can be maximized by imitating preferential trading arrangements within the
region. For example, OECD countries accounted for 73 per cent of the world trade in
1992 of the total world export of US $ 3.7 trillion\textsuperscript{94}.

So Kazakhstan should keep economic relations with their neighbours and with India,
Iran, and Pakistan. Given the location of the Kazakhstan, far from the markets of
industrialized world, regional trade will continue to be of primary importance. As member
of Asian Development Bank with other CARs (Kyrgyzstan and Uzbekistan), Kazakhstan
made agreements to facilitate regional trade and co-operation; the initial agreements call
for the creation of a customs union and of tariff harmonization within the broader
framework of CIS (Commonwealth of Independent States).

5.6 NEW ENTERPRISES INCENTIVE TO ECONOMIC GROWTH

The growth-enhancing effects of new enterprises and the growth-restraining effects of
the old broadly suggest that new enterprises in transition economies are more
productive than old enterprises. This is supported by data from 10 transition economies
covering both the leading and lagging reformers in the region, drawn from the World
Bank’s database on small and medium-size enterprises (SMEs). It is also supported by a
comparison between old and new enterprises in the Business Environment and
Enterprise Performance Survey, conducted jointly by the European Bank for
Reconstruction and Development and the World Bank in 1999\textsuperscript{95}. The interaction
between old and new enterprises is key to economic growth. The share of total
employment and value added accounted for by small enterprises (defined as employing
fewer than 50 workers) as a proxy for new enterprises divides transition economies into
two groups.\textsuperscript{96} In the Czech Republic, Hungary, Lithuania, and Poland, new enterprises

\textsuperscript{94} A. Mukarram, (ed.), \textit{India, Iran and Central Asia: Delineating Future Economic Relations} (New
Delhi, Rajiv Gandhi Institute for Contemporary Studies, 1997), p.46.

\textsuperscript{95} World Bank, \textit{Transition: The First Ten Years: Analysis and Lessons for Eastern Europe and the

\textsuperscript{96} Ibid.
grew very rapidly. They now account for 50 percent or more of employment, the average for the European Union, and for between 55 and 65 percent of value added. But in Kazakhstan, Russia, and Ukraine, which have seen modest or no growth in new enterprises, the share of employment has stayed at or below 20 percent and the share of value added has stayed between 20 and 30 percent.

New enterprises are more productive than old ones, but productivity differences diminish with transition. The difference is greater in Kazakhstan. Why? It is because closure and restructuring can raise the productivity of factors in the old sector and because fast growth of enterprises and employment can reduce the productivity of factors in the new sectors.

Creating a policy environment that disciplines low-productivity old enterprises into releasing resources and encourages high-productivity new enterprises to absorb those resources and to undertake new investment, without tilting the playing field in favour of any particular type of enterprise and while strengthening the social safety net to protect the most vulnerable, is central to economic growth in Kazakhstan economy. This is the main lesson from the successful reformers in Central Europe and the Baltic.

The centres of the profit concept were unknown in USSR, and the accounting systems were geared toward counting production, not costs. As a result, neither productivity nor enterprise profitability is made known by the available financial data. The dilemma is that many important inputs, including energy, were highly subsidised, and although that profitability estimated, does not reflect profitability in a market environment.

While it is difficult to measure the cost of most enterprises in Kazakhstan and their potential profitability in a market environment, many of these enterprises are clearly unprofitable under the current system. The World Bank has estimated that the gross losses of enterprises amounted to 24 per cent of GDP in 1993. This represented a
significant increase from the 14 per cent figure estimated for 1992 due to changing prices, rising labour costs and higher interest rates.\textsuperscript{97}

Since the Soviet-style enterprises are highly integrated, often producing several completely dissimilar products, and also includes a large number of subsidiary activities (such as day care centres, medical clinics and fire brigades), productivity of labour can be difficult to measure. This phenomenon is especially evident in Kazakhstan, where the government has promoted the addition of food processing and consumer goods production lines to large metal combines.\textsuperscript{98} The situation is further complex by the fact that bankrupt enterprises, facing only soft budget constraints, have kept on employees with dramatically reducing output.

In general, however, it is safe to say that productivity in a typical former Soviet-style enterprise is well below that found in a similar facility in the West. Overstaffing is common, often by 100 per cent or more, and plant layout and production methods generally involve far more material handling.\textsuperscript{99} In addition, work culture has traditionally been poor.

**New Enterprises Drive the Transition**

The success of a discipline-and-encourage strategy is predicated on the ability of new and restructured enterprises to emerge as engines of economic growth. Moving assets from the public to the private sector is thus an important element of transition. In 1999 the share of the private sector in CIS GDP was 55 percent in Kazakhstan. The picture is quite different, however, for new enterprises, which typically need encouragement in the form of a favourable business environment. Using small enterprises employing fewer than 50 workers as a proxy for new enterprises, their contribution to value added


\textsuperscript{99} Ibid.
in 1998 was around 55–65 percent of GDP.\textsuperscript{100} Data on small enterprises as providers of employment divide countries into two groups: leading reformers and countries further behind. Small enterprises’ share of employment in 1998 was about 50 percent for leading reformers such as the Czech Republic, Hungary, Latvia, Lithuania, and Poland, roughly the same as the European Union. For countries less far along the path to a market economy, such as Belarus, Kazakhstan, Russia, and Ukraine, the share was between 10 and 20 percent.

The share of small enterprises in employment and value added differs widely across the CIS region. In many parts of the CIS and south-eastern Europe—where growth is low and per capita income is substantially below pre-transition levels—the share of employment in small enterprises hovers around 20 percent.

The rapid growth of small enterprises is helping to bring about a higher contribution to value added and employment among the leading reformers shows that economic policy has directed the process of factor reallocation. That prompts three questions.

First, is labour productivity in small enterprises, measured as value added per employee, higher than in large enterprises in transition economies? In the aggregate, small enterprises consistently account for a larger fraction of total value added than of total employment. Labour productivity is indeed higher in small enterprises compared with large enterprises. New companies are more productive than inherited enterprises in Kazakhstan.

Second, is aggregate labour productivity, measured as aggregate value added per employee, higher in an economy where small enterprises account for a higher proportion of value added and employment than in another where those shares are lower? Small enterprises have had high and growing shares of employment and value added in the leading reformers in the Kazakhstan. However, there appears to be a

threshold—of around 40 percent for the shares of small enterprises in employment and value added—below which economies do not take off in terms of growth. This echoes the finding that there must be a minimum critical mass of reforms, below which the economy does not respond to policies. But both shares remain low and well below the threshold in the slow-growing economies of the CIS. The notion of a threshold is important in the interaction between the old and new sectors of the economy.

Third, can differences in labour productivity between small and large enterprises constitute a source of growth? The higher productivity of small enterprises needs to be complemented by an incentive for labour and capital to move to that sector—for small enterprises to increase aggregate growth. Higher labour productivity in small enterprises implies lower labour intensity per unit of output. This observation and the assumption that small enterprises are less capital-intensive than large enterprises imply that labour and capital have a higher marginal product in small enterprises. Movements from large to small enterprises are adding value and thus are a source of growth. The large gap in labour productivity in country such as Kazakhstan shows an unrealised potential for growth in the new sector.

The difference between the two sets of enterprises—old and new—begins to erode over time for two reasons. Old enterprises either close or restructure, raising labour productivity, and employment growth in new enterprises at some point reduces labour productivity in those enterprises.

As the transition proceeds, labour shed by downsizing old enterprises either finds its way into new and more productive employment or migrates to unemployment or subsistence activities. Labour hoarding in the old sector may persist for a long time, with new enterprises acting merely as passive receptacles for such transfers. Alternatively, when the investment climate is conducive to entry, new enterprises compete with the old sector, rapidly increasing their share in employment and typically attracting the most qualified individuals. As noted, a threshold of about 40 percent for the shares of small enterprises in employment and value added needs to be crossed for new enterprises to absorb the resources released by the old sector and contribute to
sustainable growth. Simply having a small number of highly productive small enterprises is not enough. Unless it is combined with rapid growth in the share of employment, the small sector will not develop the critical mass to lead aggregate economic growth.

In countries where aggregate employment picked up, it did so after the recovery of aggregate output. This empirical investigation of new enterprises and their interaction with old enterprises suggests the following:101

On the basis of the above, following observations may be made

• A sharp and early decline in aggregate employment precedes the rapid growth of new enterprises. With the former as an indicator of the fast dismantling of old industries, the rapid demise of the old sector seems necessary but not sufficient for the growth of new enterprises. A plausible reason would be that the rapid dismantling of the old sector lowers the price of its assets. Cheap resources become easily available to new enterprises, useful when financing is not available and investment not forthcoming. That is why discipline is a crucial element of growth. But it is not enough, for encouragement is also required.

• Countries that reached the trough of the transition recession sooner had faster growth in the new sector. Where sustainable growth returned, the share of small enterprises had reached a critical mass. Where it did not, people remained “unemployed on the job,” as in the CIS and countries in South-eastern Europe. Aggregate employment started to fall only late in the process. These observations suggest a sequence where hard budget constraints are imposed and the old sector declines before the new sector can grow.

• While disciplining the old and encouraging the new appear to be complementary, the old sector has generally, though not invariably, proved unable to survive even where budget constraints have been soft and the new sector has not emerged. In such cases,

mainly in the CIS, agriculture and low productivity services have served as "shock absorbers" for those forced to leave old industries. So softer the budget constraint, and stronger the barriers to exit, the lower the contribution of small enterprises to employment.

The figure shows the gain in GDP from reallocating to the SME sector 10 percent of the total labour and capital of the economy, as a function of the "shiftability coefficient" defined above. The polar case of perfect capital shiftability—when capital can move without any loss in productivity—is also of interest because it represents the case of new investment.

The extra value added is the ex post validation of the ex ante potential earning difference, which provides the encouragement for the creation of new enterprises. The large productivity gap in such countries as Kazakhstan and Ukraine may thus be taken, as an indicator of how much unrealised growth potential exists in the new sector in these countries.

5.7 SOCIAL AND ECONOMIC DEVELOPMENT OF THE REPUBLIC OF KAZAKHSTAN

Major Macro-Economic Indicators

Kazakhstan is undergoing a period of economic transformation ever since the national currency, the Tenge, was introduced in November 1993. During the years past, structural reforms implemented by the Government brought considerable results in terms of stabilization of main branches of economy.

Since the beginning of the year 2000 the social and economic situation in the Republic of Kazakhstan is characterized by further strengthening of trends of stable economic growth against the background of balanced budget and tax policies, positive trade balance and effective level of monetary conditions.102

Macro-economic growth is being sustained under the conditions of low inflation and stability in natural monopolies' service tariffs, continuous growth in volume of production of goods and services, increasing investment activity, continuing favourable conjuncture on the world markets, as well of relatively stable exchange rate of the Tenge.

According to the preliminary estimate of the Ministry of Economy, in 2000 the main macro-economic indicator, the GDP, grew by 9.6 per cent compared to 1999, which was due to the growth of production volumes almost in all spheres of production. The industrial production is estimated to have grown by 14.6 per cent. Growth in mining and extracting industries amounted to 21.5 per cent, and in processing industry the growth was 15.6 per cent. Electricity production and distribution increased by 9.6 per cent. Spheres of the economy linked to oil and gas are becoming the more important component of the industrial base of Kazakhstan.

Agriculture traditionally ranked the second in the country economic sector both from the point of view of jobs and GDP share. The agrarian sector is seeing a decrease by 4.5-5 per cent in comparison to 2000 though this tendency is mainly attributed to the fact that in 1999 the increase of agriculture production reached its peak at 121 per cent compared to 1998. The gross volume of plant growing decreased by 11 per cent compared to 1999, in animal husbandry it has reached growth of 2 per cent. Cereals make an important agricultural component of the country and Kazakhstan is considered to be a large supplier of hard wheat grades. Despite some decrease in plant growing, the year 2000 saw a good harvest of grains at 13 million tons. In 2000 the country's gross domestic product has undergone significant changes. Thus, the share of industrial output has increased and it has made 45.3 per cent while in 1998 it reached 37.9 per cent.103

**Inflation**

By the year-end of 2000 the inflation level has reached 9.8 per cent. This indicator in 2000 has averaged 13.2 per cent. According to the estimates of the National Bank of Kazakhstan (NBK) the exchange rate of Tenge to US$ by the end 2000 was 146 Tenge

103 Ibid., p.2.
to US$. The increase of the money base in 2000 compared to 1999 was 51.9 per cent, says NBK statistics.

**Investment**

In the transitional phase foreign direct investment (FDI) plays a vital role. The countries in transition need substantial fixed investment, as they inherited an absolute fixed capital stock and an inadequate infrastructure. From the macro-economic point of view FDI complements domestic saving and contributes to total investment in the economy without adding to the external debt burden. Besides that, it has the advantage of bringing with it-advanced technology, management and marketing skills as well as access to export markets.

The policy makers in Kazakhstan have been too pre-occupied with macroeconomic disequilibria, industrial restructuring and privatisation to pay much attention to trade and foreign investment issues. It is the most successful economy in attracting FDI during 1991-96 among the Central Asian Republics. Kazakhstan is one of the most attractive CIS countries regarding foreign direct investments (FDI). Since 1992 the country has been carrying out step-by-step market oriented economic reforms through privatisation of state-owned enterprises. In this regard, Kazakhstan has gone one step further than other CIS counties. The geographic position of the country assumes its dependence on neighbouring states in terms of reaching the world market, particularly the oil market. The Republic of Kazakhstan has initiated and has undertaken some important steps towards regional economic integration with CIS countries. Under the EBRD estimates according to the FDI flow Kazakhstan in the last decade was the second after Russia among CIS countries and according to the level of investments per capita it was the first. About 80 per cent of investments have been made in oil and gas sector, metallurgy and mining. The Tenghiz oil field can attract approximately US$ 20 billion within the next 40 years. Since the signing of agreement on the Caspian Pipeline Consortium, the growth of direct investments, mainly into oil and gas projects, has significantly increased. A number of multinational companies such as AES Corporation, Agip, Arco, British Gas, Central Asia Petroleum, Chevron, China
National Petroleum, Ispat, Mobil Oil, Philip Morris, Texaco, etc. have invested into Kazakhstan.

As of January 1, 2000 the deposits of the natural gas were estimated at 2.96 trillion cubic meters. In 1999 gas extraction has surpassed 8.3 billion cubic meters, mainly from the Mangystau and Karachaganak fields. At the same time the country was forced to import gas due to the lack of gas pipelines connecting Kazakh fields with main consumers in the south and north of the country. Kazakhstan exports crude gas to Russia and imports processed gas at a higher price, which contributes to the gas trade deficit. To eliminate this phenomenon, programmes on increasing industrial output to process natural gas and to expand the internal system of gas pipelines connecting the Karachaganak field with industrial hubs in the West and East, have been developed in 2000.

There are 3 refineries in the Republic of Kazakhstan - in Atyrau, Shymkent and Pavlodar with a total output of 18.6 million tons or 135,78 million barrels of oil per year. The Caspian Consortium was set up in July 1992 with a view on constructing 1500 km. oil pipeline to the Russian Black Sea port of Novorossiisk. The main Consortium participants are: Russia (24 per cent), Kazakhstan (19 per cent) and Oman (7 per cent). Among other shareholders are such big and well-known companies as Chevron, Lukoil, Shell, Agip, etc. The first construction phase of the pipeline will be finished by July 2001. The total yearly throughout of this pipeline component will be 28 million tons (204 million barrels) of oil. The second phase, which is scheduled to begin in November 2001 and to be completed within three years, provides for the reconstruction of the present system and construction of new facilities. After the completion of the second phase the oil pipeline throughout will increase to 67 million tons (or 490 million barrels) of oil per year. Since the conclusion of the Protocol on Caspian Consortium, Mobil Corporation has gained 50 per cent of the share of Kazakhstan in the TenghizChevron Co. The pipeline constriction will make it possible to increase the extraction on the Tenghiz field from 120000 to 700000 barrels.

104 Ibid.
per day. In June 1999 the members of the Caspian Consortium signed the Memorandum of Understanding on the pipeline construction to connect the Karachagnak field with the Caspian oil pipeline. The agreement envisages the receipt by Kazakhstan of approximately 80 per cent out of the share profit, including taxes and other payments into the budget, to be received during the period of concession and granting investments in the amount of US $ 280 million within three years starting 1999. To supplement direct investments into transportation, exploration and manufacturing, foreign investors have acquired large oil and gas enterprises. The government has sold 60 per cent shares of the Mangystaumunaigas to the Central Asia Petroleum (Indonesia) and 60 per cent at the Aktobe Munaigas to China National Petroleum.

Apart from oil and gas, Kazakhstan possesses significant deposits of other mineral products, which are utilized in the energy production. Kazakhstan ranks the tenth in the world according to the coal production. According to the estimates, the country to date has utilized less than 35 of its coal resources. Of great importance are uranium-mining deposits, exceeding 1 million tons. Only 469777 tonnes have been explored so far. Kazakhstan is rich in precious metals, for example, gold (more than 1000 tonnes).

Significant deposits of nonferrous metals are also available: lead (ranks the second in the world according to the deposits), zinc (the first position), copper (the fifth) and manganese (the third). Apart from this, foreign investment was made in such branches as energy, food processing, telecommunications and banking.

State Finances

The dynamics of revenue into the budget improved significantly. Growth of revenues into the budget of all levels in 2000 allowed introducing quality amendments in Law on Republic Budget for 2000. The maximum level of state budget deficit was reduced from 3 per cent to 2.7 per cent of GDP. In the beginning of 2000 the plan for revenues of the state budget was set at 481.6 billion Tenge. During the year this indicator was increased 18 times. It is estimated that the revenues of the state budget, under the continuing
trends of tax and non-tax collection, amounted to 600 billion Tenge. Tax revenues amount to more than 550 billion Tenge.

Considerable increases in budget revenues are explained by the favourable price conjuncture for main export positions, improvement in financial position of the majority of enterprises, as well as by the changes in tax legislation eliminating a number of taxes. Kazakhstan's tax system has been considerably reformed and streamlined during recent years. The introduction of monitoring procedures for the biggest taxpayers activity and improvement in tax administration played their own role in raising the revenues.

Changing Pattern of Capital Inflows in Kazakhstan

Kazakhstan has sizable current account deficits. It recorded 3.8 percent current account deficit of GDP in 1996. Kazakhstan with recently increasing current account deficit relies mainly on official flows from international financial institutions and bilateral donors for financing its deficits.

The liberalization of FDI policy regimes of Kazakhstan and establishment of the basic institutional infrastructure for functioning market economies had led to a noticeable increase in FDI inflows. Basically Kazakhstan attracted sizable FDI for its natural resources like oil and gas.

Kazakhstan gained access to borrowing from foreign banks at commercial terms. Recently, Kazakhstan was the first country among the Central Asian republics to gain access to the international bond markets by successfully issuing $200 million of three-year Eurobonds in December 1996, and $350 million of five year Eurobonds in October 1997.

With regard to portfolio investment inflows through the stock and security market, these so far have been insignificant in the Central Asian republics. The embryonic stage in Kazakhstan has already started operating though so far extremely thin. In Kazakhstan, a large volume of "blue chip" companies' shares may be put on sale in the Kazakhstan stock exchange early in 1998, with a total value estimated at $2.8 billion.
The policy makers of Kazakhstan should give attention to the current account deficits in which is partly caused by persistent budgetary deficits. Therefore, there is a need to develop a careful mix of policies, which would bring down fiscal deficits. Kazakhstan should increase revenue collection through both new tax measures and strengthening of the administrative machinery. They should do more vigorous efforts to enhance the sustainability of current account deficits by raising the share of FDI in total capital flows and side by side, to reduce the size of such deficit by increasing domestic savings rates and stimulating investment in export-oriented segments of the economies.

5.8 ENVIRONMENT

Now Kazakhstan is surviving in really unsafe existing and pronounced state of the environment problems. In the past, the territory of Kazakhstan was considered as a gigantic and wild. Even in recent times, people were unaware of anything except impressive figures indicating the ‘industrial might’ of the Republic, and were sometimes told that the panorama of smoking chimneys was ‘a joyous sight’. The environment in Kazakhstan is very vulnerable. Basically steppes, semi-deserts and deserts form the territory of the Republic. There exist unique inward-continental seas and lakes, such as the Caspian Sea, the Aral Sea, the Balkhash Lake, the Zaisan Lake, and the Alakol Lake. As a result of anthropogenic loads on the natural environment of Kazakhstan an ability to ensure future economic and social development has been violated practically on the entire territory of country.

The degradation of Kazakhstan environment can be largely attributed to inherent inefficiencies of a centrally planned economy, which placed emphasis on intensive oil extraction, coal and industrial development without adequate consideration for their environmental implications. Kazakhstan was the suitable ground for soviet nuclear test

site, space-vehicle launching ground and some industrial establishments without
environment taking into consideration.

Stretches of surface water, in particular, near urban and industrial centres show
high degree of contamination due to industrial effluents, mining slurries and inadequacy of
wastewater treatment in Kazakhstan.

Out Dated Technology and environment

Most of the enterprises of the processing and energy complexes have imperfect
technology, are outdated and physically worn out, that promotes an increase of harmful
emissions. In the early 1990s nearly 6 million tonnes of pollutants (50 percent- heat
power, 20 percent ferrous metallurgy, 13 percent - non-ferrous metallurgy, 4 percent -
chemistry and oil chemistry\textsuperscript{108}) were emitted in air annually (Figure 5.3).

Figure 5.3

The composition of emissions from the stationary sources of Kazakhstan in 1996
(thousand)

Source: http://www.grida.no/enrin/htmls/kazahst/soe/index.htm, State of environment of the Republic of
Kazakhstan

\textsuperscript{108} http://www.grida.no/enrin/htmls/kazahst/soe/index.htm, State of environment of the Republic of
Kazakhstan.
Areas of dangerous air pollution coincide with places of concentrated habitation. In Karagandy and Pavlodar oblasts there are respectively 10.5 and 7.7 tonnes for each inhabitant of emissions per annum.

As a result of activity of enterprises of the mining-metallurgical complex more than 20 billion tonnes of industrial waste have accumulated on the territory of Kazakhstan, with annual generation of nearly 1 billion tonnes. 95 percent out of the total volume of extracted ore fall into the waste. This waste normally exceeds toxic one and uneasy for storage. Annual volume of generation of toxic waste in the Republic forms 84.4 million, out of them 63 percent - waste of non-ferrous metallurgy. They are concentrated mainly in the following oblasts: Karagandy oblast - 29.4 percent, East-Kazakhstan oblast - 25.7 percent, Kostanai oblast - 17 percent, Pavlodar oblast - 14.6.


In the Karaganda industrial area, slag heaps take up enormous areas of fertile land. In the waste dumps, coal smoulders slowly, emitting 250,000 tonnes of carbon
dioxide and smoke into the atmosphere every year.\textsuperscript{109} This region is one of the worst in the former USSR for cardio-vascular illnesses, high blood pressure and lung disease. Besides the health indicators in Aktyubinsk are as poor as those in Karaganda. The Aktyubinsk's chemical plants, which make ferrous alloys and oil products produces over 50 percent of the polluting substances like: dust, gas and heavy metals drip into the soil, for which, plants, animals, and most seriously, people suffer. The concentrations of hydrogen sulphide and sulphurous gases are several times higher than the acceptable level, especially near the Tengiz oilfield. The pollution of the northern shore of the Caspian Sea and its tributaries, the rivers Ili, Emba and Ural, with oil products has resulted in mass deaths of waterfowl, illness in sea animals, and a sharp decrease in the numbers of sturgeon. It is also reflected in the health of people living in the region.\textsuperscript{110}

Oil and gas industry occupies the first place amongst branches of industry by volumes of investments. Despite this fact in the main regions of oil and gas extraction and oil refinery - in Atyrau and Mangystau oblasts, work is carried out with using backward technologies and outdated equipment that brings about accidents and leakages of oil. As a result the total area, occupied by oil pollution in West Kazakhstan, forms 194 thousand hectares, and the volume of spilt oil forms more than 5 million tonnes.\textsuperscript{111}

As a result of raising a level of the Caspian Sea more than 200 oil wells and oilfields became flooded, including the largest ones - Kalamkas and Karazhanbas that is a threat not only for biological diversity (in the Caspian Sea 90 percent of sturgeon fish of the world reserves, a great amount of ornithological fauna types, and Endemic - the Caspian seal are concentrated), as well as for the whole environmental system of the Caspian Sea. For the last 10 years commercial fish catch has reduced by 10 times.


\textsuperscript{110} Ibid, p.160.


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Industries establishments, which situated on the river Ili and its tributaries, affect the ecology of Lake Balkhash. Balkhash supplies 10,000 tonnes of high-quality fish products a year, which is more than one third of all the fish, caught in the waters of the Republic. However, the problem now is that how to conserve the Lake’s ecological and social significance of Kazakhstan today and what will be the situation of Lake Balkhash if the waters of Balkhash continue to be polluted with deadly poisons washed from the fields. If the copper smelting plant in the city of Balkhash continues to dump its effluent into the Lake, if the plan to reconstruct the delta of the river Ili goes ahead, what will be the fate of fishing industry? Already today, fish from Balkhash is dangerous to eat. In this sense, more care should be made of the water quality in the Syr Darya, because drinking water is taken from it to these days. The river permanently contains agents, which cause dysentery, typhoid fever, salmonellosis and hepatitis. There are also dangerous chemicals in the Syr Darya, such as DDT and hexachlorane. Using this water for the needs of the population is dangerous. All branches of industry, as well as agriculture, manufacture their products to improve people's material well being, but in the end such poor treatment of nature turns into a terrible disaster for people and for nature as a whole.

Basically, air pollution in Kazakhstan occurred by stationary sources and transportation. The major polluters are power companies’ generation, ferrous and non-ferrous metallurgical facilities, and automobiles. Kazakhstan lacks a proper system for the disposal of solid and hazardous industrial waste for which it creates problem for the people.

The situation in Shymkent is no better. Standards in a number of industrial enterprises do not obey the rules to the requirements of legislation on nature.

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conservation. In the south and south-east of Kazakhstan, there are a number of non-ferrous metallurgy plants. The copper-smelting factories of Dzhezkazgan, Balkhash and Ust-Kamenogorsk pollute the atmosphere with emissions of sulphur, carbon oxides and particulates. The existing cleaning equipment is out of date and does not work at full capacity. The Balkhash factory dumps some of its waste into Lake Balkhash, where fish are poisoned and die. This is also endangering human health.  

The former capital city is no exception to this pattern of environmental degradation. Emissions of harmful substances into Almaty's atmosphere from transport and stationary sources come to 303,800 tonnes a year, including 41,000 tonnes of solids: Almaty is surrounded by mountains, and ventilated only by mountain-valley winds, in other words, hardly at all. For this reason the problem of the pollution of the atmosphere and surrounding land with industrial wastes has deepened as the city has developed.

For twenty years Almaty's sky was blackened by Brick Factory Number 3, and for a long time, by the rubbish recycling plant, ADK; a combined heat and power (CHP) station was built, in violation of health standards, in a residential part of town; planting with trees and gardens was carried out in a haphazard and ignorant fashion. Imported ethylated petrol has been used for a long time; according to calculations by Swiss scientists, every litre of this petrol burned in a car releases 274-405 mg of lead bromide, which is harmful to human health. The city's people usually breathe air, which has come through the exhaust pipes of cars and factories.

According to data prepared by the Department for Control of the Use and Conservation of Atmospheric Air of the Kazakh SSR's State Committee for Nature, transport alone emitted 164,800 tonnes of harmful substances into the capital's atmosphere annually, and CHP Stations nos. 1 and 2 emitted over 4,000 tonnes of

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115 Aliya s. Beisenova "Environmental Problems in Kazakhstan" in Shirin Akiner, Tideman, Sander and Jon Hay (eds), Sustainable Development in Central Asia (Richmond, Great Britain: Curzon Press, 1998), p 160

116 Ibid, p. 162.

117 Ibid p.163.
harmful substances a year.\textsuperscript{118} There are several major industrial enterprises in the city. The tobacco processing plant is situated in the centre of the city. There are forty functioning cleaning installations, of which fourteen are in a state of disrepair.\textsuperscript{119} At the Asphaltobeton concrete factory, only 77.1 percent of harmful substances were removed from the flue gases. The Kirov car factory is also situated in the centre of the city: only 42 percent of its sources of harmful substances were equipped with cleaning devices. The furniture company Alma-Ata is releasing 500 tonnes of harmful substances a year into the atmosphere.

It is perfectly clear from these statistics that the most polluted areas of the city can be identified even without using instruments. These are: the districts near the CHP Stations, the airport, the railway stations also the streets where the private sector predominates and where traffic is most intense. For a long time, Prospekt Abaya was an exception in this respect, but now nothing differentiates it from the other busy thoroughfares of the city.

So, in environmental terms the city itself is very unsafe, and also has negative external effects for the surrounding area. Thus, for instance, dirty air leaves the city along Prospekt Lenina and reaches the mountains, where it melts the snow and ice and pushes back the snow line. Intensive melting of snow creates a danger of seasonal mountain torrents, and, due to the unstable tectonic situation (the Maloye Alma-Atinskoye ravine is situated on a tectonic cleft) this danger is increased many times. The action of dirty airs on the snow-line drives the whole spectrum of ecological zones up the mountain-sides.

Nature has the capacity to clean itself naturally; this self-cleansing continues throughout the year, but is most intensive in the warmer part of the year. Unfortunately, the quantity of industrial waste generated exceeds the possibilities of natural cleaning. A vital part is played in the self-cleaning process by vegetation. It has been calculated that 25ml of planted area is needed per inhabitant to restore the oxygen balance of a

\textsuperscript{118} Ibid.

\textsuperscript{119} Ibid p.164.
large city\textsuperscript{120}. But the 'green air filter' in the city only works in the summer; in winter the city's inhabitants undergo latent oxygen deprivation.

**Policies**

The environment policies were accompanied by pricing systems under which natural resources were under-valued and the environment as a whole treated as a free good. There was lack of sound environmental policies and regulations, realistic standards, and an environmental management system capable of enforcing these standards. Such policies have led to severe environmental consequences with increasingly adverse effects on the health of the population.

Martha Olcott has summarized the environmental problems in Central Asia candidly:

"... Fifty years of Soviet economic planning has left Central Asia with an acute water shortage and a general ecological crisis. Its environment is so contaminated (especially with defoliant, chemical fertilizers, and airborne salts from the Aral Sea) that much of the population suffers from environmentally induced or exasperated health problems"\textsuperscript{121}

As is often the case with ecological issues in the context of development policy, greater emphasis is given to economic issues and essentially in the case of the Caspian Sea; this means that ecological problems are overshadowed. The great efforts to revitalise the Central Asia oil industry are taking place in Azerbaijan, Turkmenistan and Kazakhstan. The existing offshore production has thus far been hazardous to the Sea ecology: offshore, some of the older oil platforms are in a dangerously dilapidated state and it is difficult to believe that the oily water in the Baku harbour is entirely the result of natural hydrocarbon seepages\textsuperscript{122}. Much hope is being pinned at present on the newer, western offshore extraction technologies and the Japanese transportation technologies to reduce the environmental hazards of offshore production. But the already existing infrastructure, constructed by the Soviets decades ago, is in such a bad shape that repairs may not suffice; replacement may become necessary. If that is indeed the case, then one has to deal with the

\textsuperscript{120} Ib\textit{bid} p.165.


\textsuperscript{122} Ib\textit{id}.
uncertainly that MNCs may not be willing in the end to invest the huge amounts of capital required to tear down the existing infrastructure and essentially finance the reconstruction of the central Asia's oil industry. But all the investors are concerned about the lack of transportation facilities for extracted oil, what is lacking not only in Kazakhstan but also in whole Central Asian republics.

So, Central Asia is in the midst of a major ecological crisis. Facing this crisis will have to be an integral part of any development strategy for Kazakhstan. Environmental clean-ups that are mere sideshows of the economic development process are unlikely to be sufficient.

5.9 ENVIRONMENTAL CLEAN UP AND PROTECTION HIGH ON THE CIS AGENDA

The World Bank is also working with its member countries to reverse serious environmental degradation. It has supported efforts to tackle this issue by helping governments to develop National Environmental Action Plans (NEAP), which emphasise sustainable policy changes and further institution building. In fiscal 1997, the NEAP for Kazakhstan was completed. The industrial development criteria for Kazakhstan will have to take account of ecological issues.

Intensive pollution of air, water and soil, degradation of the animal and vegetable world, and depletion of natural resources have resulted in destruction of ecosystems, desertification, and considerable losses of biological and landscape diversity, growth of population morbidity and mortality rate. Lowering of the population quality of life and unsustainable development of the Republic are the consequences of such changes. At the same time the government expenditures on environmental protection are the lowest ones in the Euro-Asian countries. They make up not more than 0.5 US$ per person per year.

The raw material resource policy of the nature use without taking into account the environmental and natural capacities of the territories was the main reason of the low efficiency of the nature use management system. A sharp reduction of financing environmental arrangements from the State budget took place. A radical change of the
property right system with regard to a large-scale privatisation makes carrying out environmental arrangements more difficult. If in the long-term perspective privatisation of enterprises opens opportunities for careful attitude to the resources and environmental protection, at the present time it becomes an additional source of uncertainty. Kazakhstan’s environmental problems are becoming ever more acute, and this process is encouraged by the narrow departmental approach to problems. The environmental situation can be improved by following remedies:

- Accelerated construction of the metro in cities
- Further introduction of gas heating systems
- Increasing the capacity of the public transport system
- Planting new woods, hedges and flower beds
- A ban on bringing ethylated petrol into the capital and other cities
- Economising on fuel by reducing automobile trips and implementing CNG (Compressed Natural Gas) vehicles in cities
- Widespread demolition of residential blocks
- Building new suburbs, taking into account the circulation of the lowest layers of air
- Preservation of the ravines of the Bolshaya and Malaya Alma-Atinskaya Rivers as areas of recreation, and the cessation of building development in them.

Any way society needs, more than anything else, reliable information about the ecological situation in every locality and region. Awareness the public will be more productive and fruitful to solve the problems.

Kazakhstan government should emphasis on environmental education for future teachers and students. It is essential to expand the Laboratory for the Conservation of Nature and the Ecology of Landscapes in the Department of Physical Geography and orient it towards problem solving.

**5.10 KAZAKHSTAN: SOCIAL SAFETY NET**

A successive industrialization, should keep intact the basic hypothesis that, economic development cannot be divorced from that of social development. It is the link with the
structure of wage relations that we may find the chief explanatory factor of the industrialization specific to each country; and the recent transformation of this link worldwide may explain the fast-growing speed of industrialization to new areas.

Adjustment operations in Kazakhstan are supporting measures to better target and issue of sustainability of transfers (particularly pensions). Rehabilitation loans were approved for Kazakhstan to assist in the redesign of more targeted transfer programmes and the provision of employment and retraining services to equip workers for change.

5.11 ROLE OF THE WORLD BANK

A pressing problem throughout much of Kazakhstan is to avoid the collapse of key social services previously provided by enterprises now in the process of downsizing or closure. Transforming these services to the care of local governments is essential. The financial assistance project has been given to transfer of social services from SOEs to local governments in five cities in Kazakhstan123. The project is financing the rehabilitation, as well as the incremental recurrent costs of critical health and pre-school facilities transferred from the SOEs.

The quality of basic health services in most of the states has been deteriorating alarmingly. In response to this crisis, the World Bank committed funds to help finance four basic health projects during the year; another five are under preparation. Most have components to strengthen maternal and child health care, public health and emergency care.

The World Bank also, as understanding of Kazakhstan and rapport with its clients have grown, is increasingly listening to, and seeking advice from non-governmental organizations (NGOs), community groups, local governments, public service providers trade unions, the academic community and the growing private sectors. Besides that, the World Bank during the past fiscal year provided incentives and financial support to workers in Kazakhstan.

Since NGOs can be an innovative and effective force in implementing social investment fund projects, the World Bank is supporting some cases.\textsuperscript{124} The important functions of social safety nets are providing support for those adversely affected by enterprise restructuring. This issue has been discussed in greater detail in chapter 4.

\textsuperscript{124} Ibid, p.73.