ECONOMIC ANNALS, Volume LIV No. 182 / July – September 2009
UDC: 3.33 ISSN: 0013-3264

COMMUNICATIONS

*György Simon**

DOI:10.2298/EKA0982067S

MARKET REFORMS AND "ECONOMIC MIRACLE" IN KAZAKHSTAN

ABSTRACT: *Kazakhstan's post-communist transition is characterised by gradual changes under the conditions of a limited democracy. These changes have embraced extensive price and trade liberalisation, and resolutely promoted privatisation and the building of market institutions, although structural reforms and the struggle against corruption have made little progress. The country's financial independence was established with the introduction of the tenge in 1993. Transformational recession reached its maximum in 1995, since when only the 1998 Asian and Russian crises have interrupted continuous growth. However, the Kazakh economy is very sensitive to fluctuations in world energy and mineral prices, as the extractive industries, primarily oil and gas, have a crucial role in its development.*

KEY WORDS: *transition countries, reform policies, economic growth*

JEL CLASSIFICATION: P20, P30, O53, E60, O40

* Institute of Economics, Hungarian Academy of Sciences

1. INTRODUCTION

Kazakhstan is a key state in Central Asia. Security and energy issues coincide to make it a place of vital interest to Russia, China, the United States and the European Union. This former Soviet republic declared its sovereignty on 25 October 1990 and gained independence on 16 December 1991. On 21 December 1991, Kazakhstan acceded to the Commonwealth of Independent States (CIS), second only to Russia in terms of territory. The Republic of Kazakhstan was admitted to the United Nations on 2 March 1992, renouncing its nuclear power status in May of that year, with complete disarmament by April 1996. In July 1992, Kazakhstan became a member of the International Monetary Fund (IMF), World Bank and European Bank for Reconstruction and Development (EBRD). Within the framework of regional cooperation, it joined in November 1992 the Economic Cooperation Organisation (ECO) established in 1985 by Turkey, Iran and Pakistan. In January 1994, it was admitted to the Asian Development Bank. An agreement on the leasing of Baikonur cosmodrome to Russia was reached in Moscow in March 1994, and was extended until 2050 in January 2004. On 8 November 1997, Akmola (formerly Tselinograd) was inaugurated as the country's new capital. On 6 May 1998, Akmola's name was changed to Astana and it was officially opened on 10 June.

In 2005, Kazakhstan's share of the world's proven recoverable reserves amounted to 1.9% of crude oil and 1.7% of natural gas. Within the CIS, this share comprises 11.8 and 5.0%, and within the former Soviet Central Asia, 20.9 and 29.4%, respectively (calculated from UN, 2008: 556–561). The economic transformation of Kazakhstan has been carried out through gradual reforms under the conditions of a limited democracy, similar to the other newly independent states of Central Asia. Given this framework, we first outline the main directions of market reforms in Kazakhstan and then review the country's economic development with special attention to its general characteristics, the nature of structural changes and external economic links.

2. MAIN DIRECTIONS OF MARKET REFORMS

There is a consensus in economic literature that the first phase of transition should be directed towards the creation of conditions essential to the functioning of a market economy. In this phase, macroeconomic stabilisation, price and trade liberalisation and institutional changes covering, inter alia, the financial sector, as well as privatisation, i.e. the restructuring of property rights, are carried out.

As a consequence, the transformational crisis is followed by sustainable growth as conditions for further development emerge. In the second phase, the problems of reforming the major distributive systems (health care, education, pension and welfare systems and public administration) and creating a more competitive infrastructure (the energy sector, telecommunications) must be solved through market building after deregulation (Bara and Szabó, 2004: 342–343, 362–378).

The first reform measures in Kazakhstan had already been taken during the perestroika, when a two-tier banking system consisting of a central bank and commercial banks, was introduced in 1987, and workers in state-owned enterprises (SOEs) got a say in matters of employment, wage policy and management the following year. In April 1990, Nursultan Nazarbayev was inaugurated as president of the republic. A law on foreign direct investment was passed in January 1991 and amended in April 1992 which also regulated the operation of customs-free areas. In June 1991, a law on securities and stock exchange was approved, and Kazakhstan became the first Soviet republic to launch a privatisation programme, which covered up to half of small- and medium-sized enterprises (SMEs). Flat coupons were issued to facilitate the privatisation of housing, starting in 1992. The spontaneous takeover of public property by enterprise employees and management was legalised, and, in the course of mass privatisation, most shops, trade and service establishments were transferred into private hands. In January 1992, a partial price liberalisation was enacted. In June 1992 the rights for the transport of Tengiz oil were awarded to the Caspian Pipeline Consortium (CPC), which consisted of Russia's Transneft (the Soviet-era pipeline operator), Kazakhstan's government and an Omani group. The oilfield itself was taken over by Chevron of the USA, which formed a fifty-fifty joint venture with the Kazakh government in 1993 (Fergus and Jandosova, 2004: 238; Olcott, 2002: 150; Peck, 2004: 61; Tarjányi, 2008: 3–4).

In January 1993, a constitution was adopted that widened presidential powers. In April and June the Supreme Soviet approved a law on banks and a law on the operation of the banking system, respectively. In July the beginning of the second phase of privatisation, embracing medium and large enterprises, was heralded by the appearance of the first private investment funds, in which citizens deposited the vouchers distributed to them by the government. In November Kazakhstan left the rouble zone, having rejected the Kremlin's demand to turn over its gold reserves to Russia, and the tenge became the country's sole legal tender (1 tenge was then equal to 500 roubles). However, its convertibility was limited to the foreign trade transactions of domestic enterprises. The stabilisation programme introduced with the tenge was supported by the IMF, while the government strived to control inflation (Odling-Smee and Pastor, 2001: 9–10; Olcott, 2002: 132–133). In the oil and gas industry, British Petroleum and other international companies signed Production Sharing Agreements (PSAs) with the Kazakh government. The first joint venture, Tengizchevronoil, was established in 1993, followed by Karachaganak in 1997 and the Kashagan projects in 2001 (Franke et al., 2009: 124).

In April 1994, the first treasury bills were issued and a presidential decree allowed the market sale of rights connected to landed property, with the exception of absolute ownership. From that month, shares in medium-sized enterprises were offered at voucher auctions. It was stipulated that 51% of shares were to be auctioned, 10% were to be given to workers and staff and 39% went to the government, which formed sectoral holding companies to manage these residual stakes (Kalyuzhnova, 1998: 75–76). Large enterprises were considered as individual projects to which a case-by-case approach was applied. In June a competition law was adopted and an Anti-Monopoly Committee set up. In October and November the government liberalised the majority of prices and terminated the subsidising of bread and other bakery products. Thereafter, only heating and lighting charges remained under government regulation. In December the prices of crude oil and petroleum products were also liberalised. In addition, the monopoly rights of state trading organisations and compulsory deliveries of grain to the state were repealed. At the same time, a new foreign investment law was enacted, providing some guarantees to investors against changes in the legal system (Dosmukhamedov, 2002: 101–117; Olcott, 2002: 136–137; Peck, 2004: 60–61).

From January 1995, the government prohibited the use of foreign exchange in domestic transactions and in February abolished export quotas for crude oil, the majority of trade permits and exemptions from paying import and export duties. In April the limitations on the profit-margins of oil refineries were lifted and a law concerning the central bank was adopted. Also, a bankruptcy law was approved, which contained, inter alia, a provision for out-of-court liquidation of insolvent enterprises. In June state orders were abolished in agriculture and, a month later, barter trade was prohibited. The tax code, enacted in July, simplified and modernised the tax system by reducing the number and rates of taxes as well as tax allowances, and introduced a value added tax (VAT). The simultaneously enacted customs code had already been adjusted to harmonize with the liberalised trade conditions. In August a new constitution was adopted, further increasing presidential powers at the expense of the parliament, consisting of a Mazhilis and Senate. In the same month, the Soviet-period obligation to surrender 50% of export incomes was repealed. New regulations were introduced which distinguished between depositary and investment banks. In December telecommunications and privatisation laws were approved, and a government decree on land use came into force.

In March 1996, the government declared that small-scale privatisation in Kazakhstan was over, with 93% of small enterprises in industry and agriculture in private hands. The last voucher auction was held in June and then began the third phase of privatisation embodied in case-by-case cash sales to strategic investors. However, the whole process of privatisation was from the beginning accompanied by a high degree of corruption (Olcott, 2002: 138–139). In July the tenge became totally convertible. In November a State Investment Committee was set up to organise tenders and supervise the negotiation of investment terms (taxes, tax relief and royalty payments) with foreign companies (Ibid.: 147). In December a treaty on the CPC was signed, which opened the way to building the Atyrau-Novorossiysk pipeline connecting the Tengiz oil field to the Black Sea, which was completed in 2001 (Fergus and Jandosova, 2004: 240). Between 1994 and 1997, most large enterprises were sold in whole or in part at least once, and some were sold several times by the Kazakh government (Peck, 2004: 70). In January 1997, internationally acceptable rules of accounting and a new banking law were enacted. In February a law on state support of foreign direct investment (FDI) was adopted, which envisaged a separate state committee to determine tax allowances (Dosmukhamedov, 2002: 117–120; Olcott, 2002: 146). In June a pension law was passed. In September the Kazakh Stock Exchange (KASE) was officially opened and began trading the following month.

In January 1998, Kazakhstan became the first CIS country to enter the second phase of transition by launching comprehensive pension reform. This reform obliged employees to pay into personal pension accounts 10% of their income, to be reduced to 5% within ten years, in addition to the previous 15% contribution. The obligatory contribution could be supplemented by voluntary savings and paid to the State Accumulation Pension Fund (SAPF) or private funds (Palmer, 2007: 7). In April the Turan-Alem Bank was privatised, but by summer, under the impact of the Asian crisis, Kazakh borrowers, especially banks, had become practically isolated from the international financial markets. Moreover, the Russian crisis of August 1998 led to a large decrease in Kazakhstan's CIS exports and foreign exchange reserves. Initially, the Kazakh financial authorities tried to maintain the pre-crisis nominal exchange rate of the tenge. While easing fiscal policy, the National Bank of Kazakhstan (NBK) introduced increased capital controls and started large-scale but vain currency market interventions. In September the parliament adopted a law on natural monopolies, ensuring a general regulatory framework for the infrastructure sector. In December a government programme supporting SMEs was approved, envisaging simplified registration and taxation as well as an efficient infrastructure.

In January 1999, a mutually agreed six-month ban was imposed on import of certain products from Russia. In the course of treasury reform, all extra-budgetary funds were integrated into the central budget, while the fiscal responsibility of the centre and regions was redefined. The efficiency of public procurement and the financial transparency of large taxpayers were improved (see Ramamurthy and Tanberg, 2002). In April, parallel to the devaluation of the tenge, the obligatory surrender of 50% of export incomes was reintroduced but remained in force only until November and did not apply to foreign investors who appeared after August 1995. The government tightened its monetary policy and, with IMF assistance, took more vigorous steps towards fiscal consolidation. In May 1999, a new telecommunications law was passed, which, as with the energy law approved in July of that year, strengthened the private sector.

The Russian financial crisis almost totally drained the government securities market, where demand recovered only in early 2000, thanks largely to the pension funds. In August 2000, the minimum capital requirement for private pension funds was doubled, bringing about a forced merger of 2 of the 15 largest funds (see Pastor and Damjanovic, 2001). In the same month, the National Oil Fund of the Republic of Kazakhstan (NOFRK) was established to achieve fiscal stabilisation and safeguard national wealth for future generations. NOFRK would invest mainly in safe foreign assets and use its resources for mitigating the effect of oil price fluctuations and supporting strategic public investments. Government efforts to diversify the economy were chiefly based on subsidies granted through the Kazakhstan Development Bank (KDB), set up in July 2001, and selective, import-substituting trade policy measures.

The merger of Kaztransoil and Kaztransgas in April 2001 unified the oil and gas transport network within the scope of Kaztransneftegas, the state holding company. In July parliament introduced a new, simplified tax code and passed a railway law. The former reduced employers' social security contributions from 26 to 21% and VAT from 20 to 16%. The railway law aimed to create conditions for market competition through total privatisation of the transport of goods and passengers while leaving the infrastructure in public hands (see Kazhegeldin, 2002).

In January 2002, a social assistance law was adopted that shifted the focus from the support of specific vulnerable groups to means-tested transfers to the poor. In February, through the merger of Kazakhoil and Kaztransneftegas, the Kazmunaigas (KMG) state oil and gas company was established. In April the government approved a plan for the modernisation of telecommunications to create the conditions for a competitive market in fixed-line telephone services. In June the parliament passed a law on investment which replaced the 1994 foreign investment law. This new law made incentives available to both domestic and foreign firms and partially abolished the earlier protection of foreign investors from legislative changes.

In January 2003, an amended pension security law came into effect, which was intended to: (1) harmonise the regulations governing the SAPF and private pension funds; (2) extend the state guarantee of principal contributions to the SAPF to all pension funds; (3) open the pension fund industry to non-resident participation (subject to certain global restrictions); (4) impose ceilings on the size of management fees and move the basis of such fees from the value of assets under management to a proportion of the return generated; and (5) remove the separation between pension funds and asset management (IMF, 2003: 67). A company law enacted in May increased the minimum capital requirement for joint-stock companies (JSCs) tenfold to approximately USD 290,000. Simultaneously, a comprehensive strategy for economic diversification was adopted which defined as priority areas the high value-added sectors connected to oil extraction (e.g. aerospace industry, nuclear and information technology) and agriculture. To support diversification and investment in the non-oil sector, a Kazakhstan Investment Fund, a Science Foundation, an Innovation Fund and an Export Insurance Corporation were set up in addition to the already existing KDB. In June a land code came into force, which legalised the privatisation of arable land by Kazakh residents (see Braner, 2007).

In February 2004, the government approved a restructuring programme for the national railway company, Kazakhstan Temir Zholy (KTZ). In April, two oil and gas exploration and production companies – Uzenmunaigas and Embamunaigas – were merged into a new subsidiary company, KMG Exploration and Production. In July the railway law was amended and the KTZ was split into several JSCs. In the same month, a Committee for the Protection of Competition was set up under the Ministry of Industry and Trade. After the enactment of a law on the electric power industry in July, regional electricity companies began separating generation and supply activities. New supply companies also entered the market following liberalisation. In December the regulating responsibility for small natural monopolies was transferred to local authorities. Following these changes, the responsibilities of the Agency for the Regulation of Natural Monopolies (AREM) were revised to exclude competition enforcement and regulatory authority over small monopolies operating at the municipal level (see Cummings, 2005).

Growing resource nationalism led the government to renegotiate the deals in the oil and gas sector concluded in the early 1990s when the country was weak and vulnerable. Thus, the law on PSAs relating to operations at sea, effective from July 2005, strengthened the position of KMG which was to receive an automatic stake of at least 50% as a contractor in all PSAs related to the Caspian or Aral Seas. The local content rule for investments in the sector was also tightened, granting a competitive advantage to domestic firms (see Kaiser and Pulsipher, 2007). The telecommunications market was fully liberalised from January 2006 when provisions in the law on communications lifting the exclusivity of Kazakhtelecom, the dominant majority state-owned operator, came into effect. Mobile and fixed-line service providers became free to choose any operator for interconnection agreements to carry all types of calls, including international traffic. In March Kazyna, the Sustainable Development Fund, was established to manage existing state-owned development institutions such as the KDB. In July a new competition law, which raised the threshold of asset and share acquisitions requiring approval from the competition authorities, came into effect. This law defined as dominant a share in the relevant market exceeding 35% and relieved SMEs from regulatory approval. In the same month, a new law on concessions was adopted. It improved the regulatory environment for natural monopolies, with companies no longer required to seek approval for various cost components from designated ministries and agencies. Companies were also permitted greater flexibility in applying for tariff increases.

In March 2007, Kazakhstan introduced a transparent index for the inter-bank market Kazprime to enhance liquidity and function as an anchor for loans and bills with floating interest rates, for mortgage financing and for pricing interest derivatives. In May the constitution was amended to strengthen the powers of the Mazhilis and the local maslikhats, supposedly shifting the republic from a presidential to a presidential-parliamentary system with greater local autonomy (Ziegler, 2008: 20, 26). In July the Alliance Bank placed 20% of its shares on the London Stock Exchange as global depositary vouchers. In February 2008, it was announced that PSAs would no longer be negotiated but all such agreements existing between Kazakhstan and foreign entities would be honoured. The rule would only apply to new investors (Lillis, 2008). In May the Kazakh government introduced a USD 15 per barrel export charge on crude oil, and in June it acquired a 15% share of the Kazakhmys ore mining and metallurgical corporation. In July the KMG acquired 51% of Mangistaumunaigas (MMG) from Indonesia's Central Asia Petroleum, enabling the government to influence the dynamics of domestic gas prices. In the course of further reforms, a new tax code was adopted in January 2009, with a decreased corporate profits tax, a single social tax and a new tax on subsurface management from which oil companies with PSAs would be exempted (see Tarjányi, 2008; Ziegler, 2008; Franke et al., 2009).

3. ECONOMIC DEVELOPMENT IN KAZAKHSTAN

a. General characteristics

How can the realisation of economic policy objectives be characterised in the period of transformation in Kazakhstan? For this purpose, different indices can be constructed using the basic macro indicators. Negative or zero values are favourable, while positive ones are unfavourable (Veress, 1997: 239–240). The total index for Kazakhstan can be calculated for the period 1991–2008. According to Table 1, the economic situation as measured by this index was initially very bad, but subsequently improved greatly as the transformational recession of 1991–1995 and the hyperinflation of 1992–1994 were surmounted, and the state budget and current account became more balanced. The beginning of transition brought about a rapid increase in prices which reached a peak with the hyperinflation of 1994 as Kazakhstan paid the price for tardiness in introducing the tenge. Thereafter, a tighter monetary and fiscal policy curbed inflation and stabilised the national currency. In the period following the Russian crisis of 1998, which had a negative impact on Kazakhstan, economic growth has increasingly been driven by an expanding oil industry, with renewal favourably impacting the misery and unpopularity indices.

Table 1. Calculated macro indices of Kazakhstan between 1991 and 2008

(average of annual values, per cent)

Year	Inflation: consumer price index	Unem-ployment rate*	Misery Index	Real GDP	Unpop-ularity index	General govern-ment	Current account	Disequi-librium index	Total
						balance in percentage of GDP			
	a	*b*	*c* (*a* + *b*)	*d*	*e* (*a*–3*d*)	*f*	*g*	*h* –(*f*+2*g*)	(*c*+*e*+*h*)
1991	78.8	0.6	79.4	-11.0	111.8	-7.9	-0.9	9.7	200.9
1992	1381.0	2.3	1383.3	-5.3	1396.9	-7.3	-25.0	57.3	2837.5
1993	1662.3	3.4	1665.7	-9.2	1689.9	-4.1	-7.8	19.7	3375.3
1994	1892.0	7.5	1899.5	-12.6	1929.8	-7.4	-7.6	22.6	3851.9
1995	176.3	11.0	187.3	-8.2	200.9	-3.4	-1.3	6.0	394.2
1996	39.1	13.0	52.1	0.5	37.6	-5.3	-3.6	12.5	102.2
1997	17.4	13.0	30.4	1.7	12.3	-7.0	-3.6	14.2	56.9
1998	7.1	13.1	20.2	-1.9	12.8	-8.0	-5.5	19.0	52.0
1999	8.3	13.5	21.8	2.7	0.2	-5.2	-1.4	8.0	30.0
2000	13.2	12.8	26.0	9.8	-16.2	-1.0	2.0	-3.0	6.8
2001	8.4	10.4	18.8	13.5	-32.1	1.8	-6.3	10.8	-2.5
2002	5.9	9.3	15.2	9.8	-23.5	1.0	-4.2	7.4	-0.9
2003	6.4	8.8	15.2	9.3	-21.5	2.7	-0.9	-0.9	-7.2
2004	6.9	8.4	15.3	9.6	-21.9	2.5	1.1	4.7	-1.9
2005	7.6	8.1	15.7	9.7	-21.5	5.8	-1.9	-2.0	-7.8
2006	8.6	7.8	16.4	10.7	-23.5	7.2	-2.3	-2.6	-9.7
2007	10.8	7.3	18.1	8.9	-15.9	5.2	-7.0	8.8	11.0
2008	17.0	6.6	23.6	3.2	7.4	6.7	3.8	-14.3	16.7

* Total unemployment.

Sources: Статистический ежегодник Казахстана, Агентство Республики Казахстан по статистике, Алматы/Астана; Transition Report, EBRD, London; Yearbook of Labour Statistics, ILO, Geneva, various volumes.

To ensure the population benefited from recent growth, the government has reshaped the structure of budget expenditures, especially in the social security sphere, and given a high priority to the task of economic diversification and stimulation of non-oil activities. The unemployment rate increased 11 times between 1991 and 2008, reaching a peak in 1999 with a 22.5-fold expansion. The main driver for this was the dissolution of the rouble zone in 1992–1995, which led to a rapid and nearly complete collapse of cross-border trade, crippling hundreds of interconnected industrial enterprises and making thousand of workers redundant in the process. Conversely, the transitional crisis allowed the country to devise its own economic policy and gradually substitute cash transactions for barter trade (Odling-Smee and Pastor, 2001: 4, 10; Olcott, 2002: 133).

Table 2. Average annual change rate of GDP in the CIS

(per cent)

Year	AM	AZ	BY	GE	*KZ*	KY	MD	RU	TJ	TM	UA	UZ	CIS
1991	-11.6	-0.6	-1.4	-21.1	*-11.0*	-7.9	-17.5	-5.0	-8.5	-4.7	-8.7	-0.5	-6.1
1992	-41.8	-22.6	-9.6	-44.9	*-5.3*	-13.8	-29.0	-14.5	-32.3	-5.3	-9.9	-11.1	-13.8
1993	-8.8	-23.1	-7.5	-29.2	*-9.2*	-15.5	-1.2	-8.9	-16.3	-10.0	-14.2	-2.3	-10.1
1994	5.5	-19.7	-11.6	-10.4	*-12.6*	-20.1	-31.0	-12.7	-21.3	-17.3	-22.9	-5.2	-14.5
1995	6.9	-11.8	-10.4	2.6	*-8.2*	-5.4	-1.4	-4.1	-12.4	-7.2	-12.2	-0.9	-5.8
1996	5.9	1.3	2.8	11.2	*0.5*	7.1	-5.9	-3.6	-16.7	-6.7	-10.0	1.7	-3.7
1997	3.3	5.8	11.4	10.5	*1.7*	5.9	1.6	1.4	1.7	-11.3	-3.0	5.2	1.4
1998	7.3	10.0	8.4	3.1	*-1.9*	2.1	-6.5	-5.3	5.3	6.7	-1.9	4.3	-3.0
1999	3.3	7.4	3.4	2.9	*2.7*	3.7	-3.4	6.4	3.7	16.5	-0.2	4.3	5.1
2000	5.9	11.1	5.8	1.8	*9.8*	5.4	2.1	10.0	8.3	18.6	5.9	3.8	8.9
2001	9.6	9.9	4.7	4.8	*13.5*	5.3	6.1	5.1	9.6	20.4	9.2	4.2	6.4
2002	13.2	10.6	5.0	5.5	*9.8*	0.0	7.8	4.7	10.8	15.8	5.2	4.0	5.4
2003	14.0	11.2	7.0	11.1	*9.3*	7.0	6.6	7.3	11.0	17.1	9.6	4.4	7.9
2004	10.5	10.2	11.4	5.9	*9.6*	7.0	7.4	7.2	10.3	14.7	12.1	7.7	8.4
2005	13.9	26.4	9.4	9.6	*9.7*	-0.2	7.5	6.4	6.7	13.0	2.6	7.0	6.8
2006	13.3	34.5	9.9	9.4	*10.7*	2.7	4.0	6.7	7.0	11.4	7.1	7.3	7.9
2007	13.8	25.0	8.2	12.4	*8.9*	8.2	3.0	8.1	7.8	11.6	7.3	9.5	8.7
2008	6.8	10.8	10.0	3.5	*3.2*	7.6	6.5	5.6	7.9	10.8	2.1	8.0	5.6

Note. Here and below, AM = Armenia, AZ = Azerbaijan, BY = Belarus, GE = Georgia, KZ = Kazakhstan, KY = Kyrgyzstan, MD = Moldova, RU = Russia, TJ = Tajikistan, TM = Turkmenistan, UA = Ukraine, UZ = Uzbekistan, CIS = Commonwealth of Independent States.

Sources: CIS STAT; IMF; Transition Report, various volumes; Heston et al. (2006).

In 2008, real gross domestic product (GDP) in the CIS made up 110% of the 1990 level, in contrast to 56% in 1998. In most countries, 2008 marks the end of the reconstruction period.[1] In Kazakhstan, the given indicator reached 141%, compared to 222% in Turkmenistan, 207% in Azerbaijan, 167% in Armenia, 166% in Belarus, 162% in Uzbekistan, 110% in Russia, 96% in Kyrgyzstan 73% in the Ukraine, 71% in Tajikistan, 68% in Georgia and 56% in Moldova. Kazakhstan passed the nadir of transitional downturn in 1995 when its GDP fell back to 61% of the 1990 level, in comparison with Uzbekistan's 81% (Table 2). These and other data show that the Kazakh economy's performance has not

1 The notion of a reconstruction period is also used in economic literature in another sense. Ferenc Jánossy defines it not as the interval between the nadir of recession and a repeated achievement of the peak of the pre-crisis period but as the time elapsing between the lowest point and the return to the pre-crisis trend. In this interpretation, the reconstruction period in the CIS has not yet come to an end (Jánossy, 1966: 19).

been better than that of its most serious Central Asian rival despite the fact that the Nazarbayev leadership followed a more aggressive reform strategy (see Alam and Banerji, 2000). In 1991–2008, the average annual rate of economic growth amounted to 1.9% in Kazakhstan, 4.5% in Turkmenistan, 4.1% in Azerbaijan, 2.9% in Armenia and Belarus, 2.7% in Uzbekistan and 0.5% in Russia and the total CIS. However, Kazakhstan shows outstandingly rapid growth of 8.7% in the period 1999–2008, compared to 4.0% for the world economy (calculated from Table 2 and IMF, World Economic Outlook [WEO] Database). This permits us to speak of a *Kazakh "economic miracle"*. This phenomenon had both external and internal causes. Externally, it was mainly based on the increased demand for the country's hydrocarbon and mineral exports. Internally, the decisive factors were political and economic stability, an increase in domestic demand driven by rising living standards and some improvements in the investment climate (Arystanbekov, 2006: 133).

The GDP per inhabitant in 2005 was 7,358 euros at purchasing power parity (PPP) in Kazakhstan, which comprises 32% of the average level of the EU-25, and compares to 10,033 euros (43%) in Russia and 14392 euros (62%) in Hungary (Eurostat, 2008: 23, 45).

What characterises the efficiency of the Kazakh economy? In the period 1991–2007, among the main production factors of Kazakhstan, fixed assets expanded at 3.0%, whereas employment contracted at 0.3% per annum. The growth rate of fixed assets was greater than that of GDP, which amounted to only 1.9%. In the same period, a 2.2% increase in labour productivity ensured the total growth of GDP, compensating for the impact of employment contraction. However, capital intensity increased more rapidly, at a rate of 3.3% per annum, which led to a 1.1% fall in capital productivity (Table 3).

In 1997, the implementation of the *Kazakhstan 2030* long-term economic development programme began with the stated goal of making the country one of the fifty most competitive economies in the world. Kazakhstan is a leader in terms of political, economic and social reforms and its economic weight[2] makes it a role model for other Central Asian countries (European Community, 2007: 7, 44–46).

2 Kazakhstan's share of former Soviet Central Asia's GDP at PPP declined from 59.8% in 1992 to 56.1% in 2000 but then repeatedly reached its 1992 level in 2007 (calculated from: IMF, WEO Database).

Table 3. Main indicators of economic efficiency in Kazakhstan

(average annual change, per cent)

Year	GDP* *Y*	Fixed assets* *K*	Employment *L*	Labour productivity *Y/L*	Capital intensity *K/L*	Capital productivity *Y/K*
1991	-11.0	3.6	-3.8	-7.4	7.7	-14.0
1992	-5.3	0.5	-1.8	-3.6	2.3	-5.8
1993	-9.2	-3.9	-8.1	-1.2	4.6	-5.6
1994	-12.6	-1.1	-5.5	-7.5	4.6	-11.6
1995	-8.2	2.2	-0.5	-7.7	2.7	-10.0
1996	0.5	0.3	-0.5	1.0	0.8	0.0
1997	1.7	-0.6	-0.7	2.4	0.1	2.5
1998	-1.9	-0.4	-5.3	3.6	5.2	-1.7
1999	2.7	0.8	-0.4	3.1	1.1	2.0
2000	9.8	1.6	1.6	8.1	0.1	8.2
2001	13.5	3.3	8.0	5.1	-4.3	9.8
2002	9.8	5.5	0.1	9.6	5.3	4.1
2003	9.3	5.8	4.1	5.0	1.6	3.3
2004	9.6	6.6	2.8	6.6	3.7	2.8
2005	9.7	8.0	1.1	8.5	6.8	1.5
2006	10.7	10.4	2.0	8.5	8.3	0.4
2007	8.9	10.4	3.1	5.6	7.2	-1.4

* At constant prices of 2000.

Calculated from: Статистический ежегодник Казахстана, Агентство Республики Казахстан по статистике, Алматы/Астана, various volumes.

Table 4. Dynamics of Kazakhstan's GDP, investment, exports, exchange rate and the world oil price

(average annual change, per cent)

Indicator	1991–2007	1991–1998	1999–2007
GDP	1.9	-5.9	9.3
Investment in fixed assets	2.1	-19.1	25.4
Exports of goods and services	1.8	-5.5	8.7
Exchange rate: tenge/USD*	6.46**	8.49***	4.39
World oil price (WEO)	6.9	-6.8	20.7

* Average ratio of actual and PPP exchange rates. - ** 1993–2007. - *** 1993–1998.

Calculated from: Статистический ежегодник Казахстана; Transition Report, various volumes; IMF, World Economic Outlook Database; Heston et al. (2006).

A majority of the current specialist literature considers investment- and export-driven economic development to be most efficient and, similarly, economic policies that promote growth in investment and exports surpassing that of GDP (Erdős, 2006: 26). In Kazakhstan's case, the situation is complicated by the transformational recession of the 1990s (1991–1998) when, as already discussed, GDP greatly declined. As seen in Table 4, fixed investments in this period decreased 3.2 times more rapidly than the volume of GDP, while exports fell back somewhat more slowly than production. From this, it can be concluded that in the period at issue investment guidance worked with a negative sign, which is economically understandable if we remember the Keynesian multiplier.. The whole process was to a certain extent an inevitable correction, because of an excessive development of the defence-industrial complex in the Soviet era. In the period after 1998, investment did drive economic growth, but export orientation was insufficiently strong. The growth of the Kazakh economy has been greatly influenced by the world price of crude oil and associated natural gas, the country's major exports. The world oil price in 1991–1998 was unfavourable for Kazakhstan, but after 1998 the situation radically changed. Thus, it first retarded and then stimulated economic growth. The tenge's simultaneous appreciation, accompanied by rapid productivity growth, encouraged Kazakh enterprises to reduce their costs.

b. Structural changes

The breakdown of the Soviet Union in 1991 resulted in the disintegration of the single national economic complex, with the disruption of long-established production and technological relations among the former union republics. Therefore, when Kazakhstan became an independent state, the former buyers of its production became separate countries sheltering behind high tariff walls. The change in economic environment required major adjustments to world market prices and the implementation of structural reforms.

Table 5. The final use of GDP in Kazakhstan

(at current prices, per cent)

Year	Final consumption expenditure, of which:			Gross fixed capital formation	Changes in inventories	Exports (+)	Imports (–)	Statistical discrepancy	Gross domestic product
	Households	General government	NPISH*			of goods and services			
1990	63.4	12.4	3.7	39.0	7.7	7.8	30.5	-3.5	100.0
1991	65.5	14.5	2.9	27.2	-3.5	28.5	44.6	9.5	100.0
1992	58.2	11.5	2.6	27.3	0.4	77.0	89.5	12.5	100.0
1993	68.2	13.9	2.7	27.9	-7.9	37.9	46.7	4.0	100.0
1994	74.7	10.7	2.9	26.1	2.6	37.1	47.1	-7.0	100.0
1995	69.6	13.6	1.5	23.0	0.2	39.0	43.5	-3.4	100.0
1996	66.3	12.9	1.0	17.2	-1.1	35.3	36.0	4.4	100.0
1997	69.9	12.4	0.6	16.3	-0.7	34.9	37.4	4.0	100.0
1998	72.8	10.8	0.5	15.7	0.1	30.3	34.9	4.7	100.0
1999	71.7	11.6	0.7	16.2	1.5	42.5	40.1	-4.1	100.0
2000	61.1	12.1	0.8	17.3	0.8	56.6	49.1	0.4	100.0
2001	56.9	13.4	1.0	23.7	3.2	45.9	47.0	2.9	100.0
2002	52.8	11.6	1.8	24.0	3.3	47.0	47.0	6.5	100.0
2003	52.8	11.3	1.7	23.0	2.6	48.4	43.0	3.2	100.0
2004	52.1	11.6	1.5	25.1	1.2	52.5	43.9	-0.1	100.0
2005	48.6	11.2	1.3	28.0	3.0	53.5	44.7	-0.9	100.0
2006	44.5	10.2	1.2	30.2	3.7	51.2	40.5	-0.5	100.0
2007	43.9	11.1	1.2	30.0	5.5	49.4	42.7	1.6	100.0

* Non-profit institutions serving households.

Source: Agency of Statistics (2008: 87–88).

In the course of transition to a market economy, significant changes have happened both on the expenditure and production sides of Kazakhstan's GDP. On the expenditure side, the use of GDP between 1990 and 1998 exceeded production, but since 1999, the reverse has mostly been true as the country became a net exporter with a high degree of economic openness. The rate of accumulation declined sharply from 46.7% in 1990 to 15.6% in 1997 but then climbed back to 35.5% in 2007. At the same time, the relative weight of consumption, especially that of households, significantly decreased (see Table 5).

Table 6. Kazakhstan's gross value added by economic activity

(at current prices, per cent)

Year	Agri-culture	Industry	*Of which*: Manu-facturing	Con-struc-tion	Trade and catering	Transport and com-muni-cations	Financial inter-mediation and other services	Gross value added, total*
	A-B	*C-E*	*D*	*F*	*G-H*	*I*	*J-P*	*A-P*
1990	33.7	23.1	7.4	12.0	8.1	9.3	13.8	100.0
1991	28.6	28.6	8.7	8.9	7.9	7.2	18.8	100.0
1992	22.9	34.5	8.8	8.6	8.6	7.4	18.0	100.0
1993	16.2	32.1	8.3	8.1	10.5	9.8	23.3	100.0
1994	15.2	33.6	8.4	9.8	12.4	11.4	17.6	100.0
1995	12.8	33.7	7.8	6.7	17.9	11.1	17.8	100.0
1996	12.7	32.3	12.2	4.6	18.0	11.8	20.6	100.0
1997	11.9	32.8	12.3	4.4	16.3	12.2	22.4	100.0
1998	9.1	25.8	12.7	5.2	16.7	14.6	28.6	100.0
1999	10.4	29.6	14.8	5.0	14.9	12.7	27.4	100.0
2000	8.6	34.6	17.5	5.5	13.8	12.2	25.3	100.0
2001	9.3	32.5	17.5	5.8	13.5	11.8	27.1	100.0
2002	8.5	31.3	15.4	6.7	13.6	12.3	27.6	100.0
2003	8.3	30.7	15.0	6.3	13.2	13.1	28.4	100.0
2004	7.4	30.6	13.9	6.3	13.9	12.3	29.5	100.0
2005	6.6	31.0	12.5	8.2	13.3	12.3	28.6	100.0
2006	5.7	30.6	12.1	10.2	12.7	12.0	28.8	100.0
2007	5.8	29.0	11.8	9.7	13.6	11.8	30.1	100.0

* Including financial intermediation services indirectly measured (FISIM).

Calculated from: Agency of Statistics (2008: 95–102); ESCAP (2003: 243); UN (2002: 719).

Kazakh SMEs increased their share in the total number of the country's operating legal entities from 98.0% in 1999 to 98.8% in 2007 (calculated from Agency of Statistics, 2008: 179). It should be noted that in the CIS countries official statistics do not include goods and services produced in the shadow economy. According to some estimates, the share of this informal sector in the official GDP increased in Kazakhstan from 31.9% in 1990–1993 to 44.6% in 2004–2005. At the same time, it expanded in Uzbekistan from 22.1 to 35.4%, in Kyrgyzstan from 35.2 to 40.6% and in Russia from 27.8 to 47.3%, respectively (Belev, 2003: 27; Schneider, 2007: 19).

On the production side, between 1990 and 2007, the share of commodity-producing sectors (agriculture, industry and construction) in Kazakhstan's gross value added contracted from 68.8 to 44.5%, whereas that of services expanded from 31.2 to 55.5%. Within industry, the relative weight of mining and utilities, dominated by the oil and gas sector, increased from 15.7 to 17.2% and that of manufacturing from 7.4 to 11.8% (Table 6). The manufacturing revival began in its two largest branches, metallurgy and food processing. While food processing and machine building benefited from increasing domestic demand for consumer and investment goods, there was also pressure from import competition (IMF, 2003: 31). Among services, the weight of trade and catering increased 1.7 times, that of transport and communications 1.3 times and that of financial intermediation and other services 2.2 times in the same period (Table 6).

Table 7. Structure of Kazakhstan's employment by economic activity

(per cent)

Year	Agri-culture	Industry	*Of which*: Manu-facturing	Con-struc-tion	Trade and catering	Transport and com-munica-tions	Financial inter-mediation and other services	Total employ-ment
	A-B	*C-E*	*D*	*F*	*G-H*	*I*	*J-P*	*A-P*
1990	22.3	20.5	16.5	11.0	6.2	9.3	30.7	100.0
1991	22.7	23.5	19.9	10.0	7.1	9.1	27.6	100.0
1992	23.7	23.6	19.7	9.8	7.0	8.8	27.1	100.0
1993	25.3	23.0	18.7	8.9	6.9	8.4	27.5	100.0
1994	21.5	22.6	18.2	7.3	12.9	8.4	27.3	100.0
1995	22.0	20.9	16.6	5.6	15.8	7.7	28.0	100.0
1996	21.2	16.0	8.8	4.6	21.4	7.7	29.1	100.0
1997	24.0	14.2	8.9	4.0	21.4	10.0	26.4	100.0
1998	22.2	14.7	10.2	3.6	24.0	9.1	26.4	100.0
1999	26.7	16.6	8.9	3.4	12.1	8.7	32.5	100.0
2000	31.4	13.8	9.2	3.6	16.7	8.9	25.6	100.0
2001	35.5	12.4	7.7	3.9	15.8	7.6	24.8	100.0
2002	35.5	12.3	7.5	4.0	15.9	7.5	24.8	100.0
2003	35.3	12.2	7.2	4.7	15.5	7.2	25.1	100.0
2004	33.5	12.1	7.2	5.3	15.9	7.2	26.0	100.0
2005	32.4	12.3	7.4	5.7	15.5	7.3	26.8	100.0
2006	31.5	12.2	7.5	6.2	15.6	7.3	27.2	100.0
2007	31.2	12.1	7.5	6.8	15.3	7.2	27.4	100.0

Calculated from: Статистический ежегодник Казахстана, various volumes.

The structure of employment shows a somewhat different picture. Here the share of the commodity-producing sectors decreased from 53.8 to 50.1%, while that of services increased from 46.2 to 49.9%. In industry, the share of mining and utilities rose from 4.0 to 4.6%, but that of manufacturing fell back from 16.5 to

7.5%. Over the same period, the relative weight of trade and catering increased 2.5 times. In contrast, there was a simultaneous 1.3 fold decline in the weight of transport and communications and a 1.1-fold one in financial intermediation and other services (Table 7).

The increase in agricultural employment after the crisis of 1998 is partially a response to government incentives for production and expansion of land use, ranging from loans and subsidies to schemes to sustain high prices, but also reflects a move from the informal to the formal economy. In the early 1990s, the rural economy collapsed, rural enterprises disappeared and a large segment of the population moved to subsistence agriculture. Since the late 1990s, the state has introduced several programmes to support agriculture, leading to a surge in official agricultural employment. Services and construction have also seen some gains in employment, while the decline in industrial employment reflects better use of labour resources. The oil industry directly employs a very small percentage of the work force (less than 1%) and has no significant impact on overall employment (IMF, 2003: 22).

Table 8. Share of private sector in GDP

(per cent)

Year	AM	AZ	BY	GE	*KZ*	KY	MD	RU	TJ	TM	UA	UZ	CIS
1991	10	30	5	15	*5*	15	10	5	10	10	10	10	11
1992	10	35	10	15	*10*	20	10	25	10	10	10	10	15
1993	10	40	10	20	*10*	25	15	40	10	10	15	15	18
1994	20	40	15	20	*20*	30	20	50	15	15	40	20	25
1995	25	45	15	30	*25*	40	30	55	25	15	45	30	32
1996	25	50	15	50	*40*	50	40	60	30	20	50	40	39
1997	40	55	20	55	*55*	60	45	70	30	25	55	45	46
1998	45	60	20	60	*55*	60	50	70	30	25	55	45	48
1999	45	60	20	60	*60*	60	45	70	40	25	55	45	49
2000	45	60	20	60	*60*	60	50	70	40	25	60	45	50
2001	60	60	20	60	*60*	60	50	70	45	25	60	45	51
2002	60	70	25	65	*65*	65	55	70	50	25	65	45	55
2003	60	70	25	65	*65*	65	55	70	50	25	65	45	55
2004	60	75	25	65	*65*	75	55	70	50	25	65	45	56
2005	60	75	25	65	*65*	75	60	65	55	25	65	45	57
2006	60	75	25	70	*65*	75	65	65	55	25	65	45	58
2007	75	75	25	75	*70*	75	65	65	55	25	65	45	60

Source: Transition Report, various volumes.

Economic transformation led to a radical change in property ownership. In the period between 1991 and 2007 the share of the private sector in GDP expanded 14 times in Kazakhstan as compared to a 5.5-fold average increase in the CIS as a whole, finally reaching five-sevenths of the country's GDP (Table 8). In the same period, privatisation revenues rose from 5.6 to 30.1% in Kazakhstan, from 0 to 7.9% in Tajikistan, from 0.1 to 7.6% in Kyrgyzstan, from 0 to 5.9% in Uzbekistan and from 0 to 6.5% in Russia (see the data source of Table 8).

c. External economic links

Independent Kazakhstan was confronted with the challenge of diversifying its foreign trade by building new economic links with the industrial countries of the West and preserving and developing the most advantageous of the old ones with other former Soviet republics. Thus, it had to build relations with widely differing economic partners. With regard to the structure of Kazakhstan's commodity trade, the share of fuels (mainly oil and gas) in exports rose from 25% in 1995 to 69% in 2006. In the same period, the proportion of manufactured goods in imports increased from 59 to 78% (World Bank, 2008: 211, 215). Such developments are not sustainable, since energy carrier and raw material prices are subject to significant cyclic fluctuations in the world market, while manufactured imports are mostly financed through raw-material export income (Arystanbekov, 2006: 145).

Table 9. Kazakhstan's foreign trade by main partners

Year	In percentage of exports					In percentage of imports				
	CIS	*Of which*: Russia	EU	US	China	CIS	*Of which*: Russia	EU	US	China
1990	88.0	46.0	n.a.	n.a.	n.a.	77.0	51.0	n.a.	n.a.	n.a.
1995	54.0	45.1	21.8	0.8	5.7	69.7	49.9	13.5	1.7	0.9
1996	53.8	42.0	19.1	1.0	7.8	69.5	54.8	13.1	1.6	0.8
1997	45.9	35.2	26.3	2.1	6.8	54.2	45.8	21.6	4.7	1.1
1998	39.5	29.5	31.7	1.4	7.2	47.6	39.6	24.2	6.3	1.3
1999	25.7	19.5	21.9	1.4	8.0	43.9	37.0	25.5	9.5	2.2
2000	26.5	19.9	25.8	2.4	7.6	54.2	48.4	23.8	5.5	3.0
2001	30.6	20.4	26.0	1.8	7.6	51.3	44.9	27.1	5.4	2.7
2002	22.7	15.3	20.6	1.2	10.6	46.2	38.7	27.3	7.0	4.8
2003	23.1	15.2	19.0	0.8	12.8	46.8	39.0	27.8	5.6	6.2
2004	20.4	14.1	34.8	1.4	9.8	47.9	37.7	27.4	4.4	5.9
2005	14.6	10.5	37.0	3.8	8.7	46.9	38.0	27.9	3.4	7.2
2006	14.6	9.8	35.7	2.4	9.4	46.7	38.3	29.1	3.0	8.1
2007	16.7	9.8	32.3	2.5	11.8	44.6	35.5	27.3	2.5	10.7

Calculated from: Agency of Statistics (2008: 163–165); Direction of Trade Statistics Yearbook, IMF, Washington, D.C.,various volumes; CIS STAT Database.

In 1990, Kazakhstan carried out 82.5% of its foreign trade with other CIS countries, including 48.5% with Russia. Subsequently the situation changed significantly. Between 1995 and 2007, the share of the CIS declined by half, from 61.9 to 30.7%, while that of the EU rose from 17.6 to 32.7%. In the same period, the relative weight of Russia decreased from 47.5 to 22.7%, whereas that of China increased from 3.3 to 11.3% and that of the United States from 1.3 to 2.5% (Table 9).

Within the CIS, the Republic of Kazakhstan signed the Treaty on Economic Union in September 1993, which expired ten years later. In October 2000, the Founding Treaty of Eurasian Economic Community (EurAsEC) was signed in Astana by Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan (in 2006–2008 Uzbekistan was also a member). The treaty came into force in May 2001 and envisaged common tax, employment, customs and exchange-rate policies. In June 2001, the Shanghai Cooperation Organisation (SCO) was formed by China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan, with the aim of fighting ethno-religious intolerance and promoting trade and foreign investment. In September 2003, Kazakhstan entered into an agreement with Belarus, Russia and Ukraine on a Single Economic Space (SES) to coordinate trade regulations and reduce tariffs. After Kiev's decision to seek EU integration, the remaining three SES members decided in August 2006 to create a customs union instead (Bíró, 2008: 5, 11; Ludvig, 2008: 29, 35–44, 51).

The general framework of economic and political relations between Kazakhstan and the EU was established by the Partnership and Cooperation Agreement signed in Brussels in January 1995, which came into effect in July 1999 for a ten-year period. This agreement is based on democratic values, including the standards of the rule of law, and is aimed at political dialogue, trade and investment, sustainable economic development, and the promotion of economic, financial, scientific-technological and cultural cooperation. It also provides support for the consolidation of Kazakhstan's democratic institutions and the successsful transition to a market economy. In trade, it grants most favoured nation (MFN) status to both parties and mutually formulates the principle of national treatment for the establishment and operation of foreign-owned companies (see PCA, 1995). Under the programme of technical assistance to the Commonwealth of Independent States (TACIS), the European Commission allocated EUR 168 million to Kazakhstan over the period 1991–2006, which was used for structural and institutional reforms, the modernisation of agriculture, and facilitating the country's accession to the World Trade Organisation (WTO) (see EC Delegation, 2009). Subsequently, EU assistance has been focused on the following priority areas: promotion of ongoing reform at political, economic, judicial and social levels, infrastructure building and cooperation in the energy sector (a memorandum of understanding on cooperation in the field of energy was signed in November 2006) (European Commission, 2009).

The cumulative net inflow of foreign direct investment in Kazakhstan totalled USD 37,019 million over the period 1992–2007, an average of USD 2,365 million per annum. The amounts of foreign capital invested enhanced the country's dominant position in Central Asia. In relation to Kazakhstan's gross fixed capital formation, net FDI inflows increased from 1.4% in 1992 to 22.6% in 2007 (Table 10). There was significant knowledge and technology transfer, in many cases even before Kazakh corporate shares passed into foreign hands, which ensured effective and rapid application of Western management methods (Tarjányi, 2008: 4).

Table 10. Foreign direct investment in Kazakhstan

Year	Inflows	Outflows	Inflows	Outflows	FDI inflows in Kazakhstan as percentage of former Soviet Central Asia
	USD million		In percentage of GFCF*		
1992	100	–	1.4	–	84.7
1993	1271	–	18.5	–	89.7
1994	660	0	11.5	0	74.5
1995	964	0	20.4	0	75.4
1996	1137	0	31.4	0	81.2
1997	1321	1	36.7	0	77.8
1998	1151	8	33.1	0.2	77.1
1999	1472	4	53.9	0.1	83.2
2000	1283	4	40.5	0.1	84.9
2001	2835	-26	53.9	-0.5	91.4
2002	2590	426	43.8	7.2	87.1
2003	2092	-121	29.4	-1.7	85.5
2004	4157	-1279	38.4	-11.8	80.8
2005	1971	-146	12.3	-0.9	76.6
2006	6224	-387	29.1	-1.8	81.1
2007	10259	3161	32.6	10.0	86.0

* Gross fixed capital formation.

Source: UNCTAD, FDI/TNC Database.

In the period 1993–2007, of the cumulative USD 39,387 million FDI into Kazakhstan (see Table 10), 56.4% went to industry, 1.7% to construction, 4.4%

to trade and catering, 1.8% to transport and communications and 35.7% to other sectors. Within industry, mining and utilities gained 46.2% and manufacturing 10.2%. Crude oil and natural gas extraction dominated industrial investment with 42.0%. In the cumulative inflow of FDI, the 27 EU and 11 CIS members provided 40.5 and 3.9%, respectively. Among the most important investors, the United States accounted for 23.6%, the United Kingdom for 8.9%, Italy for 5.3%, France for 5.2%, The Netherlands for 17.1%, Switzerland for 4.6%, the British Virgin Islands for 4.0%, Russia for 3.7%, China for 3.6% and Canada for 3.5%. (calculated from NBK, 2009). It is suspected that investments from the British Virgin Islands, a typical off-shore tax-haven, constitute repatriated capital from Kazakh oligarchs.

However, the relative unattractiveness of sectors ouside raw material production has aggravated the problem of technological backwardness (Arystanbekov, 2006: 145). Moreover, foreign investment is not encouraged by the fact that in 2006 the highest marginal rate of corporate income tax was 30% in Kazakhstan as compared to 25% in Ukraine, 24% in Russia and 12% in Uzbekistan (World Bank, 2008: 289–290).

What are the characteristics of Kazakhstan's external debt? Between 1992 and 2006, the share of long-term debt in the total external debt stock increased from 74.3 to 83.0%, whereas that of short-term debt decreased from 25.7 to 17.0%. However, a disturbing feature of the long-term debt is that the proportion of public and publicly-guaranteed loans declined from 100 to a mere 3.5%, while that of non-guaranteed private loans rose sharply from 0 to 96.5%. The World Bank (IBRD) shared only 0.7% of Kazakhstan's external debt in 2006. Whereas foreign exchange reserves were always less than the total debt stock, the latter exceeded 40% of gross national income for the first time in 2000 and became greater than that income in 2006. Another unfavourable indicator, total debt service, regularly surpassed the threshold level of 25% of exports after 1999 (see Table 11).

Table 11. External debt of Kazakhstan

Year	Total debt stock (EDT)	Long-term debt	*Of which*: Public and publicly guaranteed loans	*Of which*: IBRD	Non-guaranteed private loans	Use of IMF credit	Short-term debt	Total debt service (TDS)	EDT/GNI	TDS/XGS	RES/EDT
	USD million								Per cent		
1992	35	26	26	0	0	0	9	0	0.1	0.0	n.a.
1993	1728	1621	1621	0	0	85	22	10	6.7	0.2	41.2
1994	2790	2269	2228	187	41	289	232	68	14.2	1.6	43.6
1995	3750	2937	2834	295	103	432	381	235	19.0	3.9	44.3
1996	2922	2149	1946	490	203	552	221	322	14.0	4.6	67.1
1997	4078	3218	2622	648	596	511	349	483	18.7	6.2	54.5
1998	6084	5008	3038	899	1970	653	423	992	27.9	14.4	32.3
1999	6122	5188	3353	1082	1835	460	474	1362	37.5	19.4	32.7
2000	12433	11472	3623	1057	7849	0	961	3371	72.5	32.0	16.9
2001	14887	13545	3450	1070	10095	0	1342	3354	70.8	32.0	16.8
2002	17981	16139	3210	1178	12929	0	1842	4107	76.5	34.5	17.5
2003	22767	19954	3469	1265	16485	0	2813	5302	78.3	34.8	21.8
2004	32815	28872	3233	1275	25639	0	3943	8774	81.4	38.0	28.3
2005	43378	35327	2177	599	33150	0	8051	13181	83.8	42.2	16.3
2006	74148	61569	2136	502	59433	0	12579	14532	103.4	33.7	25.8

Note. GNI = gross national income, XGS = exports of goods and services, RES = international reserves.

Source: Global Development Finance, The World Bank, Washington, D.C., various volumes.

4. CONCLUSIONS

The foundations of a market economy have been laid in today's independent Kazakhstan. The first phase of transition is mostly complete – macroeconomic stabilisation, comprehensive liberalisation, institution building and the reform of property relations have been successfully carried out. It is true that privatisation is incomplete and problems remain in the fields of financial transparency and the application of international banking standards. Nevertheless, the latter do not significantly diminish the overall magnitude of the achievements. . Around the turn of the millennium, Kazakhstan not only recovered from the long transformational recession, exacerbated by the effects of the Asian and Russian crises, but galvanised the growth of the economy to a rate well above the world average, through privatisation revenues, FDI inflows and the creation of favourable market conditions. Moreover, the Kashagan project has ensured the country a long-term place among the major oil producers.. Simultaneously, some second-generation reform tasks have been undertaken. An ambitious pension reform was launched and steps were taken to enhance the competitiveness of the energy sector, railways and telecommunications. But, in spite of all the government's actions, the Kazakh economy is still characterised by limited competition within domestic markets and widespread bribery and other forms of corruption, which, along with low levels of economic diversification, continue to be the biggest obstacles to additional investment and innovation outside of the oil and gas sector. In this context, the main long-term challenge for Kazakhstan, a rentier state with a resource-based economy, is to address the risk of "Dutch disease". Under the conditions of the present global recession, this is also a major problem for other post-Soviet states, such as Russia and Azerbaijan.

REFERENCES

Agency of Statistcs (2008), *Казахстан за годы независимости 1991–2007. Статистический сборник*, Агентство Республики Казахстан по статистике, Астана.

Alam, A. and A. Banerji (2000), 'Uzbekistan and Kazakhstan: A Tale of Two Transition Paths', *The World Bank Policy Research Working Paper WPS 2472*, The World Bank, Washington, D.C.

Arystanbekov, K. (Арыстанбеков, К.Т.) (2006), 'Экономический рост Казахстана в контексте мировой экономики', *Вопросы экономики*, № 11, с. 133–146.

Bara, Z. and K. Szabó (eds.) (2004), *Gazdasági rendszerek, országok, intézmények. Bevezetés az összehasonlító gazdaságtanba*, Aula Kiadó, Budapest.

Belev, B. (ed.) (2003), *The Informal Economy in the EU Accession Countries: Size, Scope, Trends and Challenges to the Process of Enlargement*, Center for the Study of Democracy, Sofia.

Bíró, Z. Sz. (2008), *A FÁK-térség: az integráció politikai esélyei*, FÁK Projekt, MTA VKI–SZKI, Budapest.

Braner, B. (2007), 'Kazakhstan's Economic Challenges: How to Manage the Oil Boom', *Transition Studies Review*, Vol. 14, No. 1, pp. 188–194.

Cummings, S. (2005), *Kazakhstan: Power and the Elite*, I.B. Tauris, London.

Dosmukhamedov, E.K. (2002): *Foreign Direct Investment in Kazakhstan: Politico-Legal Aspects of Post-Communist Transition*, Palgrave Macmillan, Basingstoke.

EC Delegation (2009), *Previous Commitments 1991–2006*, The European Commission's Delegation to Kazakhstan, Kyrgyzstan and Tajikistan, Astana, http://delkaz.ec.europa.eu/joomla, accessed 3 April 2009.

Erdős, T. (2006), *Növekedési potenciál és gazdaságpolitika*, Akadémiai Kiadó, Budapest.

ESCAP (2003), *Statistical Yearbook for Asia and the Pacific*, United Nations Economic and Social Commission for Asia and the Pacific, Bangkok.

European Commission (2009), *The EU's Relations with Kazakhstan*, http://ec.europa.eu/external_relations/kazakhstan/index_en.htm, accessed 3 April 2009.

European Community (2007), *Regional Strategy Paper for Assistance Central Asia for the Period 2007–2013*, European Commission, Brussels, 2007.

Eurostat (2008), *The European Union and the Commonwealth of Independent States: Statistical Comparison*, Office for Publications of the European Communities, Luxembourg.

Fergus, M. and J. Jandosova (eds.) (2004), *Kazakhstan: Coming of Age*, Stacey International Publishers, London.

Franke, A., A. Gawrich and G. Alakbarov (2009), 'Kazakhstan and Azerbaijan as Post-Soviet Rentier States: Resource Incomes and Autocracy as a Double "Curse" in Post-Soviet Regimes', *Europe-Asia Studies*, Vol. 61, No. 1, pp. 109–140.

Heston, A., R. Summers and B. Aten (2006), *Penn World Table* Version 6.2, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania (CICUP), Philadelphia, September 2006, http://pwt.econ.unpenn.edu/php_site/pwt62/pwt62_form.php

IMF (2003), 'Kazakhstan: Selected Issues and Statistical Appendix', *IMF Country Report No. 03/211*, International Monetary Fund, Washington, D.C.

Jánossy, F. (1966), *A gazdasági fejlődés trendvonala és a helyreállítási periódusok*, Közgazdasági és Jogi Könyvkiadó, Budapest.

Kaiser, M.J. and A.G. Pulsipher (2007), 'A Review of the Oil and Gas Sector in Kazakhstan', *Energy Policy*, Vol. 35, No. 2, pp. 1300–1314.

Kalyuzhnova, Y. (1998), *The Kazakhstani Economy: Independence and Transition*, Macmillan, London.

Kazhegeldin, A. (2002), *Kazakhstan: Entering the Future*, I.B. Tauris, London.

Lillis, J. (2008), 'Kazakhstan to Foreign Investors: It's Our Way, or the Highway', *Eurasianet.org*, 22 February 2008, http://www.eurasianet.org/departments/insight/articles/eav022208a.shtml

Ludvig, Zs. (2008), *Integrációs és dezintegrációs folyamatok a FÁK-térségben gazdasági megközelítésben*, FÁK Projekt, MTA VKI–SZKI, Budapest.

NBK (2009), The National Bank of Kazakhstan, http://www.nationalbank.kz, accessed 7 April 2009.

Olcott, M.B. (2002), *Kazakhstan: Unfulfilled Promise*, Carnegie Endowment for International Peace, Washington, D.C.

Odling-Smee, J. and G. Pastor (2001), 'The IMF and the Ruble Area, 1991–93', *IMF Working Paper WP/01/101*, International Monetary Fund, Washington, D.C.

Palmer, E. (2007), 'Pension Reform and the Development of Pension Systems: Kazakhstan Country Study', *The World Bank Independent Evaluation Group Background Paper 39144*, The World Bank, Washington, D.C.

Pastor, G. and T. Damjanovic (2001), 'The Russian Financial Crisis and its Consequences for Central Asia', *IMF Working Paper WP/01/169*, International Monetary Fund, Washington, D.C.

PCA (1995), *The European Union and the Republic of Kazakhstan – Partnership and Cooperation Agreement*, Brussels, European Communities, 23 January 1995.

Peck, A.E. (2004), *Economic Development in Kazakhstan: The Role of Large Enterprises and Foreign Investment*, Routledge Curzon, London.

Ramamurthy, S. and E. Tanberg (2002), 'Treasury Reform in Kazakhstan: Lessons for Other Countries', *IMF Working Paper WP/02/129*, International Monetary Fund, Washington, D.C.

Schneider, F. (2007), *Shadow Economies and Corruption All Over the World: New Estimates for 145 Countries*, Johannes Kepler University of Linz.

Tarjányi, K. (2008), *Gazdasági és társadalmi fejlődés az olajszektor árnyékában – a feltörekvő Kazahsztán*, FÁK Projekt, MTA VKI–SZKI, Budapest.

UN (2002), *National Accounts Statistics: Main Aggregates and Detailed Tables*, United Nations, New York.

UN (2008), *Energy Statistics Yearbook 2005*, United Nations, New York.

World Bank (2008), *World Development Indicators*, The World Bank, Washington, D.C.

Ziegler, Ch. (2008), 'Civil Society, Political Stability and Economic Development in Kazakhstan', Paper presented at the ISA Annual Convention, San Francisco, CA, March 26–29, 2008.