

1964

**PROBLEMS AND PROSPECTS OF ECONOMIC TRANSITION  
IN CENTRAL ASIA :  
A CASE STUDY OF KAZAKHSTAN**

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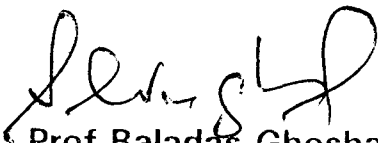
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CERTIFICATE

Certified that the dissertation entitled "Problems and Prospects of Economic Transition in Central Asia : A Case Study of Kazakhstan" submitted by **Manish Saurav** is in partial fulfilment of the requirements for the award of the degree of **Master Of Philosophy** degree of this University. This is an original work and has not been submitted for any other degree to this or any other University to the best of our knowledge.

We recommend that this dissertation be placed before the examiners for evaluation.

  
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## **PREFACE**

*The transition to a market economy means the gradual reorganisation of the entire economic structure and social relations. Kazakhstan, the largest Central Asian Republic, started the process of transition after it got independence in 1991. Its vast resource base, proximity to the Islamic countries and fourth largest nuclear capability by default have attracted the attention of one and all in the ongoing reforms and conflicts of the Republic.*

*Therefore, there is a need to study the problems and prospects of economic transition in Kazakhstan.*

*A basic difficulty to study the economic problems of the Central Asian Economies is the lack of reliable and relevant data because, in the erstwhile Soviet system, the processes of data collection and storage were different in both methodology and coverage. It is only very recently that IMF and World Bank have taken initiative to improve the scenario*

*Since we do not have any comparable time series data, last 5 years have been taken as the relevant period. We have used percentage figures for various economic indicators and compare them for two periods of time for analysing the trend.*

*To see the impact of the reform process, we have studied the linkages between various sectors of the economy. Moreover, direction of trade and flow of foreign capital have also been looked into.*

*Lastly, the analysis of the whole study has been done in the framework of command versus market economy.*

*The first chapter gives a profile of Kazakhstan's economy at the time of independence.*

*The second chapter deals with the historical background of the emerging problems in the transition process.*

*The third chapter discusses the causes behind the problems arising during the transition process and the implications. The chapter, in this process, analyses the framework of command versus market economy.*

*The final chapter deals with the policies and steps adopted by the government. This chapter analyses the prospects of the economy in the global economic environment.*

*Thanks go to my supervisor Prof. K.Warikoo, whose unyielding criticisms and valuable insights ensured that the study always remain on course.*

*Special thanks to Bhavani for his untiring help and encouragement, without whom this work would never have been completed.*

*Had it not been for my friends, I with my erratic pace of work, would never have reached this stage of penning down acknowledgments. My thanks to all of them for sharing my enthusiasm about my research project which egged me on to pursue it with more vigor.*

*I dedicate this work to my family and my friends.*

*Any shortcoming in this dissertation, however, is my responsibility alone.*

*Manish Saurav*  
**(Manish Saurav)**

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## LIST OF ABBREVIATIONS

|              |   |
|--------------|---|
| <b>CAR</b>   | Central Asian Republics                                 |
| <b>CIS</b>   | Commonwealth of Independent States                      |
| <b>CMEA</b>  | Council for Mutual Economic Assistance                  |
| <b>EIU</b>   | Economist Intelligence Unit                             |
| <b>EBRD</b>  | European Bank for Reconstruction and Development        |
| <b>ESCAP</b> | Economic and Social Commission for Asia and the Pacific |
| <b>FSU</b>   | Former Soviet Union                                     |
| <b>GDP</b>   | Gross Domestic Product                                  |
| <b>ILO</b>   | International Labour Organisation                       |
| <b>IMF</b>   | International Monetary Fund                             |





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Five new states namely Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan emerged in Central Asia when Soviet Union disintegrated in 1991. The largest among them is Kazakhstan as shown in the table below.

**Table 1.1 Central Asian Republics : A comparison**

| Republic     | Area            |                        |
|--------------|-----------------|------------------------|
|              | Thousand sq. km | % of former USSR total |
| Kazakhstan   | 2717.3          | 12.1                   |
| Kyrgyzstan   | 198.5           | 0.9                    |
| Tajikistan   | 143.1           | 0.6                    |
| Turkmenistan | 488.1           | 2.2                    |
| Uzbekistan   | 447.4           | 2.0                    |

*Source : Statistical Yearbook, USSR State Committee on Statistics, 1989*

Moreover, Kazakhstan is the only Central Asian Republic which has nuclear weapon capabilities. Around 5 percent of total tactical nuclear weapons in the CIS is located in Kazakhstan<sup>1</sup>.

After the collapse of the erstwhile Soviet Union, Kazakhstan like most other Republics, has adopted the IMF sponsored "liberal - shock" model of economic reforms. Simultaneously, it is also trying to find its own ways of transforming the national economy on the basis of the existing structure and socio - economic national, and demographic peculiarities.

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<sup>1</sup> Warikoo, K.(ed.), Central Asia : Emerging New Order, New Delhi, p. 192

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Kazakhstan is very rich in natural resources like iron ore , coal, crude oil and natural gas. It represents one-fifth of the total arable land of the former Soviet Union's territory. The country is a significant producer and exporter of agricultural products, especially grains, wool, and meat. Its industrial sector is geared mainly towards metallurgy, heavy machinery and tools, petro - chemicals, agro - processing, and textiles.

Decades of central planning, however, has resulted in the dominance of public sector in all economic activities. The structural characteristics of the former Soviet economy have emphasized on balanced regional development without having any significant decentralisation or autonomy at the Republic's level. The strong emphasis on industrialisation, during the period of central planning, has dictated a great degree of product specialisation which is reflected in a high level of monopolisation of industry. This has resulted in a very close production and trade linkages among the former Soviet Republics.

Kazakhstan mainly exports unprocessed and semi - processed agricultural and mineral products as well as engineering goods and is highly dependent on imports of some refined petroleum products, processed foods, consumer products, and advanced industrial equipments. This colonial pattern of production co - exists with the high levels of development in fields like education, health and science.

After independence, the transition to the market economy, at least in the initial two years, has been very confusing. In pursuit of joining the

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club of developed countries, the old system of central planning has been dismantled without an effective replacement. Economic growth has suffered heavily from the break - up of the Council on Mutual Economic Assistance (CMEA), from disruptions in inter - Republican trade and from the withdrawal of concessional finance associated with the erstwhile system of central planning. It has also been affected by managerial, technological, and structural bottlenecks. The financial position of the Kazakh Government has weakened with the loss of resource transfers from the Union and the assumption of new expenditure responsibilities. Lax demand management policies and disruption in the supply structure have resulted in spiralling inflation. This has led to a vicious circle of low consumption and subsequently low production. Coupled with this, increasing unemployment and growing poverty among the people made the transition process even more difficult.

Kazakhstan, however, has been able to attract the attention of neighbouring as well as Western economies because of the following reasons :

- Availability of vast resources provides great potential for big private foreign investors especially in the areas of oil, coal and mineral exploration.
- Its strategic location, possession of nuclear weapons and technology and proximity to the countries promoting Islamic fundamentalism have forced the other neighbouring and Western countries to closely monitor the happenings in the Republic.

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A brief summary of the salient features of the Republic of Kazakhstan at the time of independence is presented here to offer some additional insights about its economic dynamics.

## **GEOGRAPHICAL SETTING**

The Republic of Kazakhstan is the second largest of the former Soviet Republics after Russia, extending some 1,900 km from the river Volga in the west to the Altai mountains in the east, and some 1,300 km from the Siberian plain in the north to the Central Asian deserts in the south. To the south, it borders Turkmenistan, Uzbekistan and Kyrgyzstan. To the east, the border is with the People's Republic of China. To the north, there is a long border with the Russian Federation and a coastline of 2,320 km on the Caspian Sea in the south - west. The climate is of a strongly continental type, but there are wide variations (in terms of temperature and rainfall) throughout the territory.

Apart from its capital Almaty (new name for Alma Ata), other important cities are Karaganda, Chimkent, Djambul, Kokchetar, Petropavlosk and Semipalatinsk.

## **HISTORICAL PERSPECTIVE**

The Kazakhs are descendants of Mongol and Turkic tribes that settled in the area in around the first century B.C. They emerged as a distinct ethnic group from a tribal confederation known as Kazakh Orda, which was formed in the 15th century A.D. Following the dissolution

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of the Kazakh Orda in the early 17th century, the Kazakhs split into smaller nomadic groups which were united in three large federations, or Hordes, known as the Larger, Middle and Lesser Hordes. In the first half of the 18th century, as a result of invasions from the east by the Oirat Mongols, the three Hordes sought protection from the Russian Tsar. Although the threat from the Oirats was ended after they were conquered by the Manchus in 1758, the Russian retained control over the Kazakhs and deposed the Khans of the Hordes. The land of the present Republic of Kazakhstan was gradually annexed to the Russian empire from the mid - 18th Century onwards. Large scale Russian settlement of the northern part of Kazakhstan began in the late 19th Century. Kazakhstan was formed as a Union republic of Soviet Union in 1936, having been an autonomous republic of the Russian Federation since 1920. On December 10, 1991, the state shed its previous name of the Kazakh Soviet Socialist Republic to become the Republic of Kazakhstan. Kazakhstan was the last of the former Soviet republics to declare its independence on December 16, 1991, after Soviet Union collapsed.

## **SOCIO - POLITICAL STRUCTURE**

### **A. Demography and Ethnic Composition**

The Republic of Kazakhstan comprises around 6 percent of the total population of the former USSR. The table overleaf gives the demographic details about the Republic. The table shows the following :

- Kazakhstan is one of the most sparsely populated regions in the world

- There is a high level of urbanisation (57%) in Kazakhstan

**Table 1.2 Demographic Indicators (1991)**

| Particulars                      | Value | Unit                   |
|----------------------------------|-------|------------------------|
| Population                       | 16.96 | million                |
| Rural population                 | 7.29  | million                |
| Urban population                 | 9.67  | million                |
| Population growth rate (1980-91) | 1.2   | percent per annum      |
| Sex Ratio <sup>#</sup>           | 1065  | females per 1000 males |
| Density                          | 6.2   | persons per sq. km     |
| Total fertility rate             | 2.8   |                        |
| Crude birth rate                 | 21    | per 1000 population    |
| Crude death rate                 | 8     | per 1000 population    |

*Sources : World Development Report, 1993; The Europa World Yearbook, 1994; Statistical Yearbook, USSR State Committee on Statistics, 1989*

# Figure refers to year 1989

Kazakhstan is a conglomeration of diverse nationalities. More than 100 ethnic groups live in this Republic. The table overleaf gives the ethnic break - up of the population :

The largest ethnic group, the Kazakhs draw roots from the Mongols who conquered these lands in the thirteenth century. Though Russian is the dominant language, culturally most of the people in this Republic have Turkic ethnic or linguistic roots and Cyrillic is the widely used alphabet. The major religion of the Kazakhs is Islam. The Muslims are almost exclusively Sunni Muslims of the Hanafi school.

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**Table 1.3 Principal Ethnic Groups (1993)**

| <b>Ethnic Group</b> | <b>Number ('000s)</b> | <b>% of total</b> |
|---------------------|-----------------------|-------------------|
| Kazakh              | 7297                  | 43.2              |
| Russian             | 6169                  | 36.5              |
| Ukrainian           | 875                   | 5.2               |
| German              | 696                   | 4.1               |
| Uzbek               | 364                   | 2.2               |
| Tatar               | 335                   | 2.0               |
| Others              | 1155                  | 6.8               |

*Source : The Europa World Yearbook, 1994*

### **B. Political Structure**

Administratively Kazakhstan is divided into 21 local governments (19 regions and 2 cities). The supreme legislative power is vested in the 360 - member Supreme Kenges (or Supreme Soviet). The President of the Republic, who is elected every five years, is the Head of the State and holds supreme executive power in conjunction with the Council of Ministers. The President appoints the Prime Ministers and the Deputy Prime Ministers, as well as the Ministers of Foreign Affairs, Defence, Finance and Internal Affairs. The Chairman of the State Committee for National Security and all ambassadors are appointed by the President. The remaining Ministers are nominated by the Prime Minister.

The new Constitution of the Republic of Kazakhstan was adopted on 28 January, 1993 and its principal provisions are the following :

- All nationalities in Kazakhstan are guaranteed equal status
- Kazakh is the State language



- 
- Russian is used as the language of inter-ethnic communication
  - The President of the Republic must be a fluent speaker of Kazakh
  - Elections take place through universal adult suffrage

Following are the major political parties of Kazakhstan :

- People's Unity Party of Kazakhstan
- People's Congress Party of Kazakhstan
- Socialist Party of Kazakhstan
- Republican Party
- Kazakhstan Peasants' Union

## **ECONOMY**

### **A. Resources**

#### ***i) Natural Resources***

The Republic of Kazakhstan is richly endowed with natural resources. It has immense mineral wealth and varied flora and fauna. In all, around 90 minerals are found in Kazakhstan. It has 60% of the mineral resources of the former Soviet Union. The country is an important producer of gold, iron ore and coal as shown in the table overleaf.

Kazakhstan has got huge reserves of important mineral and energy resources (see table 1.5) which indicates great potential for their exploration.

**Table 1.4 Mineral and Energy Production (1989)**

| Resource    | Unit              | Kazakhstan | Other CAR <sup>@</sup> | Kazakhstan as % of FSU |
|-------------|-------------------|------------|------------------------|------------------------|
| Gold        | Tons              | 69         | 43                     | 20                     |
| Iron Ore    | Million tons      | 23         |                        | 10                     |
| Oil         | Billion tons      | 34         | 6                      | 6                      |
| Natural Gas | Million Cu meters | 7          | 131                    | 1                      |
| Coal        | Million tons      | 130        | 18                     | 19                     |

Source : IMF, World Bank

@ Kyrghyztan, Tajikistan, Turkmenistan, and Uzbekistan

**Table 1.5 Estimated Reserves**

| Resources | Value | Unit               |
|-----------|-------|--------------------|
| Iron Ore  | 7.6   | Billion tons       |
| Oil       | 100   | Billion barrels    |
| Gas       | 2.4   | Trillion Cu meters |

Source : IMF, World Bank

The presently mined coal fields contain more than 100 years of reserves at the current extraction rate. Moreover, it has 90% of the total FSU chromium reserves and close to half of the total reserves of lead, wolfram, copper and zinc. The Republic's chrome reserves are the world's second largest and its gold reserves the seventh largest.

The regional distribution of mineral deposits are given in the table overleaf.

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**Table 1.6 Regional Distribution of Resources**

| <b>Region</b>                   | <b>Minerals</b>   |
|---------------------------------|---|
| Central Kazakhstan              | Coal and wolfram  |
| Embarea and Caspian Sea         | Petroleum and natural gas   |
| Eastern and northern Kazakhstan | Iron ore, nickel, chromium, vanadium, titanium, molybdenum, thallium, bismuth, copper, gold, silver and manganese |
| Southern Kazakhstan             | Coal, bauxite and Petroleum   |

*Source : CII Background Paper, 1993*

Apart from the above mentioned minerals Kazakhstan has deposits of phosphorus, asbestos and rare earth minerals.

There are more than 7000 rivers in Kazakhstan. However, only half a dozen are really big ones. The Irtysh with its tributary Ishim, the Ural and the Syrdarya skirt the Republic on the East, North, West and South. Ili and Chu are other important rivers. The country has something like 4000 lakes, and more than half of them are fresh - water lakes. The biggest of them, lake Balkhas (17700 sq. Km) lies almost in the centre of the Republic. Zaysan is another big lake. Total estimated fresh water resources of Kazakhstan is 37.9 cubic km out of the total water resources of 125.5 cubic km<sup>2</sup>.

In terms of flora and fauna, scientists have so far found 5000 species of plants, 150 species of mammals, 450 species of birds and over 100 species of fish in Kazakhstan. Apart from the eastern region,

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<sup>2</sup> World Development Report, 1995

most of Kazakhstan is covered by steppe grassland which is locally called 'the yellow steppe'.

### ii) *Human Resources*

Considerable high achievement in human resource development is one of the positive aspects of Kazakhstan's economy. The high literacy rate, good educational system and training facilities produce young, disciplined and trained work force. The quality of labour is reinforced by the favourable age structure. The table 1.7 given below shows the main characteristics of Kazakhstan's labour force.

**Table 1.7 Labour Statistics (1990)**

| <b>Particular</b>                            | <b>Value (in '000s)</b> |
|--|-------------------------|
| Total labour resources                       | 9202.9                  |
| Full time employment                         | 7287.7                  |
| □ Males                                      | 3913.5                  |
| □ Females                                    | 3374.2                  |
| % employed in State sector                   | 93.0                    |
| % employed in outside State sector           | 7.0                     |
| Avg. Annual growth rate (%) during (1960-90) | 2.3                     |

*Source : World Development Report, 1995; World Bank*

**Table 1.8 Age structure of the population**

| <b>Age group</b> | <b>% of population</b> |
|------------------|------------------------|
| 0 - 14 years     | 31.6                   |
| 15 - 64 years    | 62.4                   |
| Above 64 years   | 6.0                    |

*Source : World Development Report, 1993*

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Three main points emerge out of the above tables.

- More than 60% of the total population is the working population
- Female constitute around 47 per cent of the total work force
- The participation rate is 79 which is very good by international standard. According to ILO statistics, for 15 - 64 age group, male and female participation rates in 1990 are 82% and 68% respectively.

The Republic has a vast pool of skilled work force. Kazakhstan's scientists, engineers and specialists have scored great achievements in various fields. The table 1.9 gives employment by sector.

**Table 1.9 Employment by Sector (1990)**

| <b>Sector</b>                 | <b>Number ('000s)</b> | <b>% of total</b> |
|-------------------------------|-----------------------|-------------------|
| Agriculture & forestry        | 1205                  | 16.5              |
| Industry                      | 1468                  | 20.1              |
| Construction                  | 780                   | 10.7              |
| Transport & communication     | 702                   | 9.6               |
| Trade & other national states | 683                   | 9.4               |
| Non - productive branches     | 1923                  | 26.4              |
| Total (include. others)       | 7288                  | 100.0             |

*Source : EIU Country Report No. 31, 1992-93*

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## B. Infrastructure

### i) *Physical Infrastructure*

Transport - The railways form the backbone to Kazakhstan's transport system. Within the countries of the FSU, Kazakhstan Railways (KZR) is the third largest after Russia and Ukraine. The rail network is concentrated in the north of the country, where it joins the rail lines of Russian Federation. From the capital, Almaty, lines run north - eastward to join the Trans - Siberian Railways, and west, to Chimkent, and then north - west along the Syrdarya river, to Orenburg in European Russia. In June 1991 an international railway connection was opened between Druzhba, on the eastern border of Kazakhstan, and Alataw Shankou, in the Xinjiang Uygur autonomous Republic of the People's Republic of China. Kazakhstan Railways is at present fully state - owned. The salient features are given in the table 1.10.

**Table 1.10 Kazakhstan : Railways**

| <b>Particular</b>                     | <b>Value</b> |
|---------------------------------------|--------------|
| Total length (km)                     | 13600        |
| Double track length (km)              | 5500         |
| Electrified track length (km)         | 4000         |
| % of freight traffic carried (1991)   | 90           |
| % of passenger traffic carried (1991) | 30           |
| No. of locomotives                    | 3280         |
| No. of coaches                        | 2685         |

**Source : World Bank**

The table 1.11 shows the important feature of Kazakhstan's road network.

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**Table 1.11 Kazakhstan : Roads (1991)**

| <b>Particular</b>                            | <b>Value</b> |
|--|--------------|
| Total length (km)                            | 166864       |
| Hard surfaced road length (km)               | 114636       |
| Motorways length (km)                        | 86814        |
| Road (density) km per million persons (1992) | 6747         |
| % of passenger traffic carried               | 50           |
| Fleet size for freight                       | 400000       |
| No. of buses                                 | 25500        |

*Source : World Bank; World Development Report, 1995; Europa Yearbook, 1994*

Kazakhstan's road network is under the control of the state joint - stock company 'Kazakhstanzholdary'. The country is linked by road with the Russian Federation (46 border crossings), Kyrgyzstan (7), Uzbekistan (7), and via Uzbekistan and Turkmenistan, with Iran. There are 6 road connections with the People's Republic of China (including two international crossings, at Korgas and Bakhty).

Kazakhstan's 4002 km network of inland waterways is operated by the state industrial association Kazrechmorflot, which unites 11 water transport companies.

There are 20 domestic airports and one international airport at Almaty. All of them are served by the national joint - stock airline company Kazakhstan eue zholy (or simply Kazakhstan Airlines). There are also some private airline companies in operation. Turkish Airlines and Lufthansa have started flying to Almaty and there are plans to

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permit several other foreign airlines to start operation. Air transport to other CIS republics is mainly provided by Aeroflot.

Telecommunication - As of December 1991, telephones were available to 2 million subscribers, or about 13 of every 100 people in the country. The capacity utilisation is approximately 98 percent which leaves virtually no room for expansion. In 1992, there were only 88 main lines available per 1000 persons. There is a huge waiting list (about 1 million). The telecom network connects to CIS republics via 3000 channels and to the rest of world via 100 channels, which is extremely low. The Ministry of Communications is the monopoly provider of telecom services in Kazakhstan.

Power - The power scenario in Kazakhstan is captured in the table below :

**Table 1.12 Kazakhstan : Power (1991)**

| <b>Particular</b>                           | <b>Value</b> |
|---|--------------|
| Electricity production (Million KWH)        | 86128        |
| Production per person                       | 4826         |
| Avg. capacity factor for thermal plants (%) | 59           |
| System losses (% of total output)           | 9            |

*Source : World Bank; World Development Report, 1995*

The power system of the country is subdivided into three regional power grids: in the north, in the West connected to the Russian system; and in the South connected to the Central Asian System. While the domestic supply of electricity has expanded rapidly during



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the last decade, Kazakhstan still imports about 20 percent of annual demand. Of the total installed generating capacity, about 87 percent is thermal, 12 percent hydro and about 1 percent nuclear based.

**ii) Social infrastructure**

Education - The Republic of Kazakhstan has a well developed educational system and a relatively high rate of school attendance. In 1989, the literacy rate was 83.8% which is very impressive. Moreover, according to census results the rate of adult illiteracy was only 2.5 percent (males 0.9%; females 3.9%). The educational facilities are shown in the table overleaf.

**Table 1.13 Kazakhstan : Educational Facilities (1989)**

| <b>Institutions</b>                    | <b>Number</b> | <b>Total students<br/>(thousands)</b> |
|--|---------------|---------------------------------------|
| Secondary schools                      | 8064          | 3021                                  |
| Secondary specialised schools          | 244           | 255                                   |
| Higher institutions incl. Universities | 55            | 286                                   |

*Source : Statistical Yearbook, USSR State Committee on Statistics, 1989*

Education is fully funded by the state at primary and secondary level. Most pupils are taught in Russian, although since the adoption of Kazakh as the state language there have been attempts to extend the provision of Kazakh language education. There are 3 Universities in Kazakhstan. In 1991 plans were announced for the establishment of a new university of Turkestan. The high standard of higher educational facilities is reflected in the availability of skilled people (see table overleaf).

**Table 1.14 Kazakhstan : Training levels (1989)**

| Category                                       | No. Per 10000 inhabitants |
|--|---------------------------|
| Specialists                                    | 1112                      |
| Specialists - with higher education            | 464                       |
| Scientists                                     | 25                        |
| Scientists - doctors / candidates <sup>#</sup> | 10                        |

*Source : Economic Bulletin for Asia and the Pacific, Vol.XLII, No. 1/2, UN.1991.p.9*

# "candidate" roughly corresponds to a North American Ph.D.

Health - The availability of health facilities in Kazakhstan is relatively better as shown in the table overleaf.

**Table 1.15 Kazakhstan : Health (1989)**

| Particular                                  | Value |
|---|-------|
| Life expectancy at birth (years)            | 68    |
| Male (years)                                | 64.3  |
| Female (years)                              | 72.4  |
| Infant Mortality rate (per 1000 population) | 25.9  |
| No. of doctors (per 10000 population)       | 40.9  |
| No. of hospital beds (per 10000 population) | 135.6 |

*Source : Economic Bulletin for Asia and the Pacific, Vol.XLII, No. 1/2, UN.1991.p.8*

The health care system is financed exclusively from the Government. There are no private practitioners or private clinics. The Ministry of Health operates over 8000 health service institutions.

### iii) *Financial Infrastructure*

The financial system consists of the National Bank of Kazakhstan (NBRK), the 5 former specialised banks which became joint -stock

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banks when specialisation was abolished in December 1990, 20 other joint - stock banks, 45 commercial banks, 13 cooperative banks, and 25 private banks. Following are some of the important banks :

- Chimkent Co-op Bank (Soyuzbank)
- Commercial Innovation Bank (Kramos Bank)
- Co-op Bank of the Alma-Ata Union of Co-operatives (Centre Bank)
- Kazakh Foreign Trade Bank

In addition to the banking institutions, there are some other non-banking institutions such as insurance companies, commodity stock exchanges and 2 stock markets. With the exception of the state owned insurance companies , the non-banking financial institutions still account for a small proportion of total financial transactions.

## **C. MAJOR ECONOMIC SECTORS**

### ***i) Agriculture & livestock***

Agriculture is the second largest sector in the Kazakhstan economy, contributing 36 percent of the NMP and employing 18 percent of the labour force in 1991. Approximately, 82 percent of the 220 million hectares of agricultural land in Kazakhstan are grazing lands, pastures and rangeland. The remaining 35 million hectares are arable. Agricultural production is organised in about 7000 to 8000 state and collective farms, averaging around 35000 - 40000 hectares in size. The private farm sector in Kazakhstan is estimated to hold about 1.5 per cent of arable land.

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Kazakhstan is a major producer and exporter of agricultural products. Apart from cereals, the principal crops are fruits, sugarbeet, vegetables, potatoes and cotton. The land utilisation pattern of the Republic has been heavily tilted in favour of the grains (see table 1.14).

Among the grains, wheat has accounted for more than 60 percent of the cultivated area. Kazakhstan has produced around 12 percent of the FSU total grain output. In 1990, Kazakhstan exported agricultural products worth of 1764 million rubles and imported products worth of 392 million rubles.

**Table 1.16 Kazakhstan : Land Utilisation (1989)**

| Particular        | Area ('000 ha) | % of total |
|-------------------|----------------|------------|
| Total arable land | 35229          | 100.0      |
| Grain             | 23812          | 67.6       |
| Crops             | 460            | 1.3        |
| Vegetables        | 336            | 0.9        |
| Others            | 10621          | 30.2       |

*Source : Statistical Yearbook, USSR State Committee on Statistics, 1989*

The livestock sector comprises mainly cattle and sheep. Small ruminants, including 36 million sheep and goats, make up the largest animal population in Kazakhstan and offer a potential for growth and export. Kazakhstan is one of the largest producer of Astrakhan wool. It has also emerged as the major producer of milk, meat and wool. Kazakhstan accounts for more than 20 percent of the total production of wool of the former USSR.

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**ii) Industry**

Industry in Kazakhstan, excluding construction, has contributed 41.6 percent of NMP and 21.8 percent of employment in 1991. Among the Central Asian Republics, Kazakhstan is the highly industrialised republic. Due to an abundant supply of mineral resources, Kazakhstan has a reasonably well developed and diversified extraction and processing industry. It is the largest copper producer in the FSU and, as an independent country, ranks tenth in the world. It is also a world class producer of chromite ore, chromium compounds, and ferrochromium. The non - ferrous metals industry is highly developed in the republic. Kazakhstan's bismuth, cadmium, and thallium which are indispensable in electronics, nuclear power engineering and rocket making have no equal in terms of their purity. Other major industries and products are listed below :

**Table 1.17 Kazakhstan : Industry**

| <b>Industry</b>     | <b>Products</b>                        |
|---------------------|--|
| Chemical industry   | Petro products, jet fuels, fertilizers |
| Farm machinery      | Tractors, agricultural equipments      |
| Agro-based industry | canned meat, footwear, textiles        |

Kazakhstan also produces bicycles, cement and other construction materials.

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## D. EXTERNAL SECTOR

### i) *Foreign Trade*

Kazakhstan's trade used to be dominated by the rest of the former USSR, which accounted for more than 90 percent of the total.

Table 1.18 Kazakhstan : Foreign Trade (1991)

| Particular | With the Union<br>(Ruble million) | Outside the Union<br>(Dollar million) |
|------------|-----------------------------------|---------------------------------------|
| Exports    | 13208                             | 1254                                  |
| Imports    | 17363                             | 1356                                  |
| Balance    | -4155                             | -102                                  |

Source : EIU Country Profile No. 31, 1992-93

So far as the composition of trade is concerned Kazakhstan's main exports to the Union included oil and gas, machinery and unprocessed agricultural products, and its principal items of imports from the Union have been machinery, oil and gas and ferrous metals. However, its main items of export to other countries included ferrous and non-ferrous metals whereas machinery, food and chemicals were the main items of import. The important trade partners outside CIS are Germany and China.

### ii) *Foreign Relations*

As the largest and most influential of the five Central Asian republics of the former USSR, Kazakhstan has been regarded as a potential guarantor of peace in the region. Kazakhstan became a member of the

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CIS on December 21, 1991 and of the IMF and the World Bank in 1992. It also joined the EBRD, ESCAP and ECO.

Kazakhstan, thus, appears to be the better placed economy among the Central Asian Republics, partly due to the bounty of nature and partly due to the contributions of Soviet planning. In the next chapter, we will discuss the economic problems in the context of the Soviet legacy.

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**CHAPTER II**  
**ECONOMIC PROBLEMS :**  
**THE SOVIET LEGACY**



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Before the disintegration of the erstwhile USSR, world was quite oblivious to the economic dynamics of the Central Asian Republics. The powerful centralised system used to keep every thing under its veil. After living for around 70 years under the centrally planned economic system, the former Soviet republics of Central Asia are now suffering from the effects of disintegrating monolithic structure. This monolithic structure emphasized strict central control over its subject republics and resisted any calls for decentralisation or more autonomy at the periphery.

Among all FSU republics, Central Asian republics have been most adversely affected by this system of strong economic dependence. Unal Cevikov rightly says, " The former Soviet republics of Central Asia which proclaimed their political independence in 1991, have yet to gain their economic independence"<sup>1</sup>.

A host of macro - economic problems and structural bottlenecks have constrained the process of economic transition of Kazakhstan after independence. This chapter attempts to study these problems in the light of the Soviet legacy. ✓

## **THE LEGACY OF PLANNING**

In the Post Bolshevic Revolution era, i.e. between 1917 and 1950, many countries seceded from the market economy and launched an experiment in constructing an alternative economic system. The former USSR was the torch bearer to it and made a massive effort to

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<sup>1</sup> Cevikov, Unal, " A brief account of the economic situation in the former Soviet republics of Central Asia", Central Asian Survey, 13(1), 1994. P. 45

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centralise control of production and allocation of all resources through state planning. The argument for this system was based upon the ideologies of equitable income distribution and welfare state.

The economic condition of Central Asian region during the 1917 Revolution is aptly described in the words of Ahmed Rashid as “ whereas Russia was looking towards socialism as the ideology of the future, Central Asia was still emerging from a tribal and nomadic society that was trying to get to grips with the first rumblings of nationalism and capitalism”<sup>2</sup>.

The economy of Kazakhstan was in total shambles during that period as a result of the Civil War. Cut off of supplies due to the railway blockade and consequent famine devastated the fragile economy. Large scale loss of livestock had forced lakhs of Kazakh nomads to flee to the neighbouring countries. The communists, thus, inherited an almost non-existent economy, a collapsed infrastructure, ruined cities and a population that was seething with unrest and revolt.

On 26 August 1920 the Kazakh Autonomous Soviet Socialist Republic was created. In 1921, with the launch of New Economic Policy, the Soviet government set before itself the aim of removing the socio - economic backwardness of the Central Asian region. However, after the 1924 national delimitation, the Soviet approach towards Central Asia was a combination of cultural sovietization and economic development. This approach was in line with Stalin’s vision about a nation as “stable and historically developed community” based on four

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<sup>2</sup> Rashid, A.; *The Resurgence of Central Asia : Islam or Nationalism*, Karachi, 1994. p.25

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criteria of a common language, a unified territory, a shared economic life, and a common culture<sup>3</sup>.

## **AGRARIAN DEVELOPMENT**

The Soviet regime started the agricultural development through land reforms, which benefitted economically the landless, poor and middle - income peasants, forming the bulk of the population. To break the power of Kulaks, Stalin initiated voluntary farm collectivisation in 1927. Finding the progress patchy, he introduced compulsory farm collectivisation in 1929.

Forced collectivisation, as a part of communist agrarian reform, was subjected to the predominantly nomadic inhabitants of Kazakhstan. This proved traumatic to the Kazakh tribes. According to one estimate, in the 1930s Kazakhstan lost through migrations, death, murder, prison, starvation and other causes 1.5 million people, or one third of the entire population<sup>4</sup>.

**Table 2.1 Kazakhstan : Livestock losses (millions)**

| <b>Year</b> | <b>Cattle population</b> | <b>Sheep population</b> |
|-------------|--------------------------|-------------------------|
| 1929        | 7.4                      | 21.9                    |
| 1933        | 1.6                      | 1.7                     |

*Source : Ahmad Rashid, The Resurgence of Central Asia : Islam or Nationalism, Karachi, 1994. P. 115*

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<sup>3</sup> Hiro, Dilip; *Between Marx and Muhammad : The changing face of Central Asia*, U.K., 1994. p.304

<sup>4</sup> Rashid, A.; *Ibid.* p.115

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Livestock losses (see table 2.1) were enormous as people either killed their animals or drove them into China rather than see them appropriated by the state.

This exodus coupled with famine in the mid-1930s reduced the size of the indigenous populace. It turned the majority Kazakhs into minority in their autonomous region, which was upgraded to Union republic in 1936 at the time of a new USSR Constitution.

After Stalin, in order to make USSR self - sufficient in foodgrains and other agricultural produces, Nikita Khrushchev announced his Virgin Lands Scheme in February 1954. The Kazakh steppes were declared virgin territory. The target was to transform 3.5 million hectares of grazing land into 300 new state farms within a year, as the first step towards bringing under plough a total of 16 million hectares of pasture land. Another mass migration of outsiders followed as the success of this programme depended on attracting volunteers from outside Kazakhstan. As a result, the land under cereals shot up from 7 million hectares in 1953 to 23 million hectares in the early 1960s<sup>5</sup>. However, the scheme was unsuccessful. In widespread storms and wind erosion between 1960 and 1964, 4 million hectares of farmland were ruined and 12 million hectares were damaged.

During the Brezhnev reign, scientific management of agriculture was stressed. The focus was on improving the productivity of land rather than acquiring gigantic fields. The strategy proved successful as by 1970, two-thirds of the republic's agricultural output was provided by

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<sup>5</sup> Hiro, Dilip; Ibid.p. 107

2059 state farms<sup>6</sup>. The commanding role played by the agrarian sector, run directly by the state, made the republic's economy more diverse than it had been a generation ago. By the late 1970s, the republic managed to meet its target for foodgrain production. With three-quarters of the work horse engaged in agriculture, its contribution to the central pool varying between 5 million tons (in 1975) and 20 million tons (in 1976)<sup>7</sup>. Kazakhstan achieved remarkable progress in other agro-based products during this period (see table 2.2).

Though, Kazakhstan is big in terms of land mass, only a small part of its terrain is cultivable because of large mountain ranges and deserts.

**Table 2.2 Growth in agri- based products**

| Product | % change between 1950 and 1979 |
|---------|--------------------------------|
| Milk    | 264                            |
| Meat    | 318                            |
| Eggs    | 536                            |

*Source : Hero, Dilip.; Between Marx and Mohammed : The changing face of Central Asia, U.K., 1994.p.371*

**Table 2.3 Kazakhstan : Availability of Sown Area (1983-84)**

| Particular | Thousand sq. km. | % of total |
|------------|------------------|------------|
| Total area | 2717.3           | 100.00     |
| Sown area  | 359.5            | 13.23      |

*Source : Gidadhubli, R.G.(ed.); Socio Economic Transformation of Soviet Central Asia, New Delhi, 1987.p.155*

<sup>6</sup> Hiro, Dilip; Ibid.p. 107

<sup>7</sup> Hiro, Dilip; Ibid.p. 371

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Four - fifths of the land in Kazakhstan is today classified as sandy plains with desert shrubs. The table 2.3 shows that a mere 13 percent of land was under cultivation. Furthermore, this problem was accentuated due to the arid weather and severe water shortages.

## **SOCIALIST INDUSTRIALISATION**

Collectivisation was followed by the beginning of industrialisation in Central Asia as enormous plants were set up in the major cities. In the First Plan (1929-33), emphasis was laid on developing indigeneous industries and mining industries. Second Plan focussed on increasing labour productivity and setting up of heavy industries specially in the power and chemical sectors. The industrialisation of this nature had certain logic as expressed by Kaushik in the following words<sup>8</sup> :

“As with every other social system, socialism required productive forces of a definite level, on a definite material and technical basis. For socialism, such basis is large-scale heavy industries capable of supplying agriculture with machines and artificial fertilizers. Without large-scale industry it is impossible to build socialism. Consequently, to build a socialist economy industrially undeveloped countries must first industrialise”.

World War Two had a dramatic and positive effect on Central Asia. As a result of the wartime policy of transferring factories from the front line zones in the European USSR to peripheral regions, Kazakhstan gained 140 industrial enterprises<sup>9</sup>. However, most of the

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<sup>8</sup> Kaushik, D.; *Central Asia in Modern Times*, Moscow, 1970. p. 215

<sup>9</sup> Hiro, Dilip; *Ibid.* p. 33

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industries were largely populated and governed by Russians. Even the shifting of industrial enterprises were done in a draconian fashion, in which factories were lifted in their entirety including the labour force. Unlike other Third World countries, the process of industrialisation in Kazakhstan was not very effective in absorbing the surplus work force in agricultural sector. However, much of the Soviet investment in mining and heavy industry took place during World War Two. By the 1960s Kazakhstan had the third largest gross national product of the Soviet Union's fifteen republics. By the early 1980s Kazakhstan, with 6 percent of the USSR population, produced 10 percent of Soviet coal and 5 percent of Soviet oil, with its economy fully integrated into the central system. The tables below show the progress of industrial sector in Kazakhstan.

**Table 2.4 Industrial Production Ratios (1940 = 1)**

| <b>Year</b> | <b>Kazakhstan</b> | <b>USSR</b> |
|-------------|-------------------|-------------|
| 1965        | 12.0              | 7.9         |
| 1975        | 27.0              | 17.0        |
| 1980        | 32.0              | 21.0        |
| 1983        | 35.0              | 23.0        |

*Source : Gidadhubli, R.G.(ed.); Socio Economic Transformation of Soviet Central Asia, New Delhi, 1987.p. 157*

Though, Kazakhstan had an impressive performance, its industrial growth was well below to that achieved by the republics of Baltic and other European dominated republics.

The level of per capita industrial production was only half of the former USSR as shown below in the table. Virgin Lands Scheme and

large scale Russian migration to the north of the republic were responsible for the high level of investment in Kazakhstan.

**Table 2.5 Industrial Production and Fixed Investment (1975)**

|                                     | Per Capita (Roubles) |      | % of USSR Total |       |
|-------------------------------------|----------------------|------|-----------------|-------|
|                                     | Kazakhstan           | USSR | Kazakhstan      | USSR  |
| Industrial Production (Value Added) | 220                  | 530  | 2.3             | 100.0 |
| Industrial Fixed Capital            | 3308                 | 2833 | 6.6             | 100.0 |

*Source : Gidadhubli, R.G.(ed.); Socio Economic Transformation of Soviet Central Asia, New Delhi, 1987.p.158-9*

However, as the general economic crisis worsened during the 1980s, it received a curtailed investment from the Union's exchequer.

## **SOCIO - CULTURAL DEVELOPMENT**

As discussed earlier, cultural reforms ran almost parallel to economic reforms. With the modernisation of agriculture and industry, social mores of Kazakhs underwent a sea - change. Mass literacy, emancipation of women and freedom from religion bigotry were some of the achievements of the communist planning.

In the first post-revolution census of 1926, literacy rate in Kazakhstan was only 7.1 percent<sup>10</sup>. Literacy was confined almost wholly to men

<sup>10</sup> Hiro, Dilip; Ibid.p. 31



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as women literacy was just 1 per cent. By the late 1960s, Kazakhs became universally literate. Alongside the drive against illiteracy, Stalin launched the campaign against religious superstitions and archaic customs throughout the USSR. The purpose of the exercise was to engender a new Muslim 'Soviet man' who, having released himself from the influences of the reactionary socio - religious traditions of Islam, was ideologically and culturally ready to join forces with his Russian counterpart to construct a socialist order.

Stalin was highly obsessed with the idea of creating a strong and pervasive centralised system. However, in order to bring homogeneity in the society many tough and discriminatory steps were taken. The state initiated the takeover of religious trust properties in 1925. This had the effect of depriving mullahs of their income and starving mosques and theological schools of funds. The anti - religious drives conducted during the 1930s and again during the Khrushchev era has led to large - scale closures of the places of worship and religious schools. In Alma Ata number of mosques declined from 63 during the pre - revolution days to just one. The state forbade religious propaganda, and religious education to minors in groups larger than three. During the Second Plan, it also forbade the Muslim practice of going on pilgrimage to Mecca. A ban on Arabic script in 1929 struck at the root of Islamic scriptures and commentaries. It was first replaced with the Latin alphabet, and later by the Slavic Cyrillic alphabet in the 1940s.

In 1926 the socialist family code, giving equality to men and women, was promulgated. Despite protests, authorities went ahead and

abolished the practices of polygamy, bride purchase and veil, and closed down the Sharia and Adat (customary) courts. With the growing need for work force women too took active part in the production process.

In social services, Kazakhstan, though did very well as compared to neighbouring Muslim countries, remained underdeveloped compared to the western republics. The national income index in 1983 was 155 (1970= 100) which was far less than the former USSR (182) and most of the other republics<sup>11</sup>. The table below shows the progress made by Kazakhstan with respect to some social indicators.

**Table 2.6 Select indicators of Consumer Welfare**

| Indicators                            | Unit                  | 1978  | 1983  |
|---------------------------------------|-----------------------|-------|-------|
| Urban Housing                         | sq. metres per capita | 11.2  | 12.2  |
| Doctors                               | per 1000 population   | 29.8  | 35.2  |
| Hospital beds                         | per 1000 population   | 128.7 | 132.6 |
| Students enrolled in higher education | per 10000 population  | 173.0 | 180.0 |

*Source : Gidadhubli, R.G.(ed.); Socio Economic Transformation of Soviet Central Asia, New Delhi, 1987.p. 160-1*

## POST GORBACHEV DEVELOPMENT

During the later years of his rule, Brezhnev had lost his impetus for reforming the system. He had become obsessed with production

<sup>11</sup> Gidadhubli, R.G.(ed.); Socio Economic Transformation of Soviet Central Asia, New Delhi, 1987.p.160-1

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targets; and achieving these had become an end in itself. The expensive arms race with the West further distorted the Soviet economy, siphoning off a hefty 25 percent of the GDP on defense and defense - related industry, as well as the major part of the first - rate scientific and intellectual talent. A sense of discontent set in among the farm and factory workers and they lost their motivation for hard work. The attitudes towards public property deteriorated as there were numerous instances of widespread pilfering and bribery by the public employees. A parallel economy got created and thrived on nepotism and rampant corruption. By the late 1970s the system was in deep trouble and needed urgent corrective measures. After Brezhnev, his successors Andropov and Chernenko could not do much because of their short tenures.

It was during this critical juncture that Gorbachev took over in 1985 and within a year launched **glasnost** (political relaxation) and **perestroika** (economic restructuring). The need for these measures arose because by the second half of the 1980s the Soviet planned economy was disintegrating from within. Since the late 1970s there was a secular decline in the rates of economic growth. The targets of 9th and 10th Plans were not achieved. During the 11th Five Year Plan (1981-85), industrial and agricultural production growth rates were around 2 percent only<sup>12</sup>. The result of glasnost and perestroika was inflation and foreign indebtedness rather than higher productivity. Wages rose sharply relative to official prices. With greater enterprise autonomy and continuing subsidies, the Soviet fiscal deficit reached 11 per cent of gross domestic product in 1988. By 1990 deliveries of

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<sup>12</sup> Shams Ud Din (ed.), *Perestroika and the Nationality Question in the USSR*, New Delhi, 1990.p.11

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inputs were falling well short of planned levels, and black market prices and exchange rates were many times higher than official ones. In a nutshell, Soviet economy suffered from stagnation, low capital and labour productivity, low level of investment, shortage of raw materials and labour and poor quality of manufactured products.

### **KAZAKHSTAN'S ECONOMY (1986-90)**

All the republics registered declines during this period but the losses in Central Asia were the largest. Part of the reason was that total investment in Central Asia had been steadily declining since 1970. Kazakhstan, which once had impressive investment share, experienced a drastic cut in the investment (see table 2.7 )

**Table 2.7 Kazakhstan : Per Capita Investment (USSR = 100)**

| <b>Year</b> | <b>Per Capita investment index</b> | <b>% decline</b> |
|-------------|------------------------------------|------------------|
| 1961-65     | 155                                |                  |
| 1971-75     | 116                                | (-) 25.2         |
| 1981-85     | 104                                | (-) 10.3         |

*Source : Liebowitz, R., ' Soviet Geographical Imbalances Imbalances and Soviet Central Asia', in R. Lewis (ed.); Geographical Perspectives in Central Asia, London, 1992.*

The declining share of central capital investment resulted in low labour productivity, especially in agriculture. Following the period of moderate growth during 1985-88, aggregate output, as measured by net material product (NMP), contracted slightly in 1989. It contracted further by about 2 per cent in 1990. However, as against the official

estimate, there may have been little or no real growth during this period owing in part to higher price increase than officially recorded<sup>13</sup>.

**Table 2.8 Kazakhstan : Agricultural performance**

| <b>Year</b> | <b>Cereal production<br/>(1982 = 100)</b> | <b>Cereal land<br/>(%of cultivable land)</b> |
|-------------|---|--|
| 1986        | 145.4                                     | 69.0   |
| 1987        | 140.8                                     | 68.9   |
| 1988        | 114.8                                     | 68.1   |
| 1989        | 102.9                                     | 67.6   |
| 1990        | 155.9                                     | 66.4   |

*Source World Bank*

It is evident from the table that the performance of the agriculture was fairly weak during the period 1986-89. Moreover, cereal land as a percentage of total cultivable land was declining.

**Table 2.9 Kazakhstan : Industrial Production (1985 = 100)**

| <b>Year</b> | <b>Coal</b> | <b>Natural gas</b> | <b>Iron ore</b> | <b>Electricity</b> |
|-------------|-------------|--------------------|-----------------|--------------------|
| 1986        | 105.3       | 106.8              | 102.8           | 104.7              |
| 1987        | 108.6       | 115.7              | 105.4           | 108.9              |
| 1988        | 109.4       | 130.8              | 105.9           | 108.8              |
| 1989        | 105.8       | 123.0              | 103.4           | 110.3              |
| 1990        | 100.5       | 130.4              | 103.8           | 107.5              |

*Source :World Bank*

<sup>13</sup> Economic Reviews, IMF, 1993.p.5

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From table 2.8 it appears that extraction and mining industries performed poorly. Manufacturing and construction industries did somewhat better. Prices and trade remained more or less stable.

Economic liberalisation initiated by Gorbachev, though gave greater powers to the republics and enterprise, resulted in the rise of nationalism which got further impetus by the poor performance of the economy.

After independence, Kazakhstan, in the process of economic transition, was facing many problems on its way to economic prosperity. Before we discuss the emerging problems during the transitory phase it would be fair to give a brief outline of the inherited socio - economic structure of the Republic of Kazakhstan.

### **Colonial Pattern Of Industrialisation**

Kazakhstan had undergone very substantial economic development during the Soviet period. It, however, was imbalanced, of a colonial type, and not in accordance with its resource endowments. The Soviet planning and investment practice were geared more towards developing the economic capacity of Kazakhstan to meet the needs of the national economy than to developing the independent productive capacities. As a result, the economic conditions needed to absorb surplus labour was not created. Inadequate attention paid to the all round development of industries gave the economy an agricultural and resource extraction orientation. The economy was treated as a supplier of raw material to the Russian manufacturing industries. In the process the development of the basic sectors such as consumer

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durables and non-durables got neglected. The economy, thus remained largely agricultural and traditional in nature with no high-tech industrialisation, and was totally dependent on the Russian and other European republics for consumer goods. The predominant agricultural structure of Kazakhstan meant that the purchasing power of ordinary people was far less than the rest of the Soviet Union that were industrially advanced.

The strong emphasis on industrialisation, during the period of central planning, dictated a great degree of product specialisation which was reflected in a high level of monopolisation of industry. The high level of monopolisation led to an intensive interregional exchange of goods among the former Soviet republics. The level of interdependence was more because of the closed nature of the economy. In 1988, 83.5 percent of total imports to Kazakhstan was from among the republics. In exports, corresponding figure was as high as 91 per cent.

### **Environmental Disregard**

The degradation of Kazakhstan's environment can be largely attributed to the inherent inefficiency of a centrally planned economy. State ownership of productive sectors operating on the basis of quantitative production targets coupled with central allocation of funds within a framework of soft budgetary constraints did not encourage environmentally rational use of resources. Below cost pricing of resources and extensive recourse to subsidies did not favour investments in pollution control measures. The bias towards heavy industries and use of obsolete technologies have resulted in several environmental problems.

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The drying of Aral Sea bore witness to the a tragedy that is the outcome of the wrong Soviet planning. During the past 75 years, the sea has shrunk by 80 km and its depth has decreased by 123 metres. Flora and fauna dependent on this habitat got devastated. Salinisation of irrigated lands not only reduced crop yields but also polluted the irrigation water for users downstream. Agricultural pollution from the salts, fertilisers and pesticides had become a major health threat to the rural population.

According to one estimate, Kazakhstan needs as much as \$ 800 billion over a 10 years period to clean up the conventional environment<sup>14</sup>. Kazakhstan has suffered from the nuclear pollution. Semiplatinsk nuclear testing site has played havoc with the region.

### **Problems Of Indigeneous People**

Kazakhstan have a large and growing educated workforce, though the shortage of skilled labour remains a problem. Despite the integrationist approach , the Soviet strategy, by creating a specialised economy , prevented the indigeneous workforce from becoming diversified, skilled in industry and ultimately migrating to urban areas. The relative neglect of indigenous peoples participation in the process of production and distribution eliminated the private incentive to innovate or take the leadership. The prime example of this was the inability of the local leaders to exploit the vast oil and gas reserves of Kazakhstan.

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<sup>14</sup> Rashid, A.; *The Resurgence of Central Asia : Islam or Nationalism*, Karachi, 1994.p.62



As stated earlier that Kazakhstan experienced large scale Russian migration more than once resulting in the **russification** of the Republic. This was done primarily to alleviate the population pressures in Russia. Moreover, indigeneous people themselves were reluctant to leave their home and join the industrial force.

**Table 2.10 Work force (per 10000 employed urban population)**

| Categories         | Kazakhs |      | Russians |      |
|--------------------|---------|------|----------|------|
|                    | 1979    | 1989 | 1979     | 1989 |
| Government         | 120     | 95   | 48       | 48   |
| Engg.(technical)   | 823     | 837  | 1138     | 1163 |
| Teaching           | 431     | 463  | 255      | 326  |
| Literature and art | 63      | 78   | 37       | 55   |
| Science            | 184     | 158  | 82       | 83   |

*Source : Kaiser, R., "Nationalising the Work Force : Ethnic restratification in the newly independent States", in Post Soviet Geography, 36, No. 2, 1995.p.101*

The above table clearly indicates that Russians were dominant in the industrial sector. According to Kaiser<sup>15</sup>, Kazakhs were relatively underrepresented in Industry, transport & communications, construction, trade and services.

<sup>15</sup> Kaiser, R., "Nationalising the Work Force : Ethnic restratification in the newly independent States", in Post Soviet Geography, 36, No. 2, 1995.p.101

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**CHAPTER III**  
**THE ECONOMIC TRANSITION :**  
**ISSUES AND CONCERNS**

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The exacerbation of the inherent and the newly emerging problems may be seen in the light of a transition from planned to market economy. The pains and pangs of transition can be felt ubiquitously at the political, social and economic levels. Thus, "all fixed fast - frozen relations, with their train of ancient and venerable prejudices, and opinions, are swept away, all new - formed ones become antiquated before they can ossify"<sup>1</sup>. The dynamics involved in this sudden and abrupt change led to a state of spiralling instability in the system. After the disintegration of FSU, Kazakhstan indulged in macroeconomic reorganisation in an attempt to identify concrete avenues of transition so that economic balance and system synchronisation is restored.

## **EMERGING CRISES AND ITS RATIONALE**

The dynamics of transition was marked by destabilisation and privatisation as the motive for market relations and newly defined property rights. Growing joint stock companies and sale of enterprises to private ownership through competitive bidding endorses the Republic's plan to complete privatisation. Kazakhstan officially declared that an open economy was necessary to be a part of the world economic order and for international division of labour. This led to large contracts with foreign transnational corporations in the area of infrastructure, basic industries and agro - industrial complex. Thus a system of preferences and most favoured treatment for foreign investors was created. However, even though the market infrastructure was taking shape with the process of transition gaining

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<sup>1</sup> World Development Report, NewYork, 1996.p.

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momentum, the Republic's economy remained monopolised and was instrumental in keeping the prices high. Besides the reversal of terms of trade against the economy led to spiralling inflation in the economy degrading the socio - economic status substantially, apart from giving rise to system instability.

The beginning of formation of an independent state was entangled in the complexities of economic crises. The production of industrial manufactured and consumer goods was steadily declining. The use of so called free prices in the absence of the market and competition led to a reduction of consumer demand. Rapid inflationary process and out of tune interest rates placed credit beyond the potential borrowers reach. The economy of Kazakhstan was so linked with Russia that when the latter switched to new rubles, the former was flooded with old banknotes. This was absolutely fatal to the monetary circulation, in the face of declining production, financial stability and mounting crises, thereby, forcing the economy to launch its own national currency, the tenge. An integral consequence of economic crises are social difficulties. Declining production and breakdown of financial system reduced the standard of living of populace, with 70 per cent of the population below the poverty line in 1992 and average pay of workers in the non - productive sphere was lower than the minimum consumer "basket". With sharply rising consumer prices and polarisation of social groups of the Republic's population, the dynamic process of transition hinders the formation of the large, supportive middle class found in developed societies.

The analysis of the economic transition rests on the structural transformation of the economic institutions :

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- The fiscal federalism, and
  - The planning process

## **FISCAL FEDERALISM IN KAZAKH ECONOMY**

Fiscal federalism or popularly known as federal finance refers to the existence of multi layers of governmental activity, meant to promote economic development, where each layer in the hierarchy is assigned with a particular set of fiscal responsibilities. The subterranean economic logic of fiscal federalism is that, division of powers among different layers of government leads to better allocation of resources as well as better counter cyclical stabilisation policies. Further, it has been argued that the central government be assigned with the responsibilities of resource allocation while the state be given the responsibilities of expenditure. A point in consideration here is that in a geographically vast and diversified nation, the different units tend to diverge in their economic growth and unless attempts are made to boost the economic activities of the backward regions, capital flight and other factor mobility will follow a one-way route from the backward region to the developed regions thereby further distorting the social equity of the concerned nation. Soviet Union, in this regard, had a proper institution for resource transfers as well as tax collections.

### **Provision Of Resource Transfers In Kazakhstan**

Until December 1991, Kazakhstan's fiscal operations were part of the USSR's budgetary process. Under the central planning system that prevailed at the time, fiscal policy focused on the allocation and

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redistributive roles of public finance. The union authorities closely monitored the state budgetary process, setting global targets as well as minimum revenue and maximum expenditure levels. Each level of government was effectively controlled by the next higher level to ensure the consistency of design and execution of fiscal policy with the plan. All expenditures were the republic's responsibilities except outlays for defence, public order, external debt, and debt service payments and most investments. Revenue sharing schemes were adjusted annually on the basis of each republic's revenue-raising capacity and expenditure needs, State budget deficits were covered by transfers or loans from the union budget, and surpluses were either transferred to the union budget or carried forward. A similar system regulated the relations between the republican authorities and the local governments. The following table shows the component-wise transfers of grants till independence.

**Table 3.1: Transfer of Grants to Kazakhstan (1985-91)**

| <b>Year</b> | <b>Grants (million rubles)</b> | <b>As % of GDP</b> |
|-------------|--------------------------------|--------------------|
| 1985        | 1401                           | 4.7                |
| 1987        | 2483                           | 7.1                |
| 1989        | 4602                           | 11.0               |
| 1991        | 6003                           | 6.5                |

*Source : IMF*

Such a system of fiscal federation got affected during 1989-91 by the developments in the Soviet Union and totally disappeared in 1992. The resulting loss of resource transfers from Moscow and the

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assumption of new expenditure responsibilities as an independent state sounded doldrums for the Kazakh exchequer.

In 1990, Kazakhstan, like other republics, was given greater autonomy to manage its fiscal operations except defence and aerospace, fulfill debt service obligation and levy other union taxes. It was given freedom to determine its tax system, prices and income and social protection policies. But Kazakhstan's increasing autonomy was accompanied by a loss of transfers from the union government, which together with new fiscal responsibilities led to a further increase in the deficit in 1991. The consolidated state budget deficit, excluding grants, reached over 12 per cent of GDP. Union transfers also fell to less than 5 per cent of GDP. In 1991 Kazakhstan was declared independent which enhanced its freedom in the conduct of fiscal policy, subject to the constraints imposed by its membership in the Commonwealth Of Independent States (CIS).

### **Taxation**

Since 1991, the Kazhak government has been trying to streamline its finances in many ways. Excise taxes replaced the sales tax that was introduced in 1991 and ad valorem duties were levied on products such as alcoholic beverages, luxury food items, tobacco etc. VAT (Value Added Tax) was levied initially at a unified rate of 28 per cent, based on the origin principle, and the tax liability was at the payment stage instead of the more usual invoicing stage. Moreover it was applied differently for commercial and non commercial sectors.

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Several other ad hoc measures were introduced during the same period. Personal income tax was also amended to bring the minimum threshold in line with the minimum wage. A tax on foreign exports earnings was introduced with an average rate of 40 per cent, concurrently with the introduction of foreign currency surrender requirements, which was earmarked to the extra budgetary hard currency fund. Company specific royalty to capture the monopoly profits of a selected group of companies arising from the extraction of gas and oil was introduced. The tax earmarked to the investment fund was increased from 2.5 per cent to 5 per cent of cost of production.

In the changed scenario of responsibilities a cash management system was introduced which resulted in a sharp expenditure cut. Unfortunately, such expenditure cuts has taken place more in public education and health care followed by a restructuring of expenditure on external debt service, defence and aerospace expenditures. New investments projects was delayed and expenditure on ongoing projects was limited to the earmarked revenue of the investment fund and fund for the replacement of natural resources.

## **PLANNING PROCESS IN KAZAKHSTAN**

The planning process of the erstwhile Soviet Union resulted in a lopsided development of the economy. Over the years, the soviet planning emphasized on the raw material base of the economy which in the words of Micheal Hechter turned out to be an "internal colony"<sup>2</sup>. Others have labelled it differently ; for instance, Spechler

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<sup>2</sup> Jayashekar, " Problems of economic transition", in World Focus, 1994. p.19



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called it "welfare colonialism"<sup>3</sup> and Dienes a "quasi colonial economic structure"<sup>4</sup> and viewed the entire CIS region as a "plantation province"<sup>5</sup>. Added to the one-sided raw material orientation of the economy was the high degree of monopolisation of production and concentration of large enterprises in the hands of the state that impeded the development of market forces and free - competition. Further, the isolation and predominant orientation of production towards CIS and especially the Russian market prevented Kazakhstan from joining the world market. The analysis of the planning process reveals that they were imposed from above in an administrative procedure without any consideration of objective peculiarities of the socio-economic or ecological conditions.

### **The Structural Bottlenecks**

The present attempt of Kazakhstan to adopt a market oriented economy requires the state to extend special support for the development of the program of structural reorganisation of the national economy as one way of reducing the crisis. The economy built upon in large scale resource potential is now faced with the need to make consistent reform so that the economy's structure can become adequate to the market's needs. However, the policy of modernisation and structural reorganisation must accompany top priority to anticrisis measures as time cannot be trusted with taking care of all the problems as well as "needs" can seldom wait till *ad infinitum*.

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<sup>3</sup> Jayashekar, *ibid.* p.19

<sup>4</sup> Jayashekar, *ibid.*p.19

<sup>5</sup> Jayashekar, *ibid.*p.19

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### **The Issue Of Industrialisation**

It is generally proposed that the scenario of production stabilization and crisis resolution requires an optimal combination of anticrisis measures with the intensification of economic reforms. Its distinguishing feature would be a partly managed economy that will correspond to the specifics of the Republic's socio economic condition, its national state interest, and the goal of raising the population's living standard. Going into the specificities, it can be said that Kazakhstan's planning resulted in the development of the extractive sectors, which can be termed as the completion of primary industrialization. Thus, the present need for reindustrialisation and the successive conversion of enterprises in the basic sectors to the production of products and for their reorientation towards the Republic's internal problems .

Given, this backdrop about the planning process of the erstwhile Soviet union, the fiscal federalism and the resulting problems and issues, it becomes a matter of debate whether to rely totally upon the market forces or to bring in state planning. However, as mentioned above the debate between market versus state has to be addressed to these policy programmes. While it has been realised that a structural transformation of the economy is needed with greater emphasis on industrial reorganization which can come about through private sector participation, it is nevertheless important for the state to take some policy decisions. For example, the role of foreign investment in developing the industrial structure of Kazakhstan has been well taken but at the same time there is no dispute that the state should direct those foreign investments towards producing

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final products. Vitrally important and socially significant sectors and spheres of the economy capable of becoming " growth points" under the conditions of emergence from the crisis and post crisis economic growth should receive special state support and should modernize which needs together the state's fiscal incentives as well as the private sector's participation. Similarly, financial and resource support is needed for sectors comprising the nucleus of the economy that are capable of forming the critical mass of technologically equipped, dynamic branches and types of production.

The adverse terms of trade and the excessive dependence on imported items and lack of proper export channels are important in answering a number of questions regarding the crisis. The commodity structure of external trade of Kazakhstan has not been appropriate for long term stability. The over - reliance on exports of energy products and a small range of primary commodities makes the Republic prone to external shocks because of high degree of price volatility of the main goods exported and the increasing adverse terms of trade in respect of primary commodity exports.

### **Other Issues**

Further, the complex of firms engaged in the production of consumer goods and in rendering services to the population can play a key role in economic stabilisation. The state of the consumer market was a source of alarm in this regard. The reality was that despite rising prices, domestically produced goods on stores are not increasing in quantity rather the reliance on imported goods was increasing. The steady decline of the ruble exchange rate and the rising cost of

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imported goods means "pumping" accumulation in favour of foreign currency which naturally reduces investment opportunities.

### **Issues of Privatisation**

A special place belongs to privatisation in extricating the economy from crisis, in stabilising production, and in creating market relations. The national decentralisation and privatisation programme for 1993-95 did contain a strict scenario and factually uniform rules for radical reforms in property relations. The proposal of converting state property into various kinds private property, bypassing the intermediate stages is obviously a welcome step but such conversions does bring out certain critical issues such as fixing the equity prices of the shares. The problem assumes further complicacies because of their nature of development in the sense that during their formation they were given free land and other fixed capital and hence a proper valuation of the assests becomes problematic. Again as the world experience shows, the radical reform of property with the change of its agents is not achieved in a short period of time. privatisation has its own peculiarities- stages and transitional forms-in the republic and in its individual regions.

The 'liberal shock' model has been used by the Republic of Kazakhstan in its endeavour in transition to the market economy. This monetarist model failed to correspond to the strategic interests of the economy. in the face of the almost complete absence of infrastructure, loss of controllability of the economy, and adverse terms of trade prices increased unrestrained leading to severe payment and financial crises. Shedding the cloak of administrative

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system failed to strike the balance between production and the budget, leaving the Republic still in the formative stages of market relations. Notwithstanding proactive efforts, there remained holdovers from totalitarian time which only complicated and impeded the transformation. The primary impediments in this context were :

- Unidirectional raw material orientation of the economy
- Acute production monopolisation, with the concentration of large enterprise - monopolies in state control which hinders free competition
- Lack of market infrastructure
- Production orientation towards Russian market preventing the Republic from joining the world economy.

Faced with the challenge of transition the Republic of Kazakhstan chose from the two stylized approaches.

- to launch a rapid all - out programme, undertaking as many reforms as possible in the shortest possible time
- to change by way of partial and phased reforms.

Failing to realise that a country's starting economic, social and political structure influence the final outcome of reforms, Kazakhstan initially chose the all - out approach to replace central planning with market economy in a single burst of reforms. This myopia impeded the republic from achieving a full transformation to the market economy. Actually changing the fundamental governance of enterprise takes long. Moreover, developing legal and financial

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systems market compatible takes time as it requires fundamental change in skills, organisations and attitudes.

After the first phase of failed reforms, it was felt that the Republic's reform policy needs to be seriously corrected taking into consideration the country's specific features. These country's specific features include forms of management and property, the determination of the level of social guarantees and the degree of state regulation of the economy. The Republic realised that adopting one of the two stylized models would not serve the purpose of the smooth transition as besides the country specific factors the socio-cultural background would not permit so. Thus, given the different nature of development of the Kazakh economy, its planing and fiscal process, its sudden disintegration from the soviet union and its recent attempt to reform cannot be easily concluded by saying that market orientation is the *panacea* for every thing. Transforming a centrally planned economy into a market economy requires complex and unprecedented reforms. There is no experience to guide transitions of the current magnitude and most countries are creating simultaneously a new political order that has its own economics. However, there is relatively little disagreement that transition have to be made but there is little agreement as to the theory, timing scope, speed and sequencing of reforms. In this regard, it can be said that market, naturally, has a great role to play but the state mechanism has to direct and guide the market in the desired way of reforms. While planning should be minimised its role can not be ruled out altogether. Even in the most advanced economies of the world, state planning does have a role and in that sense Kazakhstan has to plan its market oriented reforms.

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What can be suggested here is that the state should bring out clear cut guidelines for all the sectors instead of going for adhoc ways of permitting private industries to operate. A transparent guideline will obviously minimise distortions and push the reforms process further. As regard to the present crisis it can be said that its temporary in nature and will be sorted out in the coming years if the government follows appropriate policies. Thus, a mixed economy was emerging in the period of transition in the Republic.

Before reviewing the various policy reforms adopted during the two to three year period from 1992, it would be imperative to give an exposure of the performance of the Kazakhstan's economy in the period 1990-92.

### **ECONOMIC PERFORMANCE (1990-92)**

Kazakhstan experienced a drop in gross domestic product of just under 7 per cent in 1991, before price liberalisation and other market reforms. The 1991 contraction resulted primarily from the disruption of economic ties with traditional sources of supply and markets.

**Table 3.2 Macroeconomic Indicators (1990-92)**

| <b>Variables</b>       | <b>1990</b> | <b>1991</b> | <b>1992</b> |
|------------------------|-------------|-------------|-------------|
| GDP growth rate (%)    | -4.6        | -6.8        | -13         |
| Annual Inflation (%)   | 4.2         | 91.0        | 1610        |
| Per capita Income (\$) |             | 2470        | 1680        |

*Source : World Development Report, 1996; World Bank*

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As evident from the table 3.2, during the period 1990-92, the economy of Kazakhstan suffered heavily. Disruption in the supplies of inputs and vital raw materials affected production heavily. The industrial production in Kazakhstan went down by 40 per cent in 1992. There was sharp fall in the production of a number of important commodities. In 1992, according to official statistics, tractor production fell by 36 per cent, fertilisers by 34 per cent and consumer goods fell by 22 per cent. Among foodstuffs, meat fell by 34 per cent and milk products fell by 28 per cent.

A severe drought also contributed to poor economic growth in 1991, as agricultural production fell by 14 per cent in real terms. Agriculture, however, recovered well in 1992. During the Soviet reign, a significant feature of the Kazakh economy was a high degree of openness. The ratio of foreign trade to GDP was around 34 per cent. However, 90 percent of trade was with other republics. The break-up of system and the land-locked nature of the country affected the trade drastically.

Declining per capita income and galloping prices was pushed almost 70 percent of the population below the poverty line by the end of year 1992. Recession in the economy also contributed to the growing unemployment. Social safety net, earlier contributed by the subsidies, was no more available. For example, prior to the collapse of the Soviet Union, the prices of bread, sugar and oil had last been raised in 1955<sup>6</sup>.

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<sup>6</sup> Rashid, A.; *The Resurgence of Central Asia : Islam or Nationalism*, Karachi, 1994.p.65



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In 1991, the Union Government provided grant to the tune of 25 per cent of total public spending. After disintegration, scarcity of funds adversely affected both production and investment.

Poor performance by the extraction industries added the trouble. Industrial output was also constrained by obsolete equipment and inefficient production methods. The overall fall in industrial output masked large variations in performance between the energy and non - energy sub sectors. Output in the energy sub sector was weak despite relatively little dependence on other states of the former Soviet Union for inputs (other than oil) and the fall in the relative price of these inputs, reflecting the decline in investment over the previous decade. Natural gas production rose slightly while production of crude oil, electricity, and coal fell by 1-3 percent. Further falls in coal production may occur as a result of falling demand and excess stocks. The non - energy industrial sector contracted sharply; falls in the output of various food products ranged up to 50 percent, while various branches of metallurgy experienced falls of around 20 percent. The production of machinery and equipment for cattle breeding fell by 31 per cent and chemicals by 27 percent.

Reflecting general difficulties in the economy, and in particular the large declines in the production and supply of cattle-breeding equipment and fertilizers, agricultural produce other than grain performed poorly in 1992. However, despite the rising cost and shortages of inputs such as gasoline and fertilizers, the grain harvest amounted to about 30 million tons in 1992--three times the 1991 level

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and about 25 percent higher than the average for 1986-90. Results for nongrain produce such as vegetables were mixed. Despite these difficulties, the availability of some agricultural goods improved, as evidenced by the poor compliance with the state orders system for agricultural products (even grain), implying that a larger share of the output was diverted for sales to free markets.

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**CHAPTER IV**  
**PROSPECTS OF KAZAKHSTAN'S ECONOMY**

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The disintegration of USSR, the formation of Commonwealth of Independent States (CIS), the collapse of ruble trade regime, the abrupt ending of financial support from Moscow, all these posed a new set of problems to the economy of Kazakhstan. Trapped amidst the old distortions and the new problems, the Kazakhstan government attempted to reform and stabilise the economy from the present impasse through some stabilisation and structural adjustment policies. This chapter presents these policies along with an appraisal of the pre and post reform performance, to be followed by some insights into the global prospects that lay ahead.

## **THE STRUCTURAL AND STABILISATION POLICIES**

It was only after 1992, that serious efforts were made to transform the economy both in pursuance of structural reforms and stabilisation policies. While the structural reforms are addressed to cure integral distortions created over a long time of economic mismanagement, the stabilisation policies are primarily meant to balance the economy in the short run.

### **REFORMS**

The major elements of the reform programme include :

- Industrial reforms
- Foreign Investment reforms
- Foreign Trade reforms
- Price and wage liberalisation

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- Other reforms

### **Industry**

Following the April 1991 partial liberalization of prices in the Soviet Union, a Union wide antimonopoly law was approved and, as in other republics, a Kazakh Antimonopoly Committee was established. However, this regulatory framework, as it focused on Union-wide monopolies and not on monopolies within each republic, became irrelevant after the break up of the Soviet Union and was never enforced.

After independence, the January 1992 decree on price liberalization envisaged a future regulation of monopolistic activities in Kazakhstan. Antimonopolistic legislation was passed in September 1992, with the aim to avoid the accumulation of excessive profits by monopolistic enterprises. The law identifies the goods that are produced by monopolists. The list is long (about 300 items) and includes a very broad range of products. According to the law, the Antimonopoly Committee together with the Price Committee at the Ministry of the Economy is to verify that prices set by monopolists are such that given profitability limits are respected. Additional rules can be issued by local authorities. In case of violations, sanctions are envisaged for the enterprises and for their managers.

The government having failed to generate adequate returns from the public investments decided to adopt an extensive privatisation programme. The first ever process towards this was the sell of the state owned companies to the private sector. The modalities adopted

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to sell off these enterprises were auctions and direct sales to employees and inhabitants of Kazakhstan and central Asia.

### **Foreign investment reforms**

With a view to attracting foreign capital, a new foreign investment code was enacted in 1991 and free economic areas were established. As a result, foreign investment is now allowed in any sphere of economic activity, except in the manufacturing of products used for military purposes. The main incentive provided under the law include duty -free imports and accelerated depreciation. The law also grants a 100 percent income tax exemption for the subsequent five years for enterprises involved in the production of consumers goods, agricultural goods, electronic and medical equipments. It also allowed a tax exemption on raw material and other component intended for production and processing in the free economic zones.

### **Foreign Trade Reforms**

In line with its commitment to the ruble trade area, Kazakhstan coordinated its foreign trade policies with the CIS. The authorities were committed to free trade and the avoidance of double taxation within the CIS, although the fiscal status was never clearly defined. It also introduced a shift from custom union to a free trade area, in which taxation of interstate trade was avoided while each state had its own external tariff. In 1992, trade agreements specifying mutual supplies of key industrial and consumer goods were being concluded by Kazakhstan with each of the other 14 states of the former Soviet Union. These agreements, covered more than 170 different product and specified over 1,000 bilateral import or export arrangements to

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cover one half of two-thirds of Kazakhstan interstate trade, the remainder being conducted through direct links between enterprises. In 1993 more liberal arrangements were made that facilitated private trade. Such arrangements are made every year to bring in more privatisation into the economy.

### **Price and wage liberalisation**

As in the rest of the Soviet Union, price reform began with increases in administered prices between January and April 1991. In April 1991, free or negotiated prices were introduced for some 15 per cent of nonagricultural consumer goods, 30 percent of heavy industrial goods, 20 percent of agricultural goods, and about 70 percent of household services; most prices that remained under control were increased.

The largest step toward price liberalization, however, was taken in January 1992. In parallel with similar developments in Russia, prices for all but a limited number of goods were freed. At the retail level, the prices of about 20 percent of the goods covered by the retail price index (mostly basic food and essential services) remained controlled. However, these prices were increased administratively between three and five times. At the wholesale level, while most prices were liberalized, energy and freight prices were not freed. During the course of 1992, other prices-including those of coal, milk and milk products, salt, sugar, vegetable oil, and vodka-were liberalized. Most remaining regulated prices were increased several times.

As of the beginning of 1993, retail prices were still regulated for transportation and communication services, bread and bakery

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products, baby food, some energy products (including gasoline, diesel fuel, kerosene), and imported medicines. Wholesale prices were still regulated for energy products (including crude oil, natural gas) and for some types of transportation services. Administered price increases were particularly large for energy products. Local authorities set rents and related charges (heating, water, electricity, etc.) and urban transportation fares. Rates were increased several times over the period, mainly to reflect changes in the wholesale price of energy products.

In consonance with the price liberalisation a restructuring of the wages across the board was pursued soon after independence. The minimum wage was increased from rub 342 per month in December 1992 to rub 600 in May 1992, rub 900 in October 1992, and rub 2,500 on January 1, 1993. Deflated by the consumer price index, the purchasing power of the minimum wage in January 1993 was only 21 percent of that at the end of 1991. Although there are few data on income distribution and the number of people who earn the minimum wage, such a fall represents an enormous decline in the living standards for some of the most vulnerable groups of the population. Average wages grew significantly faster than the minimum wage to rub 13,359 per month at the end of 1992, implying a real increase of 10 percent since end 1991, but a fall of about 30 percent in year-average terms. These figures indicate little correlation between the minimum wage and the average wage in 1992, in contrast to the increase in the minimum wage in December 1991, which was associated with an almost proportional increase in average wages. Government officials have acknowledged that the minimum wage has



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lost its previous significance as a guideline for the determination of the general wage level, but have stated that the minimum has become more important for the determination of civil servants salaries, pensions, and other benefits.

To promote a cautious income policy, a tax-based system of wage control was also introduced in mid-1992, whereby that part of an enterprise's wage bill in excess of four times the minimum wage multiplied by the number of employees would not be tax deductible. The introduction of this system could partially explain the apparently growing practice of paying wages in kind; it is widely acknowledged that in some sectors-notably agriculture and retail trade-wages are increasingly supplemented with payments in kind. This would help explain also the fact that the wage bill implied by official statistics is very low as a share of national income.

### **Other reforms**

With respect to agricultural policy, Kazakhstan embarked on a program of reforms as early as 1991, with measures to create private farms, sell off or otherwise privatise loss generating farms and transform collective and state farms into true producers' holding of private plots. The cultivating individuals were given ownership of their land free of charge with the right of inheritance but not sale. As a result this reforms farmland now accounts for 35 percent of total farm output.

As regard other basic sectors such as housing and other amenities, the responsibility was vested in the hands of the local governments.

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The state could never take any broad policy decision on this. However, different system of privatisation was adopted and in some oblast almost all the housing stock was privatised. While no comprehensive statistic is available it is estimated that almost half of the dwellings are in the private hands.

As part of its reform programme the Kazakh government tried to strengthen its social security and welfare systems and to protect certain group of the population from the adverse impact of transition. In pursuit of these objectives the authorities created an Employment fund and also created a comprehensive system of cash allowances and separated the pension fund from the budget.

## **ECONOMIC PERFORMANCE : A CRITICAL APPRAISAL**

The different sectors of the Kazakh economy has been responding to the on going reforms in different ways (see table 4.1). Though the 1995 out look of the performance shows a greener picture of the economy, at least showing it going in a desired direction, it is nevertheless imperative to assess the performance sectorally.

### **INDUSTRY**

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 masked large

variations in performance between the energy and non - energy sub-sectors.

**Table 4.1 Performance Indicators (% per annum)**

| <b>Indicators</b>                         | <b>1990</b> | <b>1991</b> | <b>1992</b> | <b>1993</b> | <b>1994</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| GDP growth rate                           | -0.4        | -13.0       | -14.0       | -12.0       | -21.0       |
| Per Capita GDP growth rate                | -1.1        | -13.5       | -15.1       | -13.2       | -21.9       |
| Growth rate of value added in Agriculture | 12.2        | 24.7        | 0.5         | -12.1       | -24.0       |
| Growth rate of value added in Industry    | -14.5       | -13.2       | -23.2       | -19.7       | -28.5       |
| Growth rate of value added in Services    | 24.8        | 9.6         | -27.0       | 1.6         | -6.9        |
| Changes in consumer prices                | 4.2         | 90.0        | 1381.0      | 1659.0      | 1889.0      |
| Growth rate of merchandise exports        |             |             |             | 33.9        | -32.8       |
| Growth rate of merchandise imports        |             |             |             | 11.9        | -20.7       |

*Source : Asian Development Outlook, 1995 & 1996*

Output in the energy sub-sector was weak despite relatively little dependence on other states of the former Soviet Union for inputs (other than oil) and the fall in the relative price of these inputs, reflected the decline in investment over the previous decade. Natural gas production rose slightly while production of crude oil, electricity, and coal fell by 1-3 percent. Further fall in coal production may occur

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as a result of falling demand and excess stocks. 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 experienced falls of around 20 percent. The production of machinery and equipment for cattle breeding fell by 31 per cent and chemicals by 27 percent.

In the energy sector, the interdependence between Kazakhstan and the other former Soviet republics is striking. Most domestic output can be exported only to Russia: until an alternative pipeline from the Caspian fields is built, oil extracted in western Kazakhstan--which accounts for about three-quarters of domestic production--can only be routed through a Russian pipeline; coal is exported by railway from Pavlodar to western Siberia and the Urals, where plants were specifically designed to use Kazakh production ; Kazakh gas--until a new pipeline to channel Turkmen gas through Turkey is built--can only be directed to Russia. At the same time, oil refineries in eastern Kazakhstan can only receive oil from Siberian producers, who unlike Kazakh producers in the west, have access to other buyers. As a result of the structural characteristics of the oil market, it is estimated that, in the latter part of 1992, prices received for exported oil were about a quarter of prices paid for imports.

With the sharp increase in energy prices in early 1993 and prospects for further increases during the year, the authorities believe that large parts of Kazakhstan's industrial sector--notably the petrochemical and machine-building industries--could become uncompetitive if energy prices were to rise to world levels. A new price structure, however,

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could encourage investment in some existing industries and promote a more efficient allocation of resources. Moreover, price liberalization, if accompanied by measures to eliminate barriers to entry and trade liberalization, could improve production efficiency and competitiveness in this sector.

By 1995 the financial situation of Kazakh industry remained complicated. Panorama, the newspaper wrote, at 1st June 1995, around 18.8 bn tenge, or 5.8 per cent of GDP, was owed in unpaid wages, an increase of 3 bn tenge compared the figure for May, following on from an April figure that was 1.9 bn tenge down on March. The burden of industrial debts increased as more and more enterprises ran at a loss. By 1st June, there were 3,276 loss-making enterprises in Kazakhstan, representing 42.5 per cent of all enterprises, a 70 per cent increase since the beginning of the year, with losses totalling 13 bn tenge. Moreover, the newspaper pointed out that the number of loss-making enterprises and organizations affected all sectors of the economy, from 27 per cent in industry to 75 per cent in the housing sector.

The industries problem is not purely financial. There were prolonged standstills at many enterprises with 73.7 per cent of the total loss of working time attributed to difficulties in obtaining material resources. Lack of funds was responsible for only 23.8 per cent of the time lost. Sixty-eight enterprises ceased production altogether in May and another 60 in June. The June closures resulted in a shortfall of goods produced worth 7.7 bn tenge.

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In addition, the first six months of 1995 saw a year on year decline of 41 per cent in overall capital investments in enterprises and organizations and of 576 per cent in construction and assembly work. Total capital investment, including that made by joint ventures and foreign firms, stood at 43.63 bn tenge in current prices. Of this sum, 32.85 bn tenge in capital investments were channeled into the production sphere. the proportion of investment funding contributed by the enterprises and organizations themselves rose from 73 per cent in the first half of 1994 to 92 per cent in the first half of 1995. Of the capital investments not channelled into the production share, 62 per cent went into housing construction. A total of 10.78 bn tenge in capital investment was spent on social sector construction.

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 bn 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 bn tenge in current prices.

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.

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## AGRICULTURE

Reflecting general difficulties in the economy, and in particular the large declines in the production and supply of cattle-breeding equipment and fertilizers, agricultural produce other than grain performed poorly in 1992. However, despite the rising cost and shortages of inputs such as gasoline and fertilizers, the grain harvest amounted to about 30 million tons in 1992--three times the 1991 level and about 25 percent higher than the average for 1986-90. Results for nongrain produce such as vegetables were mixed. Despite these difficulties, the availability of some agricultural goods improved, as evidenced by the poor compliance with the state orders system for agricultural products (even grain), implying that a larger share of the output was diverted for sales to free markets.

### Agriculture and transport

Agricultural production also fell and was down 19 per cent on January June 1994 at 36.6 bn Panorama sad. privatization led to a redistribution of land, so that 26 per cent of the total area under crops belonged to the state and 69 per cent was in non-state hands, including collective farms. The remainder was accounted for by individual peasant holdings 4 per cent and subsidiary plots 1 per cent, together representing 1.09m hectares, an increase of one third on the previous year

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## **INFRASTRUCTURE**

### **Transport and Communication**

Transport and communication activities have become the third most important sector in Kazakhstan, with nearly 10 percent share of the NIP in 1992. Transport was by far the more important of the two sub sectors, accounting for more than 80 percent of employment in the official sector.

In view of its vast land area, Kazakhstan has relied heavily on its well-developed transportation system. Railways, the most important part of this system, are heavily dependent on Russia and Ukraine for spare parts, equipment, and rolling stock, suffered from shortages because of the disruptions in trade. Moreover, new investment is urgently needed to upgrade the existing network, including locomotives. Road transportation, which relies on the use of about 400,000 trucks, also suffered from the rising cost and shortages of fuel as well as an acute lack of spare parts, especially from Russia and Belarus.

The communication sub sector benefited from a number of significant private projects, including some involving foreign investment, in 1992. Substantial new investment in the telecommunications network is needed to upgrade and expand the existing network--which has an average age of about 25 years.

The volume of freight transported in the first half of 1995 fell to 107.9m tonnes, a 30 per cent drop on the corresponding period of 1994. The railways carried 76.3m tonnes. 12 per cent less than the



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previous year, whilst road haulage saw a 53 per cent drop to 30.9 m tonnes, Air cargoes were down 23 per cent on last year

## **CONSTRUCTION SECTORS**

As with manufacturing other sectors experienced great difficulties in 1992, including input shortages and a deteriorating capital stock. In addition, construction activity appeared to be particularly affected by resource constraints and was estimated to have fallen by more than 50 percent in 1992, to about one-third of the 1989 level. Monthly Goskomstat data pointed to a sharp decline in construction activity in January 1992, followed by a further deterioration during the year. Dramatic falls were recorded in almost all major construction activities,. The sharp decline in construction activity, combined with a rapid depreciation of the existing structures, led to a serious deterioration in housing conditions and in social facilities.

By 1995 construction costs were high, determined by low consumer demand and the high cost of imported materials, along with rapidly rising prices for domestically manufactured building materials, which rose 39 per cent between January and June 1995. BY contrast fierce competition from foreign producers and low purchasing power prompted a slowdown in the growth of prices in light industry. These rose an average 6 per cent a month in the first half of the year.

## **INFLATION**

Inflation was an increasingly serious problem in 1992 and early 1993, reflecting: (i) expansionary monetary policies in the ruble area ; (ii) the

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supply shortages resulting from the decline in output; and (iii) the increase in input prices (in particular for energy products). In addition, price liberalization and/or adjustments in administered prices introduced since 1991 have led to sharp step increases in the prices of many goods and services. Price increases by producers in certain sectors-especially the industrial sector-were quite steep, reflecting the monopolistic position of many enterprises. The rise in consumer price accelerated from about 11 percent in August 1992 to around 30 percent or more per month at end-1992. The overall increase in consumer prices during the 12 months ending in December 1992 was 2,567 percent compared with a rise of 2,323 percent in Russia. Producer prices rose far more rapidly, with the wholesale price index 12,490 percent higher in December 1992 than a year earlier.

The wide divergence between the wholesale and consumer price indices reflects a number of factors, some of a purely statistical nature. First, it appears that the largest increases in wholesale prices affected goods that were to a substantial extent exported, and hence had a relatively low weight in the CPI. Moreover, the increase in the extent of which these goods were exported rather than sold domestically would have exacerbated this effect. (Although the wholesale price index, WPI, uses fixed weights for each item, the price of any good is a floating weighted average of all prices received for that good.) Second, the degree of subsidization of each item at the time weights were determined could have also affected the results. Third, concentration of industry at the wholesale level allowed for some inordinate increases in prices that did not appear to be reflected in the CPI because many of these goods were predominantly exported

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and/or heavily subsidized at the consumer level. Finally, a large proportion of sales at the wholesale level was settled through the accumulation of arrears, thereby exerting little restraint on prices. In contrast, most retail transactions were settled in cash, which was in short supply—at least in the first half of the year—hence exercising a restraining influence over price increases.

Nonfood consumer prices in June showed a 21.1 per cent increase on December last year and 1.3 per cent on May, while paid services showed a 173.7 per cent rise over December 1994. Passenger transport services became 39 per cent more expensive during the same period. Railway fares almost doubled as a new base rate calculated in Swiss francs was introduced and the rate of the tenge to the Swiss franc was adjusted, the newspaper said. The cost of air tickets increased 18 per cent over the period, the cost of bus travel 40 per cent and tram and trolley bus travel prices doubled. A 33 per cent increase in charges for communication services in January-June 1995 resulted from a 130 per cent rise in the cost of telegrams and a 60 per cent rise in the cost of long-distance telephone calls, with postal services and telephone and cable radio subscriptions unchanged on December 1994. The table below shows the performance of the economy measured through some of the select indicators.

## **WAGES AND EMPLOYMENT**

Average wages have been rising since 1991. Considerably short of the rises in retail prices and the overall GDP deflator. Given the fall in productivity there appears to have been little movement in real unit

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labor costs and hence little correction has been made for the increases that appear to have occurred prior to 1990.

Sectoral wage developments suggest modest improvements in relations between incomes policy and productivity. Wage increases in sectors of the material sphere other than construction and agriculture were generally in line with output developments. Although recorded wages in the construction sector, where activity was roughly stable, rose more rapidly than did wages in the agricultural sector, where output actually increased, this finding may simply reflect increased recourse to non wage remuneration in the agricultural sector. Increases in average wages in the non material services sector (67.4 percent) fell well short of increases in the material sphere (97.4 percent) with government wages the main cause of this disparity. The relative increase in emoluments in the private sector-and in some state enterprises-is leading to an outflow of civil servants as well as pressures for higher government salaries.

Total employment does not appear to have adjusted to the output declines. The level of employment in 1992 was only 1 percent less than in the previous year which, allowing for trend growth in the labor force, suggests the unemployment rate increased by about 2 percentage points, possibly to around 4 percent. However, there were major shifts at the sectoral level, with employment growing in (state) agriculture (13.5 percent), and declining in industry and construction by 6.9 percent and 12.8 percent, respectively. Limited available information indicates that private employment in individual or small, private concerns rose strongly, albeit from an extremely low base.

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## SYSTEMIC REFORMS

As noted earlier, prior to the breakup of the Soviet Union, the activity of the Kazakh economy was largely designed at the Union level. While the republic's institutional planning framework (Gosplan, branch ministries, state trading organizations, etc.) formally mirrored that of the Union, the central authorities in Moscow decided prices, flows of inputs and outputs, and investments. In Kazakhstan, private sector activities had a very limited role, and the reforms of the Gorbachev era-although designed to give more autonomy to the enterprises and to the republics-did not introduce any substantial change in the workings of the economy.

In the final months of 1991, and more forcefully after the declaration of independence in December 1991, the Kazakh Government moved to fill the void left by the disappearance of the central authority. While trying to minimize the disruptions associated with the collapse of the central plan, the Government took steps to transform the economy toward a more market-based system by allowing prices to play a larger role in the allocation of resources and by promoting the development of the private sector. At the same time, the state orders system was reformed and Antimonopolistic regulations were approved.

Tighter monetary policies, including price controls in monopoly markets and the stabilization of electricity and rail freight costs-overall freight transportation costs rose an average 3 per cent a month were

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cited as reasons for slower growth in industrial output prices as the year progressed. Overall, industrial output prices in the period January to June rose 38.4 per cent, the newspaper said. The highest growth in wholesale prices in any one month was 18 per cent in January, after which the pace of growth eased in most industrial sectors. Prices rose an average two per cent a month in the second quarter of the year, compared with nine per cent in the first quarter.

Average prices for basic energy resources went up 17 per cent from January to June this year, with the highest increase, 53 per cent, being for raw energy materials. The removal of the monopoly on gas purchases meant that the rise in natural gas prices at 21 per cent was the lowest increase in raw energy resources. By contrast, coal prices rose 28 per cent and the price of oil 83 per cent.

Competition played its part in keeping the increase in oil product prices to 21 per cent in the first half year, 'Panorama' said. With a greater range of petroleum product distributors, both domestic and importers, in the market, the average wholesale price per tonne of petrol at the end of June was 8,960 tenge, per tonne of diesel 7,183 tenge, and per tonne of industrial fuel oil 3,213 tenge.

In the engineering sector as a whole, prices rose by nearly 100 per cent, while the cost of equipment for the chemical and petrochemical industries rose an average 38 per cent in the first six months of the year. The newspaper said that the nonferrous metallurgy and chemical industries saw "the greatest growth in prices this year" but gave no

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further details other than to say that this was largely the result of their emergence onto the foreign market.

An ongoing decline in livestock production and other agricultural produce and increasing animal fodder prices were reflected in the soaring costs of foodstuffs, with animal fats and dairy product prices rising 76 per cent and meat products 36 per cent in the period under review. Sugar, bread and confectionery prices rose between 21 and 26 per cent, tobacco and tobacco products 55 per cent and beer and non-alcoholic beverages 60 to 70 per cent. Spirits and vodka prices dropped seven per cent when high prices made them harder to sell Panorama noted. Retail food prices rose 33.1 per cent during the same period, with the rate of increase slowing to 1.6 per cent in June from 7.8 per cent in January.

## **AGGREGATE DEMAND**

Estimation of real growth rates for the major expenditure components of the national accounts is particularly difficult. Nonetheless, highly tentative estimates suggest that, if deflated by the consumer price index, government consumption may have fallen by about 40 per cent in real terms in 1992. In addition, non government consumption is unlikely to have shown any real growth; indeed, data on household income and expenditure suggest a rise in the household saving ratio, despite the recorded fall in wages of about 30 percent relative to the consumer price index (CPI, on a year-average basis). The household income and expenditure data for 1992, however, need to be treated with considerable caution; a large discrepancy has been assumed to

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represent unrecorded saving. These considerations point to a sizable fall in total consumption in real terms.

## **FOREIGN TRADE**

Kazakhstan's foreign trade activities in the first five months of the year were something of a success story, with exports up by 56 per cent and imports down by 20 per cent. The 20 per cent drop in the volume of imports was primarily the result of a 50 per cent cut in energy imports.

As a result of the policy of liberalisation of foreign economic activity, the volume of export shipments increased in 1995 by 2.4 per cent, according to estimates, and may total 3.1 bn dollar. This is significantly lower than the level of the republic's potential. However, the growth in exports to countries far abroad is expected to be 5.3 per cent.

Shipments to countries of the near abroad will remain at the 1994 level, according to estimates. As in previous years, the main items of exports will be products of the fuel and energy complex and the metallurgy industry,.

The total volume of imports may amount to about 4.2 bn dollar. With respect to existing loan agreements for 1995 alone, it is expected that the republic will receive foreign credit amounting to more than 500 million dollar. Of this total, the expect to receive funds amounting to



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more than 320 million dollar through international financial organisations.

## **GLOBAL ENVIRONMENT AND PROSPECTS**

Transition from a controlled economy to a market economy is a long term process with a gradual restructuring of the economy and reorganisation of social relations. The resurrection of Kazakhstan onto to the international arena rests on the stabilisation of the economy. The way out of the ordeals of the ubiquitous structural, financial, and social crises rests on the proactive effort on the part of the state in the reform process. The economy should, thus, search for its own ways of transforming the economy on the basis of existing structure and socio - economic, national, and demographic peculiarities, instead of following any stylised reform model.

However, the task of transforming the current economy into a viable market economy is full of constraints - both internal and external. Moreover, these constraints are both political and economic in nature. Domestically, the Republic needs to tighten its belt and create an environment of economic stability. To attract foreign capital, the economy requires to guarantee a certain acceptable level of return. This can come only when the domestic economy is in place.

### **Recent developments**

If recent economic performance is any indicator, then Kazakhstan, still not out of woods, seems to be reversing the vicious circle of low economic growth. In the first half of the year 1995, there was a

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mixed performance by the Kazakhstan's economy. GDP declined by 14.1 per cent over the comparable period of 1994. The index of physical volume of industrial output rose to 84.5 per cent as opposed to 70.2 per cent in 1994. However, important sector like oil refining and others had not performed as per expectations.

On the positive side, a stable downward trend in the monthly inflation rate from 8.9 per cent in January 1995 to 2.3 per cent in June 1995 was observed. The slowdown in inflation took place against the background of a relative strengthening of the tenge against hard currency. Despite the general slump in the economy, the rate of decline has become much slower in the last one - and - half years. The decline in GDP and industrial production are now much less than before. Agricultural sector, more and less stable during this period, is expected to experience decline as there is a problem of purchasing power in the economy. Kazakhstan is financially more stable now. It has accumulated a reasonable amount of gold and foreign currency reserves. The resulting confidence is evident from the increased savings by corporates as well as individuals.

Kazakhstan is doing in well terms of attracting foreign investment. Vast resources of oil and gas and other minerals are attracting big transnationals into the country. In fact, Kazakhstan tops the former Soviet states in terms of foreign investment. It has attracted nearly 46 billion dollars in foreign investment. In terms of financial aid a total of \$1011.41 billion have been attracted to the Republic in the last five years.

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### **Prospects in the international economy**

Successful structural changes would be difficult, if not impossible, without a large flow of capital, technology, managerial expertise and also access to the market. No single agency or country can satisfy such large requirements. Recent flow of the foreign capital shows following features :

- There are various competitors for foreign capital. Trade blocks, countries like China and India, and other CIS nations including Russia pose a threat to flow of capital in Kazakhstan
- Private foreign capital mostly flow in the consumer goods and service industries
- Foreign capital flow is highly dependent on the success of reforms
- Domestic socio - political stability is a precondition for inflow.

Under these circumstances, the way out is the expansion of trade. Kazakhstan, currently doing trade with more than 90 countries, is a land locked country. This is a serious limitation.

Prospects for the Kazakhstan economy in the near term are that real GDP may well continue to fall; though with proper policy implementation and favourable external developments, the fall could be held to less than 10 per cent in one or two years. Growth in all major sectors is expected to be negative with industry suffering sharp losses as enterprise restructuring continues. The fiscal problem is unlikely to diminish significantly as the decline in income precludes increases in tax revenue. The trade balance may improve slightly with

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some decrease in imports and stable export receipts. Inflation control may be difficult in the near future because of high level of subsidies and liberal credit policies so far.

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**CHAPTER V**  
**CONCLUSION**

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The economy of Kazakhstan has witnessed many a change in the recent past, due to its disintegration from the erstwhile Soviet Union, as well as, in its attempt to bring in market reforms to transform the economy from the shackles of state planning to greater freedom for market forces. The immediate result of the disintegration posed several problems to the economy, partly because of the loss of resource transfers from Moscow to support its budget and partly due to the assumption of new responsibilities, viz.: the management of the external economy, its trade and debt.

It should be noted that transforming a centrally planned economy into a market economy has its own difficulty as there is no standard pattern or precedence of such transformation. Further the legacy of central planning structures the economic basis in such a way that the economy takes time to respond to market signals. In the initial years of transition Kazakhstan faced similar problems and there were a lot of confusion about process of transition. However the government of Kazakhstan was set with an all-out approach to replace central planning with the fundamentals of market economy. These reforms were set in motion through rapid price and trade liberalisation, accompanied by a determined stabilisation programme. It pursued the policy of privatisation of state-owned companies, the demonopolisation of industry, reforming the accounting standard, the tax system and the financial sector.

Given this backdrop the present study tried to focus on the problems that cropped up immediately after the disintegration, the steps that

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were taken to handle the problems and push further the economy and finally observe the yields of the reform process.

It is observed that Kazakhstan possesses certain unique advantages with regard to

- rich mineral and energy resources
- its the most ethnically balanced nation in the central Asian region
- it is the most urbanised nation among the central Asian economies.
- it has a diversified and relatively developed industrial base
- it has a strong agricultural sector

Kazakhstan is a major oil and gas producer. Its Tenghiz oil field is among the 10 largest in the world. It is a major exporter of the petroleum product and agricultural products.

It has been found that during the Soviet planning did help in developing certain human and social sectors but failed in bringing an overall and balanced industrial development. However, it should be noted that in the initial years planning was launched to develop this economy and put it at par with other nations but after the Stalin's era the focus of state planning got shifted to exploitation of natural resources and make this economy subservient to the interest of USSR. Later, it was treated like a dumping ground for Moscow. All kinds of hazardous industries like chemical and lead factories were

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established here. Nuclear testing and unmindful agricultural policies devastated the flora and fauna of the Republic.

Subsequent to the emergence of independent Kazakhstan, the new government adopted a policy of transforming the centralised command economy to a market economy. It was based on five principles:

- to allow price liberalisation to play an essential role in the allocation of resources and the generation of a supply response
- to promote the development of a private sector through an extensive privatisation programme and liberal investment conditions
- to aim at price stability through tighter financial and monetary policies
- to bring in free trade and
- to control inflation and unemployment.

Due to the disintegration of the erstwhile Soviet Union Kazakhstan had to face a severe loss of resource transfer that was earlier supporting its budget. Further, the assumption of new expenditure responsibility like defence, external debt servicing, management of domestic currency put the state exchequer in a tight position. Kazakhstan has faced serious economic and fiscal crises since attaining independence in 1991. The transition from a command economy to a competitive market economy have proved to be more difficult than expected by the Government because the disintegration of the centralised production system of the FSU has resulted in a



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breakdown of the trade and payments system. This, for Kazakhstan, has entailed a scarcity of intermediate inputs, loss of market for output, and a contraction of trade with FSU.

To tackle these problems the Kazakh government introduced several reform measures including reduction of subsidies and expenditure cuts. It also reformed the tax system and introduced several new tax norms such as introduction of VAT.

On the planning front, it was seen that Soviet planning, of late, focused on the development of the extractive sectors only. It tried to develop the natural resource base of Kazakhstan without any emphasis on consumer goods sector. The economy resulted in a lopsided industrial development. Even after reforms the industrial sector did not pick up while prices kept rising. Hence there is a need to develop the vitally important sectors in the economy.

It was also observed that any attempt to modernise and restructure the industrial base should be accompanied by a price and wage, tax and credit policy. It is essential to develop new approaches to foreign economic activity and to establish tight controls in the exporting of strategic resources and hard currency receipts. A special undistorted exchange rate should be introduced for the imports of the most important types of raw materials, equipment and spare parts. During the stabilisation and crisis resolution period, these measures will ensure support for priority types of production, the optimal adaptation to market conditions, and the selective expansion of demand for individual types of final and intermediate products.

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Of late, post the initial period of reforms, the economy has been trying to recover from the downfall it experienced in the first two years of reforms. However, it is showing signs of improvements. The reports for 1995-96 shows that the economy has recovered from the shock of transformation and has well on its course to recovery. Construction and the consumer goods sector are picking up. But the economy is still, though not as severe as before, crawling under inflationary pressure. The average price increase ranges between 15 per cent to 17 per cent.

However, lot is still to be done. In 1992, Kazakhstan began a programme with such objectives, focusing on fiscal control, the development of competitive markets, trade liberalisation, and enterprise and financial reforms. The fiscal problems remains acute. The lack of budget resources has entailed a reduction in the quantity and quality of social services, and poverty has increased. Privatisation has had considerable success in the case of smaller enterprises through the distribution of vouchers to individuals for use in auction sale procedures. Only limited progress has been made, however, with the more difficult problem of privatising large scale enterprises. Price liberalisation has been an important element in the drive to create competitive markets. However, there is still large subsidies for energy and agricultural products. Those subsidies in total account for nearly 4 per cent of GDP, about the same as the fiscal deficit for 1994.

It can be said that a mixed economy is forming in the republic in the period of transition and will continue in the future. Private,

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cooperative, associative, collective as well as municipal forms of property and management will develop in addition to the state sector.

Lastly, transition from a centrally planned economy to a market economy is a painful process and involves great effort and time. Due to its inward oriented economy and still high level of dependence on Russia, Kazakhstan would be better placed if it, apart from increasing the reform process, increase the co-operation level with the neighbouring countries.

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