Chapter 1. Kazakhstan at a Glance

Sharon Eicher

1.1 Geography

Situated exactly in the center of Eurasia, on the map Kazakhstan appears to be about the same size as Europe, if one excludes Scandinavia. Indeed, its 2.7 million square kilometers is as large as Western Europe, making it the ninth largest country in the world. It is the second largest country in the CIS. It is bordered by Russia, China, Kyrghyzstan, Uzbekistan, Turkmenistan, and the Caspian Sea.

Geographic factors that are especially notable in Kazakhstan are the historically significant Amu River, Lake Balkash, its wide open steppes, and the Tien Shan Mountains.

Kazakhstan is a landlocked country. It extends from the Caspian Sea and Volga Mountains, in the west, to the Altai Mountains, bordering China, in the east. The country extends from the Urals and West Siberia in the north to the Tien Shan Mountains and Central Asian deserts in the south. Its breadth is approximately 3,000 kilometers and its north-south height is roughly 1,700 kilometers. Its elevations range from 132 meters (Vpadina Kaundy) below the sea level to 6,995 meters (Khan Tengri Shyngy) above the sea level. Kazakhstani see themselves as a bridge between Asia and Europe, which is not surprising given their geography.

The climate in Kazakhstan is continental, with cold winters and hot summers. Its regions are arid and semiarid. The airflow pattern is from west to east; precipitation is released near the southeastern, mountainous, border. The same high mountains prevent the air masses coming from south.

Most of the land in Kazakhstan is pasture. Very little of it is forested. Only 12 percent of the land is arable.

1 For some of the place names the Kazakh pronunciation is shown. Oskemen is Ust-Kamenogorsk; Qaragandy is Qaraganda (or Karaganda); Oral is Uralsk; Tobol is Kostanai; also Petropavl is Petropavlosk.
A simple, pastoral mode of production with commodity money and limited amounts of primitive gold and silver coins typified the economy that existed before the Russians moved into the region.

Two percent of Kazakhstan’s mass consists of lakes, rivers, or the Aral Sea. Kazakhstan shares the Aral Sea with Uzbekistan. The largest sea is the Caspian. Both seas are suffering from poor environmental management.

The Caspian Sea lies on the western border. Its water level changes periodically in a way that has yet to be explained. Another oddity is Lake Balkash, which contains both salt, in the east, and fresh water in the west of the lake.

Because of over-intensive agriculture during the Soviet period, which required irrigation, water arriving to the Aral Sea decreased substantially. Today, the Aral Region is characterized by high salinization, chemical pollution, and dust storms. It is recognized by international agencies as an environmental disaster area.

Kazakhstan lies in an earthquake zone. Earthquakes and mudslides are both common in the south.

Kazakhstan is rich in natural resources. It is claimed that 99 out of 110 natural elements exist in the territory. Large oil reserves were discovered in the 1980’s. Consequently, mining and oil and gas extraction are the primary export activities of Kazakhstan. These constitute the basis for the country’s economic prosperity.

| Table 1. Proven Crude Oil Reserves and Daily Crude Oil Production across Countries and Regions |
|---------------------------------|-------------------|-------------------|
| Country                        | Reserves as of end-2000 (billion barrels) | Daily production in 2000 (million barrels) |
| Kazakhstan                      | 30.0              | 0.7               |
| Russia                          | 65.3              | 7.5               |
| Middle East' (regional average) | 97.9              | 2.8               |
| Western Europe/North America' (regional average) | 12.2 | 3.2 |
| OPEC (total)                    | 846.0             | 27.8              |
| World (total)                   | 1078.0            | 65.8              |

1 Saudi Arabia, Iraq, Islamic Republic of Iran, United Arab Emirates, Kuwait, Qatar, Yemen
2 United States, Norway, Canada, United Kingdom

Geographically, Kazakhstan seems to enjoy every ecosystem. There are alpine zones, plains or steppes, deserts, valleys, and canyon regions. Because of its geographical and geological wealth, there are possibilities for eco-tourism, alternative energy generation (wind, water, and solar), extraction of fossil fuels and minerals, and agriculture. Kazakhstan has not yet begun to exploit many of its economic advantages.

1.2 Population
The population as of March 2004 was 14.95 million people.

Kazakhstan is a multi-ethnic country. The Soviet system strongly maintained and promoted ethnic identity. This custom continues today. Consequently, ethnic identity is strongly maintained in modern Kazakhstan, but it is not a politically divisive issue.

Kazakhstan in the early 18th century was a land of pastoralist Central Asian, Turkic-speaking herders. After Russian colonization in the 18th century, several waves of Slavic peasants immigrated, mostly in the southeast.

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2 These were dumps of silver, irregular in shape, and stamped on one side. This style of coin originated in Greece in the 5th century B.C. Davies, G. 2002. *A History of Money* (Cardiff: University of Wales Press): 58.
The forced settlement of pastoral-nomadic Kazakhs during the collectivization of 1930’s, and the ensuing famine caused the deaths of approximately one million people.

During World War II, in the fear of collaboration with Nazi Germany, Stalin forcibly settled ethnic Germans from the Volga Region and ethnic groups from the Caucasus in Kazakhstan. Ethnic Koreans from the Russian Far East were also relocated to Kazakhstan during the war.

In the 1950’s and 1960’s, Soviets were encouraged to immigrate to Kazakhstan to settle the “New Lands” of the KazSSR in Khrushchev’s “Virgin Lands Campaign.” Large factories were built in Kazakhstan.

Demographic policies resulted in ethnic Kazakhs no longer comprising the majority of the population. Russification policies promoted Russian values, culture, and education. During the 1980’s 20 percent of the population of Almaty was Kazakh, but only three, out of more than one hundred schools in Almaty, offered instruction in the Kazakh language.

Today the majority of Kazakhstanis are ethnic Kazakhs; Russians being the second-most common ethnic group. Other main ethnic groups in Kazakhstan are Koreans, Germans, Tatars, Ukrainians, and Uzbeks. Ethnicity is discussed further in Section 1.3.

Total outflow of residents of the former KazSSR between 1991 and 2001 is about 1 million people.iii After the collapse of the Soviet Union and the ensuing economic recession, the country has seen large emigration. This is discussed further in Chapter 4.

The income differential between Kazakhstan and Russia after independence was high (an average monthly salary in Kazakhstan was $40, while in Russia it was $140). This increased emigration. The most recently published statistical information suggests that this huge outflow of ethnic Russians may have reversed itself. Kazakhstan gained 73 thousand ethnic Russians in 2001. People left, seeking cultural unity and better economic conditions, were disappointed, and returned to the land of their birth. Ethnic Koreans, on the other hand, adapted well to the market conditions and helped South Korean businesses to develop in Kazakhstan.

Following independence, traditional Kazakhs from the China, Mongolia, Turkey and many other countries were encouraged to return to their ancestral lands. The efforts by the government to attract ethnic Kazakhs from other countries have not been very successful, due to poor organization and unattractive settlement packages.

The immediate, post-independence fears, that ethnic Kazakhs might be prejudiced against non-Kazakhs or non-Asians were unfounded. Kazakhstanis pride themselves on their diversity. Today, Kazakhstanis lament the emigration of their former fellow citizens, in particular the Germans, who were highly respected for their orderliness and efficiency. Kazakhstan is a socially tolerant society. The only burden on a non-Kazakh, Kazakhstani citizen is he or she may one day be required to learn the Kazakh language.

Contributing to the decrease in the population has been declining marriage and birth rates, as well as rising mortality rates in some regions.

Table 2.iv Social Indicators for Kazakhstan, 1995 and 2001

<table>
<thead>
<tr>
<th>Year</th>
<th>Births /1000</th>
<th>Deaths /1000</th>
<th>Infant Mortality /1000 Births</th>
<th>Homicide /100000</th>
<th>Suicide /100000</th>
<th>Marriage /1000</th>
<th>Divorce /1000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>17.5</td>
<td>10.2</td>
<td>25.4</td>
<td>20.3</td>
<td>29.9</td>
<td>7.3</td>
<td>2.4</td>
</tr>
<tr>
<td>2001</td>
<td>14.6</td>
<td>10.0</td>
<td>19.6</td>
<td>15.6</td>
<td>29.7</td>
<td>6.3</td>
<td>2.0</td>
</tr>
<tr>
<td>1995-2001</td>
<td>-16.6%</td>
<td>-2.3%</td>
<td>-22.8%</td>
<td>-23.2%</td>
<td>-0.7%</td>
<td>-13.7%</td>
<td>-16.7%</td>
</tr>
</tbody>
</table>
The under-5 mortality rate (deaths per thousand of children less than five years of age) has been improved by a law that obligates mothers to give birth in a hospital, rather than at home. Today a doctor attends 98 percent of births. The birth rate has steadily declined to that of the USA.

One of the tragedies of the breakup of the Soviet Union for Kazakhstan was its impact on longevity, due to stress and poverty that resulted. Kazakhstan suffered the greatest decrease in longevity of all of the transition countries according to World Bank data, as shown in Table 3.

### Table 3. Life Expectancy in Transition Economies

<table>
<thead>
<tr>
<th>Country</th>
<th>Life Expectancy</th>
<th>Country</th>
<th>Life Expectancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slovenia</td>
<td>75.6</td>
<td>Estonia</td>
<td>70.6</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>74.9</td>
<td>Latvia</td>
<td>70.4</td>
</tr>
<tr>
<td>Armenia</td>
<td>74.2</td>
<td>Romania</td>
<td>69.9</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>73.6</td>
<td>Belarus</td>
<td>68.1</td>
</tr>
<tr>
<td>Croatia</td>
<td>73.5</td>
<td>Uzbekistan</td>
<td>67.4</td>
</tr>
<tr>
<td>Georgia</td>
<td>73.2</td>
<td>Moldova</td>
<td>67.2</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>73.2</td>
<td>Tajikistan</td>
<td>66.9</td>
</tr>
<tr>
<td>Macedonia, FYR</td>
<td>73.1</td>
<td>Kyrgyz Republic</td>
<td>65.8</td>
</tr>
<tr>
<td>Lithuania</td>
<td>72.7</td>
<td>Russian Federation</td>
<td>65.6</td>
</tr>
<tr>
<td>Yugoslavia, Fed. Rep.</td>
<td>72.6</td>
<td>Azerbaijan</td>
<td>65.2</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>71.7</td>
<td>Turkmenistan</td>
<td>64.8</td>
</tr>
<tr>
<td>Hungary</td>
<td>71.5</td>
<td>Kazakhstan</td>
<td>63.0</td>
</tr>
</tbody>
</table>

Life expectancy fell for both men and women. Life expectancy at birth dropped to that of Bangladesh or India. Life expectancy statistics fell to 65.6 years (2003 data), down from 68 years before independence. Longevity for men decreased by 5.5 years. The most recently published life expectancy statistic for men was 60 years of age. Falling life expectancy and a lower birth rate resulted in a slightly negative growth in total population after 1993, whose rate of decrease slowed after 2000.

A decline in the dependency ratio (age 0-14 and age 65 and older as share of total population) from 37 percent to 34 percent has been created by a reduction in the number of children, balanced by an increase in the over-65 population. The working-age group also slightly increased. The net effect is a slight decrease in the dependency ratio. The main reason is the decline of the average family size due to recent economic hardships.

A decline in the number of children is a positive sign to most development economists, as it suggests a greater investment per child and higher expenditures per person. To a Kazakhstani, however, this is a cause for concern. The indigenous culture places a high value on children and the family. Secondly, Kazakhstans hope for a larger population and higher population density. One of the first questions a stranger may be asked is, “do you have children?” If the answer is not affirmative, then a lesson on the merits of large families follows. The pressure to increase the population is in the collective unconsciousness of Kazakhstani citizens and is made an explicit goal of Kazakhstan’s formal development plan (Kazakhstan 2030).

The elderly fared quite poorly in terms of economics from this transition. In 2003, the minimum pension was almost 4900 tenge ($35) a month. People who worked to create embodied national wealth, such as state-owned factories, enjoy very little benefits from their privatization. While the past, retained earnings by the state
from these workers funded the creation of state-assets, revenue from their privatization goes into the general budget. The general budget returns very little to these pensioners. Pensioners are usually subsidized by their children. It is a common sight to see the elderly begging for money on the street. These are the ones who do not have children to care for them.

Among the elderly, the composition has shifted between men and women. The total number of women over 65 did not change much between 1991 and 2001, although the ratio of women over 65 to the total over-65 population fell from 70 to 65 percent. The total number of men over 65 increased by 14 percent during this period. This is not to say that transition improved the lot of the elderly. It may be simply that they are surviving more, relative to a younger cohort.

If the number of people over 65 increased, while life expectancy decreased, then the younger people must be pulling down the average. The birth rate and infant mortality decreased. This would suggest that it is middle-aged people whose deaths are pulling down this average. They are of working age. It is possible that many are struggling to find work and to feed their families, that they are either over-stressed or receiving poor health care. Both are associated with health complications. Circulatory illnesses are the most common type of mortal illness.

1.3 Culture

“Kazakhstani” is the nationality of a citizen of the Republic of Kazakhstan. This term comes from the name of the territory itself. “Kazakh,” on the other hand, is an ethnonym. Kazakhs and other Central Asian Turkic people are descendants of the Turkic-Mongol tribes that migrated during the centuries of westward expansion in the Middle Ages. Hence, they are descendants of Chaghatai and Tamerlane, who themselves were cousins to Genghiz Khan, in the East, and Babur and Akbar, the illustrious Moghuls who ruled India, to the south.

It is important to realize that all national boundaries of states in Central Asia were created by outsiders. This story is told well in Edwarth Allworth’s histories of Central Asia. First, the Russians and British divided Central Asia, then the first Soviet Commissar of Nationalities, Joseph Stalin, carved up the Soviet Socialist Republics that became nation states in 1991.

The lands to the north, under Russian influence, were known as Western and Eastern Turkistan. To the south of Turkistan, lands were controlled by the British. Historically, populations in the southern part of Turkistan and in cities along Silk Routes were settled. Today, much of this lies in Uzbekistan and Tajikistan. To the north, away from the cities, in the mountains and steppes, people were pastoralists.

Kazakhs migrated between summer and winter homes. The large, round tent-like structure, that housed the mobile Kazakh family, was the yurta. Tapestries were used both to insulate the yurta’s wood and felt walls and to decorate the home. Textile home-crafts, especially those of felt, and leather crafts became highly developed and were part of the Kazakh domestic mode of production.3

The pre-Soviet, pastoral life is mostly eradicated, but agriculture and animal husbandry are still important in the Kazakhstani economy. Animal labor is still common. Infrastructure, such as indoor plumbing and telephone service, is often lacking outside of the cities.

The Kazakh Encyclopedia listed nine feudal states, which existed on the territory of modern Kazakhstan between the 6th to 15th centuries. Many different

3 By “domestic mode of production,” the author means a self-sufficient type of economy, as defined in Timothy Earle’s Bronze Age Economy.
groups of people lived on this territory. The most famous of these were the Scythians. One of the national symbols of Kazakhstan, “the golden man or woman” is thought to have been a Scythian, possibly a priestess. (The second national symbol is the snow leopard.)

Those Turkic speaking tribes that lived in present-day Kazakhstan united to form the Kazakh Khanate in the 15th century. In the early 17th century, the khanate separated into the Elder, Middle, and Little Hordes, or Zhuz. These were confederations of groups that were united by family ties. Zhuz-identity has not yet died out.⁴

Internecine warfare led the Little Horde and part of the Middle Horde to sign treaties with Russia in the 1730’s and 1740’s. By the mid-1800’s, major parts of their territories were incorporated into the Russian Empire. The Russians seized the territory of the Elder Horde in the 1860’s. At this time, a national movement arose, in order to safeguard indigenous culture and language. Uprisings continued until the Russian Revolution.

The Russian Census of 1910, indicated about 4 million Kazakhs in the territory. This number was far larger than for other Central Asian people (Kyrghyz, Uzbek, Turkmen, Tajik, and Karakalpak), who together numbered about 1.2 million.

After the Russian Revolution of 1917, the Bolsheviks relatively quickly established their power in the territory of Kazakhstan. Nationalist Kazakh organizations and rebel groups existed into the 1930’s but they were suppressed. Kazakhstan was an Autonomous Republic of Russia in 1920. In 1936 it became an independent SSR.⁵

Modern-day Kazakhstan is multiethnic and religiously tolerant. The two main ethnicities are Russian and Kazakh. Its two main religions are Islam and Russian Orthodoxy.

**Table 4.** Ethnic Composition of Kazakhstan (January 2004)

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>Population (1000)</th>
<th>Ethnicity</th>
<th>Population (1000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakh</td>
<td>7985</td>
<td>Azerbajian</td>
<td>78</td>
</tr>
<tr>
<td>Russian</td>
<td>4480</td>
<td>Turkish</td>
<td>37</td>
</tr>
<tr>
<td>Ukrainian</td>
<td>547</td>
<td>Polish</td>
<td>47</td>
</tr>
<tr>
<td>Uzbek</td>
<td>371</td>
<td>Dungan</td>
<td>37</td>
</tr>
<tr>
<td>German</td>
<td>353</td>
<td>Kurdish</td>
<td>33</td>
</tr>
<tr>
<td>Tatar</td>
<td>249</td>
<td>Chechen</td>
<td>32</td>
</tr>
<tr>
<td>Uyghur</td>
<td>210</td>
<td>Tojik</td>
<td>26</td>
</tr>
<tr>
<td>Belorussian</td>
<td>112</td>
<td>Bashkir</td>
<td>23</td>
</tr>
<tr>
<td>Korean</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moldovan</td>
<td>2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Ethnic identity is maintained in Kazakhstan, partly through the system of recording both nationality and ethnicity on identity cards and passports. This is a practice that remains from the Soviet system.

Soviet-type atheism is common. Religiosity is neither encouraged nor discouraged by the state or its citizens. Kazakhstanis are at liberty to practice whatever religion they choose; religion is not part of the political landscape.

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⁴ The continued existence of zhuz identity is important. Although modern ethnic Kazakhs do not exhibit a “tribal mentality,” one’s clan and horde (zhuz) can distort social and economic advantages, in such activities as gaining access to bureaucrats and political leaders, finding employment, getting access to credit, etc.

⁵ Soviet Socialist Republic. There were fifteen Soviet Republics, which all became independent in 1991. Autonomous Republics, which are politically part of the larger Republic, did not become independent.
Kazakhstan, like other “Muslim” post-Soviet Republics, is nominally Islamic. Islam is not actively observed by most of the population, although most ethnic Kazakhs would see themselves as “culturally Islamic.” Even those who are observant, attend mosque, and fast during “Ramazan” (Ramadan), are unlikely to wear headscarves or headdress or to abstain from alcohol.

Cultural purges destroyed churches, synagogues, and mosques in the U.S.S.R. Religious institutions and leaders were required to be registered with the state. As a result, before 1991, only a few hundred mosques existed in Kazakhstan, and there was only one, in the former capital city of Almaty. Today there are 24 mosques in Almaty and one and a half thousand mosques and temples in Kazakhstan. Churches are as common as mosques, and in 2001, the Pope visited Kazakhstan. Protestant churches have arisen since independence. Missionaries and proselytizing are not encouraged in Kazakhstan, but they are not prohibited. Jewish centers are enjoying a renaissance.

The Soviet Union left behind it a highly qualified labor force and a developed system of schools and universities. The percentage of the population receiving university degrees was high, since education was highly subsidized, and because men who did not study at university were drafted into the army. In 1989, there were reputedly 10,000 Candidates of Science and almost 1,000 Doctors of Science. Kazakhstaniis demonstrate a great deal of pride in their history, culture, and progress since independence. If the nation has a “collective unconsciousness,” then Kazakhstan has a healthy ego. What could be the causes for such self-confidence? This may be because of the rich, historical ancestry. Being descended from Scythians and having close family ties to Chingiz Han (Genghis Khan) is something that is commonly mentioned. This pride may be because of Soviet democratization or the high quality of education that resulted. This may be because Kazakhstaniis can see that they fare better than their neighbors to the east (China) or to the south (Uzbekistan, Turkmenistan, and Kyrghyzstan). This may be because foreigners flock to Kazakhstan to invest, to set up businesses, and to import their goods.

The slightly arrogant attitude that Kazakhstaniis demonstrate about their country and their culture can be a powerful engine for growth and for democratization. Pride can be good for development. As Grahmeen Bank philosophies emphasize, acquiring a “can do” attitude is much more productive than having a self-defeating attitude. We can apply this micro-principle to the macroeconomy and see that this cultural attitude can help Kazakhstan to prosper. On the other hand, psychological blinders also prevent citizens from seeing the world as it really is, and may encourage people not to push for more democracy and income-equality. Much still is needed for Kazakhstan to truly develop, despite its relative success and rapid transformation that avoided major crises.

1.4 Political Structure

Independence officially came to Kazakhstan in 1991. One could look at events of 1986 as the beginning of Kazakhstani independence. Moscow ordered that G.V. Kolbin, be appointed as the head of the Communist Party of the Kazakhstan SSR. Demonstrations arose in Almaty in December 1986. These escalated to riots in which approximately two hundred people were killed. Moscow relented and appointed a second leader for the Republic. This man was Nursultan Nazarbayev, who became the president after independence. Full independence came when the leaders of western

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6 Doctor of Science is the academic degree that is a prerequisite for a full professor’s degree. Along with a full professor’s position, there is a full professor’s degree. Candidate of Science is a prerequisite for obtaining lower academic and teaching degrees and positions.
Republics dissolved the Soviet Union on December 16, 1991.

The official name is the Republic of Kazakhstan, or RK. It is territorially the same political entity as the former Kazakhstan Soviet Socialist Republic. The capital is Astana. Before December 1998, the capital was in Almaty.

There are 15 ministries and 23 agencies and authorities. These encompass around 2,600 independent spending units.

Kazakhstan does not independently control its region of Baikonur, the Soviet space launch site, which is leased to Russia.

President Nazarbayev supported the status quo during the attempted coup against Gorbachev in 1991. He was, and remains still, a staunch supporter of Moscow. Kazakhstan was the only non-Slavic country to sign a “customs union” agreement in spring 2003 with Russia, Ukraine, and Belarussia. Kazakhstan depends upon Russia both for trade and for a means to export its natural resources.

The Constitution of Kazakhstan was ratified by referendum in August 1995. The country is a presidential republic with a strong, authoritarian president and weak government and legislature. The Constitution created executive, legislative, and judicial branches. It also provided for citizens’ right to vote at 18. Constitutional amendments could only be initiated by the president. The president also was given the right to dissolve government, call for a referendum, or appoint new directors of oblasts, at his discretion.

One of the points of the Constitution is to recognize Russian and Kazakh as official languages. A proposal in Parliament in 2004 to make Kazakh the only “state” language was strongly rejected.

Administrative political centralization has not changed much since independence. The old system under the Soviet Regime has been replaced with a republic. Self-governing authorities exist only at the grassroots level. The World Bank classified Kazakhstan with Uzbekistan, Turkmenistan, and Belarussia as “noncompetitive political regimes.”

The executive branch consists of the President, the Prime Minister, Cabinet, and Ministers who are appointed by the President. The government is responsible for preparing and presenting the republican budget to the Parliament, and for implementing the budget approved by the Parliament.

There are two tiers of administration, under the president: the Oblast (Province) level and the Raion (District) level. According to the 1995 Constitution, local public administration is exercised through local representative and executive bodies. Locally elected representatives, the Maslihats, approve the local budget and report on its execution.

There are 14 oblasts in Kazakhstan. These are Akmola, Aktyubinsk, Almaty Oblast, Atyrau, East Kazakhstan, Taraz, West Kazakhstan, Karaganda, Kzyl-Orda, Kostanai, Mangystau, Pavlodar, North Kazakhstan, and South Kazakhstan. The cities of Astana and Almaty have a special political status. Within the oblast are raions. There are 158 raions and 37 towns with raion status. There are in total, approximately 8,400 governmental units in the national budget.

The various oblasts are unique in resource endowments, access to transportation and communication, investment, and income inequality. Economic differences among the oblasts will be discussed in Chapter 3. Table 5 demonstrates population density and regional income levels for each oblast and the cities of Almaty.

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7 This is actually an agreement for each of the countries to adopt Russia’s tariff duties.
8 A figurehead position.
and Astana.

Table 5. Main Characteristics of Oblasts

<table>
<thead>
<tr>
<th>Oblasts</th>
<th>Territory (1000 sq. km)</th>
<th>Population 1999, ths.</th>
<th>Share in total population, %</th>
<th>Per capita GDP in USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Akmola</td>
<td>121.4</td>
<td>583.3</td>
<td>4.8</td>
<td>$528</td>
</tr>
<tr>
<td>Aktyubinsk</td>
<td>300.6</td>
<td>718.9</td>
<td>4.6</td>
<td>$782</td>
</tr>
<tr>
<td>Almaty</td>
<td>223.9</td>
<td>1,614.8</td>
<td>10.4</td>
<td>$1,112</td>
</tr>
<tr>
<td>Atyrau</td>
<td>118.6</td>
<td>458.7</td>
<td>3.0</td>
<td>$2,925</td>
</tr>
<tr>
<td>East Kazakhstan</td>
<td>283.3</td>
<td>1,612.3</td>
<td>10.4</td>
<td>$488</td>
</tr>
<tr>
<td>Zhambyl</td>
<td>144.3</td>
<td>999.6</td>
<td>6.4</td>
<td>$839</td>
</tr>
<tr>
<td>West Kazakhstan</td>
<td>151.3</td>
<td>641.8</td>
<td>4.1</td>
<td>$619</td>
</tr>
<tr>
<td>Karaganda</td>
<td>428.0</td>
<td>1,507.4</td>
<td>9.7</td>
<td>$1,711</td>
</tr>
<tr>
<td>Kzyl-Orda</td>
<td>226.0</td>
<td>621.3</td>
<td>4.0</td>
<td>$2,508</td>
</tr>
<tr>
<td>Kostanai</td>
<td>196.0</td>
<td>1,083.4</td>
<td>7.0</td>
<td>$2,852</td>
</tr>
<tr>
<td>Mangystau</td>
<td>165.6</td>
<td>350.0</td>
<td>2.3</td>
<td>$1,569</td>
</tr>
<tr>
<td>Pavlodar</td>
<td>124.8</td>
<td>854.2</td>
<td>5.5</td>
<td>$617</td>
</tr>
<tr>
<td>North Kazakhstan</td>
<td>123.2</td>
<td>1,082.4</td>
<td>7.0</td>
<td>$1,050</td>
</tr>
<tr>
<td>South Kazakhstan</td>
<td>117.3</td>
<td>2,017.9</td>
<td>13.0</td>
<td>$711</td>
</tr>
<tr>
<td>Almaty City</td>
<td>0.3</td>
<td>1,080.5</td>
<td>7.0</td>
<td>$4,654</td>
</tr>
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<td>Astana City</td>
<td>0.3</td>
<td>280.5</td>
<td>1.8</td>
<td>$2,431</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>2,724.9</strong></td>
<td><strong>15,507</strong></td>
<td><strong>100</strong></td>
<td><strong>$1,451</strong></td>
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</table>

Nationwide policies are coordinated from the President’s Office down to the local level. Policies are locally customized, to take into account the needs of the district. Local government is headed by an akim, who is the President’s representative. Akims of oblasts, major cities and the capital are appointed by the President; akims at lower levels are appointed by senior akims; and akims can be released from office by the President at will.

The legislative branch consists of a Senate and the Majilis. There are 47 seats on the Senate; seven of these are appointed by the president; other seats are won by election. Senate terms are six years. The Majilis has 77 seats, with 10 additionally appointed “party list” seats; the other 67 are acquired by election. Majilis’ terms are for five years.

The judicial branch is composed of a Supreme Court with 44 members and Constitutional Council with 7 members.

Astana became the capital city after in 1998. It was founded in 1830. Astana houses government offices, but most embassies and consulates remain in Almaty, as do most foreign company offices. Almaty, the former capital for the Kazakhstan Soviet Socialist Republic, is now known as the southern capital of Kazakhstan. It was founded in 1853. It is believed to be the place where apples originated. Atyrau began to rise in importance when FDI in oil and gas sectors increased.

Kazakhstan’s political transition has been relatively peaceful. One exception was when the president dissolved the national parliament in 1995, by having the court declare that the parliamentary elections were fraudulent.

In 1999, the president managed to get a referendum passed that extended his presidency, and he was then re-elected to a seven-year term. This allowed him to remain in office until at least 2006. Journalists who attacked the president’s policies in

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9 Alma aty means “father of apple.” Interestingly, geneticists have recently traced ancient genetic strands of human DNA to Kazakhstan. Ancient genetic roots for humankind plus apples bear an uncanny resemblance to the Book of Genesis.

10 There was some question about the dissolution of the Parliament. Some accused the President of using the court to get rid of a pesky legislature.
the press found their offices shut down or themselves in prison.\textsuperscript{11} The president also dissolved the Communist Party after independence. Several political parties were disbanded, or they were not allowed to put their candidates on the ballots for election. At the end of 2003, the government did allow a new political party to form,\textsuperscript{12} but this was a “pro-government” political party.

Two innovations are underway in 2004 that will improve democracy in Kazakhstan. An improved election process is being worked out in the Parliament. Secondly, new laws to support NGO’s are being improved and a national NGO umbrella organization is being formed. A law that would muzzle the popular press was vetoed in 2004 by the president. At the same time, there have been accusations of oil companies’ bribing top-government officials,\textsuperscript{13} other virulent types of corruption, and massive income-inequality with no signs trying to alleviate this by the government.

The national anthem illustrates Kazakhstanis’ newly acquired self-determination. (“Like an eagle in the sky we are free in a free country”). Below are the lyrics to the National Anthem, which exists in both Russian and Kazakh.

\begin{verbatim}
We are a free people. Honor and pride are with us.
In the trials of fate, all of our losses cannot be counted,
despite fate, we began the battle.
Now it is done, and the spirit of freedom is with us.
Like an eagle in the sky,
we are free in a free country.
Power was given to the people by the Titans.
The people’s power is strong in unity.
Hold the mother in high regard; revere wise men.
Give to children the tenderness, love, and the warmth of our hearts.
The steppe of Kazakhstan is home, the cradle of goodness,
and the mother of friendship, brotherhood, and love.
We hold the experience of the past.
We light belief in the happiness of hearts
and the bequest of the fathers is sovereignty and honor.
We keep our land and our language for our descendants.\textsuperscript{xiv}
\end{verbatim}

1.5 Transition and Reform
On December 16, 2001, Kazakhstan celebrated its 10-year anniversary. Tremendous reforms were made during this period. One appraisal of Kazakhstan’s first ten years was “many foreign analysts believe, and not without reason, that Kazakhstan is one of the most politically and economically advanced countries in

\textsuperscript{11} For example, independent journalist Sergey Duvanov was sentenced to 3.5 years of prison after criticizing the government’s policies and being convicted of raping a teenage girl in October 2002. The U.S. and E.U. governments urged President Nazarbayev to free this man and succeeded in March 2004. Another journalist’s daughter, Lira Baiseitova’s, died while in police custody.
\textsuperscript{12} ASAR had a membership of 160,000 as of February 2004 and is the second largest political party in Kazakhstan. Its spokesperson is the daughter of the president. CaspiaNet report. February 1, 2004.
Information about these cases is not published in Kazakhstan. Central Asia-Caucasus Institute Analyst October 6, 2003.
Central Asia. The tenth anniversary of the Independence day, marked on December 16, gives good cause for Kazakhstan’s citizens to look back to what has been achieved in post-communist years. Independence began with remnants of barter trade, arrears in salaries and pensions, inter-enterprise debts, bank runs, and a Soviet nuclear weapons stockpile. Kazakhstan overcame these problems. Still remaining are the tasks of diversifying the economy, creating a Rule of Law, and improving income inequality.

The reforms implemented since independence can be categorized as “anti-crisis” and “structural.” Anti-crisis measures are reviewed in Chapter 2. Here we consider the most important structural reforms and their evaluation by international agencies.

The most important initial steps were to stabilize the economy and to establish a new system of laws and government. The new system of government and laws were first created with the adoption of the Constitution in 1993. The economy stabilized at the end of the 1990’s.

Second in importance were the creation of new institutions and the adoption of market-based systems. The pension system was reformed, the tax system was created, firms were privatized, a new financial system was created, and a Central Bank was set up. Also of great importance was the development of new methods for obtaining inputs and for distributing output. Economic planners had previously supplied this service to enterprises.

Kazakhstan continues to enjoy the benefits of its structural reformation and prudent fiscal and macroeconomic management. Growth has been led by the oil sector, and strongly supported by a favorable external environment. Fiscal discipline has contained inflationary pressures. Monetary policy has also supported macroeconomic stability, even though exchange rate targeting resulted in a higher inflation.

Law in Kazakhstan follows a civil code. However, judges enjoy much latitude in how the civil code is interpreted. A law degree is an undergraduate degree in Kazakhstan. Less experience and education by the lawyer, the newness of a civil code, and the conflicting and ambiguous laws that make up the code hinder the development of Rule of Law.

In 2004, the government of Kazakhstan is hoping to move towards WTO accession. Meetings were held in Geneva in March 2004, and electronic material that infringed upon copyrights, disappeared from stores in Almaty at the same time. The belief is that accession will improve market access and increase Kazakhstan’s exports. The IMF has warned Kazakhstan that WTO membership will not improve its international competitiveness and may result in more structural unemployment.

One area where Kazakhstan will need to reform in order to receive WTO membership is in the area of “national treatment.” Foreign and local inputs are treated differently through what foreign businessmen call “local content requirements” and Kazakhstanis call “import substitution.” Such distinctions will not be allowed under WTO rules.

As a result of reforms introduced since 1996, Kazakhstan started defining government transactions in accordance with IMF definitions. Before these reforms, some government investment activities were off the official budgets and outside of
central control. In addition, government agencies were allowed to raise revenue from quasi-commercial activities to supplement their expenditures. There were also foreign currency accounts held by agencies. Special accounts recording loan disbursements from international organizations for specific programs were integrated into the general budget.

Public servants are subject to a code of behavior. This behavior is governed by several documents: a presidential decree On Approval of the Rules for Workplace Ethics of Public Servants of the RK of January 1999, as amended, the Law on Combating Corruption of July 1998, and a decree On Fighting Against Corruption and on Civil Servants’ Compliance with Business Ethics of April 2002, among others. All civil servants are required to submit, from their tax return, a declaration of assets and bank accounts to their employer. Basic wage and salary levels for civil servants are extremely low, but they are supplemented by ad hoc allowances and bonuses using money that was not utilized from the general budget. The system provides considerable scope for discretion and gives incentives for over-estimation of certain costs to allow for bonuses. Kazakhstan created a Civil Service Agency and reduced the number of ministries and agencies in the late 1990’s.

The tax code introduced in 1995 was considered a model for transition economies, having minimized tax-induced distortions, eliminated favorable tax treatments, and making Kazakhstan’s tax laws consistent with established international practices. The new tax aimed at increasing the punishments for tax evasion, detecting unregistered taxpayers, controlling tax delinquency, and tightening procedures for receiving tax deferrals. Because of both difficulties in implementing these policies and a worsening economy, tax arrears increased.

The tax code of 2002 significantly reduced a number of tax concessions permitted under the old tax code. The changes included eradicating zero-VAT rating for exports, excluding scrap metals, eliminating VAT exemptions, and unifying VAT rates to 16 percent. This has since fallen to 15 percent.

A new customs code is being prepared which clarifies rights and duties of traders and reduces scope for interpretation, i.e., rent seeking. An unusual amount of discretion arises through two main avenues. Firstly, the rates of excise and import tariffs are set periodically by presidential decree and are not easily available in print, such as in the annual budget or tax code. Secondly, while the code has some provisions for tax concessions, a proposed draft investment law would extend tax concessions to companies that invest in priority sectors, the list of which is still being developed. This draft would allow for abatements of more than 5 years, and it would affect corporate, land, property, and customs taxes, as well as in-kind transfers, such as free land and guarantees.

In March 2000, a new system of monitoring loans guaranteed by the government was set. The system involves two main components, monitoring and payments. The monitoring system is based on a continuously updated database, which contains balance sheet information and profit and loss statements and bank accounts of companies. This database is updated quarterly. A regular analysis of the liquidity

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14 The general government, as at April 2002, consisted of the following entities: the republican government, comprising 15 ministries, 23 central agencies and authorities (covering around 2,600 spending units); 14 oblasts plus the cities of Almaty and Astana that have oblasts status; oblasts are divided into raions – of which there are 158 rural raions and 37 towns with raion status – and there are approximately 8,400 local government spending units.

15 The term “rent-seeking” is poisk renty. This phenomenon is so common that the phrase is now equivalent with everyday bribe payments.
and solvency of the companies participating in the system is carried out jointly by the Ministries of Finance and Economy. Companies also have to submit annual business plans and monthly information from their balance sheets and profit and loss statements to banks.

The payment-enforcement mechanism includes two bank accounts, an escrow reserve account, and a service account. Loans have to be fully collateralized. The new system is one of the most sophisticated of its kind.

With regard to health and education, the government took steps to delineate responsibilities in the coverage and quality assurance of health services, streamline curricula in secondary schools, and to encourage the private provision of education. The number of private facilities has grown from 18 schools to 124 between 1995 and 1997. In the area of social protection, the living standards survey was completed with World Bank assistance in 1996 and a thorough review of the Soviet-type benefits system was initiated.

There are two categories of medical services. The first category consists of a guaranteed package of medical services, which is available to the population free of charge, sans bribes (at least officially). The second category is made of fee-based services. In addition to these two types of medical services, a limited number of health programs are financed directly from the general budget. They include tuberculosis, hepatitis, and cancer programs and vaccination campaigns. Most health organizations were transformed into non-budgetary, state enterprises. The government allocates funding to local Centers for Payment of Medical Services. These centers pay service providers.

In March 1999, a number of state activities were deregulated. These include the provision of services such as veterinary practices, industrial safety, standardization, and certification of products and services, fire safety, and agriculture and urban planning.

In January 2004, the government began working on a new electoral law. Both parliamentary chambers approved reforming the electoral law. The Organization of Security and Cooperation in Europe recognized that the draft law would improve transparency, campaigning fairness, and result in improved pluralism.

When the Soviet Union collapsed, so did its transfer system. Retirees lost many of their state-guaranteed (Soviet) benefits. They were left without much savings or with private pension funds. In 1996, Parliament attempted to reform the pension system by introducing voluntary pension contributions. People could not, or would not, save in that system.

In 1996 and 1997, there were mass protests of pensioners against the continuing arrears in pension payments. At that time, minimum pensions fell to an equivalent of $10. Given the urgency of the situation, the authorities decided to eliminate all pension arrears by end of 1997 and to fundamentally restructure the pension system.

To assess the prospects of the existing system, the government’s Working Group on Pension Reform relied on an actuarial model constructed with technical and financial assistance from USAID and the World Bank. Model projections covering the 1998-2026 period confirmed the unsustainable nature of the unreformed system. The net present value of the cost of the existing system was calculated at about 66 percent of 1997 GDP.

In January 1998, Kazakhstani authorities enacted a Chilean-style pension reform that transformed the existing public pension system into a pay-as-you-go (PAYG) system. After January 1998, workers were entitled to a pension through the
mandatory savings plan.

A residual public system remained for workers who had accumulated years of service under the old plan. The reform was heralded with a crisis of mounting arrears in the collection of payroll contributions and payment of pension benefits.

The standard pension age, which was 60 years for men and 55 years for women, was gradually increased to 63 and 58 years, respectively. The age of retirement for men is actually less than their life expectancy. Retirees were entitled to a basic monthly pension plus a length-of-service component. Additional pensions were also provided for special circumstances that included the dependents, military service, and special public service.

Upon retirement, contributors receive a sum equal to their accumulated contributions and accrued interest, dividends, and capital gains. With this sum, retirees are expected to purchase annuities from insurance companies.

The residual public system and minimum pension guarantees will continue to exert considerable pressure on the country’s public finances during the next three decades. Kazakhstan will have to provide benefits for existing pensioners and forgo a substantial portion of the payroll contributions that currently fund those benefits. The net cost of the residual public system in relation to GDP is expected to decline from 5.7 percent in 1998 to 1.9 percent in 2026.

Making the situation worse were falling dividend yields due to overly conservative investment rules. This prompted a change in December 2003 that allowed fund managers to invest less in state securities and gold and to invest more in foreign securities.

A number of changes to the Law on Pension Security came into effect in 2003. These provided for the harmonization of the regulations governing the state and private funds. The law extended the state’s guarantee for all deposits. It opened the pension fund industry to non-resident participants. Fee-ceilings were modified, and the basis for fees were changed from the value of the account to a share of the return that managers generated. The separation between pension funds and asset management functions was removed.

After the collapse of the Soviet Union, no western banks existed. The official state bank was the only savings institution operating in Kazakhstan. Today, there are more than 30 banking institutions. Three large, private banks dominate commercial banking: KazKommertsBank, TuranAlem Bank, and Halyk Bank. These banks own 60 percent of bank assets.

The Rehabilitation Agency, the Agricultural Support Fund, and the Export-Import Bank were established in 1994. The Rehabilitation Agency managed large, insolvent debtors’ loans. The Agricultural Support Fund took over agricultural credit. The Export-Import Bank absorbed government guaranteed trade-related loans. Debt and insolvency were tremendous problems in the initial years of reform.

The government supported publicly guaranteed debt, by establishing asset management institutions in 1994 and 1995. At this time, no new capital was added, nor were banks restructured. “The Kazakhstan case illustrates how bank restructuring without adequate capitalization and not accompanied by operational and institutional restructuring cannot resolve banking sector problems and may require successive government intervention.” The initial reforms were unsuccessful.

Steps for reforming the financial system included the following:

- Introducing the national currency and pursuing a tight monetary policy;
- Increasing capital requirements and enforcing other prudential regulation rules in accordance with the Basel agreement;
• Privatizing and consolidating the banking sector;
• Creating the insurance industry;
• Developing infrastructure for the securities market.

A national deposit insurance scheme was introduced in 1999. Insurance coverage differs depending on the type, amount, and currency of the deposit. Since its existence, the Deposit Insurance Fund has had to cover deposits only once.

Privatization was needed to encourage the restructuring of firms, and it was an important source of revenue for transition governments. The privatization process began in late 1991. The primary means was through vouchers to residents and by requiring that vouchers be placed in investment funds. “Before privatization, the government established sector holding companies that allowed the state to retain a 39 percent residual share in all enterprises being privatized.” The secondary way that firms were privatized was through the sale of assets to nonresidents for cash. As in other newly independent states, privatization was one of the causes of rapid inflation.

Table 6. Privatization Figures by 1997

<table>
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<tr>
<td>Small-scale privatization</td>
<td>5,578</td>
<td>2,748</td>
<td>2,477</td>
<td>3,393</td>
<td>5,590</td>
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<td>Mass privatization</td>
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<td>147</td>
<td>497</td>
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<td>Privatization in agriculture</td>
<td>918</td>
<td>513</td>
<td>138</td>
<td>18</td>
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<tr>
<td>Case-by-case privatization</td>
<td></td>
<td>5</td>
<td>28</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>9,269</td>
<td>4,147</td>
<td>3,142</td>
<td>4,056</td>
<td>6,777</td>
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Privatization funds were an important source of budget revenue in transition economies. As such, privatization was an anti-crisis, anti-cyclical tool. By 1995 the government, via the Investment Privatization Fund, had collected 65 percent of its privatization coupons. Within these few years, nearly two-thirds of privatization of industry was complete. The share of state-owned industrial production as a percentage of the total fell from 74.6 to 2.5 percent, between 1992 and 2000. Investors from 60 countries had participated.

The government hoped to conclude privatization during 1996 to 1998. The government created the National Privatization Program in 1996 in order to achieve the following goals:

• Conclude small-scale privatization in 1996;
• Finish agricultural privatization in 1996;
• Develop individual private projects with an increase in foreign participation;
• Develop privatization projects in the oil and gas, energy, metallurgy, communication and chemistry sectors;
• Finish liquidating unprofitable enterprises.

Small-scale privatization officially finished in 1997. In 1997, the restructuring of utilities, railways, airlines, and telecommunications began. Lengthy and complicated requirements were streamlined. As a result, state-share packages in 1,300 companies were sold in that year under a mass privatization program. Special emphasis was placed on warehouses and agricultural facilities.

A case-by-case program (the “Blue Chips” Program) privatized some of the largest state-owned enterprises. During 1997, a number of very large contracts were signed with foreign firms. Some of these sales were Mangystau Munai Gaz Oil

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16 Data on the value to firms that are privatized are not publicly available.
17 In 1996, the government adopted a strategy to restructure and sell 32 of the largest enterprises in oil, mining, and metallurgy. In June 1997, it selected 13 (the so called Blue Chips) out of the 32 to be listed on the Kazakhstan Stock Exchange and to be offered for privatization.
Company, Balkash Mys Copper Plant, Kazakh Telecom, Aktyubinsk Munai Gaz Oil, and the Karachaganak fields. Privatization of large firms has moved more slowly than privatization of small and medium-sized firms.

To enhance privatization efforts, the government issued specific criteria regarding clearing arrears of indebted companies, ecological liabilities, and social assistance commitments. Monitoring of management contracts was improved.

Rural firms were less likely to be privatized. Thirty-four percent of farms were private, and 18.9 percent of rural land was privately owned in 2000. This will change in 2007, when Kazakhstan begins its rural land reform by selling hectares of land at fixed prices. The method to be used for rural land privatization is non-transparent—potential buyers will petition the local akim. There has been no discussion of creating a government system for offering farmers credit for buying the land that they currently lease. Foreigners will not be able to buy Kazakhstani land, but enterprises that are foreign-owned will be able to do so.

Unfortunately, in post-Soviet privatization, even under the voucher program, state assets were not always distributed in an equitable fashion. "The former nomenclatura, transformed into the new elite ruling class, . . . has successfully grabbed the lion’s share of state property in the process of privatization and controls the most profitable industries in the economy in alliance with foreign investors." Making a group of Soviet elites very wealthy was a by-product of privatization. This would have been fine, if such opportunities had been equally available to all citizens.

Asset stripping and rent-seeking were exacerbated by management structures that were created at the end of the days of the Soviet Union. “The adoption in 1990 of the Law on State Enterprises actually became the birth of the new class of directors who were personally managing [Soviet] property. In 1995 and 1996 the economy experienced negative results, because this property was neither private nor state-owned, but was held in group-ownership, and the temporary owners were not interested in the long-term development of their entities, preferring instantaneous profits.”

The World Bank commented that ownership created by positions of privilege was the least effective type of management. “Enterprises sold through transparent tenders or auctions have generally attracted better owners, outperforming enterprises sold directly to politically connected parties, frequently at highly subsidized prices. So, the ideal strategy is to transfer assets as rapidly as possible to individual investors or concentrated groups of strategic investors through open, fair, and transparent methods.” The World Bank assisted in privatization by offering loans to finance the process.

1.6 Conclusion

Kazakhstan began its modernization process as a self-sustaining, pastoral-nomadic society. Modernization was imported.

Recently, capitalism became imported. Although locals were allowed to start their own businesses, bureaucratic controls, lack of access to credit, rent-seeking behavior and other obstacles have hindered the development of indigenous, free enterprise. Foreign firms were officially welcomed to Kazakhstan. Without FDI to exploit Kazakhstan’s oil and gas resources, the Kazakhstani economy would not be enjoying its budget surplus and high growth rate.

Kazakhstani leaders, especially President Nazarbayev, have struggled to create

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18 Production at Karachaganak is shared between Kazakhstan and a foreign consortium including Lukoil, British Gas, AGIP, and Texaco.
structural reforms to stabilize the economy after independence and to create a healthy economic environment for the future. Children are highly valued in the local culture. It is for this future generation that policies are oriented. Harsh policies, such as reducing the transfer system and implementing a PAYG pension plan, are designed to benefit future generations. Those who lose are the elderly and those who are unable to adapt and learn new skills.

Institutions are being developed day by day. They are still weak. Nevertheless, the country has managed thus far without a crisis that would reverse its reforms.

The government established committees and agencies to address all issues related to economic efficiency. Acquiring efficiency without crisis requires a strong government, which the country has through its president. The Office of the President holds tightly to all reins of the economic and political system.

This chapter described the geographical, historical, political background and the recent economic history of Kazakhstan. With this understanding, one can understand and interpret the economic and social implications of Kazakhstan’s reform to a market economy. This knowledge will help the reader to appreciate the country’s unique development, from its independence from the Soviet Union to today.

From this chapter, discussions of economic transformation, international trade and liberalization, employment and poverty can follow.