

**Central Asian Journal**  
of Management, Economics and Social Research

Special Issue, Number 2  
June 2001

**KIMEP-Yale seminar papers**

- Economic growth and human development in Central Asia
- Attracting and managing foreign direct investments in the Central Asian Region
  - Banking sector privatization in transition economies
  - Privatization techniques for Central Asia

**KIMEP articles**

- The Dutch disease: symptoms and policy implications for Kazakhstani economy
  - Nuclear free Kazakhstan revisited: issues of deterrence
  - Taxation and its influence on oblast
- Some remarks on environmental factors that affect companies' supply chain operations in Kazakhstan

**Point of view**

- Globalization: a short study
- The contribution of education to economic development
- Evolution of capitalism in the post-communist societies

**Abstracts of the articles in Russian**

**Book review panel**

**Итоговые проекты Йельского семинара**

- Экономический рост и человеческое развитие в Центральной Азии
- Привлечение прямых иностранных инвестиций в Центрально-Азиатский регион
- Приватизация банковского сектора в странах переходного периода
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    - Влияние налогообложения на области
- О некоторых внешних факторах, влияющих на цепи снабжения иностранных компаний в Казахстане

**"Точка зрения"**

- Глобализация: краткое исследование
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**Краткое содержание статей на русском языке**

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CENTRAL  
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Number 2

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The KIMEP Center for Research and Development, Kazak  
Yale Center for International and Area Studies, USA

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## Central Asian Journal of Management, Economics and Social Research

Special Issue, No 2, June 2001

The KIMEP Center for Research and Development  
Yale Center for International and Area Studies, USA

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**Message of the President of KIMEP**

It was a great honor for the Kazakhstan Institute of Management, Economics and Strategic Research to host the Second Annual Yale - Central Asia Summer Seminar "Seizing the Opportunity for Sustained and Improved Equity" on June 5, 2000.

Professors and experts from Yale University and all Central Asian research institutions joined the KIMEP Center for Research and Development to discuss and debate different political, economic and socio-economic topics during the two-week long workshop.

We viewed this seminar as an opportunity to pursue further cooperation between KIMEP and all participants, in particular the Yale Center for International and Area Studies. The publication of this special issue of the Central Asian Journal by the KIMEP Center for Research and Development is a main step towards this objective.

I am pleased as well as very proud to present the 2nd edition of the Central Asian Journal. Herein you will find several articles which are a result of this historical seminar. I hope you find them informative and enjoyable.

May I take this opportunity to thank Mr. Jon Purnell, the Deputy Chief of Mission of the United States Embassy in Almaty, for kindly finding time to address the opening session of the seminar. My special thanks are also extended to Dr. Gustav Ranis, Frank Altschul Professor of International Economics and Director of the Yale Center for International and Area Studies, as well as to the members of the KIMEP-Yale Joint Organizing Committee for their efforts in organizing such an important event.

**Chan Young Bang, Ph.D.**

## Message of the Chair of the Organizing Committee

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This special Issue of the Central Asian Journal is devoted to the Second Annual Yale - Central Asia Summer Seminar "Seizing the Opportunity for Sustained Growth and Improved Equity".

Organized by KIMEP and Yale University, the Seminar took place at KIMEP for two weeks from June 5 to June 16, 2000 with the participation of 8 Professors from Yale University and 24 researchers from the different Central Asian research institutions.

KIMEP had the great pleasure to receive Dr. Gustav Ranis, Frank Altschul Professor of International Economics and Director of the Yale Center for International and Area Studies, and Professor Robert Evenson, Director of the Yale Center for Economic Growth.

From Yale University, Dr. Pauline Jones Luong arrived earlier in Almaty to help the Research Center and to facilitate the organization of the Seminar.

The Seminar covered 10 sections with different topics ranging from "Economic Growth and Human Development" to "Agriculture Development", "Privatization and Corruption in Kazakhstan", etc.

I would like to take this opportunity to express our appreciation and gratitude to the members of the Organizing Committee and to the administration staff of KIMEP for their help in hosting this prestigious event.

We see this seminar as an opportunity to develop further cooperation between KIMEP and Yale Center for International and Area Studies.

For KIMEP, this is also a great honor that Professor Gustav Ranis, Professor Robert Evenson, Dr. Pauline Jones Luong, and Dr. Philip Nichols, of the University of Pennsylvania, accepted to become members of the Editorial Board of the Central Asian Journal.

**M.H. Rahman, Ph.D.,**  
**Vice-President on Academic Affairs**

## Preface

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### *This special Issue*

The KIMEP Center for Research and Development is pleased to publish the Second Issue of the Central Asian Journal of Management, Economics and Social Research. The first issue of the Journal was published in January, 2000 under the leadership of Dr. Sachi Dastidar, ex-Director of the Center, Distinguished Professor of the State University of New York, Old Westbury, and Fulbright Program's scholar, USA.

A certain number of English language journals on Central Asia are being published in European, North American, and other countries. But the KIMEP Central Asian Journal is the only academic journal in Central Asia published in English language by a local institution.

This issue covers a substantial selection of the papers presented at the Second Annual Yale - Central Asia Summer Seminar, which was held at KIMEP, on June 5-16, 2000. The theme for the seminar was *Seizing the Opportunity for Sustained Growth and Improved Equity*. It was a great honor for the Research Center to host the Second Annual Yale - Central Asia Summer Seminar. Professors from Yale University and Central Asian Research Institutions joined the KIMEP Research Center for this two-week Workshop (please, see the seminar's program in APPENDIX I, pp. 57-62). As the heads of the Yale delegation, we received Professor Gustav Ranis, the Director of the Yale Center for International and Area Studies, and Professor Robert Evenson, the Director of the Yale Center for Economic Growth. It is a great pleasure for the Research Center to have Professor Gustav Ranis, Professor Robert Evenson, Dr. Pauline Jones Luong, from Yale University and Dr. Philip M. Nichols, from the University of Pennsylvania, as members of the Editorial Board of the Central Asian Journal.

### *The Research Center*

As KIMEP is expanding and new fields are opening in the Institute, many changes have been realized since the beginning of the Academic year 2000-2001. "The Public Policy Research Center" became "The Center for Research and Development." The Center has developed its internal and external activities significantly. With the help of the Vice President - Academic Affairs, Dr. Rahman and the advise of the President of the Institute, Dr. Bang, the Center organized an Advisory Committee consisting of KIMEP professors, and an International Advisory Committee with the participation of European, American and South Korean professors and experts. In the course of this year, the Center held five important conferences and workshops, managed more than six research projects supported by international and national organizations, and hired eight Research Associates from faculty members and outside of KIMEP to work on different projects. The Research Center continues to receive new research proposals. Another initiative of the Center was to create LINK in October 2000, a bi-monthly bulletin which reports on the activities of the Center and serves as the link between the government and non-government organizations and international sponsors. Three issues have been published as of June 2001 (please, see their contents in APPENDIX II, p. 149).

***Our Principles and new rubrics***

The Central Asian Journal accepts articles from the fields of Economics, Management, and Social Sciences. Articles in Political Science, International Relations, Education, History, etc.--as parts of the Social Sciences--are also welcome. Articles should be related to Kazakhstan or Central Asia. This issue of the Central Asian Journal is divided into three parts. The first part consists of a group of selected papers that were presented at the Yale Seminar at KIMEP. The second part contains papers we received from the KIMEP faculty members and other scholars. "Point of View" is a new rubric that covers topics considered useful or necessary for general knowledge and research on the region's problems. Also, three new columns have been created in the Journal. In order to establish better relations with other universities and research institutes in Kazakhstan and in Central Asia, we have decided to translate the article's abstracts, the prefaces, and table of contents into the Russian language. Another rubric is the "Book Review Panel." Two book reviews have been devoted to the last publications of Dr. S. Satubaldin, Senior Vice President of KIMEP. "Notes on Contributors" are for introducing our authors.

***Friends of the Research Center and the Journal***

As this Issue is devoted to the Yale-KIMEP Seminar, I would like to express my thanks first to all the members of the Organizing Committee:

From the Yale University - Dr. Pauline Jones Luong and Raluca Munteanu; from KIMEP - Nazym Tilemissova, Department of Economics, Inkar Kadyrzhanova and Ainash Alpeissova, Department of Political Science and Public Administration, Dr. Cheong-Hwan Oh, Chair of the Department of Economics, Raisa Ayazbekova, Coordinator of the Research Center, and Almaz Tolymbek, Lecturer. He was also the organizer of the preparatory stage of the seminar.

As the Editor-in-Chief of this Journal, I would like to express my gratitude to all friends of the Research Center and the Journal, specially to Dr. Habib Rahman, the Vice President, Dr. Golam Mostafa, Dean of Graduate and Undergraduate Studies, Dr. Richard Faillace, Dean of Student Affairs, Dr. James J. Leibert, Associate Professor in Political Science, Dr. John Clark, ex-Dean of Student Affairs, Dr. Dina Mukhamedkhan, ex-Associate Dean of Research, Dr. Homi Motamedi, from Evening MBA Department, Dr. Kairat Mynbayev, Associate Dean of Undergraduate Studies, Dr. Vassily Boinov, Assistant Professor, Philip Leatherwood, Senior Lecturer, and all others who helped me in the Editorial Board and at the Advisory Committee in preparing this Issue. Thanks to the Center's Research Assistants, Lyazzat Zhunisbekova, MA, and Alina Gabitova, MA, and our secretary Saya Saktaganova, BA, who participated in the publication of the journal. Special thanks should be addressed to Gulnur Bolyspayeva, MPA, Research Assistant, who helped me greatly and in the best way to finalize this issue. Without her help this journal could never been published. I was delighted to receive help from Brian Block, Liza Ponzetti, Poroma Deb and William Adeleke in English editing of this Journal.

**A. Hoodashtian, Ph.D.,**  
**Director, Center for Research and Development**  
**Almaty, June 2001**

**Economic growth and human development in Central Asia**

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**Introduction**

The interest of the authors to this issue was triggered during the Yale Central Asia Seminar on Economic Planning and Development conducted in Almaty, 5-16 June 2000. This paper is a product of joint work of the Seminar Working Group.

The theoretical background of this paper is based on the article *Economic growth and human development* by Ranis, Stewart and Ramirez (2000). According to this article, links between economic growth (EG) and human development (HD) form two chains, which demonstrate a significant relationship in both directions. The purpose of this paper is to check the applicability of this theory to the Central Asian region and find out whether these links between EG and HD can be established for the region. The focus of attention is concentrated on the Central Asian region, and on Kazakhstan in particular at the end of the 1980s and 1990s.

In the first part of the paper, the authors discuss the interrelations between economic growth, which is expressed by GDP growth per capita, and human development, which is measured by change in life expectancy, and education and health achievements.

Following this, the paper presents quantitative analysis based on two statistical models: regression and rank-order correlation models. Both models were calculated to establish a causal link for Chains A and B in application to Central Asia. Chain A, which reflects the effect of EG on HD, was established through the relation of expenditure on health and education as proportion of GDP to life expectancy. For Chain B, which reflects the effect of HD on EG, the authors calculated a production function which shows interdependence between GDP growth, on one hand, and capital investments and labor component on the other. Two chains were constructed for Kazakhstan in 1993-1998.

Rank-order correlation analysis was applied to EG-related and HD-related indicators in Central Asian countries over a two-year time period. It was assumed that GDP contributes to HD through public spending on education and health, and life expectancy was taken as the output HD-related indicator, which demonstrates the strength of Chain A. As for Chain B, the authors used the total number of employees in the country and total investment in fixed assets in the country.

Concluding remarks and recommendations are presented in the final part of the paper.

The Working Group would like to express gratitude to Professor Gustav Ranis for his assistance and for sharing his view and ideas during the preparation of this paper. Special thanks are addressed to the Seminar Organizing Committee for giving us a chance to meet, which has resulted in a very productive and pleasant collaboration.

### Debate around economic growth and human development

The interconnections between EG and HD became a popular debate in the 1990s in development and international economics studies. The UNDP Human Development Report (HDR) was one of the first papers where HD was advanced as an important contributor to EG. The Report argues that "EG, if not properly managed, can be detrimental to HD" (1996). The quality of growth is, therefore, as important as its quantity for its sustainability and HD improvements.

Employment levels and the quality of the labor force were identified as critical for translating the benefits of EG into better lives of people. According to HDR, HD is the end, while EG is the means of development. In other words, the purpose of growth should be to enrich people's lives. Far too often, however, it does not.

Recent research shows that there is no automatic link between growth and HD. The links between these two are failing for people in the many countries with lopsided development: good economic growth but little human development, or good human development but little or no growth. One paper written by Ranis in co-authorship presents a more detailed typology of country cases based on empirical analysis. The analysis demonstrates that there are four categories of country performance, and these categories are described in great detail in the article *Economic Growth and Human Development* (Ranis et al, 1999). The record over the past 30 years shows that no country can follow a course of lop-sided development for a long time, where EG and advances in HD are not matched. Lopsided development can last for a decade or so, but it then either shifts to a rapid rise in both incomes and human development, or falls into slow improvements in both human development and incomes.

According to Ranis (2000), countries follow one of four patterns:

1) slow economic growth and fast human development (HD lopsided);

- 2) fast economic growth and slow human development (EG lopsided);
- 3) mutually reinforcing growth and human development (virtuous); or,
- 4) mutually stifling growth and human development (vicious).

The 1996 HDR also gives a similar four-fold classification of its country case studies.

The 1999 World Development Report concludes that more EG, not less, will generally be needed as the world enters the 21st century. Currently, more attention must go to the structure and quality of growth. At the national level, short-term advances in HD are possible, but they will not be sustainable without further growth; conversely, EG is also unsustainable without HD. Improvements in HD have been possible even in times of economic setback, but such advances can be sustained over a long time only if supported by EG. HD and EG should move together, strongly linked.

### Economic situation in Central Asia

In the case of the Central Asian countries after the dissolution of the Soviet Union, EG has slowed down dramatically and in some years, during the late 1980s and 1990s, it even became negative. The countries had to adjust to sweeping economic and political changes, which were accompanied by the breakdown of previously established economic relations among the countries of the FSU (see Graph 1). In this situation, the states of Central Asia mostly relied on the system of public services provision and infrastructure inherited from the Soviet period. The states could not maintain the then-existing level of expenditure related to the social sphere and the level of coverage of public expenditure had become minimal. In Central Asia in general, the quantity, if not the quality, of public services offered by the government was comparable to that of higher-income OECD countries. However, the fiscal resources available to operate and maintain these services and the whole public sector had contracted by as much as 50-75% in real terms in the late 1980s-1990s.

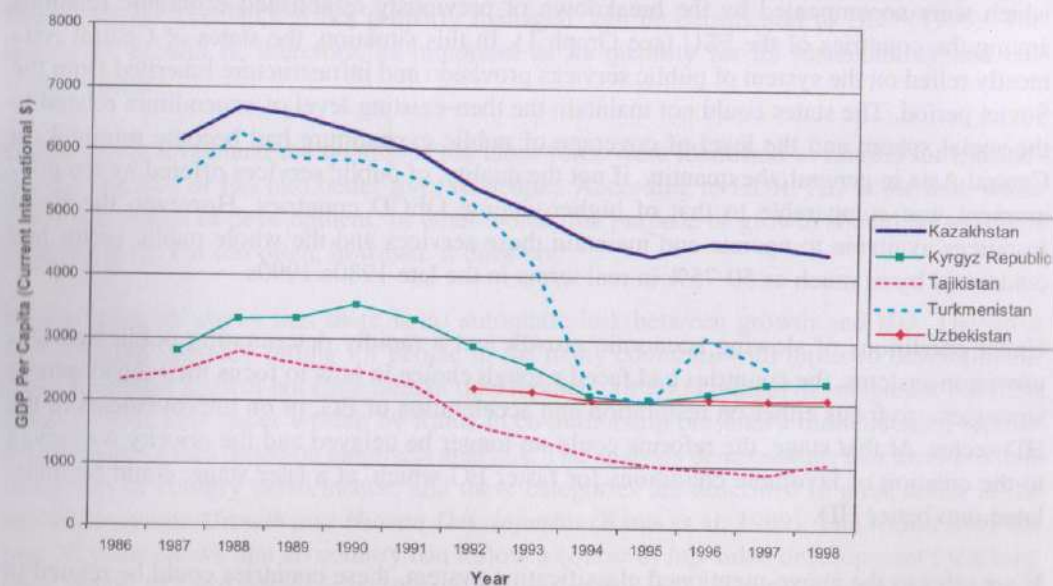
Under conditions of slowing economic growth and a rapidly deteriorating public services provision systems, the countries had faced a tough choice in how to focus their development strategies - to focus either on restoration and acceleration of EG, or on improvements in the HD sector. At that stage, the reforms could no longer be delayed and the priority was given to the creation of favorable conditions for faster EG which, at a later stage, could be translated into better HD.

If we refer to the above-mentioned classification system, these countries could be related to the fourth group, which is the group of so-called "vicious circle" countries. According to Ranis, the determinant characteristics of this group are slow economic growth and slow human development. This means that economies experience weak HD progress, which result in low EG and consequently in continued poor progress toward HD improvement. Strong links between EG and HD can therefore influence the extent of poor performance in both chains in a weakening direction. EG being a priority in the national development strategies dampens HD improvements.

The studies on economic growth and human development in the countries of Central Asia demonstrate that these countries have some specific features in common in their socio-economic development. The analysis of GDP per capita (see Graph 1) shows a common tendency of GDP decline from the end of 1980s, followed by later stabilization in the middle of the 1990s with minor growth at the end of 1990s. The question, "Will stabilization of the late 1990s give a basis for faster economic growth?", is still open. At the same time, the analysis of social, economic, and political transformations which have taken place in these states during the last decade, and are going on at present, demonstrates that almost all the countries have substantial chances of achieving sustainable economic growth which has not been achieved yet.

According to Ranis, the HD - EG cycle is formed by two chains, A and B, which reflect two causal links - one goes from GDP to HD, another from HD to GDP. As was identified in the article, GNP growth contributes to HD through household and government activity. Different distributions of GNP in the economy may result in different performance in HD. Human development includes better education and a higher standard of health of people. Higher levels of HD affect the economy through enhancing capabilities and labor productivity of the population. Clearly, the health and the education of a population are among the main determinants of the growth of output.

Graph 1. GDP Per Capita (PPP method)



Source: World Development Indicators, 1999.

#### Chain A: the effect of EG on HD

Economic transformations of previous years have resulted in a change in the public expenditure structure. An economic analysis conducted on expenditures in public health in all states

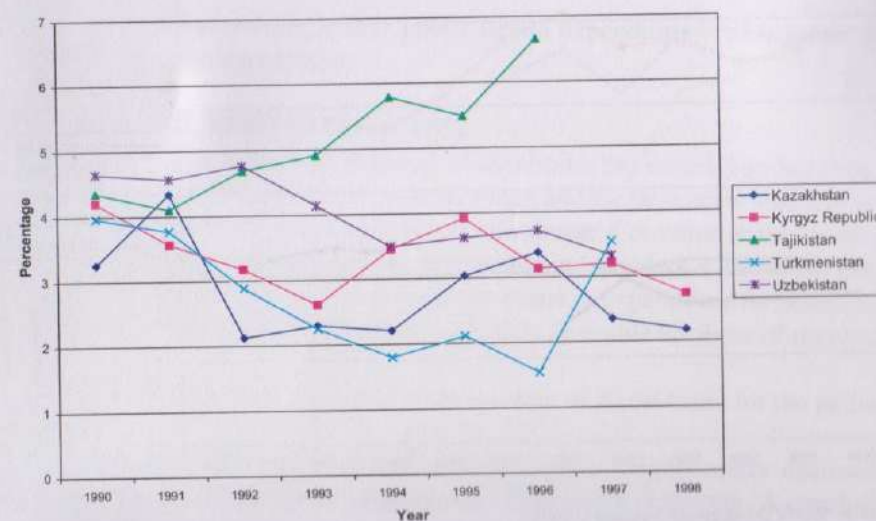
of Central Asia in 1990-1998 demonstrates rather different tendencies (see Graph 2). As it is seen from Graph 2, the share of expenditure on public health in GDP in Tajikistan has increased from 4.08 % in 1991 to 6.64 % in 1996. Conversely, in 1991-1996, there was a decline in the share of health expenditures in Central Asia.

Table 1. Life Expectancy and Health Expenditure

1990	Life Expectancy at birth	Public Health Expenditure as a Percentage of GDP
Kazakhstan	68.3	3.24
Kyrgyz Republic	68.3	8.32
Tajikistan	69.3	9.66
Turkmenistan	66.2	4.31
Uzbekistan	69.2	9.47
1996	Life Expectancy at birth	Public Health Expenditure as a Percentage of GDP
Kazakhstan	64.1	2.36
Kyrgyz Republic	66.5	3.12
Tajikistan	68.4	6.64
Turkmenistan	65.7	1.52
Uzbekistan	69.2	3.7

GDP has been observed in other Central Asian states. As an example, in 1995 in Kyrgyzstan and in 1996 in Kazakhstan, expenditures on health have dropped noticeably. This relates to the introduction of a mandatory medical insurance system in both states. A portion of the expenses in the health sector was covered by a surplus in budgetary funds for medical insurance. Table 1 indicates the relationship between health expenditure and life expectancy,

Graph 2. Public Health Expenditure as a Percentage of GDP



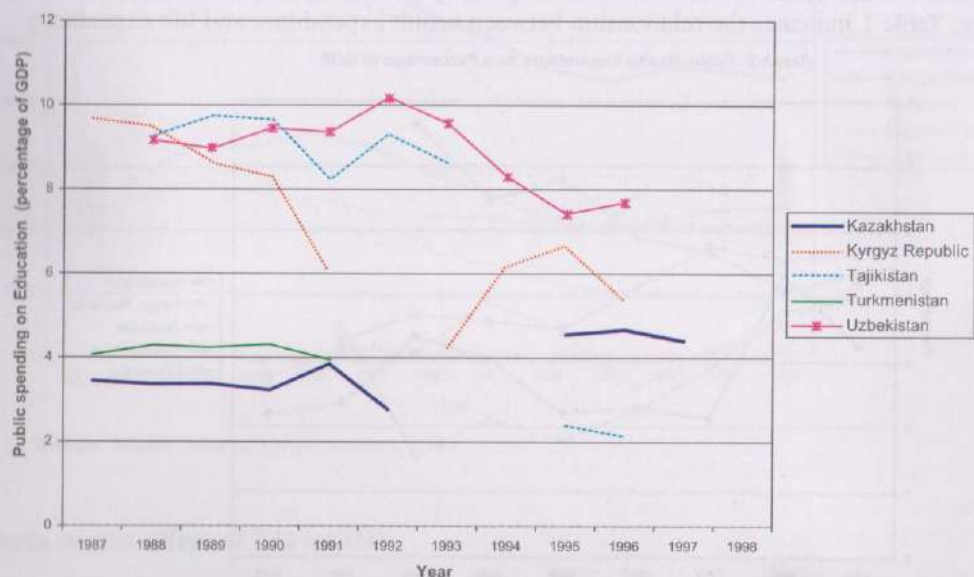
Source: World Development Indicators, 1999.

The analysis of expenditure on primary and secondary education in relation to GDP at the end of the 1980s and 1990s demonstrates significant changes in this sector (see Graph 3, p.6). In 1988 in Kyrgyzstan, expenditures on education were 9.51% of GDP, but in 1996 they comprised 5.34% of GDP. In Uzbekistan the expenditures decreased from 9.17% in 1988 to 7.77% in 1996. At the same time in Kazakhstan, they increased from 3.37% in 1988 to 4.68% in 1996. In brief, in the countries of Central Asia, a general decrease in education-related expenditures was observed after the demise of the Soviet Union. (See Table 2).

Table 2. Life Expectancy and Education Expenditure

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Kazakhstan	68.3	3.24
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Kazakhstan	64.1	4.68
Kyrgyz Republic	66.5	5.34
Tajikistan	68.4	2.15
Turkmenistan	65.7	1.9
Uzbekistan	69.2	7.71

Graph 3. Public Expenditure on Education (% of GDP)



Source: World Development Indicators, 1999

From the above data we can observe a common phenomenon for all Central Asian states in the process of restructuring the expenditure part of the budget, and a decrease in expenditure related to health and education sectors. These two sectors are determinants of HD in these countries.

According to Ranis (2000), Chain A reflects a causal link between growth in GNP and its influence on HD. This link can be established through the analysis of household and government expenditure structures. In this paper, the authors analyzed only government expenditure, as information about household expenditure patterns was not available. To capture the influence of EG on HD, two bodies of statistics were correlated: the proportion of spending on primary/secondary education and on health to GDP, and life expectancy. Life expectancy was used as it is one of the components of HDI; also, it reflects the general level of health and living conditions of the population. To some extent, the choice of the indicators was constrained by the availability of national statistics.

The authors analyzed the composition of the two chains only for Kazakhstan. This decision was based on the availability of statistics and the better knowledge the researchers had of this country. All the Central Asian countries, and Kazakhstan in particular, have inherited from Soviet times a broad government-owned public services system. This system still works and is predominant, although in all the countries privatization of the public sector has taken place. The authors believe that an analysis of government expenditures truly reflects actual expenditure structures in the countries.

For the analysis the authors used the following function:

$$E = f((H+ED)/GDP),$$

where E is life expectancy; H is public health expenditure; ED is public primary and secondary education expenditure.

#### CHAIN A: REGRESSION ANALYSIS

The authors used regression analysis to determine the correlation between these variables. The independent variables were priority ratios and the dependent variable was life expectancy. The relationship between variables is curvilinear. Causation in the model is one way. This simply means that the causation goes from the independent variables to the dependent variable. In other words, the higher the priority ratios or expenditure on health and education, the longer is life expectancy. Causation is a highly desirable attribute of regression models.

Regression analysis has been applied to the case of Kazakhstan for the period of 1993-1998.

As it was presented above, the priority ratios have significantly decreased over the last decade and this resulted in life expectancy decline in Kazakhstan. A conclusion is that slowing economic growth has a negative and significant influence on HD in Kazakhstan as sup-



ported by the regression analysis, although other factors may clearly also be at work.

Results of regression analysis:

The dependent variable is life expectancy

VARIABLE	COEFFICIENT	STANDARD ERROR
C	-1.0821664	0.5383066
LOG(HEEx)	1.0658109	0.2853498

R-squared 0.7771s71

log LE= 1.0658109log (HEEx) - 1.0821664  
standard error (0.28) (0.54)

#### CHAIN A: RANK-ORDER CORRELATION

If the regression analysis applies to values measured on an equal-interval scale, it is possible to apply the linear correlation to cases where variables are measured on a merely ordinal scale. As the second method of analysis, a Spearman rank-order correlation model was used for all five Central Asian countries. The correlation between ranks of two different indicators for five countries was established. The authors calculated the correlation between one HD related and one EG-related indicator of development for every correlation. The calculations were based on the following formula:

$$r = 1 - \frac{6 \sum d_i^2}{n(n^2 - 1)}, \quad i=1$$

where  $n$  is the number of observations of one indicator for every country;  $d_i$  is the difference between indicators for one country ( $d_i = x_i - y_i$ ); and, the level of significance is 5%.

For Chain A, the authors calculated two correlations between expenditures on health and primary/secondary education on the one hand, and life expectancy on the other.

The correlation between the proportion of public expenditure on health to GDP and life expectancy in 1990 and 1996 for five countries was 0.6, while in 1996 it increased to 0.8. This change demonstrates a growing relationship between decreases in life expectancy and decreases in expenditure on health expenditure in Central Asia.

Another correlation was calculated between the proportion of public expenditures on primary/secondary education to GDP and life expectancy in the five countries over the same years. In 1990, the correlation was 0.7, while in 1996 it decreased to 0.5. This shows a declining relationship between these two indicators of EG and HD. The explanation could lie in the insufficient privatization of the education sector and rapidly declining government funding.

Both correlations depict a strong link between HD-related and EG-related indicators. The causality in both cases runs from a decline in priority ratios to a decline in life expectancy.

#### Chain B: the effect of HD on EG

As is clearly stated in Economic Growth and Human Development (Ranis et al, 2000), the health and education of the population are among the main determinants of the growth of output or GNP. These determinants are also important contributors to technological capacity and improvement in all sectors of the economy. Another area of our analysis is the impact of HD indicators on economic growth at the macro level.

In order to reflect the impact of HD on EG, the authors used a production function which determines growth as a function of labor, the investment rate (as a proportion of GNP), and technological developments. The basic equation of growth is:

$$Y = (w_i (L_i + (r_j (K_j + R)),$$

where  $Y$  is national product or GDP;  $w_i$  is the gross wage bill of labor of type  $i$ ;  $r_j$  is the unit return to capital of type  $j$ ; and  $R$  is the residual technology change. The dominant characteristic is the assumption of a strict link between the growth of labor and capital and the consequent growth of potential output.

Following Harberger, the first part of this equation takes into account the contribution to the growth of GDP by the employment of labor, the movement of labor between different activities and improvements in labor productivity through education, experience, or training. The authors used changes in the composite labor as an indicator of the level of HD in the country.

With respect to capital, the relevant categories are different from those applied to labor. The second part of the equation captures the contribution to economic growth stemming from new investments and the re-location of capital between different uses. The third part of the equation reflects technical advances and is a result of many different forces.

For the analysis of chain B the following formula was used:

$$Y = f(L, I, t),$$

where  $Y$  is national product or GDP,  $L$  is the total number of employees in the country,  $I$  is total investment in fixed assets in the country and  $t$  is the residual.

#### CHAIN B: REGRESSION ANALYSIS

The regression analysis has been applied to data on Kazakhstan for 1993-1998. The model of ordinary least squares was used to construct the results presented below.

Results of regression analysis:

Dependent Variable is GDP

VARIABLE	COEFFICIENT	STANDARD ERROR
C	8.7094032	0.4864660
LOG(I)	0.0562659	0.0187449
LOG(L)	0.0438341	0.0423172

R-squared 0.934244

$\log \text{GDP} = 0.0438341 \log(L) + 0.0562659 \log(I) + 8.7094032$   
 standard error (0.042) (0.01) (0.48)

The regression analysis was used for ordinary least squares, where the dependent variable is GDP and the independent variables are investments in fixed assets and labor. Logarithms of all variables demonstrate the elasticity of the coefficients. Results of the regression analysis show that both investment and labor are significant, but with low coefficients. The GDP elasticity is 0.05 with respect to capital and 0.04 with respect to labor. Accordingly, a 1% increase in investment causes a 0.05% increase in GDP.

#### CHAIN B: RANK-ORDER CORRELATION ANALYSIS

The result of calculations for the 1990 rank-order correlation coefficient was 0.8; in 1996 it had become 0.5. This demonstrates the strong and positive correlation between employment and GDP. The decrease was probably due to the change in the source of the statistical data. At the beginning of the 1990s, statistics were not in accordance with international norms. This changed by 1995 when an international methodology was accepted and some changes resulted. However, 0.5 still shows a strong relationship between the indicators. That is, employment influences GDP positively.

#### Conclusions

Based on these findings, plus general information about the economic situation in Central Asia, the conclusions of this paper are as follows:

In the Central Asian states the general tendencies relating to the subject at hand are similar in many respects. There was a sharp decline in GDP starting at the end of the 1980s, followed by later growth in GDP at the end of the 1990s. The decline in GDP as an indicator of national output was accompanied by a decrease in the priority expenditure ratios, which, in turn, influenced the reduction of the level of HD in the region. In all states a decrease in the public expenditure on health services and on education in relation to GDP has taken place.

As shown by rank-order correlation analysis, as well as regression analysis, in all countries of Central Asia there exists a strong link between economic growth and indices describing human development. The theory of Ranis et al. has found support in Central Asia. The Central Asian countries can be grouped with other countries in the vicious circle family.

#### Recommendations for policy-makers

Policy-makers are often mesmerized by the quantity of growth. They need to be more concerned with its structure and quality. For policy-makers everywhere, the focus must be on strengthening the links between EG and HD. To ensure that these links work efficiently and effectively in both directions, policy-makers need to understand how the links connect. Some of the most important issues relate to determining how EG contributes to HD. There are different ways; some of them are mentioned below:

**Creation of job opportunities:** EG is translated into people's lives when they are offered productive and well-paid work. An important way to achieve this is to aim for patterns of growth that are heavily labor-intensive, especially as it relates to Central Asia and to Kazakhstan in particular.

**Growth in social spending:** Governments and local communities can greatly influence HD by channeling a major part of public revenue into high-priority social expenditures, particularly by providing basic social services to all.

Population policy, education, health and child survival all help in creating better living conditions for the population, and in the longer run will be transformed into higher labor productivity. A determined effort to expand human capabilities - through improved education and health can help transform the prospects for EG, especially in the low-HD/low-income countries.

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## Attracting and managing foreign direct investment in the Central Asian region

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### Introduction

Attracting foreign direct investment (FDI) to the economy of the Central Asian region is one of the most efficient and fastest ways of reviving the regional economy. As a result of the collapse of the Soviet Union and break-up of long established economic links, the countries of the region pursuing the transition path from a planned to market economy found themselves facing significant financial and fiscal constraints and a lack of national savings in order to either maintain the existing level of investment or to raise it by launching new investment projects. However, gained sovereignty and growing integration into the world economy also brought to the region an opportunity of attracting international financial flows (i.e., access to external savings) in the form of FDI, portfolio investments, and loans. The loans are costly as they accumulate external debt and require repayments in due time, while portfolio investments are unreliable, being quick to come and quick to leave as it was once again demonstrated during recent crises. FDI is more credible in that sense, and in economic literature it is even defined as investment in the foreign country's asset with an intent to acquire a sustainable influence on its operation by managing this asset. FDI seems preferable as in addition to providing access to much needed international finances, it also has a number of other important potential benefits: bringing in physical capital; creating jobs and training local labor; generating tax revenues; and, ensuring access to international production, distribution networks, and in case of export-oriented FDI, major international markets. Therefore, although not considering FDI a panacea and not diminishing the value of local investment, we believe that the rational approach to FDI provides an opportunity to attract significant financial resources for investment in the key sectors of the Central Asian region.

### Objectives and methodology

Due to its importance, FDI is probably the most frequently discussed topic in the context of developing countries and economies in transition. After providing a summary of popular eco-

nomical thought regarding major factors in attracting FDI, and an analysis of the investment climate in the Central Asian countries, we would like to argue that no common approach can be followed by both large foreign investors active in the extracting/mining sectors and small/medium-size investors in all other sectors of the economy. The well-known factors presented in economic theory as influencing investment decision-making prove more important in attracting the latter group of foreign investors in the Central Asian economies. Second, we would like to raise the issue of income distribution and governance efficiency in FDI management and to emphasize that FDI performs its role in sustainable economic development only if there exist capacity to efficiently manage FDI for the benefits of the country's overall economy and population. Such efficient and transparent management by the government is important to ensure to ensure the sustainable and substantial positive effect of FDI.

In our analysis of the role of FDI in the Central Asian region, we will focus on Kazakhstan, the Kyrgyz Republic, and Uzbekistan. All three countries have achieved remarkable progress in attracting FDI in various sectors of their economies. However, due to differences in the level of resource endowment and their extent of aggressiveness in pursuing market reform policies, the results have not always been similar. The data suggest that Kazakhstan has been far more successful in terms of physical volume of FDI; so far it has attracted the highest level of investment per capita not only in the Central Asian region, but also in comparison to Russia and Ukraine. Therefore, Kazakhstan takes the largest portion of our analysis. Availability of data and other information permitting, the experience of Kyrgyz Republic and Uzbekistan is then analyzed.

### An overview of investment climate in Central Asian region

The available economic literature on FDI-related issues suggests that there is a whole set of factors affecting the decision of foreign investors to enter a country. This rather large set of factors can be divided in the following two groups: factors ensuring certainty and stability of FDI, also known as favorable business climate; and factors representing specific advantages of the country in question. The first group of factors includes stability of political, institutional and legal frameworks (e.g., strong president and government institutions; cooperation between central and district level authorities; transparent, reliable and enforceable legislation regulating property rights and other aspects), as well as the attractiveness of fundamental economic policies and infrastructure. The second group of factors is sometimes more influential in the decision-making process of a foreign investor and includes characteristics such as rich, natural resources; a favorable geographical location; cheap labor and transportation costs; and, closeness to large markets. If the first group of factors can be improved over time and, therefore, raise the attractiveness of the country in the eyes of foreign investors, the factors of the second group are given, can hardly be improved but rather adversely affected with the increasing foreign investment<sup>1</sup>.

Since independence, major market reforms have been pursued in these three countries of the

Central Asian region, albeit with a different level of aggressiveness. For example, Kazakhstan and the Kyrgyz Republic clearly exceeded Uzbekistan in the pace and depth of their reforms, particularly in price and trade liberalization, privatization of state property, restructuring of enterprises and the banking sector, and agricultural reform. However, it is appropriate to say that the following features are common, in principle, to all three countries and shall make them attractive to foreign investors:

- (a) political will and commitment to market reforms;
- (b) political security and stability, similar political structure with a strong presidential leadership;
- (c) liberal trade regime - to a greater extent in the Kyrgyz Republic which was the first among the CIS countries to join the WTO and to a lesser extent in Uzbekistan;
- (d) liberal exchange control regulations - with the exception of Uzbekistan, which restricts currency exchange;
- (e) availability of natural resources;
- (f) low operational costs - to a greater extent in the Kyrgyz Republic and Uzbekistan;
- (g) well-educated and relatively low-cost labor;
- (h) banking and financial infrastructure - to a greater extent in Kazakhstan; and,
- (i) access to a broad range of multilateral and bilateral sources of finance.

Table 1 demonstrates data on the structure of the economies of these Central Asian countries and their integration into the world community.

Table 1. Macroeconomic and structural indices, 1998<sup>2</sup>

	Kazakhstan	Kyrgyz Republic	Uzbekistan
Population, millions	15.6	4.7	24.1
Urban population, % of total	56	34	38
Population density, people per square km	6	24	58
Labor force total, millions	7	2	10
Labor force in agriculture, % of total labor force (1990)	22	32	35
GDP, USD billions	22.0	1.7	20.4
GDP per capita, USD	1409	363	846
GDP average annual % growth (1990-1998)	-6.9	-7.3	-2.0
Agriculture value added, % GDP	9	46	31
Industry value added, % GDP	31	24	27
Manufacturing value added, % GDP	--	18	13
Services value added, % GDP	60	30	42
Gross domestic investment, % GDP	17	18	19
Total external debt, USD millions	5714	1148	3162
External debt, % GNP	25	50	15

External debt, % of exports	79	135	93
<i>Public sector</i>			
Government budget deficit, % GDP	-8	-9.9	-3.8*
Public expenditures, % GDP	21.9	27.5	35.5*
<i>Foreign economic sector</i>			
Foreign trade, % of GDP	66	87	45
Foreign direct investment, % GDP	5.3	6.4	1
Net private capital flow, USD millions	1983	108	592
FDI net flow, USD millions	1158	109	200
FDI per capita, USD	74.2	23.2	8.3
Net official development assistance, USD millions	207	216	144
Foreign aid per capita, USD	13	46	6
<i>Liberalization</i>			
Share of regulated prices in CPI, %	--	--	--
International tax receipts, % of imports	1.9	2.4	2.2**
<i>Privatization</i>			
Share of privatized small enterprises, %	100	--	--
Proceeds from privatization, 1990-98, USD millions	6375.9	139.5	212
Share of private sector in GDP, %	55	70	45
Enterprises and financial institutes			
Budget subsidies, % GDP	0.7	3.3	3.2**
Number of banks (of which with foreign property)	71 (20)	23 (6)	30 (3)**
Share of bank assets in state property, %	23	0	70.6**
Private sector crediting, % GDP	6.5	5.1	--

\* Central government and extrabudgetary funds, but excluding local budgets

\*\* 1997 data

Source: World Bank and EBRD

The governments of all three countries have identified FDI as a priority, passed special legislative and regulatory acts aimed to create conditions attractive for foreign investors, and established special state bodies to deal with foreign investors. The next three subsections provide a country-by-country analysis of the investment climate in Kazakhstan, Kyrgyz Republic and Uzbekistan.

## KAZAKHSTAN

There has been a large inflow of FDI into Kazakhstan since the country declared its independence in 1991. Kazakhstan has attracted a higher level of investment per capita in comparison to Russia and Ukraine (US\$74 in 1998) and received the second largest amount of FDI among the CIS countries with US\$1.7 billion in 1996, US\$2.1 billion in 1997, US\$1.2

billion in 1998, and US\$1.4 billion in 1999. Such amounts have been achieved mainly through privatization of large, formerly state-run strategic enterprises in the natural resources extracting sector. A total of 213 local companies were originally identified by the government as eligible for so-called case-by-case privatization which was - albeit not fully - implemented in the forms of management contracts, sale of shares, asset sales, and the establishment of joint ventures. Over the last few years, the Kazakhstan government has signed a number of substantial contracts with foreign investors, including the establishment of a joint venture with the US oil company Chevron; the sale of assets of Karaganda metallurgical enterprise to the Indian company Ispat; the sale of assets of local energy companies to Belgian Tractebel; the signing of a management contract on copper mines with South Korean Samsung; and, the sale of shares of local tobacco companies to Philip Morris and British Tobacco. Distribution of FDI in Kazakhstan by sectors and by countries of origin is presented in Tables 2 and 3.

Table 2. FDI in Kazakhstan by sectors, US\$ million

	1993-94	1995	1996	1997	1998	9 months of 1999
Oil and gas	1519.8	315.1	387.1	717.9	824.5	1119.9
Food industry	86.5	38.5	41.7	70.6	42.9	42.6
Ferrous metallurgy	0.0	102.1	122.9	110.6	12.5	13.4
Non-ferrous metallurgy	17.9	344.5	706.5	761.3	77.4	45.4
Energy complex	0.0	0.0	126.0	128.3	86.2	26.9
Mining industry	0.0	0.0	118.6	67.7	0.0	0.0
Communications	27.8	34.9	20.4	126.4	4.6	5.4
Consumer goods	0.0	0.0	56.1	12.2	29.8	34.1
Banking	19.0	11.9	3.4	25.8	85.0	25.0
Other	260.1	137.3	91.0	86.2	70.3	25.0
<i>Total</i>	1931.1	984.3	1673.7	2107.0	1233.2	1337.7
FDI in Kazakhstan by sectors, %						
Oil and gas	78.7	32.0	23.1	34.1	66.9	83.7
Food industry	4.5	3.9	2.5	3.4	3.5	3.2
Ferrous metallurgy	0.0	10.4	7.3	5.2	1.0	1.0
Non-ferrous metallurgy	0.9	35.0	42.2	36.1	6.3	3.4
Energy complex	0.0	0.0	7.5	6.1	7.0	2.0
Mining industry	0.0	0.0	7.1	3.2	0.0	0.0
Communication	1.4	3.5	1.2	6.0	0.4	0.4
Consumer goods	0.0	0.0	3.4	0.6	2.4	2.5
Banking	1.0	1.2	0.2	1.2	6.9	1.9
Other	13.5	13.9	5.4	4.1	5.7	1.9
<i>Total</i>	100.0	100.0	100.0	100.0	100.0	100.0

Source: National Bank of Kazakhstan

Table 3. FDI in Kazakhstan by Countries of Origin, %

	1993-94	1995	1996	1997	1998	9 months of 1999
Belgium	0.1	0.0	6.4	1.3	1.2	0.7
Britain Virgin Islands	0.7	1.4	2.7	3.8	0.4	1.5
Great Britain	1.3	15.5	28.9	14.8	7.0	6.4
Germany	0.8	1.0	1.7	2.5	5.6	1.0
Indonesia	0.0	0.0	0.0	5.9	4.5	0.0
Iceland	0.0	0.0	5.0	3.1	0.3	0.0
Canada	0.8	3.6	7.9	1.1	2.5	0.6
China	0.5	0.2	0.0	14.9	7.0	2.3
USA	71.4	15.6	9.8	9.9	32.4	53.0
Turkey	6.9	8.1	4.5	3.1	7.2	2.2
Switzerland	0.0	0.4	2.7	1.5	3.8	1.3
South Korea	0.0	27.5	26.4	34.2	2.6	1.4
Japan	0.6	3.0	0.0	0.6	18.4	0.2
Other	16.7	23.7	3.8	3.5	7.1	29.4
<i>Total</i>	100.0	100.0	100.0	100.0	100.0	100.0

Source: National Bank of Kazakhstan

In regards to distribution of FDI by countries of origin, a leading role is played by the USA while the role of other countries varies over time. The effect of the Asian crisis can be easily observed in the sharply decreasing shares of China, Indonesia, and South Korea among foreign investors in 1997-1998. The above data also suggest that most FDI is in the oil and gas sector and non-ferrous metallurgy; that is, in exploration and exploitation of the country's large natural resources. The size of investors dominating in Kazakhstan is very large, as investments in extracting and mining sectors are capital-intensive with substantial initial costs and a long pay-back period. Despite this, the share of the oil and gas sector in the structure of FDI in Kazakhstan keeps growing over time, while there is much less evidence of and success in attracting investment in manufacturing and other industries (except for tobacco companies), which also could have benefited enormously from the financial support, restructuring, new technologies and management techniques brought in by FDI. In our view, Kazakhstan's situation proves the point that FDI is not uniform, and pre-requisites for rapid inflow of one kind of FDI differs from another. In Kazakhstan a major difference can be observed between large investors involved in the extracting sectors and small/medium-size investors in manufacturing and other sectors of the economy. The former are well represented in the Kazakhstan economy, driven mainly by rich natural resources and high profit expectations, despite all drawbacks in transparency, fairness, openness or certainty of the current investment regime. In fact, US oil companies had already started their negotiations over oil exploration contracts with the Soviet government long before the development of a favorable investment climate. The growing bias towards the development of extracting sectors is a potential danger for Kazakhstan's economy. Therefore, it is necessary to diversify the economy, to ensure better protection from world price fluctuations and to increase FDI to a level

that would secure growth.

Foreign investors have practically no restrictions to being involved in various Kazakhstan industries, though in early 1997 Kazakhstan authorities announced some priority sectors for FDI: industrial infrastructure, the processing industry, construction, housing, and tourism. To attract investments in these sectors, it is vital that the investment regime is predictable rather than arbitrary. One factor which foreign investors view as being very important and influential in their investment decisions is the presence of an adequate legal system that includes legislative and regulatory norms complying with international standards, and has reliable legal and judicial institutions in place to enforce those norms.

The Kazakhstan government has spent significant efforts trying to make the existing legal framework more attractive to the foreign investors. The Foreign Investment Law was adopted as early as in 1994 and later amended following further consultations with foreign advisers. The Foreign Investment Law, enacted in July 1997, determines the legal and economic basis for foreign investment, secures state guarantees for the protection of foreign investment against changes in legislation or expropriation of investor's property, and establishes the forms of foreign investment as well as the procedures for dispute settlements. It includes a "stability clause" indicating that the legislation in force at the time of foreign investments will apply to those investments for ten years, a guarantee clause against expropriation of foreign investment projects and immediate payment of adequate and effective compensation if it still takes place. In addition to this specific law, other pieces of economic legislation regulating overall business climate or clarifying certain aspects of FDI in Kazakhstan were passed in 1997-1998. (e.g., amendments to the Tax Code, Securities Market Law, and Bankruptcy Law that clarified the legal status of foreign investment in Kazakhstan and simplified the registration procedures for foreign investors). However, an extensive number of legislation regulating different aspects of FDI, frequent changes and amendments to relevant legislative and regulatory acts, and vaguely defined standards and clauses aggravate the overall business climate in the country, disturb investors' operations, and elevate the power of bureaucrats over their activity.

On 28 February 1997, the government passed a law designed to increase investment outside the natural resources sector. The Law "On State Support of Direct Investments" had been designed to increase investments in priority sectors of the economy. State support for direct investments consists of a system of concessions and preferences permitting reductions in income tax rates, full or partial exemption from customs duties on imports of equipment, as well as raw and finished materials. Investors are entitled to five year's worth tax holidays (with respect to income tax, land tax, and property tax only and when investing in priority industries), and a 50% discount on tax payments during the following five years. The eligibility criteria for state support to direct investments includes the creation of new jobs, the introduction of new technologies, advanced equipment and know-how, and the development of production which is oriented towards export promotion and import substitution. To operate this complicated system of privileges, Kazakhstan authorities have

established a special body, the State Committee on Foreign Investments, designed as a "one-stop shop". The Committee is given power to award tax breaks and holidays to foreign investors on a case-by-case basis following the above eligibility criteria; it is also responsible for preparation of investment summits and the overall promotion of Kazakhstan's investment image. An additional function of the Committee is to issue licenses for subsurface operators. Although the Committee was created by the authorities in response to numerous requests of foreign investors, this mechanism has several serious problems and operates far from perfectly. First, the idea of a "one-stop shop" has not fully developed, as investors need to contact other ministries as well for information or clarifications. More important, however, is the fact that investors cannot expect the same level of support at different levels of the government. Second, tax breaks do not necessarily attract the highest quality long-term investors. According to a survey by the International Tax and Investment Center (1997, May), tax exemptions have little significance for foreign investors in Kazakhstan in comparison with access to natural resources and large market potential. Unless Kazakhstan has a comparative advantage in a particular sector, tax concessions will only mean lost revenues to the government budget. Third, to develop appropriate tax incentives to the investment projects on a case-by-case basis, the Committee should be staffed with a highly experienced and professional staff, undertake a very thorough and time-consuming analysis of each investment proposal, and have a very strong administration capacity. Fourth, the Committee seems to concentrate too much power into granting tax privileges to selected investors. To eliminate any opportunity for corruption, all procedures should be very open and transparent; the Committee should be kept responsible for the contracts it signs, and it should report regularly to the parliament and make information available to the public.

Kazakhstan authorities continue their dialogue with foreign investors trying to improve the existing investment environment. The Foreign Investors Council was founded in 1998 by the Kazakhstan president and was strongly supported by EBRD in order to create a forum where representatives of the foreign investment community could discuss problems with and make suggestions directly to the president and top officials of the country. The membership of the council was designed to represent different sectors and different countries of FDI origin.

Although Kazakhstan has attracted a higher level of investment per capita than Russia and Ukraine, living standards of the population overall and of the population living in the investment projects areas have not improved rapidly. The government needs to apply an objective and fair selection process for foreign and local participation in the natural resource development projects, use open and transparent contract procedures, initiate the practices of public disclosure, and control explicit consultations with different interest groups (consumers, trade unions, NGOs, environment bodies, suppliers, etc.) in preparation and implementation of such projects.

## RECOMMENDATIONS:

- Promote the development of small and medium business and improve the overall business climate for both domestic and foreign medium-sized investors in such sectors as agriculture, manufacturing and technology-intensive sectors, light industry and tourism, and transport infrastructure.
- Define a strategy for attracting foreign direct investment. Support identified investment priorities, support projects and industries with feasibility studies, make relevant information on proposed industries available for potential investors, and search actively for both domestic and foreign investors with the help of appropriate official agencies.
- Further improve the reliability, transparency and enforceability of laws; clarify the hierarchy and co-relation of existing legislative and regulatory acts regulating FDI in Kazakhstan; and, strengthen the judiciary system.
- Work out the mechanisms ensuring adequate management of FDI (in the sector of natural resources, in particular) in the interests of the population and overall economic development. These could include requirements of public disclosure and involvement in the decision-making through consultations with interest groups, as well as public monitoring through parliament hearings, public benefits through establishment of oil trust fund.
- Eliminate opportunities for corruption by improving the current legal system and increasing public access to information.

## KYRGYZ REPUBLIC

The Government of the Kyrgyz Republic has stated that a priority of its overall economic policy is the improvement of its investment environment. To do so, the government has made an inventory of existing legislative and regulatory acts with the goal of restricting government intervention into the operation of private enterprises, amended Licensing Law, and simplified the process of entering and exiting the Kyrgyz Republic for foreign investors. On 30 June 1997, the Kyrgyz Government adopted the Foreign Investment Law, which makes certain guarantees for foreign investors: their rights and responsibilities, principles of establishment and registration of legal entities with foreign participation, the level of taxation of foreign investors, and provisions on labor regulations. Other legislation regulating foreign investment include legislation on foreign currency transactions and currency control, on economic partnerships and companies, and on state registration of legal entities.

The Kyrgyz government also undertook important legal and regulatory steps towards the protection of foreign investors by signing 21 bilateral agreements on mutual protection and promotion of investment, as well as 11 bilateral agreements on avoiding double taxation. Kyrgyz Republic authorities set up conditions for the creation of Free Economic Zones (FEZ). As of today, there are four FEZ on the territory of Kyrgyz Republic - Karakol, Maimak, Bishkek, and Narin. FEZ differ from the rest of the country in that they have a special legal status, a separate system for registering business enterprises, a separate labor force regulation, and different export, import, and customs procedures. The objective of these FEZ is to increase the export potential of Kyrgyz Republic by attracting FDI to export-oriented production and jobs

creation. For example, Bishkek FEZ have attracted FDI worth 4.1 million USD and is a home to 416 companies, 235 enterprises with foreign investment, 152 foreign and 29 local enterprises. To raise the efficiency of FEZ and increase FDI inflow, it is envisaged that parts of FEZ territories will be under management of foreign companies.

In September 1998, the President of Kyrgyz Republic established a Committee on Foreign Investment and Economic Development to provide new direction in the country's efforts aimed at privatization and foreign investment promotion. The Committee pursues a state policy in attracting and utilizing foreign investments and foreign economic assistance in Kyrgyz Republic and coordinates foreign economic and technical assistance extended to Kyrgyz Republic. Functions of the Committee also include coordination and control of FEZ operation. This Committee represents Kyrgyz authorities at negotiations with foreign investors as an authorized agent of the government of Kyrgyz Republic, performs evaluation of foreign investors' proposals, issues licenses envisaged by Kyrgyz legislation, and signs contracts and agreements. Having the status equal to that of a ministry, the Committee regularly reports to the parliament on its operation and coordinates work with other relevant ministries depending on the nature of the investment proposal.

The Committee has since made ambitious strides towards facilitating foreign investment process in the country. The Committee established an agency to provide administrative support and consultation services to foreign investors, and opened a representative office of this agency in Manas Airport following a 2 August, 1999 Presidential Decree. Also in 1999, a Consulting Council on investment policy, with participation of local and foreign businessmen, representatives of the government, and international financial organizations, was created under the Committee for the purpose of improving the investment climate. FDI priority sectors and industries have been identified by the Kyrgyz authorities and include export-oriented manufacturing, import substitution manufacturing, agribusiness, investment to the FEZ infrastructure development. Among the activities where FDI involvement is particularly welcomed are manufacturing and assembly of electronics and computer parts, machine-building, food and other agricultural products processing, packaging materials, ferrous and non-ferrous metal scrap processing; waste processing, and financial and banking services. To attract foreign investment in these areas, special privileges were established: simplified procedures for registration, no VAT or corporate income tax, exemption from taxes for the period of enterprise operation, exemption from customs duties on exports produced in the FEZ, unlimited circulation of foreign currencies within FEZ and between FEZ, special rights regarding employee contractual agreements. Foreign investors working in Kyrgyz Republic receive assistance in customs procedures, the settlement of investment disputes, the search for qualified national staff, and the preparation and implementation of investment projects.

According to official statistics of Kyrgyz Republic, FDI in the country took off in 1995 and accounted for US\$438.5 million during 1995-1998. FDI were distributed across years as follows: US\$95 million in 1995, US\$153.1 million in 1996, US\$84.2 million in 1997, US\$106.2 in 1998, and US\$68.3 million during January-September 1999. FDI inflow in Kyrgyz Republic is implemented through a variety of forms and mechanisms: the establishment of

joint ventures and foreign companies, management contracts with foreign firms, and privatization of state-run enterprises. At present, 4515 enterprises with participation of foreign capital are registered in Kyrgyz Republic, of which 1911 (or 42.3%) are actively operating.

Table 4. Characteristics of enterprises with participation of foreign capital and their share in the economy of Kyrgyz Republic

	1994	1995	1996	1997	1998	9 months of 1999
Total number of registered enterprises,	627	1288	2191	3282	4004	4515
o.w. active	128	363	908	1396	2068	1911
Number of employees	3997	7223	11750	19701	26742	26950
Share of enterprise employees in total employment, %	0.2	0.4	0.7	1.2	1.6	1.6
Share in total industrial output, %	9.4	9.4	11.7	28.2	33.0	31.0
Share in total capital investment, %	29.7	63.4	68.8	96.4	34.0	20.4
Share in total retail trade, %	1.0	--	2.5	5.4	5.7	2.0

Distribution of FDI by sectors during the January-September 1999 was as follows: industry - 22.3%, construction - 20.4%, trade and catering - 28%, agriculture - 0.9%, transport - 0.1%, communication - 0.1%, other - 10.8%. In general, foreign enterprises and joint ventures are active in mining, oil refining, trade, food processing, textiles and industrial engineering. Leading foreign investors include UK (41.1%), US (26.9%), Turkey (14.2%), Italy (3.2%), Russia (1.9%). The most important examples of foreign involvement in the economy of Kyrgyz Republic are provided in Table 5.

Table 5.

Name of Company	Foreign Investor Country	Sectors
1. Kumtor Operating Company	Canada	Gold mining
2. CAVITAL (Kyrgyzstan) Ltd.	Italy	Investment promotion
3. Demir Kyrgyz International Bank	Turkey	Banking
4. Reemtsma Kyrgyzstan	Germany	Tobacco industry
5. Coca-Cola Bishkek Bottlers	Turkey-USA	Soft drinks production
6. Norox Mining Company Ltd.	Australia, UK	Gold mining
7. Plaskap - Bishkek	Turkey	Plastic bottles
8. Kyrgoil Corporation/ Kyrgyz Petroleum Company	USA	Petroleum processing
9. Central Asian Group	South Korea, China	Banking, food production
10. Hyatt Regency Bishkek		Hotel business

In recent years, two important problems have emerged that present a potential danger for attracting FDI and ensuring both political and economic stabilization in the country. One is the rising external debt of the country and the potential risk of default and insolvency, which makes development of export-producing sectors particularly important. The second problem is exposure to terrorism and possible political and social instability in the country.

#### RECOMMENDATIONS:

- Promote FDI in small and medium business, tourism, transport and infrastructure, agriculture. Continue to specify investment priorities. Make information on proposed projects available for potential investors, improve promoting and marketing capacity of the State Committee on Investments.
- Promote FDI in export-producing sectors which generate foreign currency revenues and sustain a secure level of international debt. Further develop and specify investment priorities, and create a multi-year public investment program.
- Simplify taxation and registration procedures for FDI, and ensure adequate benefits for foreign investors entering Kyrgyz Republic.
- Improve the structure of the legislation regulating FDI and raise its enforcement.

#### UZBEKISTAN

Uzbekistan is the only double landlocked country in the world which makes its access to the world markets and attraction of foreign capital even more difficult. The government of Uzbekistan has adopted two important legislative documents to replace old legislation: 1) Law on Foreign Investments, and 2) Law on Guarantees and Measures to Protect Foreign Investors' Rights. Implementing regulations are being prepared, and relevant changes will be made to other legislation governing investment. Other important legislative and regulatory acts affecting various aspects of FDI operation in Uzbekistan include:

- Presidential Decree on Additional Measures for Promoting Small and Medium Business Development (31 January 1997), which exempts equipment imported under relevant investment proposals from customs duties;
- Presidential Decree on Additional Measures to Develop Securities Market and Extend Foreign Investors Participation in the Securities Market (31 March 1997);
- Presidential Decree on Additional Measures to Promote Export-oriented Production of Enterprises with Foreign Investments (26 August 1997), which creates favorable conditions for such enterprises;
- Presidential Decree on Additional Measures to Promote Implementation of Investment Projects (19 January 1998), which outlines specific steps to promote FDI into the country.

Additionally, last month a decree was issued promoting FDI in the oil and gas sector. This is an important new development as previously this sector was restricted from FDI involvement. The legislation outlined above demonstrates the high support and strong involvement



of the president and government in promoting FDI. One possible danger, however, is that a large number of decrees affecting FDI might cause duplication and confusion between different pieces of legislation.

To further ensure that FDI is not treated less favorably than domestic businesses, the government of Uzbekistan provides a number of general conditions aiming to attract foreign investors. For example, foreign investment contracts are regulated by the legislation existing at the time of signing for up to 10 years, despite changes in Uzbekistan legislation or regulations that might occur. The government commits itself not to interfere in the operation of the foreign investor (unless it violates Uzbekistan law) and not to nationalize investment. The government also guarantees the right for foreign investors to repatriate profits in hard currency or to use profits without restriction within Uzbekistan; the right to open bank accounts in Uzbekistan without restriction and to use funds in such accounts to purchase hard currency; and exemption from import duties on goods for use by a foreign company or its employees.

The Uzbekistan government also offers foreign investors a number of specific incentives, depending on the industry sector and the size and significance of the investment. The Presidential Order on Further Measures to Encourage the Creation and Activity of Enterprises with Foreign Investment (31 May 1996) sets out such privileges which include tax benefits and priority rights for currency convertibility. Currently, Uzbekistan provides two categories of tax benefits: (a) general reduced tax rates applied to all new enterprises during the first two years of their operation, to export-producing enterprises, and some other "qualifying" types of investment, and (b) profit tax concessions for entities with foreign investment. Since January 1997, additional tax concessions became available for large enterprises with a charter capital of over US\$150,000 and foreign equity participation greater than 30%. In addition, more than 60% of enterprise revenues must be derived from "production activities" (which are defined broadly and include more than just manufacturing activities). Examples of variable tax treatment includes:

- exemption from profit tax for 7 years if an enterprise is included in the Strategic Investment Program of the Republic of Uzbekistan,
- exemption from profit tax for 5 years if an enterprise is involved in export promoting or import substituting activities,
- reduced profit tax rate between 16-20% depending on the size of foreign investor's share.

There are approximately 20 agencies which are responsible for various aspects of regulating foreign investments and which lack coordination among themselves. These agencies include the Ministry of Foreign Economic Relations, Foreign Investment Agency, Ministry of Macroeconomics and Statistics, Investment Department under Cabinet of Ministers.

Analysis of statistics on FDI in Uzbekistan and comparison with performance of Kazakhstan and Kyrgyz Republic is complicated by the lack of clear methodology to distinguish FDI from loans of international institutions or other official financial sources. The main definitions used include foreign investment in general and enterprises with foreign investments. "Foreign investments on the territory of Uzbekistan include all types of material and non-

material benefits and rights for them, including the rights for intellectual property, as well as any income from foreign investments made by foreign investors in objects of entrepreneurial and other types of activities, not forbidden by legislation for profit-making purposes" (Mirensky, 1998, p.14).

The share of enterprises with foreign investments (EFI) production makes up, on average, 15.4% of the economy. These enterprises are distributed across various sectors as follows: industry - 67.4%, agriculture - 0.5%, construction - 3.6%, transport and communications - 15.8%, trade and catering - 8.1%, other - 4.6%. As one can observe, most EFI are registered in industry, of which the largest share is concentrated in the machine-building and food industry.

The amount of FDI in Uzbekistan is steadily increasing due to the efforts undertaken by the government and legislative bodies, which is seen in Tables 6 and 7, particularly as a ratio to GDP. In early 1998, 3287 enterprises with foreign capital had been registered in the Republic of Uzbekistan.

Table 6. The role of enterprises with foreign investments (EFI) in Uzbekistan economy (%)

	1994	1995	1996	1997	1998
EFI share in total GDP	2.63	2.05	7.4	12.5	13
EFI share in foreign trade turnover	3.1	7.5	20.9	24.4	21.3
EFI share in total exports	0.57	1.97	4.66	8.0	9.7
EFI share in total imports	5.59	14.54	36.75	36.0	34.0
EFI employees' share in total employment	0.42	0.83	1.38	0.91	0.98

Table 7. Distribution of foreign investment by industries for 1997 and 1998 (%)

Industry	1997 new investments	1998 new investments
Light industry	5.0	17.6
Communications	18.9	11.4
Oil-extracting and oil-refining	6.7	13.8
Food industry	22.7	6.3
Transport	19.3	19.1
Machine-building	2.5	6.7
Chemical and petrochemical	4.5	3.2
Other	20.4	21.9
Total	100	100

However, EFI are not distributed evenly across the regions of Uzbekistan. The majority of

EFI are heavily concentrated in Tashkent, Tashkent oblast and Fergana Valley (about 80% of total EFI). This limits the impact of foreign investment (e.g., job creation) to certain regions of the country, leaving other parts of the population not sufficiently benefiting from FDI or completely unaffected.

#### RECOMMENDATIONS:

- Clarify methodology of FDI definition and monitoring in the country's statistics.
- Attract foreign investment across regions of the country, considering the experience of free economic zones creation. Develop industrial and transport infrastructure, and banking institutions in the regions. Increase the efficiency of capital investment by increasing investment efficiency in the area of production.
- Continue to improve a single, favorable national investment regime for both local and foreign investors.
- Simplify and systematize legal framework regulating FDI based on current legislation.
- Develop a mechanism to provide efficient application of existing legislative acts aimed at providing security for investments of foreign investors doing business in Uzbekistan.
- Liberalize the currency system and follow an efficient exchange rate and monetary policy. Undertake devaluation of Uzbekistan national currency and bring the official exchange rate close to the level of the real market rate.
- Establish a single body to work with foreign investors and provide guidance to their operation in the country, develop strategy of disseminating information and investment proposals, analyzing interests of investors from different world regions, and search for appropriate investors through exhibitions, partnerships.
- Intensify privatization, speed up the development of the securities market, and increase the amount of portfolio investment.

#### General recommendations for improvement of investment climate in the Central Asian region

Based on the above country-by-country analysis of the investment climate in three Central Asian region countries, we conclude that despite observed differences in the investment regimes there are two similarities in the three countries. First, there is a gap between the large, prevailing FDI projects and the small projects of both local and foreign investors; second, there is a gap between dominating FDI presence in extracting sectors and other sectors of the economy. Large multinational investors, due to their significant input into a country's economic performance, can negotiate for themselves better terms of contract despite the imperfection of the existing investment climate. They also can expect protection for their investment from the top officials and address their complaints as high as to the president of the country. However, to attract the medium-size FDI in the non-extracting sectors of the economy, the overall business environment should be significantly improved. In our view, there are a number of important common directions to be followed by all three Central Asian countries that could improve the current situation.

First of all, there is improvement of the overall business climate for all types of investments in the country: the establishment of clear rules and of business-friendly registration and taxation procedures, the establishment of a reliable, transparent and enforceable legal framework, and the development of business infrastructure and market institutions. These steps will attract both foreign and domestic investments.

Second would be the development of a clear investment strategy by the government and identification of the country investment needs. The problem is that investment appears to be concentrated in a few industries, which limits the spillover effect that this investment will create for the economy. It is important, therefore, to create linkages between the foreign-dominated sectors and other economic activity, and to encourage FDI in sectors other than the extraction of natural resources. Investment projects should be analyzed locally, and offered to the foreign investors with locally performed feasibility studies and analysis of industries and existing markets.

Third, it is desirable to have this type of information concentrated in a single body that would also be a major contact for foreign investors in tax, customs, and other business provisions in the country. Such information should be open and known in advance to all potential foreign investors, it will put all investors in equal conditions before the open tender process and improve the country's investment image.

Fourth, checks and controls should be developed and put in place to ensure that there is no abuse of office power and that the interests of the country and its population are not damaged. Possible mechanisms of public control include the strengthening of government institutions, the development of public disclosure practices, the need of accountability to the parliament by government bodies in charge of investments.

And last but not least, steps should be followed which lead to regional integration of the Central Asian countries. Our countries have historical economic and trade links that should continue play an important role. Open borders and standardized procedures and practices providing access to a larger regional market will raise the attractiveness of the region for foreign investors.

#### Conclusion

Kazakhstan, Kyrgyz Republic and Uzbekistan have been rather successful so far in attracting a substantial volume of FDI into their economies. It is, however, important to think of FDI not only in terms of their physical amount, but also in terms of the quality and sustainability of their impact on the economies and populations of the countries. We believe that there is large room for improvement in the investment climate in the Central Asian region in order to attract high-quality and long-term investors. Effective utilization of FDI is an even more challenging task than attracting FDI into the country and requires the establishment of appropriate institutions and mechanisms to oversee how FDI is managed. The way to achieve these objectives is to study the positive experience of other countries that have proved to be successful in attracting and effectively managing FDI, analyze the accumulated experience of our region, and draw lessons from both positive and negative experience.

## Endnotes

<sup>1</sup> E.g. rich natural resources can be exhausted by increasing exploration operated by foreign investors, and cheap labor costs can rise as a result of higher wages offered to the local employees by foreign multinationals (Singapore).

<sup>2</sup> The sources of the data are the World Bank World Development Indicators 2000 and EBRD Transition Report 1999. 1998 data are the most recent available data on all three countries of the Central Asian region, and therefore, used for comparison purposes. However, 1998 was an exceptionally bad year for Kazakhstan due to a number of internal and external factors (fall of world prices on primary commodities that constitute major part of Kazakhstan exports; Russian crisis had the most severe effect on Kazakhstan, as it is most exposed to Russian economy among Central Asian countries; drought in rural areas).

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## Banking sector privatization in transition economies

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### Introduction

Privatization is often viewed by both policymakers of transition countries and their foreign advisors as the primary means of achieving a market economy. The goals of privatization are twofold: effecting the transfer of ownership from state to private hands (Nichols, 1997), and change of economic agents' incentives to make their behavior be market-oriented that, thus, will foster a creation of market institutions.

Privatization of the banking sector (measured in this study as an increasing asset share of private banks) has similar goals with regard to changing banks' incentives and reorients banking activities to market signals instead of taking state orders on how to allocate loanable funds.

There are four parties that benefit from banking privatization. The first and most important party is the banks themselves. The banks' privatization attracts outside investors and extra capital injections, broadens the independence and autonomy of banks, fosters greater transparency and openness of banks, strengthens principles of corporate management and improves management. It is supposed to foster transfer of modern banking technologies and ensure greater responsibility to the shareholders that finally results in greater efficiency.

Second, the government can benefit from the privatization both in the long- and short-term. Bank privatization should help to increase efficiency of the banking sector, and the development and further strengthening of the whole financial system of the country by stirring up competition in the banking-financial sector, and, as a result, improving quality of banking services and creating a broader range of new bank products and services that will allow to benefit from the economy of scope. Attraction of foreign capital into the economy as a whole and into the financial sector in particular is also an advantage for government. Strengthening banks to protect clients' interests, confidence-building measures among economic agents to the banking system and the further development of a secondary stock market and creation of commercial banks' securities quotation are also in the government's interest. Besides, government receives proceeds from sales of bank shares.

The third party that will benefit from the bank privatization is potential investors, both local and foreign. By receiving operational control, they enter new markets and then broaden the range of services, provide services to already existing and developing companies which

belong to investor's sphere of interest, receive income through broadening the range of activities, acquire access to reliable information about potential markets for the clients, and provide services to multinational corporations interested in the local market.

Fourth, the most important party is households and firms that will benefit from more efficient allocation of resources and enhanced financial intermediation fostered by more competitive environment.

During the banks privatization process it appears that one of the major concerns of investors is the post-privatization interference of the state. Privatization experience in the countries of Central and Eastern Europe and FSU shows that in practically all cases, investors are worried about the state's interference in the bank's operations. It is evident that interests and objectives of the government and foreign owners of the bank may differ. A key factor is the right of the government to demand banks to finance certain sectors of the economy or certain companies. Besides, positions on possible degrees of risk may differ. This problem may be partially resolved when government issues guarantees for certain categories of loans as was done in most countries with bank privatization experience.

The second greatest concern of potential bank investors after privatization is the design of the restructuring requirements. The potential investors are concerned with estimate of their future probable losses because of (1) asset losses during restructuring, and (2) expenses associated with restructuring and adoption of new methods of management, so that the investors can subtract these future standing costs while bargaining for the bank shares.

### Methodology

The main goal of this study is, first, to give an overview of privatization issues in transition countries (Part I), second, to evaluate whether privatization of banks in transition economies has been successful (Part II), and, finally, to suggest recommendations for countries at the pre-privatization stage, based on the results of our study (Conclusions).

In this study observations were made on six transition countries, representing different regions: four transition countries considered are at the stage of a complete or almost complete bank privatization: one from Eastern Europe (Hungary), one from the Baltic states (Estonia), two from Central Asia (Kazakhstan and Kyrgyzstan), and Russia which stands apart as a partial bank privatization case. Uzbekistan, a Central Asian transition economy where banking sector privatization has not been implemented yet, has also been taken into consideration for the purpose of comparison with post-privatization banking sectors.

Some scholars argue that Central Asia is quite different from other transition economies (Nichols, 1997; Allworth, 1989), so that the appropriate comparisons with other countries such as those of Eastern Europe, the Baltic states, and even Russia cannot be made for the reasons of their different culture, their path of historical and economic development and level of market institutions development during the pre-privatization stage. However,

although true, for the purpose of a broader study, an effort was made to include countries other than those of Central Asia in order to compare with better cases (such as Hungary and Estonia) and half-privatization cases (such as Russia) that could have some valuable financial policy implications.

In this essay, Part I is dedicated to a brief overview of privatization issues in transition countries, focusing on Kyrgyzstan and Uzbekistan. In Part II an effort was made to evaluate whether privatization of banks in transition economies was successful by comparing the change in the banking sector operating performance after the share of state-owned bank assets has fallen. The thesis that will be tested in this study is whether a greater share of private banks creates a more efficient banking system. There are three reasons for testing this thesis. First, there are lots of cases where the privatization of the banking sector is viewed as one of the most important means in ensuring more market-oriented and more efficient bank performance. The second reason is the need to evaluate what are the actual results of banking privatization in the countries where it was carried out. The third reason why the thesis of this study is important and worth testing is that in Uzbekistan, a country where bank privatization is a policy issue under discussion, this study's results could have valuable policy implications.

The development of banking sector is viewed in a dynamic relationship with the change in share of state-owned bank assets rather than in terms of its static figures after privatization has occurred for two main reasons. First, in some countries, there is an intermediate stage of bank privatization where the privatization is incomplete and the influence of the state in the banking sector remains essential. There are no clearly defined figures for pre- and post-privatization banking systems as the process of privatizing banks continues in these countries (all the studied countries except for Estonia where the state-owned bank asset share equaled zero by the end of 1997). The second reason why evaluation of the development of the banking sector is considered in dynamic relation to the change in the share of state-owned assets rather than in terms of its static pre- and post-privatization figures is that the dynamic approach allows us to find a relationship, if there is any, between the share of state-owned bank assets and the efficiency of banking sector performance. Finally, some conclusions are presented based on the findings of this study.

### Part I. Review of transition countries' privatization experience, focusing on Kyrgyzstan and Uzbekistan (where the privatization is on the way of design)

#### HUNGARY

Hungarian banks are among the strongest in transition economies. The Capital adequacy ratio exceeds 19% as the result of introduction of a law on commercial banks in 1992 which imposed the Basle standards for capital adequacy followed by several recapitalisations mainly during 1992-94.

A major part of banking reforms has been privatization, conducted mainly during 1995-96.

In 1998, direct state ownership capital in the banking sector continued to decline falling to 20% by mid-1998 as a result of several privatizations. As a result, there has been a strong expansion of bank credit to enterprises. Progress in bank recapitalization and privatization has led to increased competition for corporate clients. Interest margins have fallen to below 4% and real credit growth to the enterprise sector was 20% in 1997. While access to credit for medium-sized enterprises remains tight, increasing competition among Hungary's 38 commercial banks is forcing the most dynamic players into the small business and retail market. Given low margins and high costs, a process of consolidation in the banking sector is expected.

#### ESTONIA

Practically all of the big inefficient banks inherited from the planned economy were fundamentally reorganized or liquidated during the period of the early 1990s (Lepik, 1996). Among the 5 leading banks (by early 1996) 3 practically fully private new banks started to operate: Hansapank bank, the biggest private bank in the Baltic States, and Hoiupank (the Savings Bank) which was fundamentally reorganized from a state-owned bank (with the state share in capital confined to 24%). The total state share in the banking sector was limited to 18% of equity capital in 11 banks by 1996, with only one bank controlled by the state (83% of equity capital).

During the first bank crisis a remarkable stock of government securities was issued for recapitalization of Pohja-Eesti Pank (the North Estonian Bank) in late 1992. Many small banks merged. Bank mergers in 1995 were largely influenced by raising the minimum own funds requirement by the Eesti Pank (central bank) and the completion of initial distribution of the banking market (Lepik, 1996).

Banks open to private investors, including foreign investors, led to a substantial enhancement of banking sector performance and "the degree to which it was a foreign investment motivational factor is regarded favourably" (Ziacik, 1998). Foreign ownership of banks is significant. As of April 1997, the share of equity held by non-residents stood at 40% (of which 53% was owned by foreign banks). The size of the state's stake in banks is small and falling (EBRD, 1997). The Bank of Estonia (central bank) pursues a regime of tight supervision and regulation, raising the capital adequacy ratio for banks above the minimum recommended by the Basle Committee and the effective level of the reserve requirements. Commercial banks in Estonia have grown into universal banking institutions.

#### RUSSIA

In the two-tier banking system of Russia, a large number of private banks emerged and other former state banks have been privatized during the last few years. There are also wholly foreign-owned banks and JV banks. However, the state-owned asset share in total bank assets still remain high, reaching 29% in 1997. The two largest banks, Sberbank (Savings bank) and Vneshtorgbank, remain state-owned. Sberbank holds 75% of all retail deposits, 30% of all assets and about half of interbank lending (EBRD, 1997). Privatization in the banking

sector of Russia consisted of several steps and was more complex and sometimes confused, unlike the privatization of enterprises which was more transparent and well-organized. It started with strengthening prudential regulations and banking supervision by the Central Bank of Russia, particularly after the Asian and then Russian crises, and resulted in a reduction of the number of banks. Many Russian banks have sound position while the majority is in difficulties and some might be liquidated or merged. Introduction of International Accounting Standards in 1998 aimed at stabilizing banks' position and at improving performance. However, the privatization results remain moderate as the privatization process is only partially implemented. Since 1998, the Bank of Russia has been committed to the restructuring of the banking system in order to improve commercial banks' activity and to enhance their liquidity. The key part of that program was the set-up of the Agency for Restructuring of Credit Organizations (ARCO) and the Inter-Agency Coordinating Committee for Banking Sector Development (ICC).

#### KAZAKHSTAN

The banking sector of Kazakhstan has been strengthened through privatization and foreign entry. Improvements in compliance with rules on capital adequacy, single debtor exposure and connected lending have contributed to a decline in the number of banks and branches. In 1995, the government and central bank embarked on a five-year program of legal reform, prudential tightening, bad loan workouts, bank privatization, restructuring and closures. The intention was that Kazakh banks would achieve international standards of capitalization, liquidity, asset quality, management standards, accounting practices and IT by the end of 2000 (EBRD, 1997). IAS accounting is mandatory for Kazakhstani banks from the year 2000. The majority of the banking assets are privately owned. A 20% state stake of Halyk Savings Bank was sold to private investors and the rest is destined for sale. The state owned Turan-Alem Bank was re-privatized in April 1998.

The banking sector of Kazakhstan is highly concentrated. The two largest banks in Kazakhstan (one private, the other state-owned) control more than 50% of deposits and 40% of outstanding loans. The four largest banks hold 60%-65% of all banking assets (Jones, 2000). Twenty banks with foreign ownership comprise about 22% of the banking sector's capital. A 25% restriction on the share of foreign capital in the banking sector was abolished and foreign participation has since started to increase.

#### KYRGYZSTAN

Privatization of the banking sector in Kyrgyzstan is almost complete at present and has been relatively successful due to the privatization program chosen and because of significant external support. Kyrgyzstan received monetary and technical aid from the European Union, the World Bank, the International Monetary Fund, the European Bank for Reconstruction and Development, and the Asian Development Bank. Individual countries including Japan, Poland, and the US have also provided significant monetary and technical assistance (Nichols, 1997).

The FINSAC (Financial Sector Adjustment Credit) program carried out in 1996-98 primarily supported the following key elements of the Financial Sector Reform Program: (i) creation of a policy and regulatory environment conducive to the sound growth of a competitive and efficient banking system; (ii) liquidation of two dominant and insolvent State-owned banks, which through their practices stifled the growth of their young private competitors, and downsizing and financial restructuring of two other former State-owned specialized banks which had survived only because of preferential treatment and support by the NBK; and (iii) creation of a regulatory and supervisory framework for the development and growth of emerging NBFIs.

When banking sector reforms started in the mid 1990s, the "Big Four" specialized state banks legacies of the former monobank Soviet system, accounted for 80% of the banking system's assets and were insolvent. They continued to accumulate bad loans as well, so that the bank systemic risk because of the inefficiency of these oligopolies was great. In early 1995, only eight percent of the banking system's loan portfolio was performing and, in addition to the four "big" banks, several smaller banks were insolvent. To remove the overwhelming dominance of state-owned insolvent banks, and their negative impact on the new private banks, drastic restructuring measures were taken. This included, as a first step, the establishment of a temporary *Debt Resolution Agency (DEBRA)*<sup>1</sup> under the umbrella of National Bank of the Kyrgyz Republic, which became operational in October 1996.

A detailed liquidation program was designed and implemented for Agroprom Bank, which was the largest state bank in the country and the predominant lender to the agricultural sector, and for the successor of the former USSR Sberbank branch Elbank, the country's main savings institution, that had also been used for the provision of disaster relief and housing programs. The debt Resolution Agency (DEBRA) was established to resolve the bad debt problem. Both state banks were placed under the receivership of DEBRA to start the liquidation process. The value of their assets was assessed, and DEBRA started the loan collection process. Rather than develop automatic criteria, applicable to the collection of certain categories of bank loans, an individual action plan for each debtor was found to be a more effective way to collect the state banks' bad loans. As of April 1, 1999, about 12% of the debt transferred for collection were collected, 14% have been written off or rescheduled, and 73% of debts remain to be resolved by Debt Resolution Agency. The resolution of the "old" bad loans problem has proven to be a difficult and protracted process mainly due to problems of weak courts and the extremely bad quality of the state bank loan portfolios.

As a result of closures of several banks (including the state-owned Agroprombank and Elbank) and privatization of other banks, accompanied by drastic restructuring measures, the share of non-performing loans in total loans has fallen dramatically since 1996. Directed credit provided by these banks had given way to auctioned credit, and real interest rates were becoming positive.

The branches of Agroprom were sold or closed and the bank's staff was reduced drastically. The non-performing state loan to Agroprom was restructured with 25 year/5 percent

bonds. A special Deposit Payoff Plan was designed, according to which Elbank's small deposits were fully paid off, the larger deposits were transferred to the Savings and Settlement Corporation with an extended repayment scheme in order to spread out the burden to the taxpayers and banks themselves. Elbank's branches were transferred to the Ministry of Finance and Elbank's staff was laid off. The liquidation of Elbank was completed in the second half of 1997, and the process was at the final stage of completion for Agroprom bank.

The two other "big" state banks: Promstro Bank, the local successor of the Soviet Bank for Industry and Construction, and AKB Kyrgyzstan Bank, which originated from the Soviet Housing and Social Commodity Bank were financially weak, but fundamentally sound on an operational basis (Promstro), or showing improving financial performance (AKB Kyrgyzstan). Therefore, these two banks were subject to privatization instead of liquidation under the Restructuring Strategy of the FINSAC program. Diagnostic audits were prepared for both banks. An internally managed program was implemented, which provided for strong loan collection efforts, write-offs and adequate loan-loss provisions, as well as downsizing and rationalization measures. To improve the banks' balance sheets, a part of their bad loans portfolio was transferred to DEBRA for collection. However, since the two banks did not succeed in raising sufficient additional capital from private sources, government contributed to these banks recapitalization through the placement of bonds. By fall 1997, the banks had fully recovered and fulfilled the prudential requirements.

The policy and institutional measures introduced under FINSAC were appropriate for achieving its objectives, and achievements have been substantial in most areas. Amendments were made to the tax code, a Law on Banks and Banking Activity and a Law on Pledge were passed, and a Central Pledge Registry was established. Regulatory reforms adjusted prudential norms to Western standards, in some cases exceeding the requirements of the Western countries and the Basle Committee (12% capital adequacy ratio vs. 8% recommended by the Basle Committee). A new Law on the Organization of Insurance Activities was enacted and provisions were added in the Civil Law concerning Leasing. A new law on Investment Funds was enacted in June 1999, and a draft law on Private Pension Funds is being prepared.

## UZBEKISTAN

The two-tier banking system of Uzbekistan includes 35 commercial banks, two of which are state-owned banks with more than 800 branches, 17 - joint stock banks, 10 - private and 6 banks with foreign capital. Total assets of commercial banks increased from UZS 72 bln in 1994 to UZS 952 bln in 1999.

The largest Uzbek commercial banks are the National Bank for Foreign Economic Activity of Uzbekistan, Pakhtabank, Promstroybank, Asaka-Bank, which comprise 80% of total assets and capital (Table 1). By the end of 1999, the NBU's assets reached UZS 553,6 bln

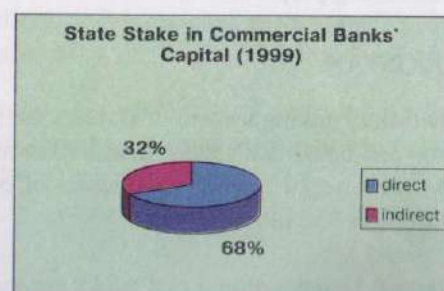
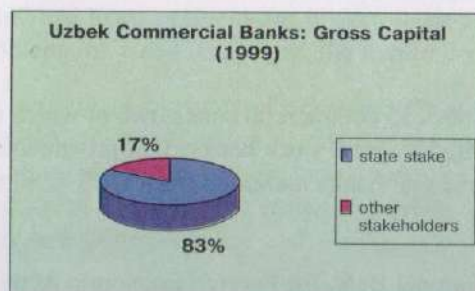
(27% of GDP or 58,15% of total banking assets of Uzbekistan).

Table 1: Largest Uzbek banks: aggregate assets and gross capital ( January 1, 2000)

	UZS bln.	%
<b>I. Aggregate assets</b>	<b>952</b>	<b>100</b>
out of which		
National Bank for FEA of Uzbekistan	553.60	58.15
Pakhtabank	106.60	11.20
Uzpromstroybank	79.40	8.34
Asaka-bank	54.50	5.72
Uzjilsberbank	30.30	3.18
Gallabank	54.70	5.75
Total	879.10	92.34
Other banks	72.90	7.66
<b>II. Gross capital</b>	<b>144.00</b>	<b>100</b>
out of which:		
National Bank for FEA of Uzbekistan	73.50	51.04
Pakhtabank	11.80	8.19
Uzpromstroybank	9.90	6.88
Asaka-bank	20.30	14.10
Uzjilsberbank	6.80	4.72
Gallabank	3.20	2.22
<b>Total</b>	<b>125.50</b>	<b>87.15</b>
<b>Other banks</b>	<b>18.50</b>	<b>12.85</b>

Source: EBRD

Thus, in 1999 gross capital of all Uzbek commercial banks reached UZS 144 bln, 83% of which belonged to the state: about 57% was a direct state stake and 26% was an indirect state stake in banks' equity.



The restructuring and privatizing process of the financial-banking system is being conducted in Uzbekistan at present. Two largest state-owned banks are planned to be privatized in 2001-2003. The 40% stake in the capital of the National Bank of Uzbekistan and the 50% stake of Asaka-Bank are to be offered for sale among strategic foreign investors.

Pakhta-Bank, Uzpromstroybank, Zaminbank, Uzjilsberbank and Tadbirkorbank are banks with smaller state stakes in their charter capital. Considering that these are specialized banks, ways for their further development and possible diversification have been worked out in order to define potential local and foreign investors. The main objective of their privatization is to apply principles of corporate management and thus improvement of organizational structure and thus increasing their soundness.

Aviabank, Gallabank and Ipak-Yuli Bank are banks with relatively small state shares. They are also specialized banks and the small state stake in their charter capital means that the state does not have strategic interests in these banks (except, probably, for Gallabank which specializes in grain). Therefore the state stake of these banks will probably be sold to current shareholders or other investors.

The state has indirect participation in some Uzbek banks through shareholders which are either governmental bodies (ministries, agencies, associations) or state-owned companies. They are mainly sub-sector banks such as Pakhta-Bank, Uzpromstroybank, Gallabank, Uzjilsberbank, Aviabank, and Alokabank. The main shareholders of these banks are their clients and organizations that the banks are subordinated to, thus shareholders/clients have the opportunity to participate in decision-making processes and define their strategy of development. A disadvantage for these banks is their narrow specialization which brings up, as a consequence, high risks both for the banks themselves and the whole banking system, as these banks form the biggest part of the latter.

In the first stage, 5 Uzbek banks are to be privatized - Uzjilsberbank, Asaka-Bank, Uzpromstroybank, Andijan-Bank and Ipak-Yuli Bank. Considering the unfavorable situation in international financial markets and due to the lack of "big privatization" experience, the Uzbek government was adopted tactics according to which the privatization of smaller banks is to be implemented first, and the privatization of the National Bank of Uzbekistan was postponed to the year 2001.

However, on the way to achieve these goals, commercial banks face a number of problems hindering the privatization process.

The first problem is the absence of a system of adequate evaluation of the banks offered for sale: current share price is almost equal to the nominal one and does not reflect the real size/growth of capital and/or the real price of shares. This is caused by the situation in the stock market, which is in an embryonic state. At present, shares of only two banks - Pakhta-Bank and Uzmevasabzavotbank (merged with Savdogarbank in early 2000) - are included in

the listing of the Republican Toshkent Stock Exchange. The absence of quotations causes problems with definition of the market price of the shares. The secondary stock market is also underdeveloped, particularly, because of absence of taxation privileges for securities operations, which are necessary at the early stage.

Another important problem is the necessity to restructure banks' credit portfolios, which are weighed down by sovereign guaranteed loans. In this regard, the system of restructuring of loans should be worked out and mechanisms of concessions/selling of some loans or issuing long-term bonds for non-working loans should be introduced.

There are also problems with repatriation of income, transferring dividends, remitting interest payments or payment of royalties. The existing mechanism is too complicated and takes too long from the moment of applying for currency conversion to the actual repatriation and could result in currency losses. Absence of governmental guarantees for remittance of income/dividends impedes potential investors' interest in the privatized banks' shares.

In order to solve these problems certain specialized bodies were established by the Ministry of Finance together with the Central Bank of Uzbekistan and the World Bank: The Financial Sector Development Agency and the Bank Privatization Agency, which are responsible for providing technical assistance to the whole banking sector, including the Central Bank.

To succeed in the banking sector privatization process, the following issues should be addressed:

- Working out the methodology of strategic and business planning in commercial banks;
- Treasury management, credit portfolio management, computerization of credit analysis;
- Auditing, MIS, internal and international audit of banks;
- Giving recommendations on legal issues and currency regulation; and
- Improvement of payment and information systems.

Restructuring and privatization of banks, including:

- Working-out the mechanism of assessment of bank assets and shares;
- Drawing-up the methodology of pre-privatization preparation of a bank and methods of restructuring/clearing (partial clearing) up balance sheet to increase investment attractiveness of banks;
- Working-out recommendations on increasing the effectiveness of methods of corporate management, including liquidation of participation of a bank in shareholders' capital of other banks and providing participation of shareholders of a bank in increasing its liquidity and capital growth; and
- Search for investors among domestic and foreign companies;
- Working-out mechanism of privatization;
- Elaboration of the system of governmental guarantees for strategic investors on their participation in bank management;
- Organization of the privatization process for banks;

- Selling shares of commercial banks, increasing bank capital liquidity, improving and enlarging banking services and supporting competition among commercial banks;
- Post-privatization control.

The next important direction is the development of a secondary stock market for banking shares, which means the following measures:

- Creation of attractive environment for foreign investors to re-invest income/dividends in the local market by a preferential taxation system and other encouraging measures;
- Providing securities operations with taxation privileges;
- Adopting legal norms, simplifying securities operations, and preferential taxation regulation on double quotation of banks' shares.

So far, the Uzbek banks have preferred to offer classical banking services, and the biggest part of their profit was made from interest on loans and deposits. Other sectors of the financial market should also be developed. Stock market and securities operations, trust operations (asset management), hedging and other types of investment banking can assist banks to diversify services and thus reduce risk assets, raise their soundness, and increase profits.

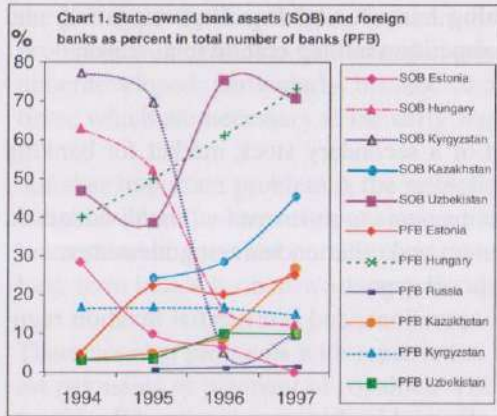
A significant step towards further reform and privatization of the banking system was made when the decision on the obligation of commercial banks to obtain ratings from international rating agencies was made. The National Bank of Uzbekistan became the first Uzbek bank rated by an international rating agency. "Thomson Financial Bank Watch" assigned NBU the issuer local currency rating - LC-1 and short-term rating IC-B/C. This is the highest level among all the banks in CIS. Obtaining a long-term rating was not considered as expedient unless there is a sovereign country rating for Uzbekistan. Defining a bank's rating is designed to increase its transparency and promote effective placement of the bank's shares among foreign investors. Recently, the Banking Association of Uzbekistan in cooperation with the Financial Sector Development Agency and local company "Akhbor-Rating", started preparing banks for pre-rating analysis and attracting international agencies to assign ratings to Uzbek banks.

Reforms in the banking sector of Uzbekistan are implemented with participation of international financial institutions. The World Bank supports the financial institution building process, providing a loan of USD 25mln. EBRD is to assist in attracting foreign investors and privatization of banks (NBU, Asaka-Bank, Promstroybank, Pakhta-Bank) providing them with technical and consulting assistance. ADB participates in the restructuring process and the preparation of Pakhta-Bank and Mevasabzavotbank for privatization.

## Part II. More private banks: what are the results?

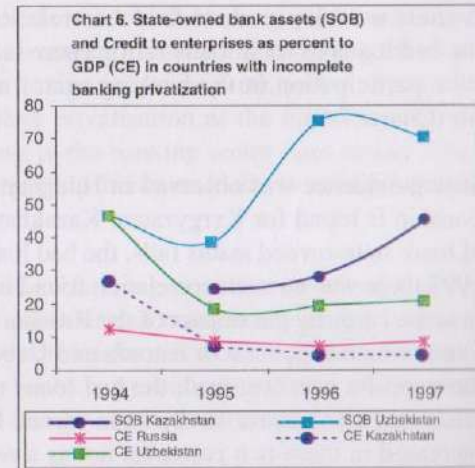
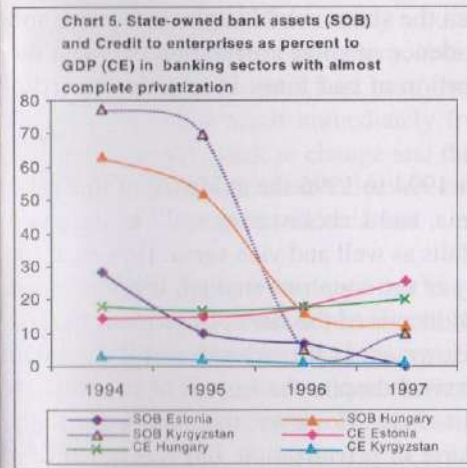
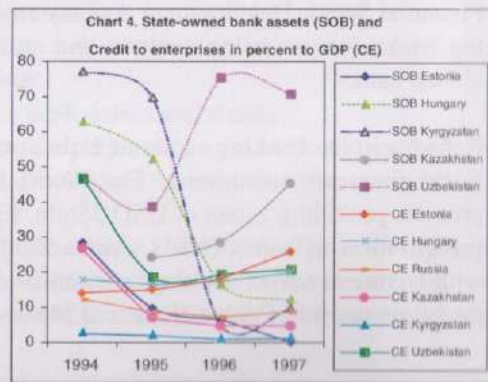
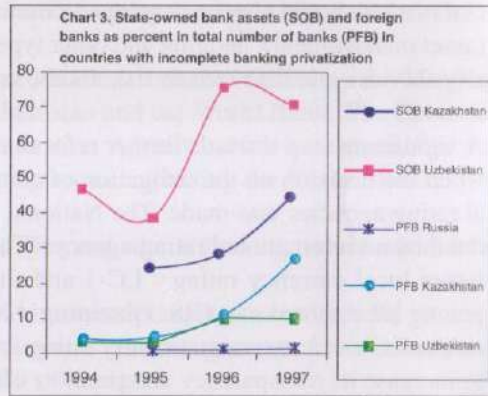
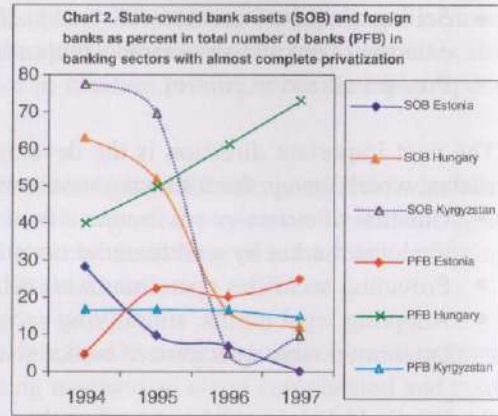
In this part of the paper a study was made of the effects of privatization by comparing the change in the state-owned asset share with other indicators.



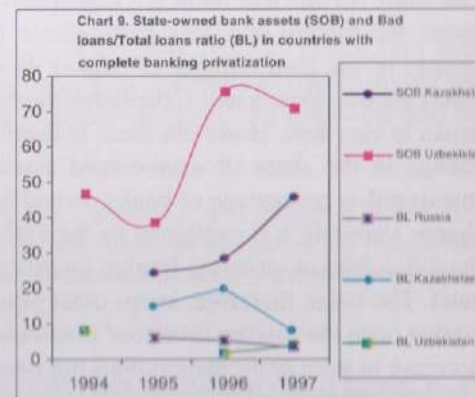
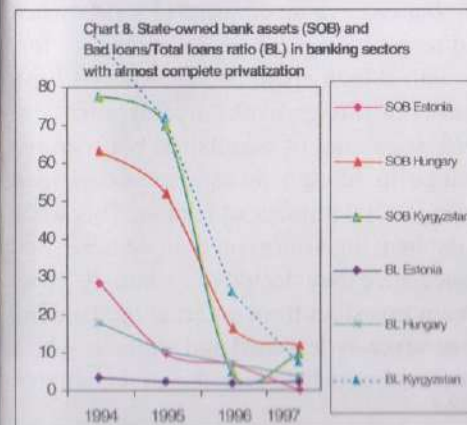
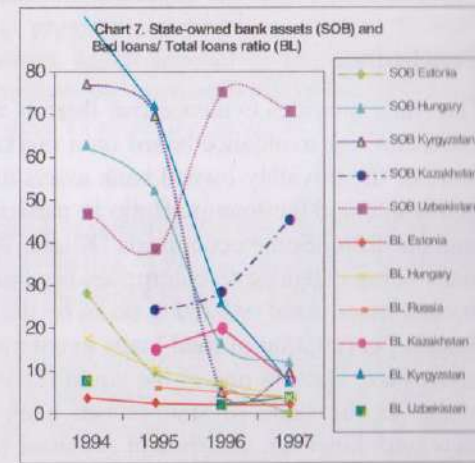


Source: EBRD

The study shows that there is a correlation between the share of state-owned assets and foreign participation measured as percentage of banks owned by foreigners of the total number of banks. In countries with a high share of state-owned bank assets such as Russia and Uzbekistan the ratio of the number of foreign banks to total number of banks is very low (Chart 1). However, there is not sufficient evidence of correlation between the change in the share of state owned assets and change in foreign investors participation (measured as percentage of banks owned by foreigners) of the total number of banks (Chart 2 and Chart 3). This weak correlation is explained by the entry cost in the banking sector that keeps the foreign investors relatively reluctant from entering the banking market quickly on the one hand, and difficulty of restoring the foreign investors' confidence once they decide to exit on the other hand. The latter, therefore, keeps other potential foreign investors from entering the banking market once foreign investors' confidence is lost or severely lessened and explains why a decrease in state participation does



not necessarily lead to immediate increase in the number of foreign banks. The second finding revealed in this case study is that there is not sufficient evidence of correlation between the share of state-owned assets and lending to enterprises as a ratio to GDP (Charts 3-5). While there is some evidence of a relationship in Estonia: whenever the share of state-owned bank assets fall in Estonia (Charts 3-5), the credit to enterprises increased; no obvious correlation in other countries was found, both in terms of level of lending extended to enterprises and the change correlation.



A study was also made to find a correlation between the state-owned bank asset share and the bad loans to total loans ratio. There is some evidence of some correlation between the state participation in the banking sector and proportion of bad loans in total loan portfolio (Charts 7-9).

Strong evidence was observed in Hungary. Through 1994 to 1996 the evidence of this relationship is found for Kyrgyzstan, Kazakhstan, Estonia, and Uzbekistan as well: as the share of bank state-owned assets falls, the bad loans ratio falls as well and vice versa. However, for 1997 there was no such correlation found in majority of the countries studied. It is explained in some cases by the impact of the Russian crisis that increased the ratio of bad loans to total loans, which happened in Estonia and Uzbekistan. However, in Kazakhstan and Kyrgyzstan the opposite was observed: the bad loans ratio decreased despite the impact of the Russian crisis and an increase in the state-owned bank asset share. However, the state asset share increased in these two countries not as a reverse course of privatization, but was rather of a remedial nature after the impact of the Russian crisis.

## Conclusions

The study provides evidence that there is a correlation between the efficiency allocation of loans and risk avoidance based on a market rationale: evidence was found that the greater share of the privately-owned bank assets in total assets, the better the quality of bank assets as a whole and the loan portfolio in particular measured as percent of bad loans to the total loan portfolio. Some economists (Kitain, 2000) argue that bank privatization leads to fewer loans being extended to enterprises because the banks have no incentives to extend lending to enterprises if not ordered to do so by the state. However, there was not sufficient evidence found of correlation of total loans to enterprises as a ratio to GDP and the state-owned bank asset share. Only in one of the countries studied - Estonia - was there a direct relationship: whenever the share of state-owned bank assets in Estonia fell, the credit to enterprises increased; however, insufficient evidence was found in other countries.

The study reveals that there is a negative relationship between value of share of state-owned assets and foreign investors' participation (measured as percentage of banks owned by foreigners of the total number of banks). In countries with a high share of state-owned bank assets such as Russia and Uzbekistan the ratio of number of foreign banks to total number of banks is very low. However, there is insufficient evidence found of correlation between the change in the share of state-owned assets and change in foreign investors' participation (measured as percentage of banks owned by foreigners in total number of banks). This weak change correlation is explained by the entry cost in the banking sector, on the one hand, and the difficulties of restoring foreign investors' confidence once they decide to exit on the other hand. The latter, therefore, keeps other potential foreign investors from entering the banking market once the foreign investors' confidence is lost or severely lessened and explains why a decrease in state participation does not necessarily lead to immediate increase in the number of foreign banks.

As a result of this study a conclusion can be made that banking privatization creates better loan allocation efficiency, better risk management (in terms of lessening the share of riskier loans in the total loan portfolio), greater foreign investors participation. The latter, however, does not result immediately from the bank privatization as the investors' confidence is not subject quick to change and the entry cost to the banking sector does matter. The study provides insufficient evidence on the relationship between loans to enterprises and privately owned banks market share.

It is necessary to note that the final result of banking privatization strongly depends on the methods of bank privatization and the privatization mechanism design so that not only a nominal transfer of bank assets occur but the banks economic incentives change. The overall banking sector restructuring strategy, banks entry and exit policies, and prudential regulations including the concentration and exchange rate risk elimination does matter as well.

The change in bank management incentives should be fostered by acquiring new skills through specialized advanced training programs, supporting greater transparency and enhancing the internal bank control systems. Much depends on the bidding model used for potential bank investors and heavy preliminary pre-auction or pre-public offering advertising both inside and outside the country in order to avoid the problem of underpricing the bank assets that are subject to sale.

While designing the privatization program it is important to reach a consensus among all the interested parties and to have a clear understanding of the post-privatization situation by both privatization implementing authorities and the banks to be privatized.

It is worth noting that conditions of privatization are usually of great interest to investors who are usually interested in acquiring a controlling stake or at least a share holding that would enable them to effectively control the bank. For this purpose it is necessary to minimize direct and indirect involvement of the state and/or to clearly determine a possibility of giving foreign investors operational control over the bank after it is privatized.

During privatization the interests and goals of the bank's clients play a very important role and should be taken into consideration as well. It is important to ensure during the privatization process that the interests of all bank clients, both retail and corporate, will be secured.

## Endnotes

<sup>1</sup> It acts as a receiver on behalf of NBK, taking control over and disposing of, the assets and liabilities of intervened banks. Taking this into consideration, as well as the fact that DEBRA has been self-financing (its budget is funded by an allocation of 5 percent of the debts it recovers).

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## Privatization techniques for Central Asia

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### Introduction

Central Asia constitutes "the heartland of the world" (Malik, 1994, p. 1). It was in Central Asia that the great Silk Road connecting the Orient to the Occident intersected with the trade routes connecting India and the Middle East to the forested steppes of the north. More than one city emirate in the region grew wealthy from the goods that traveled these roads (Manz, 1994, p. 4).

Nonetheless, although commerce, bazaars and caravans are ingrained into the world's image of Central Asia, the concepts of commerce, particularly of private ownership and private enterprise are not necessarily ingrained into Central Asia. Although Central Asia was home to several city-emirates built along the trade routes, the bulk of the region was peopled by pastoral nomads whose major possession was livestock and whose collective claims to grazing land were based in heredity. These people engaged in at most a simple form of commerce, usually based on barter (Demko, 1969, p. 26).

Central Asia was absorbed by Tsarist Russia in the last half of the nineteenth century and the first decade of this century. Russia's goals were the creation of a buffer zone between itself and British India, and access to the cotton fields and trade routes of Central Asia (D'Encasse, 1989, pp. 131-140). The Bolsheviks, faced with a restive and in some cases rebellious Central Asian population, quickly brought the region within Soviet control, and over the years ensured that it maintained several of the more conservative bureaucracies in the Soviet Union.<sup>2</sup>

In 1991, independence was thrust upon this region, which had been under Russian domination for over a century. The collapse of the Soviet Union left behind nations where there had never been nations,<sup>3</sup> independent economies where there had never been economies, an industrial complex that was bereft of the crutches it had relied on for fifty years, and a social edifice that had been turned on its head. Central Asia was also presented with the opportunity, or necessity, to interact with the world, from which it had long been physically and politically isolated.

One means of describing the situation of Central Asia is by means of institutions. Institutions are rules, norms, patterns, guidelines, social constructs and such that allow people to comprehend the world and that allow people to form relationships with one another (Krasner, 1983, p. 1; Nichols, 1999, p. 243; Thomas-Slayter, 1994, p. 1480). Certain institutions were appropriate among the pastoral nomads and among the Khanates of early Central Asia, other institutions were appropriate during the interchange with Tsarist Russia and still others dur-

ing the Soviet period. Central Asia - along with all of the other transition economies - is now required to reconsider and recreate institutions in response to its changing position in the world.<sup>4</sup>

Among the institution undergoing the most visible changes are those related to commerce, property and ownership. Advisors and policymakers alike have devoted considerable time to the adaptation or creation of commercial institutions. A critical aspect - many believe the critical aspect - of changes to commercial institutions is the privatization of state-owned assets and enterprises. This essay discusses the means of privatization that are available to policymakers in Central Asia.

## Privatization

The simplest and most useful meaning of the term privatization is the process whereby assets owned or used by the state are transferred to the private sector (Shirley, 1992, p. 24). Because privatization occupies a central role in the transition process of many polities, however, the term has also taken on a meaning synonymous with systemic change to commercial institutions (Frankel, 1995, p. 295).<sup>5</sup> Over one hundred countries use privatization as standard economic policy (Boutchkova & Megginson, 2000, p. 31).<sup>6</sup> Political entities in North and South America, Asia, Africa and Europe embrace privatization.<sup>7</sup> Privatization is complex, however, when - as in Central Asia - virtually all property and commercial assets were at one time owned by the state.

Two schools of thought dominate the theory of privatizing a formerly centrally planned economy. Both emphasize the importance of competition and the creation of a market system, but each differs in the amount of time to be used in implementing reform policies and the sequencing of institution creation. The "big bang" method, advocated by theorists such as Frydman and Rapaczynski, prescribes rapid privatization occurring simultaneously with massive institutional changes including price liberalization, dismantling of barriers to foreign trade and investment, tightening of fiscal and monetary policy, and the closing of inefficient industries (Stephan, 1996, p. 184; Seideman, Seideman & Makgetla, 1995, pp. 437-38; Frydman & Rapaczynski, 1994). Mass privatization, argue big bang theorists, is central to the transformation from centrally planned to market oriented economies.<sup>8</sup> Without the swift transfer of assets from public to private control reforms to other institutions will fail, either because persons with interests opposed to institutional change will have time to become entrenched or because the general population will have no interest in using or accepting the new institutions. Positive results, therefore, depend on the immediate privatization of all state enterprises. The wave of Western advisors to former centrally-planned economies generally supported the big bang approach, and it still is often insisted upon by Western aid agencies such as the World Bank or the European Bank for Recovery and Development (Linz, 2001, pp. 75-76; Belot, 1995, p. 86; Gordon, 1995, p. 367; Gayle & Goodrich, 1992, p. 214). In light of the perceived failures of the big bang approach in countries such as Poland and in particular in Russia, the big bang approach has fallen into general disfavor among reform scholars in the last few years (Linz, 2001, pp. 75-76).

The second construct, the gradual approach, is almost a mirror of the big bang approach. Proponents of a gradual approach argue that a systematic sequence of gradual reforms will create a viable non-state sector and provide the infrastructure necessary for successful privatization. Thus, rather than rapidly transferring state held assets to private hands in order to support reforms to other institutions, the gradual method fosters the creation of other institutions in order to eventually support the private ownership or management of assets. The paradigmatic model for the gradual approach to the creation of a private economy is the system of Chinese economic reforms in the last two decades (Cao, 2000).<sup>9</sup>

Three basic forms of mass privatization fall within these two theoretical models. These are voucher programs, collective investment programs, and public offerings and the gradualist "Chinese Model." Each effect changes to commercial institutions.

## Voucher programs

Voucher programs have been a basic feature of mass privatization in the transition countries over the last decade (see Lieberman, 1995, pp. 19-20 (describing voucher programs in ten Central and East European countries)). The most well-known and thoroughly studied voucher program is probably that conducted in the Russian Federation.<sup>10</sup>

Although there are a number of variations, the simple mechanics of a voucher program involve the distribution of privatization vouchers to participants. These vouchers may include various types of government-issued coupons, investment points, or other tokens which participants usually receive for free. The holders then exchange those tokens for shares in individual enterprises or in some type of investment fund that exchanges the tokens for shares.

Foreign advisors and some domestic governments favor voucher programs for mass privatization, especially as part of a big bang program. Voucher programs facilitate rapid privatization of large numbers of state-owned enterprises, particularly when many of those enterprises would be unattractive to sophisticated or foreign investors. Conversely, voucher programs preclude domestic criticism that a country's assets are being purchased by foreign parties at bargain rates.<sup>11</sup> Through auction systems, voucher programs usually result in a wide distribution of ownership among domestic constituencies.<sup>12</sup> Voucher programs can also be structured to benefit traditionally disadvantaged groups or other targeted segments of a population (Peck, 1994, p. 334). Many advisors also believe that voucher programs constitute an introduction to and lesson in the market system for people who live in societies that have not had extensive experience with capitalism (Dhanji & Milanovic, 1991, pp. 14-15).

The use of vouchers as a means of privatizing is not simply a matter of printing vouchers. Voucher programs require some sort of system for distribution, either physical or notional. They also require institutional capacity sufficient to administer the redemption of vouchers and the registration of vouchers exchanged for shares (Baev, 1995, p. 11; Lieberman, 1995, pp. 24-29). The Democratic Republic of the Congo, for example, possesses several charac-

teristics that indicate that a voucher program might not be an effective means of mass privatization; these factors include a widely dispersed population that is difficult to reach and much of which the central government is unaware, no means of physical or notional distribution or collection, low literacy rates, and few means of distributing information about the program or about the enterprises to be privatized. The transition economies of Central and Eastern Europe possessed far more of the characteristics needed for a voucher program; nonetheless, much of the early technical aid to the Newly Independent States was intended to build institutional capacity for the purposes of administering voucher programs.

Voucher programs do not, on the other hand, require a preexisting stock exchange. Some observers believe, however, that the lack of a secondary market is the cause of the failure of privatization to create viable institutions in some of the transition economies. Kogut and Spicer point out that in the absence of a market in which to trade shares that they acquired, private individuals remained poorly informed both as to the values of their shares and the operation of markets (Kogut & Spicer, 2000). Stiglitz points out that in the absence of a secondary market through which holders of shares could realize value, holders simply looted the enterprises (Stiglitz, 1999, p. 20).

Voucher programs have been used in Kazakhstan and Kyrgyzstan. Kazakhstan issued non-transferable notional investment points through the Kazakhi Savings Bank system; points could be used to purchase shares in Private Investment Funds that in turn would use the points to purchase shares in privatized enterprises. The Kyrgyz Republic, on the other hand, issued transferable paper coupons that could be used directly by holders of those coupons to bid for shares in enterprises being privatized through auctions.<sup>13</sup>

### Collective investment programs

Collective investment programs also occur in a variety of forms. In collective investment programs, citizens do not individually own shares; instead, shares are held collectively for the benefit of current or future citizens. In its basic form, a collective investment program involves transfer of ownership of a state owned enterprise to a collective investment vehicle, which usually is managed by a group of trustees. Individual persons do not elect to participate in the program but instead are designated or not designated by the state (Bornstein, 1994, pp. 43-44). Pension funds are often used as investment vehicles for collective privatization. Shares of state owned assets are transferred to a pension fund to which certain people automatically belong. Those people do not directly involve themselves in the privatization of the state-owned asset. Indeed, those people may not even know that shares of the asset have been transferred to the pension fund; it is only when a person's right to collect from the fund vests that the individual him or herself benefits from the transfer (Bell, 1995, p. 3).

The two principal uses of collective investment funds are first, as the primary vehicles either for the privatization of large enterprises or for mass privatization, and second, as a tool in a comprehensive program for privatization. As a primary vehicle for privatization, collective investment funds are attractive in cultures in which there is little understanding of private

ownership and where individual accumulation of wealth is not favored. They are also useful in societies with low literacy rates and dispersed, difficult to reach populations. Collective investment programs are also useful when capital markets and other institutions are weak, and a lack of infrastructure makes distribution or collection of coupons difficult. Thus, while voucher programs may not work in the Democratic Republic of the Congo, collective investment funds might provide a viable vehicle for privatization. Indeed, collective investment funds have been used in countries such as Bolivia, Malaysia and Zambia (Bell, 1995, pp. 3-4; Nankani, 1988, pp. 62-95).

Advisors to transition economies do not favor collective investment programs as vehicle for privatization. For the most part, the cultural, societal, and physical conditions that lead to the use of collective investment programs do not exist in transition economies; the transition economies for the most part have high rates of literacy and basic means of information and voucher distribution. Moreover, foreign advisors to transition governments strongly desire to inculcate market experience in the populations, an experience that they believe is more easily facilitated through a voucher program or through public offering.

As tools in a comprehensive privatization scheme, collective investment programs can provide intermediate stages for enterprises not yet ready for transfer to private ownership (Gordon, 1995, p. 367). The benefits of a using a collective investment arrangement as an intermediate stage are twofold. First, the asset continues to be held for the benefit of a large number of citizens rather than squandered or transferred cheaply to a privileged class. Second, the enterprises are often better prepared for the transition to private ownership; in these arrangements the trustees of the collective investment vehicle often take an active role in managing enterprises, and introduce these enterprises to concepts such as profit and accountability. It should be noted that when a collective investment vehicle is used as this type of tool, there generally are no dividends paid to any class of owners.

Within Central Asia, the collective investment technique has been used in Kazakhstan as an intermediary stage for very large (and generally ailing) enterprises. Management and trusteeship of these institutions was generally given to experienced, foreign entities. While many of the enterprises experienced improved efficiency and productivity, the structure of the program was criticized because it encouraged the trustees to take a short term perspective rather than focussing on the long term health of the enterprise.<sup>14</sup>

### Public offerings

Public offerings consist of offerings of shares in or assets of state owned enterprises to the public (Vuylsteke, 1988, pp. 11-15; Balfour & Crise, 1993, p. 84). This method is mostly used within systems that are already largely private and that are privatizing single enterprises or assets that have been controlled by the government, such as a rail system or a communication system. Some emerging economies, however, such as Jamaica, Morocco and South Korea have used public offerings to privatize large portions of their economies (Vernava,

1996, pp. 120-139; Bell, 1995, p. 4; Leeds, 1991).

The use of public offering as a means of privatizing state-owned assets requires a viable market in which assets or shares of enterprises can be sold, and also requires sound enterprises whose shares will be desired by potential investors. If a large number of enterprises or assets are to be privatized through public offerings, there must also be sufficient capacity within the economy to absorb the shares of those enterprises.

Public offering can be contrasted with voucher programs. In voucher programs, citizens of a country are given the means for acquiring a direct stake in assets once held by the state, and the state gains nothing. In public offering, assets are sold to whoever can buy them, and the state gains money. In voucher programs the citizens benefit directly through the transfer to them of something of value, in public offering citizens benefit indirectly because the state that serves them has more money to do so.

Straightforward public offering is generally not used as a means of privatization in the Newly Independent States, which usually have neither experienced financial markets nor an abundance of sound enterprises (Baev, 1995, p. 11).<sup>15</sup> Some transition economies do, however, use variations of the public offering method. Rather than using existing (or nonexistent) markets to sell shares or assets, special cash auctions or competitive bid programs are used; governments may also enter into closed negotiations with selected parties (Angelov, 1993, p. 215). Cash auctions vary; in general they are either open call or sealed bid, shares are sold in lots, and a price floor is set below which shares will not be sold. Competitive bid programs are more difficult to generalize; they usually are somewhat opaque and few governments have specified what factors contribute to a successful bid. In general, however, successful bids do not simply offer the highest price. They also offer societal, developmental or economic benefits.

Each of the five Central Asian countries has used a variation of public offering in its privatization programs. Public offering has been used with varying degrees of commitment and success. Many participants in public offerings have criticized the opaque process through which enterprises are offered and sold.

### The "Chinese Model"

The gradualist approach to privatization is exemplified in the privatization program of the People's Republic of China. The Chinese model exhibits a fundamental disagreement with the premises of the big bang theory. The big bang theory suggests that the many institutions that surround a viable market oriented economy cannot come into existence unless assets are held by the private sector. The Chinese model, on the other hand, suggests that the many institutions that support a viable market oriented economy must be created before an existing state-controlled economy can be destroyed and state-owned assets put into private hands (Cao, 2000, p. 28).

The Chinese approach, therefore, has been to allow assets to be held privately and to create institutions to support a market-oriented economy while at the same time continuing to support state-owned enterprises. Indeed, even though China often projects a market-oriented image, state-owned enterprises constitute a very important part of China's social and economic structure. State-owned enterprises provide markets for and supply products and services to the smaller privately owned enterprises. These industries also provide employment and in some cases goods or services that otherwise would not be available to persons who live in China. Directors of state-owned enterprises continue to have political influence (Cao, 2000). Maintaining state owned enterprises, however, is costly.<sup>16</sup> In theory these enterprises should not be supported indefinitely.<sup>17</sup>

The core of the Chinese model of privatization, therefore, is the creation of a market-oriented private sector alongside the public sector. The model assumes that as the private sector grows, it will take on a greater role in providing employment, goods and services. At the same time, those state-owned enterprises that cannot function as well as competitor private enterprises will wither, and eventually disappear. The resources were used by those state-owned enterprises will then be available for use by the private sector (Weitzman & Xu, 1994, p. 121). Although there will be no direct transfer of ownership of state owned enterprises, the effects will be similar because private citizens will obtain a progressively larger portion of the economy and the state will control a progressively diminishing portion.<sup>18</sup>

The Chinese model requires at least two factors. First, the government must have sufficient power and authority to maintain an expansive public sector while at the same time creating the institutions needed for a viable market-oriented system. Indeed, one criticism of China's implementation of the gradual approach is that it has allowed persons allied to the state-owned enterprises to become entrenched, making it politically difficult for the government to dissolve those enterprises if they fail or become unnecessary (Cao, 1995). Second, in addition to political capital, the government must have enough money to maintain inefficient state-owned enterprise system for a considerable period of time. Again, an observation made of the Chinese implementation is that the state-owned enterprises have silently brought the Chinese government to the verge of financial collapse (Cao, 2000, pp. 60-61).

Two possible benefits flow from the Chinese model. First, a gradual approach avoids the social and economic trauma of rapid mass privatization. This benefit is illusory, of course, when as in Russia social and economic trauma is not a product of privatization but instead is one of the reasons privatization is needed. Second, rather than basing a market economy on industries that were created in a centrally planned economy, the Chinese model allows the market to select what industries it wishes to grow while the centrally planned economy deteriorates. In this way, the economic distortions inherent to a centrally planned economy are not carried into the nascent stages of the free market economy.

Within Central Asia, Uzbekistan has most explicitly embraced the Chinese model. The Uzbeki government has clearly stated that its goal is the creation of a private, market oriented economy, but it has also just as clearly stated that large enterprises and key industries will

not be privatized in the foreseeable future. The economic success of Uzbekistan's adoption of the gradual approach is not clear; most observers would suggest that the approach has not yet created institutions needed for a viable market-oriented economy.

## Conclusion

The mass privatization programs of Central and Eastern Europe have been referred to as the "crime of the century" and the "greatest robbery in world history" (Hedlund, 2001, p. 213). On the surface, these criticisms have to do with the misappropriation of privatized assets by privileged persons.<sup>19</sup> Misappropriation, however, is only a symptom. The real failure of mass privatization occurs when institutions are not created or changed. Simply handing property to people does not create institutions; in the absence of means to use and realize benefit from property owning property is not necessarily meaningful, and dysfunctional institutions may be generated by persons to fill the void.

That the countries of Central Asia must privatize their economies is almost certain. Policymakers have a variety of privatization techniques to choose from. Each has the capacity to alter or create institutions. When choosing from among these techniques, policymakers should not simply ask which will most quickly lighten the burden on the state or which will add the greatest amount of money to the government's fisc. Policymakers should place their decision within the context of institutions. Choices that lead to the holding of property by private parties without the institutions necessary to support commerce are likely to fail. On the other hand, Central Asia is a relatively stable region with an extremely well educated population. If privatization techniques are preceded by institution building, then they may be part of a successful change in the region.

## Endnotes

- 1 This paper updates a portion of an earlier paper by the author that compared privatization techniques used by the five Central Asian countries (Nichols, 1997a).
- 2 The relationship between Central Asia and Russia is multifaceted. Central Asians should not be perceived as helpless victims; the interchange between the two regions enhanced both cultures and contributed greatly to the identity of Central Asia. Most readers of this journal are familiar with the relationship between the two regions; those who are not are referred to Akiner (1995).
- 3 It should be emphasized that the borders of these nations were drawn by Stalin and his successors, largely for exogenous/political reasons, and have little to do with ethnic, geographic or other divisions in Central Asia (Porkhomovsky, 1994, pp. 19-20). Scholars argue that the concept of a nation-state, and particularly a nation-state based on ethnicity, is not indigenous to Central Asia (Fuller, 1994, p. 20; Porkhomovsky, 1994, p. 16).
- 4 For a lengthy discussion of changes to institutions in emerging economies and transition countries, see Nichols (1999). For a discussion of reaction to one change in one country in Central Asia, see Nichols (1997b).
- 5 Frankel acknowledges that while systemic change has come to be synonymous with privatization, the technical meaning remains the transfer of state property to private persons.
- 6 Boutchkova and Megginson (2000) report that these countries raise over US\$ 140 billion annually through privatization (p. 31).
- 7 While it is easy to associate privatization with the transition countries, the United Kingdom actu-

ally pioneered large scale privatization of state-owned assets (Prosser, 2000, p. 63).

<sup>8</sup> Frydman and Rapaczynski (1994), two of the most influential theorists in the early period of the transition of formerly centrally planned economies, state that privatization is "the core process" in the economic reform of such countries (p. 14).

<sup>9</sup> For useful material on the first decade of Chinese economic reforms see Naughton (1995), Reynolds & Kim (1988).

<sup>10</sup> For detailed descriptions of the privatization process in Russia, see Boycko, Shleifer and Vishny (1995).

<sup>11</sup> Indeed, one defense of the use of voucher programs in Russia and Central and Eastern Europe is that popular resistance to the potential sale of state-owned enterprises to foreign buyers forced policymakers away from public offerings and into voucher programs (Rondinelli & Black, 2000, p. 87).

<sup>12</sup> Peck estimates that "40 million Russians own stock, giving Russia a higher proportion of citizen stockholders than in any established market economy." (Peck, 1995, p. 23).

<sup>13</sup> Twenty-five percent of the shares of medium and large enterprises privatized through this method were sold directly through coupon auctions, five percent was given to workers, and seventy percent was offered to strategic investors or - in the absence of proposals from strategic investors - sold through coupon auctions.

<sup>14</sup> The program was also criticized for allowing trustees to void contracts and to cancel obligations of the large enterprises being held in trust, which weakened many smaller enterprises that had relationships with those large enterprises.

<sup>15</sup> Baev (1995) points out that many transition economies suffer from "undeveloped capital markets, absence of liquidity, monopoly of information, deficiency of legal rules and institutions capable of protection public investors," all of which obviates use of public offerings as a means of privatization (p. 11).

<sup>16</sup> Cao (2000) reports that twenty percent of the Chinese government's revenue is spent supporting the sixty percent of state-owned enterprises that operate at losses - losses often caused by misappropriation or theft (p. 42).

<sup>17</sup> The degree of Chinese government commitment to divesting itself of unproductive assets is unclear, hence this description must move from the factual to the hypothetical. The government has decentralized management of some state-owned enterprises, although it has not created incentive or regulatory institutions for these enterprises to substitute for government control or for market disciplines (Cao, 2000, pp. 40-52). The government has also converted some state-owned enterprises into joint stock companies and allowed private investment into these companies; the government does so explicitly for the purpose of increasing the government's fisc and the government retains a controlling interest, making it hard to describe this corporatizing of enterprises as real privatization (Bersami, 1993, p. 302; Ocko & Campo, 1995, p. 145).

<sup>18</sup> Cao points out that because China does not contemplate the demise of state-owned enterprises that are efficient the Chinese model will not bring an economy to exactly the same point as would the more conventional means of mass privatization (Cao, 1995, pp. 100-01).

<sup>19</sup> A survey supervised by this author in one Central Asian country found measurable levels of concern regarding the disposition of the most valuable state-owned assets (Nichols, 2000).

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## Yale University-KIMEP Central Asia Summer Seminar 2000

### Seizing the Opportunity for Sustained Growth and Improved Equity

Kazakhstan Institute of Management, Economics, and Strategic Research  
Almaty, Kazakhstan

June 5-16, 2000

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#### SEMINAR TOPICS

1. Economic Growth and Human Development
2. Macro-economic Policies and Open Economy Politics
3. Attracting Foreign Investment: Market Institutions, Property Rights & Regulatory Regimes
4. Agricultural Development and Rural Households
5. Rural Development and Rural Households
6. Financial Policy and the Banking Sector
7. Trade Regimes and Foreign Capital
8. Privatization and Corruption
9. Managing Natural Resources and Long-term Economic Growth
10. Environment and Public Health

**OPENING SESSION: JUNE 5, 9:30-11:00, HALL #1**

8:00-9:00	Breakfast for Seminar Participants (Mirror Hall, KIMEP Campus)	
9:30-9:40	Welcome and Introductions:	Dr. Y. Bilyalov, Vice President, External Relations, Government and Non-Government Affairs, KIMEP
9:40-10:10	Welcoming Address:	Dr. M. H. Rahman, Vice President, Academic Affairs, KIMEP Mr. John Purnell, Deputy Chief of Mission, U.S. Embassy, Almaty
10:10-10:50:	Reply to Welcoming Address:	Dr. Gustav Ranis, Frank Altschul Professor of International Economics; Director, Yale Center for International and Area Studies  Dr. Robert Evenson, Professor of Economics; Director, Economic Growth Center, Yale University
10:50-11:00	Seminar Overview:	Dr. Pauline Jones Luong, Assistant Professor of Political Science, Yale University

11:00-11:15 Morning Break

**June 5: Economic Growth and Human Development (Hall #3)**

11:15-12:45	Lecture:	Gustav Ranis (Yale University)
1:00-2:00	Lunch Break for Seminar Participant (Mirror Hall, KIMEP Campus)	
2:00-4:00	Working Group Assignment and Working Group Meeting	
4:00-5:00	Reimbursement for Travel (Please see Pauline Jones Luong and Raluca Munteanu)	
7:00-10:00	Opening Dinner and Evening Social Event (KIMEP Fun Club)	

**June 6: Attracting Foreign Direct Investment: Market Institutions, Property Rights and Regulatory Regimes (Hall #3)**

8:00-9:00	Breakfast for Seminar Participants (Mirror Hall, KIMEP Campus)	
9:00-10:00	Lecture:	Nadia Soboleva (University of Toronto)
10:30-10:45	Morning Break	
10:45-12:15	Case Study:	<i>Development of the Legal Base for Property Rights, Market Institutions, and Public Regulation in Kazakhstan</i>

Gulzhan Karagusova (Senator, Republic of Kazakhstan; Chair, Economics &amp; Budget Committee)

12:30-1:30 Lunch Break for Seminar Participants (Mirror Hall, KIMEP Campus)

1:30-4:00 Working Group Meetings

7:00-8:00 Dinner for Seminar Participants (Mirror Hall, KIMEP Campus)

**June 7: Macro-economic Policies and Open Economy Politics (Hall #3)**

8:00-9:00 Breakfast for Seminar Participants (Mirror Hall, KIMEP Campus)

9:00-10:30 Lecture: Nadia Soboleva (University of Toronto)

10:30-10:45 Morning Break

10:45-1:15 Case Studies: *Economics Restructuring & Problems of Economic Growth in Kazakhstan*  
Kenes Kazhymurat (Institute for Development of Kazakhstan)*Macroeconomic Policies of Tajikistan*  
Gafurjon Juraboev (Deputy Director, Institute of Entrepreneurship and Service, Tajikistan)

1:30-2:30 Lunch Break for Seminar Participants (Mirror Hall, KIMEP Campus)

2:30-4:00 Working Group Meetings

7:00-8:00 Dinner for Seminar Participants (Mirror Hall, KIMEP Campus)

**June 8: Agricultural Development and Agro-business (Hall #3)**

8:00-9:00 Breakfast for Seminar Participants (Mirror Hall, KIMEP Campus)

9:00-10:30 Lecture: Robert Evenson (Yale University)

10:30-10:45 Morning Break

10:45-12:15 Case Study: *Central Asian Agriculture in Transition*  
Sherzod Shirmatov (Yale University)

12:30-1:30 Lunch Break for Seminar Participants (Mirror Hall, KIMEP Campus)

1:30-4:00 Working Group Meetings

7:00-8:00 Dinner for Seminar Participants (Mirror Hall, KIMEP Campus)

**June 9: Rural Development and Rural Households (Hall #3)**

- 8:00-9:00 Breakfast for Seminar Participants (Mirror Hall, KIMEP Campus)
- 9:00-10:30 Lecture: Robert Evenson (Yale University)
- 10:30-10:45 Morning Break
- 10:45-12:15 Case Study: *Farm Restructuring, Rural Household Development, and Rural Social Policy in Central Asia*  
Vladimir Grigoruk (Kazakhstan Academy of Agricultural Sciences)
- 12:30-1:30 Lunch Break for Seminar Participant (Mirror Hall, KIMEP Campus)
- 2:00-8:00 Sightseeing Tour of Almaty and its Environs, Dinner at Kazakh National Restaurant

**June 10: All Day Group Sightseeing Tour to Turgen (Optional)**

- 8:00-9:00 Breakfast for Seminar Participant (Mirror Hall, KIMEP Campus); Seminar Participants pick up their sack lunches.
- 9:00 a.m. Bus leaves from KIMEP Hotel (Please be on time or the bus will leave without you!)
- 10:30 a.m. Bus arrives at Turgen
- 12:30-1:30 Picnic Lunch
- 4:30 p.m. Bus departs from Turgen
- 6:00 p.m. Bus returns to KIMEP Hotel
- 7:00-8:00 Dinner for Seminar Participants (Mirror Hall, KIMEP Campus)

**June 11: Free Time: Please see list of cultural activities provided in participant folders.**

- 8:00-9:00 Breakfast for Seminar Participant (Mirror Hall, KIMEP Campus)
- 1:00-2:00 Lunch for Seminar Participants (Mirror Hall, KIMEP Campus)
- 7:00-8:00 Dinner for Seminar Participants (Mirror Hall, KIMEP Campus)

**June 12: Financial Policy and the Banking Sector (Hall #3)**

- 8:00-9:00 Breakfast for Seminar Participants (Mirror Hall, KIMEP Campus)
- 9:00-10:30 Lecture: Philip Nichols (Wharton School, University of Pennsylvania)
- 10:30-10:45 Morning Break
- 10:45-12:15 Case Study: *Retail Banking and State Regulation in Kazakhstan*

Leonid Ivanov (Haylk Savings Bank of Kazakhstan)

- 12:30-1:30 Lunch Break for Seminar Participants (Mirror Hall, KIMEP Campus)
- 1:30-4:00 Working Group Meetings
- 7:00-8:00 Dinner for Seminar Participants (Mirror Hall, KIMEP Campus)

**June 13: Trade Regimes and Foreign Capital (Hall #3)**

- 8:00-9:00 Breakfast for Seminar Participants (Mirror Hall, KIMEP Campus)
- 9:00-10:30 Lecture: Gustav Ranis (Yale University)
- 10:30-10:45 Morning Break
- 10:45-1:15 Case Studies: *Attracting Foreign Trade and Foreign Capital in Central Asia*  
Farrukh Suvavkulov (Yale University)
- WTO Membership and Its Impact on Trade Policy in FSU*  
Bermet Tursunkulova (American University, Kyrgyzstan)

- 1:30-2:30 Lunch Break for Seminar Participants (Mirror Hall, KIMEP Campus)
- 2:30-4:00 Working Group Meetings
- 7:00-8:00 Dinner for Seminar Participants (Mirror Hall, KIMEP Campus)

**June 14: Privatization and Corruption (Hall #3)**

- 8:00-9:00 Breakfast for Seminar Participants (Mirror Hall, KIMEP Campus)
- 9:00-10:30 Lecture: Philip Nichols (Wharton School, University of Pennsylvania)
- 10:30-10:45 Morning Break
- 10:45-1:15 Case Studies: *Public Administration and Anti-Corruption in Kazakhstan*  
Gulnara Kurbanova (UNDP, Kazakhstan)
- Privatization and Corruption in Central Asia*  
Galina Bityukova (American University, Kyrgyzstan)
- 1:30-2:30 Lunch Break for Seminar Participants (Mirror Hall, KIMEP Campus)
- 2:30-4:00 Working Group Meetings
- 7:00-8:00 Dinner for Seminar Participants (Mirror Hall, KIMEP Campus)

**June 15: Managing Natural Resources and Long-term Economic Growth (Hall #3)**

- 8:00-9:00 Breakfast for Seminar Participants (Mirror Hall, KIMEP Campus)
- 9:00-10:30 Lecture: Pauline Jones Luong (Yale University)
- 10:30-10:45 Morning Break
- 10:45-12:15 Case Studies: *The Oil Industry as Resource of Economic Growth for Kazakhstan*  
Gulmira Kurganbaeva (Institute for Development of Kazakhstan)
- 12:30-1:30 Lunch Break for Seminar Participants (Mirror Hall, KIMEP Campus)
- 1:30-4:00 Working Group Meetings
- 7:00-8:00 Dinner for Seminar Participants (Mirror Hall, KIMEP Campus)

**June 16: Environment and Public Health (Hall #3)**

- 8:00-9:00 Breakfast for Seminar Participants (Mirror Hall, KIMEP Campus)
- 9:00-10:30 Lecture: Erika Weinthal (University of Tel Aviv)
- 10:30-10:45 Morning Break
- 10:45-1:15 Case Studies: *Sustainable Development in Central Asia & the Role of NGOS*  
Zharas Takenov (UNDP, Kazakhstan)
- Improving the Environmental Health and Living Standards of the Population in Uzbekistan*  
Marina Suleymanova (UNDP, Uzbekistan)
- 1:30-2:30 Lunch Break for Seminar Participants (Mirror Hall, KIMEP Campus)
- 2:30-4:00 Working Group Meetings
- 7:00-8:00 Dinner for Seminar Participants (Mirror Hall, KIMEP Campus)

**June 17: Seminar Participant Conference (Hall #1)**

- 9:00-10:00 Breakfast for Seminar Participants (Mirror Hall, KIMEP Campus)
- 10:00-11:00 Key Note Address: M.H. Rahman, KIMEP and Gustav Ranis, Yale University
- 11:00-1:30 Participants will present their Working Group Papers
- 1:30-2:30 Lunch Break for Seminar Participants (Mirror Hall, KIMEP Campus)
- 2:30-5:00 Participants will present their Working Group Papers
- 8:00-10:00 Final Banquet (Reception Hall, Tulebayeva and Kurmangazy)

**The Dutch Disease: Symptoms and policy implications for Kazakhstani economy**

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**Abstract**

*Kazakhstan possesses a huge amount of natural resources, which could bring significant export revenues. In the context of considerable export revenues, consideration of the Dutch Disease question becomes relevant. This paper presents the main symptoms and policy implications of the Dutch Disease, and considers the possibility that Kazakhstan may face this problem in the near future.*

**Keywords:** Kazakhstan, oil, Dutch Disease, transition

**Introduction**

Kazakhstan possesses a huge amount of natural resources, in particular oil and natural gas. The proven reserves of Kazakhstan hydrocarbons deposits are estimated at 10.0-17.6 billion barrels of oil, and 53-83 trillion cubic feet<sup>2</sup> of natural gas (EIA<sup>3</sup>, 2000).

The exploitation and exports of these reserves are an important source of income for the Kazakhstani economy. Oil and gas sectors attracted 66.86 percent of foreign direct investment to the country in 1998, 34.08 percent in 1997, and 43.91 percent over the period 1993-1996 (IMF, 1999). The oil and gas sector accounts for about one quarter of total exports in the country. The oil and gas industries are also an important source of tax revenues for the national government. Oil and gas sector taxes represented 43.7 percent of total tax payments for the first five months of 2000. By comparison, the second most important sector in the country - metallurgy - contributed a 26.8 percent share of total tax payments (Ministry of the State Revenues, 2000). In 1999, oil production and refining contributed 32 percent to the total value of industrial production, and over 10 percent of GDP (Agency of the Republic of Kazakhstan for Statistics, 2000).

It is clear that oil and gas sector is the most important sector of the Kazakhstani economy and it is likely to maintain that position for the foreseeable future. A significant drawback for the development of oil and gas sector remains the insufficient system of pipelines and export capacities.

However, there are some grounds for optimism that the problem concerning the export capacities will soon be solved. The quotas of Kazakhstani oil transit through Russian territory has grown during the last two years, from 5 million tons (36.4 million barrels) in 1998 to 9.5 mil-

lion tons (69.2 million barrels) in 2000. In addition, the most advanced pipeline route is that of the Caspian Pipeline Consortium (CPC). The first phase of their project is expected to become operational in 2001.

Therefore, it is likely that oil and gas sector will continue to play a major role in the economy of the country, and the country's recovery will primarily be based on revenues from raw resource export. However, the country may not experience only benefits from oil and gas booms. It could face a problem that took place in many oil-exporting countries, the "Dutch Disease" problem. The "Dutch Disease" syndrome refers to a situation when rapid economic growth of the resource sector, in particular oil and gas sectors, may have adverse effects on the non-resource tradable sectors, by crowding out of financial and intellectual resources from these sectors, mainly through real appreciation of the exchange rate. These effects have been termed the "Dutch Disease."

In view of the prospective oil boom and anticipated growth in export revenues, Kazakhstan may face the "Dutch Disease" in the future. The possibility of a "Dutch Disease" is expected to be a problem in the medium and long terms, when Kazakhstan would expand the export capacities of oil and gas. Therefore, it is important to understand the problem now, its symptoms, and the policies available for managing it.

The remaining of the paper is organized as follows: the second section presents the basic model of the Dutch Disease, which distinguishes between the two principal effects of the boom in the energy sector. This section is an important basis for understanding the problem, its main effects, and symptoms. The third section analyses the possible implications of the Dutch Disease for Kazakhstani economy. It also summarises the main conclusions of the paper.

### The Dutch Disease problem: Basic model

There is a significant number of papers devoted to the "Dutch Disease" problem faced by resource-exporting countries (see, e. g., Rosenberg & Saavalainen, 1998; Corden, 1984; Corden & Neary, 1982). The main focus of the "Dutch Disease" literature is the analysis of effects on resource allocation, relative prices and the real exchange rate of a boom in the natural resource sector. A boom in the resource sector can happen in one of the following ways: there could be a once-for-all exogenous technical improvement in the resource sector, a discovery of new resources, or an exogenous rise in the world market price of an export resource relative to the general price of imports.

Corden and Neary (1982) present the classical model of Dutch Disease Economics. Actually almost all papers on the "Dutch Disease" problem are firmly or implicitly rooted in Corden and Neary's three-sector model. They consider a small, open economy which comprises of three sectors: an energy or a resource sector, a manufacturing or (non-booming) tradable sector, and a non-tradable or services sectors. Products of the first two sectors, energy and man-

ufactures, are traded at exogenously given world prices, while the prices in the third sector are defined on the domestic market by equalizing domestic supply and demand. They make three assumptions: First, all goods are used for final consumption only. Second, national output and expenditures are always equal. Third, wages are perfectly flexible to ensure the full employment at all times. They assume that each sector uses one specific non-mobile factor (capital) and one mobile factor (labor). They consider the case when the boom is caused by the once-and-for-all Hicks-neutral<sup>4</sup> improvement in the technology in the energy sector.

In the case, when only labor is mobile, a resource boom affects the rest of the economy in two main ways: the spending effect and the resource movement effect.

- *The spending effect*

The boom in the natural resource sector leads to increased income in a country and, consequently, if some part of the extra income in the energy sector is spent (whether directly by factor owners or indirectly by government through collecting taxes), results in increased demand for traded and non-traded goods. Since the prices of traded goods are fixed internationally, this effect leads to rising prices of non-traded goods relative to traded ones in the short run, that is, a real appreciation of the exchange rate<sup>5</sup>. The real appreciation will draw mobile resources out of the energy and manufacturing sectors into the services sector. As a result, output of manufacturing sector declines due to the reduction of labor there.

- *The resource movement effect*

The boom in the energy sector raises the marginal product of labor in that sector, which, at constant wage in terms of tradables, increases the demand for labor in energy sector. And this causes a movement of labor from both the manufacturing and services sectors to the booming sector. This resource movement effect has two parts: First, the movement of labor from the manufacturing sector to the booming sector is called "direct de-industrialization". Second, the movement of labor from non-tradables or services into the booming sector reduces the output of services and thus creates excess demand for services additional to that created by the spending effect. Excess demand for non-tradables causes additional real appreciation, and thus additional movement of labor out of manufacturing into services, reinforcing de-industrialization due to the spending effect. The two effects combined (resource and spending effects) lead to the movement of labor from manufacturing into services due to the real appreciation, what can be called "indirect de-industrialization".

Therefore, both the resource movement effect and the spending effect lead to labor leaving the manufacturing sector, resulting in a decline in the output of that sector. The output in the booming sector increases since the boom occurs in this sector. The change in the output of the non-traded sector is ambiguous. Although the spending effect would lead to an expansion of this sector, the resource movement would cause it to contract.

If a booming sector does not use domestic factors of production or does not employ a factor

that is mobile to the rest of the economy, the resource movement effect will not occur, and there is only a spending effect. In this case, there is no direct de-industrialization caused by resource movement effect, and the boom in energy sector leads to a shrinkage of the non-booming traded sector and an expansion of the services (non-tradable) sector.

In countries like Netherlands, Norway, the United Kingdom, the traditional non-booming sector that suffers from the boom in the resource sector, mainly includes a manufacturing sector, while, in countries like Indonesia, Nigeria, and Venezuela, the non-booming tradable sectors more likely to include agricultural sector. The export boom, in that case, may lead to "de-agriculturalization", as it has occurred in Nigeria, and also to some extent in Venezuela and Indonesia.

The basic model of the "Dutch Disease" can be viewed in different ways. Let us present the one of such extensions of the basic model. Assume that the non-booming tradable sector comprises several industries, and in addition capital and labor are mobile between these industries. In this case, as Corden (1984) notes, it is possible that some of these industries expand, while the whole sector contracts as the result of the boom. Consider the case, when the tradable sector consists of two industries, both of which employ labor and capital in different proportions to each other. The boom results in the usual movement of labor from the non-booming tradable sector to the energy sector. But this time, there will be a rearrangement within the non-booming sector as a whole. So, the capital-intensive industry will expand, while the labor-intensive will contract.

The basic model considers the case when the boom in the energy sector is caused by improvement in technology. It is necessary to note that in the cases of oil discovery or a rise in oil prices (which appears the most relevant to the Kazakhstani case), the general results (the real appreciation and crowding out of the non-oil-traded sector) hold as well.

To sum up, the central interest in the "Dutch Disease" syndrome is real appreciation, which is associated with a shift of production from non-booming tradable sector towards non-tradable. Real appreciation, which makes domestic goods more expensive relative to foreign goods, and therefore, favors imports and discourages exports, leads to the problems of competitiveness of non-booming tradable sector.

#### **Discussion: Possible consequences of the Dutch Disease and its cures for the economy of Kazakhstan**

Kazakhstan is well endowed with natural resources, particular oil and gas. This abundance of oil and gas is an advantage for achieving sustainable economic growth for Kazakhstan in 21st century. However, as it was discussed in the first part of this paper, contrary to natural expectations, resource-exporting countries may face economic problems, affecting, first and foremost, the manufacturing sector. In particular, resource-intensity could lead to the "Dutch Disease" problem in a resource-abundant country.

But, it could be asked why the Dutch Disease is a disease at all. Why, for example, a seemingly healthy flow of export revenues could lead to a problem? Or why a comparative advantage in exploitation of natural resources could generate difficulties? More recent studies of economic growth theory provide answers to this question. Many researchers indicate that economies dominated by natural resource extraction can grow less than other countries. The appropriate explanation is that the long-term growth in the economy is generated mainly by experience or learning by doing (Van Wijnbergen, 1984), and by the new technologies which are developed in the manufacturing sector. Therefore, a decline in that sector may lead to lower productivity and therefore to lower national income in the future. Needless to say that a majority of new investment in Kazakhstan has gone to resource extracting industries so far that it might arguably affect economic growth negatively. Nevertheless, even the learning by doing effect may exist in Kazakhstan, its size could not be large enough to affect human capital formation and, therefore economic growth in the country.

Another factor that could explain the poor performance of resource abundant countries is the fact that primary resource extraction is especially sensitive to fluctuations in prices, because the prices of primary goods are more volatile than the prices of manufacturing goods. The decline in the world oil prices in 1998 has shown that the governments of resource-exporting countries like Kazakhstan could face severe budget problems. After such negative experiences, ideas concerning necessity of diversification of the economy have been intensified in Kazakhstan. For example, steps undertaken at that time to privatize oil refineries in the country may be regarded as a natural response to the oil price crisis of 1998.

Therefore, Kazakhstan like a number of other developing countries dominated by resource extraction could experience negative effects of resource based policy in relationship to economic growth. But, unlike developing countries, Kazakhstan can experience additional negative effects of the "Dutch Disease" concerning economic performance. The problem is that Kazakhstan is a transitional economy and has experienced the shrinkage of the non-mining tradable sector due to the reasons related to the transition period. These are the breakdown of inter-enterprise relations, a weak familiarity with world markets, the inflexibility of domestic producers in adjusting to new patterns of demand, and the market losses within the former Soviet Union.

Thus, the first years of transition period in Kazakhstan have been associated with a considerable decline in industrial production. The largest decline in industrial output occurred in 1994, when output fell by 28.5 percent compared with 1993. After 1996, some industries like timber and wood processing, construction materials, and light industry continued to experience a decline in output. However, the extracting sectors, particular oil and gas sectors experience growth.

Therefore, the recession due to transition factors has been deeper in manufacturing than in resource-based industries, and could be also illustrated by the fact that the share of industry and agriculture in gross domestic product shrank by one-third in 1993-1997, while within the

industrial sector mineral production has increased its share in GDP during this period (Auty, 1998).

Further, Kazakhstan like other transition economies has began transition with an undervalued real exchange rate. During the Soviet times, the real exchange rate was set up at an artificially high level through controls of access to foreign currency and controls of domestic prices. Upon liberalization, most transition economies initially face a sharp depreciation of their nominal exchange rates, a strong decline in production, and accelerating inflation. The inflationary pressure, macroeconomic instability and flight into foreign assets result in the fall of the real exchange rate. As the transition period continues to develop, and once the macroeconomic stabilization has been achieved the real exchange rate starts to appreciate. There are several potential factors which contribute to this appreciation of the transition economy's currency (Singh & Laurila, 1999; Rosenberg & Saavalainen, 1998; Halpern & Wyplosz, 1996). First factor driving this appreciation is productivity growth in the traded sector due to capital accumulation, which increases wage in non-tradables because of the competition for labor, and therefore, rises relative prices of non-tradables. Second, prices of public utilities, rents, and transport gradually adjust to cost-pricing, and therefore, increase the relative prices of non-tradables. Third, improvement in quality of exportables improves the terms-of-trade, and therefore put upward pressure on the real exchange rate. Therefore, transition from a planned to a market economy is generally characterized by the real appreciation of the national currency.

However, it appears that the real appreciation of national currency is stronger in resource-rich transition countries than in other transition economies. This proposition has been supported empirically (Rosenberg & Saavalainen, 1998), by analyzing the path of the real exchange rates in three countries of the former Soviet Union with considerable natural resource sectors as a share of GDP (Azerbaijan, Kazakhstan and Uzbekistan), and nine others without. Therefore, the stronger appreciation of the domestic currency in oil-rich transition countries could imply a larger size of the related problems.

Thus, in the case of Kazakhstan, the real appreciation of the currency and shrinkage of the manufacturing sector due to the transition related factors could be reinforced by the factors predicted by the "Dutch Disease" model. In addition to the decline in output of manufacturing due to the reallocation of resources during transition period, the Dutch Disease phenomenon (through real appreciation) could intensify the shrinkage of the non-mining sector.

Actually, Kazakhstan has already faced the problem of the real appreciation of tenge. Tenge appreciated in real terms against Russian ruble by 68 percent from July 1998 to January 1999, and against all trading partners by about 19 percent between July and December of 1998 (Shatz and Tarr, 2000). It had led to the loss of competitiveness of Kazakh-produced goods relative to competitors in the region, especially Russia, and caused a difficulty in defending the exchange rate. Efforts by the National Bank of Kazakhstan to support the exchange rate had depleted hard currency and gold reserves to \$1.7 billion by April-1999 (Oxford

Analytica, April 12, 1999; Lyle, 1999).

Therefore, the one of the basic aims of policy minimizing the effects of the "Dutch Disease" should be then retarding the real appreciation of the exchange rate. One policy suggested for this purpose is the maintenance of the open trade policy, which Kazakhstan made substantial steps towards in 1995-1996 and by the removal trade barriers with Russia, and other neighboring countries. That policy allows spending extend over the wide range of imports that partially compensate for capital inflows into the energy sector. In contrast, in Kazakhstan policy makers often employ the trade protection policy (through tariffs or tightening import quotas) to protect import-competing sectors. But this policy does not seem justified, because it would be at expense of manufacturing exportables as well as that of the oil sector. The manufacturing exportables would suffer twice: first by real appreciation (which would be higher in that case) and by the loss of resources-inputs (which are imported). The central problem of the "Dutch Disease" is the contraction of the whole manufacturing sector, and it seems not logical to shift the burden of the problem to one part of manufacturing industry in order to shelter another part.

Another policy that could be implemented in order to avoid real appreciation may be systematic sterilization policy conducted by National Bank, for example, through open market operations. This policy could bring desirable reduction in spending, and therefore it would "protect" the real exchange rate against appreciation.

The next important question of consideration must be the spending of mineral revenues. Since the government is typically the main recipient of mineral export revenues (whether through direct sales, royalties, or taxes), the question of how governments spend their portion of resource revenues is of a great interest.

There are different options: oil revenues could be used for reduction of state liabilities (through repayment of debt) and for finance of public investment. There are two choices related to financing of public investment (Gelb & associates, 1988). The first is investment in non-oil tradable sectors such as agriculture, manufacturing, and natural resource processing. The second type of investment presumes a support of infrastructure sectors that are generally non-tradable, namely transport, communications, education, health, and housing. While both types of public investment attempt to diversify the economy, the latter is expected to take more time to reduce dependence on oil, than the former. Therefore, a choice of an appropriately balanced strategy between investment types must also be under the consideration of policy-makers.

At the present, Kazakhstan's oil revenues are mainly transferred to the budget. However, because of the high volatility of oil and other commodity prices, resource revenues should be saved in special accounts or funds. The preparatory work on establishing of such fund in Kazakhstan has been started already.

It is supposed that the Oil Fund would be managed by representatives of the government and the President's administration. Kazakhstan's oil fund would have three functions. The first function is to ensure against volatility in oil prices. The second function of the Oil Fund would be accumulation of funds for future generations. And the third one is aimed at accumulation of oil revenues for financing big projects within the country. It is expected that the fund would mainly invest contributions in safe assets abroad. The important concern here is accountability and professionalism of the managers of the fund, which are the key to ensuring the success of the fund.

### Conclusion

Kazakhstan can be considered as a classical example of a mineral-dependent country. Its economic and social evolution has been tightly attached to the exploitation of the mineral sector. Looking ahead, Kazakhstan's exports over the foreseeable future will continue to be concentrated in raw materials and oil. Thus, Kazakhstan will remain vulnerable to the fluctuations in the prices of primary commodities and to the effect of Dutch Disease.

This will require continued implementation of policies discussed in the paper, including the open trade strategy, prudent monetary policies conducted by the National Bank of Kazakhstan, and transparent performance of the Oil Fund. We are convinced that the implementation of these policies is the best path to the higher output, greater employment, and higher living standards for the population. At the same time, these developments enhance the resilience of the economy and its ability to withstand external shocks.

### Endnotes

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<sup>2</sup> 1 cubic foot = 0.028 cubic metre

<sup>3</sup> Energy Information Administration

<sup>4</sup> Hicks neutral technological progress is technological progress where with any given factor proportions the average and marginal products of all factors increase in the same direction.

<sup>5</sup> "The real exchange rate is defined as the price of traded goods to the price of non-traded goods. For empirical implications, the real exchange rate is defined as the exchange rate adjusted ratio of foreign prices to domestic prices. A real exchange rate appreciation refers to an increase in the relative price of non-traded goods, or in increase in the domestic prices relative to the foreign price" (Nyatepe-Coo, 1994).

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## Nuclear free Kazakhstan revisited: Issues of deterrence

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### Abstract

*Most observers of international politics make the seemingly tautological assumption that nuclear weapons increase the deterrence potential of a state. This article, contrary to the above supposition, demonstrates that the Republic of Kazakhstan actually increased its deterrence capacity and overall all security through the removal of weapons of mass destruction from its territory. By demonstrating nuclear altruism, Kazakhstan not only gained international financial support but also acquired security agreements with the Russian Federation and the West that provided for a much higher level of deterrence than a reliance on nuclear weapons ever could.*

### Introduction

The fall of the Soviet Union in 1991 and the emergence of three additional nuclear powers: Belarus, Kazakhstan and the Ukraine occasioned significant apprehension for Western leaders. Languidly, this fear abated with the withdrawal of nuclear weapons from these former federated union republics. It appeared to most contemporary and recent observers that the Republic of Kazakhstan relinquished its weapons of mass destruction by 1995 to attract Western investment and encourage the influx of the Dollar, Deutsch Mark, and the Pound<sup>1</sup>. This interpretation fails to take under consideration that the foreign policy apparatuses of the Republic needed to appraise the military costs and the ultimate consequences upon the nation's defensive capabilities by surrendering these weapons<sup>2</sup>. This article will discuss how the removal of weapons of mass destruction actually enhanced the deterrence potential of the nation.<sup>3</sup> The removal of nuclear weapons from Kazakhstan signified a maturing foreign policy predicated upon the ideals of rational action and integration into the world community - something which ensured a higher level of military security than weapons of mass destruction, especially when considering that "nuclear credibility" as a means of deterrence "is low and getting lower"(Rosecrance, 1997, March, pp. 243-244). Consequentially and most importantly, by forfeiting its direct deterrent capabilities, Kazakhstan was able to acquire a series of defensive guarantees from Russia and the West that were remarkably more advantageous in relationship to enhancing territorial protection than an unassuming faith upon terror weapons.<sup>4</sup> This is somewhat surprising considering the geopolitical situation of the Republic.

### Kazakhstan's geopolitical "quagmire"

By all accounts, Kazakhstan's geopolitical location is horrid. The Republic inherited an enormous territory ripe with natural resources, its population is extremely low in comparison to

its neighbors, and its borders remain relatively unprotected. Russia faces Kazakhstan on its northern frontier. On its eastern periphery, the Republic opposes China. Moreover, the problems of ethnic Uigurs in the Chinese province of Xinjiang tend to spill over periodically onto the territory of Kazakhstan. To the south, the Taliban and the resurgent fundamentalist forces in the Ferghana Valley manifest a significant threat.<sup>5</sup> Finally, to the West, Kazakhstan confronts the globalizing powers of the United States and Western Europe, which menace both domestic economic development and national character. Considering that Kazakhstan is a valuable prize in terms of mineral and oil potential and that the deterrence value of its conventional military is low, it is remarkable that the nation has managed to remain intact as a sovereign power during the last ten years.<sup>6</sup> The question then arises, how has Kazakhstan succeed in extruding itself out of this geopolitical quagmire? The answer is using nuclear diplomacy.

### Issues of retention

Perhaps the only significant foreign policy decision that the government of the Republic of Kazakhstan made to increase its security was to relinquish all nuclear weapons and material to the Russian Federation and the United States by 1995. The military value of this action should not be underscored, for establishing itself as a non-nuclear state empowered Kazakhstan to both pursue a much more flexible foreign policy and to ensure its long-term security. However, when taking into account that Kazakhstan possessed approximately 1040 nuclear warheads, as well as bomber capabilities, immediately after the disintegration of the Soviet Union it appears paradoxical that the Republic augmented its deterrence capabilities through their removal (Tokaevev, 1997, p. 359).<sup>7</sup> Many scholars in the early 1990s considered the nuclear endowment of Kazakhstan as a considerable foreign policy and military asset. Milan L. Hauner articulated in his 1994 article, "Because of its location, size, presence of nuclear weapons [italics mine] and major testing sites, and major railways and pipelines, Kazakhstan holds a pivotal strategic position in the very center of Eurasia, bearing weight to the east, west, and south of the dual Eurasian continent" (p. 216).

The nuclear retention theory failed to decipher the political reality concerning military questions in Kazakhstan. Since the inception of autonomy, the Republic not only purposefully refused to assemble an independent deterrent capacity based on leftover Soviet nuclear weaponry, but consistently expressed the desire for CIS integration, both military and political as a means to achieve overall security. As early as January 1992, the President of Kazakhstan, Nursultan Nazarbaev called for a unified CIS military policy, with all weapons controlled at the center, a euphemism for Moscow - unusual for a nation that "holds a pivotal strategic position...."(Kazakhstanskaya Pravda, 1992, January 22). Thus, the issue of nuclear weapons and the future security of the Republic were much more intricate than any commentator could conjecture.<sup>8</sup> The question arises, what would have transpired if the Republic of Kazakhstan defied international opinion and retained all or part of its nuclear forces as a means of maintaining its "pivotal strategic position"?

First, the Republic would have founded itself as a pariah, isolated from the world community. Obviously, few nuclear states would sanction a new member of the nuclear club, but arguably, all would favor the de-nuclearization of an additional de facto member. To a limited extent, the abandonment of nuclear weapons has become an important mechanism of international politics to evade this dreaded pariah status. As stated by Richard Rosecrance, "Today, nations are denuclearizing more rapidly than they are becoming nuclear powers. South Africa, Argentina, and Brazil are notable recent cases of nuclear reversal" (Rosecrance, 1997, March, p. 243). Correspondingly, the United States, seized by the fear of nuclear proliferation would have assuredly hindered any attempts at retention (Kasenov, Eleukenov & Laumulin, 1994, p. 4).<sup>9</sup> Second, the Republic of Kazakhstan never had "access to the codes needed to unlock and launch [the] nuclear weapons....", which were firmly in control of the Russian Federation, thus diminishing the deterrence value of the weapons (Woolf). Moreover, the likelihood of Kazakhstan deploying these weapons in a military capacity, even if they possessed the ability to use them, is highly questionable. In the circumstance of external aggression the leadership of the Republic would confront a calamitous alternative, either to depend on largely impotent conventional forces that promise little prospect of adequate protection or to employ its nuclear capabilities that offer only mutual destruction. As Kenneth Waltz declared, "Deterrence in its pure form entails no ability to defend; a deterrent strategy promises not to fend off an aggressor but to damage or destroy things the aggressor holds dear" (Waltz, 1990, September). The retention of nuclear weapons by Kazakhstan could then only serve as a prestige symbol with inconsiderable military value that only checked the foreign policy alternatives of the nation. As Henry Kissinger pointed out in his work, *Nuclear Weapons and Foreign Policy* (as cited in Vasquez, 1990, p. 304), "Given the power of modern weapons, a nation that relies on all-out war as its chief deterrent imposes a fearful psychological handicap on itself." Accordingly, the foreign policy circles of the Republic not only decided to concede its direct deterrence capabilities but also to exploit that diplomatic maneuver as a device for procuring security arrangements with the Russian Federation and the West (Akhmetgaliev, 1998, p. 95).<sup>10</sup>

The potentiality of obtaining security arrangements through the manipulation of international anxiety over nuclear proliferation was not lost on the leaders of Kazakhstan. K. K. Tokaev, the former Minister of Foreign Affairs (1997) accurately pointed out in his synthesis, *Pod stygom nezavisimosti: Ocherki o vneshey politike Kazakhstana* that one of the major dominating doctrines of American foreign policy in the 1990s was "the non-proliferation of nuclear weapons." The question that Tokaev either failed to answer or purposefully omitted was what diplomatic measures Kazakhstan could adopt to exploit American and Western fears of nuclear proliferation? By advertising itself as a state committed to the rectitude of nonproliferation and the undertaking to transforming itself into a nuclear-free state, the Republic might effortlessly capitalize on US international security fears. The evolution of Kazakhstan's nuclear policy, although, did not materialize instantaneously. No matter how auspicious Western assistance might prove in the future, it provided little comfort to the policymakers of the Republic during the initial transition period.

## The failure of CIS military integration and the nuclear policy of Kazakhstan

In the early 1990s, Nazarbaev preferred the establishment of a confederated CIS military structure in order to provide a protracted quasi-Soviet conventional and nuclear umbrella for the Republic. As Susan Clark contended (1994) in her article, concerning the issue of conventional military forces, "Of all the leaders of the newly independent states, President Nursultan Nazarbaev was arguably the strongest proponent of retaining unified forces" (p. 178). Charles Undeland and Nicholas Platt (1994) wrote "Although Nazarbaev has proposed security arrangements in addition to those of the CIS, he has repeatedly stressed the importance of the CIS collective security treaty and strategic closeness to Russia" (p. 36). The creation of such a force or solid alliance structure never emerged, however, due to the perception on the part of other CIS nations that a unified military command might constitute Russian neo-imperialism and with that, Kazakhstan's security dilemma only grew.

In May 1992, when it was apparent to the leadership of the Republic that the probability of a united CIS military organization seemed unlikely, the nation hastily concluded an array of negotiations regarding their nuclear situation. On 23 May 1992, Kazakhstan, as well as Belarus signed the Lisbon Protocol under which they guaranteed the relinquishment all of their nuclear materials to the Russian Federation (Tokaev, 2000, p. 206). Moreover, the Lisbon Protocol obligated Kazakhstan to comply with the provisions of START I that mandated the reduction and constant inspection of nuclear weapons (Woolf). Kazakhstan, under this agreement, also upheld the provisions of the Nuclear Non-Proliferation Treaty of 1968, which called for "Each nuclear-weapon State Party...not to transfer to any recipient whatsoever nuclear weapons...." (The Nuclear Non-Proliferation Treaty, Article I, 1968). By signing these two treaties, the Republic extensively weakened its ability to employ its nuclear forces in a deterrent capacity. Notwithstanding, it was Kazakhstan's acquiescence to these agreements that propelled itself from a possible international outcast to a somewhat recognized member of the world community. What Kazakhstan failed to gain by adhering to the protocols of the Lisbon Accord and the 1968 Nuclear Non-Proliferation Treaty were security guarantees, though these would materialize quickly.

## Kazakhstan's security agreements

Few would disagree that Russia, like its Western counterparts, expressed deep-seated trepidation regarding the abandoned nuclear weapons in the hands of the infant Republic (Bondarevsky & Ferdinand, 1994, p. 43). This anxiety compelled the Russian Federation to act quickly after the collapse of the Soviet Union. On 25 May 1992, only two days after the signing of the Lisbon Accord, the Republic of Kazakhstan and the Russian Federation approved the Agreement of Friendship, Cooperation, and Mutual Help (Sbornik, 1998, pp. 64-73). The first few articles of the treaty generalized the rationale for reciprocal friendship between the two newly independent nations and idealistically expressed the aspiration of both states to foster international peace. Article 6 stipulated that neither nation would adhere to international or bilateral agreements directed against the other signatory (ibid., p. 66).

Article 10 confirmed the territorial boundaries of both states (*ibid.*, p. 67). In relationship to the question of nuclear weapons, Article 8 of the treaty stipulated that Kazakhstan would observe the Nuclear Non-Proliferation Treaty of 1968 originally signed between the United States and the Soviet Union until the weapons could be safely removed from the territory of the Republic (*ibid.*, p. 66). Moreover, after the treaty the Russian Federation and the Republic of Kazakhstan began to cooperate on energy issues, leading to exchanges between Russian and Kazakhstan scientists concerning such issues as nuclear power (TsGA).<sup>11</sup>

The Russian Federation was not the only nation that the Republic of Kazakhstan secured treaties with concerning the nuclear issue. On 23 of September 1992, Kazakhstan and France signed the Agreement on Friendship, Mutual Understanding and Cooperation (Sbornik, 1998, pp. 73-78). Article 1 of the treaty provided Kazakhstan with economic assistance (*ibid.*, p. 74). Article 2 articulated that France would render democratic support to the Republic (*ibid.*, p. 74). Article 9, most importantly, declared that France and the Republic of Kazakhstan would disavow the use of "weapons of mass destruction" (*ibid.*, p. 76). In return for Kazakhstan's acquiescence on the nuclear issue, Article 10 established a system of military "consolations" and "exchanges" between the two nations (*ibid.*, p. 76). While it would be unjustified to portray the agreement as a military pact, it did signify to the world that France would offer Kazakhstan military support in *quid pro quo* for surrendering its nuclear capabilities. Immediately after the conclusion of the treaty, the Republic of Kazakhstan began to cooperate with EU nations on energy issues - a very serendipitous event indeed (TsGA). The United States was swift to follow France in providing Kazakhstan with *de facto* security arrangements in return for the promise of surrendering its nuclear weapons.

Clearly, the most important possible guarantor of Kazakhstan's security, save the Russian Federation, was the United States. In accordance with this supposition, the Republic of Kazakhstan, throughout the early 1990s courted American economic and military support, which culminated in the February 1994 treaty, colloquially referred as the Democratic Partnership (Sbornik, 1998, pp. 78-84). Article 4 of the agreement ensured the territorial integrity of the Kazakhstan (*ibid.*, p. 80). Article 5 of the treaty admitted the Republic into the NATO sponsored program Partnership for Peace (*ibid.*, p. 80). Article 6 stated that the Kazakhstan and US would adhere to the 1968 Nuclear Non-Proliferation Treaty (*ibid.*, pp. 81-82). In return for Kazakhstan's concession on the nuclear issue, the United States pledged to render support to Republic in an event of an attack, whether conventional or nuclear - though the article failed to mention what this "support" might entail (*ibid.*). Articles 7 and 8 required Kazakhstan to adhere to the rules of the Atomic Energy Commission and in exchange, the United States promised monetary and technical support for the "liquidation" of all nuclear weapons in Kazakhstan (*ibid.*, pp. 81-82). This budding relationship between the two states was arguably the outgrowth of realistic foreign policy conceptions on the sides of both nations. Kazakhstan would have not surrendered its nuclear weapons without the *de facto* security arrangements granted by the United States. Moreover, it would have been implausible for the United States to volunteer such critical aid to a former Soviet Republic if it did not secure Kazakhstani assurances of nuclear rejection. As Robert G. Gilpin (1986) wrote, "The realist need not believe that one must always forego the pursuit of these higher

virtues, but realists do stress that in the world as it is, the final arbiter of things political is power" (p. 304).

Great Britain was not lagging behind the United States in concluding an analogous agreement with the Republic of Kazakhstan concerning the nuclear question. In London, on 21 March 1994, Great Britain and the Republic of Kazakhstan signed the Joint Declaration on Friendship and Cooperation, a treaty that paralleled the American variant in both terms of motivation and substance (Sbornik, 1998, pp. 84-87). Beyond declaring "friendship" between the two nations the agreement specified that both states would shun the employment of military force. The agreement also professed that Britain and Kazakhstan disapproved of the use of weapons of "mass destruction". Again corresponding with the Democratic Partnership, articles 6 and 7 of the treaty proscribed that in the event of an external attack upon Kazakhstan, Britain would call a meeting of the United Nations Security Council as a diplomatic means to halt the aggression (*ibid.*, p. 85). In relationship to Kazakhstan's security dilemma, this was a weighty proclamation. Given the assumption that the nuclear deterrent value of the Republic could never provide an authentic defensive potential, only a agile foreign policy designed to acquire extended deterrence from more powerful allies could offer credible military and political security.

## Conclusion

The main objective of the early foreign policy of the Republic of Kazakhstan was to grapple with the security questions created by the collapse of the Soviet Union. For the first time since 1731, Kazakhstan needed to fend for itself in the hostile climate of the international community. Paradoxically enough, the retention of large quantities of former Soviet nuclear weapons, would have defeated the endeavor to enhance the protection of the state, although it might resolve short-term security issues. The foreign policy leaders of the nation were fully cognizant that surrendering these weapons and creating a non-nuclear state would transmit a conspicuous signal to the West concerning Kazakhstan's disposition to take its place within the world community. Moreover, the leadership of the Republic understood that they could exploit the nuclear weapons issue in order to encourage Western financial support, but more importantly to gain Western and Russian protection. While the agreements lacked the overall absoluteness, which a nuclear deterrent could provide, they did allow Kazakhstan to begin the process of integration into the international community. By surrendering its nuclear forces the Republic of Kazakhstan not only gained money and a place in the ever-uniting world community, but also greatly increased its security.

## Endnotes

<sup>1</sup> Laumulin (1994, winter) writes, "In addition to the moral aspect of this question, there are also significant economic and political aspects. These issues relate to the considerable aid package that Kazakhstan is to receive from the world community and a number of developed countries in order to introduce measures for dismantling strategic nuclear missiles, dealing with the after-effects of nuclear testing, and developing a peaceful nuclear energy program" (p. 62).

<sup>2</sup> Potter (1995, April) writes, "Kazakhstan's policymakers, however, did weigh carefully the poten-

tial utility of nuclear weapons for deterrent purposes. This assessment was complicated by the lack of consensus as toward whom the deterrent should be directed and about whether or not an independent deterrent force was necessary" (p. 35).

<sup>3</sup> Within the same regard Potter writes, "Lengthy discussions between senior US and Kazakhstani officials, including President Nazarbayev, State Counsellor Zhukeyev, and Secretary of State James Baker, especially in the period prior to May 1992, had the effect of highlighting to Kazakhstan the security liabilities of retaining nuclear weapons and the strategic, as well as economic, benefits that would accrue from their removal" (ibid., p. 38). The major difference between Potter's contention and this article is that I describe how Kazakhstan "accrued" these benefits, and what benefits were "accrued."

<sup>4</sup> The security guarantees that the Republic of Kazakhstan acquired can be described as "Extended Deterrence." Huth (1988, June) defines "Extended Deterrence" as "a confrontation in which the policymakers of one state ("defender") threaten the use of force against another state ("potential attacker") in an attempt to prevent that state from using military force against an ally - or territory controlled by an ally ("protege") - of the defender. The objective of extended deterrence is to protect other countries and territories from attack, as opposed to preventing a direct attack on one's own national territory." The Republic of Kazakhstan, in this case would be, in Huth's words, the protege of the United States, the West and Russia (p. 424). Not all authors agree with this interpretation in relationship to Kazakhstan. For example, Laumulin (1997) writes, "As for Kazakhstan, the disappearing of the Soviet nuclear potential from its territory made the young state practically unprotected in the face of swinging in the Central Asia stormy processes..." (p. 52).

<sup>5</sup> For a description of the problems in the Ferghana Valley see Tabysheva (1999).

<sup>6</sup> For an interesting analysis of how Kazakhstan's geopolitical situation affects its nuclear option see Potter (1995, April, pp. 35-41).

<sup>7</sup> This number only includes the amount of ICBMs located in Kazakhstan. An additional "370 air-launched cruise missiles were in Kazakhstan" following the collapse of the Soviet Union (Potter, 1995, April, p. 5).

<sup>8</sup> The issue of nuclear weapons also extends to energy issues of the Republic of Kazakhstan. As early as 1992, the leadership of Kaztekhenergo was concerned over the possibility of its energy resources falling into enemy hands in event of armed conflict. On 3 March 1992, the government of the Republic drew up plans to protect these resources militarily. With this in mind, it does seem surprising that the Republic would so easily give up its nuclear capabilities (TsGA, Fond 2267, Opis 1, Delo 132, List 767).

<sup>9</sup> As Albright, the former United States Secretary of State, wrote in her 1998 article, "We have created monitoring and inspection regimes to prevent the spread of nuclear weapons and poison gas while imposing penalties on those who violate global standards. We are working hard to halt the proliferation of advanced missile technologies while developing theater and national missile defense systems to defend ourselves" (p. 53).

<sup>10</sup> There does exist another possibility concerning the rationality to remove nuclear weapons from the territory of the Republic of Kazakhstan. In Semipalatinsk, the major Central Asian nuclear testing site for the Soviets, "over a 40-year period from 1949 to 1989, there were 498 atomic tests." This led to the creation of a significant anti-nuclear movement in Kazakhstan (Zholamanova, 2000, January, p. 72). Kasenov, Eleukenov, Laumulin (1994), supporting this hypothesis, argue that social pressures created by the ecological and human disasters at Semipalatinsk were the principal reasons Kazakhstan decided to embark on an anti-nuclear policy (p. 4).

<sup>11</sup> TsGA (Central State Archives). Fond 2267, Opis 1, Delo 141, List 37; Fond 2267, Opis 1, Delo 144, List 8. Almaty, Kazakhstan.

<sup>12</sup> TsGA (Central State Archives). Fond 2267, Opis 1, Delo 135, List 182; Fond 2267, Opis 1, Delo 141, List 43, Almaty, Kazakhstan.

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## Taxation and its influence on oblasts

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### Abstract

*The main goal of economic policy in Kazakhstan is to achieve macroeconomic and financial stabilization and create conditions for economic growth. Regional policy plays a significant role in solving general economic problems. Kazakhstan has a very large territory with different climatic, economic and social features. The country's regions have unequal development, due to their endowment of natural resources, and current economic situation. Now the rate of economic growth of any region depends mostly upon the performance of industry, which in turn, relies on the flows of foreign investments. The volume of money inflow is determined by the investment climate of the Republic of Kazakhstan, a main consistent part being the favorable tax regime. In this paper the taxation system of Kazakhstan is considered in general, especially taxes applicable to subsurface users<sup>1</sup> are discussed. Looking at the volume of foreign investments in recent years, it is obvious that the investment policy has been successful. Regardless of this, the government can further improve the climate for investment by resolving the problems of bureaucracy, financial risk, currency stabilization and improvement of legislation.*

### Introduction

The regional structure of modern Kazakhstan is highly differentiated in terms of social and economic factors. This resulted from uneven development and distribution of production facilities throughout Kazakhstan during the Soviet era. Perceived as a source of cheap raw materials, the republic was developed largely from the point of view of the comparative benefits of certain regions. After the collapse of Soviet Union the government devoted considerable effort to create a conceptual approach to regional problems. The Principles of Regional Development, adopted in 1996, outline the country's regional policy. Some of the major points of this policy are the following:

- Transfer of substantial economic authority to local administrations, especially in terms of regional budget formulation, foreign borrowing, and the ability to create local stock market creation;
- Transfer of social assets to fund the local budget.

The regional policy conducted by the government will not produce immediate results. The complicated regional problems in Kazakhstan and their specific social and economic characteristics require careful evaluation and forecasting of the progress and results of reform in this sector.

The difference between regions is not only in endowment of natural resources, but also in the current economic situation. The oblasts with comparatively high growth rates receive a large flow of foreign investments. There are a number of factors that influence foreign capital inflow: political stability, financial policy, currency control, legislation, taxation system, etc. In this paper I would like to show how an appropriate taxation system can be used in attracting foreign investments into Kazakhstan's economy, taking as an example Western Kazakhstani region.

### Taxation system in Kazakhstan

The Tax Code, which was introduced in 1995, significantly reduced the number of taxes and simplified the tax system. The Tax Code defines and regulates all taxes in Kazakhstan, with the exception of customs duties and pension fund contributions. Other sources of Tax legislation include the following:

- Acts of the President and government of Kazakhstan.
- Acts of the Tax Committee of the Ministry of State Income
- International treaties to which Kazakhstan is a party (Ernst & Young Int., 1999, p. 34).

The Tax Code provides for nationwide and local taxes. The distinction between these two types of taxes is now minimal. All taxes are paid to the national government, which allocates funds to the local governments. However, a greater percentage of the revenues from local taxes is allocated to the local governments. The local governments set the rates for only few taxes, such as the land tax.

The following are the nationwide taxes:

- Income tax on individuals and legal entities
- VAT
- Registration fees on securities
- Special payments and taxes on mineral resource users
- Excise duties and social taxes

The local taxes contained in the Tax Code are the following:

- Land tax
- Property tax
- Vehicle tax
- Registration fees for business activities
- Licensing fee for the right to engage in certain activities
- Auction sale fees (Ernst & Young Int., 1999, pp. 35-36).

Other taxes include customs duties and pension fund contribution.

The tax authorities are responsible for the administration and enforcement of the tax law. All

legal entities and persons registered as business agents must register with the local Tax Committee within ten days after their legal registration. This also concerns foreign legal entities operating through a permanent establishment and representative offices of foreign entities. The tax authorities should control the accuracy of the tax calculation and the deadlines of tax payments.

Kazakh and foreign legal entities must take advance payments of taxes on or before the 20th day of each month. The payments are equal to 1/12 of the estimated annual tax. Legal entities must file a certificate reporting estimated income and tax for the year with the Tax Service by the 20th of January. Quarterly tax returns must be filed by the 15th day of the second month following the reporting quarter. Final returns must be filed by the 31st of March of the year following the tax year, and any income tax due must be paid by the 10th of April of the year following the tax year.

In the case when a taxpayer does not agree with a tax calculation or any other decision of the tax authorities, the taxpayer can submit a petition. The tax authorities inform the taxpayer of its decision on the appeal within 30 days. Further appeals may be made to a higher body of the tax authorities or in court.

The tax authorities impose interest and various penalties for late registration, late filing, late payment and fraud. Interest is payable on overdue tax at 1.5 times the refinancing rate of the National Bank of Kazakhstan (currently 25%). If a legal entity or individual fails to file a return by the due date, a fine of 5% of the tax due is imposed for each month following the due date that the taxpayer fails to file the return. A fine of 50% is imposed on the amount of tax understated on a tax return.

Enterprises carrying out activities in Kazakhstan, including enterprises with foreign participation and foreign entities operating through a permanent establishment, are subject to tax.

The regular corporate income tax rate is 30%. This rate also applies to enterprises with foreign participation (joint ventures), wholly owned subsidiaries of foreign companies and permanent establishments of foreign companies.

Legal entities operating in special economic zones are subject to a profit tax at a rate of 20%.

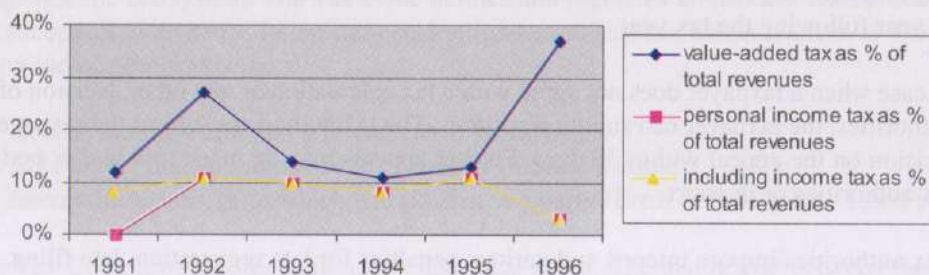
It is known that tax revenues are the main source of income for the State Budget. A balanced State Budget is one of the most important economic indicators of the country. In the 1990s the budget performance was low because the budget policy was chaotic. As this graph shows, the worst results in terms of tax collection were in 1994.

The liberalization of the economy highlighted the problem of non-competitiveness of Kazakhstani goods initially in the processing industries, where there was output dropped dramatically. This led to larger distortions in the industrial structure - a considerable growth of mining sectors and a reduction of other industries. For example, in 1996, the fuel and ener-

gy sector accounted for 39% of industrial production, while light industry was only at 2%.

In order to achieve economic growth it is necessary to invest in the so-called basic industries from which Kazakhstan could receive significant tax revenues. These revenues could be the source of reinvesting in other sectors of the economy. The attraction and the effective usage of foreign capital has been the main issue of economic politics of Kazakhstan for many years, and moreover, now continues to be, as there are almost no strong sources of interior investments.

Structure of selected revenues of the State Budget of the Republic of Kazakhstan for 1991-1996



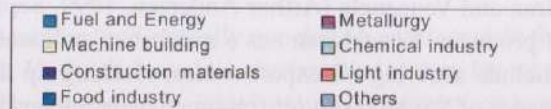
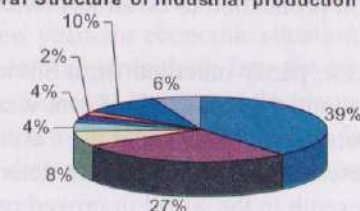
Source: UNDP, 1997

Table 1. Tax Revenues of State Budget, mln.Tenge

	1998		1999		2000(01-09)	
	Republican	Local	Republican	Local	Republican	Local
Profit tax	17 588	20 683	27 380	27 380	57 618	57 618
Income tax	4 778	25 260	797	34 532	834	36 471
Social	75 216	0	2 425	68 038	14 495	56 692
Property tax	219	22 187	981	23 556	728	20 740
Property tax	0	14 625	490	14 720	281	10 984
Fees for registration of stock emission	219	5	330	14	202	10
Land tax	0	5 013	75	4 569	132	4 141
Tax on vehicles	0	2 543	87	4 251	114	5 478
Unified land tax	0	0	0	1	0	127

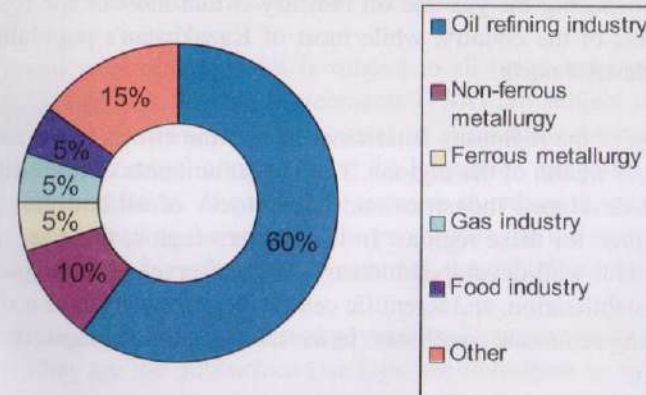
Source: Kazakhstan Economic Trends, July-September 2000

Sectoral Structure of Industrial production in 1996, %



Source: UNDP, 1997

Direct foreign investments branch structure



Source: State Committee of the Republic of Kazakhstan on Investments

As we can see in the diagram above, the largest portion of foreign direct investment has been in the oil refining industry. These inflows of foreign capital will allow for the increased production of oil and petroleum based products in the near future.

Table 2. Expected production volumes in 1996-2005

	1995	1996	2000	2005
Oil processing volume, thousands of tons, including production of:	10,854	11,500	16,000	19,000
Petroleum	2,186	2,400	3,200	3,800
Diesel fuel	3,303	3,700	5,100	6,100
Fuel oil	3,791	4,000	5,600	6,660

Source: State Committee of the Republic of Kazakhstan on Investments

From the data presented in this table, we can see a steady rise in the volume of production in

recent years. We expect the oil production to be almost twice as much in 2005 as in 1995.

Kazakhstan's oil and gas sector, partly inherited from Soviet times and partly created with foreign investment, has the potential to bring significant wealth to Kazakhstan. Estimates of Kazakhstan's undiscovered petroleum riches under the Caspian Sea alone range from 6 to 10 billion tons of oil. If such reserves are found and are determined to be "proved" reserves, Kazakhstan will be ranked seventh in the world in proved reserves, after Saudi Arabia, Iraq, the UAE, Kuwait, Iran and Venezuela (Arthur Andersen, 1999, September, p. 9). In order to become a major oil producer, Kazakhstan has a number of political and technical problems to address. These include securing oil export routes, cleaning up the environmental wastelands created by decades of Soviet reservoir (mis)management, and the operational problems of pumping, transporting, and refining heavy, high paraffin oil.

The principal problem facing the gas and oil industry is that most of the reserves and production lie in the west of the country, while most of Kazakhstan's population lives in the southeast and the industrial north.

The investment rating of the regions is determined not by the efforts of the local administration, but by the natural wealth of the regions. The largest amounts of investments are aimed at regions with well-developed industries and large stocks of oil and gas. About 90% of investments are destined for these regions. In the Western region, there are some economically strong oblasts with well-developed industry, large reserves of strategic raw materials, extensive economic stabilization, and scientific centers. Such oblasts have a sufficient capacity to adapt to changing economic conditions. In the table presented below, these oblasts constitute the first group.

Table 3. Oblasts Viability Rating

Group 1	Atyrau, Mangistau, West Kazakhstan, Aktobe, Zhezkazgan, Zhambyl, Kostanai oblasts
Group 2	Karaganda, Pavlodar, North Kazakhstan, East Kazakhstan oblasts, Almaty city
Group 3	Torgai, Semipalatinsk, Taldykorgan, Akmola, Kokshetau oblasts
Group 4	Kyzylorda, Kostanai, North Kazakhstan oblasts

Source: UNDP

In the Western Kazakhstan region there are many oil-extracting and oil-processing companies in which there are foreign participation. The Atyrau oblast is characterized by the largest oil stocks, the volume of which is estimated at 700 million tons. Aktubinsk and West Kazakhstan oblasts are also important. Geologists estimate their reserves to be between 166 million and 100 million tons respectively. The most developed oil deposits are in these three oblasts. The greatest investment volumes belong to such joint ventures as: "Tengizshevronoil", the consortium "Kazakhstan Caspishelf", "Kazakhturkmunai", "Arman", "Tulpar Munai", and "Aktobe Preussag".

Before, the tax system did not take into account all the specific features of the mining industry. During the past few years the economic situation has changed swiftly and there appeared a great inflow of investors, particularly into the oil and gas industry. Kazakhstan suffered great losses as a consequence of absence of the clarity in the taxation of subsurface users. The excise taxes also needed to undergo some changes because due to costs of exporting oil, the state lost millions of dollars every year. This required the improvement of the taxation system for subsurface users.

Subsurface users must individually conclude a contract with the Government of the Republic of Kazakhstan. Under the new law, the taxation system for oil and gas operations will depend on whether the contract is a joint venture agreement or a production sharing agreement. Theoretically, the intent is to insure that regardless of which type of contract is selected, the tax liability is the same. The new law requires both types of contracts to include the applicable tax regime within the contract (Arthur Andersen, April, 1999, pp. 22-23).

The joint venture agreement is subject to all taxes and payments provided for in the Tax Code. Production Sharing Agreements (PSA) are subject to the selected number of taxes because the Government's allocation of production is viewed as a type of tax. In the "Production sharing" contract, both the Republic's and local budgets receive revenues as the share of production. The new law attempts to reduce the tax liability of the oil company in an amount equal to the value of the production the Government receives resulting from the PSA, so that under either type of contract, the overall tax burden would be the same.

Three major laws in Kazakhstan govern the economic terms established in a subsurface contract. They are the Subsurface Use Law, the Petroleum Law, and the Tax Code.

Ordinarily, the economic terms of a subsurface use contract entered into between a subsurface user and the authorized body of the Republic of Kazakhstan will remain valid for the entire term of the contract. This includes the tax terms, which means that the Tax Code applicable to any subsurface user is the Tax Code that was in effect on a specific date referenced in the subsurface use contract (ordinarily the signing date of the subsurface use contract).

Most subsurface use contracts signed after January 1, 1996 (and any still to be negotiated) must undergo an obligatory expert tax evaluation, and must follow the Tax Code in effect on the date of signing of the contract. Subsurface use contracts signed prior to January 1, 1996, are not required to incorporate tax legislation effective on the date of signing of the subsurface use contract. A branch of the Ministry of Finance previously performed the obligatory expert tax evaluation, although recent changes to the structure of the government might move such responsibilities to the Ministry of Revenue.

Taxes and other obligatory payments applicable to a company exploring for, producing and selling oil and gas are as follows. They are also discussed in more detail under the heading "Tax terms applicable to subsurface use contracts" (Arthur Andersen, April, 1999, p. 25)



below:

- Bonuses (signature, commercial discovery )
- The share of the product to the Republic of Kazakhstan as stipulated in a PSA
- Royalties (rates will normally be set between 1 to 20% based on project economics)
- Corporate Income tax (30%)
- Value added tax (20%)
- Customs duties (rates depend on specific item being imported)
- Excise tax (currently the excise tax on domestically produced crude oil is zero; various rates apply to domestically produced and imported petroleum products that may be needed for the exploration and production of minerals. These rates are further detailed below)
- Excess profit tax (rates vary from 4% to 30% of net profit depending on internal rate of return of contract area)
- Branch profit tax/dividend withholding tax (15% unless reduced by double tax treaty)
- Personal income tax (rates vary from 5% to 30% of income. The 30% rate is applied to all income above approximately \$4,815 US)
- Tax on issuance of securities (initial emission - 0.1%, additional emission - 0.5% of the share's value)
- Land tax
- Property tax
- Tax on vehicles
- Fee for auction sales
- Payments for the use of forests (if applicable)
- Payments to the Environment Protection Fund
- Social tax (Arthur Andersen, April, 1999, p. 26).

Subsurface users may deduct in the form of amortization deductions expenses incurred on geological studies, exploration and the preparation work for the extraction of mineral resources, including expenses for assessment, equipment, general administration and in connection with the payment of bonuses. Subsurface user operations are works related to geological studies and to the exploration and production of natural resources. Enterprises may not begin to calculate amortization until the extraction of mineral resources starts. They may set the annual amortization rate at their discretion, but the rate may not exceed 25%. Subsurface users may carry forward tax losses seven years.

Special tax measures require the payment of bonuses, royalties and excess profit taxes by subsurface users. Bonuses typically include a subscription bonus and a discovery bonus. The amount of the bonuses and the determination of excess profits are negotiated between the company, the Ministry of Finance and the ministry issuing the license for the mineral rights.

Research of the investment climate in various countries in the 1990s has shown that the primary factor determining the inflow of foreign investment is political and economic stability and existence of stable economic legislation. The second factor is the stability of the national currency, guarantees of its conversion into foreign currencies and permission for capital to

be taken out of the country, as well as correspondence of the domestic accounting system to international standards. The third factor is the quality of labor, which, in combination with low labor costs, permits use of modern technology for the production of competitive products. Only after consideration of these factors do investors pay attention to tax and other privileges. They are interested in knowing the level of tax on profits, the opportunity to acquire real estate, standards of depreciation, etc.

The main factors in attracting foreign investments are agreements on the avoidance of double taxation. Thus, the precedence of international law over domestic law is recognized. However, realization of agreements will require tax authorities to analyze not only the balance sheets of companies, but also the contract prices.

According to a recent study, the tax stimulus for attracting international investments often had less significance compared to the general characteristics of the tax legislation. Foreign investors are attracted not by the tax stimulus, but by the stability and guarantees of tax legislation. In the legislation on foreign investment, it is necessary to provide guarantees that tax, currency and customs conditions for the given investor will be favorable for several years. Mutual agreements on facilitation, mutual protection of investments, including a favorable tax regime, the relaxing of customs barriers and removal of double taxation, play a very important role.

## Conclusion

At present, the President and the Government are continuously working on the further development of reform in order to make Kazakhstan's economy more favorable for foreign investors. They are struggling with determining the main obstacles preventing the increase of foreign investments into Kazakhstan, which, until recent times, were the bureaucracy, financial risk, taxation and financial policy, legislative infrastructure and currency control. Also there is the problem of the stability of laws, which are assisting investors' work, and improvement of the Tax Code, targeted on stabilizing and decreasing the total tax burden for investors. In 1998, the State Committee of the Republic of Kazakhstan on Investments began the development of standardized privileges of total taxes and customs taxes for those investors who contribute capital into production with maximum usage of local raw materials, applying on ecologically pure methods of packaging and increasing the volume of investments in Kazakhstan.

Over the next several years, the State Committee of the Republic of Kazakhstan on Investments determined three main directions in investment policy of Kazakhstan:

- Conclusion of contracts for prospecting and usage of mineral resources;
- Active support of investments, directed into the priority sectors of the economy;
- Creation of favorable conditions for investors, beginning with simplification of the procedures of official registration of their investments.

**Endnotes**

<sup>1</sup> "A subsurface user" is the term used in Kazakh legislation to describe a company that extracts natural resources, including oil, gas, precious metals, precious minerals, underground water, and common minerals.

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## Some remarks on environmental factors that affect companies' supply chain operations in Kazakhstan

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**Abstract**

*A new probabilistic approach for a sampling survey analysis based on a questionnaire is considered. The approach possesses an evident advantage due to the fact that it accurately takes into account the correlation between different items of the questionnaire. Utilizing it and relevant statistical techniques, several hypotheses concerning environmental factors affecting European and North American companies' supply chain operations in Kazakhstan have been analyzed.*

*Keywords: Discrete probability distributions, sampling surveys, supply chain management*

**Introduction**

Suppose we conduct a survey of a population. We design a special questionnaire to collect data and ask respondents to indicate the degree of agreement or disagreement with each statement of the questionnaire. The set of statements (items) depends on the goal of a survey. The degree of agreement or disagreement is usually placed on a numerical scale, e.g., (1,2,...,10), where 1 corresponds, for example, to strong agreement and 10 respectively to strong disagreement. Each statement can possess a different scale. Having received the respondents' answers, we can perform a statistical analysis of the data. Different techniques can be used for such analysis.

The simplest analysis technique is to evaluate mean and standard deviation of answers for each item of a questionnaire. This makes it possible to construct the confidence interval for the mean value of those answers. The width of the interval is dependent on the number of respondents questioned. If this number is not large enough (e.g., of the order of 10), the analysis will be insensitive to tendencies of respondents' opinions.

Another possible means of analysis is a linear regression model. The simple linear regression model applied to a statement of the questionnaire is much more sensitive to the trend in

respondents' opinion than the mean value of their enumerated answers. This technique will give better inferences for small samples than the preceding one, but we should remember that one needs to take into account both parameters (intercept and slope) at once. Because of the uncertainty in combining these parameters when obtaining an inference, it will not possess the definite probabilistic meaning. Moreover, it is not easy to take into account the correlation between statements. The multiple linear regression models are, in principle, applicable in this case, but it is difficult to choose the proper one from the infinitely many possible ones.

Both approaches are considered to give expected values of answers or expected regression parameters describing tendencies of respondents' opinion. It is possible to assign confidence levels for their expectations but it seems more reasonable to have a probability measure for such inferences.

In this paper, we propose to use the multivariate probability model of Nikulin, Smirnov and Voinov (1998) which seems to be useful for such an analysis because it accurately takes into account the correlation between different statements of a questionnaire and possesses very clear probabilistic meaning.

The paper is organized as follows. In Section 2, using a numerical example based on the sample we plan to analyze in the paper, we shall demonstrate the probabilistic meaning of the model proposed, the way of obtaining the estimates of probabilities of interest and the usefulness of the model for such analysis. Section 3 will be devoted to an analysis of 9 research hypotheses concerning the influence of some environmental factors on European and North American companies' supply chain operations in Kazakhstan. Interested readers can find some mathematical and computational details related to the problem in Voinov and Nikulin (1993, 1996, 1997, 1998), Nikulin et al (1999) and Voinov et al (2000, 2001).

## Methodology

Consider some environmental factors affecting companies' supply chain operations in Kazakhstan. Our questionnaire contains 45 questions, each of which asks respondents to evaluate a separate environmental factor. Statistical analysis of the sampling covariance matrix based on answers of the 43 responding companies shows that answers for some statements of the questionnaire are highly correlated. We selected three groups of such answers. The first group contained questions related to political issues, i.e.: (1) national government trade policies, (2) local government policies, (3) conduct of national government officials, and (4) conduct of local government officials. The second concerned economic issues, i.e.: (1) customs procedures, (2) customs clearing time, (3) preparing certificates of origin, (4) implementation of national laws, (5) systems of legal recourse, (6) corruption, and (7) smuggling. The third concerned social issues, i.e.: (1) education of workforce, (2) experience of workforce, and (3) local work ethic.

The question posed to companies was: to what degree do each of these 14 environmental fac-

tors affect your company's supply chain operations in Kazakhstan? Respondents' answers were scaled from -3 (very negatively) to +3 (very positively). The problem is to estimate several composed probabilities that mean answers of each combinations of  $n$  respondents were less or greater than some prescribed fixed mean vector  $r/n$  of thresholds ( $r=r_1, \dots, r_m$ )<sup>T</sup> ( $m$  being the number of items in a questionnaire). In particular, we estimated probabilities that mean answers on all questions in a group were less than the respective components of  $r/n$  simultaneously and those that one of those mean answers was less than their respective components of  $r/n$ .

Suppose there are three questions on the same scale (-3, -2, ..., 3) and that there are  $nM$  ( $M=1, 2, \dots$ ) respondents' answers. To be able to estimate unbiasedly the error of an estimate of probability of interest one should use  $M \geq 2$  independent samples by  $n$  respondents each (see Voinov and Nikulin (1998)).

Let  $X_{ij}$  be a random variable describing an answer of  $i$ th respondent ( $i=1, 2, \dots, n$ ) on  $j$ th item ( $j=1, 2, \dots, m$ ) of a questionnaire. We form  $\binom{nM}{n}$  combinations by  $n$  respondents each, compute

$$\sum_{i=1}^n X_{ij}, \quad j=1, 2, \dots, m; \quad k=1, 2, \dots, \binom{nM}{n},$$

sums of answers of every combination of  $n$  respondents and define the total mean answer

$$X_j = \frac{1}{\binom{nM}{n}} \sum_{k=1}^{\binom{nM}{n}} X_j$$

for  $j$ th question which is compared with the threshold component of a  $m$ -dimensional mean vector  $r/n$  (e.g. -1, 0, 0) in the sense that we are estimating probability that, e.g., some one of those  $m$  means is less than respective component of  $r/n$ .

We compared those estimates calculated under two assumptions: 1) statements are independent and 2) they are correlated. Estimates were different enough to show that one must consider the correlation between statements of a questionnaire.

Denote  $A_i = \{X_i < r_i\}$  an event that  $i$ th component of a random vector  $X = (X_1, \dots, X_m)$ <sup>T</sup> describing answers of respondents is less than respective  $i$ th component of a vector  $r/n$ . Then

$$P_{\cap} = P \left\{ \bigcap_{i=1}^m A_i \right\}$$

means the probability that all components of  $X$  are less than respective components of  $r/n$  simultaneously. Respectively,

$$P_{\cup} = P\left\{\bigcup_{i=1}^m A_i\right\}$$

means the probability that any one component of  $X$  is less than respective component of  $r/n$ . If items of a questionnaire are considered to be independent then, instead of  $P$  and  $P'$  we have to evaluate

$$P'_{\cap} = P\left\{\bigcap_{i=1}^m A_i\right\} = \prod_{i=1}^m P(A_i)$$

and

$$P'_{\cup} = P\left\{\bigcup_{i=1}^m A_i\right\} = \sum_{i=1}^m P(A_i) - \sum_{i<j} P(A_i)P(A_j) + \sum_{i<j<k} P(A_i)P(A_j)P(A_k) - \dots, i,j,k = 1,2,\dots,m.$$

Let us consider the first group of four questions ( $m = 4$ ). Suppose we are interested in estimating probabilities that average answers of each 12 respondents out of 24 randomly selected from 43 ones are less than any component of  $r/12$ , where  $r_i/12$

,  $i=1,2,3,4$ . If, for example,  $r/12 = (-0.5, -0.5, -1, -1)^T \in \{-3,-2,-1,0,1,2,3\}$ , then estimates  $\hat{P}_{\cap}$ ,  $\hat{P}'_{\cap}$ ,  $\hat{P}_{\cup}$  and  $\hat{P}'_{\cup}$  of probabilities  $P_{\cap}$ ,  $P'_{\cap}$ ,  $P_{\cup}$  and  $P'_{\cup}$  respectively for two different vectors  $r/12$ :

$$r_1/12 = (-0.5, -0.5, -1, -1)^T \text{ and } r_2/12 = (0.0, -1, -1)^T$$

are shown in the Table 1.

Table 1.

	$\hat{P}_{\cap}$	$\hat{P}'_{\cap}$	$\hat{P}_{\cup}$	$\hat{P}'_{\cup}$
$r_1/12$	0.1164	0.0164	0.7103	0.8656
$r_2/12$	0.2099	0.0616	0.9969	0.9997

From this table we see that estimates  $\hat{P}'_{\cap}$  which do not take into account correlation are significantly less than corresponding estimates  $\hat{P}_{\cap}$ . On the contrary, estimates  $\hat{P}'_{\cup}$  are greater than  $\hat{P}_{\cup}$ . The same tendencies are observed for the two other groups of questions.

For each five respondents out of 20 randomly selected from 43 ones and  $r/5 = (-1.5, -1.5, -1, -0.7, -0.3, -1.5, -1.5)^T$  ( $m = 7$ , second group) the results are

$$\hat{P}_{\cap} = 0.2557 \pm 0.1706, \hat{P}'_{\cap} = 0.0187$$

$$\hat{P}_{\cup} = 0.9177 \pm 0.0767, \hat{P}'_{\cup} = 0.9979.$$

Under the same conditions, for  $r/5 = (0.2, -0.2, -0.5)^T$  ( $m = 3$ , third group)

$$\hat{P}_{\cap} = 0.1842 \pm 0.141, \hat{P}'_{\cap} = 0.0826$$

$$\hat{P}_{\cup} = 0.7041 \pm 0.185, \hat{P}'_{\cup} = 0.8203.$$

From these results, we see the importance of taking into account the correlation between items of the questionnaire.

### Applications

In this section we consider the following 8 research questions concerning supply chains in Kazakhstan:

- 1) What is the state of supply chain management for Europe and North American companies distributing their products into and/or within Kazakhstan?
- 2) What drives customer service levels for European and North American companies in the Kazakhstan market?
- 3) How do European and North American companies' supply chain costs for business operations in Kazakhstan compare to those and in Europe and North America?
- 4) To what degree is information technology utilized in the supply chain management of European and North American companies' operations in Kazakhstan?
- 5) To what degree are European and North American companies forming supply chain alliances for operations in the new market of Kazakhstan?
- 6) What is the nature of the channel context for the distribution channels of European and North American companies distributing their products into and/or within Kazakhstan?
- 7) For European and North American companies distributing their products into and/or within Kazakhstan, is there a relationship between chosen market strategies and supply chain practices?
- 8) To what degree do political, legal, economic, social and cultural factors of Kazakhstan's market environment affect supply chain operations?

Concerning the Question 1, we consider three working hypotheses. The first one (**H 1-A**) is: European and North American companies have less control over their supply chains in Kazakhstan than in the European or North American markets. The respective questions of the questionnaire were: (a) within Kazakhstan, does your company have more or less control over internal product distribution than in North America? And (b) within Kazakhstan, does your company have more or less control over internal product distribution than in Europe? The respondents answered on a scale from 1, indicating a response of "much more control", to 5, indicating a response of "much less control". Forty-two companies responded, with the

descriptive statistics summarized in Table 2.

Table 2.

	Questions	
	(a)	(b)
Mean	3.781	3.684
Standard deviation	1.362	1.210
Confidence. Int. 95%	[3.309, 4.253]	[3.299, 4.069]

From this table we see that the data confirm the above hypothesis (mean answers are greater than 3.3 but they were evaluated separately for each answer). Pearson's correlation coefficient for the data is 0.973 and is significant at the level 0.01. So, once again, correlation is a highly desirable means of data analysis. To do this we evaluated estimates of probabilities

$$P''_{\cap} = P\left\{\bigcap_{i=1}^2 \{X_i \geq r_i\}\right\}$$

and

$$P''_{\cup} = P\left\{\bigcup_{i=1}^2 \{X_i \geq r_i\}\right\}$$

For  $r/10 = (3.5, 3.5)^T$ . The estimates were evaluated as mean ones for every 20 respondents randomly selected from 42. The results are

$$\hat{P}''_{\cap} = 0.8565 \pm 0.1435, \quad \hat{P}''_{\cup} = 0.741 \pm 0.177.$$

Since both estimates are greater than 0.5, we may conclude that the data do not contradict the hypothesis **H 1-A**.

The second hypothesis (**H 1-B**) is: Compared to reducing cost or improving customer service, market development plays a greater or equally important role in the supply chain management of European and North American companies in Kazakhstan. The question posed to respondents was: to what degree do a) reducing costs, b) improving customer service and c) aiding market development play an important role in the supply chain management of your business operations in Kazakhstan? The respondents answered on a scale from 1, indicating a response of "no role", to 5, indicating a response of "highly significant role". If **H 1-B** is "true", then mean answers for c) should be higher than those for a) and b). From the preliminary data analysis it is seen that this is not the fact. Confidence intervals for mean answers on a), b) and c) are overlapped. This is confirmed by our approach which takes into account the significant positive correlation ( $\rho = 0.341$ ) of b) and c). The estimate of the probability that the mean answer for each 10 respondents for c) is greater than 3 is  $0.944 \pm 0.077$ . The estimate of the probability that the mean answer for a) or b) is greater than 3 is 0.998. Hence, there is no evidence in favor of **H 1-B**.

The third hypothesis (**H 1-C**) is: For overall international operations, European and North American companies are at high stages of integration of their supply chain development. For their Kazakhstan operations, the same companies have less integrated supply chains and are at lower stages of development. Our approach showed that there is no evidence in favor of **H 1-C**.

Concerning the Question 2, we consider the following hypothesis (**H 2**): Currently for European and North American companies in the Kazakhstan market, company procedure and market competition drive customer service levels to a greater degree than customer demand does. The question posed to respondents was: to what degree do a) company policy and procedure, b) market competition and c) the customer drives customer service levels in the Kazakhstan market? (1 = not at all, ..., 5 = completely). The preliminary analysis showed that **H 2** is not confirmed; c) has the greatest mean answer ( $4.2 \pm 0.323$ ), b) is also important ( $3.947 \pm 0.286$ ), the lowest mean mark being for a) ( $3.658 \pm 0.341$ ). Our approach which takes into account the correlation of b) and c) ( $\rho = 0.38$ ) showed that for a) the estimate of the probability of the greatest marks (4 and 5) is 0.998, for b) - 1.000 and for c) - 1.000. These results confirm the preliminary ones. It is of interest to note that all three factors are important. The probability to receive mean marks greater than 3 for a), b) and c) at the same time is estimated as  $0.998 \pm 0.002$  (essentially greater than 0.5).

Concerning Question 3, we shall consider the hypothesis (**H 3**): Supply chain costs of European and North American companies account for a higher percentage of the final cost of goods for Kazakhstan operations than for European and North American operations. The questions posed to the respondents were: a) if you do measure costs, compared to the North American market, do supply chain costs account for a higher or lower percentage of your final cost of goods in the Kazakhstan market? And b) if you do measure costs, do supply chain costs account for a higher or lower percentage of your final cost of goods in the European market than in the Kazakhstan market? (1 = much higher cost, ..., 5 = much lower cost). The **H 3** is supported by the simple statistical analysis: mean answers for a) and b) are  $3.742 \pm 0.385$  and  $3.889 \pm 0.404$  respectively, and, hence, are greater than 3. Taking into account the high positive correlation of a) and b) ( $\rho = 0.884$ ) we found that the estimate of probability to receive mean marks greater than 3 for a) and b) at the same time is  $0.941 \pm 0.059$ . So, **H 3** is not rejected.

As for Question 4, we consider the hypothesis (**H 4**): For European and North American companies, most types of information technology are used to a lesser degree in Kazakhstan than in Europe and North America. The question posed to respondents was: which of the following information technology initiatives: a) order processing software, b) telecommunications, c) forecasting software, d) point-of-sale, e) satellite tracking, f) electronic data interchange, g) bar coding and h) the internet does your company use for supply chain management in Kazakhstan? (1 = yes, 0 = no). The simple analysis showed that only basic technologies (a), b) and h)) are used. Mean answers for a) ( $0.475 \pm 0.157$ ), b) ( $0.75 \pm 0.136$ ) and

h) ( $0.375 \pm 0.152$ ) can be considered as being more than or near 0.5. Our probability analysis which takes into account the correlation showed that the estimate of the probability to receive mean marks greater than or equal 0.5 for a) is  $0.82 \pm 0.032$ . The estimate of the probability that the mean answer for b) is greater than 0.5 is  $0.93 \pm 0.032$ . These agree with the above mentioned confidence intervals. The estimate of the probability to obtain the mean answer less than 0.4 for c) is  $0.96 \pm 0.032$ , that for d) (less than 0.3) is 1.000, that for e) (less than or equal 0.2) is  $0.89 \pm 0.03$ , that for f) (less than 0.3) is  $0.96 \pm 0.032$  and that for g) (less than 0.3) is 1.000. From these it follows that technologies c),d),e),f) and g) are almost not used in Kazakhstan. As for the Internet (h) the data do not give the definite answer (mean answer is  $0.375 \pm 0.152$ ). Our approach showed that the estimate of the probability to obtain mean marks (for every 10 respondents in the average) less than 0.5 is  $0.929 \pm 0.032$  and, hence, they almost do not use the Internet. So, the hypothesis **H 4** is not rejected.

Concerning Question 5, we consider the hypothesis (**H 5**): European and North American companies are forming fewer supply chain alliances for operations in Kazakhstan than for operations in Europe or North America. The following two questions were posed to the respondents: a) compared to operations in the North American market, has your company formed greater or fewer supply chain alliances for operations in the Kazakhstan market? And b) compared to operations in the European market, has your company formed greater or fewer supply chain alliances for operations in the Kazakhstan market? (1 = many more alliances in Kazakhstan, ..., 5 = much fewer alliances in Kazakhstan). The estimate of the probability (evaluated with the help of our model which takes into account the correlation between items) to obtain the mean marks greater than 4.5 for a) and b) at once is  $0.701 \pm 0.298$ . The estimate of the probability to obtain the mean marks greater than or equal 4.6 (for a)) and 4.455 (for b)) is the same  $0.701 \pm 0.298$ . The estimate of the probability that the mean marks for a) are greater than or equal 4.6 or that the mean marks for b) are greater than or equal 4.455 is  $0.83 \pm 0.167$ . From these it follows that the data strongly confirm the hypothesis **H 5**.

Concerning Question 6, we consider three hypotheses. The first one (**H 6-A**) is: Most European and North American companies believe that the Kazakhstan market is highly complex. The question posed to the respondents was: how volatile and complex is the Kazakhstan market for your company and products? (1 = extremely complex and volatile, ..., 5 = negligibly complex and volatile). The estimate of the probability that the mean marks for every 10 respondents are less than 3 is  $0.999 \pm 0.032$ . So, the hypothesis **H 6-A** is not rejected.

The second hypothesis (**H 6-B**) is: For European and North American companies in Kazakhstan market, little value is added to their products by downstream intermediaries. The question was: how much value is added to your company's product(s) by downstream intermediaries (i.e., wholesalers and/or distributors)? (1 = very large amount of value added, ..., 5 = no value added). The probability to obtain the mean marks greater than 3.5 is estimated as  $0.92 \pm 0.03$ . So, the hypothesis **H 6-B** is not rejected.

The third hypothesis (**H 6-C**) is: European and North American companies can easily be replaced by their downstream intermediaries in the Kazakhstan market. The question was: how easily can your downstream intermediaries replace your company and its product(s)? (1 = with great ease, ..., 5 = with great difficulty). The estimate of the probability to obtain the mean marks greater than 3 is  $0.953 \pm 0.032$ . So, in this case the hypothesis **H 6-C** is rejected.

The research Question 7 is composed of two hypotheses. The first one (**H 7-A**) is: For European and North American companies, market participation strategies used in Kazakhstan and those used globally will differ and will each correspond to differing supply chain practices. The hypothesis was addressed by the following questions on the research survey with analysis codes preceding each response: A) The company faces both low cost and low local responsiveness pressures. Most business operations are centered in the company's home country and little manufacturing or marketing is done abroad. There is little to no customization of product or marketing strategy for the host market; B) The company faces low cost pressures but high local responsiveness pressures. Local managers have more power over operations in the local markets than the home country managers have. Products and marketing are greatly customized for local markets; C) The company faces high cost pressures but low local responsiveness pressures. Strategy and operations are centralized worldwide, with materials strategically sourced worldwide, global locations selected for key supply depots and distribution centers, and existing logistics technologies transferred into new markets. Both product and marketing are highly standardized; D) The company faces both high cost and local responsiveness pressures. Seeking cost efficiency, strategy and operations are somewhat centralized worldwide. However, seeking to meet local responsiveness pressures, there is generally customization of product and/or marketing. The questions posed to respondents were: a) which of the above four statements best describes your company's overall global business strategy? and b) which of the above four statements best describes your company's current business strategy in Kazakhstan? (1 = A), 2 = B), 3 = C) and 4 = D)).

The preliminary statistical analysis showed that market participation strategies used in Kazakhstan and those used globally will not differ (95% confidence intervals are overlapped:  $2.737 \pm 0.302$  (for a)) and  $2.865 \pm 0.296$  (for b)). Our probability approach showed that the estimate of the probability for the mean answer be greater than 2.5 is  $0.787 \pm 0.032$  (>0.5) for a) and  $0.667 \pm 0.032$  (>0.5) for b). So, we are unable to conclude that they (for a) and for b)) will differ, because for both cases we see an evident tendency to practices C) and D) (probabilities are higher than 0.5). To answer the question that they will correspond to differing practices we have compared distributions of answers for a) and b) using the chi-square test. The value of  $\chi^2$  is 1.754 (with  $\nu = 3$  degrees of freedom). From this it follows that at the level  $\alpha = 0.05$  there is no difference between distributions and, hence, we are unable to conclude that they correspond to differing practices. Thus, **H 7-A** should be rejected.

The second hypothesis (**H 7-B**) is: For European and North American companies in

Kazakhstan, market entry strategies used in Kazakhstan and those used globally will differ and will each correspond to differing supply chain practices. The question posed to respondents was: What is the typical ownership pattern of your company's operations in a) North America, b) Europe and c) Kazakhstan? (1 = wholly owned, 2 = joint venture with local partner(s) only, 3 = joint venture with foreign partner(s) only, 4 = joint venture with both local and foreign partners, 5 = franchise, 6 = export representative only and 7 = other).

From the preliminary analysis it follows that market entry strategies evidently differ for North America and Kazakhstan, because their 95% confidence intervals for means are not overlapped ([1.227, 2.107] for North America and [2.296, 3.554] for Kazakhstan). Quite possibly that the means are also different for Europe and Kazakhstan, because 95% confidence intervals for their means are overlapped slightly ([1.275, 2.255] for Europe and [2.296, 3.554] for Kazakhstan).

Our probabilistic approach showed that the estimates of probabilities for mean answers to be less than 3 are 1 (for North America and Europe) and  $0.146 \pm 0.146$  (for Kazakhstan), respective estimates for the mean answers to be greater than or equal 3 are 0 (for North America and Europe) and  $0.854 \pm 0.032$  (for Kazakhstan). From these it follows that the hypothesis H 7-B is confirmed by this probabilistic approach.

To answer the question that they will correspond to differing practices we've compared distributions of answers for the following pairs: a), b); a), c) and b), c) using the chi-square test. The analysis showed that there is no significant difference between a) and b) ( $\chi^2 = 1.173$ ) at the level  $\alpha = 0.05$ , and that there is the evident difference at the same level between a) and c) ( $\chi^2 = 23.17$ ) as well as between b) and c) ( $\chi^2 = 20.52$ ). Thus, H 7-B is not rejected.

Concerning the research Question 8, we shall consider three hypotheses. They differ from those considered already in Section 2. The first one H 8-A is: There are significant political and legal factors specific to Kazakhstan which affect European and North American companies' supply chain operations. These factors include national government trade policies and the strength of the presidency, which have a positive effect (H 8-Aa), and local government policies, conduct of local and national government officials, corruption and systems of legal recourse, which all have a negative effect (H 8-Ab). Answers for all factors were scaled from -3 to 3. For H 8-Aa there are two-dimensional vectors of answers with correlated components. Let a threshold vector be  $(0,0)^T$  (no effect for both components at once). Then, the estimate of the probability that the mean answers for each ten respondents be greater than 0 for both components at once (positive effect) is  $0.0103 \pm 0.0102$ . The same estimate for the mean answers is greater than or equal 0 for both components at once is  $0.024 \pm 0.024$ . These probabilities are much less than 0.5 and, hence, the hypothesis H 8-Aa is rejected (no positive effect). For H 8-Ab there are five-dimensional vectors of answers with correlated components. Let a threshold vector be  $(0,0,0,0,0)^T$  (no effect for each component at once). Then, the estimate of the probability that the mean answers for each ten respondents be less than 0 for all components at once is  $0.972 \pm 0.027$ . Hence, H 8-Ab is not rejected (there is a negative effect).

The second hypothesis (H 8-B) is: There are significant social and cultural factors specific to Kazakhstan which negatively affect European and North American companies' supply chain operations. These factors include: stage of economic development, bureaucracy, road infrastructure, rail infrastructure, customs procedures, communications infrastructure and geography. Let a threshold seven-dimensional vector be  $(0,0,0,0,0,0,0)^T$ . Then, the estimate of the probability that the mean answers are less than 0 for all seven components at once is  $0.953 \pm 0.047$ . Thus, hypothesis H 8-B is not rejected (there is a negative effect).

The last hypothesis (H 8-C) is: There are significant social and cultural factors specific to Kazakhstan which negatively affect European and North American companies' supply chain operations. These factors include: language, local work ethic, education and experience of the local workforce, emigration of a skilled workforce and prevailing social conditions. Denote  $\bar{X}_i$  the mean answer for each 10 respondents out of 43 ones for  $i$ th factor, then an event

$$\left\{ \bigcap_{i=1}^6 \bar{X}_i < (0,0,0,0,0,0) \right\}, \text{ e.g., means that those mean}$$

answers are less than zero for each 6 factors at once. In these notations, estimates  $\hat{P}$  of respective probabilities for threshold six-dimensional vector  $(0,0,0,0,0,0)^T$  are

$$\hat{P} \left\{ \bigcap_{i=1}^6 \bar{X}_i < (0,0,0,0,0,0) \right\} = 0.213 \pm 0.212, \text{ and}$$

$$\hat{P} \left\{ \bigcap_{i=1}^6 \bar{X}_i < (0,0,0,0,0,0) \right\} = 0.346 \pm 0.346.$$

It seems as there is no strong negative effect ( $\hat{P} < 0.426$  and  $\hat{P} < 0.692$  respectively). At the same time

$$\hat{P} \left\{ \bigcap_{i=1}^6 \bar{X}_i < (1,1,1,1,1,1) \right\} = 0.999 \pm 0.002 \text{ and}$$

$$\hat{P} \left\{ \bigcap_{i=1}^6 \bar{X}_i < (1,1,1,1,1,1) \right\} = 0.994 \pm 0.006.$$

Thus, those probabilities are highly increased if we include into threshold ones (slight positive effect). And now we should conclude that there is a negative effect. Which component (factor) gives the greatest influence on the latter probabilities? Consider the following estimates

$$\hat{P} \left\{ \bigcap_{i=1}^6 \bar{X}_i \leq (0,0,1,1,0,0) \right\} = 0.833 \pm 0.126$$

$$\hat{P} \left\{ \bigcap_{i=1}^6 \bar{X}_i < (0,0,1,1,0,0) \right\} = 0.687 \pm 0.235$$

$$\hat{P} \left\{ \bigcap_{i=1}^6 \bar{X}_i \leq (0,0,1,0,0,0) \right\} = 0.762 \pm 0.185$$

$$\hat{P} \left\{ \bigcap_{i=1}^6 \bar{X}_i \leq (0,0,0,1,0,0) \right\} = 0.34.$$

One (1Z) in the third position of the threshold vector means "education of workforce" and one in the fourth position means "experience of workforce". From these it follows that education gives the greatest influence onto that effect (increasing of the probability). From this and the above considerations it also follows that almost neutral answers (0 and 1) have a rather essential weight and influence on those probabilities. Summarising, we may conclude that a slight negative effect is the most probable and, hence, **H** 8-C is not strongly rejected (there is a slight negative effect).

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## Globalization: A short study Conference at the Eurasian Market Institute<sup>1</sup>

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### Abstract

*What is Globalization? When and how did it begin? And what are the main consequences of such a global movement? Should it be considered as a mere economic movement and, if not, what are the other aspects that should be taken into consideration? These are the main questions that were discussed in my Conference organized for the second and third year students of 'Eurasian Market Institute', International Economic Relations Department, Almaty, January 2001.*

*This paper seeks to introduce some theoretical and practical concepts, in order to understand the real function of the world system and the movement of Globalization. After a general description of Globalization in the first two parts, the last parts of this paper will look into some ideas concerning the consequences of this world movement. The international economic movement, which is termed Globalization, is Westernization! At this point, the final parts of this study will focus on the problem of the confrontation of Eastern/traditional and Western/modern cultural values and the possibility for the creation of the 'Métissage of values' between the continental cultural spaces. It will also question the two different political interpretations of Globalization; one related to Francis Fukuyama's work which describes Globalization mostly as 'Homogenization' of different parts of the world in which countries become closer to each other. The other belongs to Samuel Huntington, which emphasizes the idea that Globalization creates a very 'Heterogeneous' cultural and political world system.*

### Overview

The study of Globalization is remarkably complex. Different schools of thought have analyzed Globalization through application of various disciplines. I will try to give a short description of Globalization in the most comprehensive way.

From an Economic point of view, Globalization has to do with the 'opening up of the frontiers', and the tendency called "*deregulation*", which started in the Western world between 1980 and 1988 and is considered to mean the domination of one economic model, the *free market economy*. The economic performance of South-East Asian countries is another aspect of this approach. From a political point of view, Globalization took off in parallel with the collapse of communism and the end of the Cold War era.

Besides these two, there are other aspects and other approaches of Globalization. For each of

these approaches there are a significant number of studies which have been carried out by western scholars and different schools of thought. My approach will focus on 'global studies'. This short presentation, which is prepared for the second and third year students of 'Eurasian Market Institute', will first consider two aspects of the issues of Globalization namely: historical and economical. While it can be argued that Globalization has some cultural and political consequences, it is important to mention that Globalization has tremendously accelerated the contact and interactivity between the East and the West. This fact of course, has at the same time evoked some other issues related to the confrontation of traditional and modern cultural values, and consequently the emergence of a new global concept described as combination or 'Métissage of Values'. This will be analyzed in the last parts of this study.

### I. Historical approach

In order to better understand Globalization, one should first examine it as an historical period. Why is Globalization an historical phase? Because it evolved hand in hand with the collapse of communism and the end of the Cold War era - both of which were political events that created a new phase in the history of the twentieth century. From my point of view, the rise of Globalization, as world economic movement takes its root from this world political change, a sure precondition for worldwide development.

The study of the history of the twentieth century reveals four major events: First, the Russian Revolution (1917), second, World War I, third, World War II, and fourth one is the fall of communism. For the purpose of this study, the most important will be the last two. As we all know, after the Second World War, the world was divided into Eastern and Western blocks, with two main headquarters (the United States and the Soviet Union which in fact, were the main actors of this period). This major division triggered the beginning of the Cold War. Therefore in order to understand how Globalization is related to this parallel movement, we need to describe the Cold War, the confrontation between the two blocks based on the following three preconceptions:

### Ideology

During the Cold War era each block had its own ideology, distinctly different from that of the other, and based on a specific Philosophy of History: *communism* and *liberalism/capitalism*. Obviously, the interpretation of History is presented as one of the aspects of these ideologies. The ideology of Communism understood History as the evolution of Stages. It is based on the Philosophy of the "Historical Determinism" with a very clear final stage which will, according to their interpretation, inevitably lead to *Communism*.

Consequently, the definition of "time" is specific here. There are the past, the present and the future; there is a "timetable" for History in which, finally *the future* becomes the most determinant. In this perception of time, everything seemed programmable and human action is fixed in relation with the future where Communism is the ultimate goal. The time of this last

stage was to be the last fate of all History of humanity. This idealism coupled with the idea of the last stage presented as one of the interpretations of History, influenced by the Hegelian philosophical theory (accomplished by Marx), became the most important characteristics of the ideology of the eastern block for more than half century.

Liberalism on the other hand understands history differently. There is no "great future" which should come about one day, in which there may be a question of long-term plan for justifying the present, or for directing human activities. In fact, in this conception of history, following the division of time into the past, the present and the future, the *present* becomes the most determinant for liberalism. Consequently, things are constructed to be used and the products are made to be consumed, a reality that created what is called '*The Consumer Society*' (Baudrillard, 1986). This pragmatism gives to liberalism the ambition of using time for time, not for some other illusive objectives in an unknown future.

## Politics

After the World War II, each block reinforced its own political structures. The communist block was a 'one-party system' with Communist party dominating both State and society. We did not observe, during the Cold War, any serious efforts toward real open political pluralism in the Soviet Union, even in China, Albania or Yugoslavia.

In the Western world political system is based on pluralism of ideas. We had have at least two different political structures in this pluralism: 'the two-party system', e.g. United States, and 'the multi-party system', e.g. Europe, mostly France, Germany and Italy. Both of these systems have been, and are considered democratic systems.

Socially speaking, Communism applied a kind of Collectivity concept of interpersonal relations, while Liberalism is historically based on Individualism. For Communism, the collectivity or the community takes priority over individual, and its interests; for liberalism, individual has priority over collectivity. Here the idea of individualism fits in perfectly with the philosophy of a free market economy.

The nature of Capitalism and the movement of Globalization during the last twenty years have forced most of the Socialist parties in the West and in other countries to accept and apply the key characteristics of Liberalism.

## Economy

During the Cold War there were two main directions of the economy. The first was based on 'State economy'. The Communist system considered the State as the only proprietor and actor in the market. No individualism, neither at the social nor at the market level was accepted thus economic competition was considered the first enemy of the society. Following this logic, almost all attempts to introduce the notion of private ownership were radically sup-

pressed.

On the other side, in the western world, at least two interpretations of the capitalism, socialism and liberalism, dominate. The U.S. applies liberalism if not neo-conservatism knowing that liberalism is understood differently in most part of Europe, from its application in the United States. In most part of Europe, except in the UK, Europeans preferred socialism for the society and liberalism/capitalism for the market! Market, for the majority of Europeans should be run with some State Control. Britain however has always been considered the main European pioneer of liberalism if not certainly neo-conservatism, promoting the free market economy.

\* \* \*

The end of the Cold War is synonymous with the end of the philosophy of two opposing blocks and this is an historical evolution. We no longer see any *major* ideological, political, or economic confrontation in the world, between major countries and between the economic blocks. There is no more ideological division or 'Block Conflict' in the world as we could notice during the Cold World.

Nevertheless, the world still has some difficulties such as geopolitical fragmentation, the rise of various political dictators and finally the development of fundamentalism. This will be discussed in the later part of this work.

## II. Economic Approach

After the end of the Cold War, Globalization gave a new structure to the world. One would ask about the new universal formation and its main direction. I would like to divide the discussion of this trend into the following parts.

### Deregulation

Where does Globalization begin? Generally speaking, Globalization is related to the 'opening up of the frontiers', the movement called "*deregulation*", which started with relaxation of governmental controls of the market activities. The Reagan administration was the first promoter of deregulation in the United States from 1980 to 1988. During Reagan's two terms in the office, the airline sector of the economy was deregulated, a measure that solved major air transport problems, by allowing the airlines to determine the fares for their services on the basis of competition independent of government sanctioning. Indeed, this tendency began under the Presidency of Jimmy Carter when telecommunications network were partially deregulated creating competition for long distance telephone services in the United States (Cooper et al, 1988). Basically, deregulation should be regarded as a very British-American practice. American reforms received an active support from the British Prime Minister - Mrs. Margaret Thatcher. Shortly after the Canadian conservatives conformed to the deregulation. Privatization gained a momentum, and western countries gradually reduced the State inter-

ference with the market. Other countries in the East, Latin America, and Africa, followed this progressive initiative, trying to adopt similar economic systems thus boosting a new competition in the world (Wackerman, 1995).

Relieved of the government control, American and European companies rushed to the Eastern markets in droves. Consequently, the main/or first direction of the movement of Globalization was *from the West to the East*. Soon one could observe a high acceleration of western businesses in eastern economies. For many of the eastern States, with the exception of Japan, it is the first time they will become so actively involved in international businesses.

At the end of the 1990's the top three hundred companies in the World were western. Moreover, ¼ of all production resources in the world come from the West. European companies like Phillips became active in 45 countries. Nestle became a Global company, having headquarters all over the world. By 1997 McDonald's, which was created in 1955, had built 22,000 restaurants in more than 100 countries, serving more than 40,000,000 clients per day (The Economist, 1999).

### Free Market Economy

Globalization however, can be regarded to mean the domination of one economic model - 'the free market economy'. But, many people still believe that free market system is the only model of capitalism. Far from this, from the very beginning of the emergence of capitalism, the European capitalists have held different perceptions on the concept of liberty, Civil Society, State, and market. Liberalism is one of these. It was only when the Cold War ended that liberalism and free market economy became the dominating factors in the West and in the rest of the world.

But what exactly is free market economy? There is a need to understand the concepts and consequently the definition of the free market economy which surpasses the economic sphere. To define the concept, the free market economy can be better explained by using three main parameters. (The following explanations should not be considered as the only way to describe the free market economy):

a- *Individualism* which is not an only economic concept, but a very deep social and political one. Individualism involves giving all/first values to Individuals. It is a political and social concept, in which individual and his interests are above those of the collectivity. A lot of non-western societies which are trying to adopt the free market economy have very little understanding of this basic concept of liberalism. Many of them fail to comprehend that the free market economy is not necessarily the "War of All Against All" as ascertained Hobbes, a British political philosopher of 17th Century society (as cited in Enoch, 1993). In fact, the free market economy is based on a moral principle, in which an individual is accepted with mutual respect. Scholars do agree that the most referred theoretician

on such legal society and its moral principles has always been Emmanuel Kant, the most important German philosopher of 18th Century (Kant, 1956). Therefore, the first and original model of a real free market economy is applicable only to a society with high cultural values and thus, it is related not only to the level of economic production, but specially to the level of political and cultural maturity of that society as well.

- b- *Competition*. Competition should not create a jungle-like environment, but follow a rule, in which the needs of both the rich and the poor are mutually respected. In a society with high cultural level, law and constitution should protect the rule of competition and the competitors. No real competition will be possible without the application of a mutual individual respect and the legal support of inferior groups. This is the first fundamental concept of a real Civil Society.
- c- Although competition is supported by a mutual individual respect, the philosophy of the free market economy, as liberalism stipulates, is based on the idea that the market and its interests come first and the law of demand and supply are as its driving force. A situation whereby society's behavior and industrial outputs follow the market principle. Intellectual schools and economists are still debating on this third aspect of the free market economy. In Europe, the crucial discussion turns around the appropriate level of the State intervention in the market and the interrelation between the State law and the market interests. After the end of the Communism, many among the communist and socialist supporters, specially in Germany and in France, have joined liberalism and by so doing launched debates concerning the way in which a State might operate and assure social protection in the competition that market imposes on the civil society. Some of them suggest that the free market economy should not be restricted to material needs only, but that priority should always be given to the society. Therefore a certain degree of State regulation of the market will certainly be necessary. We will come back to this point.

Consequently, Competition is directly related to individualism. Competition would be possible when individual as a social unity, and the individual sectors of the market, are respected by the rule of the society.

### III. World Economic System and its main characteristics

Numerous western analysts have noted that the world economy functions as 'One Unique System'. The origin of this idea comes from the great French historian and economist Fernand Braudel (1985). He launched his theory in the 1970's, which seems to be mostly related to the so-called period of "Internationalization" in the world economic evolution (Schwald, 1995, p. 42). Immanuel Wallerstein<sup>4</sup> in the United States has been working on this theory which is based on the idea of Capitalism functioning as one *whole system with one World Center*.

becoming familiar with the structure and conception of modern technology helped the most active non-western countries to *produce progressively the western model of technology!*

From '*utilization to production*', an important historical transition in the structure of the World Economic System was born, in which the ex-colonies are becoming the new industrialized countries and actively competing with the West. This is the significance of the rise of Asia. South Korea, the countries of the South East Asia are among the fastest. In 1970s-1980s, they have been called the 'NICs' (Newly Industrializing Countries). Today, all the country members of ASEAN are in this exceptional process<sup>10</sup>. It is impossible to conceive of the economic performance of these non-western countries without the process of Globalization.

### Métissage of values

As different regions of the world apply more and more western technology, embrace market economy, western democracy, and western model of education, they however do not become a part of the West but westernized. One very important fact is that: Westernization seems to *stimulate local values*, as newly industrialized countries retain their national, ethnic and cultural identities (Hoodashtian, 1997). This stimulation appears as an 'Identity Resistance' manifested by each country as they join the world movement and Globalization, which tends, by nature, to eliminate all differentiations. Globalization tends to homogenize the world. So, the more it is developing, the more Identity Resistance seems to attract people in some non-western countries.

Here, I am going to look into this from the point of view of political and cultural values prevalent in the regions in question.

1) At the beginning of the movement of Globalization, around 1990-1997, the major debate among the western scholars was based on the vital question of whether Globalization, which is imposing to different domestic economic structure one and the same type of technology and model of production, could promote a certain political and cultural *homogenization* among different countries (Fukuyama, 1993). In other words: It is right to say that technology, rational by concept and construction, has the same *nature and function* all over the world. There is no 'geographical', 'racial' or 'cultural' priority for technology to be used (Ellul, 1977). Technology is not a racist! Once it is understood as a need, in India, in Africa, in America, all people are *capable* to use the same technology in the same way. The utilization of computer technology is the best example. Who could imagine, in the 1950s or even in 1970s, that the computer which possesses one of the most complex structures, could be *used* by all nations of the world in such an easy way? Who would believe that this technology was soon to be used one day in all areas of the society like: hotels, restaurants, universities, companies, ministries, creating a real world network as e-book, e-shopping, e-commerce, e-development, e-government, e-democracy, e-group, even e-diets and so many other e-s ? (The Economist, 2000).

The main question is in spite of such a common and general utilization of the same technology, we do not notice countries becoming *closer* to each other. Contrary to what Francis Fukuyama, in his famous "The End of the History", had expected to see, we did not notice the *same* understanding of the need for world peace, the same conception of democracy and Human Corporation among nations. Despite Globalization and penetration of the western technology in all countries, we did not see fewer wars around the world; we did not see peace dominating everywhere. This means that utilization of the same technology does not produce, mandatory and all round the *same* culture. According to some other authors, Globalization has prepared a better ground for new political conflicts between international powers through nationalism and the emergence of religion. According to Samuel Huntington, Globalization is creating a heterogeneous situation which stimulates confrontations between countries. From the beginning of the 1990's, we could notice in many developing countries, in Eastern Europe, Middle East, etc., the movement towards regional independence. Some countries become smaller due to internal divisions, such as in the ex-Yugoslavia. Along with the emergence of nationalism, we notice that emergence of regional conflicts, particularly Islamic, in Middle East, North Africa and in some Asian countries, has created another source of confrontation between the West and the East (Huntington, 1996).

2) In short, the international economic movement of Globalization, or the process of Westernization, seems to stimulate local values and universal utilization of technology, though does not influence this reality very seriously.

For example, the Central Asian countries and specially Kazakhstan after the end of the Cold War established very advanced relations with the West and attracted numerous American and European companies to its territory. Westernization in Kazakhstan seems to have taken a fairly rapid pace in application of technology, business methods, and structure of education. At the same time, one of the first actions of the President of the country was to reinforce and support preservation of Kazakh language along with the Russian language, which was formerly dominating in the Republic, and to promote Kazakh national traditions. Another example is Japan, which was highly dominated by the United States both economically and culturally after the World War II. After 1950's Japan took a very serious movement towards Westernization in economy, industry, and education, while simultaneously strongly preserving some aspects of national culture (Demorgan, 1996). One can observe a moderately similar situation in South Korea.

This conflict of cultures creates a real confrontation between Western/modern and Eastern/traditional values in the non-western countries. Nowadays, the question and the issues of such values confrontation are posing big challenges. Scholars in Europe are focusing on this very important question, and some of them have come with ideas that the real issue of confrontation of modern and traditional values would be the creation of new context which could be called "Métissage of Values" (Barbier, 1996). This is a *Métissage of Western and Asian values*, in which non-of the values will be eliminated, but combined in a *new framework*. The Métissage is a framework which will not be anti-modern or anti-traditional,

but will carry both of them. It will neither be modern, nor traditional. If this Métissage concerns specific kind of values related to the cultural and spiritual life, "Structural Métissage" is a combination of values at all levels of life, in culture, social, politics and other levels, in the non-western countries. (Hoodashtian, 2001, September).

Following the theory of Métissage, we understand how *original* would the situation be in each non-western country. Each Structural Métissage is different from another, because each Structure is realized in relation with the specific historical/political and cultural situations of that specific country. There is no universal model of Métissage. Each combination of values is unique in this sense that it has been created in a specific time, and under a specific condition and in a particular historical context. Consequently, the theory of Métissage underlines that there is no more "real traditional society" in the world. The modernity and its values affect all countries, which are in relation with the West. In fact, Westernization of the world creates a framework of Structural Métissage in the non-western countries and pushes them automatically to emerge for facing the new problems created by this new situation. This is the same process, which motivates them to compete with the West.

In the West, the study of Métissage of values as a new Anthropological approach to the question of cultural interactions between countries is yet to be fully researched. However, the interest of scholars in this matter has increased since the beginning of the period of Globalization. At the University of Paris (St.-Denis), the Research Group *CRISE*<sup>11</sup> and its sup-group GREMA are focusing on the last issues of the cultural contacts between the Asia and the West.

## Conclusion

Globalization is a world movement with a specific sense: from the West to the East. It should not be simply considered as an economic movement. Following the internationalization of the modern technology and the free market economy, cultural and political aspects should be taken into consideration as well. Globalization started with 'Deregulation' and the penetration of the capitalist model of economy based on the free market in the most parts of the world. Some scholars consider this as the best opportunity for the establishment of a future homogenous world. Others believe that Globalization accelerates a political antagonism between countries.

In any cases, Globalization is a global progress, highly motivating the interactivity of cultures, expression of some confrontations between Western/modern and Eastern/traditional values. For the non-western countries, this confrontation could create a kind of combination of values at all levels of the society, what we could call, in this study, 'A Structural Métissage'.

## Endnotes

<sup>1</sup> This Conference was given to the second and third year students at 'Eurasian Market Institute' in Almaty in January 2001. I would like to express my gratitude to Dr. Aitkali Nurseit, President of the 'Eurasian Market Institute,' and Ms. Fizuza Seitova, Pro-rector on External Affairs, in inviting me to share some thoughts with students. I also would like to express my thanks to Aset Kopbaev, MPA, Research Assistant at KIMEP Research Center who took notes and helped me to prepare the first draft of this paper. The author has completely reviewed the last part of this paper.

<sup>2</sup> We can notice how the history of Russia is related to the history of the world in the twentieth century and some how, conditions it, and how the internal movements of this country could up to now modify the map of the planet.

<sup>3</sup> One of the specific results of the movement of Globalization was the development of Global Companies. One main difference between Global companies and a Multinational companies is in the degree of Centralization of power and, consequently, in the style of management. The first model builds its headquarter wherever there would be the possibility of a new innovation related to the profitability and the development of the company. The second model is mostly based on one headquarter which is the source of diffusion of the main decisions and orientations of the company.

<sup>4</sup> Immanuel Wallerstein is the Director of the "FERNAND BRAUDEL CENTER for the Study of Economies Historical Systems, and Civilizations" at Binghamton University, State University of New York, which has been founded in September 1976 to engage in the analysis of large-scale social change over long periods of historical time (<http://fbc.binghamton.edu/>).

<sup>5</sup> Abolhassan Banisadr is an ex-President of The Islamic Republic of Iran for the period of 1980-1981.

<sup>6</sup> Certain other countries, like China and Iran, have still some ideological confrontations with the West, but practically, they are almost applying the main lines of capitalism with the State intervention. Both of them are highly, at least in theory, encouraging the private investments.

<sup>7</sup> Even Islamic Iran, under the reformist President Rafsanjani, and specially President M. Khatamy, does not wish any more to preserve the whole practice of the State Economy and the Government keeps inviting the capitalist Iranian living since the revolution in the United States and Europe, and encourage the western companies to invest in Iran.

<sup>8</sup> For the movement of 'Anti Globalization', see: <http://www.unc.edu/depts/anthro/escobarpaper.html>, and <http://www.corpwatch.org/news/2001/0038.html>

<sup>9</sup> What are the modern technology and its difference from the traditional technology? See: Goffi (1988). For more information, see Habermas (1973), Heidegger (1958), (1962).

<sup>10</sup> ASEAN is 'Association of Southeast Asian Nations'. Created in 1967 for promoting regional economic and political stability, it includes Thailand, Malaysia, Singapore, Indonesia, and Philippines. Brunei and Vietnam joined ASEAN in 1984 and 1995 respectively.

<sup>11</sup> The idea of Métissage is coming from my Professor Rene Barbier, the head of the Research Group CRISE (<http://www.fp.univ-paris8.fr/recherches/accueilCRISE2.html>) at the University of Paris 8. His main theory is the 'Métissage Axiologique', which means a combination of cultural values. But the idea of 'Structural Métissage' comes from this author. Described in his doctoral dissertation, and then in a book, "Une Modernité sans Occident" and in an article, "Eight models of the Structural Métissage" (see References), this last idea refers to the point that Métissage is not only a reality of the combination of cultural and spiritual values but it concerns all values, in social, politics, education etc, and would cover all aspects and the whole structure of the life in the non-western countries.

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## The contribution of education to economic development

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### Abstract

*It has long been argued that the possession of raw materials is the source of economic development. The argument has been advanced that given the possession of adequate raw materials a country has the resources to use these raw materials to attract capital in their exploitation. The classical economic formula of Capital (investment) + Raw materials (resources) = Growth, has been demonstrated by history to be flawed.*

*Until recent research and analysis this model has, however, been followed by countries trying to move out of the LDC classification. Examples of this adherence to economic doctrine have been notable by their inability to exploit their natural resources to achieve economic growth (e.g. Malaysia, Brazil and Indonesia).*

*Until work by economic researchers like Paul Romer, the classical model of development and growth appeared to pass over the most important factor in economic management and development. As the quote from "The Economist" and from latter day teachers such as Ohmae, Myrdahl, Peters, Rostow and Dichter suggest, the answer (if there is one) lies with PEOPLE. As Romer suggests, development comes through people and their skills.*

*People, however, by themselves do not produce the dynamism needed to drive an economy towards increased wealth. Without the appropriate training and education progress is slow and erratic. The model described in the paper explains the way in which modern education and training can produce the synergy needed to compete in the global market place. Modern management structures and methods of organization rely on the supply of well-trained and motivated workforces. McKinsey, one of the world's leading management consultancies demonstrates this point with their 7S's description of successful organizations:*

**Structure** (modern, shallow, low hierarchy)

**Strategy** (responsive to customers, fast reaction, competitive advantage, quality focused)

**Systems** (delivery of the needs where wanted, when wanted, how wanted)

**Staff** (open minded, adaptable, motivated, involved, responsive)

**Skills** (highly trained, customer oriented, continuous updating)

**Style** (consultative, participative, customer focussed management style)

**Shared beliefs** (everyone in the organization working for each other, all in the same direction)

*It is suggested, therefore, that well trained and highly motivated people are the driving force in economic performance. It is suggested that investment in this facet of the economy will be*

*the best return on investment a country can make. To do less is to penalize yourself, to penalize education and training is to sentence everyone in the economy to poverty.*

### Introduction

The transition of command to demand economics has had profound effects upon the structures of all aspects of Social, Legal, Economic, Political and Technological parts of our lives. Changes in behavior have been necessary, but the reward system, associated with changes in behavior, has not been seen to be significant enough for radical change in all aspects of economic life. In many cases the "penalties" also have not been fully realized.

The paper explores the radical changes, which have taken place in education and the effects of the "marketization" of the education system.

### The changing face of education and training in response to a fast changing world

"There is only one constant in life: only one thing we can rely upon, and that is change"  
*Professor Theodore Levitt*

The world is a fast changing place, we in Kazakstan have seen our fair share of these changes over the last few years. Economic change has meant that we have had to readjust our lives and behavior to accommodate these changes and to learn to survive in a world for which we had been ill equipped. The skills and knowledge we once developed now appear to be inappropriate to the tasks we now have to perform.

Change is uncomfortable, it is unsettling, it is unpredictable and, therefore, it is frequently resisted. Resistance often stems from lack of information and lack of training to understand why the change is necessary and how the individual can benefit from the changes. This process of information dissemination is an education process of an indeterminate time scale, - change extends the period.

Education and training has a vital role to play in the change process as it is the primary input for the change agent. Through education new ideas can be stimulated and then developed into new skills, which can then be translated into new benefits for the most important person in the demand economy: the customer (sometimes called client, patient, employer, tax payer, voter, fellow worker, boss or colleague).

Through education and training, the new skills which will generate our employment and incomes can be acquired, skills which are appropriate to the needs of tomorrow's world and to the needs of our customers. The skills of people are the most important factor in development as people make the difference between advance and stagnation (Romer, 1983).

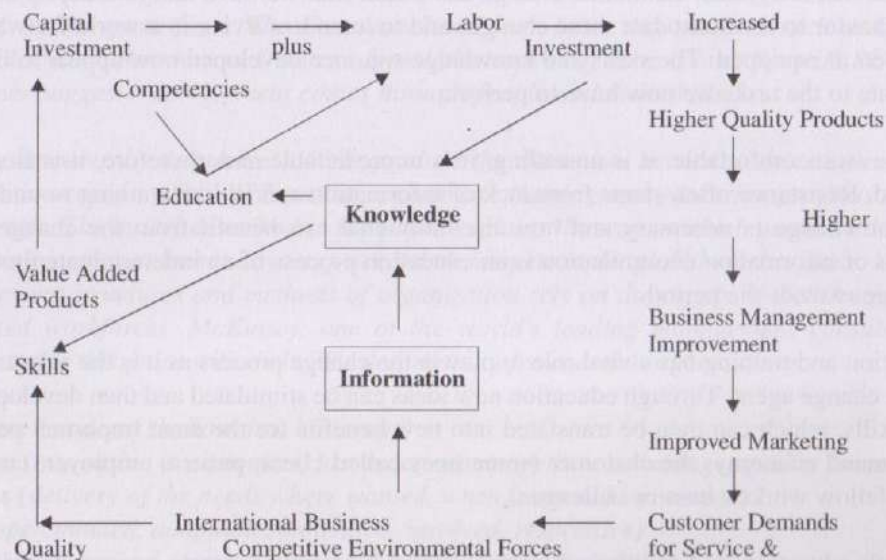
"The ability of a workforce to make the best of new technologies may be a country's best competitive advantage. Wealth in raw materials, the foundation of innovation two centuries

ago, barely matters; anyone can buy them. Proximity to rich markets matters less as transport costs fall, relative to the value of the goods. A demanding local market is help but can be replaced by still more demanding foreign ones. Technologies pass rapidly from one company to another. Only that intangible, vital quality, the environment of active brains and productive skills in which companies operate in is non-transferable. To change it governments need to start at the school gates" (The Economist, 1992, January 11-17).

Romer focuses attention upon the "human capital" in the economy, arguing that people are the most important factor in the development equation. He puts the argument forward that investment returns and growth rates can be sustained through the availability of information leading to knowledge. The development of knowledge which leads to skills and greater competencies in the workforce is a basic factor in Romer's equation. Restricting information by control or by making the acquisition of information expensive inhibits the possibility of development in a competitive world.

The following model of sustained growth, adapted and augmented from Romer's model, suggests how the education and training systems of a country might provide the engine room for sustained growth.

Figure 1. Sustained Growth (adapted from Romer, 1986)



To start the process the necessary training must be given to the workforce, so that they are able to come up to the required quality levels of international competition. The emphasis is on international competitiveness because increasingly the maelstrom of international markets sucks countries into this environment. Kazakstan is already involved in international busi-

ness: it has already been drawn into an international consumer-oriented behavioral pattern. It follows, therefore, that it must adopt international levels of competence for its workforce if it is to survive in this competitive environment.

The globalization of consumer tastes and its effects on fixed costs, the rapid dispersion of technology, the explosive growth of the FX empire - in short, the cumulative, relentless flow of information around the globe - has taken years to alter the landscape long familiar to corporate strategists. But it has done its work well. Today if you look closely at the world, national borders have effectively disappeared and, along with them, the economic logic that made them useful lines of demarcation in the first place. Not everyone, however, has noticed" (Ohmae, 1990).

Structural unemployment, possibly the largest single problem to be faced in a period of economic transition, can only be remedied with the help and application of the education and training institutions. However, the need to retrain, the will to retrain, and the resources to retrain have to be identified. The education sector itself has to be restructured and reoriented to the needs of its customers. In fact, the institutions have to be made aware of their customer needs. In other words, education and training have to become market led rather than product led if they are to remain relevant to the needs of the person who pays the bill.

Tom Peters, the American management guru, wrote, "The workforce is indisputably our principal asset. Each day its overall level of useful skills (as well as its commitment and energy) is either increasing or decreasing relative to that of the competition. The operative strategic question, then, is obvious: What have you done today to enhance (or at least insure against the decline of) the relative overall useful-skill level of your workforce vis-a-vis competitors?"

Training to meet the new challenge is the responsibility of the education sector. Training is still, however, seen by many organizations as a cost instead of an investment in the future competitiveness of the organization.

### The UK experience

It became evident in Britain by the late 1940's that devaluations of currencies, licensing and government control of business was not the way forward towards recovery. By the mid 1950's the environment was changing so rapidly that government policy always appeared to be one step behind events. By the 1960's it became glaringly obvious to the British government that its biggest disadvantage to economic competitiveness in international markets was its poorly trained and poorly educated managers and workforce. By the 1970's it had also realized that innovation, quality and marketing were essential for its commercial survival.

The British government sought advice from its business community about the way it should build an environment which would make it more competitive and improve economic performance. Out of the deliberations of this "think tank" came a picture of graduates who were



very well educated and knowledgeable, BUT, were not able "to do" the things required of them by business. Their recommendations focused on skills competence as much as knowledge, and a highly developed ability to perform in a problem solving capacity in organizations. From this information the British government set about establishing two bodies to manage the operation of a new system of education which was charged with producing the required "product."

The Business Education Council (BEC) and the Technician Education Council (TEC) launched their courses in 1975/76. These courses were to address the problems of lack of skills, and problem-based learning. They were to be at three levels: General Certificate/Diploma (14 to 16 year olds), National Certificate/Diploma (16 to 18 year olds) and Higher National Certificate/Diploma (18 upwards).

The courses were designed to provide three increasingly complex levels of business and technician education (Graham & Hutchison, 1982).

The development of the courses has followed a "national" model which is provided at colleges and schools throughout the country. This enables participants to transfer from college to college and thus contributes to greater labor mobility. The courses are also transferable to constitute entry criteria for continuing education at Masters' degree level for example.

Further changes in the education system followed in 1988 with the Education Reform Act. Under this act the colleges were required to become self-funding and to become more relevant to the needs of their customers (marketized). The competitive nature of education was enhanced when the system of catchment, the monopolization of recruitment within a given area, was abolished. In essence the changes required:

- Strict financial management and devolved budgetary control;
- The efficient use of resources with an emphasis on productivity;
- The extensive use of quantitative performance indicators;
- The development of consumerism and the discipline of the market;
- The manifestation of consumer charters as mechanisms for accountability;
- The creation of a disciplined, flexible workforce, using flexible individualized contracts, staff appraisal systems and performance related pay; and
- The assertion of managerial control and the manager's right to manage (Randle and Brady, 1996).

Each college now has to market its courses and to produce results which are measurable and to the "customers" liking. The economic pricing of courses is also a requirement, although some colleges enjoy subvention from local funding.

Naturally, this has not been an easy transition for many of the profession who feel that the commercialization of education is anti academic. But if the taxpayer objects to high taxes, then government in a democracy has to respond or lose its mandate.

In any case, competition in the sector from private, commercial training organizations, colleges and institutions forces the issue if survival is to be achieved.

"For good or bad, market forces and the terminology of the market place have gradually crept into the world of education, and consumer culture has arrived with the emphasis on quality, choice, standards and value" (Donaldson & Runciman, 1995).

The concept that one should not charge for knowledge that has been gained freely does not really hold water. No knowledge was gained freely as there was surely some economic price to pay for that knowledge. Perhaps by the hard-pressed taxpayer, he surely is entitled to know how his money has been spent?

The long-term requirement of survival for educational establishments is surely a sound reason for becoming marketing oriented. In education and training this marketing orientation revolves around:

- Customer orientation (Industry, Commerce, students, employers)
- Employee orientation (Lecturers, administration)
- Organizational orientation (Institutional reputation, quality, ethics and integrity)

"An organization follows a market orientation to the extent that its structure, culture, systems and procedures are established and developed in a way that ensures long term customer (both clients and employees) relationships within the resource limitations and long term survival requirement of that organization" (Siu & Wilson, May, 1998).

Education and training has a vital role to play in the resurgence and sustained growth of Kazakhstan but it can only play this role if it gets itself fit enough to do so. Retraining, and reorganizing for the future is part of the solution, but, looking to the customers of our products is even more important.

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## Evolution of capitalism in the post-communist societies: Deviating models of late capitalist development

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### Abstract

*The following article presents a theoretical analysis of the ethical and social problems confronted by new market economies of East/Central Europe and the former Soviet Republics. It argues that the experience of post-socialist development in these countries deviates from the theoretical frameworks of classical liberal theory of capitalism. The article discusses the limits of libertarian political economy and suggests an alternative framework to account for the deviating experience of the post-communist societies.*

### Introduction

The classical political economy approach suggests a liner correlation between the development of capitalist market economy and evolution of social structures associated with capitalism. Among these structures the rule of law, extended network of social associations, popular political participation, and an inclusive political system are often mentioned. All these properties of society are usually embraced by the term "civil society." Thus, for classical political economic thought the evolution of the capitalist economic order leads to the emergence of civil society and democratic state.

However, the current experiences of the developing nations, some of the historical examples of late industrialization, and today's problems of transition from socialism to capitalism present some doubts about this theory. It seems that liberalization of the economy and the introduction of market forces, both of which are associated with capitalism, do not necessarily result in a flourishing civil society and democratized political regime.

The book *The Idea of Civil Society* by A. Selignam (1992) identifies two troublesome characteristics of the current post-socialist transition to capitalism. These characteristics are (1) the difficulties in functioning of market and (2) underdevelopment and weakness of civil society (pp. 145-178). These characteristics suggest that current capitalist formation in the former socialist countries deviates from the classical liberal model of capitalist development, which implies that the economy is able to regulate itself and society is powerful enough to restrict the government.

To explain this deviation appears to be an important theoretical and even practical problem. This article will present some considerations on this issue, and will argue that deviations from the classical model of capitalist development derive from the logic of imposed capitalist development in the East/Central Europe and the former Soviet countries.

In this respect the article will have two particular focuses. First, it will consider the leading role of the entrepreneurial class in promoting market development and will address some implications, which can be derived from this for the transitional economies of the post-communist countries. Second, and probably more important, the article will focus on the crucial role of investments and investing agencies for the direction and social consequences of the capitalist development.

### Ethics of capitalism: 'Troublesome pat in the post-communist countries'

From the classical liberal perspective, the establishment of a capitalist economic order coincides with the emergence of an entrepreneur class. The evolvement of entrepreneur ethics is treated as a prerequisite for the development of capitalism by many authors, including M. Weber and J. Schumpeter. According to Weber (1958), desolation of the medieval ethics, which had treated economic activities and capital accumulation as a sinful endeavor, preceded the emergence of capitalism (p. 292).

Let us now recall the importance, which was assigned to the entrepreneurial class by the classical liberal tradition. In Schumpeter's widely popular model, for instance, it is the entrepreneur who plays the focal role in propelling the dynamical changes that are the essence of the capitalist system. The entrepreneur is an engine of the progressive process of "creative destruction," the engine without which the whole capitalist system loses its dynamic potential to generate new technologies, products, and the means of organization through the demolition of old practices (Schumpeter, 1976, pp. 82-83).

Recognizing the importance of capitalist ethics in the whole structure of capitalist society, liberal thought treats changes in ethics and economic progress as parallel, mutually facilitating processes of early capitalist development. But what if changes in the values are absent? What if the society undergoes market development, but lacks capitalist ethics? Classical liberal doctrine does not account for the described situation. Being a theory of genuine, well-rooted capitalism, it fails to predict developments in a society, which undergoes imposed "capitalization". The study of the historic examples of imposed capitalism can advance our understanding of contemporary problems experienced by new markets.

Alexander Gerschenkron's essay *Social Attitudes, Entrepreneurship, and Economic Development* thoroughly examines the question of how the absence of capitalist ethics affects the development of capitalism. In this essay, Gerschenkron emphasizes an idea of interdependency between "popular evaluation of entrepreneurs and entrepreneurial activities" and the country's rate of economic development (1962, p. 52). As Gerschenkron's study of relatively backward countries of Europe in the 19<sup>th</sup> and 20<sup>th</sup> centuries shows, social approval is an important factor for the emergence of entrepreneurial activities. For instance, analyzing Russia in the 1880-1890's the author asserts that in a collectivist community the entrepreneurial activities were seen as deviant behavior. Not only, those who were disengaged in such kinds of activities, but also entrepreneurs themselves viewed this behavior as sinful. Social

attitudes of this kind "greatly reduced the number of potential entrepreneurs and hereby reduced the rate of economic development in the country" (ibid., p. 62).

This, however, does not mean that countries where a value system of capitalism has not evolved will not undergo capitalist development. According to Gerschenkron, the lack of values supportive for capitalism in "relatively backward" countries results in the development of characteristics of capitalism different from classical ones:

- Disrespect and distrust prevail in society, which is guided by the old collectivist values but deviates from them in its economic activity;
- The state replaces entrepreneurs in directing and propelling development and innovations;
- Rapid economic development coincides with stagnation in the development of social institutions.

The logic of the Gerschenkron analysis is the following: Capitalist development in countries, which happened to undergo industrialization and capitalist development later in time than others, is hardly influenced by the existence of the more advanced and well-organized capitalist economies. The examples of the more developed nations impose considerable pressure for accelerating the progress. This results in more rapid rates of economic development and changes in socio-economic structure. Society cannot quickly adjust to these rapid socio-economic changes so the evolution of capitalistic ethics and socio-political structures lags behind.

Society cannot wait for evolvement of moral, social, and economic prerequisites for the development of industrialized market economy. These prerequisites are replaced with anything that can promote the progress. The possibilities opened for the late industrializing countries range from the centralization and coordination of investments by the state to the borrowing of technologies, means of organization and production, and the capital from the more advanced countries. The later possibility means that backward countries may not rely on the domestic financial and intellectual capital for propelling their industrialization. They do not need to build it in the first place, as early-developed countries did. The emergence and development of capitalism turned to be not a natural authentic process, but an imposed and simulative one.

The set of characteristics of the late developing nations sketched above was generated from the 19<sup>th</sup> and 20<sup>th</sup> century's experiences of backward European countries. Nevertheless, it has some significance for the current problems of "marketization" in the countries under transition from socialism to capitalism. Although contemporary infant market economies of East Europe and the former Soviet Union do not face challenges of industrialization, they experience needs very similar to the backward countries discussed by Gerschenkron. They are on the way to establishing an efficient, viable, and self-developing economic systems of market capitalism. This challenge is very similar to the challenges faced by European industrializing

nations of the late 19<sup>th</sup> and early 20<sup>th</sup> centuries.

In the post-communist countries, the entrepreneurial spirit was under attack for a long time and in some cases, socialist regimes had succeeded in absolutely surmounting it. In this respect, post-communist societies resemble those of feudalism, where people were subjected to authorities and individual entrepreneurial activities were regarded as deviant. A swift shift in values creates social apathy, frustration, and distrust among the people. As a result, social associations vanish and political isolation of citizens prevails. Civil society as a paradigm for the network of social associations stays undeveloped and in some cases remains suppressed by the government. Post-communist countries largely rely on foreign capital and technologies to foster development and restructure the economy. The state takes the burden of promoting economic development. This leads to the strengthening of the state role in the economic development comparing to the role of society.

It seems that characteristics of backward countries' capitalist development can now be found in the post-communist countries. Although now we do not speak about industrialization, the Gerschenkron framework applied for late industrialized countries of the 19<sup>th</sup> and early 20<sup>th</sup> centuries are useful for analyzing the post-communist economic development and its social and political consequences. Within this framework the deviations of the East/Central European transition from the classical model of Western Europe and the United States can be explained.

Weakness of civil society and tendencies toward authoritarianism are not foreseen by the classical theory of political economy, but are expected within the frameworks of Gerschenkron's theory of relative backwardness. A society, in which people lack entrepreneurial spirit and skills, cannot rely on individual activities for the promotion of development. The importance of the state is emphasized at the expense of civil society and the individual. The difficulties with the formation of individualist values and entrepreneurial spirit are reinforced by the nature of transitional economic development.

### **Importance of investments: Who pays for transition?**

In order to establish a visible correlation between evolution of market capitalism and the emergence of democratic political and social institutions it can be useful to consider the role of investments and investing agencies at the initial stages of capitalism. These stages in the Western Europe and North America coincide with the industrial revolution and the establishment of liberal democratic institutions. Classical liberal tradition treats the former process as a prerequisite of the latter. Moreover, sometimes it is implied that a market economy guarantees the later emergence of a democratic political regime, limited government, and the rule of law. This may well portray the case of the Anglo-American capitalist development. However, most of the countries even in the European peninsula had deviated from this Libertarian model.

There were presented different explanations of the exemplary character of Anglo-American capitalist development, the most popular of which are the cultural and historical approaches. They emphasize an indefinite number of peculiarities of Anglo-American culture and history and suggest that since history and culture cannot be replayed and copied the unique model of Anglo-American capitalism cannot be recreated in other countries.

The theory of relative backwardness presents an economy-centered account of deviations from the classical Anglo-American model of capitalist evolution. The crucial factor of the capitalist economy is capital as one of the factors of production. In the form of investments, it appears as a major force propelling capitalist development. It is arguably more important than the two other factors of production - labor and land - in the sense that it has fewer limits for growth. Karl Marx by referring the term "capitalism" to the system of industrial market economy had stressed the importance of capital as an essential characteristic of this system.

From this juxtaposition those who possess the capital and who are willing to turn it into investments are very important actors in the evolution of capitalism. Classical liberal model rests on the fact that in advanced countries of Europe and in the Northern American colonies industrialization at the initial stage of capitalist development was financed by the means of individual wealth. This had created ideal conditions for the formation and maturation of civil society and for the establishment of limited government. The progress of capitalism in England, Holland, and North America (and to a lesser extent in other Western countries) was a result of individualistic economic activities and individual capital accumulation. Individuals had carried the whole burden of promoting economic development; thus, the social importance of individuals was fully recognized. Social and political institutions fully reflected this fact.

The slogan "No Taxation Without Representation" appears only in a situation where individual economic activity is the primary source of wealth in society. In this situation the wealth of individuals and their importance in the economic development of the nation is a cause of strength of society's position vis-a-vis the state; this in turn is a cause of the emergence of limited and restricted government. From this we can infer that the evolution of liberal social and political institutions is linked to the particular model of market economy development, an essential characteristic of which is the prevalence of individual economic activities.

Let us consider the current reinvigoration of market economy in the post-communist countries. At the initial stage of transition to the market the fall-downs in production, slowing economic growth rates, and decreasing standards of living required large amounts of investments into the state-owned and public sectors of the economy. Who could supply the needed capital for restructuring the economy? It is obvious that the emerging market economy could not rely on individual savings as a major or at least considerable source of investments. By the time of the collapse of socialism, the post-socialist states were the owners of the major means of production, capital, and with few exceptions the land. The overall majority of pop-

ulation was dependent upon state-sponsored employment. At the beginning of the transitional period, all this resulted in the virtual non-existence of accumulated private capital and in the concentration of all sources of economic development in the hands of the state.

Although the policy of privatization implemented by all post-socialist countries was aimed to create a class of owners, this policy due to the series of causes has not created the opportunity for private investments. Among these causes the most apparent were hyperinflation, which devalued assets and discouraged saving, and the underdevelopment of the financial system. The other side of this problem is that for the implementation of cardinal and rapid restructuring of the economy individual investments are too hard to mobilize and coordinate, and thus, not efficient.

The situation depicted above is very similar to the situation in the "backward countries" analyzed by Gerschenkron. His analysis of the economic development supports the thesis that in the countries experiencing the need for rapid economic changes "supply of capital for the needs of industrialization required the compulsory machinery of the government" (Gerschenkron, 1962, p.20). In the backward European countries a century ago, as well as in the nowadays post-communist countries, the challenge for accelerating economic growth had strengthened the role of the state and its position vis-a-vis civil society.

In the transitional period the state becomes the central agent of development. The central economic role of the state undermines the economic and social significance of individuals, their entrepreneurial activities, and their voluntary organizations. Individuals cannot demand effective representation, because they do not have sufficient wealth and social significance. The power of the state to impose taxes and regulations on society is justified by the leading role of the state in transition. Society, deficient in the opportunity to implement the task of rapid rebuilding of the economy, is led by the state and does not have enough power to impose restrictions on this political institution. The tendency toward unlimited state cannot be overbalanced by economic power of society.

From this perspective, it becomes apparent that the introduction of a market economy does not inevitably result in an automatic establishment of liberal democratic political institutions and a viable civil society. The sources of investments necessary for capitalist economic development appear to be the important factor in shaping the emerging market economy and social structures accompanying it. The deviations from the classical liberal model of capitalism, namely the central role of the state instead of the limited government, observed in post-communist countries according to the logic of this analysis derive from insufficient private domestic investments and their inability to implement a large-scale goal of rapid market economy development.

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As R. Skidelsky (1996) stated: "The replacement of Communism by capitalism is an entirely novel experience in human history. No society has ever been centrally planned down to the last detail before. So the dynamics of transformation are unpredictable. Conservative philoso-

phies of change can offer no guide for the future. The social institutions needed to contain the new forces will have to be recreated from the fragments of broken system" (p.173). By sighting this fragment I do not imply to accuse the classical liberal doctrine of been conservative, neither do I imply that no predictions about the future development of newly emerging market capitalist countries can be made. I just want to point the limits of libertarian political philosophy.

There is no doubt that history cannot repeat itself again. It is naive to expect that unique circumstances of capitalist development occurred in the countries of early capitalism will repeat themselves today. Nevertheless, a comparison of some characteristics of early capitalism in its Anglo-American variation with the contemporary introduction of market capitalist economy in the post-communist countries can help to understand the problems of transition.

These problems are economical as well as socio-political. Difficulties in capitalist ethics formation and in the emergence of the entrepreneurial spirit can account for the unsatisfactory functioning of the markets. The nonexistence of the post-communist counterparts for individual assets and investments accounts for the strong position of the state and tendencies toward unlimited government

#### Endnotes

<sup>1</sup> Gerschenkron has developed a theory of economic development, which he named "The Theory of Relative Backwardness." The term "relative backwardness" was referred to the countries of Europe, which have started developing capitalism in the process of industrialization after the industrialization in the other countries. Gerschenkron treats countries of Eastern and Central Europe, Prussia and even France in different periods of their capitalist development as "relatively backward countries." Gerschenkron's arguments can be summed up as the following: because some of the nations had gone through the path of the capitalist industrialization, the essence of which was remarkably portrayed by Adam Smith in his *Wealth of Nations*, countries, which develop their market economies later, had different characteristics of capitalist development and social structures accompanied it.

<sup>2</sup> For examples of cultural approach see Almond (1989) and Putman, Leonardi & Nanetti (1994). A good example of historical explanation is Tilly's "The Formation of National States in Western Europe" (1975).

<sup>3</sup> For discussions on politico-economic problems of transition see Lavigne (1999, p. 328), and Zuzowski (1998, p. 165).

<sup>4</sup> For details see Skidelsky (1996, pp. 142-160).

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## Role of risk management in day-to-day affairs

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Cost of Uncertainties in our day-to-day life is becoming more and more as we proceed and expand. Let's assume, how profitable it was and what a comfortable conditions we could create, if we did not have any Uncertainties and we were able to only concentrate into our main task/profession. Worries/Uncertainties are adding up, as soon as we fix a desirable target. Sometimes they over-load us, and sometimes we are able to live among them, but this struggle will continue and continue!

Dictionaries describe the Uncertainty as Risk, some of them refers to uncertainty as dangerous event which may eventually happen and completely destroy and jeopardize all what we have created. Some refers to it as possibilities, which at the same time can bring good chances and be profitable.

As of early 1975, the issue of controlling and managing the uncertainties were become more important and mainly this was due to an enormous growth and sudden expansion in World Economy. Till that time, Insurance Companies were assumed to be the only places where one can transfer its risks and be compensated in case of loss or damage. But the immediate problem faces the industries and world trading organizations was that: One cannot transfer each and every risk to an insurance company. Risk MUST have few peculiar characteristics, and hence an insurance company may become involved.

This stage was the beginning of Risk Management Studies. A practical knowledge which assist every enterprises or individual to manage its risks. Risk Management and risk managers started their expansion and shortly in early 1980s, Companies with more than 1000 employees created new positions or departments for their risk mangers or risk management departments.

Nowadays, Risk Management is considered as the main and first part of each and every successful operations. It has been expanded and became an integral part in political structure of countries.

By Risk Management, one can: Identify all perils / risks which are exposed to his operation or his existence / Measuring the identified perils and risks / Proposing choice and methods to manage such, identified and measured risks and finally making sure that the system adopted to manage such risks will smoothly operate and administrate as long as the exposures are in existence.

Risk Management is classified into only three methods; 1- Avoid a risk, if it is at all possible. 2- Retain a risk.3- Transferring a risk to either an insurance company or non-insurance company.

A risk manager duties will concentrate on the above methods and he by using various techniques and studies, will create situations and conditions for a company to continuously survive and be able to maintain its earning power.

In Kazakhstan, the subject of risk management was proposed and is considered by few educational institutes in early 1996 and gradually draw more attention. It goes without saying that, Risk Management will prove to be an important part in transitional economical environment of Kazakhstan. The risk management graduates, no matter of their working places, will gradually propose methods and adopt policies which enable the country to successfully pass through the present transitional sphere and reach toward the main economical reforms which the authorities and policy makers are targeting.

On continuation of our discussion we will consider the importance of this subject when selecting and managing a project together with a consultant. There are many consultants active in Kazakhstan on different issues, legal/ audit / telecommunication / education / energy, utilities, etc. Liaising and coordination with such firms, either Local or International and making sure that the project in question will receive the value as originally assumed is a considerable difficult task. Risk Managers can play an important role in dealing with consultants and making sure that the targets are achieved as planned and expenses and fees charged by them are fully justified.

A risk manager who is in the process of selecting a consulting firm first and foremost should select a firm and partner with whom he feels comfortable working.

After all, the project could take a long to finish. When soliciting a consulting firm, risk managers should ask themselves the following:

- Is my company one of many clients to consulting firm is currently working with on various ongoing projects?
- Is the firm unproven, and am I willing to subsidize its learning curve?
- Can the consultant devote the time necessary to get to know my business and what I seek to accomplish on this specific project?
- Is the firm licensed in my Country?

Discuss the firm's failures with it. What did the consultant learn as a result of these failures? Make sure to check for conflicts of interest before entering into negotiations.

Obtain resume of the individuals who would be assigned to your project. What experience do they possess? What is their educational background? What is their cost?

The risk manager seeking to control consulting costs should also consider smaller firms and individual consultants. Many smaller firms and individuals can perform the project as well as the larger firms for substantially less. Many independent consultants have as good if not better experience than their counterparts in the Big 5 consulting firms and their costs are significantly less. Do not afraid to interview these individuals.

Check job references and determine which individuals were on the project. Check with the potential consulting firm to see if these individuals are still with the firm. Many of the larger consulting firms have high turnover. These firms will still list the projects as references, but many of the individuals who preformed the work may no longer be employed with the firm.

Is the firm a "Can Do" firm or do they just intend to figure out what needs to be done and have someone else do the work? Do they have the manpower to roll up their sleeves and get

the job done?

Appoint a liaison officer from your company to interact with the consultants. This individual needs to oversee the consultant's progress and be available for interpretation and project guidance. Budget overruns need to be approved by this individual.

For long-term projects discuss expense reimbursement up front, and incorporate the results of these discussions into contract wherever possible. Items that need to be agreed to up front are vary, prepare a checklist base on the concept.

Partners at large firms will attempt to sell you other services that you may or may not require. Their rationale for hiring them over equally qualified individuals who charge substantially less, is that their firm can provide you with a plethora of services. Today with the Internet and other online services, consultants in just about any field can be located. If you require these other services do not hesitate to contact other firms. There is no reason why two or more firms cannot work on separate projects within your company.

Beside the Big 5 Consultants in Kazakhstan Market, there are many others in different Consulting activities area. Starting from Education to E-Commerce and Oil And Gas, Utilities etc., it is direct responsibility of Risk manager to make sure the requirements which his company is looking for by concluding the consulting contract are fulfilled and not what the consultants expect to perform within the contract. The use of spreadsheet is one way to determine if the partner or other consultants may be over billing on your project. At the same time this type of accountability will weed out unauthorized expenses that are recouped by adding additional hours to the project. The majority of the projects in Kazakhstan Market are either few years old, with less than 10 years practical experience or are at the beginning of take off. The tendency and passing new laws and or amendments to current legislations clearly speaks about, the fact that things are in process of improvement. The authorities are extremely keen making sure that things are realized in proper manner and as per Internationally acceptable ones, but obviously time and experience plays an important role in this sector as well.

Banks are required to have their own risk managers and works as per risk management manual, actuaries are being trained and working with specific rated reinsurance companies are only permitted. On the other hand, preparation of all requirements in-house may prove to be expensive, therefore Firms and organizations might find it more economical to use the Consultants available. These consultants may be independent consultants or contract employees. Contract employees are covered by the firm's liability insurer, and taxes may be withheld. Independent Consultants provide their own liability insurance and pay their own taxes. The disadvantageous to this approach are that it does not lock in consultants, who may not be available for your project. If the consultant firm is hiring outside consultants to assist them, they may be charging a surcharge for those individuals. A reasonable charge may be necessary to cover insurance expenses and some profit. Many times, outside consultants will be replaced by the consulting firm's own employees coming off other projects, who often do not possess the same expertise. This will cover additional cost to the client for their learning curve.

A similar approach can be conducted by Risk Manager into any other issue. The point is how far companies are prepared or geared up to involve their risk managers.

During the last few years, we have witnessed failure of various projects due to issues, which easily could have been avoided as of the beginnings.

New Investment era and market in Kazakhstan encouraged and will bring various companies into operations. Lawmakers and authorities are trying their best to ease the obstacles and attract as much investment as possible. But fundamental differences between traditional approaches of multinational investors and local legislation and formalities cannot be wiped out in a matter of forming a new law or an amendment to a bylaw for protecting foreign investment.

The least for an investor is seeking compensation from an insurance company regarding the losses occurred. Recovery and coming back to business again after a loss is getting extremely difficult. Companies are considering and planning on very competitive margins to compete.

Involving risk management program into the project as of the beginning enable the parties to concentrate only on their specialties. Risk managers can divide projects into various stages, depending on the concept. IE, Pre-Contract Risk Management, / Risk Based Project Risk Management, / Project risk management and assessment, etc. each and every stage will again be broken down to other parts. And finally there will not be any sudden issue or hiccups, which have not been considered or thought about.

Risk manager vision into the deal / project is completely different from the others involved in the deal. His duty is to look and imagine for reasons, which can cause delays or stop or damage the project. Simultaneously to this vision, he is considering methods to avoid such stoppages. He considers issues which cannot be seen and or imagine by the specialists and professionals.

Similar attitude and plan by Risk Management departments enable the politicians, Governmental authorities, Ministers, Municipals etc to make sure that the outcome of the policies, projects, changes, reforms will bring results anticipated and more over budgets and costs to be justified.

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## Book review panel

Sagindyk S. SATUBALDIN

**"Asian Crisis: Causes and lessons", Almaty: 2000, 680 pp.**

Globalization, the process of integration of national economies, makes the world economic system vulnerable to shocks and crisis similar to the most recent ones in Asia. Dr. Satubaldin, in *Asian Crisis: Causes and lessons*, argues that globalization does not necessarily mean solving the economic discrepancies of the last century. Instead, mankind seems to prefer becoming the hostage of a world economic system in which a few highly dynamic, transnational companies dominate, and the number of stagnant national economies increases.

The Asian financial crisis has become the initial shock for a global economic system, which has an unprecedented movement of capital and goods across national borders, and a growing oligarchy of interstate and transcontinental financial institutions. This economic interdependence has been the reason for the main peculiarity of this Asian economic crisis: the breadth of its impact and its lingering results. Based on Dr. Satubaldin's assessments, the most serious consequence of the Asian crisis has been the destruction of geo-political balances. This crisis has influenced both countries that have entered into a post-industrial era and developing states with their traditional exports of natural resources. The impact of the Asian crisis was fully reflected in the crash of the international stock exchange market in 1997, ending Asia's economic boom.

The author believes that the original, true causes of the Asian crisis are manifold: impetuous, uncontrolled economic growth, resulting in overproduction; poor management by incapable governmental institutes; inconsistent democratic developments; and, corruption. Additional factors include monetary speculations, fictitious capital, and international conspiracies.

The Asian crisis was not simply a financial crisis. The author also points to the crisis in societal structures and industrial and social relationships which, in turn, allowed international associations to model possible scenarios of uncontrolled globalization. There are some grounds to argue that there will be two-side alliances that will play a dominant role in the economy of the region (e.g., USA-China, USA-Australia, USA-Japan).

Dr. Satubaldin believes that the actions of the Pacific Rim countries and the reaction of their governments were quite professional in how they handled the consequences of the crisis. Long before the crisis, some far-sighted economists warned others of the illusive universality of economic regulators and financial instruments. For instance, the sterilization of capital flows would undoubtedly lead to budgetary restraints, cuts in social programs, a deterioration of the investment climate, and stagnation. The IMF's recommendations proved to have had little effect in improving the situation in the region, as well. IMF donors, the "Big Eight" countries in particular, found themselves very frustrated about the loss in purchasing power for such a large region and the reduction in economic capabilities of the Asian national

economies.

The author defines three types of national models and anti-crisis programs. The first model embraces those countries that are actively being assisted by IMF (Korea, Thailand, Indonesia). The second model is represented by Malaysia, which rejects foreign financial aid due to the economic and legal conditions which such aid entails. And finally, the third model which includes those countries that were able to limit the negative consequences of the crisis (e.g., Singapore, Brunei, and to some degree, Taiwan).

Taking the most illustrative country examples from each model, the author thoroughly examines stabilization and anti-crisis model mechanisms. He also analyzes the essential premises that lead from crisis and stagnation to stable rates of economic growth (e.g. restructuring of the financial-banking system, liberalization of the economy, democratic and political reforms, positive transformations of social and educational politics).

Sagindyk S. SATUBALDIN

**" 'Dragons' and 'Tigers' of Asia: Would the Kazakh 'Snow-Leopard' be able to follow their paths?", Almaty: 1998, 680 pp.**

The extensive economic development of East and Southeast Asian countries, so called "dragons" and "tigers", is deeply investigated and analyzed in this monograph. However, the author does not limit himself only to these countries. He expands his analysis to highlight the similarities in economic processes in the regions of Latin America, Europe, and Australia, as well as in Asia.

The book outlines characteristics of these countries and the sequence of developments which have facilitated the swift socio-economic development of the Asian "tigers" and "dragons". These characteristics and events include:

- An advantageous geographic location, with access to a sea or ocean for importing and exporting goods;
- Tight social policies, and a stable socio-political environment;
- A favorable climate, which can allow rapid growth in output of agricultural goods and exports, resulting in the accumulation of foreign capital;
- An enormous resources of cheap labor, as well as an embedded culture of tradition, discipline, tolerance, and self-sacrifice;
- Countries with comparatively small territories, a high density of population, and a maximized mobilization of available resources;
- Strong industries, and investments from the USA, Japan and other countries.

The author's analysis extends to explain the difference in approaches to country-specific issues, which have been formulated by the history, geography, demographics, and other factors. Japan, South Korea, Taiwan, Singapore, Hong Kong, Thailand, Malaysia, Indonesia, the

Philippines, Turkey, Iran, Pakistan, India, Australia, Brazil, Argentina, China and Vietnam are considered. In tracking the stages of Kazakhstani reforms through this prism of world experiences, the author indicates that many of the stages of economic development in Kazakhstan coincide with stages that the "dragons" and "tigers" went through at the beginning of their transition.

In contrast with other Asian countries, Kazakhstan's monetary policies were not sufficiently supported by industrial policies as these industrial policies were blocked by the socio-economic problems that Kazakhstan faced following the collapse of the Soviet Union. At present, reconstruction of the industrial sector with new technologies must become a first priority of the economic politics. The oil and mining industry needs to be the engine of economic development in Kazakhstan.

Based on extensive analytical material gathered in this book, a reader may see that Kazakhstan has all the conditions to succeed in its economic development and could even avert all the complications that the "tigers" and "dragons" have had to deal with. The author concludes that while Kazakhstan cannot automatically adopt the experiences of the "tigers" and "dragons", nine lessons learned by the Pacific Rim countries can be successfully applied in Kazakhstan.

1. Industrial politics are one of the key instruments. As seen in the experiences of China and the Republic of Korea, industrial politics must be based on a system of priorities, which interchange in the course of solving various tasks. The most rational forms of state support and involvement in prioritized sectors of the economy are fully described in the book.
2. The establishment of special economic zones have proven to be very practical in China and Taiwan. Similar economic zones have been created in Kazakhstan.
3. An educated work force, modernization of technology, and investment in R&D are very important for successful economic development. The lack of an educated work force is currently not an; however, in the long run, this may become a key problem.
4. Regional politics need to be considered, and constitute an important problem for Kazakhstan. Suggestions regarding this matter are reviewed in the complex strategic programs of some regions in Kazakhstan (e.g., Almaty and Atyrau oblasts).
5. State price policies, the function of natural monopolies, and tax politics require a great deal of attention. Based on the experience of several countries, the author sets forth a series of suggestions to make the taxation system fiscally sound and to stimulate growth in local manufacturing.
6. The protection of internal markets and the support of local manufacturers also require significant attention. Many countries of the Pacific Rim have implemented similar policies at some stage. It should be noted that some elements of such policies have already been implemented in Kazakhstan.
7. The support and promotion of exports remains very important, even in times of a worldwide economic crisis. Using the experience of Japan, the Republic of Korea, Taiwan, and China, the author outlines a series of proposals, which can be applied to Kazakhstan.

8. Land reform in Taiwan is analyzed in order to introduce several policies that can be further implemented in Kazakhstan. *Dragons and Tigers of Asia* underlines the relationship between private enterprises and the state.

9. When radical economic changes are introduced to a country, this necessitates an actively involved state. On this basis, the author explores both the practice of indicative planning and methods of task-oriented planning, which is beginning to acquire some greater meaning in the Republic of Kazakhstan today.

*In Dragons and Tigers of Asia: Will the Kazakh snow leopard be able to follow their paths?*, the critical approach taken to explaining the methods of reforms undertaken in the Pacific Rim countries, and the conclusions drawn from this analysis, provides an opportunity to avoid similar mistakes and minimize the possibility a financial and economic crisis in Kazakhstan.

**KAZAKHSTAN INSTITUTE  
OF MANAGEMENT, ECONOMICS AND STRATEGIC RESEARCH**  
(<http://www.kimep.kz>)

The mission of Kazakhstan Institute of Management, Economics and Strategic Research (KIMEP) is to provide the young people of Kazakhstan with the skills and knowledge necessary to pursue prosperity and stability for the entire nation through competent and ethical leadership in business and government. In order to fulfill our mission, KIMEP offers graduate and undergraduate programs comparable with international standards in Business Administration, Accounting, Economics, Public Administration, and Social Sciences. KIMEP seeks to select students from among those who demonstrate leadership, talent and language capabilities irrespective of race, gender, ethnic origin, or financial means and is constantly striving to provide the highest level of instruction in economics, business, public administration, and continuing education. The idea of the Institute dates back to early 1991, when President Nazarbaev, acutely aware of the Republic's urgent need for trained personnel, asked Doctor Chan Young Bang to create an entirely new educational institution in Almaty, staffed by foreign instructors and operating according to the highest academic standards of the European Community and the United States.

**THE KIMEP CENTER FOR RESEARCH AND DEVELOPMENT**  
(<http://www.kimep.kz/research>)

The KIMEP Center for Research and Development was established in 1998 in order to stimulate research, contribute to disciplinary knowledge, and build capacity within the local faculty and student body. The Research Center strives to identify and concentrate on critical issues pertaining to the region. It collects, evaluates, and distributes research materials with the assistance of the three KIMEP academic Departments of Economics, Business Administration, and Political Science and Public Administration.

Since its establishment, the main objectives of the KIMEP Research Center have been

- to conduct social survey studies on economic, social and political issues;
- to study and analyze economic, business and government issues;
- to study interethnic relations in the Central Asian region with a focus on Kazakhstan;
- to publish a scientific journal, monographs, research papers, articles, etc.;
- to organize and conduct conferences, seminars and workshops at the national, regional and international levels;
- to establish collaborative research projects with local and foreign research centers.

During 2000-2001, five important conferences were held: KIMEP-Yale Seminar on Economic Growth and Human Development, two Conferences on Student Research Activities, NBR workshop on Oil and Gaz production in Kazakhstan and INTRAC Workshop in the framework of the project on NGOs and Civil Society in Kazakhstan.

Since its establishment, and especially from the beginning of this Academic year, the Center managed more than 6 different research projects with some International Organizations as Soros Foundation and LGI, Hungary, NBR, Washington, FOA, Sweden, INTRAC, UK, Canadian Embassy, Kazakhstan, and USAID, and hired 8 Research Associates from KIMEP and other Institutions for conducting research and helping the staff of the Research Center. In September 2000, the KIMEP Research Center organized an Advisory Committee and International Advisory Committee to help with and consult on the Center's activities.

**Research Center Advisory Committee**

Habib Rahman, Ph.D., Vice-President, Academic Affairs  
 Richard Graham, Ph.D., TACIS-MBA Project leader  
 Golam Mostafa, Ph.D., Dean of Graduate and Undergraduate Studies  
 Cheong-Hwan Oh, Ph.D., Chair of Department of Economics  
 Bojan Popovic, Ph.D., Department of Economics  
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 Vassily Voinov, Ph.D., Department of Business Administration  
 Ata Hoodashtian, Ph.D., Director of the Research Center, Chair of the Committee

**International Advisory Committee**

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 Ata Hoodashtian, Ph.D., Director of the KIMEP Research Center, France, Chair of the Committee

**Short description of research projects for 2000 -2001**

Institution	Grantor	Country	Topic	Reception	Duration	Current Situation
Astana Project	Government of Kazakhstan	Kazakhstan	A Strategic Plan for Kazakhstan	April 2000	To be determined	In negotiation
OECD	OECD	France	Corporate Governance	September 2000	One month Sept-Oct. 2000	Finished in October, 2000
NBR	Mac-Arthur Foundation	USA	Oil Production in Caspian Sea	September 2000	Three years 2001-2003	Accepted by NBR
INTRAC	British Government	Britain	NGOs and Civil Society in Kazakhstan	October, 2000	Three years 2000-2002	In the process of conducting research
ICEG	USAID	USA-Kazakhstan	Finance and Insurance in Kazakhstan	October 2000	Two years 2001-2003	In negotiation
LGI	Soros Foundation	Hungary	Local Government and Fiscal Decentralization in Kazakhstan	May, 2001	One Year 2000-2001	In negotiation
Tajik Project I	USAID	USA-Kazakhstan	Eco-Social Conditions of Tajikistan	1999	One year	Finished in Nov. 2000
FOA	FOA	Sweden	Islam in Central Asia	December 2000	Half year	Finished in June, 2001
Canadian Project	Embassy of Canada in Kazakhstan	Canada	1. Guide for Doing Business in Tajikistan, 2. Kazakhstan Construction Market Opportunities Study	February 2001	One month	Finished in March 22, 2001
Tajik Project II	USAID	USA	Establishment of a Marketing Research Center in Tajikistan	May, 2001	Nine months	Stage of suggestion
Soros Foundation	Soros Foundation	Hungary	Organizing a Regional Conference at KIMEP and Publishing Students Journal	May	1 year	Stage of suggestion

## RULES OF SUBMISSION OF ARTICLES

The KIMEP Center for Research and Development welcomes any articles on Central Asia's management, economics and social research. Articles should be in English [in exceptional cases it may be submitted in Russian]. It should not be more than 15 typed pages long. Articles must contain endnotes and contain a bibliography. Citations should follow APA standard. All articles will be submitted for review. Please submit one copy of the article in paper and a copy in floppy disc to:

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The KIMEP Center for Research and Development  
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### THE APA (AUTHOR/YEAR) SYSTEM OF DOCUMENTATION IN BRIEF

(more information is available on [http://owl.english.purdue.edu/handouts/research/r\\_apa.html](http://owl.english.purdue.edu/handouts/research/r_apa.html))

The American Psychological Association (APA) system is a variant on a general approach called the author/year system which uses parenthetical notes in the text that correspond to sources listed at the end of the paper under *References*.

#### Punctuation of notes

1. Parenthetical notes are included within sentences to which they refer.
2. Commas separate name from date when both appear inside a note.
3. An ampersand (&) is used instead of and between authors' names, when more than one name appears in a note. (But use and when you mention co-authors in your text.)
4. The abbreviations "p." and "pp." Are used to indicate page and pages, except after volume and issue numbers.

#### Listing sources under references

##### Punctuation

1. Book titles and periodical names and volume numbers are underlined.
2. Titles of essays and periodical articles are not placed in quotation marks (and they are not underlined).
3. Only the first word, proper nouns, and proper adjectives in book, essay, article titles are capitalized. But all main words in names of periodicals are capitalized.
4. Commas are used between authors' surnames and initials and between authors. With more than one author, an ampersand (&) is used before the last author's name.
5. Periods separate the main parts of an entry - author. (date). title. publisher.

##### Format

1. Sources are listed alphabetically by their authors' last names, or when author is not known, by the first word of the title, ignoring A, An, The.
2. No first names given for authors, just initials (unless two people have the same names and initials).
3. The year of publication (inside parenthesis) follows the author's name. When two or more sources have the same author, list the sources chronologically. If two or more articles appeared in the same year, use letters (a, b, c) to distinguish them, and list them alphabetically. Repeat the author's name in each case.

## SUBSCRIPTION

Subscription is twenty US dollars (USD 20) per year, plus five US dollars (USD 5) for Postage and Handling for CIS countries, and forty US dollars (USD 40) per year, plus ten US dollars (USD 10) for Postage and Handling for other countries. Checks are to be written in favor of KIMEP [please indicate that it is for Central Asian Journal] and is to be sent to:

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The KIMEP Center for Research and Development  
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Almaty, 480 100, Kazakhstan

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## About LINK in brief

*LINK is the bi-monthly bulletin of the KIMEP Research Center designed to foster creation of an innovative and resourceful realm of activities for KIMEP faculty members and students, and to establish and sustain a robust and mutually beneficial link between Departments and the Center.*

*It will report on the internal and external activities of the Center and will be offered to all faculty members, staff, and students. This publication is also intended to be a link between the Research Center and external associates of KIMEP.*

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## Послание Президента КИМЭПа

Огромной честью для Казахстанского Института Менеджмента, Экономики и Стратегических Исследований было стать организацией-учредителем Второго Ежегодного Летнего Семинара, проведенного совместно с Йельским Университетом в июне 2000 года.

В течение двух недель профессора Йельского Университета и эксперты всего Центрально-Азиатского региона дискутировали о различных политических, экономических и социальных проблемах.

Мы рассматриваем это событие как возможность дальнейшего сотрудничества КИМЭПа с участниками семинара, в особой степени с Йельским Центром Международных и Региональных Исследований. Публикация специального выпуска Центрально-Азиатского Журнала, посвященного совместному семинару, следует рассматривать как один из важнейших шагов на пути к этой цели.

Хотелось бы выразить признательность г-ну Парнеллу, заместителю главы миссии США, за то, что он нашел время поприветствовать участников семинара. Особую благодарность заслуживают члены организационного комитета семинара.

**Чан Йан Бэнг, д-р наук**

## Послание председателя организационной комиссии

Этот специальный выпуск Центрально-Азиатского Журнала посвящается Второму Ежегодному Центральноазиатскому Летнему семинару "Возможности устойчивого роста и равноправия," проводимого Йельским Университетом.

Организованный совместно с КИМЭПом, семинар проходил в течение двух недель с 5 по 16 июня 2000 года в КИМЭПе. В семинаре приняли участие 8 профессоров Йельского университета и 24 исследователя из различных научно-исследовательских институтов Центральной Азии.

Большой честью для КИМЭПа было принять у себя доктора Густава Раниса, профессора международной экономики, директора Йельского Центра Международных и Региональных Исследований, и профессора Роберта Эвенсона, Директора Йельского Центра Экономического Роста.

Доктор Полин Джоунс Лионг, будучи одним из членов организационного комитета, прибыла в Алматы заранее для оказания помощи научно-исследовательскому центру КИМЭПа в организации семинара.

Семинар состоял из 10 секций, освещавшим такие темы, как "Экономический рост и человеческое развитие," "Сельскохозяйственное развитие", "Приватизации и коррупции в Казахстане" и т.д.

Я бы хотел воспользоваться предоставленной мне возможностью и выразить свою благодарность членам организационной комиссии и администрации КИМЭПа за их помощь в организации этого престижного события.

Мы считаем данный семинар хорошей возможностью для развития дальнейшего сотрудничества между КИМЭПом и Йельским Центром Международных и Региональных Исследований.

Для КИМЭПа большой честью было то, что профессора Густав Ранис, Роберт Эвенсон, доктор Полин Джоунс Лионг из Йельского университета, а также доктор Филипп Николс из Пенсильванского Университета согласились стать членами редакционной коллегии Центрально-Азиатского Журнала.

**М. Рахман, д-р наук,**

**Вице Президент по Академическим Вопросам**

## Краткое содержание статей

Инкар КАДЫРЖАНОВА, Алма КУДЕБАЕВА, Тамара МУРСАЛИМОВА,  
Жаныл САЯКОВА, Болат Л. ТАТИБЕКОВ

### Экономический рост и человеческое развитие в Центральной Азии

Теоретической базой данной статьи явилась статья Г. Раниса, Ф. Стюарта и А. Рамиреса "Экономический рост и человеческое развитие."

Раздел 2 - "Дебаты вокруг экономического роста и человеческого развития" раскрывает историю развития, основные теоретические положения и зависимости, существующие между двумя этими составляющими. В частности, в разделе отмечается, что согласно основным теоретическим положениям профессора Г. Раниса можно наблюдать четыре типа их взаимоотношений:

- медленный экономический рост и быстрое человеческое развитие - Человеческое развитие - неровное;
- быстрый экономический рост и медленное человеческое развитие - Экономический рост неровный;
- взаимоукрепление экономического роста и человеческого развития - добродетельное, и
- взаимозадающийся экономический рост и человеческое развитие - порочное.

Раздел 3 - "Экономическая ситуация в Центральной Азии" отражает процессы, которые произошли и происходят в Центральной Азии после распада СССР. В разделе авторы делают выводы, что ситуация в этом регионе близка к "порочному типу развития." В тоже время тенденция ВВП к концу 90-х годов показывает его медленный рост. Является ли это признаком будущего экономического роста? Это остается открытым вопросом. Однако, анализ социально-экономических и политических изменений показывает, что почти все страны имеют реальные шансы к стабильному экономическому росту.

Раздел 4 - Цепь "А" и раздел 5 - Цепь "В" раскрывают зависимости между ВВП и продолжительностью жизни, расходами на здравоохранение, образование. Данные разделы раскрываются с целью подтверждения теории профессора Раниса. Данные разделы используют в качестве основной базы исследования методы ранговой корреляции и регрессионный анализ. Для сравнения используются статистические материалы Республики Казахстан.

В заключительной части статьи и в рекомендациях авторы отмечают подтверждение теории профессора Раниса по Центральной Азии и рекомендуют Правительству обратить внимание на обе взаимосоставляющие.

Жанар АБДИЛЬДИНА, Евгений АЛЕКСЕЕВ, Дамир МУЗАФАРОВ, Куннур РАЙЫМБЕКОВА

### Привлечение прямых иностранных инвестиций и управление ими в Центрально-Азиатском регионе

Приобретение независимости и интеграция в международную экономику сделало возможным Центрально-Азиатскому региону привлечь большой объем прямых иностранных инвестиций, которые являются экономически наиболее эффективной формой притока международных финансовых средств. В отличие от портфельных инвестиций и займов, они способствуют созданию дополнительных рабочих мест, повышению квалификации местного населения, увеличению налоговых поступлений, доступу на международные рынки.

Авторы данной статьи анализируют роль прямых иностранных инвестиций в трех Центрально-Азиатских республиках - Казахстане, Кыргызстане и Узбекистане. Анализ проводится на основе двух групп факторов, влияющих на решение инвесторов: благоприятный инвестиционный климат и специфические преимущества страны в целом, включая наличие природных богатств, выгодное географическое положение, приближенность в крупным рынкам сбыта. Казахстан, Кыргызстан и Узбекистан имеют много общего в формировании инвестиционного климата: приверженность рыночным преобразованиям, политическая стабильность, наличие природных ресурсов, квалифицированная и дешевая рабочая сила.

В наиболее выгодном положении среди Центрально-Азиатских стран находится Казахстан, который является второй страной в СНГ по объему инвестиций благодаря, в основном, приватизации крупных стратегических государственных предприятий в добывающей промышленности. Правительствами всех трех стран были предприняты усилия по улучшению инвестиционного законодательства. Однако, частые изменения и поправки положений и законодательных актов, нечеткие стандарты препятствуют эффективной работе инвесторов.

Рекомендации авторов по улучшению инвестиционного климата в Центрально-Азиатском регионе включают улучшение законодательной базы, упрощение регистрационных и налоговых процедур, улучшение прозрачности и надежности системы, разработку ясной инвестиционной стратегии с четким выявлением приоритетов.

Стелла БИЛЯЛОВА, Гульноза САЙДАЗИМОВА

### Приватизация банковского сектора в странах переходного периода

Теоретически приватизация банковского сектора имеет ряд преимуществ. Банки получают возможность привлекать дополнительный капитал внешних инвесторов, их деятельность становится более независимой и прозрачной,

повышается управленческий уровень, увеличивается трансферт современных банковских технологий, возрастает ответственность перед акционерами, а также укрепляются принципы корпоративного управления. Все это влияет на эффективность работы банков. Повышение эффективности банковской сферы напрямую связано с развитием всей финансовой системы государства, включая рынок ценных бумаг, а также привлекательность страны для иностранных инвесторов. Более того, государственный бюджет пополняется за счет продажи государственной доли в банках.

Целью данной работы является исследование влияния приватизации банков на их эффективность путем сравнения изменения государственной доли и других индикаторов деятельности банков. Так, например, была найдена корреляция между снижением государственной доли и увеличением иностранного участия, а также снижением доли непогашенных кредитов в общем портфеле займов. Слабая корреляция была выявлена между государственной долей и объемом кредитования в процентном отношении к ВВП. Отсюда следует, что в целом приватизация благоприятно сказывается на банковской деятельности.

Также дается оценка эффективности и обзор проблем приватизации в странах с переходной экономикой, включая Венгрию, Казахстан, Киргизстан, Россию, Узбекистан и Эстонию. В заключении статьи приводятся рекомендации для стран, находящихся на пред-приватизационной стадии.

Филипп М. НИКОЛС

### **О методах приватизации, приемлемых для Центральной Азии**

В данной статье на основании изучения опыта других стран автор анализирует методы приватизации, которые наиболее приемлемы для стран Центральной Азии.

Программы массовой приватизации Центральной и Восточной Европы считаются "преступлениями века" и "величайшими грабежами в мировой истории." С первого взгляда эта критика основывается на присвоении приватизируемых активов привилегированными лицами. Однако, как утверждает автор данной статьи, присвоение является только симптомом. Действительный провал массовой приватизации происходит в том случае, когда не создаются или не изменяются необходимые институты, такие как, например, правила, нормы, структуры и т.д. Передача в частную собственность еще не означает создание новых институтов; при отсутствии средств для получения прибыли от использования собственности, собственность теряет значение. Более того, для заполнения вакуума могут быть созданы нефункциональные институты.

При выборе методов приватизации политикам не следует останавливаться на тех, которые облегчат государственное бремя, или которые наиболее пополнят государственный бюджет. Выбор должен быть обоснован в контексте институтов.

Без создания институтов, необходимых для поддержания бизнеса, приватизации может потерпеть крах.

Карлыгаш КУРАЛБАЕВА

### **"Голландская болезнь:" последствия и возможные инструменты ее предотвращения в Казахстане**

Казахстан обладает большими запасами природных ресурсов, которые могут принести стране большие доходы от их экспорта. В контексте ожидаемых значительных экспортных доходов большинство исследователей поднимают вопрос "голландской болезни", с которой Казахстан может столкнуться в ближайшем будущем. Чтобы избежать или, по крайней мере, минимизировать возможные последствия "голландской болезни", важно понять проблему сегодня, изучив ее симптомы и обсудив возможные инструменты для ее решения. В данной работе рассматривается классическая модель "голландской болезни" и основные ее симптомы. Согласно этой модели, основным проявлением голландской болезни является относительно высокий курс национальной валюты в реальном выражении, что приводит к потере конкурентоспособности местных производителей и к падению производства в обрабатывающем секторе экономики.

В данной работе также обсуждаются возможные последствия "голландской болезни" и инструменты для предотвращения этой болезни в Казахстане.

Ричард ФЭЙЛАС

### **Еще раз о безъядерном Казахстане в свете проблемы ядерной угрозы**

В статье рассматривается значение ядерного вооружения во внешней политике Казахстана в свете проблемы ядерной угрозы. Автор утверждает, что отказавшись от ядерного вооружения в 1995 Казахстан только укрепил свою безопасность, подписав ряд соглашений по безопасности с Российской Федерацией, Францией, Великобританией и США.

Важнейшей задачей Казахской внешней политики в первые годы независимости было решение проблем безопасности страны, возникших вследствие развала Советского Союза. Лидеры Казахской внешней политики осознавали, что отказ от ядерного вооружения и, как следствие, - создание безъядерного государства будет содействовать получению финансовой помощи Запада и, что более важно, поможет заручиться поддержкой как России, так и Запада. Заключенные соглашения не обеспечивали абсолютной защиты, которую



могло бы дать ядерное вооружение, но благодаря им был начат процесс интеграции Казахстана в мировое сообщество.

Мадина РУСТЕМОВА

### **Влияние налогообложения на области**

Макроэкономическая и финансовая стабилизация, а также создание условий для экономического роста являются основной целью экономической политики Казахстана. Особенную роль при решении общих экономических проблем играет региональная политика. Казахстан располагает огромной территорией с разнообразными климатическими, экономическими и социальными характеристиками. Регионы различаются по уровню развития в зависимости от обеспеченности природными ресурсами, а также текущей экономической ситуации. В настоящее время темпы экономического роста регионов в основном зависят от промышленного производства, которое в свою очередь опирается на иностранные инвестиции. Объемы денежных притоков определяются инвестиционным климатом Казахстана, одной из составляющих частей которого является благоприятный налоговый режим. В данной работе рассматривается налоговая система Казахстана, в частности налоги на недропользователей. Анализируя объем иностранных инвестиций можно сделать вывод, что инвестиционная политика последних лет была успешной. Несмотря на это правительство должно решить проблемы бюрократии, финансовых рисков, денежной стабильности и улучшения законодательной базы.

Главной целью экономической политики Казахстана является достижение макроэкономической и финансовой стабилизации, а также создание условий для экономического роста. Региональная политика играет значительную роль в решении общих экономических проблем. Благодаря огромной территории Казахстан сильно различается по климатическим, экономическим и социальным особенностям. Регионы характеризуются неравномерным развитием, в первую очередь, из-за обеспеченности природными ресурсами, а также из-за текущей экономической ситуации. В настоящее время темпы экономического роста в основном зависят от состояния промышленности, которая в свою очередь полагается на потоки иностранных инвестиций. Объем денежных вливаний определяется инвестиционным климатом республики, одной из главных составных частей которого является благоприятный налоговый режим. В данной статье рассмотрены налоговая система Казахстана вообще, а в частности - налоги, применимые к добыче полезных ископаемых. Если посмотреть на объем иностранных инвестиций за последние годы, можно сказать, что инвестиционная политика оказалась в целом успешной. Тем не менее правительство обязано решать проблемы бюрократии, финансового риска, денежной стабильности и улучшения законодательства.

Филипп М. ПРАЙС, Даулет И. ТУРЕТАЕВ, Василий Г. ВОИНОВ

### **О некоторых внешних факторах, влияющих на цепи снабжения иностранных компаний в Казахстане**

В статье рассматривается новый вероятностный подход анализа анкет при выборочном обследовании популяций. Этот подход имеет очевидное преимущество перед известными методами, так как он корректно учитывает корреляцию между различными вопросами анкет. Используя этот и другие известные методы, проанализировано несколько гипотез, касающихся влияния различных внешних факторов на цепи снабжения Европейских и Северо-Американских компаний в Казахстане.

Из этих гипотез отметим следующие:

1. Европейские и Северо-Американские компании слабее контролируют свои цепи снабжения в Казахстане по сравнению с рынками Европы и Северной Америки. Данные, использованные в этой статье, подтверждают гипотезу для Северной Америки и не подтверждают - для Европы.
2. Европейские и Северо-Американские компании находятся на более высокой ступени интеграции своих цепей снабжения в Европе и Северной Америке по сравнению с Казахстаном. Данные не подтверждают эту гипотезу.
3. Указанные выше компании в Казахстане используют менее современные информационные технологии, чем в Европе и Северной Америке. Данные не отвергают эту гипотезу.
4. Рыночные стратегии Европейских и Северо-Американских компаний в Казахстане отличаются от таковых в Европе и Северной Америке. Эта гипотеза использованными данными отвергается.
5. В Казахстане имеется целый ряд политических, социальных и культурных факторов, которые отрицательно влияют на операции, связанные с цепями снабжения Европейских и Северо-Американских компаний. Данные подтверждают эту гипотезу.

Ата ХУДАШТИАН

### **Глобализация: краткое исследование**

"Что такое глобализация? Когда и как зародилось это всемирное движение? Каковы его главные последствия? Является ли это движение только экономическим? Если нет, то какие другие аспекты следует принять во внимание?"

- таковыми были основные вопросы, освещенные в лекции, проведенной автором студентам второго и третьего курсов факультета международных экономических отношений Евразийского Института Рынка г. Алматы в январе 2001 года. Данная статья не дает окончательных ответов на все вопросы. Главной ее целью является ознакомить читателя с некоторыми теоретическими концепциями, являющимися отправными точками в процессе познания мировой системы в целом и понятия глобализации в частности.

Автор дает общее описание глобализации как понятия. Также представлены некоторые полемические идеи о последствиях этого всемирного движения. Делая акцент на глобализации и вестернизации - международное экономическое движение, входящее в рамки глобализации - автор освещает проблему конфронтации восточных/традиционных и западных/современных культурных ценностей и возможность создания так называемого "метиссажа" - комбинации ценностей различных культур. Далее, автор сравнивает два различных политических толкования глобализации, одно из которых связано с трудами Франсиса Фукуямы, для которого глобализация не что иное, как гомогенизация различных мировых культур, вследствие чего страны становятся ближе друг к другу. Автор второй интерпретации - Самюэль Хантингтон - утверждает, что глобализация ведет к созданию гетерогенного культурного и политического мирового пространства.

Ричард ГРЭМ

### **Вклад образования в экономическое развитие**

Уже давно доказано, что наличие сырьевых ресурсов служит источником экономического развития государства. Данный аргумент был обогащен тем фактом, что имея адекватные сырьевые ресурсы страна может привлекать капитал для их эксплуатации. Но классическая формула "Капитал (инвестиции) + Сырьевые ресурсы = Экономический Рост" не оправдала себя на практике.

Однако до недавних пор эта модель была использована странами, пытающимися вырваться из порочного круга бедности. Примеры подобной приверженности экономической доктрине отличались неспособностью эксплуатировать природные ресурсы для достижения экономического роста (например, Малазия, Бразилия и Индонезия).

До появления работ таких экономистов как Пол Роумер, классическая модель развития и роста оставляла без внимания самый важный фактор экономического управления и развития - человеческий капитал. По словам Роумера, развитие достигается при помощи людей и их умений.

Однако само население не вырабатывает динамизм, необходимый для улучшения благосостояния. При отсутствии адекватного образования и обучения прогресс

замедляется. Модель, приведенная в данном исследовании, рассматривает один из способов, с помощью которого современное образование и обучение могут выработать синергию, необходимую для конкурентоспособности на мировых рынках. Современные управленческие структуры и способы их организации зависят от предложения высокообразованной и мотивированной рабочей силы, которая является движущей силой экономического прогресса. Поэтому инвестиции в образование являются лучшим вкладом, которое может сделать страна.

Динисса ДУВАНОВА

### **Развитие капитализма в пост-коммунистических странах: девятиклеточные модели позднего капиталистического развития**

Данная статья представляет собой теоретический анализ этико-социальных проблем переходного периода в странах центральной и восточной Европы, а также бывшего Советского Союза. Автор указывает на два препятствия в становлении капитализма в Восточной Европе и бывших Советских Республиках: отсутствие развитой системы предпринимательской этики и неразвитость гражданского общества. Данные характеристики пост-социалистического развития определяют отклонение экономического и социо-политического развития в пост-социалистическом пространстве от классической либеральной теории капитализма и практики капиталистического развития на Западе.

Для объяснения логики и особенностей капиталистического развития в пост-социалистических странах автор предлагает обратиться к теории "относительной экономической отсталости", предложенной экономистом А. Гершенкроном в середине 20-го века, согласно которой отклонения от классической модели капиталистического развития в пост-социалистических странах представляются продуктами форсированной капитализации (так называемый "капитализм сверху"). Статья акцентирует внимание на предпринимательской этике и индивидуальном инвестиционном капитале как необходимых предпосылках капитализма. Автор делает вывод, что центральная роль государства (как заместителя частной предпринимательской деятельности и индивидуальных инвестиций) на начальной стадии капиталистического развития предопределяет уникальность формирующихся экономических и политических институтов в пост-социалистических странах.

Хоми МОТАМЕДИ

### **Роль риск-менеджмента в повседневной жизни**

Управление риском - это новая сфера в технологии, и в статье автор пытается не только описать концепцию, но и объяснить сферы ее использования. Неопределенность всегда была одной из главных преград на пути человеческого

прогресса, и чем успешнее мы справляемся с этой проблемой, тем больше возможностей для прогресса мы имеем.

В этой статье говорится о сложностях в отношениях с консультантом и о роли риск-менеджера во внедрении того или иного проекта. По утверждению автора, принципы риск-менеджмента могут быть использованы в любых аспектах нашей повседневной жизни.

<sup>1</sup> Слово "метиссаж" происходит от франц. *métisser*, означающего "смешивать, комбинировать." Интересно, что в английском языке такого слова не существует. Даже во французском языке оно не используется в том ракурсе, в котором оно использовано в этой статье. *Métisser* (в переводе на русский - метис) также означает смесь различных рас. К примеру, ребенок африканца и француженки будет считаться метисом. Термин "метиссаж ценностей," используемый в данной статье, довольно специфичен и имеет несколько антропологический оттенок. Впервые он был использован в Парижском Университете №8 исследователями группы GREMA ('Group de Recherch et d'Etude sur le Métissage Axiologique'), созданной мной в 1997 году. Автором этого термина является профессор Парижского Университета №8 д-р Рене Барбье (прим. автора статьи).

### Казахстанский институт менеджмента, экономики и прогнозирования

Миссией Казахстанского Института Менеджмента, Экономики и Прогнозирования является предоставление молодежи Казахстана знаний и навыков, необходимых для процветания и стабильности всей нации путем обеспечения правомочного и нравственного управления в частном и государственном секторе.

В целях осуществления данной миссии КИМЭП предлагает программы бакалавриата и магистратуры по Деловому администрированию, Бухгалтерскому Учету, Экономике, Государственному Управлению и Социальным наукам.

КИМЭП осуществляет выбор среди студентов, продемонстрировавших лидерские качества, таланты и языковые навыки, независимо от расы, пола, этнического происхождения или финансовых возможностей. КИМЭП постоянно прилагает усилия для обеспечения наиболее высокого уровня преподавания экономики, бизнеса, государственного управления, а также вечернего образования.

Идея создания института возникла в начале 1991г., когда Президент Назарбаев, осознав острую необходимость в квалифицированных кадрах, попросил Доктора Чан Янг Бэнга создать новый образовательный институт в Алматы с зарубежными преподавателями, работающими в соответствии с высокими академическими стандартами Европейского Союза и Соединенных Штатов.

### Научно-исследовательский Центр КИМЭПа

Научно-исследовательский центр КИМЭПа был основан в 1998 году для содействия научным исследованиям, внесения вклада в развитие дисциплинарных наук, создания потенциала среди местных преподавателей и студентов. Научно-исследовательский центр прилагает усилия для выявления и концентрации на важных региональных проблемах. Центр собирает, оценивает, распределяет исследовательские материалы при содействии трех академических департаментов КИМЭПа по Экономике, Деловому Администрированию и Политическим наукам и Государственному управлению.

С момента создания основными целями научно-исследовательского центра КИМЭПа были:

- проведение социальных исследований по экономическим, социальным и политическим вопросам;
- изучение и анализ экономических вопросов, проблем частного и государственного сектора;
- изучение межэтнических отношений в Центральном-Азиатском регионе, в частности, в Казахстане;
- публикация научного журнала, монографий, исследовательских работ, статей и т.д.,

- организация и проведение конференций, семинаров и симпозиумов на национальном, региональном и международном уровнях;
- создание совместных исследовательских проектов с местными и иностранными научно-исследовательскими центрами;

В течение 2000-2001 академического года были проведены четыре важные конференции: семинар по экономическому росту и человеческому развитию, совместно с Йельским университетом; две конференции по студенческой научно-исследовательской деятельности; семинар ИНТРАК в рамках проекта "НПО и гражданское общество в Казахстане". С момента образования и, особенно, с начала учебного 2000-2001 года Центр осуществил около 10 различных научно-исследовательских проектов с такими международными организациями, как Фонд СОРОС, LGI, Венгрия; НБР, Вашингтон; ФОА, Швеция; Канадское посольство, Казахстан; ИНТРАК, Великобритания; ЮСАИД и т.д. Центр принял на работу 8 сотрудников КИМЭПа и других институтов для проведения научных исследований и помощи сотрудникам научно-исследовательского центра.

В сентябре 2000г. научно-исследовательский центр КИМЭПа организовал консультативный комитет и международный консультативный комитет для помощи и консультации деятельности центра.

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