Kazakhstan's Emerging Middle Class

John C.K. Daly

SILK ROAD PAPER
March 2008

Central Asia- Caucasus Institute
Silk Road Studies Program

Kazakhstan's Emerging Middle Class

John C. K. Daly

Johns Hopkins University-SAIS, 1619 Massachusetts Ave. NW, Washington, D.C. 20036
Institute for Security and Development Policy, V. Finnbodav. 2, Stockholm-Nacka 13130, Sweden
www.silkroadstudies.org

"**Kazakhstan's Emerging Middle Class**" is a *Silk Road Paper* published by the Central Asia-Caucasus Institute & Silk Road Studies Program. The Central Asia-Caucasus Institute & Silk Road Studies Program is a joint transatlantic independent research and policy center. The *Silk Road Papers* Series is the Joint Center's Series of Occasional Papers. The Joint Center has offices in Washington and Stockholm and is affiliated with the Paul H. Nitze School of Advanced International Studies of Johns Hopkins University and the Stockholm-based Institute for Security and Development Policy. It is the first Institution of its kind in Europe and North America, and is today firmly established as a leading research and policy center, serving a large and diverse community of analysts, scholars, policy-watchers, business leaders and journalists. The Joint Center aims to be at the forefront of research on issues of conflict, security, and development in the region. Through its applied research, publications, research cooperation, public lectures and seminars, it aspires to function as a focal point for academic, policy, and public discussion regarding the region.

ISBN: 978-91-85937-14-1

Printed in Singapore

Distributed in North America by:

The Central Asia-Caucasus Institute
Paul H. Nitze School of Advanced International Studies
1619 Massachusetts Ave. NW, Washington, D.C. 20036
Tel. +1-202-663-7723; Fax. +1-202-663-7785
E-mail: caci2@jhuadig.admin.jhu.edu

Distributed in Europe by:

The Silk Road Studies Program
Institute for Security and Development Policy
Västra Finnbodavägen 2, 131 30 Stockholm-Nacka
Sweden
Email: info@silkroadstudies.org

Editorial correspondence should be addressed to Svante E. Cornell, Research and Publications Director, at either of the addresses above (preferably by email).

Table of Contents

Executive Summary

Kazakhstan's development as a rising petro-state from the debris of the collapse of the USSR in 1991 is Central Asia's leading success story. Unlike many nations that have recently developed their energy reserves, the rise in revenues from foreign energy sales have had a trickle-down effect in Kazakhstan, producing the embryo of a new middle class, a social development that was anathema in the USSR, whose ideology persistently sought to eradicate class distinctions.

Kazakhstan, ruled since independence by President Nursultan Nazarbayev, has made a cornerstone of its social policy to foster the development of an indigenous middle class, seeing it as a social and political guarantor of stability.

The world’s largest landlocked country, Kazakhstan is an ethnically diverse nation – the 1999 census determined the population to be Kazakh (Qazaq) – 53.4 percent, Russian – 30 percent, Ukrainian – 3.7 percent, Uzbek – 2.5 percent, German – 2.4 percent, Tatar – 1.7 percent, Uygur – 1.4 percent and other 4.9 percent.

This study charts the development of this new phenomenon in Kazakh society from the end of the USSR to the present day. The nurturing and development of this middle class, which is composed of former members of the Soviet *apparat*, younger professionals and newly minted businessmen, stands in contrast to events in the other post-Soviet “stans” - Kyrgyzstan, Turkmenistan, Uzbekistan and Tajikistan. While in the immediate aftermath of the dissolution of the USSR Kyrgyzstan was initially regarded by many Western analysts as the most reformist post-Soviet republic in moving swiftly towards Western-style political and economic infrastructures, it is in fact Kazakhstan that has emerged as the most progressive regional economic reformer, and it is unclear if its successes could be repeated elsewhere.

Underpinning Kazakhstan's rise to prosperity is its immense reserves of oil and natural gas. Kazakhstan, however, shared with its fellow former Soviet republics the fiscal chaos emanating in the wake of the sudden collapse of the USSR in 1991, which included hyperinflation, plummeting industrial production and, in Kazakhstan's case, an exodus of many of its most highly trained ethnic Russians. Between 1989 and 2005, Kazakhstan lost two million of its six million Russian Soviet inhabitants. Kazakhstan still retains a Russian minority of around 30 percent, the highest percentage in the region. More than 4 in 5 unemployed Kazakhs lost their livelihood in the aftermath of the Soviet economic implosion. In 1992, the first year of independence, inflation soared to 2,960 percent.

Nazarbayev's government quickly moved to stanch the flow of some of its most highly skilled population by instituting major economic reforms. The Kazakh government has subsequently used its oil revenues not only to reform the economy, but to restructure the country's Soviet educational legacy and begin creating an educational system on a par with more economically advanced countries.

Nazarbayev's government realized that the country's future prosperity was inextricably linked to deepening commitments with Western fiscal and governmental institutions, and the Kazakh government swiftly began to implement reforms that would make the nation increasingly attractive to foreign interests, while avoiding the more severe consequences of the financial shock therapy that Western advisers inflicted on neighboring Russia.

Kazakhstan's rising oil revenues have given the Kazakh government very deep pockets with which to institute its reforms. Estimates of Kazakhstan's oil-related wealth over the next two-three decades vary from $27 billion to $96 billion.

Accordingly, among Kazakhstan's "firsts" among its CIS neighbors, it was the first to pay off its debts to the International Monetary Fund in 2000 following economic reconstruction (seven years ahead of schedule), the first to obtain a favorable credit rating, the first to implement financial institutions approaching Western standards of efficiency and reliability, and the first to develop and introduce a fully-funded nationwide pension program. Besides rising oil revenues, one of the key elements in Kazakhstan's economic success has been its ability to attract foreign investment, which in 2001-2003 surged to 13 percent of GDP and is currently running at almost ten times the rate of its neighbors. In validating the structural reforms carried out by the Kazakh government, the European Union formally recognized Kazakhstan as a market-based economy in October 2000, while Washington accorded Kazakhstan similar recognition in March 2002.

Proof of the "trickle down" effect of oil revenue has been the dramatic drop in the nation's poverty; according to UN figures, Kazakhstan halved its poverty rate in just five years, which fell from five million or 39 percent of the population in 1998 to three million or 20 percent in 2003, the lowest poverty rate among the "Stans."

As the reforms continued, a Kazakh professional middle class began to emerge. While estimates vary, some analysts put its numbers at 25 percent of the total population, representing people who consume 50-80 percent of the financial value of all goods sold in Kazakhstan. Analysts further divide this group into two sections, a lower middle class, with individual annual incomes of $6,000-9,000, (an estimated 70 percent of the stratum,) and the "upper" middle class, with annual individual incomes of $9,000-15,000, (30 percent of the total group.) According to official Kazakh statistics, salaries increased by 21 percent in 2001 and by 12 percent in 2002 and have consistently risen each year since.

The principal criterion used by analysts to define Kazakhstan's middle class is not the nature of labor, professional association or property, but income level. Other Kazakh experts give figures on the extent of the group as ranging between 18 percent and 60 percent of the population. In Kazakhstan, approximately 50 percent of the population lives in urban areas, and this is where the middle class is concentrated. As noted above, in 1998 Kazakhstan adopted an economic reform that impacted every citizen, a pension reform program based on the Chilean model, which introduced private pension funds. By 2004 nearly six million people, accounting for almost eighty percent of the economically active population, were participants in the program.

The U.S. State Department in 2005 estimated Kazakhstan's Gross Domestic Product (GDP) at $125.3 billion (purchasing power parity,) its GDP per capita income at $8,300 (purchasing power parity) and GDP growth at 9.5 percent. Highlighting the discrepancies between foreign and indigenous statistics, in 2006 Kazakhstan's Statistics Agency calculated the monthly income level of the lower middle class to be 35,000 tenge ($290) per month, for an annual salary of $3,480. Despite the disparities, however, the incontestable fact is that after a period of economic turmoil immediately following independence, incomes in Kazakhstan have not only stabilized but consistently risen over the last decade.

One of the more striking aspects of Kazakhstan's post-independence economic development has been the strong support that it's economic reforms have received from various foreign governments and institutions, including the U.S., EU, the Asia Development Bank, the International Monetary Fund and the World Bank. To give but one example, in 2006 the USAID observed, "Thanks to the Government of Kazakhstan's (GOK) commitment to market reforms and the rise of the energy sector, Kazakhstan has achieved steady economic growth, with an estimated 9.2 percent GDP growth rate in 2003. The country made major advancements in banking reform and supervision, fiscal reform, small-scale privatization, pension reform, and attracting foreign investment to the energy sector. The country's output has increased 50 percent in the past four years. However, there is a growing danger of over-reliance on the oil sector. Kazakhstan faces major challenges of diversification and corruption that hamper the growth of a middle class. About 25 percent of the population still lives below the poverty line, and there are huge disparities between urban and rural areas and among regions. This underscores a need to develop further small and medium enterprises (SMEs), promote the rule of law, transparency, public accountability and to expand domestic and foreign investment outside extractive industries." All this will foster the middle class.

Another government priority was to privatize state property, which began in 1993 with the auction of some stores in Almaty. The program was extended nationwide, with the government privatizing trading companies, food suppliers and other services. Most importantly for the nascent middle class, as part of a parallel process, the mass privatization of apartments created a private housing market. The ambitious program by 1996 saw private companies account for around 80 percent of the economy while private ownership of agricultural production soared to 97 percent.

While privatization of state-owned industries was a priority, for most Kazakhs, the most important single element in the government's privatization drive was its effect on housing. In Nazarbayev's Decree no. 1388 of June 11, 2004, on "Kazakhstan's State Program on Housing Construction

Development for 2005-2007," he made his most explicit promise yet to the middle class, with their dream of owning their own home, naming the middle class as the intended direct beneficiary of the government's housing construction program, as 96.8 percent of Kazakhstan's housing stock, 2.5 million sq. ft., was already private property by then.

The purchases were initially financed through mortgages from the government-supported Kazakhstan Mortgage Company (KIK). The country's mortgage program was subsequently expanded to include the banks Kaspian, Astana-Finans, TsentrKredit, ATF, BTA-mortgage, Nurbank, Nauryz Kazakhstan bank, TekhakaBank, Alliance and Tsesnabank national banks, all operating under the auspices of the KIK.

A further indicator of the rise of a Kazakh middle class is the increasing private ownership of automobiles. As of January 1, 2006, private automobiles accounted for 1,556,453 of Kazakhstan's total motor pool of 1,807,737 transport units, or a total of 86.1 percent of all vehicles, giving a ration of 120 automobiles per 1,000 citizens, a ratio that authorities project will rise by 2012 to 300 vehicles per 1,000 citizens.

Another government reform benefiting the middle class was a complete overhaul of the country's educational system. To a certain extent, educational reform was imposed on Kazakh authorities by necessity following the collapse of the USSR. Kazakhstan began actively to solicit foreign educational institutions to set up facilities in Kazakhstan. The establishment of private higher education institutions (HEIs) in Kazakhstan began in 1992. They were listed as non-commercial organizations, joint stock companies or private limited companies. A decade after independence, the country's approximately 130 HEIs had 130,000 students enrolled (32 percent of the national total, including private fee-paying students) as opposed to 270,000 at Kazakh public institutions. The HEIs offered more than 130 specialties, with economics, law, pedagogy and humanities predominating. In 1992 Turan University, a non-state and nonprofit institution was established in Almaty. Many others would follow. The following year, the Kazakhstan government instituted its Bolashak program, a competitive scholarship program providing complete tuition and living expenses for the country's brightest students to study abroad. The program now enrolls more than 3,000 students annually; the most popular destination for the scholars is the United States. The flourishing interest in higher education meant that by 2007 Kazakhstan had a total of 181 higher education institutions with 81 branches. Graduates of all these programs moved swiftly into the growing middle class.

The growth of the middle class parallels that of Kazakhstan's business community. Business incubators and innovation centers (BIIC) to assist the development of small businesses were first established in Kazakhstan in 1997. Two years later the Kazakh government integrated fiscal support of business incubators into its economic policies. Parallel to the BIIC initiatives, the Almaty Association of Entrepreneurs was founded in April 1998, with its stated mission to protect the rights of entrepreneurs and to inform and educate entrepreneurs on their legal, normative, and regulatory rights in a rapidly changing environment.

The tireless AAE members drafted 253 specific legislative changes to the Administrative Code based on their findings and public input while conducted a media campaign both to raise awareness of problems in the Code and AAE's proposed solutions. Realizing the thoroughness of the AAE's efforts, Nazarbayev publicly announced support for the AAE's proposed reforms and the Majlis took up the AAE's administrative reforms during its 2005 session. By 2006 the government was also seeking input from Kazakh BIICs to help draft business legislation.

While government reforms helped emerging groups secure the basic necessities of housing, transport and education, an increasing level of disposable middle class income manifested itself in other ways as well. Many middle class Kazakhs began to use their disposable income to travel abroad. Increasing salaries also allowed many Kazakhs to acquire items essential for the Western lifestyle such as computers and cell-phones. According to Kazakhstan's Statistics Agency, in mid-2006 there were 6,103,00021 mobile users in Kazakhstan, representing 39.9 percent of the population. And to fuel this rising consumerism Kazakh banks began to offer low-interest loans and even credit cards.

As the Kazakh middle class became increasingly visible, new political parties and the government itself began to vie for its support. In November 2001 disaffected anti-Nazarbayev political activists founded the Democratic Choice of Kazakhstan (DVK) party, which further fissured in March 2002 when members broke away and established the Ak Zhol ("White Path") party. Ak Zhol unabashedly promoted itself as the protector and promoter of middle class interests, and contested the September 2004 parliamentary elections, when it only won one seat. Disaffected members blamed the loss on governmental manipulation of the election. Even if this occurred to some extent, a number of thoughtful Western observers have concluded that in fact most of the population was genuinely supportive of the Nazarbayev administration's reforms, which had produced the rising prosperity noted above.

As the Kazakh economy became increasingly integrated with global markets, it could not avoid reverberations of foreign fiscal difficulties. Kazakhstan initially was largely able to ride out the fiscal turmoil that began to roil the U.S. beginning in August 2006, but by late 2007 the ongoing instability forced banks sharply to curtail access to credit, while the government threatened to intervene on the international stock market to shore up the value of the shares of publicly traded Kazakh financial institutions. Between August 31, 2007, and February 8, 2008, the tenge dropped from 126.5 to the dollar to 120.24, losing 5 percent of its value.

The fiscal uncertainties roiling the global markets on February 6 was addressed by President Nazarbayev in his annual state of the nation address to Parliament. He assured Kazakh citizens of their financial security, stating, "The government should temporarily, until problems in the financial sector are settled, reduce expenditures in all spheres and programs, except social ones. Everything that can wait, without which we can live one-two years, should be suspended - maybe roads, construction and something else."

For better or worse, Kazakhstan's heavy and inevitable reliance on its oil revenues has exposed the country to the volatility of the global energy market. In 2006 oil revenues accounted for at least two-thirds of the country's budgetary revenues. Kazakhstan's economy is now larger than those of all the other Central Asian states combined (Turkmenistan, Uzbekistan, Kyrgyzstan, Tajikistan and Afghanistan), largely due to the country's vast natural resources and relative political stability. According to Kazakh government forecasts, the economy is expected to expand at an average annual rate of 9.5 percent in real terms from 2007 to 2011 because of both foreign investments and increasing oil exports.

Significant problems remain if Kazakhstan's middle class is to consolidate further. The disparity between rural and urban incomes, the need for equitable and orderly distribution of housing, the battle against corruption, the need to shield the national economy from global turmoil even as it further integrates into it, the effort to tighten academic standards, and controlling inflation - these are but a few of the problems that face Kazakh officialdom in the years ahead if it is to undergird the emerging middle class.

The middle class is currently unwilling to jeopardize Kazakhstan's present stability and prosperity by supporting radical political alternatives. The larger question remains whether President Nazarbayev will continue to be able to respond consistently and sufficiently to the middle class's inevitably growing expectations. While little is certain, in a world of rising energy demand that outstrips global production, Kazakhstan for the foreseeable future will have sufficient cash reserves with which to address the challenges before it, including those relevant to the middle class.

"First and foremost, the state must represent the interests of the middle class."
President Nursultan Nazarbayev, 1998

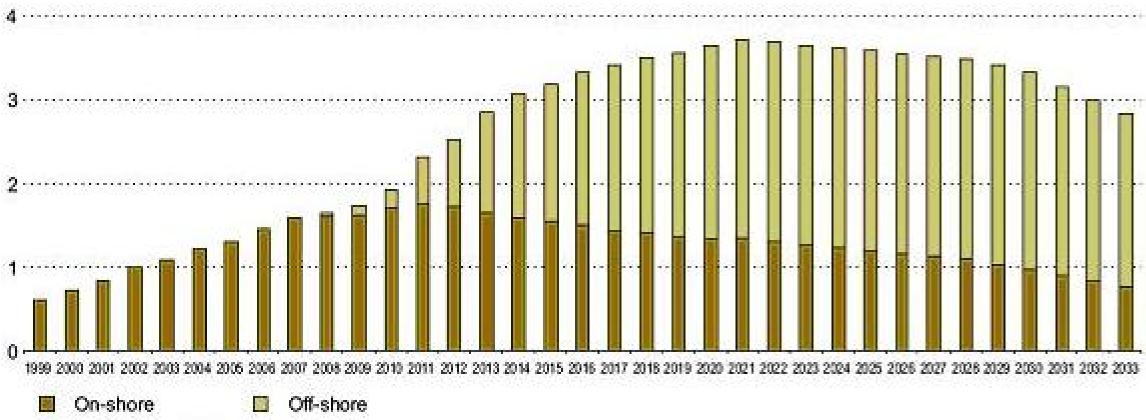
Kazakhstan's Sudden Prosperity

It is an obvious truism that rising energy exports are the engine that drives Kazakhstan's economy. The petroleum largesse has allowed the Kazakh government the wherewithal swiftly to move beyond its Soviet past, and in a development that would have Lenin spinning in his mausoleum, actively seek to foster the growth of a bourgeois middle class as a bulwark of social stability. Among other things, oil revenues have been used to reform the economy and build upon the country's Soviet educational legacy to begin creating an educational system on par with more advanced nations. Nearly all of the economy has been privatized, and most Kazakhs now own their own dwellings, all courtesy of the country's "black gold." Furthermore, it seems likely that such trends will continue.

The chart below tells the tale: from a level of 2002 exports of approximately one million barrels per day, projections estimate that by 2021 Kazakhstan could be pumping nearly 4 million barrels a day. What is most interesting about the graph is that it sees onshore Kazakh production peaking in 2011, while Caspian offshore developments, most notably Kashagan, then begin to surge to first supplement and then increasingly replace onshore production.

Estimates of Kazakhstan's oil-related wealth vary from $27 billion to $96 billion, depending on key variables over the next two-three decades, which include oil prices, total economic reserves and extraction activities, extraction costs, company-level investments, and the rate of return on the fiscal assets in which oil-related wealth is shelter. Converted to per capita terms, this ranges from $1,800 to $6,490 depending on differing projections for the same set of variables. Under the assumption that an average annual rate of return of about 4 percent can be sustained on incoming oil revenue, Kazakhstan could increase its level of spending by between $72 and $260 per person a year, but the amount is not large relative to the expected per capita spending of about $750 in 2005.

Figure 1: Kazakhstan's Potential Oil Production, 1999-2035 (mln bpd)



Source: World Bank staff calculations.

Major oil operators in Kazakhstan include the U.S. Tengizchevroil (ChevronTexaco), Italy's Agip, Britain's BG Kazakhstan, Canada's PetrolKazakhstan (Hurricane), the Belgian-French conglomerate Total Fina Elf and Kazakhstan's Kazmunaigaz. Among the global service providers are Parsons, Fluor & Daniels, Halliburton, Schlumberger, Baker-Hughes, Weatherford and Enka/Bechtel, among others. The oil revenues have provided rich soil for the emergence of a Kazakh middle class. Since 1991 Kazakhstan's economic accomplishments, by any yardstick, have been significant, impressing international institutions such as the UN, World Bank, the European Bank for Reconstruction and Development, the International Monetary Fund and Wall Street.

Among Kazakhstan's "firsts" among its CIS neighbors, Kazakhstan was the first to pay off its debts to the International Monetary Fund in 2000 following economic reconstruction (seven years ahead of schedule), the first to obtain a favorable credit rating, the first to implement financial institutions approaching Western standards of efficiency and reliability and the first to develop and introduce a nationwide fully funded pension program. Besides rising oil revenues, one of the key elements in Kazakhstan's economic success has been its ability to attract foreign investment, which in 2001-2003 surged to 13 percent of GDP and is currently running at almost ten times the rate of its neighbors. In validating the structural reforms carried out by the Kazakh government the European Union formally recognized Kazakhstan as a market-based economy in October 2000, while Washington accorded Kazakhstan similar recognition in March 2002. The 1999 Civil Service Law was a major institutional reform, delineating political appointees from professional 66,000 civil servants, who are now appointed on merit via competitive examinations and are required to attend programs aiming to modernize attitudes, orientation and status.[1]

Perhaps the most dramatic proof of the "trickle down" effect of oil revenue has been the dramatic drop in the nation's poverty; according to UN figures, Kazakhstan halved its poverty rate in just five years, which fell from five million or 39 percent in 1998 to three million or 20 percent in 2003, the lowest poverty rate among the "Stans."

Foreign experts also lauded Kazakhstan's creation of the National Fund, a stabilization fund designed to protect the Kazakh economy against external fiscal turmoil, as proof of the country's reputation for innovative financial institutions designed to address the country's particular needs. Among recent visitors to Kazakhstan who have been quick to spot the change that has occurred was the U.S. Secretary of State Condoleezza Rice. During a visit to Astana on October 13th 2005 she declared: "*One needs only to look around here in Astana to see the beginnings of a diverse and independent middle class.*" (Emphasis added in the original.)"[2]

Rice prefaced her remark to a student audience at the Eurasian National University with, "Since its independence, Kazakhstan has also set an example in this region with bold economic reforms that have attracted investment, created jobs, and established a vibrant banking system. The Government of Kazakhstan has also made wise choices to begin diversifying its economy and ensuring that its vast oil wealth can become a source for social mobility, not social stagnation."[3]) Rice added, "The future of any state depends on its level

---

[1] *Caspian Information Center Occasional Paper No 6 - Kazakhstan's Emerging Middle Class: a Factor for Stability*, November 2004.

[2] "Truth about Kazakhstan" at http://portal.mfa.kz/portal/page/portal/mfa/en/content/truth/society.

[3] Remarks at Eurasian National University, Secretary Condoleezza Rice, Astana, Kazakhstan, October 13, 2005 @ http://www.state.gov/secretary/rm/2005/54913.htm.

of education. This is my fourth visit to Kazakhstan, I have already been to Atyrau and Almaty and I have been able to see for myself the high level of education of your nation, which is a key to success of any country."

Who are the Kazakh "Middle Class?"

Kazakh sociologists have attempted to define the parameters defining the country's nascent middle class. On attempting to define "middle class" in a Kazakh context S.M. Shakirova writes, "The middle class is the part of the society, which occupies the mid-position between the highest and lowest classes. It is characterized by the high level of cohesiveness, incomes, consumption, the possession of material or intellectual property and a capability for the highly skilled labor.[4]

Dimtrii Burminskii offers a fascinating neo-Marxist analysis of Kazakhstan's classes.[5] Burminskii begins by arguing that Kazakhstan possessed an embryonic middle class even during the Soviet era. He delineates eight distinct classes in modern day Kazakhstan, which he identifies as the ruling class, oligarchs, the intelligentsia, the peasantry, the working class, the army and the "authorities," the middle class and what he terms the "revolutionary" middle class.

Burminskii maintains further that Kazakhstan's middle class actually began to appear in the USSR during the period of perestroika, acquiring its initial "seed capital" by shuttle trading visits to Poland, Turkey and other countries. After independence, when the Kazakh economy began to liberalize, the middle class continued to evolve out of the level of small-scale property ownership, yet it is still in the process of emerging. According to Burminskii, this class does not yet posses its own worldview, preferring instead initially to "swim upstream." Sooner or later "class consciousness" will arise, at least at the level of class selfishness, despite the fact that members of this group have

---

[4] S.M. Shakirova, "Uroven I kachestvo zhizni, sotsial'noe samochuvstvie, identifikatsiia srednego klassa Almaty (po dannym focus-grupp i interv'iu," *Srednii klass Almaty: uroven zhizni, gendernye razlichiia, identichnost' Vypolneno v ramkakh mezhdunarodnogo issledovaniia po granty INTAS (Evropeiskaia komissiia, Briussel)*, Almaty, 2007.

[5] Dmitrii Burminskii, "Klassovoe stroenie kazakhstanskogo obshchestva. 15.01.2008 @ http://www.kub.info/article.php?sid=20371.

no inherent cohesiveness, as their strata was created randomly across society. Burminskii believes that once this class acquires a sense of identity, it will increasingly become antagonistic towards the bureaucracy as it seeks to consolidate and protect its economic gains.

Within this atomized middle class Burminskii postulates a subset that he labels the "revolutionary" middle class, which seeks to secure its gains by emulating the accomplishments of the Ukrainian "orange revolution" in November 2004. In Ukraine, elements of the middle class supported Yushchenko, if for no other reason than it knew what it did not want, allowing Yushchenko's supporters to win. In a cautionary note Burminskii observed that the middle class in Ukraine subsequently needed to struggle with bureaucrats attempting to elicit revenge after the revolution. Whether Burminskii's hypothesis applies to Kazakhstan remains far from clear.

Burminskii's argument turns on the notion of a high "standard of living;" another sociologist defines this as, "The essential characteristic of the degree of the satisfaction of the physical, spiritual and social needs of people. It is measured by the following indices: the volume of consumer goods and services per capita of population... real income per capita, residential security, the provision of different public services, transport... public health and culture. Also involved are issues of employment, working conditions, including the duration of working hours, personal social safeguards, safety, demographic indices, ecology, health, secure access to nutritional food, material and financial acquisition and accessibility to social services...".[6]

"Quality of life" is a value derived from the standard of living. It is determined by a number of objective and subjective indices. Among its components is the consumption of material goods, food, a high quality of housing and employment, the development of services, culture and social welfare. Among subjective criteria relating to "quality of life" are job satisfaction, conditions of employment, social status, financial position and family relations.[7]

---

[6] *Uroven' Zhizni,* at Http://abc.informbureau.com/html/odiaaiu_aeecie.html.
[7] Nikita Krichevskii, "Shto takoe 'sotsial'nye investitsii'?" at http://www.apn.ru/?chapter_name=advert&data_id=873&do=view_single.

According to Kazakhstan's Statistics Agency, "'Lifestyle' defines the life of people as a whole, in the first place, how they their expend time and money, all therefore reflecting peoples' activities, interests and opinions. Poverty is the absence not only of sufficient income or basic nutritional needs, clothing, housing, access to public health care, but also the lack of the necessities for a healthy and lengthy life, the lack of possibilities for participating in public life, or an income level insufficient for satisfying other socio-cultural needs."[8]

With such variables in definitions, some estimates of the Kazakh middle class put its numbers as high as 25 percent of the total population, and including people who consume 50-80 percent of the financial value of all goods sold in Kazakhstan. Analysts further divide this group into two sections, a lower middle class, with individual annual incomes of $6,000-9,000, an estimated 70 percent of the stratum, and the "upper" middle class, with annual individual incomes of $9,000-15,000, which is 30 percent of the group. According to official Kazakh statistics, salaries increased by 21 percent in 2001 and by 12 percent in 2002, and were projected to rise further thereafter.[9] The principal criterion of reference to the middle class is not the nature of labor, professional association or relation to property (worker, owner), but income level. Other Kazakh experts give figures ranging between 18 percent and 60 percent of the population. According to one classification about 17 percent of the adult urban population in Kazakhstan is middle class, a figure estimated to be slightly higher in Almaty, where the proportion of the population belonging to the middle class is estimated at about 20 percent.[10]

Income remains unevenly distributed across Kazakhstan, with prosperity concentrated in the two urban centers Astana and the "southern" capital Almaty along with the country's two major oil producing provinces, Atyrau and Mangistau.

---

[8] *Uroven zhizni naseleniia i bednost' v Respublike Kazakhstan (statisticheskii monitoring.)* Agenstsvo RK po statistike; Almaty, IUNIFEM, PROON, 2004.

[9] *Industry Canada International Market Insight, Report* Date: 09/16/2003.

[10] "Srednii klass v Kazakhstan: stil' zhizni," 24 October 2007 http://www.centrasia.ru/newsA.php4?st=1193213700.

Table 2: Average regional monthly wages by province, 2003[11]

Region	Tenge
Republic Kazakhstan (average)	23,721 ($158.56)
Astana	15,183 ($101.49)
Aktyubinsk	24,522 ($163.91)
Almaty oblast	16,875 ($112.80)
Atyrau	48,678 ($325.38)
eastern Kazakhstan	20,357 ($136.07)
Zhambyl	16,227 ($108.46)
western Kazakhstan	27,974 ($186.99)
Karaganda	21,214 ($141.80)
Kostana	17,675 ($118.15)
Kzylorda	19,758 ($132.07)
Mangistau	44,081 ($294.65)
Pavlodar	22,898 ($153.06)
northern Kazakhstan	15,613 ($104.36)
Southern- Kazakhstan	15,805 ($105.65)
Astana (capital)	31,862 ($318.62)
Almaty (former capital)	33,714 ($337.14)

As the statistics show, the disparity is most extreme between Almaty and the poorest rural provinces, with the average salary of an inhabitant in the former capital earning 332 percent more per annum than his rural compatriot.

The numbers do not tell the entire story however, as in the oil-rich provinces of Atyrau and Mangistau employees of the oil companies and petroleum workers, numbering in the low 10s of 1,000s earned anywhere from $500 to $1,000 a month or more, while doctors, teachers and other professionals in the same province earned salaries ranging between 7,000-10,000 tenge ($47-67) per month.[12]

---

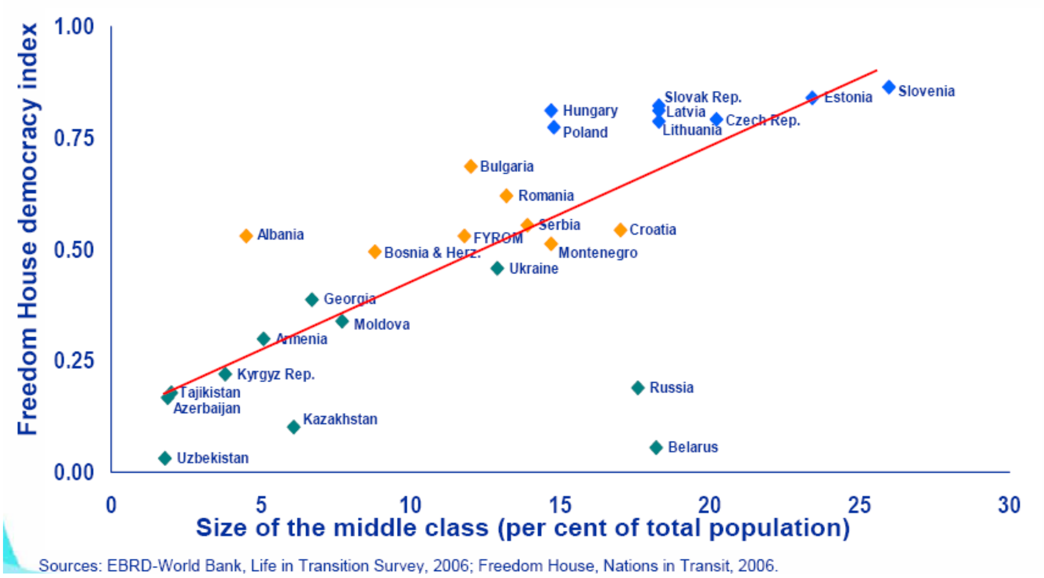
[11] Source: Sotsial'no-ekonomicheskoe razvitie Respubliki Kazakhstana (Kratkii statisticheski spravochnik.) Ianvar'-dekabr'2003 goda. Almaty, 2004, p.64.2003 average exchange rate - 149.6 tenge = $1.00

[12] Nurtai Mustafaev, "Almaty – gorod konstrastov. Chast 1," 8 December 2004, *Internet-gazeta* "*ZONA.kz,*" *Kazakhstan* at http://www.zonakz.net/articles/7627.

In 2006 Kazakhstan's Statistics Agency calculated the monthly income level of the lower middle class to be 35,000 tenge ($290) per month. The portion of population in the second quarter of 2006 belonging to the lower middle class was 6.3 percent.[13]

In the graph "More democracy where middle-class larger," EBRD teamed up with Freedom House to produce the following statistics, estimating Kazakhstan's middle class at approximately 10 percent of the country's population:

Figure 3: More Democracy Where Middle Class Larger[14]



In any case, if Kazakhstan's middle class is to become a bulwark of social stability, its numbers must increase to be a larger plurality or even majority of the population.

Statistics

Kazakhstan, the world's largest landlocked country, is an ethnically diverse nation– the 1999 census determined the population to consist of Kazakh

[13] Roman Shpital'skii, "Srednii klass – opora obshchestva," *Ekspress K*, No. 144, 08.08.2007.

[14] Source: European Bank for Reconstruction and Development, *EBRD Transition Report 2007*, at http://www.ebrd.com/pubs/econo/tr07p.pdf.

(Qazaq) - 53.4 percent, Russian - 30 percent, Ukrainian - 3.7 percent, Uzbek - 2.5 percent, German - 2.4 percent, Tatar - 1.7 percent, Uyghur - 1.4 percent and others 4.9 percent. Many ethnic Russians resent the lack of dual citizenship and having to pass a Kazakh language test in order to work for government or state bodies.

Unlike many political systems and economies in transition, Kazakhstan has not seen a major exodus from the agricultural sector into the cities; in 1995, Kazakh authorities put the country's urban population at 55.7 percent, which by 2006 had risen only to 57.4 percent, with United Nations ranking in 2003 Kazakhstan 107th of 199 countries surveyed.[15]

Table 4: Comparative Economic Performance[16]

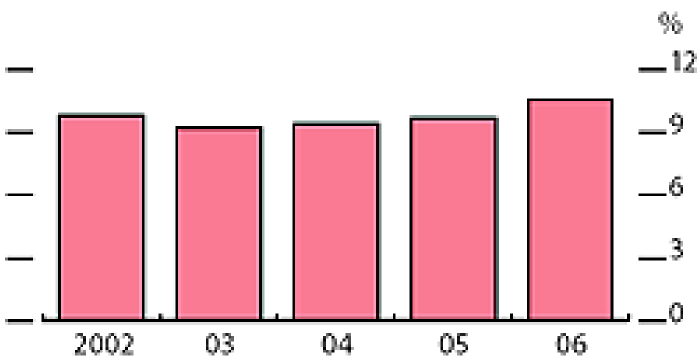
HDI rank	GDP: US$ billions 2005	GDP: PPP US$ billions 2005	GDP per capita: US$ 2005	GDP per capita: 2005 PPP US$ 2005	Annual growth rate (%) 1975–2005	Annual growth rate (%) 1990–2005	Highest value during 1975–2005, 2005 PPP US$	Year of highest value	Average annual change in consumer price index (%) 1990–2005	2004–05
54 Saint Kitts and Nevis	0.5	0.6[e]	9,438	13,307[c]	4.9[b]	2.9	13,307[b]	2004	3.0	1.8
55 Tonga	0.2	0.8[d]	2,090	8,177[d]	1.8[b]	1.9	8,177[b]	2005	5.2	8.3
56 Libyan Arab Jamahiriya	38.8	..	6,621	..	2.5[b]	..	..	..	1.9	..
57 Antigua and Barbuda	0.9	1.0[f]	10,578	12,500[c]	3.2[b]	1.5	12,500[b]	2004	..	..
58 Oman	24.3[f]	39.4[e]	9,584[f]	15,602[e]	2.4[b]	1.8	15,602[b]	2004	0.1	1.2
59 Trinidad and Tobago	14.4	19.1	11,000	14,603	0.6	4.3	14,603	2005	5.1	6.9
60 Romania	98.6	196.0	4,556	9,060	-0.3[b]	1.6	9,060[b]	2005	65.5	9.0
61 Saudi Arabia	309.8	363.2[d]	13,399	15,711[d]	-2.0	0.1	27,686	1977	0.4	0.7
62 Panama	15.5	24.6	4,786	7,605	1.0	2.2	7,605	2005	1.0	3.3
63 Malaysia	130.3	275.8	5,142	10,882	3.8	3.3	10,882	2005	2.9	3.0
64 Belarus	29.6	77.4	3,024	7,918	2.2[b]	2.2	7,918[b]	2005	144.6	10.3
65 Mauritius	6.3	15.8	5,059	12,715	4.4[b]	3.8	12,715[b]	2005	5.8	4.9
66 Bosnia and Herzegovina	9.9	..	2,546	..	..	12.7[b]	..	..	..	..
67 Russian Federation	763.7	1,552.0	5,336	10,845	-0.7[b]	-0.1	11,847[b]	1989	63.6	12.7
68 Albania	8.4	18.6	2,678	5,316	0.9[b]	5.2	5,316[b]	2005	15.8	2.4
69 Macedonia (TFYR)	5.8	14.6	2,835	7,200	-0.1[b]	-0.1	7,850[b]	1990	5.7	(.)
70 Brazil	796.1	1,566.3	4,271	8,402	0.7	1.1	8,402	2005	96.0	6.9
MEDIUM HUMAN DEVELOPMENT										
71 Dominica	0.3	0.4[e]	3,938	6,393[c]	3.1[b]	1.3	6,393[b]	2004	1.6	2.2
72 Saint Lucia	0.9	1.1[e]	5,007	6,707[c]	3.6[b]	0.9	6,707[b]	2004	2.7	3.9
73 Kazakhstan	57.1	119.0	3,772	7,857	2.0[b]	2.0	7,857[b]	2005	29.7	7.8
74 Venezuela (Bolivarian Republic of)	140.2	176.8[d]	5,275	6,632	-1.0	-1.0	8,756	1977	37.6	16.0

[15] *Key Indicators of Developing Asian and Pacific Countries; Kazakhstan*, Asian Development Bank, 2007, United Nations, *World Urbanization Prospects: The 2001 Revision,* Department of Economic and Social Affairs, Population Division. New York, 2002, *World Population Prospects: The 2004 Revision and World Urbanization Prospects*, Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat.

[16] Human Development Report 2007/2008, United Nations Development Program, MacMillan: London, 2007.

In 2005 the State Department estimated Kazakhstan's Gross Domestic Product (GDP) at $125.3 billion (purchasing power parity,) its GDP per capita income at $8,300 (purchasing power parity), and GDP growth at 9.5 percent.[17] The report contained mixed praise for the country's economic progress, noting, "Kazakhstan continues to play a leading role in Central Asia in economic reforms, with a solid banking system, growing mortgage markets (with $2.74 billion in total lending), and approximately $6.48 billion in pension accumulations as of October 2006, more than eight percent of the nation's GDP. However, challenges remain in addressing problems related to the country's competitiveness and economic diversification, its over-reliance on the oil sector, widespread corruption, concentration of political power, and the need for increased rule of law and good governance. All of these challenges hamper the growth of a middle class and, consequently, economic prosperity. The incidence of poverty has fallen significantly in recent years, reaching 9.8 percent in 2005 according to official statistics; however, poverty rates between rural and urban areas still differ significantly."

Figure 5: Kazakhstan GDP growth 2002-2006[18]



In 2006 oil revenues accounted for at least two-thirds of the country's budgetary revenues, increasing its per-capita gross domestic product (GDP) to $5,100, up from $3,620 in 2005.[19]

---

[17] *Country Assessments and Performance Measures – Kazakhstan, U.S. Government Assistance to and Cooperative Activities with Eurasia - FY 2006*, State Department Bureau of European and Eurasian Affairs, January 2007.
[18] Source: Agency of Statistics of the Republic of Kazakhstan.

Kazakhstan's steady and impressive economic performance has impressed the U.S. government; in 2006 the USAID observed, "Thanks to the Government of Kazakhstan's (GOK) commitment to market reforms and the rise of the energy sector, Kazakhstan has achieved steady economic growth, with an estimated 9.2 percent GDP growth rate in 2003. The country made major advancements in banking reform and supervision, fiscal reform, small-scale privatization, pension reform, and attracting foreign investment to the energy sector. The country's output has increased 50 percent in the past four years. However, there is a growing danger of over-reliance on the oil sector. Kazakhstan faces major challenges of diversification and corruption that hamper the growth of a middle class. About 25 percent of the population lives below the poverty line, and there are huge disparities between urban and rural areas, and among regions. This underscores a need to further develop small and medium enterprises (SMEs), create a vibrant middle class, promote enhanced rule of law, greater transparency, and public accountability, and expand domestic and foreign investment outside extractive industries."[20] The previous year an Asian Development Bank study cited an even more impressive poverty reduction figure; of the percentage of population living below the subsistence minimum falling to 15 percent in 2004, with Kazakhstan on course to meet the Millennium Development Goal target on income poverty by 2015 as well as several non-poverty MDG targets.[21] The Asian Development Bank reported in 2006 that wage increases and substantial expansion of bank credit fueled private consumption spending, as construction expanded by 38 percent, largely on residential dwellings.

Kazakhstan's accomplishments in poverty reduction are all the more impressive that many of its causes were legacies of the collapse of the USSR's centrally planned economy, as shown in Table 2.1 below, which indicates that more than 4 in 5 unemployed Kazakhs lost their livelihood in the aftermath of the Soviet economic implosion.

---

[19] "Kazakhstan's Per Capita GDP at $5,100 in 2006," *Novosti* at http://en.rian.ru/world/20061225/57774824.html.

[20] *USAID Budget: Kazakhstan, 2006* at www.usaid.gov/policy/budget/cbj2006/ee/kz.html.

[21] "Implementation of the Country Strategy and Program", Asian Development Bank, http://www.adb.org/Documents/CSPs/KAZ/2005/csp0200.asp.

Table 6: Main Causes of Poverty in Kazakhstan according to Survey Participants[22]

Answers	Percentage
1. Closure of industrial enterprises, involuntary unemployment	84,2
2. Low pensions, social benefits	66,3
3. Low wages	56,2
4. Weak preparedness for market economy, low social and economic activity, marginalisation of significant parts of the population	47,2
5. High public utilities prices	37,1
6. Long delays in payments of wages, pensions, social allowances	26,9
7. High prices of medical services and drugs	20,2
8. Inflation, rise in prices	18,0
9. Insufficient educational level and qualification of the part of the population	10,1
10. Large families with several children	8,9
11. Discrimination based on age, sex or other social and demographic criteria	7,8
12. Ecological problems	5,6
13. Ethnic discrimination	4,5

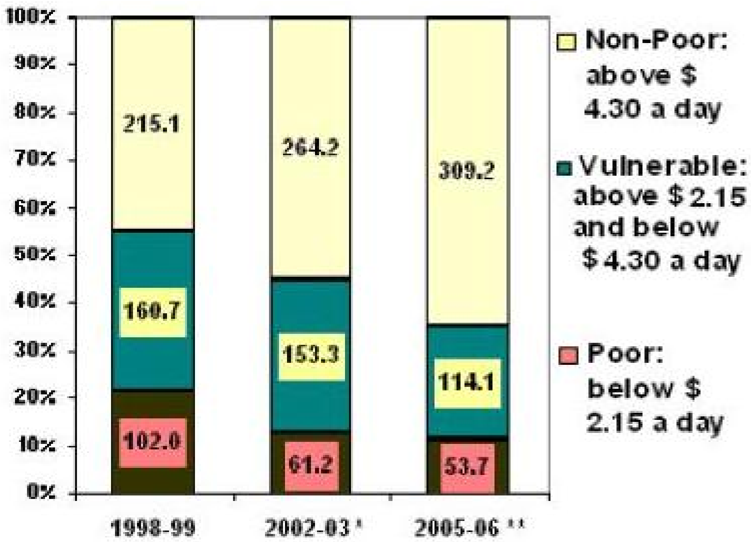
A 2005 United Nations Development Program Country Programme Action Plan noted of the economy, "Extensive reforms since independence in 1991 have brought good results. As a result of improved production capacity and high world prices in the oil sector, the economic rebound started in 1999: real GDP grew 13.5 percent in 2001, 9.8 percent in 2002 and 9.2 percent in 2003.(Non-oil sector growth averaged 9 percent in the past three years.) It is estimated that GDP will continue to grow approximately 7 percent per annum for the next several years," and then correlated it the issue of poverty, noting, "Due to this strong economic performance, the incidence of poverty decreased from 35 percent to 19.8 percent between 1996 and 2003, as per capita income grew to USD 1,520 by 2002. However, the incidence of poverty varies across the country and the rural-urban divide, with rural poverty twice as

---

[22] Source: *Human Development Report- Kazakhstan 2000: Fighting Poverty For A Better Future*, Almaty: United Nations Development Program, 2001.

high. The inability of the oil, gas and mining sectors to create a large number of jobs continues to hamper poverty reduction efforts."[23]

Figure 7: Population of ECA by Poverty Status (mln)[24]



Source: **Bank staff estimates based upon ECA Household Data Archives. * World Bank 2005 *Growth, Poverty, and Inequality in Eastern Europe and the former Soviet Union.*

A 2007 World Bank study concluded that several FSU nations had achieved significant reductions in the number of citizens living below an absolute poverty line of $2.15 per day in a study using national currencies converted 2000 Purchasing Power Parity (PPP) exchange rates. The study concluded that, "Poverty rates continue to fall in ECA (Europe and Central Asia Region), and since 1998-99, have halved. The proportion of the poor (defined as those below $2.15 per day in 2000 PPPs) fell from roughly 20 percent in 1998 to 11 percent by the end of 2005…The resurgence of growth in the region, particularly in CIS countries, has moved about 58 million people out of poverty. Much of this poverty reduction has occurred in the populous middle-income CIS countries (Russia, Kazakhstan, and Ukraine) where most of the poor live. Much of the growth in incomes has come in the large middle-

---

[23] *Country Programme Action Plan 2005-2009, Government of Kazakhstan United Nations Development Program*, UNDP Kazakhstan CPAP 28 February 2005 @ http://www.un.kz/img/docs/en/1105.doc.)

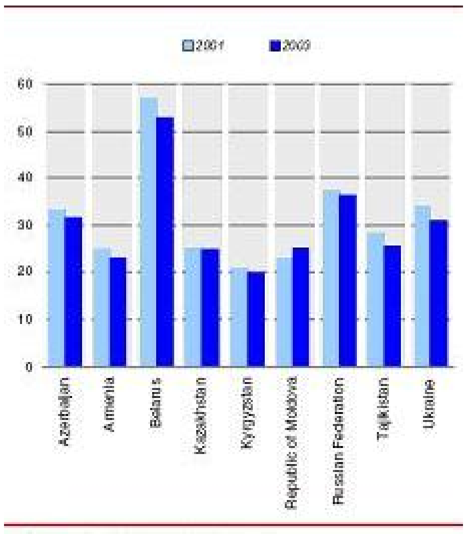
[24](Europe and Central Asia Region Poverty Team, issue 19, World Bank Quarterly Newsletter, April 2007.

income CIS countries, where the bulk of the poor reside. In Russia, Ukraine, Kazakhstan, and Belarus, continued shared economic growth has led to increased household consumption, and significant poverty reduction."

Post-Soviet Kazakhstan

Between 1989 and 2005, Kazakhstan lost two million of its six million Russian Soviet inhabitants. Kazakhstan still retains a Russian minority of around 30 percent, the highest percentage in Central Asia.[25] The decade following the collapse of Communism in 1991 widened the urban-rural divisions in many former Soviet republics, including Kazakhstan. The GDP share of Kazakhstan's agriculture shrank by 280 percent, from 34 percent in 1990 to 11.9 percent in 1998, while grain production in 1997-1998 decreased by 210 percent from the 1986-1990 averages. In the same period meat production declined 47 percent, dairy items by 42 percent, while vegetable and other produce production dropped precipitously as well.

Figure 8: Share of Total Employment in the State Sector in Selected CIS Economies, 2001 and 2003



In the labor market, the most immediate effect of the collapse of the USSR was the shedding of state jobs; by 2003, state employment had dropped dramatically, as shown in the graph below. While Kazakhstan created new

[25] "Russians left behind in Central Asia ," *BBC*, November 23, 2005.

jobs after 2004, the government sector continues to account for one quarter of total employment and two fifths of dependent employment.[26]

One of the first and highest priorities of Kazakhstan's government in the years immediately following independence was to control raging inflation, which in 1992, the first year of independence, soared to 2,960.8 percent.

Table 9: Changes in Inflation in Kazakhstan, 1990-99

Years	Inflation level, % in a year
1990	4,2
1991	147,1
1992	2960,8
1993	2165,0
1994	1158,3
1995	60,3
1996	28,7
1997	11,2
1998	1,9
1999	17,8
2000	9,8

Source: Agency of the RK on Statistics
Note: For the year 2000 the inflation rate is given for 11 months

Another government priority was to privatize state property, which began in 1993 with the auction of some stores in Almaty. As the program picked up pace it was then extended nationwide, with the government privatizing trading companies, food suppliers and other services. Most importantly for the nascent middle class, as part of a parallel process, the mass privatization of apartments created a private housing market. The ambitious program three years later saw private companies account for around 80 percent of the economy, while private ownership of agricultural production soared to 97 percent.[27]

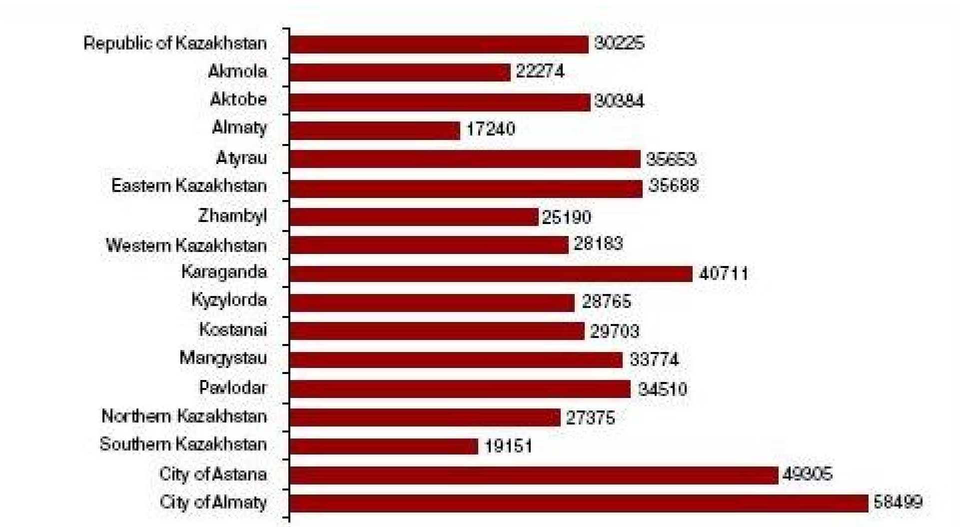
According to official estimates, Kazakhstan's GDP grew by about 13 percent in 2001, the highest rate among the former Soviet republics. That year the government made considerable efforts to improve the economic condition of

---

[26] *Ekonomicheskaya aktivnost'naseleniya Kazakhstana*, Almaty, 2004.
[27] *Caspian Information Center Occasional Paper No 6 - Kazakhstan's Emerging Middle Class: a Factor for Stability*, November 2004.

the population, as the average monthly wage reached 15,516 tenge (around $110), an 18.9 percent nominal increase from 2000 (9.6 percent in real terms). Yet unemployment remained high. For the first time, the Labor and Social Ministry used a new method for estimating unemployment and admitted that there were almost 900,000 unemployed people in the country, or 12.7 percent of the work force (previous official figures were 3.8 percent), Panorama reported in its May 2001 issue. According to some estimates, unemployment was even higher in the southern and southwestern regions of the republic, reaching up to 20 percent, while in Almaty oblast and some industrial regions in the north it was below the national average.

Figure 10: Money Incomes of Population for Different Regions[28]



The economic transition affected the living standards of rural residents, particularly their earnings and pensions. Surveys in 1997 reported that per capita incomes of rural residents were 2.5 times lower than in cities, with the agricultural median monthly wage being the lowest compared to other sectors. In 1997 rural workers earned an average of $51, while the figure for industry was $164, transport, $144 and construction, $149, while the national median monthly wage was $112. In 1997 rural residents earned three times less than industrial workers and 2.2 times less than the national average. A poverty survey carried out in 1996 by the Kazakh Statistical Agency found that 33.9 percent of rural residents live below the poverty line, versus urban

[28] Source: Kazakhstan Statistics Agency, over 9 months in 2000, tenge

areas' 27.9 percent. Despite the government's efforts, a level of inequity remains.

Similar rural-urban inequalities existed in social security payments, which represented 20.5 percent of the nation's earnings and with pensions constituting the bulk of social security payments. With one pensioner per every 1.8 worker, funds allocated for social security drained rapidly. In 1998 however, Kazakhstan adopted a drastic pension reform program based on the Chilean model, which called for private pension funds. Laying the groundwork for pension reform, in June, 1996, the Majlis adopted a law establishing a legal framework for creating voluntary private pension funds, with the National Bank playing a regulatory role. In March 1997 the Kazakh government approved the transition to a three-tier system to start in January 1998. Workers were supposed to contribute to a private pension fund, which would guarantee minimum pensions to each worker with a pre-decade work record. Once again however, the countryside lagged behind the urban centers, as pensions, a vital source of rural income, were 1.5 times higher in cities than in villages.[29] Despite the disparities however, as of 2004 nearly six million people, accounting for almost eighty percent of the economically active population, were participating in the scheme, a fifty percent growth since January 2002.

Their old age secured and the country's economy stabilized, Kazakhs could now look forward to increased consumerism rather than saving all their money for a rainy day. As the country moved further away from its Soviet past, Kazakhs began to spend their disposable income on good and services that went beyond mere survival needs.

---

[29] United Nations Economic and Social Commission for Asia and the Pacific, "Strengthening Income-Generating Opportunities for Rural Women in Kazakhstan", New York: United Nations, 1997, at http://www.unescap.org/rural/doc/women/Kazakhstan.pdf.

Table 11: Kazakhstan Key Development Indicators[30]

Item	1990	1995	2000	2002	2003	2004	2005	2006
Expenditure on NMP I GDP	47.9 I	1014.2	2599.9	3776.3	4612.0	5870.1	7590.6	10139.5
Private consumption	32.2 I	721.2	1599.7	2061.8	2512.8	3142.5	3784.4	4635.5
Government consumption	5.9 I	137.7	314.0	438.4	519.2	681.8	583.8	1039.8
Gross fixed capital formation	18.7 I	233.8	450.3	907.1	1062.7	1472.4	2122.7	2970.3
Increase in stocks	3.7 I	2.7	21.3	123.3	122.8	72.1	228.1	378.1
Exports of goods and services	... I	...	1481.1	1774.5	2233.0	3081.8	4064.2	5223.0
Less: Imports of goods and services	... I	...	1258.2	1776.4	1985.3	2577.5	3395.0	4129.1
Statistical discrepancy [f]	-1.7 I	-34.8	-8.3	247.6	146.8	-3.0	202.4	21.9

One of the more striking indices of the rising power of Kazakh consumers is contained in the above chart, which lists private consumption in 1990, the last full year of Soviet power at 47.9. Sixteen years later, the index had risen to 10,139.5, an increase of 2,116 percent. Since monetary parities are useless for comparison in a study such as this, it will cover what most in the West regard as essential accoutrements to a middle class existence, including employment, housing, transportation, education, banking and access to credit lines, communications, including cellular telephones and access to the Internet, along with such lifestyle choices as diet, fashion and vacations.

Housing

If anything epitomized Kazakhstan's break with its Soviet past, it was its rapid privatization of the nation's housing stock, turning the average citizen into the owner of a valuable equity asset. Less than a decade after the collapse of the USSR, most housing in Kazakhstan had been privatized. In President Nazarbayev's Decree No. 1388 of June 11, 2004, on "Kazakhstan's State Program on Housing Construction Development for 2005-2007" he made his most explicit promise yet to members of the middle class, with their dream of owning their own home, naming the "srednii klass" as the direct beneficiary of the government's housing construction program. After noting that 96.8 percent of Kazakhstan's housing stock (2.5 million sq. ft.) was already private property, largely financed through mortgages from the government-supported Kazakhstan Mortgage Company (KIK), President Nazarbayev proposed further funding of $12.5 million to support a state program of home

[30] Source: *Key Indicators of Developing Asian and Pacific Countries; Kazakhstan,* Asian Development Bank, 2007.

construction for 2005-2007. The mortgage program was also to involve the national banks Kaspian, Astana-Finans, TsentrKredit, ATF, BTA- mortgage, Nurbank, Nauryz Kazakhstan bank, TekhakaBank, Alliance and Tsesnabank national banks, operating under the auspices of the KIK.

Article 5 of the decree concerned the overall direction and mechanisms for implementing the program, with section 2 specifically stating, "The measures are directed towards encouraging buildings of dwelling for the middle class...". Article 5 section 1.4 set forth quality controls in building materials and heating systems to assist construction of housing for the "middle-class," a sharp break with the shoddy construction techniques of the Soviet era. The decree concluded, "The Program pays special attention to providing housing to the middle class and socially vulnerable groups."[31]

In a report on Astana's real estate market for the second quarter of 2007 prepared by the Swiss Realty Group, some interesting facts emerge about Astana's 584,800 inhabitants. The survey rates the both the capital's standard of living and educational levels as "higher than average," with the city's inhabitants earning an average salary of $550 per month.

The report notes that in 2006 11,019,500 square feet of new housing was constructed. The rents paid for the various grades of housing are also of interest. "Luxury residential" housing in the city center rents for $1,800-4,500 monthly, "upscale residential" $1,200-2,700 per month, while "mid-budget housing" in the suburbs goes for $1,000-1,600 per month, while luxury suburban "mansions" can rent for up to $2,500-10,000 per month.

The sale prices for housing in the capital are equally illuminating. "Luxury Residential" units in the center of the capital can sell for $400-700 per square foot, with "Upscale Residential" fetching between $300-500 per square foot. Suburban "Mid-Budget" dwellings in the capital's outlying districts sell for

---

[31] Ukaz President Respupliki Kazakhstana ot 11 iunia 2004 god N 1388 O Gosudarstvennoi programme razvitiia zhilishchnogo stroitel'stva v Respublike Kazakhstan na 2005-2007 gody" at www.nr.kz/nrkz/analytics/downloads/files/GP2005_2007.doc.

$200-300 per square foot, while detached cottages typically sell for $150-300 per square foot.[32]

Farther to the south, in the former capital Almaty, even three years ago a 2,000 square-foot two-room apartment in the newly constructed elite "Stolichnyi tsentr," "Nurly Tau" sites or along the Zhailiadu" golf course could cost $430,000 or more, while a five-room apartment in the same upscale complexes could run up to $1 million, with "mini-mansions" going for considerably more.[33]

The building boom in Almaty has passed by some poorer residents. On July 14, 2006 skirmishes occurred between residents in Almaty's Bakay district when authorities attempted to enforce a slum clearance plan. Five hundred dwellings had already been demolished by court order, with portions of the Shanyrak district also targeted for demolition. When 150 police officers attempted to dismantle a barricade thrown up by local residents, they were met with rocks and Molotov cocktails; 16 police officers were hospitalized, and one died from burns twelve days later.[34] Social tensions were further exacerbated when on August 1, 2006, the Kazakh government passed a law promising all adult citizens free title to a plot of land totaling .10 hectare (.247 acres.)[35] The decree's wording seemed to indicate that the citizens had merely to present their official documents to the local authorities. As over half Kazakhstan's population is now urban, unruly long lines quickly formed in the capital Astana and Almaty as citizens sought to claim their property. The mayors of Astana and Almaty quickly declared that they were unable to fulfill the decree's terms, while the head of the Almaty administration land department Kozhakhan Zhabagiev said simply, "The cabinet decree…is not applicable in the conditions of our city."

---

[32] "Rynok Nedvizhimosti Kazakhstan, Astana, Q2 2007,Osnovnye Pokazateli, 10 September 2007" *Stroitel'nyi Vestnik* (n.d.) at http://builder.kz.

[33] Nurtai Mustafaev, "Almaty – gorod konstrastov. Chast 2," 13.12.2004, *Internet-gazeta "ZONAkz," Kazakhstan* at http://www.zonakz.net/articles/7662.

[34] Joanna Lillis, "Civil Society: rich-poor gap fuels tension in Kazakhstan's commercial capital," Eurasianet.org, August 9, 2006 at http://www.eurasianet.org/departments/civilsociety/articles/eav080906.shtml.

[35] Postanovlenie Pravitel'stva Respubliki Kazakhstan ot 1 avgusta 2006 goda No. 726, "Ob utverzhdenii Pravil predostavlenia prav na zemel'nye uchastki pod individual'noe zhikishchnoe stroitel'stvo at http://base.zakon.kz/doc/lawyer/?doc_id=30064437&sub=SUB0.

Investment in housing construction for eleven months of 2006, compared with the same period of 2005 increased by 37 percent and amounted to $2.4 billion.[36]

Transportation

Kazakhstan is meeting the middle-class's hunger for automobiles in a number of ways, from importing both new and used automobiles to encouraging foreign firms to set up manufacturing under licensing agreements.

Kazakhstan's 2002 market (imports plus local production) for passenger cars was estimated at $800 million, based on statistics from customs and industry sources, which in three short years increased by 50 percent to $1.277 billion. At the time, cars produced in the CIS and Baltic countries made up about 80 percent of those vehicles. According to Kazakh Ministry of Industry and Trade data, as of January 1, 2006, private automobiles accounted for 1,556,453 of Kazakhstan's total motor pool of 1,807,737 transport units, or a total of 86.1 percent of all vehicles, giving a ration of 120 automobiles per 1,000 citizens, a ratio that authorities project will rise by 2012 to 300 vehicles per 1,000 citizens. The Ministry of Industry and Trade further reported that in 2005, 237,147 automobiles were imported into Kazakhstan. Of these, 141,000 were seven years old or more, and only 36,816 were new. During the same period 684,588 used vehicles changed hands within the country. During the period 2001-2005 800,000 used automobiles were imported into Kazakhstan. Specialists estimate that in 2005 Kazakhstan's automobile market was worth $1.277 billion, which was expected to rise in 2006 to $1.8 billion, a 29.1 percent increase in a single year. Currently 11 companies producing 24 different brands of automobiles are either assembling or manufacturing vehicles in Kazakhstan.[37]

In 2002 automobile sales were spurred when liberalized banking laws allowed Kazakhs increased access to previously unavailable bank loans, allowing people in some instances to receive three to five year loans equivalent to their annual salary. Kazakhs quickly took advantage of the liberalized terms and

---

[36] Gul'banu Abenova, "Stroitel'naia otrasl' Kazakhstana ravivaetsia dinanichno," Stroitel'naia Gazeta, No. 5, 07 February 2007.
[37] *AutoWorld Astana 2007*, 15 November 2006 at www.autostat.ru.

now more than a third of registered banks now provide credit for automobile purchases.

While actual automobile production began in Kazakhstan in 2003, the Kazakh government had earlier held discussions about establishing assembly production lines with a number of foreign firms, including Russia's Zil, Sweden's Volvo, Italy's Fiat, South Korea's Hyundai and Kia concerns, and America's Chrysler and General Motors companies. In 2000 the Russian AvtoVAZ (Volzhskii avtomobil'nyi zavod) better known internationally as *Lada*, won the race to produce vehicles in Kazakhstan, signing a number of agreements with Bipek Auto to develop vehicle and spare parts production facilities, a network of maintenance facilities, and production agreements providing for an eventual output of 20,000 automobiles annually.

In 2003 the country's automobile inventory consisted of approximately 1.2 million vehicles, while 108,300 automobiles were imported from abroad, of which 49,800 were German, 30,900 were Japanese, and 23,100 came from CIS countries.

Beginning in January 2003 the privately-held company Avziia-Auto Ust'-Kamenogorsk facility began producing the AvtoVAZ Lada 4x4 "Niva" under license. Since then it has produced nearly 9,500 of the vehicles, with projected production for 2007 set at 3,000 cars. In 2004 Avziia-Auto Ust'-Kamenogorsk facility built 32,206 Lada 4x4s, a 20 percent increase over its 2003 production run. The 2004 Lada output was worth $18,797,000. While the locally built Nivas had a good reputation, demand for them remained comparatively low because of their relatively high price of $5,500, while a used Japanese car could be purchased for the same amount. In 2004 the top 10 best selling brands in Kazakhstan included Audi, Toyota, Mazda, Volkswagen, Opel, Ford, BMW, Mercedes-Benz, Nissan, and Daewoo. Half of all imported cars are used in Almaty. Statistics for best-selling car brands there included Toyota, Mazda, BMW, Mercedes-Benz, Nissan, Volkswagen, Ford, Daewoo and Mitsubishi.[38]

According to Avziia-Auto's President Erzhan Mandiev, in 2004 Avziia-Auto paid more than $2 million in taxes, and planned a major upgrade of the

[38] "Overview of Passenger Cars and SUV Market: International Market Insight [IMI] ID: 120518 at www.buyusa.gov/kazakhstan.

facility.[39] The 203-acre Avziia-Auto Ust'-Kamenogorsk facility contains welding and assembly equipment from the Finnish company Valmet, which previously assembled Russian-designed AvtoVAZ Samara automobiles in Finland under the brand name Samara Baltik. The German firm Durr provided the painting equipment.[40]

Counting indigenous production, in 2006 more than 13,000 Ladas were sold in Kazakhstan. In 2006 Avziia-Auto's Ust'-Kamenogorsk facility announced its intention in 2007 to manufacture 1,000 Lada Samara 21099 cars under contract from Russia's AvtoVAZ, which produced the automobiles from 1984 to 2004. On March 10, 2006, the Avziia-Auto's Ust'-Kamenogorsk facility celebrated the production of its 8,000th Lada 4x4.[41]

AvtoVAZ subsidiary Bipek Auto owns Avziia-Auto's Ust'-Kamenogorsk manufacturing plant. While the plant's initial offerings were based on former Soviet designs, following its success with the Lada 4x4 in 2004 Bipek Auto reached an agreement with the Czech Republic's Skoda Auto, now a subsidiary of Volkswagen, to begin production of the firm's Octavia and Superb vehicles. Technical difficulties delayed the launch of the vehicles from the third to the forth quarter of the year, but Aziia-Avto was optimistic that, beginning in 2005, that it could manufacture under license up to 1.5 thousand various Skoda models annually.[42] The Ust'-Kamenogorsk plant currently has a capacity of producing 45,000 automobiles per year.[43]

According to the head of the General Motors division in Kazakhstan, Ianos Iendrusak, Kazakhstan also has great potential as a market for GM vehicles. Iendrusak was speaking before members of the media at an event where the company undertook a test-drive of its Chevrolet Captiva sports utility vehicle. Construction of Chevrolet Captivas in Kazakhstan as a General Motors joint venture began in April 2007 at Avziia-Auto's Ust'-Kamenogorsk facility, with a projected vehicle production run for the year of 1,000 units.

---

[39] Itogi raboty "Azia Avto" v 2004 g.," Press-tsentr OAO "AvtoVAZ, 03 February 2005.

[40] "Kratkaia kharakteristika avtoproma Kazakhstana I kompanii 'Aziia-Avto,' *Avtomobil'nyi rynok Rossii-2004*, 25 October 2004.

[41] "Press-tsentr OAO 'AvtoVAZ,'" 14 March 2006 at www.autostat.ru.

[42] "'Aziia-Avto' planiruet nachat' sborku Skoda v kontse 2004 goda," 28 October 2004 at www.autostat.ru.

[43] "Plan proizvodstva 'Aziia Avto' v 2007 g.," *Praim-TASS* 16 July 2007 at www.autostat.ru.

The projected production of the SUV for 2008 is 3000 vehicles. Iendrusak is confident that GM's indigenous network of dealers will provide increasing sales. General Motors began operations in Kazakhstan in 2004 and now is fourth in sales among foreign-produced brands in the Kazakh market. Besides Captivas, Chevrolet Epicas and Lacettis are now manufactured by Avziia-Auto in Kazakhstan as well.[44]

China too is attempting to enter the Kazakh market. In 2007, China overtook Germany to become the world's third largest manufacturer of automobiles, with its more than 8 million units exceed by only the United States and Japan. In the first six months of 2007 China exported 241,000 motor vehicles worth $2.7 billion, with Russia the biggest market importing 38,600 vehicles at an average cost per car of $11,200. In that year Kazakhstan was China's second-largest export market, with 6,445 vehicles.[45] While the manufacture of Chinese automobiles has yet to be established in Kazakhstan, ChongQing Asia-China Automobile Sales Co., Ltd is involved in exporting vehicles to Kazakhstan.[46]

For the less affluent middle class citizen, Kazakhstan now has a thriving used car market. While traffic in Kazakhstan moves on the right-hand side of the road, there are no laws against vehicles with right-mounted steering wheels, so used Japanese cars with right-hand steering are becoming popular with Kazakh consumers, as right-handed Japanese vehicles are sold up to 50 percent cheaper than the same left-hand brands.

Education

If home ownership and an automobile are the bedrock of Western middle class values, access to quality higher education is no less a major aspiration of the middle class. While Kazakhstan's post-Soviet legacy includes an excellent university system, many middle-class Kazakhs view foreign education as an essential component of a prosperous existence, quite aside from any question

[44] "Kazakhstan otkryvaet bol'shie vozmozhnosti na rynke avtomobilei," *Natsional'noe informatsionnoe agentstvo "KazInform"* 12.12.2007.
[45] *Xinhua*, August 6, 2007.
[46] See company website at Http://www.made-in-china.com/showroom/sino-truck/companyinfo/Chongqing-Asia-China-Automobile-Sales-Co-Ltd-.html.

of prestige. Since the 1991 collapse of Communism Kazakhs have taken increasing advantage of studying overseas.

To a certain extent, educational reform was imposed on Kazakh authorities by necessity. Following the collapse of the USSR, Kazakhstan was the Central Asian republic that was most seriously effected by the withdrawal of Russian labor, leading the government quickly to explore human resource alternatives. Almaty's energetic efforts paid off; by 2004, Kazakhstan was the only country of the four Central Asian Republics with a positive net migration flow.

The establishment of private higher education institutions (HEIs) in Kazakhstan began in 1992. They were listed as non-commercial organizations, joint stock companies or private limited companies. As of 2002 the country's approximately 130 HEIs had 130,000 students enrolled (32 percent of the national total, including private fee-paying students) as opposed to 270,000 at Kazakh public institutions. The HEIs offered more than 130 specialties, with economics, law, pedagogy and humanities predominating. The same year Turan University, a non-state and nonprofit institution was established in Almaty. In early 2002, according to the Association of Kazakhstan Education Institutions, the country had 45 state higher education institutions and 130 private HEIs. The Kazakh government has granted accreditation to 44 of the 45 state higher education institutions, but only 16 of the 130 HEIs.[47]

Education reform had strong support from the outset from the Kazakh government. In 1993 it introduced the "Bolashak" ("The future" in Kazakh) program as an interim solution to develop young specialists in new fields as quickly as possible while Kazakhstan was retooling its educational system to prepare qualified professionals locally. On November 9, 1993 President Nazarbayev issued a decree stating, "In Kazakhstan's transition toward a market economy and the expansion of international contacts, there is an acute need for cadres with advanced Western education, and so, it is now necessary to send the most qualified youth to study in leading educational institutions

---

[47] V. Belosludtseva, S. Tasbulatova, T. Tasbulatov, "Private Higher Education," International Institute for Educational Planning Policy Forum No. 16, Tbilisi, Georgia 25-26 April 2002.

in foreign countries."[48] Hundreds of students from across Kazakhstan were sent to leading European, East Asian and American universities exclusively to study business-related subjects. They did this with the proviso that upon completing their studies they would return to work in Kazakhstan for five years. In 2005 the number of students sent to foreign universities was increased to 3,000, about one percent of the country's total student body. The downside of the program was that between five and fifteen percent of those students chose not to return.

Most Kazakh students enrolled in the Bolashak program are sent to U.S. universities. As President Nazarbayev noted, "We are learning from the positive example of American democracy." President Nazarbayev told participants at the Eurasia Economic Summit 2000 held in April in Almaty, "Our common agenda must begin with education. First and foremost, we must transform our population, which is already educated and motivated into a work force for the future: 21st century training for the 21st century jobs The battle for the future will be determined not by armies but by education, not by tanks but by technology, not by cannons but by computers. It is vital that we insure that Central Asia is on the right side of history in all respects-politically, economically and technologically."

U.S. universities enrolled in the Bolashak program include Harvard, Massachusetts Institute of Technology, Columbia, Duke, Georgetown, Emory, Carnegie Mellon, Indiana University, Vanderbilt and Johns Hopkins. Since its inception the Bolashak program has expanded to sponsor Masters and PhD. programs in Argentina, Australia, Austria, Bulgaria, Canada, China, the Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Israel, Italy, Japan, Latvia, the Netherlands, New Zealand, Norway, Poland, Russia, Singapore, South Korea, Spain, Sweden, Switzerland, Ukraine and the United Kingdom. The final selection is made by the Republican Commission, chaired by the State Secretary and composed of the Ministers, members of Parliament, and members of the Office of the President. The Republican Commission also approves the host country and study program.

[48] Kazakhstan Embassy to the U.S., Education and Culture page, Http://www.kazakhembus.com/systemofeducation.html.

Bolashak scholarships cover all costs related to education, including tuition and fees, travel, and a living stipend. Scholars are expected to maintain academic excellence. According to Bolashak Moscow representative Lydia Shaykenovoi, there are currently about 1,800 Bolashak scholarship students studying in 24 countries, of whom about 1,000 attend U.S. universities. About 400 Bolashak scholarship recipients attend British univesities while another 400 attend Russian higher education institutes, of whom 337 are based in Moscow.[49] Participating British institutions include Oxford, the University of Glamorgan, Exeter University, the University of Essex, Dundee University, Brunel University, the University of East Anglia, Loughborough University, University College London, Aston University, of Warwick University, Manchester University, Stirling University and Manchester City College.

If a student is interested in studying business administration, they most frequently go to American schools. The U.S. and Britain also top the list for students wishing to study information technology, while students attending Russian institutions usually major in medicine, space technologies or aviation.[50] In popularity, the United Kingdom is a close second to the U.S., as are other European Union members France, Germany and the Netherlands. Of the other formerly Soviet states, Kazakh Bolashak recipients most frequently study engineering in the Russian Federation, Latvia and Ukraine. Interestingly enough, the only Muslim nation to host Kazakh Bolashak students is Malaysia, where they are involved in economics and management studies.

One "Bolshaker," as participants in the program describe themselves, recorded his impressions of being at the University of Texas at Austin during his first month there. The first portion of his letter is taken up with describing the extensive computer facilities available, both on and off campus, while "the Internet is rapid, very accessible everywhere and free of charge." Besides the campus computer lab "there a student Internet cafe with several hundred computers...you go, find a computer, type in your student

---

49 "Molodost' protiv obrazovannosti" at http://starosti.org/?id=25161.

50 Dmitrii Kosyrev, "Molodost' protiv obrazovannosti," *RIA Novosti*, 28 November 2007.

login and password and use." The correspondence noted the prevalence of Internet wireless connections, both on and off campus in Internet cafes.[51]

For middle-class students not fortunate enough to be awarded a Bolashak scholarship, opportunities for higher education in Kazakhstan outside of the former state educational system nonetheless increased. As indicated in the graph below, while from 2000 to 2005/2006 the number of students receiving government stipends remained unchanged, those attending private institutions as fee-paying students more than doubled.

Table 12: Higher Education Enrolment by Status[52]

	1998/99	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006
Kazakhstan (2.23) (thousands)								
Total			440.7	514.7	597.5	658.1	747.1	775.8
Government contract			125.6	118.2	115	116.8	119.6	123.3
Commercial students			315.1	396.5	482.5	541.3	627.5	652.4
Percent commercial			71.5	77.0	80.8	82.3	84.0	84.1

Interest has grown dramatically in higher education, as young Kazakhs see it as the road to a better life. The flourishing interest in higher education meant that by 2007 Kazakhstan had a total of 181 higher education institutions with 81 branches. Of these nine were national, 46-state owned or partially state-owned, 14 military and 107 private institutions, as well as 76 Kazakh institutions and five Russian institutions. In 2006 Kazakh institutions of higher learning had 775,800 students enrolled, or 5.17 percent of the population. The former capital Almaty has the highest number of universities –66, southern Kazakhstan - 19, the Karaganda region - 15, the capital Astana – 11 and East Kazakhstan - 10.

---

[51] "Opit Bolashakera – in da (sic) United States" at http://www.bolashaker.com/page/2/.

[52] Source: Jose Joaquin Brunner and Anthony Tillett, Higher Education in Central Asia; the challenges of modernization – an overview, January 31, 2007 at http://mt.educarchile.cl/mt/jjbrunner/archives/RevAlldoc2c.pdf.

Among the most visonary international educational projects in Kazakhstan is the University of Central Asia, founded in 2000 by the presidents of Kazakhstan, Kyrgyzstan, Tajikistan and the Aga Khan. Spread across three countries, the UCA is a private, independent, self-governing institution. The three campus are located in Tekeli, Kazakhstan; Naryn, Kyrgyzstan and Khorog, Tajikistan. When complete a decade hence, UCA will accommodate nearly 4,000 students, faculty and staff. Students will study English and computers before beginning course work, and undergraduate degree courses will be taught in English. UCA's programs will include a School of Professional and Continuing Education, the Graduate School of Development, School of Undergraduate Studies, English Preparatory Support, Distance Education and Research Programs.[53] All students able to do so will be expected to pay tuition.

In 1998 the International Academy of Business was founded to meet the interests of young Kazakhs in business. The IAB offers MBA and DBA programs in Economy, Marketing, Finances, Accounting and Auditing, Management, Informatics and Information Systems.[54]

The Kazakh-British Technical University was established in August 2001 and officially opened in October 2002. KBTU's objective is to train highly skilled staff for Kazakhstan's industrial complexes by using advanced international technologies and experts, as well as the best local specialists. KBTU offers programs in Information Technologies, Oil and Gas, Finance, and Economics. In January 2005, an agreement between the London School of Economics and KBTU for establishing a bachelor program was signed.[55]

Suleyman Demirel University is a privately supported, coeducational institution founded in 1996 and named after the former Turkish Prime Minister Suleyman Demirel. SDU with 1,150 undergraduates and 15 graduates, provides quality undergraduate education leading to degrees in computer

---

[53] University of Central Asia - Curriculum & Academic Programmes @ http://www.ucentralasia.org/.

[54] "Glavnaia" and "Departamenty" @ http://www.iab.kz/index.php?option=com_frontpage&Itemid=1.

[55] "Kazakh-British Technical University," The 3rd Annual Global Education and Training Event for Oil & Gas Report, Getenergy Dubai 2007 @ http://www.getenergyevent.com/Upload/File/Get07/Getenergy_2007_Report(1).pdf.

engineering, computer sciences, economics, business, finance, marketing, information systems, mathematics, translation and interpreting, Kazakh language and literature. Here too, instruction is in English.[56]

The Kazakh-American University was founded in 1997. KAU is the first university in Kazakhstan that teaches according to Kazakhstan and American standards. All the subjects are taught in English and its departments include Law, Computer Sciences and Telecommunication, Economics, Humanities and Life Sciences and Medicine.[57] Among other U.S. educational initiatives is the Kazakh-American Free University, opened in 2001 in Oskemen, which offers bachelor and baccalaurete degrees.[58]

In 2006 the U.S. government offered eleven education and exchange programs to Kazakhs, ranging from the high school to professional to graduate level. These include the Future Leadership Exchange Program for high school; the Eurasian Undergraduate Student Program, offering a junior year abroad; the Edmund Muskie Graduate Fellowship Program, a Master's degree program; the Junior Faculty Development Program for university instructors; the Hubert H. Humphrey Fellowship Program, bringing mid-career professionals to the United States for a year; the Fulbright Visiting Scholar Program for Kazakh scholars to conduct research at U.S. universities and the International Visitor Leadership Program.[59]

Competing in marketing of educational services with the newly formed private education institutions is an exploding number of state universities. Of the $930 million spent on higher education in Kazakhstan in 2006, almost half, $426 million, went to private universities. Unfortunately, many educational

---

[56] "Engineering" at http://sdu.edu.kz/index.php?option=com_content&task=view&id=198&Itemid=41; "Philology" at http://sdu.edu.kz/index.php?option=com_content&task=view&id=89&Itemid=42; "Economy" at http://sdu.edu.kz/index.php?option=com_content&task=view&id=33&Itemid=43.
[57] "Dobro pozhalovat'! Obrashcehnie Prezidenta KAU k postiteliam saita" at http://www.kau.kz/.
[58] "Obshchie svediniia o KASU" at http://www.kafu.kz/obshie-svedinija-o-kasu.html.
[59] *Country Assessments and Performance Measures – Kazakhstan, U.S. Government Assistance to and Cooperative Activities with Eurasia - FY 2006*, State Department Bureau of European and Eurasian Affairs, January 2007.

institutions, in pursuing students' income, focused only on the most lucrative popular professions, legal and economic. Accordingly, the number of students studying for a bachelor of law degree grew from 25,800 during the 2004/2005 academic year to 47,900 in 2005/2006 academic. A similar growth pattern in bachelor of science and business specialties was also observed, with numbers rising from 63,500 students in the 2004/2005 academic year to 119,500 in 2005/2006. Emphasis on legal and business studies skewed university enrollment to the point that in 2006 majors in these two professions constituted 37.5 percent of all students, causing the government to intervene.[60]

The government's response to the explosion of higher education programs and a decline in standards was to have the Kazakhstan Ministry of Education and Science together with National Security Committee and Prosecutor General's Office undertake a compliance inspection of higher education institutions, which concluded on June 16, 2007.[61] The Kazakhstan Ministry of Education and Science inspected 143 institutions of higher education and 66 branches, excluding medical or military institutions, as well as institutions accredited in 2007 and those that had earlier lost their licenses to operate.

According to *Kazinform*, inspectors uncovered numerous violations of legislative and educational standards, including insufficient library resources, shortages of professors with advanced degrees and unqualified teaching staff in institutions offering legal and economic majors. All this negatively impacted student performance and degraded the quality of education. Fifteen institutions were placed on four-month probation, including Aktob's Kazakh-Russian International University. Six institutions cancelled their licenses before the inspection including several branches of Kainar University, one of the country's first private institutions, while 15 institutions or branches lost their accreditation entirely, including the International Kazakh-Turkish University named after H. A. Yassaui and the Kazakh-Russian International University.[62]

---

60 Rakhmam Alshanov, "Chastnoe obrazovanie v Kazakhstane: stanovlenie I sovremennye vyzovy," (*Kazakhstanskaia Pravda*, 02 November 2007.

61 *Kazinform*, 16 June 2006.

62 Zinaida Rumleanscaia, "Kazakhstan Completes Major Shakedown of Higher Education Institutions," 9 September 2007, American Association of Collegiate Registrars and Admissions Officers.

Interest in Western education has also trickled down to the secondary school level. Britain's Haileybury and Imperial Service College, more usually referred to simply as Haileybury, a coeducational public school founded in 1862 for students 11-16 years old, is to open a $26.5 million branch in Almaty. Haileybury-Almaty, scheduled to open in September 2008, will host Kazakh adolescents and the children of British embassy staff. Students will follow the English primary and secondary school curriculum in preparation for taking international General Certificates of Secondary Education (GCSE) examinations, with all instruction conducted in English.[63] The initial class will consist of 640 male and female pupils aged three to 18 but, but authorities hope to eventually expand the student body to 940. Eighty percent of pupils are expected to be Kazakh, but as fees could top $20,000 per annum, it will only appeal to the most affluent.

School master Stuart Westley told journalists that market research determined that there was a demand for a British public school in Kazakhstan, commenting, "Haileybury is delighted to be part of this exciting opportunity, which reflects the great interest in and respect for the values of the British public school clearly evident now in many parts of the world. We feel very complimented to know that there is a desire for another Haileybury in Kazakhstan. The education system in Kazakhstan is predominantly a government education system so there is a very small independent sector."[64]

In Kazakhstan, middle class concern about the importance of education for their children extends even down to the kindergarten level; a 2004 UNESCO report found that the majority of children attending POs (Preschool Organization: the generic term used in Kazakhstan to refer to early childhood care and education services catering to children of age 1+ - 6+) are from middle class families, with only 20 percent of children from poor families in attendance. The cost of the increasing parental contribution is one of the factors widening the social gap. In 2000 the parental contribution to preschool education was 19 percent of the cost, but by 2004 had increased to 33-34 percent.[65] As the table below shows, the number of pre-school organizations

---

[63] *Evening Standard*, 25 January 2007.

[64] "UK public school for Kazakhstan," *BBC*, 25 January 2007.

[65] *The Background Report of Kazakhstan - The Status of Preschool Education in the Republic of Kazakhstan December 2004*, Ministry of Education and Science of the Republic of

during the period 1995-2000 shrank dramatically and the number of state-funded grade schools declined even as the private sector flourished.

Table 13: Dynamics of the Number of Educational Institutions, 1995-2000.[66]

	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000
Pre-school organisations	5058	3850	1533	1338	1102
Number of students (thousand)	407.2	392.1	174.2	163.9	124.4
State schools	8801	8619	8134	8141	8122
Number of students (thousand)	3088.6	3122.5	3108	3122.8	3125.7
Private schools	38	66	124	180	199
Number of students (thousand)	3,078	6,824	13,503	18,477	16,431
Technical school	404	339	307	319	285
Number of students (thousand)	154.3	133.1	111	94.9	89.9
Universities	112	111	133	144	163
Number of students (thousand)	272.7	280.8	293.5	318.7	365.3
Colleges	262	264	219	246	274
Number of students (thousand)	200.4	177.7	148.2	141.3	142.6

Tourism

One of the ultimate accouterments of the middle-class lifestyle is tourism, a $3 trillion a year industry worldwide, second only to oil as a source of revenue and generating 1/10 of the world's GNP. Kazakhs are increasingly taking advantage of this middle class luxury, with their wanderlust taking them to distant locales from Abu Dhabi to South Korea.

In 2003 the survey firm KOMKON-2 Eurasia conducted a telephone survey of 300 households in Almaty, focusing on that city because about three-fourths of all the travel agencies in Kazakhstan are located there. The pollsters initially asked city residents if they were planning any tourist trips within the next six months. Seventy-eight percent of the respondents answered "no," 18 percent answered "yes," and 4 percent had no answer. Extrapolating the data, KOMKON-2 Eurasia concluded that 87, 926 Almaty residents were planning to undertake tourist travel over the next six months, with each trip estimated to cost on average $1,347.

The destination of those polled is shown in the chart below:

Kazakhstan, UNESCO Cluster Office in Almaty for Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan ED/BAS/EIE/8.

[66] Source: Kazakhstan Statistics Agency.

Table 14: Tourist Destinations	
Kyrgyzstan (Issyk Kul)	26.4%
Russia	15.1%
The Ukraine	3.8%
Turkey	18.9%
Germany	9.4%
UAE	5.7%
France	3.8%
Egypt	1.9%
Italy	1.9%
South Korea	1.9%
Regions of Kazakhstan	
South Kazakhstan	11.3%
North Kazakhstan	9.4%
Central Kazakhstan	1.9%
West Kazakhstan	1.9%

The data is quite interesting, showing over one-fourth of the respondents visiting neighboring Kyrgyzstan's scenic Lake Issyk Kul, with 45.3 percent of respondents opting for fellow CIS countries Kyrgyzstan, Russia and the Ukraine; an additional 24.5 percent of respondents opted to spend their vacations within Kazakhstan. In spite of this the remainder of the respondents demonstrated a remarkable wanderlust, visiting countries as far afield as Italy to South Korea.[67]

In February 2007 Iulia Semykina published a fascinating article in *Kontinent* about winter tourism from Kazakhstan. For affluent Kazakhs, the number one winter destination is the United Arab Emirates and particularly the Emirate of Dubai, despite hotel rooms ranging in price from $175 to more than $3,000 a night. As a sign of the Gulf's popularity Air Astana flies a minimum

[67] "Kazakhstanskii rynok: pynok turisma g. Almaty," 5 December 2003, *Marketing Zhurnal* at http:///www.4p.ru.

of one flight a day to the UAE and sometimes more if bookings demand it. "Jean-Arc" charters and budget flight Emirate Airlines "Air Arabia" ferry in still more Kazakhs. Other popular winter destinations for Kazakhs include Egypt (a relative bargain destination), Thailand and Indonesia's Bali. Tickets for the 10-hour flight to Bali cost an average of $1,500-1,600. For Kazakhs whose wanderlust extends westwards the Dominican Republic and Cuba are increasingly popular destinations. Another up and coming destination for affluent Kazakhs is Mauritius, despite the fact that average vacation there for two costs $6-7,000.

Table 15: 2005 Outbound Tourist Flows from Kazakhstan by Country[68]

Country	Number of Tourists	Purpose of Visit
Russian Federation	1,654,616	business, tourism and private trips
China	84,963	business, tourism and private trips
Turkey	60,802	tourism and business trips
Germany	50,965	private and business trips
U.A.E.	22,894	tourism and business trips
Netherlands	16,352	business and private trips
Austria	10,811	private trips
United Kingdom	6,563	business and private trips

Malaysia has been actively soliciting Kazakh tourists; in autumn 2006 Malaysia's Minister for Tourism Datuk Seri Tengku Adnan Tengku Mansor visited Kazakhstan on an official visit to promote his "Visit Malaysia in 2007" campaign, promising that Kazakh tourists who visit Malaysia could count on a warm welcome, especially on the island of Borneo, reached by a 15-hour flight on the Uzbek air carrier "Uzbek Havoyolari" via Tashkent and Kuala Lumpur.

According to Semykina, few Kazakhs consider charter winter vacations to Europe because of the difficulties involved in securing Schengen visas.[69]

[68] Source: Kazakhstan Embassy in the UK, at http://www.kazakhstanembassy.org.uk/cgi-bin/index/266.

According to the Pacific Area Travel Association's Strategic Intelligence Center, international flights into Kazakhstan are showing strong international growth. Foreign travel receipts by Kazakhstan have more than doubled in six years, from $356 million in 2000 to $840 million in 2006, an average annual growth rate of more than 15 percent. Inbound air access also increasing; during the period 2000-2007, scheduled weekly seat capacity increased by more than 88 percent.[70]

In another measure of the increasing prosperity of the Kazakh population and its willingness to use disposable income on domestic and foreign travel, in 2007 Kazakhstan's flag carrier Air Astana reported that passenger traffic increased by 46 percent to 2.13 million people. It explained the increase was due to the carrier's acquisition of two Boeing-767-300s, two Airbus A-320 and two A-321 airliners, bringing the fleet's 2007 increase to 18 aircraft. In the near future Air Astana plans to an additional 15 new aircraft and has already placed a $1.7 billion order to buy six Boeing-787-8 Dreamliners and nine Airbus A-320 passenger jets The first Airbus is slated for delivery in 2012 and the first Boeing 787-7 Dreamliner in 2016.[71] Air Astana, in which Britain's BAE Systems holds a 49-percent stake, now flies direct to Western Kazakhstan and Almaty from Heathrow and Amsterdam's Schipol airport. The main foreign airlines serving Almaty are Air France KLM, Lufthansa, British Air, Turkish Airlines, and Transaero.

Communications, Computers & Internet

For Western middle class consumers, cellular telephones, computers and the Internet have become indispensable elements of modern life. The same thing is happening in Kazakhstan. Telephone services have grown rapidly. By April 2005 four companies had been licensed to provide international and long-distance services and by January 2006 over 1,000 licenses had been issued to provide a range of telecom services. Kazakhstan now has 369 local phone companies, seven international and long distance service providers. There are

---

[69] Iulia Semykina, "Turizm: Zimnie kanikuly," *Kontinent* No. 2 (187) 31 January - 13 February 2007.

[70] "Strong Inbound Growth into Central Asia," Pacific Area Travel Association, *News,* 22 August 2007.

[71] *Itar-Tass*, 4 February 2008.

four licensed mobile operators in Kazakhstan, of which two control the vast majority of the market; GSM Kazakhstan with a 45 percent market share [72], Kar-Tel, dominating the market with a 47.2 percent market share [73], and Altel with 7 percent of the Kazakh cellular market.[74]

In 2006 the Kazakh government moved further to develop its telecom sector with its wide-ranging "Program for the Development of Telecommunications Sector in the Republic of Kazakhstan for 2006-2008." The program's ambitious goals slated for implementation by the end of 2008 included increasing hardwiring the country with fixed landlines by 23 percent, increasing cellular usage by 50 percent and Internet growth by 10 percent. Under the program 80 percent of local telecommunications networks were to utilize digital equipment, with the telecommunications sector's revenues slated to provider 4-5 percent of the country's GDP.[75] The program's goals n the cellular market were quickly realized. According to Kazakhstan's Statistics Agency, in mid-2006 there were 6,103,00021 mobile users in Kazakhstan, representing 39.9 percent of the population, up from 35.6 percent in December 2005.[76] Cellular usage surged to almost 50 percent by early 2007.[77]

Kazakhstan's geography makes satellite communications important, and Kazakh satellite services were given a boost following the launch of the Kazsat-1 communications satellite on June 18, 2006. Kazsat-1 has 12 Ku-band transponders with 72 MHz bandwidth and covers Kazakhstan, Central Asia, the Caucasus, and a part of Central Russia.[78] Further increasing the country's capabilities, Kazsat-2 is scheduled for launch in 2009.

In 2005 the United Nations' *Human Development Report 2007/2008* surveyed Kazakh access to landline telephones, cellular telephones and the internet for

---

[72] "Novosti" at http://www.kcell.kz/ru/?l=news.
[73] "Novosti" at http://www.beeline.kz/news/index.wbp.
[74] "Dobro pozhalovat' na ALTEL; Glavnaia novost'" at http://www.altel.kz/.
[75] "Programma razvitiia otrasli telekommunikatsii na 2006-2008 gody"at www.unescap.org/icstd/events/RW_JUNE2007/kz.pdf.
[76] "Chislo osnovnykh telefonnykh apparatov I uroven' obespechennosti imi.xls," *Agenstsvo RK po statistike*.
[77] 2007 Asia - Telecoms, Mobile and Broadband in Central Asia at http://www.budde.com.au/buddereports/4323/2007_Asia_-_Telecoms_Mobile_and_Broadband_in_Central_Asia.aspx?sub=EXECUTIVE.
[78] "Pervyi kazakhstanskii sputnk byveden na zadannuiu orbitu, 18 June 2006 at http://www.newsru.com/world/18jun2006/orb.html.

the period 1990-2005 and assigned the country a ranking of 73 in its HDI index. As the table below indicates, while during the period the number of landlines doubled, the growth in cellular telephones was even more dramatic, starting from 0 in 1990 and reaching 327 per 1,000 inhabitants by 2005.

Table 16: Technology: Diffusion and Creation[79]

HDI rank		MDG Telephone mainlines[a] (per 1,000 people) 1990	2005	MDG Cellular subscribers[a] (per 1,000 people) 1990	2005	MDG Internet users (per 1,000 people) 1990	2005	Patents granted to residents (per million people) 2000–06[b]	Receipts of royalties and licence fees (US$ per person) 2005	Research and development (R&D) expenditures (% of GDP) 2000–05[b]	Researchers in R&D (per million people) 1990–2005[b]
54	Saint Kitts and Nevis	231	532[c]	0	213[c]	0	..	..	0.0	..	..
55	Tonga	46	..	0	161[c]	0	29	..	..	..	45,454
56	Libyan Arab Jamahiriya	51	133[d]	0	41[c]	0	36[c]	..	0.0[c]	..	361
57	Antigua and Barbuda	252	467[c]	0	663[c]	0	350	..	0.0	..	..
58	Oman	57	103	1	519	0	111	..	..	..	..
59	Trinidad and Tobago	136	248	0	613	0	123[c]	..	..	0.1	..
60	Romania	102	203	0	617	0	208[c]	24	2.2	0.4	976
61	Saudi Arabia	75	164	1	575	0	70[c]	(.)	0.0	..	..
62	Panama	90	136	0	418	0	64	..	0.0	0.3	97
63	Malaysia	89	172	5	771	0	435	..	1.1	0.7	299
64	Belarus	154	336	0	419	0	347	76	0.3	0.6	..
65	Mauritius	53	289	2	574	0	146[c]	..	(.)	0.4	360
66	Bosnia and Herzegovina	..	248	0	408	0	206	3	..	..	..
67	Russian Federation	140	280	0	838	0	152	135	1.8	1.2	3,319
68	Albania	12	88[c]	0	405[c]	0	60	..	0.2	..	..
69	Macedonia (TFYR)	150	262	0	620	0	79	11	1.5	0.3	504
70	Brazil	63	230[c]	(.)	462	0	195	1	0.5	1.0	344
MEDIUM HUMAN DEVELOPMENT											
71	Dominica	161	293[c]	0	585[c]	0	361	..	0.0	..	..
72	Saint Lucia	127	..	0	573[c]	0	339[c]	0	..	0.4[e]	..
73	Kazakhstan	82	167[c]	0	327	0	27[c]	83	(.)	0.2	629
74	Venezuela (Bolivarian Republic of)	75	136	(.)	470	0	125	1	0.0	0.3	..

An important Western middle class commodity, Internet accessibility, remains largely unavailable to members of the Kazakh middle class at home, primarily because of cost.

According to the United Nations' 2006 International Telecommunication Union survey, in 2006 Kazakhstan had 360,000 Internet subscribers, or 2.43 per every hundred citizens, while Internet users totaled 1,247,000, or one of every 8.42 Kazakhs. Kazakhstan also had 30,500 broadband subscribers.[80]

---

[79] (*Human Development Report 2007/2008*, United Nations Development Program, [MacMillan: London], 2007.)

[80] Internet Indicators: Subscribers, Users and Broadband Subscribers – 2006, *International Telecommunication Union* @ http://www.itu.int/ITU-D/icteye/Indicators/Indicators.aspx#.

Kazakhstan had 1,247,000 Internet users as of August, 2007, constituting 8.5 percent of the population,[81] while the 2007 edition of the *CIA World Factbook* reported that Kazakhstan had 33,217 Internet hosts. Internet use has grown exponentially, as indicated in the chart below:

Table 17: Internet Users in Kazakhstan[82]

YEAR	Users	Population	% Pen.	GDP p.c.*	Usage Source
2000	70,000	14,841,900	0.5 %	US$ n/a	ITU
2005	400,000	14,711,068	2.7 %	US$ 2,930	ITU
2007	1,247,000	14,653,998	8.5 %	US$ 2,930	ITU

The 2006-2007 World Economic Forum's *Global Information Technology Report's* Networked Readiness Index (NRI) reported that Kazakhstan dropped from the 60th place in 2005 to 2006 to the 73rd in 2006 to 2007.[83]

As the table below indicates, during the period 2004-2005 the number of Kazakhs accessing the Internet at home actually declined 2.2 percent, even as the free options of office usage increased 4.3 percent, school usage .8 percent, and library use 1.5 percent.

In a September 2006 interview, Kazakhstan's Information and Communications Agency head Askar Zhumagaliev said that the on January 1, 2006, the number of Kazakh Internet users had grown to 4 percent of the population from 2.7 percent the previous year. He ascribed the increase to a drop in Kazakhtelecom Internet connectivity prices, noting that the decline

---

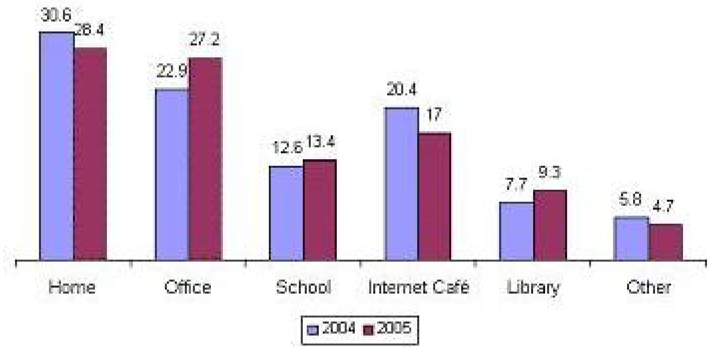
[81] Internet World Stats, Usage and Population Statistics at http://www.internetworldstats.com/asia/kz.htm.

[82] Source: United Nations Department of Economic and Social Affairs

[83] "Country Details: Kazakhstan," *Global Information Technology Report 2006-2007* at http://www.insead.edu/v1/gitr/wef/main/analysis/showcountrydetails.cfm.

was part of a company strategy to increase the number of users. The strategy worked, as in Janury 2006 2.7 percent of the population used the Internet, but by September, 4 percent were active users.[84]

Table 18: Internet Access by Point of Access, 2004-2005[85]



Internet prices remain prohibitively high for most Kazakh Internet users, however. According to Rachid Nougmanov, General Director of the International Freedom Network NGO, who in 2001 founded KUB.kz, one of the first and most popular blog services in Central Asia, reported in February, 2007, that Kazakhstan's largest national ISP service provider, the state-owned Kazakhtelecom monopoly, charged their customers per minute rates equivalent to 95¢-$1.16 per hour.[86] In addition, a customer would pay about $44 a month for basic email exchange without attachments, plus occasional web browsing, a few pages per session without file downloads, online chatting or video conferencing. An unlimited dial-up plan would cost about $120 per month, clearly an unthinkable luxury to a Kazakh earning an average

[84] Kusariia Ishangali, "Telekom – mutasii," *National Business*, 30 January 2007 @ http://www.profit.kz/articles/000149/.
[85] Andrew Beklemishev, *Kazakhstan*, European Commission, 2006 at http://ec.europa.eu/information_society/activities/internationalrel/docs/pi_study_rus_ukr_arm_azerb_bel_geor_kaz_mold/8_kazakhstan.pdf.
[86] Rachid Nougmanov, "Internet Governance in Kazakhstan," Governing the Internet: Freedom and Regulation in the OSCE Region, The Representative on Freedom of the Media Organization for Security and Cooperation in Europe: Vienna, 2007 at http://www.osce.org/publications/rfm/2007/07/25667_918_en.pdf.

monthly salary of $427 in January 2007.[87] For DSL, an unlimited 1.5Mbps connection costs $3,355 a month, without the required ADSL modem, while a 6Mbps cable connection costs a prohibitive $22,032 per month. Nougmanov notes that that the 6Mbps rate is about 100 times more expensive than the price charged customers in Western Europe, even while the average monthly salary is 10 times lower in Kazakhstan. The OSCE report concludes by suggesting that the OSCE should monitor Kazakh networks to determine if the government is still filtering content and that Astana should work to "support affordable and safe hosting web sites with the national ISPs.

President Nazarbayev has acknowledged the core problem concerns the Kazakhtelecom monopoly. On May 26, 2006, he stated that it was necessary to end Kazakhtelecom's monopoly over the telecommunications market, telling students at the National Eurasian University in Astana, "According to information that I have, there are already about one million Internet users in Kazakhstan. I am following this issue... The entire problem is that we have no competitive environment. We should destroy Kazakhtelecom's monopoly and introduce a competitive environment, so that the market itself will reduce prices. I think that the government must deal with this issue so that more people could use the Internet."[88]

National finance and banking institutions are expanding their use of the Internet. Interestingly, Kazakhstan is leading its neighbors in using the Internet to provide transparency in accounting for national resource income, as the National Bank publishes online revenue statistics about income accruing from oil sales.[89] In the summer of 2000 Texakabank, Halyk Bank and Kazkommertsbank began to offer online banking for individual customers.[90] Three years later BTA and ATF banks also began offering the

---

[87] "Tarify na uslugi seti peredachi dannykh i dostupa k seti Internet, utverzhdaemye na respublikanskom urovne," Vvoditsia v deistvie s 1 febralia 2007 goda, CTC Almatytelecom, Almaty 2007 @ http://www.almatytelecom.kz/php1/tariffs/tariffs_PD.php..

[88] *Interfax-Kazakhstan*, 27 May 2006.

[89] "Mezhdunarodnye rezervy i aktivy Natsional'nogo Fonda Respubliki Kazakhstan, ianvar' 2008 g." 7 February 2008 at http://www.nationalbank.kz/cont/publish109341_4262.pdf.

[90] Http://www.texakabank.kz; "Chto takoe 'Internet-banking dliia iuridicheskikh lits'"? at http://www.halykbank.kz/business/internetbanking; "Finansovyi portal

service. Most of Kazakhstan's 35 banks have now implemented online banking systems for corporate customers.

Diet

Increasing prosperity is also having an impact on the national diet. Kazakhstan's rising middle class has increased disposable income to spend on convenience foods and services, with the urban middle to higher class consumers dining out more frequently, spending up to 30 percent of their food dollars on restaurant services. Higher income consumers also tend to take an interest in foreign cuisine and are fond of imported foods: from 2001 to 2006, Kazakhstan's meat imports alone increased an annual average of 28 percent.[91]

Fashion

Kazakh middle class *fashionistas* no longer need to jet to paris or Milan for the latest *haute couture*, as Almaty is now a major retail center, with multi-brand stores selling Prada, Chloe and Giorgio Armani products. In a bid to cut down the desire for Western couture, Designer Saida Azikhan opened her first boutique in Almaty in 2005. Azikhan's spring 2007 collection was showcased during Kazakhstan Fashion Week, which began in November 2006. The event, which originated in 1999 to showcase European designers, in 2004 expanded to include Kazakh designers. By 2006 the event included 28 Kazakh designers. As disposable middle class income rises, so does the desire for more up-market fashion. According to market research firm Euromonitor International, in 2005 Kazakhs spent more than $1 billion on apparel and shoes annually, mostly on imported clothing.[92]

Lifestyle

In yet another indication of the rising prosperity of the Kazakh middle class, in January IKEA, the world's largest home-furnishing retailer with 273 stores

---

homebank.kz – Eto svoboda deistvii!" at
http://www.kkb.kz/services/homebank.asp?mid=22..

[91] *Agri-Food Trade Synopsis, Kazakhstan*, November 2007, Market Information Europe, Agriculture and Agri-Food Canada.

[92] "For Make Fabulous Kazakhstan," *New York Times*, November 23, 2006.

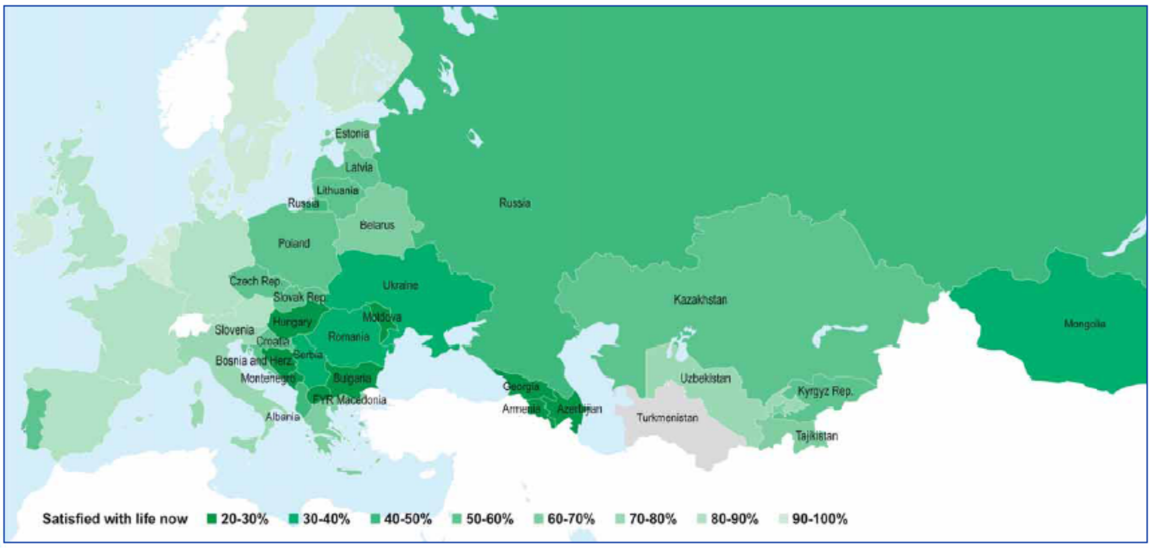
in 36 countries, announce plans to invest $500 million opening its first two shopping malls in Astana and Almaty.

Rising middle class affluence is also impacting furniture imports. The most expensive furniture on the Kazakh market is primarily from Italian and Spanish manufacturers, with prices for single pieces varying from $2,000 to $30,000 and more. The major Kazakh importers of Italian, Spanish and German furniture are Zhanna, Sergio, Bravo, Azimut, Ak-Niet, and Daniyar, but as demand is growing, more companies are expected to enter the market.[93]

Politics

The European Bank for Reconstruction and Development, the largest investor outside the oil and gas sector in Kazakhstan, in its 2006 report, *EBRD-World Bank, Life in Transition Survey,* provides a revealing look at the perceptions of the emerging Kazakh middle-class. Statisticians interviewed 29,000 households scattered across 28 "transition countries" including Turkey.

Figure 19: Satisfaction Levels with Transition[94]



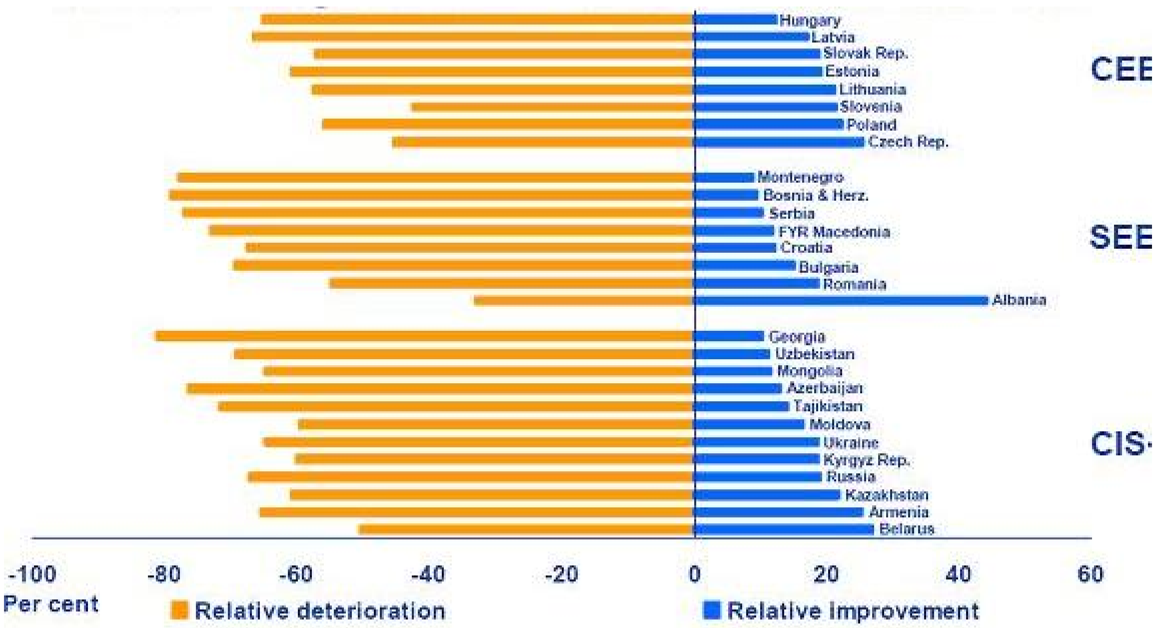
[93] "Design and Lifestyle Newsletter," March 2006, Trade Commission of Denmark, Almaty, Kazakhstan.
[94] Source: European Bank for Reconstruction and Development, http://www.ebrd.com/pubs/econo/tr07p.pdf

A generic conclusion that could apply to Kazakhstan was, "Most people are strongly committed to markets and democracy but large groups are dissatisfied." More specific data on Kazakhstan is also included.

The *Special theme* section asked the question, "How has the transition affected people?" and concluded, "17 years of transition have taken a toll...but more people are satisfied than dissatisfied." This is illustrated in the map above.

According to the survey, 50-60 percent of Kazakhs are "satisfied with life now." Interestingly, the following graph suggests a different picture, i.e., that "Most people perceive a relative decline;" ("Views on changes in relative household wealth in 1989")

Figure 20: Views on change in Relative Household Wealth Since 1989[95]



According to this chart, while slightly more than 20 percent of Kazakhs see a relative improvement in their lives, more than 60 percent of Kazakhs surveyed felt they have experienced a relative decline in their situation since 1989.

---

[95] Source: European Bank for Reconstruction and Development, http://www.ebrd.com/pubs/econo/tr07p.pdf

As regards the nexis between rising economic prosperity and increased political involvement by a burgeoning middle class, President Nazarbayev has persistently promoted his vision of a Kazakh indigenous middle class, as he stated during a May 2004 interview, "I was personally preoccupied with the development of small and mid-sized businesses because I understood that this is stratum which will give stability to both the state and the entire political system. Now we want to put together such a society, in which the top 10-15 percent will be wealthy and probably 10 - 20 percent will be poor; and between will be the middle class. Here is this middle class, which has something to lose, which does not want revolution, does not want changes in policy and laws and is a stabilizer and bulwark of the state. Understanding this, I have studied the middle class."[96]

The following year President Nazarbayev, speaking to participants in the conference "Kazakhstan Attracts a New Wave of Investments: Diversification and Stable Growth Strategy," cautioned his audience that Kazakhstan would selectively borrow Western values, remarking, "We ask our Western partners to abandon the idea of 100 percent transfer of Western values in their current form to Kazakhstan. We accept everything else. We can listen to friendly advice and criticism of ourselves, and, taking notice of them, make our conclusions, but we take our own characteristics into account in doing so." Nazarbayev's subsequent comments on the concept of democracy made explicit his government's belief that economic reform would produce a rising class of entrepreneurs, who would have a stake in developing a democratic system in order to guard their prosperity. In this context he remarked, "For Kazakhstan, this is not the beginning of the road but the main goal. We believe that democracy is a culture that needs to be developed, and we intend first to form a responsible electorate, which would develop small-scale businesses and a middle class."[97]

On September 1, 2005 President Nazarbayev, during a joint Majlis session, reiterated his administration's commitment to encouraging small and medium businesses as a means of fostering the growth of a Kazakh middle

---

[96] Dinara Sherieva, "Pervyi raz v crednii klass, Ili komu v Kazakhstane budet zhit' khorosho," *Liter,* 10 June 2004 @ http://www.liter.kz/site.php?lan=russian&id=151&pub=153.

[97] *Interfax Russia & CIS Presidential Bulletin*, 15 June 2005.

class as a guarantor of stability. He told parliamentarians, "The success of our economic and, particularly political programs depends on strengthening a layer of (private) owners, and I tell you about this all the time. They represent the middle class that is currently being formed. This is precisely what states with developed democracy have and this is precisely why those states are stable irrespective of elite successes. This is why I am always dealing with the development of small and medium businesses in the country and support them. We have done a lot together but this is only a start."[98]

A 2004 survey by Polyton, a Kazakh NGO agreed with the president on two points: first, that the Kazakh middle class is still in the process of emerging and,second, that such a class is defined not only by income but also by a particular mentality or psychology. The poll found various definitions of Kazakhstan's "middle class." Top officials and representatives of big business defined it as "intellectuals working at state organizations. They characterized Kazakh society as divided between "very rich" and "very poor" people, with a middle class of relatively self-sufficient people. According to the poll respondents, the main defining factor of the middle class is its stable income. The specialists polled during the survey added that the establishment of a Kazakh middle class is not only connected to their living standards but includes their mindset and psychology. Respondents state that such people have a sense of responsibility for their lives, a deep sense of individualism, an understanding of the value of educational and professional standards as a guarantee of one's prosperity, and a desire to pass these values to their children. A prominent lawyer surveyed in the poll defined the burgeoning Kazakh middle class by noting, "Middle class people are neither multi-billionaires nor beggars. They provide their own security. The situation of a human being is to be a master of his/he's life and fate, which is shown by their activity and income."[99] One of the respondents, a prominent political party leader, complained that this commitment to stability produced political passivity. He asserts that, "Intellectuals who could initiate stability…do not

---

[98] *Kazakh Television first channel*, 1 September 2005, Source: BBC Monitoring Service, 1 September 2005.

[99] Dimash Al'zhanov, "Srednii klass v Kazakhstane," *Diskussionnyi Klub Polyton* 24 June 2004 at http://www.club.kz/.

do it in Kazakhstan. They follow the guidance of top officials or even beg from them, so to speak."

According to the pollsters, being middle class also relates to the idea of self-government. Indeed the participation of the middle classes in public life constituted "an important mechanism (that will) impact on the political decision-making process of Kazakhstan." The middle class is also associated in the minds of those polled with the idea of stability in that it leads to "a nation of self-managing citizens."[100]

Pollsters found that the Kazakh middle class was far from homogenous. Respondents indicated that it includes top officials who made their fortune with the help of corruption or abuse of their positions to enrich their own businesses, qualified and highly-paid staff that worked for Western oil and banking companies, small and medium size business owners, intellectuals, and people who own significant real estate.

Experts consulted during the poll found a contradiction in the middle class's priorities and socio-economic interests, determining that few of those polled had a firm commitment to liberal values and political freedom, but rather supported "changes without change," overall, they claimed, such people favor their "status quo" compact with the government in exchange for a guarantee of stable economic growth, all of this producing an indifference towards politics and loyalty to the political regime in return for the government guaranteeing the middle class's welfare.

Business

Given that post-Soviet Kazakhstan had no tradition of hereditary wealth, the fastest way to affluence was business, and it is here that many ambitious Kazakhs directed their energy. Business incubators and innovation centers (BIIC) to assist the development of small businesses were first established in Kazakhstan in 1997. Two years later the Kazakh government integrated fiscal support of business incubators into its economic program. The business incubator models included publicly financed business incubators, non-governmental organizations and public-private partnerships. In September

---

[100] *Caspian Information Center Occasional Paper No 6 - Kazakhstan's Emerging Middle Class: a Factor for Stability*, November 2004.

2000 Kazakhstan's Association of Business Incubators and Innovation Centers (KABIIC) was established in Almaty, with the goal to assist in the development of entrepreneurial infrastructure by supporting BIICs, technological parks, and other related organizations. By 2004, 43 business incubators of various types and performances were operating in Kazakhstan. The projects were largely clustered in urban centers and received not only international assistance but also private corporate funding. In 1999 the Atyrau Business Development Center opened with financial support from Chevron and the United Nations Development Project, quickly dispersing more than $1,000,000 in loans and grants to entrepreneurs.

KABIIC defined its tasks to create a single entrepreneurial infrastructure information network, reduce unemployment, disseminate information on BIICs and protect and advance the interests of KABIIC members in the government, society and other entities.[101]

Washington also continued to play a major role in the development of a climate conducive to business, with the U.S. Agency for International Development (USAID) assisting in opening five Enterprise Development Centers (EDC.) USAID assistance extended to the country's educational system, as its Resource Network for Economics and Business Education (EdNet) provided Kazakh college students greater access to information and opportunities to succeed in the free market by training professors in economics and business education and providing teaching materials, research opportunities and scholarships.

The U.S.-based Eurasia Foundation has also supported such work. European institutions also played a part, with the EBRD providing business loans to SMEs.

Parallel to the BIIC initiatives, the Almaty Association of Entrepreneurs was founded in April 1998, with its stated mission to protect the rights of entrepreneurs and to inform and educate entrepreneurs on their legal, normative, and regulatory rights in a rapidly changing environment.

---

[101] Maria Bezerra, Cristy S. Johnsrud and Ryan P. Theis, *Business Incubation: Emerging Trends for Profitability and Economic Development in the U.S., Central Asia and the Middle East*, Washington, DC: U.S. Department of Commerce Technology Administration, Office of Technology Policy, May 2003.

The AAE showed no shyness in expressing its concerns about government policies that hindered entrepreneurial business. In early 2005 it initiated a program on "Reducing Administrative Barriers" to bring to the government's attention the damage the Administrative Code (drafted behind closed doors in 2001) inflicted on the nascent Kazakh business community. In a litany of complaints that could be lifted straight out of the pro-Republican U.S. business community, the AAE charged that the complexities of the Administrative Code created a stifling business environment through excessive regulation, burdensome licensing requirements, arbitrary inspections from myriad enforcement agencies, complex tax codes, a weak financial sector and poor banking practices. Setting to work with a vengeance, the AAE compiled statistical data to identify the conditions hindering entrepreneurship development with a nationwide survey of small- and medium-sized business owners, researched the Administrative Code to identify its shortcomings, organized working groups to bring together lawyers, entrepreneurs, representatives of international and local NGOs and government and parliamentary officials to identify specific clauses where the Code should be modified. The tireless AAE members drafted 253 specific legislative changes to the Administrative Code and conducted a media campaign both to raise awareness of problems in the Code and AAE's proposed solutions. Realizing the thoroughness of the AAE's efforts, Nazarbayev publicly announced his support for the AAE's proposed reforms and the Majlis took up the AAE's administrative reforms during its 2005 session.[102]

Not resting on its laurels, the AAE then brought together business leaders to examine legislation and business regulations, which resulted in the addition of a new Article 5 to the "Law About Private Entrepreneurship" providing for a mandatory period of public review for all draft regulations affecting small business interests.[103]

By 2006 the government was seeking input from KABIIC and Kazakh BIICs to help draft business legislation. In June 2006 at a BIIC symposium held in Shymkent specialists from the Massachusetts Institute of Technology

---

[102] "Associations in Action: Local Agents for Change," *Economic Reform Case Study*, No. 0502, 8 March 2005, Center for International Private Enterprise.
[103] *2006 Annual Report*, Center for International Private Enterprise.

explained the application of the recently enacted law “About Private Entrepreneurship,” recent regulations on the establishment of public-private “Expert Councils” for entrepreneurial issues, and the accreditation of the entrepreneurs’ unions’ representatives. It was believed that the establishment of the Councils would move collaboration between local and national governments and entrepreneurs to a new level due to the active participation of the Councils, whose recommendations were to be sought before the Majlis passed business laws. The model for this input was the passage in January 2006 of a new law “On Private Entrepreneurship,” which was developed with direct input from the Kazakh entrepreneurial community.[104]

The Expert Councils soon exhibited problems, however, as many were staffed by pro-government NGOs that rarely provided negative feedback on government policies. Further hindering the work of the Expert Councils were government-imposed timetables, typically only one-three days, for submitting feedback from the business community. In a somewhat surprising reversal of urban-rural power flows, however, the Expert Councils operated more effectively in Kazakhstan’s more remote regions, demonstrating an impressive capacity for local self-rule. Analysts attributed this to the fact that in the more isolated areas the Councils were more likely to meet in person and debate legislation, rather than rubberstamp decisions made in Astana.[105]

The Kazakh BIICs also began to develop international contacts; a number of Kazakh entrepreneurs attended the 5th Annual UBICA Conference held in April 2004 in Kiev with the financial support of the InfoDev Initiative of the World Bank. There they shared their experience and ideas with Ukrainian and Belarus BIIC representatives.[106]

The Kazakh government now saw the nation’s fledgling business organizations as a valuable potential political ally in advancing larger national agendas, such as assuring Kazakhstan’s entry into the World Trade Organization. In January 2006 the Almaty Association of Entrepreneurs and

---

[104] Biznes-inkubator “Sodbi, “Predprinimetleli smogut bliat’ na zakony,” 15 June 2006 at http://www.sodbi.kz/php/modules.php?name=news&menu_id=0&page=1.
[105] *Center for International Private Enterprise Overseas Report*, No. 35, Winter 2008.
[106] Biznes-inkubator “Sodbi, “Sovmestnye shagi na puti k mezhregionalinomu sotrudnichestvy,” 28 April 2004 at http://www.sodbi.kz/php/modules.php?name=news&menu_id=0&page=4.

Forum of Entrepreneurs of Kazakhstan conducted a roundtable discussion on Kazakhstan's WTO accession potential and its effect on small- and medium-sized enterprises. The well attended event included representatives of 22 business associations, 34 small businesses, 4 international organizations, the Ministry of Economy and Budget Planning, the Customs Committee of the Ministry of Finance, the Department of Customs Control of Almaty, and the Institute of Economy of the Ministry of Education and Science, while the roundtable was covered by 7 TV channels, 14 newspapers, 2 magazines, and 3 internet news sites.[107]

Politics –Parties Contend for Middle Class Support

After a decade of independence the Kazakh political landscape was flourishing, with more than a dozen political parties either being established or seeking registration. While the nascent middle class did not yet constitute a plurality of the electorate, many of the new political groupings began to court it as a possible electoral base. Given that many class members were highly educated professionals, the parties' focus was understandable. Of the two contenders for the middle class vote, the leading contenders were President Nazarbayev's Otan ("Fatherland") party and Ak Zhol ("Bright Path.") Otan, originally established in February, 1999, after the several previously independent pro-presidential parties merger, among them the People's Union of Kazakhstan Unity, the Liberal Movement of Kazakhstan, and the "For Kazakhstan - 2030" Movement had the inestimable advantage of being able to run on the government's accomplishments, which had largely lifted the standard of living of every Kazakh. Otan furthermore was able to tout stability as key to maintaining increasing prosperity, while the opposition parties were forced to offer untried political solutions, however progressive they might be.

One opposition party, Atameken, would garner international visibility after being established in the autumn of 2006. Led by Yerzhan Dosmukhamedov, the party claimed that the government threw up numerous roadblocks when they attempted to register. Dosmukhamedov during a press conference on January 18, 2007, proclaimed, "I would like again to emphasize that the

---

[107] *Update on Key Activities, January 2006*, Center for International Private Enterprise.

Atameken party is pro-president. We sincerely believed in the program of democratic modernization, which the Head of State proclaimed and we want to take a direct part in its realization."[108] Given the increasing international visibility of the Kazakh electoral process, Western criticism was inevitable. In March 2007 Delaware's Democratic Senator Jospeh Biden wrote privately to President Nazarbayev expressing his concerns about the electoral process. While Biden's office declined to release the correspondence Dosmukhamedov provided what he said was a transcript, where Biden wrote, that he was "disappointed . . . that Kazakhstan is not moving more quickly towards becoming a transparent democracy that enjoys full freedom of the press, recognized political parties and the other vital institutions that 15 million Kazakh citizens deserve. Moreover, I am troubled by recent reports indicating that officials within your government have been interfering with the efforts of political parties to organize, such as in the case of the Atamekan (sic) party."[109]

In November, 2001, political activists who were dissatisfied with the Nazarbayev administration founded the Demokraticheskii Vybor Kazakhstana (DVK) party, which further fissured in March 2002 when members broke away and established the Ak Zhol party. One supporter claimed that this action "changed society, after waking up in it new progressive democratic forces."[110]

Ak Zhol sought to appeal to the majority of the population, which opinion polls numbered at more than 60 percent. But one analyst argued that the majority both feared authority and did not believe it could change the prevailing political situation, numbed as it was by the endlessly repeated slogan, "If you're able, get rich." The crass materialism affected everyone from traffic cops up to high-level government officials that led to increasing social dissatisfaction among the less fortunate classes as they saw the affluent enrich themselves through shady deals, producing rising class tensions that the country's miniscule emerging middle class was powerless to alter. Ak

---

[108] Olga Steblova, "Kto podderzhit 'Atameken,'" Gazeta.kz, January 19, 2007.

[109] Guy Taylor, "Kazakhstan Reform Gains Advocate in Sen. Biden," *World Politics Review*, March 20, 2007.

[110] Elena Brusilovskaia, "Grustnye itogi," Gazeta "Epokha," Nos. 1-2 (24), 19 January 2003 at http://www.akzhol.kz/modules.php?name=News&file=article&sid=453.

Zhol proposed to capitalize on the thwarted fiscal expectations of Kazakhstan's embryonic middle class by demanding greater political transparency, which it saw as essential to an increased standard of living. The party grew swiftly; by the end of 2002 it claimed to have as many as 65,000 members.[111] The rise of Ak Zhol and its avowedly pro-business agenda subsequently caused President Nazarbayev to observe that while medium and large scale businesses were essential for the economic advancement of Kazakhstan, the business community "should not interfere either directly or indirectly, through their people in power with political decisions."[112]

Ak Zhol co-chairman Alikhan Baimenov during an interview with Kazakhstan's *Vremiia* in September, 2003, expounded at length on his party's platform. Following Kazakhstan's 1991 independence, Baimenov served in a number of government posts, primarily in the Labor Ministry. In 1998-1999 Baimenov headed the presidential administration and subsequently served as labor minister in 2000-2001.

Baimenov said, "It was possible to preserve public stability in our multinational country, to create conditions to attract enormous investments and to expand the key branches of industry and improve state institutions. Ak Zhol leadership members who many years worked and continue to work under President N. Nazarbayev's management, saw what efforts this cost and the resistance to reforms. Many of us participated in implementing reforms and therefore know the enemies of reforms rather better than ideologists who do not have practical experience. Moreover, we are proud by the fact that it is precisely in the ranks of the Ak Zhol party rather than in another party are concentrated reformist forces, who are not only in the party leadership of party but are among the rank and file. Today we number more than 112,000, to whom the fate of the country and reforms are significant. Ak Zhol's program and our initiatives are directed toward strengthening our statehood and creating conditions which ensure the irreversibility of reforms. The tasks

---

[111] *Novoe Pokoleniie*, 15 November 2002.
[112] *Khabar Television*, 30 March 2002.

which stand before the country in the sphere of strengthening statehood and economy are enormous.[113]

The same month that Baimenov was expounding his party's platform, Kazakh Prime Minister Imangali Tasmagambetov, speaking to the Kazakhstan business forum in Astana, hastened to assure his audience that the government was carefully monitoring and encouraging business development, as the government believed that the rise of a prosperous middle class was the foundation of Kazakhstan's future political and economic stability. He told forum members that the government was interested in instituting a constructive dialogue to develop specific governmental initiatives to support small- and medium-sized businesses.[114]

Altynbek Sarsenbayev joined Ak Zhol after a long career in senior Kazakh government positions, including Mayor of Almaty, Information Minister and served as Kazakh ambassador to Russia. During an October 2003 interview Sarsenbayev said, "When the arduous reforms began, they were accompanied by the disruption of peoples' patterns of living, leaving more than 90 percent of the population unhappy... I am convinced that the strengthening of the transparency of federal expenditures will alone considerably increase the state budget and raise the peoples' standard of living. Therefore the question of democratization in this context is not so much political as it is social and economic, in light of its direct influence on the welfare of people."[115]

Sarsenbaev contested the December 2005 Kazakh presidential elections. On February 13, 2006, he was murdered along with two aides. Ten people were subsequently convicted of being involved in his death.

At the third Ak Zhol party congress in Almaty November 2003 Bulat Abilov directed his campaign against foreign oil companies, telling delegates, "We understand that only a strong middle class can ensure society's stability. Not that the large petroleum companies, offshore companies, which arrived in

---

[113] Alikhan Baimenov, "Nashi opponenty boiatsia konkurentsii," *Vremiia.kz*, 11 September 2003 at http://www.akzhol.kz/modules.php?name=News&file=article&sid=914.

[114] *Interfax-Kazakhstan*, 18 sentiabr'2002.

[115] Vadim Boreiko, "Altynbek Sarsenbaev: no porazhen'ia ot pobedy ty sam ne dolzhen otlichat,'" *Vremiia.kz*, 23 October 2003.

Kazakhstan, think about the democratization of the country. They are today a brake on democracy. Everything that they produce is exported. We do not benefit from the the products of their labor. Only owners who produce for the domestic market are interested in the fair distribution of the income of the petroleum. Only small and mid-sized businesses are interested in this! Today we must clearly say that 'Ak Zhol' - the party of the small and mid-sized businesses, is together with us today…We understand that only small and mid-sized businesses and a strong middle class can ensure stability in society."[116]

Without citing evidence, Ak Zhol also claimed that in January 2004 Astana's decision to lower tax rates was directly due to its manifesto, *Proposals on tax and budgetary policy of Kazakhstan for 2003-2005*. Seeking to convert its manifesto into political capital, Ak Zhol noted that the major beneficiaries of the new tax code were the middle class, which saw its rate drop from a maximum 30 percent rate to 20 percent, while wage earners making 13,785 tenge ($92.14) - 36,760 tenge ($245.72), saw their tax rate drop to 8 percent from 10 percent. Those earning 36,760 tenge ($245.72) - 183,800 tenge ($1,228.60) per month saw their rate reduce from 20 percent to 13 percent. The party further proposed reductions in health insurance as well.[117]

According to Sarsenbaev, Ak Zhol's ambitious 2004 program included lobbying for a two-fold increase in the minimum wage and indexing it to the rate of inflation and doubling social benefits. He further argued that this program was in accord with President Nazarbayev's own *Strategic plan of the development of the Republic of Kazakhstan to 2010*, part of the government's plan to realize the goals set out in its *Kazakhstan –2030* program.

For his part, President Nazarbayev in an interview with the French weekly *Le Nouvel Economiste* in January 2004 touted his administration's political accomplishments, remarking, "Almost half of the state's budget is spent on social programs. Included are measures aimed at reducing unemployment,

---

[116] Bulat Abilov, "My prinimaem vyzov vremenem. Vystuplenie sopredsedatelia DPK 'Ak zhol" Bulata Abilova na III sezde parti," *Epokha*, No. 45 (67) 14 November 2003 at http://www.akzhol.kz/modules.php?name=News&file=article&sid=115, *Interfax-Kazakhstan*, 9 November 2003.

[117] Berik Temirbayev, "Spasibo 'Ak zholy'!," *Gazeta "Epokha*," No. 1 (73), 9 January 2004 at http://www.akzhol.kz/modules.php?name=News&file=article&sid=1538.

developing a system of micro-credit, creating additional jobs, professional training, raising qualification and retraining of the unemployed." Emphasizing Kazakhstan's importance to foreign investors, President Nazarbayev added, "The fact that Kazakhstan's economy attracted $23.4 billion from 1993 through 2003 speaks about the country's attractive investment climate and image. I would be remiss if I don't mention the major countries of origin for this investment: they are the U.S. with a share of 30.7 percent, the UK, 13.7 percent, Italy, 7,0 percent, and Switzerland with 5.7 percent. For the next 25 years, we have contracts signed with foreign investors for an overall amount of $100 billion." [118] These and related arguments were broadly reinforced by the President's Otan party.

At the time of the Majlis elections, besides the Otan party, Ak Zhol and the DVK, other contending political parties included the Agrarian Party, Asar ("All Together"), Auyl ("Village"), the Civil Party, the Communist Party, Rukhaniyat ("Renaissance") and the Party of Patriots.

With the exception of President Nazarbayev's Otan party and Ak Zhol however, none of the other parties specifically addressed the concerns and issues of interest to the middle class, either concentrating on regional issues of local concern (the Agrarian Party) or recycling tired ideology from the past (the Communist Party.) the only commonality that united the parties was their opposition to the current state of affairs and the Nazarbayev administration.

Their arguments did not resonate with the electyorate. Ak Zhol received only 12 percent of the votes. Following the September 19, 2004, legislative elections Baimenov refused to accept the only seat the party received at the 77 member Majlis until October 2006 when he reversed his position and joined parliament as the only deputy of an opposition party.

Inevitably, opposition groups contested the 2004 elections. But while the OSCE and other serious monitors considered them flawed, they acknowledged improvements over previous votes. Brushing this aside, the opposition and part of the Western media worked to present the conflict as a struggle between a valiant Western-style and pro-democratic opposition and

---

[118] "Democracy, With Traditional Values," *Kazakhstan's Echo*, 12 February 2004, No. 7.

an authoritarian government that was secretly maneuvering to cut back its own reforms.

Far more likely, though, is the more obvious conclusion that most of Kazakhstan's voters were pleased with their lives. Like President Reagan in the U.S. President Nazarbayev could ask the average Kazakh, "Are you better off than you were 10 years ago," to which the majority of the population, notably including the rapidly expanding middle class, answered a resounding "yes."

The August 2007 Majlis Elections

In the August 18, 2007 Majlis elections President Nazarbayev's Nur-Otan party won all 98 available seats. Dampening the hopes of the opposition parties was a new requirement to win seven percent of the popular vote, a two percent increase from the previous electoral requirement in order to qualify for parliamentary representation. Further dampening the opposition's prospects, on June 18 the Majlis approved an amendment to the electoral law that prohibited parties from forming blocs shortly after the Nagyz Ak Zhol ("True Bright Path") and Nationwide Social Democratic Party (OSDP) opposition parties announced their intentions to form an electoral bloc to contest parliamentary elections. They could still have merged to reach the seven percent floor but for whatever reason chose not to do so.

For many Western observers the election was a foregone conclusion. The OSDP, the most successful opposition party, received 4.5 percent of the vote. The Atameken opposition party, claiming to represent Kazakhstan's entrepreneurs and the country's rising middle class, failed to gain registration. Internecine squabbling tarnished the party's image, as well as the fact that its founder, Yerzhan Dosmukhamedov, lives abroad. [119] The opposition complained that it had limited access to the nation's 31 TV channels, which severely limited their chances to reach the electorate.

Going into the elections the main opposition parties had some self-inflicted public relations image problems to overcome. Following Ukraine's December 2005 Orange Revolution the leaders of Kazakhstan's three main opposition parties in Kazakhstan - Ak-Zhol, the nearly moribund Communist Party of

[119] "Political forces," *The Economist*, 27 September, 2007.

Kazakhstan and the Democratic Choice of Kazakhstan (DCK) - rushed to Kiev to "express solidarity" with Presidential incumbent Viktor Yuschenko, with the DCK's newspaper *Azat* trumpeting the headline, "Georgia Yesterday, Ukraine Today, Kazakhstan Tomorrow?"[120] For Kazakh middle class voters, such sentiments seemed directly to threaten their new sense of fiscal stability. In contrast, President Nazarbayev had consistently stressed stability, saying in late 2004 that, "A forced modernization of social and political systems could have destabilized society and the state."[121] Ak Zhol party leader Alikhan Baimenov countered, "We are faced with the challenges of globalization, and if we want Kazakhstan to be competitive economically, we must have political competition inside the country."

Prior to the August 2007 presidential election Kairat Kelimbetov, Director of the Kazyna Fund for Sustainable Development and former Minister of Economy and Budget Planning, insisted that President Nazarbayev's progressive fiscal policies would translate into political support at the ballot box. The Kazyna Fund was established in April 2006 to spur investment in Kazakhstan's non-hydrocarbon industrial sector and now has capital assets of over $1 billion. In response to a question about Nazarbayev's controversial constitutional initiatives Kelimbetov replied that fifteen years earlier Nazarbayev "had created private property institutions while downplaying market mechanisms... During the intervening 15 years, Kazakhstan began to form a propertied class, a new middle class, and in each social strata appeared the possibility to declare its aspirations and interests, including its political concerns. In response, the President began to accelerate democratization." Kelimbetov concluded that Kazakhstan's growing middle class strongly supported the president's policies and that furthermore, President Nazarbayev's Nur Otan party had an 80 percent base of popular support.[122]

Subsequent events proved Kelimbetov's estimates to be low. Observers from the Organization for Security and Cooperation in Europe were skeptical,

---

[120] *Caspian Information Center Occasional Paper No. 9 - Failing Democracy: How the Kazakh Opposition Endangers Reform*, April 2005.
[121] Arkady Ostrovsky, "Politics: Pressure for reform is growing," *Financial Times*, 15 December 2004.
[122] "Proprezidentskie sily rasschityvaiut na podavliaiushchee bol'shinstvo v novom parlamente Kazakhstana," *Rossiiskaia Gazeta*, No. 165, 01 August 2007.

however, commenting that while the election again showed improvements, "in over 40 percent of the polling stations visited, (vote counting) was described as 'bad' or 'very bad.'"

Even accepting a measure of such criticism, the Majlis elections seem in fact to imply that Kazakhstan's emergent middle class in fact largely supports Nazarbayev's policies and goals, which have delivered broadly based rising economic prosperity, and are unwilling at this point to jeopardize the country's current stability and economic advancement by supporting untried radical alternatives. In this respect Kazakhstan's current political evolution emulates India and Japan, where a single party or faction has usually dominated, retaining power for decades after the country emerged from a long period of authoritarian rule and despite the introduction of relatively unfettered, competitive elections. Ironically, Nazarbayev may also be benefiting from Kazakhstan's Soviet experience, which inculcated respect for strong leaders, a legacy that persists in most CIS countries.

In turn President Nazarbayev understood that the support of Kazakhstan's rising middle class is essential to cementing his reputation as the founding father of independent and modern Kazakhstan. So often has he referred to the stabilizing influence of a middle class and its role as the repository of certain virtues that it is impossible to dismiss it as mere rhetoric. During one interview Nazarbayev succinctly summed up his policy, saying, "We are consistently moving toward an open society according to the basic principle: economy first, politics second."[123] In the same spirit, in 1998, he asserted, "First and foremost, the state must represent the interests of the middle class."[124]

Some political scientists divide the opposition between those who would seem to change the direction of the existing government and those who would like immediately to replace it. The former contests the government but does not want to come to power. The objectives of the moderate and loyal opposition include partial reforming of the system, without touching the issue of presidential powers, with reforms to be carried out by the initiative of

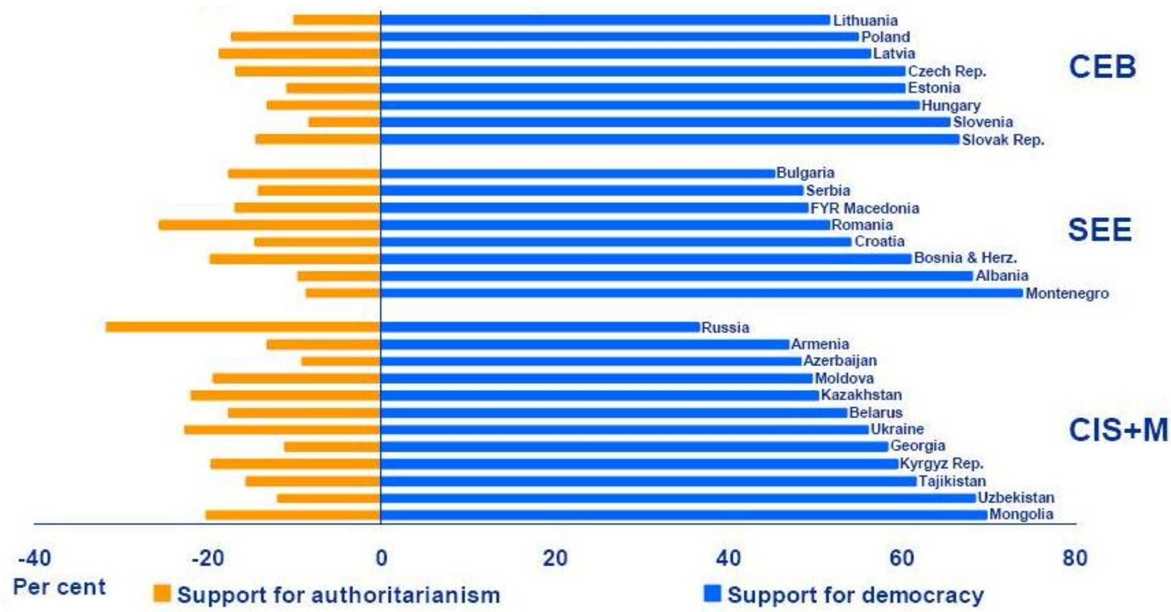
---

[123] *Le Nouvel Economiste*, 23 January 2004.
[124] "Kazakhstan's Emerging Middle Class: a Factor for Stability," *CIC Occasional Paper No. 6*, November 2004.

the government itself. The latter opposition, in contrast, is for immediate and maximal democratization of society and the political system.

In his study, *Regime maintenance in post-Soviet Kazakhstan: the case of the regime and oil industry relationship (1991-2005)*, Wojciech Ostrowski argued that even before the rise of Ak Zhol the Nazarbayev administration, despite being relatively secure, worked persistently to co-opt the Kazakh business and middle classes, that what appeared at the time to analysts to be a short-term rapprochement with Kazakhstan's rising middle class was actually part and parcel of a larger strategy intended to replace patrimonial-based relationships with more formal relationships in an effort to do assure the regimes' long-term stability.[125]

Figure 21: Support for Democracy versus Authoritarianism[126]



A clue to the recent thinking of the Kazakh population on the nation's political evolution is contained in a report issued last year by the EBRD. The statistics suggest that Kazakhs have decisively broken with their Soviet past.

125 Wojciech Ostrowski, *Regime maintenance in post-Soviet Kazakhstan: the case of the regime and oil industry relationship (1991-2005)*, Ph.D. dissertation, University of St. Andrews, Scotland, June 2007.

126 Source: European Bank for Reconstruction and Development, http://www.ebrd.com/pubs/econo/tr07p.pdf

According to the findings below, slightly over 20 percent of Kazakhs support authoritarianism, while nearly 80 percent favor democracy.[127] By contrast, almost half of those polled in Russia supported authoritarian rule.

Kazakhstan's Continuing Financial Success

President Nazarbayev can be said to have applied former U.S. Bill Clinton's dictum, "it's the economy, stupid." His administration's careful attention to the national economy indicates a prudent stewardship that has impressed virtually all Western financial institutions, even hard-bitten IMF specialists, who wrote last year, "A remarkable transformation of Kazakhstan's economy has taken place over the past decade. The country has implemented prudent macroeconomic policies and greatly expanded its oil production capacity. Aided by the surge in world oil prices and global liquidity expansion, this has led to impressive macroeconomic achievements."[128] Four years earlier, the IMF had put its seal of approval on Kazakhstan's economic reforms, announcing on March 11, 2003, that, "the IMF resident representative in Kazakhstan will not be replaced when his term ends in August 2003. The decision to do this results from the impressive achievements made in stabilizing the economy, the extremely favorable medium- and long-term economic outlook for Kazakhstan, and the very low probability that the country will need to borrow from the Fund in the future."[129]

The IMF noted that since 2000 Kazakhstan's real GDP growth has been about 10 percent or more annually, resulting in a 500 percent increase in per capita GDP in dollar terms, even as the percentage of the Kazakh population living in poverty declined from an estimated 35 percent to 10 percent (Figure 22). During the same period the ratio of bank deposits to GDP almost tripled to 30 percent. Kazakhstan's GDP per capita, measured in purchasing power parity, is nearly twice that of Kyrgyzstan, Uzbekistan or Turkmenistan, and four times that of Tajikistan.

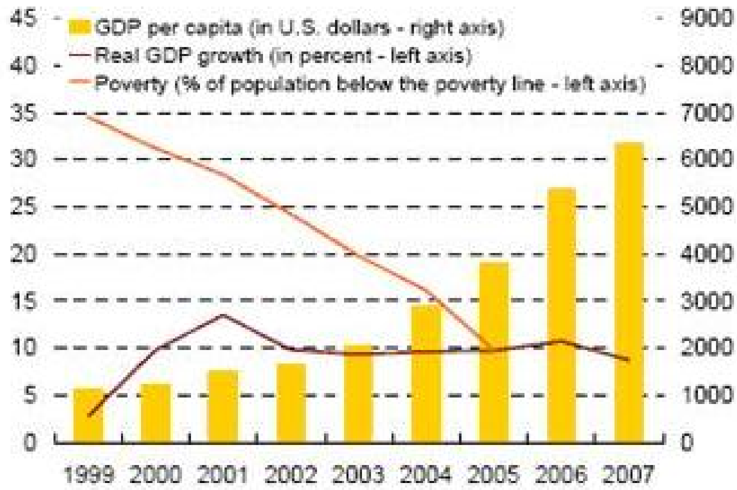
---

[127] *EBRD Transition Report 2007*; Office of the Chief Economist at http://www.ebrd.com/pubs/econo/tr07p.pdf.

[128] *World Economic and Financial Surveys: Regional Economic Outlook - Middle East and Central Asia*, Washington, DC: International Monetary Fund, October 2007.

[129]. Press Release No. 03/33, March 11, 2003, "Statement by IMF Mission to the Republic of Kazakhstan, International Monetary Fund" at http://www.imf.org/external/np/sec/pr/2003/pr0333.htm.

Figure 22: Income and Poverty[130]



Sources: Data provided by authorities; World Bank; and IMF staff estimates.

Table 23 below places Kazakhstan's GDP growth over the last decade in the context of its oil-exporting colleagues; for the period, Kazakhstan's GDP growth rate even exceed Russia's; of the former Soviet republics, only Azerbaijan produced a greater annual percentage growth in GDP.

Table 23: Real GDP Growth[131]

(Annual change; in percent)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	**3.9**	**6.5**	**6.1**	**6.1**	**6.6**	**6.6**	**6.7**
Oil exporters	**3.8**	**7.6**	**6.2**	**6.3**	**6.2**	**6.6**	**6.4**
Algeria	3.6	6.9	5.2	5.1	3.6	4.8	5.2
Azerbaijan	7.7	10.5	10.4	24.3	31.0	29.3	23.2
Bahrain	4.8	7.2	5.6	7.8	7.6	6.8	6.5
Iran	4.2	7.2	5.1	4.4	4.9	6.0	6.0
Iraq	...	...	46.5	-0.7	6.2	6.3	5.3
Kazakhstan	6.8	9.3	9.6	9.7	10.7	8.7	7.8

[130] *Source: World Economic and Financial Surveys: Regional Economic Outlook - Middle East and Central Asia, Washington, DC: International Monetary Fund, October 2007, p.26.)*

[131] Source: World Economic and Financial Surveys: Regional Economic Outlook – Middle East and Central Asia, Washington, DC: International Monetary Fund, October 2007., p. 52

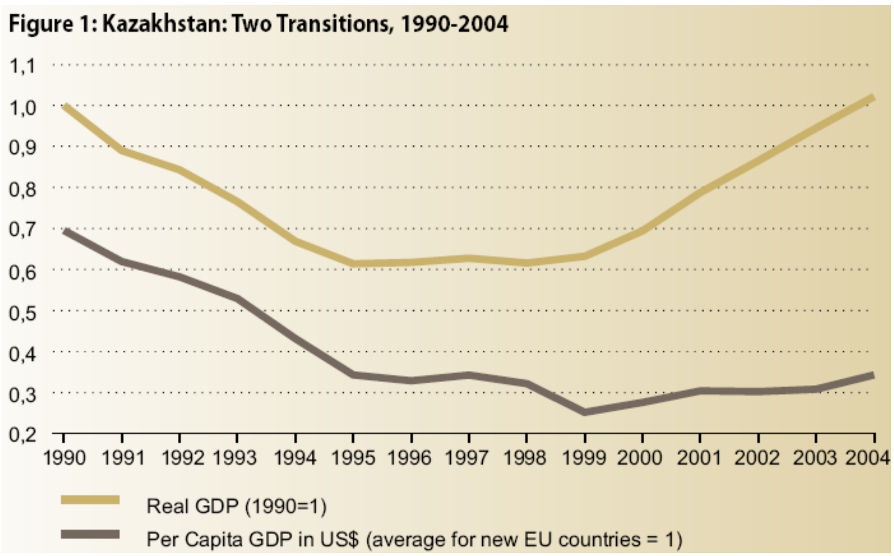
Table 24 places Kazakhstan's GDP growth in the larger context of Middle East and Central Asian oil exporters Algeria, Azerbaijan, Bahrain, Iran and Iraq; for the period 1998-2008 (est.), the group achieved a 278 percent increase; in contrast, Kazakhstan's growth during the same period was 535 percent, a 192 percent increase.

Table 24: Nominal GDP[132]

(In billions of U.S. dollars)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	**846.2**	**1,030.7**	**1,238.0**	**1,502.5**	**1,779.7**	**2,062.4**	**2,352.6**
Oil exporters	**551.2**	**704.6**	**874.9**	**1,096.0**	**1,306.2**	**1,516.0**	**1,728.7**
Algeria	52.8	68.0	85.0	102.1	113.9	125.9	139.5
Azerbaijan	5.2	7.3	8.7	13.2	19.8	31.1	44.4
Bahrain	7.4	9.7	11.1	13.4	15.4	16.9	18.6
Iran	106.2	134.0	161.3	188.5	222.4	278.1	324.6
Iraq	...	...	25.8	31.4	49.5	65.1	74.8
Kazakhstan	20.7	30.9	43.2	57.1	81.0	95.5	110.9

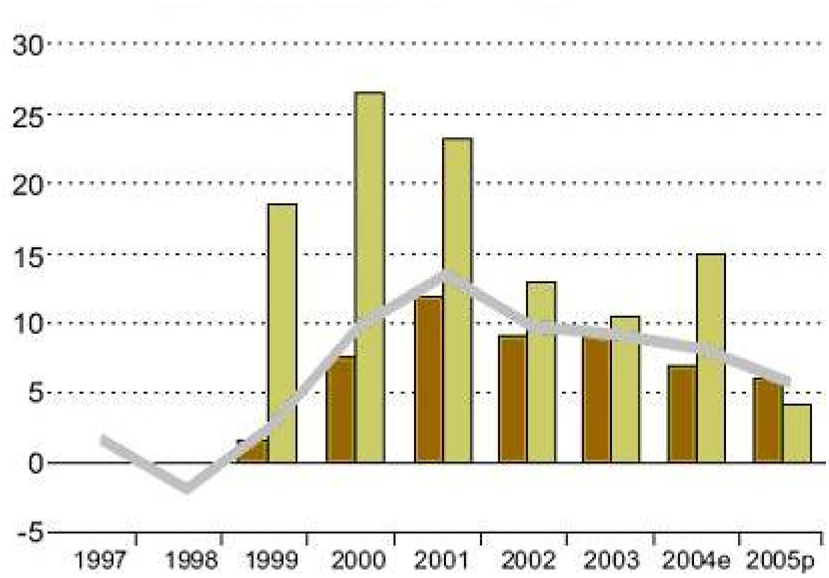
Figure 25: Kazakhstan: Two Transitions, 1990-2004[133]



[132] Source: *World Economic and Financial Surveys: Regional Economic Outlook – Middle East and Central Asia*, Washington, DC: International Monetary Fund, October 2007, p. 53.
[133] Source: *Republic of Kazakhstan: GETTING Competitive, STAYING Competitive: The Challenge of Managing Kazakhstan's Oil Boom*, Joint Economic Research Program of the World Bank and Kazakhstan's Ministry of Economy and Budget Planning, March 20, 2005.

As Figure 25 above shows, Kazakhstan's economy in the immediate post-Soviet period slowly declined, bottoming out until approximately 1995, when it remained level for several years until 1998-1999 when it dipped slightly further, most likely as a combined result of low oil prices and Russia's 1998 fiscal crisis, as Russia was Kazakhstan's largest trading partner. Since then, Kazakhstan's economy has enjoyed sustained growth, as Figure 3 below shows.

Figure 26: Kazakhstan Real GDP Growth, 1997-2005
(% Change over Previous Period)[134]



By 2003 Kazakhstan had an estimated 490,000 small and medium-sized businesses.[135] Three years later Kazakhstan's Statistics Agency reported 823,156 small business entities as registered. Many of them apparently existed only on paper however, as only 48,739 were active. While the number of small businesses during 2006 grew by 22.7 percent, the number of actively operating small business entities remains small, primarily because of a lack of

---

[134] *Republic of Kazakhstan: GETTING Competitive, STAYING Competitive: The Challenge of Managing Kazakhstan's Oil Boom*, Joint Economic Research Program of the World Bank and Kazakhstan's Ministry of Economy and Budget Planning, March 20, 2005.
[135] Interfax-Kazakhstan 31 October 2003.

knowledge and experience in creating new businesses. Still, there have been gains: in 2006 the share of small business (small business and households) in Kazakhstan's GDP was 35.2 percent. Small enterprises are heavily skewed towards the urban centers, with Almaty containing 35 percent of the total, followed by Astana with 9.1 percent and the South Kazakhstan region also registering 9.1 percent.

From the Present to the Future

Banks, Domestic And Foreign

Today Kazakhstan's banking sector epitomizes the country's decisive economic break with its Communist past. While in other post-soviet republics the state only slowly relinquished control over the national fiscal sector, Kazakhstan moved quickly to reform its financial structure and adopt Western banking practices, shrewdly anticipating that such a move would entice foreign investment. When Kazkommertsbank started up in 1990 in the shadow of the imminent demise of the USSR, its $1 million in assets was dwarfed by the state-controlled savings bank. By now it has grown into the biggest bank in Kazakhstan with $4 billion in assets and $400 million in capitalization. With its shares listed in London and Frankfurt exchanges, it now issues investment grade international bonds. Furthermore, it has recently acquired a small bank in Moscow to facilitate Kazakh business in Russia. Nipping at its heels is the Halyk Bank, privatized in 2004.

The banking system's growth has been facilitated by governmental reforms, which privatized all its banks while requiring the newly independent banks to adhere to international banking standards, including the risk-weighted eight percent capital-adequacy ratio set by the Bank for International Settlements. Further governmental legislation required financial institutions to disclose shareholder information and to publish audited accounts. The fallout from the consolidation process has pared Kazakh banks to 35 in 2005 from 200 in the early 1990s, with the three emerging giants Kazkommertsbank, Halyk Bank and Turam-Alem Bank together accounting for two-thirds of Kazakhstan's market. In 2000 the National Bank introduced deposit insurance to boost the confidence in the banking sector, which saw banking deposits during the next four years increase 600 percent to $7.5 billion, pushing the ratio of deposits to GDP from 11.3 to 21 percent.[136]

The same year that the National Bank introduced deposit insurance Kazakh banks began lending mortgages and Turam-Alem Bank established its BTA Ipoteka subsidiary exclusively for that purpose. The untapped market grew rapidly and by 2004 the market was tripling in size annually. Up to 2005 Turam-Alem Bank's subsidiary BTA Ipoteka was the country's sole specialized mortgage bank, and that year received a $10 million loan from the European Bank for Reconstruction and Development, repayable for 10 years. Financial analysts predict that the Kazakh mortgage market will reach $1.5 billion in 2008, with 30 percent of house purchases financed with mortgage loans. Specialists attributing the increase to government and national bank support, a good regulatory environment, a new government mortgage insurance company and a housing construction development program. In the interim BTA Ipoteka has become one of Kazakhstan's four biggest mortgage providers, seeing its portfolio grew from $12.2 million in 2002 to $160 million by early 2005. BTA Ipoteka is seeking to expand its market share to around 27 percent by expanding geographically by making at least half of its loans outside Almaty and Astana and by developing additional financial products.[137] Kazakh banks are deeply involved in Kazakhstan's surging property market, with about 70 percent of loans reportedly directly or indirectly connected to real estate.[138]

Further enticing Kazakh consumers has been the 2006 decrease of the interest rates charged by commercial banks which dropped from 30 percent to 12-14 percent. In an additional benefit to small and medium enterprise (SME) entrepreneurs, at the same time 10 percent annual rate loans became available through the Small Business Development Fund, a governmental source of finance established specifically to further SME development. Analysts believe that rising competition in the banking sector will further drive down

---

[136] Arkady Ostrovsky, "Banking: raising the standards drives consolidation," *Financial Times*, 15 December 2004.

[137] "Kazakh home-buyers get new loan options," European Bank for Reconstruction and Development press release 28 February 2005.

[138] Gulnoza Saidazimova, "Kazakhstan: Global Financial Turmoil Hits Credit Rating," RFE/RL, 13 October 2007.

interest rates to 6-8 percent. Loan repayment schedules have been broadened to five years. Another factor encouraging SMEs is that previously loan guarantees were required to be twice the size of the loan, but were changed to require only 20 percent of the money be covered by a deposit and 80 percent of the loan sum as acquired fixed assets.[139] Such innovations in the country's banking sector resulted in its rise on a World Bank index evaluating access to financial resources from the 117th to the 48th position.

As the table below shows, the net result of falling interest rates to the Kazakh middle class was to insure its access to credit:

Table 27: Short-Term Interest Rates and Credit to the Non-Government Sector in Selected CIS Economies, 2002-2004[140]

	Interest rates on short-term credits (per cent)						Interest rates on short-term deposits (per cent)						Total credit a (per cent of GDP)		
	Nominal			Real			Nominal			Real					
	2002	2003	2004 b	2002	2003	2004 b	2002	2003	2004 b	2002	2003	2004 b	2002	2003	2004 c
Armenia	21.1	20.8	18.6	18.1	10.9	-2.0	9.6	6.9	5.0	8.5	2.1	-2.6	6.7	5.4	5.6
Azerbaijan	17.4	15.4	15.2	20.2	-0.6	10.1	8.7	11.5	9.3	5.7	9.2	3.5	6.4	7.2	8.6
Belarus	37.3	24.0	17.7	-2.2	-9.9	-6.4	27.2	17.4	13.0	-10.9	-8.6	-5.5	12.2	14.3	15.7
Georgia	31.8	32.3	34.5	24.4	29.3	29.8	9.8	9.3	7.8	3.9	4.2	2.4	9.1	9.9	9.2
Kazakhstan	15.6	15.5	14.6	15.2	5.7	0.9	11.3	10.6	9.5	5.0	3.7	2.2	16.4	19.3	22.1
Kyrgyzstan	36.2	24.3	21.5	29.1	15.7	10.2	7.9	5.5	5.3	5.7	2.3	0.8	3.8	4.1	4.7
Republic of Moldova	23.5	19.3	20.9	18.0	10.7	14.6	14.2	12.6	15.0	8.5	0.7	1.9	15.8	18.7	19.2
Russian Federation	15.7	13.0	11.7	-1.2	-0.1	-9.2	5.0	4.5	3.8	-9.5	-8.0	-6.3	16.0	18.6	21.9
Tajikistan	14.2	16.6	20.9	4.5	1.4	4.1	9.2	9.7	9.9	-2.7	-5.7	2.3	18.6	15.9	14.9
Ukraine	25.4	17.9	17.4	21.7	9.6	-1.3	7.9	7.0	8.1	7.1	1.7	–	14.3	21.1	25.3

[139] *The Country of Kazakhstan - Barriers of Entrepreneurship and Support for Entrepreneurship*, European Economic Commission, June 18-19, 2007, Geneva, Switzerland: United Nations Economic Commission for Europe.

[140] Source: National statistics and direct communications from national statistical offices to the UNECE secretariat; IMF, International Financial Statistics (Washington, D.C.), various issues. Note: Definition of interest rates: Credits – Kazakhstan: weighted average interest rates for new credits. Deposits –Kazakhstan: weighted average interest rate (for new deposits.) The real deposit rates are the nominal rates discounted by the average rate of increase in the CPI for the corresponding period.

a Total outstanding claims of commercial banks on the non-government sector. GDP data for 2004 are preliminary estimates.

b January-September; for Georgia, Kyrgyzstan and Tajikistan: January-August.

c January-September; for Armenia, Kazakhstan, Kyrgyzstan and Tajikistan: January-June.

In another benefit to the country's rising business class, Kazakhstan has begun to lower taxes. Currently SMEs pay a value added tax (VAT) assessed at 14 percent of taxable income, a corporate tax of 30 percent of taxable profits and a 20-22 percent salary social tax, with the share of taxes on gross profit amounting to 40 percent. Beginning in 2008 the VAT will be reduced to 13 percent, and in 2009 to 12 percent. Tax reform has also occurred in the personal sphere; while earlier Kazakhstan had a progressive individual income tax scale, a flat 10 percent income tax has been introduced.[141]

While no sector of Kazakhstan's economy is currently off-limits to foreign investment, outside funding in the banking sector is capped.[142] Several Kazakh banks including Kazkommerts, Halyk Bank, and Alliance Bank are listed on the London Stock Exchange, as are KazMunaiGas and KazMyz, the copper company.

In 1998 Citigroup, the world's largest provider of financial services, with assets exceeding $700 billion, and with a presence in 102 countries, decided to enter the Kazakh market, establishing Citibank Kazakhstan, a fully licensed commercial bank in Almaty. Citibank representative Reza Ghaffari stated, "Citibank is proud to play a part in building a stable economy for Kazakhstan." Citibank Kazakhstan is a fully owned subsidiary of Citibank, Citigroup's banking arm.

Foreign investment banks are also eyeing the lucrative Kazakh mortgage market. Kazakh Finance Minister Bolat Zhamishev said on February 1 during a meeting with businessmen from United Arab Emirates, "Our partners - Dubai International Capital - are interested in setting up a mortgage bank. The possibility of setting up (a mortgage bank) on the basis of the Kazakh Mortgage Company was suggested as an alternative." Owned by the Finance Ministry, the Kazakh Mortgage Company was established in December 2000 as part of a government housing program and is acquiring the rights to issue long-term mortgage loans, raise capital for mortgage loans and issue mortgage bonds, which boomed after the introduction of mortgages in the early 2000s.[143]

---

[141] *Ibid.*

[142] *CIC Special Briefing - Kazakhstan's economy: The Transition to the Free Market.*

[143] *Itar-Tass*, 1 February 2008.

As a result of eased and inexpensive credit options the Kazakh real estate industry quickly expanding, especially in the more affluent urban areas of Astana and Almaty. Almaty residents have been particularly active and currently hold almost half of all outstanding mortgages in Kazakhstan. Since 2005 the market began to overheat. As unregulated speculation took hold the unprecedented growth of real estate prices began to marginalize potential middle-class homebuyers.

The Kazakh middle class also now have access to one of the ultimate icons of the middle class lifestyle, as last September American Express partnered with Kazkommertsbank to launch of the American Express Gold and Platinum Cards, available in tenge or dollar denominations. American Express Vice President and General Manager Debra Davies said, "We are extremely proud to partner with Kazkommertsbank to offer these innovative card products in the Kazakhstani (sic) market. The financial and lifestyle needs of consumers in this market have been evolving rapidly in recent years, and these American Express Cards are deigned to meet the needs of Kazakhstani consumers when they are shopping at home or traveling abroad."

The American Express concession is not a first for Kazkommertsbank, which already issue both VISA and Europay/Mastercard credit and debit cards, giving access to the Cirrus/Maestro system, as well as "regular" American Express and Diners Club cards. As at 31 December 2005, Kazkommertsbank had issued 615,000 cards. Other innovative Kazkommertsbank services for its customers include an automatic teller machine ("ATM") network with 381 ATMs and 2664 point-of-sale terminals.[144]

Not all specialists are convinced that current government policies will foster the growth of a Kazakh indigenous middle class. In a July 2006 interview Kanat Berentaev, director of Kazakhstan's Center for the Analysis of Social Problems said, "A middle class cannot be created simply by simplifying (tax) regimes; the middle class is composed of civil servants of average means– teachers, doctors. Up to now they have not had a normal wage level and the issue will not be decided like the problems of small business. Meanwhile, the

---

[144] "American Express and JSC 'Kazkommertsbank' launch the first American Express issued in Kazakhstan," Almaty, September 18, 2007 at http://home3.americanexpress.com/corp/pc/2007/kaz.asp.

wage aspirations of the population remain low. What is necessary is a minimum-wage law whose level would exceed the living level 1.5-2 times, taking into account the familial coefficient. Measures must be taken in the sphere of social policy, particularly in the realm of the salary of hired workers."[145]

Growing Pains for the Economy that Supports the Middle Class

The risks of easy credit and increasing social fiscal obligations were foreseen several years ago. In November 2004 a joint Kazakhstan-World Bank assessment report stated that while "Kazakhstan has made commendable progress in a short period of time in developing its banking sector, securities markets and the related pension system… Today, however, the financial sector stands at a key crossroads: the sector's competitiveness –and to some extent the commendable past accomplishments-- are being threatened by growing financial sector vulnerabilities related to the fast pace of the sector's expansion, borrowings abroad, the concentrated nature of the non-oil economy (including the existence of conglomerates), and bottlenecks and imbalances in the pace of development of the various components of the financial sector architecture (e.g., pension assets.)" The report concluded by recommending the adoption of "a package of measures to slow down the pace of credit growth and banking sector expansion."[146]

Despite the impressive accomplishments of the Kazakh economy, a March 2005 World Bank report further cautioned that while the country had swiftly instituted banking supervision systems and commercial banks strove to improve risks management systems, the rapidly rising availability of credit posed a potential threat to the country's economic well-being, even as credit in private expenditure underlay a significant portion of the expansion of non-oil GDP. In early 2005 World Bank economists estimated bank credits to stand at about 40 percent in real terms. This raised doubts about the country's financial sector as the credit boom stimulated a sharp rise in expenditure, which poses a significant risk to sectors such as real estate.

---

[145] Aigul Kisykbasova, "Nichevo na LICHNOGO," *Liter,* 13 July 2006.

[146] *Quick response note on priorities for financial sector reform – selected issues and options - Preliminary Assessment* - Republic of Kazakhstan and the World Bank Joint Economic Research Program, 12 November 2004.

Furthermore, much of this credit boom was financed by foreign borrowing, increasing the possibility of significant exposure to foreign exchange risk. If the foreign loans were suddenly converted to local transactions in Tenge, banks would face huge potential losses, as the value of their assets would decline relative to that of their liabilities.[147]

In the summer of 2006 overdependence on oil revenue caused Kazakhstan's Deputy Prime Minister Karim Massimov to caution, "With the high price of oil, it's easy to become lazy. We have to manage to survive even we had no oil."[148]

According to the IMF, Kazakhstan initially was largely able to ride out the fiscal turmoil that began to roil the U.S. beginning in August 2006, reporting, "The recent global credit market turmoil has so far left the region's capital markets largely unscathed. Following the sharp equity market correction in 2006, most markets have stabilized or partially recovered their losses. The pace of initial public offerings (IPOs) has eased, but *sukuk* (Islamic bonds) issuance continues to grow. Signs of stress have been evident in a tightening of liquidity and a widening of bond spreads of banks that have borrowed heavily from abroad, notably in Kazakhstan."[149] The financial crisis in the United States sub-prime credit market did impact some banks in Kazakhstan, however, which found it more expensive to raise funds, increasing their rollover risk from external borrowing. The country's rising oil revenues saw Kazakhstan's ratio of private credit to GDP continue to rise, which helped to finance middle class investments in real estate and consumer goods.

Despite such notes of caution, in its July 2007 emerging markets report, PriceWaterhouseCooper was optimistic about Kazakhstan's future, ranking it 9th overall in manufacturing and services out of 20 emerging markets, with a rank of 14 (index – 82) in manufacturing and 9th in services (index rating - 32.) The report advocated that its targeted emerging markets might well provide

---

147 "*Republic of Kazakhstan: Getting Competitive, Staying Competitive: The Challenge of Managing Kazakhstan's Oil Boom,* Joint Economic Research Program of the World Bank and Kazakhstan's Ministry of Economy and Budget Planning, March 20, 2005.

148 "Almaty Journal: Up, Up and Away: New Towers, and Ambitions to Match, *New York Times*, 22 June 2006.

149 *World Economic and Financial Surveys: Regional Economic Outlook - Middle East and Central Asia*, Washington, DC: International Monetary Fund, October 2007.

better returns than other, more 'traditional" investor emerging markets, noting, "When seeking the optimal investment destination, the result of the PwC EM20 Index illustrates the value of locations beyond the traditional BRIC countries (Brazil, Russia, India and China). When risk (which includes a wide range of macroeconomic factors) is taken into account, better potential rewards may well be available elsewhere."

Table 28: PWC EM20 Manufacturing and Services Indices

	Manufacturing		Services	
Rank	**Index**	**Country**	**Index**	**Country**
1	95	Vietnam	95	UAE
2	95	China	70	Saudi Arabia
3	94	Poland	61	South Korea
4	93	Chile	56	Czech Republic
5	93	Malaysia	55	Hungary
6	91	Thailand	54	Poland
7	89	India	39	Russia
8	90	South Africa	36	Chile
9	89	Hungary	32	Kazakhstan
10	88	Audi Arabia	32	Malaysia
11	86	Russia	29	Mexico
12	86	Brazil	22	Brazil
13	85	Indonesia	20	South Africa
14	82	Kazakhstan	17	China
15	80	Mexico	17	Thailand
16	75	Turkey	16	Turkey
17	64	Czech Republic	5	Vitenam
18	62	Argentina	5	India
19	42	South Korea	5	Indonesia
20	26	UAE	5	Argentina

The report noted, "The markets ranked from 6th to 10th (Poland, Russia, Chile, Kazakhstan and Malaysia) are all middle-income countries... The remaining EM20 markets, Kazakhstan (14th) and Hungary (9th), both offer relatively high rewards. As medium risk countries, they rank in the middle of the index."[150]

[150] Emerging markets: Balancing risk & reward, July 2007, The PricewaterhouseCoopers EM20 Index.

The impact from the U.S. sub-prime credit market financial crisis came in August 2007. Between August 31, 2007, and February 8, 2008, the tenge dropped from 126.5 to the dollar to 120.24, losing 5 percent of its value.[151]

On October 8, 2007, Standard and Poor's ratings agency downgraded Kazakhstan's sovereign credit rating to BBB-, citing as the reason for the downgrade an unacceptably high rate of borrowing by Kazakh banks, signs of an economic slowdown and the impact of the U.S. sub-prime mortgage crisis. S&P sovereign-ratings analyst Ben Faulks told RFE/RL, "Kazakhstan's case is arguably more extreme than most. What you have had in Kazakhstan is that the rate of increase of the borrowing of the banks has been really exceptionally fast - much faster than in most countries. We have taken this step of moving Kazakhstan down by one rating but we still keep it within the 'investment' grade. In other words, we still consider it a solid country from the point of view of commercial debt repayment and we have a stable outlook, so we expect the difficulties to be managed."

Even before the sub-prime crisis fully developed, Kazakh authorities showed a surprising speed and flexibility in responding to the challenges by adjusting their policies. Beginning in mid-2006 monetary policy was tightened, with more wide-ranging and higher reserve requirements and increased policy interest rates, while the tenge was allowed to appreciate significantly. In order to mitigate risks to the country's banking sector, new regulations were introduced, including rules on loan-loss provisioning, asset classification, bank liquidity, and capital-related limits on banks' external borrowing, as in Since mid-2007, the sharp decrease in capital inflows to Kazakhstan because of the financial turmoil in global markets saw Kazakh fiscal authorities introduce tighter liquidity conditions.

Given the government's strong measures, reaction to the S&P downgrade was swift; Kazakhstan's central bank issued a statement noting, "The National Bank of the Republic of Kazakhstan has...the necessary means and resources at its disposal and is also ready to undertake all necessary measures to maintain financial stability," while on October 12 President Nazarbayev

[151] "Historical exchange rates between the Kazakhstan Tenge (KZT) and the US Dollar (USD) between 12 August 2007 and 9 February 2008" at http://www.exchange-rates.org/history/KZT/USD/G.

stated that he had ordered the government to investigate buying back shares of the publicly traded Kazakh Kazkommertsbannk, Alliance and Halyk Savings Bank and crticized the S&P action as "unfounded," commenting that the agency had acted "without taking into consideration at all the level of Kazakhstan's economic development." The government had earlier taken action to assist Kazakh banks, having since July making more than $10 billion available in emergency finance for financial institutions.[152] Prime Minister Karim Masimov said, "Kazakhstan is under attack from hedge funds and we will fight back," as the government announced that it would buy stock of banks until prices reach "pre-August levels" and will do the same for non-banking stocks "if warranted," while preparing to lend $4 billion to the beleaguered banks to ensure liquidity.[153] Masimov's concerns were well founded, as two months previously the banks had suffered "massive withdrawals."

The downturn and a lack of global liquidity forced Kazakh banks to tighten credit standards and raise interest rate, which abruptly ended the speculative demand-driven real estate market; since June 2007, the price of one square meter on Almaty's real estate market fell nearly 25 percent from a price of nearly $4,000. The credit squeeze isolated Kazakh middle class homebuyers and amateur speculators playing the market from funding as mortgage rates quickly doubled and even tripled. The situation was aggravated by the construction sector's ongoing dependence on easy bank credit to continue operations; the vanishing of easy credit stranded construction companies without the resources to finish projects in early stages of construction or start new ones. The silver lining for Kazakhstan in the global credit crisis is that it ended the giddy exuberance of the Kazakh property market before it caused more damage on Kazakhstan's developing financial system, as the Kazakh government quickly stepped in to allocate funds to the largest builders and banks affected by the crisis, stabilizing the market and calming investors.[154] In the end, the interests of Kazakhstan's emerging middle class appear secure.

---

[152] *The Financial Times*, 13 October 2007.

[153] David Litterick, "Angry Kazakhstan props up bank shares, *The Daily Telegraph*, 13 October 2007.

[154] "Lessons from Kazakhstan's real estate crisis," *Silk Road Intelligencer*, 1 February 2008.

Western fiscal analysts have belatedly acknowledged that Astana's cautious fiscal policies have been a stabilizing force. On February 6 Western analytical firm Fitch Ratings commented in a special report that the institutional structure of Kazakhstan sub-nationals have in fact proven their viability since they were amended in 2005, demonstrating gradual decentralization and shielding the economy against risk. Fitch's International Public Finance Associate Director Vladimir Redkin observed, "A centralized system of control and limited borrowing possibilities have increased the budget sustainability of Kazakhstan sub-nationals during periods of vulnerability." While acknowledging that Kazakh governmental caution had in fact shielded the economy, Redkin still advocated further reform, saying, "Greater decentralization is needed to achieve stable long-term economic development, and recent legislation changes in regional borrowing procedures could be viewed as the first step in that direction."[155]

The fiscal turmoil roiling the global markets on February 6 led President Nazarbayev in his annual state of the nation address to the Majlis to direct government officials to curb all but social expenditures, saying, "The government should temporarily, until problems in the financial sector are settled, reduce expenditures in all spheres and programs, except social ones. Everything that can wait, without which we can live one-two years, should be suspended - maybe roads, construction and something else," as such actions "will facilitate the lowering of the inflation and will further increase the country's reserves in case of a fall in prices for energy and raw material resources, which also may take place."[156]

Seeking to ally the fears of the country's pensioners living on fixed incomes President Nazarbayev went on to say that "The new three-year budget should by 2012 ensure the increase of the average retirement pensions 2.5 times, compared with 2007, including in 2009 and 2010 - by 25 percent and in 2011 - by 30 percent... by 2011 the size of the basic pension payments should increase to 50 percent of the minimum subsistence level," adding that beginning in 2009 state social and special allowances will increase annually by nine percent, while in 2010-2011 child care allowances for children under one year old will increase 250 percent over their 2007 level. President Nazarbayev concluded by

[155] *Interfax*, 6 February 2008.
[156] *Itar-Tass*, *Almaty LITER*, 6 February 2008.

telling his listeners that in 2009 the wages of employees of state-financed organizations will increase 25 percent, in 2010 - by 25 percent and in 2011 - by 30 percent.[157]

The speech also contained clear indications that President Nazarbayev seeks to involve the middle class in the country's political development: “Political parties, NGOs and other civil society institutions” should play a more prominent role “in developing an up-to-date political system in Kazakhstan,” which would integrate “universally recognized principles of democratic development and the values of our society.”[158]

Foreign investors focused on President Nazarbayev’s comments about the country’s energy resources: "The main direction in the oil and gas sector is to strengthen the positions of the state as an influential and responsible participant in international oil energy markets. For that we are consistently strengthening state influence in the strategically important energy areas... state stakes in existing mining and metals companies must be sorted out and the actual management of them must begin; we must take up the rights of license holders to explored deposits of ferrous and non-ferrous metals, including rare-earth metals, which we have stopped doing in recent times." In an unsubtle allusion to earlier contracts he said, “some owners of the resources are sitting there and doing nothing, simply awaiting the time when they will get paid 10 times more. I have ordered the government to check whether the responsibilities (for development of the fields) are being violated and, if so, to take them and return them to the state."[159]

President Nazarbayev also laid out a multi-tiered foreign policy agenda which, while underlining the need further to strengthen cooperation with Russia, China, and the states of Central Asia, stating that Kazakhstan would expand its cooperation with the U.S., the EU, and NATO. Indeed, Kazakhstan had already drawn up a "Path to Europe" program, which the World Bank immediately endorsed.[160]

---

[157] *Itar-Tass*, 6 February 2008.
[158] “President Nazarbayev delivers annual State of the nation address, announces Kazakhstan's ‘Road to Europe,’” *Kazakhstan News Bulletin* Special Issue No 3, 8 February 2008.
[159] *Interfax*, 7 February 2008.
[160] *Nezavisimaia Gazeta*, 8 February 2008.

Underlining Kazakhstan's relative fiscal stability, the Kazakh banking sector is now seeking an international role beyond the country's borders. On February 5, Halyk Bank's managing board chairman Grigorii Marchenko said at a press conference in Almaty that his institution is investigating the possibility later this year of raising Islamic financing and placing bonds on Asian markets. Marchenko told reporters, "We are looking at one option, entering the Islamic bond market, the so-called *sukuk* market, and a second variant, entering the Asian bond market with so-called samurai-bonds, which are issued in Japan in yen and kimchi bonds, issued in South Korea in won. Money is now available, primarily in East Asia and the Persian Gulf states, therefore, major Western banks with great pleasure are selling their share stakes to investors based in these regions. If it becomes too expensive to borrow money in London and New York, then it could be found in Hong Kong, Singapore, Dubai or Bahrain." The net inflow of foreign banking capital continues apace, with the European Bank for Reconstruction and Development in 2007 total business volume in Kazakhstan reaching $4.7 billion, with 73 percent being invested in the private sector.

Marchenko did not say how much would be raised, saying only that plans are "still preliminary." In June 2007, according to the *Interfax-1000: CIS Banks* ranking prepared by the Interfax's Center for Economic Analysis Halyk Bank was rated 13th by assets among the CIS banks and 4th among the Kazakh commercial banks.[161] The same report ranked Kazkommertsbank as the fourth largest in the CIS and the biggest bank in Kazakhstan.[162] More recently, in a *Euromoney* corporate governance survey of 146 companies Halyk Bank was deemed "A Leading Bank in Corporate Governance in Emerging Europe." *Euromoney* Director for CEE, Russia and CIS Martin Born said, "The banks that received Euromoney's Corporate Governance Awards were rewarded for their stable market positions, high yield level, growth potential and efficient management."[163]

Kazakhstan's BTA is among the largest banks in the CIS, with 22 banks in Kazakhstan. According to BTA's unaudited consolidated statement, its assets jumped by 50.91 percent over the first nine months of 2007, clearing $373

---

[161] *Interfax*, 5 February 2008.
[162] "Interfax Financial and Business Report," 7 February 2008.
[163] *Kazakhstan News Bulletin*, No. 3, 7 February 2008.

million in net income. As of the end of the third quarter of 2007, Slavinvestbank ranked as the 69th largest bank in Russia by assets, according to the *Interfax-100*, compiled by the Interfax Center for Economic Analysis.[164]

The recent economic unrest in Kazakhstan has not dissuaded international financial organizations from expanding their operations there. The Asian Development Bank recently announced that it will enlarge its office in Almaty in order to boost its private sector operations and promote regional cooperation activities.[165]

While the hydrocarbon sector remains the most visible of Kazakhstan's investment arenas, Western venture capitalists are now looking further afield at investing in Kazakh small and medium-sized businesses. In November 2007 Aureos Capital held a $50 million first closing for its Aureos Central Asia Fund (ACAsF), with a $100 million final close expected by June 2008. Aureos Capital is a private equity fund management company specializing in investing $2-10 million in small to mid-cap businesses through regional funds across Asia, Africa and Latin America. The new fund will focus on Kazakhstan and other Central Asian countries, but sees the investment climate in Astana as particularly positive. UK-based Aureos Advisers CEO Sev Vettivetpillai, whose organization provides funds advisory services to Aureos Capital, said, "Central Asia's economy is growing rapidly and medium-sized businesses are seeing more opportunities for regional expansion, so we believe that it is the right time for Aureos to enter the market," while Aureos Central Asia Fund Partner Tamerlan Hamidzada noted, "Significant economic growth in many of the region's economies has led to an expansion of a middle class which boosts consumer demand and creates new opportunities in domestic markets."[166]

Further dismantling the remaining vestiges of the country's Soviet legacy, on February 7 Kazakh Prime Minister Karim Masimov announced that he is not ruling out the possibility of abolishing the moratorium on the sale of state property introduced in connection with the creation of social business corporations, echoing the comments of Finance Minister Bolat Zhamishev

---

[164] *Interfax*, 5 February 2008.
[165] *The Post*, 8 February 2008.
[166] "Aureos Raising Central Asia Fund," 28 November 2007 at http://www.pehub.com/article/articledetail.php?articlepostid=9063.

who said, at a staff ministry meeting, "It is time that the moratorium on the sale of state property be abolished." State property and privatization committee chairman Eduard Utepov supported Zhamishev and Masimov himself added, "As for my position on this issue, I think I will sign and lift it (the moratorium.)"[167]

The Future

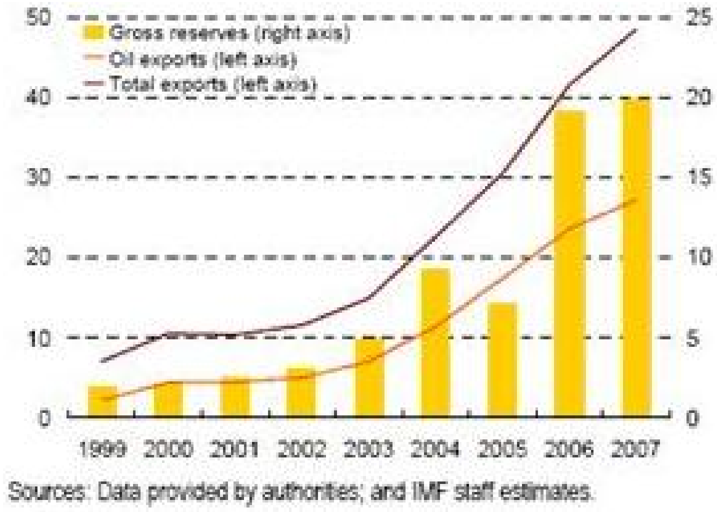
Kazakhstan's economy is now larger than those of all the other Central Asian states combined (Turkmenistan, Uzbekistan, Kyrgyzstan, Tajikistan and Afghanistan), largely due to the country's vast natural resources and relative political stability. According to Kazakhstan Government forecasts, the economy is expected to expand at an average annual rate of 9.5 percent in real terms from 2007 to 2011 because of both foreign investments and increasing oil exports. At a time of record-high energy prices, rising oil exports are expected to increase private consumption, boost retail sales and construction. This trend will only intensify when the Kashagan offshore Caspian oil field and other large-scale oil sector investment projects come on line.

In the first quarter of 2007 Kazakhstan's GDP increased more than 10 percent while output grew 11 percent in the manufacturing industry and 19 percent in machinery and equipment production. The nominal wages of Kazakh citizens increased 26 percent in the first quarter of 2007 alone. Kazakhstan's state statistics agency reported that in 2007 the country's GDP reached $104.5 billion, noting, "The GDP volume index for January-December 2007 compared to the same period in the previous year reached 108.5 percent." According to the agency commodity production, primarily oil, accounted for 43.9 percent, (with industrial production accounting to 28.7 percent of the percentage), and the services sector 49.4 percent. The 8.5 percent growth figure was only slightly below the government's 2007 projected growth figure of 8.7 percent.[168]

---

[167] *Almaty Interfax-Kazakhstan* 7 February 2008.
[168] "Agenstsvo RK po statistike," *Interfax*, 7 February 2008.

Figure 29: International Reserves (Bln USD)[169]



The economy that supports Kazakhstan's emerging middle class continues to go from strength to strength. In February the National Bank of Kazakhstan reported that the country's gold and foreign exchange reserves increased by 5.9 percent to $40.7 billion, including $21.55 billion from the country's National Fund, with the National Bank's own international reserves increasing by 10.2 percent to $1.76 billion. Kazakhstan's gold reserves also rose by $158 million, as international gold prices rose by 11.5 percent.[170] Kairat Kelimbetov, former Minister of the Economy and director of the state sustainable development fund "Kazyna" and now head of the presidential administration, said that the economy is expected to triple by 2015 from its 2004 level as a result of increased oil production.[171] The increased production is also projected to have a dramatic impact on the country's foreign reserves, which during the period 1999-2007 increased by nearly 250 percent.

Business associations represent an institutional link between the new national wealth and the middle class: Kazakhstan now has a thriving community of dozens of business associations. Rising tycoons can join the Forum of

---

[169] *World Economic and Financial Surveys: Regional Economic Outlook – Middle East and Central Asia*, Washington, DC: International Monetary Fund, October 2007, p. 33.

[170] *Itar-Tass*, 4 February 2008.

[171] Arkady Ostrovsky, "Economy: Oil rich and having a ball," *Financial Times*, December 15 2004.

Entrepreneurs, the Financial Association, the Association of Best Business Enterprises, the Confederation of the Employers of Kazakhstan, or the Kazakhstan Businesswoman Association. The Pharmaceutical Products Importers Association of Kazakhstan, the Almaty Association of Dentists, the Association of Medical Doctors and Pharmacists of Kazakhstan and the Association of Medical Businessman ("Otandastar Farmatsiya" LLP) represent the medical profession. Journalists, radio and television broadcasters can join the Association of Independent Electronic Mass Media or the Association of TV and Radio Broadcasters. Those involved in developing the country's rich natural resources have the Oil Union of Kazakhstan and the Mining Association of Kazakhstan, while the Association of Milk and Milk Products of Kazakhstan and the Union of Food Producers represent agriculture. Kazakhstan even has an Association of Polygraphists. [172]

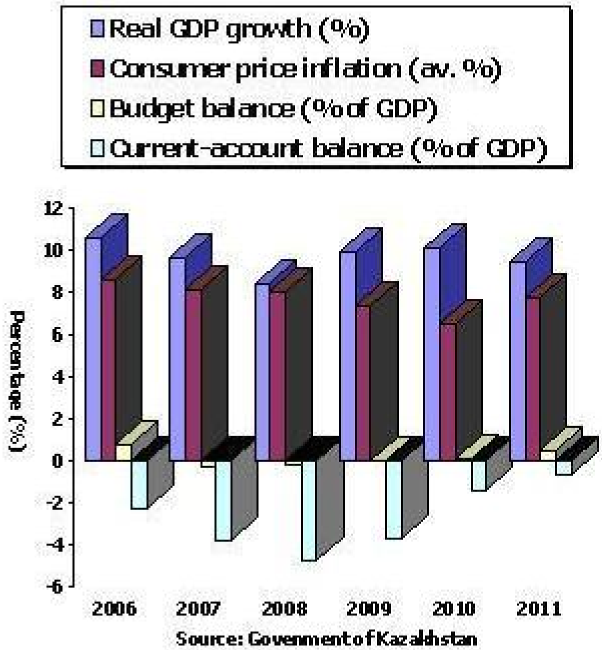
The associations will be busy, as in 2008 the Kazakh economy is predicted only to rise a modest 8-9 percent before rising above 10 percent in the period 2009-2011, as indicated in the table below. In contrast, according to Congressional Budget office projections, the U.S. "GDP will grow by 1.7 percent in real terms for 2008 as a whole, about half a percentage point less than the growth recorded last year."[173]

Figure 30: Kazakhstan Economic Forecast

---

[172] "Associations and Unions in Kazakhstan," Economic Section, the Embassy of the Republic of Kazakhstan in the United Kingdom of Great Britain and Northern Ireland at http://www.kazakhstanembassy.org.uk/cgi-bin/index/211.

[173] CBO Testimony - Statement of Peter R. Orszag Director, "The Budget and Economic Outlook: Fiscal Years 2008 to 2018 before the Committee on the Budget United States Senate January 24, 2008" at http://www.cbo.gov/ftpdocs/89xx/doc8935/01-24-Senate_Testimony.shtml.



In a measure that will undoubtedly engender massive political support, the government also plans to cut payroll taxes by up to 30 percent in 2008.

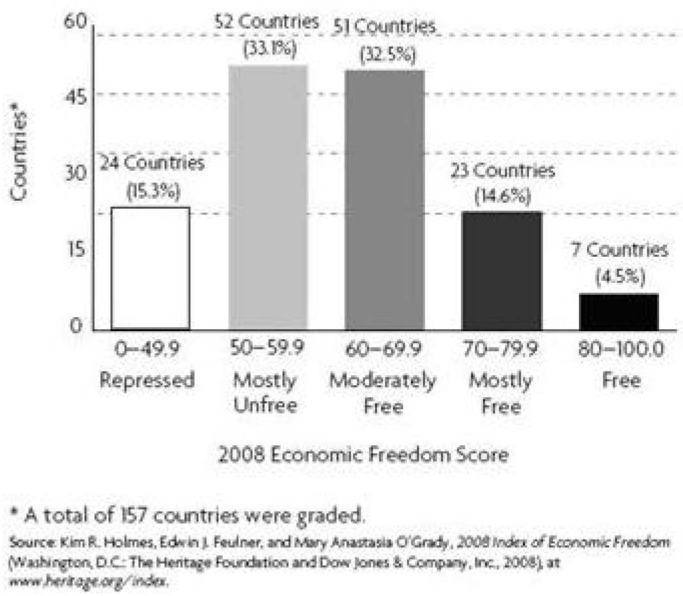
A notable Western criticism of Kazakh economic reforms is the Heritage Foundation/*Wall Street Journal 2008 Index of Economic Freedom*. In its Index of Economic Freedom World Rankings" Kazakhstan placed only 76th of 162 nations, even though ahead of Caspian neighbors Azerbaijan (107), Russia (134), Iran (151) and Turkmenistan (152.) This ranking can only be disappointing, even though Kazakhstan's ranking earned it a place in the "mostly free" category of the "Global Distribution of Economic Freedom" survey of 157 nations. As we have seen, the new wealth has under-girded the emergence of a new middle class that is moderate, pro-democratic and pro-western in outlook and committed to educate their children in these values. Nonetheless, there remains a steady if muted level of foreign criticism directed against official economic policies that sustain the middle class.

Table 31: Index of Economic Freedoms World Rankings[174]

[174] 2008 Index of Economic Freedom, 14th edition, Heritage Foundation/Wall Street Journal.

World Rank	Country	Overall Score	Change from 2007	Business Freedom	Trade Freedom	Fiscal Freedom	Government Size	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
67	Colombia	61.9	2.3	72.5	70.8	72.8	71.2	71.4	60	60	40.0	39.0	61.4
68	Romania	61.5	0.3	74.1	86.0	85.6	70.8	72.5	60	50	30.0	31.0	55.3
69	Fiji	61.5	0.9	697	74.2	74.5	75.3	78.9	30	60	30.0	40.0	82.7
70	Kyrgyz Republic	61.1	0.8	60.4	81.4	93.9	76.1	75.6	50	50	30.0	22.0	72.0
71	Macedonia	61.1	0.5	65.1	83.4	88.1	61.6	85.5	50	60	30.0	27.0	60.7
72	Namibia	61.0	-2.1	73.8	87.4	67.9	71.0	76.8	30	50	30.0	41.0	82.4
73	Lebanon	60.9	-0.5	55.4	77.4	91.4	69.5	77.8	30	70	30.0	36.0	71.2
74	Turkey	60.8	2.5	67.9	86.8	77.7	68.3	70.8	50	50	50.0	38.0	48.0
75	Slovenia	60.6	0.4	73.0	86.0	62.4	33.2	79.5	60	50	50.0	64.0	47.7
76	Kazakhstan	60.5	1.4	56.5	86.2	80.1	84.7	71.9	30	60	30.0	26.0	80.0
77	Paraguay	60.5	1.6	57.6	78.4	96.6	90.8	76.6	50	60	35.0	26.0	34.2

Figure 32: Global Distribution of Economic Freedom[175]



The criteria used to determine "Economic Freedom" are: "Business Freedom," "Trade Freedom," "Fiscal Freedom," "Government Size," "Monetary Freedom," "Investment Freedom," "Financial Freedom," "Property Rights," "Freedom from Corruption" and "Labor Freedom." Overall, Kazakhstan fares higher than the report's median average, as the

---

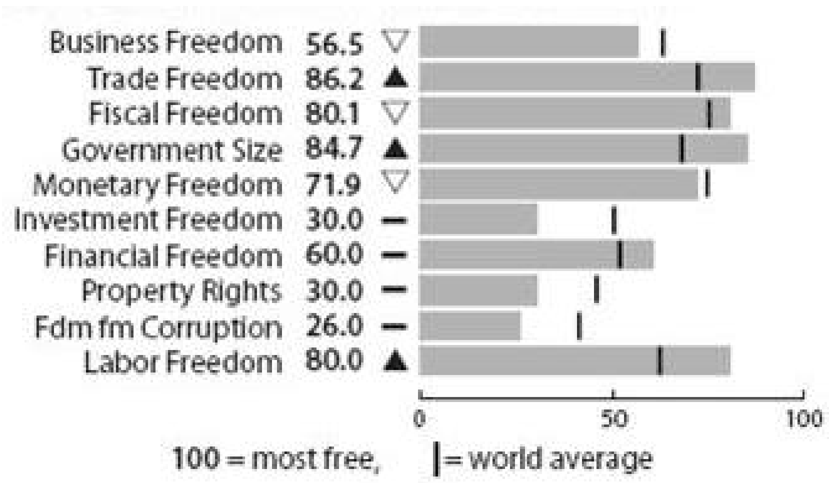
175 2008 Index of Economic Freedom, 14th edition, Heritage Foundation/Wall Street Journal.

Index states, "The global economic freedom score is 60.3 percent, essentially the same as last year. In the years since the Index began in 1995, world economic freedom has improved by 2.6 percentage points."

According to the Index criteria, Kazakhstan rates as "moderately free." The rankings of all other former Soviet republics are Estonia (12), Lithuania (26), Armenia (28), Georgia (32), Latvia (38), Kyrgyzstan (70), Kazakhstan (78), Moldova (89), Azerbaijan (107), Tajikistan (114), Uzbekistan (130), Ukraine (133) Russia (134), Belarus (150) and Turkmenistan (152.) The report gave Kazakhstan 56.5 for "Business Freedom," 86.2 for "Trade Freedom," 80.1 for "Fiscal Freedom," 84.7 for "Government Size," 71.9 for " Monetary Freedom," 30 for "Investment Freedom," 60 for "Financial Freedom," 30 for "Property Rights, 26 for "Freedom from Corruption" and 80.0 "Labor Freedom."

Kazakhstan's overall rankings in ten categories are given in the graph below:

Table 33: Kazakhstan's Ten Economic Freedoms[176]



Even as these data may raise concern, or at least eyebrows, in some quarters, more immediate concerns will affect the future of Kazakhstan's emerging middle class.

[176] 2008 Index of Economic Freedom, 14th edition, Heritage Foundation/Wall Street Journal.

While government intervention has managed to minimize the potential impact of the U.S. sub-prime financial imbroglio, Kazakh economists remain concerned about the rising rate of inflation. During a recent interview Evgenii Porokhov, director of the Kazakhstan Scientific Research Financial and Tax Law Scientific Research Institute, noted that while the government in 2007 projected an 8 percent inflation rate, it actually soared to more than 18-20 percent, with food costs rising 200-300 percent. Porokhov stated that, "According to the personal calculations of Prime Minister Karim Masimov, the inflation rate in the period January-November 2007 reached more than 25percent. The basic... external and internal factors were the mortgage crisis in the USA...the financial crisis in Europe and the consequent credit price rises on the world markets for Kazakh banks and the world food crisis, which involved an increase in the prices of foodstuffs on the world markets. Internally, rising inflation and increased wages exceeded labor output in all branches of Kazakhstan economy, as inflation and rising salaries combined with an increase in taxes on the monopoly services (electric power, gas supply, transport services etc.) and state expenditures on social programs."
When queried about governmental solutions to the problem, Porokhov gave a stirring response, linking social, economic, legal and ethical development in a manner that fits squarely with the history of emerging middle classes in the West:

> "The sole prescription (for our problems) is a transparent economy, healthy competition, developed small and mid-sized business contributing 70 percent of volume production, a solvent and prosperous middle class, and the state enforcing the rule of law to guard the interests of society and of citizens. Obviously, the solution cannot be accomplished in a single day or even a year.[177]

Conclusions

The government remains well aware that it has much still to do in nurturing a middle class. When asked about what was needed to ensure the growth of Kazakhstan's middle class and the policies that the government should pursue

---

[177] "Est' opaseniia, shto v 2008 g. inflatsiia v Kazakhstane prevysit 25 percent; interv'iu direktora NII financovogo i nalogovogo prava," *Regnum informatsionoe agentstvo,* 21 January 2008.

to foster its emergence, the head of the presidential administration's division for social and economic analysis, Edilom Mamytbekov replied,

> "The experience of the developed peaceful countries clearly shows that the middle class forms the most numerous and stable part of the society, which has a direct effect on the economic growth, permitting the implementation of long-term social changes. The presence of a middle class is a guarantee of the stability of the modernization of the economy, being itself the social motive power of modernization. Therefore, state support of small and mid-sized businesses guarantee an increase in the effective demand of the population relating to the key tasks of the system's transformation. The opinion of our experts is that people currently involved in small and mid-sized businesses are still largely marginalized and do not have sufficient freedom to develop large businesses... In this connection it is necessary to continue the state policy of the support of enterprise."[178]

Significant challenges remain if the position of Kazakhstan's middle class is to be consolidated. The disparity between rural and urban incomes, the equitable and orderly distribution of housing, the battle against corruption, the need to shield the national economy from global turmoil even as it further integrates into it, the improvement and tightening of academic standards and containing inflation - these are but a few of the problems that face Kazakh officialdom in the years ahead.

As for the future of the emerging Kazakh middle class, it remains to be seen to what extent Kazakhstan's changing social profile will eventually resemble Western norms. Indigenous factors that are difficult to gauge include the future role of Kazakhstan's clan system, which survived three generations under Soviet power despite numerous attempts to destroy it. This can take purely benign forces or can distort the middle class economy through patronage and influence having little or nothing to do with performance. Other indigenous factors that could impede the development of a middle class have been noted earlier in this report.

---

[178] "Sistemnost' upravleniia v strategii ustoichivogo rosta," *Kazakhstanskaia Pravda*, 22 January 2008.

What is clear at this point is that a decade of economic and educational reforms have produced a young, highly professional and motivated class of Kazakh administrators and businessmen who would definitely not benefit by turning back the clock and who are increasingly moving into positions of power as the remnants of the Soviet-era apparatchiki retire or die off.

For the present, Kazakhstan's middle class, which has emerged over the last decade and a half, appears broadly supportive of President's Nazarbayev's goals, and he in turn has lost no opportunity to advance their interests, frequently stating that he sees the class as a prime guarantor of national stability.

Despite economic disparities, there is increasingly little to differentiate a young Kazakh businessman from his counterpart in New York, Hamburg,Tokyo, or Shanghai. While none may be a millionaire, all are sufficiently wealthy to own their own apartment, car, computer and cell phone. They can surf the Internet, wear Versace, take their girlfriend or wife out for dinner and pay with a credit card, vacation abroad, dabble in the stock market and dream of sending their children to the U.S. or Europe for college. While the young Kazakh professional will have attained his middle class lifestyle largely through his own efforts he is equally aware that his style of life is undergirded by his country's oil wealth, by national policies that have supported the middle class, by international investors who have placed their confidence in Kazakhstan, and the larger system of free markets and the political institutions that protect it everywhere. Furthermore, as there are now more than 8,500 foreign companies in Kazakhstan employing more than 410,000 Kazakhs, their exposure to foreign ideas and concepts is developing at a level undreamed of by their parents a mere decade and a half ago.

The implicit social contract seems to be that the middle class is currently unwilling to jeopardize Kazakhstan's present stability and prosperity by supporting radical political alternatives, but the larger question remains of whether President Nazarbayev will continue to be able to deliver consistently and sufficiently on the middle class's inevitably growing expectations. While little is certain, in a world of rising energy demand outstripping more slowly rising global production, Kazakhstan for the foreseeable future will have sufficient cash reserves with which to address its problems.