

# **Evolving Centre-Periphery Relations in FSU Transition Countries: The Case of Kazakhstan**

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## Introduction

Between 1991 and 1999, Kazakhstan's post-Soviet economic meltdown promoted a certain degree of largely unmanaged decentralisation in the relations between the centre and the periphery. However, the subsequent economic boom that started to unfold in 2000 has changed the dynamics of the power relations between the national and the regional administrations and the Kazakhstani state has *de facto* become more centralised.

The concept of decentralisation as employed by large parts of the academic literature is not applicable to explaining the events in post-independence Kazakhstan. The majority of academic analysis in the post-Soviet context takes onboard the logics of rational choice informed shock therapy models, and thereby omits historical and political factors. This paper will argue that decentralisation as it occurred in 1990s Kazakhstan was not the deliberate policy choice of the centre. The regions tacitly appropriated authority to cope with the universal economic decline. In addition, Kazakhstan's large oil and gas deposits, concentrated in the country's western parts, strengthened regional leaders who received tax (and other) payments of Western oil corporations.

Benefiting from favourable fiscal conditions following the onset of the economic boom in 2000, the Kazakhstani government started to reassert authority over its territory by employing several strategies, including fiscal reform, restatification and cadre politics. As the central government now stands unchallenged by subnational politics and has launched ambitious development programs, it is interesting to see whether Kazakhstan's recentralisation can be beneficial for the country's long term transformation. While certain indicators do indeed point at several positive trends in poverty alleviation and narrowing inter-regional growth disparities, several institutional constraints cast doubt over the centre's capacity to effect long-term development that can benefit all citizens of Kazakhstan, regardless of which administrative entity they live in.

This paper is laid out as follows: Chapter one illuminates the theoretical underpinnings of the analysis put forward. Chapter two establishes the importance of the Soviet heritage for Kazakhstan's post-independence centre-periphery relations. In turn, chapter three links the perestroika period to the independence period and finds that one could witness widespread decentralisation between 1985 and 1999. Chapter four elaborates the strategies by which the centre reasserted its dominance over the periphery, whereas the institutional implications of recentralisation will be discussed in chapter five.

# 1. Centre-Periphery Relations in FSU Transition Countries

## Is there a standard concept of decentralisation?

In today's development discourse, centre-periphery relations are mostly conceived within the context of decentralisation in developing countries. Decentralisation can occur in a variety of spheres and usually involves the dispersion of decision-making closer to the point of service or action. A wave of economic and political decentralisation started in the 1980s and seems unabated until this day. Several reasons for the growing prominence of decentralisation as a reform program and category of analysis can be identified (Fritzen and Lim 2006).

The ideological shift towards market-based development approaches in the 1980s emphasised efficiency and improved service delivery as well as reducing state intervention in the economy. Furthermore, political economy arguments stress that in a large number of countries the by and large disappointing growth rates of the 1980s made decentralisation an appealing instrument of pushing responsibility from higher to lower echelons of public administration (Manor 1999).

In the recent past, the assessment of decentralisation has shifted from general optimism to more cautionary tones. The question whether decentralisation improves service delivery at the local level has not been fully answered, and causalities at play are understood partially at best. Prud'homme describes decentralisation as a "potent drug" that is better not applied when the symptoms of the disease are misinterpreted (1995: 201). What is by no means a coherent term in academic discourse, decentralisation can be associated with growing inter-regional disparities (Rodríguez-Pose and Gill 2003), can jeopardise macroeconomic (de Mello 2000) and political stability (Siegle and Mahony 2006) and can undermine efficiency through decreasing economies of scope and increasing corruption (Prud'homme 1995).

Despite the inconclusive evidence and the lack of an academic consensus on the determinants of successful decentralisation, "[s]ome 95 percent of democracies now have elected subnational governments, and countries everywhere—large and small, rich and poor—are devolving political, fiscal, and administrative powers to subnational tiers of government" (World Bank 1999: 107). Therefore, there does not seem to be a considerable discussion about "whether to", but "how best to" decentralise (Taillant 1994).

The World Bank supports the devolution of decision making powers to subnational governments through a variety of lending programs and has mainstreamed the concept into its

flagship publications.<sup>1</sup> It acknowledges that decentralisation is by no means a panacea for all development problems and that by implementing the “wrong” policies, decentralisation can also be harmful to long-term development. However, decentralisation is portrayed as a demarcated set of policies that can be actively employed by a given government; and, given careful design, devolving decision-making to subnational governments enhances efficiency in several domains (World Bank 1999: 124).

The possibility that the degree to which decentralisation takes place in a certain country could be caused by other factors, be they political, historical or sociological is, while not explicitly ruled out, silently omitted. This rather simplistic view on developmental dynamics becomes especially evident in FSU transition countries. As they are, per definition, thought to be in a process of transition, it is worthwhile spending some time on the underlying academic debate that has accompanied these formerly communist countries on their way from command to market economy.

### **The theory of transition**

The former countries of the Soviet Union and the Eastern European satellite states confronted an unprecedented challenge when their socialist regimes collapsed in a string of events set off by the fall of the Berlin Wall in 1989. As early as 1990, Western economists began thinking about the necessary reforms which would transform the Eastern bloc and introduce its citizens to both market forces and values of representative democracy. For David Lipton, one of the co-architects of the academic treatise advocating swift “shock therapy”, the basic principles of what was to follow several decades of socialist command economy and repressive politics were very clear:

This great transformation is founded on the idea that freedom and prosperity can best be advanced by adopting the institutions and practices that have proven successful in Western Europe since World War II (Lipton 2002).

Most seminal papers setting forth the merits of a sudden and radical change neither examined the existing institutional structure in the communist world nor suggested changes to its architecture (see for e.g. Lipton and Sachs 1990, 1992). The analysis of the economic “inheritances” of the Soviet Union was largely limited to pointing out two truisms: the huge size of the military-industrial complex and the overwhelming extent of state ownership (1992: 216).

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<sup>1</sup> See e.g. World Development Report (WDR) 2005 for decentralisation and investment climate and WDR 2004 for decentralisation and public service provision.

The focus of those proposing shock therapy exclusively revolved around ways and strategies to reach a complete and irreversible recreation of economic and political institutions. Therefore, “history, society, and the economics of present institutions [were] all minor issues in choosing a reform program” (Murrell 1993).

The vision of the shock therapists was informed by rational choice models, claiming that the behaviour of political and economic actors in a given society is a function of the present incentives rather than of the history of economic agents and their institutions (ibid: 10). While most analyses of post-socialist economic and political reform excluded Kazakhstan and focused instead on Russia and Eastern European EU-accession countries, the debate about the merits of “shock therapy” is central to the analysis put forward in this paper for two main reasons.

First, by recreating most economic and political institutions almost from scratch immediately after independence in 1991, Kazakhstan largely followed Russia’s example and was thus subject to the same dynamics afflicting most shock-therapy patients (Pomfret 2005). The resulting economic downturn can be identified as one of the main drivers of Kazakhstan’s centre-periphery relations in the post-independence period. Second, by manifesting itself as a pathway without real alternatives, many concepts underlying shock-therapy are still prevalent in a large proportion of today’s analysis of the region.<sup>2</sup> Most notably, the disdain for all previous institutional settings and the inclination to ignore history have led to a one-sided reading of FSU transition countries and their current political and economic realities.

If *transition* unanimously takes onboard destatification and democratisation as its central tenets, trends in today’s Russia and Kazakhstan would symbolise the reversal of this rather simplistically linear transition trajectory: Restatification and recentralisation as witnessed in both countries are judged negatively since they are perceived as a return to allocative inefficiencies and authoritarian rule. In this reading, current events symbolise the undermining of the gains so painfully made in the 1990s.

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<sup>2</sup> Cf. Alam and Banerji 2000, who analyse the transition paths of Uzbekistan and Kazakhstan. The authors are puzzled as to why, in 2000, stubborn reformer Uzbekistan was economically better off than Kazakhstan. While political science publications have stressed historical factors and the role the elites played in economic transition and reform design (Olcott 2002, Cummings 2005), there is no mentioning of these processes in the World Bank funded study.

## **The links between the transition and decentralisation debates in FSU countries**

Both academic concepts of transition and decentralisation as employed by the mainstream academic literature often ignore a given country's historical and political conditions. Especially in the FSU transition countries, however, the Soviet heritage is pivotal in explaining the relationship between the centre and the periphery, as shall be demonstrated by using the case of Kazakhstan.

Furthermore, in countries where economic shock reform measures were applied in the aftermath of the collapse of the Communist system, decentralisation occurred largely as a result of ill-conceived economic policies rather than by institutional design. The economic decline that paralleled the transition to market economy produced a number of unintended outcomes, including the strengthening of regional players and the weakening of central control. The first decade of independence for many Soviet states was thus a period of weakening state capacity and saw the empowerment of parallel political and economic power structures.

Similarly, this paper argues that recentralisation as it has occurred in Kazakhstan between 1999 and today should not be interpreted as a deviation from the linear transition trajectory mapped out by rational choice shock therapy models that still constitute much of the underlying logic of the IFI publications. By placing centre-periphery relations in a wider analytical context encompassing history, politics and sociology, the reasserted dominance of Kazakhstan's political centre can be understood outside this narrow policy framework.

Against this theoretical backdrop, the recentralisation that is taking place in Kazakhstan has several institutional implications (chapter five). Endowed with substantial hydrocarbon resources and already enjoying sizeable cash windfalls, the Kazakh government has embarked on an ambitious development program that is to transfer the country into the economic powerhouse of the region and one of "the 50 most competitive nations in the world" (Nazarbayev 2006).

Will the reinvigorated centre be in the position to achieve these targets? Will it also be able to alleviate staggering regional disparities that have exacerbated alongside the country's recent boom? Although the standard transition and decentralisation debates would disagree or tend to omit this question, it is one that will in fact be crucial for the future of the Central Asian country.

## 2. The Soviet Factor: The Present as a Function of the Past

In discussing the relations between centre and periphery in Kazakhstan's post-independence context, a close examination of the political system the newly-independent country had been part of for the largest part of its history existence is vital. The administrative divisions established during the Soviet Union shape Kazakhstan's political geography to this day. This chapter sets out to establish two key "heritages" Kazakhstan took over from the Soviet period. First, communist ideology guided the way in the creation of new regional territorial-administrative entities. There were no entrenched regional identities that stood in conflict with these new divisions. Second, centre-periphery relations, both between the Soviet republics and Moscow as well as the Kazakh SSR and its regional subunits, were changing over time.

### Mapping the unmapped: the creation of new administrative entities

With the aim to abolish the inherited Tsarist system that was perceived to be inefficient and arbitrary, the Soviet leadership pushed for a reorganisation of Central Asia and the Caucasus during the so-called national delimitation phase between 1924 and 1936. The delimitation of national entities proved to be difficult, as these regions had historically not been delineated according to ethnicity and had none to relatively little experience with nationhood. The Kazakh SSR, at first somewhat confusingly incepted as the Kyrgyz ASSR in 1924, gained full constituent status in 1936, making it one of the fifteen Soviet Socialist Republics (Vaidyanath 1967).

Subdivisions created below republican level were those of *oblast* and *raion*. They replaced the arbitrary tsarist territorial divisions with "units closely integrated according to natural, cultural, and, above all, economic criteria" (Shabad 1946: 304). Up until 1930, there were relatively few, but large *oblasts*. With proceeding mechanisation and collectivisation, however, administration became increasingly difficult at the more local *raion* level. Consequently, more *raions* were carved out of existing ones, and the superordinated *oblasts* were divided. In the Kazakh SSR, "one of the most rapidly developing republics of the USSR", the number of *oblasts* rose from 11 in 1938 to 16 in 1945 (ibid: 311).

The methodology behind devising an *oblast* was straightforward: As economic units, *oblasts* had to have an industrial focal point with a sizeable proletarian population and an agricultural hinterland. The motivations for the creation of these regional divisions were political and

economic: Politically, regions were expected to maintain and consolidate power through proletarian centres of industrial workers. Economically, the overriding aim was that of industrialisation of underdeveloped parts of the country and ultimately, that of self-sufficiency. Administratively, *oblasts* were the local, quasi-autonomous units planning economic activities.

In devising new administrative units, the Soviet leadership employed the concept of nodality (Isard 1952) – whose application gave birth to the ubiquitous Soviet-type regional capital. This capital served as the economic hub for the *oblast*, usually lay at the junction of major transport lines and had a stable proletarian population. By associating remote and underdeveloped areas with economically more developed ones, it was hoped that development could be achieved in a more even and rapid manner, preventing the emergence of backward and sparsely-inhabited areas (Shabad 1953).

Unsurprisingly, therefore, these new institutional arrangements did not build on existing historical fault lines, as the criteria for designing the new political entities were elevating economic, political and ideological factors above historical trajectories. As for each of the Central Asian states, the capitals were relatively new centres for political power with “little history of controlling and administering the territories that were now subordinated to them” (Melvin 2001: 169). During Kazakhstan's pre-Soviet history, central power in traditional Kazakh society was weak and fragmented; *khans* were usually deemed inefficient rulers (Cummings 2000). The Kazakh steppe did not have a centre. Neither, however, did regional identities exist that were readily available when the new republics were created (ibid). Most of the territorial power relations, therefore, developed throughout the Soviet period.

### **Dynamics in centre-periphery relations during the Soviet period: 1945-1985**

With the new Soviet territorial-political settings in place largely after the end of the Second World War, it is interesting to see which dynamics developed in the relationship between the now clearly demarcated periphery (i.e. the *oblasts* and economic regions) and the centre (both republican capitals and Moscow as the capital of the Soviet Union).

Most notably, the relationship changed after the demise of Stalin and with the more reformist approach Khrushchev took in the following years. One obvious reform was the establishment of *Sovnarkhoz*<sup>3</sup>, an organisation used to administer economic subunits on a more regional level. Khrushchev introduced these new vehicles for economic planning in an attempt to combat the

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<sup>3</sup> *Sovet Narodnogo Khozyaistva* – ‘Council of National Economy’

centralisation of ministries (Cattell 1964). Whereas the success of this early decentralisation was at best questionable<sup>4</sup>, the *Sovnarkhoz* established an alternative to the sectoral and vertical economic planning process prevalent before (Bone 1967). The *Sovnarkhoz* experiment was abandoned in 1965 and economic planning powers were largely re-transferred to Moscow. In fact, Ozornoy (1991) has argued that the short period from 1957-1965 stood out as the only meaningful episode of regional self-administration during the Soviet period.

Nonetheless, other factors taking shape after Stalin's death were to strengthen the periphery within central decision-making. The absence of large-scale political purges and terror ensured more stability in local and regional cadres, promoting leadership networks and buttressing rent-seeking, the latter especially during the Brezhnev period (Slocum 1995). Moreover, despite the rather revisionist and anti-reform character of Brezhnev's rule from 1964-1982, the deteriorating economic situation further triggered a *de facto* more decentralised system of public administration.

According to Moses, *oblasts* and economic regions gained "increased political authority to assert their particular interests in central policy-making" (1985: 184) and were also increasingly able to formulate policy within their territories more autonomously from the standardised dictates set by Moscow (*ibid*) or the republican capitals. In Central Asia, the fostering of patronage networks under Brezhnev also entrenched regions as political mechanisms for resource distribution (Gleason 1991).

Furthermore, the CPSU also had an active interest in strengthening certain favoured regions in the republics. In manipulating regional relations within the Central Asian states, Moscow sought to keep a check on the advance of "unified national elites" (Melvin 2001: 170) and often knit close ties with regions beyond the republican capitals. In Kazakhstan, these were the Russian-dominated northern *oblasts* bordering Russia.

Moreover, political actors often preferred to pursue their political careers in the regional power structures to avoid the close supervision by ethnic Russians and "loyalist" personnel prevalent in the republics' capitals. This seems especially valid for the more Kazakh-dominated western and southern parts of the country (*ibid*).

One has to be careful not to overstate the degree of decentralisation outlined above. While the Soviet Union post-Stalin has often been falsely portrayed as a statist and monolithic structure, decentralisation and devolution between 1953 and 1985 did not reach levels comparable to

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<sup>4</sup> Among the frequently cited drawbacks of the reform was the loss of administrative powers of local administrations.

federal systems of the West. The Soviet system involved the regions in decision-making processes through cadre politics (e.g. along ethnic lines<sup>5</sup>) and lobbying through the channels of the Communist Party. The factors shaping the comparative influence of a Soviet region were, according to Moses, the region's contribution to the overall economy, its widely acknowledged political status and, closely related, institutionalised biases and bureaucratic routines favouring certain regions over others (1985: 191).

Several derivations from the above will aid the analysis of Kazakhstan's transitory centre-periphery relations: Firstly, the Kazakh leadership arose from the Soviet Union, a system which was neither monolithic nor decentralised. The independent Kazakhstan inherited a Soviet system of territorial-administrative division. In giving voice and influence to regional interests, it relied on channels of complex lobbying and cadre politics, something that defines Kazakhstan's political landscape to date. Furthermore, the amount of the regions' influence can be seen as a function of the overall economic situation: During times of economic stagnation and distress, the regions either tend to articulate their demands more forcefully or tacitly appropriate authority from the centre.

### **3. De-Facto Decentralisation 1985-1999**

#### **Kazakhstan during perestroika: fearing for territorial integrity**

Kazakhstan's initial transition period from 1985 until 1991 is inextricably linked to events in Moscow. Mikhail Gorbachev, who served as the General Secretary of the CPSU from 1985 until 1991, had embarked on an ambitious reform project of the Soviet Union which became known as *perestroika* (economic reform) and *glasnost* (political opening). The effects of this "new thinking" were to be felt in Kazakhstan early on. In 1986, Gorbachev dismissed the long-standing First Secretary of the Communist Party Kazakhstan (CPK) Dinmukhamed Kunayev under accusations of corruption and tribalism. As a replacement, the CPSU 'parachuted' an ethnic Russian (Gennady Kolbin) into the position, a move which was widely regarded as the cause for violent riots in the capital Almaty (Olcott 1990). The sacking was seen to destroy a fine balance of authority that had been in place in the Kazakh SSR since Brezhnev's days.

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<sup>5</sup> As argued by e.g. Roeder (1991)

Within the Communist Party, Central Asians were initially disconnected and underrepresented. As a largely agricultural area, concepts such as class war and proletarian dictatorship were perceived as incompatible with Central Asian lifestyle by the elites in Moscow. Therefore, the local communist parties such as the CPK were to a large degree made up by outsiders, usually Russians and other Slavs.

During Brezhnev's reign, however, Central Asian leaders learned how to domesticate their branches of the CP. Between 1965 and 1983, an unofficial, second-level autonomy developed that allowed strong and extensive political machines to develop "sub rosa" (Allworth 1994: 557). This uniquely Central Asian style of leadership was impersonated in Kunayev, Kazakhstan's foremost indigenous politician for decades, who was also the first Central Asian to gain full membership in the Politbureau by 1971. Allworth concludes that

[t]he adaptation of the CP structures to create these shadowy indigenous combines for years gave insiders unusual latitude in some unofficial economic, political and social actions throughout the region (1994: 557).

The new political climate of political dissent and criticism under *perestroika* also led to the development of certain regional frictions within Kazakhstan. Living standards in the extremely depressed Western part of the republic, especially around the Aral Sea, were far worse than in the relatively prosperous northern regions and in Almaty.<sup>6</sup> Riots in Novvy Uzen in 1989 demonstrated the potential for regional discontent over what was perceived as an unjust distribution of consumer goods (Olcott 1990). The rioting and growing inter-ethnic frictions led to Kolbin's early return to Moscow and brought into the scene the man that would become Kazakhstan's first post-independence president, Nursultan Nazarbayev. He decorates this position to this day.

As a result of a growing confidence of the ethnic Kazakh population and a weaker Moscow, several nationalist policies were enacted during Nazarbayev's reign as the First Secretary of the CPK. A reinterpretation of Kazakh history, evident from changing school and university curricula, as well as the growing prominence of the Kazakh language and culture triggered secessionist tendencies in the Russian-dominated *oblasts* of the country. The "Organization for the Autonomy of Eastern Kazakhstan" wanted to attain special legal status within the SSR in order to be exempt from the increasingly pro-Kazakh language policies that were paradoxically

<sup>6</sup> Even today, infrastructural data highlights this developmental divergence between northern and western regions. While comparable in size and population, the Atyrau and North Kazakhstan oblasts have 990 and 7,020 kilometres of paved roads, respectively (Renaissance Capital Research 2007).

first enacted under Kolbin (Olcott 1990). Likewise, several *raions* in the north of the country aspired to be adjoined with the Omsk *oblast* of the Russian SFSR (ibid). In addition, a “rediscovery” of Islam, most pronounced in the Southern regions bordering Uzbekistan, also led some organisations to call for pan-Islamism among the Turkic states of Central Asia (ibid), raising the spectre of secessionism even higher in the eyes of the wary political elite in Almaty.

One has to understand the first years of Kazakhstan’s independence against this backdrop of the *perestroika* period. Growing economic distress and perceived trends of secessionism were thought to be destabilising forces in a country without any real ethnic and regional homogeneity. By the time when Kazakhstan’s independence was formally achieved, on 16 December 1991, the titular Kazakhs were the nominal minority in a country with a total of more than 100 ethnic groups (Akiner 1995). Several factors prevented this potential instability from tearing the country apart, as shall be demonstrated in the next section.

#### **The first years of independence: averting secessionism**

According to Melvin (2001), the position of the ruling elites at the start of independence was tenuous in all Central Asian states. The immediate legacy of the Soviet period was “weak states, poorly developed national identities, and entrenched sub-national political networks that had become increasingly animated as a result of the developments of the perestroika period” (ibid: 172). Kazakhstan faced the most serious challenge to territorial integrity, as the largely Russian-inhabited northern parts of the country had already shown their inclination towards secessionism during the late Soviet period. Although power was *de jure* concentrated in the hands of the president and within the institutions of the then-capital Almaty, the reach of the central authorities was limited.

The immediate strategy to maintain control over the regions consisted of cooption of the former regional *nomenklatura*. An active Kazakhisation of the local administrations and the appointment of Kazakh law and order personnel was a direct response to the imminent threat of the northern and eastern regions' secession. Aware of the potential backlash of these policies, the Kazakh government also promoted a new civic identity that stressed affiliation with the state rather than the nation (Cummings 2000: 4).<sup>7</sup>

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<sup>7</sup> Facing similar problems, Askar Akaev, ex-President of neighbouring Kyrgyzstan, did often refer to his country as “Kyrgyzstan – our common home”.

The feared cleavage of Kazakhstan also never materialised due to the Russian political movements' lack of success (Melvin 2001) and the illegal or semi-legal harassment of regional political movements by the local and central administrations (Bremmer and Welt 1995). Furthermore, the demographics of Kazakhstan's northern regions underwent dramatic changes during the first years of independence. Large numbers of ethnic Russians, Germans<sup>8</sup> and Ukrainians emigrated to their respective homelands. Sinnott argues that the net outflow of 1.8 million people between 1991 and 1999 was not the result of "Nazarbayev's attempts to create a Kazakh homeland, but because of Kazakhstan's desperate economic conditions" (2003: 103).

Hence, the most important effect the dissolution of the Soviet Union had on centre-periphery relations in Kazakhstan, and by extension on the preservation of the country's territorial integrity, lay in the economic sphere. The first years of independence were characterised by a disastrous economic crisis (Tasmagambetov 2005). Due to the reluctance of the Kazakh government to leave the Russian rouble zone, inflation rates skyrocketed (Olcott 2002), leading to huge arrears in wage and pension payments (UNESCAP 2002).

Economic policy in the first years of independence was mostly aimed at maintaining close ties with Russia. This also explains why Kazakhstan enacted the same shock reforms than its northern neighbour (Pomfret 2005). Because of the virtual breakdown of economic activity in both countries, old Soviet industrial complexes in north Kazakhstan that were symbiotically connected to a production chain with industries in southern Siberia were either shut down completely or drastically cut their workforce<sup>9</sup>; unemployment grew to unparalleled levels (Kalyuzhnova 1998). The economic decline, therefore, affected the northern regions much more forcefully than the rest of Kazakhstan.

### **Political decentralisation**

In trying to cope with the economic downturn, the *akims* (governors) of several *oblasts* pursued economic and social policies deviating from national policy. At the height of the economic crisis in 1994, a young businessman named Galymzhan Zhakiyanov became the *akim* of the Semei *oblast*. Being just 31 years at the time, he set out with a broad array of reform measures to

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<sup>8</sup> Ethnic Germans were forcibly relocated to Kazakhstan during the Second World War, when Stalin feared that the inhabitants of the Volga Republic could conspire with the advancing *Wehrmacht*. Germans had live in the Volga region since a decree of Catherine the Great in the 18<sup>th</sup> century (Klüter 1993).

<sup>9</sup> When some of the industrial facilities were still operating in the early independence period, the "bankruptcy" of the centre made the northern and eastern regions try to retain cross-border links with Russia even more overtly (Cummings 2000: 26).

prevent the *oblast's* economic and social structures from further deteriorating. In doing so, Zhakiyanov benefited from the relative autonomy the *akims* enjoyed at that time. One of the innovative measures in Semei was the introduction of money-substitute coupons in an attempt to deal with the region's currency deficit. Kazakhstan's president Nazarbayev honoured Zhakiyanov's achievements by saying that “during these years [1994-1997], reforms in the Semipalatinsk [Semei] region were one step ahead of the rest of the country”. Several of the successful policies tested in a regional context were then implemented on a national scale.<sup>10</sup>

At the same time, foreign investors' interest in Kazakhstan's largely untapped oil and gas deposits located in the country's west was growing. In terms of oil and gas production, Kazakhstan only played a minor role during the Soviet Union and lagged behind more developed regions such as Azerbaijan and Western Siberia. It is estimated that by 1991, Kazakhstan produced 6 percent and 1 percent of the FSU's total oil and gas production, respectively (Jones Loung and Weinthal 2001: 15). Despite the relative unimportance of Kazakhstan's hydrocarbon sector during Soviet times, exploration in the North Caspian Basin continued. In 1979, Soviet engineers discovered the oil field Tengiz. Before independence, Chevron acquired what was the first-ever drilling concession given to a Western oil company.

Until today, the majority of Kazakhstan's foreign direct investment flows goes towards oil exploration and production projects chiefly situated in the western *oblasts* of Atyrau, Mangystau and West Kazakhstan.<sup>11</sup> In the beginning of the 1990s, the western regions that had traditionally been the economically depressed parts of the country found themselves at the recipient end of large and growing tax payments by Western oil consortia. The growing importance of the Western regions led to the rise of several provincial strongmen who also developed close ties with foreign businesses. While nominally being in charge of the appointment of *oblast akims*, President Nazarbayev had to take into account which provincial leaders already exerted a certain degree of influence (Cummings 2000). It proved difficult for the central administration to appoint “loyal” protégés – as popular provincial leaders such as Levitin in Mangystau and Cherdabaev in Atyrau were much liked by foreign investors (ibid: 27).

Kazakhstan's fiscal system, which aims for redistribution of resources from net donor to recipient *oblasts*, came under increasing criticism from the western *akims*, who considered the large balance payments they were obliged to make as unfair. The *oblasts akims* repeatedly and

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<sup>10</sup> The author is indebted to Dr. Adil Nurmakov, who provided the information on ex-akim Zhakiyanov during an interview.

<sup>11</sup> For details on FDI flows into Kazakhstan, consult table 2 in the appendix.

publicly branded this redistribution as a “punishment of their success” (ibid: 22). Jones Luong (2004) shows, however, that those economically successful *oblasts* retained, on average, larger tax shares than agreed with the centre. Hence, the amount of political decentralisation, i.e. the leeway regional politicians enjoyed, was matched by the effective economic decentralisation.

### **Economic decentralisation**

For getting an impression of the degree of economic decentralisation during the late 1990s, it is worth looking at the quantitative and qualitative examples Jones Luong refers to<sup>12</sup> and in which she identifies fiscal, administrative and regulatory decentralisation (ibid: 8ff).

The key indicator for fiscal decentralisation is, according to Jones Luong, the degree of local discretion over revenue generation and collection. She finds evidence that the central tax agencies operating at the local level are not only controlled by the central government and that tax rates are not uniform (ibid: 9). The tax inspectors, dually subordinated to both central and regional tax authorities, tend to rather obey the latter, also due to political machinations and regional loyalties. Foreign investors have also repeatedly reported that national tax laws and regulations were not followed by the regional authorities and that the process of tax collection was “completely arbitrary” (ibid: 11). This arbitrariness becomes even more obvious when regional leaders offered tax exemptions for “donations” to their discretionary funds. Furthermore, tax collection efforts between the regions seemed to vary significantly. The five donor regions were among those *oblasts* not transferring the targeted proportions to the central government in 1998 (ibid: 13).

Administrative decentralisation, Jones Luong contends, exists when the “main locus of state expenditure is at the subnational rather than the national or central level, or when they have comparable levels of expenditure” (ibid: 16). Kazakhstan’s expenditure distribution between the central and the subnational level is strikingly similar to that of Russia. Unlike Russia, however, Kazakhstan is not a federation, and should have more expenditure originating from the centre. Throughout the 1990s, there have not been formal expenditure responsibilities, and changes occurred almost every budgetary year.

With each passing year, the centre “dumped” a growing remainder of responsibilities onto subnational budgets without providing the financial resources to carry them out. Thereby,

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<sup>12</sup> Jones Luong’s data is mostly from 1998 and 1999.

regional governments have found themselves assuming more responsibility without having the financial means to provide social services. It becomes obvious that the centre had de-facto been absolved of the responsibility of welfare provision. This de-facto decentralisation was converted into official legislation in the wake of the 1998 constitutional amendments (Cummings 2000: 15).

The third realm in which decentralisation occurred in the 1990s pertained to regulatory enforcement and the authority of regional officials to re-interpret national legislation or to simply ignore it. Jones Luong finds evidence that national regulations and standards were inconsistently enforced at the subnational level, licenses and permits were often issued to foreign investors at the discretion of subnational leadership and the local staff of regulatory authorities proved to be more obedient to subnational authorities (2004: 9ff).

From the above, one can extrapolate the following trends in centre-periphery relations in Kazakhstan between 1985 and 1999. The *de facto* decentralisation of the Kazakhstani state can chiefly be associated with the economic decline. While the feared secessionism of northern provinces did not materialise due to a mix of factors (large-scale emigration of ethnic Russians caused by economic decline, the disunity of ethnic Russian political movements and their intimidation by the authorities), the economic conditions gave way to alternative policies being tested in the provinces. At the same time, the onset of the oil boom started to give more clout to western regions. Financially successful provinces were keen to retain their income and at the same time blamed the centre for inefficient economic policies. Many provinces expressed their desire to pursue different development paths or at least gain more autonomy to contemplate such policies (Cummings 2000: 5).

### **Setting the stage for recentralisation**

Several developments of the 1990s were to counter the growing influence of the regions. At first, this did not overly seem to leave the legislative sphere. Once economic conditions ameliorated, however – as we shall see in the next chapter – it became the centre's basis from which to recapture some of the lost influence. Several landmark events need to be mentioned in this respect: With the ethno-regional challenge largely contained, the 1995 constitution codified a new, more authoritarian executive rule that transcended all layers of government from the national to the local level (Melvin 2001). The ability of the president to appoint and

dismiss akims at his discretion was being replicated at the regional level, i.e. oblast akims have free hand in appointing and dismissing local *raion* leaders.

Although some provisions for local self-administration were also included in the constitution<sup>13</sup>, there are no bodies charged with local decision-making and no financial basis as in Uzbekistan's *mahalla* system exists. In contrast, the predominance of executive power is also firmly established at the very local level so that "all budgetary questions are subject to agreement of the akim" (Cummings 2000: 13)

Moreover, the new constitution helped to enshrine a "post-Soviet executive vertical". Unlike in neighbouring Kyrgyzstan, all bodies of the Kazakhstani executive (presidential administration, the ministries, akims) operate relatively well-insulated from societal and legislative pressures and are organised along a stiff hierarchy from the centre down to the very local domain (Cummings and Norgaard, 2004). This "executive vertical" entrenches an uncompetitive and often incompetent bureaucracy prone to corruption.<sup>14</sup> Furthermore, it elevates personal relationships above formal institutions (Ufer and Troschke 2006: 1).

The 1997 regional optimisation reorganised the political-territorial administration in Kazakhstan. By abolishing five oblasts (Torgai, Taldykorgan, Semipalatinsk, Zhezkazgan and Kokshetau), the average size of each oblast increased, in particular for the northern provinces (Cummings, 2005). Furthermore, by moving the capital from Almaty in the south to the more central Astana (formerly Akmola), the centre partly tried to gain more control over the northern border regions.<sup>15</sup>

Lastly, the large-scale investments in the country's oil industry and the subsequent oil export growth started to generate substantial windfalls by the late 1990s and helped revive the Kazakhstani economy not least by generating spill-over effects to other industries. The economic boom, as will be argued in the next chapter, was the main driving force of centralisation. It equipped the centre with a strong fiscal basis to push through reforms but also to buy the consent of regional leaders. It also led to a renegotiation of numerous privatisation deals that in effect weakened strong regional businessmen and brought along the development of the Kazakh national oil company Kazmunaigaz.

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<sup>13</sup> Article 89. Paragraph 1 of the 1995 constitution enshrines that "[i]n the Republic of Kazakhstan, local self-administration which ensures that the issues of local significance shall be resolved independently by the population, shall be recognized".

<sup>14</sup> Information obtained from an interview with Dr. Nurmakov, op. cit.

<sup>15</sup> See the appendix for a political map of Kazakhstan and Wolfel (2002) for more details on the process of moving the capital from Almaty to Astana.

## 4. Economic Boom and Recentralisation 1999-2007

Kazakhstan's political elite proved capable of designing and implementing far-reaching structural reforms mostly during the mid-1990s thanks to a new "breed" of young technocrats who helped to legitimise the entrenched Soviet *nomenklatura* (Schmitz 2003).

The main pinnacles of structural shock reform were a swift privatisation campaign, the revision of the basic regulatory and legal framework, a new investment code and the liberalisation of the financial system (Tasmagambetov 2005). The *prima facie* success of these reforms is indisputable only when one looks at today's data and takes into account that Kazakhstan's economy contracted over most parts of the 1990s. As of 2006, around 80% of Kazakhstan's total assets are in private hands, Kazakhstan has been able to attract the highest level of inward per capita foreign direct investment of all former Soviet republics and its banking sector is thought to be the most developed in the Commonwealth of Independent States.

The relatively sophisticated character of economic and legal reform in Kazakhstan also owed a lot to substantial assistance from international financial institutions during the 1990s. Notable in this respect are the World Bank assisted pension reform and the treasury reform under IMF supervision. The economic boom, however, kicked off mainly due to growing oil exports in the late 1990s and Kazakhstan has enjoyed positive and almost consistent double-digit growth from 1999 until this day (see Figure 1, appendix). In per capita terms, GDP tripled between 2000 and 2006, in many ways reverting the negative results of the nineties: Poverty rates declined, the unemployment rate halved, and a basic social safety net got reinstalled.

As discussed in the last chapter, decentralisation as it occurred in the 1990s largely happened by default and without intentional design of the political administration. The economic pressures and the political vacuum of the early 1990s provided regional stakeholders with the justification to deviate from central policymaking. Economic shock therapy coupled with the slow adaptation of new and the incapacitation of existing institutions led to a weakening of the state similar to what could have been witnessed in Russia. With the economic order restoring, however, the centre regained both its political and economic legitimacy and actively sought to re-establish its power throughout the country. It began to counteract those that had amassed – as it was perceived in the centre – illegitimate levels of discretion over regional and local decision making.

## Kazmunaigaz

Kazmunaigaz (KMG) is Kazakhstan's national oil and gas company (NOC). KMG is the third-largest oil producer in Kazakhstan and has a minority stake in virtually all major oil and gas projects in the country. For projects initiated since 2000, KMG mostly owns controlling stakes (Olcott 2007). A complicated web of subsidiaries and daughter firms makes KMG the formal owner of around 25 companies (KMG website).

While regional administrations proved able to negotiate Production Sharing Agreements with the individual oil companies before the investors sought the national government's agreement in the 1990s (Jones Luong 2004), the now quasi-monopolistic market position of KMG provides the centre with a tool to keep such regional deviations and related rent seeking in check.<sup>16</sup> KMG's inclusion in the national asset management and development holding company Samruk is further proof of this point. Both KMG's and Samruk's headquarters are located in Astana and their executive boards are staffed with people close to the presidential administration (Olcott 2007). The fact that all new oil and gas projects have to include KMG with a 50% stake ensures that in their dealings with foreign oil and gas companies, regional leaders will not regain the same amount of discretion and such ample opportunity for rent-seeking as in the 1990s.

Despite tacit government support evident in national legislation, KMG is not exempt from tax payments and is subject to the same set of regulations as any other oil company operating on Kazakhstani soil. In a sample of court cases brought against KMG, it becomes evident that there is no preferential treatment for KMG in front of national and regional courts (Olcott 2007: 40). Thus, it is unlikely that KMG resorts to bribing local officials or judges. The management of the company is also concerned about the ambiguities in national tax legislation and actively lobbies for more business-friendly regulations. KMG has also been fined for violations of environmental laws, which is an interesting point to support that centralisation has been propelled by the means of a national oil company.

Tengiz, until the discovery of the offshore field Kashagan the largest oil deposit in Kazakhstan, has since the beginning of the 1990s been developed and exploited by the consortium TCO (Tengizchevroil). Up until 2002, many taxes were payable to the regional administration, i.e. the *Atyrau oblast*. Upon realising that it faced a financial shortfall when the central administration changed the tax sharing codes in 2002/2003, environmental fines became a popular tool to

<sup>16</sup> Olcott (2007) sees an uneven playing field in the Kazakhstani government's management of the oil and gas sector which tilts the market conditions in KMG's favour. These changes to the hydrocarbon regime became especially evident with the Government of Kazakhstan's Plan for its Sector of the Caspian Sea (May 2003) and the Government of Kazakhstan's Development Plan for the Petrochemical Complex (January 2004).

compensate for the shortfall in tax payments from blue chip oil consortia. Recently, however, subnational governments have to compete with the national government in enforcing these environmental fines, especially with the Ministries for the Environment and Energy (*neweurasia* 23/02/2007).<sup>17</sup>

These environmental fines are also brought forward against KMG – but when subnational governments fine the state-owned oil company, they might “force Astana to pay more attention to their concerns” (Olcott 2007: 46). In contrast to Western oil corporations, KMG has also not been threatened by the loss of their exploitation licenses. The reshuffled relationship between subnational government and the oil company operating on its soil clearly deprives regional strongmen of a sizeable revenue source. That new ambivalence becomes especially evident during regional court cases and makes Olcott conclude that:

[T]he regional courts [...] which are still highly susceptible to “influence” but not in a fully predictable fashion, may be favourably disposed to KMG [...], because it is a government firm, but also, for much the same reason may be angry with them (2007: 47).

All this makes KMG an important factor of centralisation in post-2000 Kazakhstan. By legally providing the NOC a minimum 50% stake in all new oil and gas projects in the country, the government makes sure that the “strategic” and highly-profitable hydrocarbon industry remains under tight state control. It thereby also puts a stop to the bargaining that took place between the periphery and foreign investors in the 1990s. Details of these PSAs were often opaque and sometimes even evaded central control in such cases like Cherdabaev, the former akim of the Atyrau oblast. Many of these deals with Western oil companies led to a strengthening of regional power structures and weakened central control in the oil-rich regions in Kazakhstan's west.

Through KMG's centralised management structures and its inclusion into the national holding company Samruk, it becomes evident that KMG is part of a national strategy. The result of this economic centralisation is a smaller financial base for strongman *akims* in the West and less bargaining power with the centre. As has become clear with environmental fines, KMG is also a “normal” company inasmuch as it is not exempt from regulations. However, in contrast to western oil companies, local politicians can hardly trade “concessions” with KMG. The resulting

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<sup>17</sup> Observers have questioned whether the Kazakh government is pursuing a similar strategy to that of Russia, where the “environmental card” is being played to acquire assets formerly held by Western oil companies (*neweurasia* 23/02/2007). This strategy would, however, be formulated in the centre and would ultimately aim to renationalise formerly privatised assets.

decreased financial leeway of the *oblasts* finds expression in Kazakhstan's treasury reformed system as well.

### **Treasury and fiscal reform**

The treasury system inherited from the Soviet Union provided ample opportunity for graft, especially in the early 1990s since a large share of government resources were channelled through extrabudgetary funds. More than 10,000 spending units, both at national and local level, were allowed to generate their own revenues to supplement their budgets and operate their own bank accounts for foreign currency earnings.

All these activities remained beyond the scope of Central Bank and Ministry of Finance control (Ramamurthy and Tandberg 2002). The need for treasury reform became apparent at the height of the economic meltdown in 1994, when several shortcomings of the status quo became apparent. The government established a central treasury department within the Ministry of Finance. Revised budget classifications became mandatory for local governments in 1997 and in 1999, local governments were required to follow the same procedures for budget allocation release as the central government (ibid: 10).

While the treasury reform in its initial layout did not necessarily intend more centralisation, the amendment of the system's functional requirements in the beginning of 2000 lend support to the view that the treasury reform had become an active tool with which the regions were brought back in line and under closer central budgetary scrutiny. The following changes are especially noteworthy: The new databases were extended to carry considerable detail on each SU's external borrowing, the right of which the regions had used considerably before. Moreover, there would be no separate accounts for local governments at the Central Bank, but the balances of each government administration were to be controlled centrally through the new IT system. Most importantly, all payment processes were decided to be centralised in the treasury in Astana – whereas in the original plan, all regional treasury offices were to keep their own databases. The changes which, after a period of more than eight years, were fully implemented in 2002, provide the basis for a strongly centralised treasury system (ibid: 19), a system whose “degree of centralisation is higher than in most countries, even other transition economies and developing countries” (ibid: 26).

Initial reforms in the fiscal system<sup>18</sup> were inhibited by the adverse economic conditions in the early 1990s. The Soviet-inherited central bureaucracy apparatus was one reason for the growing currency deficits and skyrocketing inflation rates (Ufer and Troschke 2006). Fiscal reforms in the first years of independence were hampered by chaos and infighting on most administrative levels. In 1998, the new budget law assigned specific spending areas for each administrative layer – assigning new sets of fiscal responsibilities such as education and social support to the *oblasts*. Cummings stated that by 2000, “the centre [was] legally absolved of the responsibility of welfare provision” (2000:16). Recession and decreasing tax income meant, however, that the *oblasts* were not able to meet their new requirements and had to cut back on social spending. As a result, the quality of public service provision was starkly deteriorating. Moreover, the regions became ever more dependent on transfer payments from the centre.

The aim to provide an equal level of service provision to all citizens of the country put regional disparities at the forefront of all fiscal reform measures. *Oblasts* achieving a budget surplus are legally bound to transfer resources to the capital from where they get reallocated to those *oblasts* operating at a loss. These transfer payments vary from year to year due to a lack of formal tax sharing criteria, effectively shortening the planning horizon of regional and local administrations (Ufer and Troschke 2006: 9).

The oil boom aggravated these regional disparities (chapter five) and despite all lip service paid to decentralisation of the fiscal relations between centre and periphery<sup>19</sup>, the centre now stood in a more comfortable position to use the transfer payments as a political means to force compliance with its policies from the subnational governments. Ufer and Troschke conclude that

[t]he half-hearted reforms in fiscal decentralisation until 2001 and growing oil earnings from 2001 onwards resulted in a de facto centralisation of Kazakhstan's fiscal system (2006: 25).<sup>20</sup>

In contrast to the de facto decentralised tax sharing system prevalent in the 1990s (chapter three), the *oblasts* became increasingly unable to withhold the same levels of taxes. While in 1999, regional and local administration raised on average 11% more taxes than the central government, the numbers had more than reversed in 2004: As a proportion of republican tax proceeds, subnational governments only raised 43.5%, i.e. less than half (ibid: 27).

<sup>18</sup> I deliberately differentiate between fiscal from treasury reform for matters of clarity. Of course, fiscal and treasury reform are intricately linked.

<sup>19</sup> Among the proposed but abandoned reform programs were competitive elections for regional executive offices (Ufer and Troschke 2006).

<sup>20</sup> Author's translation from German

## Political centralisation

One of the most important means by which centralisation has been propelled since the onset of the oil boom has its roots immediately after independence, but arguably accelerated after 2000. “National-regional crossovers in elite recruitment” (Cummings 2000) has become an important instrument in preventing strong politicians from establishing themselves at a subnational level. Through the direct appointment of national elites as *akims* of the *oblasts*, the centre has increasingly “extended itself into the periphery” (ibid: 43). This trend evolved gradually and in three different phases: At first, between 1991 and 1994, there was continuity vis-à-vis the Soviet days, i.e. the regional executive consisted of “home-grown” elites that had previously served in the same administrative subdivisions (ibid.).

In the second phase, under Prime Minister Kazhegeldin, the preference shifted towards performance-related criteria in selecting regional governors. At times, this meant that regional businessmen and technocrats became *akims* (e.g. the former *akim* of Semei Zhakiyanov cited in chapter three). As in the case of Zhakiyanov, however, these new faces had often begun their political careers in the *oblasts* which they then governed or originated from there. The third phase started after 1997, when President Nazarbayev began to appoint more members of the national elite as governors of some provinces (ibid.). This trend, one can argue, has intensified ever since.

**Table 1: *Akims* and their careers**

Oblast	Current Akim (April 2007)	Previous Role of Akim (if more than most prominent)
West Kazakhstan	Nurgali Ashimov	First Deputy Minister of Energy (2003)
Atyrau	Bergey Ryskaliev	<i>Originates from Atyrau oblast administration</i>
Mangystau	Krymbek Kuserbaev	Minister of Education and Science
Aktyubinsk	Eleusin Sagindikov	<i>Originates from Aktyubinsk oblast administration</i>
Kostanay	Sergey Kulagin	<i>Akim of Akmola Oblast</i>
Kyzylorda	Mukhtar Kul-Mukhammed	President’s spokesman
North Kazakhstan	Tair Mansurov	Ambassador of the Republic of Kazakhstan to the Russian Federation
Akmola	Mazhit Esenbaev	Minister for Industry and Trade, Chief of Central Tax Authority
Pavlodar	Kayrat Nurpeisov	Deputy Energy Minister

Oblast	Current Akim (April 2007)	Previous Role of Akim (if more than most prominent)
Karaganda	Nurlan Nigmatulin	Vice Minister of Transport and Communications (2003)
East Kazakhstan	Zhanybek Karibzhanov	formerly Ambassador to PR China
Almaty	Serik Umbetov	Minister of Agriculture
Zhambyl	Boribai Zheksemin	<i>Originates from Zhambyl oblast administration</i>
South Kazakhstan	Umirzak Shukeev	Minister of Economics
Almaty City	Imangali Tasmagambetov	Prime Minister
Astana City	Askar Mamin	Minister of Transport and Communication
<b>Sources:</b> Renaissance Capital Research 2007; RFE/RL <i>Newsline</i> 03/06/03; RFE/RL <i>Kazakhstan Votes 2004</i> , Dr. Nurmakov, op.cit.		

It becomes obvious that out of the 14 *akims* and two mayors of cities with *oblast* status, only three had risen to their position from within their subnational administration. The other thirteen governors had mostly served in high national echelons such as in ministerial positions and were then appointed *akim* by President Nazarbayev. Noteworthy is also the short length of tenure of most *akims* and the roles previous *akims* took over upon leaving their regional offices, again mostly in the capital Astana. Thus, members of the provincial elite have sometimes also enjoyed a rise in national corridors of power (Cummings 2005: 51).

The Atyrau *oblast* is in certain ways an exception to this rule. The oil-rich province has until now been governed by domesticated *akims* that have risen to power from within the provincial political scene. In some ways, this can be attributed to political traditions in the *oblast*. The Atyrau political elite is, however, also interwoven with the centre as regards the *akims'* successive responsibilities: After his tenure, ex-*akim* Cherdabaev has for some time decorated positions in business (TCO), but is now serving as a member of parliament in Astana.<sup>21</sup> Likewise, Cherdabaev's successor Aslan Musin now serves as the Minister for Economic Planning in Astana.

The predominance of the executive and President Nazarbayev's exclusive right to appoint and dismiss regional *akims* has equipped the centre with the means to reassert its political hegemony over the periphery. The rotation of elites from regional to national echelons of power and vice versa has helped to blur the distinction between centre and periphery in political terms. This rather unique form of cadre politics has brought into the scene subnational leaders

<sup>21</sup> Information obtained from an interview with Dr. Nurmakov, op. cit.

that are more loyal to national than to subnational identities. Furthermore, a new generation of Western-educated technocrats has entered politics differently than the old, Soviet-era elites. These technocrats, it can be argued, have less regional roots than their predecessors.

In sum, this chapter has identified several key components of centralisation. While the legal basis had often been laid in the 1990s, as e.g. in the 1995 constitution and its elevation of executive powers at all levels, the onset of the economic boom stands out as a watershed in Kazakhstan's centre-periphery relations. While the centre had up until then been preoccupied with crisis reaction, it could now regain the initiative. This found expression in the fiscal and treasury reforms that were on the way towards full implementation by the year 2000. Previously, the centre was merely not equipped with the financial means to use transfer payments and subsidies as stick and carrot to bring subnational entities in line with central policies.

Furthermore, the newly-formed NOC Kazmunaigaz has since the oil boom become part of the central government's development strategy, often to the detriment of regional power structures that had previously overridden the centre in their dealings with foreign investors. Lastly, by frequently rotating members of the national elite in subnational power positions, the centre has successfully blurred the fault lines between political centre and periphery. Although there are of course several other dimensions to the increased centralisation since 2000, the evidence cited above proves that the economic upswing Kazakhstan could enjoy since the turn of the decade has turned the tide in favour of the capital Astana.

In the next chapter, we explore the institutional implications of a more centralised Kazakhstani polity, especially in the light of the country's long-term development strategy and its endowment with large quantities of oil and gas. It will become obvious that despite finding itself in a more comfortable position to carry out further ambitious reform, Kazakhstan's highly-personified and narrow political elite shows growing susceptibility to the political resource curse.

## **5. The Institutional Implications of a “Reinvigorated” Centre**

In a geographically diverse country such as Kazakhstan, a strong centre can arguably alleviate regional disparities in living conditions and rates of income more forcefully. It is in the centre's interest to safeguard relatively equal opportunities in all parts of the country in order to preserve

political stability in the long run. The centre also has to persuade rich *oblasts* to finance poorer and structurally-weaker regions in other parts of the country. Therefore, a recentralisation of power as it occurred in Kazakhstan during the recent years cannot unambiguously be judged as bad. Taking into account the disorderly state of centre-periphery relations in the 1990s, it is understandable why the centre strived to recapture its lost influence in the regions. Therefore, Kazakhstan's post-independence experience does not fit into the narrow research framework which treats decentralisation as a predefined set of policy choices.

Despite marked improvements in poverty alleviation<sup>22</sup> and a slowdown in growth disparities, the evidence from 2000 onwards shows that the centre's regained transformational capacity is not being fully used to tackle the most pressing development needs. Despite the growing importance of transfer payments for subnational governments, half-hearted reforms in the fiscal architecture seem not adequate to address regional disparities. The centre's top-down approach also leads to a disconnect between the plans formed in the capital Astana and their implementation on the ground.

### **Regional disparities**

Kazakhstan is a large country five times the size of France with only about 15 million inhabitants. Its economy relies heavily on the export of hydrocarbon resources and the current good performance of related boom sectors. Regional disparities are significant in a variety of domains: Although economic growth is an all-encompassing trend in all *oblasts*, GDP per capita, living standards and poverty rates remain highly uneven.

In economic terms, the oil-extracting and municipal *oblasts* are the clear leaders. Atyrau lies at the top of the list, with a GRP<sup>23</sup> per capita of \$30,467 in purchasing power parity terms. At the lower end of the scale lies the agricultural *oblast* Zhambyl with only \$2,522, less than 10% of Atyrau's value.<sup>24</sup> Put together, the oil-extracting *oblasts* account for 32.3% of national GRP

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<sup>22</sup> The reasons for decreases in the poverty headcount are mostly ascribed to the economic boom (USAID 2005). However, cautionary tones are also to be heard: The UNDP report *Poverty in Kazakhstan: Causes and Cures* notes that despite "increasing employment and average incomes, the situation in the labour market is not conducive to poverty reduction" (2005: 4). This can be explained by the large proportion of the population being self-employed (40% of the labour force), seasonal unemployment (mostly in rural areas), and persistently low living standards for individuals dependent on state benefit transfers.

<sup>23</sup> Gross Regional Product – analogous to Gross Domestic Product (GDP). In Kazakhstan, calculating an *oblast's* GRP is done without factoring in some items like defence spending (USAID 2006). The USAID report cited here uses national GRP for the cumulative value of all *oblast* GRPs.

<sup>24</sup> Consult table 3 in the appendix for more details on the different *oblasts'* indicators.

while only constituting 18% of the total population. The two municipal districts of Astana city and Almaty city account for 22.6% of national GRP, but only 12% of total population. It becomes obvious that the agricultural and industrial *oblasts* lag far behind the oil-extracting *oblasts* and municipal districts.

Despite impressive GRP growth rates for all *oblasts*, the richer *oblasts* grow on average faster than the poorer ones, further widening the income gulf between them. Between 2000 and 2004, oil-extracting *oblasts* grew by an average of 18.9% per year, municipal districts by 19.1%. The non-oil industrial and agricultural *oblasts* lagged behind at 9.8% and 8.8%, respectively (USAID 2006: 6). Over the same period, however, growth disparities slowed down – falling to a standard deviation of 5.3% in 2004 against 16.4% in 2000 (ibid).

Besides GRP growth figures, other social indicators express stark regional disparities as well. Poverty rates do not seem to correspond with overall GRP per capita levels. Surprisingly, the oil-extracting *oblasts* show the highest proportions of their populations living below the poverty line, although much progress has been made since 2000. Atyrau, clear champion in per capita GRP, still has the highest poverty rate with 29.1% in 2004 (against 49.6% in 2000). Furthermore, oil-extracting *oblasts* have the highest maternal mortality rates (57.7 as compared to 36.0 for agricultural regions). Other health indicators, such as the prevalence of tuberculosis or the access to physicians, draw a similar picture.

One reason for this seemingly paradox imbalance between social indicators and per capita GRP levels stems from the fact that GRP measures production, not income. Therefore, a portion of profits and taxes accrues to entities abroad or in other regions, e.g. foreign businesses and the central government, respectively – pointing at the importance of redistribution. This redistribution occurs via two channels – the official one, i.e. transfer payments between the *oblast* authorities and the central government and the unofficial one via the informal structures (Pomfret *et al* 2006), as will be dealt with in more detail below.

## **Redistribution**

As discussed in the previous chapter, the shortfall of tax receipts for the *oblasts* has been compensated through the conditional use of transfer payments between *oblasts* and central government. Today, out of the sixteen *oblasts* in Kazakhstan, only four are net donors to the republican budget (Atyrau, Mangystau, Almaty city, Astana city), whereas the other twelve are net recipients of transfer payments from the central government. The aim of these transfer

payments is to provide each *oblast* with the financial resources to provide a similar level of public services.

The range of public services the subnational governments are legally bound to provide are: education (nursery to medium higher), local police force, guarantee for minimum of free medical assistance, social support, employment programmes, housing programmes, cultural programmes, industrial and construction plants at regional level, environmental protection and road maintenance (Cummings 2000: 16).

The success of the equalisation of public services across Kazakhstan's sixteen oblasts is ambiguous: On the one hand, social spending figures indicate large disparities across the different *oblasts*. In 2004, regional government expenditure per person varied from 107,500 tenge<sup>25</sup> per person in Atyrau to 24,800 tenge in Almaty *oblast* (USAID 2006). Moreover, substantially varying social indicators cited in the previous section point at large differences in public service provision across the *oblasts*. On the other hand, however, for the same year, Ufer and Troschke find little inter-oblast variation in per capita spending on education, health and social support (2006: 30), indicating large differentials in spending on other items.

Transfer payments constitute an increasingly vital source of resources for subnational governments. In 2001, these transfers accounted for 12.2% of regional and local budgets. By 2004, they had increased by three times, reaching 34.3% of the subnational budgets (Ufer and Troschke 2006). Furthermore, subsidies to poorer oblasts are not only financed by the transfers from richer oblasts. Subsidies to recipient oblasts cumulatively accounted for 201.6% of the payments from donor *oblasts* in 2004. Ufer and Troschke conclude that "with growing subsidies, recipient oblasts' decision-making power in the financial sphere usually declines" (2006: 28).

In fact, large parts of the transfer payments are earmarked for specific purposes.<sup>26</sup> While this partly reflects the World Bank recommendation to "provide separate, earmarked funding for functions with critical distributional implications" (2006: i), the volatility of these payments is striking as much as is the predominance of Astana as the main recipient of those funds.<sup>27</sup> It has yet to be seen whether the earmarked funds can help alleviate the stark regional disparities in Kazakhstan. As all earmarked transfers are set by the centre, they are the main instrument of

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<sup>25</sup> Approximately 120 tenge equal US\$ 1 (as of 6 May 2007).

<sup>26</sup> Note that net donor oblasts also receive earmarked funds

<sup>27</sup> In 2004, Astana received 44.3% of the total (Ufer and Troschke 2006: 31).

implementing the central government's development programs in which the *oblasts* have very little say.

### **The centre's consolidated position, development programs and institutional constraints**

By authoring most landmark documents that lay out Kazakhstan's ambitious reform agenda, the centre's vision of development is highly personalised in the current president Nursultan Nazarbayev and his closest circles. The aim to transform Kazakhstani society according to development programs such as "Kazakhstan 2030" and the country's strategy to enter the club of the world's fifty most competitive nations (Nazarbayev 1997, 2006) is telling in two respects: First, there could not be better evidence of the dominant position of the country's executive than the president himself crafting most of the visions and strategies. Second, these programs are all top-down in their design, leaving little room for review and discussion by other parts of society.

The president's speech "Kazakhstan's successful integration into the world economy" (Nazarbayev 2006) is an illustration to this point. The government is ordered to bolster high-tech projects around the country; establish science centres and educational institutions meeting the highest international standards; and develop a strategy to develop a modern and competitive transport and communications infrastructure. The total document refers to approximately thirty priorities in the socio-economical sphere alone that would each need significant resources for their design and implementation.

The World Bank argues that "institutions in Kazakhstan are still ill-suited to address the challenges posed by rapid economic expansion and oil wealth" (2005: 14). The study goes on to warn Kazakhstan of the fate of other oil-exporting countries where the "various policies did not match the goals that were set" (ibid: 39). It is thus important for Kazakhstan's government to limit its focus to selected priorities, as "trying to implement too many programs at the same time will unavoidably reduce the quality and depth of the work. Building consensus around the most important elements of competitiveness is, therefore, of the utmost importance to ensure resources remain focused on areas with the biggest payoff" (ibid: 44).

The centre will have to work together with the oblast administrations in the implementation of these new policies. Several concerns have already been raised that the high-profile development programs will not address regional imbalances, but will instead benefit the municipal cities with *oblast* status. Ongoing reforms in the education sector underline that

regional equity does not seem to be ranking highly in the centre's priorities. Instead, president Nazarbayev stresses the importance of excellence and top-tier scientific research, e.g. by creating one world-class university in Astana and Almaty each (*Kazinform* 06/04/07).

In contrast to higher tertiary education, which is administered by the republican administration, vocational training is a formal responsibility of subnational governments. Kazakhstan's vocational education and training system has not kept up with the transformations of the Kazakh economy. It is heavily under-funded and lacks relevance (ETF 2005: 4): While the budget for education and science has been growing since 2000, funding for basic and secondary vocational education and training has actually decreased over the years, accounting for only 6% of the total education budget in 2004 (*ibid*).

Moreover, there is a growing shortage of middle-level workers that are vital for economic diversification and the strengthening of the small and medium enterprise sector (*Kazinform* 25/01/06). Although use could be made of earmarking fiscal transfers for improving basic vocational training in the oblasts, the neglect of the regional training centres is indicative that the centre has no complete vision of how to achieve its ambitious aim of diversification. This lack of reform can be witnessed mostly in those areas that are under the nominal control of the *oblast* administrations.

The reasserted dominance of the centre also seems to propel the growth of informal economic structures in provinces that are most likely to loose out from the centre's fiscal policies. The oil-extracting *oblasts* are already among those with the highest informal distribution of oil windfalls, either through non-taxed wage payments or "leakages". Pomfret *et al* (2006) find that this informal distribution does not benefit those in the lower-income brackets, which also explains that the oil-extracting oblasts show the highest income inequalities in Kazakhstan.

Furthermore, evidence from the last years shows that Kazakhstan's willingness for further reform in key economic sectors is lagging behind the more pro-reform years in the 1990s (Schmitz 2003). It can be argued that Kazakhstan has moved from reform to consolidation (Tasmagambetov 2005), and that the achievements in the legal sphere first need to be translated into everyday life before further steps can be taken. Following the rhetoric of the resource curse literature<sup>28</sup>, however, it is possible to link growing oil windfalls with the stalling of reform efforts, such as in the privatisation of large state-owned firms. As early as 1997, Richard

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<sup>28</sup> See e.g. Karl (1997) and Ross (1999)

Auty noted that, for Kazakhstan, “there is evidence that over-optimistic expectations of oil rents have damaged policy execution” (18).

While it is beyond the scope of this paper to determine whether Kazakhstan’s current political system is susceptible to the resource curse<sup>29</sup>, there is already solid evidence that the personification of the country’s aspirations in President Nazarbayev and the focus on top-down reforms has become problematic in addressing the developmental needs of the country.

Above all, it becomes very obvious that the current configuration of Kazakhstan’s centre-periphery relations remains heavily dependent on the favourable economic situation. With oil prices high and exports rising, oil windfalls are likely to bolster the national budget; macroeconomic indicators remain stable and most analysts remain confident about Kazakhstan’s medium term economic outlook (EIU 2007).

The amount of financial resources at the disposal for policymakers in Astana is the key bargaining chip in keeping the regions in line. With transfer payments constituting an ever-growing share of the *oblasts*’ budgets, the centre does not have to fear similar decentralisation by default if economic conditions remain positive. A fall in the price of oil, however unlikely at the moment of writing, is seen by many as the main danger to sustained economic growth, and thereby to the current way in which the centre interacts with the periphery.

## Conclusion

Kazakhstan’s transitory centre-periphery relations raise questions towards the applicability of the mainstream decentralisation literature to FSU transition countries. Decentralisation as supported by the World Bank and other institutions can only be efficiency-enhancing if the centre can delegate authority to lower echelons of the power apparatus with a meaningful strategy. In the case of Kazakhstan, the devastating economic crisis of the 1990s impacted negatively on the capacity of the centre to move from crisis reaction towards long-term policy design. Likewise, the reasserted dominance of Kazakhstan’s centre is only a logical result of its better financial position following the economic boom that started in 2000.

Similar to its verdict on Russia (1999: 123), the World Bank would describe the dynamics in centre-periphery in post-independence Kazakhstan as a failed decentralisation process. However, as this paper has pointed out, decentralisation as it occurred in Kazakhstan lacked

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<sup>29</sup> See Jones Luong and Weinthal (2001), Kronenberg (2004), Esanov *et al* (2001),

any cohesive strategy and was triggered by the country's dismal experience with shock therapy reforms and the painful transition to market economy.<sup>30</sup> Moreover, the way in which decentralisation occurred in Kazakhstan had its roots in the country's Soviet past, as became evident in chapter two. The reasserted dominance of the centre from 2000 onwards is therefore not a reversal of a certain reform package that was unsuccessfully "tested" in the 1990s. Instead, the centralisation of the Kazakhstani political system has to be understood against the conflicts over spheres of influence that prevailed during the economic downturn of the 1990s.

Amidst Kazakhstan's wide-reaching regional disparities, a reinvigorated centre has its advantages. It can alleviate differences in income more forcefully and can ensure a similar set of public service provision throughout its territory. Despite it being in the position to do so, this does not mean that the government has proved able to live up to these expectations. As chapter five has demonstrated, transfer payments do not seem to tackle regional disparities as their value is subject to large fluctuations and a large proportion of the transfers is being relayed to the capital Astana. Nevertheless, it would be an omission of facts not to state several positive developments that have taken place since 2000, including a substantial reduction of poverty rates and the slowdown of inter-*oblast* growth disparities.

Further research will be needed to pass a more confident verdict on the institutional implications this recentralisation bears and whether dynamics of resource curse are already limiting the centre's transformative capacities which it possesses thanks to the elimination of rival subnational power structures. More light needs to be shed at the composition and conditionality of the transfer payments and in how far they really affect social spending in the low-income *oblasts*. Until these questions are fully answered, however, there remains the growing suspicion that neither the decentralisation of the 1990s nor the recentralisation from 2000 onwards offer the best possible configurations of centre-periphery relations for Kazakhstan.

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<sup>30</sup> According to EU classifications, Kazakhstan's economy does not merit the status market economy, whereas the US Department of Commerce revoked Kazakhstan's non-market economy status in 2002 (Eicher 2004).

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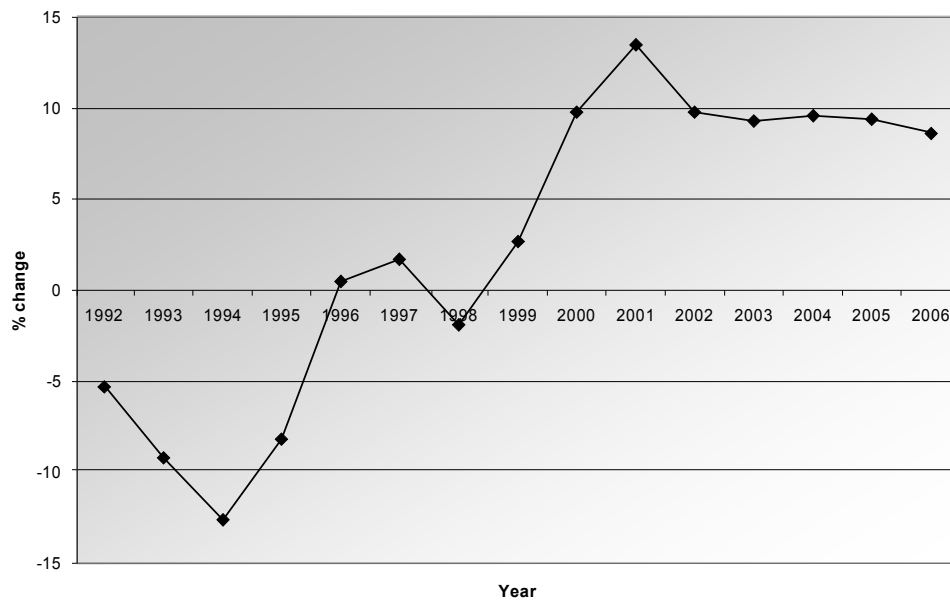
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## Appendix

Figure 1: Real GDP growth 1992-2006



Sources: IMF 2006b, Pomfret 2003

Table 2: Kazakhstan – Foreign Direct Investment (million US dollars)

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
100	1,271	660	964	1,137	1,320	1,143	1,468	1,278	2,861	2,164	2,213	5,392	1,721	2,500*

\*estimate - Source: European Bank for Reconstruction and Development (2006)



# Kazakhstan - administrative map



Adapted from Renaissance Capital (2007)

**Table 3: Regional disparities in numbers**

	Atkobe	Atyrau	Kyzylorda	Mangystau	West Kazakhstan	Akmola	Almaty	Kostanay	North Kazakhstan	South Kazakhstan	Zhambyl	East Kazakhstan	Karaganda	Pavlodar	Almaty City	Astana City
Category	Oil-extracting	Oil-extracting	Oil-extracting	Oil-extracting	Oil-extracting	Agriculture	Agriculture	Agriculture	Agriculture	Agriculture	Agriculture	Industrial	Industrial	Industrial	Municipality	Municipality
Republican Budget (2004)	Recipient	Donor	Recipient	Donor	Recipient	Recipient	Recipient	Recipient	Recipient	Recipient	Recipient	Recipient	Recipient	Recipient	Donor	Donor
Population ('000)	678.6	477.0	618.1	381.9	609.3	746.0	1,609.0	907.4	660.1	2,263.0	1,001.0	1,482.0	1,334.0	743.8	1,269.0	550.2
GRP per capita (2004, PPP\$)	8,734	30,467	5,849	17,479	9,274	4,190	3,307	5,814	4,220	2,780	2,522	5,341	7,550	8,864	14,861	13,835
Investment rate (% of GRP)	48.4	69.6	26.2	35.6	34.4	16.9	25.7	17.4	13.8	16.4	15.7	14.1	20.8	13.5	34.5	67.7
Poverty rate 2004	14.3	29.1	26.5	21.0	14.4	14.0	15.2	19.0	12.0	23.0	18.3	14.9	13.5	14.5	2.8	1.1
Poverty rate 2000	18.3	49.6	51.6	59.7	12.0	28.9	46.2	22.3	11.9	52.8	47.7	15.4	18.6	14.9	4.8	11.6
Agriculture employment share	35.2	15.5	37.7	3.6	41.0	45.3	49.3	34.4	58.5	44.9	34.4	35.2	23.2	33.0	n/a	n/a
Agriculture output share	6.3	1.2	6.2	0.3	6.2	32.9	27.8	23.2	39.0	19.6	23.9	12.0	5.2	6.7		
Regional govt' expenditure (% of GRP)	9.2	7.9	16.4	9.7	10.1	19.8	18.1	10.9	18.0	20.1	24.7	12.2	8.9	9.1	10.1	21.1
Regional govt' expenditure per person (1,000 tenge)	36.4	107.5	43.4	73.3	42.8	38.3	24.8	29.7	35.7	24.9	28.3	30.5	30.9	37.3	65.6	125.0
Expenditure on R&D (% of GRP)	0.02	0.21	0.02	0.59	0.08	0.28	0.16	0.06	0.11	0.09	0.13	1.19	0.20	0.01	1.01	0.15

Sources: USAID (2006), Renaissance Capital (2007), Ufer and Troschke (2006)