4. Overview of Society and Economy

4.1. Overview of Society

Kazakhstan is home to about 130 ethnic groups. The population was 15.2 million in 2005. The ethnic composition of Kazakhstan is 8.6 million Kazakhs (57.2%), 4.1 million Russians (27.2%), and 2.3 million minorities (15.6%) including Ukrainian, Uzbek, and Uyghur. The ethnicalization which followed independence saw Kazakhs occupying the important posts in government and business and a continuing flow of Russians and other non-Kazakhs out of the country. The population has consequently decreased by around one million compared with 1989. The government is calling for the Kazakhs who reside outside of the country to return home and settle down. However, not many people respond to this appeal because the foundations of their livelihoods, such as job opportunities, are not always guaranteed. Religious groupings are Sunni Muslim (47%), Russian Orthodox (44%), Protestant (2%), and others (7%).

During the period of economic stagnation from 1992 to 1996, the average income of the people dropped to one third of that in 1991. Although the revenue of the people has increased along with the recovery of the economy since 1997, even in 2004, the average income reached only 64% of that in 1990. The whole country is in a process of economic recovery; however, there has been an increase in the disparity between urban areas and local regions as well as an increase of wealth disparity within urban areas. As shown in Table 4.1, the average monthly income of the whole country in 2004 was 28,329 tenge ($211). By oblast, the largest average monthly income was 42,039 tenge, in Atyrau, and the smallest was 18,441 tenge ($137), in Akmola. The gap between these two oblasts is such that Atyrau has 2.2 times the average monthly income of Akmola.

The percentage of people falling into the poorest segment of the population is a moderate 12 to 15.2% in the oblasts of North Kazakhstan and Akmola, the grain production area in the north part of the country, Aktobe Oblast, which has industrial center, East Kazakhstan Oblast, West Kazakhstan Oblast, Karaganda Oblast, Pavlodar Oblast, and Almaty Oblast. In the five oblasts of Kostanay, Mangghystau, Zhambyl, South Kazakhstan, and Kzyl-Orda, the ratio of those in poverty exceeds 18%. Table 4.1 indicates high rates of poverty and unemployment in Atyrau Oblast, which is the center of oil development in the Caspian Sea and has the highest economic growth rate and income within the country.

This indicates that only those residents who possess high technical knowledge can benefit from the economic development in Atyrau Oblast. In reality, the majority of residents are excluded from the benefits of economic development.

Table 4.1 Annual average income and poverty rate by oblast

Oblast	Average monthly income in FY2004 (tenge)	Poverty rate (%)		Unemployment rate (%)
		1999	2004	2003
National average	28,329	34.5	16.1	8.8
Akmola Oblast	18,441	35.4	14.0	9.2
North Kazakhstan Oblast	19,911	27.2	12.0	8.0
Almaty Oblast	21,106	44.2	15.2	8.6
Zhambyl Oblast	22,118	45.7	18.3	11.1
South Kazakhstan Oblast	22,428	55.5	23.0	8.6
Kostanay Oblast	22,591	21.7	19.0	8.7
East Kazakhstan Oblast	24,126	17.3	14.9	7.3
Karaganda Oblast	25,636	18.4	13.5	8.2
Kzyl-Orda Oblast	27,510	55.0	26.5	11.4
Aktobe Oblast	28,194	24.3	14.3	9.7
West Kazakhstan Oblast	33,388	28.9	14.4	9.3
Almaty City	35,623	13.7	2.8	****Note
Astana City	40,604	15.1	1.1	****Note
Atyrau Oblast	42,039	50.0	29.1	9.5

Note: Included in Almaty Oblast and Akmola Oblast
Source: Millennium Development Goals in Kazakhstan, Human Development Report 2004, UNDP

Table 4.2 Social data

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Population density (people/km^2)	5.9	5.8	5.7	5.6	5.5	5.5	5.5	5.5	5.5	5.5
Population (million)	16.0	15.7	15.5	15.2	15.0	14.9	14.9	14.9	14.9	15.0
Per capita GDP ($)	733.4	1,052.4	1,350.7	1,445.9	1,468.8	1,129.1	1,229.2	1,491.4	1,658.6	-
Ratio of local population (%)	44.3	44.3	44.2	44.0	44.0	43.9	43.7	43.5	43.4	43.3
Ratio of urban population (%)	55.7	55.7	55.8	56.0	56.0	56.1	56.3	56.5	56.6	56.7
Kazakh (%)	46.0	47.9	49.4	50.6	53.3	55.8	54.9	55.8	56.5	57.2
Russian (%)	35.0	33.8	32.9	32.2	30.0	28.3	28.9	28.3	27.7	27.2
Other ethnicities (%)	19.0	18.3	17.7	17.2	16.7	15.9	16.2	15.9	15.8	15.6
Average life expectancy	64.9	63.5	63.6	64.0	64.5	65.7	65.5	65.8	66.0	65.8
Infant mortality rate (per thousand infants)	27.1	27.0	25.4	24.9	21.6	20.4	18.8	19.1	17.0	15.7
Increase and decrease of population due to migration (million)	-0.5	-0.4	-0.3	-0.4	-0.3	-0.1	-0.1	-0.1	-0.06	-
Unemployment rate (%)	1.1	2.1	4.1	3.8	3.7	3.9	12.8	10.4	9.3	8.8
Human development index (HDI)	0.738	0.726	0.732	0.735	0.736	0.742	0.743	0.754	0.767	0.772

Human development index (HDI): HDI is an index calculated in accordance with original mathematical formulas using per capita GDP, average life expectancy, and school attendance rate as basic factors to measure the development level in a country.

Source: Kazakhstan National Human Development Report 2003, 2005

4.2. Overview of Economy

After independence in 1991, in order to convert from a socialist planned economy to a market economy and establish a fiscal system and a financial system as an independent country, the government of Kazakhstan promoted structural reforms during the period from January 1992 to November 1993. These reforms included decontrolling prices, establishing a right based on the constitution to own property individually, and privatization of various sectors including transportation, industry, agriculture, trade, and service. Kazakhstan also broke away from the ruble economy bloc with the introduction of a new currency. However, the economic structure that had been established in the era of the former Soviet Union could not keep pace with the rapid changes. The economy was also influenced by external factors such as the adoption of a new ruble currency in Russia. The annual inflation rate recorded 2,165% in 1993 when Kazakhstan's own currency was introduced. Thus, Kazakhstan's economy essentially disintegrated and recorded minus growth until 1995.

In July 1994, in order to create foundations for increases in production and improvements in the standard of living within 15 months, the government formulated the "action program to evolve reforms and extricate the economy from a crisis" (a 15-month program). According to this program, the independency and authority of the central bank were established, the interest rate was raised, the allocation of investment was done by tender, and structural reforms were carried through, including privatization, decontrolling prices, financial system reforms, and reforms of the legal structure as well as systems relating to the transition to a market economy. Consequently, the domestic economy showed signs of rebounding, backed by growth in the commercial sector due to privatization, foreign capital importations, and an increase in exports in the non-ferrous metal sector. However, the economic growth rate turned into negative territory again due to the repercussions of the new Russian currency and the financial crisis in August 1998 as well as a decline in agricultural production brought on by drought.

After 2000, the economy recovered thanks to recovery in agricultural production in addition to increased production in the mining industries, including the oil industry, due to foreign capital inflows as well as the high price of crude oil. The economic growth rate posted 13.5% in 2001, and the economy has continued to grow at a pace exceeding 9% annual growth while suppressing the inflation rate at the 6% level. National finance substantially improved owing to reforms in the taxation system and public finance. The budget deficit in relation to GDP dropped from 3.5% in 1999 to 1.2% in 2003. In September 2000, thanks to the economic recovery, the government was able to repay its debt to the International Monetary Fund (IMF) seven years ahead of schedule.

In November 2003, the government revised tax rates. The consumption tax (value added tax) fell from 16% to 15%, the social insurance premium rate from 21% to 20%, and the personal income tax from 30% to 20%.

Table 4.3 GDP and economic growth rate

Year	1997	1998	1999	2000	2001	2002	2003	2004
GDP (in billion US$)	22.2	22.1	16.9	18.2	21.1	24.2	30.8	40.7
Real GDP growth rate (%)	1.7	-1.9	2.7	9.8	13.5	9.5	9.3	9.4
Inflation rate (%)	-	-	-	9.8	6.4	6.6	6.8	6.7
GNI per capita ($)	1,270	1,350	1,260	1,250	1,350	1,520	1,810	2,250

Source: Prepared from the World Bank, Kazakhstan at a Glance and IMF, Republic of Kazakhstan: Statistical Report.

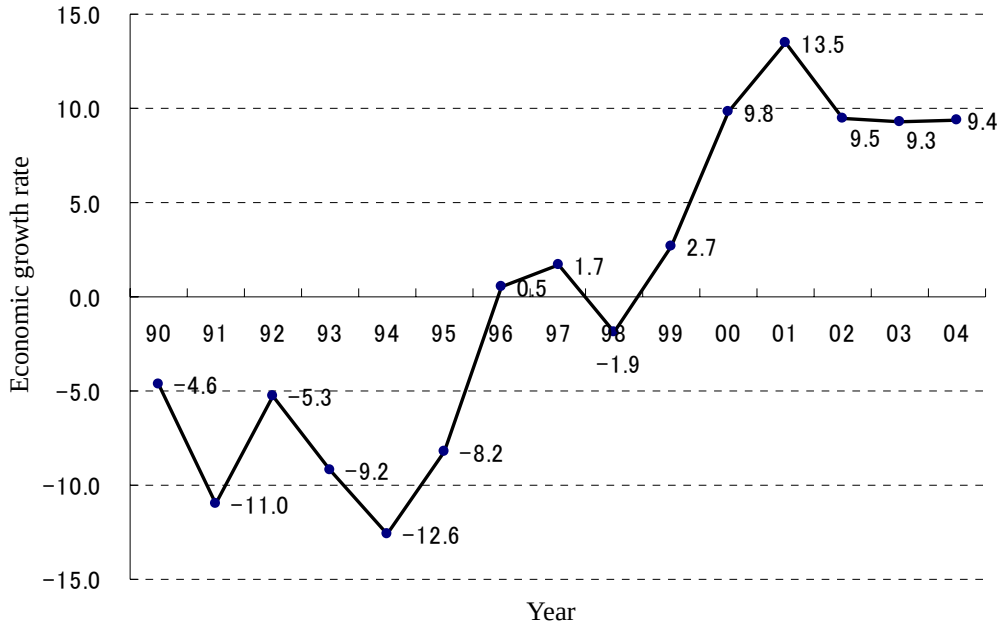


Figure 4.1 Change in economic growth rate

Source: IMF Republic of Kazakhstan: Statistical Report

4.3. Industries

Kazakhstan was given the status of a supply center for agricultural products and raw materials under the specialization system in the era of the former Soviet Union because it has large areas of farmland and bountiful mineral resources. Kazakhstan mainly played a role in exporting raw materials and in-process materials to Russia as well as importing finished goods from Russia. After independence, as indicated in Tables 4.4 and 4.5, agriculture has not been able to adjust to the shift to a market economy and remains stagnant compared to the developments in the mining and manufacturing industries, typified by the oil and gas industry, which has increased production by introducing foreign investments.

Table 4.4 GDP composition

Unit: percent

	1987	1992	1995	2000	2001	2002	2003	2004
Agriculture	33.3	26.7	12.3	8.1	8.7	8.0	7.9	7.9
Industry	46.6	44.6	30.0	37.8	34.3	35.8	35.1	37.1
Service industry (Note)	20.1	28.7	57.7	54.1	57.0	56.2	57.1	55.0

Note: Including trade, communication, and transportation such as oil transport
Source: ADB Key Indicators of Developing Asia and Pacific Countries 2005

Table 4.5 Average growth rate by industrial field (from 1991 to 2004)

	1991-1995	1991-1999	2000-2004
Agriculture	-8.7	-0.6	3.7
Industry	-13.2	1.2	11.7
Total	-9.6	0.8	10.4

Source: Kazakhstan National Statistical Agency

4.3.1. Mining and Manufacturing Industries

(1) Non-ferrous Metal

Kazakhstan has plentiful non-ferrous metal resources. It was considered as the major supply center of non-ferrous metal resources in the Soviet Union before its independence. As for the amount of deposits, the deposits of chrome rank the second largest in the world thanks to the Donskoy mine, which has the world's largest single chromium deposit; lead deposits rank fifth in the world; rhenium ranks sixth; and molybdenum and bismuth deposits rank ninth. There is also a rich deposit of copper (see Table 4.6).

Regarding production volumes, Kazakhstan produces the third largest volume of chrome ore in the world, the third largest amount of titanium sponge after Japan and Russia, and the fifth largest amount of tellurium, used as a material for semiconductor parts. In addition, a lot of base metals and rare metals are produced (see Table 4.7).

Government enterprises, foreign capital companies, and joint enterprises of the government and foreign capital are conducting exploration and development. However, foreign capital has yet to play an active part due to the opacity of the legal framework. Since there is no demand for the end products within the country, mined resources have to be exported as ore or partly finished products. Exports to the

markets in Europe and Asia rely on land transportation stretching for thousands of kilometers. Therefore, there is a problem in price competitiveness. Also, in Kazakhstan, a total of 3,363 tons of uranium (the world's fourth largest) was produced in 2004 at two refineries from materials mined in three domestic uranium ore deposits. The production of uranium is monopolized by KazAtomProm, a state-owned enterprise.

Table 4.6 Mineral resource reserves

Unit: thousand tons

Types of minerals	Kazakhstan (A)	World (B)	(A)/(B) (%)	Rank in the world
Copper	20,000	950,000	2.1	12
Lead	7,000	140,000	5.0	5
Bismuth	10,000	680,000	1.5	9
Chrome	410,000	7,100,000	5.8	2
Molybdenum	0.2	19	1.1	9
Rhenium	0.25	10	2.5	6

Source: Mineral Commodity Summaries 2003

Table 4.7 Changes in production of major non-ferrous metals

Unit: thousand tons

Kinds of mineral products	Production volume		Export volume
	2003	2004	2003
Gold	0.0099	0.0096	0.0158
Silver	0.804	0.708	0.809
Washed copper	485	4901	219
Electrolytic copper	432	445	376
Zinc concentrate	394	404	253
Zinc ingots	295	309	225
Lead concentrate	38	42	57
Lead ingots	116	140	102
Titanium concentrate	-	-	45
Titanium sponge	43	15	13
Chrome ore	2,928	3,287	499
Ferrous alloy	1,388	1,435	1,028
Manganese ore	781	844	443

Source: 2005 Bitimbaev Report

In FY2002, Kazakhstan exported 25 tons of silver bullion and 140,000 tons of ferrochromium and titanium sponge to Japan.

(2) Coal

The recoverable reserves of anthracite coal and bituminous coal in Kazakhstan amount to 34 billion tons and account for 3% of the world's reserves. In the former Soviet Union, the coal production in Kazakhstan was the third largest after Russia and Ukraine. Although the production decreased by around 35% after independence due to safety problems in coal mines and delayed foreign investment, it began to increase in 2000. The production in 2003 was 86 million tons, which was the ninth largest in the world

(see Figure 4.2). Domestic consumption accounted for 5.8 million tons of the production, and 28 million was exported. Approximately half of the export volume has been used for fuel at thermal power plants in the southern part of neighboring Russia. The largest domestic usage of coal is as fuel for thermal power plants, which consume 52% of the energy sources in the country.

Ekibastz coal mine in north-central Kazakhstan

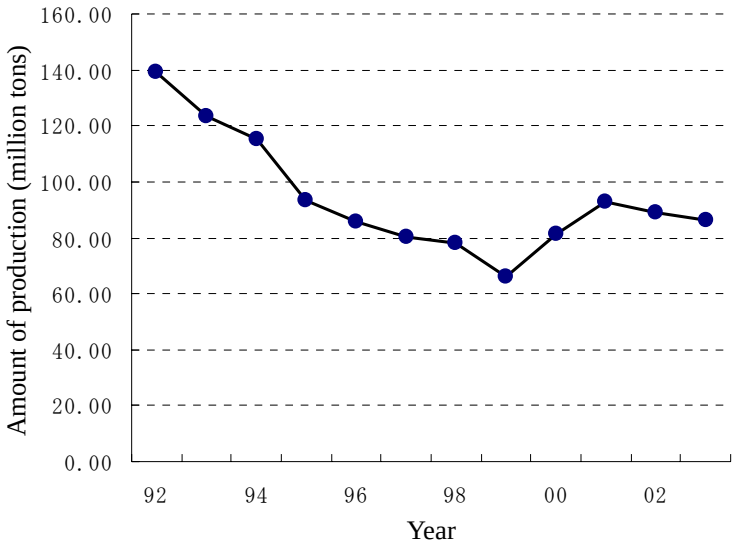


Figure 4.2 Changes in the amount of coal production

(3) Oil and Gas

The major locations of oil production are in southern Kzyl-Orda Oblast as well as the continental shelf and coast of the Caspian Sea. The recoverable reserves in the Caspian Sea area are estimated to be 9 to 29 billion barrels, which is equal to the amount in Algeria. After independence, oil production showed a year-on-year increase of around 15% every year from 1999 to 2004 owing to the entry of foreign capital into the oil development and production sectors as typified by Tengiz oil field. The daily crude oil production in 2004 was 1.22 million barrels. The amount consumed within the country was 0.22 million barrels, and one million barrels were exported (see Figure 4.3). The Tengiz oil field lies in the northwestern coastal area of the Caspian Sea, and its recoverable reserve has been reported to be six to nine billion barrels.

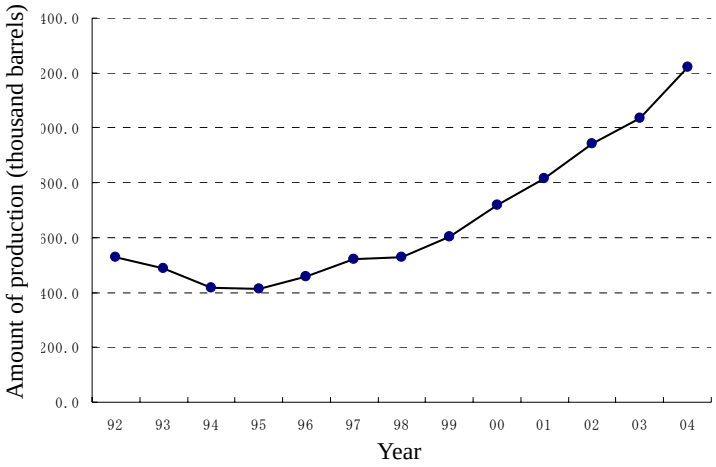
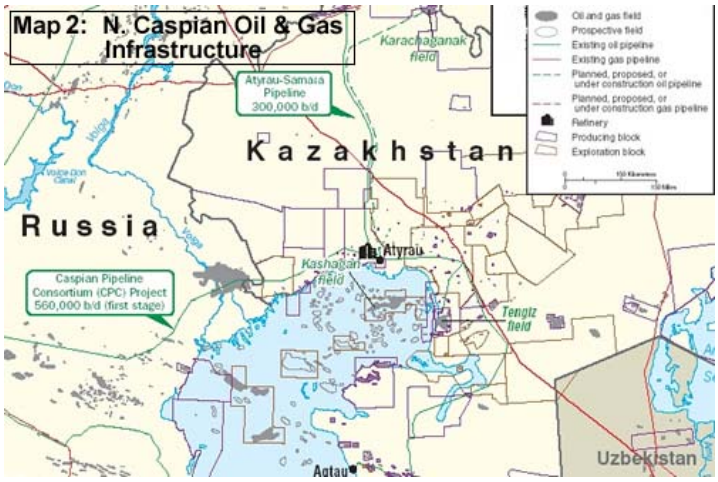


Figure 4.3 Change in the amount of crude oil production

Although oil had been produced in the Tengiz oil field since the era of the former Soviet Union, in 1993, Tengizchevroil, which is a joint venture between the Kazakh National Oil Corporation (currently Kaz Munai Gaz), ChevronTexaco, ExxonMobil, and Lukarco, started redevelopment in the Tengiz oil field. In 2005, the daily oil production in the Tengiz field was 267,000 barrels, which accounted for about 21% of national production. The crude oil produced is being exported to Europe via a pipeline which runs from Tengiz to the Black Sea port of Novorossisk through Russia (Caspian Sea Pipeline Consortium). Although the production of the Tengiz oil field could be increased to 700,000 barrels per day, it is curtailed in order to meet the government ordinance concerning the prohibition of flaring associated gas in the



Oil regions on the coast of the Caspian Sea

atmosphere. A production hike was planned for after May 2006 along with the completion of facilities for underground injection of associated gas.

Tengizchevroil oil field

In March 2003, in addition to the Tengiz oil field, the government of Kazakhstan approved the Caspian Sea Development Program for the development of oil resources in the continental shelf of the Caspian Sea. This program was developed in accordance with the medium-term strategy to 2010, part of the national development strategy known as "Kazakhstan-2030." The intention is to develop 100 million tons of oil and 63 billion cubic meters of gas in the shelf of the Caspian Sea in the period from 2003 to 2015. Practical development has been conducted in the Kashagan oil field, which was discovered in the continental shelf of the North Caspian Sea off Atyrau in 2000. The recoverable reserve of the Kashagan oil field is estimated to contain a maximum of 13 billion barrels. It has been reported that Kashagan is the fifth largest oil field in the world and the largest outside of the Middle East. The development is being conducted by an international consortium, Agip-KCO (Agip Kazakhstan North Caspian Operating Company). The partners of Agip-KCO include Agip, a subsidiary of ENI (National Hydrocarbon Corporation of Italy), as an administrative agent, ExxonMobil, Royal Dutch Shell, Total, and Inpex North Caspian Sea, Ltd., a Japanese corporation, which owns one twelfth of the shares. In 2004, the development program toward commercial production was formulated. It is projected to launch production in 2008 and to produce 180 million tons of oil during 2015.

It is reported that the recoverable reserve of natural gas in Kazakhstan is 65 to 70 trillion cubic feet, which is equal to that in Canada and Kuwait. After independence, the production of natural gas could not meet the internal demand. Hence, natural gas had been imported from the neighboring Uzbekistan and Turkmenistan. In 1999, the government enacted a law that states gas development must be carried out in conjunction with oil development. Accordingly, the gas production increased sufficiently to satisfy the domestic demand in 2004. The key gas field is

Karachaganak oil and gas field in the west. The recoverable reserve in Karachaganak oil and gas field is 16 to 20 trillion cubic feet, which accounts for 25% of the recoverable reserve in the whole country. Even though the southern part of Kazakhstan relies on imported gas from Uzbekistan, the gas produced in Karachaganak is exported to chemical plants in the Russian city of Orenburg because of the undeveloped internal network of gas pipelines in Kazakhstan. The gas resource depends on the associated gas produced along with the crude oil; therefore an increase in the sole production of gas cannot be expected because the associated gas is reinjected into the earth to stabilize oil recovery.

Intergovernmental negotiation on the price of gas supplied from Uzbekistan is made between Kazakhstan and Uzbekistan every year. However, whenever negotiations become difficult, the gas supply becomes limited. As limitations on gas supply have a serious impact on the lives of people, the government decided to develop the Amangeldy gas field in Zhambyl Oblast, where the gas reserve had been surveyed during the time of the former Soviet Union. According to a survey conducted in 2001, the recoverable reserve in the Amangeldy gas field is 1.8 trillion cubic feet. At first, the government had anticipated development by foreign capital. However, as it could not find any companies interested in investing in this development, KazMunaiGaz, a national oil and gas producing company, took on the task of development. The Amageldy gas field is projected to produce 0.88 billion cubic feet a year.

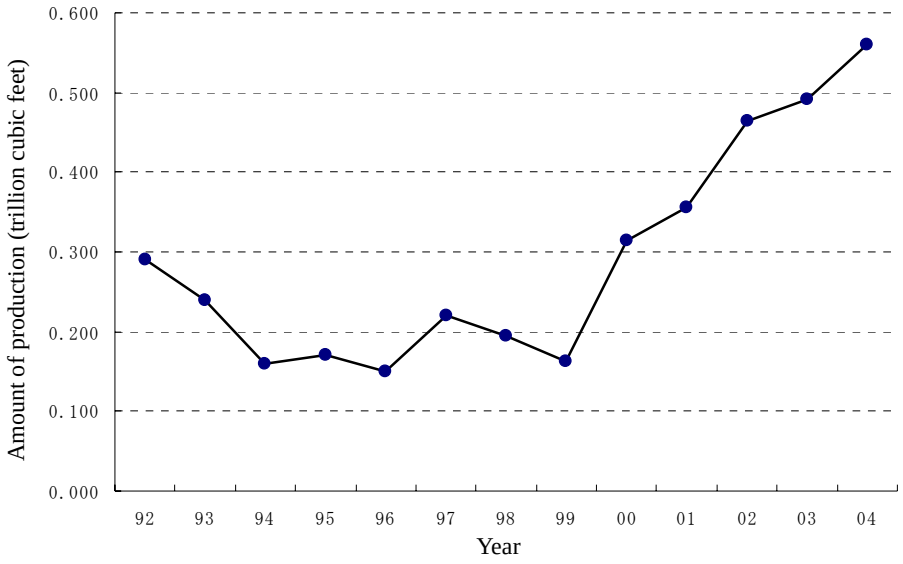


Figure 4.4 Change in the amount of gas production

4.4. Agriculture

In the 1950s, after the Second World War, the leaders of the Communist Party of the Soviet Union implemented the Virgin Land's Program and converted the steppes in Kazakhstan into farm lands. Consequently, agricultural production improved spectacularly. In the era of the former Soviet Union, the 2,055 state farms and the 430 collective farms had employed 22% of the whole workforce, produced agricultural commodities on 34 million hectares of farm land, and borne 30% or more of the GDP, as shown in Table 4.4. After independence, the state farms' assets excluding farm lands were privatized in the period from 1993 to 1996 under the

market-oriented economic reform of the agricultural sector. However, the reality of privatization was just the conversion of form from a state farm to a collective farm or another agricultural enterprise. The fundamental elements such as ownership right, organization, and management were not changed. Consequently, both the acreage under cultivation and the unit crop yields declined, because the irrigation facilities were not fixed and the input of agricultural production goods including agrichemicals and fertilizers decreased due to fund shortage caused by privatization.

Table 4.8 Change of cultivated acreage

Unit: 10,000 hectares

Year	1996	1997	1998	1999	2000	2001	2002
Cultivated acreage	2,870	2,590	2,280	1,970	2,150	2,150	2,150

Source: "Program performance audit report on the agriculture sector program" 2001, ADB, Food and Agriculture Indicators, FAO

The portion of agriculture in the Gross Domestic Product (GDP) continues to shrink. Also, the ratio of employees in the agriculture sector to the total workforce is as low as 18%. The government is making efforts to develop the agriculture sector by taking measures including subsidies for agricultural production goods and income tax reduction for this sector. Although the production has gradually increased since 1998 due partly to the government's efforts, the growth rate in the agriculture sector is lower than in other sectors.

Table 4.9 Change in the amount of agricultural commodities production

Unit: 1,000 tons

	1987	1995	2000	2002	2004
Wheat	16,108	6,490	9,073	12,700	9,937
Barley	6,929	2,208	1,664	2,209	1,388
Potato	2,066	1,720	1,693	2,269	2,261
Beet	1,662	371	273	372	398
Vegetables	1,190	780	1,544	1,857	2,059

Source: ADB Key indicators of developing Asia and Pacific countries, 2005