Regional Development in Kazakhstan

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This paper presents an overview of Kazakhstan's regional development based on a description of principal economic and social indicators. The focus is on administratively defined regions (oblasts) of Kazakhstan. The main goal pursued in this report is to examine specific features of socio-economic development in particular regions of the country

Introduction

Study of regional disparities in Kazakhstan is decisive for elaboration of regional development programmes that pursue such objectives as, for example, reducing regional discrepancies in living standards and stimulating economic development of the regions (*oblasts*, see map in the annex). Variations in basic social and economic indicators among oblasts allow forming a general view on trends of important divergence processes taking place in local economies of Kazakhstan. This report aims at specifying and describing the main differences in regional socio-economic development in Kazakhstan.

Kazakhstan emerged as a new independent state at the end of 1991 and, as it was typical of post-soviet republics, had gone through a severe transitional crisis in 1990s. After implementation of market oriented reforms, such as price and trade liberalization, privatization, sound macroeconomic policy, and the promotion of entrepreneurship (see Wandel, Kazbogarova, 2009, p. 1), intended for enhancement of transition from a centrally planned to a market economy, the country experienced a rapid economic growth in the period of 2000-2007. Economic success in this period was also stimulated by rising oil prices. According to the statistical yearbook of Kazakhstan (2007) the extraction of crude oil and natural gas in 2006 made up 52% of the country's total industrial output and about 70% of export reve-

nues (Statistical yearbook of Kazakhstan, pp. 209, 295). Kazakhstan has increased and diversified its hydrocarbon transit and export capacity over the last years by enlargement of connections with Turkmenistan, Russia, China and Azerbaijan. Nevertheless, the economic and financial crisis of the last years has caused tangible damage to the national economy and highlighted serious banking system weaknesses (see Transition report, 2009).

Nowadays Kazakhstan stands out against the background of other Central Asian post-soviet republics as the most prosperous economy. However, there are considerable differences in economic growth, income distribution, unemployment rates and poverty levels within the country. Since independence, intra-republic differences appear to have widened (see Anderson, 2002). Recent research provides exhaustive evidence on existence of spatial inequality in Kazakhstan.
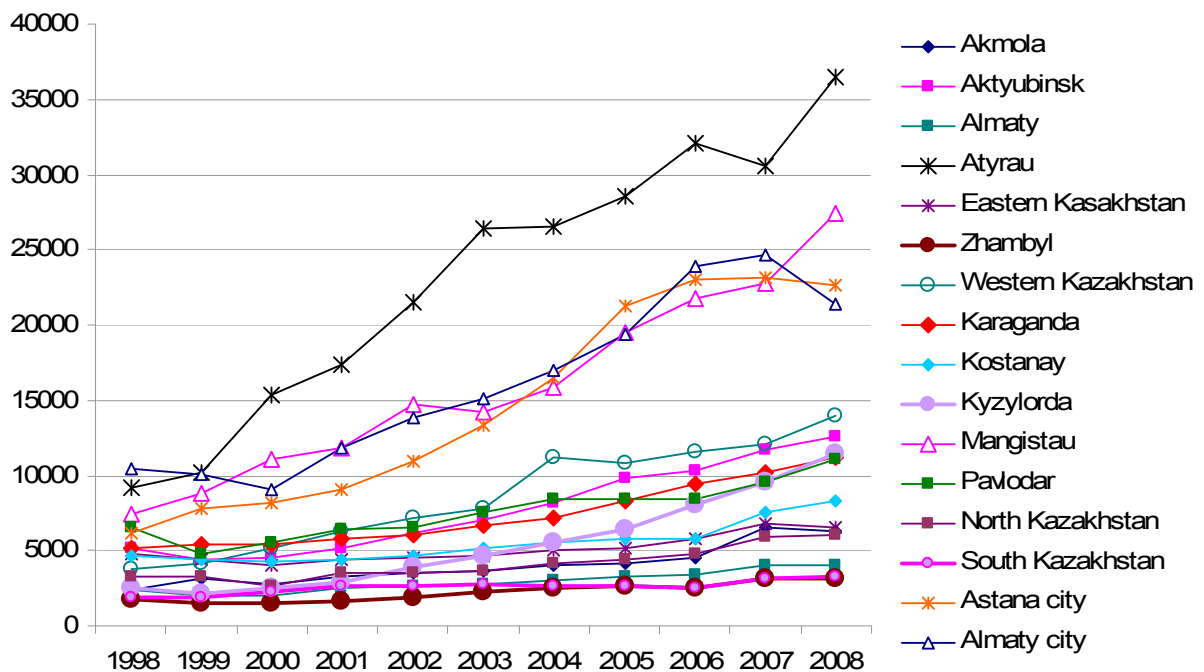
Regional economic development

According to the National Human Development report (2009) real Gross Regional Products (GRPs) per capita in Kazakhstan significantly differ across the regions. The highest economic output is observed in two oblasts on the shore of the Caspian Sea, where the major portion of Kazakh crude oil is extracted – Atyrau and Mangistau – as well as in two big commercial centers, Astana city (capital) and Almaty city (former capital of Kazakhstan). Trends in GRP per capita are presented in figure 1.

Dynamics in GRP per capita show that after 1998 the value of all final goods and services produced within the regions has been growing rapidly. Despite the Russian crisis, which hit Kazakhstan in August 1998, and the consequent depreciation of the tenge, the country managed to overcome the difficulties effectively. This depreciation of the tenge benefited exporters and attracted foreign investment, helping kickstart the economy in 1999 and ending a decade of poor macroeconomic performance (Wandel, Kazbogarova, 2009).

Almaty, Zhambyl and South Kazakhstan regions appear to be the poorest oblasts in Kazakhstan in terms of GRP per capita. It should be noted, however, that South Kazakhstan and Almaty are the most populated oblasts of Kazakhstan. The population of South Kazakhstan (approximately 2.3 million people in 2008) is almost five times as large as the population of oil-industry center Mangistau (407 thousand, see figure 5). Moreover, the share of the rural population in the southern parts of Kazakhstan is the highest among all oblasts and exceeds 77% for Almaty, 62% for South Kazakhstan and 58% for Zhambyl. These regions are industrially underdeveloped and agriculture is the dominant sector of employment. Nevertheless, the highest gross agricultural output in the country is provided by Kostanay, North Kazakhstan and Akmola (Agency of Statistics of the Republic of Kazakhstan in 2008). Pavlodar, Karagandy and Eastern Kazakhstan are oblasts with relatively low agricultural production and strong industrial sectors, including coal, copper, aluminum, steel and electricity (Roudoi et al., 2006).

Figure 1. **Trends in GRP per capita in regions of Kazakhstan, US$, at PPP**

Source: National human development report 2009,
(http://hdr.undp.org/xmlsearch/reportSearch?y=*&c=n%3AKazakhstan&t=*&lang=en&k=&orderby=year)

Human development

Human development is a social and economic aspect of contemporary life, which is defined by expanded satisfaction of human needs, the formation and realization of human potential in economic, social, cultural and political contexts, subject to the provisions of productive human activity, equal opportunities and sustainable development (National Human Development report, 2002).

Since 1998 the United Nations Development Programme uses the human development index (HDI) to assess the level of human development in Kazakhstan. HDI is computed on the basis of statistics for life expectancy at birth, real GDP per capita (PPP USD), adult literacy level and school enrollment (see National Human Development Report, 2009).

Human development indices greatly vary across the regions of Kazakhstan. According to statistics provided by National Human Development Report (2009) in 2008 one may distinguish three groups of oblasts:

1) those with comparatively high level of human development, that is much higher than the average human development level in Kazakhstan – 0.815 (HDI for Astana city equals to 0.905, Almaty city – 0.883, Atyrau – 0.887, Mangistau – 0.875, West Kazakhstan – 0.830, Aktyubinsk – 0.829);

2) those with an approximately average national HDI of 0.801-0.824 (Kyzylorda – 0.816, Karaganda – 0.811, and Pavlodar – 0.809);

3) those with HDI significantly below the average republican level (for example, Zhambyl and Almaty – 0.743, North and South Kazakhstan – 0.754, Akmola – 0.761).

Achievement of higher human development level depends first of all on success in improvement of life expectancy at birth, which is extremely low in Kazakhstan in comparison to OECD countries (77.8 years) and amounts to 68.2 years in 2009 (see CIA The World Factbook).

Poverty

During the period of 1998-2005 the poverty level all over the country was significantly reduced. Nevertheless, this problem remains acute for majority of the regions in Kazakhstan.

According to National human development report (2009) one of the richest in terms of GRP per capita regions Mangistau is the poorest in terms of population's consumption. The proportion of the population in Mangistau, whose income spent on consumption is below the subsistence minimum level, exceeds 30% in 2008 (figure 2). Najman et al. (2008) conclude that in 2002, in the midst of an oil boom, being located in the oil producing west-ern regions (Atyrau and Mangstau) is not associated with higher living standards compared to other regions of republic. Indeed the relative position of households in the oil-rich region Mangistau in 2008 was worse than in 2006. High poverty rates in Mangistau and Atyrau were basically explained by extreme poverty of rural population in these oblasts: 47% of rural population in Mangistau and 41.8% in Atyrau in 2004 had income below the subsistence minimum. At the same time in 2004 the poverty rates for urban population made up 15.4% in Mangistau and 20.6% in Atyrau (see Millennium Development Goals in Kazakhstan, 2005).
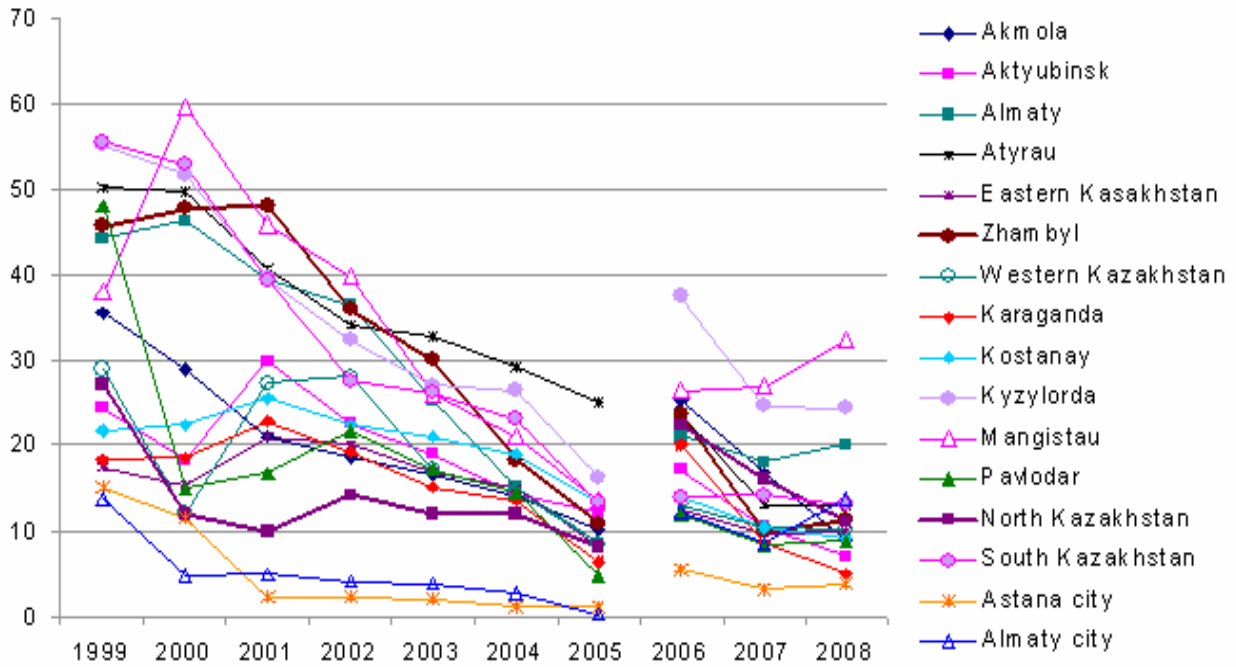
Between 1999 and 2005 the poverty level was constantly decreasing all over the country (figure 2). In 2006 the increase in share of poor population over all regions in Kazakhstan was observed as a result of adoption of a new methodology of subsistence level calculation. The lowest rate of people living under the poverty line is observed in Astana city and Karaganda. As for the Almaty city, the share of poor people has grown up from 12.1% in 2006 to 13.7% in 2008.

The amount of regional income spent on consumption per capita was steady growing up since 2000. Figure 3 makes clear that higher levels of regional income spent on consumption are more typical for regions with higher percentage of urban population (figure 4). The leading positions in this respect are hold by Astana city, Almaty city and Karaganda. Moreover, Kyzylorda, South Kazakhstan, Zhambyl and Almaty regions, where the regional income spent on consumption is the smallest in the country, are characterized by high rates of rural population.

According to the Kazakhstan Household Budget Survey 2002 household composition significantly differs among poor and well-to-do households. The poorest quintile of households in Kazakhstan has on average 6.4 household members while those in the top group (quintile) have just above 3 households members (Dimensions of poverty in Kazakhstan, p. 18).

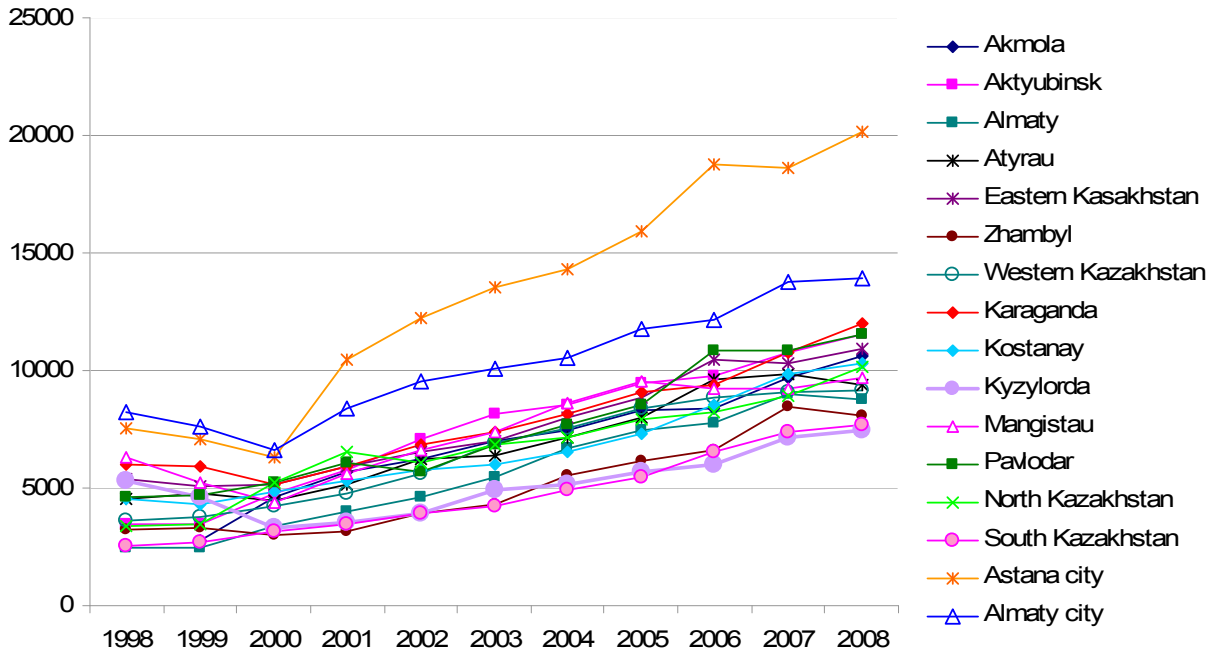The Kazakhstan Household Budget Survey 2002 provides evidence that rural households in Kazakhstan have on average more children and family members than urban families. Furthermore, recent study of Anderson and Pomfret (2002) has shown that an additional child in Kazakhstan lowers per capita household expenditure by 17%, which is a larger amount than of an additional elderly or non-elderly adult (6%).

Figure 2. **Proportion of the population with income (spent on consumption) below the subsistence minimum**

In 2006 a new methodology of subsistence level calculation was adopted.
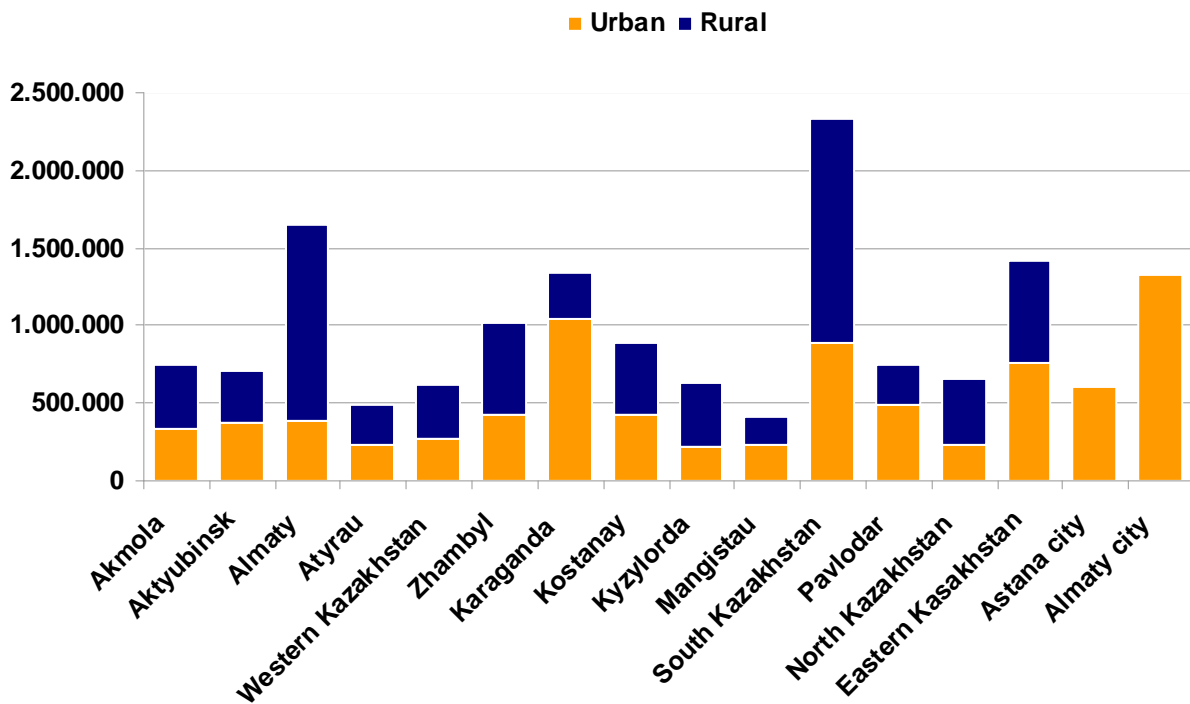Source: National human development report 2009

Figure 3. **Regional income spent on consumption, per capita**

Source: National human development report 2009

Figure 4.

Population of Kazakhstan by oblast (2008)

■ **Urban** ■ **Rural**

Source: Agency of Statistics of the Republic of Kazakhstan, (http://www.eng.stat.kz/Pages/default.aspx)

These findings correspond to the results of recent World Bank survey of poverty in the Eastern Europe and Central Asia region that identified four characteristics that account for much of the variation in poverty rates among individuals (see Dillinger 2007, p. 9). These are: employment status, large household size, low levels of education and rural location. All these characteristics considerably influence the level of poverty in regions of Kazakhstan.

Kazakhstan's Human Poverty Index (figure 5) shows the percentage of people considered as poor in terms of human development opportunities. The Human Poverty Index (HPI) for Kazakhstan is computed on the basis of four components: ratio of people not surviving to 60 years, percentage of 16-year olds dropping out of schools, percentage of population having consumption level below the subsistence minimum and unemployment rate.

During the research period between 1999-2008 the most favorable situation was observed in Astana and Almaty cities, where by 2008 HPI had decreased to 10.8% and 15.4% respectively (National Human Development Report 2009, p. 109).

Within the period under review Akmola and Atyrau oblasts were listed among three regions with the most deprived population more often then other oblasts. Furthermore, Karaganda, Kyzylorda, Zhambyl, Mangistau and North Ka-

zakhstan oblasts are also mentioned among the poorest oblasts in different years.
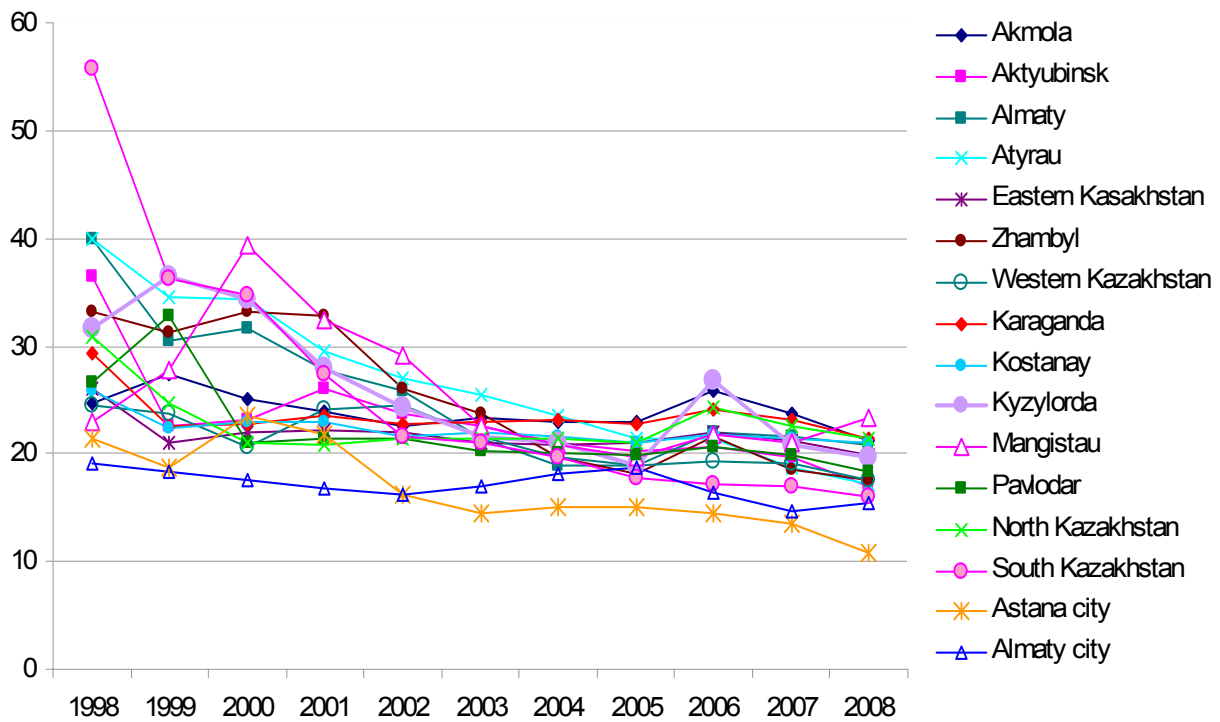
Most surprisingly Atyrau and Mangistau, the two major oil-producing regions of Kazakhstan, could not be marked out as developed and rich regions despite their high GRPs. On the contrary, deeper analysis of the situation shows that people residing in these regions, especially rural population, are living under conditions of poor social services' quality, growing air and water pollution and land degradation.

Pomfret (2006) argues that early revenues from the oil boom appear to have benefited cities in non-oil producing regions, whereas people living in rural areas or in oil-producing rayons do not seem to benefit from this oil income.

Consequently, the author summarizes, oil revenues have strengthened the inequality gap between rich and poor people in the country. The mechanisms of oil revenues redistribution direct the revenue flows to the administration being afterwards reallocated to the Astana city or used to support lagged regions, especially the South of the country (Zhambyl, Almaty, South Kazakhstan). Revenues redistribution process in Kazakhstan is closely connected with appropriation of oil rents by elites and corruption in the oil industry (see Campos, Pradhan, 2007, Pomfret, 2006, 2005).

Figure 5.   **Human poverty index**

Source: National human development report 2009

Employment

In recent years, the unemployment level decreased in Kazakhstan and reached the level of 6.6% in 2008, while in 1999 it was equal to 13.5% (National Human Development Report, 2009). In 2008 unemployment rate varies from 6.2% in Karaganda to 7.4% in Almaty city (figure 6).

The labor market in Kazakhstan has a number of specific features strongly associated with geographical location. Over one-third of the national labor force was employed in agriculture in 2007, despite producing only 6 percent of GDP (Wandel, Kazbogarova, 2009).

In 2002 direct employment in the oil sector was estimated to be less than 50.000 people, including employees working in the refining sector, which is equivalent to less than 1% of Kazakhstan's active population of 7.4 million (Najman et al., 2008). Oil-producing regions seem not to have experienced any sustained employment growth, and poverty and inequality remain worse in oil producing regions than in non-oil regions (Najman et al., 2008).

The Agency of Statistics of the Republic of Kazakhstan distinguishes between two major categories in the structure of labor market: employees (hired workers) and self-employed (em-
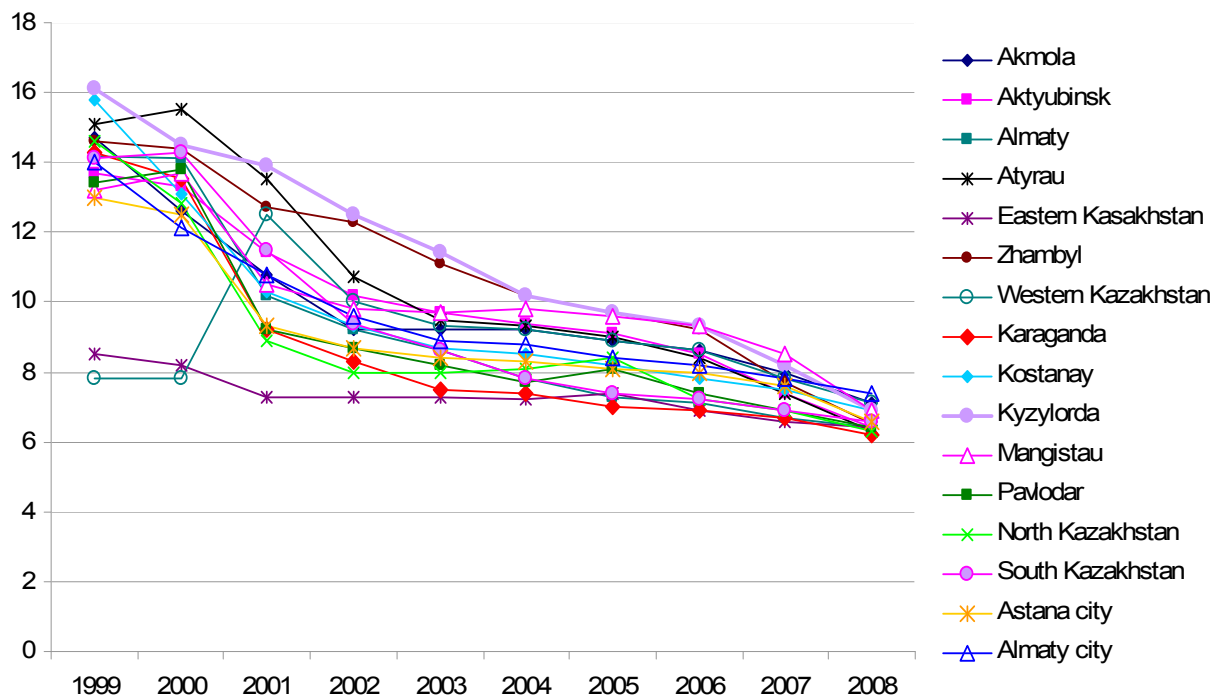
ployers and those who work independently including for example individual entrepreneurs and farmers). Statistical data shows that there are regional differences in shares of employees and self-employed. In 2010 the highest employee rates are present in Almaty city (92.3%), Astana city (92%), Mangistau (90.7%) and Atyrau (87%). Relatively high percentage of employees is observed in Karaganda (79.4%) and Pavlodar (76.5%). As concerns the share of self-employed workers, Zhambyl and South Kazakhstan are the two leading oblasts (52% and 47.4% respectively).

Such distribution is achieved due to attribution of farm owners that is majority of rural population to the category of self-employed. The highest level of average nominal monthly wages can be found in oil-rich Atyrau and Mangistau, as well as Almaty and Astana cities.

High wages in Atyrau and Mangistau are a result of the high level of labor remuneration in oil-extraction industry. However this branch offers limited employment opportunity. The lowest level of average nominal monthly wages appears in Zhambyl, North Kazakhstan and Akmola (Agency of Statistics of the Republic of Kazakhstan in 2010).

Figure 6.   **Unemployment rate**

Source: National human development report 2009

Education

At the end of 2003 99.5% of the population in Kazakhstan was considered to be literate (National Human Development Report 2004). The general school education in Kazakhstan (11 years) is compulsory and free for all citizens. Despite this assertion practically all schools charge some kind of money for school needs and this money should be paid by children's families, which is often a heavy financial burden for poor households especially in rural areas. Parents buy school uniforms, textbooks, and other learning materials, which are hardly affordable for many low-income families (Millennium Development Goals in Kazakhstan, 2005). Obviously, school enrollment in rural areas is substantially lower than in urban areas (see Roudoi et al., 2006). Another problem to be noted is that the school teacher's wages remain significantly lower than the average wages in Kazakhstan. This results in lack of qualified teaching staff. Many schools in cities and towns work in 2-3 shifts. In Mangistau, South Kazakhstan, Astana city and Almaty city in 2003-2004 there were schools working in 4 shifts (see Millennium Development Goals in Kazakhstan 2005, p. 132).
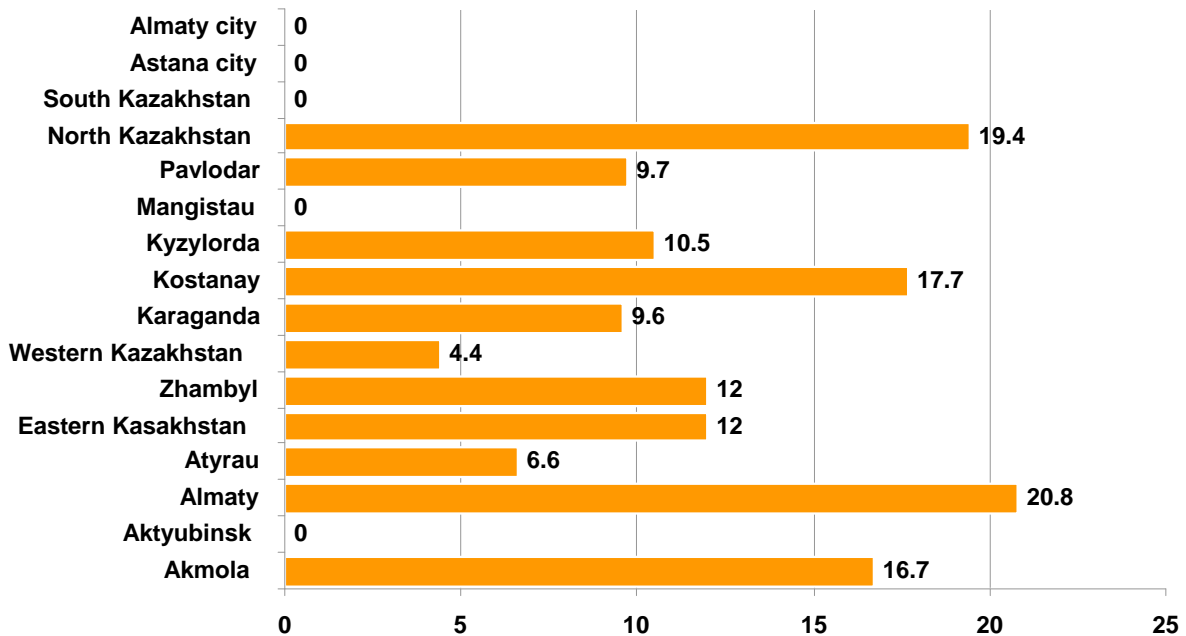
Kazakhstan faces different challenges in higher education sphere. Even though the excess demand for higher education was met through rapid expansion of the private sector, there still exists inequality in opportunities to get higher education because of the differences in quality level of secondary education. The latter is considerably worse in rural areas. Another crucial problem of higher education is a lack of fit between content of education and labor market demand. This resulted in high youth unemployment rates (see Weidman et al., 2004).

Weidman et al. (2004) argue that providing access to and improving the quality of education in rural areas is a common problem across Kazakhstan as well as corruption in admissions and awarding of students that are reported to be widespread.

According to National Human Development Report (2009) 40.2% of 16-year olds studied in colleges, while 3.9% were not at all enrolled in education in 2008. 36.3% of 16-year olds in rural areas were recorded as not enrolled in education, while in urban areas there were 34.7% more enrolled teenagers than those who are registered in these regions. This might be explained by the fact that colleges are mainly located in the cities. Figure 6 presents percentages of 16-year-old not enrolled in education in 2008. High ratios of 16-year olds in Akmola (16.7%) or Almaty (20.8%) who are not enrolled in education in 2008 are explained by this reason: both oblasts are located closely to biggest cities of Kazakhstan, Astana and Almaty cities, where the number of children enrolled in education by far exceeds their number defined according to the population accounting data (by 41.9 and 60.2% respectively, see National Human Development Report, 2009).

Figure 6.   **Proportion of 16-year-old not enrolled in education in 2008 (%)**

Region	Value
Almaty city	0
Astana city	0
South Kazakhstan	0
North Kazakhstan	19.4
Pavlodar	9.7
Mangistau	0
Kyzylorda	10.5
Kostanay	17.7
Karaganda	9.6
Western Kazakhstan	4.4
Zhambyl	12
Eastern Kasakhstan	12
Atyrau	6.6
Almaty	20.8
Aktyubinsk	0
Akmola	16.7

Source: National human development report 2009

Summary

Contemporary Kazakhstan is the most prosperous economy among the Central Asian post-soviet republics. Rapid economic growth of the country in 2000-2007 was mainly determined by successful oil industry development.

The highest economic output of the recent years was observed in two oil-rich oblasts on the shore of the Caspian Sea – Atyrau and Mangistau. However, high GRPs of these regions are not associated with higher living standards of people residing there. On the contrary, the poverty rates of Atyrau and Mangistau, especially in rural areas, are among the highest in the republic. There are considerable differences in economic growth, income distribution, unemployment rates and poverty levels across the regions of Kazakhstan. High poverty rates all over the country are substantially explained by unemployment status, large household size, low levels of education and rural location.

The two major commercial centers of the Kazakhstan – Astana city (capital) and Almaty city have the highest human development levels in the country and therefore could be considered the most attractive residence places. Because of the educational and labor market opportunities many citizens moved to these cities from other regions of Kazakhstan.

Almaty, Zhambyl and South Kazakhstan regions appear to be the poorest oblasts in Kazakhstan in terms of GRP per capita. Although the majority of population in these regions are employed in agricultural sector, the highest gross agricultural output is provided by other oblasts: Kostanay, North Kazakhstan and Akmola.

There is no doubt that Kazakhstan successfully completed some essential tasks in the last several years: in 1998-2005 the poverty level all over the country was significantly reduced, the level of unemployment decreased and reached the value of 6.6% (in 2008), universal primary education was achieved (in 2002). Nevertheless, uneven regional development, poverty in rural areas, low quality of social services, income inequality and environmental pollution still remain burning problems challenging the current government.

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Regions of Kazakhstan, 2008

North Kazakhstan

52

65

55

34

Kostanay

Akmola

Pavlodar

56

□ 4.1
Astana city ○

■ 65.5

Western
Kazakhtan

46

46

Atyrau ▲ 36.8

□ 81.3

Aktyubinsk

■ 4.9

52

■ 29.2

Eastern
Kazakhstan

▲ 12.6

Karaganda

22

▽ 8.7

42

□ 14.3

▽ 85.2

77

Mangistau

▲ 19.2

Almaty

▲ 31

Kyzylorda

65

62

Zhambyl

Almaty city

58

○

South
Kazakhstan

in % of national total

■ Coal

55   % of rural population in the region

▲ Oil

□ Iron ore

▽ Copper ore

300 km

200 mi