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In Search of Coherence: Kazakhstan's Trade and Industrial Policy

Sabit Khakimzhanov
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Abstract

This paper aims to explain the evolution of Kazakhstan's trade and industrial policy through an examination of official documents and declarations, policy-making processes and general government practices in the context of economic and geopolitical environment. The history of trade policy is presented in two periods: the liberalisation in the difficult 1990s and the rise in protectionism in the subsequent boom. The rise of protectionism coincided with a general reorientation of economic policies towards statism and is associated with improvements in fiscal and external balances and continued centralisation of political power.

Keywords

Trade Policy, Coherence, Liberalization, Trade Agreements, Industrial Policy, Industrialization, Subsidies, Import Substitution, Infant Industry, Integration, Policy Making, Protection, Protectionism, Protectionist, Rent Seeking, WTO, OECD, Kazakhstan, Customs Union, Dutch disease

JEL Codes: F130, O140, O190, O240, O250

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Acronyms

bln	Billion
CIS	Commonwealth of Independent States
CU	Customs Union
Decree	Decree of the President of the Republic of Kazakhstan
EBRD	European Bank for Reconstruction and Development
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNI	Gross national income
GNP	Gross national product
GOK	Government of the Republic of Kazakhstan
IMF	International Monetary Fund
ISI	Import substitution and industrialisation policies
LFA	Logical Framework Approach
MEDT	Ministry of Economic Development and Trade of Republic of Kazakhstan
MFN	Most Favoured Nation
MINT	Ministry of Industry and New Technologies
Plan 2020	Strategic Development Plan 2020
RIA	Regulatory impact analysis
SOE	State-owned enterprises
SEZ	Special Economic Zones
SPFIID	State Programme of Fast-Tracked Industrial and Innovative Development for 2010-2014
RGRK or Resolution	Resolution of the Government of the Republic of Kazakhstan
RK	Republic of Kazakhstan
TTRI	Trade Tariff Restrictiveness Index
US	United States
US$	United States dollar
WTO	World Trade Organization

1. Introduction

This paper analyses the evolution of Kazakhstan's trade policy as documented in official policy documents with the goal of better understanding and improving trade policies. These documents were analysed within the context of the larger political and economic environment. The research was motivated by the failure of Kazakhstan's trade policy to achieve its stated objectives and by the poor quality of the official documents themselves. Without attributing policy failures to the poor quality of policy documents, common factors that could be responsible for poor performance were identified, including issues of implementation, social acceptance, and other 'objective' factors cited by policymakers.

The poor efficacy of Kazakhstan's trade and industrial policy has long attracted the attention of observers. Sixteen years after submitting an application to the World Trade Organization (WTO), Kazakhstan is still not a member. In fact, as recently as in 2010 Kazakhstan erected a hurdle on the way of acceding to the WTO by becoming a member of the Customs Union (CU) with Russia and Belarus. This boosted trade with Russia, but trade diversion more than offset the gains from regional trade (although extraneous effects not directly related to the CU may have been more responsible for the bulk of the observed changes[1]). Bilateral agreements with neighboring countries initiated in the name of diversification generated little trade beyond traditional specialisation in commodity exports. Protection offered by the government in a few select areas has not resulted in the emergence of 'infant industries'.

The government has been much more successful in attracting foreign direct investment (FDI) into the oil production sector; trade boomed in the early 2000s in large part thanks to foreign investments. But the investments into the oil and mineral sectors were primarily driven by the forces of comparative advantage while the policy was merely accommodating. Performance of the industrial policy on the other hand was grossly underwhelming.

There have been numerous explanations for the inefficacy of Kazakhstan's industrial policy. The most cited one, and rightly so, is the Dutch disease, a loss of competitiveness on the part of domestic manufacturing that is ultimately traced to a mineral extraction boom, but is usually associated with the proximate symptom of real exchange rate appreciation. We readily acknowledge the role of the Dutch disease, but in this paper our focus is on government's capacity to formulate and successfully pursue interventionist trade and industrial policies.

The third part of the paper examines several representative policy documents for consistency. We analyzed some policy statements in terms of their quality using the elements of discourse analysis informed by economic research. In particular, we assessed the coherence of the policy documents, that is, the consistency of the underlying assumptions as well as the consistency of other trade policy documents and other types of policies. At this point we also took a critical look at design of the industrial policy programmes.

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1 Customs Union of Belarus, Kazakhstan and Russia: Trade Creation and Trade Diversion in Central Asia in 2010-2011, Roman Mogilevskii, University of Central Asia, Graduate School of Development, working paper #12, 2012.

Policy documents acted as a point of departure for a more multifaceted general analysis, informed by the larger context of macroeconomic, political, social and other developments. The assessment examines the ability of the documents to present a strategic vision and separate them from tactical decisions. In that assessment, a variety of sources and references were used, with a focus on presenting the larger picture that shaped trade policy and affected its quality rather than on academic rigor. Our analysis remains informal and subjective throughout.

2. Establishing Policy Benchmarks

2.1. Coherence Defined

Over the last two decades coherence has emerged as an important attribute of trade and development policy seen as critical to its efficiency. Initially, the notion has been promoted by OECD economies concerned with undesirable implications of uncoordinated provision of aid to less developed countries. The inconsistency between the policies advocated by different donors tended to undermine the credibility of all donors and aid in general. OECD's definition of coherence as "the consistency of policy objectives and instruments applied by OECD countries individually or collectively in the light of their combined effects on developing countries"[2] reflects the outlook of a donor country engaged in the business of shaping policies of a developing country receiving the aid. Apparently, this particular understanding of the term "policy coherence" was deemed too narrow and different from the meaning attached to it in the public discourse to merit a dedicated piece of terminology -- "policy coherence for development", or PCD. In fact, in its public-education series entitle OECD's states that

> *"Policy coherence for development means taking account of the needs and interests of developing countries in the evolution of the global economy… The converse, policy incoherence, would be actions that reduce current income and growth prospects in developing countries and thus run counter to aid policies that work to develop their competitiveness, i.e. their capacity to capture the benefits of globalization."*

The above definition equated coherent policies with good policies as they might be understood by the policymakers of the developing world. The more coherent is the policy, the better for the recipient country.

This view has not elicited universal support. Policymakers of LDC have been apprehensive of a drive towards coherence, fearing that "in the name of coherence we do create a networking behemoth which puts pressure on developing countries through cross-conditionality"[3].

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2 Fukusaku, K. and A. Hirata, 'OECD and ASEAN: Changing Economic Linkages and the Challenge of Policy Coherence', in 'OECD and the ASEAN Economies: the Challenge of Policy Coherence', edited by Fukusaku, Plummer and Tan, OECD, 1995.

3 Global Policy Forum, Harmonization and Coherence: White Knights or Trojan Horses? Bretton Woods project, August 2003 (http://www.globalpolicy.org/socecon/bwi-wto/wbank/2003/08knights.htm) as quoted in Robert Picciotto, Institutional Approaches to Policy Coherence for Development OECD Policy Workshop, May 24, 2013.

Another view is that a policy could be made more coherent by improving inter-government coordination. Obviously, when trade policy is developed as part of the overall economic policy, policymakers responsible for other components of economic policy do get a chance to influence the trade policy. However, inter-government coordination has a better chance of improving efficiency of overall economic policy, and its coherence, when it is achieved on the level of policy mandate rather than on the level of operational programs. While the overall consistency of economic policy may benefit, the internal consistency will most probably deteriorate. Kazakhstan's interpretation of the inter-ministerial coordination illustrates just such a case (See a discussion in Section 6.X). Second, PCD's main focus is on having LDC adopt the recommended policies, but not on building up domestic expertise or encouraging the establishment of an appropriate policymaking process. The problem of development is linked to the lack to analytical and managerial capacity. Yet, the technical assistance offered as aid rarely employs the domestic experts.

Some available sources use the term "coherence" as an intrinsic quality of trade policy that is "closely integrated with a country's overall development strategy."[4] A coherent strategy is thus seen as "a carefully designed, mainstreamed trade strategy — a vision of how a national economy, given its strengths and weaknesses, should link with the global economy — the indispensable point of departure for successful trade development. Without such a blueprint, it will be difficult for countries to set goals and evaluate progress towards them, to assign responsibility for critical tasks, to conserve scarce financial resources and personnel and to make good use of available development assistance. Indeed, there are no cases of developing countries that have made major advances in trade performance without such a strategy."[5] The Overseas Development Institute (ODI) defines "Policy coherence" as "…a relational concept," which "is present when a) objectives of policies are complementary rather than contradictory and b) when the impacts of policies are in tandem."[6] The handbook also proposes a negative operational definition -- if the policy contains no incoherent elements then it must be coherent.[7]

2.2. Ideal Policy Process

A systematic approach to addressing an economic inefficiency starts with the identification of its root causes. Is it a market failure? And if yes, does it stem from imperfect information, economy of scale, and externality, or some combination. Without identifying the cause of the problem the policymakers cannot expect to be able to address it. In fact, the poorly informed intervention often exacerbates the market inefficiency to the point where the policymakers are compelled to intensify the intervention. This is one of the cases where the problem lies not with the market, but with the government. Often, governance failure is understood as a principal-agent problem where the government as an agent is summoned to act in the best interests of the public, the principal. In other cases, the problem could be traced to the dy-

4 Organisation for Economic Cooperation and Development (OECD), *Development Assistance Committee's Guidelines on Capacity Development for Trade in the New Global Context*, (Paris: OECD, 2001), 7

5 OECD (2001), 33.

6 Christopher Stevens and Lauren Phillips, Creating Country Trade Negotiating Strategies: A Handbook (London: Overseas Development Institute and the Commonwealth Secretariat, 2008), V.

7 Stevens and Phillips (2008).

namic inconsistency of government plans[8]. For example, tax incentives to investors often fail to generate long-term investments because of the inability of the government to commit to low tax. Increasing the ex-ante incentive only undermines the credibility of the promise and thus tends to be counterproductive.

A next stage is the development and comparative analysis of the alternatives. If an alternative mechanism is found to be superior, the policymakers discuss the issues of implementation, such as the capacity to administer the new mechanism, especially if it relies on information-intensive decisions, implications for the budget and other stakeholders, the costs of compensating the net losers, and sources of financing. At this stage, and any other stage of the policy analysis process, the intervention could be found not worth pursuing. This outline of an ideal policymaking process establishes a benchmark against which the policymaking process in Kazakhstan could be measured.

An even more process-focused approach to developing industrial policy has long been advocated by Rodrik[9]. He is one of the most respectable economists defending industrial policy. Yet, his defense has always been provisional. In his analysis of South Korea's and Taiwan's experience with industrial policy, Rodrik argued that their success depended on the right conditions being present at the time. Among these were "a competent, honest and efficient bureaucracy to administer the interventions" and "an exceptionally high degree of equality in income and wealth," which is necessary to forestall rent-seeking in the administration of the industrial policy. When these conditions are not in place, "bureaucrats have wide latitude in implementing policies, while remaining in the dark about the nature of the root problems. Spending ministries make budget allocations with little capacity to evaluate the impact of their decisions. Bureaucratic routine rather than economic logic determines much of the behavior on the ground. And powerful groups and lobbies typically exert significant influence on the policy process."[10]

Rodrik believes that an ideal industrial policy is better thought "as a discovery process – one where firms and the government learn about underlying costs and opportunities and engage in strategic coordination". In Kazakhstan this process appears to have been shortened. The economic analysis stage is either absent or performed at the level of assertions and qualitative conclusions. There is no model-based and data-driven analysis informed by current research on market and government failures. In that regard, Rodrik's understanding of the policy making process is reminiscent of Regulatory Impact Analysis, a compendium of recommendations on how to introduce government policies adopted and adapted by each OECD country and now promoted by the World Bank.

Industrial policy usually is justified as a cure to a market failure. In Kazakhstan it was perceived as part of a "Kazakh cure to Dutch disease". By directing capital to the sectors which

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8 Kydland, F. E.; Prescott, E. C. (1977). "Rules Rather than Discretion: The Inconsistency of Optimal Plans". *Journal of Political Economy* 85 (3): 473–492. JSTOR 1830193.

9 Dani Rodrik, "Industrial Policy for the Twenty-First Century." *Kennedy School of Government (KSG) Faculty Research Working Paper Series* RWP04-047, (November 2004) http://web.hks.harvard.edu/publications/workingpapers/citation.aspx?PubId=2135

10 Dani Rodrik, "Normalizing Industrial Policy," *Paper prepared for the Commission on Growth and Development,* Kennedy School of Government, (Revised, September 2007).

private capital tended to keep away from, the government could produce an allocation that was superior to the market's.

It is common knowledge that markets work poorly in developing countries. Yet in Kazakhstan, the case for government failure in the context of industrial policy could be just as strong. The constraints under which the market operates in developing economies and which are responsible for market failures affect the ability of government to operate the efficiently just as much.

The dismal performance of the industrial policy has much to do with the competitiveness gap, made wider by Dutch disease. In fact, the failure of the government to anticipate may justify industrial policy on grounds other than economic efficiency, for example, in defense of strategic interests. But Dutch disease does not automatically indicate a market failure. Since industrial policy presents immense rent seeking opportunities that some officials capture their support for the industrial policy could be qualified as a case of principal-agent problems.

Dutch disease in Kazakhstan to a degree is a result of a loose fiscal policy. Fiscal A tighter fiscal policy could do as much as subsidies and tax breaks to boost competitiveness of the non-resource producers and in a more neutral way. The third reason for poor functioning of the markets in Kazakhstan has to do with government and regulation. The uncertainty that investors face in Kazakhstan stems in part from the failures of public institutions to create a stable, transparent and understandable environment. A weak judiciary raises the risk of unfair and unjust adjudication. The investors in long-term infrastructural projects are concerned about the government not honoring its obligations due to time-inconsistency of government policy with investors.[11] The inability, perceived or otherwise, of the Government of Kazakhstan (GOK) to commit ex ante to honor investors' claims ex post is a risk that foreign investors either accept in expectation of extra reward or mitigate by having their respective governments flex geopolitical muscles. Because of that the policies that aim to encourage foreign investment could be counterproductive. Preferential tax treatment is always an ex ante promise. The more attractive is the promise ex ante the greater is the risk that the government will renege on it once the investor committed the bulk of its investment.

The government programme for Import Substitution in Light and Food Industries for 2001-2003 is a more sectoral and less trade-related programme. The first Government document in which Kazakhstan's authorities presented a concrete plan close to the foreign trade policy came into force in 2006. The name of this document is the Resolution of the Government of the Republic of Kazakhstan dated 25 May 2006 #456 On Approval of Plan of Activities to Create an Effective System for Developing Non-Resource Exports and Attract Wide-Scale Investments into Processing Industries for 2006-2007.[12]

The first time the government announced its intention to reduce resource dependence was in 1992, in the Strategy for Formulation and Development of Kazakhstan as a sovereign nation. The government planned to stabilise the consumer market from 1992 to 1995, shift from a

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11 Finn E. Kydland and Edward C. Prescott, "Rules Rather than Discretion: The Inconsistency of Optimal Plans,"*Journal of Political Economy* 85, No. 3 (1977). 473–492.

12 On approval of 2006-2007 Measures plan for creating an effective system of Promotion of Non-Oil Export and attraction of large-scale investments into the food processing industries, Resolution 456, May 25, 2006

resource-based economy to manufacturing, develop infrastructure within 7 to 10 years, and within the next 5 to 7 years become one of the newly industrialised countries. These targets seem overly optimistic. A new industrialised country is the one with manufacturing producing at least 20%of the gross domestic product (GDP).[13] Kazakhstan's manufacturing sector is far from reaching this benchmark, and the economy remains resource-based.

The import substitution and industrialisation (ISI) policies are, by design, interventionist and motivated by the failure of the market to arrive at a desired outcome. A market-based approach would be to repair the failure and let the market do the rest, but the ISI policies tend to use direct intervention instead. In ISI, the government often supplants private agents and makes allocations itself. To carry out direct allocations, the government retains state-owned enterprises (SOEs) as policy tools. As a shareholder, the government directs the SOE to make the desired allocations. As a policy, such direct intervention cannot be evaluated by the same criteria used to evaluate policy in the market-based economy.

The government supplants the market by sending direct orders to the SOE to make capital allocations according to the plan. Industrial policy that has long been abandoned by mainstream economics made a strong comeback in the 2000s as a valid policy tool. The instruments of trade policy have traditionally been a part of the industrial policy arsenal while industrial policies have been subject to restrictions embedded in trade agreements and trade regulation.

3. Overview of Trade and Industrial Policy

Prior to 1999, Kazakhstan pursued a policy of economic liberalisation and generally stood firm on the principles of free trade. The trade policy declaration to this effect was made in a 1992 The Strategy for Formation and Development of Kazakhstan as a Sovereign Nation,[14] in which the government set the course for "openness in foreign trade, export promotion, minimal import restrictions, uniform import tariff, optimal national currency exchange rate and favourable environment for external investments." Declarations aside, actually adopted policies and practices were very restrictive of trade, especially commodity exports. At the time, the government experienced acute shortage of money and trade taxes were perceived as an easy way to raise revenues. In January 1994, the government imposed export quotas and licensing requirements and mandated that exports of "strategically important commodities" be controlled by state-owned trading companies. Import tariffs were raised on luxuries, while export restrictions were introduced with the aim of appropriating up to 100% of hard currency proceeds. By creating a burdensome and corruption-prone environment, these policies may have accelerated the capital flight which they were supposed to halt and harmed Kazakhstan more than any of its trading partners.

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13 Based on definition described in E. Alpay Er, "Development Patterns of Industrial Design in the Third World: A Conceptual Model for Newly Industrialised Countries," Journal of Design History, 10, no.3, (1997), 293-307.

14 The Strategy for Formation and Development of Kazakhstan as a Sovereign Nation, May 1992.

However, the gap between the stated intent and the adopted practices soon began to narrow, and trade policy became more sensible when international donor organisations took interest in it. At the time, the interests of the United States (US) government in Kazakhstan reflected the corporate interests of US-borne, Kazakhstan-bound FDI. Export restrictions and other "suffocating regulations" were at the top of the list of their grievances.[15] Meanwhile, the government discovered that its budget woes were easier to resolve through cooperation with the international donors. The US government provided technical assistance for the accession to the General Agreement on Tariffs and Trade (GATT). Kazakhstan's exports of titanium and uranium into the US were freed from accusations of dumping. In 1993, the GOK drew its first tranche of US$83.5 million under the International Monetary Fund (IMF) Systemic Transformation Facility. As was standard at the time, the agreement with the IMF contained fairly strong provisions for free-trade.[16] The agreement stipulated that the GOK gradually, but not later than in 1996, eliminated the quota and export license system. This promise was enshrined in the next policy document[17] and fulfilled without delay. Over the next few years, the government continued to make intermittent progress fin terms bringing the practices in line with the declarations of free trade policy.

In late 1990s the government abruptly slowed the pace of economic liberalization, in many cases reversing achievements in decentralization already made. Since then the economic policy, slowly, but steadily, has been sliding towards statism, while the government continued to assert commitment to market reforms. Industrial policy and protectionism.

Several factors were recognized behind this shift. One was the persistent improvement in the terms of trade beginning in 1999. The rapidly rising oil revenues relaxed the budget constraint, providing resources to experiment with the interventionist policies. This freed the government from its dependence on the IMF and its conditionalities. Another factor was the success of market reforms, especially in the banking sector and in privatisation processes. Kazakh banks emerged from the 1990s restructured with clean balance sheets, transparent and ready to lend to the rapidly growing economy. Additionally, as a consequence of the Asian crisis, the strength of IMF convictions in the merits and the efficacy of conditionalities and other orthodox recommendations dwindled. Most immediately the managers of state-owned companies became increasingly influential in their criticism of the privatization program. In late 1997, the prime minister, who devised and oversaw the privatization program, was replaced by an executive of a state oil company.

The shift produced a discrepancy with the earlier policy declarations, some of which retained the status of active government documents. The last significant policy statement consistent with the free trade paradigm could be found in Strategy 2030, an official blueprint for long-

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15 US Department of State, *Kazakhstan Economic Policy and Trade Practices*, (Washington DC: US Department of State, February 1994). http://dosfan.lib.uic.edu/ERC/economics/trade_reports/1993/Kazakhstan.html

16 See for example, discussion of IMF's Articles of Agreement in International Monetary Fund (IMF), *The IMF's Approach to International Trade Policy Issues*, (Washington DC: Independent Evaluation Office of the IMF, 2008). http://www.ieo-imf.org/ieo/files/issuespapers/Trade_IP.pdf.

17 The Action Programme for Deepening Reforms and Overcoming Economic Crisis, Decree 1802, June 15, 1994.

term economic development issued in 1997. At the same time, the industrial policies initiated in early 2000s[18] were positioned as deriving from the objectives outlined in Strategy-2030.

The government was further motivated to diversify the economy in response to the financial and economic vulnerabilities of small commodity exporters. The crisis of 2007-2009 marked the beginning of the third period in trade policy, when the role of the budget constraint in policy making began to rise. This period's policy is represented by three documents, all adopted in 2010 when the government modified its ISI policies after earlier attempts at diversification failed. This period was also marked by Russia's sudden renewal of ultimately successful efforts to form a customs union with Kazakhstan and Kazakhstan's quick acquiescence after years of prevarication.

The shift in Kazakhstan's trade policy stance has been cannot be understood without the context of the crisis that the economy was undergoing at the time. After several years of double digit growth, Kazakhstan's economy by 2007 was overextended and vulnerable. After a "sudden stop" and a severe terms-of-trade shock triggered a major banking crisis. The economy was expected to shrink by more than 2 percent. The government was compelled to spend US$10bn from the National Fund, an offshore account that accumulated oil revenues since 2001, to rescue the failing banks and on public works. None of this came from the budget, however. The government channeled this stimulus through state-owned companies. The stimulus was funded by long-term debt from Russian and Chinese sources, sovereign or quasi-sovereign. A large part was used to support the financial sector, but many projects benefitted bilateral trade and helped the companies from the two large neighbors to gain firmer footing in Kazakhstan through FDI, including projects previously considered off-limits to foreign investors.

3.1. The World Trade Organization and the Customs Union

Further integration with Russia was among the implications within days of signing an agreement with a Russian state-owned VneshEconomBank on funding, the Russian government revived talks of the Customs Union (CU). After more than a decade on a low burner, the CU agreements were signed within a year. Kazakhstan, which planned to accede to the WTO, had to put off the accession indefinitely.

Entry into the CU lowered the benchmark for the investment climate that the GOK was targeting. In late 2010, the GOK stated that "with the accession into the CU, the issues of Kazakhstan's investment attractiveness come to the forefront of competition for investments."[19] while obliquely acknowledging the lower standards by stating that the "investment climate of Kazakhstan should be at least as attractive as in the other countries-members of the CU." In fact, as a member of the CU, Kazakhstan may have become less ambitious about improv-

[18] See for example, Programme of Import Substitution in Light and Food Industries in 2001-2003, Resolution 1088 August 20, 2001

[19] The Programme for Attracting Investment, Creating Special Economic Zones and Promoting Export in 2010-2014 , Part 2. Introduction.

ing its investment climate, and constrained due to the required harmonisation with Russian legislation.

Besides, "the Eurasian Economic Commission, a newly established supranational body of the community, is expected to gradually take over a number of responsibilities from the national authorities in areas such as competition policy, technical regulations and environmental standards. Key decisions will be taken by the Council of country representatives based on the "one country, one vote" principle. Thus far there is not much evidence that the integration process under the Russia-Kazakhstan-Belarus Customs Union (CU) has increased trade, but larger benefits are likely to come from gradually liberalising services sectors and market access within the economic union."[20]

4. Trade Performance and Trade Policy

The pattern of Kazakhstan's external trade seemed to have had little connection with trade policy, and followed instead the logic of comparative advantage, terms of trade and the real exchange rate. The mineral wealth implied a strong comparative advantage and so Kazakhstan was bound to become an exporter of minerals and other cash commodities. Kazakhstan specialized in the production of commodities in Soviet times and was highly dependent on importing consumer goods, investment goods, intermediate goods, financing and knowhow from Russia. With independence, a large chunk of trade was diverted from Russia to global markets, but specialisation in commodities only deepened.

Lacking the financial resources and institutional and technical sophistication required to transform its mineral wealth into money, Kazakhstan attracted a FDI in the mineral sector. In late 1990s, after a few years, production and exports of oil and minerals took off, coinciding with the beginning of an extended boom in commodity prices. A large chunk of export revenue, however, went to the foreign investors (as evidenced in a huge gap between GDP and gross national product (GNP)), a legacy of FDI-driven development that is bound to weigh on income growth during the payback years. The trade account went firmly into a surplus, while the current account remained roughly in balance, as imports of services (mainly demanded and paid for by FDI projects) and repatriation of profit by FDI offset the trade surplus. A large part of what remained was claimed by the GOK in the form of taxes and its share of equity income in joint ventures, and used to fund the budget deficit, and bolster the National Fund,

Kazakhstan is a typical member of a group of countries relying on exports of petroleum and gas. The qualifying statistic, the share of hydrocarbons in exports, was 72% for Kazakhstan and 69% for Russia, making both countries highly dependent on oil revenue (see Tables A1.2 –A1.3). For typical oil exporters, both countries have a relatively large share of manufacturing in GDP. Despite years of rapid economic growth, Kazakhstan is a leader in terms of the stock of FDI per unit of gross national income (GNI) and in terms of the share of GDP accrued to foreign factors of production. These metrics make Kazakhstan an outlier. As all other large oil exporters, Kazakhstan exhibits the symptoms of Dutch disease as evidenced by the low

[20] EBRD, Transition Report 2012, (London: EBRD, 2012),[1]21

proportion of manufactured goods in GDP. In the five years from 1995 to 2010, the share of primary commodities in exports rose from 62% to 88%.[21]

In terms of openness to trade, Kazakhstan ranks in the middle of its CIS peers. The EBRD index of trade and foreign exchange liberalisation assigns Kazakhstan's external account regime a value of 3.7; below Ukraine (4.0) but above Russia (3.3). This value reflects existing tariff and non-tariff restrictions to trade, the unevenness and arbitrariness of their application, the remaining "non-uniformity of customs duties for non-agricultural goods and services," and the lack of "current account convertibility." [22]

To what extent Kazakhstan's relatively open trade regime could be attributed to the concerted efforts of the policymakers? Kazakhstan's openness to a large extent was a necessity borne of strong comparative advantage in production of commodities. Kazakhstan's manufacturing has been too weak and not sufficiently entrenched to lobby effectively for protection. Given that by late 1990s manufacturing had been a much greater presence in both Ukraine and Russia, the EBRD index would have to be adjusted for the presumably much weaker headwinds that free trade policies were facing in Kazakhstan. In fact, Kazakhstan's policymakers seem to have been either preoccupied with the industrialization on their own volition or have been much more sensitive to the demands of the virtually non-existent manufacturing.

Another often-cited rationale for tariff restrictions is budget revenue. In Kazakhstan, import tariffs and excises contributed only a small part to the total tax revenues (between 3.3% and 6.8%) in the past seven years.[23] Revenue has not been a decisive consideration in shaping Kazakhstan's import tariffs.

5. Review of Policy Documents

Policy statements of the 2000s marked beginning of industrialization policy in Kazakhstan, signaling an end to the liberalization reforms of the mid-1990s (see Table A1.1). One of the last significant documents to state (and mean) economic liberalisation was the 1997 policy declaration Strategy 2030. Subsequent policy documents changed the direction, although the ultimate objective of making Kazakhstan into one of "the most secure and stable countries with a dynamically developing economy" persisted.[24]

Among the policy principles outlined by Strategy 2030 were the declaration of the "limited role of the state in economic affairs through the removal of existing government intervention to trade and production" and the commitment to "open and liberal investment policy with clear, effective and strictly observed laws executed by impartial administration as the most powerful incentive to foreign investments."

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21 Calculations based on Kazakhstan's data processed and published by UNCTAD Statistics http://unctadstat.unctad.org/

22 EBRD, http://www.ebrd.com/russian/pages/research/economics/data/macro.shtml

23 The share of VAT on imports varied from 10.1% to 16.1%.

24 Strategy "Kazakhstan 2030", in: Nursultan Nazarbayev, Prosperity, Security and Ever Growing Welfare of all the Kazakhstanis. Message of the President of the country to the people of Kazakhstan

Subsequent policy statements focused more on the details of the desired allocation of capital. The first two programmes effectively represent one plan that had been revised halfway through implementation. Thus, while the initial version of the three-year country development plan was called a Strategic Plan and covered 1998 to 2000, during its last year and a half of implementation (1999 to 2000), it was transformed into the Programme of Actions of the Government of the Republic of Kazakhstan.

The principles of liberal trade embedded in earlier documents (such as the Strategic Plan of Development for 1998-2000) were replaced as the government was compelled to "...apply protective measures to support the national production sector from adverse external factors… ." This is evident in the revised objectives of the programme, which were framed as "establishing favourable conditions for attracting investments in the economy, for ensuring development of agro-industrial sectors, for conducting import-substitution policy and for protection of domestic businesses from unfair competition, for expansion of diversification of international exports and for increasing relevance targeting of social assistance."

Some "protective measures" were based on macroeconomic tools such as tax, budget, and monetary policies to "promptly overcome the crisis and ensure economic growth." The intent to protect was evident in statements which proclaimed the trade policy rationale for the next two years: "Foreign trade policy for the period will be based on the need to protect domestic businesses and to promote expansion of Kazakhstani goods and services to global markets." Soon after the Strategic Plan had been adopted the government began to depart from the principles outlined in it. The Strategic Plan for 1998-2000 was approved in September of 1999, but at the beginning of 1999, an EBRD report noted that "temporary trade barriers against selective Kyrgyz, Uzbek and Russian goods have set back liberalisation and have damaged regional trade prospects."

In fact, the principles of trade liberalization appear to have never been fully espoused by Kazakh policymakers while free trade policies were imposed on the government of Kazakhstan by international institutions using one leverage or another. The same EBRD report further noted that "for the former two countries, these restrictions were lifted during the second half of the year. The abolition of all select trade barriers would be a precondition for WTO accession."[25] The report went on to say, "Following the abolition of select customs tariffs against neighbouring countries in August 1999, the 50% surrender requirement on current account transactions was lifted in November. Kazakhstan has committed to a simplification of its tariff schedule under the December 1999 IMF agreement."[26]

In 1999, Kazakhstan adopted another development programme, this time aimed at sustainability, or "ensuring sustained economic growth while observing critical macroeconomic parameters – the effective (real) exchange rate, low inflation rate and national budget deficit, and the national balance of payments." To attain this objective the GOK again affirmed its commitment to trade openness, aiming this time at "maximisation of external economic relations for the purposes of assisting with restructuring of the national economy, establishing competitive industries that serve the needs of domestic consumers and assist with promotion of Kazakh-

25 EBRD, *Transition Report*, (London: EBRD, 1999): 230
26 EBRD, *Transition Report 2000*, (London: EBRD, 2000),174

stani products and services overseas, while improving balance of payments and trade balance." However, the actual policies remained restrictive**.** During 2001-2002, EBRD reports that "Kazakhstan continues to intervene in domestic markets in ways that are not compatible with WTO rules, for example, by imposing export bans on fuel products and more recently timber."

This caused "The WTO accession process enters into a critical phase. … Critical issues on the agenda included the restriction of protective measures before accession, the tariffs for agriculture, food processing and other light domestic industries, the liberalization of domestic services to foreign entry, and the reduction of domestic subsidies, particularly for farmers."[27] Meeting these WTO requirements on further trade liberalisation was difficult in light of the introduction of the government programme for Import Substitution in Light and Food Industries for 2001-2003," which commenced in August 2001. Indeed, according to one of the Programme's measures, "all types of high priority foodstuff for import substitution were subject to imposition of highest marginal imports tariffs." [28]

5.1. A Case Study: Strategy 2030

Strategy 2030 affirmed further trade liberalisation "to determine the direction for Kazakhstan's long-term development towards being one of the world's most secure and stable countries with a dynamically developing economy."[29] The Strategy outlined the "ultimate goal for the nation" and "set out the priority objectives for its achievement." The ultimate goal was defined as building an independent, prosperous and politically stable state of Kazakhstan. The 2030 Strategy outlined seven long-term priorities addressing issues ranging from national security to professionalisation of the public administration. The third priority is the establishment of an open market economy with high levels of foreign investment and domestic savings, and the Strategy outlines ten fundamental principles in support of this goal, including:

- Limited role of the state in economic affairs through the removal of existing yet government intervention to trade and production; and
- An open and liberal investment policy with the clear, effective and strictly observed laws executed by impartial administration as the most powerful incentive to attraction of foreign investments.

Developing such a policy should be a priority, because Kazakhstan cannot achieve rapid economic growth and modernisation without foreign capital, technology and experience.

The principles of liberal trade embedded in earlier documents (such as the Strategic Plan of Development for 1998-2000) have been replaced as the GOK was compelled to "...apply protective measures to support the national production sector from inauspicious impacts, i.e. external risks."

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27 European Bank for Reconstruction and Development (EBRD), Transition Report 2002, (London: EBRD, 2002), 174

28 Programme of Import Substitution in Light and Food Industries in 2001-2003, Resolution 1088 August 20, 2001

29 Ailuna R. Utegenova, *Kazakhstan's 2030 Development Strategy: Significance and Results* (Place: Publisher, date) www.core-hamburg.de/documents/yearbook/english/10/Utegenova-en.pdf

This new stance was registered in the revised objectives of the programme, stated as "establishing favourable conditions for attracting investments in the economy, for ensuring development of agro-industrial sectors, for conducing import-substitution policy and for protection of domestic businesses from unfair competition, for expansion of diversification of international exports and for increasing relevance targeting of social assistance." In particular, adjusting the macroeconomic policy including tax, budget, and monetary policies was proposed to help Kazakhstan overcome the global economic crisis and ensure economic growth. In the sections addressing foreign trade policy, protectionist intentions were reflected, as they are throughout the whole strategy: "Foreign trade policy for the period will be based on the need to protect domestic businesses and to promote expansion of Kazakhstani goods and services to global markets" (see Table A1.1).

Table 1. Trade restrictiveness index for Kazakhstan

	2000-2004	2005-2008	2006-2009	2001	2006	2007
TTRI (MFN applied tariff) - All Goods	9.87	2.06	2.05	9.87	2.06	2.05
TTRI (MFN applied tariff) - Agricultural (AoA) Goods	27.62	2.44	2.44	27.62	2.44	2.44
TTRI (MFN applied tariff) - Non-Agricultural Goods	6.22	2.02	2.02	6.22	2.02	2.02
OTRI (MFN applied tariff+NTMs) - All Goods	16.81	12.40	12.40	16.81	12.40	12.40

Notes: MFN: Most favoured nation, TTRI: Trade Tariff Restrictiveness Index, OTRI: Overall Trade Restrictiveness Index, NTM: Nontariff measure
Source: World Bank

5.2. Programme of Import Substitution in Textile And Food Processing

Adopted in 2001, the Programme of Import Substitution in Textile and Food Processing is one of the earliest statements of industrial policy in Kazakhstan. It continues the long tradition of ISI in the developing world. It is also among the least coherent of Kazakhstan's ISI programmes due to the incongruence between unrealistic targets and a short timeframe (2001-2003).

According to one of the Programme's measures, "all types of high priority foodstuff for import substitution were subject to imposition of highest marginal imports tariffs." The Trade Tariff Restrictiveness Index (TTRI) reached its highest value of 9.87 (see Table 1). The Programme clashed with the WTO accession process, the preconditions for which included "restriction of protective measures before accession, the tariffs for agriculture, food processing and other light domestic industries, the liberalisation of domestic services to foreign entry, and the reduction of domestic subsidies, particularly for farmers."[30]

In 2003, EBRD concluded that "after eight years of negotiations, there is still no clear target date for WTO accession. Kazakhstan has been unwilling to offer significant concessions on

[30] EBRD (2002), 174

market access for goods. Protection of agriculture, including through high tariffs, domestic support to various sectors and export subsidies have been particularly difficult issues in the negotiations."[31]

The quality of the document is highly uneven. It demonstrates a rather distorted view of the market and is based on overly optimistic assumptions about government's ability to influence economic outcomes in arbitrary directions. As both a policy statement and a working document it represented a rather naïve understanding of what was required to achieve the stated objectives. The desired outcomes and the required allocations are not supported with the delineation of mechanisms, analysis of incentives, allocation of responsibilities, sources of financing, etc. For example, a section in the "Main directions and the mechanism of realisation" reads,

> *"In food processing… priority will be given to … products where the share of imports is high … such as … breakfast cereals made from grains (flour) of wheat, barley, rice, corn, oats, and their mixes (flakes, rings, stars, balls, etc.), diet flour, dairy mixes, instant cereals…" and the list goes on and it is specified that "In each case, the balances of production capacity and the availability of domestic supply of agricultural raw materials must be accounted for." The government's role is not explicitly stated but the intent to control the allocation of private capital is evident. Conspicuous by missing are the acknowledgement of the immense informational requirements necessary to execute such an ambitious undertaking and the analysis of the government's ability to meet them..*

The document is predominantly worded in jussive mood, expressing the necessity of the desired outcome, but is otherwise ambiguous, particularly with regard to implementation. The orders are rarely justified by objectives or assigned to institutions and when objectives are defined, the targets are unrealistically high or the deadlines are arbitrarily tight. Declarations of desired outcomes are common in ISI policies because they often call for direct government intervention, but in this document, they are particularly unrestrained. In many cases extremely low effort actions meeting.

Some performance indicators were not measurable, such as "to restore and accelerate comprehensive growth in light and food industries, (and) to bridge technological gaps." Some indicators had no matches among the objectives. Within the document, the incongruence between the excessively ambitious stated objectives and extremely low effort actions meeting was jarring. The call "to develop mechanisms of preventing the importation of uncertified products" within four months was not supported by either a clear rationale for the action or the institutional capacity to deliver.

5.3. Industrialisation of 2010

By 2010 the ISI policies have been somewhat modified, after a decade of unsuccessful attempts at industrialization. In 2010, the GOK adopted three related policy documents:

[31] EBRD (2003), 156

- Strategic Development Plan 2020 (Plan 2020)
- State Programme of Fast-Tracked Industrial and Innovative Development for 2010-2014 (SPFIID)
- Programme for Attracting Investment, Creation of Special Economic Zones and Export Promotion for 2010-2014.

The overriding objective of the policies, as outlined in these documents, was to transform Kazakhstan into "one of the most competitive and dynamically developing countries in the world."

These documents offer numerous examples of unrealistic targets set for poorly-specified variables over which the government had only a limited control. For example, the target for the share of non-resource exports was set at 40% in 2014 and 45% in 2020. In reality, in the first two years of the programme, the share of non-resources exports slid from 27.8% in 2009 to 25.2% in 2011. Setting too-high targets is a likely outcome when policymakers have little knowledge about the variable they need to target. To our knowledge, the government did not publish any studies corroborating the feasibility of the targets. As a result, the target setting seems to have been ad hoc. Part of the problem is the choice of target indicator. Its value depends on the evolution of commodity prices as much as on the success of the diversification policies. In this context, the informational and motivational value of the target variable is severely compromised. A more appropriate indicator would be based on weights computed in constant prices.

5.4. A Case Study: Directions of Industial Policy

The Programme for Attracting Investment, Creating Special Economic Zones, and Promoting Exports in 2010-2014 has a somewhat greater level of granularity than the other documents. The Programme was adopted in late 2010 by a Prime Minister's decree. It assigned the Ministry of Industry and New Technologies (MINT) and other 'concerned' ministries and local administrations to execute the Programme. The Programme was developed by MINT and was part of Plan 2020 and SPFIID, both of which were adopted early that year. The Programme document should therefore represent a somewhat more detailed and hands-on policy document.

The stated objective of the Programme was to "create attractive conditions for direct investment into non-resource export-oriented and high-tech production and integration into the world trading system through promotion of processed exports." To achieve the objective, MINT identified the main tasks to be completed by 2014. Some task descriptions merely paraphrased the objective or the title, but some went further, including: "Perfecting the terms of attracting investment. Promoting positive investment image of Kazakhstan. Creating new Special Economic Zones (SEZ) and industrial zones. Improving legislation for regulation of SEZ. Contribute to development and promotion of exports by way of proving service support to exporters. Provision of financial support to exporters."

The target indicators for 2014 were stated as follows:

1. Attract 18 target investors from among Global-2000 corporations.
2. Investment into non-resource sectors to grow by at least 15%.
3. Foreign direct investment to GDP ratio to increase by 5 percentage points.
4. Diversify the sources of investment (to have 7 countries of origin contribute more than 5% to the total investment.
5. Conclude agreements with foreign countries on encouragement and reciprocal protection of investments.
6. Attain ranking in WEF's Global Competitiveness Index in category "Impact of FDI regulation on business" from 109 to 102 and in category "FDI and technology" from 113 to 108.
7. Improve Kazakhstan's standing in "Doing Business" in category "Protection of investors."
8. Create by end 2011 two SEZ: industrial in Karaganda to develop metallurgy and metal works and one on the border with China (as part of the logistic infrastructure for the Western Europe-Western China project to develop processing, transportation and logistics services).
9. Create SEZ based at Nazarbayev University.
10. Create five industrial zones by end 2014.
11. Raise the number of participating entities in SEZ from 39 to 159 in 2015 and in industrial zones to 42 in 2015.
12. Increase investment in non-resource export-oriented and high-tech production located in SEZ to 1588 bln tenge in 2015 and located in industrial zones to 151 bln tenge.
13. Increase production of goods and services on the territory of SEZ from 21.9 bln tenge in 2009 to 718 bln tenge in 2015, in industrial zones to 719bln tenge, of which exports will constitute at least 50%.
14. Non-resource exports will constitute at least 40% in 2015.

The budget resources allocated for this programme were 19.6 bln tenge, of which 1.4 bln were allocated to attracting FDI, 13.5 bln on building SEZ, and 4.7 bln to encourage exports.

Building SEZ dominates the government's agenda in this document, both in terms of budgetary resources and the details in the descriptive part of the document. Six out of fourteen indicators (8 to 13) describe targets directly related to SEZ and all other indicators are closely related to SEZ performance. The target variables for SEZ are specific, such as the number of participating corporations (11), the amount of investment (12), the value of goods produced (13), or the share of non-resource exports (14). Some indicators (13 and 14) are also highly correlated with the ultimate objective of any industrial policy – raising domestic industrial production.

The target levels for these variables are set overly precisely, with three or four non-zero digits. Specificity, relevance and precision are limited to long term indicators (11 to 13). In contrast, the only near term target (creating two SEZ in 2011 lacks binary and uninformative and easy to game without more specific requirements to scale and impact of SEZ. Other indicators are similarly poorly designed.

Indicators 6 and 7 are the exception in that they are relevant to the main objective of creating attractive conditions for investments in non-resource sectors and, once adopted, cannot be manipulated. However, even these indicators have obvious design problems, which could have been fixed, but were not. First, the two indicators selected from the index of World

Economic Forum are not representative enough. The index aggregates over 110 indicators, yet the government selected the two that focus exclusively on FDI. Considering that FDI in Kazakhstan was overrepresented in the resource sector, the indicators that measure the attractiveness of Kazakhstan to FDI bear little relevance to investors into non-resource sector, even if they are going to be in the form of FDI. The indicators were Kazakhstan lagged behind the competition, or was not making much progress, or which shed unfavorable light on the political process were not included. In particular, the indicators that are more relevant for smaller investors, whether foreign or domestic, such as corruption, favouritism by officials, lack of strong and independent judiciary, and indicators that are cited among 'five most problematic for doing business' by the survey respondents from Kazakhstan[32], such as corruption, lack of skilled labor, inefficient bureaucracy, limited capacity to innovate, unpredictable and poorly administered tax regulation.

Second, the chosen indicators are poorly correlated with the government's effort and the outcome of the Programme. Since the chosen indicator represents the international standing of Kazakhstan relative to other countries, it depends not only on the business environment in Kazakhstan, but also on that in other countries. A better choice would be the raw score on which the ranking is based: it is better correlated with the Programme's objective and thus provides better incentives for the responsible officials to improve it.

Third, the targets for these indicators were set rather unambitiously, especially in light of the objectives set in Plan 2020 to be among the top thirty most competitive countries. The incongruity between reality and targets can be seen in the results of the 2012-13 Global Competitiveness Report which ranks Kazakhstan at 100th and 85th place in the two chosen categories, which are better rankings than the targeted ranks of 108th and 102nd place.

The other indicators have their problems too. Indicator #3 sets the target for a change in FDI to GDP ratio but is stated ambiguously; it could be understood as the stock of FDI in the country's net investment position or the annual gross inflow of FDI, or net inflow. Any attempts to resolve the uncertainty by drawing inferences from the starting point would be unproductive because the Programme does not include the historical values. A subsequent discussion of FDI does not resolve this issue. Indicator 2 suffers is similarly deficient.

Indicator 4 aims to capture the degree of diversification, but is a poor metric of diversification because even at a moderate level of diversification, it will point in the opposite diversification direction. A more data-intensive Herfindahl's index of concentration or Gini's concentration ratio would have been more robust, more elastic, more responsive and would lend easily to cross-country comparison . The current level of the indicator, its historic values, and the sources of data it is based on have not been included in the Programme. This give the reader the sense of how ambitious the target is, while also providing the basis for its future use and computation, since it is so sensitive to the principles of attributing exports to destinations.

The four indicators that set targets for the performance of free economic zones were also problematic. Indicators 1 through 4 measured input (the amount of government resources

[32] Klaus Schwab (ed), *Global Competitiveness Report 2012-13*,(Geneva: World Economic Forum, 2012)

spent on building SEZ export capacity), not the outcome (for example, capacity utilization after it is built). They were poorly connected to the managerial effort or the main objective, and had little connection with the programme's efficiency. These indicators are likely to fail as tools of measuring, monitoring, or disciplining performance. One bad indicator could be complementary to other indicators in a well-designed mechanism because finding one universally good indicator is not easy, but the indicators selected do not form such a mechanism. A bigger problem with the Programme, however, is not at the level or choice of indicators and targets, but at the level of policy instruments. The section on 'instruments and mechanisms of achieving the set objectives and tasks' lists them for each 'direction of works for attainment of the Programme.' The instruments come from the standard toolkit of industrial policy: creation of SEZ, and at least three different regimes of preferential treatment for 'select economic activities' or 'most significant investment projects,' including subsidies, financial support and guaranteed government procurement. The Programme does not include the list of preferred activities leaving its determination to the discretion of 'the Government of the Republic of Kazakhstan.' The details of preferential treatment are left to be determined later in 'the amendments and additions to the relevant legislation.'

The problem with these instruments, and with the industrial policy in general, is not that they are necessarily badly designed or bad policies. Reasonable arguments on economic grounds have been made to justify industrial policy on the theoretical grounds as the instruments that could be effective under the right set of circumstances (market failure) and on empirical grounds as the instruments that proved effective under the right conditions.

To a degree, these policies represent a government's natural response to the setbacks with economic liberalisation. When experiencing difficulties with the running a market economy, or facing criticism of market-based allocations that such institutions engender, the GOK has a tendency to seek administrative solutions. Such a response is not unusual and, in fact, should be expected. Kazakhstan has a short tradition of governance based on principles of devolution. In that respect, it is a typical developing economy, notwithstanding the recent income growth driven by resource extraction rather than liberalisation. What it implies for policymaking is that any liberalisation reform that transplants market institutions on Kazakh ground needs to be carefully prepared to ensure that both the market participants and the government regulators fully understand the roles in the new arrangement and have the incentives to play their parts. A failure during the preparatory stage translates into abuse of the new institution, an escalation of interventions, a build-up of resistance, and the eventual abandonment of the new structure, in favour of a state-dominated, pseudo-market arrangement.

5.5. Fast-Track Industrial Development in 2010-2014

The government introduced this programme in 2010 as a "logical continuation of a policy to diversify the economy," as stated in predecessor programmes, including the similarly named Strategy of Industrial-Innovative Development for 2003-2015, the Programme '30 Corporate Leaders'programme, and other industrialization policy programmes.

The idea to develop SPFIID was officially proposed at a meeting of Nur Otan, the ruling party, on May 15, 2009. Four month later, The Ministry of Economic Development and Trade (MEDT) and MINT were charged with developing the programmes by March, 2010. Two Russian consulting firms, "Strategy Partners"[33] and "Bauman Innovation," were contracted to develop the Programme, beginning in September 2009 and completing by the March, 2010 deadline.

The policy document presents itself as a 'logical continuation of the diversification policy' that 'integrated the main approaches of the earlier programmes.' As such, it remains a standard ISI policy with some cosmetic departures from earlier policies of 2000s. However, it also represents a marked improvement the execution of policy documents, containing the standard recommended components of a good policy document. Unlike earlier documents, it includes the key components of the policy statements, including an explicitly stated policy objective, planned activities towards achieving the objective, institutions responsible for their execution, and available resources. It is also substantially more coherent.

In this document, the problems of consistency and coherence became less pronounced, especially at the higher levels of objectives. At the lower levels, some confusion between objectives and instruments remains. For example, an objective of "creating an enabling environment for industrialisation" shares the notional space with the means to achieve it. None of the objectives mention innovation although innovation appears in the title of the programme.

The document explicitly acknowledges the immediate predecessors programs, but does not explain explicitly why they were abandoned. However, the analysis section sheds some light on the reasons. Acknowledging that earlier programs 'were realized less than fully,' the document identifies 'objective systemic effects' responsible for the policy failure. These include Dutch disease, the lack of the critical mass, the small scale of government intervention and dissipation of government resources, the failure of the market mechanism "to send the right signals to avoid overheating,"and the failure of tbusinesses to "help the government build the 'right' economic structure." This list is an improvement over the previous policy documents, in that it contains the diagnostics, although ad hoc and not supported by references to published analysis.

6. Striving for Coherence

6.1. Short Institutional Memory

In the last twenty years, the GOK issued more than twenty trade and industrial policy statements, each with a policy horizon of at least three years. Few programmes lasted long enough to reach their termination date. Most were discarded ahead of schedule and replaced with revised versions. Four were in effect as of 2012. Most policy documents lacked an explicit acknowledgement of relevant past initiatives and an analysis of the problem they were supposed to address. When analysis was included, it was crude, ad hoc and lacked any reference or indication of modern tools of policy analysis.

[33] www.strategy.ru/eng/results-of-our-work/

This was the case in the two long-term programmes of ISI policies: the Strategy for Industrial-Innovative Development for 2003-2015 and the Program '30 Corporate Leaders of Kazakhstan.' In 2010, five years before the original expiration date, both were retired and replaced by the new and improved version of ISI policy, formulated as SPFIID.

The Programme 2002-2004 commenced when the previous expired. The next programme for year 2003-2006 (Resolution of the Government of the Republic of Kazakhstan (RGRK) № 1165) was approved in August 2003, when Kazakhstan's economy recovered to the Soviet-era level of GDP. In thissituation, "…the economy had returned to positive growth, boosted by terms-of-trade improvements and tenge devaluation. Annual real GDP growth during the period 2000–2006 averaged 10%, doubling the economy during the period."[34] The stated objectives in the document included the liberalisation of foreign trade regulations, removal of barriers to mutual trade, better access for exporters to foreign markets and accession to the WTO.

"The (MFN) TTRI shows further improvements this decade, with a score of 2.1% for 2006 compared to 9.9% in 2001 and a latest rank of 8th out of 125 countries. Kazakhstan's TTRI is much lower than the average for Europe and Central Asia (ECA) or upper middle income countries (4.2% and 5.3%, respectively)."[35]

6.2. Turnover in Policymaking Bodies

One possible explanation, or illustration, of the failure to accumulate the knowledge and expertise could be the pace of staff turnover, or actually, rotation. During the twenty years of independence the GOK established five commissions responsible, to varying degrees, for trade policy. (See Annex A2). An analysis of policy staff of the last three commissions revealed a high degree of turnover. The three commissions covered one aspect of trade policy and did not overlap in time during the twelve years under observation. The first was established in February 1996 to oversee WTO accession, and the second and third had almost identically formulated mandates of "improving customs and tariff policy" and "developing economic integration."
The only data available on the three commissions was the chronology of staff composition of each one[36]. These data were found in the three government decrees that established the commissions and the nineteen amendments that documented the changes in their composition. The documents identify the members by name. Their membership, however, was a function of their government office. A change in government automatically implied a change in the composition of the trade policy commission. The amendments contained information only about the changes in the composition of the commissions and the reassignment of the Ministry responsible for commission functioning. These were caused either by a member's departure from the office or by the reorganisation of government ministries. The first commission went through three changes and the second and third each went through two.

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34 Charles M. Becker, Grigori A. Marchenko, Sabit Khakimzhanov, Ai-Gul S. Seitenova, /Vladimir Ivlev, Social Secuirity Reform in Transition Economies, Lessons from Kazakhstan (New York, Palgrave Macmillan, 2009), 99.

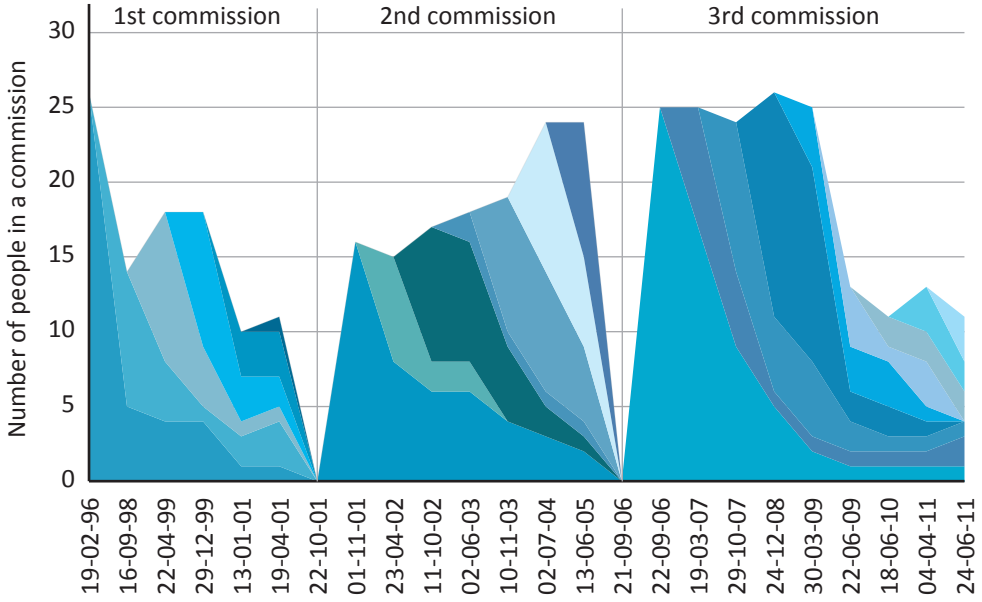
35 Kazakhstan: Trade Brief 2007, 1, http://info.worldbank.org/etools/wti/docs/Kazakhstan_brief.pdf

36 We were unable to find the results of the commissions' work in public domain: the minutes, the resolutions, or even the dates of their assembly.

These changes reflect the government practices since independence and particularly since 1997. The average time between personnel changes within the commissions was 1.0, 0.6 and 0.6 years for each commission respectively. By the time a commission were dissolved its, the original team members were almost all replaced (Figure 1). Only one member of the original 26 in the first commission remained by the time it was disbanded. In the second, only two of the original 16 remained on board, and only one of the original 25 members of the third commission endured. The estimated one-year survival rate for a member of a trade policy commission was 47.1% for the first commission, 51.8% for the second, and 44.8% for the third[37] (Table A1).

With frequent, often sweeping changes happening, institutional memory did not accumulate at the critical level of individual members or cohesive groups.

Figure 1. Composition of three trade policy commissions over their lifetimes



Note: Vertical axis shows the number of people in a commission. Horizontal axis indicates date that commission members joined/left a commission. Color marks different cohorts consisting of people who became a member of a commission on the same date. A cohort shrinks when its member leaves and expands when a member joins returns (on four occasions).

Source: Authors' calculations based on trade policy documents.

6.3. Lack of Quantitative Analysis

Quantitative analysis is a critical part of any policy development process, and is missing from the policy making process in Kazakhstan. The lack of a comprehensive analysis of the country's competitive and comparative advantages in all government policy documents can be explained by the fact that Kazakhstan's economists did not contribute to the development of

[37] Assuming exponential distribution of the duration of membership. The members who returned to a commission after being removed earlier were treated as new members in the computation of the average survival rate.

government programmes[38]. This will continue if the GOK continues to accept the results of research conducted by the winners of public procurement tenders and government officials continue to produce national programmes and strategies that reflect political statements rather than well-designed economic strategies. The low capacity of main actors of trade policy in Kazakhstan is evident in the following realities.

From 2001 to 2006, the Tenge appreciated rapidly in real terms against the US$, despite export revenues being diverted from reaching the economy, deepening the comparative disadvantage in manufacturing. During these go-go years, there were two main sources of real appreciation. Export revenues found their way into the economy through the budget channel. Budget spending has grown by about 20-30% per year, but it was relatively tightly controlled compared to the bank credit funded by international capital markets. At the time, bank credit had grown 40-70% per year and, unlike export revenues, enhanced the purchasing power of the households well beyond their current incomes, disproportionately benefitting the non-tradable sector and imports.

During those years, the signs of Dutch disease compelled the government to commission several studies on diagnostics of Dutch disease, how to mitigate it (mainly by industrial policies) and the conduct of the monetary policy and the fiscal rules for the National Fund. Dutch disease was found to be nonexistent. The fiscal rules were found wanting, but their practice (no actual withdrawals) was consistent with the most prudent conduct. In the exchange rate regime, international experts advised the adoption of inflation targeting and no capital controls. Industrial development was pursued on the basis of recommendations of Michael Porter's cluster theory. Most of these studies were not published (with the exception of the list of recommended clusters) and did not benefit the community of experts outside the government domain.

The government's complacency was partly grounded in the value (and choice) of the economic indicators. For example, the real appreciation of the Tenge was much weaker, practically undetectable, when measured against the trade-weighted basket as opposed to against the US$ and other imports' markets because the Russian Ruble appreciated against the US$ in sync with the Kazakh Tenge, and trade with Russia accounted for a large share of Kazakhstan's total trade. The appreciation of Tenge would have triggered the response of the GOK had the government looked at a different indicator.

Does the policy shift towards openness, or is this just a declaration? Below is an extract from the definition of Trade Policy of Kazakhstan posted on the website of MEDT:
"In order to create auspicious competitive conditions for domestic producers, maximum rates of customs duties are set with regard to finished goods, medium rates are set with respect to components, and minimum rates are set with regard to raw materials and socially significant goods not produced in Kazakhstan. Changes in, and approval of, rates of customs duties takes place dependent on indicators of effectiveness of foreign trade and the global market situation and in compliance with obligations assumed by the Republic of Kazakhstan as part of regional associations (Customs Union and the Eurasian Economic Cooperation), as

38 This feature of GOK's trade policy-making process will be further detailed in the forthcoming paper on trade policy capacity in Kazakhstan.

well as with the accession by Kazakhstan to WTO in the part pertaining to the formation of tariff proposals concerning the access to market for goods."[39]

6.4. Setting Extraneous Targets

From 2008 to 2012, the share of manufacturing exports in the total volume of exports decreased from 28.2% to 26.8%.[40] Taking into account the target set in SPFIID, "Non-resource exports will constitute at least 40% in 2014," Kazakhstan should increase this share in the remaining two years (2013-2014) by more than 6% annually. Was the target attainable if viewed from the perspective of 2012? Compare Kazakhstan to other countries. Among oil exporters, Oman has been the fastest to expand its share of manufactured exports, from 7% in 2005 to 26% in 2010.[41] Particularly, in 2010 manufacturing sector recorded an impressive growth of 18.8 percent as percentage of GDP.[42] Among non-resource exporters, the most successful was Malaysia, where the comparable indicator grew from 75% in 1995 to 80% in 2000.[43] Admittedly, this is an imperfect metric, affected by factors other than policy. But in its crude way, it suggests that the target was attainable.

6.5. Newfound Respect for Process

In the early 2000s, the GOK began to experiment with import substitution and industrial policies which international development institutions generally did not espouse. Unlike the policies of economic liberalisation, which were readily supported by international donors, interventionist policies had to rely on domestic expertise to develop. At the time, the GOK did not possess the necessary degree of policy analysis capability.

Policy statements of the period reflect the poor state of policy analysis. One explanation for poor quality of policy analysis is that the policies themselves became harder to implement and more difficult to analyze. The quote below suggests that the challenges that Kazakh policymakers were facing in 2000s were not unlike those afflicting the countries of Eastern and Central Europe in 1990s.

"If you survey the policy outcomes of this system in the post-1991 period, it accomplished, for better or worse, three things: privatisation, liberalisation and macroeconomic stabilisation. This was completed by 1997-8 in most countries. All of these policies could be accomplished with very few administrative or analytical resources and a minimum of procedures."[44]

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39 Information on Kazakhstan's trade policy. Accessed Jan 21, 2013. http://www.minplan.gov.kz/economyabout/8440/32717/

40 Indicators of government Programme of Fast-Track Industril and Innovation-Based Development of the Republic of Kazakhstan for 2010-2014. Accessed on February 15, 2012. Statistic Agency of the Republic of Kazakhstan. www.stat.kz

41 See Trade Statistics at Unctadstat, http://unctadstat.unctad.org

42 Central Bank of Oman. Annual Report 2010, 6

43 See Trade Statistics at UNCTADSTAT

44 Bohdan Krawchenko, "The Policy Process in Mature Democracies" (Bishkek: University of Central Asia, 2006)

In both cases the policymakers were overwhelmed by the amount of information-intensive decisions accumulating in their inboxes. The important difference, however, is in the response to the challenge. Ukraine, the main subject of quoted analysis, responded to the challenge by adopting a more distributed policy-making process that fit and mirrored the operations of a market economy. Kazakhstan opted for a reversal to an administered economy, but apparently was unable to handle the immense amount of information that the central planning entails.

That said, the average quality of policy documents has improved. This was largely achieved through the adoption of requirements for policy papers. The first document that defined the policy-making framework (called Indicative Plans) was approved in May 1996.

Table 2. Evolution of Guidelines on the realisation and monitoring of policy documents

Guidelines	Took effect	Lost effect	Number of programmes affected
Guidelines for development and monitoring of sector-specific programmes. Resolution of the RGRK No. 218, March 18, 2010	Mar 18, 2010	-	1
Guidelines for development, implementation, monitoring evaluation and control of strategic development plan of the Republic of Kazakhstan. Decree of the President No. 931, March 4, 2010	Mar 4, 2010	-	9
Guidelines for development and implementation of sector-specific and regional programmes. RGRK No. 231, Feb 26, 2004	Feb 24, 2004	Mar 18, 2010	2
Guidelines for development and implementation of government programmes in RK. Decree of the President No. 1099, June 2, 2003	Jun 2, 2003	Mar 4, 2010	2
Guidelines for preparation of medium-term plans of social-economic development of RK, and implementation of government programmes in RK. RGRK No.647, June 14, 2002	June 4, 2002	Aug 27, 2009	1
Guidelines for preparation of programmes in RK. RGRK No.789, May 25, 2000	May 25, 2000	Feb 24, 2004	3
Guidelines for preparation of indicative plans of social-economic development of RK. RGRK No.432, March 21, 2000	Mar 21, 2000	June 14, 2002	2
The sequencing of preparation and implementation of indicative plans of social-economic development of RK. RGRK No. 596,May 14, 1996	May 14, 1996	Mar 21, 2000	3

Source: Authors' analysis.

In 2000, Kazakhstan adopted the first Rules for Drafting the Programmes (see Table 2). Under these, draft programmes were classified according to status, importance, time frame and subject. The new Rules for Developing Forecasts of Socio-Economic Development were adopted in 2002, when the need for a policy-making framework was most acutely felt.

The Rules offered a uniform approach to the drafting of government programmes, providing for the first time defined common principles for the drafting, review and approval of government programmes. According to the Rules, a standard structure for a government programme included a current situation analysis; objectives and activities; main directions and a mechanism of implementation; required resources and sources of financing; and expected outcomes.

Despite these guidelines, confusion in terminology (the consequences of this confusion still manifest themselves even today, when the concept of "goal" in strategic documents was replaced by the notion of "idea" or "priority" the first Rules of Drafting were more about requirements for form not content of the documents presenting government decisions.
An updated version of the Rules was adopted in 2009, after Presidential Decree No. 827 dated June 2009. The Decree stated that the system of state planning was to be based on, among other desired properties, "uniformity and coherency" and led to the development of new rules, the most important of which are: "justifiability and feasibility of the targets; appropriateness of the stated methods of achieving the approved goals; and identification of possible external and internal risks and circumstances that may prevent the achievement of the programme.[22]

In 2010, MEDT developed the Instruction to impose a structure on legal acts.[45] To enforce vertical coherence, the Instruction includes a cascading process following results through "the levels of central and local government administrations, organisation of quasi-government sector, lower (reporting) organisations, structural units that will be responsible for achieving them." However, the Instruction did not reveal the mechanism to break the process into components. The document illustrates the need for a working methodology to set goals and define realistic means to achievement them.

Since the new requirements were adopted, all policy documents have demonstrated a slight improvement in terms of formal indicators of internal consistency and the quality of design. The improvements however do not extend to the quality or depth of analysis. Despite improvements to the government documents, the new rules lacked practical recommendations on how to transform an identified policy problem into specific programme goals, sub-goals, activities and means of achieving them.
In the late 1990s, the GOK became more assertive. Rapid growth of oil revenues in the early 2000s gave the government the fiscal freedom to experiment with policies. As Kazakhstan became a middle-income economy, it lost its eligibility for technical assistance and the government seemed more concerned with finding ways to spend resources than with efficient spending. As result of these trends, the expertise concentrated by consulting companies dissipated and the demand for quantitative policy analysis dwindled.

With time, as domestic expertise develops in response to the policymaker demand, public policy may become more informed. Meanwhile, the government may turn to foreign exper-

45 Order # 101 dated July 1, 2010 "On Approving Methodological Instruction for Development of the Strategic Development Plan for the Republic of Kazakhstan Evaluating and Controlling of the Strategic Development Plan of the Republic of Kazakhstan, Forecast Chart of Territorial and Spatial Development of the Kazakhstan, Provincial Development Programmes, Strategic Plans of State Bodies."

tise to develop better policies. The need for expertise is particularly acute in the area of quantitative analysis that is model-based and information- and knowledge-intensive. In the context of trade policy, the work-horse of model-based analysis is general equilibrium modeling.

An example of cost benefit analysis that was conducted is the Assessment of Costs and Benefits of the Customs Union for Kazakhstan. The study estimated that Kazakhstan lose 0.2% of real income growth per year due to a hike in the average tariff from 6.7 % to 11.1%. The estimates accounted for higher cost of imports, lower real wages and a lower return on capital as a result of trade diversion and the subsequent loss of productivity.[46] The results were not surprising, given that similar findings were obtained by application of similar methodology to other regional trade agreements. However, the fact that the analysis was made by foreign experts and after Kazakhstan decided to join the CU speaks volumes about the role that analysis plays in Kazakhstan's trade policy and the state of development of the domestic trade policy expertise.

Until Kazakhstan develops a sufficiently large community of qualified experts capable of conducting, replicating and interpreting the results of such analyses, policy making will remain hostage to political exigency. The lack of internal expertise capable of quantitative analysis renders the coordination and review stages of the policy process meaningless.

There are a couple of tools to impart greater coherence by following a set of basic principles. One such policy development framework is Regulatory Impact Analysis (RIA), which is used to improve the quality of regulatory decision-making. In RIA framework, policy analysis "aims to be both a tool and a decision process for informing political decision makers on whether and how to regulate to achieve public policy goals. As a tool supporting decision making, RIA systematically examines the potential impacts of government actions by asking questions about the costs and benefits; how effective will the action be achieving its policy goals and; whether there are superior alternative approaches available to governments. As a decision process, RIA is integrated with systems for consultation, policy development and rule making within government in order to communicate information ex ante about the expected effects of regulatory proposals at a time and in a form that can be used by decision makers, and also ex post to assist governments to evaluate existing regulations." Another tool is the Logical Framework Approach (LFA), which "…tries to bring coherence into the project in the planning phase."[47]

The application of either approach to the design of trade policy would produce improved policy documents and implementation. RIA is better suited to policy design in a distributed decision making process, and LFA is more appropriate for centralised decision making. Both establish a framework for policy analysis,[48] but neither provides the analysis itself. Strong analytical capabilities are necessary to maximise the benefit of either framework.

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46 Assessment of Costs and Benefits of the Customs Union for Kazakhstan, vii-viii

47 Petri Uusikylä and Ville Valovirta, "Three Spheres of Performance Governance: Spanning the Boundaries from Single-Organisation Focus towards a Partnership Network." Conference of the European Group of Public Administration, (Ljubljana, September 2004), 6.

48 LFA is more appropriate for designing projects with a focus on the desired result while RIA is more appropriate forpolicy-making processes with multiple actors pursuing multiple objectives.

The lack of an officially approved RIA methodology of has been recognised by MEDT. In 2010, the Ministry stated that by 2011 it will issue a document "for the purposes of drafting and adopting new normative legal acts."[49] The same explicitly stated objective was included in the Strategic Development Plan 2020.[50] MEDT produced the methodology in 2011,[51]recommending that the initiating party, be they legislators or government officials, take legislation through a standard battery of guiding questions and tests of good public policy. It also had a laundry list of concrete recommendations such as indicator variables to choose from and a template for presenting the socio-economic impact of policies being considered.

Policy intervention is justified only when two conditions are present: a verified market failure and a convincing argument that the government-based solution will address the failure and can achieve a better outcome. A policy statement that lacks a positive identification of the market failure before detailing a government solution invites a government failure.

These recommendations were useful for improving the quality of public policy making, but only when applied in good faith. They were easy to obfuscate and, without statutory power, were easy to get around. Our search for examples of cost-benefit analyses supporting the legal acts produced since 2010 yielded no results. So far, the requirement seems to have had little impact on the practice.

An often-cited obstacle to the wider adoption of recommended practice is insufficient "human and technical resources to undertake fully developed RIA for all regulations."[52] In early 1990s, when Kazakhstan was still a recipient of international technical assistance, the consulting firms working on the projects supplied the necessary expertise. The government usually engaged in the policy drafting process in the later stages, adding finishing touches, vetoing one proposal and qualifying another. As a result, the officials did not experience a need for policy expertise.

6.6. Rushed Decisions and Slow Learning

The propensity for hasty and ill-considered decisions is one reason behind the government's ability to commit bold and decisive reforms. This may have been appropriate, or even necessary, in the early years of nation building. By the mid-1990s, however, the downsides of committing sweeping reforms began to outweigh the benefits. But old habits die hard. In late 1990s, the policies of economic liberalization slowed sharply, and in many instances were reversed. The reversals were driven by a general trend towards statism and centralisation, but

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49 See Section "Relationship between Strategic Development Vectors and Goals of a Government Body and Strategic Goals of the State". Resolution of the Government of the Republic of Kazakhstan # 2335 dated December 31, 2009 "On Strategic Plan of the Ministry for Economic Development and Trade of the Republic of Kazakhstan"

50 Section "Key vectors of development in Kazakhstan until year 2020" included "drafting of a methodology for Regulatory Impact Analysis (RIA) for drafting and adopting new normative legal acts Approved by the Decree of the President of the Republic of Kazakhstan # 922 on Feb 1, 2010.

51 The Methodological Recommendations for Assessment of Socio-Economic Impact of Draft Legislation, accessed from http://www.minplan.gov.kz/economyabout/8425/34481/ on Nov 20, 2012.

52 EBRD, *Transition Report 2008*, (London: EBRD, 2008),174

poor preparation of the original reforms and the lack of capacity to properly use, maintain and develop newly created market-based institutions have contributed to a weak reception by both the policymakers and society at large.

The earliest example of a trade policy document is the Presidential Decree "On the organisation of external economic activities,"[53] issued in January 1992, a month after the declaration of independence. This decree illustrates the urgency with which policies were made at the time. The decree gave the government three days to design the tax rates and tax administration procedures for international trade; two weeks to design licensing and quota procedures; and one month to design licensing of outbound foreign investments by Kazakh nationals. The decree was short; it stated no policy views and set no strategic policy objectives, delegating the policy-making authority to the line ministries. In these respects, it differed from the more elaborate documents produced in later years but the tendency to set impossibly tight deadlines, leaving almost no time for analysis and deliberation, persisted.

Would longer deliberation produce a better policy? In 1990s, probably not by much, given how slowly the quality of policy statements has been improving in 1990s. The legislative vacuum of 1992-1994, when old commercial law was found to be grossly inadequate, favored speed over substance. At that particular moment in the history of Kazakhstan, the urgency was justified: a good enough law now was better than a marginally better law months later. The lack of domestic expertise was substituted with the technical assistance from abroad. However, these arguments break down when applied to the subsequent years. In mid-1990s, and more so in 2000s, the answer to the opening question is decidedly yes, provided that more resources were allocated to analysis, building up the support of the stakeholders, design of the mechanism. The time would certainly be worth the effort.

The window of opportunity argument is often invoked to defend rushed policymaking. Roland argues that "speed was of the essence … because there was a "window of opportunity" created by the establishment of democracy..."[54] Others Becker et al. (2009) rationalise the breakneck pace of the pension reform of 1997 on the grounds that any delays jeopardised the reform by increasing the probability that the government coalition supporting the reform would collapse, or lose support of the President, or that the opposition would have time to develop their expertise and consolidate their arguments against the reform. Implicit in this argument is the assumption that a socially-desirable policy reform had a little chance of succeeding at rallying broad-based support of rational and informed representatives and, thus, had to be carried out quickly and fixed later.

Implicit in this argument is the assumption that the societal costs of blitzkrieg reforms are relatively low, that the newly created institutions would function as intended, and any design flaws would be sorted out during implementation. However, Kazakhstan's experience of the last decade offers little evidence in support of this hypothesis. The most striking example is

53 Decree of the President of the Republic of Kazakhstan dated January 25, 1992 № 585 (UPRK № 585) "On the organization of external economic activities of the Republic of Kazakhstan for the period of stabilizing economy and executing market reforms".

54 Gerard Roland, "The Political Economy of Transition," *William Davidson Working Paper Series No. 413*, (December 2001).

that of pension privatization reform that the government undertook in 1998, with the support of the World bank, and had to partly reverse in 2013, largely at the recommendations of the World bank. In both cases a decision was made by one of a few groups of people that have the ear of the President.

Thus, the propensity for rushed decisions stems primarily from the highly-concentrated highly-hierarchical and highly-personalized political structure, with no veto players outside the government. In Kazakhstan, power flows from the president to the prime-minister to the line ministries. Feedback mechanisms from the electorate are weak to nonexistent in practice. The discussion of policy alternatives is usually short and rarely supported by convincing quantitative arguments. Once the decision is made at the level of the President, it becomes nearly impossible to reverse it, shutting down the possibility of any discussion. Such an environment is not conducive to establishing extended meaningful dialogue to continue to improve malfunctioning institutions, development inter-government coordination, and involvement of minor stakeholders in the process.

The government has been using foreign expertise to develop the policies in a very non-transparent way and sought little input from domestic trade policy experts other than for validation of already adopted policies.

The poor quality of regulatory analysis and a failure to optimise the adoption of the RIA framework is thus an inherent characteristic of Kazakhstan's economic policy, including its trade policy.

7. Conclusions

Kazakhstan's trade and industrial policy has been ineffective, especially since its shift towards industrial protection. The pattern of trade has followed the comparative advantage. Although low on average, tariffs remain uneven and unevenly applied, creating protections which few producers inside Kazakhstan could benefit from. Industrial policy of the last decade has been wasteful, diverting public resources to questionable projects. Poor competitiveness of domestic processing and uncertainty about government support proved strong deterrents for foreign investors.

To be fair, industrial policy in Kazakhstan was facing an uphill battle with Dutch disease and has not been supported by the monetary and fiscal policies. However, our findings suggest that Kazakhstan's industrial policies of 2000s flopped not only because of the headwind of real appreciation, but also because these policies were badly designed and poorly implemented. Low qualifications of bureaucratic classes, corruption, and poor governance practices transformed Kazakhstan's industrial policies into nothing more than good intentions.

Thus, poor quality of Kazakhstan's trade and industrial policies stemmed in large part from poorly structured policymaking processes. The policymaking process remains haphazard, opaque and personality driven, with only a superficial input from analysts. Current practices discourage the development of domestic expertise, suppresses dialogue and public involvement. The lack of policy analysts is largely a function of the lack of policymakers' demand

for their skills: bad policymaking process tends to be self-reinforcing. There have been some cosmetic improvements in the quality of trade policy documents linked to the adoption of some elements of OECD's policymaking practices, but adopting a fully functional version of OECD policymaking framework would require more than adoption of a legislative act.

In order to improve the policies, the policymaking process has to become more systematic and formal, more decentralized, more transparent and more analysis-based, that is, much closer to the benchmark outlined in OECD guidelines. This is not an easy undertaking, considering the loss of rent seeking opportunities, the opportunities that make industrial policy so endearing in some quarters of Kazakhstan's public sector. Unless these changes are brought about, the government will continue to misbehave as an agent in the service of the uninformed and disengaged public.

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Annex 1

Table A1.1. Government documents on trade and industrial policy for 1992-2011

Document name	Code Effective dates	Stated objectives	Key indicators
2nd Stage (2006-2010)			
Programme on Investment Attraction, Development of Special Economic Zones and Export Promotion for 2010-2014	Resolution 1145 Oct 30, 2010	Create favourable environment for FDI in non-resource export-oriented and high-tech industries. Integrate into global trade system by means of promoting exports of processed goods.	Share of non-resource exports in the total volume of exports is at least 40% by 2015.
Trade Development Programme for 2010-2014	Resolution 1143 Oct 30, 2010	Create systemic and institutional framework for sustainable development of trade industry and increase its competitiveness.	Establish a common free market for Belarus, Kazakhstan and Russia; Accede to the WTO. Rank better than 80 in WEF Global Enabling Trade Rankings.
State Programme of Fast-track Industrial-Innovative Development for 2010-2014	Decree 958 Mar 19, 2010	Ensure sustainable and balanced economic growth through diversifying. Increase competitiveness.	Increase of share of non-resource exports to 40%. Non-resource exports more than 43% of manufacturing output.
Strategic Development Plan for 2020	Decree 922, Feb 1, 2010	To be among top50 most competitive economies in the world. Increase GDP by 130% in 2020.	Non-resource exports more than 45% of total exports. Non-resource exports more than 50% of total output of processing industry.
Programme 30 Corporate Leaders of Kazakhstan 2007-2030	Resolution 1097 Nov 19, 2007 Overturned by Resolution 303 Apr 14, 2010	Consolidate efforts of business community and government in establishing new, and modernising existing, industrial assets with the aim of ensuring diversification and developing export capacity of the non-resource industries of the country	Created competitive, export-oriented non-resource industries in Kazakhstan through creation of corporate leadership at regional and global scale.
Programme 2007-2009	Resolution 310, April 6, 2007 (Strategy 2030)	Increase competitiveness of the national economy on sustainable development principles.	Accession to the WTO on conditions that encourage the development of export potential, promote Kazakhstan-made goods and services.

Document name	Code Effective dates	Stated objectives	Key indicators
Adaptation Programme for Certain Industries During the Transition as part of accession to the WTO for 2007-2008	Resolution 1259, Dec 23, 2006 Invalidated by Resolution 1170, Dec 4, 2007	Ensure environment that fosters competiveness of certain industries following Kazakhstan's accession to the WTO; Industrialization of agriculture; Development of service infrastructure and product quality and safety assessment systems; Expansion of competitive advantages of the national agriculture through ensuring product safety; Improvement of competitiveness of domestic products through implementation of international standards of quality; Establishment of favourable environment for certain processing industries	
Programme 2006-2008	Resolution 80, March 30, 2006 (Strategy 2030) Resolution 310, April 6, 2007	Establish favourable institutional and economic environment for increasing the global competitiveness of Kazakhstan and the living standards of Kazakhstani citizens.	Accession to the WTO. Improved access for Kazakhstan-made products to global markets. Gaining a new export niche. Further expansion of integration initiatives.
Programme 2003-2006	Resolution 1165, Aug 15, 2003 (Strategy -2030) Overturned by Resolution 80, Mar 30, 2006	Improvement in living standards throughout all regions, based on socio-political stability, sustainable socio-economic development, enhanced economic and environmental security and safety, reduction of system risks and expansion of international cooperation	Liberalisation of foreign trade regulations, removal of barriers to mutual trade, optimised access for Kazakhstani exporters to foreign markets. Completion of Kazakhstan's accession to WTO.
Strategy of Industrial and Innovation Development 2003-2015	Resolution 1096, May 17, 2003 Overturned by Resolution 958, Mar 19, 2010	Achievement of sustainable development of the country that is conducive to further breakaway from resource-oriented economy by means of modernisation, diversification and increase in the competitiveness of the national economy, laying foundation for eventual conversion in the longrun to service and technology economy	Development of the nation's export capacity in the fields of high added value goods and services; geographic diversification and restructuring exports with increased share of non-resource goods.

Document name	Code Effective dates	Stated objectives	Key indicators
Programme 2002-2004	Resolution 827, Mar 28, 2002 (Strategy 2030) Overturned by Resolution 1165 Aug 15, 2003	Goal: Improvement in living standards based on socio-political stability, sustainable socio-economic development, greater balance in the economy, energised capital flows, reduction of system risks, expansion of international cooperation, ability to respond to security and stability challenges on the global and international levels.	Objectives: Strengthening mutually beneficial economic cooperation with key strategic partner countries, as well as promotion and expansion of export geography in order to improve the trade balance and the protection of the domestic market.
Programme of Import Substitution in Light and Food Industries in 2001-2003	Resolution 1088 Aug 20, 2001	Restore and accelerate comprehensive growth in light and food industries, bridge technological gaps; Improve competitiveness through better quality and product range, lower production costs; Overcome dependence on imports of textile, garments, leather products and footwear; Development of production of inputs and food additives, production of finished food products; Saturation of internal market with domestic food products; Improvement in trade balance.	
1st Stage 1992-2002			
Action Programme 2000-2002	Resolution 344 Feb 17, 2000 (Strategy 2030) Overturned by Resolution 827 on Mar 28, 2002	To ensure sustainable economic growth while preserving critically important macroeconomic parameters: effective exchange rate, low inflation rate, low budget deficit and favourable balance of payments.	Affirmed adherence to liberal foreign trade policy. The trade policy will be defined based on the need for further effective integration of Kazakhstan into the global division of labour, taking into account the need to ensure economic security of the country. Maximisation of external economic relations for the purposes of assisting with restructuring national economy, establishing competitive industries that would serve the needs of domestic consumers and assist with promoting Kazakhstani products and services overseas, while improving balances of payments and trade.

Document name	Code Effective dates	Stated objectives	Key indicators
Programme H2 1999 and 2000	Resolution 206, Sep 7, 1999 (Strategy 2030) Overturned by Resolution 827 Mar 28, 2002	Establish favourable conditions for attracting investments in the economy, for ensuring development of agro-industrial sectors, for conducing import-replacement policies and for protection of domestic businesses from unfair competition, for expansion of diversification of international exports and for increasing relevance targeting of social assistance.	Foreign trade policy for the period will be based on the need to protect domestic businesses and to promote expansion of Kazakhstani goods and services to global markets.
Strategic Development Plan for 1998-2000	Resolution 3834 Jan 28, 1998 (Strategy 2030) Overturned by Decree 827, Mar 28, 2002	Limited direct intervention by the government into the economy. Macroeconomic stability. Price liberalisation. Open economy and free trade. Strengthening of the private property institutes. Privatisation. Ensuring effective protection for foreign investments. Development of energy and other natural resources. Formulation of industrial-technological strategy. Diversification of economy.	Macroeconomic stability; Open economy and free trade; Growth in foreign trade with improvements in the structure and geography of exports and imports
Strategy 2030		Build an independent, prosperous, and politically stable state. Establishment of an open market economy with high levels of FDI and domestic savings	
Reform Deepening Programme 1996-1998	Decree 2680 Dec 13, 1995 Overturned by Resolution 3834 on Jan 28, 1998	Consolidation of macroeconomic stabilisation, structural and institutional changes. Halting the decline in production. Economic development and improvement in living standards of the people.	Increasing exports and improving structure of exports, establishment of a system for non-financial support to export-oriented industries and industries serving domestic market.

Document name	Code Effective dates	Stated objectives	Key indicators
Action Programme for Deepening Reforms and Overcoming Economic Crisis	Decree 1802 Jun 15, 1994 Overturned by Resolution 1696 on Jan 9, 2006	Acceleration of economic reforms. Further liberalization of foreign trade. Halt decline in production and living standards.	Acceleration and deepening of the reforms; Liberalisation of commodity markets; Removal of permission-driven export process; Removal and privatisation of state monopoly in foreign trade; Elimination of application quotas and licensing for import and export
Strategy for Formation and Development of Kazakhstan as a Sovereign Nation	May 16, 1992	Formation of market economy. Introduction of national currency. Saturation of domestic consumer market with goods. Attraction and effective utilization of foreign investments for the purposes of development of Kazakhstan. Conquest new or share existing niches in the global commodity market. Prioritised development of processing and science-intensive industries. Import-substitution to employ modern domestic and international technology and equipment.	Strategic goals: openness in foreign trade – stimulation of exports, minimal import restrictions, uniform import tariff, optimal national currency exchange rate and favourable environment for foreign investment.

Table A1.2. Kazakhstan among major petroleum and gas exporters (2009-2010)

	GNI per capita, US$ thsd[a]	Share of fuel export[b]		Oil production per capita, tonnes[c]	Structure of output, % of GDP[d]			GNI/GDP Ratio[e]	Inward FDI stock per capita, thousand US$[b]	Ratio of Inward FDI stock to GNI[e]
		inworld exports of fuel	in country total exports		Manufac-turing	Non-manufac-turing industry	Services			
Norway	86.4	3.6	63.9	20.2	10	31	58	1.00	35.2	0.42
Qatar	73.1	2.8	89.8	37.3	8	64	29	0.98	17.4	0.24
Kuwait	48.9	2.6	91.0	44.8	2	49	49	1.06	4.1	0.09
United Arab Emirates	39.6	4.7	55.6	17.5	12	48	38	1.02	10.3	0.26
Oman	19.3	0.9	56.9	14.7	8	47	43	0.94	5.1	0.26
Saudi Arabia	16.6	8.5	84.2	17	10	52	35	1.01	6.2	0.39
Venezuela	11.7	2.4	85.6	4.9	16	41	38	1.00	1.4	0.10
Russian Federation	9.9	11.1	69.1	3.5	15	18	62	0.97	3.4	0.34
Kazakhstan	7.5	1.8	71.7	5.1	12	31	52	0.88	5.1	0.63
Algeria	4.4	2.4	98.3	2.1	6	48	34	0.99	0.5	0.12
Angola	4	2.1	98.5	4.8	6	53	31	0.86	0.6	0.17
Iraq	2.4	2.1	98.5	3.8	..	..	..	0.94	0.3	0.30
Nigeria	1.2	2.8	91.3	0.7	3	39	26	0.92	0.4	0.33
Iran	-	3.5	81.6	2.8	11	34	45	0.99	0.4	0.07
Libya	-	1.9	95.8	12.2	4	74	20	1.01	2.6	0.23

Sources:

a) World Bank, http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

b) Based on Unctadstat, http://unctadstat.unctad.org

c) BP Statistical Review of World Energy June 2012, http://www.bp.com/statisticalreview

d) The Competitiveness Report 2011-2012, 2010-2011

e) calculated based on Unctadstat data, http://unctadstat.unctad.org

Table A1.3. Kazakhstan as a member of CIS

	GNI per capita, US$ thsd[a]	Share of primary commodities		Share of manufactures		Structure of output, % of GDP[d]			GNI/ GDP Ratio[e]	Inward FDI stock per capita, thsd US$[b]	Ratio of Inward FDI stock to GNI[e]
		i world exports of commodities	in country total exports	in world exports of manufacturing goods	in country total exports	Manufac-turing	Non-manufac-turing industry	Services			
Russia	9.9	6.4	80.0	0.6	15.1	15.0	18.0	62.0	0.97	3.4	0.34
Kazakhstan	8.2	1.1	88.3	0.1	11.7	12.0	31.0	52.0	0.88	5.1	0.63
Belarus	6.0	0.2	43.6	0.1	52.9	30.0	42.0	48.0	0.98	1.0	0.19
Azerbaijan	5.4	0.5	96.1	0.0	2.5	4.0	65.0	24.0	1.13	0.8	0.13
Turkmenistan	3.8	0.1	85.1	0.0	13.6	n/av	n/av	n/av	0.96	2.7	0.60
Armenia	3.2	0.0	71.8	-	27.0	15.0	18.0	47.0	1.03	1.4	0.45
Ukraine	3.0	0.4	35.7	0.3	63.7	18.0	11.0	63.0	0.99	1.3	0.43
Moldova	1.8	0.0	47.4	0.0	52.5	12.0	-	78.0	1.10	0.8	0.45
Uzbekistan	1.3	0.2	60.6	0.0	36.1	13.0	33.0	47.0	1.01	0.2	0.13
Kyrgyzstan	0.8	0.0	57.4	0.0	40.6	13.0	7.0	51.0	0.98	0.2	0.23
Tajikistan	0.8	0.0	84.9	-	8.8	10.0	13.0	57.0	1.32	0.1	0.14

Source:

a) World Bank, http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

b) Based on Unctadstat, http://unctadstat.unctad.org

d) The Competitiveness Report 2011-2012, 2010-2011

e) calculated based on Unctadstat data, http://unctadstat.unctad.org

Annex 2. Staff turnover in intergovernmental trade policy commissions

The data about the staff composition was found in the 19 amendments to the three government decrees that established the trade policy commissions. In these documents, members were identified by name. The amendments contained information only about the changes in membership of the commissions. These change were caused either by a member's departure from office or by renaming of the office.

Table A2.1. Number of commission members

Commission 1, disbanded on 22/10/2001

Starting date	19/02/1996	16/09/1998	22/04/1999	29/12/1999	13/01/2001	19/04/2001
Cohort						
1	26	5	4	4	1	1
2		9	4	1	2	3
3			10	4	1	1
4				9	3	2
5					3	3
6						1

Commission 2, disbanded on 21/09/2006

Starting date	01/11/2001	23/04/2002	11/10/2002	02/06/2003	10/11/2003	02/07/2004	13/06/2005
Cohort							
1	16	8	6	6	4	3	2
2		7	2	2	0	0	0
3			9	8	5	2	1
4				2	1	1	1
5					9	8	5
6						10	6
7							9

Commission 3, not disbanded at time of publication

Starting date	22/09/2006	19/03/2007	29/10/2007	24/12/2008	30/03/2009	22/06/2009	18/06/2010	04/04/2011	24/06/2011
Cohort									
1	25	17	9	5	2	1	1	1	1
2		8	5	1	1	1	1	1	2
3			10	5	5	2	1	1	1
4				15	13	2	2	1	0
5					4	3	3	1	

Starting date	22/09/2006	19/03/2007	29/10/2007	24/12/2008	30/03/2009	22/06/2009	18/06/2010	04/04/2011	24/06/2011
Cohort									
6						4	1	3	
7							2	2	2
8								3	2
9									3

Assuming exponential distribution of the duration of membership, we estimated a one year survival rate for each commission. The members who returned to a commission after being removed were treated as new in the computation of the average survival rate. Computation of the survival rate was based on data on the survival of each cohort through each change. The data were weighted by the size of the cohort at the start of each sub-period.

Table A2.2. Survival statistics

	Duration of the commission, years	Average duration between changes, years	Average one-year survival rate	Standard deviation of one-year survival rate
Commission 1	5.7	1.03	0.471	0.26
Commission 2	4.9	0.60	0.518	0.28
Commission 3*	6.3	0.59	0.448	0.30

** Not disbanded at time of publication. All statistics as of 1/1/2012.*

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