GLOBAL PROSPERITY INITIATIVE

MERCATUS POLICY SERIES

COUNTRY BRIEF NO. 4

KAZAKHSTAN: Economic Transformation and Autocratic Power

Jürgen Wandel

Senior research fellow, Leibniz Institute

July 2009

MERCATUS CENTER
George Mason University

Jürgen Wandel, author

Jürgen Wandel is senior research fellow at the Leibniz Institute of Agricultural Development in Central and Eastern Europe (IAMO) in Halle (Saale), Germany. Prior to joining IAMO, Jürgen was senior lecturer of economics at the Kazakh-German University (Deutsch-Kasachische Universität) in Almaty, Kazakhstan. He taught courses on economic policy and finance. He holds a doctorate degree in economics from the Eberhard-Karls University in Tübingen, Germany. Jürgen's current work focuses on economic transition in CIS-countries, institutions, and business groups

Senior Editor: Frederic Sautet
Managing Editor: Kyle McKenzie
Assistant Editor: Heather Hambleton
Publications Manager: Jennifer Zambone
Design: Joanna Andreasson
ISSN: 1943-6793

MERCATUS CENTER

George Mason University

KAZAKHSTAN: Economic Transformation and Autocratic Power

Jürgen Wandel*

EXECUTIVE SUMMARY

Kazakhstan is a major success story in Central Asia, having experienced double-digit growth rates between 2000 and 2007. The country has made significant market-oriented reforms and large amounts of foreign investment. However, following the maxim adopted by many successful countries in Southeast Asia, "First the economy and then politics," political reform in Kazakhstan has lagged.

The key challenge is ensuring broad-based sustainable economic development in order to avoid the "resource curse"—the problem of countries with abundant natural resources paradoxically lagging in development. When the global financial crisis reached Kazakhstan in 2007, additional challenges became managing problems associated with the banking and construction sectors as well as securing macroeconomic stability, in particular lowering inflation.

Inspired by the examples of Malaysia, Singapore, and South Korea and on the advice of Harvard Business School's Michael Porter, the Kazakhstani government tries to promote economic diversification through an active industrial policy based on clustering and supporting companies that the government thinks will succeed. This has led to a mix of liberal and interventionist economic policies.

Much of Kazakhstan's future success will depend upon whether it implements liberal or illiberal economic policies going forward. Given historical and cross-country evidence, additional government involvement in the market process may hamper Kazakhstan's economic potential. With this in mind, this Country Brief recommends the following policy directions:

- Refrain from top-down diversification programs, short-term rescue programs for ailing banks and construction firms, and price controls to fight inflation.
- Tighten monetary policy to curb credit growth.
- Concentrate government spending on infrastructure building and human capital formation.
- Separate the commercial and public functions of national industries and expose them to competition and the accountability rules of private firms.
- Continue to improve business regulations.
- Continue to modernize the political system and establish the rule of law.

If the political decision makers in Kazakhstan recognize entrepreneurship as the market's driving force and focus on the institutional prerequisites to growth, Kazakhstan could unleash great economic potential.

*I am grateful for the support of Galina S. Wandel, who helped med conduct interviews and collect statistical data, and Rafael Wiedenmeier, who provided most of the photographs.

For more information about the Mercatus Center's Social Change Project, visit us online, www.mercatus.org, or contact Claire Morgan, director of the Social Change Project, at (703) 993-4955 or cmorgan4@gmu.edu.

KAZAKHSTAN:
Autocratic Model of Economic Transformation

I Introduction

After eight years of severe transitional crisis, Kazakhstan experienced an economic boom from 2000 to 2006. With average annual growth rates of 10 percent, the country became a success story not only in Central Asia but also in the Commonwealth of Independent States (CIS).[1] Rising oil prices played a major role in this growth. As the price of oil climbed, the hydrocarbon sector's share of Kazakhstan's GDP also increased, from 11 percent in 1990 to almost 35 percent by 2007. In 2007, the hydrocarbon sector accounted for 57 percent of the country's total industrial output and 70 percent of export revenues;[2] 27 percent of all foreign direct investments went into the extraction of crude oil and natural gas and 36 percent went into geological exploration and prospecting activities.[3]

But Kazakhstan's rapid growth in the last seven years did not exclusively depend on favorable world market conditions for these sectors. It is also the result of market-oriented economic reforms, especially rapid price and trade liberalization, privatization, sound macroeconomic policy, and the promotion of entrepreneurship. Moreover, the income and wealth effects resulting from expanded primary production stimulated other sectors, namely financial and general business services and construction/real estate. The country's banking sector has been particularly praised by outside observers as Kazakhstan's major success and the most efficient one in the CIS.[4]

The dominant question in Kazakhstan's economic policy debate is how to make economic growth broad-based and self-sustaining so that the country's oil and natural resources will not be a curse once reserves expire or prices drop. The latter occurred unexpectedly in the second half of 2008 when, after a steady increase since 2001, the world oil price plummeted from a record of nearly $150 per barrel in July 2008 to under $40 in December 2008 as world demand declined in the wake of the spreading worldwide financial crisis.[5]

President Nursultan Nazarbayev has set the ambitious goal of Kazakhstan becoming one of the world's 50 most developed and competitive countries by 2015. Diversifying the economy and increasing the competitiveness of the non-oil sectors are considered key to achieving this goal. Inspired by examples of Southeast Asian emerging economies like South Korea, Singapore, and in particular, Malaysia—whose economic success is perceived to be the result of prudent, strategic government planning and intervention—the Kazakhstani government tries to promote diversification with an active industrial policy (instead concentrating solely on the institutional environment that would allow for a market-driven diversification process). This has led to a complex mix of liberal and interventionist economic policies, with the portion of the latter seemingly on the rise. It remains to be seen if this strategy will enable Kazakhstan to sustain its growth and become the first "Asian Snow Leopard" as envisioned in President Nazarbayev's 1997 vision of "Kazakhstan 2030."[6]

1. The CIS is a confederation that encourages cooperation between its member states: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.
2. Agency of Statistics of the Republic of Kazakhstan, *Statistical Yearbook of Kazakhstan 2007* (Astana, Kazakhstan: Agentstvo Respubliki Kazakhstan po statistike, 2007), 209, 295.
3. National Bank of Kazakhstan, *Statistika*, http://www.nationalbank.kz/cont/publish213203_5371.xls.
4. See Jan Jun, "Central Asia: Are Kazakh Banks Getting In Over Their Heads?" Radio Free Europe/Radio Liberty, February 5, 2007, http://www.rferl.org/content/article/1074520.html; Richard Pomfret, "Kazakhstan's Banking Problems," *CACI Analyst*, February 20, 2008, http://www.caci-analyst.org/?q=node/4798.
5. Wikipedia, s.v. "Price of petroleum," http://en.wikipedia.org/wiki/Price_of_petroleum (accessed December 8, 2008).
6. An English version of "Kazakhstan 2030—Prosperity, Security and Ever Growing Welfare of all Kazakhstanis" can be found at http://portal.mfa.kz/portal/page/portal/mfa/en/content/reference/strategy2030. The phrase "Asian Snow Leopard" is a play on the theme of the Asian Tigers, which were a handful of Asian countries that saw impressive growth in the 1990s.

The U.S. mortgage crisis hit Kazakhstan in August 2007,[7] dampening GDP growth and revealing that the country's financial sector was highly integrated with the global economy. Inflation surged and the population felt rising food prices particularly painfully, as food's share in the Kazakhstani consumer basket amounts to 40 percent of average income.[8] These events have raised the threat of social discontent and created unexpected additional challenges for economic policy in the field of macroeconomic stabilization, financial market reform, and agricultural policy.

Organization of This Country Brief

This Country Brief presents an overview of Kazakhstan's economy, explains some of the challenges the country faces, and outlines possible directions for economic policy. This brief's recommendations emphasize the role of competition as a discovery mechanism, entrepreneurship as the economy's driving force, and the importance of the appropriate institutional setting. These institutions include: (1) well-defined and enforced property rights, (2) enforced freedom of contract, and (3) limited government interference with market outcomes.[9]

The Country Brief is organized as follows. The next section provides a brief background on Kazakhstan and the circumstances at the time of its transition to a market economy. Section 3 presents the main economic reforms that have occurred since the country's independence in 1991 as well as their results. Section 4 discusses policy implications for the challenges ahead. The ultimate question is what role the government should play to spur economic development.

Since much has already been written about the transition years in the 1990s,[10] this study will focus on more recent developments. The information used in this Country Brief stems from officially published statistical data by government agencies, newspapers, and journals and a few anecdotes from formal and informal interviews with academics and businessmen, as well as expertise garnered from the authors' own experiences living in the country.[11]

2 Background

2.1. Land between Russia, China, and Europe

Kazakhstan was the third-largest economy of the Soviet Union and, with 2.7 million square kilometers of territory, is now the ninth-largest country in the world. It is also the world's largest landlocked country, bordering Russia on the north, northeast, and west; China on the southeast; and three other Central Asian republics—Turkmenistan, Uzbekistan, and Kyrgyzstan—on the south. Primarily located in Asia, a small portion of Kazakhstan also extends west of the Urals into Eastern Europe. It is sparsely populated, with only 5.4 persons per square kilometer. The European average is 67 persons per square kilometer.[12]

Kazakhstan is ethnically and culturally diverse. Over 100 nationalities are represented in its population, in part due to mass deportations of many ethnic groups to the country during Stalin's rule. Russians constituted the largest ethnic group in the republic at the beginning of the 1980s, accounting for 40 percent of the total population. By 1990, accord-

7. For evidence that the U.S. mortgage crisis reverberated to Kazakhstan that early, see Olzhas Khudaybergenov, "Vtoroy udar," *National Business* 54, no. 4 (2008): 32–36; Gulnoza Saidazimova, "Kazakhstan: Global Financial Turmoil Hits Credit Rating," October 13, 2007, http://www.eurasianet.org/departments/business/articles/pp101307a.shtml; Maria Kielmas, "How Financial Alchemy Engineered a Central Asian Credit Crunch," *China and Eurasia Forum Quarterly* 6, no. 1 (2008): 11–18; Pomfret, "Kazakhstan's Banking Problems."

8. Agency of Statistics of the Republic of Kazakhstan, *Statistical Yearbook of Kazakhstan 2007*, 64.

9. Israel M. Kirzner and Frederic Sautet, "The Nature and Role of Entrepreneurship in Markets: Implications for Policy," *Mercatus Policy Series*, Policy Primer no. 4 (Arlington, VA: Mercatus Center at George Mason University, June 2006).

10. See Pomfret, *The Economies of Central Asia* (Princeton: Princeton University Press, 1995); Pomfret, *The Central Asian Economies Since Independence* (Princeton: Princeton University Press, 2006); Yelena Kalyuzhnova, *The Kazakhstani Economy: Independence and Transition* (Basingstoke: Macmillan Press, 1998); Martha Brill Olcott, *Kazakhstan: Unfulfilled Promise* (Washington, DC: Carnegie Endowment for International Peace, 2002).

11. Some names of businesses and persons have been changed to protect their identities.

12. Evraziyskiy dom—informatsionno-analyticheskiy portal: Dosie strany—Kazakhstan, http://www.eurasianhome.org/xml/t/databases.xml?lang=ru&nic=databases&country=98&pid=31.

shareholder profits[162] delayed the start of construction until May 1999. In October 2001, Kazakhstan inaugurated the CPC pipeline. As a result, export costs of Tengiz oil decreased by roughly 50 percent. Kazakhstan has set up a fleet of large-capacity oil tankers to bypass Russia through the Caspian Sea and Azerbaijan. To further diversify transportation routes, Kazakhstan has invited China to invest in its hydrocarbon sector. The Chinese purchased a major stake in Aktobemunaigaz and have provided funding for a 980-km pipeline, running from Kazakhstan to China's Xinjiang province. Construction began in late September 2004; the second stage of the project will be finalized in 2009.

Kazakhstan still lacks a pipeline system to transport its natural gas from the point of production in the western part of the country to the consumers in the east and south. Imports from Uzbekistan and Russia mostly cover the demand in these regions.

5.1.3. Expanding the Role of the Government in the Natural Resources Sector

To attract foreign investors to its hydrocarbon sector, the Kazakhstani government initially followed a liberal policy that led to a favorable investment climate and allowed the privatization of most existing oil and gas enterprises. This policy was extremely successful. By the end of 2004, the cumulative stock of FDI in oil and gas extraction had reached around US$16 billion.[163] The first big project involving foreign capital was the development of the Tengiz field. The most significant single project is the Kashagan offshore field, which is expected to absorb US$20 billion and to be exploited for 70–80 years. It is developed by a consortium led by the western oil companies Eni, Total, ExxonMobil, and Shell.[164]

Late in the 1990s, the first signs of a shift toward increasing state involvement in the oil industry began to appear. The goal was to expand the state's direct role in the ownership and management of oil-sector assets, thereby increasing the state's share of oil revenues. In 1997, a national oil company, Kazakhoil, was created to manage the state's remaining oil-sector enterprises. In February 2002, Kazakhoil was merged with the state-owned oil and gas transportation group Transneftegaz (consisting of KazTransOil and KazTransGaz) to become the vertically integrated state oil and gas company KazMunayGaz. The purpose of this step was to ensure coherent government policy on hydrocarbon and, as in the case of newly created national holdings, to separate the state's commercial interests from its regulatory role. KazMunayGaz was to perform the commercial role, while the Ministry of Energy and Natural Resources was to have a purely regulatory role. Yet, as Rudiger Ahrend and William Tompson, senior economists at the OECD and experts on oil and gas issues in the CIS, report, this division of roles has not been fully realized.

The state's actions have caused tensions with foreign investors and cast doubts on the credibility of the government's commitment to property rights, contract stability, and market principles. Many of the conflicts deal with the interpretation of the major contracts concluded between investors and the state. Since the contracts themselves remain secret, it is impossible for outsiders to judge the merits of any given dispute.

Assessments of the conflicts are not unanimous among experts. According to Robert M. Cutler, "Western investors feel that the playing field has been tilted against them, while Kazakhstani actors feel that it has only been leveled."[165] Yet, he considers it unclear whether Kazakhstan is really planning a Russian-style "resource nationalism." Ahrend and Tompson are more optimistic:

> While the last years have undoubtedly seen growing friction between the Kazakh authorities and the major oil companies, the situation should not be over-dramatised. Kazakhstan has not witnessed anything like the large-scale assault on property rights mounted against Yukos in Russia. The fact that the major private investors are foreign companies would in any case constitute a significant deterrent to any such attack on private property.[166]

Bodo Lochmann, senior economist at the German-Kazakh University (DKU) in Almaty, has a similar opinion. He thinks the case of Eni did not severely harm foreign investors' confidence in Kazakhstan's economic policy.

162. Russia used its transport network to pressure Kazakhstan in the dispute over ownership of the Tengiz field. The dispute was resolved, and pipeline constraints eased, after Russian equity participation was agreed upon.
163. Ahrend and Tompson, "Realising the Oil Supply Potential of the CIS," 28.
164. Ibid., 29; Birgit Brauer, "Der Streit um das Kaschagan-Ölfeld—Ressourcennationalismus oder Emanzipation auf Kasachisch?" *Zentralasien-Analysen*, no. 02, February 29, 2008, 3.
165. Cutler, "Kazakhstan's Foreign Investment Law Changes Again."
166. Ahrend and Tompson, "Realising the Oil Supply Potential of the CIS," 48.

> Surely, the Kazakhstani side has tested how far it can go with its demands on renegotiation of agreements without alienating urgently needed partners. In the end economic rationality was stronger than short-sighted political and economic ambitions aimed to favor domestic business structures and to receive quick budget revenues.[167]

Martha Brill Olcott underscores that the Kazakhstani government surely did try to carve out a bigger role for itself in the development of its own energy reserves:

> Yet, the Kazakhs recognize that they can't deal with western firms, as the Russians have. They too have used often times tenuous "rule of law" based arguments to strengthen their claim for larger shares of existing projects, but have been nowhere as rapacious as their Russian colleagues. Though relations can sometimes be tense between the Kazakhs and their leading foreign investors, the Kazakhs repeatedly reassure them that "resource nationalism" or full nationalization is not on the table in Kazakhstan. President Nazarbayev seems determined to provide enough legal protection to insure investments made in his political life will be sustained after his passage from the scene.[168]

As Ahrend and Tompson pointed out, the state dominates the oil industries in most of the world's major oil exporters. "Against this background the extent to which the private sector has dominated oil production in Kazakhstan since the early 1990s looks in fact quite anomalous. However, it appears to have been a *positive* anomaly, at least in terms of investment, efficiency and growth."[169] They conclude, however, that "the shift towards more direct state control over assets and intervention in markets is likely to contribute to poorer performance. The problem is not simply that renationalized assets are likely to be managed less efficiently. It is also that greater state ownership and intervention in the sector is likely to distort the incentives facing private companies."

5.1.4. The National Fund of Kazakhstan

Besides settling on reliable rules of the game for investors, the government's most important challenge in the hydrocarbon sector is managing revenues successfully. Some resource-rich countries have channeled some of the revenues from resource exploitation into stabilization funds separated from the state budget.[170] Kazakhstan did something similar in creating the National Fund of the Republic of Kazakhstan in August 2000. The National Fund is managed by the National Bank of Kazakhstan and overseen by a governing board chaired by the president of Kazakhstan himself.[171] Information on the fund's revenues, expenditures, and the audit results have to be published in the local press and the fund is subject to an independent audit annually.

Kazakhstan's fund has both a savings and stabilization component and fully invests in foreign markets. The income from the investment is intended to bolster the state budget. The government committed not to access the National Fund's resources for the first five years. In 2005, the National Fund valued US$5.14 billion, which equals 35.7 percent of the country's gold and currency reserves, and by the end of July 2008, US$26 billion had been allocated to this fund. At the end of 2008, US$32 billion is expected.[172]

The role of oil funds in the literature is controversial. One point of view is that they are unnecessary because if the conditions exist for these funds to function successfully, the revenue windfall can be managed without them within the budgetary process. The other point of view is that if it is impossible to create ideal conditions, the existence of oil funds could prevent excessive spending. It signals to private foreign and domestic investors that

167. Lochmann, "Kaschagan-Verhandlungen: Dieses Mal friedlich," *Deutsche Allgemeine Zeitung* (May 23, 2008), 3.

168. Olcott, "Kazakhstan: Will 'BRIC' be spelled with a K?": 41–53.

169. Ahrend and Tompson, "Realising the Oil Supply Potential of the CIS," 51.

170. Examples are Chile (stabilization fund for copper), Algeria, Canada (Alberta), Kuwait, Norway, the United States (Alaska), Venezuela, and Russia. See for more detail Yelena Kalyuzhnova and Michael Kaser, "Prudential Management of Hydrocarbon Revenues in Resource-Rich Transition Economies," *Post-Communist Economies* 18, no. 2 (June 2006): 167–187.

171. The governing board consists of the prime minister, the chairmen of both chambers of Parliament, the governor of the National Bank, the ministers of finance and economy, a representative from the presidential administration and the Accounting Committee, as well as external managers from international commercial financial services institutions.

172. See also Embassy of Kazakhstan, http://www.kazakhembus.com/National_Fund.html, June 14, 2008; "S nachala goda sredtsva Natsional'nogo fonda uvelichilis' na $3,3 mlrd," July 31, 2008, http://www.regnum.ru/news/1034863.html?forprint.

the government is fiscally self-disciplined. The experience of successful funds (e.g. Alaska, Norway) is usually cited in support of this argument.[173] Yet, as Kalyuzhnova, et al. show, these cases are the exception rather than the rule.[174] More often than not, lack of clear rules and operations limit the success of such funds. However, so far such fears have proved unjustified for Kazakhstan. The National Fund does have clear rules and the government has not given in to temptations to use the fund for short-term goals. Only most recently, on October 20, 2008, Prime Minister Karim Masimov has announced plans to use US$10 billion to support the ailing economy due to the global financial crisis.[175]

5.2. The Financial Services Sector

5.2.1. Institutional Characteristics

In Kazakhstan, the banking sector is the dominant segment of the financial industry. Figure 11 shows that in October 2007, 82 percent of the aggregate assets of the financial market were kept by banks, followed by the pension funds. The securities and stock market is comparatively insignificant, although the Kazakhstan Stock Exchange (KASE) is the most developed in Central Asia. According to Clare Nuttall,[176] high listing conditions set by the KASE have deterred especially smaller Kazakh companies from listing locally. Kazakhstan's largest companies typically choose to list in London to gain access to high-quality international investors before listing on the KASE.

FIGURE 11: INSTITUTIONAL STRUCTURE OF FINANCIAL SECTOR ASSETS AS OF OCTOBER 1, 2007 (% OF TOTAL ASSETS)

Financial Institution	Share
Banks	81.9
Insurance companies	1.3
Securities market professional participants	2.6
Pension funds	7.9
Mortgage companies	1.3
Non-banking organizations	4.9

Source: Kazakhstan Financial Stability Report, December 2007, 38

Kazakhstan's banking system initially evolved in a similar manner to that of other former republics of the Soviet Union. The hyperinflation of the early transition years made founding banks very attractive. Prospects of quick profits led to an explosion in the number of banks.[177] By 1994, Kazakhstan had 210 banks. It was not until the inflation rate dropped in 1994, leaving loan delinquencies in its wake, that the cracks in the system began to show. When, in 1994 and 1996, major banks got into financial trouble and more than 20,000 investors had lost their savings,[178] the Kazakhstani government took decisive actions to make the country's banking system more efficient. The National Bank of Kazakhstan (NBK) enforced a presidential decree mandating stricter requirements to set up banks and introducing stringent international prudential standards for the operations, including requirements on capital adequacy, liquidity ratios, conformity to the International Financial Reporting Standards (IFRS) and the Basel Committee norms,[179] and existence of personnel training programs. Following legislative changes

173. See for more detail Kalyuzhnova, "Overcoming the Curse of Hydrocarbon: Goals and Governance in the Oil Funds of Kazakhstan and Azerbaijan," *Comparative Economic Studies* 48 (2006): 583–613 and the literature there cited.

174. Ibid.

175. Satpaev, "Anti-Nekrolog," *Liter*, October 21, 2008, www.liter.kz/site.php?lan=russian&id=154&pub=12132

176. Clare Nuttall, "Kazakhstan's Stock Market—The Missing Link," *Silk Road Intelligencer*, June 20, 2008, http://silkroadintelligencer.com/2008/06/20/kazakhstans-stock-market-the-missing-link/.

177. Since the interest margin is the key factor for banks, they can earn positive real returns even when real loan interest rates are negative, and can therefore skim off some of the inflation tax.

178. Thomas Röhm et al., *Kasachstan—Wirtschaft und Reformen 1995, ifo studien zur osteuropa- und transformationsforschung 20* (München: Weltforum Verlag, 1996), 31.

179. International Financial Reporting Standards (IFRS) are international standards for financial reporting and accounting. The aim is to facilitate the worldwide comparison of financial statements of enterprises and thus to enhance the integration of the world's capital markets. For more detail, see the homepage of the IASB at http://www.iasb.org/Home.htm. Basel Committee norms are international minimal risk and capital management requirements designed to ensure that a bank holds capital reserves appropriate to the risk the bank exposes itself to through its lending and investment practices. They were formulated by the Basel Committee on Banking Supervision, an institution created in 1974 by the central bank governors of ten industrialized countries in Basel, Switzerland. The norms are fixed in two Basel Accords, Basel I in 1988 and its Basel II revision of 2001–06. In general, the norms stipulate that the greater risk to which the bank is exposed, the greater the amount of capital the bank needs to hold to safeguard its solvency and overall economic stability. Advocates of these accords believe that such an international standard can help protect the international financial system from the problems that might arise should a major bank or a series of banks collapse. For more detail, see the homepage of the Basel Committee on Banking Supervision at http://www.bis.org/bcbs/index.htm.

Construction boom in the two major cities: Left, the new capital Astana in the northern steppeland. Right, the southern "capital" and financial center Almaty at the bottom of the Tien Shan Mountains.

in July 2003, the Financial Markets Supervisory Agency (FMSA) was formed, and, as of January 1, 2004, it took responsibility for most of the supervisory and regulatory functions in the financial sector (previously performed by the NBK). This new and enforced institutional framework has cut the number of banks from 210 in 1994 to 36 in September 2008. No other country has reduced the number of banks as quickly as Kazakhstan. Sixteen of these 36 banks are in a NBK-sponsored deposit insurance scheme. Five large banks (Kazkommertsbank, TuranAlem (BTA), Halyk Bank, Alliance Bank, ATF Bank) dominate the sector and account for 79.5 percent of total assets of the banking sector.[180]

These strict reforms helped Kazakhstan's banks quickly gain international competitiveness, becoming the best developed in the former USSR and the country's major success. Kazakhstani banks have entered the list of the world's top 1,000 banks. They have also been expanding into neighboring countries, first into the Kyrgystan, where over 70 percent of the assets of the banking sector are Kazakhstani-owned, but also into Tajikistan, Russia, Georgia and Belarus.[181] In contrast, foreign banks' participation in the total assets of the Kazakhstani banking sector is low.

5.2.2. Strong Inter-linkage Between the Banking and Construction/Real Estate Sector

Although Kazakhstan's banks have spread credit throughout the whole population,[182] this credit has gone particularly to the construction and real-estate market, especially into the residential market of the affluent urban areas of Almaty and Astana. In 2005, construction credits amounted to 12.8 percent of bank loan portfolios and as of October 1, 2007, this indicator had risen to 25.6

180. National Bank of Kazakhstan, *Financial Stability Report* 2007, 66.

181. Pomfret, "Kazakhstan's Banking Problems."

182. Asian Development Bank, *Asian Development Outlook 2008: Kazakhstan*. Car loans and unsecured consumer credit have grown especially rapidly since 2005. The share of consumer credit in the total credit by the second-tier banks has risen from 6.7 percent in 2005 to 11.2 percent at the beginning of 2007.

percent.[183] The Asian Development Bank estimates that 70 percent of all loans were directly or indirectly linked to the real-estate sector, compared to about 25 percent in Russia.[184] Kazakhstani locals and experts explain this preference for the construction/real-estate sector: (1) A genuine need for new housing to compensate for under-supply from Soviet times,[185] and (2) Given few alternative possibilities for investment due to an underdeveloped securities and stock market, the general population viewed investment in real estate as the best option. In additon, the introduction of mortgages in the early 2000s helped the real-estate sector to expand quickly. As Karlygash Kuralbayeva and David Vines explain, a financial accelerator was set in motion: Rising incomes of households due to high GDP growth increased the demand for consumer goods and housing services.[186] As a result, house prices and thus the collateral value of homeowners increased. In fact, until June 2007, the cost of 1 m² in Almaty rose on average to US$3,500–3,700, compared to a modest US$100 in 1998. In the capital of Astana and the oil producing regional center of Atyrau, prices in June 2008 were about US$2,000 per m² lower than in Astana, but still twice as high as in more rural regional centers like Kostanay or Taldykorgan where one m² costs US$1,000.[187] The higher collateral value decreases the external finance premium, causing a further increase in housing demand.

5.2.3. The Impact of the U.S. Mortgage Crisis on Kazakhstani Banks

Although observers have for some time considered the construction/real estate sector overheated, this did not precipitate the economic problems in the banking sector.[188] Rather, they emerged because Kazakhstani banks borrowed heavily in international markets at shorter maturities to those on their loan portfolios, often with floating interest rates,[189] and the quality of their loan portfolios was poor. In the aftermath of the U.S. mortgage crisis in summer 2007, bank assets began to deteriorate in Kazakhstan and these holes in Kazakhstan's banking-sector success story became obvious. At the same time it revealed how much Kazakhstan's banking sector had already been integrated into the global financial markets.

There are several reasons for the preference for foreign funding: (1) a domestic deposit base that most Kazakhstani banks consider too small to finance growing private consumption,[190] (2) low risk-premiums on external borrowing due to high oil prices and excess liquidity on the international markets, and (3) little exchange-rate risk because the National Bank has kept the exchange rate (KZT130 to US$1) relatively stable since May 1999, despite strong pressures for currency appreciation.[191] As of October 2007, foreign borrowings accounted for more than 50 percent of the Kazakhstani banking sector's liabilities. By comparison, Russian banks raised only 18–20 percent of their non-equity funding on international markets.[192]

183. National Bank of Kazakhstan, *Financial Stability Report 2007*.

184. As of July 1, 2007, 38 percent of Kazakhstani banks' portfolios consisted of mortgage credits, compared to 16 percent in Russia. Oksana Komardina, "Stavka na loyal'nost'," *Ekspert Kazakhstan* 160, no. 12, March 24, 2008, http://www.expert.ru/printissues/kazakhstan/2008/12/finansovyi_rynok/.

185. The decision to designate Astana as the new capital city of Kazakhstan resulted in increased demand for modern office space, housing, and infrastructure.

186. Karlygash Kuralbayeva and David Vines, "The Role of the Real Estate Sector in the Transmission of External Shocks in a Small Open Economy: A Financial Accelerator Framework: The Case of Kazakhstan," presentation at ISE Conference *Institution Building and Economic Development in Central Asia* at the Kazakh-British University, Almaty, June 5–6, 2008.

187. Olzhas Khudaybergenov, "Nuzhna li nam novaya zhilichsnaya politika?" *National Business* 53, no. 3 (2008): 73.

188. See Lochmann, "Bankenkrise," *Deutsche Allgemeine Zeitung*, October 5, 2007, 3; Lochmann, "Zahl der "verlorenen" Kredite in Kasachstan hat sich verdoppelt," *Deutsche Allgemeine Zeitung*, May 2, 2008, 3.

189. The maturity of the funds borrowed by Kazakhstan's banks abroad was on average 2–7 years while they lent this money for 10–15 years. Khudaybergenov, "Analiz antikrizisnykh mer gosudarstva," *National Business* 53, no. 3 (2008): 66.

190. Between 2001 and 2006, total loans grew tenfold, and the loans-to-GDP ratio rose from 18 percent in 2002 to 42 percent by the end of 2005.

191. Pomfret, "Kazakhstan's Banking Problems."

192. Komardina, "Stavka na loyal'nost'."

FIGURE 12: SELECTED INDICATORS OF THE KAZAKHSTANI AND RUSSIAN BANKING SECTORS

Indicators	Russia	Kazakhstan
Bank deposits of natural persons per capita as of 1 Nov 2007, US$	1,334	744
Volume of bank deposits of the population in percent of GDP	14.2	11.3*
Credits, given to natural persons, per capita as of 1 Nov 2007, US$	862	1,368
Volume of credits given to the population in percent of GDP	9.2	20.7*

** Estimations of the Rating Agency Ekspert RA.*
Source: Oksana Komardina, "Stavka na loyal'nost'" Ekspert Kazakhstan 160, no. 12 (2008), http://www.expert.ru/tables/kazakhstan/2008/12/document384928/.

Figure 12 shows that until the end of 2007, in Kazakhstan 1.8 times more money per capita was lent to natural persons than deposits raised from them, whereas in Russia bank deposits from natural persons per capita were 1.5 times higher than the credits given to them. This bank policy contributed to a surge in Kazakhstan's external debt, which amounted to US$93.9 billion by the end of September 2007. The private portion of the external debt is US$62.5 billion, equal to about 60 percent of GDP, and that of banks alone to about 40 percent of GDP.[193]

As figure 13 shows, even before August 2007, Kazakhstani banks' loan portfolios were of poor quality. By 2004, they had a high share of doubtful loans—40 percent of the total portfolio. It rose to 56 percent by October 2007. This indicates severe shortcomings in risk assessment and management. As a former employee in a medium-sized bank reported, some banks had given a large portion of the credit portfolio—in some cases, all of it—to a single borrower, often on the basis of a close relationship to the bank's director rather than a sound business plan and serious screening of the client's creditworthiness. The financial director of BTA Bank, Khalil Kamalov, reported in an interview with Talgat Ergaliev from *National Business* that before the crisis it was not uncommon to treat various projects from one construction company as a pool—now the bank checks and finances each single project.[194]

The share of nonperforming loans in the portfolio of Kazakhstan's banking system was and still is less than the internationally applied critical value of 10 percent of total loan portfolios. The period-to-period comparison of August 2008 and 2007 shows that the share of standard and doubtful loans as a whole has remained almost unchanged; however, there have been shifts between the categories of doubtful credits. The share of the first category, which denotes that a loss of the loan is highly unlikely in spite of temporary liquidity difficulties of the borrower, has decreased while the shares of category 3 to 5, indicating rising probability of non-payment, have markedly increased. Nevertheless, the director of Kazakhstan's Financial Services Supervisory Agency, Elena Bakhmutova, holds that the level of loan impairment is still not at critical levels.[195] Fitch Ratings supports this view. Their analysis shows that the margins and capital ratios of most Kazakhstani banks still provide meaningful capacity to absorb future losses.[196]

FIGURE 13: QUALITY OF THE CREDIT PORTFOLIO, 2004 – 2008 (PERCENT OF TOTAL)

	YEAR				PERIOD-TO-PERIOD COMPARISON	
	2004	2005	2006	2007	1 Oct 2007	1 Oct 2008
Total Portfolio	100	100	100	100	100	100
Standard	56.2	59.4	58.2	52.7	42.9	41.4
Doubtful	40.9	38.4	39.5	45.7	56.0	55.8
Category 1	31.9	28.8	32.2	38.9	44.9	36.6
Category 2	1.4	3.1	1.1	1.8	5.8	5.6
Category 3	5.2	3.8	4.2	3.6	4.5	9.7
Category 4	1.0	1.7	0.9	0.6	0.3	1.8
Category 5	1.4	1.0	1.1	0.8	0.5	2.1
Loss	2.9	2.2	2.3	1.7	1.1	2.8

Source: Financial Supervision Agency of Kazakhstan: Banking sector status, issues 2004-August 2008; Talgat Ergaliev: "Proverka Boem," in National Business *53, no. 3 (March–April 2008), 35.*

Since August 2007, Kazakhstani banks have struggled more and more to repay foreign loans. Simultaneously, they have faced difficulties in accessing further funds from the international markets due to rising risk aversion resulting from both the U.S. crisis and the high share of doubtful credits in the loan portfolio of Kazakhstani banks. The Kazakhstani banks have responded to the crisis by (1) curtailing new credit, (2) substantially increasing (doubling, even tripling) the interest rates on mortgages loans, (3) providing more care in evaluating the creditworthiness of their customers, and (4) intensify-

193. International Monetary Fund, *Republic of Kazakhstan: Staff Report for the 2007 Article IV Consultation*, 6; Asian Devlopment Bank, *Asian Development Outlook 2008: Kazakhstan*.
194. Talgat Ergaliev, "Proverka Boem," *National Business* 53, no. 2 (March–April 2008): 36.
195. Asan Kuanov, interview in *Liter.kz "Otkrytyy rynok*," September 17, 2008, www.liter.kz/print.php?lan=russian&id=150&pub=9987.
196. Fitch Ratings, *Kazakhstan Special Report Kazakh Banks' Asset Quality: Trends Negative, Disclosure Opaque*, April 2008.

ing efforts to attract domestic deposits in order to diversify their funding portfolio.[197] Other Kazakhstani banks started looking for a foreign strategic partner. As a result of the more prudent lending policy, bank loans to the domestic economy grew by only 1.8 percent in the fourth quarter of 2007 and interest rates reached about 20 percent by the start of 2008, double the rates of two years earlier. The banks' reluctance to issue further loans has caused not only a dramatic fall in demand for new construction, but also a supply glut as many investors were forced to sell their properties to meet mortgage payments. Many construction companies have suspended projects in early stages of construction. This has left a significant number of investors, who frequently bought their properties before foundations were laid, without a home.[198] Real estate prices in Almaty and Astana have fallen 30–40 percent from their August 2007 peak.

5.2.4. Government Intervention

In an effort to avoid a collapse in the real-estate market and an economic recession in general, the government charged Kazyna, one of the four national holding companies, to create and implement both a short-term and long-term action plan. Meanwhile, the government and financial authorities decided as an emergency measure to open a short-term credit line for liquidity support. The National Bank injected approximately US$18 billion into the banking system in August and September 2007, mainly through repurchase agreements and foreign exchange swaps. In addition, the government allocated another US$4 billion of budget funds as a rescue package for the economy. These funds target three areas: (1) construction companies, to enable them to complete unfinished residential construction (about US$400 million), (2) industrial investment projects that were suspended by banks (about US$200 millon),[199] and (3) the support of small business. This financial support to the economy weakened the fiscal stance and deficits appeared for the first time in three years. Revenues rose by 23.5 percent, but were outpaced by expenditure growth of 37.5 percent. Standard and Poor's (S&P) downgraded Kazakhstan's creditworthiness from BBB to BBB- but said they still consider Kazakhstan a solid country and expect the difficulties to be managed.[200]

The main purpose of such government action is psychological. It tries to demonstrate to economic actors that the crisis will be successfully overcome. The best long-term solution would be to allow the ailing enterprises go bankrupt and the market to reallocate scarce savings. The fact that some banks and construction companies have reached the edge of bankruptcy demonstrates severe management failures and a misallocation of savings. Providing access to money without proper scrutiny of borrowers has resulted in far too many buildings being built, relative to the real ability to pay for them. The big danger of any state intervention that provides guarantees in one form or another is that it encourages entrepreneurs to continue to make deals that are far too risky. Any system under which profits flow to private entrepreneurs while losses are borne by the whole society distorts incentives and misdirects capital.[201]

5.3. Agro-Food Sector

5.3.1. Structural Characteristics

The agro-food sector is a major part of the Kazakhstani economy. Over one-third of the national labor force was employed in agriculture in 2007, despite producing only 6 percent of GDP. The food industry employs nearly 11 percent of the working population, but accounts for one-quarter of total manufacturing output and provides 10 percent of overall industry production. Its share of the GDP is estimated at about 6.5 percent.[202]

197. Ergaliev and Boem, 34–38; Dilyara M. Seyilkhan, "Problemy likvidnosti v bankovskom sektore," *Banki Kazakhstana*, no. 2 (2008): 18–19.

198. Real-estate companies frequently sell about 25 percent of the apartments in a building when only 20 percent have been actually built. See Erden Shodyrov, "Vorpros na milliard," *National Business* 53, no. 3 (March–April, 2008): 56.

199. Altogether 130 projects have been selected that shall receive funds to secure completion. Khudaybergenov, "Nuzhna li nam novaya zhilichsnaya politika?" 68.

200. Komardina, "Stavka na loyal'nost'." Gulnoza Saidazimova, "Kazakhstan: Global Financial Turmoil Hits Credit Rating," October 13, 2007, http://www.eurasianet.org/departments/business/articles/pp101307a.shtml. Russia and Kazakhstan are the only two former Soviet nations that S&P rates to "investment" grade. Russia's current rating of BBB+ is two notches higher than Kazakhstan's. Ukraine is rated BB-, three notches below Kazakhstan, while Belarus and Georgia are rated B+, four notches below Kazakhstan.

201. James A. Dorn, "What Price Stability?" The Cato Institute, September 15, 2008, http://www.cato.org/pub_display.php?pub_id=9642.

202. Agency of Statistics of the Republic of Kazakhstan, *Statistical Yearbook of Kazakhstan 2006*; Tulkin Tashimov and Sergey Smirnov, "Na importnoy diete," *Ekspert Kazakhstan*, no. 14 (April 2008): 7–13, 15–18.

Decline and Rise of Agriculture: Left, bankrupt former kolkhoz in the Almaty region. Right: restructered large-scale agricultural enterprise in Northern Kazakhstan using western production technology.

Due to privatization and farm restructuring, the number of collective farms has fallen. The area farmed by them also shrank from 92 percent in 1995 to 66 percent in 2001 and to 51 percent of Kazakhstan's total farmland in 2006. Family farms, on the other hand, grew rapidly and now about 48.1 percent of cultivated land belongs to individual farms. Household plots use about 0.7 percent of all agricultural lands.[203] In 2006, large-scale agricultural enterprises accounted for only 25 percent of all agricultural production, while household plots for 54 percent and peasant farms for 21 percent. However, corporate and peasant farms produce most crops (83 percent and 84 percent of total output, respectively), while household plots are predominantely engaged in animal production (78 percent of total output).[204]

5.3.2. Performance

After a substantial decline—of nearly 30 percent—between 1992 and 1998, agricultural production has been growing since 1999 as food imports have become less attractive (due to currency devaluation), domestic demand has grown, and world agricultural prices have increased. The most successful branch in Kazakhstan's agriculture is grain production. In 2007, Kazakhstan gathered a bumper crop with 20.1 million tons—22 percent more than in 2006. This propelled Kazakhstan to become one of the ten largest grain-exporting countries. The total value of grain exports in 2007 is estimated at US$1.5 billion, almost double the previous year.[205] However, 39 percent of corporate farms remained unprofitable in 2006 (down from 78.5 percent in 1998). The food industry saw similar development. Overall yearly output rose by 11 percent on average since 2000.

5.3.3. Actual Agricultural Policy

In the early years of political transition, government support for agriculture farmers was substantially reduced. Subsidies fell from 10–12 percent of GDP before 1991 to 2–3 percent in 1993, and protection from foreign competition was reduced to a simple average tariff rate of 9.5 percent.[206] This liberal policy was reversed in the early 2000s as the government responded to the oil boom by providing more support for agriculture. Implementing the billion-dollar Agriculture and Food Program for 2003–2005 increased public expenditure on the agro-food sector by an average of 40 percent per year between 2000 and 2005.[207]

In 2005, the Conception For the Sustainable Development of the Agro-Industrial Complex for the Period 2006–2010 was passed. It explicitly promotes a policy of export promotion and import substitution in order

203. Agency of Statistics of the Republic of Kazakhstan, *Statistical Yearbook of Kazakhstan 2006*, 175 and *Statistical Yearbook of Kazakhstan 2007*, 240.
204. Agency of Statistics of the Republic of Kazakhstan, *Statistical Yearbook of Kazakhstan 2007*, 245.
205. GFA Consulting Group GmbH, "Agrar- und Ernährungswirtschaft in Kasachstan: Sektorüberblick, Märkte und Investitionsbedingungen" (Bonn, 2008), 33.
206. Pomfret, "Has Kazakhstan Used Its Energy Resources to Promote Diversification through Support for Agriculture?"
207. Ibid.

to achieve a relatively high independence from food imports.[208] To achieve these twin goals, the Kazakhstani government believes it necessary to (1) regulate the internal market, (2) industrialize agricultural production, (3) develop a modern infrastructure for the whole sector, and (4) promote branch clusters.[209]

Government regulation of the agro-food markets takes the forms of subsidies, tax privileges, and tariff policy. Similar support measures exist for the food industry.[210] By "industrialization of agricultural production," the government primarily means that farm production technologies must be modernized—most are extremely outdated. Family farms also need to expand their size to increase competitiveness, especially in livestock production.[211] The development of a modern infrastructure includes building roads in rural areas, as well as establishing a network of veterinary and phyto-veterinary services, procurement organizations, wholesale markets, information and marketing services, and financial and insurance institutions. The government views clusters as the most progressive form of industrial organization, best able to serve as "catalysts to raise productivity and quality in the agro-food sector on the basis of vertical and horizontal integration."[212]

5.3.4. The Battle Against Rising Food Prices

Since late summer 2007, Kazakhstan has faced rising food prices—symbolically important, bread rose by 30 percent. After experiencing such a remarkable economic recovery, such a situation is hard for Kazakhstani citizens to understand. This is not only a Kazakhstani problem; worldwide, food prices rose by nearly 40 percent in 2007, compared with 9 percent the year before. Systemic causes for this phenomenon are still debated, but generally some combination of high oil prices raising the cost of farm inputs and transportation, bad weather in important farming areas (Australia), increasing demand for higher-valued food (especially meat) in emerging countries, and the reduction of farmland available to grow foodstuffs in favor of growing biofuel crops are held responsible.[213]

Kazakhstan itself suffered neither from bad weather conditions in 2007 (on the contrary) nor from a competition between food and biofuel production. However, rising fuel prices did affect Kazakhstan.[214] Its own middle-class consumers shifted demand away from traditional staples toward livestock products, which in turn increased demand for grains to feed livestock.[215] Moreover, there is reason to believe that infrastructural and policy shortcomings contributed to the rise of food prices in Kazakhstan. The shortcomings in infrastructure include the lack of storage capacities and transportation facilities, which makes the shipment of products from surplus to deficit areas costly.[216] The policy defect is the hybrid character of the state-owned Food Contract Corporation (FCC) as both a profit-oriented enterprise and a public institution. Initially established in 1995 to maintain state grain reserves, the FCC became responsible for regulating the domestic grain market, grain exports, and investment activities in the agro-food sector. As Oraz Zhandosov, a prominent opposition leader and Kazakhstani economist told *Business & Power*, a business weekly, the FCC showed a clear preference for the commercial tasks and earned enormous profits.[217]

208. According to Kazakhstan's minister of agriculture, "food security" is reached when the share of imports in domestic supply is lower than 20 percent. See Ol'ga Flink, "Ideal'nye mery trudnoosushchestvimy," *Ekspert Kazakhstan*, no. 14 (April 7–13, 2008): 19.

209. Government of the Republic of Kazakhstan, *Konceptsiya ustoychivogo razvitiya agropromyshlennogo kompleksa Respubliki Kazakhstans na 2006–2010*, section 2.

210. Ministry of Agriculture, *Razvitie pishchevoy promyshlennosti*, http://www.minagri.kz/agro/index.php?ID=1449&print=Y.

211. Dina Karadzhaeva, Alina Galieva, and Mukhtar Zhumaliev, "Mlechnyy put', " *National Business* 49, no. 11 (November–December 2008): 24.

212. Government of the Republic of Kazakhstan, *Konceptsiya ustoychivogo razvitiya agropromyshlennogo kompleksa Respubliki Kazakhstans na 2006–2010*, section 2.

213. Joachim von Braun, "High and Rising Food Prices: Why Are They Rising, Who Is Affected, and What Should Be Done?" presentation to the U.S. Agency for International Development conference *Addressing the Challenges of a Changing World Food Situation: Preventing Crisis and Leveraging Opportunity*, Washington, DC, April 11, 2008, 1, slide 1, http://www.ifpri.org/presentations/20080411jvbfoodprices.pdf.

214. Daur Dosybiev, "Kazaks Struggle With Oil and Food Prices," http://www.groundreport.com/Arts_and_Culture/Kazaks-Struggle-With-Oil-and-Food-Prices. In early 2008, petrol cost ninety tenge (seventy five U.S. cents) a liter for 92-octane. Diesel was about one hundred and thirty tenge a liter.

215. Aleksey Ikonnikov, "Lozhka k obedu," *Kontinent* 203, no. 18 (September–October 2007): 14–17; Daniyar Sabitov, "Khlebnyy spros," *Kontinent* 203, no. 18 (September–October 2007): 22–25.

216. "Kazakhstan's Wheat Dilemma," *Silk Road Intelligencer*, March 6, 2008, http://silkroadintelligencer.com/2008/03/06/kazakhstans-wheat-dilemma/; Saule A. Kalenova, "Gosudarstvennaya podderzhka infrastruktury agrarnogo sektora," *Al'Pari*, no. 1 (2007): 156.

217. Cited in "Kazakhstan's Wheat Dilemma," *Silk Road Intelligencer*.

To prevent severe social tensions, the government introduced export licenses in 2007, ordered the creation of regional grain reserves, and called on food producers to refrain "voluntarily" from increasing prices. In reality, there is nothing voluntary about these memorandums—coming on their heels is the threat of more severe state intervention such as control of retail margins or the establishment of a state monopoly on bread production.[218] In April 2008, the government introduced an export ban on grain but lifted it in September when estimates projected a wheat harvest of 16 million tons—allowing an excess of 5.5 million tons to be exported.[219]

Countries limiting exports create an artificial scarcity in the world market, raising world prices still higher and only worsening the crisis. Government officials overlook the fact that any shortage indicates an improper functioning of the market process. High prices signal increased profitability and would increase the production and supply of grain to meet demand, which would in turn push the price back down.

218. Aleksey Ikonnikov, "Eksportnyj kompromiss," *Kontinent* 226, no. 17 (September 2008), http://www.continent.kz/2008/17/5.htm.
219. Ministry of Agriculture of the Republic of Kazakhstan, http://www.minagri.kz/news/4327/.

About the Mercatus Center

The Mercatus Center at George Mason University is a research, education, and outreach organization that works with scholars, policy experts, and government officials to connect academic learning and real-world practice.

The mission of Mercatus is to promote sound interdisciplinary research and application in the humane sciences that integrates theory and practice to produce solutions that advance in a sustainable way a free, prosperous, and civil society. Mercatus's research and outreach programs—Capitol Hill Campus, Government Accountability Project, Regulatory Studies Program, Social Change Project, and Global Prosperity Initiative—support this mission.

ABOUT THE MERCATUS POLICY SERIES

The objective of the Mercatus Policy Series is to help policy makers, scholars, and others involved in the policy process make more effective decisions by incorporating insights from sound interdisciplinary research. The series aims to bridge the gap between advances in scholarship and the practical requirements of policy through four types of studies:

Policy Primers present an accessible explanation of fundamental economic ideas necessary to the practice of sound policy.

Policy Resources present a more in depth, yet still accessible introduction to the basic elements of government processes or specific policy areas.

Policy Comments present an analysis of a specific policy situation that Mercatus scholars have explored and provide advice on potential policy changes.

Country Briefs present an institutional perspective of critical issues facing countries in which Mercatus scholars have worked and provide direction for policy improvements.

MERCATUS CENTER
George Mason University

3301 North Fairfax Drive, Suite 450
Arlington, Virginia 22201
Tel: (703) 993-4930
Fax: (703) 993-4935