

# *Household perceptions of local content policy in Kazakhstan*

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## ЭКОНОМИКА И ТЕХНИЧЕСКИЕ НАУКИ

### HOUSEHOLD PERCEPTIONS OF LOCAL CONTENT POLICY IN KAZAKHSTAN

KALYUZHNOVA YE., NYGAARD CH., OMAROV YE., SAPARBAYEV A.

*Local Content is an industrial policy to incentivise or mandate a greater degree of local procurement, employment and capital accumulation. Since the early 2000s LC has been a key element of Kazakhstan's development strategy. This paper is concerned with household perceptions of LC policies and the degree to which these reflect and/or correspond to official policies aims and the picture of LC policies portrayed by the Kazakhstani media. The paper explores regional and sectoral variation based on a survey of some 5500 residents and interprets these in light of key institutional features of Kazakhstan's political economy (structure of rent accumulation and circulation/access to resource rent). While there appears to be broad consensus around general LC policy aims, but not whether the policy reflects Kazakhstan's needs, respondents employed in the private sector and oil-rich regions appear to have different perceptions of the policy's actual impact.*

#### Introduction

Over the past five years state influence in the economy and the appropriation of resource rent have increased in Kazakhstan (Kalyuzhnova 2008; Kalyuzhnova and Nygaard 2008). Worldwide an increasing number of energy producing countries are adopting local content rules (Ettenborough and Shyne 2003; Grossman and Gene, 1981). For Kazakhstan these trends are part of a broader phenomenon – economic nationalism: a government driven policy to extend national control to a wider spectrum of the economy, where control may bridge private and public ownership (Kalyuzhnova and Nygaard 2008). These trends follow almost a decade of high oil prices. Governments can maximise welfare from the hydrocarbon sector through two main routes. Firstly, fiscal instruments: government royalties or subsoil payments and taxation policies. Secondly, non-fiscal instruments, including local procurement, employment, social investment and participation (LC). LC may develop organically, as was the case in the UK (Kemp 1990), but where it does not government may substitute for the actions of private actors by contractually or legislatively mandating LC policies to initiate capital accumulation that may provide a basis for diversification and reduced natural resource dependency. Political pressure from opposition groups, the wider population, the local business community and the international community for a more equitable distribution of the resource rent may further incentivise LC policies [1].

LC policies can be portrayed as ensuring that a larger share of the resource rent remains within the domestic economy and a policy aimed a redistribution of resource wealth from international oil and gas companies to local populations in the form of higher wages (through employment in better enumerated positions) and/or employment opportunities related to forwards and backwards linkages (diversification). On the other hand, LC policies may also increase the regulatory burden on oil and gas companies and the nodes of interaction with the bureaucratic structures of economic coordination. In the latter case a larger share of the resource rent may also remain within the domestic economy, but, in many cases, no longer performs any redistributive role.

For Kazakhstan these different outcomes represent, institutionally, important distinctions. In the former case, LC policies contribute to extensive constitution building. In the latter case LC policies contribute to narrow constitution building (elite) or maintaining of an incumbent elite's control over economic rent and circulation. This distinction is of no small matter to the political and economic stability of Kazakhstan. A long standing industrial dispute and recent riots in the oil rich region of Mangistau are linked to enumeration and working conditions in the oil and gas

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industries, more specifically a Kazakhstani-Chinese joint venture. Residents in one rioting town – Zhanaozen – were, as a result, disenfranchised from political participation to parliamentary elections (BBC News 6 January 2012). In policy circles there is concern that as the economy develops and new generations grow up in a post-Soviet environment, with strong international linkages, pressure for political reforms may increase. President Nazarbayev thus recently advised young people 'not to get fascinated by events in Africa and Europe' (Tengri News 11 January 2012).

The analysis in this paper draws on the questionnaire answers of some 5500 residents and interprets these in light of key institutional features of Kazakhstan's political economy. Perceptions matter in this respect as they relate to the perceived transaction costs of capital accumulation and industrial diversification at household level. Diversification implies a re-direction of the development trajectory and strategy of Kazakhstan – one that may be at odds with key institutional features of economic and political coordination. This suggests that behavioural constraints associated with uncertainty may inhibit significant private sector and household alignment with the stated objectives of diversification and economic development. Moreover, the extent to which there is a divergence between the perceived objectives and the stated objectives of local content policies is likely to determine the strength of any behavioural change as well as path dependency.

The paper is divided into 4 further sections. Section 2 gives an overview of LC in Kazakhstan. Section 3 describes and analyses the portrayal of LC policies in key newspaper outlets in Kazakhstan. Section 4 examines household perceptions of the aims, objectives and outcomes of LC policies across different employment sectors, regions and individual characteristics in order to address the extent to which households perceive LC policies as a viable substitute for organic capital accumulation as well as the degree and type of rent distribution. Section 5 concludes.

### 2. Local Content in Kazakhstan

LC requirement is an industrial policy tool that incentivises or mandates a degree of local procurement, where local may also mean regional or national, into the investor's production. For many developing and emerging countries such requirements are perceived as a means of ensuring demand for local production, facilitate capital accumulation and ensure forwards and backwards economic linkages. Pursuing 'import-substituting' policies, many developing countries have used local content policies to foster domestic development (Hettne 1995). More generally, a variety of protectionist trade policies (Birdsall *et al* 2005), local content and industrial subsidies (Moon 2008) have accompanied recent successful development cases – including Taiwan, Korea and Japan. LC policies have also been utilised to pursue distributional objectives (Vosden 1987). Where such requirements affect trade they are, however, prohibited under the WTO's 'Agreement on Trade-related Investment Measures' (Moon 2008) – deemed to be protectionist and inefficient (local production being less cost-effective/lower quality).

A number of studies examine the impact of LC policies into the economy. Grossman (1981) investigates the resource reallocation effected by content protection and content preference schemes under alternative assumptions regarding the definition of domestic content, the number of intermediate goods, and the market structure of the domestic intermediate goods industry. He developed a partial equilibrium model of a competitive firm that is subjected to Local Content Protection (LCP) policies and demonstrated the resource allocation effects. A number of papers have followed these ideas and extended the LCP scheme under several imperfectly competitive market structures. Monopoly in the market of intermediates was introduced by Vosden and Hollander (1987). Richardson (1991) dealt with the effects of LCP under the domestic monopsony he demonstrated the counter-intuitive effects of LCP on profits. Belderbos and Sleuwaegen (1987) investigated the effects of LC requirements under successive oligopoly, in the context of European Community LC requirements imposed on Japanese firms. Davidson, *et al* (1985) investigated the impact of foreign investment standards on welfare, output and employment, concluding that minimum local content and export requirements reduce world

output, world welfare and the source of country's welfare. However, there is a very little examination of the residents' attitudes towards or experience of LC policies.

Since independence the Kazakhstani government has focused on the creation of a modern market economy. Since the late 1990s this effort has also involved increasing non-fiscal benefits from oil and gas development with LC an increasingly key policy delivery vehicle in this respect. The centrality of this policy platform was again demonstrated during the 2007-2009 financial crisis with the Kazakhstani government initiating a wholesale review of Kazakhstani Content in contracts – ensuring that mandated procurement was done within the country. Moreover, Prime Minister Masimov ordered all contracts to be reassessed include provision of LC.

In Kazakhstan, LC has increasingly become a high profile development policy from the middle 1990s.

«The 1996 Law on Subsurface and Subsurface Use» (as amended), required applicants in tender proposals to set out their proposed obligations to engage a certain percentage of goods, work and services of Kazakhstan origin meeting national and/or international standards, and procured on a tender basis, in the total value of goods works and services required. [...] Definitions are given of 'Kazakhstan manufacturer', 'Kazakhstan origin' and 'Kazakhstan content', but these are too general definitively to resolve the issue of what constitutes 'local content.» (Osanova, 2010:1)

In 2001 the Kazakhstani Government altered the rules relating to work permits for hiring of expatriate workers. The quota was limited to 0.15% of the total employed population, but with the variation to the individual firms. The introduction of a work permit quota (which is uniformly applied to the skilled and the unskilled, and without regard to the education or certification of workers) was disliked by foreign investors who stated that this change would be detrimental to Kazakhstan's business and investment climate (Authors interviews with the companies 2011-12, Astana and Almaty) However, the policy was nevertheless implemented with government acceptance of any immediate detrimental effect, e.g. reduced government and corporate revenue due to the forced use of less productive (and/or qualified) workers. Moreover, some firms were not able to deliver on contracts or complete projects in the given time frame (Kalyuzhnova, 2008).

In November 2002 the Kazakhstan Contract Agency was set up in accordance with the government resolution 'On Measures to Increase State Support to Domestic Producers'. The main objective of this agency was to assist international firms find Kazakhstani producers of goods and services. The establishment of this agency signalled the widening of LC to goods and service procurement.

The 2005 Law on Production Sharing Agreements (PSAs) specified that new PSAs must include minimum 50 percent stake held by the national oil company KazMunaiGas (KMG) when Conducting Offshore Petroleum Operations. In addition the Law introduced specific requirements addressing local purchase of goods and services applicable to offshore exploration and production, i.e. tender conditions providing for Kazakhstan content during of offshore work.

In early 2006 Kazakhstan's Association of Oil, Gas and Energy Complex (KazEnergy) was formed, one of the aims of this association was import substitution and local content (<http://www.kazenergy.com>).

In late 2007 President Nazarbayev signed off on the amended Subsoil Law, according to which, the Kazakhstani state has a right to impose amendments retroactively, on contracts that have been signed in the past. The revised law also increased the role of the state oil and gas company KazMunaiGas (KMG), granting to hold 51% of all new exploration and production contracts. In addition, the law KMG obtained an exemption from standard tender requirements. Finally, Kazakhstani government reserved for itself a pre-emptive right to buy strategic assets based in Kazakhstan or even abroad. In 2010 legislation passed that mandates that new concession agreements must deliver a minimum Kazakhstan Content in labour, goods, works and services. The implementation of this law was done through a number of LC regulations, such as setting of minimum local content targets in the award of major contracts; creating a list of Kazakh supplies for materials (assuming that Kazakh producers have a proven capability in supplying); and a minimum share of contract value to be awarded to Kazakh suppliers and sub-contractors within contracts won by international contractors.

Throughout the 2000s LC in Kazakhstan have escalated – the introduction of advanced technology, as well as procurement of goods, services and employment are now elements in the definition of Kazakhstani content. For example, in 2008 some 100 out of 900 subsoil contracts were withdrawn by the Ministry for Energy – mostly for

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falling in contractual obligations such as capital investment). Since independence, Kazakhstan has signed a number of agreements with the foreign operators. Early contracts were very flexible with regards to local/domestic procurement. Coinciding with weaker security of investors' property rights in the 2000s (Cameron 2010), LC requirement have expanded.

LC requirements were originally established for the subsurface use sector (oil and gas and mining), but now separate LC requirements exist for state procurement. Through work permit regulations, LC is also enforced with respect to the hiring of personnel for all other industries. In 2009 the Law on public procurement # 156-IV was amended to introduce stricter 'local clause' in public procurement of goods (20%) and services and construction (15%). Moreover, a company with more than 50% foreign shareholding is considered as foreign and therefore excluded from participation in public procurement tenders, unless it fulfils required criteria making for a 'national producer':

-the company is resident in Kazakhstan,

-the company produces finished products in Kazakhstan,

-the company uses no less than 85% of local workforce.

Nevertheless, despite these criteria, local branches of foreign companies created as a public limited company (LTD) in accordance with national regulations are refused access to public procurement tenders.

Over the years, for the companies operating in Kazakhstan, LC is becoming a crucial, strategic factor in investment decisions and project delivery. These regulations might lead not only to the commercial implications for companies, investors, service contractors, but also perceptions of public policy. The Kazakhstan government is trying to achieve a spill-over from LC requirements in the oil and gas sector to the other sectors of the economy in order to achieve one of its development objectives – a diversified economy.

What is also clear from legislative trends is a weakening of property rights for investors

and a strengthening of regulatory authorities oversight and monitoring of the resource rent that

potentially enables access to resource rent (a form of narrow constituency building). However,

the increased focus on LC is also directed to capital accumulation and diversification. Of interest with respect to the notion of organic capital accumulation is the extent to which a private sector agent perceived these policies as a crowding in or crowding out. To this issue we return in Section 4.

### 3. Local Content in the Kazakhstan state-owned media landscape

Kazakhstan has a large number of media outlets and residents in urban centres are increasingly able to source information from international media reporting. Of the Kazakhstan media outlets the print media is considered the most objective source of information (IREX 2011). There are over 900 printed newspapers and magazines in Kazakhstan, but news reporting is dominated by 5 main daily newspapers. According to the Media Sustainability Index 2011 (IREX 2011) Kazakhstan, like the remaining Central Asian countries, does not score highly on the index of media sustainability. While Kazakhstan's overall score increased to 1.68 in 2011 the country nevertheless remains firmly within the 'unsustainable mixed system' category.

Currently, the Kazakhstan media is largely reflective of governmental views and positions (Allison 2006) – a tendency that is particularly pronounced in the reporting of socio-economic issues with media outlets with a socio-political format likely to be subjected to stricter regulatory and tax monitoring (IREX 2011). While state-owned media outlets primarily act as promoters of government policy the regulatory pressure on non-governmental media outlets inhibits any alternative interpretation or reporting. The latter media outlets thus primarily re-circulate the reporting of state-owned outlets. Given the agenda and tone-setting function of state-owned media outlets the analysis in this section is based on reporting in *Kazakhstanskaya Pravda* – a state-owned newspaper with wide circulation.

The pre-dominance of government biased reporting (through regulatory pressure or commissioned pieces of 'independent' reporting) is, however, not reflective of the entire period post-independence. After the initial transition period the role of the Kazakhstan media has converged on its Soviet period functions. Prior to the collapse of the Soviet Union the state

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attempted to shape people's perceptions and experience of life in the Soviet Union (the obedient citizen) through its news coverage. A typical feature of the Soviet mass media was the absence of any critical coverage that could portray the authorities in the incorrect light (Mickiewicz 2000).

Following the collapse of the Soviet Union the government endorsed social movements and a media that promoted Kazakhstan's version of perestroika. Kazakhstani journalists were making an effort to introduce a new culture of discussion and critical analysis, but the Kazakhstani government did not particularly particularly engaged or inspired this process. According to Bremmer and Welt pointed out the Kazakh government has had a much higher priority than democratic reform, insuring that Kazakhstan actually remains Kazakhstan. To this end, basic democratic rights- freedom of speech, freedom of the press, freedom of political activity, and free elections -have been routinely abrogated» (Bremmer and Welt 1996:179). In general the emergence of an independent mass media in Kazakhstan (as in a number of other Central Asian republics) has so far not been successful (Zhovtis 2009, Kenny and Gross 2008).

#### *Kazakhstanskaya Pravda*

For the purpose of this paper we are interested in the type of 'priming' that Kazakhstani residents experience from state-owned media and then analyse how well such priming is reflective in their opinions and views.

From 2001-2002 local content received attention by the Kazakhstani mass media (Nurpeisov 2001; Yeslyamova 2001; Zagoruiko 2003). However, until the 2011 events in Zhanauzen the household perceptions of the local content does not appear to have been a significant concern of the media (or the government). Prior to Zhanauzen media reporting concentrated on the official side of the problem of LC development. The nature of the reporting on the topic was mainly related to the statements of laws, decisions and measures by the government on LC.

Sometimes, it is possible to find the references to the process of developing supplier capacity, and its impact on the development of the local supplier basis. (Razumov, 2007; Byutyryna, 2008, etc) Yet, there is no direct engagement with people.

This study examines prevailing characteristics of public attitudes to local content and the understanding the role of the media in this content is crucially important. The level of public knowledge of LC, people's satisfaction with the governmental LC policy, public views and complaints about real situation with LC to the large extend is in the power of the mass media. Our survey's findings show that the level of public knowledge of LC is relatively high and overall population do not complain about governmental LC policy although the level of satisfaction is low (indirect questions who is benefiting from the LC policy). These results could be attributed to the mass media which is explaining, publicising and documenting the governmental LC policy.

Why should Kazakhstani policy makers, and others, be interested in household perceptions of LC policy beyond other, more objective, performance measures like share of LC in employment, procurement, etc? Household views matter is - if the population is unhappy with government and governmental policy it might create a social (political) unrest. In addition, the Kazakhstani government is slowly developing an infrastructure of engagement between the government, the general population, but the culture for encouraging and incorporating any feedback is still embryonic

Table 1 shows the evolution of description and emphasis in *Kazakhstanskaya Pravda* over the period 2002-2011. While there is some evolution in the picture of LC throughout this period, the emphasis is on technical reporting of the policy itself as well as statements of aims and objectives. There is little reporting of actual impacts on local conditions or households' circumstances. On the basis of *Kazakhstanskaya Pravda's* coverage residents should on the whole have generic information about the policy, but little actual understanding of its impact, if any, on the daily lives of citizens.

*Table 1 here*



Newspaper articles were retrieved using archival key word searches: 'Local Content', 'Kazakh Content', 'employment', 'Skills', 'technologies', 'know-how' (Table.1) In 2002 there were occasional references to the (low) quality of the Kazakhstani production; in 2003 a term 'Kazakh content' emerged. By 2005 reporting focuses on mandatory local procurement in the oil and gas sector. By 2008 procurement is related to competitiveness and technological development. From 2009 the term LC is included in all major programme documents on industrial and economic development by the government. 2010-2011 LC is embedded into long term strategy of the Kazakhstani governmental state programme for Accelerated Industrial Innovative Development (2010-2014).

From our point of view the understanding of LC as a quick fix is giving away to more pragmatic approach involving the long-term strategies related to management as well as diversification of the economy will be achieved – this is a snap short of the evolution of thinking of the Kazakhstani government and its LC policies. The table illustrates the evolution in terminology use starting from «law quality» to more substantial acts as «programme of industrialisation».

The actual reporting/description of the LC policy is largely a collection of facts, events and summaries of government and company actions. Little detail is provided about on how good or relevant particular actions and measures are for citizens or the country as a whole. «LC policy is good for Kazakhstan» is the main slogan, which is effectively gives an impression that the policy is designed for the general welfare of the Kazakhstani population through employment creation and modernisation.

#### 4. Household perception of local content and environment

##### 4.1. Methodology and summary descriptives

Data for this survey was collected with the assistance of the Agency of Statistics of the Republic of Kazakhstan. Following a pilot study of 100 households in Almaty in 2010 a stratified random sample was collected across the 16 statistical regions of Kazakhstan in the summer of 2012. The survey asked respondents a number of demographic and household related questions as well as a range of question regarding LC policies' impacts on the economy and environmental protection. Overall there is some variability in the completeness of survey responses. Many questions, particularly those relating to opinions on political processes or distribution of wealth are often poorly populated with many respondents not giving any answers. Data was collected from 12,000 households. Response rates across the different regions range from some 18per cent (in Astana to, the rather implausible, 100 per cent (in Almaty and AtyrauXXXX). After filtering out erroneously completed surveys, incomplete survey returns and respondents in Mangistau (see below) a useable sample of some 5,500 remained.

In many cases the questionnaire was constructed to avoid a 'No answer' option (respondents could still give no answer, in which case none of the remaining options was selected). The success of this collection strategy was variable – many respondents still choose to give no answer. For one of the regions, Mangistau, most of the survey returns appear faulty (no variation in the data) after the demographic section. Mangistau is one of Kazakhstan's oil rich regions and as such an important source of information regarding the impact of LC policies is lost. The reasons for this remain speculative – Mangistau is where most of the oil industry related unrest has taken place since May 2011. Table 2 shows summary sample characteristics for the 16 regions and Kazakhstan.

##### Table 2 here

Overall, Table 2 shows considerable variation in sample characteristics across the regions. The least number of respondents resided in the capital city Astana (1.2% of the sample) whereas some 9.6 % of the respondents live in Kazakhstan's largest city and economic centre - Almaty. Some 5.7 and 5.2 % of respondents live in Kazakhstan's two oil regions Atirau and Mangistau, respectively. Men are under-represented in the sample. For Kazakhstan overall some 1/3 of respondents are men – this ranges from less than 1/5<sup>th</sup> in the capital city and Kostanai to close to

2/3s in Eastern Kazakhstan and the oil region Atyrau. There is relatively little variation in the average age of respondents, though respondents in Mangistau are somewhat younger than the sample average. Most of the respondents are Kazakhstani nationals, though the proportion is less in Northern Kazakhstan and Kostanai. Most of the respondents are owner-occupiers (a smaller share in the main city Almaty). Apart from the two main cities – Almaty and Astana where proportions are almost twice the national average – around a quarter to a third of residents have higher education. This is also reflected in average earnings of respondents, which is considerably higher in Almaty and Astana. However, the average earnings for respondents in the two oil regions are also considerably above the national sample average [2]. In the case of Mangistau this is associated with a relatively high level of education amongst sample respondents, though this is not the case for Atyrau where only a quarter of respondents have higher education. Employment is often argued to be an important outcome for residents. From Table 4.1 it is evident that employment in the two oil and gas regions is above the national average with 81.1 and 81.3 % of respondents in employment in Atyrau and Mangistau, respectively. This is above both the main cities, but below industrial areas like Kyzylorda and Karaganda. The basic sample descriptives thus portray a picture where employment and earnings in the oil and gas regions is above the national sample average. However, it should be noted that it does not necessarily follow that these are result of LC policies. Even in Soviet times it was not uncommon that oil and gas industry workers were enumerated better than other industrial workers, but often under strenuous working conditions (Gustafson 1989).

The household survey asked respondents a range of question regarding their perceptions and opinions of LC and economic development policies as well as relationships between such policies and environmental protection. This following section compares responses by region and age groups. The first comparison is based on the uneven distribution of oil and gas resources in Kazakhstan. From this follows that many of the aims of LC policies, such as employment opportunities and economic diversification, will be unevenly distributed across Kazakhstan – financial and service related linkages are likely mostly to be located in the two main cities, whereas associated industrial activity is, perhaps, more likely to be situated in the respective extractive regions. The second comparison is based on the above political dynamics concerning young Kazakhstanis and the events in other resource rich (African) economies across the Middle East. Here the aim is to establish whether any systematic differences in perceptions of LC policies are apparent between younger respondents and older respondents. In this respect, many younger respondents will have been the beneficiaries of increasing international connections since 1991, but many of these will not have had much experience with the Soviet system and thus a very different basis for comparing the current state of Kazakhstan to that of older cohorts of respondents.

#### 4.2. Analysis of household perceptions

Given the problems associated with the Mangistau sample the following section excludes Mangistau from the analysis. This leaves only one major oil and gas region – Atyrau – in the sample – the differences in age and education level between the two oil regions should therefore kept in mind when reflecting upon the results. Given the high proportion of residents that gave no answer to different questions the share of missing/no entry responses is included in the analysis. This varies substantially from region to region. Table 4.2 shows the odds-ratio result from logistic regressions of individual characteristics, employment sector and regions on respondents' likelihood of agreeing with specific aspects of official and media LC rhetoric. Specifically it addresses employment and procurement aspects of LC policies (local workers and local inputs should be preferred by employers; foreign companies ought to contribute to the development of economic sectors non-core to their own activity; and, does LC reflect Kazakhstani needs?).

*Table 3 here*

Table 3 shows that respondents in non-oil regions are generally less inclined to agree that local workers and inputs should be preferred or that foreign companies should be required to

investment in non-core industries. However, residents in non-oil regions are significantly more likely to agree that LC policies reflect Kazakhstan's needs, but the overall agreement that the policy reflects Kazakhstan's needs is modest – 31.2 per cent. Analytically regional differences are difficult to reconcile. On the one hand, current LC policy is dominant in every sector of the economy – although, over 70% of foreign direct investment in Kazakhstan is in the natural resource industries (OECD 2012). Respondents in Atyrau (the comparison region) may thus be more likely to perceive local employment and local economic activity as an economic development issue connected to foreign investment. On the other hand, the implication of this interpretation would be that residents in other regions perceive LC policies as a potentially policy of redistribution and that competition from imported labour/foreign workers is less in non-mining regions. On the whole though, these interpretations remain speculative. More robust interpretations can be drawn from examining sector of employment. Compared to respondents working in the public sector or in the agricultural sector respondents working in the private sector and for foreign companies are less likely to perceive LC policies as reflecting KZ needs; or that foreign investors should be requested to invest in economic activity not core to their operations. From an allocative efficiency point of view, mandating forms of economic activity to be undertaken by investors may entail an efficiency loss. Respondents working for foreign firms might perceive LC policies as a means of inefficient diversification and loss of specialisation. Respondents working in the private sectors may perceive LC policies as introducing additional competition. In both cases LC policies can be argued to contribute to diversification, but may also have detrimental impacts on capital accumulation and constitute a form of crowding out of organic (e.g. private market determined) capital accumulation. From a generational perspective there is also some evidence that older respondents are more likely to agree with specific aspect of the policy language (preference for local workers and investment in non-core activity), but this does not translate into overall more likely agreement with LC policy reflecting Kazakhstan's needs. There is also some evidence that agreement with the policy rhetoric is stronger amongst ethnic Kazakhstani than other nationalities. Respondents with higher wages are less likely to agree that local workers should be preferred or that foreign investors should be requested to invest in non-core activities.

Returning to the issue of capital accumulation it may also be that respondents in the private and foreign owned sectors are more likely to perceive these policies as red-tape and protectionism and therefore detrimental to the business environment in Kazakhstan (and by implication capital accumulation in non-mining related economic activity). These questions are examined in Table 4 which shows the odds-ratios from logistic regressions asking respondents what they perceive to be the consequence of LC policies. Specifically respondents are asked the extent to rank (on a 5-point scale) the effect of LC on reduced competition; industrial/economic diversification; and, time spent negotiating with authorities/red tape. From Table 4 it is evident that respondents working for foreign owned firms are more likely to perceive reduced competition/protectionism as an important effect of LC policies whereas respondents employed in the private sectors are less likely to perceive the policy as resulting in diversification. Respondents in both these sectors are more likely than respondents employed in publicly owned firms to view the policy as resulting in increased red-tape. Similarly, more highly educated respondents are more likely to view protectionism and red-tape as important effects of the policy; unlike respondents in private sector employment, however, more highly educated respondents also see LC policies as resulting in greater diversification. Higher wages, on the other hand, are not associated with greater likelihood of viewing red-tape as a consequence. Generally respondents outside Atyrau are more likely to perceive LC policies as resulting in protectionism, diversification and increased red-tape, though this is not universally so – e.g. Pavlodar, Kyzylorda and Western Kazakhstan.

Table 4 here

The results in Tables 3 and 4 suggest some marked differences between residents in the public sector and residents in the private/foreign owned sectors as well as substantial regional

differences. An issue to consider is therefore potential rent redistribution implications from these findings. Resource rich countries can use resource rent to effectively buy-off opposition by ensuring that key constituencies are included in the circulation of rent. Such policies may thus perpetuate the existence of sub-optimal institutions (Kalyuzhnova and Nygaard 2008). The extent to which respondents perceive LC policies to benefit particular groups and offering access to resource rent therefore gives an indication of respondents view of the extent to which such policies have a narrow or wide constituency building effect. Table 5 shows the odds-ratios from logistic regressions asking respondents about beneficiaries and purposes of LC policies.

*Table 5 here*

The final line in Table 5 shows that the majority of respondents think that politicians are the main beneficiaries of LC policies, approximately a ¼ of respondents think local business are the main beneficiaries and some 18 % think the Kazakhstani population is the main beneficiaries. However, Kazakhstani respondents are less likely than other nationals to perceive politicians to be the main beneficiaries and more likely to perceive the general population as beneficiaries. Similarly, older respondents are more (less) likely than younger respondents to perceive the population (politicians) to benefit. There are few differences across sectors of employment, but some marked differences across the regions. Respondents in the urban centres are more (less) likely to perceive politicians (population) to be beneficiaries of LC policies. There is substantial variation across the remaining regions as well. Respondents employed by foreign owned companies are less likely to perceive local businesses to benefit from LC policies.

Column 5-8 examines respondents' perceptions of aims and purposes of LC policies. From the final line in Table 5 it is evident that the majority of respondents perceive control over natural resources to be a key aim of LC policies. However, two-thirds of respondents also perceive improved welfare to be a key purpose. Thus, respondents while acknowledging the associated control over natural resources also perceive this control also to be link to population welfare objectives and may thus reflect more extensive constituency building. The two final columns are concerned with rent-seeking. This question was asked directly (in the form of access to bribes) as well as using standard wording from international surveys (bureaucratic/personal enrichment). On the direct question roughly a fifth of respondents perceived bribes to be a key aim of the policy, though this proportion doubled using the alternative formulation. Again there are large regional differences. In line with perceptions of the policy reflecting Kazakhstan's needs respondents outside Atyrau are more likely to perceive the welfare objective as a key aim of the policy. These respondents are then less likely to perceive bribes/personal enrichment to be an aim. Respondents in the two main urban centres, on the other hand, are more likely than respondents in Atyrau to perceive bribes/personal enrichment to be a key aim of the policy. Respondents employed in the private sector are less likely to see a control-welfare link and more inclined to perceive rent-seeking as a key aim of the policy. Respondents employed in foreign own firms are more likely to perceive the policy to be about control over natural resources.

Unlike in the earlier tables income is consistently a significant determinant of perceptions. Given Kazakhstan's economic growth, rising standards of living and development over the past decade or so one might plausibly view respondents with higher incomes as key beneficiaries of Kazakhstan's economic policies (not specifically LC policies). Higher incomes are particularly relevant in the 'mining industries', 'financial and insurance', 'professional, scientific and technical activities' with monthly salaries close to twice the average – however, these sectors in 2011 only employed some 2.5, 1.4 and 2.2 % of the labour force (StatKaz, *n.d.*). Those on higher wages might thus be perceived as belonging to a comparatively narrow group of beneficiaries. In Table 5 higher wages are associated with lower likelihood of perceiving politicians to be main beneficiaries and more likely to perceive the population and local businesses to be main beneficiaries of LC policies. Moreover, higher wages reduces the likelihood of perceiving the policy to be about both control over natural resource and welfare; there is also a strong negative effect of higher wages on the likelihood of perceiving access to bribes/personal enrichment to be a key aim of the policy. By contrast those with higher education are more likely to perceive LC

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policies to be about control over natural resources, but also linked to welfare objectives; nevertheless, this group also perceives rent-seeking to be a key aim of the policy.

**Conclusion**

In this paper we examine household perception of Local Content policies and interpret these in light of key institutional features of Kazakhstan's political economy – development challenges and the degree to which LC provides a viable substitute for private sector capital accumulation (where viable refers to the extent to which such a policy reduced transaction costs and behavioural barriers to industrial and economic diversification). In addition, perceptions of constituency building i.e. narrow elite control of the natural resources or a degree of consensual natural resources utilisation (broad constituency building) was tackled.

Overall a number of conclusions can be drawn from the above analysis. There are marked differences across the regions. By and large there is stronger support for LC rhetoric in Atyrau than elsewhere, but greater perception that LC is what Kazakhstan needs in non oil and gas regions. These differences might reflect perception of potential rent redistribution; but also protectionism & diversification through mandatory Kazakh procurement 'targets'. More highly educated respondents are to a lesser extent more inclined to view LC as protectionism, but with positive implication for diversification, however, they are also more likely to view LC as enabling rent-seeking. Those on higher incomes, on the other hand, are less inclined to view LC as red-tape or benefiting select groups, but may themselves be beneficiaries of Kazakhstan's oil and gas driven growth (and so part of a narrower benefit reaping elite). Younger residents are more inclined to view politicians (elites) as the main beneficiary of LC and less inclined to view LC as benefiting people in general.

With respect to government policy substituting for organic (private sector) capital accumulation it is notable that private sector respondents are less inclined to view diversification as an outcome and more inclined to view red-tape as an outcome. Respondents employed in foreign owned companies were more inclined to view LC as protectionism, red-tape and not beneficial for local businesses.

While the household survey suggests that residents have some knowledge of the policy and agree with general aspects of its aims and objectives, it is less clear whether residents have a particularly well developed sense of how the policy benefits them – overall perceptions of the benefits of the policy is low. The differences across sectors of employment also suggests that the aim of the policy, so far, is not achieving transaction costs or behavioural barriers reducing objectives with respect to organic industrial diversification and economic development.

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Table 1 Evolution of LC terminology development in Kazakhstan

Year	Number of Hits	Number of relevant hits	Content Description
2002	4	3	Rarely mentioned, some references to <b>low quality</b> of the Kazakh production.
2003	9	9	Reference to preservation of import substitution is emerging as an aspect of a term « <b>Kazakh content</b> »; local content in oil and gas projects starting to be used routinely.
2004-2005	22	14	The Law about PSA in oil offshore operations contains a specific reference to increasing the share of Kazakh content in <b>purchases</b> ; improvements in local content; local content in the process of <b>exploration and production</b> of oil. Kazakh content in subcontracts.
2006	38	24	The role of local content in <b>diversification</b> , final manufacturing production.
2007	54	18	United list of all producers in Kazakhstan; evaluation of the Kazakh content in projects; <b>share</b> of the Kazakh content in projects
2008	67	20	Escalation in terms of discourse: <b>social responsibility</b> of business as a part of LC; <b>Reorientation</b> of military industry to civil production with the purpose of facilitating <b>import substitution</b> of oil and gas equipment and spare parts transportation; LC as a mean of improving <b>competitiveness</b> ; Improvement of the <b>national technologies</b> . Kazakh knowledge, Kazakh monitoring - <b>comparative advantage in the world</b> .
2009	190	113	LC is embedded within the Roadmap Towards a Diversified Economy, local financing competitiveness, new technologies, additional emphasis on final Kazakhstani production; Local technologies (uranium) have a comparative advantage in the world
2010-2011	169	92	Continued reference to local technologies and competitiveness, assessment of <b>quality</b> of the domestic industries and accommodating LC in <b>long term strategies</b> , improving local management style over time; Long-term contracts - motivation to the domestic producers. Plans that Kazakhstan will become a supplier of the high quality of the petrochemical products. Specific reference to the <b>priority industries</b> such as petrochemical and final oil and gas related production (industrialisation map). Emphasis is given often to <b>clean environment</b> while modernising priority industries.

Source: *Kazakhstanskaya Pravda*, 2002-2011.

Table2- Sample descriptives

Region	No.	Distribution (%)	Male (%)	Average age (years)	Nationality (% KZ)	Tenure (% owner occupiers)	Higher education (%)	Income (KZ=100)	Currently working (%)
Akmolinskaya	668	7.1	24.1	46.0	51.1	86.7	24.5	77.4	61.3
Aktubinsk	269	2.9	45.7	41.9	91.1	88.8	23.4	94.5	79.9
Almatinskaya	504	5.4	25.7	47.0	65.5	85.7	36.5	91.4	69.8
Almaty	900	9.6	24.8	45.1	53.7	83.1	59.8	145.6	71.9
Astana	117	1.2	19.7	40.8	74.4	64.9	60.2	134.9	62.4
<b>Atyrau</b>	<b>540</b>	<b>5.7</b>	<b>57.2</b>	<b>44.3</b>	<b>96.9</b>	<b>95.6</b>	<b>26.3</b>	<b>135.6</b>	<b>81.1</b>
Karaganda	916	9.8	37.8	40.0	53.9	73.6	74.5	127.2	95.2
Kostanai	801	8.5	19.6	45.8	36.2	93.9	24.2	77.3	60.0
Kyzylorda	300	3.2	51.3	44.0	97.0	97.7	34.9	112.9	96.7
<b>Mangistau</b>	<b>488</b>	<b>5.2</b>	<b>38.3</b>	<b>37.8</b>	<b>94.3</b>	<b>93.9</b>	<b>46.4</b>	<b>125.5</b>	<b>83.2</b>
Pavlodar	770	8.2	24.3	46.1	47.4	94.9	19.5	78.4	65.7
Severno KZ	659	7.0	23.3	47.6	37.8	94.8	18.8	70.7	56.8
Zhambyl	627	6.7	30.9	45.2	75.6	91.9	25.9	74.2	54.3
VKO	424	4.5	41.0	44.8	59.9	93.1	28.4	86.9	73.1
Yushchno KZ	750	8.0	59.7	46.6	70.3	94.3	26.9	77.1	69.1
Zapadno KZ	660	7.0	25.3	44.9	75.3	91.8	27.9	75.2	72.9
Kazakhstan	9393	100.0	33.4	44.3	63.0	89.5	35.2	100.0	72.2

Note: Major oil and gas regions in bold.

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Table 3 - Perceptions of local content rhetoric

	Local			
	Local inputs	Non-core	Needs	
Male	.928	.869	1.013	
Age	1.376	1.294*	.966	
Age	.764	.898	.967	
Completed higher	.517***	1.349	.803	
Scientific degree	.733**	.883	1.030	
(wage)	.843*	.807**	1.010	
Kazakhstan	.847*	.756*	.892	
Internationality	.897	.826	.877	
Internationality	2.599*	.263***	.670	
Culture	.761	1.608	1.962***	
Language	1.038	.737***	.818**	
Language	.722	.905	.570**	
Private sector of employment	.819	1.046	.479***	
Almaty	.016***	.137***	1.757**	
Almaty	.047**	.276***	2.430***	
Almaty	.021***	.344	2.843***	
Almaty	.023***	.053***	1.187	
Almaty	.160	.328**	.933	
Almaty	.018***	.286***	2.164***	
Almaty	.022***	.209**	1.704**	
Almaty	.016***	.049***	.136***	
Almaty	.028***	.599	.130***	
Almaty	.013***	.109**	.105***	
Almaty	.005***	.022***	3.290***	
Almaty	.020***	.197**	2.346***	
Almaty	.013***	.257*	1.264	
Almaty	.021***	.203**	2.404***	
Almaty	.590.7***	84.8	101.3***	
Almaty	.085	.115	.063	
Almaty	4693	4785	4877	
Almaty	66.4%	71.7%	55.8%	
Almaty	66.4%	71.7%	31.2%	

Note: \*\*\*/\*\*/\* indicates significant at .1/.05/.001 level. Base categories are 'male', 'unfinished secondary or secondary only' (combined categories), 'Kazakhstan', 'public sector' and 'Atyrau'. Coefficients less than 1 indicates that respondents are less likely to agree; coefficients larger than 1 indicate that respondents are more likely to agree.

Table 4 – [...] is an important consequence of LC policy

Consequence of LC polices	Protectionism	Diversification	Red-tape
Female	.959	1.004	.858
Log Age	.860	.930	1.406**
College	1.305**	1.084	.888
Unfinished higher	1.437*	1.531*	1.409
Higher/Scientific degree	1.257**	1.456**	1.277**
LN (wage)	.901	1.104	.825**
Russian	1.001	1.078	1.015
Other nationality	1.050	.907	.994
Coop	1.127	1.004	1.023
Agriculture	.899	.718	1.282
Private	.956	.836**	1.258**
Foreign	1.587**	1.185	2.071**
Other sector of employment	.719*	.763	1.470**
Akmolinskaya	1.068	2.143**	1.960**
Aktyubinsk	.574**	.980	.000
Almatinskaya	1.378	1.177	3.686***
Almaty	1.584**	1.452	2.029***
Astana	.894	1.611	2.380**
Karaganda	1.359*	2.202***	1.948**
Kostanai	1.806**	1.236	.862
Kyzylorda	1.394	2.095**	.499**
Pavlodar	2.464***	5.080***	.570**
Severno KZ	1.280	1.103	1.115
Zhambyl	2.827**	3.667**	.000
VKO	1.961***	1.718*	1.486
Yushchno KZ	2.258***	3.593***	1.531*
Zapadno KZ	1.332	1.840**	.508**
Constant	1.172	.043	.278
Nagelkerk R <sup>2</sup>	.034	.064	.107
N	4851	4652	4797
<i>Kazakhstan average response</i>	27.7%	17.2%	15.5%

Note: see Table 3.

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Table 5 – Beneficiaries and purposes of LC policies

	Local business	Control	Welfare	Bribes	Pers.Int.
benefits from LC policies? Politicians	1.028	.902	1.066	.869**	.851**
People	.827*	1.399**	.818	1.064	1.227*
People	1.296**	1.021	.911	1.073	1.030
Scientific degree	1.295	.778	.636	1.121	1.511**
higher	1.353**	.859	1.012	1.279**	1.351**
age)	.876**	1.251**	1.188*	.834**	.720**
n	1.525**	.606**	.944	1.194**	.943
rationality	1.349**	.669**	.920	1.019	1.138
ture	1.224	.723	1.065	.690	.534**
1.093	.903	1.380	1.084	1.159	1.452**
1.188	.845	1.188	.540**	1.446*	.845**
sector of employment	1.174	.623**	1.226	.840	.741**
n	1.720**	.663**	1.150	.505**	2.369**
n	.913	.578**	3.719**	1.044	6.561**
n	.926	2.299**	1.114	.460**	.921
n	2.522**	1.47**	.568**	1.743**	5.311**
n	1.665*	.375**	1.007	.561**	1.652*
n	1.681**	.564**	1.645**	1.341**	5.937**
n	1.627**	.679**	1.540**	2.072**	6.670**
n	.730*	.467**	2.441**	3.009**	7.273**
n	1.273	.965	2.980**	.846	6.557**
n	2.018**	1.155	1.357	1.568**	5.054**
n	2.788**	.646*	.676	.052**	.255**
n	1.216	1.197	1.005	.795	3.153**
n	1.343*	.719*	.801	.666**	1.313*
n	.501**	.675**	7.936**	2.655**	6.701**
n	2.277	.010**	.078**	8.948**	6.689*
n	.082	.088	.116	.174	.217
n	5480	5540	5984	5984	5984
n	36.3%	17.6%	24.8%	70.4%	63.4%
n	43.3%	22.6%	43.3%	22.6%	43.3%

see Table 2.