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Sometimes, winners lose: Economic disparity and indigenization in Kazakhstan[☆]

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ABSTRACT

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Several post-Soviet states have introduced indigenization policies to improve the relative economic, political or social position of formerly disadvantaged populations. Using one example of such policies – “Kazakhization” in Kazakhstan – we investigate their impact on the comparative earnings of two directly affected groups, ethnic Kazakhs and ethnic Russians. Oaxaca decompositions show that Kazakhs are better endowed with income generating characteristics but receive lower returns to these characteristics than Russians. The second effect dominates and Kazakhs have comparatively lower average living standards. While “Kazakhization” may have been successful in some sense it appears to also have induced ethnic Russians to move into jobs that (at least in monetary terms) are superior now to those held by Kazakhs. *Journal of Comparative Economics* 45 (2017) 605–621. Rutgers University, 75 Hamilton Street, New Brunswick, NJ 08901, USA; Institute for the Study of Labor (IZA), Schaumburg-Lippe-Strasse 5-9, 53113 Bonn, Germany; Centre for Research and Analysis of Migration (CReAM), 30 Gordon Street, London WC1H 0AX, UK; The World Bank, 1818 H Street, NW, Washington, DC 20433, USA; Institute for East and Southeast European Studies (IOS), Landshuter Strasse 4, 93047 Regensburg, Germany.

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1. Introduction

Either explicitly or implicitly, many countries have introduced policies that aim to improve the relative economic, political or social position of disadvantaged groups. Examples include “Affirmative Action” in the United States, “Reservation” in India, “Black Economic Empowerment” in South Africa and “Indigenization” policies across the newly independent states formed

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after the collapse of the Soviet Union (variously also called “De-Sovietization” or “De-Russification” policies). The economic effects of affirmative action or reservation have been extensively studied. In contrast, little is known about the consequences of post-Soviet indigenization policies. We aim to shrink this knowledge gap by examining the differential rates of economic achievement between ethnic Russian and ethnic Kazakh communities in resource-rich Kazakhstan following the country's independence. Kazakhstan gained independence from the Soviet Union in 1991. Initially struggling, around the year 2000 it had emerged as a rapidly growing emerging economy. At the same time, an insipid process of Kazakh indigenization (or “Kazakhization”) began to play out, with Kazakhs displacing Russians in key positions in the economy. We investigate how the interaction of a dynamic economy and indigenization policies influenced economic disparity in Kazakhstan.

We rely on monthly earnings as our measure of the economic well-being or standard of living and use micro data from the Kazakhstan Migration and Remittances Survey (KMRS) that were collected in 2010 to explain the variations in monthly earnings in 2010. Additionally, retrospective information from the KMRS for 1991 and 2001 allows us to track the development of monthly earnings over the preceding two decades. Explanatory variables are labor market and socio-demographic characteristics of individuals as well as other variables commonly found in Mincer-type earnings equation estimations, such as the number of hours of work per week, whether an individual is self-employed or whether he or she works in the public or the private sector. Based on these regression estimates, we decompose the differences in living standards between comparable groups of Kazakhs and Russians in Kazakhstan using Oaxaca-type algorithms to distinguish between the proportion of the earnings gap accounted for by differences in the level of respondents' characteristics (the so-called “characteristics effect”) and by differences in the impact on earnings of these characteristics (the “coefficients effect”).

The main methodological challenge in an analysis of economic disparity and indigenization in Kazakhstan in 1991, 2001 and 2010 is that we need to rely on retrospective data collected in Kazakhstan in 2010. This might lead to biased results on the development of earnings and underlying processes if different groups were active on the Kazakh labor market in 1991, 2001 and 2010 (e.g. because of demographic developments or because a large number of ethnic Russians migrated from Kazakhstan to Russia after the break-up of the Soviet Union). To draw general conclusions on the effects of Kazakhization policies on ethnic Kazakhs and Russians, we follow a three-pronged strategy. First, to ensure consistency of results for 1991, 2001 and 2010 all analyses are performed for a common sample that consists only of individuals that were of working age in all three years. Second, to make the argument that results are not driven by the selective migration of a subgroup of ethnic Russians from Kazakhstan to Russia we show that the many characteristics of Russians in Kazakhstan and of Russians from Kazakhstan in Russia are very similar. Finally, to make sure that results are not due to any particular detail of the empirical setup we employ a large number of robustness checks.

We find that Kazakhs had significantly higher average earnings than Russians in 1991. In 2001, no significant earnings gap between the two groups existed. However, by 2010 average earnings among Russians had become significantly higher than among Kazakhs. Against the backdrop of Kazakhization policies, this might appear puzzling. In fact, the Oaxaca-type algorithms reveal that in 2010 Kazakhs were better endowed with income generating characteristics than Russians. For instance, they were less likely to work in elementary occupations (as defined by the International Standard Classification of Occupations published in 2008, ISCO-08) and more likely to have tertiary education. The reasons why Kazakhs nevertheless have lower living standards, on average than Russians despite these advantages is that they receive returns to their characteristics that are not as high as those for Russians and that the coefficients effects dominate the countervailing characteristics effects. Therefore, our decompositions explain the puzzle and leave us with the impression that while the Kazakhization policies might have been successful in some sense – i.e. by empowering Kazakhs to take on key positions in the economy – it also induced ethnic Russians to move into jobs that by 2010 had on average evolved into more productive and at least in monetary terms superior positions than those held by many Kazakhs.¹

Our paper draws on the relatively small literature on economic interactions between ethnic Kazakhs and ethnic Russians in Kazakhstan. One phenomenon discussed in this literature is the large outward migration of ethnic Russians that Kazakhstan experienced in the 1990s. [Becker et al. \(2005\)](#), for example, note that emigration of non-Kazakh ethnicities was especially high, and to a large extent influenced by political events that made Russians and other ethnicities feel unwelcome in Kazakhstan. [An and Becker \(2013\)](#) analyse the migration pattern of ethnic Russian migrants from Kazakhstan in more detail. They find that conventional economic forces and economic uncertainty determined migration but no evidence that regions of Kazakhstan with large ethnic Russian populations had higher migration rates. [Aldashev and Danzer \(forthcoming\)](#) investigate the economic returns to bilingualism in Kazakhstan. Rather surprisingly, they find a negative effect of bilingualism on earnings. They rule out the selection of ethnicities into specific sectors as a cause and instead conjecture that individuals assess their proficiency in a language relative to their peers and that the apparent wage penalty for bilingualism is in fact a wage penalty for being less fluent in Russian.

Indigenization policies have been implemented not only in Kazakhstan but across many of the newly independent states formed after the collapse of the Soviet Union. While the degree, speed, and intensity of indigenization policies have varied greatly across the post-Soviet states, they have usually involved a move away from the Russian language, the reorientation of foreign policy towards the West or more recently towards China, and a replacement of ethnic Russian elites by “local” ones. [Pavlenko \(2008\)](#) reviews a large set of socio-lingual studies and shows that in all post-Soviet countries apart from

¹ Of course, this impression is only correct under the assumption that Kazakhization was in fact meant to improve the relative economic position of Kazakhs inside Kazakhstan as proxied by labor earnings and not to foster other objectives.

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