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To the Secretary of Commerce
of the United States Of America

In resuming the dialogue between our ministries, I am pleased to note the initiative of the U. S. Department of Commerce to hold negotiations to discuss the Request of the Government of the Republic of Kazakhstan to have the Republic of Kazakhstan be granted the status of a "market-economy country", on 17-18 December of this year in Paris, within the framework of the meeting of the Organization for Economic Cooperation and Development (OECD) that devoted to measures aimed at stabilizing the situation on the steel market.

Building on the achievements of economic reforms, the Government of the Republic of Kazakhstan is continuing to move ahead with further liberalization of its foreign-economic policy and enhancing trade and economic cooperation with strategic partner countries.

In this context, granting Kazakhstan the status of a "market-economy country" will help to strengthen economic partnership and increase the volumes of bilateral trade.

As you know, comments were previously submitted to the U.S. Department of Commerce by major US companies operating in Kazakhstan: Access Industries, Exxon Mobil, Chevron Petroleum, Texaco, and others. These submissions indicated how important it is to the economy of Kazakhstan to gain the status of a "market-economy country" and buttressed this application with specific arguments emphasizing the considerable achievements that have already been made in the area of developing economic relationships.

The Ministry of Economy and Trade of the Republic of Kazakhstan hopes that there will be a positive response to the Republic Government's Request that the status of a non-market-economy country be revoked and, in light of the changes that have taken place in the economic life of the country since this Request was submitted, the Government is hereby submitting additional information.

Attachment: five sheets.

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Zhaksybek Kulekeyev
Minister of Economy and Trade
of the Republic of Kazakhstan

Attachment

Additional information regarding the Request of the Government of the Republic of Kazakhstan to have the status of non-market-economy country revoked, submitted in July 2001 within the framework of an antidumping investigation in connection with exports of silicomanganese to the United States, submitted to the U.S. Department of Commerce in light of the changes that have taken place in the economic life of the country since the time when the original Request was submitted.

Item I. Currency Convertibility

In order to provide for further expansion of the economic freedom of the residents of the Republic of Kazakhstan, at this point one of the most important areas for further development of the government currency policy is the implementation of further liberalization of exchange controls in the Republic of Kazakhstan. In this regard, a proposal for the gradual elimination of licensing requirements and the expansion of the list of operations not subject to licensing has been introduced for certain types of foreign-currency operations associated with the movement of capital.

Specifically, this measure will be applied in connection with:
1) import-export transactions on which the time of performance exceeds 120 days;

2) investments by residents [of the Republic] in securities belonging to non-residents;
3) foreign direct investment by residents;
4) the opening of accounts by residents in foreign banks and other financial institutions.

Item 3. Joint Venture and Foreign Investment

As regards investments, there has been a steady increase in the volumes of investment in capital assets over the nine months of2001. The volume of investment in capital assets was 512.4 billion tenge, which is 26.4% higher than the corresponding period for the previous year.

As of 1 October 2001, 3,606 joint ventures and foreign companies (1,576 joint ventures and 2,030 foreign companies) were operating on the territory of the Republic of Kazakhstan.

Item 4. State Control of the Means of Production

During the period from 1991 through 1 December 2001, the following were privatized: 23,170 state-owned facilities, including state stock holdings and state shares in 3,495 organizations; this amounts to 71% of the total number of organizations with state participation, and 19,675 facilities in the social sector and other property;

The remaining large enterprises in the energy and mining industries fall into three categories of "national companies", "blue chips", and "major facilities":

. National companies (government-owned) -- 19;

. Blue chips (large companies identified for further privatization that have partial government ownership) -- 10, including joint-stock companies in the oil and gas sector (2), the mining-metallurgy industry (6), the banking sector (1), and telecommunications (1). Of these, one joint-stock company was sold in 2000, while in 2001 the state holdings in two joint-stock companies, and two were transferred to trust management.

. Major facilities (companies that are not as large as the "blue chips" but are significant-sized companies slated for privatization) -- 44 enterprises, two of which (in prospecting and coal mining) were sold in 2000. In 2OCII the state holdings in the joint-stock company "BankTsentrKredit" and the joint-stock company "Kazakhstrakh" were sold off. As regards the other major facilities, which are mainly power-distribution companies, the Government of the Republic of Kazakhstan has taken the decision to privatize them once the period of trust management ends in 2002-2003.

According to statistical data, for the third quarter of 2001 the number of economically active individuals (people in the workforce) in the Republic was 7.8 million people, of whom 7 million (90.8%) were engaged in labor activities.

Item 5. State Control over Resource Allocation and Enterprise Decision-Making Processes

As of I December 2001,46 banks were operating in Kazakhstan, including:

- two banks with 100% state participation, ZO\O [closed-type joint stock company] "Eximbank Kazakhstan" and ZAO "Development Bank of Kazakhstan", which were established mainly to develop and streamline investment activity in the country;

- one international bank;

- 16 banks with foreign participation (including branch banks belonging to nonresidents).

With the exception of the above-mentioned specialized state banks, the banking system of Kazakhstan has been completely privatized, and the banking institutions are private.

The most recent of the commercial banks to sell its state shares was the National Bank of Kazakhstan (the bidding was held on 20 November 2001). These state holdings (33.3%) were put out for competitive bid, with the GAG [open-end joint stock company] "Mangistaumunaygaz" taking the lead.

In the competitive sector of the economy, the prices for goods (labor, services) are not fixed and are dictated by supply and demand.

The Government of the Republic of Kazakhstan controls the levels of fees for the services provided by national-monopoly entities, transportation, power, oil, gas, water, etc.. Discussions are currently underway regarding the possibility of introducing middle-term fees for the services provided by natural-monopoly entities.

Steps are being taken to transfer a number of services to the competitive sector. For example, the Republic enterprise "Kazakhstan

Temir Zholy" is accordingly being reorganized; this will make it possible over the next 3-4 years to eliminate the state control now exercised over railroad transportation.

Item 6. Other Relevant Items

Economic growth is taking place under conditions of rapidly changing internal and external conditions. Increasing the competitiveness of the economy is the most important factor in economic growth.

In recent years it has been possible to stabilize the output of the Gross Domestic Product [GDP] and the volumes of imports and exports. There have been considerable improvements in the trade balance and balance of payments. Investment in capital assets is growing nicely. The indices of the levels of revenue and the budget deficit have been stabilized. The arrears in payments for pensions and state Social Security benefits and wages have been eliminated for budget organizations. The level of tax collection is on the rise.

In order to make effective use of financial resources, steps have been taken to stimulate the channeling of financial resources into the real sector of the economy: the creation of a National Fund that acts as a stabilization fund to compensate for future potential expenses associated with swings in the price of oil and a savings fund for future generations; as well as the creation of a specialized Development Bank to focus state resources on sectors that are a priority for the economy of the country.

The actual growth in the gross domestic product for the period January-September 200 1 compared with to the similar period for 2000 was 13.7%. The rise in GDP was due to increases in the rates of production in industry by 13.8%, 7.6% in agriculture, and 26.3% in construction, respectively. The increase in the rates of growth in the real sector in turn has led to an increase in the output of services for transportation and communication (112.4%) and trade (113.2%).

The dynamic growth in the Kazakh economy that has taken place over the last two years has been accompanied by positive developments in industry. The positive phenomena that have accompanied the dynamic growth in industrial output include an increase in business activity, a favorable investment climate, a rise in employment, and an increase in solvent demand on the part of the public.

The volumes of industrial production between January and September rose by 13.8% compared with the corresponding period for 2000. Production increases were noted in the mining sector (18.5%) and processing sector

(14.2%), and in the production and distribution ofpower, gas, and water (4%). The growth in mining production was due to a rise in the extraction of crude oil and associated gas (17.1%), coal and lignite (11.4%), natural gas (8.9%), and non-ferrous metal ore (4.2%), and an increase in production in other parts of the mining industry by a factor of 1.5.

For the period between January and September of this year, the foreign-trade turnover in the Republic of Kazakhstan was 11% higher than the previous year. The increase was driven by a rise in imports of 24% (mainly due to imports of investment goods). There was a positive balance of trade amounting to $710 million, compared with $1.7617 billion during the corresponding period in the previous year.

Between January and September of this year, inflation averaged 8.9%, compared with 14.8% in 2000.

The inflation was characterized by less dramatic swings in the prices for food and non-food items and services to the public.

The decline in the rate of inflation is taking place under conditions of an expanding money supply.

The total value of residents ' deposits in the banking system increased by 41% and, as of I October of this year, amounted to 409.62 billion tenge (approximately $2.8 billion).

Deposits by the public are continuing to their upward trend. Overall, between January and September contributions by the public (taking non-residents into account) grew by 88.1% and amounted to 172.5 billion tenge (approximately $1.17 billion).

The banks stepped up their activities on the credit market. During the first nine months of 2001, the total volume of credits issued by banks to the economy grew by 53.8% to 424.7 billion tenge (approximately $2.9 billion).

The factors that account for this growth are mainly the rise in demand for bank credits owing to the pick-up in the economy and the decline in interest rates. In turn, the banks' enthusiasm for lending to the economy also grew.

On the state securities market, the considerable volumes of revenue flowing into the Republic budget during this year led to a relatively low demand for borrowing. During the first nine months of 2001, the Ministry of Finance reduced the volume of borrowing on the domestic market to 20.5

billion tenge (by a factor of 2.3 compared with the corresponding period for the previous year). During the nine months of 2001, the volume of Ministry of Finance securities in circulation increased by 4.1% and as of 1 October 2001 amounted to 69.5 billion tenge, while foreign-currency securities were completely retired (the volume of them in circulation at the beginning of the year was $39.7 million).

The qualitative development of the securities market can be judged by the accelerated issue during 2001 of indexed treasury bonds put into circulation (MEIKAM) with maturity terms of 3, 4, 5, and 7 years and medium-term treasury bonds in tenge (MEOKAM) with maturity terms of 4 and 5 years. The fact that the terms of maturity of state securities have risen from 3 months to 10 months has enhanced market investment opportunities and is helping to create new indices of earning power. Accordingly, there was a rise in the proportion of securities with turnover periods of 12 months or more among all placements of treasury bonds, and it amounted to 92.8% (for the first nine months of 2000, it was 9.3%).

The yield of state securities has declined; this is evidence of improved positive expectations on the part of investors as regards the exchange rate for the tenge.

The trend toward improvement in the main indices that characterize the development of the banking sector is continuing. A program to have second-tier banks shift to international standards is being carried out. In connection with the National Bank's tightened requirements as regards bank capitalization, the number of second-tier banks decreased from 48 to 45 during this year.

During the first nine months of 2001, total shareholders' equity in second-tier banks increased by 33.5% (32.8 billion tenge) and amounted to 130.8 billion tenge. The assets of second-tier banks rose by 111.7% compared with the first of the year, to 722.1 billion tenge.

Work on streamlining the insurance market is continuing. The assets of insurance organizations rose compared with the first of the year, reaching 13.7 billion tenge; this is evidence of the expanding activities of insurance organizations on the market, despite a decline in their numbers.

In mid-2001 three international credit rating organizations upgraded Kazakhstan's credit rating: Standard & Poor's raised by one point the long-term credit-currency rating from "BB-" to "BB" and the long-term loan rating in national currency from "BB" to "BB+" , while at the same time confirming the short-term loan rating in foreign currency and in national currency at the "B" level (outlook - "stable"); Moody's Investors Service upgraded its rating for Kazakhstan's foreign currency obligations by two points from "B1" to "Ba2". In this connection, all of the ratings granted to Kazakhstan's foreign-currency debt obligations were raised to "Ba2", the rating for bank deposits in foreign currency was raised from "B1" to "Ba3", and the rating for long-term state securities in local currency was raised from "B1" to "Bal"; Fitch IBCA raised its rating by one point, from "BB-" to "BB" for long-term loans in foreign currency and to "BB+" for long-turn loans in national currency. The short-term rating was confirmed at "B" (outlook - "stable").

Overall, the improved ratings reflect the considerable brightening in the state foreign debt picture, as well as the pursuit of positive tax-budget and monetary-credit policies.

In July 2001, the fourth meeting of the Working Group for Accession to the WTO and a third round of bilateral meetings were held.

One important outcome of the latest meeting of the Working Group is that an understanding was reached with the member countries of the Working Group regarding the need to step up bilateral negotiations on conditions for access to the market for goods and services in Kazakhstan.

The member countries of the Eurasian Economic Community have held 13 consultative meetings with the leaders of the government delegations on issues associated with accession to the WTO.