

## Investment activities in its function as the factor of diversification of the economy of the Mangistau region

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**Abstract:** The Government Program of Intensified Industrial and Innovative Development of the Republic of Kazakhstan in 2010-2014 targets ensuring stable and balanced growth of the economy through diversification and improvement of its competitiveness, enhancement of social orientedness of the development of high priority economy sectors and the implementation of investment projects, provisioning of a favorable environment for industrialization, formation of economic growth centers based on economically reasonable territorial arrangement of economic potential, provisioning of efficient interaction of the government and the business in the course of development of the economic sectors of high priority. In this article, the author thoroughly analyzed the investment problems of a particular region of the Republic of Kazakhstan.

[Koshimova M.A. **Investment activities in its function as the factor of diversification of the economy of the Mangistau region.** *Life Sci J* 2013;10(12s):229-232] (ISSN:1097-8135). <http://www.lifesciencesite.com>. 40

**Keywords:** Diversification, economic growth, first-priority sector, economic potential, monopolization, mineral reserve base, investment, inversion.

### 1. Introduction

“The Mangistau Region became one of the most prospective regions throughout the USSR in the 1960s when they revealed huge reserves of minerals here” [1]. Currently, the huge reserves of hydrocarbons and lack of mineral processing facilities determine the specialization of the region as one of the main raw material regions in the Republic, and it is believed to play an important role in the dynamic development of the whole Kazakhstan and its entering the top-level countries list [2].

The factors of the competitiveness of the Mangistau Region's competitiveness are:

- the large mineral reserve base and, as a consequence, the existing industrial specialization of the region;
- industry diversified by branches and types of production;
- close location of raw material sources for petrochemical production of West Kazakhstan enterprises;
- comparatively highly qualified and relatively cheap labor power.

At the same time, analysis of production potential of the region shows that there are significant structural disproportions in the industry of "the Mangistau Region – over 93% of the industry relates to the oil-extracting sector" [3].

### Research methods.

The authors used systemic and situational approaches and methods of strategic and comparative analysis and expert evaluations.

### Body of the work.

The Mangistau Region is currently one of the fastest growing and attractive for investments regions of the country. And the contemporary state of the economy of the Mangistau Region is determined by certain negative aspects:

- the economy of the Mangistau Region is based in extensive utilization of available excessive natural resources, which mainly are energy-producing materials. This distortion of the economy structure, its particular orientedness to utilization of raw materials, and short range of products hinder the development of the export sector of the economy;
- monopolization of the internal market by foreign products restricts the opportunities of local industry;
- the disbalance of the economy has increased, and the rise in prices has led to intensification of the inflation process;
- there is a lack of processing facilities, weak competitive position of regional consumer goods enterprises.

Currently, the Mangistau Region shows competitiveness only in the sphere of generating primary derivative products and extraction of natural resources. Other branches of our economy are not competitive, especially in the sphere of agriculture and consumer goods industry.

Diversification of economic potential in the Mangistau Region assumes implementation of efficient investment and structural policy.

"Investments are expenses on creation, expansion, reconstruction and modernization of fixed

capital, and also on the changes of working capital connected with it. The investment decision is made in dependence on a ratio of limit benefit and limit expenses"" [4].

Updating of fixed assets can't be realized without significant increase in investment investments in business economics and the organizations. For comparison according to the inspection of the investment activity which has been carried out on a sokstoyaniye for October 10, 2011 to 10 thousand organizations, carrying out promyshklenny activity in the Russian Federation, investments into fixed capital carried out 94% of the krupkny and average organizations and 44% - subjects of small business" [5].

**Table 1. SWOT analysis of the processing sector of the Mangistau Region economy (prepared by the author)**

Competitive disadvantages (W) (weaknesses)	Competitive advantages (S) (strengths)
<ul style="list-style-type: none"> <li>- non-compliance of the products of enterprises with international standards;</li> <li>- low added value;</li> <li>- lack of skilled personnel in the sphere of production and enterprise management;</li> <li>- large number of non-operating enterprises;</li> <li>- absence of comprehensive statistic information;</li> <li>- lack of investment attractiveness of the processing sector and insufficiency of working capital at enterprises;</li> <li>- insignificant level of innovative activeness.</li> </ul>	<ul style="list-style-type: none"> <li>- availability of natural resources;</li> <li>- close location of raw material sources for petrochemical production;</li> <li>- developing transportation infrastructure;</li> <li>- high capacity of the technological line;</li> <li>- low prime cost;</li> <li>- comparatively highly qualified and relatively cheap labor power;</li> <li>- tendency to changing the structure of production and product range.</li> </ul>
Threats (T)	Opportunities (O)
<ul style="list-style-type: none"> <li>- worn-out state of equipment;</li> <li>- loss run of the sector;</li> <li>- lack of government standards for manufactured products;</li> <li>- drop in production after entering WTO;</li> <li>- low level of non-tariff regulatory measures for protecting the internal market;</li> <li>- certain deficiencies of the taxation law, financial risks can hinder the inflow of investments to some extent;</li> </ul>	<ul style="list-style-type: none"> <li>- international demand for products (particularly, oil refining);</li> <li>- precisely stated priorities in the sector development vector;</li> <li>- existence of special programs and instruments of governmental support (30 corporate leaders, the Seaport Aktau Free Economic Zone, implementation of breakthrough projects, etc.)</li> </ul>

Investment activeness of the Mangistau Region is oriented to:

- attraction of investment resources from various sources, including foreign investments, which target structural rearrangement of the economy;
- creation of additional workplaces;
- support of small- and medium-scale entrepreneurship.

The subjects of the investment policy in the region are: the Government of the Republic of Kazakhstan, represented by the Samruk-Kazyna Fund of National Welfare, local authorities represented by regional and municipal Akimats, the administrative body of the Seaport Aktau Free Economic Zone, NK SPK Caspy JSC, the Mangistau Investment Company

(MIC), commercial banks, micro credit organizations (MCO), foreign companies and states, national companies, large national industrial and oil-extracting enterprises, associations of entrepreneurs.

By investments, the Mangistau Region is second in Kazakhstan after Atyrau (Atyrau - 2,114 million tenges in 2009).

In 2006-2009, there was 1,157 billion tenges of direct investments in the economy of the region [3]. In 2009, in the Mangistau Region, the scope of investments in the basic capital reduced from 699 to 661 billion tenges (by 5%), including the decrease from 383 to 293 million tenges per capita, i.e. almost by 25%.

According to the Department of Statistics of the Mangistau Region, the main scope of investments is directed to the mining industry – totally, it is over 54.7%. 10.7% is invested in real estate operations, 16.4% – in transport and communications, and 3.5% – in construction. 1.6% of all investments in the industry are directed in the processing sector.

According to forecasts, a gentle growth of the rate of investments in capital stock is expected in the Mangistau Region starting from 2010. The real growth in 2010 will be nearly 101.3% of the previous years value (354.5 billion tenges), in 2011 - 104.5%, in 2012 - 106.7% (441.3 billion tenges), in 2013 - 107.3% (497.4 billion tenges), in 2014 - 108.5% (566.8 billion tenges) [7].

All projects on development of competitive advantages of the region, which are oriented to diversification of the economy, are unified into the Integrated Investment Mega Project "Earth-Sea-Sky", which stipulates development of the Seaport Aktau Free Economic Zone; establishment of Caspian Energy Hub; development of the Kuryk seaport and industrial township; prospective development of the City of Aktau; development of the infrastructure (automobile and railway roads, airports in Aktau and the Kenderly recreation area); development of power industry; development of tourism; development of the Caspian University of Technology.

At implementation of investment projects their assessment is carried out. "Results of an assessment form a basis for decision-making, to what risk group it is necessary to refer this or that object, what tariff rate in the best way corresponds this, to risk. The average size of risk circumstances соответствует average risk type of group which is used as a comparison measure"" [8].

Types of risks treat" [9]:

- inflationary risk - risk of losses which the investor as a result of depreciation of real cost of investments (assets) or the expected income and profit on the uncontrollable growth of inflation can incur;

- market risk, *voznikayemy* as a result of negative change of cost of assets because of fluctuations of interest rates, exchange rates, the prices of actions, bonds. This risk can be referred to uncontrollable as its nature is connected with a set of factors (changes in the customs legislation, the taxation, with actions of competitors, inflation, the competition, etc.;

- the operational investment risk connected with probability of investment losses owing to technical mistakes, involving accidents and idle times of processing equipment, emergence of marriage;

- the functional risk, which probability of emergence it is connected with the mistakes allowed at formation and management of a portfolio of financial instruments;

- the selective investment risk connected by the wrong choice of types of an investment of investments;

- credit risk, its probability it is connected with impossibility of the borrower or the guarantor to fulfill the assumed obligations for payment of percent for a loan. It includes: bank (direct) credit investment risk; deposit risk; risk of a non-return of the credit (risk of the announcement borrower of a default);

- the construction risk connected with mistakes in design and budget documentation or bankruptcy of participants (*genpodryachik* or subcontractors). The increase in a project cost can cause refusal of the investor of construction;

- risk of excess of expenses owing to change of the initial plan of implementation of the project of expenses. As a rule, for these purposes unforeseen expenses are provided.

- the risks connected with operation of "enterprise" (production risks). Arise owing to use of new equipment and technology. Creditors assume the most part of risks in case they give in to calculation and are operated;

- financial risks of projects are connected with increase in expenses and respectively with decrease in profitability of projects, reduction of dividends and to additional loans;

- the risks connected with the market (risks of realization) can be a consequence of a wrong assessment of the market (its volume, segmentation), obsolescence of production or discrepancy to its consumer properties. This type of risks can be limited. It is completely possible to exclude it by detailed carrying out market researches.

### Summary.

To improve investment activeness in its function as a factor of diversification of the Mangistau Region economy, it is suggested to:

1. Invest public funds in the following priority

spheres: breakthrough projects of the processing sector, including development institutions; infrastructural projects of the Transport Strategy, housing construction, and production of building materials.

2. Involve lending resources of commercial banks as well as own funds of enterprises in special purpose technological modernization of existing production facilities and construction of the new ones that would comply with the international standards.

3. Re-direct foreign investments through the mechanisms of preferences and legislative guarantees to the non-energy sector's projects, which require new technology, compliance with the international standards of quality and management, and well-known product brands,

4. Balanced development of the Mangistau Region economy assumes faster growth of processing sectors, which however need to be closely related to the extracting industry (oil and gas engineering, oil and gas refining, new extractions in mining and metallurgy) or to agriculture.

The main directions of upgrading and taking the path of economic growth of the processing industry sector of the Mangistau Region are represented in Figure 2.

5. Intensification of regional investment activity in the circumstances of unstable market environment depends on internal reserves, target-oriented and efficient utilization of external resources. First of all, it is necessary to:

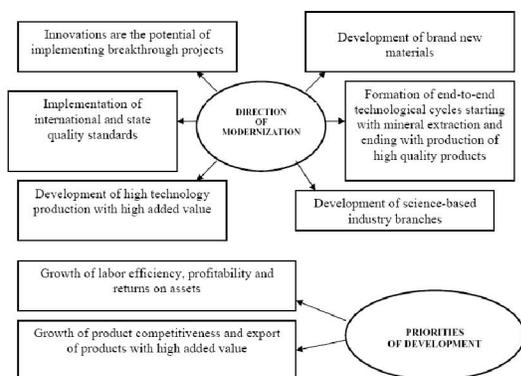
- implement investment programs financed from the republican and local budgets;

- finance investment projects prospective for the region's economy;

- provide inventory of investment projects and programs, which are being implemented within contracts of minerals developers in the extracting sector in order to achieve at least the 30%-50% share of processing carried out in the internal market;

- hold marketing research in the internal and external markets dedicated to finding breakthrough projects and investors and make this information open and accessible.

The problem of rational use of *gosudarstvenny* means is now *odkny* of prime for providing a *razvikiya* of the major spheres of economy, elimination of *infrakstrukturny* restrictions of growth, increase of efficiency of use of natural resources, *moderknization* of the industrial enterprises and development of *vyksokotekhnologichny* productions [10].



**Figure 2. Ways of diversification of the Mangistau Region economy**

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11/11/2013