

Development of Agro-food Market of Kazakhstan in Conditions of Modernization of Economy

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Abstract. The article investigates trends and problems of agro-industrial market of Kazakhstan. Authors analyze main stages of market reforms, which influenced greatly the development of agricultural industry in Kazakhstan. Having considered the situation in agro-industrial complex (AIC) of the Republic of Kazakhstan the authors formulate further steps to increase competitiveness of agrarian sector in conditions of economy modernization. [Alimkulova E.S., Kaltayeva S.A., Azretbergenova G.Zh., Mustafayeva B.U., Almukhambetova B.Zh. **Development of Agro-food Market of Kazakhstan in Conditions of Modernization of Economy.** *Life Sci J* 2014;11(1s):213-217] (ISSN:1097-8135). <http://www.lifesciencesite.com>. 38

Keywords: AIC, modernization of agrarian sector, agriculture, agrarian products, processing industry, competitiveness.

1. Introduction

The problem of food security is prioritized issue of economic policy of any state, and efficiency of such decision influences social, ethnic and political stability in the society [1].

We must emphasize that threatened food security means decrease in production, unemployment growth, delay in payment of wages, growth of loan debt of enterprises in agriculture, failures in fuel and energy supplies and other negative phenomena in economic and political life of modern Kazakhstan [2].

Food security as a component of national security of the country depends to a great extent on development of national agro-industrial market.

This issue is of utter importance in time of Kazakhstan's accession to WTO. At the present moment accessing to WTO is main event in AIC sphere. However, this process is still incomplete because agro-producers are not ready to compete with world producers [3].

This unpreparedness was the result of constant underestimate of AIC's role in development of national economy which is manifested in low level of state support, system-free measures on development of its separate industries, which are usually implemented just to show that something has been done anyway!, senseless decisions in agrarian policy.

During last years there were some improvements in agro-sector due to state control in the sphere of land and water use. However, potentialities of region development are still restricted because of continuous degradation of environment, institutional disadvantages and natural cataclysms [4]. Studies demonstrate that many social and financial problems which are faced by the republic of Kazakhstan can be

solved at the expense of more effective and sustainable use of croplands and water resources.

AIC of the Republic of Kazakhstan is a sophisticated multi-functional area of national economy intended to provide population of the country with high-quality national food products and increase export of agricultural and food goods.

Transition to market economy in the Republic of Kazakhstan was carried out by the method of trials and errors, in the same manner as it was in other countries of post-Soviet states because there were no precedents in world practice in regard to transformation of centrally-controlled economy into market one. Cardinal reforms in Kazakhstan were implemented on the principles of liberal-economic policy without due regard to national specific features of production, in particular, characteristics of agro-industry [5].

Use of the model of "shock therapy" or revolutionary transformations did not take into consideration the necessity of adaptation period in the process of transition to new economic relations [6], this period was especially necessary for agriculture. Disintegration of USSR led to mass socio-economic and institutional changes which broke the balance in relations chain, destroyed technical potential, resulted in degradation of production capacities, abandonment of agriculture lands [7]. Since 1990 total area of acreage under crops reduced from 35 182 100 to 21 190 700 hectares.

The process of reformation of agriculture in Kazakhstan can be divided into 2 key stages:

1st stage, which includes the period of 1990-1999 was characterized by accelerated reformation of agricultural enterprises, creation of different forms of economic activity on land. This stage gave completed regulatory (legislative) framework of land relations;

privatization of state property was performed. The first stage of reforms resulted in creation of mixed agriculture. However, because of the absence of legislative and socio-economic conditions which were necessary for work of new forms of economic management, market reforms were performed very inefficiently. 1st stage is characterized by decline of production, deterioration of resource base in the industry, mass migration of agricultural population to cities.

2nd stage (2000-2012) was characterized by strengthening of state support of agricultural producers. In the beginning of 2001 the laws were adopted which regulated main directions of Kazakhstan agriculture development: "About cereals" (January 19, 2001) and "About land" (January 24, 2001) realization of which reinforced state control over cereal quality and use of land. In 2001-2002 by appropriate Resolutions of the Government were adopted and the 2-level state purchase of cereals was introduced. In accordance with the Republic of Kazakhstan law "About agriculture partnerships and their associations" dated December, 25, 2000 state Agro-credit corporation was organized with 100% state participation which started to facilitate formation of agrarian credit partnerships in the regions of the Republic.

Since 2001 first positive shifts have taken place in Kazakhstan AIC: increase in gross production in agriculture was observed; in cattle breeding industry the rate of decline in total number of bovine cattle and horses ceased; the acreage under crops of key agriculture cultures started to grow.

But growth rate of agriculture production which was really taking place since 2000 was still significantly less than the GDP growth. In 2001-2012 growth in agrarian sector of the Republic of Kazakhstan was 4% at average, while annual growth of GDP was 8%.

Before market reforms were implemented Kazakhstan was a industrial-agrarian state with powerful AIC producing agricultural goods and raw materials, including their processing and storage, the country produced fast moving consumer goods, means of production for village (machinery), provided building, infrastructure and development of social sphere. However, since the beginning of reforms in the industry the share of agriculture in GDP structure is decreasing with every year. In 1990 it was 34%, in 2001 - 16,5%, and in last years it is only 10%.

Indices of physical volume of gross production (services) in agriculture
Kazakhstan GDP growth rate,%
Share of agriculture in GDP,%

In the same time positive shifts in the industry can not be ignored. For example, cattle-breeding demonstrates steady positive dynamics thanks to meat production in live and carcass weight, production of milk, eggs, wool. In comparison with 2001 in 2012 total number of bovine cattle increased for 1396,5 thousands (39,7% of the 2001 level), sheep and she-goats - 7154,7 thousand units (68,3% of 2001 level) , poultry – 12,4 million birds (58,8% of 2001 level). Total number of horses increased for 70% to 1686,2 thousands in the end of 2012. Negative moment was decrease in production of astrakhan fur. In 2001-2012 this indicator reduced from 124 400 to 43 600, in other words, almost for 65%.

In the same time the production of main types of cattle-breeding products has not reached the level of 1990-2000, except for production of milk and eggs.

Meat (alive cattle), thousands tons
Meat (dead weight), thousands tons
Milk, thousands tons
Eggs, millions
Wool, gross weight, thousands tons
Astrakhan fur, thousands

Annual average value in 1990-2000
Annual average value in 2001-2012

In plant-growing industry gross olive cultures harvest increased for more than 4 times, gourds - for 2 times. Dynamics of cereals production has no distinct trend and significantly differs from year to year. Instability, absence of steadiness in production of cereals in Kazakhstan points out to great dependency of cereals production on weather conditions, which is confirmed by statistics of rich harvests in 2007, 2009, 2011 and poor harvests in 2008, 2010, 2012.

In the same time it must be mentioned that cereals complex of Kazakhstan is gradually recovering after decline which was observed in the middle of 90s because of objective reasons, which negatively influenced the state of plant-growing industry in the country. In 1999-2000 annual average crop capacity of cereals and bean cultures was 8, 77 centners from 1 hectare of land, in 2001-2012 it amounted to 11,21 or increased for almost 27,8%.

In general, in 2001-2012 in comparison with the period of 1990-2000 annual average crop capacity

of all types of agriculture cultures increased (Figure 4).

Cereals, including rice and bean cultures
Olive cultures
Potatoes
Vegetable grown in open soil
Gourds
Sugar beet-root

Average crop capacity in 1990-2000

Average crop capacity in 2000-2012

In the same time there is a number of unsolved problems and these problems demand complex system solution.

Production and sales costs at agriculture enterprises of the Republic of Kazakhstan calculated per 1 unit, because of the whole combination of objective and subjective reasons, are significantly higher than sales price which determines loss-making character of production in agrarian sphere of the country. For example, during last 5 years the level of profitability of production of agriculture products at agriculture enterprises reduced from 51,9% to 29,7%.

Growing disbalance between potential of agriculture and the level of technical support of AIC of the country is observed. At present time in Kazakhstan there are no national machine-building enterprises producing agriculture machinery, but some assembly plants where agriculture machines are made still function (*LLP Semaz* in Semey, *Agromashholding* and *LLP Agrotechmash* in Kostanai). In general, the park of existing machinery has depreciated for about 87%, which negatively influences the terms and quality of agriculture works. Key problem in the part of renewal of agricultural machinery for agricultural goods producers is unacceptability of the leasing programs, absence of own production of agricultural machinery (available assembly plants can not satisfy all needs for agriculture machinery).

In 2012 volume of investments into fixed assets in agriculture increased for 22% (133,9 billion of tenge).

This is the greatest increase in comparison with other industries of economy. In the same time absolute figures and ratio of investments amount to gross production in comparison with other industries testify that agriculture is lagging behind. Little increment in investments inflow is observed because of [9]:

- low level of provision of the industry with necessary machinery;

- low level of intensification of farming (every year land demands fertilizers in the amount of 2,6 million tons, but in fact only 7-8% of this amount is delivered);
- low level of genetic potential of the cattle (pedigree cattle in total number of stock is only 8% while in the countries with developed cattle-breeding this indicator is about 40-50%);
- low productivity of the cattle (average alive weight of cattle to be slaughtered is 310 kg while in the world it is 500-520 kg. Average volume of milk produced from 1 cow in the Republic is 2200 liters while in developed countries this indicator is 6-8 thousand liters per year.

Present state of AIC is also characterized by indicators of agricultural products' processing. Production of food products includes cereal-processing, milk, bakery and meat-processing industries. Production of food products in comparison with 2001 increased 3,7 times and in 2012 has reached 866670 million tenge.

However in spite of annual growth of agricultural production specific weight of the main kinds of agricultural raw materials which are being processed is still very low. For example in 2012 processing of agricultural products amounted to 5% of republican volume of industrial production and 16% of processing industry of the country.

In general, the volumes of processing in agricultural and food industry in 2012 amounted to 830 billion tenge or 5,5 billion dollars. Imported products amount to 3 billion dollars and exported products - to 1,1 million dollars [10]. Thus, the share of production in general volume of consumption amounts to 60%. The rest 40% are imported from abroad.

If we look at the structure of consumption, the share of national producers in total amount of the processed products is more than 80% except for fruit and vegetable canned goods (less than 10%), sugar (39%), cheese and curds (46%), sausage products (57%), butter (64%), meat and vegetable canned goods (68%).

At present moment share of import in internal consumption of several kinds of products obtained by processing of agricultural raw materials is still high. The share of import of fruit and vegetable canned goods in internal consumption at average is 86%, sugar - 61,3%, cheese and curds - 55%, sausages - 43%, margarine -36%, butter - 35,9%.

In general, development of processing industry is hindered by the following problems: low quality of milk in personal subsidiary plots (PSPS)

and their territorial remoteness; lack of milk as raw material and its high price because most part of milk is produced in PSPs ; high share of morally and physically depreciated equipment; very low utilization rate of production capacities; lack of floating assets.

One of the key factors of efficient functioning of AIC of Kazakhstan in modern conditions is accelerated modernization and innovations. The transition to new, more qualitative level of growth in AIC is necessary which is determined by formation of rational structure of agriculture production, reduction of import and increase in export.

Defining strategic priorities of new stage of modernization of Kazakhstan society the President of the country N. Nazarbaev in his Letter to nation "Kazakhstan 2050" Strategy" emphasized modernization of agriculture as necessity.

After adoption of the state program "Agrobusiness-2020" a new stage in development of Kazakhstan AIC will start. The volumes of state support in agriculture must increase 4,5 times till the end of 2020 in comparison with 2012. Physical volumes of production will increase 1,5 times. 80% of internal market demand for the main food products will be satisfied by national food.

In 2020 a new product "Leasing program Harvest 2012" will be realized for agricultural producers of the Republic. In order to increase efficiency and competitiveness of agrarian production by means of technical re-equipping and motivation of the agricultural producers for buying of agricultural machinery the Ministry has developed and started to implement budget program intended for reduction of interests paid for leasing of equipment.

In order to eliminate system problems of Kazakhstan AIC it is necessary to focus on the following areas:

- Implementation of new market tools of state support of agriculture: investment subsidies and subsidized interest rates for credit and leasing; insurance and guarantee of the loans; modernization of the system of obligatory insurance in plant-growing; exemption from customs fees while importing equipment and components for it.

- Development of cooperation and integration. Significant contribution and positive effect of modernization in agrarian sphere can be provided by structural transformations through creation of industrial clusters and implementation of cluster technologies into real agrarian sector on local and regional level. Development and formation of competitive and export-oriented production operations by the method of added value chain must be based on the production of food goods which can be

transformed technologically many times, increasing at each transformation the size of added value.

- Development of agrarian territories and human potential in AIC of the Republic of Kazakhstan. Modernization of AIC and transition to innovative model of development can not be achieved without social development of agrarian territories, increase in quality of human potential of agrarian population. Reduction of agrarian population in number in the country can be overcome thanks to increase in profitability of agricultural labour, new working places, house construction and development of social infrastructure in the village.

Realization of measures in these spheres will allow to increase efficiency of AIC industries and competitiveness of national agricultural products not only in the internal but in external market as well, significantly broadening export opportunities.

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1/18/2014