

**Modernization of real sector of Kazakhstan economy as the most important factor of competitiveness**

<sup>1</sup>Ashimova Raziya Maratovna, <sup>2</sup>Uvaisova Sholpan Salyhanovna, <sup>2</sup>Mahanbetova Ulmeken Rahmetullaevna,  
<sup>2</sup>Tazhibayeva Raikhan Musamatovna, <sup>2</sup>Izatullaeva Bibigul Sultanovna

<sup>1</sup>Kazakh National University named after Abai, Republic of Kazakhstan, 050010, Almaty Dostyk Avenue 13  
<sup>2</sup>Ahmet Yassawi Kazakh-Turkish International University, Sattarhanov street, 29 161200 Turkestan, Kazakhstan

**Abstract.** The authors analyze stages of modernization in Kazakhstan economy. First 5 years of realization of SPAIID program has shown that some positive results have been achieved but there are some problems yet to be solved. These are: low rate of modernization of real economy sector, insufficient activity in development of new operations, high depreciation of fixed assets of energy system objects. Measures of utter importance on elimination of unsolved problems have been formulated and perspective ways of development of Kazakhstan's industrial policy for next 5 years of SPAIID implementation have been described.

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The key indicator of development of any state is the level of competitiveness of national economy. Issues of competitiveness are especially up-to-date in the process of globalization and integration of national economies into the world markets. Quickly changing external conditions and fierce competition determine the necessity of accelerated growth of developing countries [1].

Close economic and trade relations of Kazakhstan with post-Soviet states on the base of economic integration are beneficial for all states because our countries share common interests and their economies are interrelated for a long time; the effect of this is that they face serious problems of modernization and competitiveness in world markets [2].

Today modernization and innovative development of real sector industries are necessary conditions for economic growth and achievement of strong competitive positions by Kazakhstan in world economy is [3].

The base of real sector of Kazakhstan economy is formed by enterprises of mining industry, they produce more than 61,6% of total volume of industrial products (Figure 1).

New stage of politically independent development of Kazakhstan determines the beginning of complex and contradictory process of modernization.

First stage of modernization of Kazakhstan economy is connected with introduction of national currency - tenge - in November 15, 1993. After this the country started to form independent budget, tax and customs systems. Kazakhstan was the first

country from all post-Soviets states which commenced tax reforms, the results of which were use of the taxes as real tool of stimulation of investment-production activity [4].

By the early 2000s preconditions for realization of more complex and ambitious tasks of integration into world economy were formed. Gradually the issues of competitiveness of national economy in the conditions of globalization of world market have become prioritized task.

Adoption of the Strategy of industrial-innovative development Kazakhstan headed for diversification of the economy aimed for refusal from dependence on commodities production and creation of conditions for transition to service-technological model of the economy and the production of competitive export-oriented products, works and services.

Problems of modernization of Kazakhstan economy were pointed out in annual Letters of the President of the Republic of Kazakhstan to Kazakhstan people.

So in the Letter of 19.03.2004 the President for the first time set forth the task of integration into world economy on official level. He emphasized the importance of development of such industries of national economy as machine-manufacturing, metal-working, oil refining and chemical industries, AIC.

The tasks were formulated in more detail in the Letter of February, 2005, in which he outlined missions of creation of innovative economy and development of non-oil and gas sector, industrialization through formation of clusters in industries of oil-gas machine-manufacturing, tourism,

food and textile industry, sphere of production and processing of agricultural raw materials, transport-logistics services, metallurgy and materials used in construction.

The Letter of 01.03.2006 emphasized that sustainable economic growth of the country is based on modernization and diversification of economy. Special attention was paid to development of "breakthrough" world projects, development of industries which can guarantee their competitiveness in external market.

Increase in competitiveness and integration of Kazakhstan into world market must be fulfilled thanks to formation of regional corporations of social development and entrepreneurship which are "locomotives" of economy.

The importance of development of non-oil and gas industries was emphasized in the Letter of 28.02.2007 in which the President defined 30 key leading corporations which must become a vanguard of production and provide economic breakthrough of the country. In order to develop export potential of the country and strengthen PPP (Public-private partnership) in creation of new and modernization of existing producing operations, The program "30 corporate leaders of Kazakhstan" was adopted in April, 2007. The program facilitated development of industrial-innovative infrastructure of the country.

Generally speaking, in spite of some difficulties in the process of reforms this economic model showed its competitiveness and proved to be one of the most successful in post-Soviet space [5].

In the same time the issues of modernization of the country has not been solved in full, little attention was paid to the increase of national competitiveness. Products structure of Kazakhstan export still consisted from mineral products, and most part of import was formed by investment goods and the goods of intermediate industrial consumption.

Processing industry growth rates in the Republic were lagging significantly behind commodity sector growth: main problem was shortage of bank credits, first of all, because of world crisis of 2008.

Of course, the Government of the Republic of Kazakhstan initiated active measures to solve the problems of financial crisis' effects, increase competitiveness of national economy and carry out its diversification. But growth rates, especially in processing industry were still very low.

The tasks of modern stage of industrialization announced in the Letter of the President of 29.01.2010 are as follows: accelerated innovative growth with diversification and creation of high-tech structure of economy. Chosen course was strengthened in the State Program of Accelerated

industrial-innovative development (SPAIID) up to 2020.

Industrialization is all-nation program. Almost all state bodies, akimats of the regions, holdings and national companies, development institutions, business-associations and industrial enterprises participate in the realization of the State program.

SPAIID suggests start-up of 779 projects which will need adequate amount of electric energy. This situation and a complex of other factors which influence the state of the industry demand system measures aimed for satisfaction of growing needs of the economy, stable supply of electric energy to the houses, provision of energy independence and security of the country as a whole.

13 electro-energy projects will be realized in the framework of SPAIID. 9 of them are intended for building of energy-producing enterprises with total capacity 3299 MW. Construction of power unit#3 in Ekibastus SDPP-2, modernization of Shardarinsk HPP and National electric network are being actively implemented.

The most important components of SPAIID are republican and regional "road maps" of industrialization of Kazakhstan for 2010-2014 which are aimed for integration of state' and business' efforts for making appropriate investment decisions and provision of the links between private projects and development of infrastructure and resource potential of the country.

Other key tools in SPAIID realization were the diagram of rational allocation of production capacities and "Road map of business-2020"

The program "Road map of business-2020" is logistic continuation of previous road maps, for 2009 and 2010, here the emphasis is made on post-crisis development. Its distinctive feature is increase in entrepreneurial activity of population. Special attention is paid to attracting direct foreign investments. In conditions of restricted access to financial resources in the world the struggle for direct foreign investments has become more fierce [6]. Here attractiveness of Kazakhstan's investment climate is inferior to many competitors. SPAIID has kept and extended preferences in this sphere: tax privileges at the territory of free economic zone, and in the framework of separate agreements on attraction of the capital are provided.

Besides that, the following measures of support can be provided for investors in the framework of "Road map of business -2020" on regional level: provision with external infrastructure, subsidies for interest rate, partial guarantees on credits.

Today the first 5-year plan of this program (2010-2014) is being implemented. First 2 years were taken by organizational period, during this time the whole regulatory framework was revised, amendments to more than 50 laws were made. Industrial programs, the programs of business support, territorial development were developed.

The results of 3 years of realization of SPAIID demonstrate some positive changes in the economy of the country. For example, for the first time the contribution into GDP was done not only by resource-extraction industries. General real 22,6%-increment in GDP in 2012 in comparison with 2008; the plan for 2015 is 15% [7].

The results of 3 years of SPAIID implementation were as follows: for the first time the share of processing industries in GDP has reached 22,5%. And the rate of growth in processing sector is higher then the growth of mining industry. For example, in 2012 increment in processing industry was 0,7%, in mining industry -0,2%.

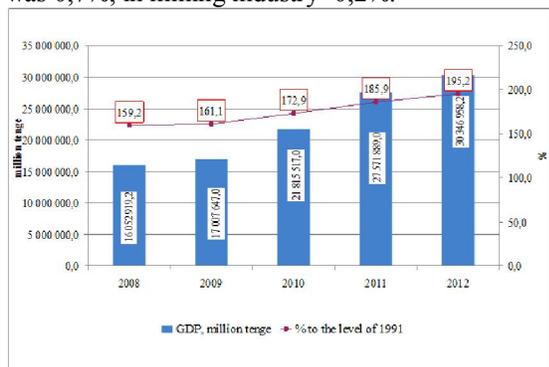


Figure 1. Real GDP dynamics

In 2012 increment in production volumes was observed almost in all processing industries. Only in metallurgy little decrease was observed - for 1,5%. This was connected with difficult situation on the metals market.

SPAIID for 2010-2014 by means of financial and non-financial support facilitated business activity in producing and processing industries of economy, and in industries manufacturing goods for export.

In 2010 share of the Map projects in GDP's increment was 7%, in 2011 - 22,7%, in 2012 - 26%. It is known that during elapsed 3 years 537 new producing operations were started, 147 new products were launched into production. Last year new operations produced goods for 913, 4 billion tenge. This is 5,5% of the total volume of industrial production, and in processing industry the share of the Map was 8% (421,5 billion tenge). For example, in Akmolinsk region 1/3 (32,7%) of the total number of processing industry goods were produced by the Map projects. In Zhambyl region - more than 1/4 (26,6%).

In general, the leaders of industrial development did not change: Karagandy, Pavlodar, and East-Kazakhstan region.

Favourable situation is still observed in the sphere of attracting investments into fixed assets. Relative share of investments into renewal of fixed assets in industrial sector of economy has increased from 40,6% to 52,2% of the total volume of investments into fixed assets. While total growth rate of investments into fixed assets was 30% for 5 years, the growth of industrial investments amounted to 67,1%. (Figure 2):

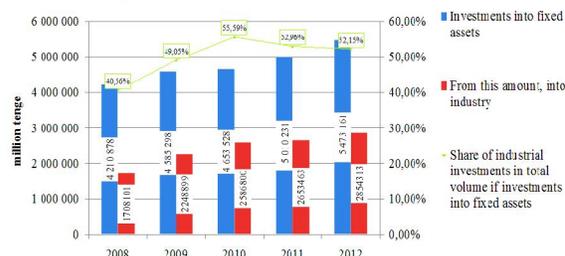


Figure 2. Dynamics of investments into fixed assets in 2008-2012.

The President of the Republic of Kazakhstan emphasized the importance of foreign direct investments for industrialization. During crisis it was FDI which could provide financial aid and suggest transfer of knowledge and technologies for building of new economy.

Analysis of statistic data on FDI shows that the situation here is favourable in general. In spite of the fact that in conditions of world financial crisis the reduction of FDI flows is observed in all countries, in the Republic of Kazakhstan FDI showed stable dynamics.

For the period 2008-2012 the economy of the country received 96,1 billion US dollars; 43,3 billion (45%) of this amount were attracted for the last years (Figure 3). In accordance with UNCTAD data in 2009 FDI flows reduced for 33% al over the world, even in 2011 annual indicator is 15% less then pre-crisis level [8].

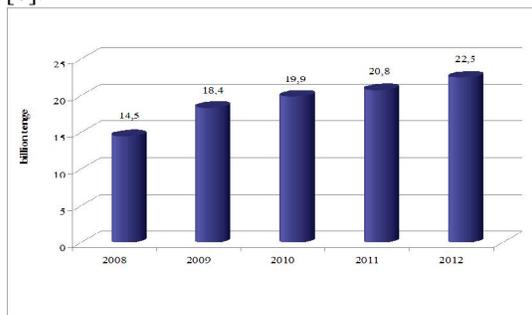


Figure 3. Dynamics of FDI into Kazakhstan economy, billion US dollars

By means of adopted within SPAIID measures the structure of FDI has changed. For example, share of FDI in extraction of crude oil and natural gas has decreased for 18%. In the same time the share of investments into geological reconnaissance has increased for 6%, into processing industry - for 1%.

At present moment 413 investors from 88 countries are participating in 228 investment projects and 81 of them have been already realized for 8,8 billion US dollars.

Export of the Republic of Kazakhstan in 2012 amounted to 92,3 billion dollars which is more for 5,3% than in previous year. Besides that export of processed goods increased for 14% and amounted to 25,5 billion dollars, commodities - for 2,4%, 66,8 billion dollars (Table 1).

**Table 1. Structure of RK export in dynamics for 2010-2012, million US dollars [9]**

|                            | 2010  | 2011  | 2012  | Increment /decrease 2012/2011 |
|----------------------------|-------|-------|-------|-------------------------------|
| RK export, including:      | 59,8  | 87,6  | 92,3  | 5,30%                         |
| Raw materials              | 43,3  | 65,2  | 66,8  | 2,40%                         |
| Processed goods            | 16,6  | 22,4  | 25,5  | 14,00%                        |
| Including production means | 0,24  | 0,45  | 0,98  | 118,70%                       |
| Consumers' goods           | 2,28  | 3,01  | 3,86  | 28,50%                        |
| Consumers' goods           | 14,05 | 18,91 | 20,64 | 9,20%                         |

In spite of positive dynamics of oil prices the share of raw materials in total volume of export reduced from 74,5% to 72,4%. Export of coal in comparison with 2011 has reduced from 1 162,9 to 967,1 million dollars, while physical volumes have increased for 7,5%. Reduction of physical volumes of oil and low export price for Kazakhstan coal influenced dynamics of development of commodity sector [10]. As a result the share of processed products in total export volume of Kazakhstan amounted to 27,6%. In general, since the beginning of realization of SPAIID dynamics of export of processed products shows positive trend. In 2011 in comparison with 2010 increment was 35%, in 2012 in comparison with 2011 export of processed goods has increased for 14%.

Comparative analysis of changes in growth rate in 2012 in comparison with 2011 in different industries and industrial sectors of Kazakhstan, Belarus, China, USA and a number of East- and West-European countries demonstrates that in many countries decrease takes place, in China the growth rate has slowed down. Kazakhstan, on the contrary, demonstrates in many sectors one of the highest dynamics of growth both of within EEA and CIS. This situation signalizes about positive impact of SAIID on

efficiency and competitiveness of real sector of economy and about appropriateness of the chosen course.

In the same time there is a number of unsolved problems which demand complex approach to their solution.

Modernization of fixed assets still takes place very slowly, little new money are invested. In accordance with Statistics Agency of the Republic of Kazakhstan degree of depreciation of fixed assets in the end of 2012 in Kazakhstan was 32,5%, by the industries:

- mining industry - 40,0%;
- processing - 35,5%;
- agriculture and forest economy - 33,1%;
- construction - 36,4%;
- transport - 28,1%.

Efficiency and the conditions of Kazakhstan energy system objects are on low level in comparison with most of other national energy systems [11], this problem hinders economic growth of the country. More than 63% of facilities and housing services and utilities' networks need capital repair or full substitution. The effect of depreciation of fixed assets of engineering systems is high accident rate, failures and switching-off of consumers which leads to sufficient losses of energy resources.

The key problem which hinders development of processing operations in the Republic of Kazakhstan is insufficient activity in organization of new operations, in attracting home and foreign investments.

Prioritized measures to remove these problems must be concentrated in the following spheres:

- Attracting FDI. Creation and development of joint international companies and profitable for the country partnerships. It is worth mentioning that creation of efficient international companies depends on identification of the most perspective home partners for organization of joint enterprise. Efficient tool for finding foreign counter-partners is road show. It is necessary to develop and implement regional strategies for attracting FDI. Besides that, it is necessary to provide investors acting in the regions of the country with necessary conditions for activity and repeated investing.
- Modernization of Kazakhstan energy system objects, development of energy-saving technologies, to provide completion Green economy's tasks. Besides that green technologies, new energy technologies, technologies of energy-efficiency will allow to reduce energy consumption and pollution

of environment. Alternative sources of energy are also of utter importance.

Competitiveness of the Republic of Kazakhstan in the world arena can be provided at the expense of development and introduction of neo-industrialization. technologies. Automatization and digitalization of production (smart producing operations), new technologies of production (3D printing), new materials (composites, nanotechnologies), green technologies – all this must change the image of production sphere cardinally. They accelerate all processing procedures, allow to organize flexible production lines, meet consumers' needs, rationally use natural resources, minimize costs, broaden the limits of traditional production.

#### **Corresponding Author:**

Dr. Ashimova Raziya Maratovna, Kazakh National University named after Abai, Republic of Kazakhstan, 050010, Almaty Dostyk Avenue 13

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