

Transformational recession of industrial production in the Republic of Kazakhstan, and the reasons beyond it

Yekaterina Shishkina

University of International Business, Almaty, 050010, Kazakhstan

kairat_phd@mail.ru

Abstract: This article demonstrates a transformational recession of the industrial production and structural shifting within the industry of the Republic of Kazakhstan for the period from 1990 till 2010. The recent changes will also be analyzed in this article.

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Keywords: Republic of Kazakhstan; transformational recession; GDP; industrial production

1. Introduction

There are several reasons for the industrial sector consideration. First, the industry in the Republic of Kazakhstan historically was more developed vs. other economy sectors, and traditionally it was the major sector, because its market share even within the given period is circa one third of GDP production. Second, industrial production exercises a decisive influence over the transport business, significantly influences the construction and indirectly affects other economy sectors; hence the industrial production dynamics directly or indirectly pretty much sets the economy production dynamics in general (not only its primary one third share of the industry). As the result the industrial production in this case can be considered as the primary driver, effecting the major contribution into formation of production dynamics of overall real economy sector of Kazakhstan [1, 2].

2. Material and Methods

Annual production volumes of the major type of products in kind, being accumulated by the Agency of Statistics of the Republic of Kazakhstan, were used as the initial data for the analysis.

3. Results

The industrial production dynamics in the Republic of Kazakhstan for the given period represents an intense nature of transient process, which is not completed to date.

From the beginning and up to 1995 there was a tendency of recession acceleration, then during 1995-1999 there was a stagnation of the industrial production. Industrial upsurge was observed since 1999. In 2008 the level of 1990 year was achieved, during 2009-2010 physical volume of the production in general exceeded the level 1990 (Fig. 1, 2).

At the bottom of recession (1995) the industrial production volume was 46,21% of 1990 year level,

i.e. the production was reduced by 2,2 times. Obviously, this scale of transformational recession was caused by several reasons. However in this article we will review only the initial disproportions, as they are being the generic ones.

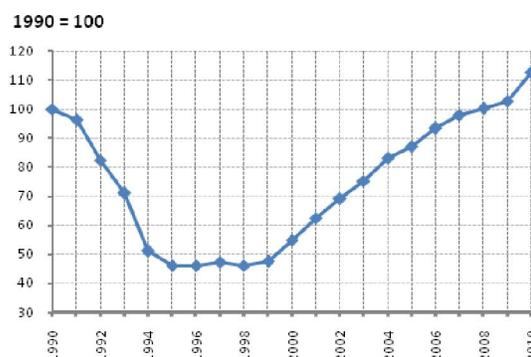


Figure 1. Base index of physical volume of industrial production in general by industry

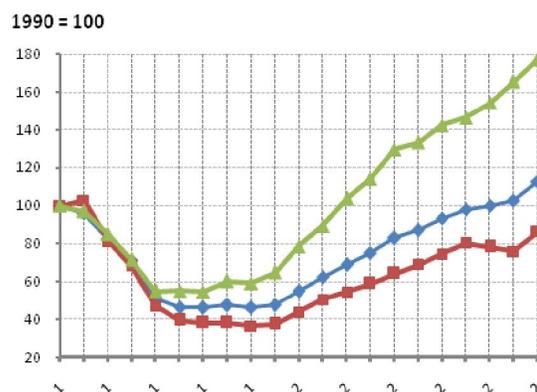


Figure 2. Base index of physical volume of industrial production in general by industry

1 – industry – total;
2 – mining industry;
3 – processing industry

The following reasons resulted in the initial disproportions: first, Kazakhstan territory has rich deposits of mineral resources and energy resources; second, before the independence in 1991 Kazakhstan was part of the USSR, which determined its industry development. Restraint of soviet economy, its operation within rather sources related than demand management conditions, manufacturer monopoly, imperfection of market tools of feedback for the decades of planning economy led to uncompetitiveness of many types of products (first of all – end-use products), unpreparedness of the majority of manufacturers to operate in competitive environment. In comparison with developed market economies the soviet economy was of resource-intensive, unprofitable nature. The industry structure was featured by exaggerated development of the extractive industries, investment complex, military

industrial sector [3]. Disproportions in industrial production structure were associated with disproportions in pricing structure. The features of existent pricing proportions were of relatively low cost of raw materials, energy resources and relatively high cost of machine industry products; relatively low cost of food products and paid services and relatively high cost of non-food items, not to mention the large volume of free-of-charge services, housing, etc [1].

Transition from resource to demand management, i.e. new system of economy restrictions, has resulted in cease of the end-user products manufacturing, that was not demanded to the market, thus worsening the initial industry disproportions. Processing industry share has further reduction tendency in the volume of industrial production (Fig. 3).

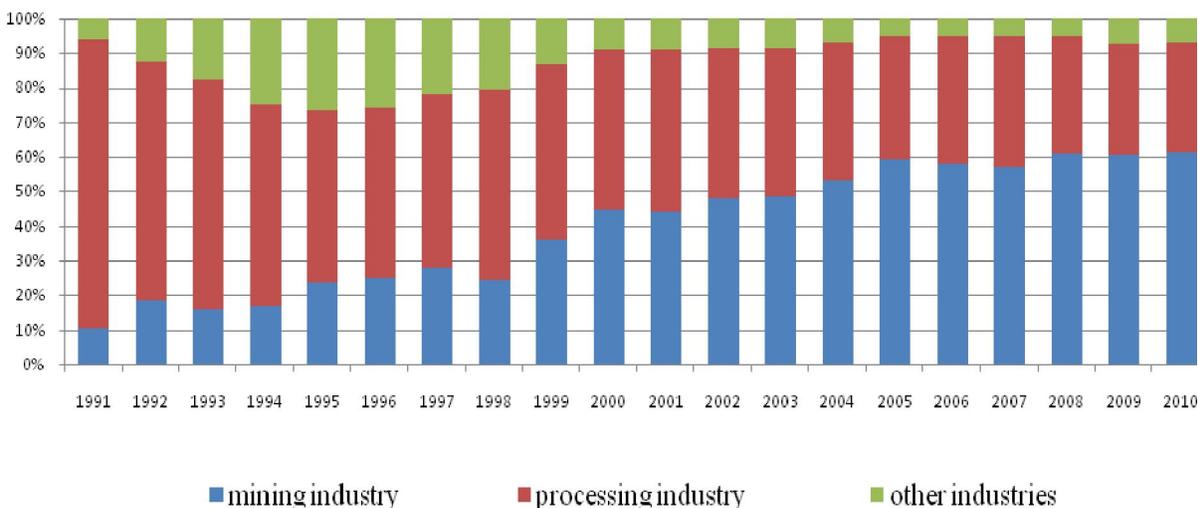


Figure 3. Industry structure in the Republic of Kazakhstan

Although in 1990 the major share of industrial production volume was secured by (in descending order): food industry, machine industry, consumer industry, nonferrous industry, in 2010 the structure of dominant industries is represented as follows: crude oil and natural gas exploration, nonferrous industry and food industry. It's obvious from the above that production increases in the industries, where a significant part of products is exported, and reserves a high demand at the domestic market.

In mining industry, with almost 62% of the production volume, the physical volume index in 2010 vs. 1990 was 177,1% (Fig. 2). Crude oil and natural gas exploration, which industry share is 83,5%, metal ores – 8,8%, coal and lignite – 1,8% production, has the major input to the mining industry results [4].

In processing industry, manufacturing intermediate and end-use products, with total industry share of 31,76%, the physical volume index in 2010 vs. 1990 was 86,51% (Fig. 2). Over 37% of processing industry volume consumes agricultural product processing [5].

Transformational recession in the Republic of Kazakhstan has uneven development within the industry cut. The minimum recession was observed in the mining industry (Fig. 4), demonstrating a growth tendency in 1994, and intensive growth since 1999. Mostly the growth was determined by increase of crude oil and associated gas production volumes and increase of natural gas production (Fig. 4, 5). Recession in coal, lignite and turfs production was less than the industry medium index. During the transient period these industries were significantly

export orientated. A positive growth tendency in machine industry was set in 1999 only, and remained until 2007, whereafter a dramatic drop was observed within the next 2 years with a subsequent reset to the 2007 indexes (Fig. 6). A positive growth dynamics is also observed in metal industry, which mostly takes place due to nonferrous metals production increase [6].

Industries with a large domestic market orientation, including the food industry, were in much deeper recession than others. The bottom of recession in the machine industry, pulp and paper industry and food industry was between one fourth and one third of the initial level (Fig. 6,7), whereas the production dynamics in textile and clothing and chemical products industry was greatly reduced at the bottom of recession (Fig. 7).

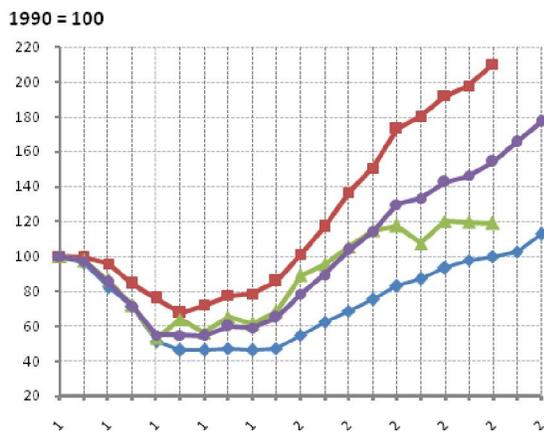


Figure 4. 1 – industry – total;
2 – mining industry – total;
3 – energy mineral resources production; 4 – ferrous and nonferrous ores production

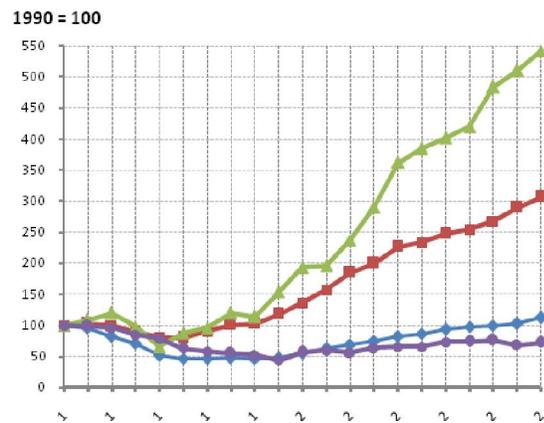


Figure 5. 1 – industry – total;
2 – crude oil and associated gas production;
3 – natural gas production;
4 – coal lignite, turfs production

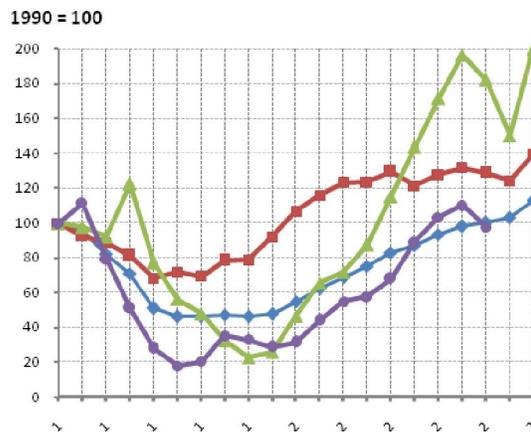


Figure 6. 1 – industry – total;
2 – machine industry;
3 – metal industry;
4 – pulp and paper industry

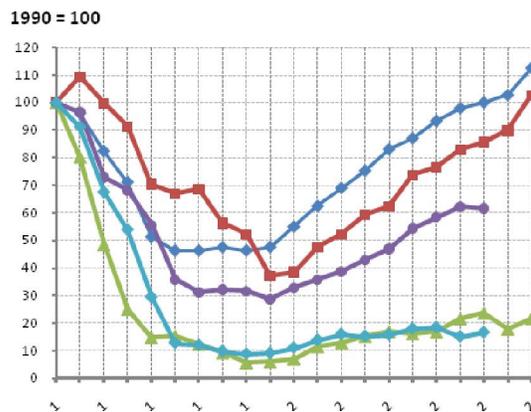


Figure 7. 1 – industry – total;
2 – refined products industry;
3 – chemical industry products;
4 – food industry products;
5 – textile and clothing industry

4. Discussions

Industries primarily engaged in end-use products manufacturing were suffered most, and based on the analysis data these industries are still lower than base level of 1990. Hence, in the process of economy transformation the initial disproportion of Kazakhstani industry, consisting of exaggerated development of production sectors, was not even straightened, but substantially worsened.

Corresponding Author:

Dr. Shishkina
University of International Business, Almaty,
050010, Kazakhstan
E-mail: kairat_phd@mail.ru

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