

Competitiveness issues of Kazakhstan

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Abstract: This is a brief analysis of the competitiveness issues of Kazakhstan. Policymakers and leadership of many emerging and transitional countries understand the importance of competitiveness. However the story end there and countries implement partial reforms and wait for the immediate visible results. In this brief paper I elaborate about the great amount of work that competitiveness requires and the need for holistic approach in this endeavor.

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1. Introduction

Competitiveness of the country should be manifested in improving the well-being of the population. When people talk about the country's competitiveness, they usually mean the competitiveness of businesses and industries. If the country has no true competition, a favorable investment and business environment, we cannot really tell that the country has a strong base for competitiveness. Of course, there are many tools that measure competitiveness and business environment, where countries are compared with each other. Even through benchmarking is a good tool to identify laggards and leaders, this sometimes can be misleading. This has to do with the fact that current economic leaders have had industrial revolution much longer ago, so comparing young countries, where the mechanisms of the market economy were introduced recently, with the giants of the global economy such as Germany and Japan, is at minimum wrong. Therefore, these comparisons sometimes could be superficial and cannot in any way serve as a guide to identify issues and priorities for the transitional countries' sustained economic growth. Therefore, it is better to rely on empirical studies, because they can help to identify causal relationship among hundreds of variables [1, 2, 3, 4].

The competitiveness is the result of long and successful social and economic reforms in the country (Porter), which ensures increased productivity, that is, the production of goods or services with declining cost and increased output. Only in this case, country can improve the welfare of

its citizens who become richer, improve quality of their life and its duration. These findings have come to me in the course of studying many economies, such as Sweden, the US, Japan, etc. Of course, there are other indicators of the economic performance such as GDP per capita, and so on, but they only partially reflect well-being, because even with large GDP numbers, countries may have wide income gaps which indicate the existence of inequality [5, 6].

2. Material and Methods

Competitiveness and innovation are interrelated topics, which is supported by many empirical studies. There are many definitions of innovation and methods to support its development. One of the best examples for countries that used innovation for its sustainable growth was Finland. Finnish policymakers had the idea that: «Before you develop new industry, it is best to improve and update the (traditional) current sectors, only then it will be possible to create new industries and economic sectors that will provide an economic breakthrough».

It is worth noting that after examining why Nokia has flourished in Finland, which used to have 60-70 % of the global market share in mobile phones, it became clear that many factors, including historical factors (telecommunications in Finland began its development in the late 19th century). The country's population was small and dispersed, which explains the need for better communication technologies. Of course, Finland has been fortunate in the sense that it neighbored with the European Union and

Scandinavian countries. But equally important was the stable contributions to R&D and education, which led to high levels of population with tertiary education. In addition to that Finland had good universities, sought intensive regional and global integration, had very clean and efficient state institutions, established interconnected clusters, etc. As you can see, everything affects competitiveness and there are no small or unimportant things that do not matter. But as we know achieving economic success takes time.

3. Results

Kazakhstan is a unique country with great potential. In fact, every country has some potential, thus it is very important to realize it and not fall into the trap of eternal happiness. Let us make a brief analysis of the situation in Kazakhstan.

First, Kazakhstan has the political and macroeconomic stability, growth rates remain high (5-6 %), inflation is under control (6-7 %), unemployment rate is stable (5-6%), the budget is balanced, the exchange rate and external debt levels remains stable. The leadership has established the National Welfare Fund «Samruk Kazyna», which manages assets worth \$100 billion. The country's leadership has also developed a «Strategy – 2050», according to which by 2050 Kazakhstan should take place in the top 30 economies in the world. The most important aspect of this strategy, that it defines the priorities of socio-economic development and sets the targets that can be critically assessed. The process of realizing the Strategy-2050 needs to be

accompanied by the effective communication with the society and other stakeholders, for it to have a great impact.

Second, Kazakhstan is the steadily improving its business climate. It has improved its score in the ranking of ease of doing business in 2012, rising from 58th to 47th place, according to a World Bank’s «Doing Business» report.

The country is also aggressively developing its transport infrastructure, especially in the railway sector, where it has achieved some success. In the field of international trade, Kazakhstan has made progress in the area of regional economic integration with Russia and Belarus, and now possibly with Kyrgyzstan. Now, the members of the Customs Union are launching the next stage of economic integration.

Kazakhstan is also continuing intensive steps to integrate into the global economy, where Kazakhstan is in the final stage of negotiations to join the World Trade Organization. In addition, according to the Global connectedness index (by DHL and IESE Business School), which shows the country's integration into the world economy, Kazakhstan occupies 54th place in the world, ahead of countries such as Turkey, Russia, Lithuania, etc.

Kazakhstan also has favorable conditions in the area of taxation, education, innovation, etc., but the most challenging task I would say the country may yet to face is so called «middle income trap». It is important to rethink the values and move to the future with a new vision, and adapt to the dynamically evolving global economy (Fig. 1).

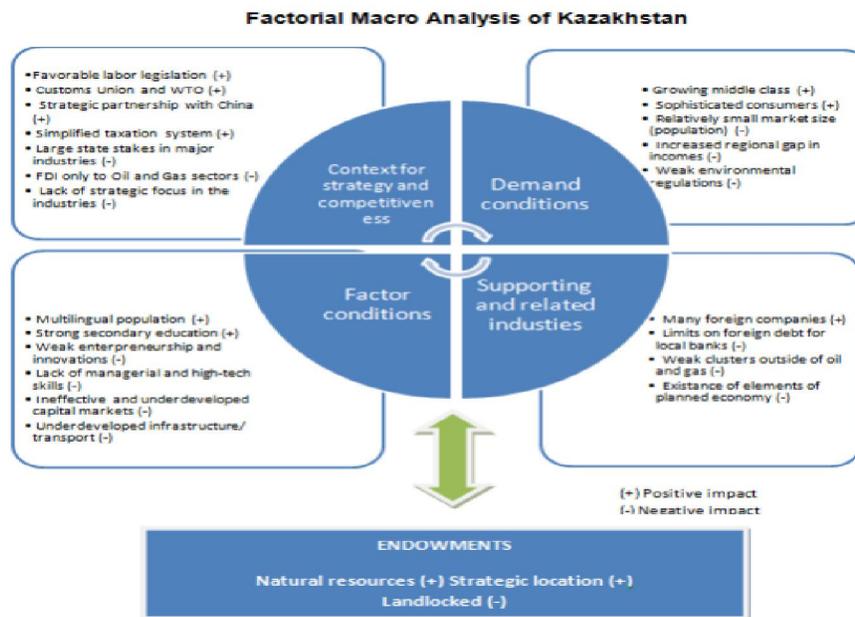


Figure 1 – Factorial Macro Analysis of Kazakhstan

If you take a look at the factorial macro analysis of the Kazakhstan (above), you can see that, along with a set of positive developments, there are also some weakness factors. Knowing the strengths and weaknesses helps to identify areas for development, by building on the strengths and resolving weaknesses. For example, Kazakhstan needs further impetus to the development of its higher education, as the country already has a strong secondary education system. Although the country annually invests over \$300 million development of science, the allocation of resources could be evenly divided between science and higher education.

On the basis of empirical studies and the experiences of developing countries, I would suggest some a mini road map for the development of Kazakhstan's competitiveness, with the following proposals:

On the state level, the country needs to support industries where Kazakhstan has competitive advantage, and to move towards the development of the entire supply chain with higher value added. For example, in the oil and gas industry – the development of downstream industries such as petrochemical cluster could be one way of capturing the whole supply chain. Along with this, Kazakhstan can also develop regional hubs in finance, commerce, agribusiness, logistics and business relations. Kazakhstan has the potential to become a financial and business center for Central Asia and can be used as the springboard to the entire in Central Asian market with growing population, which is rapidly approaching the 70 million mark.

- The diversification of economy should adhere to the basic traditional industries (agriculture, livestock, textiles, leather, and food) by using information technology in order to increase productivity.

- Continuing the promotion of increasing the productivity in all industries, encouraging the introduction of new and innovative technologies.

- Institutional strengthening of the state and public organizations.

- Further development of e-government and e-government services in order to introduce more transparency, integrity and to improve the quality of public services.

- Developing competitive environment, including in the spheres of natural monopolies and strategic sectors of the economy.

- Supporting the development of the financial markets, in order to widen the array of sources of capital. This can be partially done by integrating the stock market with the largest regional stock markets such as the MICEX or Hong-Kong

Stock Exchange due to the lack of liquidity and depth in the local capital markets. This should give the further impetus to the development of venture capital and innovative entrepreneurship.

- Due to its vast territory it is advisable to conduct a «cluster mapping» of the regions to identify their comparative advantage and support the potential clusters for each of the regions in Kazakhstan.

- Aggressively attract foreign direct investment, especially large high-tech or «anchor» companies in order to establish the full cycle of production in Kazakhstan.

4. Discussions

In my opinion, many positive things are waiting the Kazakhstan, but at the same time it is important to acknowledge the fact that it will take some time, maybe even a generation.

Additionally it is important to use the oil windfall fund more efficiently, because prices for hydrocarbons may not stay high forever. This may require identifying clear priorities and rejecting large scale projects that are not economically viable. As many great strategists know, success requires trade-offs and sacrifices, because trade-offs help us to crystallize the focus areas and goals.

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