Services Trade in Kazakhstan: Untapped Opportunities for Further Growth and Exports

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How has Kazakhstan done so far?

Services Sector Plays a Central Role in the Domestic Economy

see:

Figure 1: Services Sector Contributed Substantially to Growth

(Average percent, 2000-11)

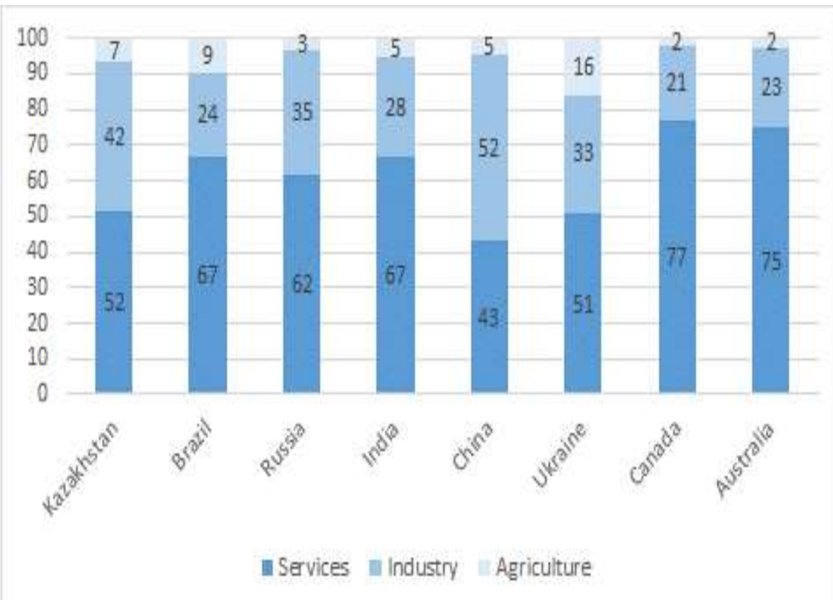
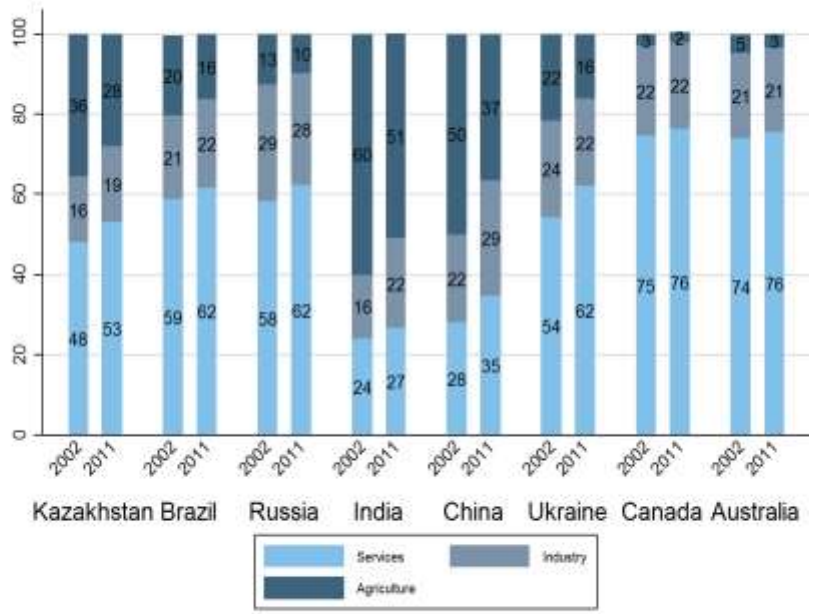


Figure 2: Average Sectoral Share in Employment Has Increased

(Percent, 2002 and 2011)



Source: WDI. In Figure 1, the year 2008/2009 was excluded as countries had negative growth rates.

…But can do better

Figure 1: The Growth of the Average Sectoral Share in Value Added Has Been Slow

(Percent, 2002 and 2011)

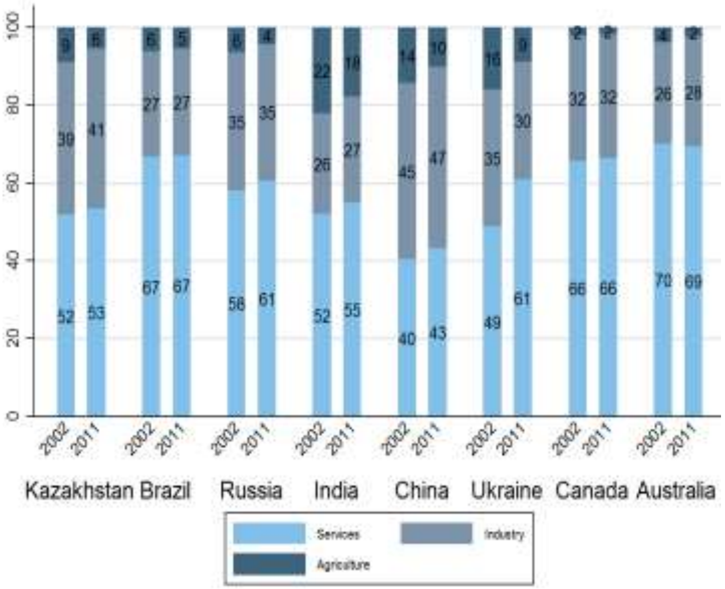
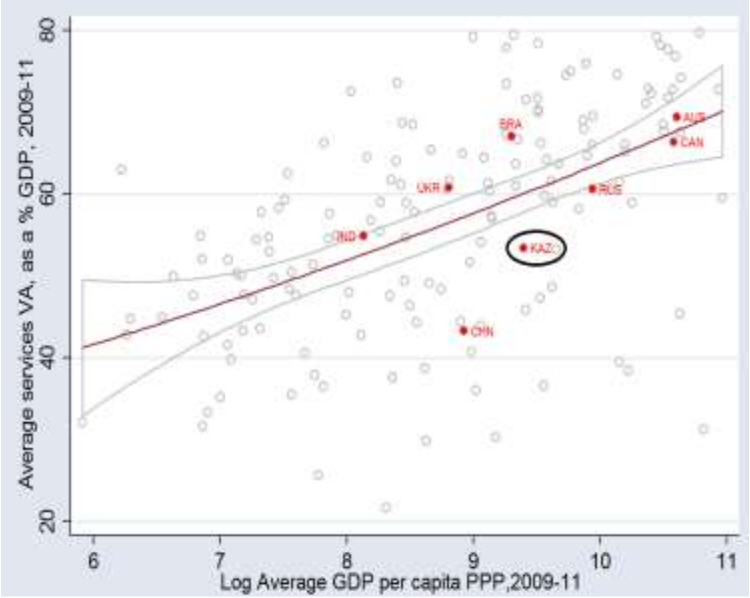


Figure 2: Services Share in GDP is Lower Than Expected, Suggesting Untapped Potentials

(Percent, 2009-11)



Source: WDI.

Notes: The 2009-11 data for Canada corresponds to the year 2007-08, the latest available years

Share of services exports in total exports remains small, but is higher as share of total non-mineral exports

see

Figure 1: Services Share in Total Exports Has Shrunk

(Percent, 2000-02 to 2009-11)

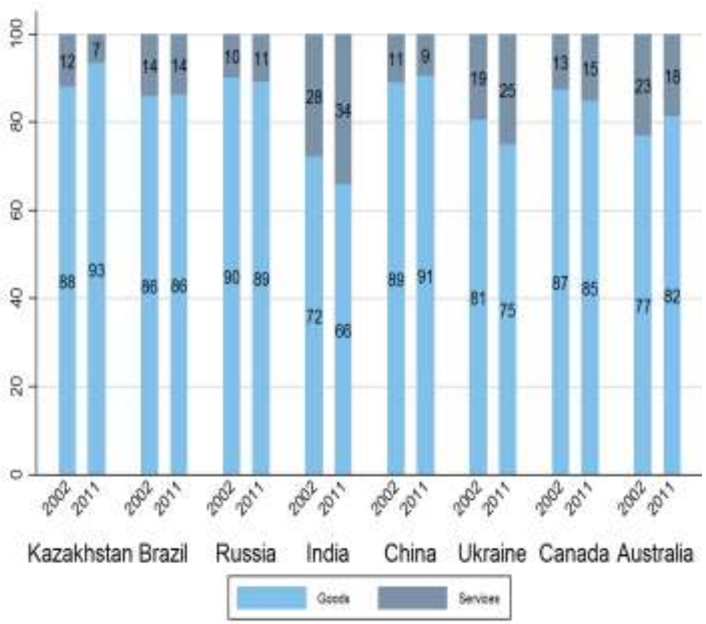
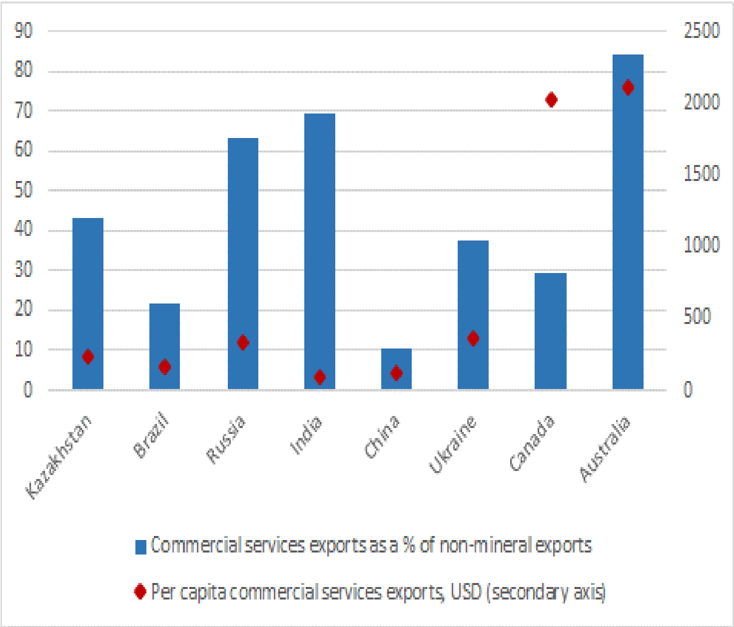


Figure 2: However, Services Share in Total Non-Mineral Exports Compares Well to Select Comparators.

(Percent, 2009-11)

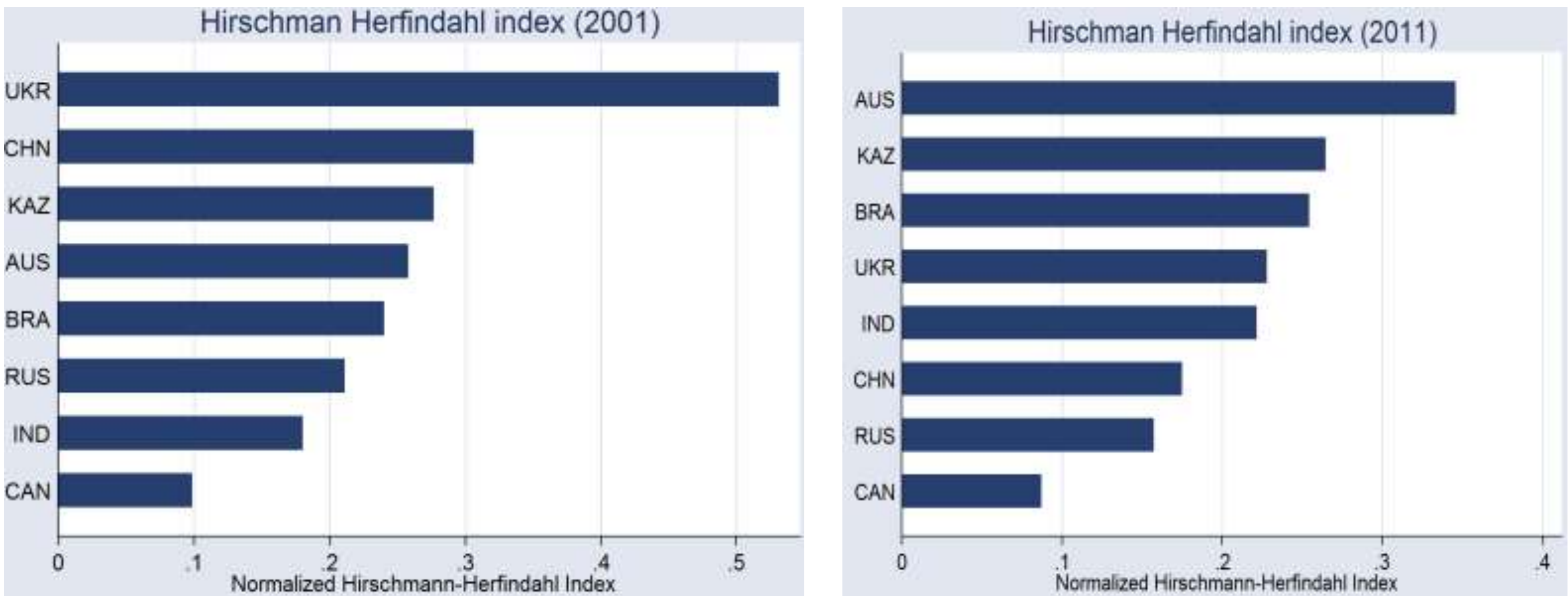


Source: WDI.

Services export has remained relatively diversified

Figure 1: The Intensive Margin shows Diversified Services Exports in Product Space

(Index)



Source: IMF BOPS.

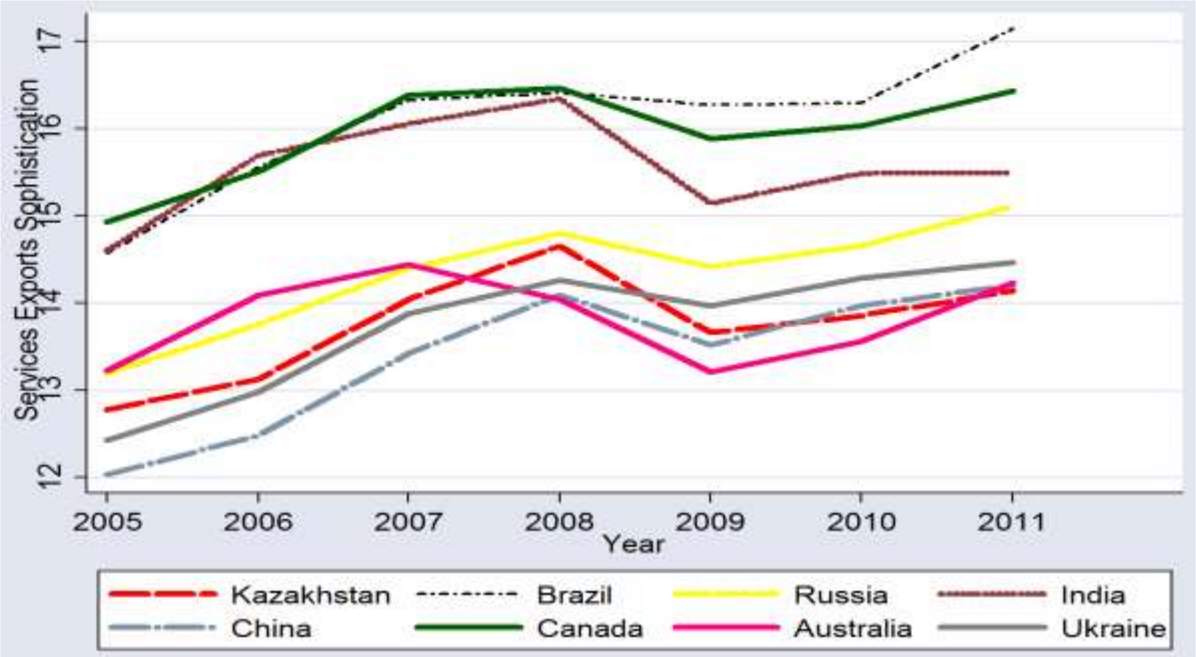
Note: The HH Index for India and China for the year 2011 corresponds to the year 2010 as IMF did not report their disaggregate services exports for the year 2011. The normalized version of the index ranges from 0 to 1, with higher values, indicating higher concentration.

Sophistication of services exports is improving slowly

see

Figure 1: Sophistication of Services Exports has Been Slow to Improve

(EXPY index, 2005-11)



Source: IMF BOPS.

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Services role as input to production and export of other sectors

Services contribution to domestic and export value added compares well with select comparator countries

Table 3: Domestic and Export Forward Linkages of Selected Services to Other Sectors is Substantial

(Percent of 2011 value added)

Source: Services Value Added Database, based on GTAP data and Francois et al, 2013.

	Kazakhstan		Russia Federation		Ukraine		India		China		Brazil	
Sector	Domestic	Exports	Domestic	Exports	Domestic	Exports	Domestic	Exports	Domestic	Exports	Domestic	Exports
Transport	20.0	17.8	6.7	7.3	6.7	12.1	7.8	9.1	6.4	7.2	5.2	7.5
Finance	3.7	4.6	1.8	2.9	4.4	4.7	5.2	6.2	4.6	4.7	5.4	3.8
Communications	5.5	3.2	1.0	0.6	4.0	2.4	1.9	2.6	2.0	1.4	4.0	2.6
Water, Electricity and Gas	0.5	0.2	1.0	0.3	0.2	0.1	0.2	0.1	0.2	0.2	0.7	0.5
Construction	6.8	2.8	9.7	2.2	3.3	0.2	7.5	1.1	7.1	0.2	5.8	0.3
Trade, Distribution, and Hotels	3.3	0.1	21.6	13.8	12.7	7.7	14.6	9.6	7.7	6.6	13.5	8.1
Insurance	0.3	0.1	0.4	0.3	0.6	0.7	1.2	1.7	0.5	0.4	1.7	0.6
Other business services	8.4	10.9	8.0	6.4	7.0	6.6	5.1	15.5	5.2	4.6	7.7	8.2
Other services	3.1	0.7	0.5	0.1	1.1	0.7	0.3	0.4	2.3	1.2	2.3	0.3
Total services	**51.6**	**40.4**	**50.8**	**33.9**	**40.0**	**35.3**	**43.8**	**46.2**	**36.1**	**26.4**	**46.2**	**31.9**
Agriculture, energy extraction, & minerals	22.1	42.0	19.9	51.1	32.2	43.5	23.2	23.2	16.3	17.7	10.1	36.3
Manufacturing	16.6	16.5	13.3	14.7	10.6	18.2	15.8	29.8	32.6	54.2	17.8	31.0
Other	9.7	1.1	16.0	0.3	17.2	3.0	17.3	0.8	15.0	1.7	25.9	0.9

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How to enhance the contributions of services sector further?

Services trade regulatory policies in Kazakhstan can be enhanced

- **The level of regulation of services affects their performance as well as that of the rest of the economy.**

- **The services aggregate regulatory regime in Kazakhstan has relatively low level of restrictiveness**

- **However, such aggregate indexes mask wide differences in policy barriers across sub-sectors and modes of services supply**

  - **Example: there are movement of labor**
  - **And there has been some restrictions on ownership of backbone services – telecoms – in the past.**

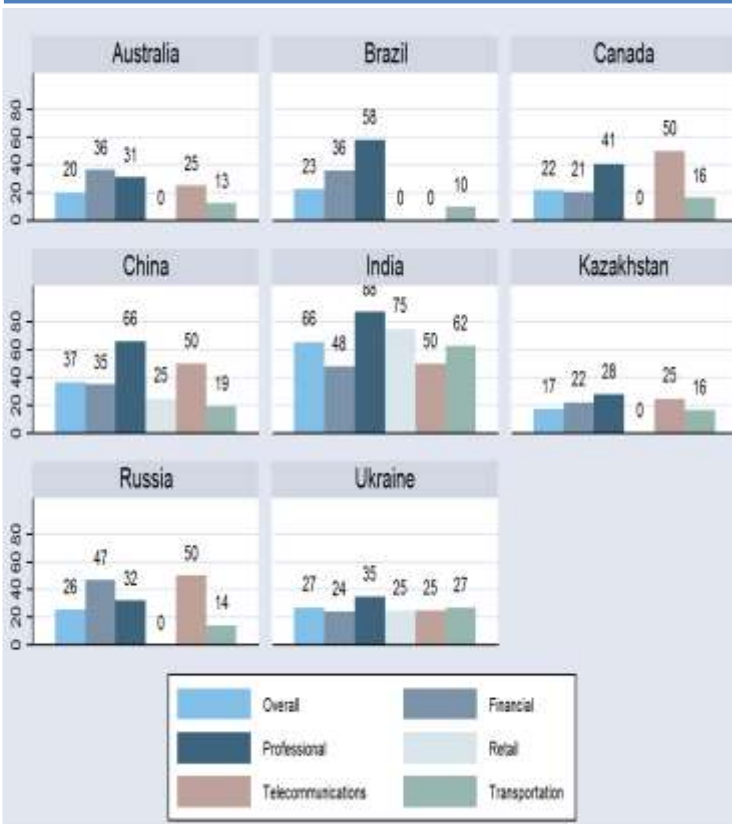
  - **Government has been making reforms, upcoming**
  - **membership in the WTO may also change these restrictions.**

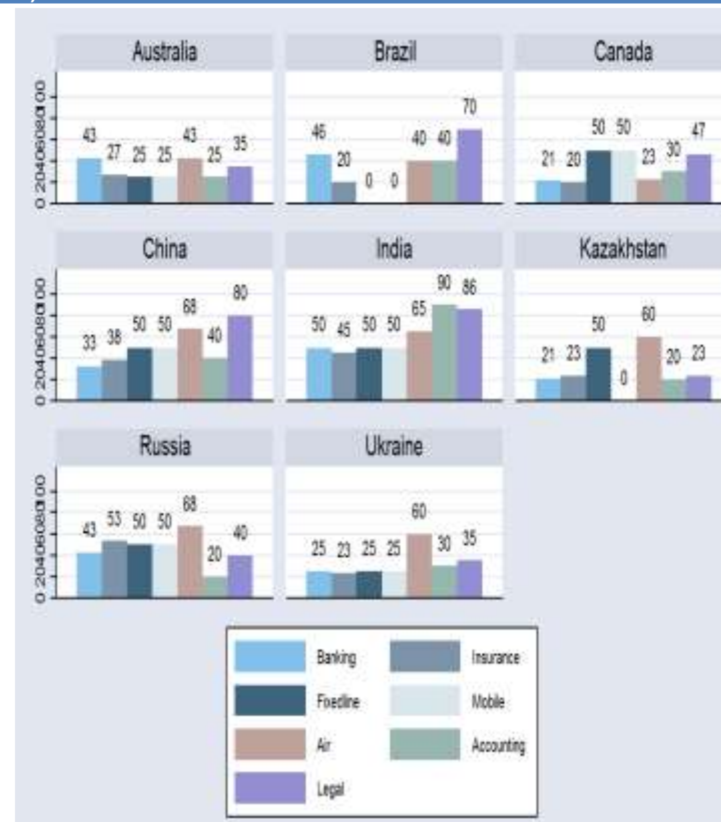
Services trade restrictiveness index shows variations across sectors

See:

Figure 17: Services Trade Restrictiveness Index Shows Variation Across Sectors …	Figure 18: …as Does the Disaggregated Services Trade Restrictiveness Index

Source: STRI Database, the World Bank.





What else to do?
Improve human capacity, institutions and infrastructure

See

Table 4: The Knowledge Economy Index Suggests Some Improvements for Kazakhstan, (Index, normalized on a scale of 1-10)

Country	KEI		Economic Incentive and Institutional Regime		Innovation		Education		ICT	
	Recent	2000	Recent	2000	Recent	2000	Recent	2000	Recent	2000
Kazakhstan	5.04	4.58	3.96	3.03	3.97	3.92	6.91	7.2	5.32	4.17
Brazil	5.58	5.48	4.17	4.39	6.31	6.23	5.61	5.45	6.24	5.83
Russia	3.68	3.26	1.01	0.88	4.09	3.85	4.41	5.35	5.22	2.98
India	3.06	3.14	3.57	3.56	4.5	3.83	2.26	2.3	1.9	2.85
China	4.37	3.83	3.79	2.82	5.99	4.35	3.93	3.36	3.79	4.8
Ukraine	3.48	3.65	1.88	1.92	2.98	3.57	7.01	6.99	2.03	2.12
Canada	8.92	9.07	9.52	8.64	9.32	9.39	8.61	9.22	8.23	9.03
Australia	8.88	9.27	8.56	9.25	8.92	8.83	9.71	9.78	8.32	9.21

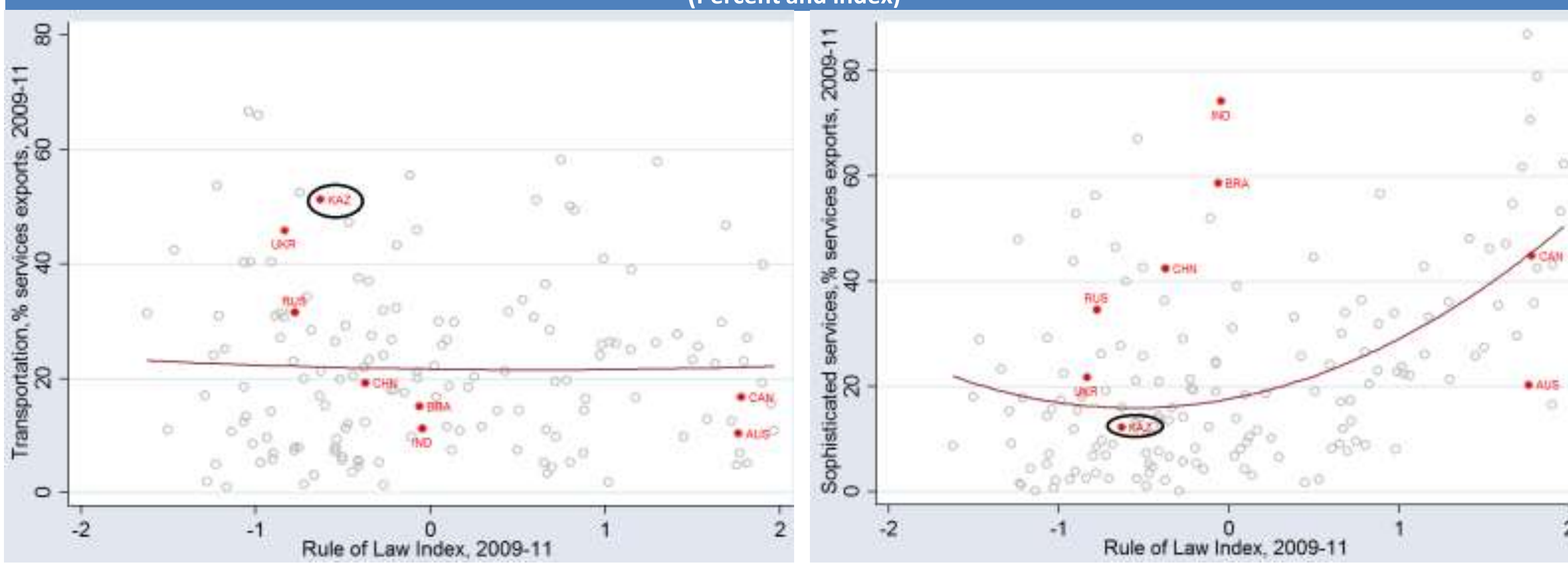
Source: KAM, World Bank.

What else to do?
Improve institutions

- Institutions may matter more to services, because they are intangible, require specialized distribution networks and are tailored to customers.
- Overall institutional improvements, many new laws:
  - a substantial effort is underway, and
  - the authorities are trying to address the implementation gap.

Figure 21: More Complex Services Benefit More From Stronger Rule of Law

(Percent and index)



Source: WDI & World Governance Indicators, World Bank.

What else to do?
Improve human capacity

A lower quality of human capital is associated with lower contribution from the services sector

- Improving human capital and addressing skills mismatches: as
- General reform agenda of the government is extensive and is hoped to address the issue in the long run.
- Example of India: ***improve the quality of education in order to develop generic skills that are relevant to a broad spectrum of industries***.
  - National Association of Software and Services Companies, India (NASSCOM) Assessment of Competency (NAC) framework, which the organization developed in consultation with a large number of ITES players.
- Example of Mexico: **the *availability of employable talent*** is the single most important determinant for the growth of the IT services and Information Technology Enabled Services (ITES) industries in the long term.
  - Partnership mexicofirst to create an interface between businesses, universities and facilitate training.

What else to do?
Improve infrastructure

Enhancing Kazakhstan's electronic infrastructure can help improve service exports performance.

- Although, the state of electronic infrastructure does not by itself explain the success of developing countries in exporting services, an increase in the ICT availability and quality over time can aid the countries in reaping the benefits of the global services revolution.

- Example of Philippines business process outsourcing:
  - The government liberalized the telecommunication industry in 1993, starting with allowing competition in international services. Then it introduced competition in local long distance services in 1995 (Fink et al. 2002).
  - As found by Fink et al (2002), lower communication costs shifted the Philippines' comparative advantage towards more communication-intensive BPO industry.
  - On May 6, 2010, the BPO Services Association in the Philippines announced that its members now enjoy lowest-cost business-grade VOIP to the US at US$0.01.

Going forward:

Several strategic policy questions to study:

- Should services sector development be more geared towards domestic markets rather than attempting to exports?
- What are the links between services sector performance and Kazakhstan participation in Global Value Chains and trade diversification?
- What are the prospects of services regional integration; and how can services contribute to increase trade with existing and new markets, including the growing Asian countries?

Firm level analysis helps shed light on:

- The characteristics of the actual participants in service trade, the cost factors they deal with and the markets they face. The analysis can answer questions such as: who are the services exporters; how do they differ from non-exporters; does the size of their firm matter in their propensity to provide services domestically or to export; what are the skills intensities used in the services sector; what are the trends in services compared to goods trade?
- Services market structure: concentration of service providers and exporters; whether value added is mostly produced in services and exported in goods; and whether it is possible to quantify the tradability potential of the services sector?
- What are the determinants of firm export (or productivity) growth; the constraints to firms' export growth in general; and drivers and likelihood of services sector upgrading (quality, sophistication, value addition).