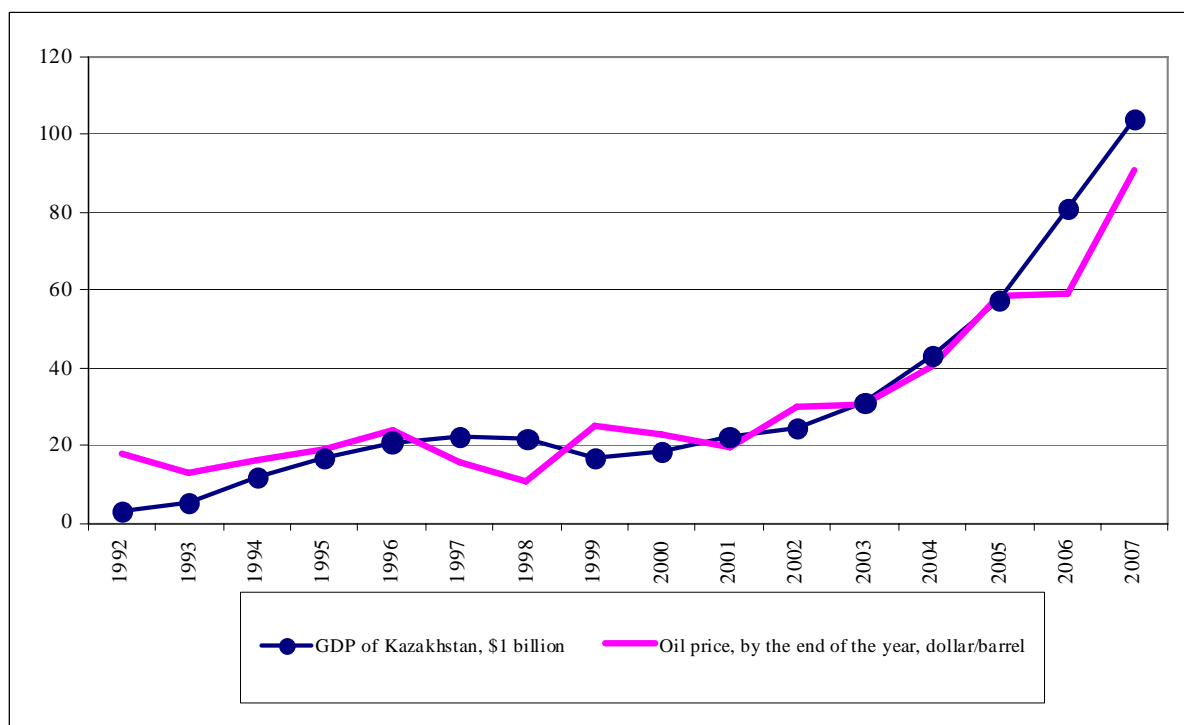


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“Mobile Economy” Conception: New Opportunities and Methods of Diversification in terms of Globalization

Economic diversification in Kazakhstan has been one of the most important issues of the day for a long period of time. The problem topicality is caused by the growing raw orientation and the GDP structure, which for last years has been increased with expansion of the carbohydrates production amount and growth of their prices. It is obviously that the more important oil-gas production’s role in GDP and export, the weaker economics of Kazakhstan to global market conditions. The weak raw factor of the Kazakhstan’s economics is directly shown by the close correlation of the GDP rates in dollar terms and world oil prices (picture 1).



Picture 1. Comparative dynamic movement of Kazakhstan’s GDP and world oil prices.

Economic modification and diversification have appeared in high priorities of the state economic strategy for long time, but today the significant progressive changes in the GDP structure have not still occurred (table 1). During 2000s it has been observed that share of minerals industry increased and share of manufacturing industry reduced. Shares of some services sphere sectors are increasing as well – communications, finances, landed property business and construction.

Table 1. The Kazakhstan's GDP structure in 2000s (shares of more important sectors, %).¹

	2000	2001	2002	2003	2004	2005	2006	2007
Production	45,9	44,9	43,8	42,9	42,5	44,0	44,8	43,4
Agriculture, hunting, forestry; fishing, pisciculture	8,1	8,7	8,0	7,9	7,1	6,4	5,5	5,7
Minerals industry	13,0	11,4	12,1	12,1	13,6	15,8	16,1	15,1
Manufacturing industry	16,5	16,4	14,5	14,2	13,3	12,0	11,6	11,5
Construction	5,2	5,5	6,3	6,0	6,1	7,8	9,8	9,4
Trade, maintenance of automobiles and household products	12,4	12,1	12,2	11,6	12,5	11,8	11,4	12,4
Transport	10,0	9,7	10,1	10,8	10,1	9,8	9,3	9,0
Communication	1,5	1,5	1,5	1,6	1,7	2,0	2,2	2,5
Finances	3,1	3,4	3,5	3,2	2,9	3,2	4,7	5,9
Landed property business, consumer rent and services	10,8	12,1	12,5	14,3	15,3	15,1	14,9	14,9

Some positive changes, even if they have happened, do not remove from the agenda the problem of diversification of the GDP and national income productions. At the same time there are a number of barriers hampering the progress of the process – resources (human, financing), temporary, restriction of home market capacity, etc. In this connection we think Kazakhstan needs absolutely new model of the economic system, which allows solving fundamentally new tasks of the country's development and increasing its competitiveness in terms of globalization.

The suggested fundamentally new Kazakhstani economic model rests on hypothesis about more effective development in terms of globalization based on conception of mobile economy. Only this conception helps to pass over barriers of the country's rapid development (temporary, financial, human) due to rapid investing resources into the existing foreign productions instead of their long-term freeze attempting to develop Kazakhstani own analogs.

In this way, resources mobility is achieved, together with mobility of the most part of own economic system. Formation of fundamentally new basis of the national economic development becomes possible – achieving the production and the GDP structure flexibilities depending on the current global market conditions. It is actually a question of introducing management principles of the corporations, which are meant to be the most effective business structures, on the level of the national economy.

The realization instrument of this process, aiming at attaching Kazakhstan to the top of states, must be large-scale and task-oriented investments into foreign asset. Exactly this instrument will allow achieving the GNP flexibility, because the current level of the financial markets development allows effective dislocating capitals from a sector to another one. In this way, investing today into those companies, which produce currently demanded goods, we will have return of these investments today as well, not a long period later after the own factory construction, which will be not competitive by the launching moment. In case of the changes in market conditions and less necessity of the products and less profitability of the production, you will have opportunity to sell the shares with ease and to put up means into more prospective sector. This mechanism supports our GNP production flexibility and its development, because profits will come from more progressive world productions. In this case there will not be social problems in the country, which are accompanied by crises in real sector – reduction of the staff, drop in taxing base, crisis of a local budget, etc.

It is worthy to notice that state investment by means of so-called “sovereign funds” widely spread in last years. Many countries with export orientation established state investment funds or companies, which intensively deposit accumulated means into foreign assets.

According to calculations of Morgan Stanley's Managing Director Stephan Jan, in autumn in 2006 over \$1.5 trillion were under control of the nearly 30 different state funds. As Jan predicted the amount will grow by \$200-300 billions annually in medium-range aspects.

There are currently several types of state investment funds in the world. The most traditional and famous one is Oil Fund of Norway, since 2006 has been transformed into “Global” Pension Fund. Abu Dhabi Investment Authority (ADIA) operates in the UAE, whose assets are estimated at \$260-600 billion.

There are many likely funds in the Near East, which manage oil surplus profits. The oldest one is the Kuwaiti that was founded in 1953. Saudi Arabian Monetary Agency (SAMA) in Saudi Arabia is an investment fund and a central bank; its assets amount to over \$270 trillion by January, 2007.

“Temasek” Singaporean Corporation serves as a mechanism of the country’s modification and support for the state interests abroad. Its assets are estimated at more than \$80 trillion that is more two thirds of the Singaporean GDP. “Temasek” was founded in 1974 to control the Singaporean government’s all share holdings, but last years the corporation is extensively investing abroad and it attaches the greatest significance to strategic investments: 57% of assets are the share holdings with over 20% value. “Temasek” is not only the state investment company in Singapore and it is not the biggest one. The Government of Singapore Investment Corporation (GIC), established in 1981, from the very beginning focused on investing abroad. A part of the state gold reserves, which are under the corporation’s control, served as a starting capital.

The National Foreign Exchange Investment Company (NFEIC) was founded in China with \$200 billion assets. These resources will be expended to own large share holdings of the foreign companies. To control “gold” investments into state banks the Central Huijin Investment Company was established in 2003. The officials are frequently claiming of the company’s functions expansion last months – as far as establishment of the big holding on its base to control state share holding in various enterprises; and the assignation of \$100 billion to the company from reserves of the People’s Bank of China. There is an idea of the subsequent merger of the Central Huijin Investment and NFEIC as single super holding, which will control state assets and implement strategic investments both in the country and abroad. It will be practically a full analog of the Singaporean “Temasek”, but in contrast to Singapore, China has super power’s ambitions and its investments abroad may be of more politic character.

Practical effect of such approach may be very outstanding even in the nearest future, as the current accumulated international reserves of Kazakhstan (the National Bank’s gold reserves and the reserves of the National Fund) amount to approximately 40% of the country’s GDP. Taking into account capitalization of state holdings, national companies and other state assets, and some part of the state budget as well, joint amount of the state finances are estimated at \$50 billion with \$100 billion GDP of Kazakhstan. Of course, the matter does not concern investing all means or most part of it into foreign assets, but investing one fifth of it, for example \$10 billion with profitability of 10% annually is equal to 1% of the GDP annual growth, what is highly significant. To compare, it is worthy to notice that a drastic fall in construction in last year autumn cost economics of Kazakhstan lacking 1.5% of the GDP growth (predicted level was about 10% and final growth became 8.5%). So in

today's practice, using rational and balanced policy on introducing "mobile economy" would allow to make up the deficiency after the likely crises and to liquidate their negative effects.

The main advantage of the suggested conception is its great opportunities in diversification. The existing global economy is significantly based on the financial markets system – open and high liquid, which allows both flexible and active investing into the most prospective and profitable states and sectors and restructuring these investments. It is a main peculiarity of the modern markets, on which an idea of the mobile economy rests on; and in its frameworks economic diversification and sources of incomes become more possible in considerable ranges than it was before.

Mobility of Kazakhstan's capital, put up into the foreign assets, will allow realizing a rapid modification in the country, besides establishing a system of liquidation of the economic risks with passing over barriers in time and money. Barriers in time are passed over due to immediate operating of the investments deposited into already existing enterprise without long period of the commercial and economic turnover, construction, rise on planned production capacity and efficiency. Such investments will be paying dividends and bearing possibility of the course growth of shares' cost. If profit is accumulated with no long lag, it may be quickly used for the national economic modification and the modifications in the country.

In similar way barriers in resources, especially human resources are passed over. Attempts to develop own high-tech production in Kazakhstan will face the significant problems through lack of the skilled technicians. Satiation of home labor market with the local skilled specialists in various high-tech production fields demands many years and restructuring education system, it results in that the top states will advance a big step ahead. With the mobile economic mode there is no threat from growing technological lag as the abroad investments will be bringing dividends of the both top states' and competitors' technological progress.

The processes currently occurring in the global economy prove relevance of the suggested approaches to economic development basing on flexible use of the existing state financial resources and show that some countries have already supported the financial globalization advantages in an effort to receive incomes and stabilize own positions in global market. Summing up foresaid, we may come to conclusion that it will be much more effective to reach improvement of flexibility and adaptability of the Kazakhstani economics in external terms with the national incoming resources mobility. It will also be considered the issue of its sustainability, because the structural risks are being diversified, which are alike now those of state's prosperity dependency on 2-3 sectors.