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Economic Diversification in Kazakhstan: problems and prospects in development

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September, 12-15 2008

**Astana - Almaty,
2008**

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Definitions of Diversification and Specialization

- **Diversification** – expansion of economic activity range, penetration into other spheres, which are both connected and not with a main direction of activity.
- **Diversification and specialization of economic activity** – two regular continuous processes, one of which transforms into another . Depending on certain economic conditions of economy, either diversifying processes, which exhibit a tendency to expand economic activity range, or opposite specializing processes, which tend to be contraction of economic activity range.
- **There might be** that it is impossible to continue diversification existing and developing, and there is no choice but specialization. For example, insufficiency of resources for extension of activity field, unavailability of easy market niche for possible expansion, prohibitive measures by state authorities (some defense industry enterprises), etc.
- **Household system** recourses to diversification of its activity to receive a big profit or on account of impossibility to stay in niche.

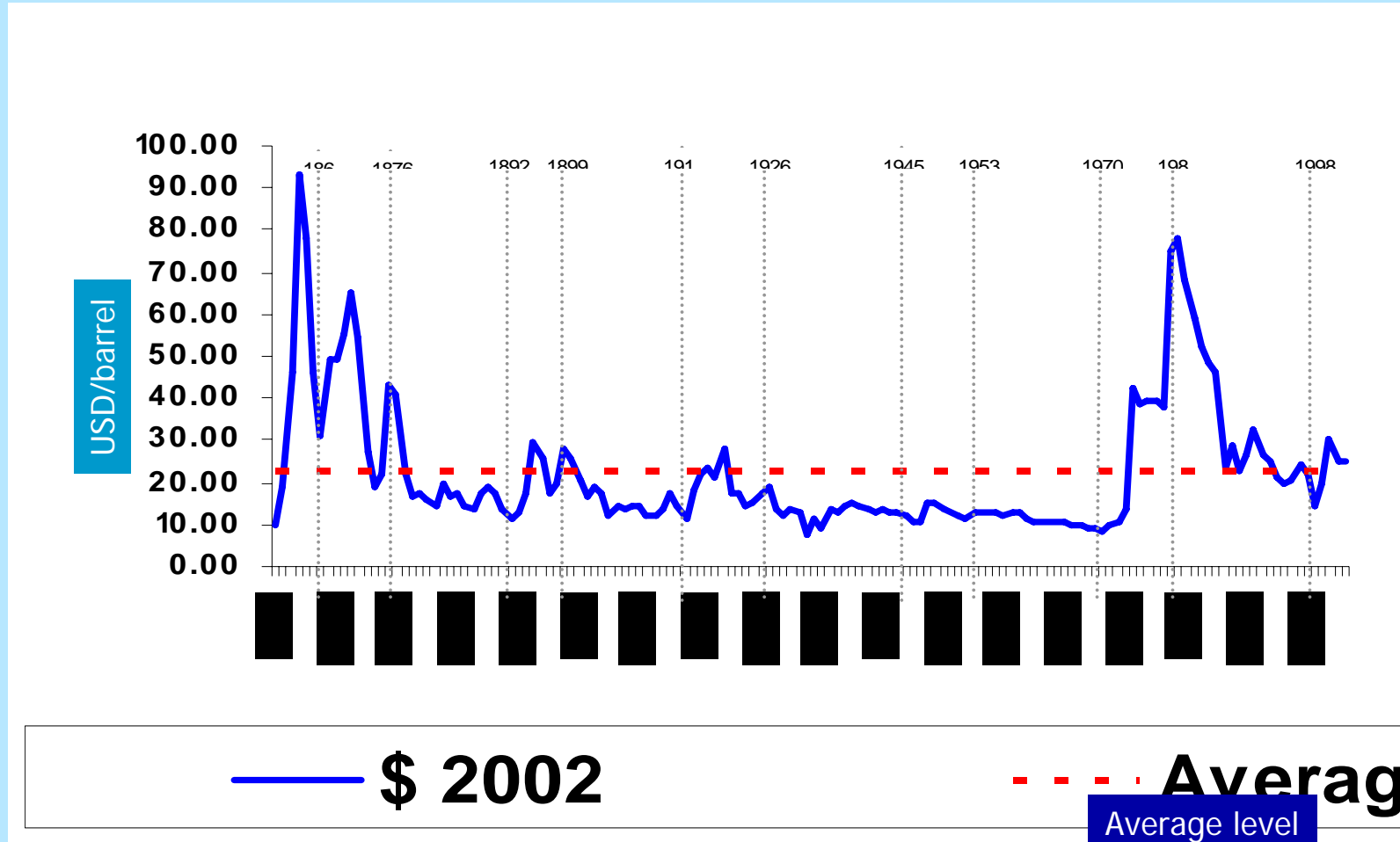
Types of Diversification

- **Concentric diversification** proposes establishment of new products production using the existing business opportunities. For example, second utilization of raw stuff. At the same time production remains in the center of business, and new production evolves from available production reserves.
- **Horizontal diversification** proposes search for growth on the existing market due to new product that demands new technology. At that a firm must focus on product, production of which is not technologically connected with basic product production, but new product must be designed for basic product consumer and play role of concomitant.
- **Conglomerate diversification** proposes extension due to production that is not technologically connected with being produced new products, which are on market.

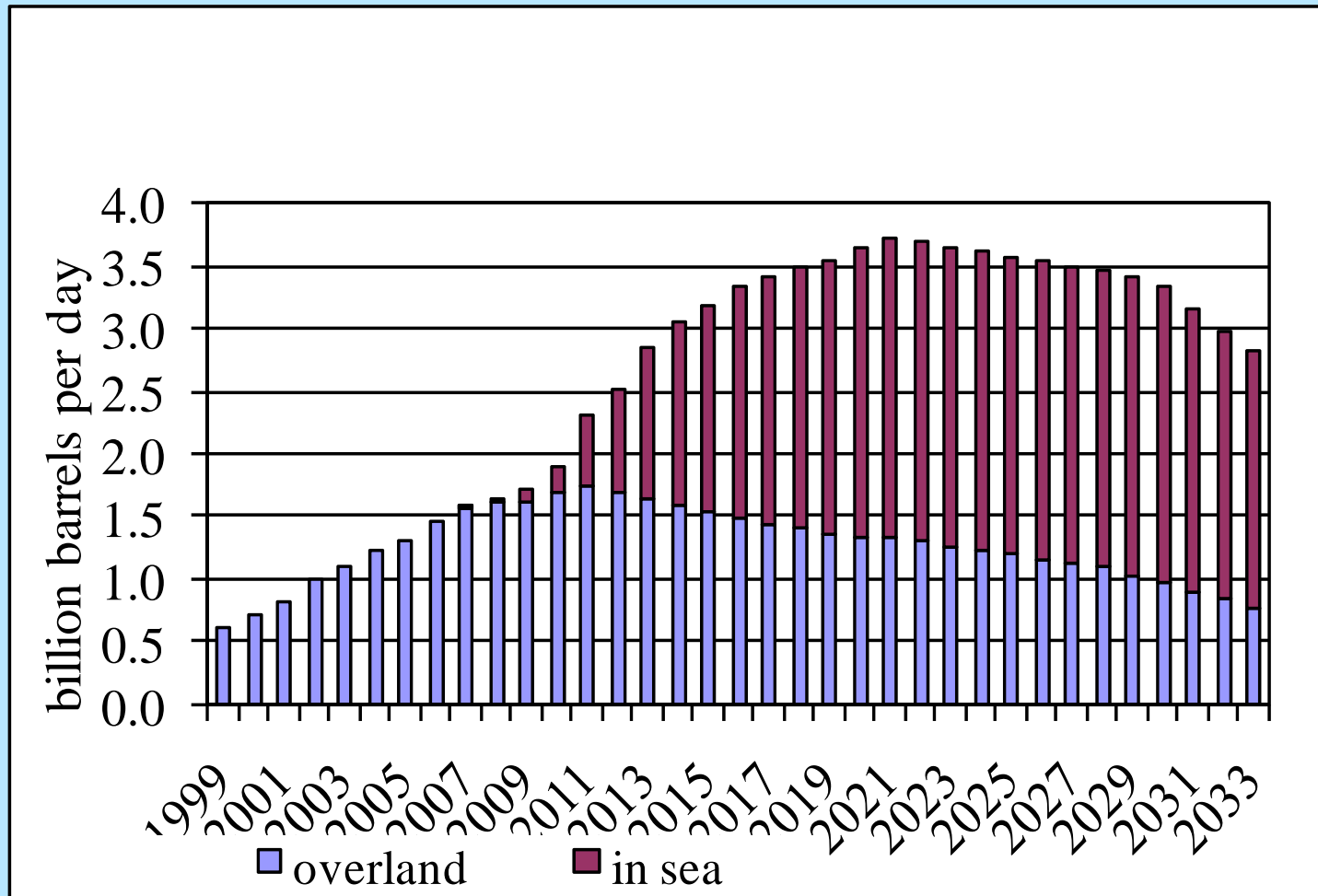
Analysis of Impressive and Weak Spots of Kazakhstan

- **Impressive spots of Kazakhstan** are availability of mineral resources fund, developed infrastructure, qualified labor force, high level of education, political sustainability, high rates of GDP growth, developed financial sector, privatization of all economic sectors, attraction of foreign investments.
- **Weak spots** are poor developed manufacturing industry, insufficient level of population income, particularly in rural areas, limited market (small population), impossibility of outgoing to markets in EU, USA, Japan, East China.
- **Opportunities** – using petrodollars to develop other sectors, creating competitive products with introducing up-to-date technology, further developing market economy based on openness and attraction of foreign investments.
- **Threatening** – drop in oil prices, economic and financial crises, fall in competitiveness of home products and their displacement by imports, drop in level of population income.

Oil Price Movement



Oil Production Potential 1999-2035



Problems of Oil State

- **Insufficient investment into manufacturing sectors**
- **Instability of growth rate in view of dependence on external market conditions**
- **Reduction in working place**
- **Reinforcement of the socio-economic stratification of population**
- **Development of the “Dutch disease” symptoms**

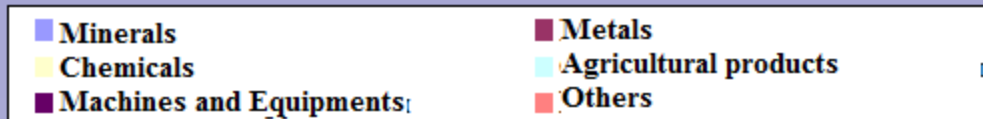
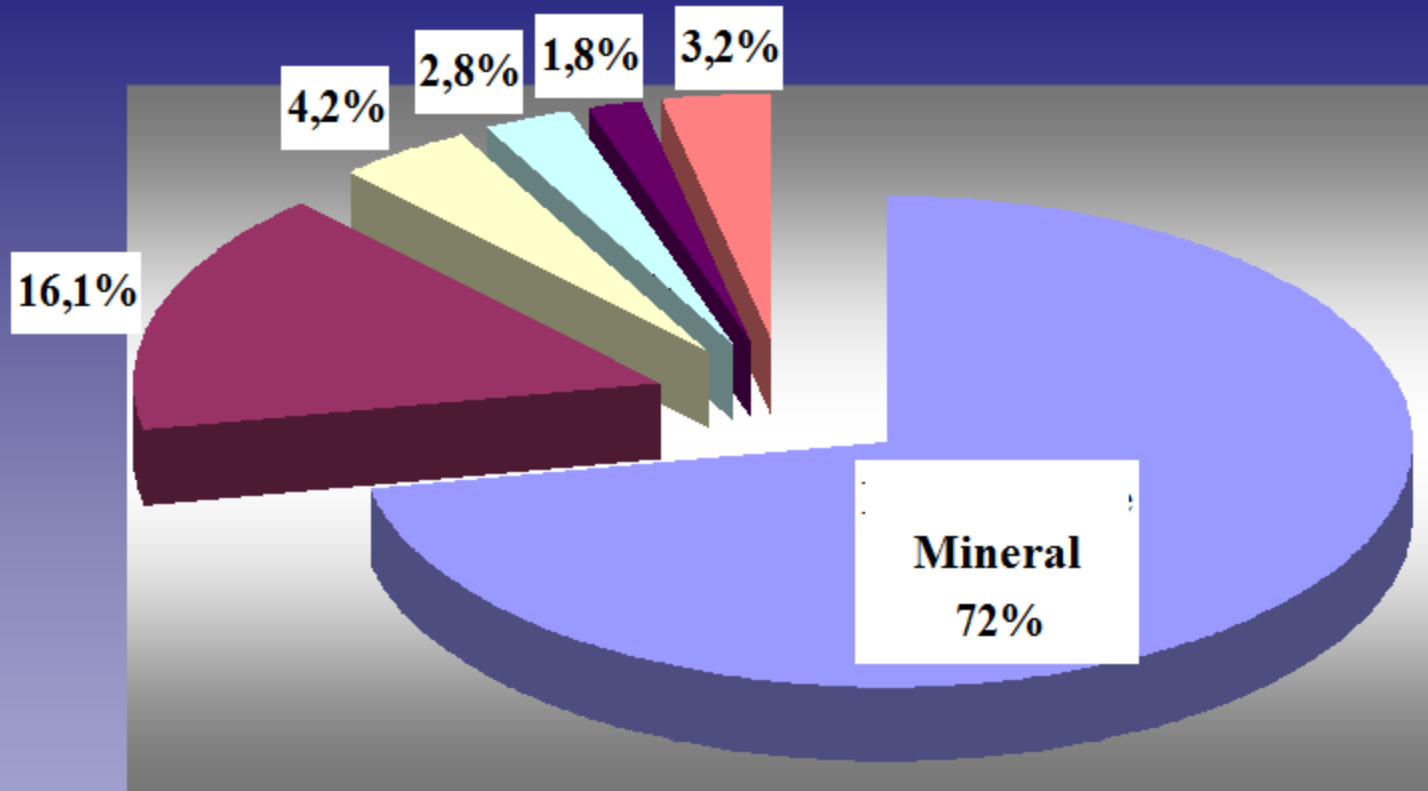
Classification of Oil States

- **1 type – countries, which are able to provide for common weal at the expense of profits from oil, Saudi Arabia, Kuwait, United Arabian Emirates, Bahrain, Norway, Brunei**
- **2 type – countries, which are not able to provide for common weal at the expense of profits from oil, Kazakhstan, Azerbaijan, Russia, Venezuela, Nigeria**
- **Criterion: 10 billion barrels of oil annually per 1 billion population**

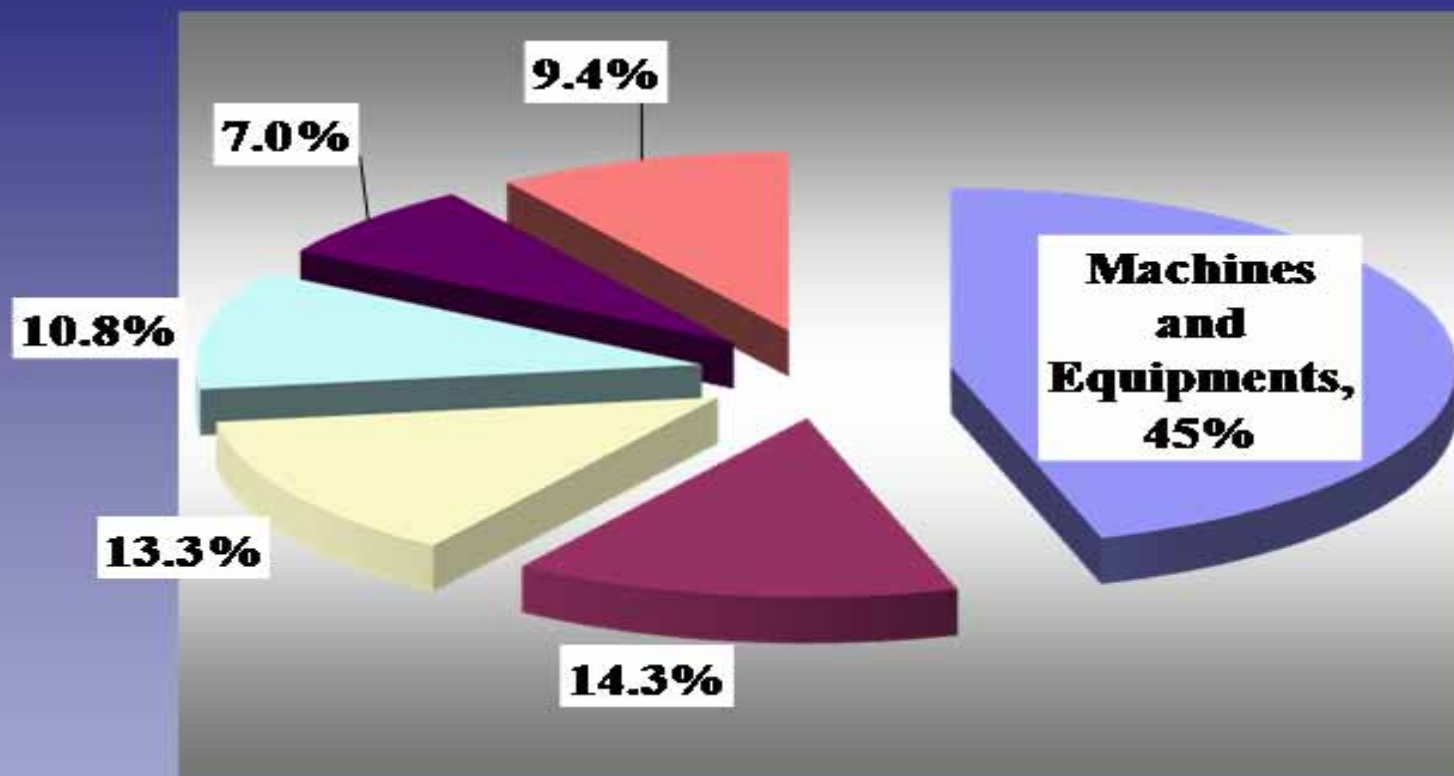
Two Options of Using Incomings from Oil

Saudi Arabia (ineffective use, still dependent on incomings from oil)	United Arab Emirates (effective use that resulted in diversification and independence on oil)
Oil sector development at the detriment of private sector development	Maximal liberalization of economy, attraction of foreign investments
Lack of diversification	Development of economically important infrastructure
Long-term dependence on oil sector	Establishment of open market based on industrial development

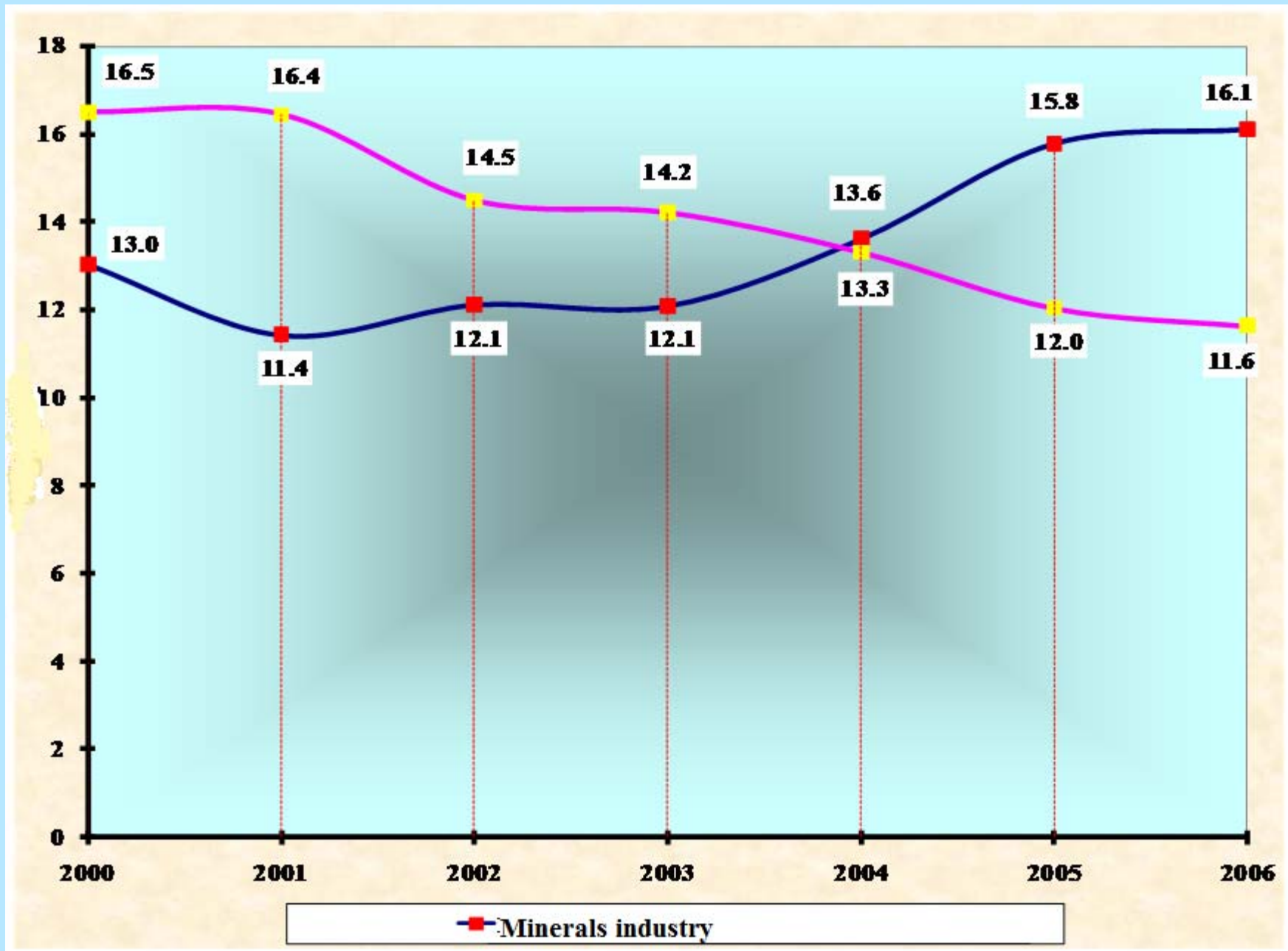
Export Structure of Kazakhstan



Import Structure of Kazakhstan



- | | |
|---------------------------|-------------|
| ■ Machines and equipments | ■ Minerals |
| ■ Metals and wares | ■ Chemicals |
| ■ Agricultural products | ■ Others |



Advantages of Diversification

- **1. New working places.** New technological and economic changes in 1990s allowed to found a large number of working places, including nearly 1.5 billion more in the sphere of IT services. Developing new economy prevents brain drain.
- **2. Export capital growth.** Increase in shares of intellectual activity in export.
- **3. Reduction in manufacturing costs.** New economic changes help to pass over territorial remoteness and allow to be much informed about market participants; enterprises will integrate and become closer to consumer. It allows to decrease manufacturing costs, for example, personnel costs, storage facilities.
- **4. Development of small and medium businesses.** As calculating shows, use of plain forms of tax payment in USA saves over USD 1 billion in small business.

Macroeconomic Conditions for Diversification

- **Stable and balanced budget.** As incoming part of Kazakhstan's budget mostly depends on oil prices, there is need for minimizing impact of global oil prices on budget incoming.
- **Low inflation.** There should be continued current revenue policy, which is designed for gradual reduction of inflation level, to activate industrial growth in sectors with extremely need of investments (predominantly sectors not focused on raw materials).
- **Transparent and long-term state tariff policy** in natural monopolies during reforming them.
- **Stable rate of tengue.** It is important in the process of diversification to predict rate of tengue, because it prevents foreign institutional investors from exchange risk. It will stimulate investing into national economy.
- **Predictable monetary credit policy,** focused on establishment of sustainable conditions, which will advance to gradual and non-inflated increase in economic monetizing.

2 Main Approaches To Improve Economic Structure

Horizontal measures

- Establishing sustainable institutions for economic agents;
- Ensuring favorable investment climate;
- Limiting state intervention into economy;
- Promoting competitiveness on markets.

Vertical measures

- Intensive state policy in economic reforms and improvement measures.

Cluster Theory As a Mean of Diversification

- Cluster strategy is designed to determine and form single groups of geographically close and tightly interrelated enterprises, which are capable to be “growth points” of national economy, pulling the whole economic system.

7 cluster priorities

- 1. Tourism**
- 2. Oil-gas engineering industry**
- 3. Textiles**
- 4. Food industry**
- 5. Transport and logistics services**
- 6. Metallurgy**
- 7. Construction materials**

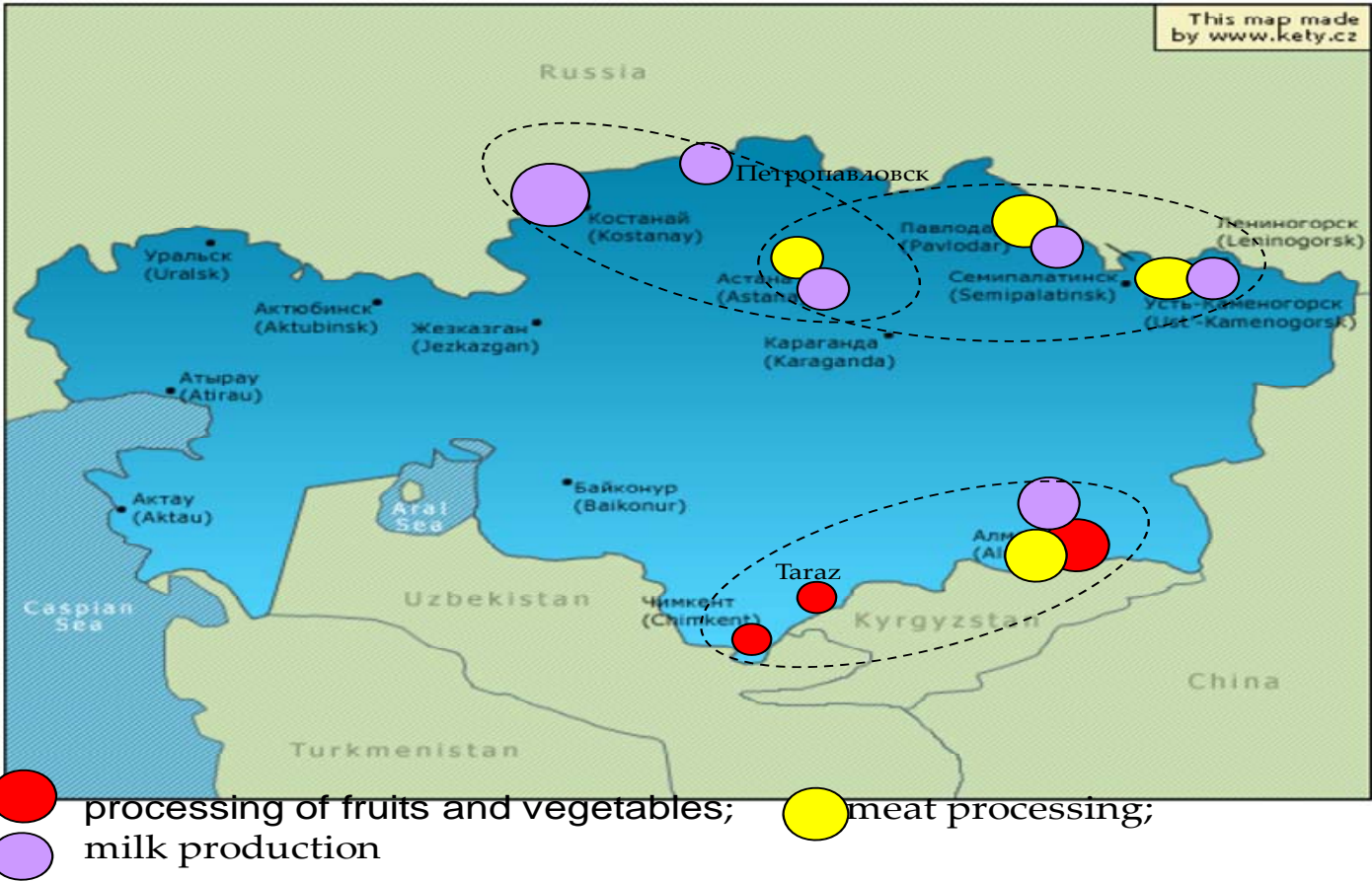
*Meeting proceedings
with Prime Minister of RK
January, 20 2005*

Criteria To Select Enterprises for Export Diversification

To render state support in the frameworks of the “Top 30 Corporative Leaders” Program’s part 2 implementation next criteria for selecting enterprises are defined:

- **Big export potential**
- **Small share of transport costs**
- **Low work content**
- **Regional specialization formation**

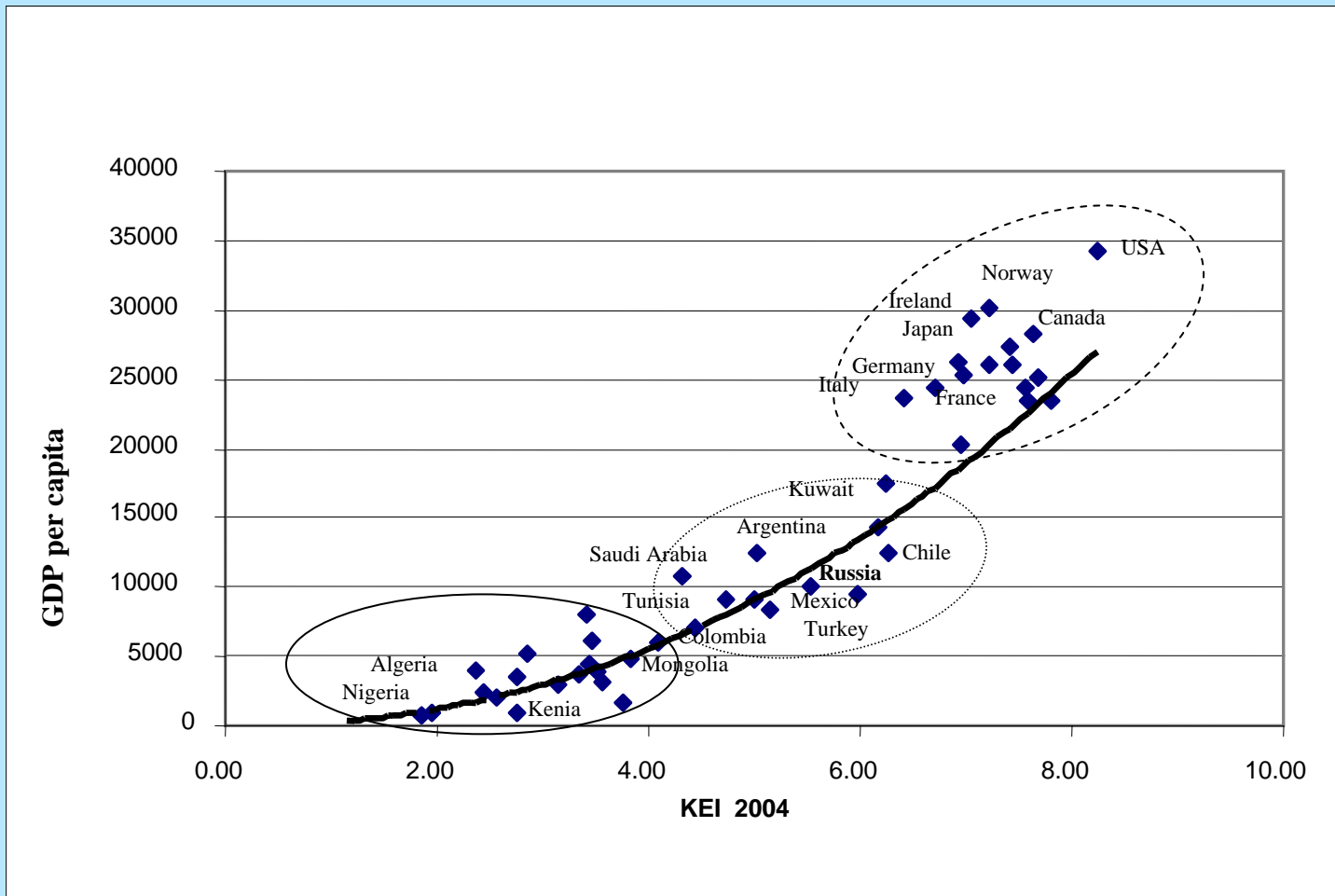
Map of capability allocation of some reprocessors (from CMAI sources)



Kazakhstan in Global Competitiveness Rating

	Global competitiveness index	Rank
1	Main requirements	66
1.1	Institutes	80
1.2	Infrastructure	71
1.3	Macroeconomics	25
1.4	Health care and primary education	94
2	Factors, improving effectiveness	58
2.1	High education and professional training	57
2.2	Market effectiveness (goods, human resources, finances)	63
2.3	Technological readiness	77
3	Innovation and business factors	84
3.1	Business on the level of modern requirements	85
3.2	Innovations	75
	General rating	61

Index of Knowledge in Economics



KAZAKHSTAN'S POSITION IN "DOING BUSINESS" WORLD BANK'S RATING

Company openings	57th Indexes	Supporting investors	51st Indexes
Procedures	8	Index of openness	7
Time (days)	21	Index of director's responsibility	1
Cost (% of average income per capita)	8%	Index of possibility of declaration against shareholders	9
Minimal prepaid starting capital (% GDP per capita)	23%	Index of supporting investors	5.67
Licensing	173rd Indexes	Tax payment	44th Indexes
Procedures	38	Payments (number)	9
Time (days)	231	Time (hours)	271
Cost (% of average income per capita)	2130%	Total tax rate (% income)	36.7%
Hiring human resources	22nd Indexes	International trade operating	178th Indexes
Index of hiring difficulty	0.00	Exportation documents (number)	12
Index of work hours flexibility	40	Exporting time (days)	89
Index of resignation difficulty	20	Export cost (USD per container)	2730
Expenditures on resignation (in weekly wages)	9	Importation documents (number)	14
		Importing time (days)	76
		Import cost (USD per container)	2780
Property registration	72nd Indexes	Implementation of contracts	28th Indexes
Procedures	8	Procedures (number)	38
Time (days)	52	Time (days)	230
Cost (% of average income per capita)	00.1	Cost (% of average income per capita)	22.0%
Getting credit	48th Indexes	Shutting down company	100th Indexes
Index of credit information	4	Penalty factor (cents on dollar)	23.37
Index of legal rights	5		

Mechanisms:

- *Upgrade tax and custom mechanisms on resource rent extraction;*
- *Promote exports;*
- *Develop agriculture;*
- *Support small and medium businesses;*
- *Promote venture financing;*
- *Promote services;*
- *Develop production infrastructure.*



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International Institute of Management Development

Kazakhstan's Participance in Global Competiveness Rating according to IMD





International Institute of Management Development (IMD) – an independent and non-commercial organization in Lozano, Switzerland

IMD – world class institute, influential global research center, which is an international leader by educational programs on Master's Degree, and it has 50 year practice in training Executive MBA

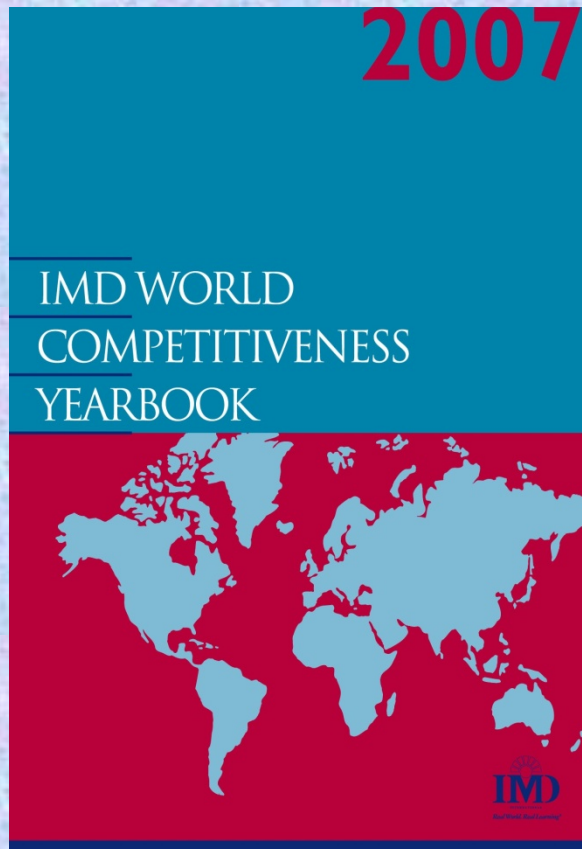
50 institutes from state-parties to the company's rating annually become IMD partners. Main task of these organizations is a deep analysis of internal and external processes in a country, making survey and statistics, collecting information and cooperation with managing chief bodies and business elite.

The main feature of the IMD methodology is possibility of modeling state's competitiveness. It is the state, which helps to define how the state's competitiveness will change, if government makes efforts to improve 20 worst indexes.





Competitiveness Rating according to the IMD Methodology



Annual rating of world competitiveness is world-wide known, comprehensive annual report, which analyzes how the situation in a country influences on competitiveness of the enterprises, and it suggests suitable ratings.

It covers 55 states of the world and has carries out analysis since 1989 by 323 different criteria, 2/3 of which is statistic data and the rest is questioning information.

55 STATES

323 criteria

2/3 precise data (international and national organizations)

1/3 questioning data

COMPETITIVENESS STRUCTURE



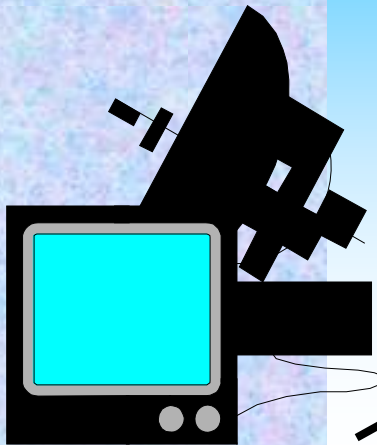
**ECONOMIC
ACTIVITY**



**GOVERNMENT
EFFECTIVENESS**



RATINGS



**INFRASTRUCTURE
A**

BEST PRACTICES



**BUSINESS
EFFECTIVENESS**

**Thank
you!**



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