

Transforming the economy

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KANATBEK SAFINOV holds a Doctorate in Law from the Kazakh State University. He began his career in the public service in 1992 with the foreign trade company of the Kazakh Ministry of foreign economic relations in Essen, Germany. This was followed by a succession of senior positions with the Ministry of Industry and Trade based in Vienna as well as Kazakhstan's national airline and the legal department of the Prime Minister's office. He is a former Managing Director of both KazMunaiGas and Samruk, Kazakhstan's state asset holding company.

Kazakhstan's oil and gas reserves have played a decisive role in the country's recent economic development, and will continue to do so for many decades to come. Learning from other countries' experience of the so-called resource-curse, the country's leadership has taken steps to guarantee the best use of hydrocarbons revenue for the long-term benefit of the people of Kazakhstan.

Kazakhstan faced a critical situation by the beginning of the 1990s. Despite having considerable forecasted reserves of fossil energy sources, the country had to import petroleum, natural gas, lubricant oil, petrol and diesel fuel. But over the decade, the level of oil and gas condensate production steadily rose, to 25.8 million tonnes in 1997, and then to 80 million tonnes in 2010. The likelihood is that it will reach 140 million tonnes by the end of the decade, when Kazakhstan will be Saudi Arabia's equal in terms of volume of hydrocarbon extraction. By 1997 Kazakhstan had already succeeded in becoming the second-largest focus and recipient of FDI in the former Soviet Union.

What is important to note today is the fact that, over an incredibly short time, Kazakhstan's energy sector has more than doubled its contribution to GDP, increased the country's presence in the world petroleum market by the same proportion, and brought the industry's contribution to the Republic's export income up to 60 per cent. To a great degree, it is precisely Kazakhstan's oil that is allowing the country to get through the ongoing global financial crisis.

Kazakhstan's potential
<ul style="list-style-type: none"> • Plentiful natural resources • Own funds • Stability • Interest in contacts with other countries • Decisive leadership • Emergence beyond the wider region.

Kazakhstan: oil and gas production

That said, there is a down side to the country's reliance on oil and gas. While these reserves are a major contributor to the State Treasury, with payments and taxes amounting to one third of the Budget or half the total industrial production of Kazakhstan, there is also the danger of direct dependence on State subsidies with zero returns.

At the macroeconomic level, the predominance of petroleum income also has the potential to reduce entrepreneurial initiative to zero. As a result it is essential to develop a suitable strategy for the nation to find new areas of growth through the diversified development of the economy, and take into account the probable consequences of the global transition to alternative types of energy.

Experience from around the world shows that countries with rich mineral resources take two to three times longer than countries with insignificant natural reserves to develop diversified economies. The way out of this situation, for states with an economy based on agriculture and raw materials and with plentiful hydrocarbons, involves setting the right priorities in the management of their oil and gas industries and using the revenue to fund innovative initiatives.

This is why, at the end of the first decade of independence, Kazakhstan's President Nazarbayev launched a programme aimed at "transforming the accumulated resources into advanced knowledge, new factories and technologies, and changing the structure of production on the basis of the advantages of oil and gas and mining and metallurgical complexes".

Over recent years, a clear evolutionary function can be traced in the development of Kazakhstan's oil sector: from an open and liberal investment policy to the model, unique to Kazakhstan, of the corporate sector's participation in the diversification and development of the economy. This strategy is distinguished by its comprehensive and all-inclusive approach to the solution of economic problems, addressing a series of related economic and development drivers, among them:

- Accelerated diversification of the economy
- Modern industrialisation on the basis of transfer and introduction of advanced technology and equipment

- Development of infrastructure
- Increasing the competitiveness of human capital
- Promoting a productive and effectively functioning national innovation system
- The creation of a strong entrepreneurial class on the basis of effective and competitive production facilities
- The development of regions and the non-raw-material sectors of the economy
- Improving the climate for attracting further direct foreign investments
- Reducing energy-reliance to drive GDP growth
- Raising the quality of education
- Reducing the environmental impact of activities and extending social policies

Achieving these goals requires close interaction between the public and private sector, allowing international oil companies to manifest fully their competitive advantages as well as their risk management skills. The State has considerable resource potential but a relatively under-developed innovation base. At the same time, the oil industry is highly concentrated, requiring considerable investment. To overcome this, the Kazakhstan Government has used foreign investments to finance technological innovation. For many reasons, the presence of outside operators capable of stimulating economic development is much more effective than any other inflow of capital.

In turn, innovation depends to a great degree on the State's ability to guide external and internal market players in the direction of accelerated industrial innovation development. Economic development involves qualitative changes, connected to the "value chain," on the basis of which goods and services are produced by improving methods of use of resources, methods of production, the vocational knowledge of the population in employment, technology, information and financial conditions with orientation to the external market. The transnational corporations present in Kazakhstan act in this way as creative participants in the process of transformation, investing their capital, professional skills and technology in the economy.

KazMunaiGaz and the JSC Samruk-Kazyna National Wealth Fund, aside from substantially raising the level of corporate social responsibility of the international oil consortia operating in the Republic, are becoming increasingly important in the establishment of partnership relations. Their role in the State and trans-national alliances involves establishing optimal relations between foreign investment and the country's economic, resource-related, scientific, and human potential. Adapting itself to the new model of the global energy system, in the field of social, technological and innovation activities, KazMunaiGaz sets the pace for other participants

in the oil market. The workforce of overseas players coming into Kazakhstan will, from now on, have to be at least 55 per cent Kazakh. Already, 148 out of 199 contracts in the oil industry include this obligation.

Through this approach the Government hopes to add value to the industrial sector and to involve the greatest possible number of the country's own suppliers. The task is to give Kazakhstan-produced goods and services advantages, but only if they satisfy world standards of price, quality, volume and work performance times. Already, fulfilment of these requirements is creating conditions for increasing demand and a preference for Kazakhstani goods and services, while at the same time forming a platform for exchange of knowledge, and also for carrying out joint scientific research with foreign partners and for implementation of its results in practice: The Samruk-Kazyna National Wealth Fund's intention of allocating up to 10 per cent of its subsidiary enterprises income to R&D, which already amounts to \$42 billion, is eloquent evidence of this.

The economic strategy of the Republic of Kazakhstan involves establishing close mutual links between the petroleum sector and non-hydrocarbon industries; in other words, the task consists of re-directing the stream of this rapidly developing industry through the arteries of the economy, and not only on the level of redistribution of income. The country is adapting to the conditions of an open market – defined by some increasing instability, in which the experience of more mature partners is needed. In this context, attracting foreign investment to Kazakhstan has been one of the most successful projects in the post-Soviet era, and an example of the conditions required for the development of the fuel and energy markets. The President of Kazakhstan recently stated "The formation of a self-adjusting and socially orientated market mechanism for the country, involving whole generations having to adapt to living in completely different conditions, is a serious challenge, and involves addressing the range of tasks required to transform the system." E

Oil & Gas potential			
	1991 (actual)	2011 (expected volume)	2020 (forecast)
Oil (million tonnes)	25.2	80.4	132.1
Gas (billion m³)	7.8	40.5	92.2

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