

# Accelerating diversification

## Economic diversification programmes lead to higher growth

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Four years after Kazakhstan's economic resilience was severely tested by the global liquidity crisis, the country has resumed high levels of growth, is implementing financial sector reform, and is pushing ahead with an ambitious programme to diversify the economy through public-private sector cooperation.

In late 2007, after a decade of sustained growth averaging 10 per cent a year, Kazakhstan's banking system was hit by the financial storm. Low rates on the international markets over a lengthy period had contributed to the flow of substantial funds into the economy of Kazakhstan, and the sudden reduction from this source hit the credit market hard.

The second disruption to the economy came from the accompanying fall in international commodity prices. Exports of raw materials, especially oil, have been the main source of revenue for more than a decade. Currently, oil exports represent 65 per cent of the value of Kazakhstan's total exports. In addition, FDI to Kazakhstan – which accounts for over 80 per cent of total FDI in the Central Asia region – is concentrated in oil and gas related companies.

The cumulative effect of these two factors triggered a fall in growth rates. In 2007, GDP had grown by 8.9 per cent; in 2008 the rate fell to 3.3 per cent, and in 2009 to 1.2 per cent. That said, the international agencies' forecasts, especially for 2009, were even more pessimistic: the IMF had predicted a decline in Kazakhstan's GDP of 2 per cent for 2009. That forecast was made on the basis of the negative trends in the global economy, and failed to take into account a combination of government measures and the efforts of the private sector and the nation as a whole. Although industries dependent on debt financing, such as construction and real estate, agriculture, along with many small and medium enterprises faced a cash crunch. To support them, the Government took anti-crisis measures.

Some 250,000 jobs were created. This involved construction projects, reconstruction of housing and community amenities, utilities, roads, schools, hospitals and other social projects. In addition, extensive retraining courses were offered to workers who had lost their jobs. Furthermore, Kazakhstan maintained plans to increase social expenditure from the budget. Pensions, allowances and salaries in the public sector

were increased. The effect of the Government's lead was to unite the nation, helping to instil confidence in people that the crisis could be overcome.

The total cost of the anti-crisis measures taken by Kazakhstan between 2007 and 2009 amounted to around US\$20 billion, or 14 per cent of GDP. Much of the money came from the National Fund of the Republic of Kazakhstan, created in 2000 to use oil revenue precisely for this kind of exceptional external shock. As a result, the impact of the crisis over the long term has been far less negative than in many other countries.

Since 2010 the figures show steady and sustainable economic growth, with GDP growing by 6.5 percent in 2010, and set to rise by the same amount in 2011. Stable and sustained growth dynamics have been demonstrated by all sectors of the economy, and, most importantly, by small and medium-size businesses. Difficulties remain in the real estate and banking sectors, where recovery will take longer.

### Key role of SMEs in diversification

One effect of the crisis was to renew the Government's sense of urgency regarding its plans to diversify the economy away from over-dependence on oil with renewed urgency. Several development agencies and research centres had already been established before the crisis, as well as technology and science parks, to support the diversification of higher value-added industries.

But the crisis gave new impetus to the task of improving competitiveness and developing several key sectors with potential to generate jobs and export revenue. The Government sees small and medium-sized enterprises leading the way in this process. A focused and coherent policy to support small and medium enterprises (SMEs) in Kazakhstan and the creation of a specific base for their development is now a priority in the government's economic strategy. In general, reduction of taxes, legalisation of property and assets, simplification of administrative procedures and sanctions, protection from bureaucratic obstacles, facilitating access to credit and other measures are among those taken by the state to support and create favourable conditions for entrepreneurship.

According to World Bank estimates, between 2008 and 2011, Kazakhstan has improved its position in the "Doing Business" rating around the world from 80th place up to 59th. At the same time Kazakhstan topped

the list of countries with the most improved business conditions in 2011. Measures such as the introduction of SME registration in one working day, the reduction in the number of documents required for opening a business and reducing the requirements for minimum capital amount from US\$1,000 to US\$65, have all had a positive impact on rating improvement.

The Government is further supporting SMEs to become more competitive by improving the investment environment, cutting red tape and strengthening private property rights and the rule of law. In addition, the programme for accelerating industrial and innovative development mobilises public and private resources for specific diversification initiatives. The main thrust of the programme is on productivity, innovation and moving up the value chain of production. It is also upgrading infrastructure with better transport networks, more efficient utilities and the next generation of information technologies and communication systems.

#### Improving competitiveness

As part of its efforts to improve opportunities to create new businesses, in 2010 in conjunction with the OECD, Kazakhstan carried out an analysis of the sectors of the economy that offered the best potential for development:

- Location. The Republic of Kazakhstan is located between high-growth markets such as the People's Republic of China, India and Russia.
- Natural and human resources. Kazakhstan benefits from vast energy and agricultural resources and nearly universal literacy.
- Growing prosperity. Since 2000 per capita income has doubled, the unemployment rate has been halved, and close to US\$30 billion of foreign exchange reserves have been accumulated.
- Openness to trade. From 1999-2008, Kazakhstan's international trade has grown twelve-fold in value of exports – from US\$6 billion to over US\$71 billion. During the same period imports went from US\$4 billion to nearly US\$38 billion, reflecting a growing economy and rising incomes.

The report also identified the following priority sectors on the basis of market attractiveness and country benefits, for example through the transfer of skills and technology to higher employment:

- Agri-business. Kazakhstan's agricultural sector has extensive arable land resources, high regional demand prospects, growing domestic consumption and an absence of distorting government support in most agri-business sectors.
- Chemicals. The mineral fertilisers sector is the largest of all agri-chemicals sectors in volume and market value. The global value of the fertiliser market was estimated at US\$132 billion in 2008, 1.8 times larger than the value of the herbicides, insecticides, food additives and food

packaging sectors together.

- Logistics. An effective value chain depends on efficient transportation and logistics services. Its role in reducing cost, improving efficiency of businesses, and ensuring that goods reach markets effectively is particularly crucial for the agri-business sector, which relies on cold stores, warehousing and good transport systems.
- Information technology and business services. The IT sector in Kazakhstan is nurtured by domestic demand and global requirements but remains small with limited impact on growth. Its share in the country's economy continues to shrink due to its narrow human capital capabilities.

At the same time, Kazakhstan is making large-scale investments in the country's most important asset of all, its people, by increasing access to education, raising standards and improving its overall quality. It is also addressing skills shortages through better vocational and technical training. In addition, the Government is making wholesale improvements to the health care system in order to deliver better health outcomes. These investments are the building blocks for a productive and competitive workforce.

To improve the mechanisms of state support for SMEs and create the conditions for sustainable business development, the Government of Kazakhstan is continuing to seek new tools. At the same time, the Government is strengthening entrepreneurial potential.

As President Nazarbayev has repeatedly pointed out, as part of the process to diversify the economy, the main function of the state from now on will be to create an enabling business environment where private capital is able to implement independently its business ideas. ■

## Kazakhstan topped the list of countries with the most improved business conditions in 2011

Currently, oil exports represent 65 per cent of the value of Kazakhstan's total exports

