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PROSPECTS FOR SUSTAINABLE DEVELOPMENT OF
KAZAKHSTAN TO ENSURE AN INNOVATIVE ECONOMY

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Abstract

The article presents the results of studies on the directions of economic development of Kazakhstan and the development of a set of measures, the implementation of which will allow building a coherent system of measures to create a favorable investment climate for business development. Kazakhstan is very close to the upper border of middle-income countries. As part of the work, the key problems of the development of the real sector of the economy and entrepreneurship, as well as investment policy, were analyzed. The main stages of economic development of Kazakhstan are highlighted and analyzed. The most significant results and difficulties in matters of further improving the business environment, attracting high-quality investments have been identified. Today, the Republic is successfully implementing state programs which aim to create conditions for the transition to the fourth industrial revolution. The focus on innovative development remains important and mandatory for achieving the goals set in the program documents. To achieve these goals, the most significant tasks for Kazakhstan were identified, aimed at implementing a set of measures to introduce new technologies, attract strategic investors, improve the qualifications of Kazakhstani specialists, and also, in order to develop entrepreneurship, it is necessary to launch a new cycle of business activity, adopt systemic and effective measures to stimulate the development of entrepreneurial activity. Systemic support measures are needed for each investor based on priority and potential effect on the economy as a whole.

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Keywords: Kazakhstan, industrial development, business environment, entrepreneurship, innovation, competition



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1. Introduction

In the “Concept for Kazakhstan's joining the 30 most developed countries in the world” approved in January 2014, by 2050, the average annual GDP growth rate, in case of maintaining a favorable economic environment, is set at 5.5%. However, the crises of 2014-2015, as well as the current crisis associated with the spread of the coronavirus, have a constraining effect on economic growth, drastically changing the baseline development scenario for Kazakhstan (Kazakbai, 2019, 2020).

Due to the ongoing pandemic, there is still a high level of uncertainty about the future development of the global economy. Supply chain disruptions and continued restrictions due to existing quarantine measures, a decline in global demand, increased protectionist rhetoric is putting pressure on the global economic recovery. Therefore, international financial institutions are revising the parameters of the forecast values. The Leader of the Nation - Elbasy, at an expanded meeting of the Nur Otan party council on August 21, 2019, set the task of ensuring 7.5% growth in Kazakhstan's GDP. In today's realities, achieving such a high economic growth rate of 7.5% is an ambitious task. At the end of 2019, according to the World Bank classification, Kazakhstan is in the group of developing countries with above-average income per capita (UNCTAD, 2016). Thus, Kazakhstan is very close to the upper border of countries with middle income. However, the existing structure of the economy creates risks for Kazakhstan to fall into the “middle income trap”. Issues of a relatively low level of labor productivity, economic diversification, investment, the predominance of raw materials exports, as well as problems in monetary and fiscal policies are relevant.

2. Problem Statement

At present, due to the slowdown in world economic growth and high uncertainty about the duration of restrictive measures, a deep change, a "reset" of economic policy, is required. Today, many countries are looking for new drivers of economic development to ensure self-sufficiency and stability of the economy, as well as food security. The economy of Kazakhstan is open and highly integrated into the world economy. In this regard, high uncertainty affects the national economy through trade, foreign exchange and investment channels. Restrictive and quarantine measures taken are also negatively affected the economy of Kazakhstan. The service sector suffered the most, where small and medium-sized businesses are mainly engaged. Affected industries find appropriate measures by providing tax incentives, subsidizing loan rates, as well as concessional lending to small and medium-sized businesses under the National Bank's program. These measures helped to avoid a deep recession in the economy of Kazakhstan. But they are clearly not enough to achieve the required rates of economic growth.

3. Research Questions

As a part of the work, the key problems of the development of the real sector of the economy and entrepreneurship, as well as investment policy, have been analyzed. Today, consistent steps are being taken for the necessary systematic solution to the problems of development of the Kazakhstani innovative economy, the prospects for socio-economic development are being determined. Namely, in this direction,

scientific research is carried out within the State Program of Infrastructure Development "Nurly Zhol" for 2015 - 2019, the State Program of Industrial and Innovative Development of the Republic of Kazakhstan for 2015-2019, the Strategic Development Plan of the Republic of Kazakhstan until 2020, the State Program "Digital Kazakhstan", the Concept of Innovative Development of the Republic Kazakhstan until 2030.

In general, since independence, the development of Kazakhstan can be divided into 3 phases. The first phase, from 1991 to 1999, was characterized by an adaptation period associated with the formation of an independent economic system of the republic. At this time, there was a negative average GDP growth of -5%, GDP per capita in 1999 reached \$ 1,130, the economic decline was 28.9% compared to 1991.

The second phase, from 2000 to 2009, is characterized by rapid economic growth at an average of 8.5%. Despite the crisis of 2007-2008, in 2009 the economy grew 1.6 times compared to 1991, GDP per capita was \$ 7,000. At the beginning of the third phase, the economy growth rates were maintained and the per capita GDP reached \$ 13,900. At the same time, as a result of repeated crisis phenomena, the economy of Kazakhstan on average grew at a moderate pace at the level of 4.8% in 2010-2019 (Figure 1).

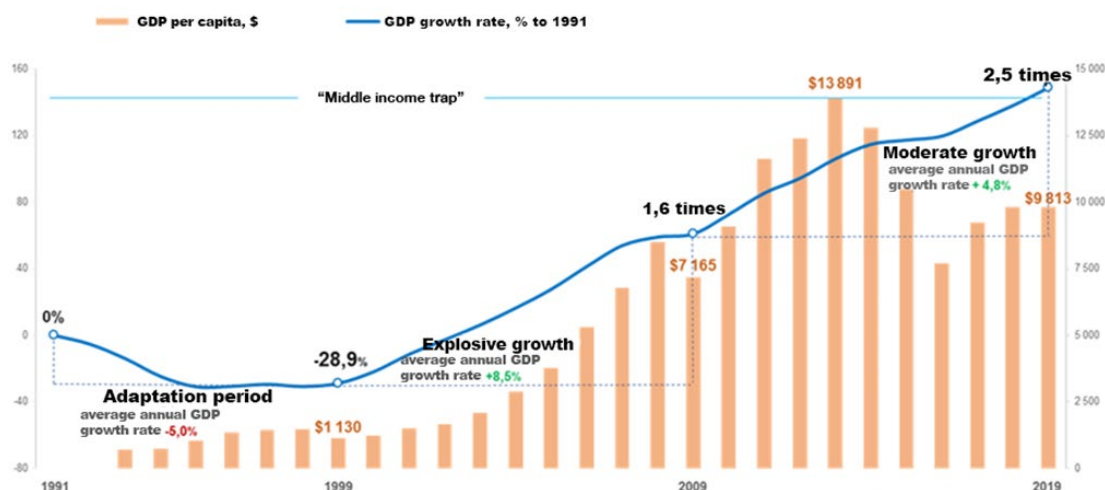


Figure 1. Result of repeated crisis phenomena in the economy of Kazakhstan

To implement the set task of the Leader of the Nation - Elbasy, it is necessary to ensure the growth of GDP at the level of 7.5%.

3.1. Attracting high-quality investments

Speaking about the task of attracting high-quality investment, it is necessary to bear in mind the intensification of global competition for capital against the background of trade and sanctions confrontations, which entails a revision of established supply chains. Since the adoption of the Plan of the Nation, 8 projects have been put into operation with the participation of TNCs in the amount of \$ 582 million, with the creation of about 2,300 (2,267) jobs (KZ primeminister, 2017). Currently, 9 projects are

under implementation for the amount of 859 000 000 dollars, with the planned creation of about 1900 (1911) jobs (GAZINDUSTRY, 2019). In the context of the implementation of the 56th step of the “Creation of joint ventures in priority sectors of the economy with“ anchor investors ” plan - strategic partners (for example, Air Astana, Tengizchevroil, the factory for the construction of locomotives for KTZ)” - 4 projects were put into operation for the amount of 317 million dollars, 650 jobs were created. In the future, the state's share in joint ventures will be brought to an IPO. In general, 10 projects worth \$ 3.6 billion are under implementation with the planned creation of more than 14 000 jobs. In pursuance of Step 62 of the Plan of the Nation, which implies the implementation of the National Champions initiative with a focus on supporting specific medium-sized companies in non-resource sectors of the economy, financial and non-financial support was provided to 33 companies from four manufacturing sectors - food and light industry (18 companies), mechanical engineering (9 companies) and production of building materials (5 companies), pharmaceuticals (1 company). Identification of business leaders will make it possible to create centers of excellence for the transfer of know-how. The average labor productivity at enterprises since the beginning of the Program implementation in 2015 has increased by 53%. To systematize the provision of direct financial support on the basis of existing development institutions, an Industry Development Fund was created. It will provide direct support through equity entry and the provision of loans with an interest rate of no more than 3% per annum in tenge for the final borrower. In order to increase the self-sufficiency of the sectors of the economy, qualitatively new approaches have been developed for the development of industries with high added value in the agro-industrial complex and the manufacturing industry based on the available raw material base, targeted investment attraction and active export promotion. Attention will be paid to the development of efficient production of goods with the presence of stable internal and external demand, the logistical availability of sales and, as a result, great potential for increasing production. To ensure food security in the agro-industrial complex, 380 investment projects will be implemented and more than 5 trillion KZT investment. The domestic market will be fully provided with socially significant food products at the expense of our own production. As a part of the further industrialization of the economy, the volume of production in the manufacturing industry will increase by 1.5 times (2.4 trillion tenge in 2020). The volume of production in the petrochemical industry will grow 9 times (from 231 thousand to 2 million tons of products), attracting about 15 billion US dollars over 5 years (promising export markets: China, Russia, Belarus, Georgia, Central Asia, etc.) (BCG, 2019).

3.2. Improving the business environment

In general, in Kazakhstan, systematic and large-scale work continues to improve the business environment. In 2019, the antimonopoly body was separated into a separate Committee for the Protection and Development of Competition of the Ministry of National Economy. As a result, the concept of the antitrust authority's work has been completely changed - from protecting competition to its development. Much has been done in terms of changing legislation to create a favorable competitive environment. Monitoring of legislation to identify norms that hinder the development of competition was carried out in stages.

- Stage I (2017): in May 2018, a law was adopted to eliminate 35 barriers to development competition;

- Stage II (2019): a package of amendments has been prepared providing for the elimination of 73 barriers to competition (in accordance with the instruction of the President of the Republic of Kazakhstan dated May 24, 2019), which is included in the Law of the Republic of Kazakhstan "On Amendments and Additions to Certain Legislative Acts of the Republic Kazakhstan on improving the business climate".

Ensuring sustainable economic development is possible by attracting at least ten TNCs to the processing sector to create export goods and Kazakhstan's entry into world markets. For this, it is necessary to ensure that international business is constantly informed about new opportunities at international economic forums. It is necessary to change the focus from making a profit to developing competition, creating conditions for private business to enter new sectors of the economy, including those in which the state dominates at the moment.

3.3. Industrial and service development

To date, the Industrialization Program is being successfully implemented, the Third Modernization of Kazakhstan has been launched. The Development Strategy "Kazakhstan-2050" was adopted, which sets the goal of creating conditions for the transition to the fourth industrial revolution. However, we have to clearly understand that this cannot be achieved without reliance on science and innovation. Thus, the focus on innovative development remains important and mandatory for achieving the goals set in the program documents. According to the Development Strategy of the "Innovation Cluster" Park of Innovative Technologies ", it is planned to create 5 centers for the development of technologies together with TNCs. At the moment, 4 centers have already been created. Since 2020, the priority areas for the innovative development of Kazakhstan are assistance to industrial enterprises, subsoil users of the Republic of Kazakhstan in an accelerated transition to the introduction of elements of Industry 4.0 (TSC "Industry 4.0"). As part of the 63rd step of the "Plan of the Nation", the ongoing work on the formation of a regional international start-up hub is coordinated with the activities of the International Technopark of IT-startups "Astana Hub". The relevant additions were made to the action plan for the implementation of the Plan of the Nation "100 Steps" by the decision of the National Commission for Economic Modernization (GAZINDUSTRY, 2019). Thus, within the framework of the Law of the Republic of Kazakhstan dated December 26, 2018 "On Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Employment of the Population", legislative amendments to the Tax Code entered into force in 2019, providing for a preferential tax regime, in accordance with which startups, including foreign ones, are exempted from paying four main taxes (IIT, CIT, VAT, social tax) in order to reinvest these funds in the development of projects. More than 273 IT companies have already acquired the status of Astana Hub residents. There is also a special visa and labor regime for foreign employees on the territory of the technopark - specialists from other countries can easily obtain a work visa to Kazakhstan for a maximum of 5 years. Provided attracting 170 startups and incubating from 30 to 50 export-oriented companies by 2023. At the moment, the startup ecosystem created on the basis of Astana Hub includes more than 273 IT companies registered as participants who have the opportunity to receive tax, labor and visa benefits, 25 centers of domestic and foreign IT companies, "alem" programming

school based on modern international teaching methods. The volume of attracted investments in domestic start-ups in the company in 2020 amounted to 38 billion tenge, of which 11.7 billion tenge was attracted by Astana Hub startups.

To ensure interaction with large domestic enterprises, investors and international partners, the Center for the Development of Corporate Innovations “KPMG Digital Village”, the club of business angels “QazAngels” were launched, agreements were reached with the companies “Plug & Play”, “Amazon Web Services”, “500 startups”, etc. Investments were attracted from Germany, Singapore, Switzerland, South Korea and the USA (BCG, 2019).

4. Purpose of the Study

The purpose of the work was to study the directions of economic development of Kazakhstan and develop a set of measures to overcome the consequences of the global recession, to ensure further sustainable development within the framework of the new economic course of the Strategic Plan until 2025. To achieve this goal, it is necessary to solve a number of tasks, the implementation of which will allow building a coherent system of measures to create a favorable investment climate for business development. The main task of Kazakhstan is the full disclosure of industrial potential, the development of new redistributions in ferrous and nonferrous metallurgy, petrochemistry, mechanical engineering, production of building materials, food and other sectors. For this, a set of measures should be implemented to introduce new technologies, attract strategic investors, improve the skills of Kazakhstani specialists.

Another important task that requires its immediate solution is the development of entrepreneurship. Entrepreneurship is the basis for sustainable, dynamic economic development, as well as a key source of income and employment for the population. Therefore, it is necessary to launch a new cycle of business activity, to take systemic and effective measures to stimulate the development of entrepreneurial activity. Attracting quality investment is another task that directly affects the rate of economic growth. Systemic support measures based on priority and potential effect on the economy as a whole are needed for each investor.

5. Research Methods

To solve the set tasks, the system and process approaches, vertical and horizontal analysis, the calculation of quantitative and qualitative indicators, the comparison methods were used.

6. Findings

In Kazakhstan, it is necessary to create a common system that would disclose the whole range of processes of industrial and innovative development of Kazakhstan, both within the state and foreign partners - the Unified Information System for Innovative Development "Virtual Technopark" (hereinafter - the UIS "Virtual Technopark"). Work should continue to unlock the potential of private capital. For that, it is necessary to exclude the excessive presence of the state in the economy and the interference of state

bodies in entrepreneurial activity, to increase the efficiency of state regulation of Regulatory Quality, entrepreneurial literacy and digitalization of services for business.

To improve the business climate and introduce regulation from scratch, it is necessary to revise the legal framework for small and medium-sized businesses. At the same time, it is proposed to carry out a radical revision of the entire array of state regulation by changing the basic approaches in regulatory policy and creating a new comprehensive and effective regulation in order to prevent the adoption of regulatory instruments that do not meet the principles of protecting the health of citizens and the environment. This will require the adoption of a number of measures: first, revision of business requirements, reporting, permits; secondly, the cancellation of non-automated information obligations of the business, in the absence of their automation and integration with the information system for registration of inspections in 2025; third, the transfer of state control of 8 areas to preventive control (SES; tax sphere; nuclear energy; fire safety; circulation of poisons, weapons, military equipment and certain types of weapons; industrial safety; medical services; circulation of medicines); fourth, the maximum rejection of certifications, accreditations, permits in the areas where licensing has been introduced; fifth, improving procedures and mechanisms for analyzing regulatory impact. In order to attract quality investment, it is necessary to focus from a passive, investor-friendly approach to working directly with each capital holder at all stages of the value chain. In order to stimulate the inflow of investments, the stability of legislative conditions and conditions of state programs is being introduced, including concessional financing, partial guarantees of loans, and export support mechanisms. For large projects, it is proposed to extend preferences in free economic zones, guaranteed procurement from the state, quasi-public sectors and subsoil users, reimbursement of part of capital costs from taxes by offsetting tax liabilities arising after the end of the preferential tax period.

Ensuring the principles of fairness and equality in interaction with investors, ensuring protection against expropriation, guaranteeing the most favored nation treatment will expand the circle of potential investors and lead to improved conditions for financing the Kazakhstani economy. This will also be facilitated by measures to develop the level and accessibility of basic infrastructure facilities, which will be possible when reimbursing investors for the development and / or construction of engineering and communication infrastructure (roads, sewerage, heat and water supply, gas supply, telephone and electrical networks). The developed infrastructure will diversify the investment portfolio for public-private partnership projects and improve the quality of projects. Investors implementing PPP projects should be offered “package solutions” with an individual approach. The formation of new ecosystems in the sectors of the economy will be facilitated by measures for targeted attraction of strategic investors, which means that strategic investors implementing investment projects that are significant for the economy will be given the opportunity to conclude an investment agreement that provides for special conditions and procedure for granting benefits and preferences that will be regulated, including by the law of the AIFC (jurisdiction of disputes by the court and arbitration of the AIFC). Taking into account the world experience, it is necessary to apply more widely the offset policy (international tenders, off-take contracts) used in many developed countries of the world. At the same time, a minimum list of services provided to investors in regional front offices should be developed and defined. As a result, in the medium term, the level of investment in fixed assets will increase from 18.1% in 2019 to 30% of GDP by

2025. Annual gross foreign direct investment (FDI) will increase from \$ 24.1 billion in 2019 to \$ 30 billion by 2025 (BCG, 2018).

7. Conclusion

The implementation of new approaches to create a strong entrepreneurial class and further improvement of the business environment will allow Kazakhstan to enter the top 20 countries with the most favorable conditions for doing business in the world. The above measures will help to smoothly overcome the consequences of the global recession, to ensure further sustainable development within the framework of the new economic course of the Strategic Plan until 2025 to achieve the main goal of becoming one of the 30 developed countries of the world. The state will focus on creating a surplus supply of quality industrial infrastructure in convergence with spatial development.

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