

Developing Export Potential in Kazakhstan: An Overview of Key Theories and Recommendations for Policy Development

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Abstract

For many decades, Kazakhstan has known as a main oil exporter. A key challenge is to develop its new export-oriented industries to avoid its dependence on oil resources. Examining the previous theories, the article aims to show the main ideas and concepts for developing export-oriented economy of Kazakhstan effectively. In the period of building new markets and facing barriers for increasing export potential, the study discusses and provides ideas on how to overcome present circumstances. As a result, it recommends focusing on new export-oriented industries and building new export policy as measures to improve export potential of Kazakhstan.

Keywords Every Export; Export Policy; Trade Policy Management; SME Policy; Industries; Economic Growth

Introduction

Believe From the theory of mercantilism [1], it is known that export of manufactured products considered beneficial and export of raw materials were considered harmful. Today, Kazakhstan is a main exporter of raw materials and builds its new export-oriented high value industries and productions. The question is how Kazakhstan can effectively manage its export potential to develop its unique products and services for international markets.

The main objective of this article to analyze and discuss key elements of export policy and give recommendations for growing export potential of Kazakhstan. The conclusions of the study is specific and can be applicable in policy development in other country.

Let us look at the theories of international trade and export. From many previous works, Albiman [2] points out that the economic prosperity of the leading East Asian countries such as Singapore, Thailand, Malaysia, Taiwan influenced by outward oriented policies. In contrast, there are other explanations and one of the main reason is about availability of qualified engineers and cheaper resources in developing countries, which were attractive to move there productions from Japan, US or Europe.

What explains the difference between Kazakhstan and other leading economies, and in this case with East

Asian “tigers”?

It is no simple answer and it is clear that Kazakhstan made a priority for mining and exporting raw materials. The main reason is that the country had no qualified human resources, technologies and necessary international trade skills after its sovereignty from USSR. Kazakhstan compared to East Asian countries has no exit to the world oceans that was a key factor for low cost transportation to Europe and US - the most distant areas with the highest purchasing power.

In the period of radical transformations, trading was the only key for economic stability of low-income families of Kazakhstan and practically in any post-soviet country, especially for land-locked countries of Central Asia and CIS. On other side, those produced goods from Kazakhstan did not meet the needs and requirements of international markets, and as a result, many state owned business organizations were steadily closing. This influenced economic indicators, which were not only deteriorating but also replaced with new market concepts, macro and micro indicators.

The new theories were gradually replacing the former Soviet Union's theories. Free market relations and economy were a priority target for Kazakhstan to strengthen its economy.

Although the doctrine of comparative costs [3] maintains that if trade is left free, each country tends to specialize in the production of commodities it enjoys a comparative advantage in terms of real costs, many other factors such as fair wages that can be a main stimulus for decreasing cost of productions via bringing new innovative ideas in businesses.

It was Mises [4], who described production as a transformation of elements through combination and arrangement, and a creativity of a man as it can be only in thinking and in the realm of imagination. In some point, it explains why Kazakhstan had difficulty in growing its high value production. Without creativity, producing goods and services do not provide necessary properties and actions to build export potential. Creativity comes from a deep knowledge of subjects and understanding needs of the markets. In other words, it is a stage of professionalism and high level of qualification within the organization. Creativity is a form of innovative knowledge that constantly transforms structures to a new level by driving economies with innovations.

Regarding a production capacity of the global economy, some economies have excessive professional human resources, the other have excessive capital, there are many with other resources and several hubs that have a huge transit and logistics capacities. However, the sources for the competitive advantages of national economies both for internal and external trade and for growing its export-oriented

industries based on many other available resources, markets and trends.

Possessing great natural resources, Kazakhstan locates in the middle of the Eurasian continent, neighboring with China in the east, Russia in the north and Kyrgyzstan, Turkmenistan and Uzbekistan in the south. It provides advantages in transit and logistics and for producing new innovative products for neighboring markets. Basically, Kazakhstan's producers are open for a market of more than 1,5 billion people of neighboring countries.

Why not to use this potential at present for increasing export potential? There are a number of factors however. Marshal [5] had explained the role of investment of capital for a constant increase in surplus of production over the necessities of life. With almost \$215 billion dollar FDI inflows into the Republic of Kazakhstan for the period from 2005 to the first half of 2015 [6], Kazakhstan ranks as one of the leading countries in the region. Almost 70% of those investment accounts for the last 5 years.

According to Issekeshv [7], a former minister of new technologies and investments, investors of Kazakhstan are interested in traditional spheres of extraction of minerals only, but processing sector remains promising, as it has attracted over \$20 bln. One can conclude that a volume of investment capital is not a main measure for Kazakhstan to increase an export potential of the country in high valued products and services.

In works related to international trade, Porter [8] describes national competitive advantage with four main ingredients in order to achieve international success in particular industries. They are the following: factor conditions, demand conditions, related and supporting industries and the firm's strategy, structure and rivalry. From this theory, it seems that any country could build up its national competitive advantage if it focus on improving those ingredients. Nevertheless, for Kazakhstan it was not an easy target.

Why was not it an easy? In the cost structure of final goods and services of Kazakhstan, transportation and logistics costs take the highest level. In order to transport goods from Kazakhstan to center of Europe, it should cross at least three countries by railway or roads where each country runs their own price and political policies to influence its trade partners.

On the other hand, as a key producer of oil, Kazakhstan is a main importer of air and auto fuel from other countries. It shows that export policy of Kazakhstan focused on mining and exporting of raw materials rather than on building core supplementary sectors and industries that could support exporting high value goods and services with lower transportation costs. Because there were few thoughtfully created supporting industries and sectors, many new industrial productions of Kazakhstan failed for many years. Even some of the most successful ones reached around 30% of their capacities.

Kazakhstan's initiative to create Eurasian Economic Union was a long-term strategy to eliminate trade barriers and decrease the cost of transportation by creating single trade standards in the whole Eurasian Area from Portugal to Japan. However, within its present borders it becomes more a political union such as OCDE or SCO, which has less interest to support business sector and free trade between countries of the union and outside of it. There are many unsolved political, social and cultural issues on agenda are on the highest priority list of these political unions.

It is clear that trade barriers and external factors from neighboring countries is not only issue to increase the export potential of Kazakhstan. From analysis of over 20 projects in Kazakhstan, the main barriers for growing export potential are in traditional mindset of local management to grow qualified specialists constantly, especially in fast changing global environment. Companies and organizations usually hire specialists for only certain tasks and projects. Moreover, observations showed that practically no single company or organization has its own educational and training center for upgrading specialists from different professional areas and qualifications.

Probably one reason also in cultural peculiarities of hiring close relatives or under requests of ties or friendship rather than qualified specialists according to interests and skills. That is a main reason of avoiding creation of training and educational departments, as many key export organizations have no requirements for knowledge and competences, which is a key ingredient of building stronger teams for international business and markets. In those that created educational centers such as national holdings, they are not specific concerning many companies under their structures. These national companies accounts for more 80% of the economy of Kazakhstan and it is a huge issue for fair privatization and sell offs, which have already started in the period of new economic slowdown.

According to Kling[9], a closed economy to trade is one in which inefficient industries and laggard firms are well protected. From analysis of Kazakhstan major corporations one can conclude that despite transformation policies implemented, government regulations and laws protect state holdings and national companies, creating inefficient business structures. Most of them are laggard firms with no purpose to produce innovative products or services. They contradict to the principles of these organizations and main legal binding documents of the government, a main shareholder of existing structures.

From one year of exporting marketing services in Kazakhstan, any business operator can experience attacks rather than supports from tax and customs bodies in terms of building trust and very neat form of cooperation. Without government support, bribery or connections, it is clear that innovative entrepreneurs are simply cannot survive within a year, those who survive they have to work in a way that meets their supporters increasing their cost of uncompetitive productions. This case demonstrates a traditional mindset of the local people, which still limits integration of Kazakhstan to innovative and global values of the leading economies and it is a main barrier for absence of international brands of Kazakhstan on a global map.

In his book Charles [10] points out that all theories recognizes that international trade is beneficial to a country, although they lack agreement in their recommendations for government policy. This is true as from analysis of many theories there is no specific recommendation for any developing country. Therefore, the purpose of this article is to provide practical recommendations for the government policy of Kazakhstan, which in turn can lay a foundation for more in-depth analysis and specific country based recommendations.

First, in light of Kazakhstan's absolute advantage in the transit and logistics, why should not Kazakhstan focus on developing and upgrading its transport and logistics infrastructures further and initiate other countries of the region do the same? According to EU Commission [11], China and Europe trade over €365 billion a year and this is not mentioning \$230 billion trade between China and Middle

East [13], over \$250 billion trade of Central Asia, CIS, India and Pakistan with Europe [14], Russia [15, 16] and China [17]. By building effective and advanced logistics systems, Kazakhstan can increase its income from transit services for more than 5-10 billion a year annually. It is known that average growth of world exports of transport [12] equals 5%, insurance services – 8%, communication services – 8% and travel services -6% and generally it is more than average growth rate of GDP of many leading countries.

Second, it is important for Kazakhstan to innovate in building its infrastructures and plants for producing various kind of fuels and energy sources. According to WTO [12], an average annual growth rate of world exports of fuels (1995-2014) increased more than 12%, which is more in value terms than any other product group. Kazakhstan is number one world exporter of nuclear and it is a main exporter of oil in Central Asia. The significance of specializing in nuclear power technologies and alternative energy sources will add the absolute competitive advantage of Kazakhstan for exporting high value and secure energy technologies and fuels to the neighboring countries in near future.

Third, the three most demanding sectors are pharmaceutical products and foods. Their annual growth rate is more than 5%. Kazakhstan with its vast territories and herbage areas is the most favorable environment where government should focus on agricultural and chemical sectors to support those demanding industries.

Forth, it is important for Kazakhstan develop its e-business infrastructure further. This sector accounts for more than 16 trillion of trade a year [12]. It helps to reduce the cost of trade and access markets instantly in any part of the world.

Fifth, developing human resources is the key element of growing export potential. With population of around 17 million people, it is important to mobilize resources and increase a number of qualified specialists in key sectors of economy, including those related to supporting industries for export

Sixth, eliminating the informal trade barriers and border controls via implementation of new information and communication technologies. According to the World Bank graph [17], the required time for import and export are the highest in the Central Asian region. It means that in order to succeed, Kazakhstan should put efforts not only improve its own indicators but also of the region.

Seventh, exporting has certain risks and therefore exporters should have government-backed insurance and incentive programs to cover major types of export risk and stimulate production for outward markets. Such programs particularly useful for new ventures and entrepreneurs who started with small and medium sized businesses for export.

To see how this can play out in practice, it is necessary to create a fair business and legal environment where a competitive advantage of companies can be formed via developing qualified human resources and changing the mindset of local consumers, especially in the state owned structures and policy institutions. This particularly necessary in many CIS countries, where national corporations are limited for

growing their export by high cost structures, unqualified human resources and in their ability to communicate and compete regionally and globally with Chinese and European firms.

The ingredients and sources for increasing export potential of Kazakhstan has been examined based on several previous theories and literatures. The offered recommendations are country specific and can be applicable in other countries. Many theories support the arguments and programs of Kazakhstan on how to grow export potential, which in turn shows a right direction of the study.

The future studies should focus on analysis of variables to investigate the indicators for the economic growth and its relationships with government programs of Kazakhstan. Furthermore, it is important to make an in-depth screening of export-oriented companies of Kazakhstan and their models of growing export potential in the midterm and long-term. This will give an understanding of how to support those companies to grow their exports gradually. In addition, it is important to review priority-processing industries to define opportunities to grow their absolute advantages in international and regional trades.

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