

A. Yessentugelov
Doctor of Economics,
Honorary Worker of the RK,
Holder of the “Kurmet” Order

**Problems and ways of improving
the competitiveness of Kazakhstan's economy
in the context of the world economy's
post-industrial development**

The Governments of many countries, especially of the oil-producing ones, are facing the challenge to help their economies overcome the global oil crisis and, moreover, to create conditions and take all measures required to ensure their long-term sustainable and effective development in the modern world with all its technical and technological, economic, social and political characteristics.

The objective of overcoming the oil crisis depends not so much on the actions of the Government, but rather on the rising global oil prices, which is largely determined by the increase in the demand for oil in the world market, or rather by the economic growth of the oil-consuming countries, unless, of course, major changes take place there that would drastically reduce their dependence on oil consumption.

There are different predictions about the increase in world oil prices, based on different assumptions about the dependence of the economies of oil-consuming countries on oil. This is largely determined by how these countries, first of all, will intensify development of high-tech innovative non-energy intensive production, which will reduce their demand for oil, and, secondly, will make extensive use of environmentally friendly renewable energy sources, which will also reduce their demand for oil.

Both directions of economic development are gaining momentum.

But there is one factor that increases world oil prices in the world market, that is the restriction of oil production in the world, or the freezing of the volume of its production by oil producing countries, especially by the

OPEC member-states, in order to reduce the oil supply in the market. This may cause an increase in the world oil prices.

For now experts estimate world oil prices at \$40-50 or \$50-70, which is, of course, not \$110-112, but, nevertheless, given the oil production cost of on average around \$20-40 per barrel, it will provide companies with reasonable profits and maintain profitability of oil companies. However, there is a prediction that world oil prices will increase to \$240 in the long term due to the GDP growth in developing countries, including Russia. But it is unlikely to happen, because the scientific and technological progress in production of non-energy intensive high-tech products is likely to develop, and the same will take place in development and use of renewable energy.

In the age of information and electronic technologies, this is surely a way out of the oil crisis, but it cannot ensure a significant growth of the non-oil sector and, especially, sustainable and effective development of economy that is required by the modern global economic conditions. The question arises, what is necessary for the development of the modern global economy?

First of all, not only oil-consuming, but also oil-producing countries should get rid of oil dependence. First of all, world oil prices become too volatile, and it causes instability in the growth of these economies, creating serious risks. Secondly, the oil production becomes more expensive, because it has to be extracted in inaccessible areas and oil fields with decreasing reserves, and under complex transportation conditions. Thirdly, even under such conditions, the high oil export revenues will constrain the development of other industries, including high-tech and more efficient ones, because in such cases countries face the "Dutch disease", and the economy becomes uncompetitive in the global market and remains resource-based, having no prospects for development. And finally, as we know, the Stone Age did not end because the world ran out of stones, as there are a lot of them in the world, but because new, more effective tools appeared. The same will happen with oil, and, in fact, the oil age is already coming to an end in a number of countries.

The challenge to get rid of oil dependence existed long ago. But, unfortunately, in the face of rapid increase in the demand for oil, caused by the economic growth of many developing countries, in particular China,

India, Asian, Eastern European countries and others, and, accordingly, rapid growth of world prices for oil, countries easily gain oil revenues, and GDP is growing rapidly, that is why it was difficult to persuade the governments to get rid of oil dependence and develop non-resource-based trading sectors.

Today we see that the oil industry development is characterized by instability, and world oil prices are becoming more volatile, which makes the whole financial and economic system unstable, creates great risks for the development of the oil producing countries. The more we delay the process of overcoming its dependence on oil, the more our economy will be exposed to serious risks.

Overcoming the dependence of our economy on oil is not an easy task, and in the modern world its solution does not come down to just construction of enterprises in various sectors of the manufacturing industry, to simple diversification, as it is done in Kazakhstan today. We cannot say that the Government is not doing anything in this area, but the development of state programs like SPAID-I and SPAID-II, "100 Steps", "Nurly Zhol" and etc., that is, the programs called "industrial and innovative development " and, especially programs of economic industrialization, is contrary to the processes that are taking place in the global economy, the processes that are related to the beginning of a fundamentally new era in the world - the era of post-industrialization, based on the application of not machine technologies as it was during the industrial era, but of information and electronic technologies and related innovations that radically differ from innovations based on industrial technologies. This is how Japan overcame its heavy dependence on oil and became the first country in the world to develop high-tech productions in 1970s, followed by the United States in 1990s, and then by other advanced countries with market economies. It was not just a change of technology, but a real technological revolution that caused fundamental changes in the economy in general in these countries. And they have shown and continue to show how and what progress has been and is being achieved by those countries that realized it at once and began to rapidly develop and deploy these technologies and create highly competitive innovative products. They showed the way for the oil-producing countries to get rid of oil dependence and become competitive in the global

market through, as M. Porter noted, productivity growth of production factors and innovation. According to these factors, no country with machine technologies and industrial economy can be competitive with the countries applying information and electronic technologies, i.e. countries with a post-industrial economy.

Unfortunately, we have not yet realized this large-scale and in-depth process, that is, the technological revolution taking place in the global economy. Due to objective reasons, relating to the transition period, followed by two crises, Kazakhstan could not take an active part in this technological revolution. Russian politicians and experts admitted it at the recent Gaidar forum. The Russian Prime Minister Dmitry Medvedev admitted that this is the reason why Russian goods cannot be import-substituting.

However, the task to make a transition of the Kazakhstan's economy to high technologies and make it post-industrial is important and is just as difficult. It is a long-term process, which is confirmed by the experience of many advanced countries of the world. Quite recently Saudi Arabia, the largest oil-producing country in the world, adopted a 15-year reform plan to reduce oil dependence.

Another problem is that it will be extremely difficult for Kazakhstan to develop high-tech post-industrial economy on its own. This can be seen from the experience of Japan, which made the decision in 1970s, i.e. after the first global oil crisis. Back then the crisis was associated with the rise in world oil prices from \$3-4 to \$12 per barrel. Assuming that this was not the limit for growth of world oil prices, and that such growth will continue, Japan made a decision to get rid of oil dependence, using already created and developing high-tech productions. Japan stimulated development of new high-tech industries and began to transfer its labour-intensive traditional industries to other countries with abundant labour resources and import their considerably cheaper products.

Japan was followed by the United States and then by European countries. Kazakhstan has no such opportunities today and will not have them in the nearest future.

It does not have any high technologies, there are no specialists in their development and implementation, there are no businessmen who could develop high-tech productions and maintain such business.

As E.Gaidar and W.Easterly wrote, developing countries cannot develop high technologies, they can only buy them from the developed countries. Moreover, we have no one who could organize production of high-tech products and conduct business. Therefore, the only way for Kazakhstan is to attract foreign investors with extensive experience in the creation and development of high-tech industries and successful business, as, for example, Singapore did.

Its experience shows that we should not attract such investors as foreign businessmen that claim to be experienced in this area. It is necessary to involve consultants from developed countries, from the US, the UK or Germany, prominent representatives of major business structures. At the same time, it is necessary to organize staff and businessmen training, both abroad and at home. But it should not be done formally, just to show that Kazakhstan is making efforts in this area.

However, development and even creation of high-tech industries in Kazakhstan will not make products competitive in the global or in the domestic market. It will not help to get rid of the economy's oil dependence or to create the foundations for its long-term post-crisis effective development.

Structural and institutional reforms are the basis for improving the competitiveness of Kazakhstan's economy. The situation in the world market in general and in developing countries, primarily in the oil producing ones, is not that simple: the world oil prices dropped from \$110-112 to \$30-40 per barrel, and this led to the second world oil crisis. How can they get out of this crisis now? This is a difficult question, like it was during the first world oil crisis that occurred in 1973 – 1974, but unlike this time, back then the world oil prices jumped up to \$3-4 to \$12 per barrel. That crisis started from Japan.

It is important. The fact is that back then Japan radically changed the model of its economy: it decided to get rid of oil dependence by developing high-tech industries and transferring traditional industrial production, based on machine technologies, outside the country, to the neighbouring

countries, and importing their products. That is how the development of high-tech industries began.

At the beginning of 1990s, the then-President of the USA B.Clinton, together with his most authoritative expert advisers, such as S.Fischer, D.Lipton and L. Summers, began to develop transformations of the Japan's new economic model for the United States. But there was one problem: Japanese government's intervention in the economy was quite considerable, and the USA did not like it, of course. But the main thing was that the US began to move its economy towards high innovative technologies.

Overcoming the world oil crisis today is not an easy task. If the world oil prices rise, this will, of course, help the oil-producing countries to achieve economic growth. But they will achieve just this economic growth, and no one knows how long it will last. Of course, this is not so important, what is important is that we will have to move towards high-tech economy.

We should understand that the world economy has entered a new era, the post-industrial era. All developed countries are already in and prosper in this era. Therefore, if we do not transfer our economy to high technologies, it will remain uncompetitive in the global market, and its products will be uncompetitive in the domestic market as well. Thus, it will remain in crisis from in terms of development, or in stagnation at best.

Therefore, in order to overcome the crisis and develop, we should, first of all, develop only high-tech industries, thus carrying out not just structural but structural and institutional reforms. These reforms without a shift towards high-tech economy would be useless, as the economy would still be uncompetitive. It will be an extremely difficult and time-consuming process, taking into account the fact that we even do not have any high technologies or experts with an experience in this area or entrepreneurs able to develop high-tech industries. Development of these industries does not mean just funding by the NFK and construction of multiple industrial facilities. By the way, all our programs are called programs of industrial and innovative development or even industrialization of the economy. We say that we allocate billions of dollars from the NFK. Yes we allocated funds, developed SPAIID-I, SPAIID-II, so what? The economy just got the "Dutch disease", products remained uncompetitive both in the foreign and

domestic markets, but all the funds were spent. This should teach us that we will not achieve anything just by pumping petrodollars into the economy.

We can achieve our goals by carrying out structural and institutional reforms and shifting the economy to high technologies. Here are important steps we should make:

liberalize our economy, promote free entrepreneurship, free markets and give freedom to private initiatives;

ensure a free exchange rate with inflation targeting at the level of 3-4%, the budget deficit limit of 3% of GDP, strengthening of the banking system, availability of bank loans to private entrepreneurs. The government should stop involving entrepreneurs in state mega-projects and questionable programs, but let them choose and develop production on their own. Facilities built under these programs are based on machine technologies, with the use of Russian technologies at best, which are claimed to be high technologies. In fact, Russia's situation in this matter is no better than that of Kazakhstan. The Russian Prime Minister Dmitry Medvedev said the products produced in Russia are not import-substituting, and a well-known expert, former Minister of Economy of the Russian Federation G.Gref said at a recent Gaidar forum that Russia missed the technological revolution. Earlier, A.Kudrin mentioned it as well. Thus, the technologies imported from Russia cannot be called high.

It should be noted that the task of solving this problem will require more serious and large-scale structural and institutional reforms. We often hear that it is necessary to carry out structural reforms. In fact, first of all, we will not achieve anything by just carrying out this reform without taking institutional ones, and second of all, they cannot be separated from each other. Moreover, as it is proved by E.G.Yassin, sometimes they are difficult to distinguish, even the same changes, such as privatization of property or liberalization of prices, may be referred to as structural and institutional reforms.

These reforms were also carried out in previous years, however, taking into account the peculiarities of the period of transition from a planned to a market economy, these reforms were carried out in a limited form, providing for active government participation, but now they have to go

deeper, taking into account the conditions of economic development based on high technologies.

In this context, it would be right to make all kinds of structural and institutional changes, without dividing them into structural and institutional reforms, because it is not important, what kinds of reforms they are, but that they are carried out.

These reforms include:

liberalization of the economy;

liberalization of prices;

openness of the economy;

financial system (monetary policy;

tax policy;

budgetary policy;

banking system, stock market);

privatization of property, including land ownership);

legal system (protection of private property rights, including land ownership, the judicial system)

administrative system

labour relations, pension system, demographics and migration;

health care;

education.

The content of these reforms is a topic for another discussion, but I would like to note the following important points. Economic liberalization should lead to formation of a free market with free entrepreneurship with a private initiative. What to produce, where to produce, how much to produce, which market to go to with these products, where to get the resources and investments - all these should be entrepreneurs' business, and the government should not be involved in this process, neither by identifying priority sectors nor by allocating investment resources, nor by pursuing protectionism policy, and etc.

The inflation should be targeted at the level of 3-4%, the tenge exchange rate should be free, the budget deficit should not exceed 3% of GDP, the government should undertake expenditures only through the budget, regardless of the sources from which the funds are allocated,

including the NFK funds. I will not consider the rest of the reforms, since there is not much time.

.