

# **Competitiveness of Kazakhstani National Economy: Problems and Prospects for Overcoming**

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## **Abstract**

Kazakhstani foreign trade plays a key role in the progress of the country's national economy. Consequently, the industrial and innovative development of the foreign trade sector determines the competitiveness of the State, an indicator of which is the global competitiveness index.

This article discusses the level of competitiveness of Kazakhstani economy through the Global Competitiveness Index. Also, the article presents an analysis of this indicator changes and the main reasons for its dynamics. A study of the factors restraining the competitiveness of the State economy revealed that changes in inflation have a significant impact on the country's economic effectiveness. Prospects for overcoming the problem is seen in increasing the industrial factor and monitoring the technological support for the economy. Improvement of the State's position in the Global Competitiveness Index relies on the effective implementation of governmental programs, the ability to keep inflation at a constant level and on the effectiveness of foreign trade policies.

*Keywords:* global competitiveness index, inflation, national economy

## **Introduction**

The processes of globalization that were activated at the turn of the XX-XXI century bring both new opportunities and risks for the economies of countries. To overcome the risks that have arisen in the process of globalization, an important criterion for improving the country's economy is its competitiveness (Bondarenko, 2007).

Competitiveness of the national economy is a general indicator of how effective the national economy and its entities are functioning. Competitiveness is the basis of the rapid development of an industrial society, initially as a form of free competition of individual producers in the open market, and in the form of a price mechanism for its implementation in domestic and foreign markets.

## **Literature Review**

For three centuries now, the concept of competition has been changing dramatically. The literature provides various definitions for the notion of competitiveness. The theories and views of the most famous authors such as Porter (1993), Krugman (1994), Cho (1994), Reiljan, Henrikus, and Ivanov (2000), Cho and Moon (2005), Camagni (2002), Turok (2004), Gardiner, Martin, and Tyler (2004), Garelli (2009), Bienkowski (2009), Dunning (2013) - are mostly focused on the analysis of competitiveness at national level. T.A. Zavyalova (2010, p.42) interprets the concept of competition as «the ability to be a leader in a competitive environment». M. Porter (1993, p.45) introduces competitiveness as «the ability of an industry to constantly develop and innovate». According to L.S. Blyahman (2008), competitiveness is the ability to maintain and grow a value-added part of a particular product or service in a particular segment of the national or world markets, as well as to use its competitive advantages more efficiently. Domestic scientist Academician K.A. Sagadiev considers competitiveness as an important analytical tool, as it allows to know the level of prosperity of each state, which provides high standards of living and democratic development in society. In his point of view, the competitiveness of each state is characterized by its ability to provide economic growth rates (Blyahman, 2008). Country competitiveness is the ability of one country's economy to compete with the economies of other countries in terms of effective use of national resources, increasing the productivity of the national economy and ensuring a high standard of living for the population (Mocherniy, 2000). National competitiveness refers to the economic

performance of a nation measured as the ability to offer to its citizens high standards of living building on a strong and solid basement on the long term and a high possibility of choosing the work places for those who want to work (Balkyte & Tvaronaviciene, 2010).

Competition is an economic law that is based on a market economy, which is governed by the laws of supply and demand, the law of value, the law of profitability and other market principles.

Since competitiveness is a prerequisite for the industrial-innovative development of foreign trade activities of the country, it plays an important role in advancing the national economy. Under the current conditions, the level of competitiveness, as an indicator of the welfare of the state and the prospects for the development of the economic system, is the reason for the state's participation in international labor distribution, a guarantee of economic security and the production of goods and services that meet the needs of the population and the world market. This, in turn, improves the well-being of the population.

Competitiveness is determined by various complex factors. National resources, geographical position, country size and national culture are important determinants which make a country to be more competitive than another (Sachs & Warner, 2001). Competitiveness indexes are calculated by many international organizations that use different methods of calculation. The key indicator that determines the competitiveness of the state in the global environment, recognized by all the states is the index of global competition. When calculating the index, factors that are integrated into the 12 main groups are used to determine the competitiveness of the economy. These groups are : 1. Quality of institutions; 2. Infrastructure; 3. Macroeconomic stability; 4. Health and primary education; 5. Higher education and vocational training; 6. Efficiency of the market of goods and services; 7. Labor market efficiency; 8. Level of financial market development; 9. Level of technological development; 10. Volume of the domestic market; 11. Company competitiveness; 12. Innovation potential (World Competitiveness Report, 2019).

## **Methods**

The research methodology is based on general scientific methods of cognition, principles, and criteria of objectivity. The works of national and international scientists, statistical

indicators of the economy and socio-political development of the country, the Global Competitiveness Index were considered in the study.

## **Discussions and Results**

The issues of determining the competitiveness of the national economy and organizing measures related to its improvement became more important, especially after the global economic and financial crisis. The economy of the Republic of Kazakhstan in this regard also showed the negative consequences of the crisis for the economy as an exporter of raw materials and dependent on its world prices.

According to the Global Competitiveness Index report the country has shown the best results in 2015-2016, taking 42nd place and reached its worst 72nd place in 2011 and 2012 (Table 1).

Table 1. Position of The Republic of Kazakhstan in the Global Competitiveness Index

Period	Position of the country in GCI	Technological development	Company competitiveness	Innovational potential
2006-2007	56	70	-	-
2007-2008	61	-	-	-
2008-2009	66 (+3)	75 (-5)	86	62
2009-2010	67 (-1)	82 (-7)	102 (-16)	101 (-39)
2010-2011	72 (-5)	82 (no changes)	102 (no changes)	101 (no changes)
2011-2012	72 (no changes)	87 (-5)	109 (-7)	116 (-15)
2012-2013	51 (+11)	55 (+22)	99 (+10)	103 (+13)
2013-2014	50 (+1)	57 (-2)	94 (+5)	84 (+19)
2014-2015	50 (no changes)	61 (-4)	91 (+3)	85 (-1)
2015-2016	42 (+8)	61 (no changes)	79 (+12)	72 (+7)
2016-2017	53 (-11)	56 (+5)	97 (-18)	59 (+13)
2017-2018	57 (-4)	52 (+4)	108 (-11)	84 (-25)

Note: created by author based on the World Competitiveness Report (2019)

Among these factors are the so-called industrial potential of the innovative potential of the state, level of technological development and competitiveness of the companies. As a result of improvement of this factor, the state shows positive results on the competitiveness index.

Although the level of technological development in the country has shown a positive result in recent years, in 2018 the competitiveness of companies has fallen by 11 positions compared to the previous year, and the innovative potential of the state by 25 positions.

According to the experts of the index, the lack of funding (14.5%), corruption (13.8%), low education (11.9%), inflation (9.7%), tax regulation (8.7%) are factors that hinder the competitiveness of enterprises in the country.

Inflation is a complex social and economic process, with its negative consequences. According to the inflation data for the last ten years in Kazakhstan, shown in Table 2, the highest inflation rate due to the devaluation of the national tenge in 2015 reached 13.53% and, accordingly, Kazakhstan has not changed its position in the competitiveness index that year. And in 2016, with the decrease in inflation and, accordingly, the state climbed up 8 positions in terms of the competitiveness index. This shows the effect of inflation on the index (Ministry of National Economy of the RK, 2019).

Table 2. Inflation rate in Kazakhstan during the 2009-2018 period

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Inflation rate, %	6,38	7,97	7,43	6,06	4,90	7,54	13,53	8,29	7,22	5,43

Note: created by author based on the Statistics of the Ministry of National Economy of the RK

Among the factors constraining the competitiveness of the national economy, as well as the slowdown in technological and innovative development, that is, the low involvement of the private sector in funding research and development activities; lack of close cooperation with universities and research institutions in the field of research and development; limited access of the population to the Internet; insufficient level of intellectual and material and technical potential of research organizations; The focus on obligatory procurement is based on the pricing factor, not on the technological and innovation of the offer; Government programs of various directions do not take into account (or completely ignore) plans to stimulate introduction and use of information and communication technologies, etc.

In order to raise the competitiveness of the national economy of the Republic of Kazakhstan to the world level, there is a need to address these issues at the state level.

Due to the fact that sustainable development is one of the key issues in the economy, it is commonplace in the research of domestic and foreign scientists. However, the development of the economic system, and the interaction of national economies, requires the search for new factors and conditions for economic growth. Among the positive trends in the economy are the following:

- Development of industry
- Increase in foreign trade turnover
- Decrease in unemployment rate and inflation
- Improvement of the investment climate
- Increased investment in production
- Reduction of overseas capital outflow, etc.

Under the conditions of global integration, the economic development of the state is dependent on the level of competitiveness of the economy. It, in turn, is impossible without raising the level of competitiveness of industrial and industrial complexes. The competitiveness of the national economy is the main priority of our state.

Formation and development of industry play one of the key roles in improving the nation's well-being, while laying the foundations for the economic infrastructure.

Analysis of the current state of the industry based on foreign trade indicators and the share of domestic production in the domestic market, showed a low level of competitiveness of the processing industry of Kazakhstan. The dynamics of foreign trade growth are shown in Table 3 (Ministry of National Economy of the RK, 2019).

Table 3. Foreign trade turnover of the Republic of Kazakhstan

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018
Commodity circulation, billion USD	91,3	121,2	132,8	133,5	120,7	76,5	62,1	78,1	94,7
Export, billion USD	60,2	84,3	86,4	84,7	79,4	45,9	36,7	48,5	61,1
Import, billion USD	31,1	36,9	46,3	48,8	41,2	30,5	25,3	29,5	33,6

Note: created by author based on the Statistics of the Ministry of National Economy of the RK

The export of the Republic of Kazakhstan, at the end of 2018, amounted to \$ 61.1 billion, and imports - \$ 33.6 billion. However, despite the fact that the export of products exceeds

the import 1.8 times, at present the level of diversification of the domestic industry is still low. Exports of highly competitive goods account for more than 70% of total exports.

For the purpose of qualitative analysis of economic indicators there is a need for structural analysis of export and import relations of products. According to the main types of exported and imported products, the tendency of development of the industry and export orientation to raw materials continues.

In order to develop and improve the industry which is responsible for most of the competitiveness of the Republic of Kazakhstan, Departments of the Committee for Industrial Development and Industrial Safety of the Ministry of Investment and Development of the Republic of Kazakhstan carry out supervisory functions in the country. The Department has the following services to promote the sphere of industry:

- To monitor the implementation of industrial, investment and innovation policies
- Formation of a competitive market environment
- Strengthening product competitiveness
- Increasing profitability of industrial enterprises
- Creating additional jobs
- Attracting additional investments into the region, etc.

Most energy-exporting countries can increase their competitiveness by adopting special government programs and measures aimed at minimizing abrupt changes in the global commodity market. In particular, the production of competitive products and goods is carried out by improving the innovative nature of the industry. Therefore, the increase in the competitiveness of the economy of Kazakhstan is associated with the industrial factor the level of development of industries in the country, including manufacturing.

The development of the Kazakhstan economy through the expansion of localization of production, increasing the level of processing and labor productivity in the industries, using the latest technology, will in fact lead to the creation of additional jobs, socio-economic and socio-political development of the population, and improvement of competitiveness. Improvement of the State's position in the Global Competitiveness Index relies on the effective implementation of government programs, the ability to keep inflation at a constant level and on the effectiveness of foreign trade policies.

The development of the competitiveness of the Republic in the world market should be carried out in the industrial direction. However, the number of leading countries in the economy includes countries that are capable not only to effectively use available natural resources, but also to produce final products. This is the reason, why in modern conditions the increase in the competitiveness of the economy of Kazakhstan is dependent on the industrial factor – the level of development of industries in the country, including manufacturing.

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