

***KAZAKHSTAN:
Competitiveness Benchmarking: 2001***

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I. Background

The Government of Kazakhstan faces the challenge of stimulating rapid economic growth resulting in broad-based sharing of the benefits of growth for the average Kazakh citizen. Having gained its independence in 1992, Kazakhstan faced the challenge of the transition to market, the break-up of centrally planned ties, privatization, and economic reforms that followed. The Russian Financial Crisis of 1998 further stifled the Kazakh economy. The global slowdown, exacerbated by the events of September 11th, has presented an additional challenge. The events of September 11th and the war in Afghanistan increased Kazakhstan's strategic importance, and exposed its economic situation.

In sight of the above, it is all the more urgent to improve the living standards of people in a sustainable way. Sustainable improvements in living standards are a function of the competitiveness of Kazakh enterprises and the competitiveness of the Kazakh economy. This study has been commissioned to provide a benchmarking as of February, 2002 of Kazakhstan versus all other countries of the world so as to see clearly the strengths and weaknesses of the country and to measure progress in the coming years. It is symbolic and highly appropriate that such an exercise be conducted when Kazakhstan's strategic importance is at its peak as the leading nation in Central Asia. This study can serve as a kind of time capsule presenting a multi-faceted picture of the competitiveness of the Kazakh economy in publications from the year 2001 or slightly earlier. Kazakhstan is one of many countries that are emerging from a legacy of centralized economic planning and it is appropriate to provide benchmarks relative to other countries in similar situations as well as to highlight the top performing countries.

Definitions and Uses of This Report

The Competitiveness Benchmarking for Kazakhstan, compiled by J.E. Austin Associates (JAA), ranks Kazakhstan relative to the European Union countries, to some regional leaders, and to all countries of the world in areas generally regarded as relevant to competitiveness. Competitiveness at the national level can be defined as the ability of a country to produce

products and services that meet the test of the market place, while delivering high and rising standards of living for the average person. Benchmarking is the measurement of performance relative to a particular reference group and normally relative to those who are doing the best job in a particular area of endeavor. The benchmarks also serve to measure one's own progress over time.

Why is Competitiveness Benchmarking Useful?

For the Government of Kazakhstan, this study serves as a powerful tool to measure progress and set priorities for policy and institutional reform. Other high growth countries, such as the USA, Singapore and Ireland have published national competitiveness reports. The Governments of USA, the EU, Ireland, Singapore and others have identified specific targets and benchmarks against which they measure future progress.

For economic faculties, business schools, technology institutes and think tanks, it provides a rich source of data for their analysis. Those researching IT-readiness, export performance, investment, economic results, human capacity, infrastructure and other areas will find data that can be used to inform their research and strengthen their ability to contribute to national dialogue.

The economic press can use this publication to encourage national debate on Kazakhstan's competitiveness. It is important that the average citizen understand what is at stake for Kazakhstan's future. The Government of Kazakhstan will have to mobilize popular support behind initiatives, required to improve Kazakhstan's competitiveness in a global environment.

Competitiveness Benchmarking encourages private-public dialogue. Benchmarking encourages reflection and discussion on issues related to the speed and effectiveness of Kazakhstan's transition to competitiveness. It focuses attention on strengths and weaknesses, improvement and deterioration. By presenting objective data, competitiveness benchmarking encourages informed and natural dialogue.

Competitiveness Benchmarking provides comprehensive data. Effective dialogue and policy reform requires the use of good data rather than

anecdotal evidence. It requires the ability to understand data in the broader context of the performance of other similar countries. This study presents many sets of data so as to provide a rich mosaic of Kazakhstan in which the true picture comes into sharper focus. By presenting it relative to the EU countries and to relevant top performers, one provides a basis for drawing reasonable conclusions. It is hoped that the Government, business associations, universities and NGOs will find this data useful for their analyses.

II. Summary of Findings

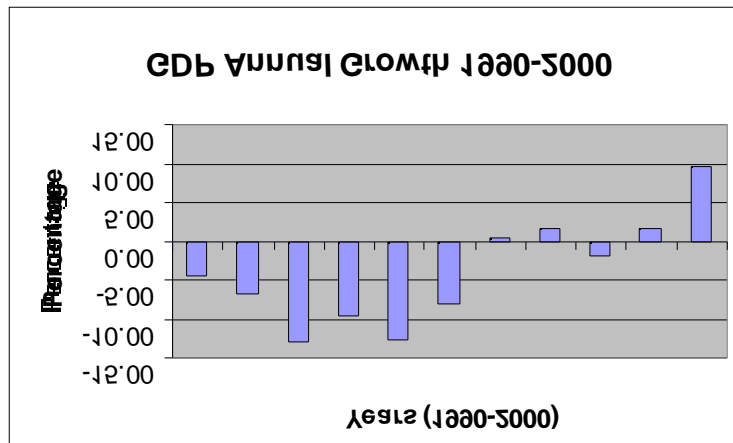
Kazakhstan demonstrates relatively high marks in the quality of its workforce and also has relatively good infrastructure, compared to other countries in the region. However, its lackluster economic performance does not reflect the quality of its people. Kazakhstan also ranks relatively low in the areas of investment competitiveness, government regulation and the financial sector. Given the high potential of its human resources, Kazakhstan can also improve its scores on science and technology as well as research and development—areas, which are increasingly important in achieving sustainable competitiveness.

1. Economic Performance

GDP per capita, adjusted for PPP is the best measure of Kazakhstan's current living standard. According to World Bank data, Kazakhstan's GDP per capita, adjusted for PPP was \$4,951. This means that Kazakhstan ranks 76rd out of 155 countries, earning it a rank in the 49th percentile. The average growth in GDP (again adjusted for PPP) was a 3.70%, in 1990-1999, results which placed Kazakhstan 143th out of 148 countries (in the lowest 3%). GDP growth picked up significantly in 2000, reaching 9.6%. Kazakhstan thus ranked 6th in the world. The rise in oil prices and consequent boom in oil exports played a significant role in this. Kazakhstan ranks 32nd out of 96 countries in income distribution, according to World Bank data using GINI coefficients¹. Since 1991,

¹ GINI Coefficient measures income inequality, reflecting the distribution of income throughout the population

privatization and the move toward market economics, have led to greater income disparity.



2. Export Competitiveness

In 2000, Kazakhstan saw an export boom. Exports as a percentage of GDP reached 42.12%, placing Kazakhstan in the 38th percentile. Oil and base metals are a source of the majority of export revenues. This dependence on commodity prices has caused Kazakhstan much grief during the Asian financial crisis, when these goods dropped in value. Kazakhstan is also very import-dependent, since local goods cannot meet the full scope of consumer demands. Smuggled goods are widely available because of porous borders.

Kazakhstan's merchandise exports per capita placed it in the 54th percentile among all nations of the world in 1999. Service exports were \$933 million, ranking Kazakhstan near the 60th percentile (lowest 40% of countries).

Kazakhstan has much potential for boosting export performance over the coming years. The country has important agricultural resources, and a strong manufacturing tradition.

Tourism receipts per-capita ranked Kazakhstan in the 75th percentile, or 84th out of 112 countries, with per-capita revenues of only \$19 in 1999. With 2002 designated as the international year of eco-tourism by the

World Tourism Organization, Kazakhstan should take advantage of every opportunity to promote its vast natural resources and attract high-income tourists as an exotic destination.

3. Investment

Kazakhstan received over \$1.5B in net foreign investment in 1999, ranking it 19th among 111 countries. In 2000, this figure dropped to about \$1.35B, although the oil and gas sectors remain strong attractions for foreign money. These two sectors received 83.51% of all FDI in 1999.²

Kazakhstan will need to mobilize more investment to achieve high economic growth. However, as the 1980s demonstrated throughout the former Soviet Union, high levels of investment are not enough for sustainable growth. High levels of private investment must be encouraged, and the moneys must be used productively. High growth countries are characterized by investment levels of 25-35% of GDP and private investment levels of 15-19% of GDP.

4. Financial Sector

Kazakhstan received average marks for its savings rate of 16.22% for the period between 1997-99 and ranked 80th out of 146 countries. However, measures of financial depth such as M2 as a percentage of GDP, credit to the private sector as a percentage of GDP or domestic credit as a percentage of GDP were all quite low, generally in the bottom 20 percent. Although Kazakhstan is a transitional economy and its financial sector has been established only 10 years ago, these indicators point to some major problems. The International Country Credit Risk Rating places Kazakhstan 71st out of 127 countries.

5. Macroeconomic Environment

Total trade as a percentage of GDP ranks high indicating that Kazakhstan has a relatively open economy. Inflation reached 9.8 percent in 2000. The Government's budget deficit has ballooned since the collapse of the Soviet Union, when budgetary transfers were suddenly interrupted in

² EBRD Kazakhstan Investment Profile, 2001

1991. The government revenue base further eroded because of industry contracting and rising informal economic activity.

6. Policy and Government Regulations

Transparency International ranked Kazakhstan 75th out of 91 countries for perceptions of corruption. Creation of a viable non-oil sector, though praised by consecutive governments, still faces challenges. Kazakhstan had one of the more successful privatization programs in the NIS. Government interest in oil production has remained very strong, and so investment has primarily been in oil and gas sectors. Red tape hinders investment in other sectors of the economy.

7. Human Resources

Kazakhstan ranks 28th in the world in the participation of women in the labor force. Kazakhstan also ranks among the top one third of all nations in terms of secondary school education rates. The World Economic Forum's Global Competitiveness Report, which relies on survey data, places Kazakhstan 19th out of 60 countries in terms of math and science education. Enrollment in vocation and specialized secondary has fallen even faster, while tertiary education enrollment dropped from 1.7% to 1.6% of the total population from 1991 to 1995.³

8. Science and Technology

Kazakhstan has a relatively high per-capita use of the Internet (70th out of 207), according to a 1999 measure done by the World Bank. The EIU, however, scores Kazakhstan among the lowest 10% of countries for E-business readiness. This may indicate that many people know how to use the Internet, but are not using it for strategic business purposes.

³ EIU Kazakhstan Country Report, 2000.

9. Infrastructure

Kazakhstan has above average scores for infrastructure, where it ranks in the top 28% of all countries for roads, top 35% for energy utilization and top 52% of countries for telephone density at 108 lines per 1,000 people (excluding mobile). Kazakhstan seems to have gotten off to a late start in mobile telephone utilization, where it still ranked 132nd out of 180 countries according to the latest available data.

III. Conclusions

Kazakhstan's indicators examined in this report are a time capsule of the political, economic, and social situation in 2002. The report comes at the end of a difficult ten-year transition, which included the disruption of supply chains, the loss of traditional markets and difficulties in restructuring the economy from central planning to market economics. Privatization delays and difficulties accompanying the process have further limited the country's progress. Local producers lost their traditional markets to cheap, often smuggled, imports.

Despite collective efforts to bring back talented specialists, who have been educated abroad, the human resource base and the tradition of science and technology have been eroding during most of the 1990s. The low indicators in policy environment, the financial sector and investment point to the need to make these areas a priority. As reform and restructuring continue, Kazakhstan's competitiveness as measured by these indicators is likely to improve. It is recommended that stakeholders in the Kazakhstan publish these indicators annually in order to track progress and focus attention on priority areas. Turning the high per capita use of the Internet to business development will aid the progress of the Kazakh economy.

Inserting Kazakhstan in the world economy in ways that generate prosperity will require good Government strategy that works in tandem with stakeholders in private enterprise. It is hoped that these indicators

will contribute to the thinking within the Government and will also stimulate productive private-public dialogue.

ANNEX: Methodology and Limitations of the Study

Informed by competitiveness theory and by the methodologies used by the World Economic Forum (WEF) and Harvard University, along with its own work in 80 countries over 15 years, JAA selected 44 indicators related to 9 competitiveness-related categories: economic performance, exports, investment, financial sector, macro-economic environment, human resources, science/technology, infrastructure and government policy. These include data from many sources, including the WEF. The rankings are based entirely on secondary sources, and efforts were made to select the most internationally qualified institution for each data set.

The data were then entered into J.E. Austin databases, and rankings were made for all countries of the world for which data were available. Data for each indicator is provided for the country along with its position relative to all other countries of the world. For this exercise, analysis was also done for Kazakhstan relative to the EU countries. Since data are available for a different number of countries depending on the source, JAA has also provided a percentile score for Kazakhstan such that a comparative ranking can be shown across data sets. For example, if Kazakhstan ranked 50th among 150 countries in the sample, the final column would place Kazakhstan on the 33rd percentile demonstrating that Kazakhstan ranked in the top 33% of countries for that indicator. The full data sets are also available on request, where each page presents Kazakhstan and all countries of the world. However, this is data rich and may be difficult to download, so it is not included unless there is a special request. It is hoped that this report may be useful.

The following summary of the results is meant to be *descriptive* and is not meant to propose any particular ideology or set of policy prescriptions. The authors do not intend to make judgments regarding the effectiveness or ineffectiveness of previous or current policies. Rather, it is intended to provide good descriptive data to stimulate and encourage debate on matters important to Kazakhstan's future.

JAA has normally relied on studies and data made available in 2001. However, much of this data is about two years old, reflecting a time lag between the year reported and the provision of data by all countries of the world to the sources used in this study. Kazakhstan's situation is

changing so quickly, that this data may not accurately reflect the current situation. Unfortunately, while it is possible to get more recent data for *Kazakhstan*, this is the most recent data one can get *for all countries of the world*.

The study allows people to evaluate Kazakhstan relative to relevant countries and to set goals and targets that are realistically based on the achievements of other countries over a sustained period of time. It is hoped that the provision of this study will encourage productive dialogue leading to action that supports the improvement of Kazakhstan's living standards in the immediate as well as long-term future.

COMPETITIVENESS BENCHMARKS: KAZAKHSTAN

Indicator	Year	Source	Approximate 2016	Unit	Score in Sample	Percentage Rank ¹
Economic Performance						
Yr bet CAGR (BBB adjusted) (N22)	1999	WB' 2001	2	1'021'00	10	122
2002 Domestic Product (GDP) Growth (A)	2000	WB' 2001		0'00%	9	122
Yr average growth 1990-1999 (BBB adjusted, current int. \$)	1999	WB' 2001		-3'10%	143	148
Yr bet CAGR growth (1990-1999)	1999	WB' 2001		-5'80%	141	149
NI Coefficient	Various	WB' 2001		32'4	43	99
AVERAGE						90
Abroad Competitiveness and Tourism						
Boats (USD Million)	1999	WB' 2001		1'104	29	141
Boats (as % of GDP)	2000	WB' 2001		45'15%	51	15
International Exports per Capita (N2)	1999	WB' 2001		31'0'49	82	121
Exports Growth of Exports per Capita	1995-1999	WB' 2001		-15'81%	139	138
Per Capita Exports (USD)	1999	WB' 2001	2	18'11	84	115
Per Capita Exports (USD Million)	1999	WB' 2001	2	833'00	19	159
AVERAGE						91
Investment Competitiveness						
Yr as % of GDP 1998 (A)	1999	WB' 2001		12'20%	154	141
Fixed Investment (as % of GDP)	1999	WB' 2001		N/A	N/A	N/A
2002 Domestic Investment Growth (GDI) 1990-1999	1999	WB' 2001		N/A	N/A	159
Real Direct Investment (FDI) 1999 net inflows	1999	WB' 2001		1284	19	111
Yr as % of GDP (A)	1999	WB' 2001		10'55%	12	105
Yr bet CAGR net inflows (N2)	1999	WB' 2001		100'35	20	104
AVERAGE						32
Financial Sector						
Money and Quasi Money (M2) as % of GDP	1999	WB' 2001		11'10%	140	141
Domestic Credit from Banking Sector as % of GDP	1999	WB' 2001		11'34%	158	141
Ratio to Private Sector as % of GDP	1999	WB' 2001		8'49%	112	141
Ratio to Public Sector ³	2000	WB' 2001		0	1	151
Exports to Imports Ratio as % of GDP 1991-1999	1999	WB' 2001		19'55%	80	149
AVERAGE						99
Cost Environment						
Export Budget Deficit (as % of GDP)	2000	WB' 2001		15'48%	158	180
Trade Taxes as % of GDP	1999	WB' 2001		4'13%	20	19
Border Duties (as % of imports)	1999	WB' 2001		82'35%	29	141
	1999	WB' 2001		1'03%	49	22
AVERAGE						17
Government Burden						
Receipts from Privatization (Million USD)	1999	WB' 2001		N/A	N/A	25
Government Burden Index	2001	WB' 2001		15	17	19
AVERAGE						18
Science and Technology Competitiveness						
Yr Technology Exports (Million USD)	1999	WB' 2001		130	20	89
Yr Technology Exports (as % of Exports)	1999	WB' 2001		N/A	N/A	81
Scientists and Engineers in R&D (per Million people)	1999	WB' 2001		N/A	N/A	88
Scientists per R&D (as % of GNP)	1999	WB' 2001		0'35	22	18
Life expectancy at birth	2001	WB' 2001		70'2	29	99
AVERAGE						13
Infrastructure						
Per Capita Road (as % of total)	1999	WB' 2001		80'2%	42	129
Per Capita Road per person (km sq)	1999	WB' 2001		1'01E-03	50	148
Telephone Density (lines per 1,000 people)	1999	WB' 2001		108	83	118
Mobile Telephone Density (lines per 1,000 people)	1999	WB' 2001		3'04	135	180
Electricity Consumption per Capita (kWh per person)	1999	WB' 2001		5'292	14	111
AVERAGE						10
Human Resources and Workforce Competitiveness						
Human Development Index	1999	WB' 2001	2	11'082'44	14	90
Male Labor Force (as % of total)	1999	WB' 2001		54'5	12	101
Female Labor Force (as % of total)	1999	WB' 2001		49'2%	38	117
Female Labor Force (as % of total)	1999	WB' 2001		N/A	N/A	133
Female Labor Force (as % of total)	1999	WB' 2001		N/A	N/A	151
AVERAGE						14
TOTAL AVERAGE						29