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### DIVERSIFICATION OF KAZAKHSTAN'S ECONOMY

*In the Kazakhstan's development, a vital priority was to stabilize the economy and strengthen the country's fiscal balance and debt-carrying capacity. In these conditions, it was necessary to use the capacity of the raw materials sector, which allowed to achieve macroeconomic stability. However, today the dependence on the extractive industry is becoming a problem, since the influence of the raw material orientation of the economy does not allow the development of new industries.*

*The authors state that Kazakhstan is still heavily dependent on the country's raw materials. The main driving force for maintaining and increasing competitiveness is the production and export of mineral resources. However, it is impossible to compete in the global market without supplying finished products. The dependence of exports on one or more sectors of the economy can lead to such negative consequences as a slowdown in economic growth, loss of competitiveness, increase in technology gap, government budget deficit, decrease in the quality of life, environmental problems and social unrest.*

*In this article, the authors consider the essence of diversification and the need for it in extractive industry-based countries such as Kazakhstan, impact on various indicators of the economy, main methods and tools of state regulation of structural transformations. The article presents an analysis of the sectors that show the potential for moving the country towards economic diversification. The study assessed the challenges and main problems of the manufacturing industry, the oil and gas sector, which can best contribute to the diversification of the economy. The role of the state in developing policies for future strategies and plans of the government in the field of economic diversification is also revealed.*

**Keywords:** *diversification, economic growth, mining, manufacturing, structural changes, competitiveness, regulation, resource-based countries, public policy, Kazakhstan.*

**Кілт сөздер:** *әртараптандыру, экономикалық өсу, тау-кен өнеркәсібі, өңдеу өнеркәсібі, құрылымдық өзгерістер, бәсекеге қабілеттілік, реттеу, ресурсқа бағдарланған елдер, мемлекеттік саясат, Қазақстан.*

**Ключевые слова:** *диверсификация, экономический рост, горнодобывающая промышленность, обрабатывающая промышленность, структурные изменения, конкурентоспособность, регулирование, ресурсоориентированные страны, государственная политика, Казахстан.*

**Introduction.** Today, the changes taking place in the world affect all areas of human activity, therefore adaptation is the main way of survival and development of enterprises in conditions of uncertainty. One option is to diversify production and the economy as a whole. What is meant by

this term? Usually, diversification is understood as expanding the range of production or re-profiling sales markets, mastering the latest types of production in order to increase fixed capital, increase the efficiency of its use and productivity, improve the utilization of production capacities, prevent bank-

ruptcy, and increase the competitiveness of the national economy as a whole. In the macroeconomic aspect, diversification implies the development of manufacturing and service sectors with high added value. Diversification and economic development in the country are closely intertwined. At a time when businesses try to produce new products, they face multiple costs due to uncertainty, macroeconomic instability and other factors. For developing resource-based countries, the main challenge is to create a competitive industry and ensure economic growth. This is the main task of the state in supporting the concept of diversification - to create incentives and ensure a favorable business climate by maintaining macroeconomic stability.

The study uses a wide range of methods such as the method of scientific abstraction, system analysis, theoretical generalization, grouping method, statistical data processing, comparative analysis.

The purpose of this study is to consider the methods and tools for diversifying the economy and analyze its impact on the current state of the economy of Kazakhstan. In these cases, the main tasks of the article are to investigate theoretical approaches to determining the essence of economic diversification and to analyze the role of the state in diversification.

**Literature review.** The issues of economic diversification are given sufficient attention both in domestic and foreign literature. Thus, A. Esanov identifies two main types of diversification: economic (product) diversification and export diversification, arguing that the availability of natural resources creates better conditions for diversifying the economy than for diversifying exports. When exporting natural resources, the inflow of foreign currency makes the national currency more expensive, which reduces the competitiveness of national goods in the world market and slows down the process of export diversification. He also believes that the level of economic diversification (as well as export) is significantly lower in resource-rich countries compared to other economies. The experience of resource-dependent countries shows that without economic and export diversification, these countries remain extremely vulnerable to various external shocks. The negative aspects of regulation, in his opinion, are expressed in the fact that «these countries lack clear policy guidelines on how to effectively diversify their economies

and export portfolios». His research shows that infrastructure and the quality of institutions have a strong influence on the extent of economic diversification, so governments should develop policies to reduce corruption and improve the effectiveness of public administration [1].

N.V. Potolova reveals the urgency of the problem of diversifying the economy not only on a national scale, but also in its individual regions. Moreover, she defines the goals and essence of economic diversification [2].

V.A. Rusanovsky, I.K. Babaytseva believe that when carrying out structural reforms, the choice of a «road map» is important, and the main attention should be focused on the development of industries and sectors that have absolute or relative advantages. They analyzed the qualitative features and dynamics of the structure of the economy, explained the influence of the structure of the economy on the process of stimulating long-term economic growth. The authors also focus on financial and economic regulation instruments [3].

E.V. Slesarenko believes that an increase in the technological level is the main condition for sustainable economic growth, emphasizing the need for a transition from an economic reproduction system to a vertically integrated system of intersectoral production chains [4].

Y.V. Luzgina believes that the problem of export diversification can be solved by improving the conditions for the emergence of innovative and highly productive enterprises [5].

The diversification of the economy of Kazakhstan in the framework of international cooperation, the influence of foreign investments on the development of industrial sectors is considered by B.B. Imanbaev [6].

**Main part.** One of the main directions in the country's strategy is the diversification of the economy. Why is this so important? The economy of Kazakhstan remains dependent on the foreign exchange and raw material rent provided by the extraction and export of oil, gas and other mineral products. Today, the predominance of the extractive industry relative to GDP and the low level of product processing remains the main problem of the country's economy.

In order to understand the role of economic diversification in Kazakhstan, it is necessary to consider the dynamics of GDP. Figure 1 shows the

growth rates of Kazakhstan's real GDP from 1993 to 2020 according to the International Monetary Fund. As you can see, the economy of Kazakhstan

is highly dependent on «external» factors, and this is directly related to fluctuations in oil prices and low diversification of the economy.

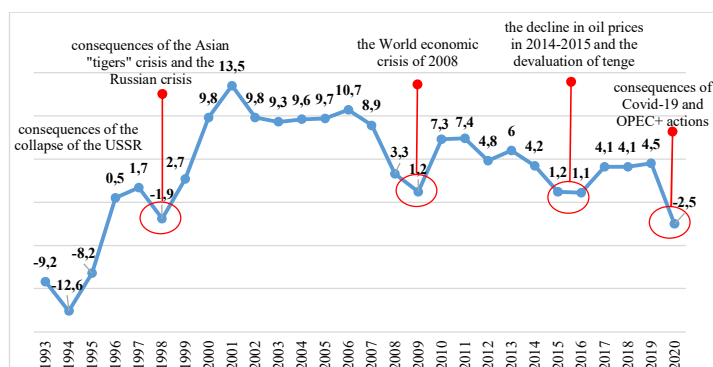


Figure 1. Real GDP in Kazakhstan [7]

According to the data of the Bureau of National Statistics of the Republic of Kazakhstan, at the end of 2019, the volume of GDP amounted to 68.6 trillion tenge and increased in real terms by 4.5%. The COVID-19 pandemic, the fall in oil prices and the general recession in the world economy decreased Kazakhstan's GDP by 2.6% [8].

When analyzing industry data, in January-December 2020, compared to 2019, the industrial production index was 99.3%.

In the mining and quarrying industry, the industrial production index was 96.3%, which is due to a decrease in the production of crude oil (94.6%), metal ores (99.9%) and volumes of services in the mining industry (99.7%). In the structure of the industry, the raw materials sector accounted for 43.9%.

In the manufacturing industry, production increased by 3.9%. The production of food products (104%), basic pharmaceutical products and pharmaceuticals (147%), ferrous metallurgy products (104.1%) and mechanical engineering (116.3%)

increased. In the structure of industry, this sector occupied 48.8%, while in most countries of the world this figure is about 80%.

The industrial production index in the utilities sector (electricity, gas, steam, hot water and air conditioning) was 99.7%, mainly due to a decrease in production, transmission and distribution of electricity by 1.2%. In the sector related to water supply, collection, treatment and disposal of waste, fight against pollution, the index of industrial production was 97.4%. The share of these two sectors was 7.3%.

The oil market plays an important role. At the end of 2019, in Kazakhstan, the volume of oil and gas condensate production in physical terms increased in 2019 by 0.2%, amounting to 90.5 million tons, which is directly related to the expansion of work at the Kashagan and Tengiz mines. In 2020, the production volume decreased by 5.4% [8, 9].

Kazakhstan's participation in the collective reduction in oil production under the OPEC+ agreement significantly worsened the prospects for the coming years (fig. 2).

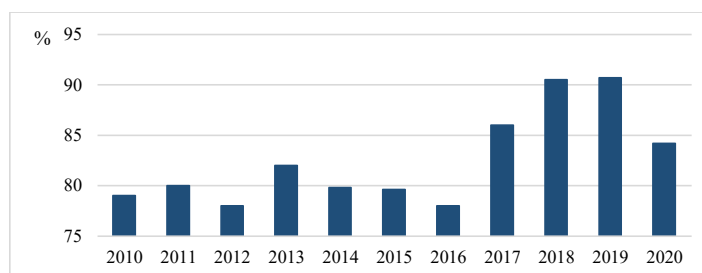


Figure 2. Oil production in Kazakhstan 2010-2020, % [9]

The current situation negatively affects not only the country's GDP, but also inflation rate, unemployment rate and the volatility of the national currency exchange rate. It should also be noted that most Western countries are currently

in search of alternative energy sources, because oil consumption affects not only the economies of many countries, but also has a detrimental effect on the environment. Figure 3 provides an estimate of the decline in oil consumption in the world.

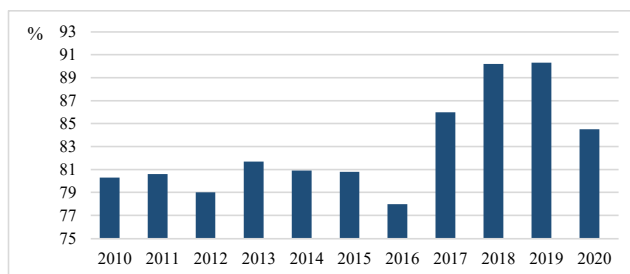


Figure 3. Dynamic trend of the drop in oil consumption in the world, % [10]

Despite the rise in oil prices in 2020, the impact of repeated lockdowns on the service sector has once again become the main factor behind the economic downturn – the economy still needs diversification and is currently not competitive in the international market.

The increase in commodity prices has a positive effect on the economies of resource-based countries in the short term, but in the long term, the total volume of production may quickly decline, which will lead to a new crisis. Therefore, it is necessary to consider the diversification of the economy as one of the ways of sustainable economic growth; highlight areas in need of diversification and calculate risks. We must not forget that resources are exhaustible, and their rational use is also necessary to preserve the environment.

In order to reduce the dependence of the economy on oil prices in 2003, Kazakhstan developed a Strategy for Industrial and Innovative Development until 2015 through the development of clusters in seven directions, strengthening the competitiveness of enterprises, regions and the country as a whole. Since 2010, a number of industrial and innovative development programs have been implemented: the State Program of Forced Industrial and Innovative Development of the Republic of Kazakhstan for 2010-2014 and similar programs for 2015-2019, 2020-2025 (hereinafter – State program). At the same time, some positive indicators were achieved. Thus, according to the results of the State program of 2015-2019, labor productivity increased 1.9 times, and the gap from the average level of the OECD countries decreased from 69% to 55%.

Almost 3 times more FDI was attracted than in the previous 5 years, and their share in the total volume increased from 7 to 14%. The production basket has changed – in addition to traditional metallurgy and food industry, oil refining and mechanical engineering have acquired a significant share [11].

The state plays an important role in the development of the economy and regulation of the activities of sectoral markets. There are a number of tools that states use to control the market, including administrative and legal instruments, tax regulation, monetary policy and public procurement. The goal of the state economic policy is to develop and maintain the country's economy, regardless of the external or internal situation in the market. The means for achieving this goal can be different: stimulating the development of the level of the economy of individual industries, improving the production mechanism, supporting entrepreneurs, introducing anti-crisis measures, etc.

Thus, if it is necessary to diversify the economy, aimed at developing a certain industry in order to move from one to multiple sources of income, the state can take measures to attract new participants in economic activity using tools such as preferential terms, special taxation measures, accelerated depreciation, creating favorable conditions for attracting foreign entrepreneurs and introducing new technologies.

The practice of state regulation in developed countries during the last economic crisis has shown the importance of instruments for regulating individual industries through a set of programs to create new jobs in industries and areas that provide high economic results in the long term, such as science, education,

healthcare and IT. Modernization strategies are also used to support the growth of individual industries. Among them, one can distinguish the policy of protecting domestic production. Among the widely used instruments, in particular in the EU and the USA, are tariff restrictions, import quotas, non-tariff restrictions (delaying customs procedures, introducing changes in product labeling requirements, developing new standards), public procurement, subsidies, etc.

Another area of government influence on economic development is maintaining competition. Antimonopoly legislation tries to maintain a balance of interests of all market participants by regulating the processes of demonopolization of sectors of the economy and influencing the behavior of large companies.

At the same time, it is necessary to highlight the negative aspects of the state's influence: uncontrolled government intervention in the market, state participation in key firms, corruption, state bureaucracy.

In countries where the state has a large influence on the economy, state capitalism is most often clearly represented and has a number of characteristic features: presence of a large state mechanism that actively intervenes in market relations; predominance of companies dependent on the state; prevalence of "manual" management methods, which leads to corruption; state bureaucracy; restriction of economic and political freedoms. Unfortunately, these signs are also typical for the Kazakhstani economy.

Thus, at the end of the State program of 2015-2019 it was revealed that of all the activities of the program, only 15% had a direct impact on the achievement of its goals and objectives, and the remaining 85% (monitoring projects, resolving issues and developing proposals, conducting information and analytical studies, providing information, summing up the results of industrialization, ensuring publication by indicators, etc.) had an indirect impact on industrial and innovative development.

Frequent structural reorganizations of state bodies and their subordinate organizations were noted, which led to a decrease in responsibility for performance, poor-quality provision of public services, lack of continuity, low quality of monitoring and control over the implementation of the program [12].

The main problems identified in the course of diversification of the country's economy include:

- 1) Lack of a competitive industry environment with a focus in favor of the extractive sectors.
- 2) A high level of amortization, which inhibits

production technology and leads to low productivity in the manufacturing industry.

- 3) Low level of turnover in the domestic market due to the small market capacity and non-compliance with international product quality standards.

- 4) Lack of incentives for state financial institutions to invest in manufacturing sectors of the economy, where it is possible to implement entrepreneurial ideas and efforts of small business representatives.

- 5) Low economic interest of foreign investors in small businesses engaged in entrepreneurial activities in the manufacturing industry.

**Conclusions.** Diversification of the economy can lead to an increase in the total volume of output, stability of the national currency, stability of prices for consumer goods, development of small and medium-sized businesses, and social equilibrium. In this way, the country will be able to expand the production of industrial goods without prejudice to the raw materials industries. The main disadvantage of dependence on the volume of extraction of natural resources is the instability of economic growth in the long term, which closely correlates with resource prices.

It obviously that the state and the market are complementary systems that work for each other. The relationship between market self-regulation and government regulation of the economy is constantly changing. It is important to maintain a balance in order to avoid negative development and it is necessary to establish a self-adjusting system that regulates the degree of government influence on the market, so that in the event of a recession, the country's economy can withstand. At the same time, diversification requires significant financial investments. As the experience of other countries show, there is a need for support from the government with various mechanisms of structural transformations.

To summarize:

- 1) Relying on oil and gas alone will not produce the long-run level of growth needed to meet this potential;

- 2) Reforms geared to improve the business climate, enhance competitiveness, and increase private sector participation are essential;

- 3) This involves not only modernizing and using public resources more efficiently to increase productivity, but also transitioning of manufacturing toward high-potential exports to help the country's industrial development.

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### ҚАЗАҚСТАН ЭКОНОМИКАСЫН ӘРТАРАПТАНДЫРУ

#### Аңдатпа

Қазақстанның дамуында экономиканы тұрақтандыру және елдің бюджеттік теңгерімі мен төлем қабілеттілігін нығайту өмірлік маңызды басымдық болды. Мұндай жағдайларда экономиканың шикізат секторының әлеуетін пайдалану қажет болды, соның арқасында макроэкономикалық тұрақтылыққа қол жеткізілді. Алайда, бүгінгі таңда өндіруші өнеркәсіпке тәуелділік проблемаға айналуда, өйткені экономиканың шикізаттық бағытының әсері жаңа салаларды дамытуға мүмкіндік бермейді.

Авторлар Қазақстан бұрынғысынша елдің шикізат ресурстарына өте тәуелді екенін айтады. Бәсекеге қабілеттілікті қолдау мен арттырудың негізгі қозғаушы күші минералдық ресурстарды өндіру мен экспорттау болып табылады. Алайда, дайын өнімді жеткізбестен әлемдік нарықта бәсекелес болу мүмкін емес. Экспорттың экономиканың бір немесе бірнеше салаларына тәуелділігі экономикалық өсу қарқынының төмендеуі, бәсекеге қабілеттіліктің жоғалуы, технологиялық артта қалудың ұлғаюы, мемлекеттік бюджеттің тапшылығы, өмір сүру сапасының төмендеуі, экологиялық проблемалар және әлеуметтік тәртіпсіздіктер сияқты жағымсыз салдарға әкелуі мүмкін.

Бұл мақалада авторлар әртараптандырудың мәні мен Қазақстан сияқты өндіруші өнеркәсібі бар елдердегі қажеттілігін, экономиканың түрлі көрсеткіштеріне әсерін, құрылымдық қайта құруларды мемлекеттік реттеудің негізгі әдістері мен құралдарын қарастырады. Мақалада елдің экономиканы әртараптандыруға ілгерілеуі үшін әлеуетті көрсететін секторларға талдау жасалған. Зерттеуде экономиканы әртараптандыруға барынша жақсы ықпал етуі мүмкін өңдеу өнеркәсібінің, мұнай-газ секторының қауіп-қатерлері мен негізгі проблемалары бағаланды. Сондай-ақ экономиканы әртараптандыру саласындағы үкіметтің болашақ стратегиялары мен жоспарлары үшін саясатты әзірлеудегі мемлекеттің рөлі ашылады.

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### ДИВЕРСИФИКАЦИЯ ЭКОНОМИКИ КАЗАХСТАНА

#### Аннотация

В развитии Казахстана жизненно важным приоритетом была стабилизация экономики и укрепление бюджетного баланса страны и платежеспособности. В этих условиях необходимо было использовать потенциал сырьевого сектора, что позволило достичь макроэкономической стабильности. Однако сегодня зависимость от добывающей промышленности становится проблемой, поскольку влияние сырьевой ориентации экономики не позволяет развивать новые отрасли.

Авторы утверждают, что Казахстан по-прежнему сильно зависит от сырьевых ресурсов страны. Основной движущей силой поддержания и повышения конкурентоспособности является добыча и экспорт минеральных ресурсов. Однако невозможно конкурировать на мировом рынке без поставок готовой продукции. Зависимость экспорта от одного или нескольких секторов экономики может привести к таким негативным последствиям, как замедление экономического роста, потеря конкурентоспособности, увеличение технологического отставания, дефицит государственного бюджета, снижение качества жизни, экологические проблемы и социальные волнения.

В данной статье авторы рассматривают сущность диверсификации и необходимость в ней в странах с добывающей промышленностью, таких как Казахстан, влияние на различные показатели экономики, основные методы и инструменты государственного регулирования структурных преобразований. В статье представлен анализ секторов, которые демонстрируют потенциал для продвижения страны к диверсификации экономики. В исследовании были оценены вызовы и основные проблемы обрабатывающей промышленности, нефтегазового сектора, которые могут наилучшим образом способствовать диверсификации экономики. Также раскрывается роль государства в разработке политики для будущих стратегий и планов правительства в области диверсификации экономики.