



## RECENT CHANGES IN THE NON-OIL SECTOR OF THE ECONOMY OF KAZAKHSTAN

Last year was marked by significant changes in the economic structure of Kazakhstan. As a result of low oil prices, the crude oil export revenues reduced to \$22.3 billion, which is even lower than in 2015 when it was \$31.1 billion and three times lower than in 2011 when it reached \$62.3 billion. Despite the fact that the share of the oil sector in the production of goods excluding the service sector slightly increased from 35.6% in 2015 to over 35.9% in 2016, it is worth noticing that during the last year the share of the oil sector in exports of Kazakhstan reduced from 75%-80% to 60% in average. Therefore, decreasing size of the oil sector of the economy in exports and uncertainties in future oil prices combined with budget deficits (8%-11%) that persist throughout the last 5-6 years raise concerns over the possibilities of economic growth in the near future. Consequently, the development of the non-oil sector and its increasing share in exports are of significant importance for the economy of Kazakhstan.

Actually, the latest data of the Committee on Statistics shows certain progress in this respect. In 2016, despite the fact that the relative share of the non-oil export revenues in absolute terms also decreased by \$396 million from \$14.8 billion in 2015 to \$14.4 billion in 2016, its share in total exports increased from 35% to 39%. In 2016, the real economic growth in Kazakhstan reached its lowest level (1%) since 2008 global crisis. However, despite the overall economic slowdown, the non-oil sector has grown in terms of both exports and production. For instance, the growth in the non-oil sector of the economy was not less than 1.2% in 2016. Many sectors in non-oil industries maintained positive trends and some sectors reached significantly high rates of growth. Particularly, there was 7.9% growth in construction and 5.5% growth in agriculture last year. Most importantly, in 2016 the manufacturing sector managed to maintain a positive 0.7% growth. Particularly, in comparison to 2015 there has been significant growth in important manufacturing subsectors such as food

manufacturing (3.9%), paper industry (3.8%) and pharmaceuticals (2.5%). Although there was the 15% decrease in machinery in 2016 the exports of machinery grew by 9.1% and the exports of textile increased by 14.5%.

One of the pillars of non-oil sector of the economy is agriculture. In this regard, Kazakhstan launched ambitious plans on developing the agricultural sector of the economy, which imply serious structural changes. For many years until recently, the agriculture in Kazakhstan was highly specialized in cultivating wheat. Kazakhstan has been among the largest ten wheat exporters of the world for many years exporting 3%-3.5% of the world's total wheat exports. However, there are several reasons that necessitate agricultural diversification. Firstly, the export of agricultural commodities is an issue of strategic importance for the economy for the fact that it is the third largest sector that generates exports revenues after oil and gas industry and extraction of metal ores. Consequently, a more diversified agricultural sector would make the whole economy less prone to external shocks. Secondly, the prices of wheat have been gradually decreasing during the last 2-3 years leaving less economic incentives for its cultivation. Thirdly, there is a growing demand for crops other than wheat in the Middle East, Southern and South-Eastern Asian countries that are accessible for Kazakhstan in terms of transportation. Attempts of introducing new crops such as lentils and chickpea were made several years ago in Northern Kazakhstan and most attempts have proved to be successful. According to the projections of the Ministry of Agriculture, the exports of agricultural commodities of Kazakhstan will increase by 40% by 2020. If the yield of lentils reaches the projected amounts occupying 200 thousand hectares, Kazakhstan will become the fifth largest exporter of lentils after Canada, India, Turkey and Australia.

As it was mentioned earlier, the manufacturing sector in 2016 maintained positive growth. One of the key indicators of development in production is the labor

productivity rate. In this regard, an increase of the labor productivity in manufacturing by 18% in 2016 was a significant step forward. The plans on developing the manufacturing sector will be continued within the framework of the State Program on the Industrial-Innovative Development for 2015-2019. These plans will be implemented through foreign direct investments, which will come predominantly from China.

According to the most recent projections of the Ministry of the National Economy, in 2017 the real economic growth in Kazakhstan will be within the range of 2%-2.5%. The growth in non-oil sector is expected to be not less than 3%. Particularly, the growth in agriculture is expected to be at 2.5% whereas in construction at 2.6%. There are rather positive growth projections for manufacturing. For instance, food manufacturing is expected to grow by 3.2% whereas machinery will grow by 13%. These forecasts also coincide very much with the official projections of the International Monetary Fund, which forecasts the growth in the non-oil sector of Kazakhstan's economy to reach 4% by 2021.

In conclusion, it can be admitted that despite the general negative economic pattern that persists since the late 2014 due to low oil prices, the non-oil sector of the economy of Kazakhstan has managed to maintain positive real growth. Comparing the performance of the oil and gas industry against the non-oil sector of the economy, the performance of the latter was better without any doubt. Moreover, in the recent State of the Nation Address of the President of Kazakhstan, it was announced that one of the key objectives to be achieved by 2025 is to provide two-fold increase of the non-oil exports. Therefore, it is strategically planned that further policies of development of the non-oil sector of the economy will be accomplished through growth and diversification of agriculture and manufacturing sectors with an emphasis on modernization, which implies a priority of production of higher value-added goods.

## Politics, Foreign Affairs and Security

- The President of Turkmenistan, Gurbanguly Berdimuhamedov, appointed the heads of military and law enforcement authorities of the country. Yaylim Berdiyev was appointed as the Minister of Defense and the Secretary of the State Security Council of Turkmenistan. Meanwhile, Begenj Gundogdiyev was appointed as the Chief of the State Border Service, Isgender Mulikov as the Interior Minister, and Dovrangeldi Bayramov as the Minister of National Security. Moreover, the President appointed Mammetkhan Chakyeov as the Chairman of the State Customs Service, Meylis Nobatov as the Chairman of the State Migration Service, and Begmyrat Mukhamedov as the Minister of Justice.
- Within the framework of a three-nation tour of Central Asia, the President of Russia Vladimir Putin met his Kazakh counterpart, Nursultan Nazarbaev. During the meeting held in Almaty, the parties discussed current state and prospects of bilateral cooperation and urgent international problems, including recent talks in Astana seeking a resolution of the Syrian conflict. After Kazakhstan, Vladimir Putin will go to Tajikistan and then Kyrgyzstan.
- During his official visit to Tashkent held in order to participate in the meeting of Uzbekistan-Kazakhstan Intergovernmental Commission on bilateral cooperation, the First Deputy Prime Minister of Kazakhstan, Askar Mamin, and the President of Uzbekistan, Shavkat Mirziyoyev, discussed further expanding of economic cooperation between the two countries, particularly by promoting specific projects in trade, technology, and transport-communication sectors.
- On the sidelines of winter session of the Parliamentary Assembly of the Organization for Security and Cooperation in Europe (OSCE PA) held in Vienna, the Russian and the U.S. delegations discussed the creation of a joint anti-terrorism working group aimed to become the platform for security cooperation between the two states.
- The Spokesman for the President of Turkey, Ibrahim Kalin, reported about the country's intention to discuss the purchase of Russia's advanced S-400 anti-aircraft missile systems at a session of the High-Level

Russian-Turkish Cooperation Council to be held in March.

- The Defense Minister of Russia, Sergey Shoigu, announced about establishing a cyber army within the Russian military. It was noted that the Information Operations Forces are expected to be a more effective tool than used before for counter-propaganda purposes.

## Economy, Finance and Energy

- During the 3<sup>rd</sup> Ministerial Meeting of the Southern Gas Corridor (SGC) Advisory Council held in Baku, the Energy Ministers from the SGC member-states and representatives of a number of organizations such as the European Commission discussed the achievements which have been made since last year. During the meeting, the President of Azerbaijan, Ilham Aliyev, stated that 90% of the Shah Deniz-2 project has been implemented. It was also stated that Azerbaijan commenced the development of its Absheron gas field providing new opportunities for widening the SGC's resource base.
- The Polish energy company PGNiG reported about the reduction of the natural gas shipments of the Russian Gazprom via OPAL pipeline in February 2017. It was also stated that the natural gas flows through OPAL pipeline fell by 27 million cubic meters/day to 64 million cubic meters/day in February. Gazprom had to decrease supplies of natural gas via OPAL pipelines due to the decision of the European Court and verdict of the Court of Dusseldorf to exclude 50% OPAL capacities from the Third Energy Package.
- The Chief Executive Officer of the Austrian OMV, Rainer Seele, stated that companies participating in the construction of the Nord Stream 2 gas pipeline would decide on the financing model of the project during 2017. The Nord Stream 2 natural gas pipeline is expected to come into operation at the end of 2019. The pipeline is set to run from the Russian coast along the Baltic Sea to the German shore. In January, Gazprom announced its plans to include the Nord Stream 2 in its 2017 investment program and to allocate 110.7 billion rubles (\$1.9 billion) in the project.
- Authorities of the Krasnoyarsk Territory of Russia announced their plans to attract over 50 billion rubles (\$865 million) in the development of the Arctic Taimyr-Turukhan backbone

zone in the north. Investments will be used for the development of infrastructures in Norilsk and organization of oil, gas and coal producing centers. With the implementation of the project, the region will export annually up to 3 million tons of coal, as well as up to 5 million tons of oil and will create 4,000 job opportunities. As of early 2017, the amount of attracted investments is 6 billion rubles (about \$103 million).

- During his visit to Beijing, the Deputy Governor of the Bank of Mongolia, Lkhagvasuren Byadran, and the Deputy Governor of the People's Bank of China, Yi Gang, agreed to extend the local currency swap agreement to 2020. Currently, the two central banks have conducted RMB 15 billion swaps. The central banks first accepted swap arrangement in 2011 with a total of RMB 5 billion. The swap line was expanded twice (in 2012 and 2014).
- The Russian President's Aide, Yuri Ushakov, reported that in 2016 the Tajik citizens working in Russia transferred \$1.9 billion or one third of Tajikistan's GDP to their home country. It was also stated that over 870,000 Tajik citizens worked in Russia in 2016.

## Society and Culture

- The Foreign Ministry of Russia announced that the First Deputy Permanent Representative to the United Nations, Pyotr Ilyichev, was appointed as the Acting Permanent Representative to the organization after Vitaly Churkin who died unexpectedly at the age of 64.
- The Somon Air reported that the second flight from Dushanbe to Tashkent was canceled without any reason. The first flight to Tashkent, which was expected to perform on February 20, was suspended due to the failure of the Tajik side to provide the necessary documents to the Uzbek side. As a result, the Director General of the Somon Air, Alisher Rustamov, was dismissed.
- The authorities of Mongolia stated that the annual Camel Festival 2017 would be held in March in Bulgan soum of Umnugovi Province. During the two-day event, camel polo contests, an anklebone shooting competition, photo exhibition featuring photos of Mongolian camels, and traditional music and dance performances will be organized.