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International Conference

“Promoting Innovation based Entrepreneurial Opportunities in the UNECE Region”

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“Industrial and innovative development of Kazakhstan under conditions of global challenges”

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Dear ladies and gentlemen, the conference participants, let me on behalf of Kazakhstani delegation welcome you at this event!

As you know, the innovation industrialization issues of the national economies under conditions of global changes in the global economy are the most urgent today.

In this regard, let me introduce policies and objectives of industrial and innovative development of Kazakhstan.

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In Kazakhstan, economy transition to the innovation development way is carried out in accordance with adopted by decree of the President of the Republic of Kazakhstan in 2003 the industrial-innovative development strategy till 2015.

The main purpose of the Strategy is diversification of economic sectors, promoting transfer from the raw-material orientation, preparation conditions for transition to a long-term service and technological economy. In our opinion, this is the only way to achieve sustainable development.

At this moment a number of tasks of the strategy have been executed already.

Thus, during the first stage of its implementation (2003-2005) the following results have been achieved: formation of the legal framework for innovation development (about 30 laws) and more than 30 sectoral programs.

An appropriate institutional framework has been established such as development institutions, national holdings, socio-entrepreneurial corporations, mechanisms for public-private partnership have been introduced.

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We see the integration into the global economy as a necessary condition for qualitative breakthrough of the economic development of Kazakhstan. In connection with this, the strategy second phase (2006-2010) was adjusted by instruction of the President on strategy of Kazakhstan entering in 50 most competitive countries in the world.

Particularly, within the Program “30 corporate leaders of Kazakhstan” (adopted by the Government in 2007) the "breakthrough" projects are implemented. They have an international importance for production of goods and services that can be competitive in certain area of the global market.

We made prior establishment of oil, gas, transportation and other machine building industries, metallurgy, chemistry, agro-industrial sector, development of biotechnology centers, establishment of the park information technology as a regional IT-center, with active international participation.

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To solve these issues the government ensured activity of development institutions that provide innovation implementation. Each of them invests and assists in establishment of enterprises with high added value and support scientific and technological research and development.

All development institutions, mutually complementing each other, provide innovative development of economy.

Let me briefly tell about the role of each development institution, members of the **National Welfare Fund "Samruk - Kazyna**.

The legal status of the Fund has been enshrined by law since 2009. The main activity of the Fund is to promote sustainable economic development of the country in modernization and diversification of industries.

Currently, the major state industrial and financial assets are concentrated in the Fund; it was given state stakes of the largest industrial companies in Kazakhstan, as well as public financial development institutions.

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The main objects of the Fund are as follows:

- Competitiveness improvement of subsidiaries, as well as maximizing their economic value;
- Introduction of international best practices of corporate governance in subsidiaries;
- Development and maintaining implementation of investment projects of national and international scale;
- Support of domestic producers and domestic suppliers of works and services.

Companies, that are included in the Fund structure, presented in all major industries of Kazakhstan such as: oil and gas, transportation and telecommunications, energy, metallurgy, mining and chemical industries, pharmaceuticals, and financial sector.

The Fund will allocate in 2009 additional \$ 1 billion US for implementation of innovative, industrial and infrastructure projects and will attract foreign direct investment in the sum \$ 3 billion US. The Fund will contribute to reconstruction of three refineries, construction of gas-chemical complex, and production of mineral fertilizers. The Fund's investments will be also focused on reconstruction project of the international transit corridor "Western Europe - Western China", in particular in construction of the bitumen plant, production of main rails, locomotives and wagons.

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The Fund's structure includes following development institutes:

Development Bank of Kazakhstan (created under the decree of the President in 2001) contributes to attracting domestic and foreign investments in economy, development of industrial infrastructure and manufacturing industries. **Investment Fund of Kazakhstan** (established in 2003) attracts investment in perspective manufacturing enterprises. **National Innovation Fund** (established in 2003) promotes development of technology-intensive industries. This fund encourages venture function of market economy, which is fully presented not in all developed countries.

To support innovation activity in the country the National Innovation Fund, Center for Engineering and Technology Transfer, and Science Fund, with the status of development institutions have been involved.

“Kazinvest”, Kazakhstani Investment Promotion Center, “Kaznex”, Corporation for Export Promotion and State Insurance Company for export credits and investments insurance provide service support for local companies on innovative projects implementation. The activity of these institutions is aimed at attracting investment and technology, promotion of domestic non-commodity exports.

Start-up of 37 large facilities shows successful policies of economic diversification in Kazakhstan, carried out by development institutes. There is a textile production among them, first in the CIS manufacturing plant producing bio-ethanol, referring to innovative projects.

The construction of the largest infrastructure project - the interregional power line "North-South Kazakhstan" 500 kV, that will provide the twice growth of electricity supply in central and southern regions of the country. One of the "breakthrough" projects - a plant for the locomotives assembly, which will produce up to 150 locomotives per year, has been put into operation. The plants on production of concrete products, medical, pharmaceuticals and others will be run this year.

Six special economic zones and two industrial zones are dynamically developing now. In general, 167 projects, cost more than \$ 4 billion US, implemented in three special economic zones.

Growth rate of such industries as agriculture, oil and gas, electrical, petrochemical production shows qualitative restructuring of Kazakhstani economy, diversification of the brunches.

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I should note that for the past two years the growth rate of Kazakhstani economy has slowed due to the global financial and economic crisis. First of all, this influence is reflected in reducing GDP by 2,3% in the first half of 2009.

Meanwhile, due to timely action taken by the Government to ensure macroeconomic stability, maintenance of the most vulnerable sectors of the economy, according to the recent estimates, it is expected increase of Kazakhstani GDP by 0,1% in 2009.

The National Fund of the Republic of Kazakhstan, established in 2001 to ensure effective allocation and use of revenues from natural resources plays a major role in reducing economic dependence on negative external factors. As of August 1, 2009 the fund of the National Fund has been \$ 26 billion U.S.

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Crisis showed that there are no yet alternatives to diversify economy and industrialization of the country for today.

In this regard, by order of the State Head the Program of forced industrial-innovative development of Kazakhstan till 2014 is almost completed.

The aim of the State Program is providing diversification and competitiveness improvement of Kazakhstani economy in a long –run period.

Notably the State program maintains consistency and continuity of policy in industrialization and integrates previously adopted program documents. Their shortages will be taken into account.

The program will address two main objectives.

- Consolidation of efforts of business and government and the concentration of country resources on development of priority sectors of economy;

- Forming a favorable macro and investment environment; formation of effective institutions and mechanisms of government and business interaction.

The Program first direction is developing a framework of the economy, resistant to external shocks and aimed at domestic and regional markets, including economic space of the Customs Union.

This will include support of brunches, sub-brunches and segments, ensuring the economic security of the country: food, energy, and transport.

In order to form economy carcass, the Government has selected 46 perspective brunches, industries and segments; there will be developed master plans for 23 of them.

The second direction will be focused on support those traditional export sectors, which will expand the product line of export and develop them, produce products with higher added value.

The third direction will be focused on support of innovative productions in Kazakhstan: information and communication sector, aerospace industry, high-tech production.

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The main objective of the Program is strengthening the core **of industrial economy in the context of seven priority areas:**

- Agriculture, construction industry, oil refining, metallurgy, chemical industry and pharmaceuticals, energy, transport and telecommunications infrastructure development;
- Additionally the Government is considering development as priority nuclear, space industries and tourism;
- The tools of the Program implementations will be the Industrialization Map and Scheme of rational distribution of production capacities, on the basis of which the Forecasting scheme of spatial development of Kazakhstan till 2020 will be developed.

The result of Program implementation will be the diversification and competitiveness of Kazakhstan's economy in the long-run period and increase of the GDP by 2015 approximately by 50% of GDP in 2008, 10% reduction in energy intensity of Kazakhstan's economy. The volume index of domestic value added in 2014 compared to 2008 will amount to 199%. Balanced mobilization of all resources on mentioned priorities will allow the economy to create an additional annual added value exceeding 46 billion USD.

Adoption of system-wide measures to create favorable conditions for industrial and innovation development and promote business environment is expected in the Program.

In particular, measures of monetary incentives, fiscal investment incentives, foreign economic actions, training of scientific and technical personnel, reduce of infrastructural and resource constraints.

System-wide measures will be complemented by a set of selective measures of point support: tax and customs incentives, removal of sectoral barriers, provision of grant support, facilitate the promotion of export, guaranteeing demand.

Set of measures of territorial support: in the territory of FEZ, industrial zones, techno parks to regional business development are provided.

The main sources of funding the Program will be the budget funds, investment of national companies, development institutions, private foreign and domestic investment by using a variety of packages of government support measures.

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Dear ladies and gentlemen!

Industrialization Map of Kazakhstan, a basic component of State Program, representing a list of more than 100 investment projects of national and regional significance has been completed.

The map includes the best projects recommended by development institutions in association with local authorities to the consideration of State Commission on Economy Modernization.

We have already got the approval of projects of modernization of ferroalloys production in Taraz, extension of Aktau International Commercial Sea Port, development of ski resort "Shymbulak", construction of GTPP on the Akshabulak deposit in the Kyzylorda oblast, as well as the construction of the Ural GTPP.

I would like to point out that the main difference of industrialization map, for example, from the "30 corporate leaders" program is that it includes not only the big players, but also allows the inclusion of projects for small and medium-sized businesses with development of a detailed implementation plan on each project on the principle of public-private partnership.

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Taking into account the undeveloped innovation activities in the country, an adequate legal basis for their promotion is created today.

Thus, **the Law "On state support of innovation activities"** was adopted in 2006. This year, significant changes and additions were introduced there. The law provides for a number of new mechanisms of state support as the provision of innovation grants and the formation of a complex of measures of innovation development, creation of distribution centers for innovation.

In particular, the innovation grants will be provided for the acquisition of innovative technologies, the implementation of development projects or risk-laden applied research, patenting

abroad and in international organizations, as well as the development of a feasibility study of the innovation project.

With participation of development institutions the mechanisms of public-private partnership (PPP) rapidly introduced to the innovation sphere. The state provides the institutional support, that is, creates the conditions of work - funding and project selection. On the part of private initiative it is the organization and management.

For example, the National Innovation Fund provides financing of innovative projects, where it participates on the principles of PPP in the chemical industry, production of mineral fertilizers, construction materials, technological developments in medicine, etc.

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Industrial and innovation development promoted by **the tax and administrative reforms**.

Thus, the new Tax Code entered into force on January 1, 2009, and drawn up in accordance with the accepted President's course toward modernization and diversification of the economy, bringing business in from the shadows and provides a lower total load on non-commodity sectors.

The rate of value added tax is 12% in 2009. This makes Kazakhstan's VAT rate one of the lowest in the world among the standard rate of tax. The rate of corporate income tax reduced from 30% to 20% in 2009. With the improving economic situation in the country the rate of corporate income tax will be further reduced by 15%.

The reforming of the permitting system (licensing, certification, and accreditation) is carried out in order to solve the problems of industrial-innovative development within the administrative reform. This reform aims at improving the business environment.

In addition, we have adopted a new **Law on Public Procurement**, which is developed on the basis of international standards.

This law gave priority to domestic enterprises the right to orders of the national companies, holding companies and state agencies that will support the pace of production at the global decline in consumer demand.

Government adopted a program of development of Kazakhstan's content, and the Fund "Samruk-Kazyna" monitored for 97 backbone enterprises of the country in four industries: mining industry, railways, telecommunications and electricity in order to support domestic small and medium businesses.

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Cooperation with international institutions helped to improve the business climate in Kazakhstan. This is evidenced by the ratings from international rating agencies. All at once our country has progressed to 7 positions in the annual ranking of the World Bank's Doing Business 2010, getting 63rd place. Last year Kazakhstan was on 70th position. Under the conditions of a crisis, it's not bad result.

Despite the current economic situation in the world Kazakhstan took **67th place** among 133 countries in the world in global competitiveness rankings, calculated by the World Economic Forum (WEF) in 2010. The Republic has lost only one position compared to last year. In terms of "Innovation" Kazakhstan is on 64th place (last year - 62). This year, the global competitiveness ranking has showed the benefits of global competitiveness in Kazakhstan in infrastructure, macroeconomic stability, health and secondary education, introduction of technology.

Kazakhstan took 36th place improving its position compared with the ranking of the previous year by 3 points, being ahead the countries such as Russia and Ukraine according to this year's ranking of global competitiveness of the International Institute for Management Development (IMD).

I take this opportunity to thank our partners from the IMD for the opportunity to participate in the rating of our country's global competitiveness and objective assessment of the factors of competitiveness of the economy.

Taking into account successful course of economic reforms implemented in the country, in 2004 Kazakhstan first among the CIS countries has been recognized by the reputable international ranking agencies on a sovereign rating in the form of assignment to it the rankings of "investment" class.

Despite the crisis, Kazakhstan maintained its position at the level of "investment" class ".

In May this year, the international rating agency «Standard & Poor's» has raised the forecast on a sovereign rating of Kazakhstan to the level of "stable". This is an important positive sign that we are on the right way

In terms of **regional partnership** mutually beneficial cooperation within the EurAsEC and the formation of single economic space are extended. Kazakhstan is in anticipation of entry the Customs Union with Russia and Belarus. Advantages of the Customs Union are obvious for Kazakhstan. It means the creation of new joint ventures, the maximum utilization of transit capacity, increases the capacity of commodity markets to the borders of the Customs Union.

A number of high-tech infrastructure projects implemented with the participation of the World Bank, European Bank for Reconstruction and Development, Asian Development Bank and the Eurasian Development Bank.

We are confident that the implementation of strategic and policy instruments on industrial and innovation development will strengthen the foreign economic positions and will extend the zone of influence of Kazakhstan economy to the regional market of Central Asian countries, the space of the Customs Union and foreign markets.

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Dear ladies and gentlemen!

In the next 10 years, the efforts of the state and society will focus on five key areas of **post-crisis recovery of the economy**:

- Sustainability of the economy;
- Creation of a competitive human capital;
- Providing the population with basic social, housing and communal services;
- Maintaining inter-ethnic concord;
- Providing security and stability in international relations.

Taking into account favorable investment climate in Kazakhstan, I would like to call European countries for active cooperation for the transition of Kazakhstan to the innovation development.

Ladies and gentlemen, in conclusion I would like to thank the organizers of today's event and wish all participants of the conference fruitful work.

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Thank you for attention!