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FOOD INDUSTRY DEVELOPMENT AND THE COMPETITIVENESS OF SOUTH KAZAKHSTAN REGION

This article discusses the development and competitiveness of the food industry enterprises in South Kazakhstan region. On the basis of the expert survey and analysis of the statistical data between 2009–2013, practical recommendations are offered on the improvement of food industry competitiveness.

Keywords: *food industry; South Kazakhstan; expert survey.*

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ПІДВИЩЕННЯ КОНКУРЕНТОСПРОМОЖНОСТІ ХАРЧОВОЇ ПРОМИСЛОВОСТІ В КОНТЕКСТІ РОЗВИТКУ ПІВДЕННО-КАЗАХСТАНСЬКОЇ ОБЛАСТІ

У статті розглянуто проблеми розвитку та підвищення конкурентоспроможності підприємств харчової промисловості Південно-Казахстанської області. На основі проведеного експертного опитування та аналізу статистичних даних за 2009–2013 рр. запропоновано практичні рекомендації щодо підвищення конкурентоспроможності підприємств харчової промисловості.

Ключові слова: *харчова промисловість; Південно-Казахстанська область; експертне опитування.*

Табл. 8. Літ. 12.

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ПОВЫШЕНИЕ КОНКУРЕНТОСПОСОБНОСТИ ПИЩЕВОЙ ПРОМЫШЛЕННОСТИ В КОНТЕКСТЕ РАЗВИТИЯ ЮЖНО-КАЗАХСТАНСКОЙ ОБЛАСТИ

В статье рассмотрены проблемы развития и повышения конкурентоспособности предприятий пищевой промышленности Южно-Казахстанской области. На основе проведенного экспертного опроса и анализа статистических данных за 2009–2013 гг. предложены практические рекомендации по повышению конкурентоспособности предприятий пищевой промышленности.

Ключевые слова: *пищевая промышленность; Южно-Казахстанская область; экспертный опрос.*

Problem statement. World food markets have undergone significant changes due to the removal of barriers to trade, capital, services, and rapid technological development. The global nature of economy and trade, providing high possibilities, at the same time tightens the requirements to enterprises.

If enterprises are competitive enough, they will stably exist and function in a competitive environment generating income.

Under these conditions, it is important to properly assess the situation at a market in order to find efficient ways of competitiveness improvement, which would consider, on the one hand, the current market situation in the country and its development trends, on the other – specific production features. Since the task of ensuring food supply for the citizens of Kazakhstan plays a special role, it is necessary to find efficient solutions for the related problem.

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Recent research and publications analysis. The issues of competitiveness are considered in the works of the following Kazakh and Russian authors U.S. Bayzhomartov (2006), D.M. Dadabaev (2009), R.A. Fatkhutdinov (2005), S.S. Ilin (2007), M. Porter (1993), D.C. Sabden (2007), G.B. Sahanov (2012), and others.

The purpose of the study is the analysis of statistical data on the development and competitiveness of Kazakhstan's food industry, as well as of the expert survey conducted among company directors and managers, government experts in order, to develop further recommendations on how to improve.

Key research findings. To solve the problems associated with the increased availability of agricultural raw materials, financial, utility and transportation services, creating of favorable conditions for the expansion of domestic sales of food products, training and retraining of staff, taxation improvement, trade regulation of exports and imports, accounting of trade turnover etc., the government of Kazakhstan developed the program "Development of the food industry in the Republic of Kazakhstan for 2015–2019" (within the "State program of industrial-innovative development of Kazakhstan for 2015–2019", 20.01.2014).

In general, the country's potential allows providing a stable domestic food market to ensure its saturation by the available food. Food supply must be of high quality being competitive at both domestic and foreign markets.

The enterprises' competitiveness fosters and facilitates their sustainable development in a competitive environment ensuring income generation.

Activities enhancing and ensuring the competitiveness of enterprises should be the highest priority (JSC "Kazakhstan contract agency", 2009).

The awareness of the importance of competitiveness formation in the food industry is reflected in the State program of industrial-innovative development of Kazakhstan for 2015–2019.

The main areas identified in policy documents present serious challenges for enterprises to improve competitiveness. Increasing the domestic economy competitiveness through the active use of innovative approaches and knowledge-intensive industries helps identify the ways of consistent implementation of the strategy, taking into account qualitative and quantitative changes in the economy, leading companies to higher levels of their economic development (Institute of political decisions, 2012).

In order to identify the most significant and complex aspects, problems and priorities, assessment and forecasting capabilities of the development and evaluation dynamics of enterprises' competitiveness in the food industry of South Kazakhstan region we have conducted a questionnaire survey of company directors and managers, as well as government experts.

9 heads of state structures, 11 directors of enterprises working in food production have participated in our survey.

The survey covered the problems of the industry including the following:

- the overall assessment and expert opinion on economic indicators of the industry;
- evaluation of the food industry development;
- factors that increase the effectiveness and constraints in operations and investment activity of enterprises;
- the role of authorities in improving the investment climate in the region;

- innovations in the food industry;
- labor potential of food enterprises;
- the training level of staff;
- assessment of the relationship of executives in companies while addressing common economic problems;
- the impact of Kazakhstan's entry to the WTO on the food industry competitiveness and the related problems;
- the industry's main problems after the WTO entry.

Our main purpose in using the expert survey method is the development of practical recommendations through the use of knowledge and experience of highly skilled experts in food production. To achieve this goal, we used the views of experts' groups, as well as the statistical data of the Department of Statistics of South Kazakhstan region.

These results allow us determine the trends and forecast the food industry development for the near future.

The share of grain milling products, starches and starch products is the highest (9.9%) in the region's food industry structure, followed by the production of bread and bakery products (4.9%), then goes beverages production – 3.4%, dairy products – 2.2%, vegetable and animal oils and fats – 2.1%, processing, preserving and production of meat products – 1.7%, processing and preserving of fruit and vegetables – 1.2%, other food products – 0.5%, and the lowest share in the structure belongs to processing and preserving of fish, crustaceans and mollusks – 0.2%.

142 subjects operated (as of September 2014) in the food industry of South Kazakhstan, while 114 companies were active, and gave 13% of the total output of Kazakhstan's food industry.

Table 1. **Key development indicators in food production of South Kazakhstan region, 2009–2013**

Years	2009	2010	2011	2012	2013
Volume of food in current prices, mln KZT	74663.5	81454.1	102883.7	108472.1	126289.6
Physical volume of production in food production, % to the previous year	115.8	104.4	93.0	100.1	97.2
The share of the food sector in the general volume of manufacturing, %	29.2	25.7	27.3	21.8	22.9
Availability of fixed assets at their historical cost in food production, mln KZT	16867.3	22722.5	121857.5	29582.9	30268.739
Investment in fixed assets, KZT	-	3856448	3930254	3220207	3363410
Number of staff employed in the sector, people	4624	4690	4532	4712	4889
Average monthly salary in the sector, KZT	38840.7	42840.0	49084.9	55454.0	63091.4

Source: Industry of Kazakhstan and its regions, Statistical Yearbook, 2014.

The main problems of the sector are: the lack of quality raw materials of local production; poor development of trade and logistics infrastructure; low availability of working capital for agricultural products of processing enterprises, high proportion of moral wear of equipment; shortage of qualified personnel; problems with statistical records on trade and industry development; problems in technical regulation, including the compliance with standards; high tariffs for utilities and transportation; low availability and high cost of packaging; high loan burden on enterprises; lack of support in the promotion of products at domestic and foreign markets (Sahanova, 2012).

Table 2. **The economic indicators of South Kazakhstan region food industry's,** *% of the survey respondents, compiled by the authors on the basis of the expert survey*

Valuation	Economic indicators: Physical volume of production	Investments in fixed capital	Level of innovation implementation	Level of state support	Gross added value	Average monthly salary	Selling price increase	Production cost
Low	20	32	77	38	56	12	32	-
Average	35	43	15	50	30	28	46	32
High	45	25	8	12	14	60	22	68

Assessing the results of the enterprise works in 2013 as compared with the previous year, only 45% of the managers appreciate high increase in the volume of production in volume terms, 25% reported an increase in the volume of capital investments, 22% said that by raising the selling prices of manufactured products the production volume increased, 60% of the respondents mentioned an increase in the average monthly wage of workers. 68% of the respondents reported an increase in prices for electricity and fuel, and as a result, an increase in production cost.

According to the experts, in 2014–2015, most likely is the increase in production in the meat industry (40% of the respondents), flour (43%), dairy (40%), confectionery products (20%), fat (35%), bakery (70%), and in the rest of production will remain at the same level.

The leaders take into account not only the output growth, but also the improvement of capacity utilization. In 2013, the average level of capacity utilization in the industry was 60.8%.

However, despite the improvements of the food industry state every year, the results of the survey show that many problems still remain. A significant group of food manufacturers (38% of the executives) believe that the industry has not yet restored from the crisis, and the threat of bankruptcy still exists. To get out of this situation, in the opinion of 35% of the respondents, 2–3 years will be required, 23% believe that this period will last up to 5 years.

Manufacturers continue to look for the ways to adapt to the current economic conditions, including the improvement of product quality (85% of the respondents); search for new markets (77%); reducing the production cost (55%); search for new suppliers of raw materials and components (45%), modernization of the technology used (40%).

According to the surveyed leaders, in order to increase the efficiency of the food industry we need: to improve the tax system; strict control over the increase in tariffs for energy; financial and legal support for producers; government regulations and investment; credit availability; complete reproduction; protection of the market from imports; public procurement; increase in workers' wages; improving management quality; revitalization of the Antimonopoly Committee.

Table 3. **Factors hampering the development of the food industry,** *% of the respondents, compiled by the authors on the basis of the expert survey*

Price factors	Valuation	Nonprice factors	Valuation
High fuel prices and energy	78	Progressive deterioration of fixed assets	80
High prices for raw materials	64	Ineffective and expensive technologies	67
Lack of working capital	65	Low investment activity of enterprises	62
High taxes	85	Dependence on imported raw materials of some industries	32
Low solvency of buyers	38	Dependence on natural and climatic conditions of raw materials' providers	46

Table 4. **Factors that increase/decrease the efficiency of investment activity in the food industry,** *compiled by the authors on the basis of the expert survey*

Contributing factors	Constraints
Improved regulatory framework (76% of the respondents)	Lack of funds (94% of the respondents)
Strict control over the increase in energy tariffs (95%)	High cost of equipment, construction works (94%)
Financial and legal support to producers, credit availability (94%)	High interest on bank loans (76%)
Security and protection of investments (68%)	Need to repay debts (76%)
Protection of the market from imports (93%)	Low competitiveness of the food industry as compared to foreign producers (65%)
Guaranteed amount of the state order (35%)	Risk of overproduction, fear of not fully realized production (55%)
Complex re-equipment of production (65%)	Dependence of the industry on imported machinery and equipment (75%)
Improving of management quality (62%)	Poor management (50%)
Increase in workers' wages (54%)	Lack of interest in staff development (33%)

Table 5. **Investment in fixed assets in food production of South Kazakhstan,** *KZT*

Investment in fixed assets	2010	in % to 2009	2011	in % to 2010	2012	in % to 2011	2013	in % to 2012
Processing industry	24957702	164.5	23922196	58.0	23124997	91.5	35486379	146.6
Food	3856448	14.3	3930254	142.6	3220207	77.5	3363410	99.8
Manufacture of beverages	-	-	319272	23.9	765247	2.3 times	535947	66.9

Source: Industry of Kazakhstan and its regions, Statistical Yearbook, 2014.

Significant investments have been in food production made in 2011 (142.6% as of the previous year). In 2012 there was a decline in investment as compared with 2011 (77.5%), but by 2013 year was the rise of investment activity (99.8% the previous year). 61% of the experts believe that by 2015 investment activity could increase in this sector.

Table 6. **Investment in fixed capital in food production by sources of funding,** *ths KZT*

	2010	2011	2012	2013
Total investments	3856448	3930254	3220207	3363410
Funds from the state budget	-	-	-	-
Enterprise's own funds	3850348	2673098	2483751	2592153
Borrowed funds	6100	1257156	736456	695104

Source: Industry of Kazakhstan and its regions, Statistical Yearbook, 2014.

Investment processes in the food industry, according to its leaders, are constrained by the following factors:

- lack of funds (94% of the respondents);
- high cost of equipment imported from abroad (75%);
- high interest on bank loans (76%);
- need to repay the debts (76%);
- lack of interest in staff development (33%).

The level of investments in fixed capital 53% of the respondents call insufficient for reproduction. The conditions for obtaining a bank loan cause particular dissatisfaction among business leaders. Thus, the conditions for obtaining a bank loan do not satisfy 64% of the managers, the conditions for obtaining credit to finance the working capital – 67% of the respondents.

The lack of necessary investments has a negative impact on the fixed assets of enterprises. The share of enterprises, the fixed assets of which at the beginning of 2013 were half-worn, made 68%.

To improve the investment climate in the region, according to the experts, we need to focus on the following authorities:

- regulatory framework formation (76%);
- state support for investment projects (70%);
- development of cooperation with financial institutions (60%);
- protection of investments (68%).

According to the survey, 55% of the enterprises need radical modernization and almost half – partial modernization of fixed assets.

According to the leaders of the food industry, intensification of innovations would solve such problems as: improving the quality of food (66%); expanding the variety of foodstuffs (57%); development of new markets (58%); reduction in material costs (46%). The main impetus for innovative development is the desire to win in competition, and especially in relation to foreign competitors (70%), as well as pressure from rapidly changing in terms of quality and safety food tastes of consumers (36%).

The main and the basic source of financing innovations over the past years were companies' own funds (89% of the managers). In 2013, bank loans for meat producers amounted for 123,348 ths KZT, bakery and pastry – 532,000 ths KZT, milling industry – 39,756 ths KZT. As a result, overall, in 2013 the volume of bank credits in the food industry of the region was 695,104 ths KZT.

Table 7. **Factors impeding innovations in food industry,** *compiled by the authors*

Factors	Respondents, %
Lack of funds	75
High costs of innovations	67
Duration of innovations payback	70
Lack of qualified personnel	65
Lack of information about new technologies	75
Lack of legislation, regulating and stimulating innovation	55
Low effective demand for new products	63

Describing the employment potential of enterprises, most executives indicate that the qualification of personnel, labor productivity and discipline remained unchanged.

It has been also noted that for the past several years, many enterprises did not delay the payment of wages. But at the same time, 20% of those surveyed, fix these delays, while 15% of the respondents indicate they repeated again and again throughout the year. Training for businesses most of the respondents considered in general satisfactory, ensuring certain level of personnel. However, for many businesses the lack of highly skilled workers (65% of the respondents) is a big problem.

To improve the training it is offered: to restore the system of staff training (as mentioned by 67% of the respondents); encourage on-work training (66%); improve the quality of senior professionals (35%); update the material and technical base of educational institutions (36%).

Among the questionnaire participants there were persons who have approved the methods and tools used by the local executive authorities to support the producers in South Kazakhstan region (56%), however, some managers (25%) do not support them.

Considering the nature of the relationship of executive powers with companies in economic problems solving (estimated on the six-point scale), it should be noted that the evaluation of such cooperation was very low.

50% of the surveyed executives believe that the relationship with authorities deserve no more than 2 points, 19% – 2 and 3 points, 31% – more than 3 points.

To improve further the relations of state bodies and management of the industry, according to the executives, the following measures are to be taken:

- regular discussions on the problems in the food sector at regional and district levels (mentioned by 74% of the respondents);
- defining long-term development priorities of the industry and target measures for their implementation (68%);
- cooperation in marketing of food products (56%);
- setting up a public council supervising the food industry management (53%);
- setting up a system to monitor the financial situation in the sector and take operational measures if the situation is approaching a critical level (52%).

Active discussion of the problem of Kazakhstan's entry to the WTO continues for many years. In this regard, domestic enterprises are preparing for changes, which will follow further on. At the same time people express different opinions on this subject, but most of these problems boil down to the fact that this step was premature, mainly due to the fear that the market would be flooded cheap and unsafe food. According to the requirements of the WTO food producers need to reduce the purchase price. As a result, some food companies cannot timely pay to suppliers and repay the loans, because of the risk of the sector's income falling as a result of the country's entry to the WTO which was not taken into account in business plans while getting loans (Bayzhomartov, 2006).

The existing production technologies do not create conditions for economic growth; this calls into question the abilities of the sector. At the same time, the pursuit of resource providers to bring the prices for their products in line with world market prices is the normal reaction of market participants and it should not be regulated by the state directly. The reducing cost of resources should occur, primarily not only due to their economy, but also because of more rational their use in the implementation of the complex of measures on resource conservation (Dadabaeva, 2009).

The situation is further complicated by the restrictions imposed by the Government protecting the domestic market and providing financial support to producers.

44% of the managers have indicated that they are not prepared to the short-term transition to the rules of the world trading community, while 45% of the respondents found it difficult to answer this question at all.

64% of the experts and 35% of the managers believe that if it is necessary to join the WTO, it is possible only on condition of sufficiently long transition period that will be given to Kazakhstan. The given transition period, as the well as rational use of state mechanism would allow domestic producers and suppliers adapt to the World Trade Organization and compete fairly with foreign companies.

Table 8. **The main problems of food enterprises at the entry to the WTO,** *% of the respondents, compiled by the authors on the basis of the expert survey*

Experts	Problems	Managers
53	Old equipment and technologies	80
72	Lack of compliance with laws and regulations by state and local authorities	83
64	Absence of resource-saving technologies	76
53	Lack of domestic investments	65
67	High levels of corruption in government and local governments	89
55	Non-competitiveness on the design and quality	30
47	Lack of funds for modernization	55
64	Imperfect legislation, standards and certificates	70
70	Price non-competitiveness	75
34	Lack of funds on R&D	67
42	Lack of trained personnel	35

According to the managers and experts' opinion, prior to Kazakhstan's entry to the WTO a number of priority measures must be taken:

- technical re-equipment of enterprises;
- reducing production costs;
- organizing production by international standards;
- improving marketing activities.

Conclusions. The results of our research help identify the areas that can contribute to accelerated development and competitiveness of the food industry of South Kazakhstan:

- improving of credit and taxation systems;
- creating favorable conditions for investment in the sector;
- expansion of effective demand;
- financial support for the development of promising vectors of the food industry;
- development of market infrastructure;
- effective regulation of economic processes;
- creating of a food industry cluster integrating the related businesses.

Thus, along with direct tools to develop food production and its subsectors, the increasing importance also belong to new economic environment with its indirect impact, through regulation of major functional areas of industrial activities. Transition of the food industry management to new principles based on the target program of activities in this industry would ensure the expansion of production and increases output of competitive products, which, in turn, will ensure food security, reduce unemployment, improve the competitiveness of South Kazakhstan region as a whole.

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