
THE OVERVIEW OF THE DEVELOPMENT OF SERVICES IN KAZAKHSTAN

Zhunossova Assel¹, Dulambayeva Raushan²

¹⁾²⁾ Academy of Public Administration under the President of the Republic of Kazakhstan

E-mail: a.zhunossova@apa.kz

Abstract

The service sector has become one of the driving forces of the economy. It is actually in the era of the post-industrial world. Especially important the problems of the development of the service sector for developing countries in which there is a redistribution of labor resources. Since it is believed that an efficient and dynamic service sector can bring the economy to a new level of development.

The subject of this study is the development of the service sector in Kazakhstan. As part of the study, the task is set: to evaluate the development of the service sector in Kazakhstan, by comparing it with its nearest neighbor, Russia. For comparison, data on the share of services in the structure of GDP, the share of employees and labor productivity in the services sector are used.

The comparative analysis shows the service industries increasing role for Kazakhstan. The investment flows in the services sector are falling but the service sector share in employment is growing. At the same time, in Kazakhstan, there is a lag in the grow productivity in services from the productivity of goods and in Russia there is a reverse trend.

Keywords

services, investments, labor productivity, GDP share

JEL Classification O14, N70, N75

Introduction

The service sector has become an increasingly interesting research topic over the last two decades. Information technologies have become the driving force behind the interest in service orientation (Bauer, 2017). But there are differences in the interests of developed and developing countries. For example, Paslauski believes that service companies are economically developed countries are less subject to technological change than in developing ones (Paslauski, 2017). Therefore, in the current conditions, the assessment of the development of the services sector becomes relevant. This article assesses the development of the service sector in Kazakhstan.

The relationship between the development of the service sector and economic growth has been proven by the example of Saudi Arabia and the USA (Alhowaish, 2014; Bosworth, Triplett, 2007). For the post-industrial economy, the services sector is not only an economic sector which created a large part of the value added. It is the sector which large part of the labour force is involved, more detail about it in D. Bell's work (Bell, 1973). Also, service industries can create multiplicative effects that determine the development of other sectors of the economy (Edelov, 2009). The development of the service sector and the factors affecting this process are the subjects of many studies. Some of them are given in this paper.

Efficiency is one of the most important factors in the development of services, and reforms should focus on strengthening competition to increase productivity, according to Hiziroglu et al. (Hiziroglu, et al., 2012). Maroto-Sánchez and Peters et al., in turn, believe that productivity in the services sector is influenced by the transition to a society actively using information and communication. Also, it depends on globalization processes, integration between goods and services, application of technology and innovation, human capital and its qualifications, investments, government regulation (Maroto-Sánchez, 2010; Peters, et al., 2018).

Another factor positively influencing the development of services is foreign direct investment considered by Williams and Mariotti, (Williams, et al., 2008; Mariotti, et al., 2013), Latorre shares the same opinion, believing that when economic barriers are lowered, foreign investments of transnational companies flows rise and lead to short-term and long-term results in the services sector (Latorre, et al., 2018).

Thus, a review of the literature points to two main directions in the study of the development of the services sector: through investment, through the assessment of employment and labour productivity.

Methodology

To explore the service sector of Kazakhstan, through investments and dynamics of productivity is carried out by a descriptive analysis of the structure of GDP, the structure of employment and the change in labour productivity, comparing the two countries, Kazakhstan and Russia. The choice of Russia as a country for comparison was not chosen by chance, the fact is that Russia for Kazakhstan is not only a geographical neighbour, but also a country with which Kazakhstan develops in a single economic area (EAEU). Therefore, many economic conditions can be similar and comparable.

The Service Overview

In order to study the dynamics of the development of the service sector, we consider the indicator of the share of services in Kazakhstan's GDP, to compare the dynamics of development, we use data for Russia.

The service sector in Kazakhstan is steadily growing - from 54.3% in 2007 to 57.5% in 2017, its share is significant and reduces the impact of the industrial sector on the country's economy. However, in Russia, the service sector has shown more dynamic growth since 2007 (Fig. №1). So, in 2017, the service industries in Russia accounted for 56.2% of GDP. Compared to 2007, the share of the service sector in Russia's GDP grew by 5.6 percentage points, while the share of services in Kazakhstan's GDP grew by only 3.2

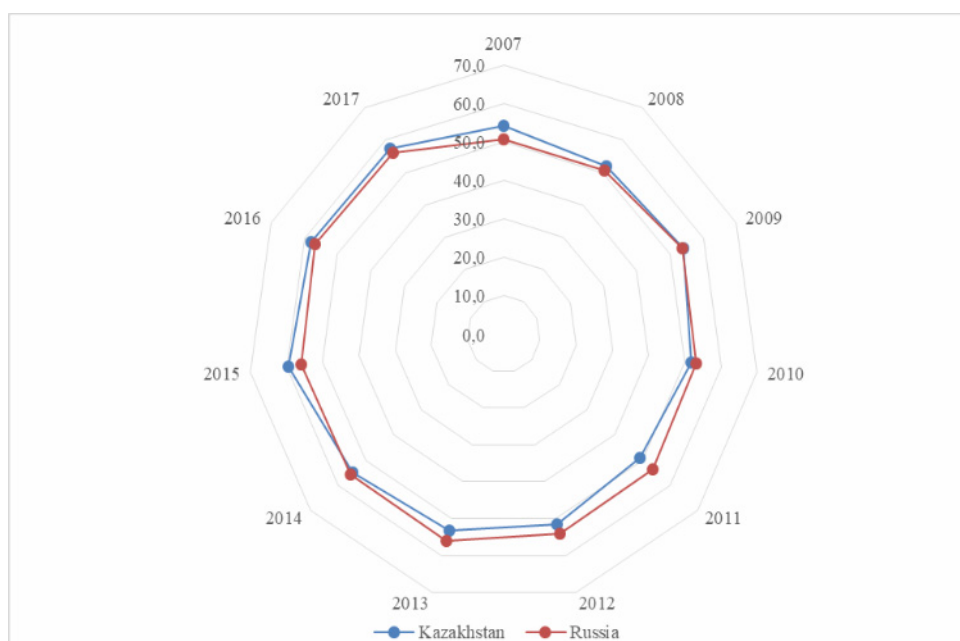


Fig no. 1 - Share of the service sector in GDP, in% for 2007–2017

Note: compiled by the authors based on data from the Committee on Statistics of the Republic of Kazakhstan and the Federal State Statistics Service of the Russian Federation for 2007-2017.

The increasing importance of the service sector in Kazakhstan can also be assessed by examining the state of the labour market (Table №1). Employment in the labour market in the service sector is characterized by growth in both Kazakhstan and Russia. Thus, the share of people employed in the service sector of Kazakhstan increased from 46.9% in 2001 to 61.5% of the total number of employees in 2017, and in Russia from 61.7% to 67.1%. It is noticeable that back in 2007, the share of people employed in services in Russia was signed. It is worth noting that the indicators of the share of people employed in the services sector of both Kazakhstan and Russia are above the global level. According to the World Bank, from 2007 to 2017, the share of people employed in the services sector in the world increased by 1.8 percentage points, from 49.3% in 2007 to 51.1%. 3.2 percentage points during the same period.

Table no. 1 The share of people employed in the service industries from 2007 to 2017, as a part of the workforce, in% of the workforce

	2007		2008		2009		2010		2011	
	PK	PΦ	PK	PΦ	PK	PΦ	PK	PΦ	PK	PΦ
Wholesale and retail trade, accommodation and food services	14,2	17,6	14,8	17,3	15,0	17,3	15,4	17,5	15,5	18,0
Transport and storage, information and communication	6,8	9,3	7,1	9,2	7,0	9,3	7,2	9,3	7,7	9,4
Financial and insurance, operations with real estate	2,4	8,0	2,5	8,1	2,6	8,3	2,8	8,3	2,9	8,7

Professional, scientific and technical activities, activities in the field of administrative and support services	3,7	-	3,9	-	4,0	-	3,7	-	4,0	-		
Public administration and defense; compulsory social security	4,2	6,9	4,2	7,6	4,4	8,0	4,4	8,2	4,5	7,7		
Education	9,0	9,1	9,0	9,1	9,1	9,4	9,5	9,4	9,7	9,2		
Health and social services	4,0	7,3	4,1	7,4	4,1	7,9	4,3	7,9	4,5	7,9		
Other types of services	2,6	3,5	2,6	3,7	2,7	3,7	2,6	3,8	3,0	4,0		
All service sector	46,9	61,7	48,2	62,4	48,9	63,9	49,9	64,4	51,8	64,9		
Wholesale and retail trade, accommodation and food services	14,8	18,2	15,4	18,4	15,8	18,4	16,1	18,4	16,4	18,5	16,9	18,5
Transport and storage, information and communication	7,8	9,4	7,8	9,5	8,3	9,5	8,7	9,5	8,7	9,5	8,5	10,3
Financial and insurance, operations with real estate	2,8	8,7	2,7	9,0	3,1	9,3	3,3	9,4	3,3	9,2	3,7	4,0
Professional, scientific and technical activities, activities in the field of administrative and support services	4,0	-	3,9	-	4,0	-	5,1	-	5,5	-	5,7	5,4
Public administration and defense; compulsory social security	4,3	7,5	4,5	7,4	5,2	7,3	5,3	7,4	5,3	7,4	5,3	7,2
Education	9,9	9,2	10,2	9,2	11,0	9,2	11,4	9,2	11,5	9,4	11,7	9,5
Health and social services	4,6	8,0	4,7	7,9	5,2	7,9	5,1	7,9	5,2	8,0	5,3	7,9
Other types of services	3,9	3,9	3,9	4,1	4,7	4,3	4,6	4,3	4,2	4,3	4,4	4,3
All service sector	52,1	64,9	53,1	65,5	57,3	65,9	59,6	66,1	60,1	66,3	61,5	67,1

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Note: Compiled by the authors based on data from the Committee on Statistics of the Republic of Kazakhstan and the Federal State Statistics Service of the Russian Federation for 2007-2017.

The structure of the employed in Russia and Kazakhstan in the services sector is similar: the largest share is occupied by those engaged in the trade and accommodation services sector, 18.5% and 16.9%, respectively, of total employment. In the last decade, the share of people employed in commerce and residence increased by 0.9 percentage points. from 17.6% to 18.5% in Russia; in Kazakhstan, the increase is more obvious from 14.2% to 16.9%, by 2.7 percentage points.

In the field of education, the share of employed increased in Kazakhstan by 2.7 percentage points, from 9% in 2007 to 11.7%. In Russia, the increase was 0.4 pp - from 9.1% to 9.5%. The share of people employed in health care in Kazakhstan for the period under review increased by 1.3 percentage points, from 4% in 2007 to 5.3% in 2017, which is lower than in Russia. Back in 2007, employment in health care in Russia was 7.3%, and in 2017 it increased to 7.9%.

Kazakhstan and Russia are similar in terms of the structure of employment in the sectors of trade and residence, education. At the same time as employment in the field of finance and insurance, Kazakhstan is growing, while in Russia it is declining. There are also differences in the structure of people employed in the field of health care: the indicators of Russia are much higher than in Kazakhstan.

The growth reason in the number of people employed in the service sector of Kazakhstan is most likely related to the release of labour from the spheres of industry, agriculture, and construction. Then they influx into the services sector, i.e. due to the technology and innovation in them that replaces human labour. Another reason may be the growth of jobs in the service sector, due to the increased production of services.

The analysis also shows that the share of people employed in the service sector in the labour force is large. Which reinforces the relevance of the development of service industries, in terms of solving problems of structural unemployment.

Employment in the labour market is closely related to labour productivity. According to Figure 2, labour productivity in the services of the Republic of Kazakhstan and Russia is significantly different (Fig. №2).

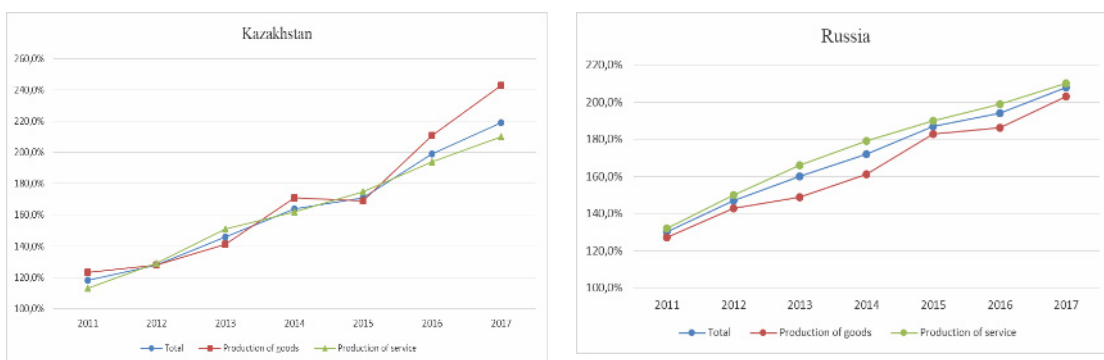


Fig. no. 2 The change in labor productivity by industry, as a percentage of 2010

Note - calculated by the authors based on data from the Statistics Committee of the Republic of Kazakhstan for 2010-2017, the Federal State Statistics Service of the Russian Federation for 2010-2017.

Labour productivity indicators in the services sector in recent years in Kazakhstan have significantly lagged behind the performance indicators of goods. In Russia, on the contrary, labour productivity in the services sector is growing more dynamically. Nevertheless, the

overall consistent growth in labour productivity along with the increase in the share of services in GDP and employment growth in the services sector emphasizes the relevance of the further development of this sector in Kazakhstan. At the same time, considering the qualitative component of development, attention should be paid to the indicator of foreign direct investment in the service industries of Kazakhstan.

Assessment of the development of the investment services sector

The gross inflow of foreign direct investment includes such indicators as the share of foreign voting shares, reinvested earnings and the flow of funds, in monetary and material forms. The volume of foreign direct investment has recently been declining, their peak was in 2011 in Russia, and 2012 in Kazakhstan (Fig. №3). In Russia, the investment attractiveness of the service sector is the same as at all economy (Pearson's correlation coefficient is 0.83). But in Kazakhstan investments in the service sector are declining (Pearson's correlation coefficient is 0.62), whereas in general, all sectors of the economy are growing.

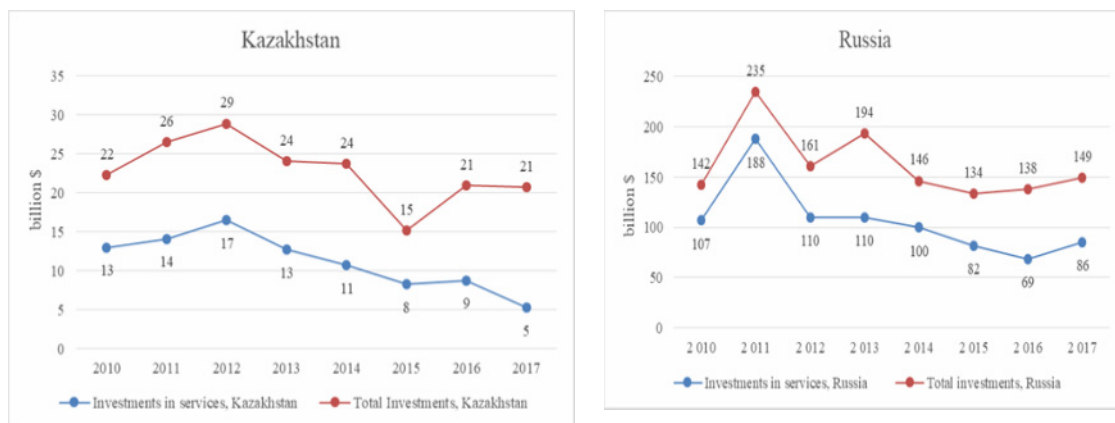


Fig. no. 3 Dynamics of investment in services and investments in all sectors of the economy by foreign investors

Note: compiled by the authors on the basis of data from the National Bank of the Republic of Kazakhstan for 2010-2017, the Central Bank of the Russian Federation for 2010-2017

In 2008 a special law was passed restricting the participation of foreign capital in strategically important economic sectors of the economy (AB Dudarev, 2017), the effect of this law is obvious - most of the foreign investment falls on the services sector.

Investments in all sectors of the economy in different countries. Thus, in Kazakhstan, in 2010, investment in services amounted to 58.3%, and in 2017 only 25.4% of all investments; in Russia in 2010 - 75.2%, in 2017 - only 57.4%.

This reduction in Kazakhstan promotes rates that, despite investment preferences and incentives, interest in implicit sectors of the economy is still low (Gakhov, 2016). In addition, according to RSM, there are high corruption risks for foreign investors in Kazakhstan (C.O'Neill, 2014), as well as low development indicators.

Conclusions

In Kazakhstan, the importance of the service sector is increasing, because, first, the service industries are flexible and the first to respond to technological changes in the economy. Secondly, service industries such as professional services and scientific and technical information development services themselves contribute to the development of technology and service economy.

The results of a comparative analysis of the share of people employed in the service sector

as part of the labour force show similarity in the structure of employed in trade, accommodation, education. While employment in the field of finance and insurance is growing in Kazakhstan and decreasing in Russia. There are also differences in the structure of people employed in the field of health care: the indicators of Russia are much higher than in Kazakhstan.

According to the results of the assessment of labor productivity in the service sector, there has been a general consistent growth for Russia and Kazakhstan. At the same time, there is a significant lag in labor productivity in the service sector compared with labor productivity in the industrial production sector in Kazakhstan.

An analysis of foreign direct investment as a factor of economic incentives shows that in Russia and Kazakhstan there are problems of a decline in foreign participation in recent years compared with the peak year of 2012 (in Russia in 2011). It is noteworthy that the share of foreign investment in the services sector of the total investment in all sectors of the economy is significant in Russia, while in Kazakhstan there is still interest in the industrial as primary industries.

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