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IMPORT SUBSTITUTION POTENTIAL OF THE REPUBLIC OF KAZAKHSTAN

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Abstract

For more than 30 years of independence, the Republic of Kazakhstan has not yet reached a high level of self-sufficiency in the production of products and goods for the population. On the shelves of the country you can see many imported goods. As a result, the constant growth of imports has a negative impact on domestic inflation. So, for the period from 2017 to 2022, imports to Kazakhstan increased by 69%. The share of imports in the domestic market is significant for a number of goods. Inflation growth in Kazakhstan in January 2023 in annual terms increased to 20.7%. In December 2022, there was an increase to 20.3%. Over the year, food prices increased by 25.7%, non-food products rose by 20.2%, and the cost of paid services increased by 14.2%. There is a need to implement an import substitution program that will improve the situation with economic security (self-sufficiency of the domestic market, including food) and reduce the growth of domestic inflation. The analysis of the import substitution potential in the Republic of Kazakhstan was carried out. Attention is focused on the direction in which the state and other interested parties need to move to solve the problem of import substitution without opening new industries.

Keywords: Import substitution, inflation, import, export, prices, Kazakhstan.

During the period of a decline in prices on the world market for raw materials, the emergence of problems in international transportation due to the current difficult geopolitical situation, the macroeconomic indicators of Kazakhstan decreased significantly, which affected the economic condition of entrepreneurs and the population. In addition, the country's accession to the EAEU and the WTO has significantly reduced the competitiveness of enterprises in the local market.

These factors have led to a constant increase in imports and rising inflation, which, in turn, leads to a

slowdown in the country's economic growth and a decrease in the purchasing power of the population. Therefore, the issue of import substitution for the development of the economy of Kazakhstan acquired particular relevance 10 years ago.

So, for the period from 2017 to 2022, imports to Kazakhstan increased by 69%. Of these, there is an increase in the following consumer goods as food products - 61%, drinks - 138%, clothing - 234%, cars, trailers and semi-trailers - 201%, pharmaceutical products - 80%, agricultural products - 93 %.

Table 1.

Export and import of the Republic of Kazakhstan for 2017-2022

Index	2017	2018	2019	2020	2021	2022
Export, thousand US dollars	48 503 260	61 111 221	58 065 589	47 540 773	60 321 024	84 393 977
Import, thousand US dollars	29 599 629	33 658 519	39 709 306	38 929 076	41 415 435	50 043 643

Source: Bureau of National Statistics of Republic of Kazakhstan

The share of imports in the domestic market is significant for a number of goods. For example, according to the Bureau of National Statistics of Republic of Kazakhstan (BNS RK), in 2022 the following values were recorded for some commodity items: processed and canned vegetables - 78.3%, margarine and similar products - 49%, milk in solid form - 77.1%, cheese and

cottage cheese - 48.7%, sugar - 49.2%, yarn and sewing threads - 68%, blankets and blankets - 95.2%, outerwear - 99.4%, clothes and clothing accessories for babies - 97.6%, shoes - 95.8%, soap and organic surface-active substances and preparations for use as soap - 67.3%, detergents - 95.5%, tires - 100%.

Table 2.

Imports to the Republic of Kazakhstan for 2017-2022 by sub-sectors

Sub-sector name	2017	2018	2019	2020	2021	2022
Cars, trailers and semi-trailers	1652	1 891	2321	2359	3 254	4 973
Paper and paper products	578	594	637	613	675	822
Chemical substances and chemical products	2580	2709	2866	2721	3 262	4 348
Wood and products of wood and cork (except furniture), products of straw and plaiting materials	468	487	440	430	591	606
Other finished products	555	620	754	761	842	968
Finished metal products, except machinery and equipment	1414	1 841	2205	2016	1 659	2 190
Other mineral non-metallic products	866	832	866	874	1 100	1 157
Rubber and plastic products	1 197	1 259	1420	1 391	1 676	2058
Tobacco products	145	144	191	184	212	189
Leather and products related to it	326	338	455	398	600	579
Coke and refined petroleum products	1 376	1403	770	765	1045	1 145
Computers, electronic and optical products	2395	2656	2773	3 340	4311	4640
Machinery and equipment not included in other groups	4 185	4563	7089	8 586	5 134	6 205
Furniture	303	271	286	276	376	379
Basic metals	2 101	2349	3006	2552	3082	3 272
Beverages	228	269	286	293	428	541
Crude oil and natural gas	370	1046	1 340	504	276	237
Other transport equipment	765	1 242	1451	1 319	1 278	1 585
Electrical equipment	1925	2520	3014	2044	2509	2526
clothing items	507	577	727	659	910	1 694
Food products	2235	2243	2441	2601	3021	3604
Pharmaceutical products and basic pharmaceutical preparations	1114	1 221	1 192	1 594	1742	2005
Mining products	55	54	47	42	55	76
Forestry products, logging and services in these areas	12	16	20	15	19	12
Agricultural products, hunting and related services	864	979	1050	1012	1 274	1667
OTHER PRODUCTS NOT INCLUDED IN OTHER CATEGORIES	289	287	785	311	284	359
metal ores	764	817	719	640	1 110	1450
Fish and other fishery products; aquaculture; auxiliary services in the field of fishing	5	5	5	4	7	14
Textile	326	423	551	621	683	747

Source: BNS RK

There are many studies proving the significant impact of imports on inflation. For example, in the Rizwan study Raheem Ahmed¹(2018) found that in the long run, a 1% increase in imports leads to an increase in inflation by 0.57%. According to a World Bank study, global shocks were a more important source of domestic inflation dynamics in countries with stronger global trade and financial ties, greater reliance on commodity imports, and fixed exchange rate regimes². However,

James D. Hamilton in his study also identified a positive relationship between imports and inflation, that is, with growth³.

Over the past 2 years, the rise in prices for food and goods in the Republic of Kazakhstan shows quite high values. For example, the price index for goods and services in annual terms (December to December of the previous year) in 2022 amounted to 20.3%, while in 2021 it was 8.4%, in 2020 - 7.5%, in 2019 - 5.4%. In addition, this figure is the highest since 2000, even in the crisis year of 2007, the figure was 18.8%.

¹ Rizwan Raheem AHMED, Saghir Pervaiz GHOURI, Jolita VVEINHARDT, Dalia STREIMIKIENE "AN EMPIRICAL ANALYSIS OF EXPORT, IMPORT, AND INFLATION: A CASE OF PAKISTAN" - 2018

² Jongrim Ha, M. Ayhan Kose, Franziska Ohnsorge, and Hakan Yilmazkuday "Sources of Inflation: Global and Domestic Drivers" - 2019

³ James D. Hamilton "Import Prices and Inflation" - 2012

According to the BNS RK, inflation growth in Kazakhstan in January 2023 in annual terms increased to 20.7%. In December 2022, there was an increase to

20.3%. Over the year, food prices increased by 25.7%, non-food products rose by 20.2%, and the cost of paid services increased by 14.2%.

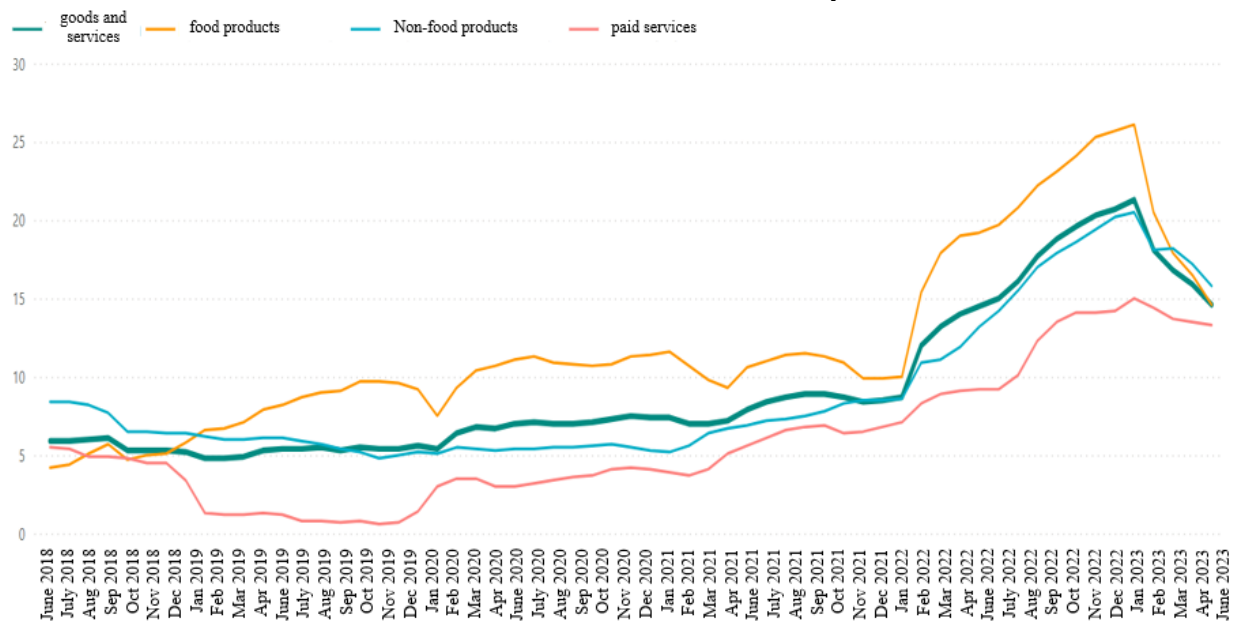


Figure 1. Annual inflation, in percent

Source: BNS RK

Thus, the successful implementation of the import substitution program will improve the situation with economic security (self-sufficiency of the domestic market, including food) and reduce the growth of domestic inflation.

The analysis of the import substitution potential in the Republic of Kazakhstan was carried out. Attention is focused on the direction in which the state and other interested parties need to move to solve the problem of import substitution without opening new industries.

The methodology is as follows. The analysis of the official database of exports and imports for 10 characters of the TN VED CU for January-December 2022 was carried out. The analysis of goods is carried out by

means of three indicators: value, volume and price of goods in export and import. Data on the value (c) and volume (q) of exports and imports are available from the official data of the BNS RK. The price (p) of a commodity is determined by the formula: $p = c/q$.

Further, commodity items were selected at the level of 10 characters of the TN VED CU, where the price of imports exceeds the price of exports. This is done to identify commodity items for potential import substitution by enterprises that export the same commodity item. Below is a table with information about the top 10 commodity items, where the import price exceeds the export price.

Table 3.

Top 10 list and overall total of commodity items for import substitution

№	Name of the commodity item (10 characters of the TN VED)	Import amount, thousand US dollars	Import quantity, tons	Import price	Export amount, thousand US dollars	Quantity of export, tons	export price
1	Other Portland cement	48,080.7	823 353.0	0.1	54,504.4	1,050,760.6	0.1
2	Other coke and semi-coke from coal	191,641.8	468 182.1	0.4	7,725.3	29,723.9	0.3
3	Semi-finished iron products of rectangular cross-section, less than twice the width of the thickness, rolled or continuously cast, with a thickness exceeding 130 mm, containing less than 0.25 mass % carbon	230 241.2	416 862.5	0.6	145,625.7	288 101.1	0.5
4	Pebbles, gravel, rubble	3407.3	361 887.2	0.0	4411.2	759 645.2	0.0
5	Waters, including mineral and carbonated waters, containing added sugar or other sweetening or flavoring substances	211 929.8	280 939.2	0.8	77,306.4	242,095.3	0.3
6	Zinc ores and concentrates	300,010.1	233 214.3	1.3	383 008.2	382 186.7	1.0
7	Other onion	23,703.3	196 313.6	0.1	15453.0	178,553.1	0.1
8	Semi-finished products of rectangular cross section less than twice the width of the thickness, rolled or continuously cast, containing by mass 0.6% or more of carbon	93,606.2	133,945.9	0.7	31,412.8	50,393.6	0.6
9	Other paving slabs, tiles for floors, stoves, fireplaces or walls, other than those of subheadings 6907 30 and 6907 40, with a water absorption coefficient not exceeding 0.5 mass %: other	39,999.6	97,094.5	0.4	13,330.8	40,869.6	0.3
10	Other glazing putties, resin cements, caulking compounds and other mastics; putties for painting works; non-refractory compositions for facade surfaces	17 108.2	76,658.2	0.2	9462.1	56,335.4	0.2
	31,823.5	74,252.1	0.4	919.5	2318.0	0.4
	TOTAL	15 990 441	7 976 233		19 527 947	36 980 521	

Source: BNS RK, author's calculations

It should be noted that the implementation of the import substitution process will not be easy and will require certain efforts on the part of manufacturers. To do this, manufacturers will need a slight change or improvement in production technology to meet the needs of customer enterprises.

The results of the study show that the country has the potential to replace 2,047 types of imported goods at the level of 10 HS digits in 2022. They can be replaced by products of the country's exporters-manufacturers in the amount of about 15.9 billion US dollars. At the same time, if importers conditionally purchase

similar goods of Kazakhstani exporters at the price of exporters, then the savings of importers will be about 5.9 billion US dollars.

Despite the real possibilities of producers, for the proposed import substitution, the interested parties may have an important question: how stable will the demand for the above-mentioned goods be in the country? For this, the dynamics of demand for these goods was analyzed. According to the analysis, in the period from 2017 to 2022, the demand for the analyzed goods has stable dynamics, taking into account seasonality. Taking into account the constant demand, 12 commodity

items were excluded, which had unstable demand, that is, imports to Kazakhstan.

Conclusion

The analysis carried out showed the potential of import substitution in the Republic of Kazakhstan. This method of calculating potential import substitution may seem unreliable due to the fact that goods are analyzed at the level of 10 digits of the Customs Code of Foreign Economic Activity of the Customs Union and the quality of local producers may not meet the requirements of Kazakhstani importers. Despite this, the purpose of the study is to display the production (exporters), due to which the process of import substitution is possible. To implement the process, interested persons, the state and business, need cooperation. In particular, representatives of central government bodies, local executive bodies, the Atameken National Chamber of Entrepreneurs need to identify potential buyers and manufacturers of the analyzed goods, organize a platform for discussing possible cooperation, identifying the needs of

buyers and the ability of manufacturers to meet these needs through the modernization of production. When identifying the possibility of cooperation between importers and manufacturers, the state, if necessary, can provide financial support to manufacturers for the modernization of production.

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