

# Nurly Zhol: the \$9 billion path to the future

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In November 2014, President Nursultan Nazarbayev unveiled a \$9 billion spending program with the aim of spurring the country's development through infrastructure building and business support

In a surprise state-of-the-nation address on 11 November 2014, Kazakhstan's President Nursultan Nazarbayev introduced an economic policy designed to add new momentum to the country's slowing economic growth, with regional turbulences and weakening commodity markets taking a toll on the country's engines of growth, the oil and gas and mining sectors.

Referring to ongoing tensions between Russia and the West over Ukraine, he said: "The geopolitical crisis and the sanctions policy of the leading powers create an additional obstacle for the recovery of the world economy." Setting out the need to "revise some positions" and "make adjustments to the plans for the forthcoming period," he explained that Kazakhstan, "as a part of the world economy and a country that is located very close to the epicentre of geopolitical tensions," was being negatively influenced as a result. "I have made the decision regarding additional [annual] allocation of \$3 billion from the National Fund for the period from 2015 to 2017," he stated.

Launched in 2000 to operate as both a stabilisation and a savings fund with revenues coming from the oil sector, the National Fund of the Republic of Kazakhstan (NFRK) contained \$76 billion at the beginning of October 2014, or 36 per cent of gross domestic product (GDP). The fund's resources regularly contribute to the national budget, but withdrawals tend to grow at times of more pressing need. Although the government had already tapped the fund's savings to keep the economy afloat during the 2007-09 crisis, when some extra \$10 billion were withdrawn to boost growth, the fund is reported not to have diminished in size, but in fact to still be growing. When the economic environment presented new challenges, therefore, President Nazarbayev was able to

turn again to the NFRK in order to maintain the country's position among the world's most dynamic economies.

Nurly Zhol, which follows a \$5.4 billion 2014-15 spending program that President Nazarbayev announced in February 2014, aims at investing a total of \$9 billion over the next three years, mostly in infrastructure development. The plan places particular emphasis on seven major areas (see box story overleaf): development of transport and logistics infrastructure; development of industrial infrastructure; development of energy infrastructure; modernization of public utilities infrastructure, and water and heat supply networks; development of housing infrastructure; development of social infrastructure; support for small and medium-sized businesses, and business activities. Nurly Zhol ('the Path to the Future') complements the Kazakhstan 2050 Strategy, which aims to make the country one of the top 30 most developed countries by 2050, by directly addressing two of its major objectives: infrastructure

development and the broadening of the industrial base. While not originally conceived as part of the 2050 Strategy, Nurly Zhol will help keep Kazakhstan on track to meet its goals.

## Five years of industrialization

Since the inception of the NFRK in 2000, the government has made efforts to better diversify the economy, focusing on key sectors that have the most potential for development, by incentivizing local and foreign investment in various priority areas. These include primary sectors related to the extraction and processing of natural resources; market-oriented sectors producing goods to meet the demand of the resource sectors; sectors with high potential to export; and innovative sectors. More specifically, for its second five-year period (2015-19),

**Nurly Zhol is designed to add new momentum to the country's growth**



Akorda, the residence of the President of Kazakhstan, in the capital, Astana. In November, President Nazarbayev introduced Nurly Zhol, a new economic policy

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## □ Nurly Zhol: key investment areas

Nurly Zhol sees the government put an additional \$9 billion into a \$32 billion investment portfolio comprising private as well as government investment in infrastructure development. The plan focuses on seven key areas:

- 1 Development of transport and logistics infrastructure.** Main road projects include those linking China to Western Europe, and Astana to Almaty. A logistics hub is being created in the east of the country, while marine infrastructure is being developed in the west.
- 2 Development of industrial infrastructure,** including the completion of infrastructure in existing special economic zones, and the construction of new

industrial zones. The development of tourism infrastructure is expected to create many jobs.

- 3 Development of energy infrastructure.** The focus is on the construction of high-voltage lines spanning Ekibastuz, Semey and Ust-Kamenogorsk, and Semey to Aktogay, Taldykorgan and Almaty, with a view to ensuring a balanced energy supply.
- 4 Modernization of public utilities infrastructure, and water and heat supply networks.** In addition to the funds already budgeted for the modernization of heat and water supply systems, up to \$540 million will be dedicated each year to accelerating the upgrades.

- 5 Strengthening of housing infrastructure.** Social housing will be constructed and made available for long-term rent with the right to buy. Low-interest loans and low mortgage interest will help make housing more affordable.
- 6 Development of social infrastructure.** An additional 20 billion tenge is being spent to reduce the deficit of kindergarten places. Ten higher-education institutions will also receive additional funding.
- 7 Support for small and medium-sized enterprises, and business activities.** Loans totaling \$837 million will help increase the output of the SME sector to 50 per cent of GDP by 2050.

the State Program of Industrial and Innovative Development (SPAIIID) will focus on six priority sectors: metallurgy, oil downstream, food processing, chemical industry, manufacturing, and production of construction materials.

While ambitious, the government's efforts in this regard since the launch of SPAIIID in 2010 have not lived up to all expectations. "We have reached positive results, but, despite the positive shifts, the implementation of the programme has not had a substantial enough effect on our economy," President Nazarbayev said in July 2014. "Growth of the processing industry has decreased. Its share in the GDP has decreased from 11.3 per cent in 2010 to 10.9 per cent in 2013. Experts note a reduction in the share of non-extractive goods in the country's export from 30 per cent to 20 per cent, while the mining industry has not grown significantly either."

However, reflecting on the scheme's first five years in a nationwide teleconference in December 2014, President Nazarbayev listed a number of successes: "The pace of growth in the manufacturing industry is for the first time much higher than in traditional mining industries... During these five years, 770 new enterprises were commissioned and 75,000 new jobs of new level requiring higher qualification and offering decent salaries were created... Major new sectors have been created: engineering, oil processing, electricity and others. The world's largest industrial giants came to Kazakhstan."

The government has also fared well in terms of infrastructure development. Kazakhstan is the world's largest landlocked country and President Nazarbayev has pledged commitment to improve the country's internal and external connectivity, in order to avoid the 'transportation trap'

that weighs on most of the world's landlocked developing countries (LLDCs) – LLDCs as a whole lag behind any individual world region in terms of economic development, according to figures from the United Nations. After gaining independence from the Soviet Union in 1991, the country managed to counter its lack of ocean access through the development of foreign port assets and ports on the Caspian Sea, and a general overhaul of road and railway infrastructure. Nurly Zhol sets ambitious new targets in this direction.

### Improving quality of life

Investments will go towards a better connection to road corridors going east to China and west all the way to European Union countries. Internal road connections between the country's major cities and industrial hubs will be improved, too. As on-land transport infrastructure improves, further development of logistics infrastructure, such as dry and marine ports on the Caspian Sea, will follow suit.

The road-construction element of the government's infrastructure plan is alone expected to create 200,000 new jobs. The overarching goal is to create a road, rail and air transport network "firmly link[ing] all the corners of our country with its centre." According to President Nazarbayev, this is expected to have a "multiplier effect" on related sectors, leading to improvements in social infrastructure and, ultimately, "the quality of life of each Kazakh."

The ambition of the scheme is not to be doubted; a broad approach, encompassing fiscal and industrial policy, and investments in human capital, will be required to ensure the success of the country's industrialization. ●