

Fight with the “Resource curse”: Mexico’s success and Kazakhstan’s challenges

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Moscow

March 23, 2017

“Resource curse”

“Resource curse” (or “paradox of plenty”): is the totality of the business environment in which profit margins of commodity exports are higher than of non-oil production.

 **Non-commodity business cannot compete in scopes of labor and capital.**

Quantitative Analysis:

- profit margin in the commodity sector, in service and in production;
- country's export-import balance for commodities;
- country's export-import balance for high-tech products;
- revenue per 1 employee per year in the commodity sector, in service (may be protected from external competition) and in production aimed to competitive global markets.

Mexico's success

Export: \$400 bln, Import: \$379 bln.

	Exports of Mexico		Revenue per 1 employee per year, '000
Cars, trucks, vehicle parts	\$83,3 B	(20,8% of total)	\$175
Computers	\$20,9 B	(5,2%)	\$235
Crude Petroleum	\$19,4 B	(4,9%)	n/a
IT & software	\$15 B	(3,8%)	\$24
Aerospace	\$7,5 B	(1,9%)	\$154

Example of aerospace industry (forecasted export - \$12 B in 2020):

- Development programs started in 2000
- Average Annual Industrial growth - 9%
- 300+ manufacturing companies, mainly in collaboration with world leaders
- New high-tech jobs – 37'000
- **Revenue per 1 employee per year - \$154'000**
- Mexico is specializing in production of engine parts, chassis, audio and video systems, harnesses and cables
- **Mexico is the 6th largest exporter of aviation products to USA**

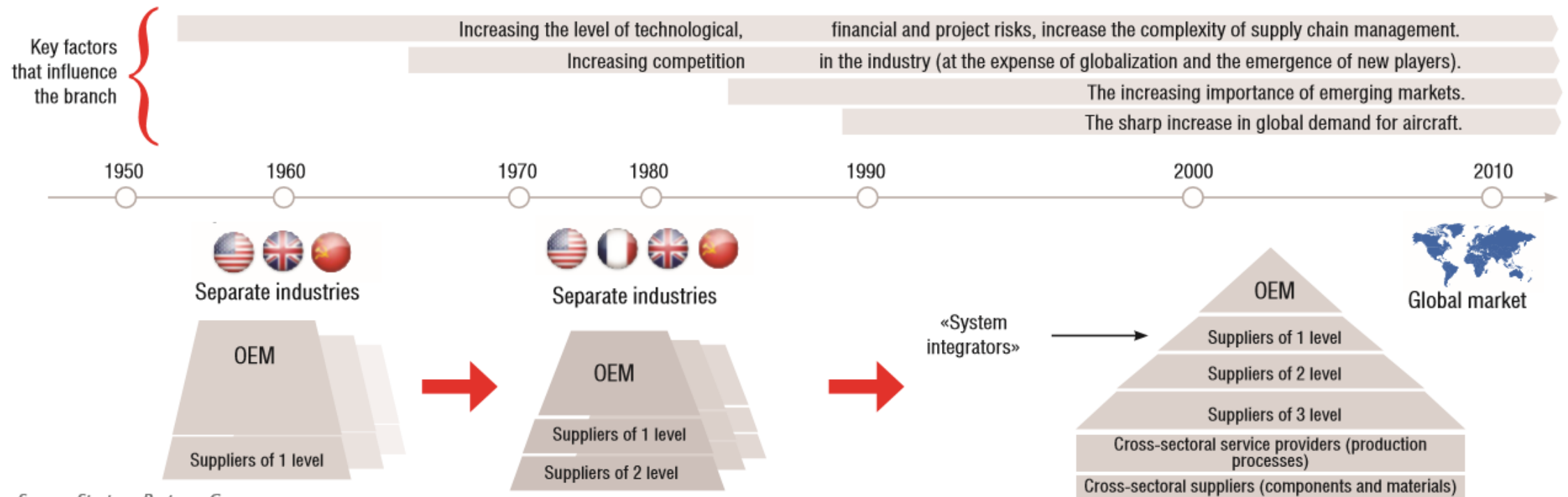


Источник: ICF SH&E, отчет «Aerospace globalization: the next wave», 2014

Key factors of independence from "resource curse":

- Main oil company, state-owned Pemex, lack modern exploration and access to cutting-edge technologies (e.g., because of high taxes and regulation standards),
- Political will to create a non-oil drivers of growth (e.g., Mexico's President set the task to enter the top 10 aviation countries in the world by 2020 and to increase sectoral exports to \$12 billion in 2020),
- Low-cost production in non-oil sectors.

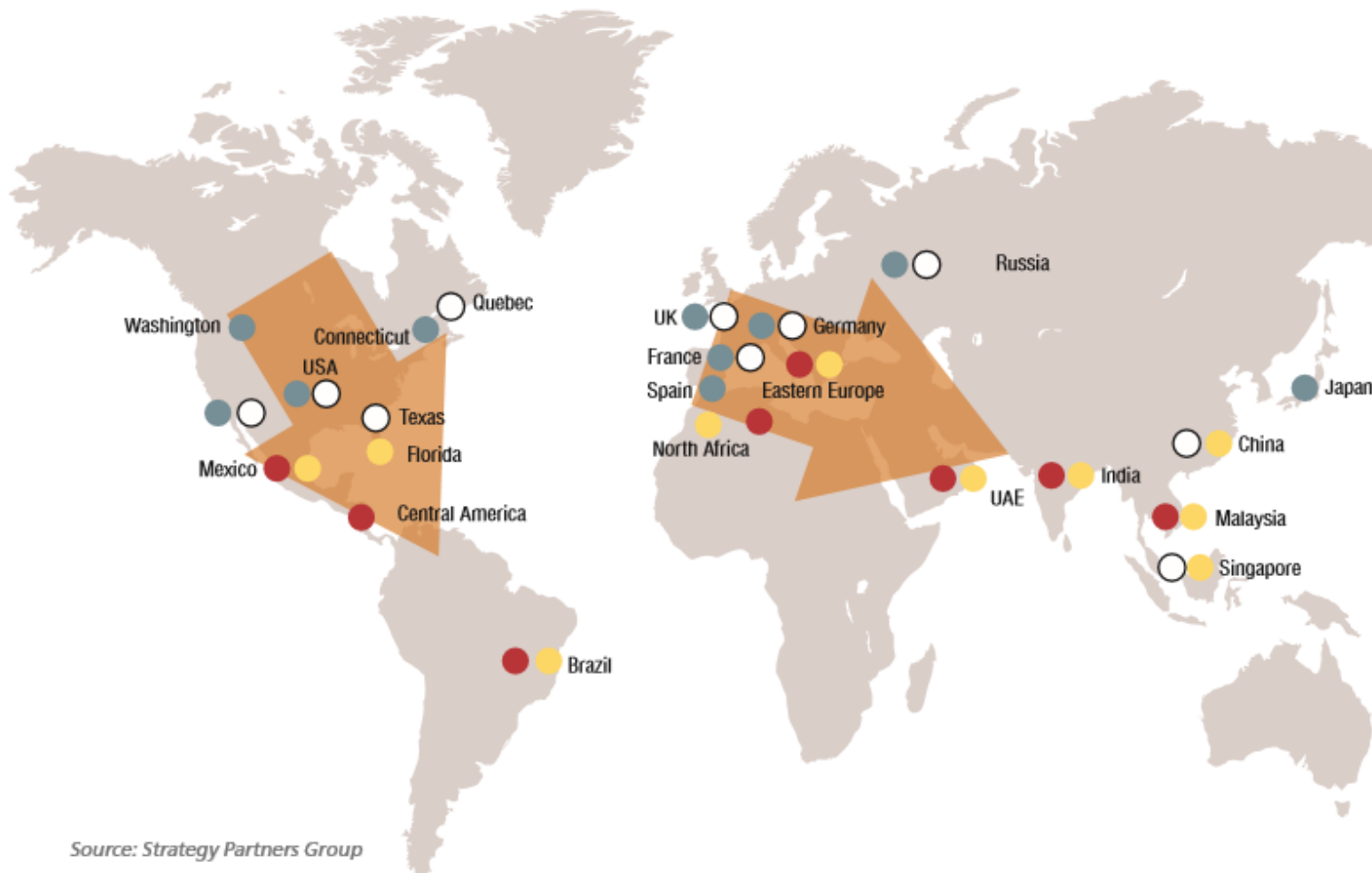
Favorable world trends:



World Trends

International practice and trends in the distribution of competencies between OEM and Tiers

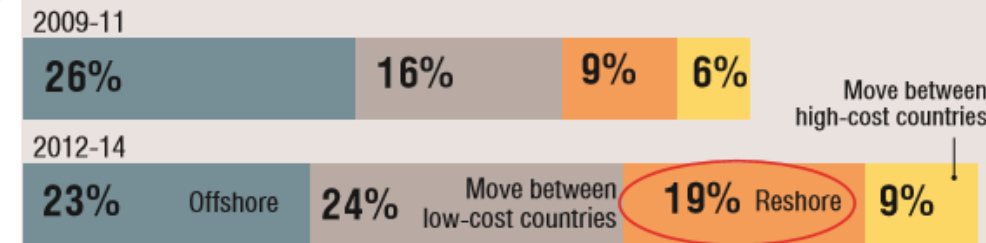
DEVELOPMENT OF NEW MANUFACTURING FACILITIES IN EMERGING COUNTRIES



- Governments in developing countries create aviation industrial clusters;
- The drivers of growth of aviation industrial clusters – low production costs and/or substantial regional market;
- The current trend is the creation of production capacity in countries for reducing transaction costs due to the preferences of the authorities, lower-cost natural and labor resources.

Source: ICF SH&E, Strategy Partners Group

COMPANIES' INTENTIONS TO CHANGE MANUFACTURING SOURCE, worldwide, % of capacity



Source: AlixPartners, McKinsey, Hackett

- Well-established MRO clusters
- Well-established manufacturing clusters
- New MRO clusters
- New manufacturing clusters

Kazakhstan Strategy

Five institutional reforms:

- Creation of a modern and professional civil service
- Ensuring the rule of law
- Industrialization and economic growth
- A unified nation for the future
- Transparency and accountability of the state



National plan – 100 steps on implementation of five institutional reforms

The plan is targeted to join top-30 most developed countries of the world



Key Priorities of Industrial Modernization

- The economy's accelerated technological modernization, incl. Digitalization State Program
- Improving and expanding the business sphere
- Macroeconomic stability
- Improving the quality of human capital
- Institutional reforms, security and fight against corruption

Targets for 2025:

- Increase investments to 30% of GDP (now 20%);
- Increase non-oil export to 70%;
- Increase share of small business in national economy to 50%.

Development:

1. commodity sector,
2. general industrialization,
3. innovation economy, digitalization and “new economy”.

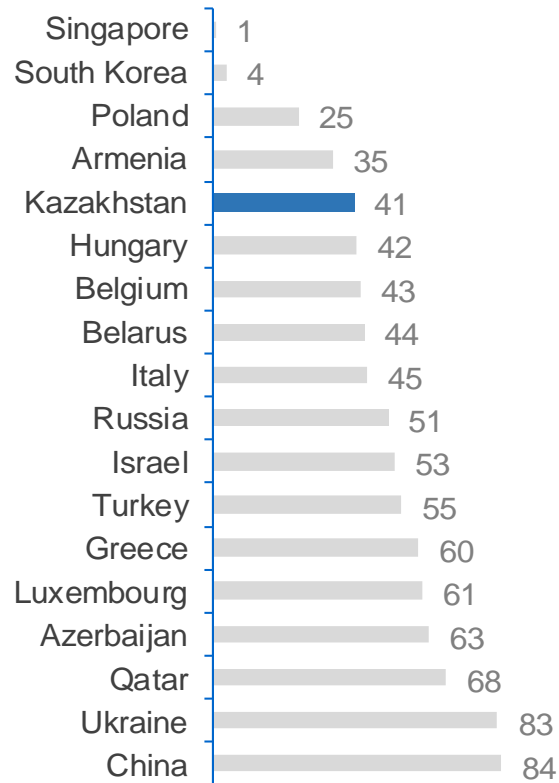
General focus for industrial development:

- New technologies,
- Export,
- Localization of manufacturing of global leaders,

Kazakhstan Strategy: practical results

DOING BUSINESS 2016

Kazakhstan ranked 41st



Source: World Bank, Doing Business 2016

GLOBAL COMPETITIVENESS INDEX RANKINGS

Kazakhstan ranked 42nd

Rank	Country	Score
1	Switzerland	5.76
2	Singapore	5.68
3	USA	5.61
4	Germany	5.53
21	Australia	5.15
28	China	4.89
...
42	Kazakhstan	4.49
45	Russia	4.44
49	South Africa	4.39
51	Turkey	4.37
54	Bulgaria	4.32
57	Mexico	4.29
63	Hungary	4.25
72	Morocco	4.17
75	Brazil	4.08
77	Croatia	4.07
87	Algeria	3.97

Source: World Economic Forum, Global Competitiveness Report 2015-2016

Inward foreign
direct investment stock
(01.01.2015): **\$142 B (63% GDP)**

- 50% Europe
- 20% US
- 8% China

Source: Vedomosti (16.07.2015)

Kazakhstan: market challenges

Global Challenges:

- Industrial costs reduction
- Flexible targeting on customer demands

} **Less strategic,
more operational**

Cost Index for manufacturing
aerospace components



Mexico: understanding of own competitiveness up to final product price

Success criteria:

- Industrial export revenue
- Revenue per 1 employee per year



Analysis of global competitiveness,
Conclusions for Industrial Strategy and Operational Policy