

*Materials of Conferences***LONG-TERM STRATEGY
FOR THE MARKET FORECAST IN
PRODUCT ENGINEERING**

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The objectives of the study and forecasting of demand and sales are identifying prospects for development of the enterprise, competition, economic conditions and other factors affecting the sales of products. On the basis of these predictions the following processes are done: production planning and financial activities, decisions about the scope and targeting of investment, the need for production facilities, and, consequently, new sources of supply companies, engineering development, etc.

The demand for some products is easy to predict. This applies mainly to goods with stable or growing sales in a stable competition. But most of the markets in the different realities of the unstable domestic aggregate demand or demand for certain goods companies, so quality of forecast preparation may be a key factor determining the success of the enterprise. Poorly same prediction leads to the accumulation of large inventories, a drop in commodity prices, or, conversely, to the impossibility of sales due to the sale of goods and the rapid depletion. The greater the volatility of demand, the greater the need for accurate forecasting and the development of methods of forecasting the company is experiencing. In short, demand forecasting and sales should be considered as an important means of improving the control system engineering company, to optimize its activities, enhance vitality and competitiveness, which determines the manifestation of great interest in this issue at the Russian enterprises.

The problem analysis and forecasting of demand and sales of engineering production is relevant and requires new modern methods, approaches, methods and recommendations to implement the mechanism of sales management engineering production in market conditions.

The main purpose of the work is to study the problems of analysis and forecasting of sales and development of methodological and practical recommendations for improving the organizational-economic mechanism of forecasting sales of enterprise engineering industry.

Thus, it is necessary to solve the following tasks: development of a strategy of long-term market forecast of engineering products; a study of the theoretical aspects of the definition of current and future demand and sales in a market economy; analysis of the current state of the organization of

research and forecasting of demand and sales in the mechanical engineering enterprises, identify common trends in the development of this sphere; identify ways to improve the existing enterprise technology research and forecasting of demand and sales of finished products.

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**DEVELOPMENT
OF THE FINANCIAL-ECONOMIC
INCENTIVES TO IMPROVE INVESTMENT
CLIMATE IN REPUBLIC OF KAZAKHSTAN
IN THE CONDITIONS
OF THE NEW GLOBAL REALITY**

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Purpose of the research. To work out complex measures to develop the financial-economic incentives to improve the investment climate in Kazakhstan in the new global reality, based on the results of the research, which are presented in table form the SWOT-analysis of the investment climate in Kazakhstan, which demonstrates the strengths and weaknesses, threats and opportunities of Kazakhstan in this issue.

Results of the research. Package plan for the implementation of the financial-economic incentives was proposed to improve the investment climate in Kazakhstan considering the world experience on the basis of the SWOT-analysis method the investment climate of the Republic of Kazakhstan. In particular, to overcome technological backwardness were offered:

- assignment to deduct the cost of purchase intangible assets used in the production of high and medium technology products;
- tax exemption of royalties received by the results of scientific research, scientific and technical developments, and development activities;
- provision of tax holidays for 5 years of corporate income tax, land tax, property tax, social tax for legal entities whose income from the activities of production of high and medium technology products is not less than 90 per cent of the total annual income from all activities.

Purpose of the research. To work out recommendations to develop of the financial-economic incentives to improve the investment climate

in Kazakhstan in the new global reality taking into consideration.

Methods of the research. The research is based on the methodology of the system analysis and the SWOT-analysis of the investment climate in Republic of Kazakhstan, involving structural and functional approach is to allocate objects in the system of structural elements and determining their roles (functions) in the system.

Results of the research. Complex measures to develop the financial-economic incentives to improve the investment climate in Kazakhstan in the new global reality was worked out taking into consideration.

Contents

New challenges appear to Republic of Kazakhstan in the conditions of modern reality:

- decline of demand for Kazakhstan's exports as a result of the economic slowdown in the world economy;
- absence of oil excess revenues as a result of the decline in world oil prices from \$ 120 per barrel to \$ 50 or less in 2014–2016;
- deterioration of the geopolitical situation in the world as a result of the implementation of sanctions by Western countries towards Russia.

Only diversified economy can effectively counter the consequences of the global crisis in the new global reality. It is important to draw enormous financial resources to solve this issue.

The new Address of the President of the Republic of Kazakhstan to the nation on November 30, 2015 the investment climate is designated as one of the most important areas of complex anti-recessionary and structural measures.

Attracted foreign direct investment have significant role in the economic growth of Kazakhstan. Annual inflows are more than 10 billion dollars USA since 2006. According to the Statistics Agency of Kazakhstan, the scope of foreign direct investment in Kazakhstan in 2008–2009 was attracted in the amount over 21 billion dollars USA notwithstanding the global crisis. In 2010–2013 attracted investments provide annual GDP growth on average 7% per year.

Unfortunately, the high rates of economic growth observed over 2010–2013, did not accommodate significant change in the economic structure. Non-manufacturing business remains the main driver of economic growth in Kazakhstan in recent years. Thus, according to the National Bank of Kazakhstan for 2013–2014 years, the contribution

of services to GDP growth is estimated at 67% (trade, transportation, communication services, financial and insurance activities, etc.).

The contribution of industry and agriculture in real GDP growth was only 14%. Slight increase in manufacturing by 1,6% was mainly increase the production of food products and beverages (12,5%) and engineering (14,7%) [2].

The total amount of FDI attracted in 2005–2013, respectively, 58,8%, or 108,2 billion. There are **commodity sector and share of manufacturing industries** accounted for only 11%, or 20,2 billion dollars USA [3].

In 2012, FDI flows reached a record high index of 28,9 billion dollars USA, which is 49% more than the pre-crisis level and 9% or 2,4 billion dollars USA more than in 2011.

Main investors in the economy of the Republic of Kazakhstan: the Netherlands, the USA, Switzerland, China, France, the United Kingdom [4].

State program of forced industrial-innovative development of Kazakhstan was developed to escape from dependence on raw materials in Kazakhstan as well as development of FEZ and export promotion in the Republic of Kazakhstan for 2010–2014. In the framework of this program favorable conditions were created for the development of priority sectors: agribusiness; refining; energy; the construction industry; mechanical engineering; tourism and others [5].

However, significant resources aimed to modernize the economy, **do not have proper influence on its diversification**. Since the implementation of SPFIID the part of manufacturing in GDP structure has not undergone any significant changes, and in 2012 it even decreased compared to 2011 and amounted only 11,3% of GDP.

Analysis data also indicates that GDP growth rate still largely depends on the growth of the mining industry and is provided mainly by the export of raw materials – oil and gas, and other raw materials. At the same time more than half of all revenues of the consolidated budget of the state are provided by commodity revenues.

Currently, there are positive trends and *drivers of economic growth in Kazakhstan, becoming the new economy created in the framework of innovative industrialization. Many manufacturing sectors are showing growth.* During the years of implementation of the State Program of Forced Industrial-Innovative Development of Kazakhstan during 2010–2014, the manufacturing industry grew

Table 1

GDP growth rates in Republic of Kazakhstan 2010–2015 (percentage)*

Name	2010	2011	2012	2013	2014	2015
Real GDP	7,3	7,5	5,0	6,0	4,3	1,5

Note. *Compiled by the author according to the Statistics Agency of RK [1].

by 1,3 times, chemical industry and construction materials – by 1,7 times. Release of engineering products increased by 2,2 times, and exports – by 3 times. There were 800 industrial projects realized. In 2015, the steel industry grew by 15%, chemicals – by 3,2%. Manufacture of mineral products – by 3,2%, clothing – by 4%. The World Bank and the Asian Development Bank forecast high rates of economic growth in Kazakhstan in 2016 [4].

In response to the global challenges and the global crisis of 2015–2016 Kazakhstan first adopts preemptive anti-crisis strategy, which was announced in the new Address of the President of Kazakhstan “Kazakhstan in the new global reality: growth, reforms, development” dated November 30, 2015.

Firstly, a second five-year industrial-innovative development has been launched, i.e. Kazakhstan creates economy which is not dependent of raw materials.

Secondly, the State Program of infrastructure development “Nurly Zhol” was adopted. An important aspect of anti-crisis measures is also linked with the transition of the national currency to a floating exchange rate.

Thirdly, Kazakhstan implements the “Plan of the Nation. One hundred concrete steps to implement 5-institutional reforms”. Parliament has almost completed the work on the law-making provision of the Plan of the Nation. Approximately 80 laws were adopted. They came into effect on January 1, 2016, as it was planned. In particular, administrative barriers to small and medium-sized businesses are being removed, state administration, education and healthcare are improving. All these measures will give a safety margin to the state, society and the national economy.

Despite the negative impact of the global crisis, ***Kazakhstan in terms of global competitiveness of the Davos Economic Forum, currently ranked 42 in the world and took the 41 position in the global rating of the countries which create the most favorable conditions for business.***

Alongside with that, much remains to be done. Within the next decade Kazakhstan needs to [6]:

- provide an annual growth rate at 5 percent;
- increase exports of the processed goods by at least 2 times compared to 2015 and bring it up to 30 billion dollars USA a year;
- increase the annual volume of investment into the economy by more than 10 billion dollars USA, and in general for 10 years – not less than 100 billion dollars USA;
- Create more than 660 thousand new jobs, increase productivity by 2 times.

Such growth rates can be achieved only through structuring of the new drivers to ensure the inflow of export revenues. In this regard, ***it is important to improve the investment climate in Kazakhstan and to attract private investment with a focus on transnational corporations. It is necessary to generate a favorable environment for attracting “sophisticated investment”*** [7].

Certainly, the countries seeking to attract significant foreign direct investment (FDI), should take measures to promote investment. Promotion of investment combines the development of a favorable investment policy, the creation of a positive image in the eyes of potential investors, implementation of targeted FDI attraction by identifying prospective foreign companies and providing services to investors. Successful examples of methods by which you can achieve “the favor” of investors among the states – participants of the OSCE are the Czech Republic, Ireland and the Baltic states. Eventually, than the more favorable investment climate appears in the country, even more attractive business proposals allow to present to investors [8, p. 15].

Positive and negative aspects of the investment climate in Kazakhstan and prospects for improvement were revealed during the research of investment climate in Republic of Kazakhstan on the basis of modern trends analysis in the country’s investment activity, as well as the analysis of the factors influencing the state’s position in the global competitiveness index. Results of the research are presented in the form of the SWOT-analysis (Table 2).

Based on the performed SWOT-analysis, we have developed a set of measures realization which will allow Kazakhstan to improve the investment climate and attract foreign investment in priority sectors of the economy (Figure).

At the modern stage, it is necessary to use the following financial and economic incentives and mechanisms to improve the investment climate in the Republic of Kazakhstan according to our scheme (Figure).

1) Infrastructure improvement

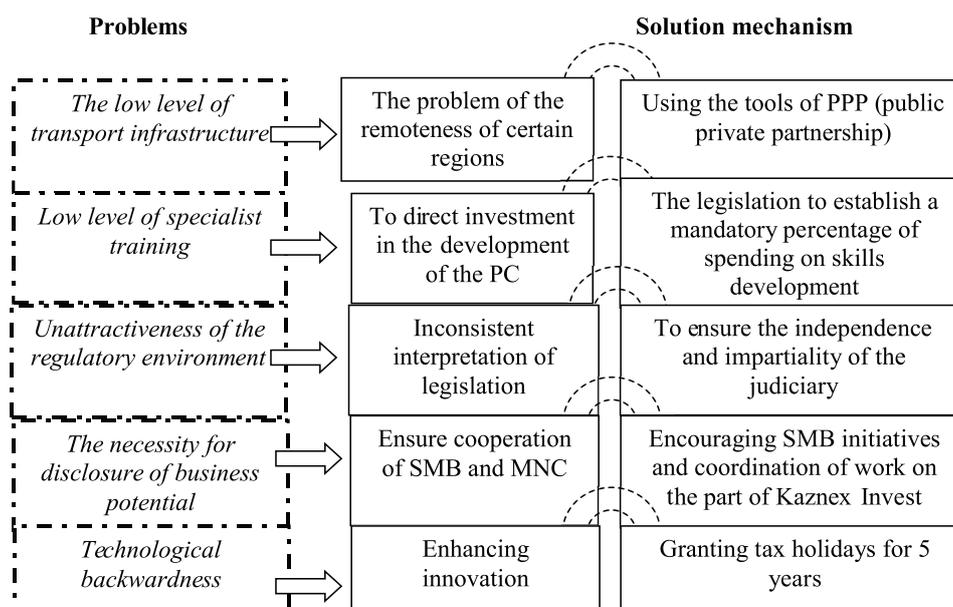
The further development of transport infrastructure taking into account the size of the country and the remoteness of some regions is particularly important. Coverage of the territory of Kazakhstan by roads and railways remains at relatively low level, and the ground areas allocated to enterprises often do not have engineering and communication infrastructure. In order to solve this issue it would be appropriate to use the mechanism of public-private partnership (PPP), providing attraction of the capital, to use technology, experience and knowledge, as well as increasing operational efficiency. It is also necessary to reduce the costs of running a business, as well as to improve the interaction between the domestic market and in the framework of the Common Economic Space. Public-private partnership is one of the tools in the state’s arsenal, thanks to which it is expected to increase investment in infrastructure and deliver value. ***Financing of projects through the PPP mechanism may involve the use of the state support, reflected in the fact that the state assumes part of the risk that it can manage more efficiently than private investors, and supports those projects that are economically feasible, but inviable. Besides, the PPP mechanism may contribute to more effective involvement of the private sector in public projects*** [9, p. 23].

Table 2

SWOT-analysis of the investment climate in Republic of Kazakhstan

Strengths	Weaknesses
1. The presence of rich natural and mineral resources 2. Favorable geographic position of Kazakhstan to major consumer markets of Central and Western Asia, Russia, India and China 3. Macroeconomic and political stability in the country 4. The presence of tax holidays (privileges) and investment incentives in priority activities 5. High level of literacy 6. Service Support for investors JSC «National Agency for Export and Investment Kaznex Invest »	1. The low level of transport infrastructure and logistics 2. Professional qualification of the specialists does not correspond to the level, provides competitiveness 3. Inconsistent interpretation of legislation and its selective use 4. The insufficient degree of independence of judicial system 5. A complex system of tax administration 6. Technological backwardness 7. Bureaucracy and corruption
Opportunities	Threats
1. The emergence of additional opportunities in the framework of the Customs Union and the Common Economic Space 2. Modernization of the economy and the creation of incentives for the introduction of new technologies and processes 3. Development of business in order to expand opportunities for cooperation between local and international companies 4. Expansion of transportation inside the country and the connection to the main destinations abroad 5. Development of agriculture with the use of cluster initiative 6. Development of own indicator of investment activity around the world, which will be able to raise the country's investment image in the eyes of investors.	1. Exhaustion of state's raw material base 2. Keeping high-risk economy due to the presence of raw materials disproportion of the economy and investments 3. New laws and regulations may be impracticable for the business community or have a fuzzy interpretation 4. Inconsistent interpretation of legislation and its selective use by state authorities representatives may adversely affect to the level of confidence of the business community and foster the ideas about corruption

Note. Developed by the author.



The set of measures to improve the investment climate in the Republic of Kazakhstan. Note. Developed by the author

2) *Development of human resources capacity* for the implementation of large-scale economic plans of the country remains a key challenge against the background of the current working age population and the growing demand for qualified personnel. Lack of investment in human resources and material resources led to a decrease in labor productivity and quantity of created work places, economic stagnation and low incomes. For example, pinpoint investment in human resources successfully combines with investment in tangible funds and industry in Ireland.

Financial incentives are an important tool to attract investments of companies (businesses) and individuals in education and training. In the Netherlands, for example, citizens can deduct from the annual taxable income the amounts (at a rate of up to 15 000 euros) spent on improvement of their ability to employment in the present or future workplace. Employers have the right to reduce their taxable income by a certain percentage, depending on the amounts spent on the training of low-skilled workers or employees of older age groups (over 40 years), as well as workers of small enterprises. Furthermore, all participants of the “apprenticeship” program receive tax benefit in the amount of 2 500 euros during the course of the NGO [10, p. 10].

In accordance with the Tax Code in the Republic of Kazakhstan, the costs of employees' education are subject to deductions from taxable income [11, p. 58]. However, realizing the importance of this incentive and its underestimation by Kazakhstani enterprises and companies, it is necessary to reveal legally fixed percentage of expenditure on advanced training from taxable income.

3) *Ensuring transparency of legal and regulatory environment.*

A stable political environment is a solid basis for economic development, and particularly for FDI. Its absence creates risks that discourage investors. The government should take the following measures to ensure a favorable political situation:

- Protecting the rights of investors to ensure fairness with regard to their economic interests and business conditions.

- Independence of the judicial system must be guaranteed to prevent a financial, political or other exertion of inappropriate influence, regardless of whether it is actual or perceived. The independence of the judicial system will help to separate business from politics and at the same time to reduce suspicions about the possibility of corruption. Possibility of international arbitration is an important tool for increasing confidence.

- Investors planning the creation of long-term sustainable business, require predictable and stable environment. Frequent changes in the legislation, coupled with an inadequate assessment of their effect deprive such strategic investors of motivation.

- The effectiveness of new laws and regulations depends on whether they contribute to the

formation of fair and equal conditions. Thus, all interested parties should be involved in the process of drafting and provided with sufficient for the consultation time. In recent years there has been considerable progress in this area. However, there are cases when only part of interested parties is invited for participation in the public debate and the draft of law is sent to interested parties for comments and proposals directly before its submission to Parliament. As a result, there is not enough time to study and comment these drafts.

- Corruption is often a result of high administrative barriers. The government is constantly work on reducing administrative barriers to ensure the smooth and efficient conduct of business. ***It is necessary to accelerate the implementation of measures on struggle against corruption through the introduction of codes of conduct, reduce bureaucracy, provide a decent level of wages state employees.***

4) *Unlocking the potential of business* (especially SMBs) by reducing administrative barriers and costs related to compliance with legal requirements, and by ensuring transparent conditions for fair competition. The Government recognizes the importance of entrepreneurship, but the level of economic and social infrastructure development is insufficient to support the business.

Entrepreneurship plays a key role in formation of sustainable economy.

At the same time, investors need presence of local entrepreneurs with whom they could form partnerships, and which could contribute to the development of business within the supply chain (production-distribution chain). In the current environment, mistakes carry penalties, but the initiative is not rewarded. This deprives the motivation both investors and entrepreneurs.

The reforms to support entrepreneurship are generally similar to the reforms in support of investors: reduction of bureaucratic barriers, clear and consistent policy in the field of tax administration, development of competitive human resources, construction of infrastructure (transport, communications, banking, technology, etc.).

5) *Elimination technological backwardness*

The widespread development of innovative technologies based on advanced scientific and technological achievements in all areas of industrial production is a key area for economic growth. There are two main ways to stimulate R & D in the private sector are used in the world practice: direct subsidies through grants and government programs and indirect subsidies through tax exemptions.

According to the Law “On state support of industrial and innovative activity” dated 26.01.2012 innovation grants are provided for the following purposes in Kazakhstan: performance of experimental – design developments; preparation of technical – economic feasibility of the innovative project; patenting of industrial property in foreign countries, and (or) international patent organizations [9].

As the measures of tax stimulation of the innovation activity it was provided: decrease in taxable income to 0,5 times the costs incurred for the research and development (R & D), science and technology development (RTD) and experimental development (R & D) accumulated until the implementation of the results according to the type of work; assignment to deduct actual expenses for compulsory contributions to the subsoil research, STD & D (1% of total annual income) [11, p. 51].

However, these measures are not sufficient for successful innovation at the present stage. Kazakhstan took 83 place out of 141 as the global index of innovations' development in 2012 shows. China and India are leaders of the index among countries [12]. It should be noted that in order to stimulate innovations these two countries actively use tax holidays. For example, there is entire (100%) exemption from paying major taxes after receiving the first income in the first 2–5 years in China. And there are tax holidays granted for 7 years after receiving the first revenue in Israel.

Conclusion and recommendations. Based on conducted analysis we propose:

1. Transition to deduction of costs for acquisition of intangible assets used in the production of high and medium technology products

2. Exemption from taxation of royalties obtained as a result of research, R & D, STD & D.

3. Granting tax holidays for the term of 5 years to corporate income tax, land tax, property tax, social tax for legal entities whose income from the activities of production of high and medium technology products is not less than 90 per cent of the total annual income from all activities.

The entire complex of the above-mentioned problems should be resolved at the same time as an isolated solution of certain problems could not achieve his goal – improving the investment climate for multidirectional other factors.

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