

## **Economic Mechanism of Support of Regions in Developing Countries (On the Example of Kazakhstan)**

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**Abstract:** The purpose of the study is to analyze the problems of insufficient use of economic methods of management in the regional system of Kazakhstan and search of ways for development of territories. The study is based on system analysis, methods of sampling and grouping of statistical indicators. It is established that in Kazakhstan many reforms do not work at the local level, decisions are made centrally without taking into account the opinion of regional authorities and public. The standard of living of the population in a number of regions is growing slowly, stratification of the society remains high. Similar problems are encountered also in the countries of Central Asia. The authors believe that the proposals made to create regional business structures of innovative nature and wide use of financial instruments of management can find application in countries with developing economies.

**Key words:** Economic mechanism • Region • Business structures • Bill of exchange

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### **INTRODUCTION**

The socio-economic development of the regions, ensuring equation of local budgets is of priority importance for any country. On the example of Kazakhstan, it can be noted that as a result of reforms, the legislative framework of public Finance has been determined, program budgeting has been introduced, permanent sources of income of the regions have been fixed, financing of the budget deficit is carried out on a non-inflationary basis.

An important step was the creation in 2000 of the National Fund for the accumulation of financial resources for future generations [1]. The budget policy of 2013-2016 was formed on the basis of the principle of income stability and reduction of budget dependence on world prices for raw materials [2].

The economic mechanism of development of the regions is based on such regulatory levers as standards for the formation of regional and local budgets; prices and tariffs for a number of important goods and services, special tax regimes for construction, reconstruction of priority facilities and incentives for scientific research.

The vast majority of the regional budget is used for the needs of the economy and the population: the cost of social and cultural activities, the implementation of programs for the development of industries, the introduction of cluster technologies [3].

The main priorities of the policy of reducing budget expenditures are:

- Industrialization Program. The programs “Productivity - 2020”, “Business road map - 2020”, as well as sectoral programs, including the provision of energy, transport and gas infrastructure to the economy, are financed.
- Modernization of the social sphere. Health and employment programmers are funded as a matter of priority.
- Improving the living conditions of citizens. The priority is the modernization of housing and communal services and the growth of incomes.
- Formation of growth points. Within the framework of the regional development Program until 2030, it is planned to implement projects to improve the competitiveness of territories [4].

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At the same time, today we see that in some cases, governments fail to support the financial stability of the territories. There are regions where local budget revenues do not cover expenses, which lead to the failure of important programs and complicates the implementation of innovative projects.

Thus, in Kazakhstan, due to the decline in world energy prices and the instability of the situation in the foreign exchange market, there was some increase in the state's obligations. Current expenditures in the state budget increased over the past 10 years from 59.6% to 81.1% in 2017 [5]. Subsidies to support the housing and utilities sector, agriculture and the transport sector are also growing [6]. The Government explains that this is a short-term phenomenon caused by the implementation of large-scale infrastructure projects, The industrialization map, business Road map, etc.

It should be noted that the current legal framework of budget relations does not meet the requirements of independence of the region. Management of regions is carried out mainly by organizational and administrative methods, the economic mechanism of regulation is not sufficiently developed. Some reforms don't work at the local level, provided by the Law on local state management and self-government economic leverage, inadequate use of [7]. The distribution of budget funds between the regions does not take into account the achieved level of welfare of citizens.

As will be shown in this article, the regions of Kazakhstan are different in terms of development. The uneven distribution of income between regions has persisted for many years. According to the data for 2017, the average per capita income in Astana was \$ 424.5 and in Zhambyl region- \$128.8 [3].

In these conditions it is important to create incentive mechanisms for regional development and find alternative sources of funding for the budget deficit [8]. To create a stable financial basis for the development of regions, the authors propose to form a new approach to the policy of borrowing in the local market. The authors see the most optimal solution in the creation of innovative structures that combine production and financial components. On the example of cotton-textile cluster and related organizations shows the mechanism of interaction of enterprises and organizations through the Regional financial center, whose task – to organize the movement of bills of exchange.

This will contribute to the effective functioning of the regional economy, the constant flow of temporarily free funds of enterprises, savings of the population. The need

for investment for the implementation of some important projects for the region makes the problem of improving the economic mechanism of management urgent.

The purpose of our study is to reveal the problems of insufficient use of economic methods of management in regional systems and search for funds for the development of territories. In this connection, the following tasks are set:

- Analysis of key indicators of economic development by the example of one of the Central Asian post-Soviet countries (Kazakhstan);
- Consideration of the social and economic situation in the regions of the country;
- Identification of similar problems in the regional development of Central Asian countries;
- Development of proposals for improving the economic mechanism for managing regional development.

## **MATERIAL AND METHODS**

Many studies of Western specialists are devoted to the issues of economic mechanism of the region's development; there are also publications of CIS scientists. While working on the article, the authors got acquainted with some of them. A review of these studies shows that there are still enough issues to be studied: for example, why in the post-Soviet countries the measures of the Governments for the development of regions fail to work; what management tools should be used to stimulate sustainable development of the territories; how does the creation of innovative business structures improve the investment climate and attractiveness of territories?

Sampling methods of the necessary information from the data of the CIS Interstate Statistical Committee, the countries of the Eurasian Economic Union (EAEU), the statistics of the Central Asian states on the socio-economic state of the country and regions, the reports of the World Bank and other international organizations were used for the study.

At the same time, such an important indicator as a gross regional product per capita can be used as an integral assessment of the efficiency of the country's economy and growth of the well-being of citizens.

However, when comparing, one should keep in mind the heterogeneity of the natural, resource and economic potentials of countries. The economies of the Central Asian countries can be referred to quite complex and multifunctional objects of study, since we deal with a

multitude of economic entities with different institutional structure and economic mechanism of management, which requires the use of a whole range of research methods for their description.

In order to achieve objectivity in the study, the authors studied the internal sources of information of the Central Asian countries, namely: official bulletins, periodical press materials, documents and government reports. In addition, open sources of data - sites of companies and institutions, reviews of rating agencies, analytical materials of scientific organizations, Internet resources have been used. An integrated approach has been used, i.e. this issue has been studied comprehensively from the point of view of economic, political, demographic and environmental situation in the countries.

Based on the objectives of the study, systematization of the material studied is done. These methods are: classification, sampling based on statistical indicators. In the study of the problem the system analysis was used - sequence of the study of the problem from reading a large number of articles, study of statistical data to obtaining conclusions about the problems of regional development.

### Results of the Study

**What Is the Real Situation:** Analysis of the situation of Kazakhstan's economy shows that there are system problems:

- A large quasi-public sector. So, the assets of the fund "Samruk-Kazyna" account for more than 40% of the domestic gross market, including more than 500 "granddaughters and great-granddaughters". In recent years, the fund has been actively working to clear the companies of unprofitable and extrinsic activity, resulting in the reduction of the number of companies from 768 to 560. Also within the privatization two lists of assets for realization have been formed: 43 big assets, including IPOs of leading companies and 182 non-core assets. As a result of this work, the structure of the "Samruk-Kazyna" group will have about 200 companies [9-11]. Later, after privatization and transformation, the fund is seen as a compact and mobile industrial holding company that will manage two types of assets: anchor one, consisting of controlling or blocking blocks of shares in strategic industries (oil, uranium, infrastructure) and a commercial asset, consisting of blocks of shares of growing companies, the composition of which will be constantly updated.
- The banking sector is in fever. The National Bank supervises only 40% of the total amount of currency

in cash [12, 13]. 60% of deposits of enterprises are in foreign currency and deposits of the population - 80%. 2015 was a year of crisis for the economy. But this year has shed golden rain on the banks of the country. Almost all of them were able to increase their assets, attract new money from the population and enterprises and, of course, make money on devaluation. Although the external debt of the banking sector was not very large - \$ 8.5 billion, major banks (Kazkommertsbank, Qazaq Bank, RBK) began to have problems [14, 15]. In Kazkommertsbank, under the influence of sharp devaluation of the national currency, the volume of problem assets increased with weak profitability of capital. Experts projected external support along with restructuring of liabilities, but in June, 2018 the National Bank of the country decided to revoke the license. For the year of 2017, the deposit portfolio decreased by 1.1%, although in 2016 it showed an increase of 4%. In addition, in 2010-2018 yrs. skewness took place in the structure of banks' deposits. If in 2010 corporate deposits dominated in the portfolio of deposits - 72.9% versus 27.1% of retail deposits, so in the 1st quarter of 2018 the share of legal bodies' deposits accounted for 50.8%, the share of individuals' deposits was 49.2% % [16].

- The share of foreign capital in large domestic enterprises is high [17]. Direct investments in external assets of Kazakhstan are \$ 32 billion, or 19%, the reserve assets of the National Bank of the Republic of Kazakhstan are \$ 28 billion, or 17% of foreign investment. Since gaining independence, the volume of foreign investment has reached \$ 197 billion, a large part of which investors from the West and the East have allotted in the form of credits to their subsidiaries, operating in Kazakhstan [18]. At the moment more than 140 large investors are registered and operate in the raw materials industry of Kazakhstan.

The country's GDP peaked in 2013 due to high prices for oil, metals and other raw materials (Table 1) [19]. The fall in prices caused a sharp decline in gross product. Despite this, the money supply in KZT has been growing all the time, reaching in 2015y. - 17 208 billion KZT; 2016- 19 913; 2017 - 19 825. In dollars, it sharply decreased from \$ 92.5 billion in 2015 to \$ 59.6 billion in 2017. This was due to the growth of \$ rate to KZT by 1.81 times, i.e. the currency depreciated [20]. *For reference: KZT rate to dollar exchange rate in July, 2018 already exceeded 345 KZT.*

Table 1: Some key indicators of Kazakhstan in 2000-2017 yrs.

Indicators	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017
Nominal GDP, billion dollars	18.3	57.1	148.0	192.6	208.0	236.6	221.4	184.4	123.2	126.3
Money supply:										
-billion dollars	2.8	15.2	34.8	61.0	57.6	38.9	66.5	34.5	70.6	33.9
-% to GDP	76.2	32.2	71.5	32.3	92.5	50.2	59.2	48.0	59.6	47.2
The state budget:										
-billion dollars	4.1	21.7	29.2	36.6	39.0	42.0	40.9	41.0	27.6	28.7
-% to GDP	22.6	38.1	19.7	19.0	18.7	17.7	18.5	22.3	22.4	22.7
Tax revenues:										
-billion dollars	4.8	17.7	19.9	27.2	27.5	31.4	28.6	26.3	17.9	14.9
-% to GDP	26.0	31.1	13.5	14.1	13.2	13.3	12.9	14.2	14.5	11.8
For reference:										
KZT exchange rate to dollar	142.1	132.9	147.4	146.6	149.1	152.1	179.2	186.0	336.8	332.9

Source: [19, 20].

In 2017, compared to 2000, GDP grew by 6.9 times and the money supply - almost 50 times! The highest growth of money supply was recorded in 2005y. - 12.5 times in five years.

The entire external debt of Kazakhstan in July, 2017 was estimated at \$ 167.9 billion, which is more than the GDP [21, 22]. It is known that in the targeted developed countries such figures reach 90-100%. But it is incorrect to compare; the question is about the countries where the GDP is dominated by industry and services. For resource countries, the situation is different. So, for Norway it is 32.2%, for Russia it is 13.7%, for Iran it is 11.9%, for Chile it is 18.5%, for Indonesia it is 29.4% [23].

The budget deficit in 2017 y. was 1.2% of GDP. The dynamics of changes in the state budget corresponded to GDP growth, KZT devaluation devalued budget revenues. The budget of 2016y. fell sharply to \$ 27.6 billion compared to \$ 41.0 billion in 2015y. [20].

Taxes are one of the indicators of the economy effectiveness. In our case, tax revenues in KZT remained approximately at the same level, however, in dollar estimation they significantly decreased over the past two years.

The social sphere suffers from economic instability. The unemployment rate for many years is kept at an acceptable level of 5%, while the number of unemployed people is just under half a million. For a country with a small population like Kazakhstan, this is a bit too much. At the same time, the share of self-employed population is high - 2.4 million people, part of which is hidden unemployment [24, 25]. They are not itemized among workers or among the unemployed, practically all of them do not pay pension taxes, they do not pay taxes.

It is known that in all developed countries there are self-employed people. For example, in the USA the self-employed population is 6.4%; in Norway- 7%; in

the Russian Federation - 7.5%; in Germany - 10.4%; in Japan - 10.6%. Traditionally there are many self-employed in Europe: in the UK -15.4%; in Poland - 20.7%; in Italy - 23.9%, in Turkey - 32.4%, in Greece - 34.1% [26, 27]. However, they pay taxes, have pension contributions, a definite social package, etc. Of course, the authorities in Kazakhstan undertake various measures: benefits for small and medium businesses, retraining of the unemployed and self-employed, creating social jobs, youth practices, etc., but there are little changes.

Analysts found out the size of the monetary income of Kazakhstan population. The average nominal cash income per capita of the population was 80,156 KZT (rate of KZT: 334 per dollar) [28, 29]. The growth of prices for consumer goods and services in 2017 amounted to 7.5%, while real monetary income of the population decreased by 2.1%. According to the received data, almost 69% of all income of the population is wages. The second largest source of welfare is pension, which accounts for 13.7%. And only 11% of income is self-employment and entrepreneurship. The remaining sources of income are benefits and scholarships, income from property, assistance from relatives, etc., occupy only 6.5% of the average per capita budget [30].

In Kazakhstan per 1dollar of wages there are 3 dollars of GDP. In the United States, \$ 1.6 of GDP is equal per dollar of wages. This can be interpreted as the fact that, either in Kazakhstan labor productivity is almost 2 times higher than in the US, or that our exploitation rate is 2 times higher than in developed countries [31, 32]. We believe this is a sign of income inequality. Thus, the aggregate income of 10% of the country's most affluent citizens in the second quarter of 2017 was 5.8 times higher than the income of 10% of the least well-off population. In 2015, this ratio was 5.5 [28, 29].

Table 2: Indicators of the development of the regions of Kazakhstan in 2017y.

Regions	Share of population	Share of regions in GDP,%	Share of investment in%	Share of industry,%	Share of local budget,%	Share of innovative production,%	Gross regional product (GRP) per capita \$	Real revenues of the population per month, \$
1	2	3	4	5	6	7	8	9
The Republic of Kazakhstan	100	100	100	100	100	9.6	7 715	219.6
Akmolinskaya	4.1	2.8	2.9	2.4	4.4	7.5	5 210	182.9
Aktobinskaya	4.7	4.2	4.8	6.8	4.2	10.1	6 937	190.5
Almatinskaya	11.1	4.7	6.8	3.6	9.1	8.1	3 316	172.5
Atyrauskaya	3.4	10.8	26.2	23.6	6.0	8.0	24 879	415.5
West Kazakhstanskaya	3.6	4.3	5.2	8.2	3.9	5.3	9 291	212.6
Zhambylskaya	6.2	2.5	2.8	1.8	5.1	11.3	3 122	131.6
Karagandinskaya	7.7	7.9	4.1	10.2	5.5	11.1	7 900	206.7
Kostanayskaya	4.9	3.3	2.3	3.2	4.3	11.3	5 155	186.6
Kyzylordinskaya	4.3	2.7	2.8	3.5	5.1	11.4	4 838	158.6
Mangistauskaya	3.6	5.0	5.2	9.9	4.0	3.5	10 867	334.0
South Kazakhstanskaya	16.1	6.1	4.9	4.1	12.8	6.5	2 938	121.7
Pavlodarskaya	4.3	4.1	5.7	7.2	3.8	8.7	7 541	221.5
North-Kazakhstanskaya	3.2	2.1	2.2	1.1	3.9	11.2	5 034	180.6
East Kazakhstanskaya	7.9	6.1	5.6	7.9	6.7	15.1	6 022	186.0
Astana city	5.0	11.1	11.1	2.4	9.4	14.4	16 688	390.8
Almaty city	9.7	22.3	7.5	4.1	11.8	7.7	17 864	352.0

For reference: the data are compiled from the calculation of one US dollar equal to 341.62 KZT on July 3, 2018y.

Source: [3, 33, 34].

It follows from the analysis, that uncertainty in the economy remained high because of insufficient development of institutions that ensure the implementation of the Government's policy. Transition to freely floating exchange rate of the national currency made it possible to restructure domestic prices to external shocks, but the ability of the economy to find a competitive niche under low oil prices remained weak. Thus, the social and economic situation in Kazakhstan is determined by the degree of state regulation of the economy and depends on the work of financial and banking structures. And what about the situation in the regions, on the condition of which the well-being of the economy depends in whole?

**Regions: Key Indicators Reflect the Situation:**

Throughout the years of independence, Kazakhstan has simplified its economy, in pursuit of ratings, the issues of the quality of citizens' life have been pushed to middle ground. After the USSR collapse during the privatization and denationalization there appeared depressed, backward and problem regions in the country, which was caused by the bankruptcy of enterprises, their weak scientific- technical level.

As experts note, after the Global Competitiveness Index of the WEF was harmonized with the UN Human Development Index in February 2018, Kazakhstan's task to become one of the 30 developed countries in the coming years meanwhile remains unrealizable [25]. The fact is that the raw material economy does not create a demand for human capital, as a result of which it does not accumulate investments it does not form the intellect to achieve the country's competitiveness.

As a result, the problems in the economies of developing countries, like Kazakhstan, are determined by the insufficient level of regional development. In this case, a large area with a small population has difficulties in managing the regions, especially when the infrastructure is weak, logistics is not sufficiently developed. As seen from Table 2, the regions of Kazakhstan are different in terms of development level [3, 33, 34].

Structure of the economy and presence of dominant industries determine the weight of the region in the national economy:

- Western regions (Atyrauskaya, Mangistauskaya, West Kazakhstanskaya regions) live at the expense of extraction and processing of oil and gas, most of the proceeds are deposited in the republican budget;
- Eastern regions (East - Kazakhstanskaya region) stand apart from the rest, branches of heavy industry are preserved, influence of the Russian Federation (bordering the Altai Territory) is strong, the influence of China is also felt;
- The northern regions tend to the Russian Federation, not without reason many cities and towns have Russian names - Pavlodar, Petropavlovsk, Krasnoarmeysk, Bulayevo, Mikhailovka, Smirnovo, Ruzayevka, Olginka, etc.; in the region the infrastructure is weak, real income is low;
- The southern regions (South Kazakhstanskaya, Almatinskaya, Zhambylskaya oblasts) are characterized by a low level of income, the influence of Uzbekistan, Kyrgyzstan, China is felt, the population is inclined to entrepreneurship, the share of small business is significant;

- Astana, Almaty, Atyrauskaya and Karagandinskaya regions are donors - their share in the country's GDP is high, they also spend more investment for development.

More than half of the economic growth in Kazakhstan is provided by industries in which less than 4% of the employed population work [35, 36]. These enterprises are concentrated in the west, east and in the center (Karaganda region) of the country. Low mobility of people and strong dependence on the employer make it possible to keep wages without rise, even with improved production performance.

It is seen from the table that the distribution of the local budget directly depends on the population, but innovative products are mainly created in Astana (understandably, the capital) and the East Kazakhstanskaya oblast, where the industry is concentrated.

The lowest GRP per capita is in the South Kazakhstanskaya and Zhambylskaya oblasts, the difference between the highest indicators of Atyrauskaya oblast, cities Astana and Almaty is from 5.7 to 8.5 times.

Uneven distribution of income between regions continues for many years. In Astana the per capita income is \$424.5 and in Zhambylskaya oblast - \$128,8. The difference between the maximum income in the Atyrauskaya oblast - \$ 415.5 and the minimum one in the South Kazakhstanskaya oblast - \$ 121.7 is 3.4 times. The difference between the maximum and minimum values of per capita income of the population among the regions in the 2<sup>nd</sup> quarter of 2017y. was 3 times [36, 37].

According to the survey of 12,000 country households, carried out by EnergyProm analysts in November of 2017y., 3.8% of respondents indicated that they did not have enough income even for food. Another 9.6% believe that the income is enough only for food, another 31.4% think that the income is enough for food and clothing, but is not enough for long-term consumption goods. At the same time, 35.2% of respondents rated their incomes as sufficient to buy everything that is necessary [38].

In Kazakhstan, the subsistence minimum in 2018 is set at 28 284 KZT (\$ 83), which the experts consider low. In the structure of the subsistence minimum, the share of expenditures for purchase of meat and fish was 19.6%, fruits and vegetables -15.8%, dairy, fat and egg products -14.9%, bread and cereals- 7.5%, sugar, tea and spices - 2.2% (all in all 60%, the rest - clothing, footwear, utilities, medical services, etc.) [38]. This is according to statistics, most families in economically backward regions do not fit into this budget.

From the foregoing, one can conclude that:

- In Kazakhstan, many reforms do not work at the local level; decisions are made centrally, without taking into account the opinion of regional authorities and the public. For example, in 2017 from the Unified Accumulative Pension Fund (ENPF), a two trillion KZT (\$ 6.1 billion) deal between Halyk Bank and Kazkommertsbank was financed, the latter at that time already had big problems [25].
- The standard of living of the population in a number of regions grows slowly, society stratification remains high, distribution of budgetary funds does not take into account the achieved level of well-being. Financing of the social sphere is not sufficient for a country that has ample resources.
- The economic mechanism of regions' management is not developed; the management is mainly carried out by organizational and administrative methods.

It is necessary to say that similar problems are encountered in the countries of Central Asia.

**Central Asia: Problems Are Similar, Solutions Are Different:** Central Asia is a vast region with a population of over 70 million people with complex demographic problems. Kazakhstan and Kyrgyzstan are members of the EAEU on a par with Russia, Belarus and Armenia. Significant political and economic transformations are taking place as well as active integration into the global economy. A significant amount of foreign trade of countries falls on the European Union - 27%, Russia - 18%, China - 13% [39, 40].

At the same time, market relations are only beginning to develop, the heritage of the planned economy and the system of state management of the economy are felt. Perhaps this explains the fact that Uzbekistan and Turkmenistan are not present in the calculations of the global competitiveness index and global innovation index, i.e. market-specific indicators are not calculated because of lack of full-fledged market relations (Table 3).

As you can see, per capita GDP is higher in Kazakhstan and Turkmenistan due to the sale of oil and gas. In other countries it is from \$ 800 to 2000, which seems extremely low for the implementation of reforms and innovative development. In terms of competitiveness, only Kazakhstan is at a mean level, Tajikistan is on the 79th place, Kyrgyzstan is on the 102nd place, Turkmenistan and Uzbekistan are not represented in the rating at all [41, 42].

Table 3: Key indicators of Central Asian countries

	Population (mln. people.)	GDP, billions of dollars (IMF)	GDP per capita, \$ (IMF)	Global Competitiveness Index 2017-2018	Global innovation index 2017	Monetary income of the population per month, \$
Kazakhstan	17.8	133.6	7 453	57	78	232.1
Kyrgyzstan	6.1	6.5	1 073	102	95	70.1
Tajikistan	8.7	6.9	800	79	94	32.6
Turkmenistan	5.7	36.2	6 622	-	-	185.0
Uzbekistan	31.7	67.2	2 122	-	-	53.8
Total	70.0	250.4	-	-	-	-

Source: [41, 42].

In the Central Asian region Tajikistan, Uzbekistan and Kyrgyzstan are considered to be the poorest countries with a predominantly agrarian sector. About half of the population is below the poverty line. Systemic crisis with high inflation and unemployment has a negative impact. The population spends an average of 70% of their income on food. The monthly income of the population is also low: Kyrgyzstan - 70.1 \$; Uzbekistan - 53.8 \$; Tajikistan - 32.6 \$ [43, 44].

It should be noted that uneven regional development is observed in all countries of the region. Thus, according to the Statistical Committee of Kyrgyzstan, the highest real income are in the capital Bishkek (\$ 80.4), Osh (\$ 72.7) and Chui (\$ 64) oblasts; the lowest are in Naryn and Talas oblasts (\$ 14.5). *For reference: in June of 2018y. one dollar was worth of 68.24 soms* [44, 45].

A similar picture is with the distribution of income in Tajikistan. Although in 2017 the authorities announced GDP growth by 12% and income of the population –by 10%, the real growth rate of the economy reached 7% according to experts' opinion [46, 47]. In general, the well-being of households in Tajikistan has improved mainly due to foreign remittances, wage growth and self-employment. The average monthly nominal wage of employees in 2017 was 1228 somoni (\$ 135) and the minimum wage in the country was 400 somoni (\$ 44). *For reference: 1 US dollar is equal to 9.11 Tajik somoni.* There are large regional differences in income: the highest salary is received by Dushanbe residents - 1934 somoni, but in Khatlon, on the contrary, wages are the lowest, at average - 916 somoni [48].

It should be noted, that thanks to the support of the World Bank Group for the period of 2015-2018yrs. the Partnership Strategy for Tajikistan was developed, which increased the opportunities for the private sector, especially in rural areas; the investment climate has improved; costs of conduct of business decreased; development of hydropower industry and mining industry continued. Inflow of investments into education, water supply and sanitation, irrigation, transport increased.

The situation in Turkmenistan is somewhat better. Rich natural resources availability masked the need for changes, delaying the reforms of the first generation, such as liberalization of prices and trade, privatization of state property and establishment of market regulation institutions. The changes began only after 2007y. Strong administrative control and large role of public sector in the economy remain the main obstacles to the development of the private sector. In 1993 benefits were introduced for citizens of the country, thanks to which they could get water, gas and electricity free of charge. Later, the rate of free gasoline was introduced. This exemption was canceled in 2014. Since 2017y. benefits for public services have been abolished [49, 50]. As a result, food prices began to grow, wages of state employees are hold back, unemployment grows.

Currently, Turkmenistan is experiencing an economic crisis, because of the reduction of world prices for energy resources, as well as of the cost of building expensive facilities (for example, the Asian Games-2017). Foreign experts note the deterioration of the economic situation in the country and reduction in the incomes of the population [51]. The country is considered one of the most closed in Central Asia and the world, official statistics about the level of unemployment is not published. The authorities of the country since 2007y. do not report the population size.

Meanwhile, the income level is above the average in the region: from January 1, 2017y. the minimum wage is 650 manat (\$185). Despite this, Turkmenistan is still at an early stage of transition to the market. *For reference: the official rate of the central bank of Turkmenistan is 3.51 manat per 1 dollar.*

A short excursion to the countries of Central Asia allows to conclude that there are many shared problems. These are: excessive centralized regulation of the economy, underdevelopment of market relations, low level of income of the population, uneven development of regions. Hence, the idea arises that it is necessary to improve the economic mechanism of the management of the region. We see two aspects: creation of new-

generation business structures and widespread use of financial instruments for managing the economy of the territory.

**Business Structures of the New Generation Will Ensure Success of the Region:** In the modern world the ideas of regional development, based on the principles of sustainability, balance and social orientation, dominate. Therefore, the achievement of effective management, positive dynamics of the level and quality of life of the population is the goal of the development of the territory. It is important to create prerequisites for the enterprises of the region to implement the principles of freedom of economic management and self-determination. At the same time, the introduction of innovations by administrators and managers of local authorities becomes an element of success. To give a powerful impulse to the development of regional systems in Kazakhstan, we recommend:

- adding up of missing elements in industries that have commodity orientation to produce products of higher industrial processing;
- design of vertical and / or horizontal integrated structures within the given region.

On the basis of adaptability, we analyzed three types of regional systems [52].

- The conservative periphery (non-diverse, but energetically powerful) does not perceive changes well.
- The crisis periphery (diverse, but with low power elements) at destructive changes exhibits unusual properties: its adaptive abilities increase.
- The core system (average diversity, average power) is the most inertial and predictable. The core is the most balanced state to which the systems aim during the evolution.

Usually, in the context of each type of region, its own models, criteria of efficiency and competitiveness are developed. For Kazakhstan, the model of regional organization with flexible specialization and innovation ability is advisable. Integration of the economic activity of enterprises with the aim of achieving leadership is proposed. Cooperating among themselves, companies form strategic alliances, create structures of innovative nature that can withstand competition and win new markets.

The integration of enterprises proposed by us has the following advantages: 1) weaknesses of partners are compensated; 2) there is a production chain in the form of

a cluster or there is cooperation; 3) combination of partners' resources creates more value than the value in separate production.

Of course, in the world there are different systems and strategies for managing regional business. We have chosen the concept of corporate governance [53, 54]. It proceeds from the premise that every resident of the region is a co-owner of what is in the given territory, on the principles of equal and joint ownership. Managers and specialists are hired to dispose of and manage the ownership under the contract.

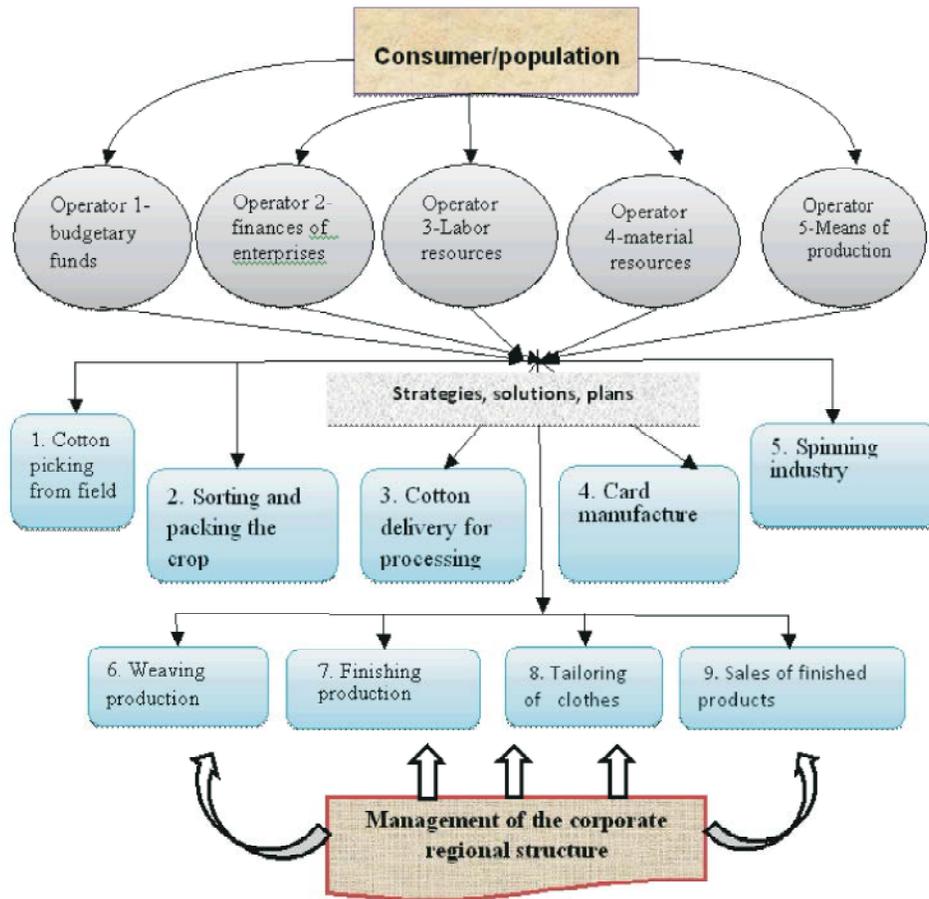
Private property, formed by the population of the region on the principles of equal co-ownership, can't be anything else than the basis for acquiring corporate benefits and formation of corporate profits that satisfies the interests of the community. Every citizen (resident of the region) owns only a part of corporate ownership, which can be used for her/his own benefit (for example, shares of companies whose co-owners are residents).

Demands and interests of the population of the region (consumer) are primary; therefore the regional corporate structure is represented in the form of an inverted pyramid (Fig. 1).

The example of cotton-textile cluster enterprises shows the organizational mechanism of corporate governance in regional business. In the presented scheme, each structure can make an independent decision. The right to make a decision is passed to the level that can best cope with the problem. The structures that do not create gross added value are removed.

The operators indicated at the top level represent various resources and services. Of course, each block in the scheme performs several functions, within which there can be different connections and relations. For example, the sale of finished products includes a lot of work on sales: study of supply and demand, advertising, pricing, service maintenance, etc.

Considering that the cotton-textile cluster in the south of Kazakhstan exists for about ten years and its effectiveness is low, the authors suggested the regional government to integrate all producing units from the moment of growing cotton to getting ready-made textiles. At the same time, each unit should have a potential to search for advanced technologies, new market opportunities, take into account threats to business from competitors (for example, Uzbek cotton growers). To realize these opportunities, the authors propose to launch an economic mechanism of functioning of the integrated structure, shown below.



Note: compiled by the authors.

Figure 1. Inverted pyramid of regional corporate structure (core - cotton-textile cluster)

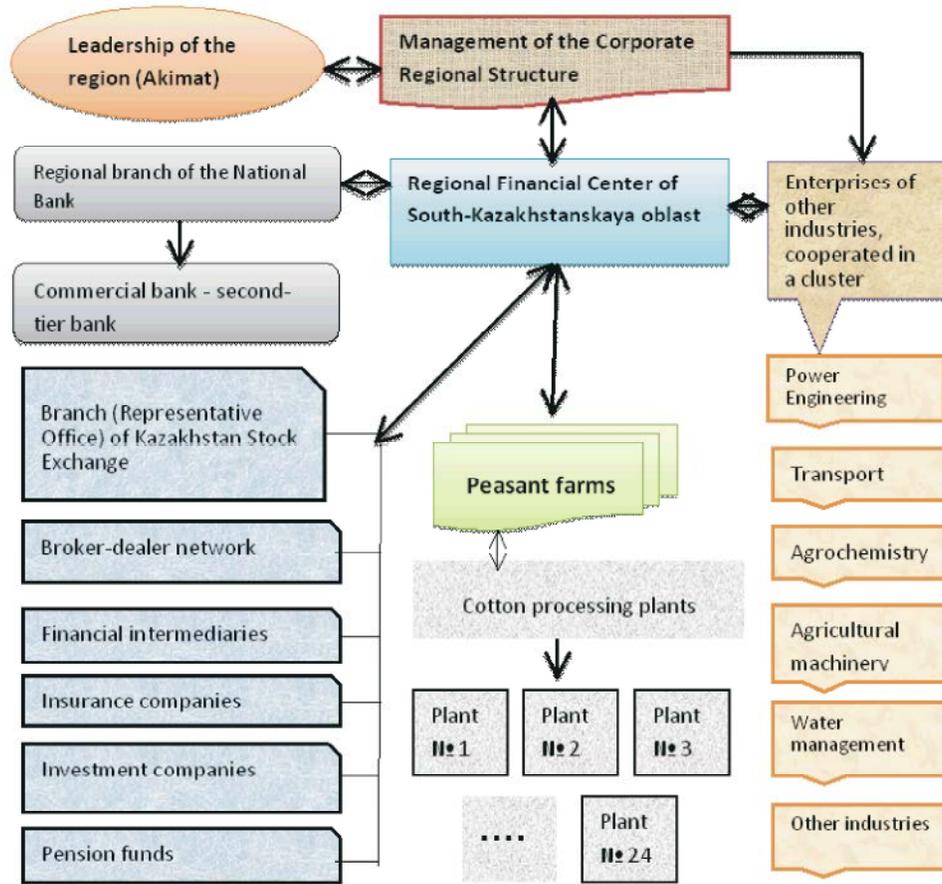
**Economic Mechanism For Managing The Economy Of The Region:** The problem of the lack of financial resources in the regional budgets is relevant today for most administrative and territorial entities of Kazakhstan. In these conditions, priority should be given to such a way of the territories' development, which will allow the creation of a financial basis for the implementation of new socio-economic projects for the development of regions at the expense of the attracted funds of the population and business structures.

For this, the self-government system at the regional level should work effectively. In Kazakhstan, on the one hand, municipal authorities have quite wide powers in terms of forming the expenditure budget, on the other hand, a significant part of the tax revenues, that accounts for the formation of the budget, remains at the state level.

To create a stable financial basis for the development of regions, it is necessary to form a fundamentally new approach to the policy of raising debts in the local market.

There appeared the need to optimize financial flows in the regional sphere, because with the development of market relations, new development institutions, business structures and subjects of the financial market emerged, this requires the formation of more effective conditions and mechanisms for regulating economic activity in the region.

Undoubtedly, much is being done to attract investments: work has begun on developing the securities market, in particular IPO; the share of low-profit enterprises decreased; the objects, built within the framework of the industrialization program, already are effective. At the same time, the most optimal solution of regional problems is seen in the use of stock market instruments. The mechanism for coordinating the interaction between enterprises of the cotton-textile cluster and allied organizations through the Regional Financial Center, which organizes the movement of a bill of exchange, is shown in Figure 2.



Note: compiled by the authors.

Fig. 2: Scheme of interaction of cotton-textile cluster enterprises within the framework of the Regional Financial Center

The main idea of the textile cluster was the rapid restoration of all links in the chain - from growing cotton to sewing clothes. The development of the textile industry is hampered by lack of high technologies in the manufacture of finished products; undeveloped infrastructure in the agrarian sector and light industry; weak use of financial instruments (insurance of risks, forms of investment, securities market, etc.) [55-57].

Cotton production and textile industry of Kazakhstan have a serious potential for development, the social importance of the cotton industry is great: 2.7 million people live in the South Kazakhstanskaya oblast. (17% of the country's population).

Currently, more than 50,000 farms and peasant farms are engaged in the cultivation of cotton in the south of the country [58]. Most have small plots of 2-3 to 10 hectares of land. In order to support the cotton industry, the state allocates subsidies, the amount of which is constantly growing. However, only about 10% of the crop

is processed domestically, mainly raw material is exported: lint, cotton, cotton sweeping, yarn, etc. and finished textile products are imported. There are 24 cotton processing enterprises in the region, but some of them do not work at full capacity [59].

Producers of raw cotton are mainly financed by cotton processing plants. In spring money is needed for sowing (fuel, wages, cotton seeds); in summer – for chemical weeds and pest killers; in autumn - for harvesting, seed preservation. Then in autumn the farmers return the money from the profit, received from the harvested crop. As a result, producers of raw cotton were out of pocket compared to the owners of the factories [56, 57]. Agrarians consider loans expensive, land is not taken as a pledge (land relations are not developed). To overcome this situation, the authors made a proposal to the government of the region to launch a cotton bill in order to involve the cash assets of the cluster enterprises and related companies.

As seen from the scheme, almost all the structures for cotton cultivation, its transportation, production servicing, financial provision of settlements, sale of finished textile products are involved in production, financial and trade turnover. The core of the cluster is the Regional Financial Center, which coordinates the movement of the bill of exchange. The Center works in close contact with a commercial bank, a branch of the Kazakhstan Stock Exchange, a broker-dealer network, various financial intermediaries. Each structure performs the incumbent functions, provides cash and financial flows along the entire production chain from cotton harvesting to the sale of finished products.

We think that the proposed mechanism will allow to combine rationally the territorial and sectorial interests, expand the toolkit of financial regulation of the region's economy, will make plans and programs more realistic.

### **CONCLUSION**

- The problems of the developing countries of Central Asia, such as Kazakhstan, are determined by excessive centralized regulation of the economy, underdeveloped market relations, orientation toward export of fuel and energy resources. Historically in the Soviet period in these countries there was no experience of market management, even the concepts of profit, profitability were withdrawn from use, performance indicators were not calculated. In Kazakhstan, the situation is aggravated by the fact that the territory is large and the transport infrastructure is poorly developed.
- The current stage of development of Kazakhstan is characterized by insufficient use of economic methods of management, which is confirmed by a large share of the quasi-public sector; the instability of the banking sector operation; devaluation of the national currency; increase of the share of foreign capital, which is not interested in developing the national economy.
- In all Central Asian countries, a similar situation is observed: slow growth of the living standards of citizens, uneven distribution of income among social groups, presence of backward, depressed areas that emerged during the privatization of state ownership and corporatization. All this has led to the deterioration of human capital and restraint in the development of regions. In this regard, the recommendations suggested by the authors can be useful to other countries.

- The authors see the prospects for the development of the regions in the creation of innovative business structures that are built according to the core system. The core is the most balanced state of the integrated structure, consisting of a variety of industries, united in a single chain in the form of a cluster. The system is not inertial, is capable of generating profits, the corporate governance principle is in force, cooperation of the cluster links takes place.
- Corporate regional structure proceeds from the fact that inside this system the circulation of the bill of exchange is set aside. The point is that the countries of the region are agrarian ones, more than often agricultural manufacturers do not have enough money that is why financial instruments are necessary to exercise mutual payments inside the regional structure. Bill of exchange will help to organize trading transactions without participation of money inside the system.

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