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Institutional challenges in development of tourism in Kazakhstan

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Introduction

The Republic of Kazakhstan, the ninth largest country in the world, became an independent entity in 1991 as a result of the collapse of the USSR. With a vast territory, covering the size of Western Europe (2.7 million km²) and huge oil and gas resources, it is the natural leader of the Central Asia region in terms of its economic position: 53th place in the Global Competitiveness Ranking [World Economic Forum 2016-2017] and 42nd place in the process of transformation [Index of Economic Freedom, 2017]. As a tourist destination, Kazakhstan is seen as a country of endless steppes and it is connected with traditions of the Silk Road joining the East, the Middle East and the West.

The chapter presents the key challenges of tourism development in Kazakhstan in institutional terms, in which institutions are understood as "organizational solutions adopted in society, informal and formal rules of functioning", "dominant ways of thinking", "rules of the game" [Williamson, 1985; North, 1990]. In the research assumptions, it has been assumed that a given institution (such as a free market) will be stronger and more durable when the formal aspect (e.g. legislation) is supported by the informal dimension (e.g. trust, traditions, customs) [Sauted, 2005].

Post-soviet legacy in Kazakhstan economy

One of the main problems for the development of tourism in Kazakhstan is its Soviet past in the terms of its by-gone administrative model of the economy. Like almost every country in the post-USSR area Kazakhstan is facing institutional problems while trying to build private sector. Governmental impact on the economy is small according to statistics. For example, in 2017 just 16.0% of all investments were attributed to governmental sector [Committee on Statistics, 2018a] and in 2018 just 9.4% of all legal entities were considered as government-owned or with government participation [Committee on Statistics, 2018b]. But in Kazakhstan the

phenomenon called “quasi-governmental” sector has been developed. All activities of enterprises owned by different national funds and national companies are attributed towards this sector. Some experts state that the government in Kazakhstan owns 60% of the economy (in terms of participation, control and investments) [Total.kz, 2016]. During the discussion which took place at the CFO Summit held in Kazakhstan in 2017 it was stated that government continued to increase its participation and raised the overall rate up to 70-80% [Mazorenko, 2017].

In general, the economy of Kazakhstan has managed to avoid recession for the last 3 years. Overall GDP growth rate was 1.2% in 2015, 1.1% in 2016 and 4.0% in 2017 [Asian Development Bank, 2018; International Monetary Fund, 2018]. The GDP growth rate has been slowed by a relatively high inflation rate: 6.6% in 2015, 14.6% in 2016 and 7.4% in 2017, which echoed the devaluation of the Russian rouble. The projected growth for Kazakhstan in future years is estimated to be 3–4% annually [Asian Development Bank, 2018].

Kazakhstan follows the world trend of building a service economy, as the overall production of services in 2017 was equal to 57.4% [Committee on Statistics, 2018c]. Despite this fact the rate decreased from 2015 (59.4%). Interestingly official sources do not provide actual estimation of tourism input in the country’s GDP (the latest are dated 2016), although the Kazakhstani government announced in September 2018 its goal to enlarge the share of tourism impact on GDP from less than 1% up to 8% [Nurshaeva, 2018].

To achieve the goal of increasing the impact of tourism, the government is going to invest roughly 1.5 trillion tenge (approximately 4 billion USD) in tourism infrastructure [Nurshaeva, 2018]. Currently it is equal to 17.1% of overall capital investments across all sectors of the Kazakhstan economy made during 2017. In 2017 capital investments within ‘Services upon accommodation and meals’ were just slightly above 135 billion tenge (approximately 364 million USD) [Committee on Statistics, 2018a].

The current situation regarding employment in hospitality sector shows that it is not a booming industry despite investments: in this sector in 2017 only 2.2% of employed population was working (slightly more than 190 thousand people) [Committee on Statistics, 2018d]. The number increased in comparison with 2014 up to 14.8%. Also it is essential to notice that the average payment (per month) in hospitality sector is only 92.0% of average salary in country (according to the data for the first half of 2018). Although the increase in payments from the second half of 2017 to the second half of 2018 in hospitality is slightly higher than the overall increase in the whole economy of Kazakhstan (111.2% vs. 108.5%) [Committee on Statistics, 2018d].

According to the data above it is possible to state that officials in Kazakhstan do not designate tourism as an independent economic activity, so researchers have to use closest indicators within hospitality sector. The data shows relatively slow improvements for now in the possible development of tourism as investments and employment in hospitality are insignificant compared with other sectors of the economy of Kazakhstan (in both cases less than 5%). What's more, Kazakhstan faces the process of growth within the industrial sector of the economy which is stimulated with high prices for the basic exported commodities. This circumstance implies another burden for the service sector in general and tourism in particular, as private capital prefers to follow profitability and the shorter period of return of the investments.

For these reasons, it would be a real challenge for the country to achieve its ambitious goals in tourism development, as alongside the above-mentioned problems Kazakhstan also faces institutional problems within the governance, management and mentality.

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