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EFFECTIVENESS OF THE CREATION OF THE INTEGRATED LIGHT INDUSTRY MARKET OF EAEU MEMBER STATES

Abstract

The Eurasian Economic Union has been operating for many years but there is still a debate about Union's development direction which should be paid special attention in the process of joining the efforts of countries belonging to it. The presence of such conditions for cooperation as advantageous geographical and transit position, sufficiently large size of the domestic market, presence of a resource base for the production of competitive and demanded products create a solid foundation for the effective cooperation between the Eurasian Economic Union member-states. One of the directions of such cooperation appears to be light industry. The development of this particular industry will allow countries to be included in the number of integrated states of the EAEU to withstand the competition with such countries as People's Republic of China, India, Thailand, which have reasonably cheap labor. The article explores the strengths and weaknesses of light industry. The developed SWOT-matrix allows to give a real assessment of the state of light industry of the EAEU member states and shows certain opportunities and ways of improvement of the industry. The analysis of the development of integration in light industry allowed to develop recommendations for reducing risks for producers of this industry. The author identifies the priorities of technological integration and diversification of light industry, gives suggestions for integrating the light industry market of the EAEU members.

Key words: integration, light industry, competitiveness, governmental support, production risks, technological integration.

One of the most important directions of the mutual cooperation of the EAEU member states that requires institutional transformation and development of the directions of common policy to achieve synergistic integration effects is the increase of community's competitiveness in the global arena. In this regard, the need for the development of a set of integration measures for the ways of competitive development of the EAEU appears to be well founded. The formation of the new competitive advantages with the view of sustainable and quality economic growth becomes the priority goal of the Union member states.

The need for the development and expansion of economic relations between Russian Federation and Republic of Kazakhstan is due to, in the first place, historical and geographical background, as well as, certainly, vast economic potential of the mutually beneficial cooperation within the EAEU. Russia appears to be a strategically important partner of Kazakhstan in the integration relations within the EAEU since many sectors of economy of both countries are closely intertwined and objectively dependent on each other, which is logically explained by the shared centuries-old past of our countries. The intensification of Russia and Kazakhstan interaction at all its levels, both bilaterally and within the EAEU, relies on the observance of national interests of the parties and is reinforced by the sound regulatory framework.

Light industry appears to be the key focus to expand Russian Federation and Republic of Kazakhstan cooperation within the EAEU. The industry is considered to be a priority for the union states' development, further cooperation and coordinated policy implementation in this field. The growth of light industry will impact the development of the other no less important sectors of the economy (agriculture, chemical industry), in addition, it serves the integrated development of our countries' regions and has a significant social potential (development of women's entrepreneurship, providing the domestic market with jobs, meeting the most diverse needs of the population).

In general, based on the analysis of light industry production within the EAEU, it can be concluded that today this industry is far from able to compete with such global players as China and India due to the presence of more competitive production factors in the form of cheap labor and strong governmental support in the latter. For comparison, China annually produces light industry products of about 500 billion US dollars, India – 46 billion and, for example, the EU integration union – 307 billion US dollars [1, p. 3].

To identify the key priorities of the technological integration in light industry of the EAEU member states let's resort to marketing analysis tools. In particular, in our opinion, compiling a SWOT-matrix will allow to assess the state of the EAEU light industry, not only revealing strengths and weaknesses but, most importantly, showing the possibilities, directions and ways of industry improvement, allowing to develop recommendations on leveling risks for domestic producers of light industry.

Table 1 shows the results of the SWOT-analysis of the state of light industry of the EAEU integration association.

Table 1 – SWOT-analysis of the state of light industry of the EAEU member states

Strengths	Weaknesses
<ul style="list-style-type: none"> ◆ Inherited from the past good enough potential for the development of the industry. ◆ Presence of the program documents aimed at the industry development 	<ul style="list-style-type: none"> ◆ Low industry share in world light industry production (less than 1%). ◆ Low number of employees in the industry compared to other countries and integration associations. ◆ Low level of technical equipment for industry enterprises. ◆ Low industry knowledge. ◆ Absence of recognizable brand. ◆ Limited labor resources and high labor costs
Possibilities	Threats
<ul style="list-style-type: none"> ◆ Development of innovative territorial clusters and techoparks (strengthening of vertical and horizontal relations between cluster members in the EAEU countries). ◆ Improving the quality of products and brand development . ◆ Large-scale modernization of production. ◆ Investing in the industry and increasing labor productivity. ◆ R&D expenses increase up to 1% of enterprises revenue (in IC – 5%). ◆ Development of public-private partnership (PPP). ◆ Cooperative fight against illegal import and smuggling, further development of non-tariff regulation measures. ◆ Raw material base development. ◆ Searching for the new market niches for mutual industrial cooperation 	<ul style="list-style-type: none"> ◆ High competition from global industry leaders – China and India. ◆ High import dependence from China, Turkey, India, Uzbekistan, up to 70% of the total import amount of light industry products. ◆ Dependence of industry producers on raw material imports. ◆ Increase of imports due to the changes in customs duty rates in connection with WTO membership. ◆ High risks of illegal (contraband) import of products.

We believe that among the strengths of light industry of the EAEU should be noted, first of all, the availability of the production potential in the countries of the Eurasian Union which is remained from another union's heritage – the Soviet Union.

Based on the conducted research and segmented market analysis that was aimed at the identification of the market niches in which light industry products of the EAEU countries have a competitive potential, were identified the priorities of technological integration and diversification. As breakthrough areas in light industry for the EAEU member states, including Russian Federation and Republic of Kazakhstan, have been substantiated the following production areas: linen, cotton and wool fabrics. This production has been determined, first of all, taking into account the import share of less than 30% of the market capacity and, secondly, considering the export share of 30% and more of the overall EAEU production volume.

Considering the existing problems that are specific for the development of light industry of Russian Federation and Republic of Kazakhstan, we offer a set of relevant measures of governmental support and regulation of the development of successful cooperation of the EAEU partner countries in this area (Figure 1, p. 115).

As can be seen from the figure, as state measures for the support of light industry and implementation of mutual plans, we offer such tools as government and corporate procurement and placement of

long-term contracts. The use of such tools will contribute the loading of production capacities of the industry of our countries and increase in industrial production growth rates and volumes. The mutual cooperation of national producers of light industry of the EAEU in the production of technical textiles can also provide benefits and opportunities to strengthen its power in the global market.

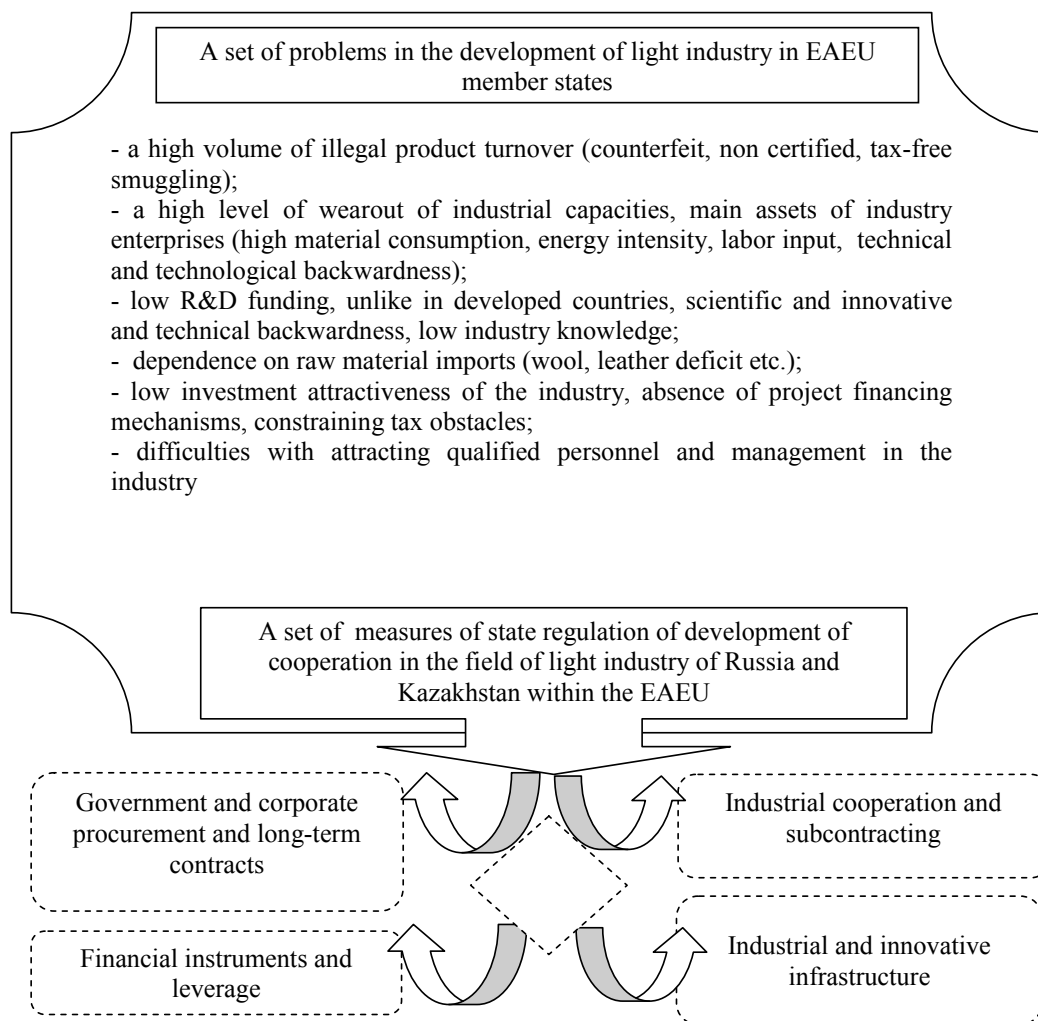


Figure 1 – A set of measures of state regulation of bilateral cooperation of Russia and Kazakhstan in the field of light industry

Mutual industrial cooperation and subcontracting will allow to optimally load production capacities and rationally organise production of light industry goods. These measures of government support for the industry development are aimed at the integration and cooperation of small and medium light industry enterprises among themselves and involvement them into the production chains. Such cooperation can be logically built based on the following scheme: 1) search and organization of the orders; 2) negotiations and contracts signing; 3) consulting and support measures for the mutual cooperation partner search; 4) fulfillment of the orders, production and after-sales service.

A serious objective for taking joint measures for the regulation and development of Kazakh-Russian cooperation in the field of light industry appears to be the search and application of the effective financial instruments and leverage to support the industry development. The issues of attracting foreign investors to modernize the technological lines of production enterprises using the opportunities to attract funds from international organizations, credit institutions and banks, in particular from the Eurasian Development Bank, attracting financial sources from various venture and trust funds, still remain relevant. We also consider it appropriate to carefully plan and implement mutual projects on the principles of public-private partnership (PPP) in the field of light industry.

In our opinion, government support for the industry requires the development of specific measures, taking into account the countries' specifics and positive international experience. We believe that fiscal policy, in particular, in terms of stimulating taxation, requires improvement. The experience of some countries shows the large-scale government support for the industry, for example, foreign investors in Uzbekistan receive concessions and discounts on processing raw materials into the finished products and its exporting and are exempted from paying taxes on exports more than 80%, and much more. It is necessary to study the issues of lending the market entities by financial institutions, taking into account the provision of state guarantees.

It is important to pay particular attention to the leasing schemes of financing and technical modernization of industrial facilities, development of the mutual projects for the production of high-quality and competitive products.

It is necessary to work out and coordinate the issues connected to the VAT refund procedure for the export of light industry products. Despite the fact that a zero VAT rate is applied and the exporter of products receives a tax refund, the VAT refund period itself is delayed by 60-180 calendar days from the date of submission of the tax return. Therefore, in order to stimulate the cooperation between our countries in light industry, we believe that it is necessary to simplify the VAT refund procedure.

The basis for the creation and implementation of the innovative products within the cooperation in the field of light industry, in our opinion, should be an appropriate industrial and innovative infrastructure. To achieve this, it is necessary to develop a common informational and technological platform for our countries and other EAEU members, as well as develop a technology transfer network. The essence of creating of the informational and technological platform is to use the potential and advantages of triple "government-science-business" helix in the process of creating innovative, competitive and high quality products. It is necessary to create the conditions for the interests of all the parties of cooperation, while the parties, in turn, will be able to co-finance, consult and scientifically and methodologically support various projects of innovative and risky nature.

The creation of a mutual technology transfer network within the EAEU is necessary for the transferring of know-how and technological experience, obtaining licenses for the right of use of scientific development, commercialization of scientific developments and promotion of the innovations in the fields of cooperation of our countries, in particular, in the field of light industry.

In the context of the development of industrial and innovative infrastructure for expanding of the cooperation between Russia and Kazakhstan in the field of light industry, we believe that it is necessary to continue work on the formation of innovative territorial clusters and technoparks throughout strengthening of vertical and horizontal relations between the cluster members of the EAEU. In Russia clusters are successfully operating in Ivanovo and Vologda regions, in Belarus – in the Grodno region, in Kazakhstan – in the South Kazakhstan region. The advantages that are ensured as the result of the inter-regional mutual cooperation are undeniable, such as increased labor productivity, updated material and technical base, qualified personnel education and training, use of scientific achievements, development of high-value-added demanded products, and much more.

Thus, light industry appears to be one of the important sectors of national economy which provides economic and national security to the EAEU members. Its development is very important due to its interconnection with the others sectors of economy (agriculture, petrochemical industry, etc.) and its job provision to the population, which also contributes to female employment. The measures of the government influence and regulation of the mutual Kazakh-Russian cooperation in the field of light industry should be aimed at the solving of the systemic problems in the industry development, taking into account the existing potential for integration and development of the cooperation relations, as well as achieving long-term strategic goals for the industry development.

LIST OF LITERATURE

- 1 Information on the results of the analysis of the state of light industry of CU and EES members – M., 2012. – P. 75.

Аңдатпа

Еуразиялық экономикалық одақ көп жылдан бері жұмыс істеп келеді, бірақ әлі күнге дейін экономикалық одақтың қай бағытта дамуы қажеті, осы одаққа кіретін елдердің күш-жігерін біріктіру кезінде не үшін ерекше назар аудару қажеті жөнінде дау тудыруда. Тиімді географиялық және транзиттік жағдай, ішкі нарықтың жеткілікті көлемді мөлшері, бәсекеге қабілетті және барлық сұранысқа ие өнімдерді өндіру үшін ресурстық негіздің болуы Еуразиялық экономикалық одаққа мүше елдердің тиімді өзара іс-қимылы үшін берік негіз құрады. Мұндай ынтымақтастықтың бір бағыты жеңіл өнеркәсіп болып табылады. Дәл осы саланың дамуы Еуразиялық экономикалық одақтың интеграцияланған мемлекеттерінің қатарына кірген елдерге арзан жұмыс күші бар Қытай Халық Республикасы, Үндістан, Таиланд сияқты мемлекеттермен бәсекеге түсуге мүмкіндік береді. Мақалада жеңіл өнеркәсіптің күшті және әлсіз жақтары зерттелген. Өзірленген SWOT-матрица ЕАЭО елдерінің жеңіл өнеркәсібінің жағдайына нақты баға беруге мүмкіндік берді және осы саланы жетілдірудің белгілі бір мүмкіндіктерін, бағыттары мен жолдарын көрсетті. Жеңіл өнеркәсіптегі интеграцияның дамуын талдау экономиканың осы саласының тауар өндірушілері үшін тәуекелдерді төмендету бойынша ұсынымдар әзірлеуге мүмкіндік берді. Автор жеңіл өнеркәсіпті технологиялық интеграциялау және әртараптандыру басымдықтарын анықтады, Еуразиялық экономикалық одақ елдерінің жеңіл өнеркәсіп нарығын интеграциялау бойынша ұсыныстар берді.

Тірек сөздер: интеграция, жеңіл өнеркәсіп, бәсекеге қабілеттілік, мемлекеттік қолдау, өндірістік тәуекелдер, технологиялық интеграция.

Аннотация

Евразийский экономический союз работает уже много лет, но до сих пор ведутся споры по поводу того, в каком направлении развиваться экономическому союзу, на что необходимо обратить особое внимание при объединении усилий стран, входящих в этот союз. Наличие таких условий для сотрудничества, как выгодное географическое и транзитное положение, достаточно емкий размер внутреннего рынка, наличие ресурсной основы для производства конкурентоспособной и востребованной всеми продукции, создают прочную основу для эффективного взаимодействия стран-членов Евразийского экономического союза. Одним из направлений такого сотрудничества является легкая промышленность. Развитие именно этой отрасли позволит странам, вошедшим в число интегрированных государств Евразийского экономического союза, выстоять в конкурентной борьбе с такими государствами, как Китайская Народная Республика, Индия, Таиланд, где достаточно дешевая рабочая сила. В статье изучены сильные и слабые стороны легкой промышленности. Разработанная SWOT-матрица позволила дать реальную оценку состояния легкой промышленности стран ЕАЭС и показала определенные возможности, направления и пути совершенствования данной отрасли. Анализ развития интеграции в легкой промышленности позволил разработать рекомендации по снижению рисков для товаропроизводителей данной отрасли экономики. Автором определены приоритеты технологической интеграции и диверсификации легкой промышленности, даны предложения по интегрированию рынка легкой промышленности стран Евразийского экономического союза.

Ключевые слова: интеграция, легкая промышленность, конкурентоспособность, государственная поддержка, производственные риски, технологическая интеграция.