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**GLOBAL CRISIS AND INVESTMENT ACTIVITY IN THE REPUBLIC OF KAZAKHSTAN**

**<sup>1</sup>Santay Tleubayeva, <sup>2</sup>Pralieva, S. Z., <sup>3</sup>Yespergenova, L. R., <sup>4</sup>Selezneva, I. V. and <sup>5</sup>Barysheva, S. K.**

<sup>1</sup>Department of Accounting, Analysis and Audit, Lomonosov Moscow State University

<sup>2</sup>Department of Finance, Turan University

<sup>3</sup>Department of Accounting and audit, ALMA University

<sup>4</sup>Department of Finance, Turan University

<sup>5</sup>Department of Finance and Accounting, KazNTU Name K. Satpaeva

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**ABSTRACT**

Reasons and pre-conditions of native change of terms of investment activity are considered in the modern world. System imperfection of existent scientific bases of investment activity is shown in the conditions of global crisis. The analysis of specific terms and basic problems of investment activity is conducted in Republic of Kazakhstan. Imperfection taken approach is shown and their basic defects are reduced. Suggestions are set forth on perfection of strategy and methods of investment activity in Republic of Kazakhstan.

**Key words:**

Investor,  
Businessman,  
Financial Mediator,  
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**INTRODUCTION**

**Raising a problem**

The modern world economy reminds nowadays a ball of interconnected and therefore difficult to solve problems. There is an incomplete list of them: shifting manufactures to regions with cheaper labour forces, the necessity to maintain sustainable growth of consumption for normal functioning of economy, resulting in the necessity in constant credit expansion which possibilities have already been exhausted, financial market over flow and risk management methods imperfections. In our view, the root of all these issues underlie in the fundamental contradiction between the interests of an owner-investor and an owner-businessman. However an owner-investor's way of thinking and behavior is in fact totally different. It is a kind of thinking developed during feudal era.

He neither can, nor wishes to work hard to increase his wealth, because he has already owns it. And he aspires to receive maximum income without any special work, without any responsibility and desirably without any risk at all. In case someone else was an investor, he would become a successful businessman long time ago. This investor always needs an intermediary between him and a businessman who "has at least pretended" to have taken up risks of the real sector and left only one pleasant duty for an owner - investor - «to cut coupons» regularly and to receive the rent. It became obvious by the beginning of the XXI century that «in the struggle for political democracy the mankind hasn't noticed the fact that the world totalitarian monetary system was set up which doesn't have any signs of democracy» (Nazarbayev, 2009). The analysis of 43,000 larger industrial companies has shown the strict order and hierarchy in their capital and management structures. It was found out, that a group of 1318 companies receive about 60 % of gross income and controlling "core" of the group consists of 147 companies. Their assets are intercrossed with each other, actually forming general property that provides the control over 40 % of global corporate riches to this financial conglomerate (Coghlan, 2011).

**\*Corresponding author: Santay Tleubayeva**

Department of Accounting, Analysis and Audit, Lomonosov Moscow State University

In our mankind's persistent struggle for market liberalization, totalitarian economic system has been constructed, in which the prices for all goods and services are established by several «global players» via transfer pricing mechanisms. And the real sector produces goods and services totaling \$65 bn. per year while cost of assets of the secondary financial market exceeds \$600 bn. (Global Entrepreneurship Monitor, 2011) and four largest American investment banks supervise 95.9% of these assets (Comptroller of the Currency Administrator of National Banks, 2011). The increase of the intermediary role between investors and businessmen has led to the fact of having lost the control both over their money and over their business. By the present these disproportions resulted in constantly recurrent financial crisis. Both the states and individuals are trying to cope with the debt levels exceeding any reasonable opportunity to pay them back ever. Servicing debts absorbs the major part of economic surplus: corporate profits, the rent for real estate, the personal income are above basic requirements and even public revenues are above their minimum necessary levels of social expenses.

The fundamental contradiction between an investor's and the businessman's interests has become a prime cause of the whole ball of the interconnected problems, one of which is a systematic inefficiency of investment activities under crisis. The analysis of research and publications. Mathematicians who carry out computer modeling of difficult social and economic systems persuade us that the present stage of human development is characterized by global crisis as a result of a different crises mixture (which happened simultaneously) - financial and economic, ecological (climatic), out- resourcing (raw materials) and social (Kyzuk, 2011; Modeling and forecasting, 2011). "The crisis has shown that the Washington consensus has definitively exhausted itself, and we should create such a new model of global economy that will have fewer risks and uncertainty, where the financial sector will be regulated by the state, and incomes and wealth will be distributed fairly" - it has been an official position of IMF since 2011 (International Monetary Fund, 2012). But there is no solidarity in opinions among scientists and politicians on the type of a "new model". In the economic literature of the past decade a collision of two opposite scientific approaches, two ideologies can be observed.

According to Brzezinski (2012), Acemoglu, Robinson (2012) (and others), the authors of "economic best sellers» of past years, even the assumption of any alternative to the existing economic system is absolutely inadmissible, unutterable and a forbidden "taboo". The idea that problems in investment activities arisen because of some top-managers' unfairness and some state regulation mistakes can be corrected within the existing system or in the result of its insignificant improvement is widely spread. (See example, CNN Money, 2012). Other authors, for example Wallerstein (2006), Stiglitz (2003), Buchanan (2006) (and many others), on the contrary, assume the "exhausting of neoliberal approaches". They claim that "capitalism is undergoing its system crisis" (Wallerstein, 2006, p.143) which "has not cyclic but a structural characteristic". The humanity has already survived two similar periods earlier while transforming from late antiquity to feudal era and from feudal era to capitalism. Now we can see that capitalism is becoming insolvent, it seems to be exhausted.

In order to get out of it, it is necessary to change paradigmatic basis, the main principles of social and economic system" (Hazin, 2010, p.140). The others are trying to reconcile these two totally opposite approaches at least to keep semblance of integrity and respectability of «an economic science fundamentals» which, alas, "is going into pieces". By the present, the "precipice" between microeconomics and macroeconomics, and also between actually economic science and science of finance, has become practically insuperable. And "experience of past decades shows that to three quarters of the efforts directed to reengineering, quality management, strategic planning and company shrinking were completely unsuccessful». It was written way back in 1991 (Cameron, 1991) but in 2007 Rosenzweig (2007) published the results of his long-term research of numerous cases when "advanced scientific conclusions and results by many authors were adjusted to market indicators provided by company management". Other revealed cases included «rough infringements of main principles of scientific research such as identities of correlation and causality, difference of single explanations when they try to reveal relative density of one factor only, illusions of continuous victories when only successful companies are exposed to research etc" (CNN Money, 2012).

In this context it is no wonder that despite an affluence of various theories and methods in the modern special literature - whether it is investment activity of a state, an enterprise or a portfolio investor - all of them were developed under the conditions of "sustainable development" of economy and come from such assumptions which are not grounded in the modern social and economic reality, as follows:

- demand constantly increases, the markets will be constantly expanding (therefore there is always a possibility to find even more attractive products, companies, sectors, markets for investment);
- in the result of high competition the efficiency of economic activities is continuously raising (and if the competition is insufficiently "perfect", it is easily possible to correct it by means of "correct" state regulation);
- both the businessman and the investor in many cases consciously make rational decisions, possessing some freedom of choice and the necessary information (instead of being the object of purposeful manipulation from the financial intermediaries who became a part of all authority structures and define state economic policy);
- economic processes are linear therefore weak influences cannot cause disproportionately strong changes (so there is a possibility to use simplified mathematical models without considering a variety of «scornfully small» factors).

Nowadays there is a pile of works which deny each of these assumptions. Unjustified usage of forecasting and management methods which do not consider qualitative changes in the business under the condition of crisis reflected imperfections of existing scientific basis in the system of investment activity. As it was admitted by the WB experts in 2012 "the general decrease in efficiency of investment risks management methods under the crisis has caused considerable changes in retail investors' behavior and changes in investment institutes strategy which has led to authority

decline of many international rating agencies and international financial institutions” (World Bank, 2012). Systemic imperfection of state investment activity methodology under the conditions of global crisis represents an unsolved part of a problem now. The purpose of the given work is to meet this lack to some extent: to develop some suggestions on investment activity strategy and methods improvement in the Republic of Kazakhstan.

### The general results are as follows

1. The Kazakhstan economy is based on out pacing rates of export growth over import growth and foreign trade turnover growth is provided, on the one hand, by hydrocarbons and other raw materials export and import of practically all other necessary consumer goods on the other hand. (The center of trade policy of Kazakhstan development, 2012) The economy "was based" only on "oil and gas core" in the time of the USSR and this hasn't changed while the economic disproportions have even aggravated during the years of independence.

Nevertheless, Kazakhstan was placed quite worthy on 47th place in a rating of the World Bank «Doing business» both in 2011 and in 2012 (World Bank, 2012) and in the rating of economic competitiveness in the World economic forum a prompt jump of Kazakhstan from the 72nd to the 51st place has been observed (World Economic Forum, 2012). And isn't there any contradiction in this? Kazakhstan is rich in natural resources and among national economic sectors the mining industry is highly developed especially oil, coal, ores of various metals and "products of their first repartition" are actively "produced". Thus, only oil mining industry constitutes more than a quarter of volume of an industrial output production, over one third of tax payments, half of export incomes of the state budget (Statistics Agency of RK, 2012). "The reverse side" of this is that "it is usual for Kazakhstan to have its economic decision-making centers located outside the country" (Kazhyken, 2011). The overwhelming majority of the largest mining and metallurgy companies working in Kazakhstan are either in fact divisions of transnational corporations or they are in long-term concession under non-residents or their controlling interest belongs to foreign citizens (The Kazakhstan Institute of industry development, 2012).

Exactly those large companies attract foreign investments which can be testified via the size and dynamic growth of Kazakhstan's national corporations total external debt excluding banks (Statistics Agency of RK, 2012). During five years of "crisis" more than \$137 billion have been invested in those enterprises instead of investing into economy "in general" (Statistics Agency of RK, 2012). And "a lion's share" of foreign investments has been transferred to oil deposit Kashaghan. It has won the first place in a world rating of the most expensive power projects: according to CNN Money \$116 billion have already been invested into it (CNN Money, 2012). The national company KazMunaiGaz has only got 17% project participation share and it means that foreign participants of the international consortium invested in the project more than \$116 billion. According to the "Ernest and Young" survey in 2011, «the majority of professional investors who have invested funds in Kazakhstan enterprises

stated that they are substantially satisfied by their investment decisions” (The investing attractiveness of Kazakhstan, 2011, p.13). But, alas, all these investments of billion dollars that "have satisfied the majority of professional foreign investors" have not practically affected any solutions on modernization and re-structuring issues of Kazakhstan industry and on national economy diversification. «Despite the fact of putting into effect some government programs it continues to keep mainly a raw-material base of development that predetermines its growing dependence on a conjuncture of the world markets” (Nugerbekov, 2009).

2. According to the Kazakhstan legislation system, an enterprise with the annual revenue of under \$3,350,000 and with less than 250 workers employed belongs to mid-size business and small business operates less than \$600,000 and employs fewer than 50 workers. There is also a structured microbusiness form presented by individual entrepreneurs. About only 25 % of all working-age population is engaged in all those enterprises in Kazakhstan (Statistics Agency of RK, 2012), while in EU countries, for example, this indicator varies from 50 to 80 % (World Bank, 2012). The reason of such difference underlies not only in weak development of small and midsize businesses in Kazakhstan. It is a fact that Kazakhstan statistics subsumes about 40% of working-age population (which constitutes about 3 million people) to the category of self-employed population (Statistics Agency of RK, 2012).

So, 25% of working-age population is engaged in small and midsize businesses and about 40% are in "shadow" economy which can be estimated only on the basis of "the indirect indicators analysis" in Kazakhstan. Those "self-employed" are widely spread in all economic sectors and throughout the territory. In four southern areas of Kazakhstan this is the basic part and the overwhelming majority of working-age population. During last ten years the portion of small and midsize business in the Kazakhstan gross national product has grown from 17% to 32 % while the volume of production issued out by small-scale business enterprises has increased almost 4 times. However, "the analysis of indirect indicators" allows us to assume that this growth is mainly caused by moving some self-employed businessmen out of shadow economy. At the same time, according to a number of surveys, approximately half of Kazakhstan entrepreneurs of midsize business "are balancing on the edge of survival" and more than 40 % "had to be forcedly shifted to a small-scale business" and "over two thirds would willingly substitute their entrepreneurial activity by well - paid job" (Rahmatulina, 2011; Gurevich, 2011).

According to the sociological survey results of ten thousand entrepreneurs (The current stage of small and medium enterprise development, 2011), the majority of small and midsize business enterprises with some potential to grow have serious difficulties in financing. In the rating system of vital business issues the shortage of financial resources and difficulties to obtain bank loans were ranked in the first place by business respondents. This bank domination has become possible due the fact that small and midsize business enterprises have practically no access to the public capital markets.

3. The further existence of Kazakhstan as an independent state in many respects depends the possibility to find some replacement to export of natural resources in time, as it is the basic source of budgetary receipts now. Low efficiency of the government programs directed on the development of small and midsize national businesses is not simply pressing but a sore problem and it is the main obstacle for social and economic development of the republic. This is exactly the way the President of the Republic of Kazakhstan N. A. Nazarbayev (see example (Nazarbayev, 2012)) sees this problem.

How much are these categorical statements justified?

Let's review such strategic document as "The forecast of social and economic development for years 2012 – 2016". It is based on the assumption that "the basic external factor" of social and economic development of the Republic of Kazakhstan for years 2012 - 2016 is "global economy revival, external demand recovery and stabilization of external pricing environment for energy and metal and stabilization of world trade and financial markets". Here you can observe the most primitive forecasting method which is only one scenario of the world development relying just one single economic indicator which is world oil price.

This forecast has already demonstrated its complete inconsistency. However, no one who composed it including the members of Government who adopted it in summer, 2011 has been punished. Moreover, this document still "defines the basic directions of economic policy for next five-year period and the state and local budget, National fund's budget and a three – year consolidated budget forecasts etc." (The forecast on social and economic development of Kazakhstan Republic, 2011). Now let us examine the government programs directed to innovative economic development, modernization and restructuring of operating industrial base, activation of processes in order to increase the labor productivity and efficiency of production energy. During past fifteen years over 50 such programs were adopted and financed. During years 2010-2011 the President and the Government admitted that a considerable amount of financial assets from the budget had been spent, to put it softly, inefficiently.

For example, in accordance with "The State Program of Accelerated Industrial and Innovative Development of Kazakhstan for years 2010-2014" which was adopted in 2010 (The Programme of forced industrial and innovational development of Kazakhstan, 2010), 1,8 trillion tenge (equating \$12 billion) has been invested into 389 state projects, Unfortunately, their economic efficiency turned out to be slow that in order to achievement the main purpose of the program which was to raise real GDP by 50% from the level stated in 2008, we would have had to implement more than 6,000 similar projects totaling in 35-40 trillion tenge (\$250 billion) spent additionally" (Kazhyken, 2011). And Kazakhstan does not possess such amount of money. When the government tried to find really effective projects in the framework of the new program "The Productivity 2020", intended only with "allocating state grants for the developing of modernization and technical restructuring business plans of 200 industrial enterprises chosen in the result of technical audit" (The Programme «Productivity 2020», 2011).

The execution of dozens of "similar projects" was further continued. The common principle of those projects is the fact that while constructing production capacities, the total project costs would highly increase to the corruption component. Hence, later it turns out that an enterprise is very expensive and its goods are uncompetitive in the market. Adopted in year 2010 "The Program of Trade Development in the Republic of Kazakhstan" (The trade development programme in the Republic of Kazakhstan, 2010) involves the accelerated transition to new trade forms (closing down of domestic product selling markets and the "open door" policy to transnational network corporations selling imported products) which in fact means the death of small business in the retail trade area. Simultaneously, the trade market forms are recovering rapidly in the western countries (see example (McMillan, 2002)). Researchers of the World Bank insist that only markets are considered as the center economic growth in rural areas of Central Asian countries which "can contribute to the production development and create new jobs and become the main factor of poverty rate decrease" (Kaminski, 2011).

*The following state programmers were adopted in Kazakhstan: "The National Plan on Investments Attraction" (National investment interactive website, 2012), "The Program on Public Private Partnership Development" (Kazakhstan Public Private partnership center, 2012) and many others. Yet, as it happened during previous years, in 2012 once again the regions could not assimilate provided state budget investments amounting 143 billion tenge (about \$1 billion which is an annual budget of one "oblast" region). Not surprisingly that in November 2012 during the meeting with the region mayors of different ranks the President of RK evaluated their activity as very low-performed. They were called «celestials» who totally forgot about the irdutiesandare only worried about "placing their closest relatives on good positions and receiving more funds from the state". N.A. Nazarbayev threatened "regional dukes" that the state is going to get rid of them soon: "mass dismissals are expected in the administrative corpus of Kazakhstan when the number of civil servants will decrease eight times as much". (Nazarbayev, 2012) (Let us remind that two years ago the number of civil servants personnel was reduced by 15%. Apparently, it did not help either.)*

Will the same dismissals increase the efficiency of state investment management? Perhaps the institutes of Kazakhstan financial market should be used more actively instead.

4. For the last few years the number of participants, names of available financial tools and investors has been shrinking at the Kazakhstan financial market. Kazakhstan is in top five whose stock index decreased as KASE index is calculated from share prices of only seven companies as the rest of them do not meet the liquidity criteria. Stock market turnover has fallen by 20% and especially the equity market has been affected badly where the sales dipped by 43,2%. A set of measures has been taken to stimulate population investment activities or the last two years in Kazakhstan (programme «Public IPO», 2012; RK LAW, 2011; The conception of Kazakhstan financial sector development in the post-crisis period, 2010). Nevertheless, in 2012 at the Kazakhstan financial forum the existence of KASE was actively debated

(Drozd, 2012). It was proposed that due to the necessary growing tightening in the system of state regulation, KASE can practically cease to function (or at least it can become a branch) (Batyshcheva, 2012). The point is that lately Kazakhstan brokers have been selling only non-state securities at the international markets. However, the latest amendments to broker and dealer activity regulations at the Kazakhstan stock market practically prevents this source of income (The resolution of the National Bank Board, 2012). Alternative to KASE closing, according to a number of experts, is to restart the stock market by developing it on absolutely another customer base, to redirect the activity of stock market to the model where target-oriented investor is population. No doubt, in order to do that it is necessary to change KASE listing system radically which is presented by quantitative indices only so that the biggest part of Kazakhstan enterprises of SME could become issuing companies? (Zelepuhin, 2012). However, the question to be answered now is whether the reason use doing it and whether Kazakhstan population is prepared to become investors.

5. By the beginning of September 2012, over 4,8trillion tenge were deposited by Kazakhstan population into banks and about three trillion tenge of pension savings added to this equals around \$51 billion tenge. This is an enormous investment potential for Kazakhstan. Such a sweet spot at first sight!

On close reexamination it can be found out that 50% of all deposit accounts amount are presented in only 0,1 % deposits (National Bank of RK, 2012). This means “minus \$16 billion tenge” from the total investment potential of population as very wealthy people are not retail investors, they are representatives of the global financial elite who have been investing actively at the international markets. This statistics do not match the data provided by the «Forbs Kazakhstan» journal where 50 wealthiest people of the Republic cost only about \$ 24 billion (The Forbes Kazakhstan, 2012). It appears that these \$16 billion on deposits is another phenomenon of “unobserved economy”. Another half of deposit funds is also distribute dun evenly and by the way only 17 % of population possess any deposits with relatively small deposit amounts to cover “urgent needs and circumstances” (National Bank of RK, 2012).

Why is it so? According to Kazakhstan statistics from 2000 to 2011 the rate of average monthly nominal wage increased 6, 3 times as much - in 2011 it accounted for 90 028 tenge. Should it not be considered as an achievement? Seems it shouldn't. In accordance with the UNO report on the amount of employee's average monthly incomes in 72 countries in the world Kazakhstan has taken the 53rd place with \$753 per month and ranked between Makao (52<sup>nd</sup>) and Bulgaria (54<sup>th</sup>). It is 206 dollars income per person behind Belorussia which is the closest Customs Union partner (Belarus people earn \$959) (Economic and social survey of Asia and the Pacific 2012). According to Koshanov (2012), the chief of socially-oriented economy Centre at the Institute of economics, Ministry of Education and Science, RK, the majority of Kazakhstan citizens receive a very low salary which does not agree with the work contribution and does not guarantee normal standard

of living. Therefore, the population potentiality as retail investors does not seem to be so attractive and available.

## Conclusions

*In the contemporary world investment activity has evolved from being just a method of manufacturing development, being a tool of economy in to a sustainable way of wealth growth. It is turned into an independent method of economic activity with the essence of creation more sophisticated ways by a “highly professional” investor to fraud “non-professional” investor and “one thousand and one means to take money away in a reasonably honest way”.*

As for Kazakhstan, apart from the brilliant project “Kashagan” which was carried out at political level and boosted investment prospects and a few other successful foreign projects mainly into the natural resources mining sectors, the rest investment activity has little difference from the frustrating situation that we are observing today everywhere in the world. The loss of fundamental objective sand values, the absence of strategy and non-systematic approach, poor management, bribery and meanness, low efficiency... This analysis clearly demonstrates an outrage ousnon-efficiency of investment activity by Kazakhstan government and local authorities as well as existing disproportions in economy that have become prerequisites and favour able environment for tangled ball of constantly arising contradictions which became a real menace to social and political stability of Kazakhstan community lately. We consider that the key element to solve this issue isto increase efficiency of investment activity by self-employed population.

Supposing there is a tiny number of such populations constituting only 1%. Never the less, even in this case by having created «favors able conditions» for them for a while (having invested and protected their interests securely), Kazakhstan may get a new competitive environment. It means 30,000 businessmen who will get a unique life time opportunity to fulfill their entrepreneurship and to raise their turn over by 100 or 1,000 times and to grow from “a small shopkeeper” into owners of solid business with the ability to employ hundreds and thousands of workers. Thirty thousand businessmen are ready to work up a sweat for the sake of business. Supposing only one out of ten could use this chance but even in this case Kazakhstan will get three thousand new competitive national enterprises. In which sectors and which market segments will it take place? – There is no point to plan it now. They will find answer to these questions themselves. The main thing is to give them a chance and create fair rules for competition among them so that only strongest could win. Three thousand new competitive national enterprises is few or a lot for Kazakhstan?

Let us remind the figures we have previously mentioned: only for one year and only in the framework of one state program the government invested \$12 billion to establish 389 enterprises (which regrettably found them to be non-efficient and non-competitive mostly due to the absence of successful managing holders). The scope of the program “Productivity 2020” is modernization of 200 existing industrial enterprises. Establishment of three thousand new competitive national

enterprises for Kazakhstan is not just a lot. It is an accelerator to form totally new national economy. It is are all industrial (and not only industrial) revolution. Today Kazakhstan by trial and error method has realized inevitability to change paradigm of investment activity- as the whole set of different ways of financial resources distribution in favour of more efficient managing business holders. The activities carried out by the state in the first place serve the interests of provision of national security, independence, social economic and political stability. But only the last thing is to serve the interests of financial mediators/ professional investors and non-professional investors/ renters. Their destiny in the modern world is to be «cheated» and «robbed». We have to admit that this is inevitable, it is a common rule and global trend: sooner or later “financial bubbles” will have to “burst”. Only for the period of 1975 - 1995 IMF registered more than 150 foreign exchange and 54 debt/bank crises in 56 countries that led to the loss of financial sets by hundreds of institutional investors and millions of private ones (International Monetary Fund, 2012). It is worth recalling the story of sovereign default of Argentina in 2002 (renunciation of fulfillment of government obligations amounting \$ 100 billion).

For the past decade the country has settled arrears on credit facilities of IMF but bond holders have managed only to negotiate a debt restructuring on terms of 30% debt repayment. Argentina has been avoiding any external credits for ten years- and despite lots of “academic” forecasts, “The Day of justice” for Argentina has not come yet. Kazakhstan cannot and must not go through the expense of “anti-recessionary measures to rescue” - both businesses of different types of financial mediators/professional investors and inconsiderate investments of non-professional investors and reinter. International practice demonstrates that any credit ratings and investors’ interests can be sacrificed to national business interests. And in the countries where other actions are taken, sooner or later a revolution starts. The Republic needs to carry out a system-based secondary distribution of public resources in favour of more efficient businessmen-managing business holders. That in priority of this investment policy is arrangement of favour able conditions to develop a totally new business environment.

*The further development of this research should be based on the research of the Kazakhstan self-employed population’s structure by the region and their peculiarities. But the approach should be viewed as an object of a business environment renovation of strategic staff reserve, but not as an object of social assistance.*

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