

**PROBLEMS AND PROSPECTS
OF LEATHER INDUSTRY DEVELOPMENT IN KAZAKHSTAN**

**ПРОБЛЕМЫ И ПЕРСПЕКТИВЫ РАЗВИТИЯ
КОЖЕВЕННОЙ ОТРАСЛИ КАЗАХСТАНА**

*G.I. ABDIKERIMOVA, A.Y. YESBOLOVA, D.A. KULANOVA,
A.T. MERGENBAYEVA, M.U. DAURBAYEVA*

*Г.И. АБДИКЕРИМОВА, А.Е. ЕСБОЛОВА, Д.А. КУЛАНОВА,
А.Т. МЕРГЕНБАЕВА, М.У. ДАУРБАЕВА*

(M. Auezov South Kazakhstan University, Republic of Kazakhstan)

(Южно-Казахстанский университет им. М.Ауэзова, Республика Казахстан)

E-mail: yesbolova@gmail.com

The leather industry has traditionally played a prominent role in the country's economy, providing a standard range of leather and protein waste products with a large number of industries producing a wide range of industrial products. The article analyzes the situation in the leather industry in the territory of the Republic of Kazakhstan revealed the reasons for its weak development, such as the lack of its own raw materials base, weak financing and state support, low competition and export of unprocessed cattle leather.

Leather resources are considered strategic commodities and national treasures and are processed to produce a high value-added product around the world. In many developed countries, export of cattle leather is generally prohibited, in others it is subject to high export duties. The urgency of solving the problem of the development of leather production is increasing due to the loss of Kazakhstan's food security for this type of food. The purpose of the study is to identify factors that negatively effect on development of the industry and the development of effective tools for the development of the leather industry in Kazakhstan.

Кожевенная промышленность традиционно играет заметную роль в экономике страны, обеспечивая стандартным ассортиментом кож и продуктами переработки белковых отходов большое количество отраслей, производящих широкий спектр предметов потребления и продукции промышленного назначения. В статье проанализирована ситуация в кожевенной отрасли на территории Республики Казахстан, выявлены причины ее слабого развития, такие как отсутствие собственной сырьевой базы, слабое финансирование и поддержка со стороны государства, низкая конкуренция и экспорт кожи и шкур крупного рогатого скота. Кожевенные ресурсы во всем мире считаются стратегическим сырьем и национальным достоянием и перерабатываются

для получения продукта с высокой добавочной стоимостью. Во многих развитых странах их вывоз вообще запрещен, в других – облагается высокими экспортными пошлинами. Цель исследования – выявление факторов, негативно воздействующих на развитие отрасли, и разработка эффективных инструментов для завоевания ее устойчивых позиций как на внутреннем, так и на внешнем рынках.

Keywords: leather, sheepskin, leather production, animal husbandry, skin processing, Kazakhstan.

Ключевые слова: кожа, шкура, кожевенное производство, животноводство, переработка кожи, Казахстан.

Introduction. At the present stage of the country's economy development, the problem of developing and implementing a long-term strategy for the sustainable development of industrial industries and, above all, processing industries, one of which includes the leather industry, becomes extremely urgent [1]. The level of leather industry development, assortment, quality of products and price depends on the effectiveness of all links of the commodity and raw materials chain: livestock - chemistry - leather – product [2]. The self-elimination of the state from regulating economic processes in the country during the ongoing reforms has led to the disintegration of these industrial and economic ties, a sharp decline in production in all its links and degradation in most industries, including negatively affecting on the leather industry [3]. The volume of production in 2019 is decreased in the industry by more than 17 times compared to 1992, and the number of personnel decreased by 6 times [4]. These circumstances give rise to a serious analysis of the state of the leather industry, the direction of its development strategy and the development of organizational and economic mechanisms that ensure economic growth and the transition to sustainable social and economic development.

Methods. The presented research is based on the heterodox assumptions of deductive and descriptive reasoning, along with using secondary data from the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, national programs re-

lated to the economic development strategies. In addition, the authors applied various methods of economic analysis, including critical literature review.

Results and Discussions. The withdrawal of the state from the economy in the 90s was not compensated by the development of effective forms of market relations at the intersectoral level, regional and level of individual economic entities. As a result, the decline in production volumes in all processing industries, including light industry, which amounted to almost 90% by the beginning of 2000s. To the greatest extent, the decline in production volumes affected on the leather industry.

At the beginning of the 90s, 2 pairs of shoes per person and 3 pairs per child were produced per year in Kazakhstan. By the beginning of the 2000s, a shoes production was only 1 pair per 5 person and 1 pair per 7 children. Although after 2000, the growth trends in leather production became noticeable, production capacities are used in the industry by only 10-15% [5]. One of the reasons hindering the increase in production is unfair competition from the shadow business. Consider the economic indicators of the leather industry in Kazakhstan over the past five years (Table 1). Table 1 shows that industrial output increased by 94.3 % in value terms. State support allowed the leather industry within the “Damu” Program to increase the volume of investments in fixed capital by 953 million tenge during an indicated period [6].

Table 1

| Year/ Name | 2015 | 2016 | 2017 | 2018 | 2019 | Growth rate 2019 to 2015, % |
|---|-------|-------|-------|--------|--------|-----------------------------------|
| Industrial production volume, mln. tenge | 5 990 | 8 310 | 8 586 | 10 188 | 11 641 | 194,3 |
| Industrial production index, percentage of previous year | 103,5 | 101,4 | 109,1 | 107,2 | 98,4 | - |
| Share of industry products in total industrial production, % | 0,04 | 0,04 | 0,04 | 0,04 | 0,04 | - |
| Number of personnel of the main activity, thousand people | 1,1 | 0,9 | 1,1 | 1,0 | 0,8 | 72,7 |
| Average monthly salary of personnel of main activity, tenge | 78409 | 87501 | 70221 | 118871 | 116972 | 149,2 |
| Profit (loss) before tax, million tenge | 92 | 2 345 | -107 | 835 | 1 007 | 1094,6 |
| Profitability, % | 0,7 | 29,8 | -1,1 | 6,6 | 6,4 | - |
| Producer enterprise price index, percentage of previous year | 100,6 | 112,5 | 101,3 | 99,0 | 98,7 | - |
| Investments in fixed assets, million tenge | 181 | 1 510 | 2 079 | 349 | 1 134 | 626,5 |

Note: $1 \text{ US dollar} = 426,5 \text{ tenge}$ (at the rate of the Central Bank of Kazakhstan)

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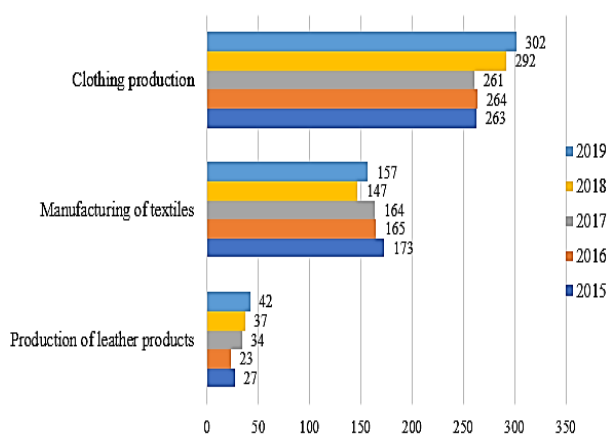


Fig. 1

The main task of the state in the framework of industrial support programs today is to equalize competitive conditions for domestic enterprises. Cash is the blood system of the economy. Therefore, such measures of support for enterprises as compensation of the interest

rate on loans for seasonal purchase of raw materials, for the purchase of new equipment, subsidized leasing, perfectly solve this problem, making domestic enterprises competitive, including in the world market. Figure 1 shows the number of operating light industry enterprises in Kazakhstan for 2015-2019.

Fig. 1 shows that the number of enterprises engaged in the production of textiles has decreased by 16 units, the production of clothing has an increase of 39 units. The number of existing leather enterprises increased by 15 units, including with the main activity by 10 units in the period 2015-2019.

In 2020, the share of the leather industry in the republican volume of industrial production amounted to 0.04%, production of textiles - 0.2% and clothing production - 0.1%. Independent marketing studies show that the domestic shoe market in Kazakhstan is 82% filled with Chinese products, 7% of shoes are imported from Russia, 11% are supplied by Turkey, Germany, Italy and other countries [7], [8]. Meanwhile, leather resources around the world are considered strategic raw materials and national treasures and processed to produce a product with high added value. In many developed countries, their export is generally prohibited, in others it is subject to high export duties. Table 2 shows the name of the products issued by the leather industry in Kazakhstan for 2015-2019.

Table 2

| Year /Name | 2015 | 2016 | 2017 | 2018 | 2019 | Growth rate 2019 to 2015, % |
|---|---------|---------|---------|---------|---------|-----------------------------|
| Skin and leather (raw) of cattle, tons | 8 777 | 8 067 | 11 122 | 1 591 | 4 718 | 53,8 |
| Sheep wool, tons | 2 042 | 1 893 | 2 762 | 345 | 283 | 13,9 |
| Leather of cattle skins or animal skins, thousand square decimeters | 155285 | 102550 | 88115 | 144989 | 102348 | 65,9 |
| Fur skins, tanned or highlighted, thousand square decimeters | 4980,0 | 2130,0 | 6 034,2 | 5 821,3 | 3006,2 | 60,4 |
| Fur sheep, thousand square decimeters | 4980,0 | 2 108,2 | 5 399,9 | 5 187,0 | 2930,5 | 58,8 |
| Suitcases, bags, cases for business papers, briefcases, thousand units | 25 | 31 | 36,1 | 27,5 | 46,6 | 186,4 |
| Shoes, except sports, protective and orthopedic, thousand pairs | 1 558,0 | 1 583,6 | 1 228,1 | 1 155,3 | 1 377,6 | 88,4 |
| Shoes of rubber or polymeric materials, except shoes waterproof or sports, thousand pairs | 654,2 | 828,1 | 438,4 | 218,1 | 430,5 | 65,8 |
| Leather top shoes, except sports shoes, thousands of pairs | 599,7 | 688,9 | 769,5 | 855,9 | 919,4 | 153,3 |

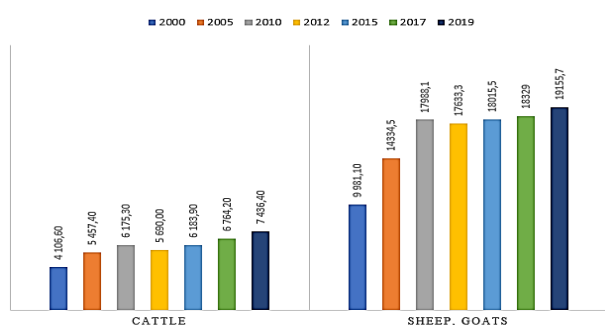


Fig. 2

It follows from table 2 that the volume of leather from the skin of cattle decreased by 4,1 thousand tons or a decrease of 53,8%, the volume of sheep's wool decreased by 1759 tons from 2015 to 2019. The reason for the decline in leather production is the shadow export of

skins. So, livestock breeders bring only a small part of the raw materials to local factories. The untreated skin is sold to resellers mostly [9]. The main resource for the development of the leather industry is livestock (Fig. 2). So, leather producers of Kazakhstan use the skin of dairy or meat cows in their production process. The cattle are raised exclusively in order to receive milk or meat. Because of this, the material has drawbacks: scars, cuts, insect bites.

The data of fig. 2 show that the number of livestock increased by 3329, 8 thousand heads, including cows - by 87%, sheep and goats – 91,9%. Despite the increase in livestock, the volume of leather production is falling every year [10], [11].

Table 3

| Strengths | Weaknesses |
|--|---|
| High quality of leather. Possibility of self-training of personnel for own production and business. Long-term cooperation with foreign partners. Knowledge of the raw material market. | Low duties on the export of raw leather and skins. Weak knowledge of leather production technology. The decline in interest of young people in engineering and industrial work. |
| Opportunities | Threats |
| Preparation of competent industry management. Agreement with vendors to share and build cash flows. Interaction with international financial institutions. Penetration into new markets. The ability to promote the item through its own channels. | The emergence of new foreign manufacturers on the market with cheaper products. Complexity of customs procedures. Frequent review and introduction of new laws in Kazakhstan. High taxes. No support strategy leather industry. Weak investment performance in the industry. |

In Kazakhstan, dozens of tanneries are on the verge of closing due to a shortage of raw materials, which are forced to reduce produc-

tion and send their workers on unpaid leave. Today in North Kazakhstan there are about 500 thousand heads of cattle. A fifth goes to

slaughter. Almost all skin goes abroad at a favorable price. Table 3 provides a SWOT analysis of the leather industry in Kazakhstan [12], [13].

The problems studied during the work process in the leather industry provide an opportunity to determine the priorities for the development of the industry and develop a mechanism for its support to gain sustainable positions in both domestic and foreign markets.

Conclusion. The mass export of raw materials from the country continues, most of it by smuggling, which leads to a shortage of over 50% of raw materials and a loss of industry. This is not in the public interest, both economically and socially. Not only the leather industry will suffer, but also other sectors of the economy. Domestic consumers of natural leather are shoe, leather and other industries. The need of law enforcement agencies and national companies for high-quality leather for special shoes has increased (due to the replacement of brush boots with waterproof leather boots). Due to insufficient supply of raw materials, shoe enterprises are forced to import finished leather with high added value. Domestic producers cover no more than 1-1,5% of the needs of the population, which is much lower than the level of economic security. The available capacity of shoe enterprises of the industry is loaded by only 20-29%, leather by 10-20% (in terms of individual enterprises). In order to prevent or reduce the critical shortage of goods for the domestic market necessary to ban the export of cattle skins. Leather is a strategic product of the state, taking into account the positive trend in livestock growth, and which can be easily exported. This will lead to a load of enterprises up to 100%, an increase in the capacity of enterprises and payments to the budget. At the same time, given the presence of its own domestic raw materials from small and medium-sized businesses for the production of clothing, shoes, and haberdashery products, it will be possible to become competitive before imported products, which in the future will give a noticeable impetus in the development of light industry.

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