Towards economic security through diversification: case of Kazakhstan

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Abstract. In this article assumption is being made that economic structure of economy affects economic security of a country. The main exported goods of Kazakhstan for the period 2000-2015 is the commodity group “Mineral products”, which accounts for no less than 65.8% of total exports of Kazakhstan. And in Kazakhstan’s economy is currently experiencing a clear decline due to the instability and decline in world oil prices. One solution to the government of Kazakhstan has chosen the conduct of the national currency devaluation in February 2014 and August 2015. Down conjuncture of oil prices since 2014 has ceased to be favorable, and in Kazakhstan, only 5% of the oil sold in the domestic market and almost all the oil produced in Kazakhstan is exported at a rate of 95%. In the presented paper authors consider the problem of diversification of the Kazakhstani economy, which actually depends on raw industry. The analysis of the current situation and recommendations for further reforming of economy are provided.

Keywords: economic security, Kazakhstan, economy, oil and gas sector, diversification, prices for energy resources


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1. Introduction

Economic sustainability and economic security of a country is affected by variety of factors which are amply analyzed in contemporary literature: state of transport (Beifert 2016); ability to innovate (Branten, Purju 2015; Rezk et al. 2015; Tvaronavičienė et al. 2015); energy security (Vosylius et al. 2013), cybersecurity (Grubicka, Matuska 2015) etc. Among array of factors affecting economic sustainability and security important role plays economic structure (Shatrevich, Strautmane 2015; Tvaronavičienė 2014; Travkina, Tvaronavičienė 2015).

In this paper the authors focus on economic structure and do not analyze other factors impacting economic security of the country.
Hence, assumption is being made that diversification of economy implies diversification of its structure. This approach was caused by specifics of Kazakhstan: the Republic of Kazakhstan is obliged by today’s progress in social and economic development and attraction of foreign investments to such basic factors of competitiveness as security with natural resources, the favorable macroeconomic environment and political stability (Dezellus et al. 2015). The economy of the Republic of Kazakhstan can lose competitiveness and appear in «a trap of average earnings». Republic of Kazakhstan will need to realize structural changes in economy for preserving high rates of economic growth, necessary for transition to a new stage of development. In this regard diversification of economy is represented actual for Kazakhstan.

One of the major features of development of economy of Kazakhstan still remains a dominant position of oil and gas and raw sectors through weakening of the position of the Kazakhstani light processing industry, and also replacement from structure of consumption of domestic products by import goods. The main reason of the repeating economic crises is raw nature of the Kazakhstani economy, its weak diversification because forming of the budget of the country depends on the prices of energy resources. According to Committee of the statistics of the Ministry of national economy of the Republic of Kazakhstan, the share of the mining industry in structure of GDP of the country tends to growth from 2000 to 2014. It increased by 3,4% and make 16,4% in 2014, at the same time the share of light processing industry is reduced in 2014. It fell to 5,0% in comparison with 2000 and make 11,5%. Provision aggravates the direction of financial resources. Inflow of the direct foreign investments (DFI) to national economy from 2000 to 2014 make more than 1 billion US dollars. Thus more than 2/3 of such investments went to mining industries (32,6% of a gross inflow of DFI) and activities for carrying out geological investigation and researches (37,0%), 8,8% of all DFI went to light processing industry, 0,1% of DFI went on a share of agricultural industry. For the considered period the raw orientation of the Kazakhstani economy didn’t decrease, and its dependence on the external economic environment amplified.

Raw nature of structure of industrial production of Kazakhstan provided forward development of national economy until recently, but also is the most reliable source of its growth soon. However, as showed a world economic crisis, domination of raw industries in structure of national economy brings to instability of economic growth and long stagnation. Therefore, the strategic importance for Kazakhstan purchases need of carrying out a purposeful state policy of diversification and modernization of economy for the purpose of increase of its competitiveness, overcoming of a raw orientation and ensuring sustained economic growth of the country and certain regions. Object of research in this article is the economy of the Republic of Kazakhstan, a subject of research – competitiveness, which is precondition of economic security of economy of the Republic of Kazakhstan.

2. Economic analysis of Kazakhstan

Kazakhstan has a vast experience of reforming of economy: it was necessary to overcome many difficulties, to correct errors, to eliminate defects, to review some initial installations.

Certain positive results of economic reforms are received: high growth rates of production are reached, the population standard of living increased. Influence of factors of braking remains: the industry structure of economy needs enhancement, unsatisfactory level of cost efficiency of production. The leading role in reforming belongs to institutional transformations, including real providing the property rights, the efficient antitrust law and control of its implementation, banking supervision, insurance of bank deposits, etc. Their absence forms «system vacuum», directly leading to criminalization of economic life, growth of a clan and shadow economy, growth of non-payments.

Steady high dynamics of economic growth and profitable environment in the world market allowed Kazakhstan to put and solve certain problems on giving of domestic economy of innovative and socially oriented nature till 2015. However, decrease in export receipts in 2015 can make $39 billion in absolute calculation. As a result Kazakhstani export will return to the level of 2007. Quantitative reduction of rates of export receipts risks to be replaced by serious high-quality changes because non receipt of the income reduces opportunities for investments into production and all types of infrastructure - from transport to social. It beats on competitiveness of
the country and weakens its economic opportunities. The sharp devaluation of tenge which began since August 20, 2015 «retouched» this problem. It can solve only diversification of economy, such measures as creation of essentially new sources of generation of export revenue. Obvious disproportions in structure of economy are followed by growth of the real currency rate in the country and surge in inflation. In Kazakhstan is expected recurrence of «the Dutch illness» which can turn back inflation growth. But the above-standard growth of inflation and a rise in price of consumer services is result of growth of the real national currency rate.

Super income in raw industries and corresponding demand for their production really blocks a free modulation of the equity in the processing sector. Especially destructive were consequences of the accelerated dismantle of state-owned property for the industries and productions referred to real economy. Economic development of Kazakhstan can be characterized as depending on oil-and gas and mining export sector and the high real exchange rate. Therefore, exposure of economy to world price fluctuations of top sectors is high. Position of the highly profitable companies monopolists in raw industries - not interested in development of the processing sector, except for small projects on improvement of technological indicators within production of raw materials or raw repartition. The purchasing policy of large raw holdings is aimed at foreign partners, their head companies which deliver the necessary equipment, spare parts, chemical reagents that doesn’t promote forming of domestic small and medium business in the industry. Now this business in the country is oriented generally to the retail consumer sphere. Domination of raw industries is a basic obstacle for ensuring long-term economic growth, does the country dependent on an environment of the world markets.

The strategic task of the state on modernization of economy of Kazakhstan shall be followed by GDP growth of the country and the corresponding growth of welfare of house farms. In general, since 2000, GDP in real terms increased on average by 10%. GDP growth is caused by the world prices for primary groups of export goods for Kazakhstan: oil, gas, metals, grain, etc. The analysis of dependence between GDP and production of crude oil in Kazakhstan confirms with availability of close connection between two indicators. The correlation coefficient characterizing equal orientation degree in dynamics of changes is equal 0,95. Growth in production of oil is reflected in tendencies of change of GDP, 70% in structure of export are the share of hydro carbonic raw materials. Relevance is confirmed by the analysis of the major qualitative indexes. So, in structure of GDP of Kazakhstan the essential share is the share of raw industries (a fuel and energy complex and metallurgy). This provision is reflected in structure of the Kazakhstan export.

The structure of import of the Republic of Kazakhstan is provided by such groups of goods as machine and equipment, finished products from metal and other types of the industrial processed products. This situation is explained by underdevelopment of the processing industry capable to product goods with a high value added. So exported crude oil returns to our country in the form of products with deep conversion and a high value added. Positive dynamics of indicators created conditions for a population welfare growth. High growth rates of oil and gas extraction can break macroeconomic balance, promote development of “the Dutch illness” and inflation growth. Besides, it can be reflected in an ecological situation and lead to fast depletion of oil richness of the country. The branch structure of the Kazakhstan economy in 2014 is provided by production with specific weight of 44%, including 16% of mining industry, 11,6% of processing industry, 5,5% of agricultural industry. The analysis of dynamics of specific weight of industries shows smooth decrease of the share of the mining industry for benefit of growth of processing industry.

Fixing of Kazakhstan in the status of the oil state bears big problems: underinvestment of the overworking economy sectors, instability of growth rates owing to dependence on an external environment, reducing workplaces and, certainly, strengthening of social and economic stratification of the population. Actually, the sharp increase in a foreign exchange inflow to the country already led to development of symptoms of “the Dutch illness”. Increase and strengthening of negative manifestations in economy of Kazakhstan, including devaluation, speak about an entrance to a final stage of economic and political model, which foundation were laid in the second half of the 90th years and which gained the development and fixing in recent years. It based on oil export, crude uranium, ferrous and non-ferrous metals for satisfaction of the consumer demand. This model in Kazakhstan developed raw export, and also a transport, trade and financial infrastructure for delivery and
distribution about the country of final foreign goods. Quantitative and chronological disposition of these two determining parties of the built economic model is shown in Figure 1.

![Ratio of raw export and commodity import of Kazakhstan](image)

**Fig. 1.** Ratio of raw export and commodity import of Kazakhstan

*Source: authors*

Volumes of an export currency earnings, especially from the beginning of “zero years” and before crisis of 2007-2008, grew repeatedly. It could become base for the accelerated social and economic national development based on industrialization and an innovation of non raw internal productions. The essential part of the export and raw income was cut before an entrance to economy of Kazakhstan, accumulating in gold and foreign exchange reserves of National bank and currency accumulating of National fund, actually – in foreign debt obligations. The most part of the got export currency earnings to national economy went for the growing import of manufactured and consumer goods to Kazakhstan. As a result the economy of Kazakhstan got to the export and raw and commodity and import external dependences blocking any attempts of development of import-substituting productions within the country. The welfare of the population which really significantly grew for the last one and a half decades was almost completely tied on world exchange prices, demand for the Kazakhstan raw materials and for the cost of imported goods.

World crisis of 2007-2008 showed all danger of “collapse” of such economic model that is well visible on the given figure. The policy of “quantitative mitigation” beginning US Federal Reserve System brings to fast recovery of an exchange price environment, growth of an export-import fork in Kazakhstan proceeded with big speed, and crisis seemed to the overcome. In the presidential Message to the people for 2013 it was declared early accomplishment of Strategy “Kazakhstan-2030” and is pushed the “Kazakhstan-2050” Program. However, 2014 was critical for all world economy, and geopolitics. The refinanced economies of developed countries finally ceased to react to the offer of the free new credits positively. Recession or growth rates, similar to recession, became normal for the states of the European Union and the USA. Saturation money of economies ceased to raise the prices in the consumer market – everything left on inflating of financial bubbles. On economy of Kazakhstan it affected transition from growth of the main indicators of an export-import cycle to their decrease. So, dynamics of gross domestic product directed down, data are provided in Figure 2.
Specifically, if GDP reached $231.8 billion in 2013, in the report for 2014 appear only $212.2 billion. Fall for 8.46% in dollar expression — more than significantly. The carried-out “adjustment” of a rate of tenge in February of last year anticipated and compensated general negative results, but couldn’t neutralize them. In the devaluated tenge GDP for 2014 grew up, however it decorates the reporting, but not an actual affairs of state.

The expected results for 2015 are shown on our figure by extrapolation of the published statistical data for the first half of the year. The actual recession in the objective – dollar calculation will be more – because of August devaluation. Together with fall of GDP the revenues of the government budget of Kazakhstan were slow and declined.

In February, 2014 was declared adjustment of a rate of tenge, and in November, in the next President’s Message was undertaken the Program “Nurly Zhol”. Sources of financing of objects became the inventories of National Funds – the accumulative period in the Kazakhstan economic cycle was replaced expendable (Figure 3).
Critical moments in accumulating of currency reserves of Kazakhstan

In November, 2014 accumulations of National fund together with gold and foreign exchange reserves of National bank reached a historical maximum – $105.38 billion, and before August devaluation, 2015 decreased to $97.16 billion. It is total minus $8.22 billion in six months. Issue of tenge in “free swimming” temporarily interrupted the expendable mode: several exchange days after August 20 were enough for replenishment of foreign currency reserves for $700 million, however the reporting for September showed a decrease directly for $1.74 billion. Transfer of National fund from accumulative to expendable mode appeared the only way of compensation of decrease in an export currency earnings and maintenance of economic activity in the country, with the national currency rate. Therefore November, 2014 we rightfully can consider critical in the history of all Kazakhstan economic cycle.

The foreign economic and political conjuncture develops growth rates of world economy, and consumption of production of the Kazakhstan export will be slowed down. Also it isn’t expected increases of world oil prices and metals — there can be their further decrease. Negative assessments are given by world experts on prospect of the next two-three years. Specifically, long ago postponed, but inevitable increase of a discount rate of FRS and relative rise in price of dollar will affect delay of growth rates of world economy, reduction in cost of energy and metallurgical raw materials and devaluation of “raw” currencies. If oil, ferrous and non-ferrous metals are in demand in the world market, then to break negative tendencies through quantitative building-up of production of export-oriented productions. However, since 1992 the transferred productions of bauxites and chromites to private property grew by only 1.4 times, zinc is by 1.2 times, copper remained exactly in the Soviet amounts, coal production make 0.9 against former, iron ore 0.8, and lead 0.3. Production of natural uranium grew from essential articles of export – by 6.3 times. However high-technology production of fuel tablets on UMZ and the got uranium raw materials in the form of a yellow metal cake or protoxide oxide completely stopped, goes only for export. Uranium production isn’t performed NAC Kazatomprom, and made by the Canadian, French, Chinese and Russian joint businesses. Production of oil and gas condensate grew by 3.1 times. It isn’t only the multiple growth of the world oil prices, but also trebling of amounts of oil production, also gave general blossoming export raw to a cycle. And same “oil” circumstance — lowering of the world prices, determines the “withering” tendency of the Kazakhstan economic cycle. But after 2013 physical amounts and all other export and raw productions too decline. We have complex negative effect: on lowering of the world raw prices is imposed also decrease in physical amounts of the raw materials for export.

In Kazakhstan is observed lack of national credit and investment emission. The national bank of Kazakhstan performs money emission by one method – through purchase or sale of foreign currency or tenge as the closing
player at the currency exchange. Cash inflow to economy of Kazakhstan is performed by a projection of an external paying balance. Monetization of economy of Kazakhstan isn’t sufficient for the organization of national investment process, servicing of the current non-cash and cash turnovers - is excessive. The reason in our opinion that the excessive tenges broadcasting dollar excess of an external paying balance, emitted by National bank in exchange for replenishment of the gold and foreign exchange reserves get to internal economy through raw exporters, their suppliers and contractors, funds of compensation, tax and other schemes, including corruption, these additional money supplies disperse not on raw economy and national groups. They create sources of investment of raw sector, networks on trade in import, the raised inflation background in economy. Investment process in Kazakhstan is provided with three sources equally on amounts (but not in the directions): budget, own means of the entities and foreign investments. The budget doesn’t develop any more that is confirmed by the arisen problems with its planning for 2016. The entities capable to invest itself are concentrated only in raw sector.

So, a situation when resources for the current activities of the Kazakhstan economic model are reduced, and investment resources are blocked, and not improving prospect is predicted for the years ahead, at the authorities of Kazakhstan doesn’t remain other instrument of maintenance of economy, except devaluation. Temporary intervals of recent devaluation cycles are sharply reduced. If from devaluation of tenge on April 1, 1999 before devaluation on February 4, 2009 passed ten years, and from devaluation of 2009 before „adjustment“ of a rate of tenge on February 11 last year passed five years, to the present August passed one and a half years and it is possible to predict further weakening of tenge with confidence. An end of this history was put by the world crisis of 2007-2008 recognized cyclic, actually – the first stage of systematic crises. Respectively, the devaluation of tenge which is carried out at the beginning of 2009 got on the recovery of an exchange price environment fed by policy of „quantitative mitigation“ of FRS.

2014 was critical for the Kazakhstan and all global model. Capability of economies of developed countries positively to perceive free cash injections was reduced to zero. Recession or recessionary growth rates became universal, the refinanced consumption and production don’t grow, new money inflates not consumer prices, but financial bubbles. Inevitable increase of a discount rate and cost of world currency promises not an exit from current stagnation, and gives aggravation of problems of stability of global finance. “Unexpected” devaluation of tenge in 2014 appeared “transcendental object” — its effect which isn’t supported with a positive price trend at the world exchanges was settled in only a few months. Response of tenge to course changes of ruble played a role, but a role not decisive. Russia as the trading partner of Kazakhstan, neither the unique, nor the main factor of our external paying balance which condition determines the national currency rate. The Kazakhstan economy in the current status has no allowances for liquidation of deficit of currency and maintenance of a rate of tenge through quantitative building-up of raw export. Some opportunities for this purpose consist only in the beginning of production on Kashagan and expansion of production of “TengizShevrOil”, but they leave for prospect of the next recession years.

The rate on foreign investments, the budget investment with tied on the raw income and investment from means of the export entities led to strengthening and fixing of export and raw orientation of the Kazakhstan economy. In a present crisis situation the investment model loses resources for continuation, because of increase of cycles of devaluation of national currency. Reflection of an export and raw orientation in Kazakhstan developed and fixed the delivery economy to the country and trade in not made manufactured and consumer goods. She received the considerable share of investment – in the form of transportation and distribution networks and a financial infrastructure. This part of economy consuming a big share of export revenue, suffering from shortage of foreign currency and devaluation of national currency doesn’t facilitate, aggravates a general crisis situation. The deadlock final of economic model in Kazakhstan is put in its initial genesis – sovereign embedding into the world market. In “independent” option Kazakhstan is necessary to system of world job specialization as the territory of the reduced production of energy and mineral resources on export, and also for sales of products of industrial developed economies, for the external monetary providing supplementing export non renewable natural resources, also with export of the most part of financial incomes. The addition of simple extraction of oil, ferrous and non-ferrous metals, their deep conversion and release of finished high-technology goods declared and planned the last 15 years didn’t turn out from insufficient professionalism and excessive corruption of
executive bodies. Basic reasons are basic uselessness of all “industrial and innovative” initiatives of Kazakhstan to the world market.

The multinational company occupied with oil refining, production of uranium and metallurgical raw materials isn’t interested to let the Kazakhstan participant in the foreign productions. They haven’t interest to place the refinery capacities in Kazakhstan. Basic reasons: enormous and badly populated territory, sharply continental climate, insufficient productive and purchasing potential of the population. They will try to reduce currency and commodity dependence on import. Its main part (about 43%) is constituted by machines, the equipment and vehicles which adjustment of alternative production exceeds not only financial and investment, but also general opportunities of Kazakhstan. There is chemical production (about 8%), including rubbers and plastic – here possibilities of replacement are limited. Food dependence of Kazakhstan can be liquidated — but it makes rather small (about 10%) share of all imported goods. Each deadlock has the exit, and any crisis keep testing and opportunities. The economic model and sources of its development approach exhaustion, are necessary other model and other sources. There are two main approaches to enhancement of structure of economy.

The first (horizontal measures) provides creation of steady institutes for functioning of economic agents, forming of the favorable investment climate, reducing intervention of the state in economy, maintenance of the competition in the markets. These measures are directed on improvement of a provision of all economic agents. Direct intervention of the state in the relations of economic agents is allowed only for maintenance and stimulation of the competition.

The second approach (vertical measures) assumes carrying out an active state policy on change of structure of economy, its enhancement on the basis of stimulation, including financial, of separate industries and the entities. The specified measures put one groups of economic agents in more favorable conditions in comparison with others. The specified approaches doesn’t solve a problem of diversification of structure of economy. Horizontal measures don’t allow to change relative shares of sectors in GDP in medium-term prospect: they equally influence non-oil and raw sectors. Raw industries in the long term become less attractive in case of the high level of withdrawal of a natural rent. Problem definition of the accelerated diversification requires more active intervention of the state in economy. In Kazakhstan this intervention is high. Adequate use of mechanisms of intervention within market economy is capable to diversify economy by the accelerated development of non raw sectors, without breaking a competitive environment. Here is concentrated the majority of risks of policy of active diversification.

Conclusions and recommendations

Secure economic development of Kazakhstan could be achieved only through diversification of the country’s economy in order to diminish its dependency on raw industries.

In our opinion, the main mechanisms capable to make the noticeable stimulating impact on development of non-oil productions:
- enhancement of tax and customs mechanisms of removal of a natural rent;
- creation of system of support of export;
- development of agricultural production;
- support of small business.

Now the level of removal of an absolute natural rent is high because direct increase of a tax on production of natural resources can lead to production reduction, expression from the market of the entities with the worst conditions of production. Need of increase in rent removal at the companies with best conditions of production is obvious. It is a question not only increases in financial receipts in the budget, but also equalizations of regulation of return on the assets in raw and non-oil industries. Competent use of fiscal mechanisms stimulating investments into high-tech industries, will promote change of structure of external investments, but also asset diversification of the companies of raw industries on types of activity. Mechanisms of removal of a natural rent can turn on tax and customs tariff mechanisms.
The high share of energy resources in export volume (70%) testifies to big dependence of the export income of Kazakhstan from an environment of the world prices for primary goods. Ensuring stability of the export income in case of implementation of measures for support of export needs to be oriented to increase of a share of high-technology production in export.

The agricultural industry feels a severe need of investment resources for updating and modernization of fixed assets. Today the government is engaged in creation of the most favorable conditions for permission of the market relations in agricultural sector, increases of competitiveness of domestic agricultural production and import substitution and export growth of this production.

The exclusive part is assigned to stimulation and support of a private entrepreneurial initiative in diversification of structure of economy. The entities of small and medium business bear huge innovative potential. Dynamic development was gained by the contractual relations between large and small business providing achievement of synergy effect from joint activities. The infrastructure of the Kazakhstan economy will develop with the minimum participation of the state which should be limited to creation of the conditions for fast and profitable projects implementation aimed at the development of infrastructure of a market section, legislative support of initiatives of its development.

Problems of the Kazakhstan economy in the conditions of openness and integration in world are actual, require search of efficient state and economic mechanisms for deduction of relative economic stability and social development. Research showed that the realization of benefits by the country from the international economic cooperation isn’t enabled automatically. The economy of Kazakhstan shall possess the certain characteristics in the conditions of strengthening of world crisis constituting its competitiveness, and the state was able to influence and help those subjects who create possibilities of stable development to the Kazakhstan economy.

Development of economy of Kazakhstan in market conditions revealed the competitive advantages of economic capacity of the country, their shortcomings connected with various opportunities of adaptation to the market. It led to considerable recession and curtailment of productions in separate industries of non-oil sector, aggravation of a disproportion of industries of real production sector towards development of industries of a raw orientation at the beginning of a stage of development of Kazakhstan.

Entry of Kazakhstan into world economic system restrains narrow specialization of Kazakhstan in world and regional job specialization, remoteness from the main world goods markets.

So, strategy of economic development of Kazakhstan shall promote ensuring deduction of national economy at the stable level on the basis of diversification of economy and creation of conditions by the state for production of competitive types of production and growth of non-oil export, and also to creation of conditions for prevalence of private initiatives and equal competitive conditions for all subjects of the market.

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