

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economics**



**Bachelor Thesis**

**Foreign Trade of Crude oil and Natural gas: Case study  
of Kazakhstan**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

## BACHELOR THESIS ASSIGNMENT

Aigerim Zhaxylyk

Business Administration

Thesis title

**Foreign Trade of Crude oil and Natural gas: Case study of Kazakhstan**

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### Objectives of thesis

The main of the thesis — to obtain a better insight into the foreign trade in crude oil and natural gas in Kazakhstan. To analyze the main indicators of foreign trade of Kazakhstan, to suggest ways of improving the efficiency of foreign trade in the country, and to analyze and sum up for the development of foreign trade.

### Methodology

The following thesis is comprised by four chapters, introduction, conclusion, and bibliography. For theoretical part will be used books, scientific works, websites. The practical part will be consist of tables, graphs made in MS Word and MS Excel, statistical analysis and SWOT analysis.

**The proposed extent of the thesis**

35 – 40 pages

**Keywords**

Crude oil, Natural gas, GDP, Kazakhstan, Export and Import

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**Recommended information sources**

Babak, V., 2006. The Oil and Gas Sector in Kazakhstan. *Central Asia and the Caucasus*, (4), pp.41-55.  
Jumadilova, S., 2012. The Role of Oil and Gas Sector For The Economy of Kazakhstan. *International Journal of Economic Perspectives*, 6(3).  
Patin, S.A., 1999. Environmental impact of the offshore oil and gas industry (Vol. 1). East Nortport, NY: EcoMonitor Pub..

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### **Declaration**

I declare that I have worked on my bachelor thesis titled "Foreign Trade of Crude oil and Natural gas: Case study of Kazakhstan" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 14.03.2019

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### **Acknowledgement**

I would like to express my deepest gratitude to the supervisor Ing. Mansoor Maitah Ph.D., for the advice, patience and support during my work on the Bachelor thesis.

# **Foreign Trade of Crude oil and Natural gas: Case study of Kazakhstan**

## **Summary:**

The main objective of this thesis is to study the foreign trade of crude oil and natural gas in Kazakhstan. The first part content main information about country, the economic and administrative characteristics, the main places of production the raw materials, how to improve efficiency of the trade. The second part is based on analysis of foreign trade, prospects for the development of the trade. For the result of using the analysis.

**Keywords:** Kazakhstan, development of foreign trade, export and import of crude oil and natural gas, SWOT analysis

# **Zahraniční obchod se surovou ropou a zemním plynem: Případová studie Kazachstánu**

## **Abstrakt**

Hlavním cílem této práce je studium zahraničního obchodu s ropou a zemním plynem v Kazachstánu. První část obsahuje hlavní informace o zemi, ekonomické a administrativní charakteristiky, hlavní místa výroby surovin, jak zvýšit efektivitu obchodu. Druhá část je založena na analýze zahraničního obchodu, vyhlídkách vývoje obchodu. Výsledek použití analýzy.

**Klíčová slova:** Kazachstán, vývoj zahraničního obchodu, vývoz a dovoz ropy a zemního plynu, SWOT analýza

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## **List of abbreviations**

GDP- Growth domestic product

Mill- Million

CIA – Central Intelligence Agency

TSB- Trustee Savings Bank

PRC- People's Republic of China

USD- United States Dollar

FDI- Foreign Direct Investment

PPP- Point to Point

EU- European Union

WTO- World Trade Organization

CNPC- China National Philatelic Corporation

ONGC- Oil and Natural Gas Corporation

USSR- Union of Soviet Socialist Republics

# 1.Introduction

Foreign trade is of great importance for both the implementation of market reforms in Kazakhstan and for shaping the country's position in the international division of labor and determining the most effective forms and directions of using the country's economic potential.

**Research topic relevance.** Given the narrowness of the domestic market with a vast availability of natural resources, the economic potential of Kazakhstan can be fully realized only under the condition of active penetration of foreign markets, which would also greatly contribute to the country's economic growth.

The significance of the foreign trade in a country's development is also indicated by the fact that a great share of the infrastructure needed to maintain the production processes in the country, as well as most consumer goods that are at the foundation of Kazakhstan's social well-being, is obtained through foreign trade channels.

The one-sidedness of the economic development of Kazakhstan, is caused, among other things, by the insufficiency of theoretical validity of strategies to regulate foreign trade in order to overcome the economy's dependence on the raw model of participation in the international division of labor. Therefore, it is important from both theoretical and practical points of view to study the mechanisms for the implementation of economic reforms under constantly changing internal and external environment and to adapt available skills, infrastructure, and potential to promptly and flexibly respond to the challenges of the world market.

Foreign trade policy is one of the most important areas of implementation of the state program on the forced industrial-innovative development of the Republic of Kazakhstan. The target indicators of the program envisage an increase in the World Economic Forum (WEF) rating for involvement in world trade to 80th place, an increase in the share of non-oil exports to 40.0%, which requires exploring ways and possibilities of carrying out an effective trade policy to ensure industrial-innovative development of the country.

For Kazakhstan, obtaining the membership in the Customs Union is a potential opportunity to improve the efficiency of foreign trade activities, however, it also creates the need to study and improve the mechanism of participation and prospects for the development of the country's foreign trade policy in the new environment.

## **2. Objectives and Methodology**

### **2.1 Objectives**

The main aim of the thesis – to obtain a better insight into the foreign trade in crude oil and natural gas in Kazakhstan. To analyze the main indicators of foreign trade of Kazakhstan, to suggest ways of improving the efficiency of foreign trade in the country, and to analyze and sum up for the development of foreign trade.

### **2.2 Methodology**

Four chapters, introduction, conclusion, and bibliography comprise the thesis. The theoretical part is about the country, economy and financial situation. To study was performed using the calculation, graphical explanation of production, export, import. To understand the profitability of oil and gas industry in Kazakhstan, the SWOT analyze will be used. SWOT analysis specify the strength, weaknesses, opportunities ant threats.

### **3. Theoretical part**

#### **3.1.Characteristics of Kazakhstan regarding the development of tis trade potential**

##### **3.1.1 Administrative and economic characteristics of Kazakhstan**

Kazakhstan, officially called the Republic of Kazakhstan (abbreviated as RK) is the state in the center of Eurasia, most of which territory is located in Asia and a smaller part in Europe. Population is 18,376,178 people (as of December 1, 2018)<sup>1</sup>. (Kazakhstan, 2019)

The capital is Astana. The largest city with a population of over 1.8 million people is Almaty. The state language is Kazakh, and the official language used in the country along with the state language is Russian.

Kazakhstan is an independent Republic located in the steppes of Central Asia. It covers an area of 2.7 million km<sup>2</sup> (approximately equal to the area all fifteen countries of the European Union). Has an extended border with Russia in the North; in the East it borders with China, in the South-with Kyrgyzstan, Uzbekistan and Turkmenistan. Kazakhstan has no access to the sea, but its border runs through two inland seas: the Aral and Caspian. Landscapes of Kazakhstan are diverse – from the vast steppe plains to the high mountain ranges of Tien Shan and Altai in the South-East.

Administratively and territorially wise, it is divided into 14 regions and 3 cities of republican significance, those are Astana, Almaty and Shymkent. In addition, there is a city with a special status, Baikonur, which until 2050 is leased by Russia and for this period is considered a legal territory of federal significance of the Russian Federation. The total area of land leased by Russia is 111,913 km<sup>2</sup> (4.1% of the country's territory). Economically and geographically, Kazakhstan is divided into Central, Western, Eastern, Northern and Southern regions.

Kazakhstan is a state located in two parts of the world, on the border of Europe and Asia; as it was mentioned above, most of the country is in Asia, the smaller part is in Eastern Europe. In the Soviet, Russian and Kazakh authoritative sources, the border of Europe on its section passing through Kazakhstan is given in the Mugodzhar mountains

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<sup>1</sup>

<https://ru.wikipedia.org/wiki/%D0%9A%D0%B0%D0%B7%D0%B0%D1%85%D1%81%D1%82%D0%B0%D0%BD>

and the Emba River . Earlier, the borders of the world were aligned along the Ural River, so in some sources one can find discrepancies: the Britannica encyclopedia in the article “Europe” gives a description of the border between Europe and Asia, which coincides with that in TSB (according to Mugozhar and Emba), but on maps, which are available in Britannic, the border is shown along the Ural River (see map of Europe, map of Asia in the Encyclopaedia of Britannica). And the World Fact Book of the CIA continues to draw the border of the European part of Kazakhstan along the Ural River.

According to the most common and traditional interpretation of the border between Europe and Asia in the Mugodzhazhar and Emba, the European part of Kazakhstan includes the following<sup>2</sup>: (Kazakhstan, 2019)

- The entire west Kazakhstan region.
- Larger part of Atyrau, excluding the southern part of Zhylyoi district together with the city of Kulsary.
- Aktobe region - northwest and central parts: Martuk, Kargalyn, Kobdinsky, Alginsky, Uilsky and Temirsky districts as a whole, as well as the northwestern part of the Baiganinsky district, northwestern and central parts of the Mugalzhazhar district, the western part of the Khromtau district and the administrative center of the region city of Aktobe.

According to the previous interpretation of the passage of the border between Europe and Asia along the Ural Mountains and the Ural River (Zhayyk), which some western sources (including the Britannic Encyclopedia) continue to adhere to, the European part of Kazakhstan includes:

- The western (right bank) part of the West Kazakhstan region without the Burlinsky, Terektinsky district, the Shyngyrlau, Syrymsky and Karatobinsky districts, as well as the eastern part of the Akzhayyksky district.
- The western (right bank) part of the Atyrau region including the Kurmangazinsky and Isatai districts as a whole, as well as the western (right bank) parts of the Indersky and Makhambet districts, as well as a smaller part of the administrative center of the region of the city of Atyrau.

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<https://ru.wikipedia.org/wiki/%D0%9A%D0%B0%D0%B7%D0%B0%D1%85%D1%81%D1%82%D0%B0%D0%BD>

Kazakhstan is one of the largest and most developed countries in Central Asia. It ranks ninth among the nations of the world regarding its territory and fifteenth in Asia in its population.

The natural conditions and resources of the country are diverse, which contributes to the development of a diversified economy. Kazakhstan has significant natural resource potential.

The population of Kazakhstan is characterized by high rates of growth and uneven population distribution, which is explained by several historical and socio-economic conditions. The Kazakh nation has gone through a long period of formation and many tribes and nations took part in it. It now has an important place in the history of Eurasia and is one of the oldest ethnic groups.

Kazakhstan, given its development, has a sufficient and diverse base of natural resources. During the years of Soviet authority, the country has developed a powerful industry infrastructure and agriculture was considered to be the main production specialization. The participation of the state in the international division of labor is determined by such branches of specialization as non-ferrous and ferrous metallurgy, mechanical engineering, fuel, chemical, and food industries.

The agro-industrial complex is based on developed agriculture, which specializes in the production of grain and animal products.

Transportation in the country is represented by all types and means. The leading role is reserved by railway transport which covers the majority of the country's territory.

Kazakhstan has close economic ties with the countries of the Central Asian region, with Russia and with other countries of the CIS, PRC, and Mongolia. Most of the exports and imports of Kazakhstan are occurring within the CIS countries. The potential for further development of Ukraine's economic relations with Kazakhstan is also quite significant.

### **3.1.2. The main places of oil and gas production in Kazakhstan**

The oil industry in Kazakhstan began to develop in the XIX century.

This is the main branch of the economy of the Republic. According to the latest data, the country has about 6 billion tons of black gold - 3% of the world's reserves.

#### **Kashagan**

It is one of the largest oil fields in Kazakhstan. It was opened relatively recently-in 2000. Kashagan is located in the West of the country, 80 km from the city of Atyrau. The



developers of the field faced difficulties of natural relief, but, nevertheless, oil production is carried out successfully. The volume of fossil Kashagan is 2 billion tons. The field is on the 9th place in the world for the extraction of black gold.

### **Tengiz**

In 1979, near the city of Atyrau opened a large place with a Deposit of minerals — Tengiz. It accounts for about 30% of oil production in Kazakhstan. In addition to black gold, gas is extracted here. Experts estimate mineral reserves of 1 billion tons. In 1985, an accident occurred in Tengiz, which resulted in the loss of several million tons of oil.

### **Karachaganak**

Karachaganak is the third largest oil field in Kazakhstan. There are not only oil reserves, but also natural gas. Karachaganak was opened in 1979. The oil field is located near the city of Aksay (Burlin district) in the West of Kazakhstan. About 1 million tons — so experts estimate the volume of black gold in Karachaganak.

### **Uzen**

On the Peninsula Mangyshlak (Mangistau region) is another major oil field — Uzen. The project was opened in 1961. In addition to black gold, Uzen extract natural gas. Oil reserves-about 110 million tons.

### **Kalamkas**

This oil industry facility is located on the Buzachi Peninsula (Mangystau region). Kalamkas was opened in 1976, but stable oil production began only in 1979. The volume of black gold is approximately 61 million tons. Also, in the 2000s was opened Kalamkas North-sea oil storage.

### **Zhetybai**

In 1961, another large oil and gas field — Zhetybay-was discovered on the Mangyshlak Peninsula. Oil reserves are estimated at 53 million tons. To increase the volume of mining use the latest developments.

### **Zhanazhol**

Zhanazhol is a gas condensate field in Mugalzhar district of Aktobe region of Kazakhstan. It belongs to the Caspian oil and gas province. It was opened in 1978. Geological oil reserves are estimated at 500 million tons. The Zhanazhol field has been developed since 1983, with recoverable reserves estimated at more than 100 million cubic meters of oil. About a third of them have already been extracted. Oil production in

2010 amounted to about 4 million tons. It is also estimated that the field stores 133 billion cubic meters of gas.

Considering the explored and estimated reserves on land, oil reserves in the country are numbered to more than 6.1 billion tons, gas reserves are estimated to reach 6 trillion cubic meters, of which the largest annual production was only 26.6 million tons of oil and 8.2 billion cubic meters of gas (in 1991), respectively. Meanwhile, the republic's own needs are still only at the level of 18–20 million tons of oil, 500 thousand tons per year of lubricating oils and 16-18 billion cubic meters of gas, which is not nearly at the peak production potential. Currently in Kazakhstan there are only three oil refineries and all three are of rather small capacity. Those are in Atyrau (built in 1945) at 5.2 million tons per year and built in the 70s; one in Pavlodar (8 million tons) and the third one in Shymkent (6.2 million tons). However, the Pavlodar plant fully operated on the Siberian crude oil imported from Russia which is transported to the country via a single pipeline, and more than half of Shymkent plant operates on Russian oil as well. On top of that, a significant amount of the crude oil produced in Kazakhstan is being exported to Russia. Moreover, these plants, although they produce high-octane gasolines, electrode coke, petroleum bitumen, and sulfur, are only capable of output of light oil products which is estimated at 36-37%, and the depth of oil refining is only 48-50%.

### **3.1.3. Economics and Finances of Kazakhstan**

**Economics of Kazakhstan** is among the largest ones in Central Asia and the second largest out of the post-Soviet countries. From January 1, 2015, the republic is a member of the Eurasian Economic Union.<sup>3</sup>. (Dauletalin, 2018)

#### **Finances:**

- The national currency in Kazakhstan is Kazakh tenge.
- The Ministry of Economics and Budget Planning is responsible for the development of the economy and economic relations.

- The National Bank of the Republic of Kazakhstan is the central bank of the first level in the country.

#### **GDP**

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<sup>3</sup> 5. Dauletalin R.E. Trade and economic relations of the Republic of Kazakhstan with neighboring states // Problems and prospects of economic development of Kazakhstan in the XXI century. Materials of international conference. IWEP, April 20, 2005. - Almaty, 2018. - p. 65-69

**Table 1. GDP of Kazakhstan 2010-2016**

<b>Year</b>	<b>GDP, billion USD</b>	<b>GDP growth rate,%</b>	<b>Oil prices, GDP</b>
2010	148,04	7,3	79,47
2011	192,62	7,4	111,27
2012	207,99	4,8	111,63
2013	236,63	6,0	108,56
2014	221,41	4,2	99,03
2015	184,38	1,2	52,35
2016	137,27	1,1	48,55

Source: World Bank national accounts data, and OECD National Accounts data files

### **External Debt**

Over the past 10 years, the external debt of the Republic of Kazakhstan increased by \$ 74.6 billion, amounting to \$ 168.9 billion as of October 1, 2017.

The growth of external debt was due to an increase in inter-firm debt (+76.7 billion dollars). It is mainly associated with the implementation of oil and gas projects by branches of foreign companies in the country.

There was also an increase in the external debt of the non-financial sector of the economy (+26.2 billion dollars) and governments (+\$10.8 billion) in connection with the issuance of Eurobonds and loans.

External liabilities of the National Bank have not changed, averaging 0.6% of the country's external debt.

The external debt of the financial sector decreased by \$ 39.1 billion. mainly due to reduction of debt of the banking sector (including JSC "development Bank of Kazakhstan") on loans and borrowings by 37.4 billion dollars. This reduction was also due to the mechanism of minimum reserve requirements, prudential standards, the rule of sufficient capitalization.

As of October 1, 2017, the external debt of the Republic of Kazakhstan amounted to \$ 168.9 billion. The ratio of external debt to GDP was 108.9%, improving by 3.5% over the period.

In its structure, 62% is inter — firm debt, 26% — external debt of "Other sectors" to unrelated creditors, 8% — public external debt (the government and the national Bank),

4% - external liabilities of the "Banks" sector (STB and JSC "development Bank of Kazakhstan").

The external debt of organizations controlled by the state, as of October 1, 2017 amounted to 26.4 billion dollars. US (increase for the 3rd quarter of 2017 by us \$ 1.2 billion).

### **Inflation**

After the collapse of the Union state, Kazakhstan remained in the ruble zone and was unable to effectively restrain the growth of prices. Only after the introduction of the national currency-tenge at the end of 1993, the Republic had the opportunity to implement its own monetary policy.

In 1994, the country experienced a significant decline in production, which caused a huge budget deficit, and high inflation. During this period, monetary policy was mainly aimed at reducing inflation. The national Bank sought to suppress inflation, using the compression of the money supply. This reduced the rate of inflation from 1,158 per cent in 1994 to 60 per cent in 1995. But at the same time the level of monetization of the economy decreased by about half, which caused negative consequences: a shortage of working capital of enterprises, non-payments, barter, delays in the payment of wages and pensions.

### **Devaluation**

The devaluation in Kazakhstan in the period from April to October 1999 amounted to 59%. On February 4, 2009, the central bank of Kazakhstan stopped supporting the national currency which was then at 120 tenge per dollar and the devaluation of tenge went down to 25%. The devaluation in 2009 was 17%. The devaluation in 2015 was the result of the transition to a floating exchange rate of tenge, which was designed to support and increase the volume of Kazakhstan's exports, as well as reduce the cost of maintaining the national currency.<sup>4</sup> (INTRODUCTION IN KAZAKHSTAN FLOATING REGIME– NATIONAL BANK OF RK CONCLUDES RESULTS, 2001)

Over the twenty some years of its independence, Kazakhstan managed to develop and implement an effective investment policy. A strategic investment course was

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<sup>4</sup> 11. <https://www.caravan.kz/news/5-aprelya-ispolnyaetsya-dva-goda-s-momenta-vvedeniya-v-kazakhstane-rezhima-spok-nacbank-rk-podvodit-itogi-165060/>

determined, a clear investment policy was conducted, a favorable climate was created, long-term investments were guaranteed by law, and the stability of the preservation and execution of the agreements concluded was ensured. As a result, over the years of independence, record levels have been reached — the volume of foreign investments in the country's economy exceeded 131.9 billion dollars. More than 71% accounted during the last 5 years. FDI in Kazakhstan in 2010 amounted to 17.3 billion.

The highest volumes of FDI in Kazakhstan were in 2008, when they reached \$19.8 billion. According to data for 2009, Kazakhstan ranked 16th in the world with this metrics. According to this indicator, Kazakhstan has become one of the leaders of new developing countries and in 2010 took 19th place in the world, fifth in Asia, second in the CIS after Russia and for a long time leads in Central Asia.

At present, adjustments are made to the investment policy based on changing conditions. The choice of foreign investors is carried out taking into account the increased possibilities of the country, the requirements that the country can now afford. The country seeks to expand investment geography based on its strategic goals, and to maintain reasonable balance of interests. Recently the Islamic direction has been activated. It is expected that the volume of investments from Arab countries will soon reach \$10 billion US.

However, one thing is for certain: foreign investment has played and continues to play an important role in the development and growth of the national economy. Now the country needs to ensure a reasonable combination of national and foreign capital in terms of areas of application and achieve their maximum effective use for intensive diversification of the economy.

The main indicator of economic development is its steady growth

One of the main integral indicators of a country's development is the growth of the gross domestic product (GDP). Some experts believe that this indicator needs to be replaced. A number of experts pay attention to Bhutan, where the “production of gross happiness” indicator has been used for more than one year.<sup>5</sup> (Taymas, 2018)

However, the proposed options do not yet convey the desired metrics. Creating a foundation for gross happiness is nearly impossible without producing material goods.

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<sup>5</sup> 11. Kazakhstan: a success story through the eyes of the global community. - Almaty: Taymas. - 2018. - p. 473

When calculating GDP, its dynamics shows what a country has achieved, where it is located in the system of world coordinates, how it has achieved it and much more. Indeed, GDP is the total contribution of the achievements of the country's laboring population for a year or another measured period. What has been added to the country's economic potential as a result of labor activity, which newly created wealth the country has — the GDP index provides answers to all those questions. Calculated by a single principle, one method, it is universal and allows to compare all countries on the globe by this indicator. As a rule, it is calculated at face value and purchasing power (PPP). The PPP indicator, which takes into account national, historical, economic features, is more adequate for a real assessment of the standard of living of a given country's population. In developed countries, the nominal value of GDP and GDP which is calculated by PPP is, generally speaking, the same. Differences are found in developing, poor countries.

## **3.2. Development of foreign trade in Kazakhstan**

### **3.2.1 Foreign trade of Kazakhstan: main indicators**

Over the past years, the volume of foreign trade in the post-Soviet territory has significantly decreased. The reason for this is the crisis phenomena that have progressed due to the fall in global prices for raw materials. Kazakhstan is also not an exception in the shrinking of trade in the region. For example, last year the turnover of the Eurasian Economic Union states decreased by 26%. Today, experts note that in the post-Soviet space, there are signs of stabilization of economies affected by the crisis. It can be argued that the gradual recovery of the economic systems of the states of the region will soon lead to the output of the indicators of countries' trade turnover to the same values. In the race of increasing exports, each state chooses its own tools to support foreign trade. At the same time, during the crisis, many players need only to wait for a favorable situation, including a rise in prices for raw materials. Kazakhstan can be attributed to the states that conduct an active anti-crisis policy, but the situation in foreign markets has a decisive role. In modern conditions of gradual leveling and stabilization of the economy in the framework of the transition to the post-crisis period, Astana still has trump cards that can return foreign trade indicators to their previous level. Surely, the potential for increasing commodity turnover depends at least on two states conducting trade. In other words, it requires the will and capabilities of both sides. For example, it is difficult for Astana to

return the former indicators of exports and imports with the Ukrainian side for objective reasons that the latter economy is not ready for such steps. On the other hand, on the contrary, Azerbaijan and Belarus are actively negotiating to restore mutual trade.

An intergovernmental commission on trade and economic cooperation was formed upon the agreement between Minsk and Astana. This body was created precisely for the purpose of returning the previous indicators of trade interaction between Kazakhstan and Belarus, and, potentially, the subsequent increase in the volume of unified work. The parties note that in recent years the indicator of bilateral trade has decreased by 40%. In this regard, the states adopted the Road Map for the Development of Trade and Economic Cooperation, which also identified priority sectors, among which are engineering, agriculture, logistics and transport projects, and other. Kazakhstan is conducting similar work with other regional players. It can be argued that the countries of the Eurasian Economic Union remain the key strategic trade and economic partners of the Republic of the Union. The fact is that the EEU states account for a huge share of Kazakhstan's non-commodity exports, which is so important to increase during a period of low oil prices. At the same time, the participants of the market themselves should contribute to the restoration of the turnover of Eurasians today. For example, if the nearest border area of the countries of the Eurasian Union is represented by goods of different members of the EAEU, then a small number of entrepreneurs are moving into the domestic regions.

The most effective tool for the recovery of foreign trade indicators in modern conditions are bilateral interaction with each of the partners individually. Over the past year, Astana initiated a series of meetings with interested representatives of most of the states in the region. Thus, Kazakhstan approaches the question of increasing the turnover of goods on an individual basis with each country. Such measures allow to focus on the affected sectors of commodity exchange, which is the most rational approach in the times of crisis.

### **3.2.2. The structures of Import and Export of Kazakhstan**

#### **Foreign trade and import and export structure of Kazakhstan**

The study of foreign trade and the structure of import and export of Kazakhstan was conducted in December 2017 using the “Import / Export model. All statistics for the study are obtained from the official Kazakh sources of information <sup>6</sup>.

Contents:

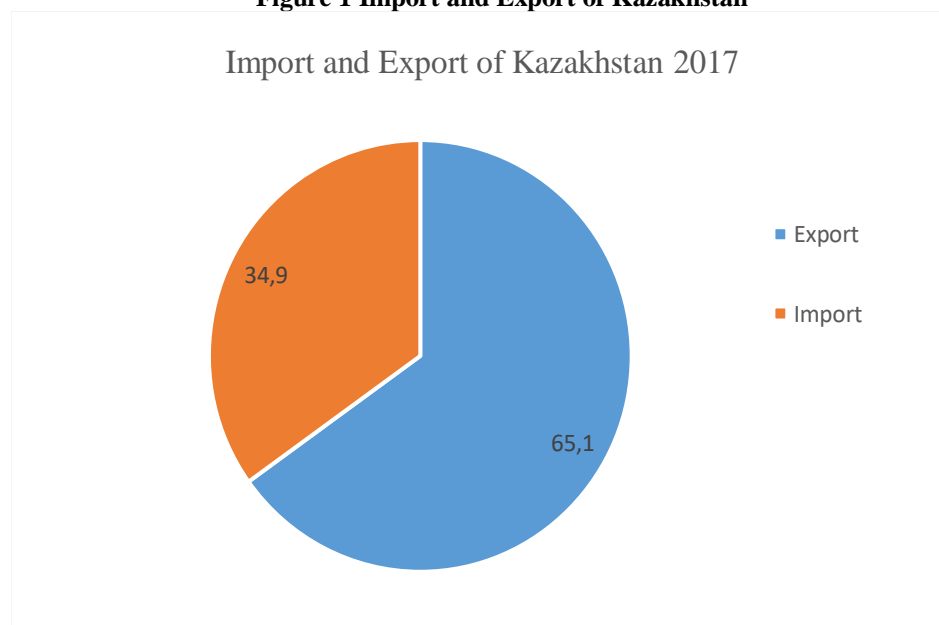
1. Main indicators of foreign trade of Kazakhstan
2. The structure of country’s import
3. The structure of country’s export

### **Main indicators of foreign trade of Kazakhstan**

In December 2017, the trade turnover of Kazakhstan amounted to 8,020,430.6 thousand US dollars.

- Import – 2 800 502,0 (34,9 %),
- Export – 5 219 928,6 (65,1%).

**Figure 1 Import and Export of Kazakhstan**



Source: Kaz Data Export and Import

### **The analysis of Kazakhstan trade turnover with Russia, China, and Germany**

The three main importers for Kazakhstan are Russia, China, and Germany.

1. In December 2017, imports from Russia amounted to \$1,052,582.0 thousand USD.

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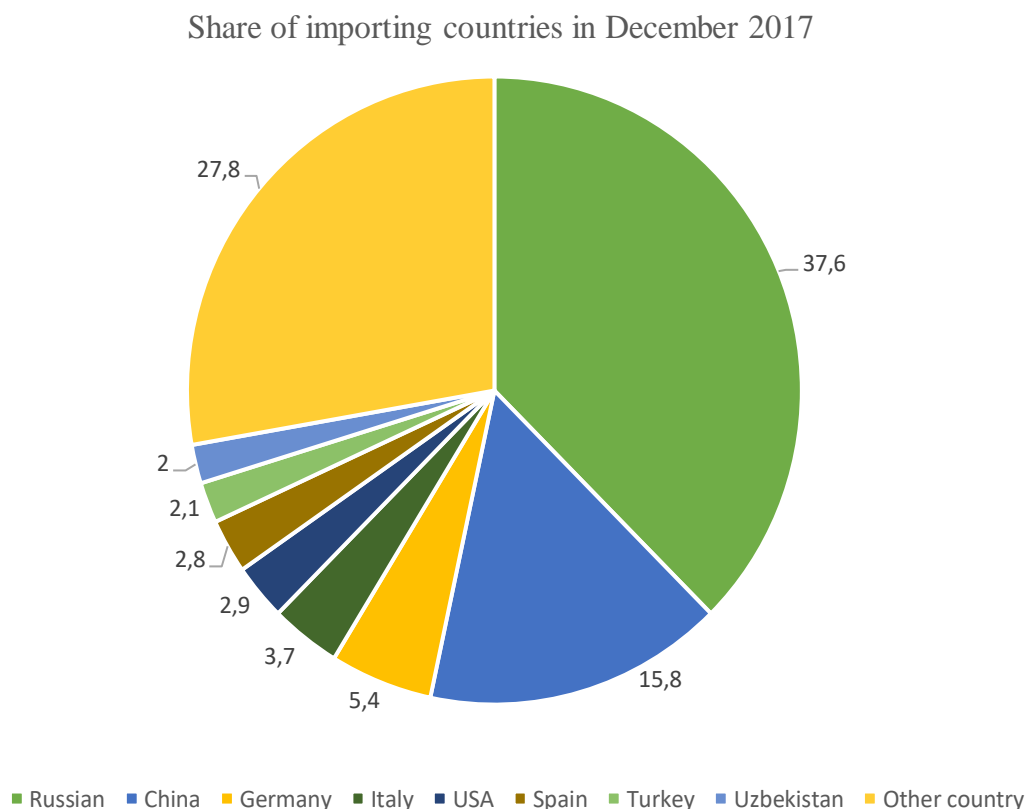
<sup>6</sup> 16. Muzaparova L. International trade and world economy. Almaty: Almaty, 2018. p. 568



2. In December 2017, the amount of imported goods and services from China was estimated to be \$442,792.2 thousand USD.

3. In December 2017, imports from Germany to the Republic of Kazakhstan amounted to \$150 756 thousand USD.

**Figure 2 Share of importing countris in Decemebr**



Source: Kaz Data Export and Import

The list of importing countries and their shares have been quite stable over the past decade. In the reporting month, Germany closes the top three, yielding the first lines to the permanent leaders of the list, the importing countries of Russia and China.

### **Import structure of Kazakhstan**

As can be seen from the chart, the commodity group “Machines, mechanisms, and electric equipment” enjoys the largest demand in December 2017 with the indicator of 25.1% of the total number of imported goods <sup>7</sup>.

<sup>7</sup> 16. Muzaparova L. International trade and world economy. Almlaty: Almaty, 2018. p. 568

The category "means transportation" is two times smaller than the leading category in its importing volume and, as of December 2017, is represented by an indicator of 13.6%. Interestingly, in November 2017 "mineral products" were number two after the machinery, and not transportation.

In the same reporting period, the third place in terms of demand was secured by the category "chemicals and products of related industries" with a slight increase, in contrast to the previous month — 10.6%. Fourth place is taken by the "primary products and products in the form of granules or powder." This category accounts for 10% of total imports.

### **Export structure of Kazakhstan**

The main export commodity of the Republic of Kazakhstan is the Mineral Products. It accounts for 70.5% of the total exports of Kazakhstan as of December 2017.

"Primary products and products in the form of granules or powder" almost never fluctuated in its indicator and with a share of 16.6% in the export of Kazakhstan occupies the 2nd place in exports. "Chemicals and products of related industries," with an indicator of 4.6% is on the 3rd position in the list of the most exported from Kazakhstan goods.

In December 2017, the share of other product groups decreased in figures, compared with the previous month — 1.7% of exports. The differentiation of the geographical structure exists, but only within the main trading partners (11 countries). In this regard, in order to strengthen economic independence and sustainable economic growth, further expansion and improvement of the geographical structure of Kazakhstan is required, both within these countries and with the other 170 partner countries.

### **3.2.3. Improving the efficiency of foreign trade**

The basis for increasing the efficiency of foreign trade activities is primarily the transition from narrowly oriented export of goods to diversification of export flows, as well as a decrease in the import of goods by increasing production capacity in Kazakhstan.<sup>8</sup>

Despite the sufficient elaboration of the legislative framework for the implementation of this goal, it is necessary to take comprehensive measures, including:

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<sup>8</sup> 26. Z. Chulanova. Restructuring of foreign trade as a necessary condition for the stability of the economy // Sayasat. 2018. №2. p. 64-69

1. To implement and fully execute a government policy aimed at diversifying domestic production, and in this regard, it is necessary to tighten control over the implementation of investment projects implemented as part of state programs.
2. Strengthen the fight against excessive bureaucracy and corruption in state institutions for the control and supervision of export-import activities and entrepreneurial activities. It is necessary to stimulate the country's producers to increase productivity and access to international markets. It is also possible to provide additional benefits and subsidies.
3. It is necessary to tighten sanitary requirements for the importation of goods into Kazakhstan from the countries of the Customs Union. This will reduce the growing volume of low-quality and cheap imports from Russia and will give impetus to domestic producers.
4. Of no less importance is the gradual integration of Kazakhstan into the World Trade Organization (WTO). Step-by-step, integration will allow to increase the geographical diversification of the export of goods with the gradual opening of competition in the domestic market. It is also expected to reduce the costs of production of goods using foreign raw materials.
5. From a monetary policy point of view, it is necessary to make a transition to inflation targeting versus a rigid retention of the exchange rate. This will allow to control pricing in the country and reduce excessive inflation. Foreign market risks will be absorbed via the exchange rate.
6. In this context, it is necessary to carry out a step-by-step transition to free exchange rate formation. Full commissioning of the multi-currency basket is an intermediate link and can take from 4-6 years.
7. To increase the elasticity of the exchange rate within the established floating corridor.
8. To expand the trade corridor and reduce the level of intervention.
9. To potentially eliminate a trade corridor and its barriers.

There are significant risks for the Kazakhstan economy due to a recession and a negative outlook for the development of the economic situation in Europe. Considering the fact that a large portion of Kazakhstan's exports go to EU countries, a decline in economic activity in Europe, coupled with a likely decline in prices for export raw materials, could lead to an undesirable consequence for the socio-economic development of Kazakhstan, given the country's marked dependence on export revenues. If the economic recession drags on, maintaining a low level of world prices for oil and gas, this situation could lead to a chronic budget deficit, to cover which the country would have to spend the gold and foreign currency reserves of the Samruk-Kazyna Foundation. Due to the enormous role of the state in the country's economy, the deterioration of the state of public finances will inevitably affect the social situation.

The vulnerability of the domestic economy to external processes that do not fall under the control of the national government and the bank is clear evidence that in recent years the country has not been able to overcome the dependence of the economy on energy exports or to create stable and competitive manufacturing sectors and effectively manage accumulated gold reserves<sup>9</sup>.

The understanding foreign trade policy cannot be complete and all-encompassing without studying the mechanism of its implementation. Achievement of strategic goals is largely determined by the ability of government agencies to develop an effective mechanism for implementing the strategy, which includes a set of legal, economic and organizational measures, ensuring a "balance of interests" and coordinated actions of all participants in the implementation of the strategy.

The most important factor of state policy is the development of economic policy by government bodies, based on systemic strategic planning for the development of the economy, individual industries, fields of activity and territories.

The need to effectively promote Kazakh products to foreign markets requires the formation of an effective and responsible foreign trade policy based on the norms and principles that guide the world community in the modern international trading system.

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<sup>9</sup> 1. Akopova E.S., Voronkova ON. Gavrilko N.N. World economy and international economic relations. - Rostov-on-Don: Phoenix, 2017. - p.324

Optimally, a mechanism for the implementation of foreign trade policy should be considered from two points of view. On the one hand, as a system of interrelated methods regulating foreign trade, and on the other, as a set of measures taken to achieve the goals and priorities of foreign trade strategy. In this regard, the mechanism of the implementation of foreign trade policy should be understood as a certain system of direct and indirect methods of state influence on foreign trade. Methods of state influence can be divided into the following groups: legislative and regulatory framework governing foreign trade activities; state programs of economic development of the country; foreign trade regulation methods.

For foreign trade operations, a prerequisite for their successful conduct is an analysis of the effectiveness of export-import operations. Based on the presented revenue formulas and costs for exporting and importing goods, alternative coefficients for the export and import of goods have been developed. Indicators of imported goods are classified into separate import efficiency ratios for consumer goods and consumer goods.

When exporting goods, the company sells goods abroad for profit. In this case, the company incurs the following costs: the cost of production of the exported goods; transportation costs; costs associated with customs clearance.

Ultimately, in order for the export of goods to be effective, it is necessary that export earnings exceed export costs. In addition, the export of goods is to be considered appropriate if the export profit exceeds the internal profit of the enterprise from the sale of goods within the country.

## **4 Practical Part**

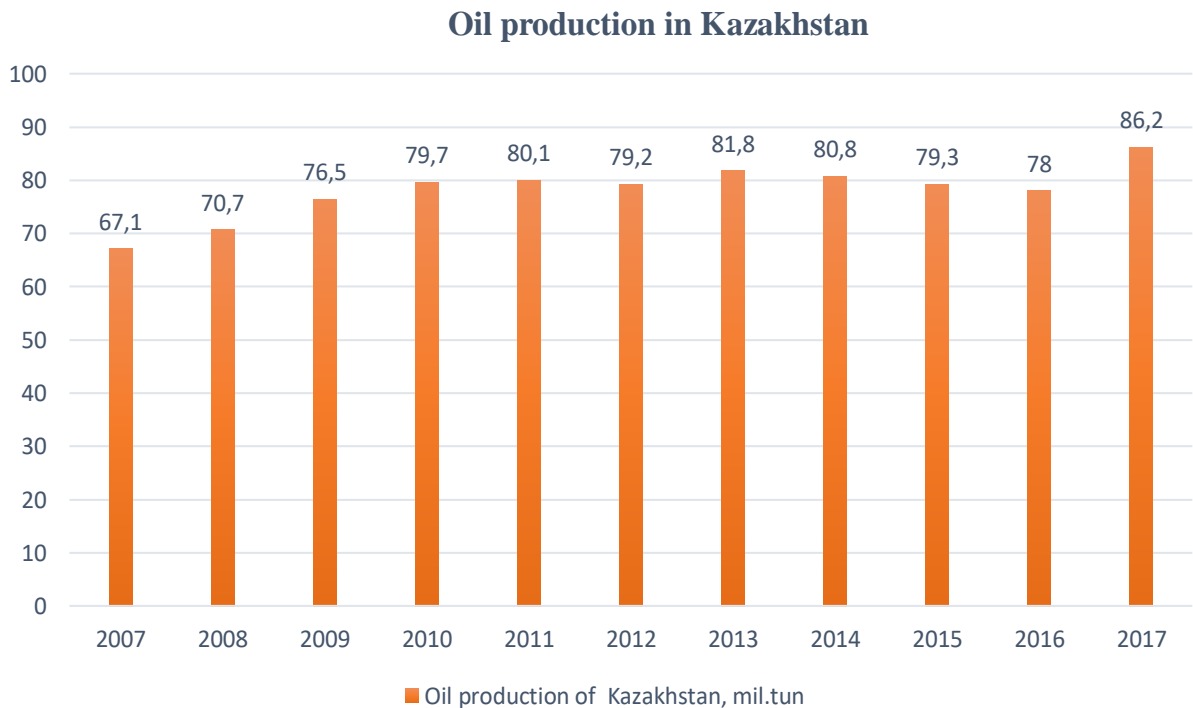
### **4.1. Foreign trade in crude oil in Kazakhstan**

#### **4.1.1. Analysis of foreign trade in crude oil in Kazakhstan**

The oil industry of Kazakhstan is one of the main sectors of the economy of Kazakhstan. The oil was first extracted in Kazakhstan in November 1899 at the Karashungul field, in the Atyrau region. Oil production in Kazakhstan in 1992 amounted to 25.8 million tons, and in 2012 amounted to 80 million tons.

Kazakhstan is becoming an increasingly active participant in world trade. Since 1999, the country's foreign trade has had a constant growth trend (with the exception of the crisis year of 2009).

**Figure 3 Oil production in Kazakhstan 2007-2017**



Source: kz.energo.gov.kz

**Table 2. Main buyes of Kazakh oil**

(ths. USD)

Country	Total (2018)	Share (2018)	Total (2017)	Share (2017)	Change % Δ	
<b>Italy</b>	10 432 183,7	30,9%	7 463 394,9	31,6%	2 968 788,8	39,8%
<b>Netherlands</b>	4 780 982,4	14,2%	3 312 952,9	14,0%	1 468 029,6	44,3%
<b>France</b>	3 238 107,7	9,6%	2 572 051,4	10,9%	666 056,3	25,9%
<b>Switzerland</b>	2 464 832,4	7,3%	2 163 821,8	9,2%	301 010,6	13,9%
<b>Republic of Korea</b>	2 206 513,6	6,5%	783 747,7	3,3%	1 422 765,8	181,5 %
<b>Spain</b>	1 546 454,2	4,6%	1 314 056,0	5,6%	232 398,2	17,7%
<b>Romania</b>	1 333 645,3	4,0%	761 623,1	3,2%	572 022,2	75,1%
<b>Greece</b>	1 020 364,3	3,0%	712 608,6	3,0%	307 755,7	43,2%
<b>Japan</b>	757 103,7	2,2%	336 029,1	1,4%	421 074,7	125,3

						%
<b>India</b>	660 903,6	2,0%	543 510,3	2,3%	117 393,3	21,6%
<b>TOTAL</b>	<b>33 726 530,7</b>	<b>100,0</b>	<b>23 581 815,9</b>	<b>100,0</b>	<b>10 144 714,8</b>	<b>43,0</b>
		%		%		%

Source: economy.gov.kz

As we can see in the table, the main buyer of Kazakh oil is Italy, which accounts for 30.9% (2018) of all oil exports. Considering the recent decline in the forecast of growth of the Italian economy (from 1.2% to 0.2%), there is a possibility of some decrease in demand from the third largest economy in the Eurozone.

We also see a significant increase in imports of Kazakh oil is also noted in the Netherlands and South Korea.

### **The share of oil companies in Kazakhstan market**

**Kazmunaygas** is the national oil and gas company of Kazakhstan that is focused on extraction, exploration, refining and transportation of oil. KazMunayGaz owns such sub-companies as KazMunayGaz Exploration Production, Kazakhoil-Aktyube (67%), Mangistaumunaygas (50%), Tengizchevroil (20%), KazMunayTeniz (20%), Kashagan (16.1%), PetroKazakhstan (33%) and others.

The share of American and European oil companies in the oil market of Kazakhstan is 42% as of 2018.

**Chinese companies** entered the Kazakhstan market in 1997 when CNPC bought Aktyubemunaigaz (Zhanazhol, Kenkiyak). In 2001, CNPC bought 50% of Buzachi Operating Ltd (North Buzachi). In 2006, CNPC bought PetroKazakhstan, and the Chinese group CITIC bought 50% of Karazhanbasmunai (Karazhanbas). In 2009, CNPC bought 50% of Mangistaumunaigas. In 2013, CNPC bought ConoccoPhillips (16.8%) in Kashagan from Kazmunaygas.

The total oil production of all Chinese oil companies in Kazakhstan was 17.2 million tons as of 2018.

There are also some other **Asian companies** in Kazakhstan, such as are Inpex (Kashagan - 7.56%), Mittal Investments (Karakuduk - 37.5%, North Buzachi - 25%, Zhambai South - 12.5%, JNNK (Kulandy - 50%), ONGC Videsh Ltd (Satpayev - 25%), and Kazakhturkmunai (Saztyube, Elememes - 49%).

#### **4.1.2. Prospects for the development of foreign trade in crude oil in Kazakhstan**

Foreign trade is of great importance both for the implementation of market reforms in Kazakhstan and for shaping the country's position in the international division of labor, determining the most effective forms and directions of using the country's economic potential.

Significant investments require potential opportunities in connection with the development of offshore fields of the Caspian Sea. According to estimates by Kazakhstan and foreign experts, total capital expenditures will amount to about \$160 billion, of which \$10 billion must be invested in the initial stage of exploration and evaluation of deposits<sup>10</sup>.

However, this is only regarding the visible part of the Caspian Iceberg. The vast hydrocarbon resources of the continental part of Kazakhstan and the Caspian Sea shelf will create a base for investment in petroleum engineering, development of service companies, production and social infrastructure, oil refining and petrochemistry.

One of the promising areas is the utilization of associated gas from oil fields. Today Kazakhstan is characterized by an inefficient use of non-renewable natural resources and large-scale environmental pollution. In addition, the use of associated gas for electricity generation or in technological processes may be an additional source of income for oil companies.

Obvious is the need for joint integrated development and use of communication systems and elements of production and social infrastructure. As of today, a number of engineering and mining enterprises already produce some types of equipment and materials for oil and gas enterprises. Further expansion of the product range will depend on the availability of financial resources, licenses and certificates.

Most Kazakh service companies are in a difficult financial situation and their equipment is lagging modern requirements. However, proximity to the main areas of oil production, the availability of production facilities and personnel that do not require long-term retraining, makes them attractive from the point of view of creating joint ventures. Foreign investors should more closely consider the possibility of creating joint ventures and service companies based on Kazakh enterprises.

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<sup>10</sup>22. Strategy of economic reforms of the Republic of Kazakhstan. Scientific publication / Ed. red. Sultanova B.K. - Almaty: KISR under the President of the Republic of Kazakhstan, 2017.-224 p.



Investing in development projects of machine-building enterprises is guaranteed regardless of any risks. The scale of projects on land and at sea and their long-term nature give investors an undeniable advantage over importers. There is already a steady demand for high-strength oil pipes, special equipment and equipment with a high degree of reliability.

Along with other projects, investments in oil refining and petrochemistry are of great importance. The development of these industries is the key to prospective future profit accumulation. The creation of technologically related petrochemical plants is to be unequivocally supported by both the Government and the private capital of Kazakhstan.

Kazakhstan has all the basic conditions for the development of these projects, including sufficiently qualified personnel. The Law “On State Support of Direct Investments” gives huge advantages to investors, providing benefits and preferences for projects that create new industries and jobs and contribute to research and development of technologies.

#### **4.2. Foreign trade in natural gas in Kazakhstan**

After the collapse of the USSR in December 1991, Kazakhstan experienced several very difficult years. Due to the rupture of economic ties with other republics, Kazakhstan found itself in a deep recession. The production was two times less efficient than under the USSR. However, the recession only lasted until the end of the 90s of the 20th century and from there on the Republic of Kazakhstan has begun to rapidly grow economically, not yielding to other “Asian tigers”: its GDP grew at a high rate for ten years, at least 9-10% per year. Kazakhstan often referred to as the locomotive of this region and a new “Asian tiger”.

Over the past 10 years, the country has undergone substantial liberalization of foreign trade, such as:

- it canceled the quotas of export of goods;
- it shortened the list of licensed products;
- export duties on many types of goods have been abolished;
- it formed a number of free economic zones;
- it introduced a system of independent pre-shipment examination of import contracts and many others.

- there was a transition to the international commodity nomenclature of foreign economic activity;

- registration of export contracts were canceled, except for state enterprises;

- it adopted a new customs code.

In addition, trade and economic agreements have been concluded with more than 60 countries, with most of which trade is carried out on the basis of the most favored nation rule. Export-import operations are carried out with 175-185 countries of the world. A free trade regime has been established with the CIS countries, and a Customs Union was formed with Russia and Belarus.

Nowadays, Kazakhstan is becoming an increasingly active participant in world trade. With Kazakhstan's accession to the WTO, the interest of many countries in the world to the country's trading opportunities is increasing. The country's foreign trade and rapid development of the Kazakh economy both have a constant growth trend. The external economic complex remains a dynamic sector of the national economy, stimulating the growth of the Kazakh economy and ensuring the solution of important socio-economic problems.

It is worth noting that the foreign trade turnover of Kazakhstan for the last 5 years shows a tendency of steady growth. If we analyze the interest over the previous year, the increase for almost the entire period, with the exception of 2009 (this is most likely due to the global financial crisis) is more than 100%, which indicates the progressive development of foreign trade of Kazakhstan.

#### **4.2.1. Analysis of foreign trade in natural gas in Kazakhstan**

According to the results of 2017, exports of natural gas from Kazakhstan exceed 10.5 billion m<sup>3</sup> and amounted to more than \$220 US million, similarly to gas condensate — more than 5 million tons in the monetary amount exceeding \$400 US million.

The Caspian Sea sector is characterized by the greatest availability of promising oil resources. Evidence of this is a number of fairly large fields, such as Tengiz, Astrakhan, Kashagan, fields of the Buzachi Peninsula, and others.

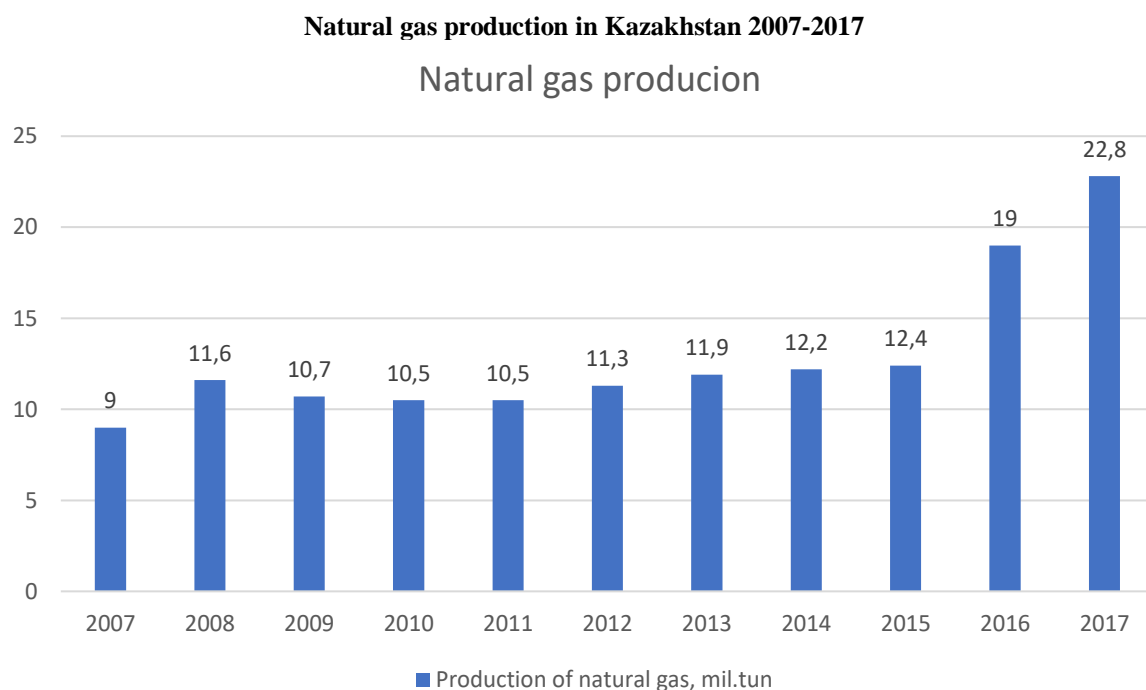
The youngest energy industry — the gas industry of Kazakhstan — has begun to develop relatively recently, in the 70s of the last century. The prospect of the gas industry in the country is promising. The creation of a single national economic complex in the

USSR caused the construction of the largest gas pipelines in Kazakhstan: Bukhara-Ural, Central Asia-Center, Bukhara-Tashkent-Frunze-Alma-Ata, through which gas is being delivered to consumers up to this day.

A comparative analysis of world trade in natural gas shows the leading position of Russia. Kazakhstan is not yet represented in the top ten countries that export gas, but its development is actively carried out. KazTransGas JSC owns more than 10 thousand km of main pipelines, 26 compressor stations, which have 308 gas pumping units and 3 underground gas storage facilities.

The projected natural gas resources of the Republic are estimated at 5.9 billion m<sup>3</sup>. The majority of the resources are concentrated in Western Kazakhstan, in particular, in Aktyubinsk (about 40% of natural gas resources), West Kazakhstan (about 16%), Atyrau (about 14%) and Kyzylorda (about 10%) regions. The rest of the country has about 20% of the projected gas resources.

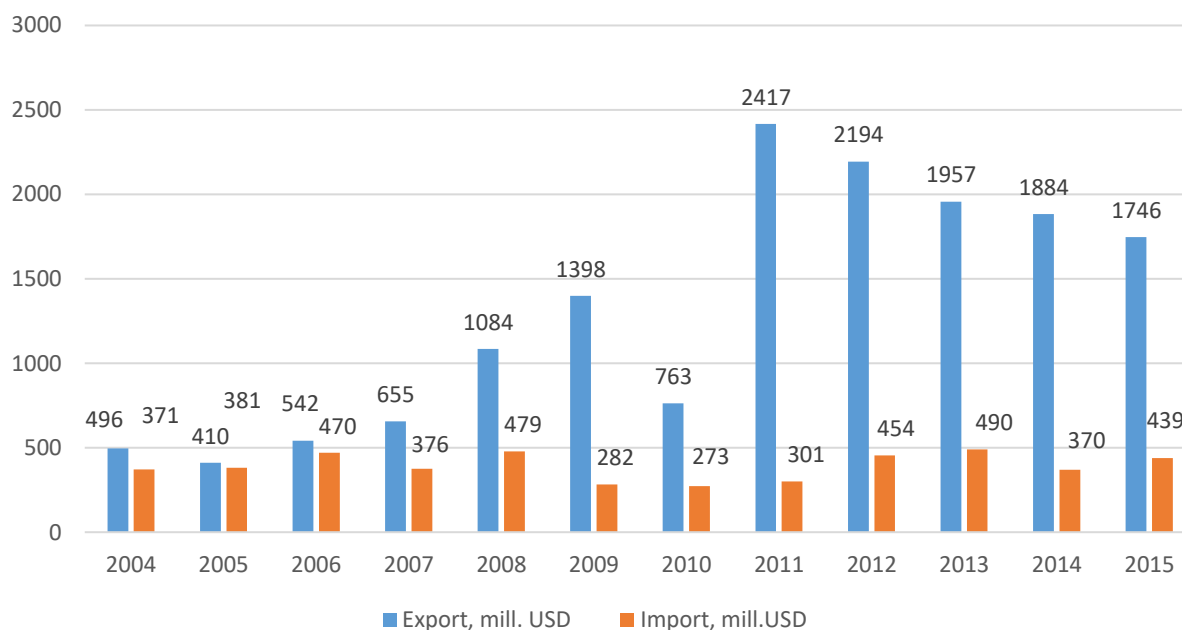
The forecasted resources of the gas condensate of the Republic are estimated at 1,438 million tons. A significant part of the gas condensate resources is concentrated in the sector of the Caspian Sea, mainly in the West Kazakhstan (46%) and Aktyubinsk (45%) regions.



Source: kaz.energo.gov.kz

**Figure 5- Export and import of gas (2004-2015)**

**Figure 5 Export and import of gas 2004-2015**  
 Export and Import of gas (2004- 2015)



Source: economy.gov.kz

Kazakhstan is a net exporter of gas, which occurred in 2011 increase in exports in the amount of \$ 1,654 million. The United States in connection with the increase natural gas supplies to Ukraine for \$ 1,411 million. In Poland, 405 million share of the United States, but in Germany there was a decrease of 177 million dollars. USA. In addition, the transit of natural gas has increased significantly. the territory of Kazakhstan - by 18.1% to 96.6 billion m<sup>3</sup>, including Russian-62 billion m<sup>3</sup>, Turkmen-26.4 billion m<sup>3</sup>, Uzbek-8.2 billion m<sup>3</sup>.

The decrease in exports since 2011 is explained by the decrease in deliveries every year to Ukraine and Poland, delivery stops natural gas to Germany. Imports of natural gas from Russia amounted to 254 541 thousand dollars. USA,

Uzbekistan 439 017 thousand dollars. USA and Turkmenistan 131 498 thousand dollars. USA.

#### **4.2.2. Prospects for the development of trade in natural gas in Kazakhstan**

The analysis of the state foreign trade policy shows that the main goal of Kazakhstan is to create an effective and operational system to promote and protect the economic interests of the Republic during its integration into the world trading system.

The gas industry of the republic is actively and systematically developing. As an example, in 2017 the country produced 27 billion cubic meters of marketable gas, or 111.9% with a base year of 2010. 12.4 billion cubic meters of gas have been delivered to the domestic market, and, respectively, this is 137.7% more than in 2010, and the so-called gasification of the regions continues.

In his speech to the people of Kazakhstan, Nurly Zhol — the Head of State — noted the need to develop transport and logistics, social, industrial and energy infrastructure projects. And as part of the fulfillment of the instructions of the President in the plans of the Ministry of Energy for the current year, the third line of the Kazakhstan-China gas pipeline is expected to be commissioned, which will ensure the transportation of up to 55 billion cubic meters of gas per year compared to the current 30 billion cubic meters. In addition, it is planned to commission the linear part of the Beyneu-Bozoy gas pipeline, which will contribute to the gasification of more than 300 settlements in Kyzylorda and South Kazakhstan regions and solve the strategic task of transporting gas from the western to the southern regions of the country. Thus, the prospects for the development of domestic energy, including the gas industry, are optimistic.

Speaking about volumes, at the end of 2017 almost 2.5 million tons of liquefied petroleum gas were produced. For 2019, its production volume is planned at 2 million 547 thousand tons. At the same time, according to the forecast, the consumption is about 500 thousand tons. Thus, there is a surplus of liquefied petroleum gas in the domestic market, that is, it is now produced 5 times more than consumed.

During the years of independence, Kazakhstan has achieved significant results in the sphere of liberalization of the legislative base and state support for exporters, however, an analysis of the country's foreign trade activity indicates the persistence of serious structural problems.

Today, there is a high concentration of Kazakhstan exports. In most cases, domestic production is uncompetitive; in this regard, a great share of exports still accounts for commodities, such as oil and gas condensate, metals, grain, etc. At the same time,

relatively low diversification of trade flows in the structure of export of goods creates additional risks.

The results of this study demonstrate the desire of the state to create conditions for the expansion of foreign economic relations and the maintenance of domestic exporters. In general, an analysis of the state foreign trade policy shows that Kazakhstan relies on the principles of openness and free trade, seeks to occupy a full-fledged place in the international market and strengthen integration into the world economic system. Foreign trade for Kazakhstan is one of the main factors of the strategic plan which is to ensure its sustainable economic growth. The main guideline of state policy is the transformation of the country into a regional high-tech, export-import, investment, financial and trade center.

Given the background of the stabilization of the entire economy of the country, a step-by-step liberalization of the regulation of foreign economic activity is currently taking place. The analysis of the legislative base shows that the country has gone from a strict control over foreign trade to substantial liberalization, which can be seen in the following patterns:

- the quota mechanism for exporting goods has been canceled;
- regular work is underway to reduce the list of licensed goods;
- duties on almost all export goods have been removed;
- 6 free-economic zones were created in different sectors of the economy;
- flexible scheme of preferences for certain strategic industries and companies was developed;
- To prevent the importation of low-quality goods into the republic, the system of technical, sanitary, phytosanitary and other control is being improved;
- within the framework of the Customs Union (CU), conditions are created for free trade among the participating countries.

An important direction of the state foreign economic policy is the creation of a single economic space in the Eurasian region with partners in the Customs Union. In addition, the country's accession to the WTO is of no small importance for increasing the openness of the Kazakh economy.

### **Modern trends in foreign trade of Kazakhstan**

The results of the analysis of foreign trade demonstrate the rapid and determined integration of the country into the world economy. About half of the goods produced in the

country are exported abroad, with a significant portion of consumer goods coming through import channels.

**The latest dynamics of the country's foreign trade activities can be divided into several phases:**

- 2005-2009 – There is a significant improvement in the external situation in the global raw material markets. Kazakhstan's exports and imports are growing at a comparable high rate.

- 2009-2012 – The global financial and economic crisis was reflected in a decline in the country's foreign economic activity, but the rapid recovery of world raw materials markets also marked the rapid recovery of Kazakhstan's exports.

- 2012-2017 – the growth rate of imports of goods is increasing due to the country's entry into the Customs Union. In 2013, trade volumes, according to the balance of payments, showed a decline. According to the official statistics, the import of goods continued to grow while reducing the export of goods.

In general, it can be concluded that the external orientation of the Kazakh economy has turned into a dynamic development of primary industries, while the share of the processing and manufacturing sectors remains low. Therefore, despite significant progress in the field of foreign economic liberalization, the degree of foreign trade openness in Kazakhstan is still under question.

## 5. Results

**Table 3. SWOT Analysis**

<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Dynamic and constructive domestic and foreign policy of the Republic of Kazakhstan, ensuring political stability and contributing to the maintenance of high rates of economic development.</li> <li>• Favorable investment climate and high level of investment activity.</li> <li>• The rich natural mineral resources and an attractive composition for further processing.</li> <li>• Availability of integrated oil and</li> </ul>	<p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• Complex hydrological and climatic conditions.</li> <li>• Problems of historical pollution, utilization of associated petroleum gas and other components.</li> <li>• Dependence on transit countries to enter the markets of Europe and third countries.</li> <li>• Lack of investment resources due to the high capital intensity of projects and the crisis in the financial markets.</li> <li>• Insufficient development of</li> </ul>
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<p>gas transport infrastructure connecting the markets of Asia and Europe. Potential for the development of new oil and gas transportation capacities.</p> <ul style="list-style-type: none"> <li>• Developed legal framework in the field of subsoil use.</li> <li>• Well-established contractual system of subsoil use regulation.</li> <li>• The oil and gas industry has vertically integrated structures, including infrastructure.</li> </ul>	<p>infrastructure of the Kazakh sector of the Caspian sea (hereinafter - KSCS). Lack of developed gas transportation infrastructure necessary to provide natural gas to the Northern and Central areas of the domestic market.</p> <ul style="list-style-type: none"> <li>• A low share of the national company's participation in the development of oil and gas fields.</li> <li>• The lack of sufficient legislative framework to ensure the effective development of the gas industry of the Republic.</li> <li>• Insufficient budget financing of gasification projects in the regions of the Republic.</li> <li>• The difficulty in providing the necessary volumes of gas for the production of petrochemical products in the presence of attractive for the subsoil user export supplies.</li> </ul>
<p><b>Opportunities:</b></p> <ul style="list-style-type: none"> <li>• Risks of man-made accidents.</li> <li>• Oil production in the environmentally sensitive area of the Caspian sea.</li> <li>• High reservoir pressure and high content of hydrogen sulfide in oil.</li> <li>• Unsustainable mining, failure by the operators of the requirements of the approved engineering documents.</li> <li>• Possible changes in oil and gas transit policies and tariffs by transit countries.</li> <li>• Delays in the timing of projects and the rise in their cost.</li> <li>• The decrease in volumes of transit of Central Asian gas.</li> <li>• Development of gas transportation projects bypassing the territory of the Republic.</li> <li>• Preservation of raw materials and fuel orientation of the industry development.</li> </ul>	<p><b>Threats:</b></p> <ul style="list-style-type: none"> <li>• Risks of man-made accidents.</li> <li>• Oil production in the environmentally sensitive area of the Caspian sea.</li> <li>• Unsustainable mining, failure by the operators of the requirements of the approved engineering documents.</li> <li>• Possible changes in oil and gas transit policies and tariffs by transit countries.</li> <li>• Delays in the timing of projects and the rise in their cost.</li> <li>• The decrease in volumes of transit of Central Asian gas.</li> <li>• Development of gas transportation projects bypassing the territory of the Republic.</li> <li>• Preservation of raw materials and fuel orientation of the industry development.</li> <li>• Imbalance in approaches to the development of offshore</li> </ul>



<ul style="list-style-type: none"> <li>• Imbalance in approaches to the development of offshore hydrocarbon deposits and the development of coastal infrastructure.</li> <li>• The increase in the number of petrochemical plants introduced in the regional context causes increased competition.</li> <li>• Restricting oil supplies from Russia or levying export duties on such supplies.</li> <li>• Possible gas shortage due to limited supplies from Uzbekistan and Russia.</li> <li>• Increased concentration of individual investors in the industry.</li> <li>• Lack of personnel, technical personnel, specialists - engineers of middle and top level.</li> </ul>	<p>hydrocarbon deposits and the development of coastal infrastructure.</p> <ul style="list-style-type: none"> <li>• The increase in the number of petrochemical plants introduced in the regional context causes increased competition.</li> <li>• Increased concentration of individual investors in the industry.</li> <li>• Lack of personnel, technical personnel, specialists - engineers of middle and top level.</li> </ul>
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## 6. Conclusion

According to the Ministry of Oil and Gas of the Republic of Kazakhstan, the proven reserves of oil and gas condensate in the country reach 39.8 billion barrels (approximately 5.3 billion tons). While maintaining the current level of production and unchanged reserves, oil and gas production in the country can last for 70 years.

According to the Oil & Gas Journal, as of January 2014, Kazakhstan ranked 12th in terms of oil reserves in the world. Oil reserves in Kazakhstan were at 30 billion barrels, or 4.1 billion tons, which is 1.8% of world reserves.

According to the Ministry of Oil and Gas of the Republic of Kazakhstan, Kazakhstan's hydrocarbon reserves may double due to the exploration of the deep-lying horizons of the Caspian depression. Until today, exploration has been carried out and only the so-called pre-board zones of this basin have been investigated.

In Kazakhstan, there are 15 sedimentary basins, five of which are used for commercial purposes (more than 65% of the country's recoverable oil reserves are concentrated in them).

The subsequent increase in the resource base of the country can be achieved through the development of offshore fields. Traditional oil-producing regions of the country will not be able to compensate for future production cuts.

The tendencies of the foreign trade development of Kazakhstan do not correspond to the world trade development trends, and sometimes even go in the opposite direction from the latter. Export industry is one-sided and mono-commodity oriented, which increases country's dependence on the state of the global situation and the price situation on commodity markets, also increasing the problems of economic vulnerability of the Republic.

Kazakhstan imports are also quite irrational in their nature. The domestic market suffers from excessive competition, which has led to the erosion of a number of Kazakhstan's industries even within its own territory.

There is a tendency of active reorientation of Kazakhstan's foreign trade from the markets of neighboring countries in favor of non-CIS countries. This is an extremely negative trend, given the objective need to strengthen integration processes within the CIS, which undoubtedly corresponds to the interests of the country in terms of an alliance with regional trade unions.

The factors hindering the development of the production and export potential of Kazakhstan include:

- low competitiveness of products of the manufacturing sector due to the use of outdated technologies and a high level of depreciation of fixed assets;
- investment unattractiveness of the manufacturing industry and the lack of working capital in enterprises, and, accordingly, the low level of innovation activity of domestic enterprises;
- weak incentives for the development of manufacturing industries, the economy and a low level of regulation to protect the domestic market of Kazakhstan;
- lack of qualified personnel in the sphere of production and management of enterprises and low level of infrastructure development.

It is recommended to develop an optimal model for the development of the country's foreign trade sphere, which is the simultaneous development of exports based on the use of natural advantages in the natural resource sphere and high technological potential in a number of sectors of the country's economy, such as engineering, space, telecommunication services, petro chemistry, etc. The fundamental condition for the implementation of such a model is the effective combination of the fuel, raw materials and innovation sectors. The task of the first sector is to mobilize financial resources of the economy to ensure a technological breakthrough in the areas critical for Kazakhstan, while the second should contribute to the formation of a highly productive material and technical base of the extractive industries and high value-added industries. In the future, the absence of a clear prospective strategy in the state's ECP, well-thought-out directions linked to the country's economic policy, its industrial strategy may entail more serious consequences of the internal and external plan.

For the optimal realization of the industrial and export potential of the country in Kazakhstan, it is proposed to create the following prerequisites:

- the transition from a static economic policy aimed at growth without development to the realization of goals to improve the development of human (social) capital, ensuring a new quality and standard of living for citizens of Kazakhstan;
- introduction of adequate infrastructure in production and circulation in the

financial sphere, including the functioning of an extensive network of economics of financial institutions that provide loans to the innovation process, stock markets, etc .;

- creation of an in-house training system for highly qualified personnel for the production of high-tech machine-building, instrument-making, telecommunication services;

- based on the experience of developed countries, creation of favorable conditions for the formation and active development of a full-fledged system, self-organizing and self-developing organizations (NGOs, independent economic structures), which will be an indicator of a connecting element between the government and citizens of the country and will stimulate the social potential of the country for the industrial and innovative development.

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