

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Bachelor Thesis

Foreign trade of agricultural products in Kazakhstan

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BACHELOR THESIS ASSIGNMENT

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Economics and Management

Thesis title

Foreign Trade of Agriculture Products in Kazakhstan

Objectives of thesis

The aim of this thesis is to investigate Kazakhstan's foreign trade in agricultural products, and to draw conclusions with regard to the sector's current and prospective contribution to the state's economic development through foreign trade.

Methodology

The thesis will be divided into two main parts, namely the theoretical and practical parts. The theoretical part of the thesis will focus on the investigation of key theories of international relations; the definition and main aspects of international trade as part of international economic relations.

The practical part will investigate more in detail the case study of Kazakhstan. Namely, it will deal with the current trends of Kazakhstan's economic development; the role of the country's agricultural sector in its national economy; Kazakhstan's performance in international trade and the agricultural sector's place in it, and the possible future development of the state's agricultural sector in the context of foreign trade.

The proposed extent of the thesis

40 – 60 pages

Keywords

foreign trade, export, import, balance of trade, Kazakhstan

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Declaration

I declare that I have worked on my bachelor thesis titled „Foreign trade of agricultural products in 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 third person.

In Prague on 14.3.2016

Stanko Bogdana

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Zahraníční obchod se zemědělskými výrobky v Kazachstánu

Souhrn

Tato práce zkoumá problematiku zahraničního obchodu se zemědělskými výrobky v Kazachstánu. Autor vysvětluje význam zemědělství pro efektivní dlouhodobý rozvoj národního hospodářství v každé zemi. Poskytuje přehled hlavních teoretických aspektů, které se týkají rozvoje zemědělství. Na příkladu Kazachstánu ukazuje práce vliv zahraničního obchodu se zemědělskými výrobky na celkový ekonomický růst jednotlivých států. Identifikuje stávající výhody a nevýhody, které ovlivňují mezinárodní konkurenceschopnost zemědělského sektoru v Kazachstánu. Na základě výsledků výzkumu poskytuje autor doporučení pro zlepšení výkonnosti zemědělského odvětví v Kazachstánu v souvislosti se zahraničním obchodem a vysvětluje, jak by tyto zlepšení měly přispět k hospodářskému růstu země.

Klíčová slova: zemědělství, chov skotu, obiloviny, hospodářský rozvoj, vyvoz, zahraniční obchod, dovoz, Kazachstán.

Foreign trade of agricultural products in Kazakhstan

Summary

The thesis investigates the issue of Kazakhstan's foreign trade in agricultural products. The author explains the importance of agriculture for the effective long-term development of any country's national economy, and provides an overview of the key theoretical aspects related to agricultural development. On the example of Kazakhstan, the thesis reveals the impact of foreign trade in agricultural products on the states' overall economic growth, and identifies the existing advantages and drawbacks affecting the international competitiveness of the Kazakh agricultural sector. Based on the research findings, the author provides recommendations for improving the performance of Kazakhstan's agricultural sector in the context of foreign trade, and explains how those improvements should contribute to the country's economic growth.

Key words: agriculture, cattle breeding, cereals, economic development, exports, foreign trade, imports, Kazakhstan.

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1 Introduction

Globalization preconditions the great convergence of independent countries' domestic markets into a single whole, thus leading to the elimination of the national economic borders for the sake of the great intensification of economic cooperation. Among the different types of such economic cooperation, the most prominent role is played by foreign trade, i.e. the trade in goods and services performed on the international scale, beyond the borders of individual states.

The agricultural sector of any country's national economy plays an essential role in ensuring the normal operation of its national economy and sufficient social standards of the population. Taking into account the uneven provision with food resources around the globe and the growing impact of global problems, the role of the agricultural sector only grows further in the economic context on the international scale.

The aim of this thesis is to investigate Kazakhstan's foreign trade in agricultural products, and to draw conclusions with regard to the sector's current and prospective contribution to the state's economic development through foreign trade.

The choice of Kazakhstan as a country for the analysis to be run within the framework of this thesis is predefined by the fact that the country is located at the intersection of trade routes between Europe and Asia, and therefore plays an important role in the region in economic and geopolitical terms. Moreover, taking into account the recent trends with Eurasian integration followed by Kazakhstan, it becomes particularly important to investigate which strategic competitive advantages the country has on the international scale, and namely in the field of foreign trade.

The thesis will be divided into two main parts, namely the theoretical and practical parts. The theoretical part of the thesis will focus on the investigation of key theories of international relations; the definition and main aspects of international trade as part of international economic relations; benefits obtained by individual countries through foreign trade; factors affecting foreign trade in positive and negative ways; and the specificities of the agricultural sector, with due account for its role in foreign trade. The practical part will investigate more in detail the case study of Kazakhstan. Namely, it will deal with the current trends of Kazakhstan's economic development; the role of the country's

agricultural sector in its national economy; Kazakhstan's performance in international trade and the agricultural sector's place in it, and the possible future development of the state's agricultural sector in the context of foreign trade.

Based on the findings of the research, conclusions will be drawn in line with the aim of the thesis.

In order to maximize the added value of the research, a number of methodological tools will be used. Thus, retrospective analysis will be applied in order to investigate the key theoretical aspects related to international relations and foreign trade; case study will be used in order to reveal the specificities of Kazakhstan's foreign trade in agricultural products; statistical analysis will be run for evaluating the most recent trends in the development of Kazakhstan's agricultural sector, and the country's foreign trade in agricultural products; comparative analysis will be applied for showing the results of Kazakhstan's foreign trade in agricultural products as compared to other major economic actors in the region; forecasting will be used in order to foresee the possible trends in the development of Kazakhstan's foreign trade in agricultural goods in the future; and deductive thinking will be applied in order to draw comprehensive conclusions based on the findings of the research.

The findings of the thesis should be helpful for the subsequent research in this field, and should provide valuable practical data with regard to the role of the agricultural sector in Kazakhstan's foreign trade.

2 Theoretical part

2.1 Key aspects and theories

The study of international relations during centuries of exploring and analysis has absorbed a wide range of theoretical approaches. Some of them emerged from the discipline itself; other theories were imported, partly or in whole, from disciplines such as economics or sociology.

In order to go deeper in the understanding of international relations theories, it is important to mention the essence of the theory. Theories are sets of logically related symbols that reflect what is in our opinion happening in the world. Theories are just smart tools, they are neither true nor false, but they are only more or less useful. It is impossible to present a set of procedures to create a constructive theory, however, any theory can be explained by the basic ideas underlying the process of creating theories, and important steps of this process. Thus Knutsen claims „to theorize is to speculate with an intention to understand or explain. “According to him it has been observed that speculations about the states go back to antiquity, whereas speculations about the relations between the states goes back little further than to World War I (Knutsen, 1997).

A theory of international relations is a set of ideas that explains how the international system works. The classification of theories of international relations is quite difficult and ambiguous. Nevertheless, in order to classify this theories we should take attention to the appropriate discussions in this area:

- „Three R“ of Martin Wight (Wight, 1991)
- „Three waves, or great controversy“ of John Vasquez (Vasquez, 1983)

The discussion „Three R“ separates three traditions in international relations: realists, rationalists and revolutionists.

Realists or followers of Machiavelli. The proponents of this tradition consider international policy as an anarchy or potential war where all against all.

Rationalists. This group represents international politics as a union of conflict and co-operation, in which there is a community of states with some rules of behaviour;

Revolutionists. The supporters of this tradition consider the international relations as relations developing in the scale of humanity as a whole, and also they raise the question of the need for transformation of the international relations into some kind of global project.

„Three waves, or great controversy“ represent another classification of international relations based on chronology and dividing the history of international relationships into three phases:

- Idealistic phase (between 1920s – 1930s years).
- Realistic phase (between 1930s – 1940s years).
- Behavioural phase (between 1950s – 1960s years).

Apart from periods of domination of various theoretical approaches in history the international relations theory can distinguish at least two transition periods, which are referred to as the "great controversy" or "great debate":

"Great controversy" is the dispute between realism and idealism about the human nature (in late 1930s - early 1940s). The realists believed that the human tendency to evil is natural thing, and in order to counteract this tendency every person has to adapt to the surrounding political, economic and social world, perceiving the world for what it is. On the contrary, idealists considered the human as being good by its nature, and they saw the cause of evil in the distortion of the external socio-political world. In their opinion, this world should be adjusted to the human being.

"Great debate" is the dispute between the behaviourism and realism (the end of the 1950s and 1960s). This discussion is treated as a dispute between the supporters of the scientific approach to the study of international relations and the supporters of the historical approach. First group approach is based on the tradition of scientific and philosophical rationalism. They claimed that with help of deductive logic the theory of international relations can be converted into the scientific knowledge. The second group did not consider international relations as a science and during the study of global processes they relied exclusively on inductive logic of historical observations.

Nowadays it is discussed „the third great controversy“ that took place at 1980s-1990s. This controversy was between state realists and transnationalists, which supported the thesis that apart from the states (traditional actors) the main role in the international relationships

is played by another untraditional actors. The dispute between the state approach (realism) and transnational approach (idealism) affects one of the key issues of international relations - the role of the state in international politics. The problem was in fact that none of the previous "great controversies" did not affect the question, who is the actor in international politics. It was always assumed a priori that there is only one exceptional actor - the state. From this perspective, "the third great controversy" is the most fundamental debate in the history of the theory of international relations.

Based on the previous disputes it is obvious that there are at least two theories of international relationships: realism and liberalism.

2.1.1 Realism

Politicians have practiced realism as long as states have existed. According to this theory, the main purpose of states only is to increase their own power relative to the other states.

Realism proponents also claim the following ideas¹:

- The world is a harsh and dangerous place. The only certainty in the world is power. A powerful state will always be able to outdo weaker competitors. The most important and reliable form of power is military power.
- A state's primary interest is self-preservation. Therefore, the state must seek power and must always protect itself.
- There is no overarching power that can enforce global rules or punish bad behaviour.
- Moral behaviour is very risky because it can undermine a state's ability to protect itself.
- The international system itself drives states to use military force and to war. Leaders may be moral, but they must not let moral concerns guide foreign policy.

¹ Sparknotes. *International politics*. <http://www.sparknotes.com/us-government-and-politics/political-science/international-politics/section2.rhtml>

- International organizations and law have no power or force; they exist only as long as states accept them.

As an example, it is worth mentioning the Cold War when most part of politicians viewed international relations through a realist lens. Neither the United States nor the Soviet Union trusted the other, and those opponents tried to seek allies to protect itself and increase its political and military influence abroad.

Notorious Niccolo Machiavelli represents the world-known realism proponent lived at sixteen century. His ideas became basis of this theory, he claimed that moral goals are so dangerous and if you act morally it will bring about disaster.

2.1.2 Liberalism

This theory emphasizes that the competition between states have made it difficult to define national interest and lowered the usefulness of military power. Globalization trend, the fast rise in technology, and the international trade volumes rise led to the situation that states could no longer rely on simple power politics to decide matters. Liberalism proponents claim the following ideas²:

- The world is a harsh and dangerous place, but the consequences of using military power often outweigh the benefits. International cooperation is therefore in the interest of every state.
- Military power is not the only form of power. Economic and social power matter a great deal too. Exercising economic power has proven more effective than exercising military power.
- Every state has often its own primary interests.
- International rules and organizations can help stimulate cooperation, trust, and prosperity.

² Sparknotes. *International politics*. <http://www.sparknotes.com/us-government-and-politics/political-science/international-politics/section2.rhtml>

As an example, it is worth mentioning that the fact that some powerful countries has nuclear weapons the Machiavelli principles become outdated for this countries and each of this states tries to protect its interest by the way of diplomacy.

To understand the theories of international relations is important to carry out comparative analysis of identical parameters of theories. To identify this parameters it is enough to answer the following questions:

- Who are the main participants (actors) in international relations?
- What is the specificity (core idea) of these relations?
- What are the main international processes?
- What are the main objectives pursued by the participants in international relations?
- What are the main means to achieve them?
- How may look the future of international relations?
- What are the analytical prerequisites of the paradigm?

In the following table is presented comparison of two main theories:

Table 1: Comparison of realism and liberalism

Subject of dispute	Realism	Liberalism
Actors	States (governments).	Not only the state, but also non-governmental organizations, transnational corporations, communities and individuals.
The nature of international relations	Anarchy (lack of sovereignty and supremacy of the principle „help yourself“).	Strengthening the role of international organizations, law and morality, limits to the monarchy.
Goals	The protection of national interests defined in terms of power and the maximum security for the state.	Plural goals with a priority of universal ideals.
Tools	Strength and balance (strategy and diplomacy).	Creation of international organizations, the development of international law, cooperation.
Processes	Interstate conflicts and wars as an extreme form of their manifestation.	Increasing interdependence; cooperation between the states.
The future of international relations	There is no future: the nature of international relations remains unchanged.	The gradual overcoming of armed conflicts and wars; "eternal peace".
The starting point of theoretical analysis	The constancy of human nature; national interests.	Universal values and ideals.

Source: (Cygankov, 2007)

2.2 International trade: definition and key aspects

International trade can be defined as a complex economic category, which is considered in at least three aspects:

Organizational and technical aspects. These aspects study the physical exchange of goods and services between the states. The main attention in this aspect is paid to the issues related to the purchase or sale of certain goods, to their movement between the counterparties (the seller and the buyer) and to the crossing of state borders, to the settlements and so on. These aspects of international trade represent the object for studying by the following university disciplines like organization and methods of international trade, customs, international financial and credit operations, international law, accounting and others.

Market aspects. This aspect defines international trade as the aggregation of global demand and global supply, which is materialized in two opposite flows of goods and services represented by global exports (outflow) and global imports (inflow). The global aggregated demand is understood as the volume of goods that consumers are collectively willing to purchase at the current level of prices inside and outside the country, and the global aggregated supply is understood as the volume of goods that producers are willing to offer on the market at the current price level. They are usually considered only in terms of their value. There appear some problems associated primarily with the analysis of the market of specific products, i.e. with relation between supply and demand on this market, with optimal organization of trade flows between two counterparties, taking into account a variety of factors, but mostly the price factor. These issues are studied by the following disciplines such as international marketing and international management, theories of international trade and the global market, international monetary and financial relations.

Social and economic aspects. This aspects consider international trade as a special type of social and economic relations that arise between two states in the process of the exchange of goods and services. These relationships have a number of signs that add them special importance in the global economy.

First of all, it should be noted that these relationships are of a global nature, as they involve all the states and all their economic communities. So these relations are some kind of an integrator that brings together national economies into a single global economy and internationalizes it on the basis of the international division of labor. International trade determines what product is cheaper to produce for the state and what conditions should be achieved in order to exchange manufactured products. Thus, they contribute to the

broadening and deepening of international division of labor, and therefore international trade, involving into these relations new states. These relationships are objective and universal, namely, they exist independently of the will of one state and are acceptable for any state.

Social and economic relationships are able to systematize the global economy by allocation of the states depending on the level of development of external trade in it, depending on the share which the state has in international trade and the size of foreign trade per capita. According to these parameters we distinguish between "small" countries and "big" countries. First of them cannot influence the price level on the international market, if they change their demand for a product, whereas "big" countries can. "Small" countries with a goal to compensate their weakness on this particular market, often integrate with other countries and present the aggregate demand and aggregate supply. But surely "big" countries are also able to integrate, enforcing its position in the international market.

International trade characteristics

To describe the intensity rate of international trade is used a number of indicators:

- the value and volume of total world trade;
- general, commodity and geographical (spatial) structure;
- the level of specialization and industrialization of exports;
- elasticities of international trade, exports and imports, the terms of trade;
- foreign trade, export and import quotas;
- trade balance.

The total world trade is the sum of the foreign trade turnover of all countries. The foreign trade turnover of the country - is the sum of exports and imports of the country.

The structure of international trade in general shows the ratio of its volume of certain parts depending on the selected feature. The commodity structure of international trade shows the proportion of a particular products in its total volume.

Geographical structure of international trade is characterized by distribution in areas of trade flows - the commodities moving between countries.

International trade Specialization. To estimate the degree of world trade specialization is used index of specialization. It shows the proportion of intra-industry trade (exchange of components, semi-finished and complete items of one industry, for example, cars of different brands and models) in the total volume of world trade.

Terms of international trade. The terms of trade it is the coefficient that establish a relationship between the average world prices of exports and imports, it is calculated as the ratio of the index over time.

The coefficient of international trade elasticity. The elasticity of import is an index that estimates the changes in aggregate demand for import, provided with changes in the terms of trade. It is calculated as a percentage of import volumes and its prices. According to its numerical value it is always greater than zero, and changes to $+\%$. If its value is less than 1, it means that the increase of price on 1% led to increase of demand for more than 1%, and consequently, the demand for imported elastic. If the ratio is greater than 1, the demand for imports grew by less than 1%, then the import inelastic. Therefore, improvement in the terms of trade is forcing the country to increase the costs of imports, when demand is elastic, and reduce if inelastic.

Trade balance. Resulting indicator of the country's international trade is the trade balance, which represents the difference between the sum of exports and imports. If the difference is positive it is called a trade surplus, if negative - trade deficit.

2.3 Benefits of international relations for actors involved

The world politics includes states, various organizations, movements, business structures, and so on. The main types of participants in international relations can be divided into two parts: governmental and non-governmental.

Governmental participants are undoubtedly states which after formation of Westphalian system became the main element of the international relations and the primary subject of international law.

Non-governmental subjects compose of intergovernmental organizations, non-governmental organizations, transnational corporations, and other movements acting on the world stage. Increasing of their role and influence is a relatively new phenomenon in international relations, which started at the postwar period.

International intergovernmental organizations are defined by three following characteristics:

- The political will to cooperate, recorded in the constituent documents.
- The permanent system, providing continuity in the development of the organization.

Competence and autonomy of decisions.

There are different typology of intergovernmental organizations. The most common is the classification on geopolitical criteria and in accordance with the scope and direction of their activities. In the first case we underline such as: universal (e.g. the United Nations or the League of Nations); inter-regional (e.g. the Organization of the Islamic Conference); regional (e.g. the Latin American Economic System); sub-regional (e.g. Benelux). According to the second criterion we distinguish general purpose (UN); economic (EFTA); politic and military (NATO); financial (IMF, World Bank).

Increasing number of intergovernmental organizations is the evidence of growing interdependence of states and multilateral cooperation on an ongoing basis. Moreover, these organizations acquired a certain autonomy with respect to the founder states and became partly beyond their control. This fact gives them the opportunity to have a permanent impact on the behavior of states in various areas and thus to play the role of supranational institutions.

International non-governmental organization. However, in many cases, the interests of people are not associated with the government. In connection with it, today the role of international non-governmental organizations highly increases. In comparison with intergovernmental organizations, international non-governmental organizations are non-territorial formation, because their members are not sovereign states. They meet three criteria:

- the international nature of the objectives;

- the private nature of the foundation;
- voluntary participation

International non-governmental organizations are cooperation in specific areas, bringing together non-governmental institutions and individuals in several countries: religious organizations, scientists, sports (FIFA), trade (FIP), Legal (Amnesty International).

They are capable of international activities, more or less independent from the state. In addition, their decisions usually do not have legal force for the States. However, they are more capable to achieve their objectives, and not just in a professional, but also in the political field. Thus, in recent years, some international non-governmental organizations in the sphere of the protection of human rights, environmental issues and humanitarian assistance has been achieved to intervene in the internal affairs of sovereign states.

Multinational corporations. Considerable influence on the nature of international interactions has specific non - governmental organizations such as multinational corporations. There are companies, institutions and organizations whose purpose is making a profit.

The largest multinational corporations have enormous economic resources that give them an advantage compare to not only the small states, but also the middle and even the great countries. Multinational corporations have a significant impact in defending their interests. They certainly contribute to the modernization of developing countries, the development of their national economy, the spread of the values and traditions of economic freedom and political liberalism. At the same time, they bring social disruption associated with the restructuring, the intensification of labor and production.

In some cases, the consequences of their activities lead to the extension of environmental problems, the destruction of national traditions and cultural conflicts.

In the present conditions, functions of the state are changing and it is forced to engage on the international arena with other transnational actors, including non-governmental.

2.4 Factors affecting international trade

Someone can make a point that international trade is driven by the relation of demand and

supply in the trading countries, but it is partly the truth. According to WTO (World Trading Organisation) there are six fundamental economic factors that affect international trade:³

Demographic change. This factor affects international trade through its impact on comparative advantage of counterparties and on import demand. An ageing population, migration, educational improvements, emergence of a global middle class and women's participation in the labour force will all play a role in coming years.

There is prevailing trend of so-called "demographic transition" that is a process which involves a decline in mortality rates and at the same time a reduction in fertility. As some countries differ by the stages of their demographic transition, some countries are ageing faster while other countries are not. These circumstances are likely to have an impact on international trade through two main channels: changes in comparative advantage and changes in the import demand.

For example, impact on comparative advantage can be explained by the fact that countries with slower population growth are relatively capital-abundant, while the countries with faster population growth are relatively labour-abundant. This point leads to the difference in relative prices.

Demographic change affects the consumption composition as well as import demand. This fact is easily explained, that household consumption of aging people and younger people are completely different. The second group is more oriented on such goods and services like cars, mobile phones, outdoor activities, while first group prefers more books, home goods, medicines, health care and recreation tours.

Investment. Investment in physical infrastructure make possible the gradual integration of new players into international supply chains. The capital, technology and knowledge investments, particularly foreign direct investment, can force countries to go ahead by changing their comparative advantage.

By accomplishing the public infrastructure investment country is able to participate in world markets by, for example, reducing trade costs and hence increasing supply capacity.

³ WTO.org. *World Trade Report 2013*. Source: https://www.wto.org/english/res_e/booksp_e/wtr13-

Investment in transport infrastructure like roads, stations, ports and airports can strengthen regional trade. On the contrary, the investments in information and communications technology infrastructure is likely to create some countries-participants in the expanding international trade in services.

Also taking into account capital inflows from the other country bring currency risks because it can lead to an appreciation of the exchange rate in recipient country. Thus home currency becomes more expensive and that fact hurts home country export competitiveness.

Technology. Differences in level of technologies between countries represent the basic determinant of income levels and trade. The technology progress is the main driver of the income rise of countries since the beginning of 20 century. Technological progress itself is determined as by domestic innovation as by international technology spillovers. It is obvious that while in developing countries with low level of domestic innovation, spillovers acquire relatively greater importance. Hence, if international technology spillovers prevail over regional, international spillovers become a major determinant of the world's income distribution. The explanation of this effect is in the fact that while global technological spillovers lead to the income convergence worldwide, regional spillovers do not.

From the point of view of traditional economic theory, where trades occur due to the differences between countries, one of which is technology, countries export the goods which are relatively more efficient at the producing process than in the trading country. This efficiency comes exactly from the high level of technology in this country.

In accordance with Heckscher-Ohlin theory⁴: “if countries’ access to technology were identical – i.e. if technological diffusion were perfect and global – trade would occur only on the basis of relative factor abundance rather than technological differences”.

Besides this factors technological innovations impact directly or indirectly the trade costs. For example, the utilization of containers and jet engines has seriously reduced transport costs by sea and air. Also the development ICT has allowed simplifications in trading

⁴ WTO.org. *World Trade Report 2013*. Source: https://www.wto.org/english/res_e/booksp_e/wtr13-

process such as e-commerce, internet trading, high importance of intermediaries in trading process and outsourcing of logistic services.

Energy and other natural sources. Nowadays the world is characterized by the uneven geographical distribution of natural resources what means that some resource-abundant countries have market power in trade. Actual events underline this trend where oil abundant countries influence oil prices by reduction or expansion of oil supply into the market. The actual decline of the oil prices to the levels of \$30 per barrel impacts international trade by lower level of transportation costs from one side and currency depreciations from the other. Taking into account Russian economy after devaluation of Ruble, it is crucial to mention that its comparative advantage built of exhaustible resources can be fragile and there appears the necessity of destructuralization of export.

Speaking about natural sources and agricultural sector, the availability of land suitable for agricultural production, mostly arable land, determines the methods of agricultural production and the dependency of countries on imports of crops.

Transportation costs. The cost of transporting goods from suppliers to final customers affects the volume, direction and pattern of trade. For the meantime transportation costs can be affected by product characteristics, distances to the markets of delivery, infrastructure trade liberty and trade facilitation, fuel costs, level of technology and market competition.

Institutions. Improvements in institutional quality, principally concerning the contract enforcement, can mitigate the costs of trade. Institutions represent at the same time a source of comparative advantage. Trade and institutions as well strongly influence each other. Under the definition of institution there mentioned such frameworks like social norms, laws, policies, political regimes and institutions in form of organizations as well.

For instance, political institutions interact with economic in two ways: first, they impose constraints on government activities; secondly, they affect the set of economic institutions. International politics influence international trade with help of political borders which can be seen nowadays in the form of sanctions against Russia from the USA and EU.

2.5 Agricultural sector: composition and specificities

Agriculture is the most important sector of the world economy. Its main purpose is to provide the population with food and to provide the light and food industry with raw materials. This is the only branch of material production, which depends on natural conditions. However, the role of this sector in the economies of different countries and regions vary greatly. Geography of agriculture sector has an extraordinary variety of forms of production and agrarian relations. Thus all types of agriculture can be possibly divided into two groups:

- Commercial agriculture is highly productive, intensively developed and has a high level of specialization;
- Consumer agriculture is characterized by low productivity, extensive development and the lack of specialization.

Agriculture sector in developed countries is characterized by a sharp predominance of commercial agriculture. Its development continues based on mechanization, chemicalisation, the use of biotechnology, advanced selection techniques. On the contrary, in developing countries agriculture is more heterogeneous and includes two sectors:

- the traditional sector (mainly plant growing direction by small farms),
- the modern sector (commercial agriculture with the well-organized plantations and farms).

Another classification of the agricultural sector is more detailed and includes two dimensions like livestock breeding and crop production.

Livestock breeding as a branch of agriculture is spread almost everywhere. The proper placing of this industry depends primarily on the feed base. In livestock breeding there are three leading sectors: pig-breeding, sheep breeding and cattle breeding.

Pig breeding is spread almost everywhere, regardless of natural conditions. It tends to densely populated areas and large cities. The leaders⁵ in the number of pigs are China followed by the United States, Russia, Germany, Brazil.

Sheep breeding prevails mostly in countries and regions with extensive pastures. The largest number of sheep is in Australia, China, New Zealand, Russia, India, Turkey and Kazakhstan.

Cattle breeding is principally concentrated in Asia and Latin America where there are best conditions for this kind of livestock breeding. The cattle breeding includes three main areas:

- milk production (spread in the densely populated areas of Europe and North America);
- meat and milk production (common for the forest and steppe zone);
- meat production (arid areas of moderate and subtropical zone).

The largest number of cattle stock is in India, Argentina, Brazil, USA, China, Russia.

The main exported products from this agricultural area are poultry, lamb, pork, beef, butter and wool.

The production of live animals is increasingly driven by a shift in diet and food consumption patterns towards livestock products. Over the last decade⁶, consumption of meat in the developing countries of Asia accompanied by rising population has been growing by about 3 percent per annum, and dairy product consumption by almost 5 percent. Aggregate agricultural output is affected by these trends, not only through the increase in livestock production itself, but also through the connection of livestock production with the crop sector supplying feed products such as cereals and oilseeds.

Crop production is the most important branch of agriculture in the world. It is well developed almost everywhere, except for the tundra, arctic deserts and high mountains. Due to the large variety of crops crop production composition is quite complex. The crop

⁵ Cia.gov. *Autor 's work based on analysis of the source:* <https://www.cia.gov/library/publications/the-world-factbook/fields/2052.html>

⁶ FAO statistical yearbook 2013. *World food and agriculture.*
Source: <http://www.fao.org/docrep/018/i3107e/i3107e.PDF>

production includes: grain farming, production of industrial crops, vegetable-growing, horticulture and production of forage crops.

Most popular agricultural grain crops compose of wheat, rye, barley, buckwheat, oats and others. Leading crops by the export and production volume among them are wheat, corn and rice. These three types of crops account for 4/5 of the gross harvest of grain. The main producers of the three main crops are:

- China, the United States (wheat);
- China, India (rice);
- the United States, Mexico (corn).

Among other food crops take an important place the following crops: oilseeds, tuber, sugar plants, tonics, vegetables and fruits. Oilseeds are composed of soybeans, sunflower, peanut, rapeseed, sesame, castor, olive tree, oil and coconut palm. Major producers of oilseeds are the United States (soybeans), Russia (sunflower), China (rapeseed) and Brazil (peanuts).

Tuber crops are mostly potatoes. The largest production of potatoes is noticed in Europe, India, China and the United States. Sugar plants are sugar cane and sugar beets. Major producers of sugarcane are Brazil, India, Cuba and the main producers of sugar beet are Ukraine, France, Russia, Poland. Vegetable crops are distributed worldwide. Tonic crops compose of tea, coffee and cocoa. The main exporter of tea is India, of coffee is Brazil, cocoa is Côte d'Ivoire.

Among non-food we can stand out fiber crops (cotton, flax and jute), natural rubber and tobacco. The main exporters of cotton are the United States, Uzbekistan and Pakistan. The largest producer of tobacco is China.

In the past 50 years, global crop production has expanded threefold⁷. This increase has been driven largely by higher yields per unit of land, and crop intensification resulting from multiple cropping and shortening of fallow periods. The expansion of arable land area allocated to crops has played a less important part in production increases.

⁷ FAO statistical yearbook 2013. *World food and agriculture*.
Source: <http://www.fao.org/docrep/018/i3107e/i3107e.PDF>

Ecology specifications of agriculture sector. The impact of agriculture on the environment is enormous. Such impacts are conveyed in such processes like:

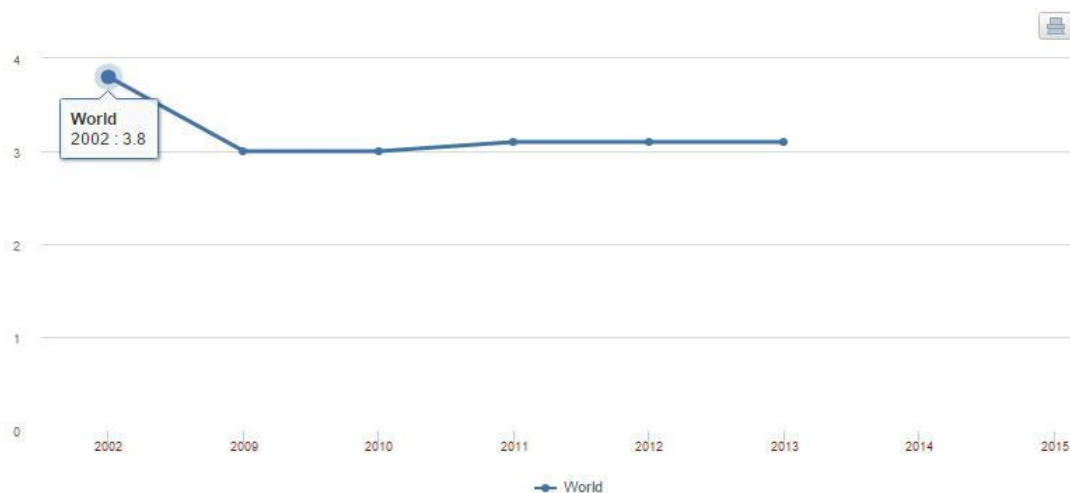
- soil erosion as a result of improper farming techniques;
- soil pollution due to excessive use of fertilizers and pesticides;
- contamination by sewage from livestock farms
- breach of vegetation cover due to the occupation of the free territory for the farmland.

2.6 Agricultural sector's importance for international trade

Agriculture is a sector of the world economy that has a significant role in a human life. Its main goal is to meet the needs of the population in food and provide the industry with raw materials. Problems in agriculture lead to social tension and instability of society, so the government in all countries controls it. As the indicators of agriculture in the world economy can be used a share of agriculture in GDP, investment in agriculture, the share of employment in agriculture in the economically active population.

In spite of importance of agriculture in humans life, in the world economy role of agriculture is undervalued. The main indicator is the share in the production of the world's GDP. According to the World Bank from the year 2002 to 2010, the share of agriculture in world GDP has declined from 3.8 to 3 percent of GDP. The next three year it remains the same on the value of 3.1%. The results of 2014 and 2015 of percentage of agriculture sector in the world GDP is unknown. (Figure 1)

Figure 1. Percentage of agriculture sector in world GDP



Source: World Bank, Agriculture, value added (% of GDP)

Agriculture corresponds to ISIC divisions 1-5 and includes forestry, hunting, and fishing, as well as cultivation of crops and livestock production. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources. The origin of value added is determined by the International Standard Industrial Classification (ISIC), revision 3.”⁸

In addition to GDP other indicators can be also used. The role of agriculture can be estimated by the investment in this area. It is difficult to measure because there is no detailed information about their scope. Available information on direct investment is not accurate enough to determine how much of the investment is in agriculture and what form it takes. David Hallam in his report “International investment in agricultural production” focused his attention on agriculture. On the basis of the information from the report can make a few observations on the latest trends and patterns:

1) Increase in international investment in agriculture for developing countries. However, at the same time, the amount of real investment is less than the number of planned and media coverage.

⁸ World Bank. *National accounts data, and OECD National Accounts data files.* <http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS>

2) The main areas of investment are countries in Africa Countries such as Pakistan, Kazakhstan, Cambodia and Brazil was pointed out for investments.

3) Investors are mainly private sector but governments and sovereign wealth funds are also involved.

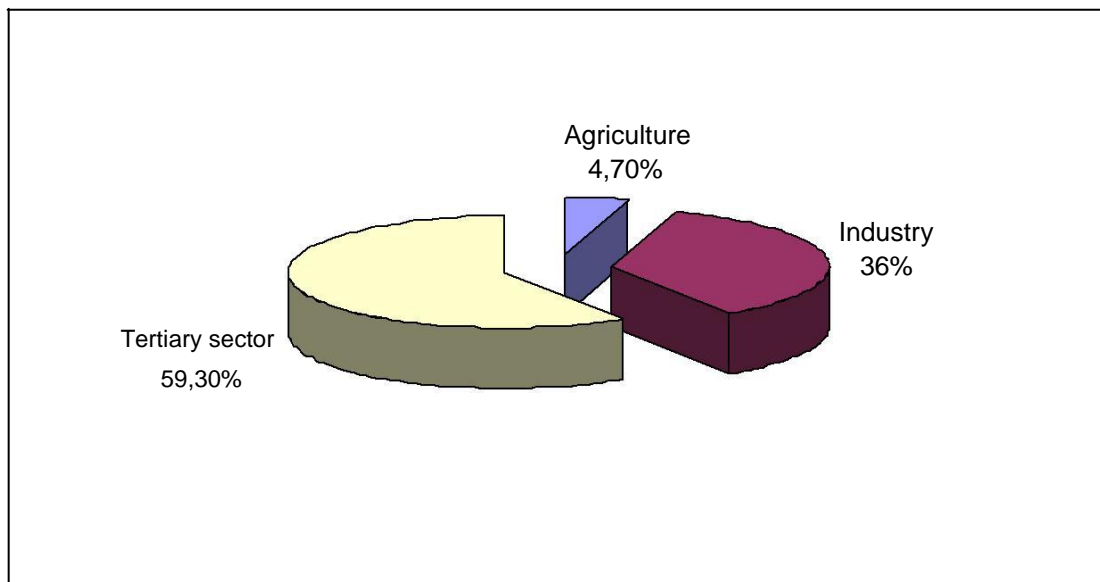
Agriculture provides a large number of job positions; it produces food and raw materials. With the transition to bio fuel energy, agriculture will play a particular role in the world economic sectors. The progress in science and technology helps to develop agriculture. Moreover, it does not only develop itself, but also contributes to the development of world trade and the world economy as a whole.

3 Practical Part

3.1 Kazakhstan: trends in economic development

Kazakhstan is a state located in Central Asia, at the intersection of the trade crossroads between Asian and European states, which possesses great natural resources. Those factors predefine the opportunities for Kazakhstan's intensive economic development in various fields of the national economy.

Figure 2. Kazakhstan's GDP composition, as of 2014



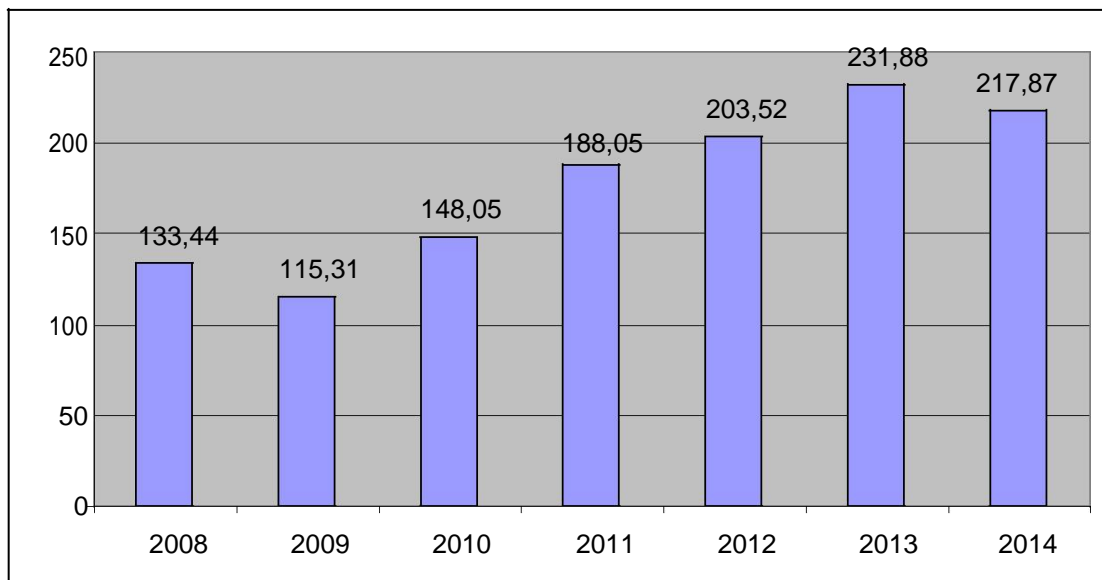
Source: CIA World Factbook 2015

Figure 2 above illustrates the composition of Kazakhstan's gross domestic product. As can be seen from the chart, the country's main contributor to GDP is the tertiary sector (59.3%), while industry brings about 36% to the country's economic output. The agricultural sector's share is low, making up only 4.7% in the overall GDP structure.

Among the main fields of the Kazakh economy which bring to the country's prosperity, it is worth noting first of all the oil and gas sector, as Kazakhstan possesses great oil and natural gas resources, and is able to raise significant foreign investment in its energy sector on the part of the world's major oil-and-gas corporations. Other important sectors of

Kazakhstan's economy include mining, the financial sector, etc. Some of the agricultural production activities play an important role in the country's economy as well, and they will be investigated more in detail in the next chapter of the thesis. Overall, despite some positive factors favoring the development of the Kazakh economy, as of today, it is affected by two major threats: the growing share of raw material exports on the one hand (which makes the country much vulnerable in the international market), and the great economic and political dependence on the Russian Federation (which limits Kazakhstan's opportunities on the one hand and affects its potential leadership in the Central Asian region on the other hand) (Olcott, 2010).

Figure 3. Kazakhstan's GDP dynamics in 2008-2014, in current USD billion



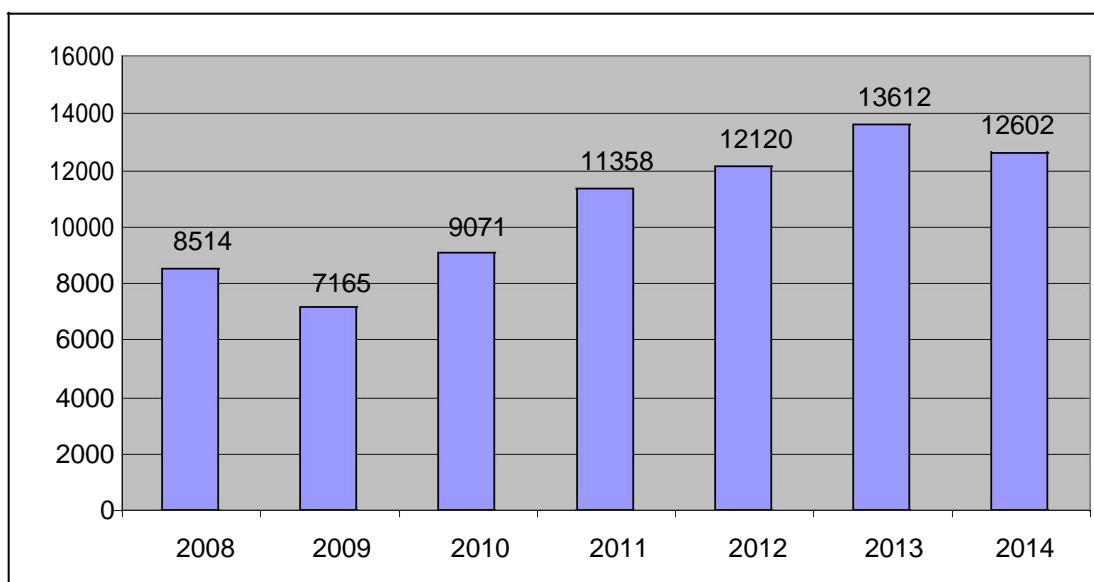
Source: World Bank Databank 2015

As can be seen from Figure 3 above, Kazakhstan's GDP had been growing steadily since 2009 until when it dropped in 2014. The first downfall in the country's GDP value occurred in 2009, and was associated with the negative effects of the global financial and economic crisis. After the recovery, Kazakhstan started demonstrating rapid economic development, until the country's GDP figure reached current USD 231.88 billion (+over 100% as compared to 2009). In 2014, Kazakhstan's GDP amounted to USD 217.87 billion,

and thus dropped by 6% as compared to the previous year, which is a negative tendency for the country's economic development.

The downfall in Kazakhstan's economic output, and thus in its GDP values is preconditioned by two major groups of tendencies: the Western countries' imposition of sanctions against Russia for the country's annexation of Crimea from Ukraine on the one hand (as Russia makes part of the Customs Union with Kazakhstan, this affects greatly the Kazakh economy as well), and the dropping prices for oil in the global market (as it is one of Kazakhstan's key resources) (Embassy of the Republic of Kazakhstan in India, 2015).

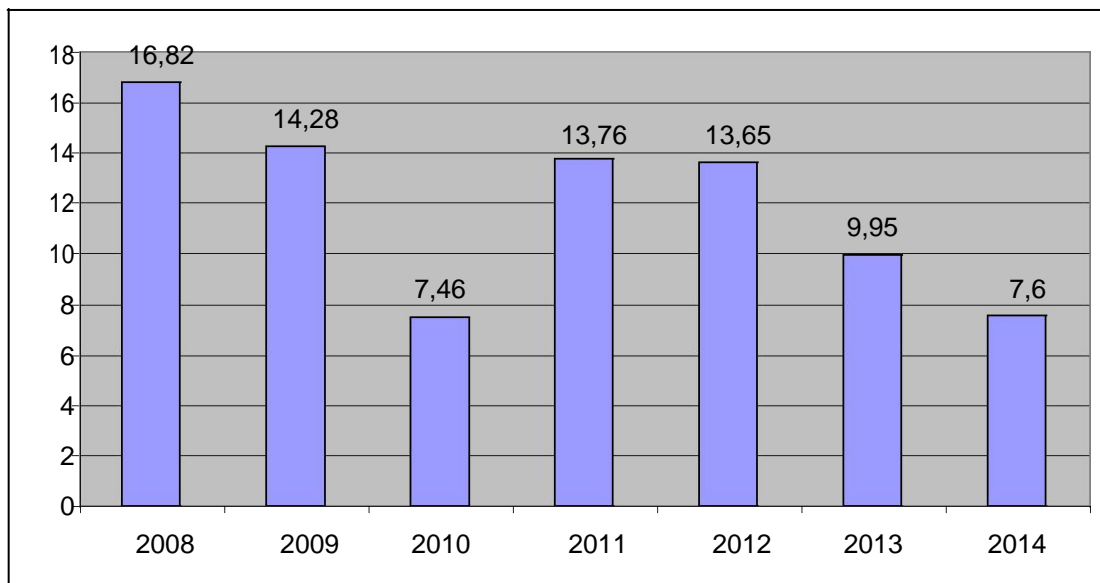
Figure 4. Kazakhstan's GDP per capita dynamics in 2008-2014, in current USD



Source: World Bank Databank 2015

As can be seen from Figure 4 above, the trends in Kazakhstan's GDP per capita figures are much similar to the country's absolute GDP values. Thus, in 2014, the value of GDP per capita in Kazakhstan made up current USD 12,602, and thus decreased by 7%. Thus, the GDP per capita figure dropped by 1 percentage point more than the absolute GDP figure due to the conditions described above. Overall, it can be stated that this tendency testifies the decreasing purchasing power of the Kazakh population, and the country's issues in the field of economic development.

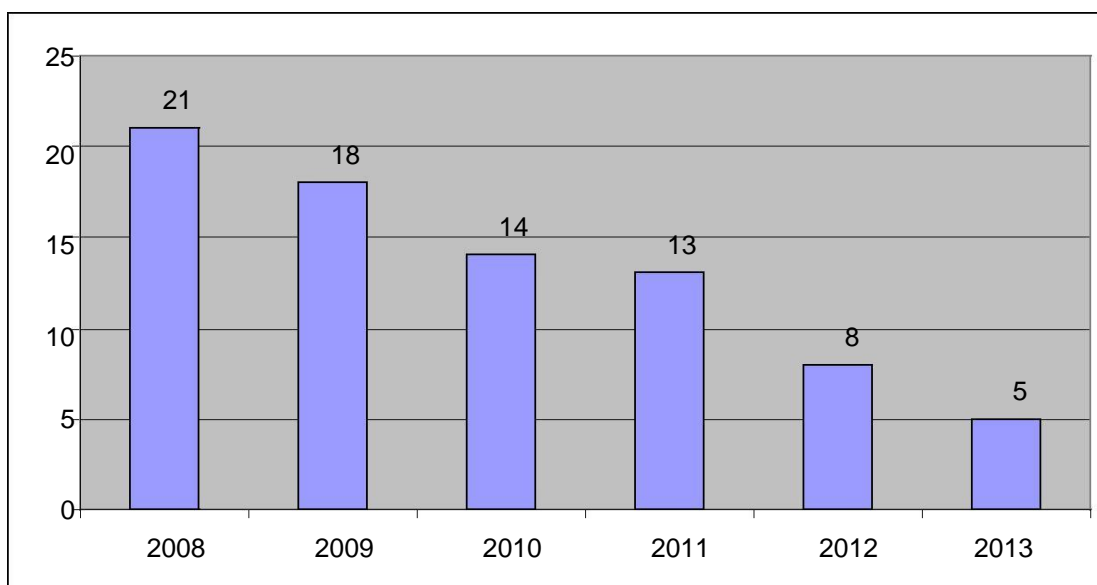
Figure 5. Kazakhstan's net FDI inflows dynamics in 2008-2014, in current USD billion



Source: World Bank Databank, 2015

As Figure 5 illustrates, the net foreign direct investment inflows in Kazakhstan have been dropping steadily in recent years. Thus, in 2014, the total net FDI inflows in Kazakhstan amounted to USD 7.6 billion, and dropped by 24% as compared to 2013 or 45% as compared to 2011. This trend is negative for the country, as it means the lower foreign investment raised for boosting its economic development. The dropping values of Kazakhstan's net FDI inflows are due to the tendencies with the sanctions against Russia and the negative global oil market conjuncture described above.

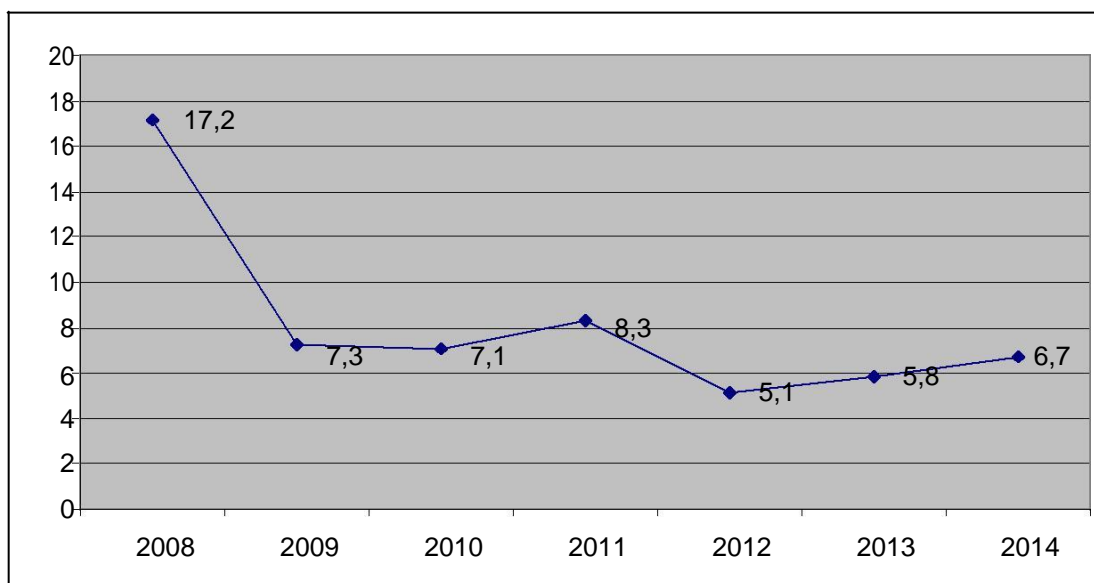
Figure 6. Kazakhstan's net official development assistance dynamics in 2008-2014, in current USD billion



Source: World Bank Databank, 2015

Similar tendencies are observed in the field of Kazakhstan's net ODA inflows. As can be seen from Figure 6 above, the net development assistance inflows in the country amounted to USD 5 billion in 2013, and thus decreased by 37.5% as compared to the previous year or 76% as compared to 2008. The negative trends in Kazakhstan's net FDI and net ODA inflows dynamics testify the country's deteriorating cooperation with foreign partners, and testify negative economic effects for Kazakhstan.

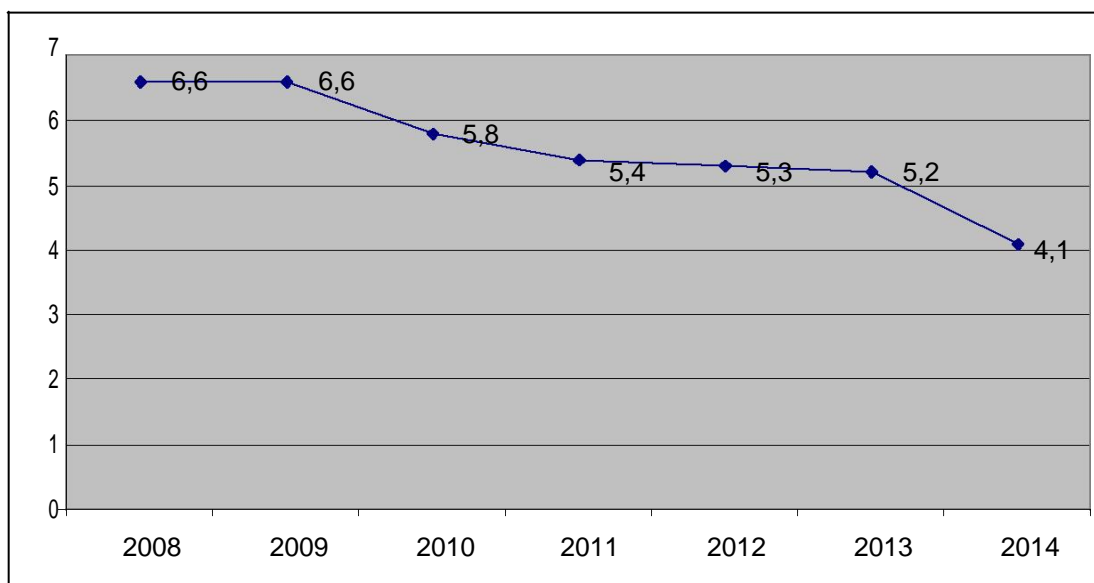
Figure 7. Kazakhstan's inflation (consumer prices) dynamics in 2008-2014, in %



Source: World Bank Databank, 2015

Figure 7 above illustrates the dynamics of inflation (consumer prices index) in Kazakhstan in 2008-2014. As can be seen from the chart, the value of inflation in Kazakhstan in 2008 amounted to as much as 17.2%. Thereafter, inflation dropped to 5.1% in 2012. However, since then, the inflation rate in Kazakhstan has been growing steadily. Namely, in 2014, it amounted to 6.7%, and thus grew by 0.9 p.p. as compared to 2013 or 1.6 p.p. in 2012. This trend is negative for the country, as it testifies the decreasing purchasing power of the Kazakh population, and leads to the devaluation of the country's national currency.

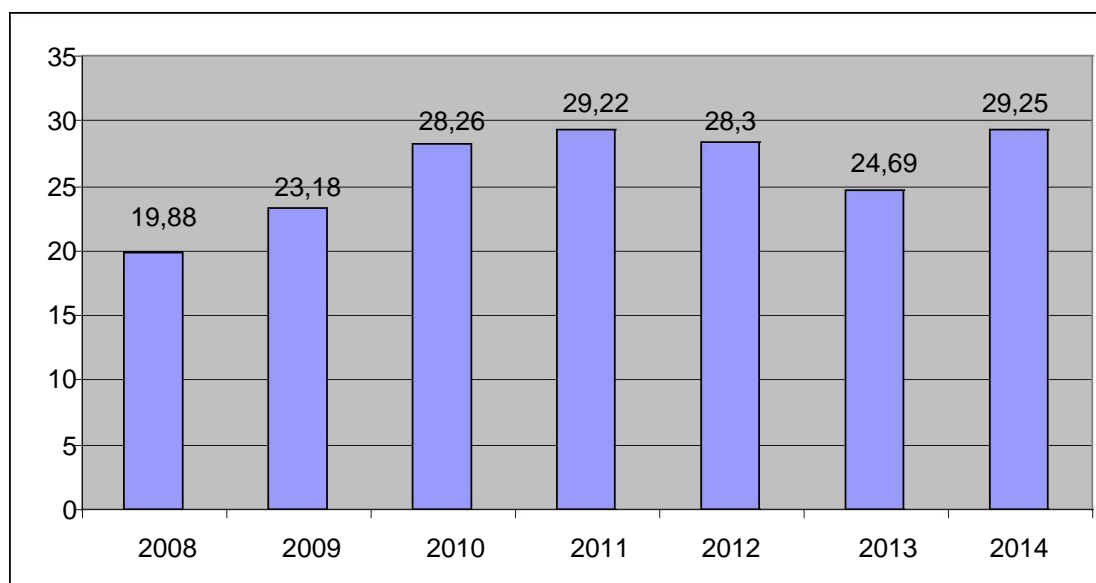
Figure 8. Kazakhstan's unemployment dynamics in 2008-2014, in % of total labor force



Source: World Bank Databank, 2015

Figure 8 above reveals the dynamics of the unemployment rate in Kazakhstan in 2008-2014. As can be seen from the chart, the level of unemployment has been dropping lately against the background of growing inflation. In 2014, the total unemployment rate in the country made up 4.1%, and thus dropped by 1.1 p.p. as compared to the previous year or by 2.5 p.p. as compared to 2008-2009. This tendency is rather positive for Kazakhstan, as it testifies the greater level of the labor force's involvement in the country's economic activities.

Figure 9. Kazakhstan's total foreign reserves (including gold) dynamics in 2008-2014, in current USD billion



Source: World Bank Databank, 2015

As can be seen from Figure 9 above, although Kazakhstan's foreign reserves had been dropping in the period from 2011 to 2013, in 2014 their value amounted to USD 29.25 billion, and thus grew by 18.5% as compared to the previous year. This trend is positive for the state, as it means Kazakhstan's greater financial stability and opportunities to regulate the financial sector through the Central Bank's policies.

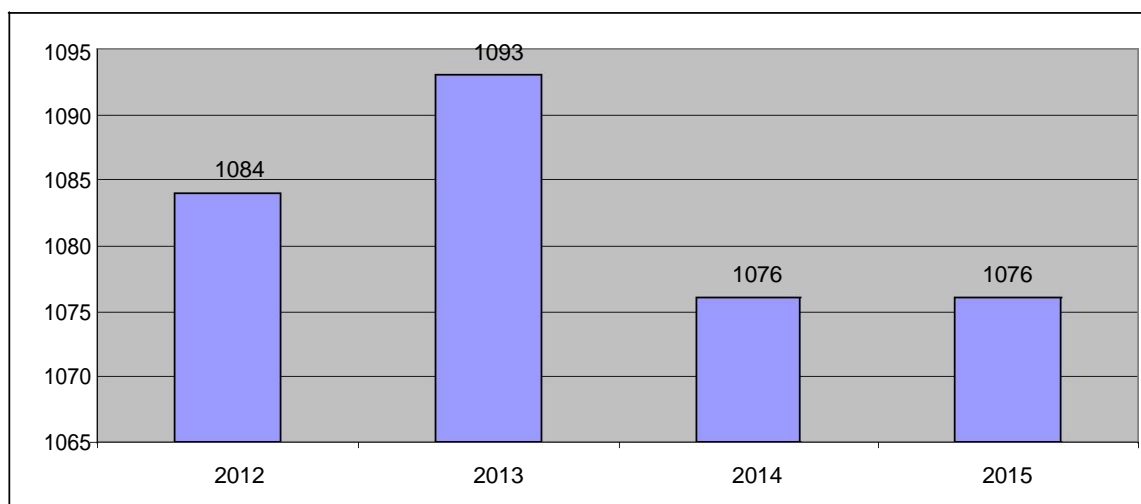
Overall, it can be stated that most of Kazakhstan's economic development indicators have been deteriorating in recent years due to negative external factors affecting the country's national economy. In the next chapter of the thesis, the focus will be put on the overview of Kazakhstan's agricultural sector.

3.2 Overview of Kazakhstan's agricultural sector

The development of Kazakhstan's agriculture is favored by the existing natural preconditions and favorable external factors. Namely, the climate in Kazakhstan is favorable for the production of a wide range of cereal cultures. Over 80% of the country's territory is considered to be agricultural land, and 70% of it is used as pasture. However,

the arable land only constitutes 10% of Kazakhstan’s area (still, it is worth noting here that the value of arable per land per capita in Kazakhstan is the second highest in the world).⁹

Figure 10. Kazakhstan’s livestock production in 2012-2015, in thousand tons

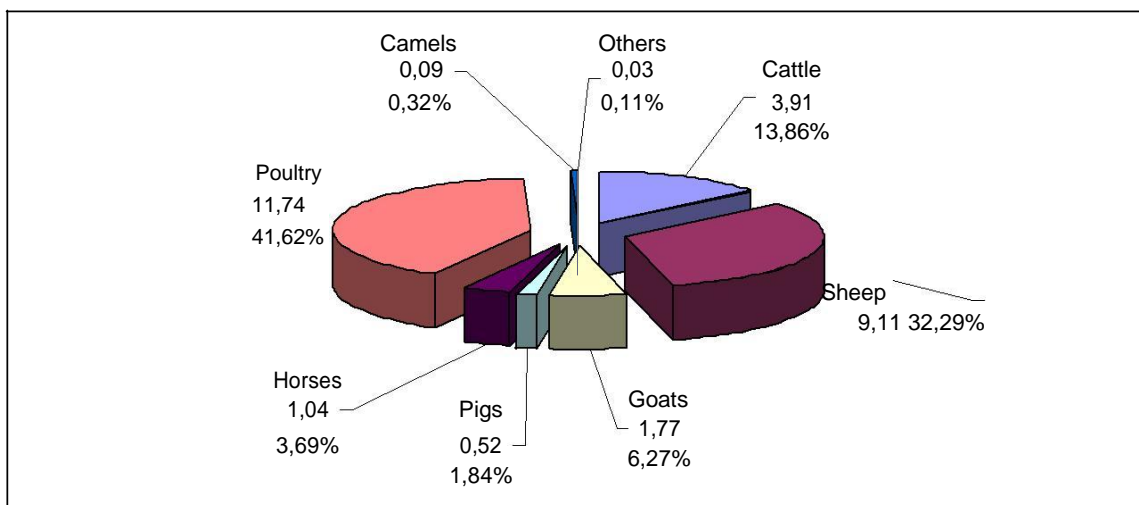


Source: Statistics Committee of Kazakhstan, 2015

Figure 10 above illustrates the dynamics of livestock production in Kazakhstan in 2012-2015. As can be seen from the chart, the aforesaid dynamics have been rather negative lately in the country. Thus, as can be seen from the chart, in 2013, the total value of livestock production in Kazakhstan made up 1,093 thousand tons, which figure dropped to 1,076 thousand tons (i.e. by 1.55%) as compared to the previous year. In 2015, this figure remained at the same level. Overall, the trend is negative, as it reveals the decreasing amount of agricultural production in the country.

⁹ OECD. OECD Review of Agricultural Policies: Kazakhstan 2013.
<http://www.oecd.org/tad/agricultural-policies/kazakhstan-review-2013.htm>

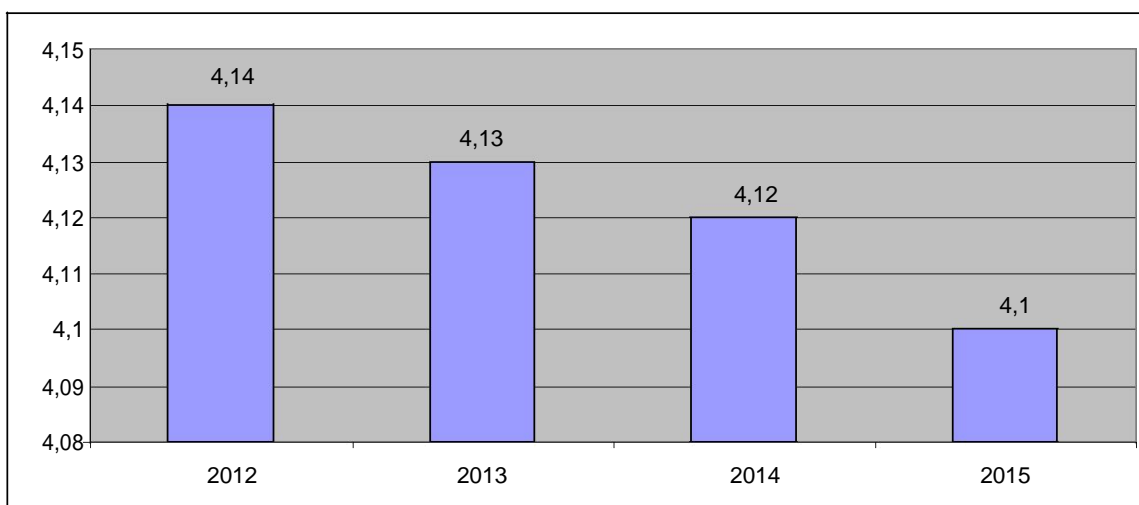
Figure 11. Kazakhstan’s available livestock structure in 2015, in million units and %



Source: Statistics Committee of Kazakhstan, 2015

As can be seen from Figure 11 above, the current structure of available livestock in Kazakhstan is dominated by poultry (11.74 million units or 41.62%), sheep (9.11 million units or 32.29%), and cattle (3.91 million units or 13.86%). Other important cattle species cultivated in Kazakhstan include horses, goats, pigs, and camels. Overall, it can be stated that this structure is preconditioned by the specificities of Kazakhstan’s geographic location and the climate conditions prevailing in the country.

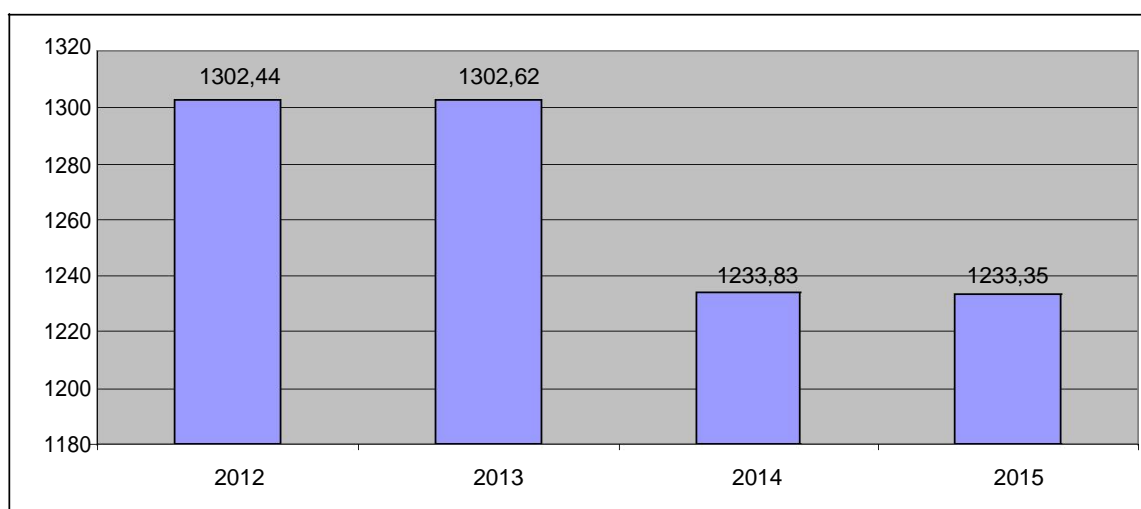
Figure 12. Kazakhstan’s milk production in 2012-2015, in million tons



Source: Statistics Committee of Kazakhstan, 2015

As Figure 12 illustrates, the dynamics of milk production in Kazakhstan have been negative lately. Namely, in 2015, the total amount of milk produced in Kazakhstan made up 4.1 million tons, which figure was 0.5% lower as compared to 2014 or 1% lower as compared to 2012. This tendency is largely negative for Kazakhstan, as it testifies the decreasing value of the economic output generated by agriculture.

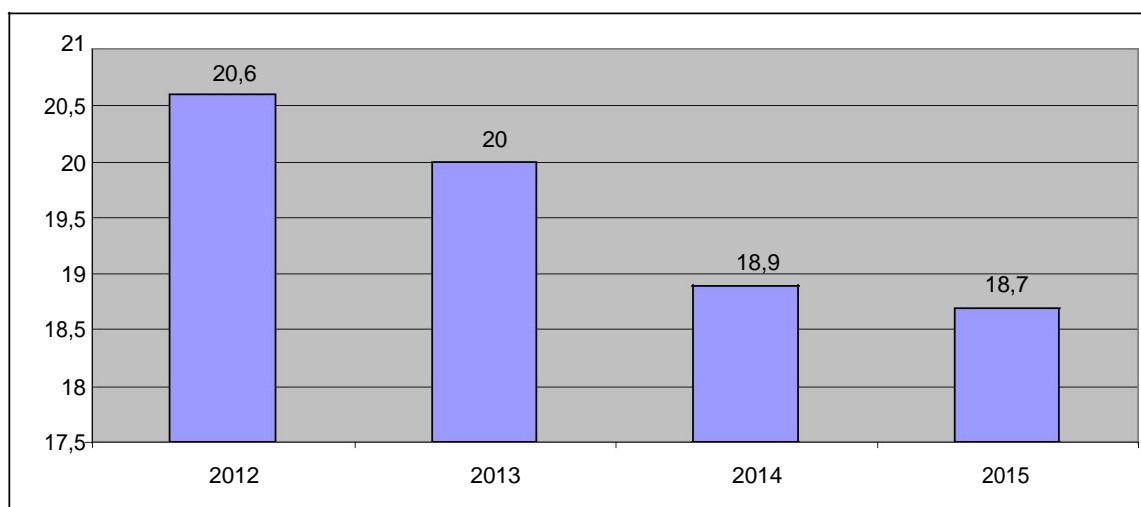
Picture 12. Kazakhstan's egg production in 2012-2015, in million units



Source: Statistics Committee of Kazakhstan, 2015

The dynamics of egg production in Kazakhstan are somehow similar to the dynamics of milk production, in the context that it tends to steadily decrease. Thus, in 2015, the total number of eggs produced in Kazakhstan amounted to 1,233.35 million nits, which figure was 5.3% lower as compared to 2012. This tendency further confirms the overall trend toward the contraction of agricultural output in Kazakhstan in recent years.

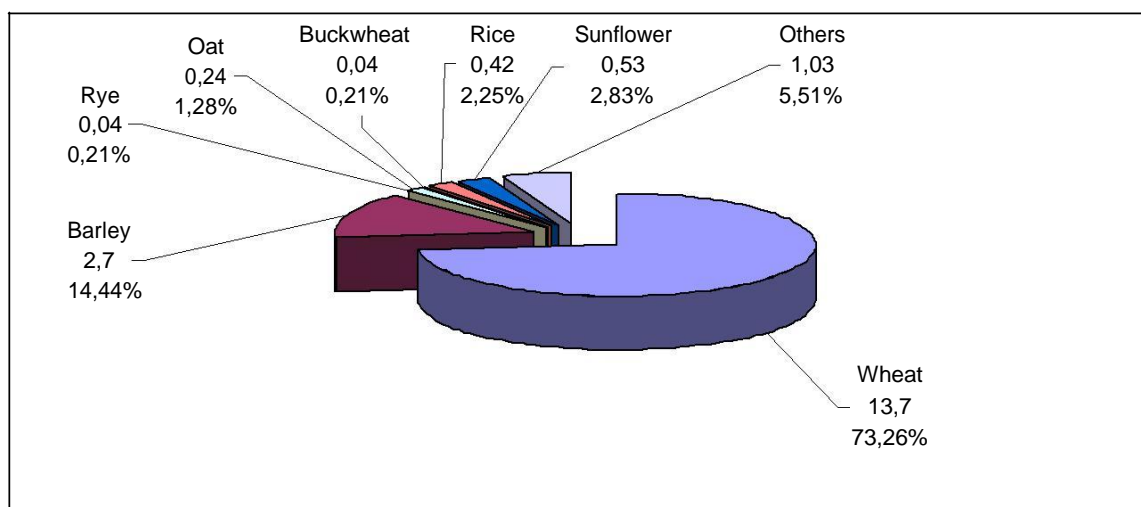
Figure 13. Kazakhstan's production of cereals in 2012-2015, in million tons



Source: Statistics Committee of Kazakhstan, 2015

Together with cattle breeding, crop farming represents another major segment in the Kazakh agricultural sector. As can be seen from Figure 13 above, the overall dynamics of cereal production in Kazakhstan have remained negative in recent years. Thus, as the chart illustrates, the total amount of cereal production in Kazakhstan made up 18.7 million tons in 2015, which was 1.1% lower as compared to 2014 or 9.3% lower as compared to 2012. The dynamics of crop farming contraction in Kazakhstan are even more intensive as compared to cattle breeding, which is another major negative tendency in the development of Kazakhstan's agricultural sector.

Figure 14. Kazakhstan's structure of cereal production in 2015, in million tons and %



Source: Statistics Committee of Kazakhstan, 2015

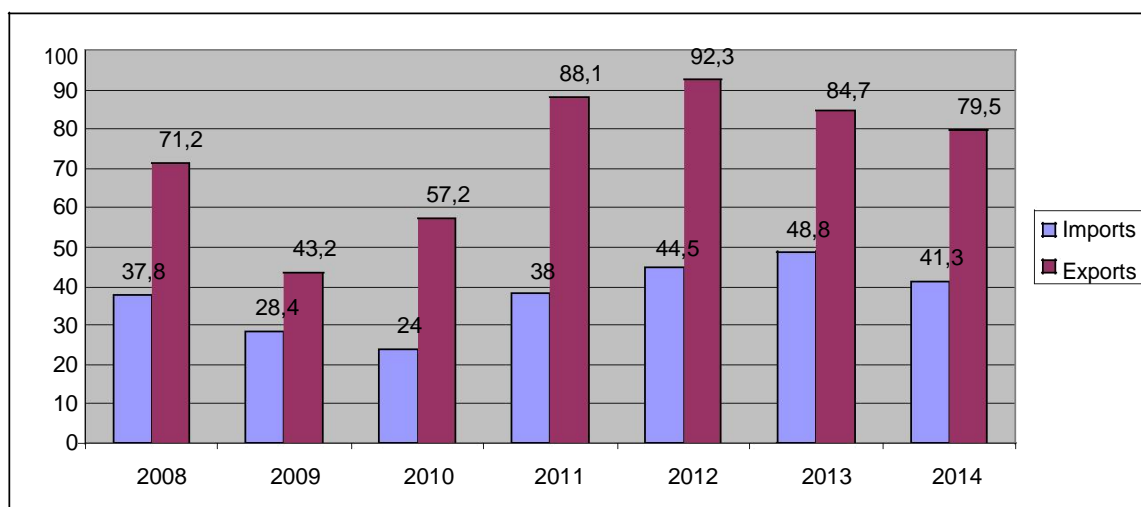
Figure 14 above reveals the structure of cereal production in Kazakhstan in 2015. As can be seen from the chart, the most important culture in cereal production in the country is wheat which accounts for 73.26% in the total cereal production structure (13.76 million tons). Other important cereal cultures in the state include barley (14.44%), sunflower (2.83%), rice (2.25%), oat (1.28%), buckwheat and rye (0.21% each). As identified earlier, the main issues in the development of crop farming in Kazakhstan is the small total area of arable lands.

Overall, it can be stated that the agricultural sector of Kazakhstan has been demonstrating negative development dynamics in recent years, despite the existing favorable preconditions for its prosperity. In the next chapter of the research, the focus will be put on the investigation of the country's foreign trade activities.

3.3 Overview of Kazakhstan's foreign trade activities

Taking into account the specificities of the Kazakh economy described earlier in this thesis, it is particularly worth investigating more in detail the current trends in the country's foreign trade activities.

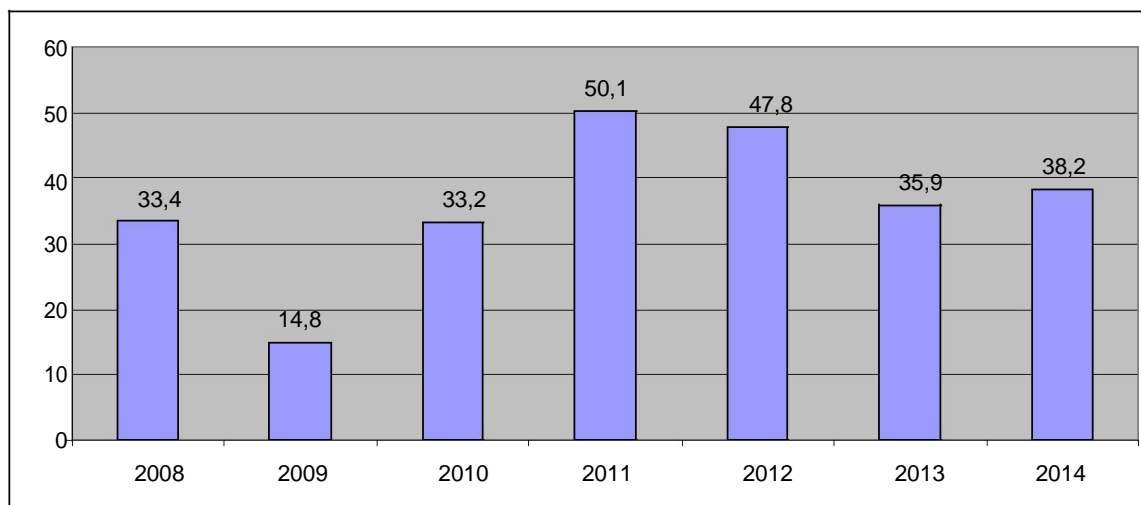
Figure 15. Kazakhstan's dynamics of imports and exports in 2008-2014, in USD billion



Source: International Trade Center, 2016

Figure 15 above reveals the latest dynamics of Kazakhstan's total imports and exports. As can be seen from the chart, both Kazakhstan's exports and imports have been declining lately. After the 2008 global financial and economic crisis, Kazakhstan's economy recovered, and this resulted in a major boost in the country's exports and imports in the subsequent years. However, in 2013, Kazakhstan's exports started dropping. In 2014, their aggregate value amounted to USD 79.5 billion, and thus was 6.2% lower as compared to 2013 or 13.9% lower as compared to 2012. The country's imports started dropping a year later. Namely, in 2013, their value amounted to USD 48.8 billion (+9.7% as compared to the previous year), and subsequently dropped to USD 41.3 billion in 2014 (-15.4% as compared to 2013). Overall, the fact that the total trade turnover of Kazakhstan has been decreasing lately testifies that Kazakhstan's intensity of cooperation with foreign partners is lowering, and this contributes to the negative tendencies in the Kazakh national economy. However, it should also be noted here that the pace of decline in imports is faster than the pace of decline in exports.

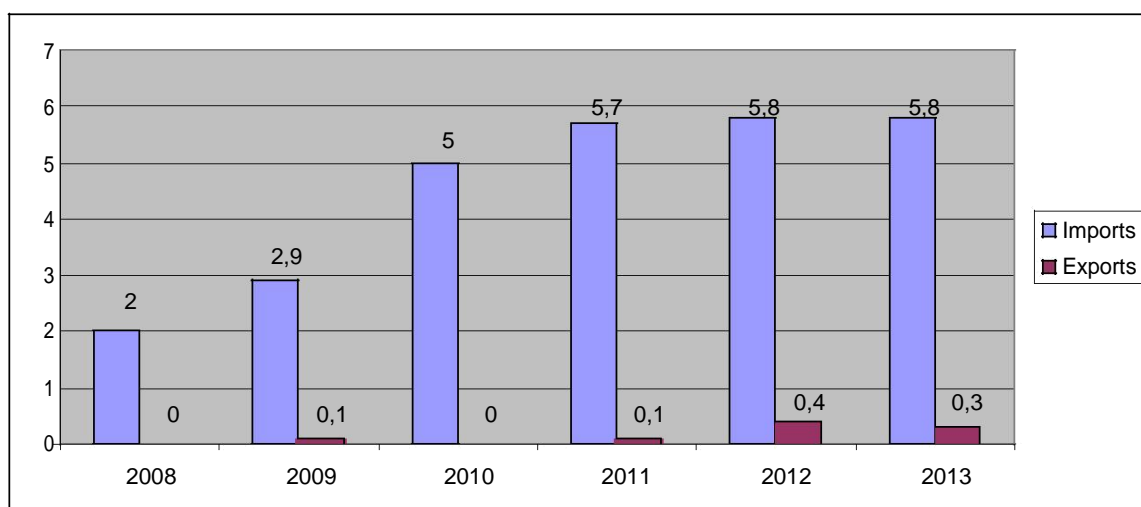
Figure 16. Kazakhstan's dynamics of current account balance in 2008-2014, in USD billion



Source: International Trade Center, 2016

As can be seen from Figure 16 above, the current account balance of Kazakhstan, i.e. the difference between the country's exports and imports, has remained steadily positive in recent years. Although it had been declining in the period from 2011 to 2013, already in 2014, it grew by 6.4%, and amounted to USD 38.2 billion. This was mainly preconditioned by the fact described above, namely the more rapid relative decrease in imports as compared to exports. Nevertheless, the fact that Kazakhstan's current account balance still remains positive is Kazakhstan's economic advantage, as it means the greater resources available to the country through its foreign trade activities.

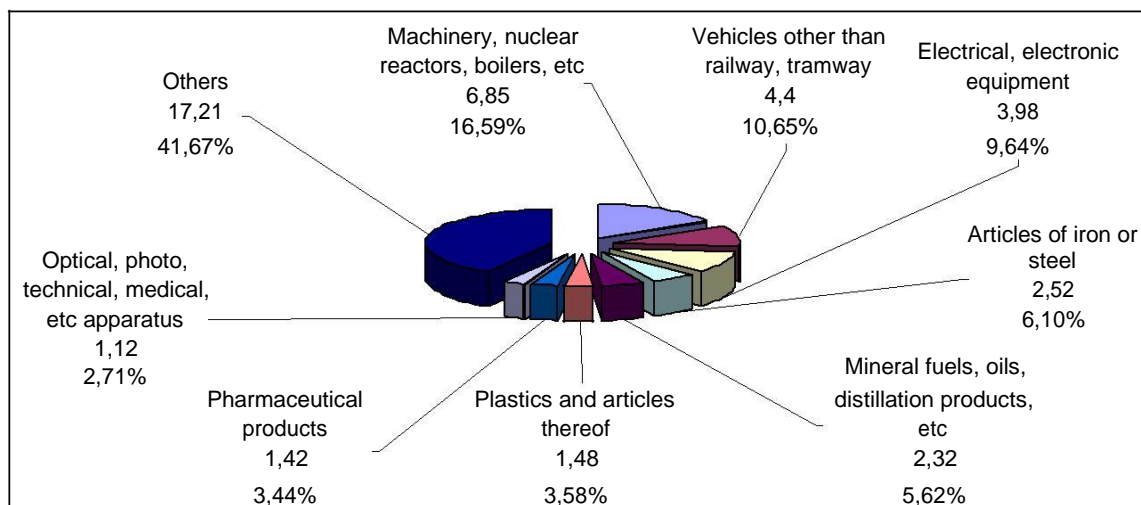
Figure 17. Kazakhstan's dynamics of information and communication technology imports and exports in 2008-2013, in % of Kazakhstan's imports and exports, respectively



Source: World Bank, 2015

Figure 17 above illustrates the share of information and communication technology products in the total foreign trade of Kazakhstan. As can be seen from the chart, the structure of highly technological goods in Kazakhstan's exports has remained low in recent years, and moreover, decreased from 0.4% in total exports in 2012 to 0.3% in 2013. At the same time, the share of highly technological products in the country's imports has remained relatively stable in recent years, and amounted to 5.8%. Those trends prove that Kazakhstan tends to export raw materials or ordinary industrial items, as the country's field of research and development is not much powerful. At the same time, Kazakhstan is forced to import considerable volumes of technological products from abroad.

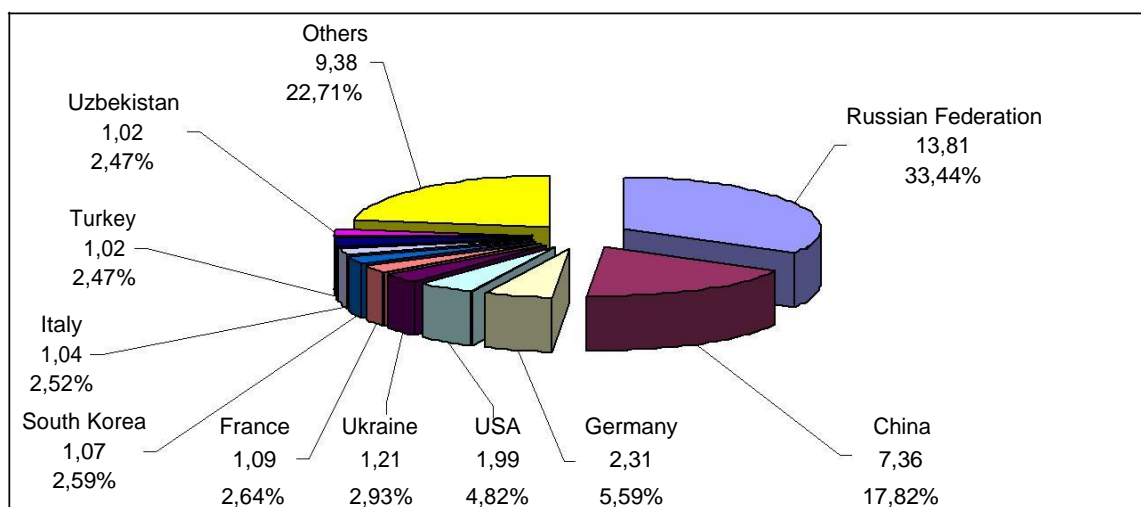
Figure 18. Kazakhstan's structure of imports by products, as of 2014, in USD billion and %



Source: International Trade Center, 2016

As can be seen from Figure 18 above, Kazakhstan's structure of imports is dominated by industrial products, namely machinery, nuclear reactors and boilers (16.59% in the country's total imports), vehicles other than railway and tramway (10.65%), and electrical and electronic equipment (9.64%). At the same time, important shares belong to some other technological products such as pharmaceutical preparation, optical equipment, etc. This structure further proves that Kazakhstan's imports are product-oriented (and not raw material-oriented), and are destined to cover the lacking powers of the country's domestic production for satisfying the local demand.

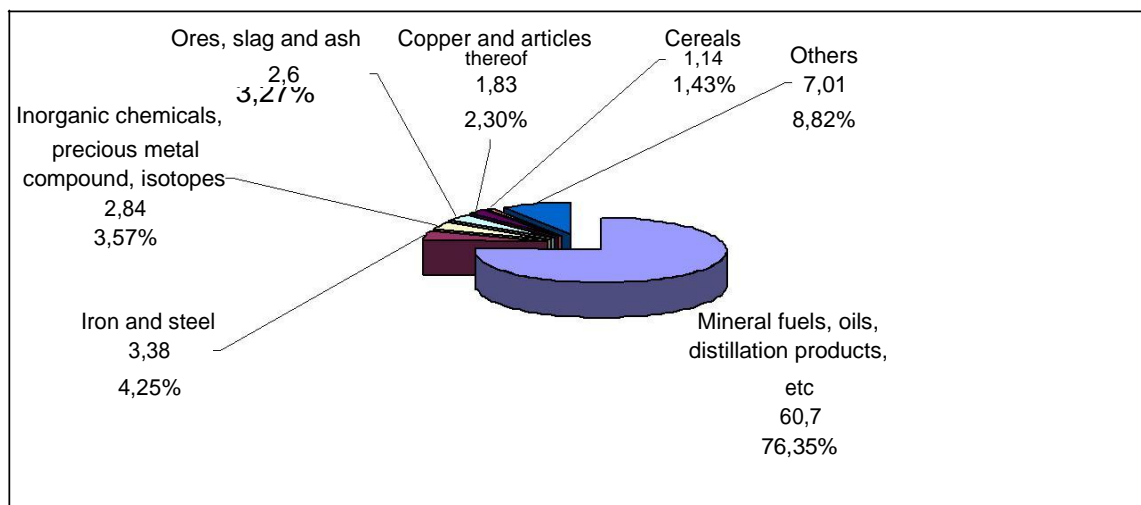
Figure 19. Kazakhstan's structure of imports by countries, as of 2014, in USD billion and %



Source: International Trade Center, 2016

As Figure 19 illustrates, Kazakhstan's top foreign partner in terms of imports is the Russian Federation (total imports of USD 13.81 billion in 2014, or 33.44% of Kazakhstan's aggregate imports). Other prominent import partners include China (17.82%), Germany (5.59%), USA (4.82%), Ukraine (2.93%), France (2.64%), South Korea (2.59%), etc. Overall, a conclusion can be drawn that Kazakhstan imports most from its CIS neighbors, Asian developed industrial countries and developed Western states, which further confirms the product orientation of Kazakhstan's imports.

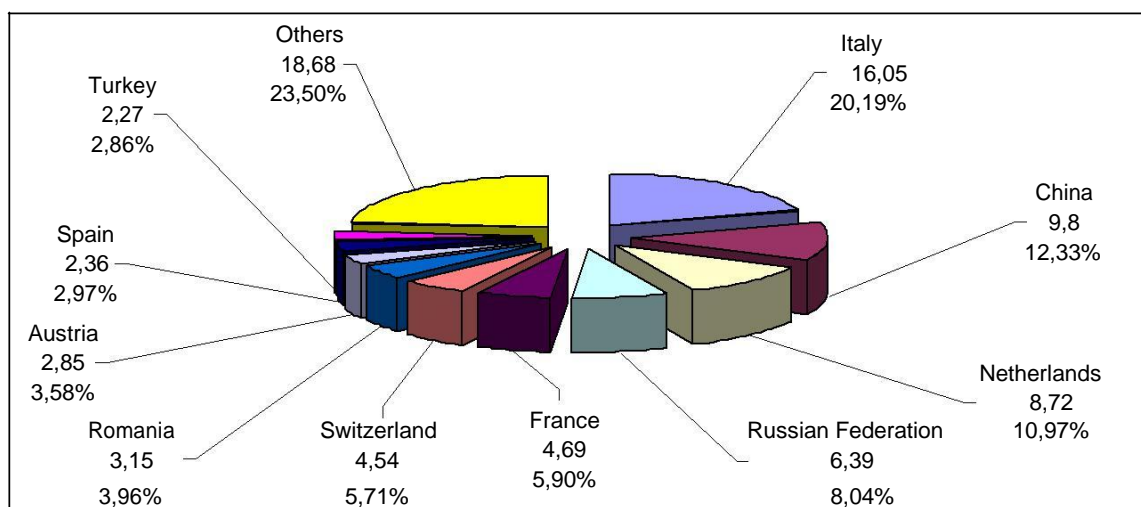
Figure 20. Kazakhstan's structure of exports by products, as of 2014, in USD billion and %



Source: International Trade Center, 2016

As can be seen from Figure 20 above, Kazakhstan's structure of exports is dominated by raw materials, and namely by hydrocarbons. Thus, the top exported product of Kazakhstan is mineral fuels, oils and distillation products (USD 60.7 billion, or 76.35% of aggregate exports in 2014). Other prominent exported items include iron and steel (4.25%), inorganic chemical, precious metal compounds and isotopes (3.57%), ores, slag and ash (3.27%), etc. All in all, it can be stated, that Kazakhstan is much dependent on the exports of its raw materials, which is not inherent of industrially developed countries, and which rather testifies the great vulnerability of the Kazakh economy, particularly taking into account the dropping global prices for oil as described earlier in this research.

Figure 21. Kazakhstan's structure of exports by countries, as of 2014, in USD billion and %



Source: International Trade Center, 2016

As can be seen from Picture 21, Kazakhstan's top export destinations differ from the import ones. Namely, the country's top export partners include Italy (20.19%), China (12.33%), Russia (8.04%), France (5.9%), Switzerland (5.71%), etc. I.e. it can be stated that most top export partners of Kazakhstan are Western European countries. Their great shares are preconditioned by the European Union's programs aimed at diversifying the imports of energy from Russia, within which Kazakhstan's role in the supplies of hydrocarbons is prominent.¹⁰

Taking into account the current trends in Kazakhstan's foreign trade, in the next chapter of the thesis, the focus will be put on the investigation of the country's agricultural sector's role in foreign trade.

3.4 Agricultural sector in Kazakhstan's foreign trade

When investigating the agricultural sector's role in Kazakhstan's foreign trade, it should be noted that the country is much dependent on the imports of unprocessed and processed food products. Namely, in contrast to the overall patterns in Kazakhstan's foreign trade as

¹⁰ European Commission. *Kazakhstan*. <http://ec.europa.eu/trade/policy/countries-and-regions/countries/kazakhstan/>

shown earlier in this research, where the total amounts of the country's exports exceed the ones of its imports, in the agricultural sector, Kazakhstan's current account balance is negative.

Figure 22. Kazakhstan's exports and imports of agricultural products in 2014, in USD billion

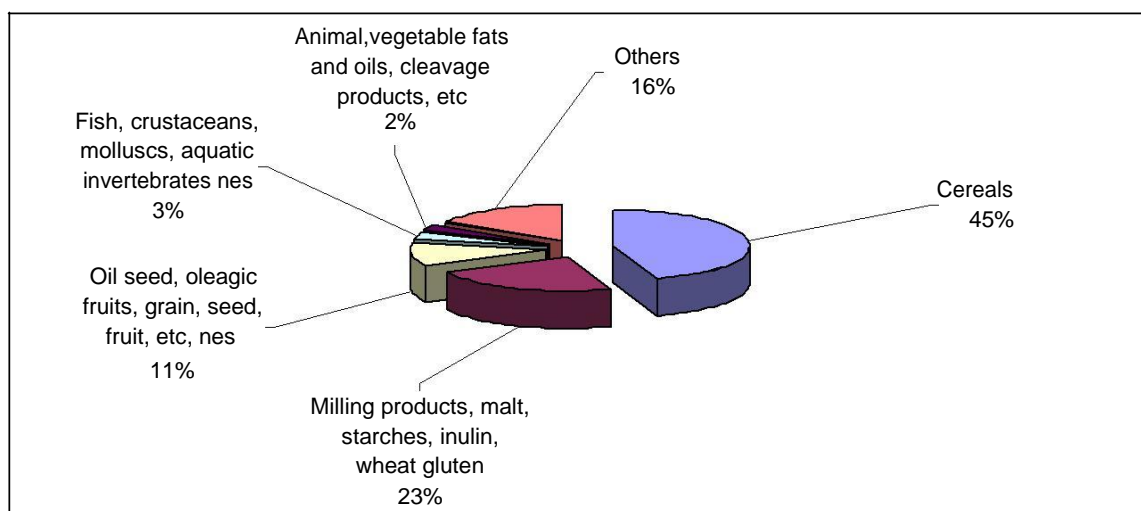


Source: International Trade Center, 2016

As can be seen from Figure 22 above, in 2016, the total exports of agricultural products from Kazakhstan amounted to 2.54 billion USD, and the country's total imports made up as much as USD 4.13 billion, which means that the country's current account balance in the agricultural sector was negative and amounted to USD -1.59 billion.

The above trend is negative for Kazakhstan, as it testifies that the country is currently unable to effectively satisfy its population's needs in food resources, and is much dependent on the supplies of agricultural products from abroad. As a result, this contributes to negative foreign trade dynamics, and poses potential threats to the country in both the economic sector and the social field.

Figure 23. Kazakhstan's structure of agricultural exports in 2014

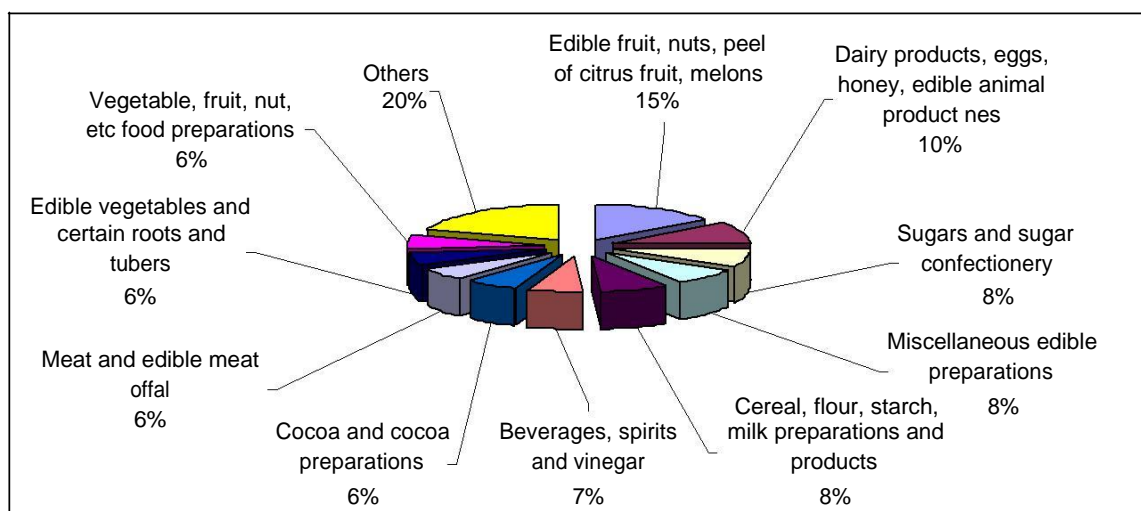


Source: International Trade Center, 2016

Figure 23 above illustrates the product structure of Kazakhstan's agricultural exports in 2014. As can be seen from the chart, almost one half of the country's agricultural exports is constituted by cereals. Such a high share may be explained by the favorable climate and weather conditions in the country as described earlier in this research, and by the specificities of the Kazakh economy's development within the Soviet Union and after its collapse. Other important agricultural products in terms of national exports include milling products, malt, starches, inulin, and wheat gluten (23% in Kazakhstan's total exports), oil seed, oleagic fruit, grain, seed, fruit, etc. (11%), and so on.

Thus, based on the evaluation of Kazakhstan's agricultural exports, a conclusion can be drawn that the country's agricultural sector is much dependent on the production of cereals, and the exports of cereals in either unprocessed or processed form give the largest part of the sector's proceeds. In my opinion, this testifies the lack of sufficient diversification of the Kazakh agricultural sector, and preconditions its impaired effectiveness on the international scale.

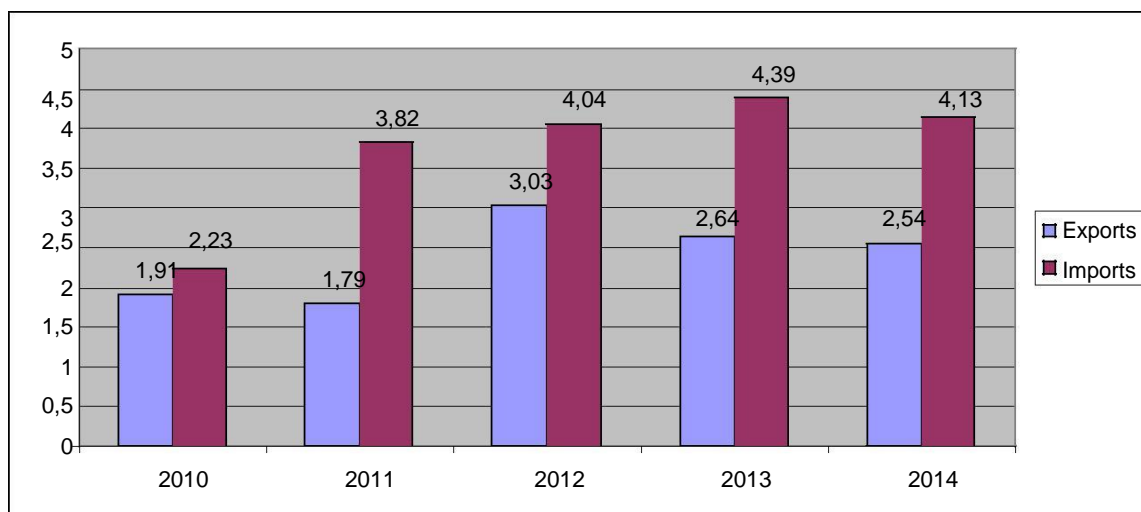
Figure 24. Kazakhstan's structure of agricultural imports in 2014



Source: International Trade Center, 2016

As can be seen from Figure 24 above, the structure of Kazakhstan's agricultural imports is much more diverse than the one of exports. The main imported items in Kazakhstan's agricultural sector include edible fruit, nuts, peel of citrus fruit, and melons (15%), dairy products, eggs, honey, and edible animal products (10%), sugars and sugar confectionery (8%), etc. Overall, the above structure of agricultural imports allows drawing a conclusion that the Kazakh agricultural sector is much dependent on foreign agricultural supplies in a great number of economic segments, which makes it even further more vulnerable on the international scale. While the country can export effectively only a much limited range of agricultural products, it requires importing an extensive range of agricultural products for effectively satisfying the needs of the population.

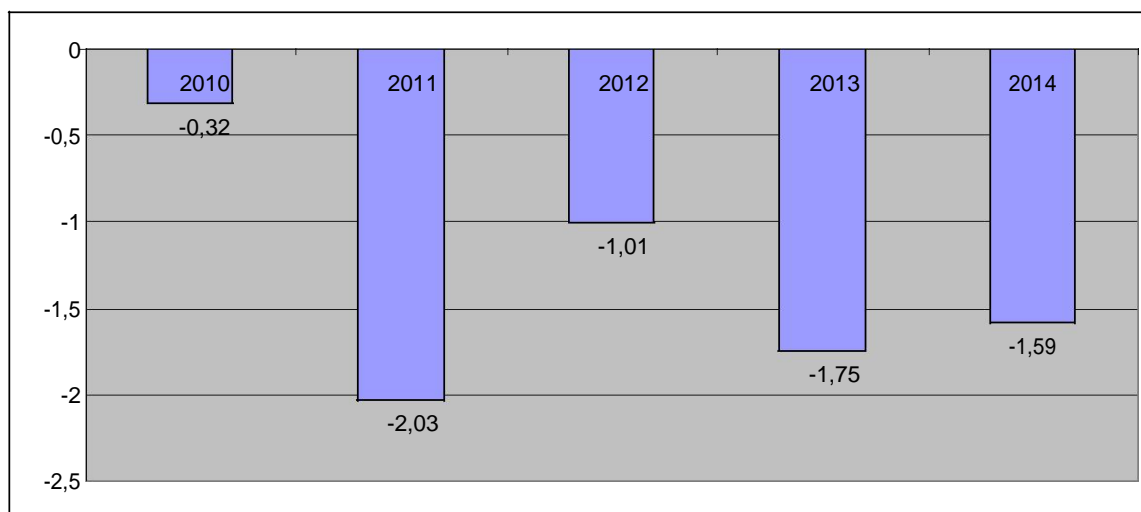
Figure 25. Dynamics of Kazakhstan’s foreign trade in agricultural products in 2010-2014, in USD billion



Source: International Trade Center, 2016

Figure 25 above illustrates the recent dynamics in Kazakhstan’s foreign trade in agricultural products. As the chart reveals, the country’s agricultural exports have been dropping in value lately. Thus, in 2014, the aggregate amount of agricultural exports from Kazakhstan made up USD 2.54 billion, which figure was 3.8% smaller as compared to the previous year, and 16.2% smaller as compared to 2012. Kazakhstan’s agricultural imports had been growing until 2014, when the trend reversed to negative. Thus, in 2013, the country’s aggregate agricultural imports amounted to USD 4.36 billion, and were 8.7% greater as compared to 2013, or 96.9% greater as compared to 2010. However, in 2014, they dropped by 5.9%, and made up USD 4.13 billion.

Figure 26. Dynamics of Kazakhstan's current account balance in the agricultural sector in 2010-2014, in USD billion



Source: International Trade Center, 2016

As can be seen from Figure 26 above, Kazakhstan's current account balance generated through foreign trade has lately remained negative steadily. However, in 2014, its negative value contracted by 10.1%, and grew from USD -1.75 billion to -1.59 billion. His trend is positive for Kazakhstan's trade in agricultural products, however the steady negative values of the country's current account balance in the agricultural sector significantly affect its opportunities of economic and social development.

It should also be noted that as of 2014, Kazakhstan's aggregate agricultural exports amounted to only 3.2% of the country's total exports, while the share of agricultural imports in total imports made up as much as 10%. This tendency further emphasizes Kazakhstan's negative situation in the foreign trade in agricultural exports.

Overall, the findings revealed in this chapter allow stating that as of today, Kazakhstan's situation in the foreign trade in agricultural products is unfavorable for the country. Its imports are much higher as compared to exports, and the exports of agricultural products are not diversified. Due to the lack of sufficient domestic production, Kazakhstan is forced to import a wide range of agricultural products, and thus is much dependent on foreign supplies. This significantly limits the country's growth opportunities in both the agricultural sector and the economy in general.

Taking into account those facts, in the next chapter of the thesis, the possible future trends in the development of Kazakhstan's agricultural sector in the context of foreign trade will be analyzed more in detail.

3.5 Possible future trends of Kazakhstan's agricultural sector's development in the context of foreign trade

In addition to the current tendencies in Kazakhstan's agricultural sector and the country's trade in agricultural products as described earlier in this research, the possible future trends in the development of the country's trade in agricultural products are largely shaped by the programs implemented by Kazakhstan for the development of its agriculture.

As of today, the development of the agricultural sector in Kazakhstan is governed by the sectoral agro-industrial complex development program Agribusiness-2020. This program was adopted by the Kazakh government in 2012, and was destined to ensure the steady development of the Kazakh agriculture in the period from 2013 to 2020. The main aspects stipulated in the program state that the country's key goal in the agricultural sector is to ensure its financial recovery. For this purpose, the program establishes bailout plans for entities in a state of deep crisis, namely involving the funds of foreign investors. Also, the program establishes an extensive legal and practical framework for the provision of grants and subsidies to the Kazakh agricultural sector (Global Agricultural Information Network 2015).

Although the program indeed foresees steps important for maintaining the effective development of Kazakhstan's agricultural industry, its major drawback is the fact that Agribusiness-2020 mostly deals with the state support of agriculture, while it lacks any effective mechanisms established for the effective reformation of the Kazakh agriculture. I believe that the measures set forth in this state program may bring short-term positive effects in terms of the output generated by the Kazakh agricultural enterprises. However, in the mid- and long-term perspectives, such activities will only lead to the excessive use of the country's funds, without granting any steady benefits.

In order to enhance the performance of its agricultural sector, Kazakhstan should focus on the diversification of this industry, which should lead to the country's expanded

opportunities of exports. Namely, despite the existing natural limitations, Kazakhstan has great prospects for effectively developing cattle breeding and the cultivation of particular plant cultures in its territory. This should contribute to the country's stronger position in foreign agricultural trade, and should reduce Kazakhstan's dependence on wheat as the major source of agricultural export proceeds. Moreover, this should ensure the better satisfaction of the Kazakh population's needs in all respects, and therefore should allow the country reducing the value of its imports.

The improved situation with Kazakhstan's current account balance in the foreign trade in agricultural products should grant the country significant economic benefits, and should make not only the Kazakh agricultural sector, but also the country's national economy in general more stable and less vulnerable to any external threats which might exist whatsoever.

In this context, I believe that the Kazakh authorities should focus on several key-priority directions in order to achieve the maximum effects as described above. Namely, in my opinion, the country should seek further liberalizing its agricultural sector. Although this may imply greater risks to the domestic agricultural manufacturers in the country, such reforms should also contribute to the growing competition in the sector, which should in its turn increase the overall economic output and the quality of products in the country's agriculture.

Moreover, the subsequent liberalization of the Kazakh agricultural market would provide the country with additional financial resources brought by foreign investors. On the one hand, this should allow for the more rapid and more efficient development of the Kazakh agriculture, and on the other hand, this should also allow the government reducing its agricultural subsidy programs, focusing on other priority sectors of the national economy.

The second key field in which reforms should be implemented is national governance. On the one hand, Kazakhstan should seek minimizing the manifestations of corruption in the national economy, and on the other hand, the government should limit its impact on the national economy in terms of its regulation in order to achieve the situation in which the free market conditions would be ensured for all economic actors.

In case that Kazakhstan is able to effectively fulfill the above recommendations, the country will have favorable preconditions for effectively diversifying its agricultural

sector, and for making it stronger against the impact of both internal and external threats, thus achieving greater opportunities in the field of foreign trade in agricultural products, and in the long run, the better opportunities for the development of the country's entire national economy.

4 Conclusion

Any country's effective economic development is largely preconditioned by the government's ability to ensure the steady and sustainable development of all its economic sectors. This is a key prerequisite for the full-fledged fulfillment of the population's needs in all respects. In this context, the development of the agricultural sector plays a particularly important role, which is due to the fact that the output generated by agriculture affects not only the respective state's overall economic performance, but also the satisfaction of the social sector's needs, namely the population's needs in food products.

The effective development of any country's agricultural sector depends on a great number of differently vectored factors. Namely, among other things, such factors include the climate and weather conditions available, provision with soils and arable lands, and other external preconditions, as well as the government's ability to implement effective sectoral reforms, raise foreign investment, guarantee the liberalization of the market, and so on.

Kazakhstan's national economy has been demonstrating negative growth tendencies in recent years, which reflected in the country's overall decreased output, and the lack of opportunities to ensure the full-fledged development of the Kazakh economy. Those negative tendencies also touched the country's agricultural sector, and therefore Kazakhstan's key indicators in it have been steadily deteriorating in recent years, thus bringing harm to the country's overall economic performance.

However, despite the negative economic tendencies, Kazakhstan has still been able to maintain its positive current account balance in foreign trade, which means that the country's exports are greater than imports. Against this background, the negative current account balance in the country's foreign trade in agricultural products only emphasizes the problems existing in Kazakhstan's agriculture.

Namely, as of today, Kazakhstan's imports of agricultural products constitute as much as 10% of its total imports, while the share of agricultural exports in total exports amounts to only 3.2%. Furthermore, Kazakhstan's agricultural exports are mostly driven by wheat and wheat products, which testifies the country's limited growth opportunities in this segment, while Kazakhstan's imports are constituted by a wide range of different food products. Such structure of imports means that Kazakhstan is unable to effectively fulfill its needs in

agricultural products without any foreign supplies, while the company's exports are much smaller and weaker.

In order to reverse the situation in the agricultural sector and to ensure its positive contribution to Kazakhstan's overall economic development, the country's national authorities should focus on the reformation of the Kazakh national economy. Namely, the key steps to be undertaken for improving the overall economic conditions should include the elimination of corruption and overregulation of the country's economy, and at the same time the greater attraction of foreign investors' fund in the Kazakh agricultural sector through its liberalization.

The fulfillment of the above recommendations should allow the Kazakh government implementing effective reformation of the country's agricultural sector, and namely ensuring its diversification for the purpose of raising the industry's competitiveness on the international scale. In its turn, the development of the Kazakh agricultural sector and its growing role in foreign trade should allow the country achieving improved economic output on the one hand, and effectively satisfying the needs of the population in agricultural products on the other hand.

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