

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economic Policy and Business  
Administration**



## **Bachelor Thesis**

**The effectiveness of foreign economic interaction  
People's China and the Kazakhstan**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

## BACHELOR THESIS ASSIGNMENT

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Thesis title

**Účinnost zahraniční ekonomické interakce Čínská lidová republika a Republika Kazachstán**

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### Objectives of thesis

The aim of the thesis is to study the process of foreign economic interaction of the Republic of Kazakhstan with the People's Republic of China, substantiate approaches to assessing its effectiveness, and also, on this basis, develop promising directions for the development of foreign economic relations of states.

This goal has caused the need to establish the following objectives:

- study of the economic essence of the process of interaction between countries at the present stage;
- study of the problem of achieving economic efficiency of foreign economic interaction between countries;
- generalization of the experience of the development of foreign trade in the studied partner countries;
- the identification of quantitative and qualitative indicators reflecting the peculiarities of foreign trade relations, investment cooperation between the Republic of Kazakhstan and the PRC, and on the basis of the analysis to assess the existing level of interaction;
- development of directions and ways of further improvement of foreign economic interaction of the studied countries and determination of quantitative and qualitative parameters of its development in the future.

### Methodology

The theoretical and methodological basis of the study was provided by:

- modern works of leading domestic and foreign scientists-economists;
- normative legislative and legal acts, contracts, and agreements;
- statistical data of the Agency of the Republic of Kazakhstan and the PRC, as well as materials of the customs authorities of the two states, etc.;
- materials of periodicals, Internet resources.

In the process of economic research, methods of economic analysis were used: systemic methods of scientific generalization, methods of scenario forecasting, and economic and mathematical statistics, etc.

**The proposed extent of the thesis**

35 – 40 pages

**Keywords**

Import, export, partnership, services, products, foreign trade indicators

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**Recommended information sources**

E.T. Nurmaganbet.(2013) Current problems in foreign trade of the Republic of Kazakhstan  
Johan Engvall Central Asia-Caucasus Institute.(2016) Kazakhstan 2041: the Next Twenty-Five Years.  
N. Ermek Talantuly.(2012) Modern foreign trade activities of Kazakhstan Republic  
Nurbek Achilov.(2016) Developing Export Potential in Kazakhstan: An Overview of Key Theories and  
Recommendations for Policy Development  
Nurettin Can.(2014) An overview of Kazakhstan budgetary system.

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## **Declaration**

I declare that I have worked on my bachelor thesis titled "Various approaches to measuring quality of life in the regions 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 any copyrights.

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**Acknowledgement:**

I would like to thank my thesis supervisor for his advice and support. I appreciate the time Doc. Ing. Cívín spent correcting my work and directing my thoughts back on track. All the way from beginning to the end he inspired me with his broaden horizon regarding not only global economic state of affairs but the knowledge in specifical questions about my motherland Kazakhstan, which influenced on me a lot. I am happy to study from such a great teacher, and qualified specialist as Doc. Ing. Lubomir Cívín.

# **The effectiveness of foreign economic interaction the people's China and the Kazakhstan**

## **Abstract**

This thesis is devoted to the analysis of foreign economic activity and processes of foreign investment in the Kazakhstan. The paper examines the foreign trade turnover of Kazakhstan, its main trading partners, the structure of goods and services of export and import. The current trends in foreign trade of Kazakhstan are identified and a bias is made to consider the relationship with one of the most important partners - the People's China and the priority directions of development of the Kazakhstani economy in order to create favourable conditions for doing business. Based on the analysis, the assessment of Kazakhstan's participation in international trade with China was given and the main trends in foreign investment in the country were identified.

**Keywords:** Export and import, international trade, foreign trade turnover, Kazakhstan economy, economic cooperation between Kazakhstan and China, mutual trade, foreign investment

# Účinnost zahraniční ekonomické interakce Čínská lidová republika a Republika Kazachstán

## Abstrakt

Tato práce je věnována analýze zahraniční ekonomické aktivity a procesů zahraničních investic v Republice Kazachstán. Článek zkoumá zahraniční obchodní obrat Kazachstánu, jeho hlavní obchodní partnery, strukturu zboží a služeb exportu a importu. Jsou identifikovány současné trendy v zahraničním obchodu Kazachstánu a je zaujato zvážení vztahu s jedním z nejdůležitějších partnerů – Čínské lidové republiky a prioritních směrů rozvoje kazašské ekonomiky s cílem vytvořit příznivé podmínky pro podnikání. Na základě analýzy bylo provedeno hodnocení účasti Kazachstánu v mezinárodním obchodu s Čínou a byly identifikovány hlavní trendy zahraničních investic v zemi.

**Klíčová slova:** Export a import, mezinárodní obchod, obrat zahraničního obchodu, ekonomika Kazachstánu, hospodářská spolupráce mezi Kazachstánem a Čínou, vzájemný obchod, zahraniční investice

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## Acronyms

BOT – Balance of Trade

CNPC – China National Petroleum Corporation

FDI – FDI

GATT – General Agreement of Tariffs and Trade

GDP – Gross Domestic Product

ILO – International Labour Organization

TOT – Terms of Trade

WTO – World Trade Organization

WTO – World Trade Organization

CIS – Commonwealth of Independent States

CAS – Common Agreement on Supply

# 1 Introduction

This year Kazakhstan has celebrated the 30<sup>th</sup> anniversary of its independence. For the last 20 years, Kazakhstan has gained a stable economy and mainly diversification of economy has expanded as well, however still the dependence on the Oil and Gas industry. Kazakhstan has become a very interesting object for investments on the global arena. Even though Kazakhstan has a big potential in natural resources, it is still seen that a few economic spheres are not well developed and fully used. There are however, so many studies that prove that Kazakhstan is being completed within an economic development. The author assumes that there are so many sectors where Kazakhstan can develop in the future. In addition to the development the other macroeconomic and microeconomic sectors should be overlooked as well.

Today, the main economic interests of the Kazakhstan in relations with the countries of the world community are becoming more and more clearly expressed and consist in the desire for full integration into the world economic system based on the principle of national and economic security, considering potential opportunities and national characteristics. The formation of such a model of integration can be based only on the principles of maintaining sustainable and comprehensive sovereignty not only over natural resources, territory, but also all types of economic activity.

The development of integration and regional processes, the deepening of bilateral cooperation between Kazakhstan and the states, of which Russia, the CIS countries, the USA, the countries of the European Union, Japan, India, Turkey, Iran and, of course, China were identified as the main partners, were identified as priority areas.

According to the OECD (2018) the development of OBOR between two countries will help the qualitative improvement of trade and probably trade regulation.

Today, China invariably adheres to an independent, independent, and peaceful foreign policy, and on this basis develops broad cooperation and exchange with various countries of the world, including the Kazakhstan. Meanwhile, according to many experts, in connection with the changed geopolitical and geostrategic situation, it is necessary to deepen and expand Chinese relations, which requires new breakthroughs in the field of economic policy.

A significant amount of research is devoted to the analysis of cooperation between China and Kazakhstan. The involvement of two countries on the global arena demonstrates the continuous globalization trend, which is needed to maintain an international stability. This cooperation attracts more states to take part in the business activities and benefits both states.

## **2 Objectives and Methodology**

### **2.2 Objectives**

The objective of the Bachelor Thesis is to analyse the relationship between Kazakhstan and People's China. The bilateral trade between these two countries have been progressing from the independence of Kazakhstan, however for the past 5 years, China's prevalence in the economy of Kazakhstan has been quite noticed. Due to this fact, the author is focused on analyzing the trade between these countries and impact of such trades on the economy of Kazakhstan and its GDP growth.

### **2.3 Methodology**

The given Bachelor Thesis is divided into two parts, theoretical part, and practical part. Where theoretical parts are mostly focused on the background of Kazakh's economy and its formation after collapse of USSR. Also, in order to demonstrate the annual changes, the author uses macroeconomic indicators to see the Time-Series development. However, for the deeper analyzation of economic relationship between China and Kazakhstan the author plans to focus on the following criterion:

- Terms of Trade
- Balance of Trade
- Ration of export and import to/from China, from the total export and import.
- Structure of commodities
- FDI
- Policy Framework
- Bilateral Trade
- Silk - Road Project

### **3 Literature Review**

The chapter is dedicated to the basic definitions of economic interactions, examples of different states will be described how and what effect it possessed to the mentioned countries. However, the author plans to start-off with the historical background of Kazakhstan and its beginning partnership with China.

#### **3.1 Formation of economy after collapse of USSR**

Kazakhstan has gained its independence in 1991, December 16th, from that date, the Kazakhstan has become a full subject of international law. After the collapse of USSR, Kazakhstan had experienced a heavy socio-economic crisis and one of the states which was actively involved in integration processes. A program of privatization was carried out in the commodity industries as well as different enterprises that usually form the basis of the country's economy and foreign investment has begun to be actively attracted.

Batalden, S. K., & Batalden, S. L. (1997) stated that the FDI were the core field of economy, when the whole economy of Kazakhstan has seeded its growth. They stated that right after the collapse, all macroeconomic indicators were at the very low level of development, such as: unemployment rate, full stagnation, empty industries, and loss of main business partners of already collapsed USSR, such as China, Europe and etc. The Kazakh Republic had to shift from "Planned economy" to "Market economy", hence many manufactures had to shift their work plan as well.

Pomfret (2016) concluded that during 1991 till 1995, Kazakhstan had to change its political and social reforms to create democratic state with a strong market economy. In order to attract and build a strong partnership with other states, Kazakhstan had to change its criteria and policy system to overcome economic stagnation. The main task which was formed by the government was to create a well-functioned economy by fulfilling liberalization, stabilization, and privatization in different sectors of economy. Nursultan Nazarbayev decided to start a first stage of reformation. From 1992 up to 1995, Kazakhstan had a transition from planned economy to the market economy. The main plan was to fulfil the market with consumer goods. That's why, the agreement with China was signed in 1990's, with the bilateral economic relations. The agreement had a diplomatic essence in a strategy of good neighborliness and settlement of border disputes, which was a very first step of cooperation. Kazakhstan has seen a big advantage in partnering with China, it has sought to benefit from China's dynamism. Kazakhstan has integrated itself into the Asia-Pacific zone of prosperity. Nevertheless, within the first five years Kazakhstan had economic instabilities and decline over and over. The break-up of USSR has brought the decline in demand for heavy industries products that were exported by Kazakhstan traditionally.

Rakhmatulina (2006) stated that the biggest GDP fell by 12,6 percent in 1994, right after announcing the independence of Kazakhstan. She argued that the decline was not that big comparing to the other countries such as: Russian Federation, Belarus, Ukraine and extra.

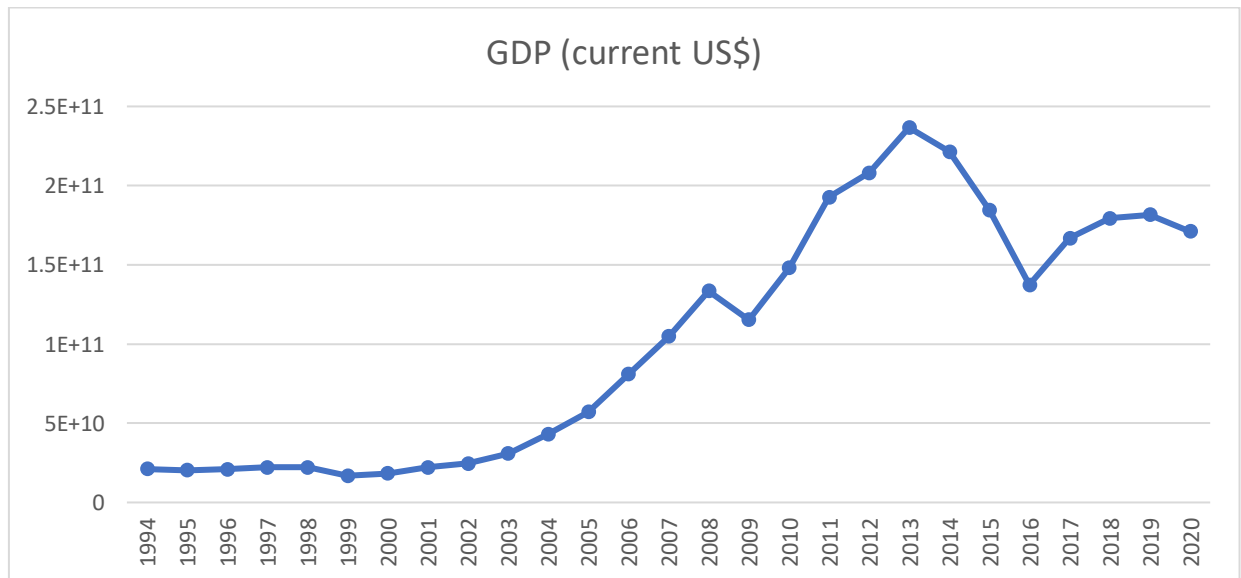
In the years of 1994 to 2000, Macro-economic development and the actions that were taken by Kazakh government were too serious to start an economic reform. Kazakhstan has launched a strategy of 2030, where: Prosperity, security and improvement of citizens welfare were priority. Seven national priorities were identified:

- Privatization of state-owned corporations
- Foreign investment laws updated and an increase of foreign participation
- Lifting of restrictions on trade and foreign exchange transactions
- Financial system modernization
- Labour practice and its laws updated
- Corporate governance and transparency
- Tax upgrading and customs administration

The growth began to initiate by the year of 2000, according to IMF (2007) the economy has recovered and a consistent growth of 8 up to 10 percent has been sustained in the last seven years.

### 3.1.1 GDP of Kazakhstan and its economy performance from 1994 up to 2020.

**Figure 1: GDP of Kazakhstan (Current USD)**



Source: WorldBank (2021), own processing.

Economists called it as a drastic increase in the economy of Kazakhstan, GDP per capita has almost doubled by the year of 2006. The macroeconomic stability began to seed its remarkable

performance all over the state of Kazakhstan, however the financial crisis of 2008, has hit hard every single state and Kazakhstan was not an exception (Besley & Persson,2011).

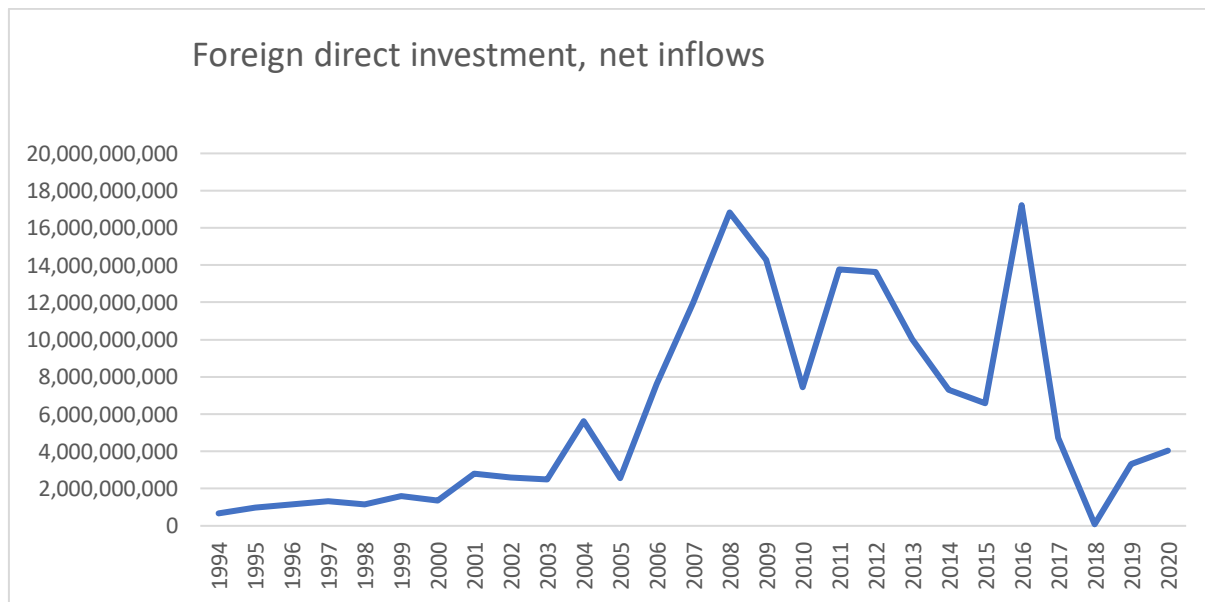
Slowly but surely, Kazakhstan gained lots of interests from abroad, Italy, UK, USA, China, and Russian Federation. The natural wealth was the key factor the all the countries have strived for. Eventually, Kazakhstan has reached the peak in 2001 where its budget was in surplus and public debt was just 6 percent of GDP.

IMF (2007) has warned that the rapid expansion of money and credit might spill over into inflation. The external debt of Kazakhstan's banks was taking much of external borrowings that have risen very drastically in the year of 2007, totaling over 46 billion, which were close to 48 % of GDP. The boiling process in the market has caused a sudden halt in inflow capital to Kazakhstan.

Kazakhstan has almost entered the upper-middle income group of countries in 2014, made it economically and politically strong and powerful state in Central Asia, however, the downturn of oil prices and other commodities in 2014, took different turns, not in the advantage of Kazakh economy, resulting in decline per capita and income, hence decreasing oil gas industry's revenues and its exports. The same thing happened to Australia, who was primary product-exporting country (Lowe, 2015).

Government has established its reforms towards an attraction of FDI. It was basic reforms which focused mainly on the resource-rich oil and gas sectors, including the electricity sector (World Bank, 2007). FDI's inflows were erratic and have increased since 1993. (See The Graph 2).

**Figure 2: FDI, net inflows (USD)**



Source: World-bank, own-processing.

Kazakhstan has consistently recorded a low level of unemployment, which was around 5 percent on an annual basis, according to the International Labor Organization. However, it excludes the

29 % of working age population which meant to be economically inactive. Officially, the level of unemployment among youth is around 3,8 percent, aged 15-24, which indicated a low level, if taken into consideration a third quarter of 2016, the share of youth who didn't have access to trainings, education or employment positions, the percentage level was quite high, around 9,5 percent (ILO, 2016).

Kazakhstan's exchange rate and inflation adjustments is another obstacle for the state to tackle. Kazakhstan's response to external conditions from 2014, posed a threat to its pegged exchange rate (OECD, 2017). Due to the fall in oil prices, the economy of Kazakhstan has slowed down in different ways, not only in the exchange rate adjustment but also with the monetary policy management and fiscal support (IMF, 2017).

Frankel (2013) claimed that the flexible exchange rate is a desirable thing for any state. His theory indicated that, when fixed rates are dealing with external demand shocks, flexible exchange rate is the best tool to deal with external trade shocks. Due-to flexibility of exchange rate and its adjustments to real shocks automatically, within a real time. Hence, Kazakhstan as a natural resource-rich economies, was vulnerable and dependent to those external shocks, especially when oil prices fall. This vulnerability made the state to reduce the exchange rate regime.

After a global crisis in 2008, and due-to its own banking crisis, Kazakhstan has devaluated tenge in February 2009, by 17,5 percent. A strong exchange rate regime had been supported by external environment with rising export prices and due-to a solid growth in goods and services with trading partners, which eventually led to FDI's inflows. However, the NBK has devaluated tenge not by it-self, but mostly because of the United States emerging markets (Horton, 2016).

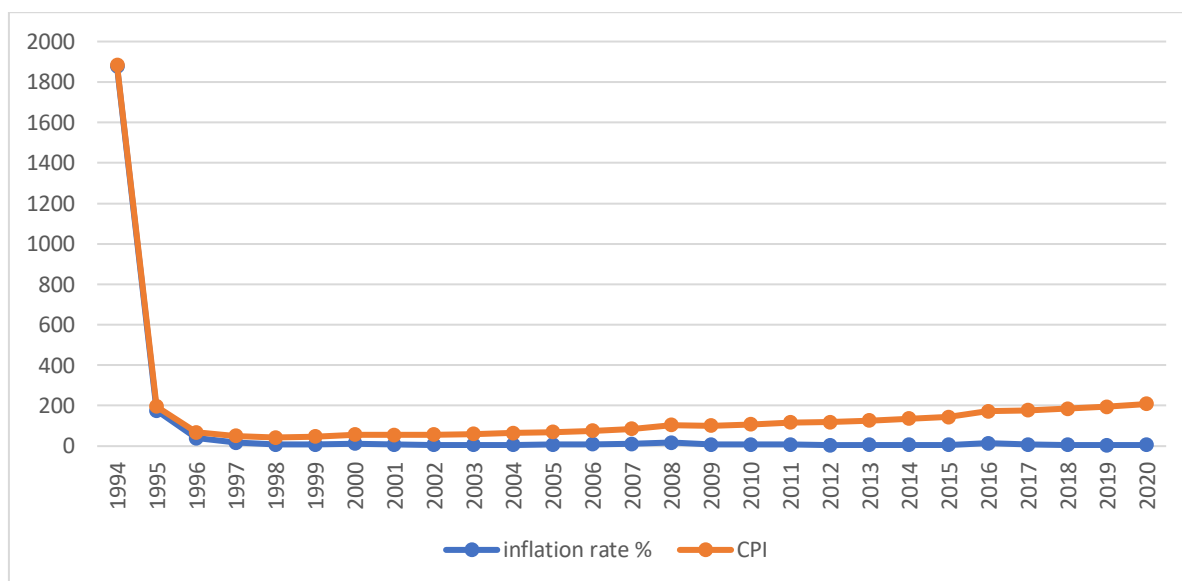
In august, the NBK decided to let the tenge current be, as a part of inflation-targeting regime. NBK (2015) introduced the base rate of 12 percent. The currency at that time was mainly determined by fundamental, external fundamental, which were influenced by the oil price and actions of main partners and their development, especially Russian Federation. Banks were getting by and had insane losses due to loans and interest rate loss, the people had taken advantage of it prior it has happened, some bank went bankrupt and some of them were merging to get by. (Pomfret, 2018). At the same time, he concluded that the real effective exchange rate decreased hence the exports became more competitive internationally and imports became more expensive for a local currency.

The Inflation rate has declined in 2017, as exchange rate pressures subsided (IMF,2017). August of 2015, NBK has adopted a monetary policy where is applied an inflation-targeting regime. It



was done in order to predict the future fluctuations for participants, the inflation targeting regime and base rate gave a predictability overview.

**Figure 3: CPI and Inflation (%)**



Source: World bank, own processing.

### 3.1.2 Diversification of Economy

Kazakhstan which is considered to be a resource rich-country has a comparative advantage in primary products. The more open the economy is, the more extreme their natural resource value per worker, hence the cost will be much lower with international trade, the more specialized the goods and products will be. Since primary products are more unstable in the international market, comparing those of manufactured goods (Williamson, 2008). He also concluded that resource-rich countries face more volatile terms of trade and historically such countries grew way slower than industrialized economies. However, in recent decades, emerging market economies have been affected by two new developments. One is the opening up of several relatively resource-poor developing countries, most notably the PRC, which has boosted demand for commodity exports from resource-rich countries. The other is the policy-driven growth in demand from high-income countries for crop products as feedstock for biofuel production (Williamson 2012). Both have reversed the long-term downward trend in real world commodity prices, and resource-rich countries, including Kazakhstan, have benefited accordingly.

The recent decline in the prices of energy and other commodities has led many resource-rich countries to question once again whether dependence on exports of a few commodities can be

relied upon for sustainable long-term growth. So far, however, real commodity prices in international markets have not fallen to levels of the beginning of this century and are not expected in the medium term, according to the World Bank (Figure 4). However, it is worth revisiting policies, institutions, and investments in public goods to ensure that they provide the most appropriate incentives for the business community to generate strong economic growth, including in non-traditional sectors. However, other resource-rich countries have found it critical to have the right fundamentals and market flexibility (Lowe, 2015).

Kazakhstan as being a relatively high-wage economy because of natural resources per worker, and its competitiveness can also be strong, without relying on the natural resources. Hence, there are other industries to pay attention to, where economy has abilities to demonstrate its effectiveness.

- Construction
- Finance and insurance
- Geological exploration
- Information and communication
- Manufacturing
- Trade
- Real Estate
- Transport and storage
- Agriculture and forestry

According to BNS (2020) the volume index per each sector has increase for between 2016-2021. However, the recent situation with the Covid-19, had negative impacts on different macroeconomic indicators such as rate of unemployment, inflation, and GDP.

The data of FDI (See Figure 2) shows that Kazakhstan has received approximately 20 billion USD of FDI, where one third of that was focused on mining sector. Kazakhstan takes a leading position in attracting FDI' among CIS countries in the Central Asian regions. Kazakhstan has experienced a slowdown in investment projects from 2012 up to 2014. Despite that, the pandemic also influenced the oil prices decline and the dynamic of FDI for the economy has also decreased (Kubaeva, 2021). She concluded that from 2019 to 2020, FDI decreased by 30 percent, amounted of 17,1 billion of USD. However, the mining industry remained attractive for FDI's.

FDI inflows prior to pandemic reached its peak, accounting to 48 percent in gross inflows of FDI and non-mining industries remained modest. The pre-pandemic of 2019, attracted a record volume of 13,7 billion USD (Kubaeva, 2021).

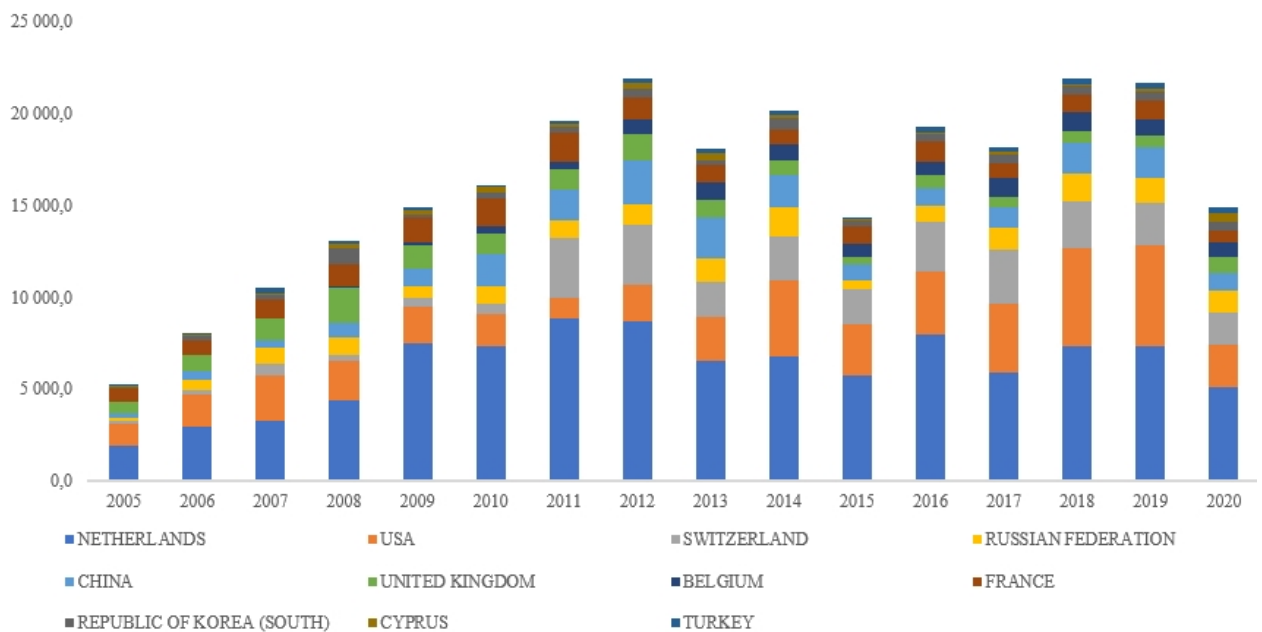
Manufacturing industry took the second place in terms of attraction of investments. It is considered to be the main area of development for Kazakh economy. Generally, investments into the manufacturing sector accounted to 3.16 billion USD by the year of 2020, which shows a decrease by 8,6 percent, comparing 2020. Important to note, that that increase was mainly allocated to the food, beverage and tobacco, textiles products (Kubaeva, 2021). She also stated that a noticeable decline of FDI was observed in production of electrical equipment and machinery equipment.

The retail and wholesale trade of cars and motorcycles amounted to 2,54 billion USD by the 2020. In transport and warehousing, 0,87 billion USD and financial and insurance services over 1 billion of USD. Unfortunately, agriculture, forestry and fishery decreased by 12,6 percent, which account to 12,6 million of USD. The launch of the project of QazTechna bus factory with the Chinese capital, started its operation by the end of 2020 and additionally, the Double-Star project was also supported by the Chinese capital, to launch the production of rubber and tier industry.

In 2020, the real estate together with catering services decreased by 42 percent (81 million USD). Transactions of real estate decreased by 2,1 times (172 million USD). It is worth to mention that the decreased of all sectors together was compensated with the investments into information and communication, which accounted 68 percent of FDI, in comparison with the year of 2019, it accounted of 214 million USD.

According to the OECD (2021) the highest amount of FDI and its contribution was due to Netherlands (5,1 billion which accounted of 30 percent shares of overall FDI). United States made over 2,23 billion USD ,13,12 percent); Switzerland (1,7 billion USD, 10,4 percent); Russian Federation (1,2 billion USD, 7 percent) and China was the last (0,96 billion USD, 5,62 percent of overall FID's).

**Figure 4: Gross of FDI to Kazakhstan by origin countries, USD million**



Source: OECD (2021)

### 3.2 Accession of WTO and Policy Framework

#### 3.2.1 WTO membership and free trade zone with China

In 1990s the focus of the integration with different markets outside the post-Soviet space. Joining the WTO meant to be efficient for Kazakhstan and the president Nursultan Abishevich Nazarbayev tried to pursue its goal. In 1996, Kazakhstan submitted its application to the Secretariat of WTO. The members of WTO (EU, US, China, Canada, Japan, Australia, Switzerland, and others) were in the first seats and started to review its acceptance.

High rate of economic growth and increase in foreign trade motivated Kazakhstan to join the WTO. In March 2006, Nazarbayev devoted his annual address to the people of the country, that if successfully implemented, the Kazakhstan will be one of the top fifty most competitive economies, where he emphasized the WTO accession as a helpful tool of economic modernization and making its economy recognized globally. In February 2008, the Deputy Minister of Industry of Trade announced that Kazakhstan has postponed its completion to 2009. Besides the post-Soviet states, the main importance and promise was trade developing with two economic powerhouses of the Eurasian continent, Europe, and China. Both were major markets for Kazakhstan, with the variety of industries such as: metal, manufactured goods. In 2004, EU has outrun Russian Federation as the main trade partner of Kazakhstan. By the end of 2009, the EU share of turnover was over 40 percent (against Russian's 17 percent) (Khasenova, 2012). China's trade with Kazakhstan was

growing with geometric progression as well. In 1999, it counted for 5,7 percent of Kazakhstan's external trade and 2009 – around 13 percent.

The history of Kazakhstan began from 2015, when the country has joined WTO after long negotiations. Many researchers have blamed that accession in a way that Kazakhstan deficient performance in terms of GDP and trade will decrease. Since Kazakhstan is the rich-natural resource country, Pomfret (2019) called it as a land-locked country. "The Kazakhstan went on a roller coaster since its independence", with several economic ups and downs. Firstly, the economic crisis in 1998 due to Russia, then ramped up its economic potential between 2000-2007, after it the financial crisis hit in 2007-2008, and finally the steep decline on oil prices in 2014, which has impacted economy again.

Integration with China as alternative option wasn't the goal that Kazakhstan was trying to achieve. The fear was and probably still is of Kazakh government is that the Chinese economy will be prevailing within the territory of Kazakhstan. Demographically power of China and most probably political power are clearly present in the society of Kazakhstan (Pomfret, 2019).

Kazakhstan policy in terms of China was always complex (Bozduman, 2019). Astana kept on deepen the relations with Beijing. Over the last several years, the economy of Kazakhstan grew stronger with the acquisitions of prime energy assets by Chinese companies and its massive loans estimated of 15 and 19 billion USD for oil and gas sector, which were taken by Kazakhstani government and companies. While not ready for a full integration with China, two countries signed into agreement of 2006, constructing Khorgos FEZ which became fully operational in 2018. The plan was to have a free trade zone, airport, and touristic activities, which supposed to boost the Bilateral trade between China and Europe. Thus, Kazakhstan wants to benefit from the cooperation but still hesitates to find it-self in the full embrace of its eastern neighbour.

**Table 1: Forms of foreign trade in Kazakhstan**

<b>Form</b>	<b>Content</b>
Foreign trade	Export and import of goods in material form. Commodity exchange operations. The provision of various services. Execution of works in cooperation with foreign contractors
Scientific-technical and scientific production cooperation	Production cooperation. Joint venture. R & D performance. Providing high-tech services (including space services for launching satellites of foreign production into orbit, selling aerial photographs of their territory taken from Russian satellites with high-precision equipment to foreign countries, creating new materials under zero gravity conditions). Trade in licenses, patents, registration of trademarks
Construction and design services	Construction of facilities abroad with the assistance of Kazakh organizations and in our country with the participation of foreign companies. Design and survey work. Modernization and reconstruction of previously constructed facilities. Provision of engineering consulting services (engineering)
Cooperation in the monetary, financial and credit sphere	Obtaining and granting of credits, financing of various projects, payment and insurance operations.
Leasing	Leasing by Kazakh landlords of various machine-building products, vehicles and other objects to foreign tenants. Rent the Kazakh participants of foreign trade activities of technical and other products from foreign lessors, including on conditions of financial leasing.
Cooperation in the field of transport	International transportation of export and import cargo. Transit transportation of foreign goods. Transport-forwarding services.
Cooperation on a compensatory basis	Simple and complex compensation transactions, processing of raw materials (tolling) and other types of counter trade.

Source: Kaliaskarov, 2010.

### **3.2.2 WTO Accession**

After many applications and prolonging its status as a member of WTO, Kazakhstan finally joined it in 2015, with the hope to diversify its economy and discover new trade routes. (World Bank, 2018). The WTO accession coincided with Russian-led Eurasian Economic Union and China's One Belt – One Road. Interestingly enough, the country's GDP decreased right after accession by -0,1 percent in the 2016, by the end of the quarter, since then, the country hasn't demonstrated the economic growth substantially either. Besides its trade potential has decreased either. Typically,

the WTO supposed to boost any economy by allowing it the access to the other markets. Countries should take certain reforms in order to be a part of WTO.

Kazakhstan spent almost twenty years of negotiations in order to access the WTO. The entry of WTO gave a competitiveness of domestic production (Hindley, 2008). He also stated that the membership will be a significant boost from a transition economy to a market economy for Kazakhstan.

Sarieva (2015) also believed that enormous natural reserves and human capital with its skilled labour can make Kazakhstan competitive globally after the membership. He also stated that the most benefiting sectors will be metallurgy, transport, chemical and consumer goods.

However, the (Amirbekova, 2017) mentioned that that the low and middle income would gain much of from the accession.

Balzhigit and Jun (2018) compared China's and Kyrgyzstan's trade balance when accession of both countries was complete towards WTO and their trade balance. They proved that China had a positive trade balance while Kyrgyzstan has slightly suffered, hence they concluded that in Kazakhstan case accession, could happen the same thing, it won't gain much of the benefit from accession. In addition, Kazakhstan didn't have any compatible brands, technologies and products. As it was predicted, right after the accession the imports increased due to reduction of tariffs and imports decreased for Kazakhstan, due to a lack of competitiveness. They analysed the argument by 24 percent drop in trade surplus only for the first year, right after the accession. Controversially, Kalaganova (2019) argued that the trade balance is the natural phenomena during the early years of the accession.

Madiyarova (2019) concluded that the hopes Kazakhstan governors had, didn't fully come true and didn't really lead to such success as it was expected. He also described the WTO as the institution which was created by developed states to dictate the rules for entry and the entire legal framework, basically, what Kazakhstan sells today, it can easily be sold without accession to the WTO.

All of experts from Kazakhstan remain neutral regarding the accession. Pomfret (2019) claimed that it doesn't bring any harm or benefit to the state. He also thinks that since raw materials and its tariffs do not change after the accession, the raw material exporter – Kazakhstan can still keep its export without any shock or benefit. Economists comment that the WTO is just a member of a status rather than economic benefit.

### 3.2.3 Types of Policy

There is a list of policies that Kazakhstan has implemented by the OECD,2019; OECD,2017 and OECD,2005 – Policy Recommendations towards the FDI. The list includes a short explanation of each policy and its essence:

- Investment Policy
- Investment promotion and facilitation
- Trade Policy
- Competition Policy
- Tax Policy
- Corporate Governance
- Policy of responsible business conduct
- Human resource development policy
- Infrastructure and financial sector development
- Public governance

The quality of investment policies is a primary part of where the investors decide and no matter whether it is a large or small company and even regardless of if it is domestic or foreign. There are criteria which are considered by investors, whether its business will run smoothly or not. The government has to the steps to establish a non-discrimination environment and underlying laws and regulations within that environment. Yet, government must adopt common international instruments for solving investment/partnering disputes. In terms of property security, government has to take stated actions to resolve a property dispute/ insurance institution should pay off its damages and fees and bear all the costs that are linked with the property (OECD, 2017).

Investment promotion and facilitation measures for FDI's/Bilateral agreements, to include incentives as a promotional tool to attract investments, if properly provided it is designed to avoid market failure and capitalize the strengths of a country's investment environment (OECD,2019). In this case the government is responsible to provide and evaluate the costs and benefits of investment incentives its transparency and duration, as well as have a strategy for a business environment to function.

Trade Policy links directly with the trading activities of goods and services between states, eventually set-up to boost both economies; importer and exporter countries, enhancing a global supply chain and boosting productivity and rate of return or dividends pay-off. (OECD,2005a).

It is important to note, whether the government has imposed tariffs on a certain product or banned the product at all costs. Government might impose a high tax rate for a certain product, which



eventually will increase the price of an input and discourage the investor or partner to be a part of an agreement.

Competition policy is set-up to make sure that the market is divided properly, every investor or domestic producer understands the rules of the game. All policies should be transparent and be accessible to the private sectors. In this case, the government and official law institutions should provide an equal and adequate resource, political support (in case if needed) and full independence within the territory of a host country. (OECD, 2019).

Tax Policy, all governments require a taxation from gross revenue, each state set up the percentage rate accordingly. However, the structure of tax policy and its burden directly effects costs and return on investments. On the other hand, it allows government to keep the same investment environment to achieve its public goals and tasks (United Nation, 1966 – Republished in OECD,2019).

Corporate governance is a management system that maintains the effective interaction among shareholder and company's management. With its help, shareholders and partners can control the company's managers and defend their interests in case of a problem occurrence. In this case the government must guarantee that shareholder has the right to fully control company's actions. The right judicial institutions should resolve a problem (in case of occurrence) if the rights were violated towards an investor (OECD, 2005).

ADB (2016) concluded that the investment policy of the state is the main direction of economic reforms, its implementation is vital for the development of Kazakhstan which aims at aim at high rates of economic growth and increases the efficiency on the economy. With the inflow of FDI and trade agreements and other bilateral agreements within (CIS) countries, the state can improve the structure of economy, upgrade fixed assets, and technically re-equip enterprises, improve, and modernize technological aspect of a country and much more.

OECD (2018) overviewed Kazakhstan's policy framework and concluded that the climate investment of Kazakhstan has improved for the past 10 years, the conclusion was based on numbers of investor inflows. After the joining the OECD in February 2015, Kazakhstan has followed the recommendations of OECD reports annually and based on APEC-OECD (2017) 12 recommendations were taken into consideration by the Kazakh governors to improve the investment climate. Some of the recommendations are being parts of discussions in the society with domestic companies' involvement to measure the competitiveness level. As the priority of

Kazakhstan is also its domestic producers. To protect its domestic producers and ensure that the competitiveness level will not be damaged.

Thus, a vast majority of recommendations were taken into account and in the framework of further adoption of legislations and judiciary institution to format laws such as: law on regulation (in case of conflict between domestic producer and foreign producer), intellectual property right, adjustment of foreign legal systems, tax-incentives for medium and high enterprises, custom administrations and entrepreneurial code. Kazakhstan has introduced a visa-free regime for 19 countries (Australia, Italy, Hungary, Belgium, Netherlands, Norway, Sweden, UAE, Singapore, UK, USA, Finland, Germany, Switzerland, Spain, Monaco, Malaysia, and Japan), and further plans to expand the list of free-regime countries to 54, whereas 10 countries have already been considered: (USA, Great Britain, Italy, South Korea, Iran, Japan, Germany, France, China, and India). An opening office of “KazNexInvest” started its operational activities that are focused mainly on attraction of FDI’s in the following countries (New York, Dubai, Frankfurt, Istanbul, and Beijing).

Kazakhstan has set the minimum limits of investments of USD 13 million or more, specifically in the priority industries such as: construction, agricultural and retail, there are certain benefits that are provided. Those are exempt from paying a corporate tax and land tax if the length of a contract is more than 10 years. The government reimburse the payment up to 30 percent of actual costs of construction and installation work, with the equipment purchase. (OECD, 2015).

According to the results of investment and trade analysis by APEC-OECD (2017) there are more than 57 percent of reinvestments in Kazakhstan. Thus, the government constantly monitors the provides all necessary help to their business partners. It is very important that investors who work in Kazakhstan keep on increasing their production volumes by expansion of production lines, new product designs and extra, consequently increasing the new quality of jobs, with a level of productivity.

### **3.2.4 Summary of policy recommendations**

Pomfret (2019) states that quality of business climate has been incrementally improved for foreign direct investors and within the CAS agreement and CIS. He notes that the major two investors within the neighbouring group are (Russian Federation and China) and Kazakhstan keeps the business environment in a friendly condition.

Bilateral investment agreement and taxation treaties have been signed with the 53 countries according to (KGD, 2020) in order to avoid a double taxation. Bilateral investment protection agreements with 47 countries according to (MFA, 2020).

Kaz Invest (2020) launched a new industrial development strategy called “Concept of Industrial and Innovative Development 2020-2025, and the National Investment Strategy for 2018-2022, that aims at diversifying economy from its over dependent to fewer dependent spheres. The tax code and entrepreneurial code provide tax preferences, duty exemptions, investment subsidies, and grants as incentives who reaches an over limited amount of investments, either direct or portfolio investments. Nevertheless, the focus of Kazakhstan includes agricultural, extraction of metallic ore, chemical and petrochemical industry, oil & gas sector, food production and machine manufacturing. Such investors will receive the in-kind grants, investment subsidies and work permit. All the subsidies are given depending on the duration and the scope of the project, hence the investors with all the mentioned focuses above are welcomed in Kazakhstan.

Nazarbayev (2019) stressed a lot of attention on the “Business Conduct” (State-Gov, 2020). He constantly asks foreign investors and local business owners to implement (CSR) corporate social responsibility project, which provide safety of occupation, salary payment and investment in human capital. He also put a stress on the Article 8 of the International Monetary fund, which was adopted in 1996, which prohibits government restriction on currency transaction. Money transfer that are associated with FDI’s, whether used outside or inside the country, are unrestricted. But currency legislation of Kazakhstan needs to confirm such transactions by a contract which has to be presented to service banks, in case if transfer exceeds 10.000 USD. Transaction which goes over the mentioned limit, requires a notification of the authorities.

### **3.3 Relationship Between Kazakhstan and China**

There is a significant amount of research which analysis the cooperation between China and Kazakhstan and its economy fields.

#### **3.3.1 History of development**

Kazakhstan and China are both involved in bilateral trade agreement. Both countries are trying to achieve an economic stability. They are active participants of economic integration in the region and implementation of “One Belt – One Road” which will contribute to the further development of both states. The study of Carlson (2011) conducted a comparative relationship between the Kazakhstan and three major partners: Russia, China, and Unites States. All of three countries are much stronger than Kazakhstan, however because of the strategic location, Kazakhstan is able to connect the mentioned countries among each other, beside USA. For Kazakhstan, the Russian relationships is the most important, ranked with the priority of USA and China, therefore China has been ramping-up its positions towards Kazakhstan from its independence. Especially in recent years, China showed a big interest in Oil & Gas field of Kazakh’s economy. China as a partner played a major role in the development of economy of Kazakhstan by providing with exports of oil and has to the Pacific Ocean. Which indicated the best opportunity for China to extend Kazakh’s energy export routes to countries which are far away from Kazakhstan.

The main problem of this relationship is that Kazakhstan looks at China as an important and strong partner in the economic, political and security fields. The economic and trade relations were strengthened over the years. China’s willingness to invest into Kazakhstan, has always been a major factor which scared Kazakh’s government. However, China is not only a strategic partner for Kazakhstan but also for the other Central Asia states.

The export structure of China to Kazakhstan optimizes year-by-year and bilateral trade will usher in a leap from low level to high level. There are three main advantageous field which improves their relations, geographical, political, and economic.

In the study of Sun Li (2016) believes that Kazakhstan has a wide range of imported goods, which are finished products, and parts of them are driven by Chinese enterprises and investment projects in Kazakhstan. It is concluded that China has gained more competitiveness compared to Russian and Belarusian products, hence it become difficult to exclude Chinese products within custom union.

Another big integration which he considers is international integration between two states, for the year 2018, China is home for over 3.2 million ethic Kazakh’s. Kazakh’s can speak the Mandarin dialect, and many Kazakhs live and study in main cities of China such as: Beijing, Shanghai and extra.

### **3.3.2 History timeline.**

In the middle of 1989, an agreement on economic, technical and cooperation of trades was signed up until 1995, between Xinjiang - Uighar Autonomous region and Kazakhstan. In 1995, the region became the main trading partner of Kazakhstan.

In the 2000s, several distinct trends have been observed in the relations of Kazakhstan and China.

- Joint promotion in major economic projects
- Increased attention of PRC to the energy sector of Kazakhstan.
- Increase volume of foreign trade operations and improvement of Kazakhstan's foreign trade balance.

March 2003 has brought a pipeline project of Kenkiyak-Atyrau in Western Kazakhstan. The length of the pipeline 448.8 km, this oil pipeline reached 12 million tons of oil per year. During reserve operation, this oil pipeline became the first part of the West Kazakhstan-China oil pipeline, the memorandum was signed in 1997.

May 2004, CNPC acquired the stated block of shares of CNPC Aktobemunaigaz for 150.2 million (25,12 %) the Chinese company became the only owner of the company.

August 2004, CNPC acquired 35 percent of shares of North Buzachi field.

October 2004, reopening of the 1997 project which involved the construction of the Western Kazakhstan – China oil pipeline.

In 2005, the purchasing of the main oil assets has continued. In April, CNODC, became a sole shareholder of Kyzylorda Ai-Dan Munai JSC. Activities of the company included oil and has operations in Kazakhstan, which are: exploration, drilling, processing, transportation, storage, export of hydrocarbons and their products.

In 2007, KazMunayGas and CNPC signed a contract of understanding on CNPC's participation in the development and exploration of Darkhan field in Kazakhstan sector of the Caspian Sea. In 2008, two main projects were almost completed, the Western Kazakhstan-China oil pipeline and joining the agenda of a gas pipeline from Central Asia to China. The project was called "Atasu-Kenkiyak", which gave China a direct access to Caspian oil and helped to reach its design capacity of 20 million tons per year. The project was completed in 2010.

However, not only the oil and has sector of Kazakhstan was the main field of investments. The improvement of balance of trade happened between 2000-2005, when Chinese investments increased from 65 million USD to 195 million USD, amounting of total FDI of 3,04 percent. In 2000, there were 384 enterprises with the participants of Chinese capital. In 2001 – 901, in 2002 – 975 enterprises, in 2003 – 665, in 2004 – 554, in 2005 – 129 enterprises. Most of them were involved in the sphere of trade. However, it has declined over the years but still, the interest from Chinese businessmen was huge.

The volume of bilateral trade between the two countries fluctuates slightly from year to year, and the structure of trade varies depending on the total volume of imports and exports. At present, China has become the second largest trading partner of Kazakhstan, and trade and economic cooperation between the two countries is generally developing well. Within this direction, in 2011 the volume of trade between China and Kazakhstan reached 20 billion US dollars (only 8.3 billion US dollars in 2006), which is much more than between Kazakhstan and Russia. The volume of bilateral trade increased from 432 million US dollars in 1992 to 10.5 billion US dollars in 2017, which indicates a dynamic growth in the volume of bilateral trade and further strengthening of China's position in Central Asia. In terms of economic relations, more improvement can be expected.

In 2019, in the September, China and Kazakhstan held a meeting to discuss trade between two countries. The spheres that were discussed for the further cooperation opportunities were the following: energy, mineral resources, highway, railway construction and metallurgy. For 2018, China was the major foreign trade partner of Kazakhstan, and its shares in commodities was 15,6 percent (11,7 billion USD). China has imported the following commodities, wheat, sunflower seeds, and mostly agricultural products from Kazakhstan, which exceeded 500,000 tones, which indicated an increase of 20 percent, that was a significant event in bilateral trade.

Currently Kazakhstan is being the first trading partner for China, among second among the Commonwealth of Independent States (CIS) countries. China is being second trade partner of Kazakhstan in the world.

## 4 Practical Part

In the practical part, the author plans to analyse the BOT of Kazakhstan and China, compare the commodity structure of exports and imports between these two countries and analyse what kind of FDI of China prevail in Kazakhstan.

### 4.1 Imports and Exports analysis

From its independence, Kazakhstan has been partnering with the China for the last 28 years. Importing and exporting different types of products. According to the Statistical Data of Kazakhstan of (2021) the export and import for the past 10 years has consisted of:

**Table 2: Export to China 2009 - 2019. (In Thousands of USD)**

Commodity structure	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Capital goods	1 475	3 133	12 866	3 189	100 796	138 230	24 783	42 728	8 914	5 088	8 002
Consumer goods	226 416	163 237	1 046 401	386 535	205 933	292 226	118 899	156 416	148 484	1 089 081	1 623 522
Intermediate goods	2 355 765	3 115 315	4 352 886	4 824 495	3 943 111	3 181 949	2 844 175	2 555 113	3 559 186	3 215 459	3 560 248
Raw materials	3 304 936	6 838 414	10 877 232	11 270 191	10 123 907	6 186 480	2 492 280	1 460 669	2 081 391	1 997 848	2 631 635
Animal	705	769	826	1 135	3 136	4 346	5 128	6 167	6 816	7 089	21 111
Chemicals	580 251	943 840	1 291 808	1 379 713	1 328 158	1 194 223	1 212 759	831 817	1 038 999	680 488	613 718
Food Products	221	1 324	934	1 556	5 266	7 135	17 684	13 149	7 569	13 073	44 434
Footwear	989	0	21	0	2	0	0	6	7	217	51
Fuels	2 520 232	5 535 793	9 644 602	9 098 789	8 917 092	5 171 197	2 146 013	1 013 013	1 001 379	1 950 192	2 828 095
Hides and Skins	291 454	19 608	3 701	9 654	19 457	15 232	15 580	7 707	6 230	3 709	3 847
Mach and Elec	1 242	2 022	5 091	2 156	40 067	74 877	17 424	35 346	8 922	5 115	5 886
Metals	1 523 285	2 163 695	3 055 060	3 407 218	2 589 411	1 951 895	1 599 229	1 689 334	2 390 833	2 410 407	2 812 215
Minerals	955 785	1 411 996	2 233 033	2 475 888	1 319 094	1 179 876	364 581	481 753	1 089 005	954 033	1 134 397
Miscellaneous	332	2 735	3 738	1 050	290	2 458	2 719	2 513	271	244	974
Plastic or Rubber	3 488	15 384	22 399	41 608	16 823	17 850	3 925	732	145	496	222
Stone and Glass	62	465	95	1 310	2 569	2 635	1 928	1 345	268	373	416
Textiles and Clothing	5 592	10 803	15 914	6 915	12 195	6 478	5 605	12 416	82 450	62 901	51 564
Transportation	383	274	6 079	362	60 746	61 216	3 522	7 992	10 825	2 368	1 705
Vegetable	4 122	12 859	8 198	57 043	59 400	109 966	83 718	111 373	153 480	215 320	300 954
Wood	450	503	14	12	42	33	321	264	776	1 451	3 816
Total	11 777 184	20 242 169	32 580 899	32 968 818	28 747 496	19 598 304	10 960 275	8 429 852	11 595 950	12 614 952	15 646 813

Source: own processing of annual data, data retrieved from BNS (2020).

To calculate the percentage ration of a certain commodity, the following formula was applied:

$$\text{Commodity (\%)} = \text{Total Export} / \text{Each Commodity Exported}$$

**Table 3: % of commodities exported to China**

Commodity structure	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Intermediate goods	20,00%	15,390%	13,36%	14,63%	13,72%	16,24%	25,95%	30,31%	30,693%	25,49%	22,754%
Raw materials	28,06%	33,783%	33,39%	34,18%	35,22%	31,57%	22,74%	17,33%	17,949%	15,84%	16,819%
Chemicals	4,93%	4,663%	3,96%	4,18%	4,62%	6,09%	11,07%	9,87%	8,960%	5,39%	3,922%
Metals	12,93%	10,689%	9,38%	10,33%	9,01%	9,96%	14,59%	20,04%	20,618%	19,11%	17,973%
Minerals	8,12%	6,976%	6,85%	7,51%	4,59%	6,02%	3,33%	5,71%	9,391%	7,56%	7,250%

Source: Own calculation

Based on my results, for the past 10 years, the focus of exported goods were: intermediate goods, raw materials, chemicals, metals and minerals.

Intermediate goods: The goods that are half-way processed and usually deemed for the further processes of the exported country.

Raw materials are characterized by the following orientations of crude oil, copper and copper alloys, natural uranium, iron ore and concentrates. However, for the past 3 years, there is a decrease of raw materials exports due to global enchantment of green awareness.

Chemicals: inorganic chemicals, organic and inorganic compounds of precious metals, rare earth metals, radio-active elements, and isotopes.

Metals: Cooper, iron, zinc, steel cermet and extra.

Mineral products: Petroleum gas, petroleum, copper ore, metal ore, iron ore, zinc ore, precious metal ore and extra. Therefore, there is a decrease in every commodity exported between 2018-2019, and a pandemic situation has caused the decline.

**Table 4: Import from China 2009 - 2019. (In Thousands of USD)**

Comodity structure	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Capital goods	1 280 347	1 962 159	2 622 330	3 822 401	3 916 896	3 516 335	2 496 301	1 694 464	2 215 040	4 597 925	2 817 909
Consumer goods	770 166	1 027 453	1 283 660	2 013 865	2 568 842	2 519 753	1 566 267	1 149 008	1 382 032	1 527 112	1 943 446
Intermediate goods	1 408 459	849 749	970 479	1 491 524	1 716 074	1 143 210	868 905	728 104	964 989	1 127 099	1 295 677
Raw materials	110 541	125 000	144 506	169 902	162 395	177 840	156 265	90 985	132 891	131 118	148 875
Animal	3 083	2 958	1 539	1 421	1 528	2 169	1 229	780	1 267	1 773	2 296
Chemicals	176 198	188 312	223 765	238 049	276 484	239 029	216 441	194 004	312 821	360 970	307 189
Food Products	32 894	34 819	44 606	60 138	62 383	58 804	49 431	40 998	47 053	46 898	47 082
Footwear	15 268	23 980	112 188	240 075	403 379	475 285	212 913	125 425	175 731	166 003	253 726
Fuels	20 768	61 365	98 257	56 174	45 582	42 962	36 811	8 307	28 532	37 386	27 845
Hides and Skins	12 563	15 524	25 602	51 791	100 617	85 209	56 501	28 145	34 885	24 427	43 464
Mach and Elec	1 180 930	1 745 893	2 215 627	3 070 372	3 460 488	3 129 682	2 313 681	1 589 782	2 076 751	2 454 053	2 587 536
Metals	1 243 001	608 382	593 899	1 095 078	1 370 866	835 560	706 181	540 490	652 073	610 320	746 563
Minerals	15 430	19 076	12 425	8 249	7 998	4 774	3 621	5 409	10 303	9 400	6 231
Miscellaneous	188 628	254 952	268 218	330 129	368 351	429 193	295 014	262 862	291 677	327 316	838 919
Plastic or Rubber	171 737	227 554	290 559	414 905	532 460	485 099	354 553	267 054	318 354	373 834	477 457
Stone and Glass	150 284	208 842	209 003	228 937	211 415	194 263	131 761	133 106	161 707	184 487	184 575
Textiles and Clothing	72 563	107 525	192 818	433 181	610 633	590 380	252 566	171 626	207 189	274 900	447 281
Transportation	151 279	299 977	552 522	1 044 853	657 622	426 512	243 723	153 107	185 579	291 378	374 054
Vegetable	88 810	93 482	109 050	138 164	138 558	157 875	148 307	78 298	108 450	114 290	137 644
Wood	46 094	71 879	71 020	86 200	116 102	200 422	65 067	66 261	82 625	106 759	84 610
Total	7 139 041	7 928 880	10 042 072	14 995 408	16 728 672	14 714 358	10 175 538	7 328 213	9 389 951	12 767 447	12 772 378

Source: Source: own processing of annual data, data retrieved from BNS (2020).

To calculate the percentage ration of a certain commodity, the following formula was applied, whereas:

$$\text{Commodity (\%)} = \text{Total Import} / \text{Each Commodity Imported}$$

**Table 5: % of commodities imported from China**

Comodity structure	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Capital goods	17,93%	24,75%	26,11%	25,49%	23,41%	23,90%	24,53%	23,12%	23,59%	36,01%	22,06%
Consumer goods	10,79%	12,96%	12,78%	13,43%	15,36%	17,12%	15,39%	15,68%	14,72%	11,96%	15,22%
Intermediate goods	19,73%	10,72%	9,66%	9,95%	10,26%	7,77%	8,54%	9,94%	10,28%	8,83%	10,14%
Mach and Elec	16,54%	22,02%	22,06%	20,48%	20,69%	21,27%	22,74%	21,69%	22,12%	19,22%	20,26%
Metals	17,41%	7,67%	5,91%	7,30%	8,19%	5,68%	6,94%	7,38%	6,94%	4,78%	5,85%
Miscellaneous	2,64%	3,22%	2,67%	2,20%	2,20%	2,92%	2,90%	3,59%	3,11%	2,56%	6,57%
Plastic or Rubber	2,41%	2,87%	2,89%	2,77%	3,18%	3,30%	3,48%	3,64%	3,39%	2,93%	3,74%
Stone and Glass	2,11%	2,63%	2,08%	1,53%	1,26%	1,32%	1,29%	1,82%	1,72%	1,44%	1,45%
Textiles and Clothing	1,02%	1,36%	1,92%	2,89%	3,65%	4,01%	2,48%	2,34%	2,21%	2,15%	3,50%
Transportation	2,12%	3,78%	5,50%	6,97%	3,93%	2,90%	2,40%	2,09%	1,98%	2,28%	2,93%

Source: Own calculation.

For the past 10 years, Chinese import consisted of different types of commodities, however the author decided to highlight the commodities over 10 % and higher, to see the contingency and on what types of commodities the relationship of trade between two countries depend on:

Capital goods: Machinery, equipment, vehicles, delivery trucks, busses, bicycles, tractors and extra.



Consumer goods: basically, all the goods that could be consumer within less than a year. (Shampoo, toothpaste, and extra, and non-tangible goods such as (computers, broadcasting equipment, radio, TV and extra).

Intermediate goods: is a mixture of consumer goods and parts of each commodity, such as rubber products, plastic and extra.

Machinery and electronics: electronic heaters, electronic transformers, large construction vehicles, video displays, semiconductor devices, stone processing machines and extra.

Metals: Iron Pipes, coated flat-rolled iron, iron structures, cold-rolled iron, iron-wires, metal mountings, iron blocks, iron nails and extra.

Miscellaneous: clothes, uniforms, work boots, light fixtures, models and stuffed animals, sport equipment.

Plastic and rubber: Rubber tires, polyacetals, plastic products, plastic lids, other rubber products, self-adhesive products, plastic pipes, paw plastic sheeting.

Stones and glass: Porcelain tableware, interior decorative glassware, refractory bricks, building stones, ceramic tableware, bathroom ceramics and extra.

Textile and clothing: House linens, non-knit men's suits, synthetic filament yarn woven fabrics, non-knit women's suits / coats and extra.

Transportation: Vehicle parts, Delivery trucks, buses, bicycles, planes, helicopters, baby carriages and the whole logistic chain.

## 4.2 Balance of Trade between China and Kazakhstan from 2000-2019

Total Import and export by Kazakh's statistic agency report. In order to calculate the Balance of Trade between two countries was used the following formula:

$$\text{Value of exports} - \text{Value of imports} = \text{Balance of trade (BOT)}$$

**Table 6: Balance of Trade (Kazakhstan and China)**

Year	Import (Total Volume)	Export (Total Volume)	BOT
2000	150 919	672 549	521 629
2001	171 984	646 651	474 667
2002	626 438	1 018 079	391 641
2003	1 047 293	1 653 081	605 788
2004	1 516 283	1 966 911	450 628
2005	2 503 661	2 422 507	-81 155
2006	3 849 862	3 592 514	-257 347
2007	5 008 014	5 635 914	627 900
2008	6 630 501	7 676 609	1 046 108
2009	5 019 021	5 888 593	869 572
2010	6 001 315	10 122 070	4 120 755
2011	6 507 125	16 291 513	9 784 389
2012	7 497 716	16 484 409	8 986 693
2013	8 364 466	14 373 748	6 009 283
2014	10 156 188	9 799 418	-356 770
2015	7 020 145	5 480 137	-1 540 008
2016	6 278 130	4 214 926	-2 063 205
2017	8 583 169	5 797 976	-2 785 194
2018	8 583 169	6 307 476	-2 275 693
2019	9 801 477	7 823 406	-1 978 071

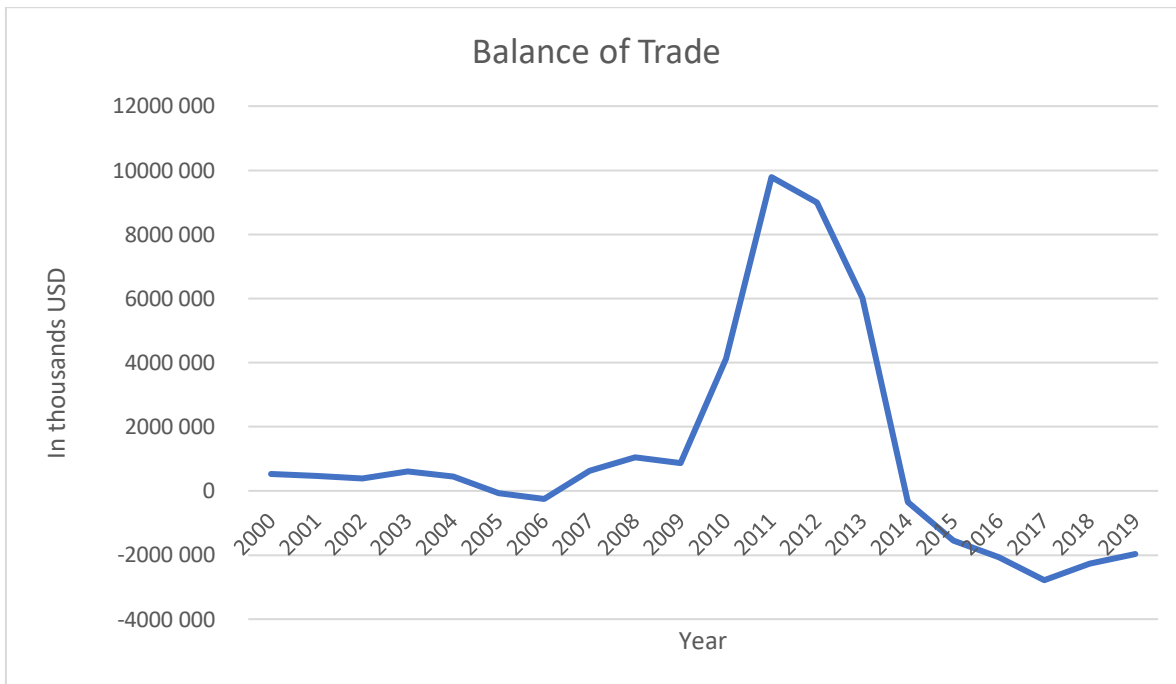
Source: own processing.

Based on the data evidence, for the past 6 years there is a big accumulative deficit in a balance of trade with China. (See Figure 5). Due to strong economic growth in the United States and China and lower interest rates in some European countries indicated strengthening global demand for crude oil in 2014, the price structure of commodities and devaluation of tenge (KZT) have impacted the economy and overall exchange rate, as a result the economy of Kazakhstan still recovering from that oil-prices collapse. But also, the fact that, the Chinese economy has been growing year-by-year. The demand for cheap products of China was always on peak, especially for Kazakhstan. Due to its geographical location and neighbouring country's relationships were always strong. There are, however, the following factors that influence the balance of trade between these two countries:

- The cost of production (land, labour, capital, taxes, incentives) in the exporting economy *vis-à-vis* those in the importing economy.
- The cost and availability of raw materials, intermediate goods, and other inputs.
- Currency exchange rate movements.
- Bilateral taxes or restrictions on trade.

Export have increase by 75% between 2009-2019, from Kazakhstan to China, and import has also increase by 51 % within the same time period.

**Figure 5: Balance of Trade (China and Kazakhstan).**



Source: Own processing.

Overall Exports of Kazakhstan among all the countries and how much % is taken by China.

Reporter Name	Kazakhstan		
Partner Name	World	China	
Trade Flow	Export	Export	
Product Group	All Products	All Products	
Indicator	Export (US\$ Thousand)	Export (US\$ Thousand)	% of Trade
2015	45 954 426	5 480 137	12%
2016	36 775 323	4 214 926	11%
2017	48 502 739	5 797 976	12%
2018	61 109 053	6 307 476	10%
2019	57 722 941	7 823 406	14%

Source: Own calculation, data based on BNS (2020)

As a result of my calculation, China has always been a major trading partner of Kazakhstan with the consistent 10 % of exports of all services and goods.

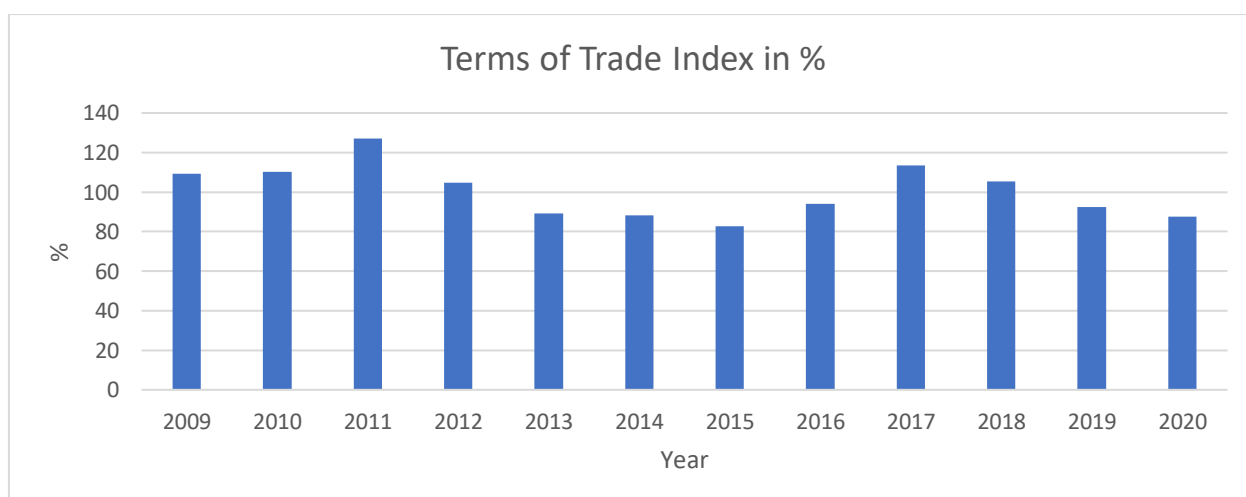
Overall Import of Kazakhstan from all the countries and how much % is taken by China.

Reporter Name	Kazakhstan		
Partner Name	World	China	
Trade Flow	Import	Import	
Product Group	All Products	All Products	
Indicator	Import (US\$ Thousand)	Import (US\$ Thousand)	% of Trade
2015	30 567 159	7 020 145	23%
2016	25 174 779	6 278 130	25%
2017	29 599 360	8 583 169	29%
2018	33 658 429	8 583 169	26%
2019	38 356 658	9 801 477	26%

Source: Own calculation, data based on BNS (2020).

Based on calculations, the Chinese important to Kazakhstan is also consistent, average of 26 % a year. However, based on the commodity structure, the conclusion that Kazakhstan is dependent on the capital Goods, consumer goods, machinery and equipment, intermediate goods, and transportation. On the other hand, China is also dependent on Kazakh’s natural wealth reserves such as: Oil and Gas sector, Chemicals, Metals and Minerals.

**Figure 6: Terms of Trade Index (Kazakhstan in %).**



Source: Own calculation, BNS (2020).

The Figure – 6, indicates the results of TOT, from 2009 up to 2020.

**Table 7: Terms of Trade Index (Kazakhstan)**

Year	Import Price Index	Export Price Index	Terms of Trade
2009	100,8	110,2	109
2010	111	122,3	110
2011	103,2	131,1	127
2012	93,2	97,7	105
2013	105,4	94	89
2014	104,8	92,3	88
2015	89	73,5	83
2016	116,4	109,4	94
2017	106,8	121,2	113
2018	107,9	113,8	105
2019	106,5	98,4	92
2020	105,4	92,3	88

Source: Own calculation.

Based on the Terms of trade of overall trade, Kazakhstan's export prices were stable till 2012, after it has slightly changed due to excessive import from all over the world. It lasted for over 3 years and in 2016 it also increases, and the surplus is seen in two years straight, 2017-2018. But again, due to pandemic situation, Kazakhstan was not able to export more than it has imported. And the terms of trade become negative, hence there is an unfavourable trade for Kazakhstan for the past 2 years, especially for the year 2020.

### **4.3 Chinese investments in Kazakhstan and its prevalence**

Bilateral relations between Kazakhstan and China are developing systematically, the volume of mutual trade in the first half of 2019, increased by 25 % and reached 6,8 billion US dollars. Annual investment flows of China to Kazakhstan, increased by 22 %. Also, partnership relations are also building on the base of "Belt and Road" project. Which eventually will open the trade between Kazakhstan and Europe.

Since 2015, investment flows of China to Kazakhstan have shown positive dynamics, the average annual growth of 22 %. The largest volume falls on 2018 – 1,5 billion USA, which is more than in 2017, and almost a double difference than in 2015. For the first half of 2019, the investment flow from China to Kazakhstan reached to 360 million US dollars.

However, Kazakh's liabilities to investors of China reached 15,3 billion USA dollars for the first quarter of 2019. The largest volumes of are concentrated on transport and storages (5 billion US

dollars) mining (2,6 billion US dollars), manufacture (2,1 billion US dollars) and construction (2 billion US dollars).

Other forms of financing, (lending, leasing, projects of retails and mixed investments). Reached 6,2 billion US dollars. Portfolio investments reached only 464,8 thousand US dollars.

As for July 2019, 2,5 thousand of enterprises were registered in Kazakhstan, including 1,1 thousand of operating enterprises. 2 banks were registered:

- Altyn Bank JSC
- Bank of China Kazakhstan and ICBC (Commercial and Industrial Bank of China).

The total assets of banks reached 886,2 tenge or 3,4 % of total banking sector.

The most significant project that were launched in 2021:

- Cement Production by “DanAke” LLP, China Genzhouba Cement Co. Ltd, investment plan amounted to 178 million US dollars, 226 jobs were created.
- Production of JAC cars by DKD/SKD/CKD methods, with an involvement of “SaryarkaAvtoProm” LLP, CMC and JAC Motors. It was planned to several stages, where the first stage was done in 2017, second is 2019, 350 jobs were created.
- The special economic zone project, “Khorgos-Eastern Gates”, KTZE-Khorgos Gateway” LLP. Cosco Shipping Lines Co. LTD, investment amounted to 80 million US dollars, planning to create over 750 thousand. (See Picture - 1).

**Picture 1: Khorgos Gateway**



Source: google.com

### **4.3.1 Oil and Gas Cooperation**

Over the last two decades, China has focused on energy sector of oil and has importer. The world's biggest currently accounts for 20 % of the world's total energy consumption and imports over 58 % of crude oil, has been overtaken by United States. Since Kazakhstan's major export to China are mostly natural resources (See Table 2) such as: Crude oil and, natural gas and metals. According to Forbez.kz, 20 Chinese companies are present, owning 40 % of ownership of oil and gas sector. The major owners are: CNPC – (China National Petroleum Corporation), SINOPEC (China Petrochemical Corporation), CNOOC – (China National Off-shore Oil Corporation) and CNOOC – Petro China along with their subsidiaries.

CNPC – is the most famous and one of the oldest investors on behalf of China, which has bought 60 % of shares of Aktobemunaigas Corporation, and later 25 % of shares, which was a subsidiary of KazMunaiGaz (KMG). KMG and CNPC jointly constructed the oil pipeline of China – Kazakhstan, with the capacity of 12,5 million tons per year. In 2016, the CNPC has bought 8,3 % of Kashagan shares. It was China's first offshore and one of the largest acquisitions of Caspian Sea basin.

### **4.3.2 Nuclear**

Kazakhstan's largest producer of uranium. Since the bilateral agreement between China and Kazakhstan, the uranium supply and fuel fabrication as well as uranium and mining joint venture for nuclear fuel fabrication. Kazatomprom was bought by China General Nuclear Corporation, its acquisitions were measured of 55 %, and most of its export was to China, over 60 %.

### **4.3.3 Renewables**

China has also been interested in clean renewable energy technologies. It happened due to a large concern over the “Green Economy” and air pollution. In 2019, the investments of China in the renewables, reached almost 50 %. However, the renewable energy played an extremely marginal role in the overall of BRI projects. World Resources Institute (WRI) reported that over 60 % energy loans by Chinese development banks and over 90 % of energy sector investments by the state-owned Silk Road Fund state-owned enterprises in the period of 2016-2019, were in fossil fuels. (WRI, 2020).

Both China and Kazakhstan have agreed on a project of “Green economy”, it was discussed on Expo – 2017. Kazakhstan and China agreed on a project which is worth of 460 million USA dollars, to build in the regions of Shymkent. The launch of the project was 2020, July. Employed 150 people. The project is called “Green Asian-Cycle”, where total shares of China was amounted of 200 million USA dollars, and the rest were covered by Kazakhstan.

#### 4.4 China's loans to Kazakhstan

According to the International Monetary Fund (2018) warned China to be more careful with investment plans and further projects in countries with heavy debt burden.

Chinese loans and business deals have been a subject of criticism for the lack of transparency within investment projects and for the environment and human rights. Several of the issues concerning Chinese cooperation are particularly relevant in the case of Kazakhstan. Besides from cementing Kazakhstan's dependency on raw material exports. China doesn't contribute much to the employment rate as well as growth rate. Chinese firms are involved as contractors by 90 % of projects, financed by China. However, the large share of Chinese fundings is supported by its own economic development. China's loans contribute to a debt spiral.

According to KazNexInvest, loans from China accounted for about 7 % of the total public debt in 2019.

**Table 8: Loans by China to Kazakhstan (Millions of US dollars)**

<b>Year</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Kazakhstan's total debt	160,061	156,245	169,126	180,161
Loans from China	15,966	13,561	17,124	20,167
Share of loans from China in total debt	9,91 %	8,5 %	9,92 %	8,97 %

Source: Own processing, KazNexInvest (2022).

Based on the data above, and the secondary data of Foreign Direct Investment prevalence of China on the territory of Kazakhstan, China has slightly but surely embraced the main source of profit of Kazakhstan, and by investing into the cooperative projects, had dividends based on the reached net profit per year. However, all the sources and equipment's are provided by China, outsourced, and processed. Even an example of Aktobe region of Kazakhstan, about 5 000 people live next to the crude oil reserves, therefore, for the last 25 years it has been exploiting by Chinese state-owned oil corporation CNPC.



## **5 Discussion and Recommendations**

### **5.1 Discussion**

Historically, the trading partnership between Kazakhstan and China, went beyond the usual bilateral trade cooperation and have become an example of harmonious coexistence and mutually advantageous for both states. China and Kazakhstan are closely cooperating in multilateral mechanism such as the UN, SCO, CICA and other, and closely cooperate to tackle the international threats, such as terrorism, making sure both states have regional security and stability. The bilateral trade however, which was signed in 1994 and touched on all the spheres of occupies an important place in the progressive development of economic relations between these two states. For China, Kazakhstan is an important and one of the largest markets among CIS countries after Russian Federation. The level of trade development and economic ties between these two countries has expanded. Due to joint efforts of the governments and small, medium, and large enterprises, the trade of two countries and economic relations are more than satisfactory. The Kazakhstan and its economic and financial stability have been upgrading, especially due to enormous investments in the oil and gas sectors and some other industrial sectors. Recently, the volume of trade has been increasing, based on the official data of Kazakhstan, the export in bilateral trade exceeds the imports, from the beginning of its independence. Buy lately, for the past 5 years, considering the oil shock prices and COVID-19 pandemic, the Kazakh economy has been volatile to such changes, and its balance of payments has been negative for the last 6 years.

The Kazakhstan is highly dependent on its raw materials and production of raw materials. However, Chinese economy is focused on extracting raw materials, adding a value to it, and resell it for the higher prices, so basically, that cooperation fits both states, where it brings the complementarity of each economic structure. Therefore, Kazakhstan has been a main objective of China's interest in Central Asia. Even in the post-Soviet period, the PRC presence has been steadily and surely growing towards its territory and demonstrated back than a significant interest.

The need for both states to cooperate in the future are quite clear and based on the geographical locations and some dependence of economies. For Kazakhstan, especially, the reason is the moving to a market economy, and try to achieve the effective development of both states. Kazakhstan has been reforming its policy for the last 20 years, to achieve such results and expand its foreign relations where China has actively participated. However, Chinese prevalence in Kazakhstan has more and more been increasing for the past 10 years, and Kazakhstan should be more careful with allowance of such investments, especially within industrial sectors.

## **5.2 Recommendation**

The Kazakhstan has more and more relying on FDI and trade of raw material its mostly rich with. However, the problem is the “Green movement” all over the world might impact its economic development and some macroeconomic indicators. Kazakhstan at first should improve its Human Development Index and invest more into the educational background of the whole nation. The recent situations and speech of Zhomart Tokayev (2021) has announced a few problems of Kazakh’s economy and in order to overcome such problems, Kazakhstan has to implement and change some reforms to tackle the obstacles of education.

Another way of overcoming the dependency of trade and industrial sector, is the diversification of economy and starting to build its own facilities and manufacturing companies that will be focus on processing raw materials and added value procedures.

Many researchers claim that Kazakhstan is full of potential, in agricultural business (Rakhmetov, 2018). The quality of products such as, wheat, barley, potatoes, tomatoes and extra are highly important for Kazakh economy. The government should be more in contact with farmers and probably change its policies towards them as the export of such products might highly increase an overall GDP, due to its location, Kazakhstan will be able to use its land properly, and export to all the neighbouring countries, agricultural products, especially China, which has the highest density per square meter.

## 6 Conclusion

The Bachelor thesis was focused on the trade relationship between the China and Kazakhstan, where most of the macroeconomic indicators have been analysed for the past 25 years. The mutual agreements that these both states have, are obviously benefit both, however, the Kazakhstan became more dependent on this partnership rather than China. For the year of 2020, the China became the first trading partner of Kazakhstan, which indicates a very high dependency of Kazakhstan.

The imports from China of all imports to Kazakhstan, on average, for the past 4 years was at 25-28 %, which demonstrates a high dependency on the trade. Mostly due to consumer goods, which are shown in Table – 2. Where, consumer goods, intermediate goods and capital goods are most imports from China. Which indicates that Kazakhstan lacks in these goods, and that's where the initial focus should be. However, the comparative advantage should be considered to conclude such statements.

On the other hand, Chinese FDI have also taken parts in main industrial activities of Kazakhstan, which might have an advantageous effect on Kazakhstan in the short-run, but certainly not in the long-run.

Another financial liability that Kazakhstan has in front of China, are the loans taken by Kazakh government, which might have a negative impact in case of crisis and stagnation of economy. Kazakhstan should focus on its primary activities of economy, and make sure than all of the are financed by the government surplus, but not the loans or debts. Which is crucial for the dependency of any economy.

China is also highly dependent on the Kazakh's raw material; however, its processes are mostly financed by the state and government, not by loans from the other states. Even though, China is also dependent on its geographical position, because Kazakhstan in fact is in the central of Asia, where silk-road lies and links the logistic to the European market and Russian market. China's policies and relations with Kazakhstan should be focused on the win-win situation.

The overall assessment is analysed with the help of Statistical data of macroeconomic variables and Balance of Trade calculation, export and import data, can be concluded in the following way. The relationships of these two counties certainly bring benefits to both states, with the further cooperation, these states might achieve the financial stability, which is already seen in the economy of China. Kazakhstan should also be more independent in with its natural reserves and trading activities, but mainly focus on the diversification of another sectors.

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