**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economics and Management**

**Bachelor Thesis**

# Trade Analysis – Case Study of Kazakhstan

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

## BACHELOR THESIS ASSIGNMENT

Marzhan Moldassadyk

Economics and Management
Economics and Management

Thesis title
**Trade analysis – Kazakhstan**

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**Objectives of thesis**

The purpose of the thesis is the analysis and economic justification of the growth reserves of retail enterprises.
This bachelor thesis presents a trade analysis on the Kazakhstan economy. After giving an overview over the theoretical and empirical literature on this topic, I derive predictions for the Kazakhstan economy, which I then test with Kazakhstan and empirical studies on Kazakhstan.
The analysis indicates that TRIPS indeed does have an effect on the Kazakhstan economy through the six factors, which this thesis focused on: domestic R&D, domestic patenting, foreign patenting, foreign direct investment, international trade, and technology licensing.

**Methodology**

In the different methods and approaches, such as:

comparative analysis;

- economic and mathematical methods;

observations'; experiments'; surveys'.

The research question implies two-stage estimation procedure: first, production function is estimated to retrieve total factor productivity at micro-level; second, the regression of interest is run to trace the relationship between total factor productivity and an inverse measure of international trade diversification across product and geographical markets.

**The proposed extent of the thesis**

35 – 40 pages

**Keywords**

Statistics, Economics, Trade, Analyzes, Diversification.

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**Recommended information sources**

BAILY, M N. – FRIEDMAN, P. *Macroeconomics, financial markets, and the international sector.* Homewood: Irwin, 1991. ISBN 0-256-03339-0.
BLACK, J. *A dictionary of economics.* Oxford: Oxford University Press, 2003. ISBN 0-19-860767-9.
2. GANDOLFO, G. International finance and open-economy macroeconomics. Berlin: Springer, 2002. ISBN 3-540-43459-3.

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**The Bachelor Thesis Supervisor**

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**Supervising department**

Department of Trade and Finance

Electronic approval: 13. 3. 2021

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Electronic approval: 14. 3. 2021

**Ing. Martin Pelikán, Ph.D.**
Dean

Prague on 15. 03. 2021

**Declaration**

I declare that I have worked on my bachelor thesis titled "Trade Analysis – Case Study of Kazakhstan" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break any copyrights.

In Prague on March 15th 2020 ______________________________

**Marzhan Moldassadyk**

**Acknowledgement**

I would like to thank my family and friends who support and encourage me to finish my bachelor program. I also would like to express my special thanks to doc. Ing. Lubomír Civín, CSc., MBA who is the supervisor of my diploma thesis. This diploma thesis would not be finished without his valuable advices and directions.

# Trade Analysis – Case Study of Kazakhstan


**Summary**

Kazakhstan is open to international trade. According to the World Bank, the share of international trade in 2018 amounted to 62.8% of GDP. Kazakhstan's main export products are raw materials, notably oil, petroleum products, coal, iron ore, machinery. Cereals, wool and meat are other major exports. The country imports mainly petroleum products, radiotelephone transmitting devices, medicines and cars.

Kazakhstan's main international trading partners are the European Union (around 40% in total). The main customers are Italy, China, Netherlands, Russia, while the main suppliers are Russia, China, Germany and Italy. Russia and Kazakhstan have undertaken joint projects in many areas, including energy. The government aims to improve the country's integration abroad to increase investment in the country. The country has been a WTO member since 2015 and has trade agreements with many countries in its region. It is also a member of the Eurasian Economic Union (Russia, Belarus, Armenia, Kyrgyzstan), the Common Economic Zone (Belarus and Russia). The Enhanced Partnership and Cooperation Agreement (EPCA) was signed in 2015 between the country and the European Union, and a revised version entered into force in March 2020.



**Keywords:** Foreign trade, Kazakhstan, Export, Import, Geographical structure of trade, Integration, Commodity structure of export, Commodity structure of import

# Zahraniční obchod Kazachstánu


**Souhrn**

Kazachstán je otevřen mezinárodnímu obchodu. Podle Světové banky činil podíl mezinárodního obchodu v roce 2018 62,8% HDP. Hlavními vývozními produkty Kazachstánu jsou suroviny, zejména ropa, ropné produkty, uhlí, železná ruda, stroje. Obiloviny, vlna a maso jsou dalším významným vývozem. Země dováží hlavně ropné produkty, radiotelefonní vysílací zařízení, léky a automobily.

Hlavními mezinárodními obchodními partnery Kazachstánu jsou Evropská unie (celkem asi 40%). Hlavními zákazníky jsou Itálie, Čína, Nizozemsko, Rusko, zatímco hlavními dodavateli jsou Rusko, Čína, Německo a Itálie. Rusko a Kazachstán podnikly společné projekty v mnoha oblastech, včetně energetiky. Cílem vlády je zlepšit integraci země do zahraničí, aby se zvýšily investice v zemi. Země je členem WTO od roku 2015 a má obchodní dohody s mnoha zeměmi ve svém regionu. Je také členem Euroasijské Hospodářské Unie (Rusko, Bělorusko, Arménie, Kyrgyzstán), Společné Ekonomické Zóny (Bělorusko a Rusko). Dohoda o posíleném partnerství a spolupráci (EPCA) byla podepsána v roce 2015 mezi Zemí a Evropskou unií a revidovaná verze vstoupila v platnost v březnu 2020.



**Klíčová slova:** Zahraniční obchod, Export, Import, Zeměpisná struktura obchodu, Integrace, Komoditní struktura vývozu, Komoditní struktura dovozu

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## 1. Introduction

Kazakhstan is a landlocked, transcontinental country located in Central Asia and Eastern Europe. It is bordered by China, Kyrgyzstan, Russia, Turkmenistan, and Uzbekistan. The terrain extends west to east from the Caspian Sea to the Altay Mountains and north to south from the plains of Western Siberia to the deserts of Central Asia. The government system is a republic with the authoritarian presidential rule and little power outside the executive branch. The chief of state is the president, and the head of government is the prime minister. Kazakhstan has a mixed economic system which includes a variety of private freedom, combined with centralized economic planning and government regulation. Kazakhstan is a member of the Eurasian Economic Union (EAEU).

The Kazakhstan economy is thriving, attracting a large number of investments thanks to a well-developed infrastructure, skilled labor with effective motivation for work. Kazakhstan today is a country with high productivity and high income, with a developed sphere of social services and a high level of welfare. In order to maintain this standard, it is necessary to adapt to new trends in science, technology, and global markets. The purpose of this thesis is to identify the features of economic development and foreign economic activity of Kazakhstan.

In accordance with the goal, the following most important tasks were identified: to give a general description, analyze the economy of the region, consider the policy of social market economy in Kazakhstan, evaluate investment attractiveness, study the features of foreign economic relations, the commodity and geographical structure of exports and imports, and foreign trade policy of the state.

## 2. Objectives and Methodology

### 2.1 Objectives

The main goal of my thesis is to analyze the analysis of foreign trade in Kazakhstan. The purpose of my thesis is to consider international trade in the system of international economic relations.

Explore the main indicators of foreign trade. To characterize the modern foreign trade policy of Kazakhstan. Analyze the dynamics and structure of foreign trade of Kazakhstan. Identify methods of regulating the country's foreign trade.

### 2.2 Methodology

The thesis will use methods of comparison and analysis of statistical indicators, which allowed us to identify the main factors for the development of foreign trade. Considering the high economic status compared to most countries of the world, the thesis will widely describe the nexus between trade and economic growth in Kazakhstan. The study will investigate the relationship between exports, imports, and economic growth in Kazakhstan.

## Literature Review

### 3.1 Conditions for economic activity

The literature contains a large number of studies on Kazakhstan`s foreign policy. They are both descriptive and explanatory in nature. My focus will be on
Kazakhstan`s objectives within its oil policy, and trade policy. I will take a look
at these three dimensions and analyze their complexity and interconnectedness in order to understand how they shape the foreign trade policy of Kazakhstan.

Kazakhstan's economic growth is largely based on gas and oil revenues (35% of GDP and 75% of exports). In 2019, Kazakh GDP grew by 4.5%, as domestic demand, business spending and construction boom supported economic activity.

3.2 Competitive features of Kazakhstan and features of external economic relations

According to the World Trade Organization, Kazakhstan ranks 40th among the world's exporters. According to some export items, the republic occupies leading positions in the ranking of world exporters. For example, Kazakhstan is a world leader in the export of oxides and hydroxides of chromium, quartz, bitumen mixtures based on natural asphalt and petroleum bitumen. The republic ranks third in the ranking of world exporters in terms of exports of radioactive chemical elements, as well as ores and chromium concentrates.
Kazakhstan has produced oil since 1911 and today, Kazakhstan is a big producer of oil and has a total liquids production estimated at 1.6 million barrels per day (bbl/d) in 2012. The country has the second largest oil reserves and the second largest oil production among the former Soviet republics behind Russia. But as the graph below illustrates, it did not become a notable oil producer and exporter until after the oil industry was developed. Therefore, the development of the oil sector was a key priority for the Kazakh government to increase state revenues. It started to become a notable oil net exporter after 2000, and has only increased since then.

Today, KazTransOil is operating the pipeline system, which is approximately 5,300 kilometers long. Kazakhstan exports oil mainly through the Caspian-Pipeline-Consortium, the Kazakhstan – China pipeline, the Atyrau-Samara pipeline, and the Baku-Tblisi-Ceyhan pipeline.

The Caspian-Pipeline-Consortium runs from the Tengiz oil field to the oil terminal South Ozereevka in Russia. Since the pipeline first started to operate in 2001, approximately 300 million tons have been transported, including more than 240 million tons of Kazakh oil.The Atyrau-Samara pipeline runs from Atyrau to the Russian city Samara, and from there it links to Russia`s Transneft distribution system. The pipeline was upgraded in 2009 and transported 15.4 million tons in 2011.

The Kazakhstan – China oil pipeline runs from Karaganda in east Kazakhstan to the final destination Alashankou in China. The pipeline is a joint venture between the Kazakh KazMunaiGaz (KMG) and China National Petroleum Corporation (CNPC), and is currently being expanded to increase the amount of oil being exported to China.

The Baku-Tblisi-Ceyhan pipeline has a capacity of 1 million bbl/d and starts from neighboring Azerbaijan and runs to Europe.The pipeline started operating in 2006 and Kazakhstan has a contract with Azerbaijan and the BTC Pipeline Company to supply 500,000 bbl/d of oil through the BTC oil pipeline.The oil is delivered by tankers across the Caspian Sea to Baku and in 2008 the first Kazakh oil was loaded into the BTC pipeline. Kazakhstan`s landlocked position characterize its physical environment. It does not have full control over the utilization of its natural resources, as it is forced to ship its oil and gas via pipelines that run through other countries to reach the global market.

A struggle for control of these pipelines is now being waged between many countries, including Russia, China and the United States. Kazakhstan, to maximize its own utility, has cooperated with each of these big powers and has at the same time balanced the influence they have over Kazakhstan`s oil sector. After achieving much needed economic recovery, new pipelines bypassing Russia to secure economic independence became the long-term strategic goal of Kazakhstan's oil policy. Thus, a multi-vector approach was used to realize this goal.

The Atyrau-Samara and the Caspian-Pipeline-Consortium export pipelines are beneficial for both Russia and Kazakhstan, but increase Kazakhstan's dependence on Russia. Problems with the export of Kazakh oil started when Russia began to complain about the presence of mercaptans and sulphur compounds, found in Kazakh oil from the Tengiz field. Russian authorities limited Kazakh oil access to the Atyrau-Samara pipeline until the situation improved. This was a tactical move by the Russian side: They were upset over the growing presence of U.S. companies in Kazakhstan. Chevron, having invested heavily in the Tengiz field, almost cancelled the entire project.

Furthermore, Kazakhstan fears that Russia might someday dramatically raise transit fees or even shut down the pipelines as a tool of diplomatic negotiations, like it did in the incident with Ukraine in 2006. Most of the oil pipeline system was built in the Soviet Union period and its ain purpose was to maximize oil gains for Russia. To ensure energy security and growth, and to reduce its dependence on Russia, Kazakhstan had to diversify its oil export routes.

As a consequence of Kazakhstan`s dependency on Russia`s pipeline system, Kazakh oil exports were determined by oil trade with Russia on a mutual compensation basis and oil export to other countries was determined by Russian quotas for pipeline transport. Developing a multitude of oil export routes connecting Kazakhstan`s oil resources to the world market has always been one of the driving forces behind Kazakhstan`s oil policy. By 1996, the government suggested several routes that bypassed Russia, indicating the aim to reduce the dependence on Russian transport infrastructure.

As part of Kazakhstan`s strategic goal to diversify its oil export routes, building a pipeline to China was of great importance. Kazakhstan's oil policy aims at maximum diversification of export channels. With this in mind, China's greater insistence on pursuing oil reserves enabled Kazakhstan to balance the interests of other global powers represented in the region. The state-owned KMG had this to say about the Kazakhstan-China oil pipeline and the diversification of their oil export routes:

*The first project for construction of the Kazakhstan-China oil pipeline is aimed at diversifying oil transportation directions within the framework of pursuing the policy of creation of a multi-vector system for transportation of hydrocarbons of independent Kazakhstan*.

The benefits of the pipeline to China are many. First of all, the pipeline delivers a direct transport route. Transit fees do not need to be paid, and Kazakhstan does not risk that a transit country holds its oil hostage by arbitrarily raising fees or closing the pipeline. Second, China`s growth will not stop in the near future and this almost guarantees Kazakhstan a stable purchaser. Third, the pipeline constitutes a tool for improving Kazakhstan`s relationship with its big neighbor. Finally, the pipeline increases the diversification of its export routes, which in turn reduces its dependence on a single foreign actor. The Kazakhstan-China oil pipeline counterbalances the export routes through Russia.

In addition, an export route to the West was a top priority to fully diversify Kazakhstan`s oil export routes and counterbalance the Russian and Chinese influence. The Baku-TblisiCeyhan pipeline makes it possible for Kazakhstan to export its oil to the West, without interference by Russia. For Kazakhstan, participation in the Baku-Tblisi-Ceyhan pipeline has a clear advantage. With oil from Kazakhstan, the pipeline will maintain enough flow to become profitable and will validate the US and EU led efforts to build a Caspian pipeline bypassing Russia. Furthermore, participation empowers Kazakhstan as a sovereign oil producing country by decreasing its dependence on the Russian pipeline system.

Although the Kazakh government has had some success in diversifying its oil routes, the multi-vector approach has not always been successful. Kazakhstan has for decades wanted to build an underwater oil pipeline from Kazakhstan to Azerbaijan, to have greater access to Europe. The proposed project has been supported by the United States, the EU, and other countries, such as Turkey and Azerbaijan. But Russia has opposed the project and has even hinted that Russia might use military force to stop it because it considers it a threat to Russia`s national security.

As the Trans-Caspian-Pipeline project illustrates, Russia`s influence over Kazakhstan`s oil industry may have weakened, but it is still strong. A route through Iran is also off the table for Kazakhstan, because of its desire to keep a good relationship with the United States. Considering the United States` close attention to the Kazakh-Iranian relationship, Kazakhstan has taken a wait-and-see position on the development of any large-scale energy projects with Iran. The United States is too important strategically for Kazakhstan to damage US – Kazakh relations.

However, even with the failure of building the Trans-Caspian-Pipeline, the Kazakh government has been successful in diversifying its oil export routes. The Kazakh government managed to establish two new export routes, one to the east and one to the west, while balancing the interests of the big powers present in the region. Kazakhstan`s liquid fuels export by destination is a good indication of the Kazakh government`s achievement of diversification of its oil export routes. Kazakh oil is now running both to the east and to the west.

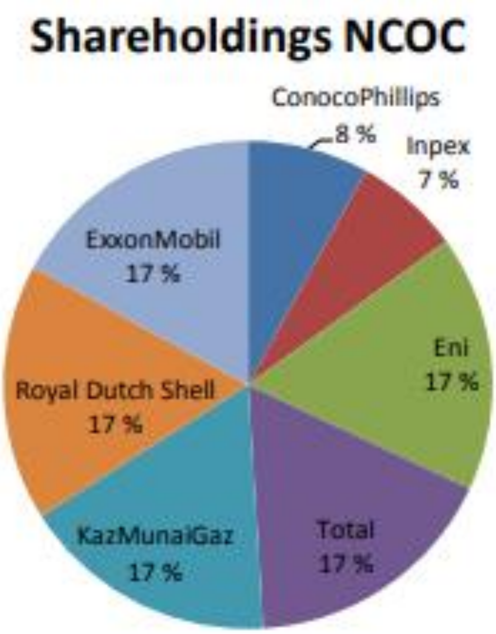
**Figure 3. 1 Kazakhstan`s liquid fuels exports by destination**


Source: Kazakhstan`s Customs Control Committee of the Ministry of Finance, EIA, Eurostat
https://www.oecd.org/eurasia/countries/OECD-Eurasia-Reforming-Kazakhstan-EN.pdf

How the multi-vector approach functions becomes very clear when looking at the country`s perusal of diversification in oil export routes out of the landlocked country. New pipelines bypassing Russia became the strategic goal to secure economic independence and one could observe a careful balancing act between Russia, China and the United States in Kazakhstan`s foreign policy. It was only rational to balance the big powers interests because of the social environment of Kazakhstan. In this way, Kazakhstan could pursue its goal of multiple pipelines without shutting the door on any of the big powers.

A second main element of Kazakhstan`s multi-vector policy concerns ownership in major oil consortia. The shareholdings in the major international oil consortiums in Kazakhstan further illustrate the policy to cooperate with and diversify its international actors and avoid getting in to an asymmetric relationship. The need for foreign investment in the oil sector caused the government to open up its economy and welcome foreign actors, but the Kazakh government made sure that it would have enough shares in every major international oil consortium to remain in control and not become too dependent on external actors.
In October 2008, the Kazakh government reached an agreement with seven companies to form a new joint operating company named the North Caspian Operating Company B.V (NCOC). NCOC is operating mainly on the Kashagan field, one of the largest petroleum developments in the world. The shareholders in NCOC are KazMunaiGaz (Kazakhstan), ENi (Italy), Royal Dutch Shell (Anglo/Dutch), Total (France), ExxonMobile (US), ConocoPhillips (US) and Inpex (Japan).

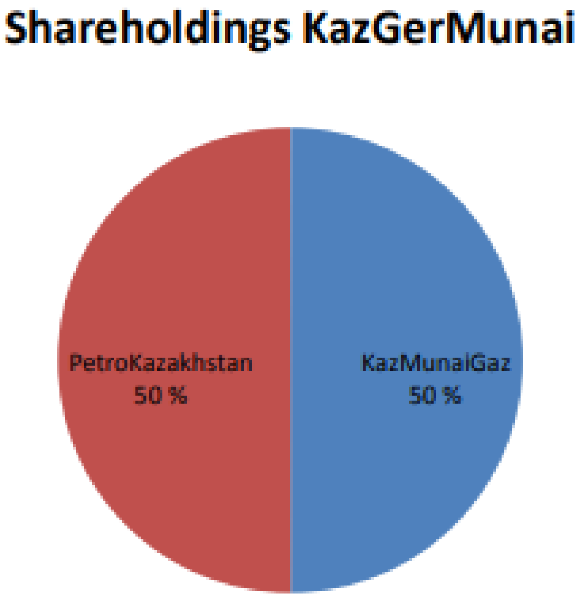
**Figure 3. 2 Shareholdings NCOC**




Source: www.ncoc.kz

Kazgermunai is one of the biggest companies in Kazakhstan`s oil producing sector. The company's activities include exploration, development, production and sales of hydrocarbons in Akshabulak, Nuraly and Aksai oilfields in South Turgai basin, Kyzylorda oblast. The shareholders in Kazgermunai are KazMunaiGaz (Kazakhstan) and PetroKazakhstan (China and Kazakhstan).

**Figure 3. 3 Shareholdings KazGerMunai**




Source: [www.kazgermunay.kz](http://www.kazgermunay.kz)

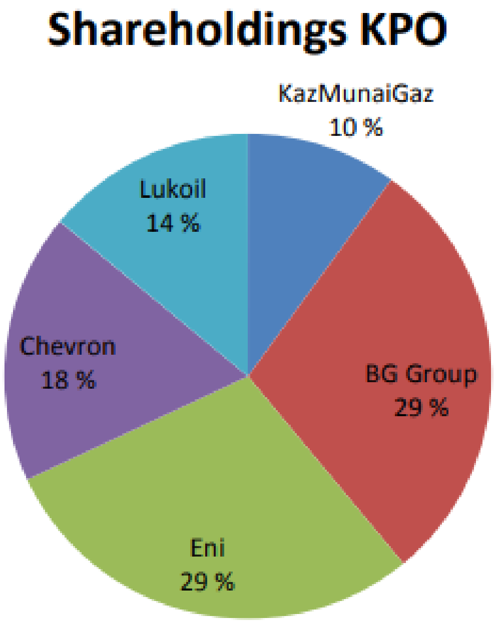
PetroKazakhstan is a vertically integrated oil and gas company with two owners, China National Petroleum Corporation and National Company KazMunaiGaz. PetroKazakhstan`s activities include exploration, field development, oil and gas production, purchasing of fields, processing and selling crude oil and refined products.

**Figure 3. 4 Shareholdings PetroKazakhstan**


Source: Carlson 2009

The Karachaganak field, discovered in 1979, is one of the world's biggest gas and condensate fields. Located in north-west Kazakhstan and stretching over an area of more than 280 square kilometers, it holds projected hydrocarbons primarily in place of 9 billion barrels of condensate and 48 trillion cubic feet of gas, with estimated gross reserves of over 2.4 billion barrels of condensate and 16 trillion cubic feet of gas. The shareholders of Karachaganak Petroleum Operating (KPO) are BG Group (UK), ENi (Italy), Chevron (US), Lukoil (Russia) and KazMunaiGaz (Kazakhstan).

**Figure 3. 5 Shareholdings KPO**




Source: www.kpo.kz

Turgai-Petroleum's main activities are oil exploration and production, transportation, refining and sale of crude oil and oil products. Turgai-Petroleum is also developing the Kumkol North field and has a license for development of the part of contractual part of the East Kumkol oilfield. The shareholders are Lukoil (Russia) and PetroKazakhstan (China/Kazakhstan).Turgai-Petroleum is operating at the Kumkol North field and has a license for development of the part of contractual area of the East Kumkol oilfield.

**Figure 3. 6 Shareholdings Turgai-Petroleum**

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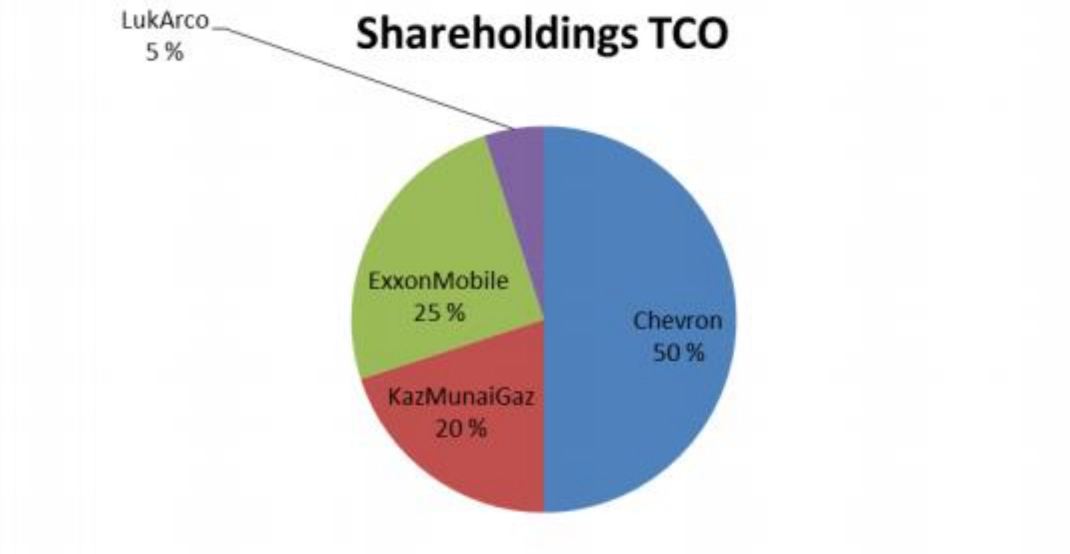
Source: www.petrokazakhstan.kz

Tengizchevroil is a partnership between Kazakhstan and international oil companies that explores, develops, produces and markets crude oil, gas and sulfur. Current partners are Chevron (US), KazMunaiGaz (Kazakhstan), ExxonMobile (US) and LukArco (Russia/US).

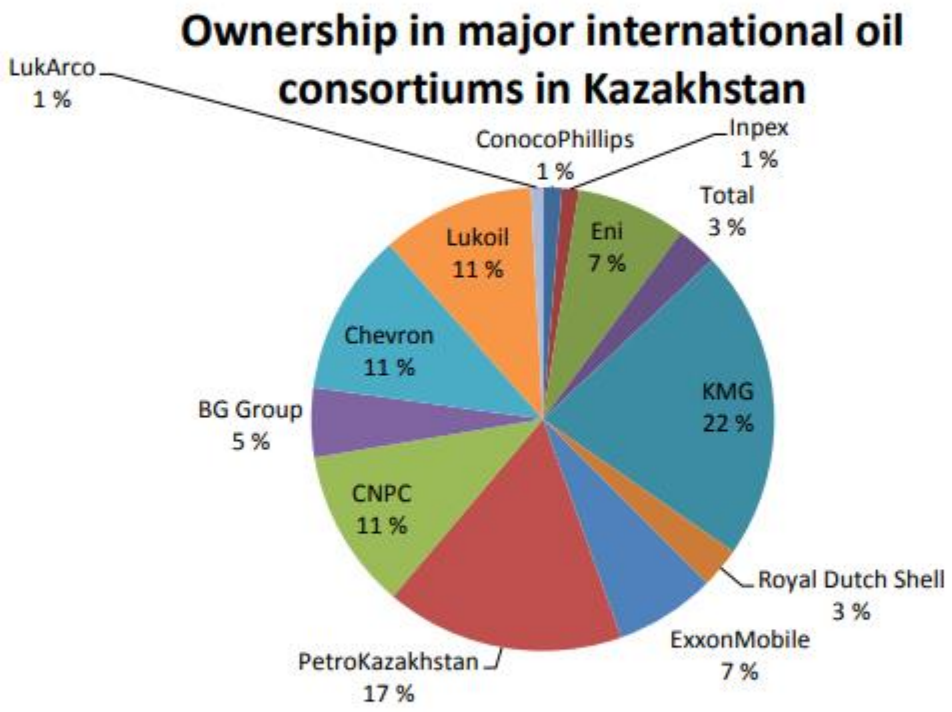
**Figure 3. 7 Shareholdings TCO**




Source: [www.tengizchevroil.com](http://www.tengizchevroil.com)

Several of the biggest international oil companies are present in Kazakhstan`s oil sector. Its oil sector contains international oil companies from the United States, the EU, Russia, China and Japan. The Kazakh government is directly involved through the national oil company KMG and PetroKazakhstan.

**Figure 3. 8 Ownership in international oil consortiums**




The ownership in major international oil consortiums in Kazakhstan makes it clear that the Kazakh government's policy of not letting any foreign actor have too much control of its oil sector has been successful. The major international oil consortiums consist of companies from all the big powers; Russia, China, the United States and the EU. The Kazakh government has set up a system whereby they balance oil contracts among all the big powers that are strategically important to Kazakhstan, while still retaining control through KMG and PetroKazakhstan. Cooperation with international western oil companies such as Chevron, Total, ExxonMobil, and Eni was not just to balance Russian and later on Chinese companies, it also brought modern technology and knowledge to Kazakhstan, and this enhanced the efficiency of the hydrocarbon reserves usage. This carefully planned balance and the increasing role of KMG can be seen as an attempt to prevent dependence on any single foreign actor. No foreign company has singlehandedly more than 11% ownership in total. PetroKazakhstan has 17% ownership but since it is both Chinese and Kazakh, the Kazakh government still remains in control with KMG having a 22% ownership in total. This is not a coincidence, but a strategic and carefully planned policy not to let any foreign actor have too much influence over the Kazakh oil sector. As the ownership in the major international oil consortiums illustrates, the Kazakh government has prevented foreign actors from getting too much influence over its oil sector. But in recent years the Kazakh government has also used other methods to remain in control. There has been an important shift in Kazakhstan`s oil policy that could be understood as reflecting the Kazakh government`s fear of losing autonomy and independence. The Kazakh government is now apparently closing its oil sector and strengthening its control over it . Kazakhstan’s officials deny this and claim that Kazakhstan continues to be a country with favorable conditions for any foreign investor. Nevertheless, recent trends and changes in Kazakh oil policy indicate that Kazakhstan is closing its oil sector compared to how it was in the 90s. The Kazakh government is rebalancing its interests towards the host government through increasing its control over the oil sector and maximizing revenues from it. Modifications made to the Kazakh legislation make this evident. The new tax code from 2009 took the tax burden away from small and medium enterprises, to companies operating in the extractive industry (including oil producers), and Kazakhstan uses an additional levy from 2008, called an ‘oil export duty’, aimed at boosting tax revenues from exports of crude oil. Furthermore, in 2010, a new subsoil-uselaw was introduced. This new law established greater state control over activities carried out by subsoil users in Kazakhstan, and because of recent developments in the legislation, this explicitly demonstrates that the Kazakh government is actively pursuing a soft resource nationalism policy. In 2007, thanks to the adjustments in the subsoil use legislation that gave the Kazakh government the power to modify, change and cancel any contract that was thought to pose a threat to the economic interests of Kazakhstan, the government started renegotiations of the giant Kashagan field. The results were more revenues and control to the Kazakh government:

- National Oil Company KMG increased its share from 8.33% to 16.81%, whereby KMG became one of the largest participants of the project
- Sole operatorship of Eni was replaced by North Caspian Operating Company (NCOC), a group of five participants led by Shell, where the role of KMG was boosted
- For delays Kazakhstan will receive additional compensation amounting to USD 5 billion.

Attracting investments from the West, remaining independent, and at the same time balancing the strategically important partnership with Russia required a special type of oil policy, often referred to as a multi-vector oil policy. Kazakhstan's persistent policy not to favor any big power at the expense of others and its desire to secure multiple pipelines going both east and west were realized by using a multi-vector approach to its oil policy. The Kazakh government is aware that, because of its unique social environment and physical environment, respecting the interests of all the important players in the region will ensure the stability of the oil sector in Kazakhstan. This approach will facilitate a balance of power in the oil sector of Kazakhstan, keeping the big players in check.

### 3.3 Foreign trade analysis

Kazakhstan is the 48th most complex economy according to the Economic Complexity Index (ECI).

The country has an export-oriented economy that is highly dependent on shipments of oil and related products (73 percent of total exports). Other exports include ferrous metals, copper, aluminum, zinc and uranium.

Main imports are electronics, machinery and mechanical appliances (25 percent of total imports), mineral products (15 percent), transport equipment (12 percent), and base metals and related products (10 percent).

Kazakhstan became a World Trade Organization (WTO) member on November 30, 2015.

The country officially entered into a Customs Union with Russia and Belarus on July 1, 2010. Since that time, Kazakhstan’s trade policy has been heavily influenced by regulations promulgated by the Customs Union and its governing body the Eurasian Economic Commission.

As a condition of membership in the Customs Union, Kazakhstan had to double its average import tariff and introduced annual tariff-rate quotas (TRQs) on trade poultry, beef, and pork.

However, in accordance with its WTO commitments, Kazakhstan will now gradually lower 3,512 import tariff rates to an average of 6.1 percent by 2020. Starting from January 2016, Kazakhstan has applied a lower-than-Customs Union Tariff rate to food products, automobiles, airplanes, railway wagons, lumber, alcoholic beverages, pharmaceuticals, freezers, and jewelry.

On May 29, 2014, Kazakhstan and its Customs Union partners signed a treaty to create a common economic space known as the Eurasian Economic Union (EAEU). The EAEU is expected to further integrate their economies, and provide for the free movement of services, capital, and labor within their common territory. The government of Kazakhstan has asserted that EAEU agreements comply with WTO standards.

Kazakhstan’s government is optimistic that further integration within the EAEU will make Kazakhstan more attractive for foreign investment by expanding market access to those countries.

Kazakhstan is a signatory of the Free Trade Agreement with CIS countries. In addition, as a member of the EAEU, Kazakhstan is a party to the Free Trade Agreement between the EAEU and Vietnam.

Kazakhstan is open to international trade. According to the World Bank, the share of international trade in 2018 amounted to 62.8% of GDP. Kazakhstan's main export products are raw materials, notably oil, petroleum products, coal, iron ore, machinery. Cereals, wool, and meat are other major exports. The country imports mainly petroleum products, radiotelephone transmitting devices, medicines, and cars.

Kazakhstan's main international trading partners are the European Union (around 40% in total). The main customers are Italy, China, Netherlands, Russia, while the main suppliers are Russia, China, Germany, and Italy. Russia and Kazakhstan have undertaken joint projects in many areas, including energy. The government aims to improve the country's integration abroad to increase investment in the country. The country has been a WTO member since 2015 and has trade agreements with many countries in its region. It is also a member of the Eurasian Economic Union (Russia, Belarus, Armenia, Kyrgyzstan), the Common Economic Zone (Belarus and Russia). The Enhanced Partnership and Cooperation Agreement (EPCA) was signed in 2015 between the country and the European Union, and a revised version entered into force in March 2020.

As oil and gas are among Kazakhstan's main exports, the country's trade balance depends is affected by global commodity prices. Kazakh exports rose to a four-year high of USD 60.96 billion in 2018 from USD 48.3 billion a year earlier. Imports grew at a slower rate, edging up to USD 32.53 billion from USD 29.27 billion a year earlier. Thus, the 2018 trade surplus amounts to USD 25.5 billion. The imports of services were equal to USD 11.7 billion and the exports to USD 7.2 billion, therefore the overall trade balance for 2018 was USD 20.9 billion.

**Figure 3. 9 Foreign trade**

| Foreign Trade Indicators | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Imports of Goods *(million USD)* | 30,186 | 25,175 | 29,266 | 32,534 | 37,757 |
| Exports of Goods *(million USD)* | 45,726 | 36,776 | 48,304 | 60,956 | 57,309 |
| Imports of Services *(million USD)* | 11,489 | 10,997 | 9,949 | 11,848 | 11,297 |
| Exports of Services *(million USD)* | 5,941 | 6,255 | 6,261 | 7,070 | 7,495 |

Source: WTO – World Trade Organization, Latest Available Data, by own procedure.

**Figure 3. 10 Foreign trade**

| Foreign Trade Indicators | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Foreign Trade *(in % of GDP)* | 53.0 | 60.3 | 56.8 | 63.5 | 64.4 |
| Trade Balance *(million USD)* | 11,627 | 9,253 | 16,728 | 25,579 | 19,118 |
| Trade Balance (Including Service) *(million USD)* | 6,907 | 5,491 | 13,150 | 20,920 | 15,463 |
| Imports of Goods and Services *(Annual % Change)* | -0.1 | -2.0 | 1.0 | 6.6 | 11.6 |
| Exports of Goods and Services *(Annual % Change)* | -4.1 | -4.5 | 8.0 | 9.6 | 2.2 |
| Imports of Goods and Services *(in % of GDP)* | 24.5 | 28.5 | 24.4 | 25.9 | 27.9 |
| Exports of Goods and Services *(in % of GDP)* | 28.5 | 31.8 | 32.4 | 37.6 | 36.5 |

Source: World Bank, by own procedure.

### 3.4 The World Trade Organization (WTO)

The World Trade Organization (WTO) began to operate on January 1, 1995. The creation of this organization is the result of complex and multifaceted international trade negotiations, in which 125 states participated. The negotiations that took place as part of the GATT were called the Uruguay Round (negotiations were opened in the city of Punta del Este, Uruguay, in September 1986, which is why they got this name). The headquarters of the WTO is located in Geneva (Switzerland), is today the only global international organization engaged in the rules of trade between countries.

The main objectives of the WTO are the liberalization of international trade, ensuring its fairness and predictability, promoting economic growth and improving the economic well-being of people. WTO member countries solve these problems by monitoring the implementation of multilateral agreements, conducting trade negotiations, regulating trade in accordance with the WTO mechanism, as well as assisting developing countries and conducting a policy review.

In accordance with the agreement on the establishment of the WTO, all GATT members (128 states by 1994) became the founding countries of the organization, which submitted lists of obligations for goods and services and ratified the package of agreements of the Uruguay Round. Currently, 159 countries are full members of the WTO.

The WTO regulates the trade and political relations of members of the Organization. An integral part of the WTO is a unique mechanism for resolving trade disputes. Since 1947, a discussion of the global problems of liberalization and the prospects for the development of world trade has been held within the framework of multilateral trade negotiations (ICC) under the auspices of the GATT. The The purpose of creating the WTO is to ensure the functioning of the world trade system on the basis of uniform rules so that markets remain open and that access to them cannot be violated by the introduction of sudden and arbitrary restrictions on imports. At the same time, WTO member countries have the right to introduce protective anti-dumping and countervailing measures to restrict access to their market. The introduction of such measures is possible in connection with the onset of a crisis in a particular industry or in connection with a violation by trade partners of WTO principles. Nevertheless, business communities in many countries are still not fully aware of the benefits of the WTO trading system. The main reason for this is the enormous complexity of the system, which still prevents business people from benefiting from it and comprehending its provisions and rules.

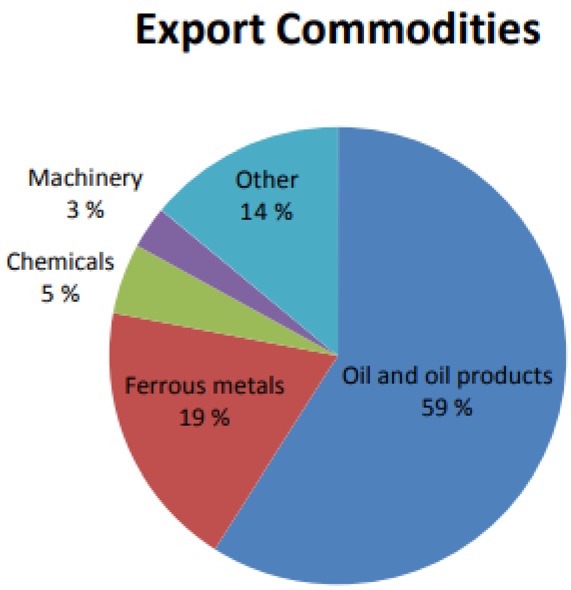
The main goal of the GATT / WTO is to create, on the basis of uniform legal norms, a trading system in which enterprises of WTO member countries can trade with each other on the basis of fair and free competition. Main task of this influential international economic organization is the liberalization of world trade.

## Practical Part

### 4.1 Trade Policy

During the last two decades Kazakhstan has become a more open economy and more open to international trade. Export significantly surpasses imports. Kazakhstan exported for 59.23 USD billion in 2010, an increase from 43.84 USD billion in 2009.70 Kazakhstan imported for 30.11 USD billion in 2010, an increase from billion 28.77 USD billion in 2009. Fuel and energy dominate exports, while imports consist mainly of machinery and food. The increase of trade openness in the start of the 2000s went hand in hand with the increase of oil and gas production. Kazakhstan started to become a major oil producer and exporter, by 2010 it exceeded 82 million tons per year. Therefore oil was the main driver behind the increase in trade.

**Figure 4. 1 Export commodities**




Source: www.economywatch.com , by own procedure.

When it comes to trade policy Kazakhstan`s problem situation is how to optimize its gains from trade and remaining economically independent. To achieve these goals Kazakhstan has pursued for regional trade integration and the increase of trade with other important trading partners. This part starts by describing and analyzing Kazakhstan`s regional trade integration. I then describe and analyze how and to what extent the multi-vector policy promotes Kazakhstan`s economic goals by considering its trade policy vis-à-vis China, Russia, the United States and the EU.

### 4.2 Regional trade integration

The Eurasian Economic Community (EAEC) entered into force in May 2001. It aims to implement a customs union and, eventually, a common economic area that goes beyond just a common external tariff. Members include Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan, with Moldovia, Ukraine and Armenia as Observers. EAEC has till this day not achieved much. EAEC member states have failed to agree on important matters, such as the introduction of a single import tariff and convergence of tax policies. Nevertheless, it is a regional trade organization where Kazakhstan and the other member states work for a mutually beneficial trade integration. At the Commonwealth of Independent States summit in Yalta in 2003, Belarus, Kazakhstan, Russia and Ukraine agreed to create The Common Economic Space (CES), which has several main goals: the coordination of customs duties and harmonization of trade and custom regulations; the lifting of current trade barriers and creation of a customs union; and the insolvency of internal customs boundaries to be replaced by a common customs boundary and the creation of a supra-national regulating institution. This organization has also failed to reach its objectives and most likely, it will not reach them any time soon. On the 6th of October 2007, Belarus, Kazakhstan and Russia signed an agreement on the establishment of a Customs Union. The three countries managed to remove most of the mutual trade barriers, agreed on a unified customs tariff vis-a-vis third party countries, and place the resulting single customs territory under the control of a supranational executive commission. At the end of 2011, the presidents of the three countries went further ahead by relinquishing all restrictions to the movement of goods, services, capital and labor within the free trade zone, thus creating a common economic space. The regional economic integration is seen as a step towards the ultimate regional integration, a full-scale economic union which constitutes an institutional supranational architecture formally modeled on the European Union, namely the Eurasian Union. According to the European Bank of Reconstruction and Development, the customs union between Kazakhstan, Russia and Belarus, although relatively new, is the first successful example of regional economic integration between countries from the former Soviet Union. Signs of improvement are already showing. Since the establishment of the union, trade among the three countries has doubled, the increase has been caused mainly by postcrisis recovery, but also by reduced non-tariff barriers and to some extent by common tariffs. Nazarbayev is rightly viewed as the inventor and a strong believer in the idea of “Eurasian integration” and in the special role that Kazakhstan has to play in making this idea a reality. Based on this idea, Nazarbayev has proposed several regional integration projects. In 1997, he stated: I have formulated, and will continue to promote the idea of Eurasian unity which, I believe, has a strategic future...Kazakhstan alone cannot realize its great transit potential, nor can any other neighboring country do so. This should be done jointly, in close and mutually beneficial co-operation. The customs union with Russia and Belarus could be seen as a sign of Kazakhstan moving closer to Russia and moving away from the west. The customs union and the plans of a Eurasian Union can put Kazakhstan`s relationship with the West and China on serious trial. At the same time it will serve to balance the influence from the West and China in Kazakhstan.

Regional integration has been pursued by Nazarbayev for a very long time now, but there are some serious risks in integrating its economy even more with its bigger and stronger neighbor. Concerns about getting too dependent and not being able to benefit from the integration are valid. Looking at the structure of trade, the asymmetry becomes clearer. Kazakhstan stands for 3% of Russia`s total exports, while goods from Russia and Belarus constitute 40% of Kazakhstan`s total imports. According to several Kazakh politicians, Russia is trying to tailor the integration according to its own interest, but the biggest share of the politicians look at the integration positively.The integration can be a positive opportunity for economic growth, but integration could also weaken Kazakhstan`s autonomy and economic independence. Verifying these concerns are the institutions and decision-making mechanisms of the customs union. In the Common Economic Space Commission votes are weighted, giving Russia 57% and Belarus and Kazakhstan 21.5% each, so that it will be impossible to block Russian initiatives, and the plans for supranational institutions are to include the creation of a Eurasian Parliament directly elected by the citizens, where Kazakhstan would be able to have only 10% of the seats. Russia is an important trade partner for Kazakhstan, with or without the Eurasian Union. Even though it has comes with curtain risks, a regional trade integration can boost trade in the region and have a positive outcome.

### 4.3 China

China has become a very important economic partner for Kazakhstan, especially after 2000. In June 2003, on the occasion of Hu Jintao’s visit to Kazakhstan, a program of economic cooperation between the two countries was adopted for the period 2003-2008 and on Nazarbayev’s visit to China in December 2006, the two countries signed the “Cooperation strategy for the twenty-first century” and the “Plan for economic cooperation between Kazakhstan and China”, another visit by Hu Jintao to Kazakhstan in 2007 saw the signing of a program of bilateral cooperation in the economic sectors not related to raw materials. Many bilateral committees have been created to encourage trade. The main one is the China-Kazakhstan Cooperation Committee, established in 2004 and led by the Chinese and Kazakh Prime Ministers. It comprises around a dozen specialist sub-committees, for example on finance, biotechnology, petroleum and gas, and the use of nuclear energy for civilian purposes, but it is often criticized for its lack of transparency, and the consequent possibility that the Chinese authorities could buy decisions to their advantage. In 2008, China-Kazakhstan trade represented about 70 percent of all China-Central Asia trade. Nazarbayev acknowledges the global role of rising China. Both former Minister of Foreign affairs Tokayev and the former Prime Minister Massimov, are not only native Russian speakers and fluent English speakers, they are also fluent in Chinese. The Chinese vector has always been a priority in Kazakhstan's foreign policy strategy. The huge and rapidly growing manufacturing economy of developing China is complimentary to Kazakhstan's raw materials exporting economy. A passive policy towards its giant neighbor could gradually lead to the political and economic expansion of China with adverse effects upon Kazakhstan's strategic interests. Kazakhstan has become China`s second biggest partner in the region after Russia. China and Russia counterbalance each other, but because of the imbalance in power, the Kazakh government must step very cautious not to become too dependent on its growing economic relationship with China. The imbalance of power between China and Kazakhstan is obvious. In 2006, Kazakhstan represented only 0.49 % of China's foreign trade, while China represented 15.5 % of Kazakhstan`s foreign trade (nearing Russia`s 18.8%), and in 2005, China injected 1.2 billion USD into the Kazakh economy, whereas Kazakhstan invested only 7.6 million USD in China. To diversify its oil supply from the Middle East and its geopolitical vicissitudes, Chinese authorities have turned to Kazakhstan for securing a steady oil supply. China`s presence in the Kazakh oil market is both welcomed and feared. Its presence reduces its dependence on Russia and increases the FDI in the country, but the fear of a total Chinese take over is present in Kazakhstan. The fear is mainly about an enormous wave of Chinese migration and that some regions of Kazakhstan would be too dependent on Chinese businesses. The concern of China gaining an energy monopoly in Kazakhstan is very often exaggerated. China has brought Kazakhstan new technologies and modern financial and banking structures that are capable of providing a framework for the country's development and its entrance on the world stage. As long as the Kazakh government continues to strategically keep Russia and other major international actors well established in the Kazakh oil sector, a total takeover by the Chinese is very unlikely to happen. However, Kazakhstan will have to manage the rising tensions between Moscow and Beijing for control of the key sectors. In addition, Kazakhstan has had to counterbalance its big neighbors and the solution was once again found in the West.

### 4.4 The United States and the EU

The United States is one of the largest and fastest-growing trade partners of Kazakhstan. In 2011, the trade turnover volume between Kazakhstan and the United States amounted to 2.743 USD billion, an increase of 26% as compared to 2010. Since 1993, the volume of gross inflow of the United States direct investments to Kazakhstan has exceeded 22 billion USD. The basic areas of the United States investment are mining, real estate operations, rent and services for enterprises, transport and communication, trade, repair services, electric energy, gas and water production and distribution. In 2006, Kazakhstan implemented the Economic Development Program jointly with the United States. The purpose of the program was to promote diversification of Kazakhstan's economy, increase the economy`s competitiveness, including businessmen, and achieve sustainable economic growth. The United States is trying to prevent Russia from, as they see it, recreating a new version of the Soviet Union through economic integration. According to former US secretary Hillary Clinton, economic integration is just a cover-up for Russia`s ambition and plans to get greater influence over the region. At the end of 2012 in a conference in Dublin, she warned: *There is a move to re-Sovietise the region.*

*It's not going to be called that. It's going to be called a customs union, it will be called Eurasian Union and all of that. But let's make no mistake about it. We know what the goal is and we are trying to figure out effective ways to slow down or prevent it.*

Even though Nazarbayev is keen on a Eurasian Union, the Kazakh government is quick to deny any accusations about Kazakhstan moving away from the rest of the world. By using a multi-vector approach, the regional economic integration does not hinder Kazakhstan`s path on becoming a WTO member or strengthen its economic ties with the West. The United States is very strategically important for Kazakhstan as a counterbalance to Russia and China, but also because of its heavy investments in Kazakhstan. American direct investments in the Kazakh economy was total up to 13.8 USD billions in the period from 1991 to 2007, which is about 30% of all the direct foreign investments to Kazakhstan.

**The EU**

Trade relations between the EU and Kazakhstan are regulated by the Partnership and Cooperation Agreement signed in 1995. At the end of 2011, the EU and Kazakhstan opened the negotiations for a new enhanced Partnership and Cooperation Agreement. Trade between Kazakhstan and the EU has been growing steadily since 2002. The EU has gradually become Kazakhstan's first trade partner, with almost 40% share in its total external trade. Kazakhstan's exports to the EU are greatly dominated by oil and gas which account for more than 80% of the country's total exports.

Kazakhstan`s import from the EU are mostly machinery and transport equipment, as well as products within the manufacturing and chemicals sectors.Export to the EU from Kazakhstan substantially surpass export from the EU to Kazakhstan. Kazakhstan is becoming more important to the EU as an oil and gas supplier. Nearly half of the Foreign Direct Investment inflow in Kazakhstan originates from the EU. The economic and strategic relationship with the EU will continue to play a vital part in Kazakhstan`s foreign policy, especially as a balancer. The European Commission summarized the mutual benefits of the cooperation as follow: The EU has a vital role to play from Astana's perspective as a balancer between the rival energy and geopolitical interests that Russia, China and the U.S. have in Kazakhstan and the surrounding sub-region… From the European Union's perspective, Kazakhstan represents not only an important source of energy outside of the Middle East, but equally a guarantor of stability in Central Asia, and a potentially long-term strategic partner in the region. Apart from the obvious benefits of trade with the EU, like the United States, the relationship is strategically important to counterbalance Kazakhstan`s big neighbors. Looking at figure 4.2 we can see that Russia is an important export partner but China and the EU are Kazakhstan`s leading export partner. China stood for 16% of Kazakhstan`s total export while countries from the EU stood for over 27% (France and Germany accounted for the most). The EU is a very important export partner for Kazakhstan. Looking at figure 4.3 we can see that Russia and China are Kazakhstan`s most important import partners. The two big neighbors stood for 56% of Kazakhstan`s total import in 2009. Figure 4.1 and 4.2 illustrates that the EU, Russia and China are all important trading partners for Kazakhstan while the United States more of an important investment partner.

**Figure 4. 2 Export partners**

Source: www.economywatch.com , by own procedure.

**Figure 4. 3 Import partners**


Source: www.economywatch.com , by own procedure.

**Results and Discussion**

Kazakhstan has managed to balance the interests of the big powers in the oil policy and the trade policy. Kazakhstan, while drifting away from NATO and the United States in the security policy, made some concessions to the United States in its oil policy. For instance, the American oil companies Chevron and ExxonMobile, and the American – Russian oil company LukArco, makes up the majority of the shareholders in Tengizchevroil. Tengizchevroil operates mainly on the enormous Tengiz field. The Tengiz Oil Security Trade Change Change Change 61 field is one of the world's deepest developed super giant oil fields, with the top of the reservoir at about 4000 meters, and the oil column measures an incredible one mile thick. Another example is the regional trade integration with Russia and Belarus. The United States has from the start of the integration criticized the Custom Union. To make up for the United States' disappointment, Kazakhstan makes sure that the United States is compensated in other important areas such as in the oil realm. Apart from that, Kazakhstan voiced its full support to the new U.S strategy in Afghanistan declared by President Barack Obama. Analyzed separately, it might seem that Kazakhstan sometimes deviates from its multivector foreign policy in some key foreign policy domains. But all of these key areas are interconnected, and if Kazakhstan prioritizes one of the big powers over the other in one domain, it makes sure that its relationship with the other big power is also good by compensating it in one of the other domains. Due to its physical environment, Kazakhstan cannot afford to have disproportionate relations with the two superpowers on its borders. But nor can Kazakhstan afford to accept their pressures on bilateral matters which is essential to Kazakhstan`s national interest. With each of the big powers and in each of the different foreign policy domains, Kazakhstan has to play its cards differently. Sometimes Kazakhstan can be seen as a cooperative partner, while in other times it can be seen as not cooperative. Kazakhstan does its best for its national interests and the adaption and true implementation of a multi-vector policy serves the best indicator of it.

## Conclusion

To understand the motivation for the multi-vector foreign trade policy of Kazakhstan, one must take its physical environment, social environment, and its problem situation into account. Kazakhstan is rich in natural resources and is located in the heart of Central Asia with Russia and China as its neighbors. Its social environment is characterized by competing for big power interests. Its problem situation is how to retain control over its oil resources, retain a high level of security, optimize its gains from trade, and stay independent with a high degree of autonomy. First of all, Kazakhstan wanted to reduce its dependence on the Russian oil pipeline system by building multiple export routes. To achieve this goal, Kazakhstan had to move forward with a balanced approach where Kazakhstan had to take all of the interests of the big powers into account. The multi-vector foreign trade policy enabled Kazakhstan to build a direct pipeline to China and join the BTC pipeline without abolishing its important relationship with Russia. Second, the multi-vector foreign trade policy made it possible for Kazakhstan to remain in control over its oil sector. Due to the lack of capital, knowledge, and technology, the Kazakh government was forced to open up its oil sector to foreign actors. But by including all of the big powers and by performing a carefully strategic balancing act with oil contracts among the big powers, Kazakhstan could develop its oil sector without any of the involved foreign actors becoming too powerful. Third, to retain a high level of security and autonomy, Kazakhstan cooperates with Russia, China, the United States, and NATO on security matters. It is natural for Kazakhstan to cooperate on security matters with its neighbors Russia and China, and the security relationships with the West help counterbalance the big neighbors. Furthermore, Kazakhstan and the West have a common interest in a stable Afghanistan. Fourth, to optimize its gains from trade, Kazakhstan did not exclude any of the competing big powers and facilitated a good trade relationship with all of them. Its regional trade integration with Russia is an important economic opportunity to increase the level of trade in the region. Countries from the EU are significant export partners, while Russia and China dominate as import partners. The United States is a vital investment partner. Finally, in some foreign trade policy domains, to pursue its national interests imply that Kazakhstan has to prioritize one of the big powers over the other. But Kazakhstan makes sure it compensates in one of the other domains. In conclusion, Kazakhstan`s situation, characterized by its unique physical environment and social environment, makes it rational to pursue a multi-vector foreign policy. In this way, Kazakhstan is able to cooperate with all of the big powers and to achieve its goals with regards to its oil, security, and trade.

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