

**CZECH UNIVERSITY OF LIFE SCIENCES
PRAGUE**

Faculty of Economics and Management



DIPLOMA THESIS

**Foreign Trade Commodity Structure,
case study of Kazakhstan**

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DIPLOMA THESIS ASSIGNMENT

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Thesis title

Foreign trade commodity structure, case study of Kazakhstan

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The aim of the diploma thesis is to examine the development of foreign trade of Kazakhstan after gaining the independence and to identify the changing tendency from the transition period to the recent years.

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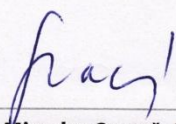
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Declaration

I hereby declare that I have worked on my diploma thesis titled “Foreign trade commodity structure, case study of Kazakhstan” by myself and I have used only the sources mentioned at the end of the thesis.

Prague, 30th of November, 2011

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Anna Nanoshkina

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**Foreign Trade Commodity Structure,
case study of Kazakhstan**

**Komoditní struktura zahraničního
obchodu, případová studie Kazachstánu**

Summary

This diploma thesis focuses on the development of foreign trade of Kazakhstan, a young developing country celebrating twenty years of its Independence this December. In this regard the present work attempts to summarize the country's performance and achievements in the sphere of integration into the global economy.

Comparative analysis on different stages of the development of trade shows two directions: first, geographical diversification and expanding trade relations with countries of Western Europe and other developed economies; and second, deeper regional integration in terms of trade, resulting in creation of Customs Union with Russia and Belarus in 2010.

Study of the commodity structure indicates strong focus on exporting natural resources and raw materials with dominating petroleum industry, while in terms of imports the country tends to importing capital-intensive finished goods, mainly equipment and machinery. Such tendency leads to an unfavourable dependence of the economy on external factors, including price of the commodities, which was proved by the heavy negative effects during the recent economic crisis.

Key words: foreign trade, international trade, Kazakhstan, import, export, diversification, trade turnover, commodity structure.

Souhrn

Tato diplomová práce zkoumá vývoj zahraničního obchodu Kazachstánu, mladého rozvojového státu, který letos v prosinci oslaví dvacet let své nezávislosti. Při této příležitosti se snažím v mé diplomové práci shrnout dosavadní výsledky a úspěchy v oblasti integrace do světového hospodářského systému.

Srovnávací analýza různých fází vývoje naznačuje dva směry: geografickou diverzifikaci a rozšiřování obchodních vztahů se zeměmi západní Evropy a dalšími vyspělými ekonomikami, a zároveň, hlubší regionální integraci obchodu, která vedla ke vzniku celní unie s Ruskem a Běloruskem v roce 2010

Zkoumání komoditní struktury ukazuje silné zaměření se na export přírodních zdrojů a surovin s dominantním naftovým průmyslem, zatímco v oblasti importu země inklinuje spíše ke kapitálově náročným hotovým výrobkům, zejména ke strojům a k zařízením. Tato tendence vede k nepříznivé závislosti ekonomiky na vnějších faktorech včetně cen komodit, což prokazují negativní vlivy během ekonomické krize.

Klíčova slova: zahraniční obchod, mezinarodni obchod, Kazachstan, vyvoz, dovoz, obrat, komoditni struktura.

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Introduction

International trade has become one of the most important issues for of modern world. Politicians who make decisions about the foreign trade policies of a country and control external economic relations, economists who study and argue about its meaning and role for the development of the national economies, businessmen who seek ways for the expanding of their businesses and represent the actual conductors of the trade, and even ordinary people, who are consumers and make everyday decisions about the domestic or imported products – all people to a certain degree are affected by international trade. Modern world is becoming more and more integrated, with the globalization boom happening in the last few decades, and all that was primarily stimulated by the economic relations between countries.

Kazakhstan is a young participator of the global economy, as being a part of the USSR meant planned economy and total government control. After opening its markets in 1990s Kazakhstan has attracted the attention of many international companies hoping to profit from the use of huge natural resources: reserves of coal, oil, gas, metals and other minerals that the country possesses. Being located on the cross-road of the former Great Silk Way, which was a lucrative trade route between China and the West, Kazakhstan could make a use of it nowadays to become the natural center of integration between growing "tigers" of Asia and democratic countries of Eastern and Central Europe.

Despite the existing enormous potential, Kazakhstan had to overcome a number of obstacles to reach the level it has today. Collapse of the former Soviet Union has led to disorder of distribution systems in Kazakhstan, runaway inflation and reduction in funding of the aging means of production which were under the government control. Kazakhstan also has faced the problems connected with old Soviet bureaucracy and weak legal framework. Notwithstanding the problems mentioned above, progress in the sphere of reformation is recognized all over the world and it is important to note fast

economic recovery, which was made possible thanks to the influence of external financial and market changes.

Granting of new large non-repayable and low-percentage credits by such banks as International Bank of Reconstruction and Development, World Bank, Asian Bank of Development, International Monetary Fund, and also continuous inflow of foreign investments to the economy of Kazakhstan show that international financial world trusts Kazakhstan's economy.

The ongoing processes of globalization are gaining strength and cover both the world economy as a whole, and the Republic of Kazakhstan in particular. New tendencies have become an important determinant of economic, political and social development of the state. The active process of attraction of the foreign capital into national economy takes place as a result of liberalization of economic life and an involvement of economy in global economic system.

Objectives and methodology

The aim of the present Diploma thesis is to trace the development of the foreign trade in Kazakhstan, emphasizing the structural changes and dynamics in terms of commodity composition and geographical orientation with focus on exports.

To fulfill the general aim, following objectives of the work were formulated:

- to study the background and formation of Foreign trade in Kazakhstan in the conditions of transition to market economy;
- to compare geographical and commodity structure of Kazakhstan Foreign trade after gaining its independence and in the new millennium;
- to evaluate position of Kazakhstan exports;
- to identify the problems and perspectives for development of exports potential of the country

The main hypothesis of the work is "In twenty years of Independence foreign trade of Kazakhstan has undergone significant changes in terms of commodity structure and geographical directions, but these changes were not yet sufficient to diversify the exports away from the dependence on raw materials".

Present work makes an attempt to sum up the development of Foreign trade of Kazakhstan until present-day situation. It consists of an introduction, literature overview, two chapters, conclusion and bibliography.

The thesis methodological and theoretical basis is the fundamental provisions of trade theory, classical and modern researches of national and foreign sciences on the investigated topic.

The study was conducted using scientific methods of research – empirical, such as observation, description, and theoretical, such as analysis, synthesis, abstraction, generalization, explanation, organization, classification. Method of comparative analysis which lies in identifying the differences between certain units, allows to compare, for example, commodity structure of Kazakhstan exports in different years. Graphical and mathematical-statistical methods were used to evaluate the degree of concentration and diversification of Kazakhstan exports, and methods of generalization and synthesis are used to interpret the results.

CHAPTER 1. LITERATURE OVERVIEW

1.1. Foreign trade and main definitions

Foreign trade represents the main notion for this work therefore this phenomenon must be first of all explained as a term. However widely known there is no particular universal definition available in the English language sources, thus the logical definition will be derived based on the meaning of the term's components. The Oxford dictionaries online define "foreign" as "a) of, from, in, or characteristic of a country or language other than one's own; b) dealing with or relating to other countries; and c) coming or introduced from outside"¹; the word trade is defined as "the action of buying and selling goods and services"¹; consequently, foreign trade means verbatim "buying and selling goods and services from or to other countries".

In the Czech language literature foreign trade is described as "the oldest and still most widely used form of external economic relations"². Foreign trade is a branch of the manufacturing sector, which focuses on exchange of tangible and intangible values between two or more countries, or on participation in external or international market. Foreign trade includes not only the value of exports and imports, but also the value of re-export, processing, services related to these kinds of trade and the so-called invisible trade, i.e. exports and imports of industrial rights. All these components comprise the turnover of foreign trade³. From the pattern of relations involved in foreign trade and the national economy the following aspects are possible to be identified as basic:

- 1) how structure and behavior of foreign trade impacts domestic economy;
- 2) what determines the structure of imports and exports;

¹ Oxford dictionary [online] <http://oxforddictionaries.com/definition/> (accessed on 03.08.2011)

² Kubista, V., a kol.: Mezinárodní ekonomické vztahy, HZ, Praha, 1999. ISBN: 80-86009-29-7

³ Dvořák, J., a kol.: Mezinárodní obchod, Zdeněk Novotný, Brno, 2002. ISBN: 80-214-2236-X

3) what model of foreign trade gives effect to the domestic economy³.

The definitions of foreign trade found in the Russian language sources are similar to the Czech ones: "foreign trade" is trade between one country and other countries of the world, consisting of export (sale) and import (purchase) of goods and services. Foreign trade of a country is mainly realized through commercial transactions, arranged by the foreign trade contracts; it is regulated by the state⁴. At the core of foreign trade lies international division of labour. Under the conditions of market economy foreign trade operations are executed independently by the firms and enterprises, the state's prerogative is trade in weapons and strategic raw materials⁵.

It is also important to name the characteristics of foreign trade and components which are usually used to describe it. Foreign trade of a country has two sides – *exports* and *imports*; it is characterized by *balance of trade* and *foreign trade turnover*. Important features of foreign trade are its geographical and commodity structures.

Imports are the part of domestic consumption and/or investment that a country purchases from foreign producers⁶. Imports not only bring gains to the country as a whole, but also might prove to be a profitable business for individual firms and citizens. With transfer to the market economy many entrepreneurs in Kazakhstan established business relationships with foreign producers and having found the sources of financing for their undertaking, became large importers of goods and services that were not available in Kazakhstan before.

An import's counterpart is export. Exports refer to the part of domestic production that is sold to residents of other countries⁶. In other words, it is foreign demand for goods and services produced by home country. Exports can

⁴ Fomichev, V.I.: "International trade" textbook, 2nd edition, Infra-M, Moscow, 2001 ISBN 5-16-000145-X

⁵ Economics and Law Encyclopaedia [online] <http://www.vedomosti.ru/glossary/> (accessed on 03.08.2011)

⁶ Sawyer C., Sprinkle R.: "International economics" 2nd edition, Pearson Prentice Hall, USA, 2006 ISBN 0-13-170416-8

be visible, when the products are manufactured inside the home country, taken abroad and then sold there; or invisible, in form of the services provided to the foreign residents both inside the home country (for example, tourism) and outside (for example, banking or insurance services).

Balance of trade (or net exports) is the difference between the monetary value of exports and imports of output in an economy over a certain period. A positive balance is known as trade surplus if it consists of exporting more than is imported. A negative balance is referred to as a trade deficit, if it is vice versa. The balance of trade might be divided into a goods and a services balance⁷.

Foreign trade turnover is sum of monetary values of both exports and imports.

The definitions found in three languages imply that foreign trade invariably relates to a particular country and represents this country's participation in international exchange of goods and services which is commonly denoted by the term "international trade". Consequently, foreign trade acts as hyponym of the classifier, more general notion of international trade; in other words, it is possible to say that international trade consists of external trade relations of all countries, or foreign trade of each country combined. Often the term "foreign trade" is substituted by the terms "external trade" or "international trade", which are considered synonymic in economic and general literature.

As only general issues connected to trade are covered in the theory, the term international trade will be used further on in this chapter, and foreign trade will be referred to in the practical part directly connected to the case study of the Republic of Kazakhstan and its external economic activity.

⁷ Wikipedia, balance of trade [online] http://en.wikipedia.org/wiki/Balance_of_trade (accessed on 05.08.2011)

1.2.The essence of international trade

International trade is the essential and important part of international economic relations, reflecting the state and perspectives of movement of different commodities and services between national economies, inside and between multinational corporations, which consider the world as single economic area. By means of international trade economies of different countries are becoming interconnected to each other as it was never seen before. It has become one of the most powerful factors of the development of single countries' economies and world economy as a whole.

The volumes of international trade are constantly increasing. Today, the most distinct growing tendency can be observed in international trade in services, though the latter develops slower compared to that in goods. It is important to note that growth in volumes of the international trade outstrips the growth in production volumes. This is due to the deepening international division of labour which is basis for international economic integration.

Within the last few decades, the sovereign countries of the world have become more and more interrelated as the world economy becomes increasingly integrated. All countries are in a varying degree dependent on international trade, but the level of this dependence is different. It is determined by the ratio of the value of international trade, or trade turnover (exports plus imports) to gross national product (GDP) and is expressed in percentage. For small and less self-sufficient countries, such as Belgium, Switzerland, the Netherlands this ratio varies from 50% to 90%. The larger economies, on the contrary, tend to have smaller trade-to-GDP ratio, for example, the United States, by virtue of its size and the diversity of its resources, relies less on international trade than almost any other country, and even today, international

trade is less important for the US than it was for the UK before 1910⁸. For developing countries dependence on international trade is even higher.

1.2.1.Reasons for trade between countries

There are numerous reasons for different countries to participate in international trade, but the basic idea is undoubtedly to improve the countries' welfare and economic conditions. The following points explain why countries trade:

- Differences in resources endowments

The trade occurs more likely between the countries with different endowments of resources, which refer to such production factors as land (natural resources, climate, land), labour (amount of economically active population, skills and abilities of the workforce) and capital (sophistication of machinery, infrastructure, communications systems);

- Differences in technology

Countries differ in the technological abilities to effectively use resources in the production of goods and services that lead the comparative advantage of a country and consequently, specialization;

- Differences in demand

Differences in tastes and preferences influencing the demand for various products in different countries can contribute to the advantageous trade between them. For example, Northern countries demand more warm clothing and the Chinese demand more rice than other nations, even if consumers face the same prices;

⁸ Krugman P.: "International economics: theory and policy", 8th edition, Pearson Addison-Wesley, Boston, 2009

- Economies of scale in production

The existence of economies of scale in production is sufficient to generate advantageous trade between two countries. With increasing returns to scale costs fall as the volume of production increases;

- Existence of government policies, security

Government tax and subsidy programs that are different across countries may alter the prices charged for goods and services. If the changes are positive, it can stimulate production and export of certain products;

- Market size and distance between markets

Larger markets are characterized by higher demand, which might not be satisfied by the domestic production and this can foster import to that country, also higher amount of trade is caused by the proximity of the markets⁹.

1.2.2. History of development of international trade

The term "international trade" can be applied to the era after the rise of the nation state, but in the form of exchanging goods between different peoples and over long distances, trade existed for many centuries.

Starting circa from the third millennium BC the world trade has been gradually developing, improving, acquiring new forms and resulting in our modern-day globalized interconnected economy. Main points of world trade history include: the archives of Ebla (2500-2250 BC) revealing trade of the locals with much of the Middle East, first waterborne traffic of Mediterranean, the caravans of North Africa and Asia, trade routes from China and the Great Silk Road, the Middle Ages merchants flourishing, prominent Italian trading centers like Venice, the boom of navigation and exploration of sea routes with spices exports from the South East Asia and formation of the first multinational

⁹ Maitah, M.: Foreign trade theories, lecture materials [online]
<http://maitah.com/FT/Foreign%20Trade%20Theories.pdf> (accessed on 12.08.2011)

corporations, the British East India company and the Dutch East India company, which significantly contributed to the development of trade.¹⁰

Further, in the late 18th and 19th centuries world trade has reached significant proportions and acquired the character of stably international commodity-money relations. Powerful impetus of this process was the creation of large-scale machine production in a number of industrialized countries (England, Holland, etc.), based on extensive and regular import of raw materials from less economically developed countries in Asia, Africa and Latin America; and exports of manufactured products, predominantly consumer goods to these countries.

In the XX century, world trade has experienced a series of deep crises. The first of these was associated with the World War of 1914-1918. With the Great Depression followed, it led to a prolonged and profound disruption of world trade that lasted until the end of the Second World War, which in its turn shook by the roots the whole structure of international economic relations. In the postwar period, world trade faced new difficulties related to the collapse of the colonial system. It should be noted that all of these crises have been overcome.

In general, a characteristic feature of the postwar period was acceleration of pace of development of the world trade, reaching the highest level for the entire previous history of human society. Moreover, world trade growth rate exceeded the growth rate of world GDP.

In the second half of 20th century, since the international exchange attained "explosive nature" world trade has been developing rapidly. In the period of 1950-1994 world trade volume has increased by 14 times. According to Western experts, the period between 1950 and 1970 can be characterized as a "golden age" in the development of international trade. Thus, the average

¹⁰ History World, History of trade [online]

<http://www.historyworld.net/wrldhis/PlainTextHistories.asp?historyid=ab72> (accessed on 12.08.2011)

annual growth rate of world exports was 6% in the 50s and 8.2% in the 60s. In the period from 1970 to 1991 the physical volume of world exports (i.e. calculated in constant prices) increased in 2.5 times; the average annual growth rate reached 9.0%; in 1991-1995 this indicator was 6.2%¹¹.

Respectively, the volume of world trade increased as well: in 1965 it amounted to 172 billion, in 1970 - 193.4 billion in 1975 - 816.5 billion dollars, in 1980 - 1.9 trillion in 1990 – 3.3 trillion in 1995 - more than 5 trillion dollars. It was during the "golden age" period that growth in world exports made annually 7%. However, already in the 70s it fell to 5%, further decreasing in the 80s. At the end of the 80s world exports have shown a marked recovery (up to 8.5% in 1988). After a marked decline in the early 90s, mid 90s, it once again demonstrated the high and stable rates.

The following factors influenced stable, sustained growth of international trade:

- 1) development of the international division of labor and the internationalization of production;
- 2) information revolution, promoting renewal of fixed capital, creation of new industries and accelerating reconstruction of old ones;
- 3) active functioning of transnational corporations in the world market;
- 4) regulation (liberalization) of international trade through the activities of the General Agreement on Tariffs and Trade (GATT);
- 5) liberalization of international trade, transition of many countries to a regime that includes the abolition of quantitative import restrictions and considerable decrease of customs duties - the formation of free economic zones;
- 6) economic integration development: the elimination of regional barriers, the formation of common markets, free trade zones;

7) gaining of political independence of the former colonial countries, emergence of the "newly industrialized countries" from those former colonies with the model of economy oriented on external market¹¹.

The second half of 20th century has significantly revealed the uneven dynamics of foreign trade. This affected the balance of power between the countries in the world market. The dominant position of the United States has been shaken. In turn, German exports neared to the U.S. one, and in some years even exceeded it. Besides Germany, exports grew at a remarkable pace in other Western countries. In the 80s Japan has made a significant breakthrough in the field of international trade. By the end of the 80s, Japan began to stand out among the leaders in the factors of competitiveness. At the same time "newly industrialized economies" of Asia - Singapore, Hong Kong, and Taiwan joined it. However, by the mid-90s the U.S. again got to the leading position in world competitiveness, followed by Singapore, Hong Kong, and Japan which had previously spent six years occupying the first place.

For the present, developing countries generally remain suppliers of raw materials, food, and relatively simple finished products to the global market. However, the growth rate of commodity noticeably lagged behind the overall growth rate of world trade. This lag is caused by elaboration of substitute raw materials, more cost-effective use of, the deepening of its processing. Industrialized countries almost completely took over the market of high technology products. However, some developing countries, especially the "new industrial countries", have achieved significant progress in restructuring its exports, increase in its share of finished products, industrial products, including machinery and equipment. Thus, the share of manufactured exports of developing countries in global volume in the early 90s was 16.3%.

¹¹ Gurova, I.P.: "World Economy", 2nd edition, Omega-L, Moscow, 2008 ISBN 5-365-010003-5

1.3. International trade theory

International trade occupies an important position in economic theory. Scientists and politicians took interest in the problems of international trade already in the early 15th century when other spheres of economic theory were not yet developed.

1.3.1. Mercantilism

The 16th – 17th centuries in Europe were marked by an increase in both domestic and foreign trade due to the geographical discoveries, scientific progress and formation of the national states. This prompted economists to raise the problems of theoretical foundations and explanation of international trade as one of the forms of economic relations. It was during this period, when the first independent economic writings appeared, with the problems of trade being the main topic, especially international trade. The authors of these works were the mercantilists.

Mercantilism (from the Italian "mercante" - merchant, trader) was, in fact, the first school of political economy. The term "political economy" was first introduced into scientific use by the French mercantilist Antoine de Montchrestien in his work "Traité de l'économie politique" (1615), which directly expressed the views and interests of government officials, representatives of financial and commercial circles of the epoch of primary accumulation of capital. Mercantilists representing interests of commercial bourgeoisie during the time of decay of the feudalism and establishment of the capitalism highly appreciated the role of foreign trade in the subject of achieving the nation's wealth.

The doctrine of mercantilism was made up of many features. It was highly nationalistic and considered the welfare of the nation as of prime importance. The identification of wealth with money and gold can be considered

the first feature of mercantilism. According to it, exchange of goods for money was seen as the only means of increasing wealth, at the same time import of goods, i.e. outflow of money was equal do decrease of wealth. However, if the country does not have its own mines, the only way to owning gold is foreign trade. This finding characterizes the second important feature of the mercantilist outlook. The third feature of the mercantilist ideology is that the accumulation of monetary wealth through trade can only be achieved through appropriate public policy. In other words, every nation needs a strong state apparatus, including the army, navy and mercantile marine, developed system of foreign trade regulation, which could provide superiority over other nations.

It is common to distinguish between early and late mercantilism. Early mercantilism (G. Scaruffi, William Stafford) preached a philosophy of "retention" of money in the country by prohibiting exporting it abroad, the introduction of state monopoly on currency trading, forcing foreign merchants to use the proceeds to purchase domestic goods. Early mercantilism was called the monetary system. It was replaced by an ideology of late (mature) mercantilism (T. Mun, A. Serra, A. Montchrestien). The central point of this ideology was a system of active "trade balance": the state becomes wealthier, the greater the difference between the value of exported and imported goods. Later mercantilists were in favor of not only trade but also domestic industry. That is why mature mercantilism was also called the commercial or manufacturing system.

Thus, if the early mercantilists identified wealth with gold and silver, and the function of money saw as means of hoarding, the economic theory of late mercantilism regarded wealth as surplus of products, which should turn in money on the external market, and the money itself is considered not only as a means of hoarding but also as a medium of exchange.

Disadvantages of mercantilism:

- Confuses the acquisition of treasure with the acquisition of wealth;
- Weakens the country because it robs individuals of the ability
 - To trade freely
 - To benefit from voluntary exchanges
- Forces countries to produce products it would otherwise not in order to minimize imports

Mercantilism was the first attempt of theoretical interpretation of the foreign trade and providing recommendations in this matter. As ideology in the form of protectionism it dominated European economic policies for approximately two centuries to the late 18th century.

Despite the criticism faced by the foundation of mercantilism, mercantilism is still alive today. New mercantilism now emphasized employment rather than holding some gold. They also postulate that exports are beneficial as jobs are provided domestically. Imports are considered bad as jobs are taken away and transferred to the foreign workers. To the new mercantilist, trade is a zero sum activity which a country must lose for the other to gain. And that there is no acknowledgment that trade can provide benefits to all countries.

1.3.2. Absolute advantage trade theory

The theory of absolute advantage by Adam Smith belongs to the classical trade theories and emerged in the late 18th century when he formulated the concept of mutually beneficial trade between countries. His original purpose was to refute the mercantilist view of international trade and to provide a case for free trade between countries. According to Adam Smith, in order for two individuals, two regions, or two countries to trade with one another, both must gain from the exchange. Smith wanted to show that international trade was not a zero-sum game like poker, but an n-sum where all

countries can benefit. To do this, he created the concept of absolute advantage, which is the ability of a country to use fewer resources to produce a good than other countries¹².

In his judgments on international trade Adam Smith surpassed his predecessors in the breadth of views and depth of analysis of economic phenomena. Before describing the positive aspects of international trade and creating this theory, Adam Smith provides a comprehensive critique of protectionism. He believes that protectionism cannot increase the size of public capital and hence the wealth of the nation. The most compelling argument is that it makes no sense to produce locally such products that can be delivered from abroad at lower prices. Consequently, the country must buy all the things that foreigners can produce more cheaply, and sell everything in the production of which the country has some advantages. This initial rule leads the economist to the conclusion: it would be unwise and harmful to restrict international trade.

In arguing his conclusion, he cites the following reasons:

1. If trade is not hindered by protectionist measures, each country will specialize in the production of those products, in which it has a competitive advantage.

2. Trade between the two countries will allow them to dispose of surpluses of competitive production and thus give value to what would have been futile. In trade, this value is realized as additional national income received by each country.

3. Through foreign trade the nation's consumers' expenditures are reduced, as the country can buy cheaper goods from abroad.

These arguments show that the international division of labor and specialization in the production of those goods, in which the country has

¹² Sawyer C., Sprinkle R.: "International economics" 2nd edition, Pearson Prentice Hall, USA, 2006 ISBN 0-13-170416-8

advantages, allow it to use its potential for wealth creation more fully. According to the theory, a nation should specialize in the production and export of commodities in which it has lower cost or absolute cost advantages over others. On the other hand, the same country should import a commodity in which it has higher cost or absolute cost disadvantage.

Adam Smith's idea can be expressed in a simple model. However, since any model is abstract, it is necessary to introduce some of the conditions under which it can be used for analysis:

Condition 1. There are only two countries in the world.

Condition 2. Only two goods are produced in the countries.

Condition 3. Trade in goods between countries is carried out without any restrictions.

Condition 4. International trade is balanced (import covers export).

Condition 5. Factors of production do not move between countries.

Condition 6. Only labour affects productivity and price.

Condition 7. The relationship between labor and output is constant.

Condition 8. Factors of production are mobile between sectors.

Condition 9. Perfect competition exists in both countries and in both sectors¹³.

If two countries open up trade and specialize on the products for which they have absolute advantage, such international specialization of factors in production would result in increase in world output, which would be shared by the trading nations and both countries will be better off.

¹³ Fomichev, V.I.: "International trade" textbook, 2nd edition, Infra-M, Moscow, 2001 ISBN 5-16-000145-X

Thus, at the basis of the theory of absolute advantage, lies the country's ability thanks to its natural features, or the productive capacity to produce any product more effectively compared to other countries that produce the same goods.

1.3.3.Comparative advantage trade theory

Smith's explanation of mutually beneficial trade is an effective case for free trade. However, Smith's analysis leaves an unanswered question. Why should trade occur between two countries if one country had an absolute advantage in the production of both goods? For example, in the late 18th and early 19th centuries, the U.K. was the most advanced country in the world with an absolute advantage in the production of most goods. Given this situation, why would the U.K. trade with a less productive area such as the American colonies? David Ricardo, a British economist, developed the answer.¹⁴ Expanding on Adam Smith's work based on absolute advantage, he formulated the famous and one of the most important theories in international trade, the theory of comparative advantage, which he stated in his book "Principles of Political Economy and Taxation" (1817).

Ricardo was the first to explain that international trade between one country which is more efficient in production of both goods and another with absolute disadvantage might still be beneficial and make both countries better off arising from the differences in comparative advantage rather than absolute one. By comparative advantage is meant the ability to produce goods or services at a relatively lower cost of substitution (opportunity cost).

Ricardo illustrated the principle of comparative advantage with the following example: "Two men can make shoes and hats, and one is superior to the other in both employments; but in making shoes he can only exceeds his

¹⁴ Sawyer C., Sprinkle R.: "International economics" 2nd edition, Pearson Prentice Hall, USA, 2006 ISBN 0-13-170416-8

competitor by one-fifth (20%), and in making shoes he can excel him by one-third (33,3%). Will it not be for the interest of both that the superior man should employ himself exclusively in making shoes, and the inferior man in making hats?"

The assumptions of the model are the existence of only two countries, two commodities, and one factor of production, labour, which is fully employed and internationally immobile. There are no transport costs or any impediments to trade, and the conditions of perfect competition are applied.

Thus, even if a country is less efficient in production of both goods, it should specialize on the production of the commodity in which it has a smaller absolute disadvantage, and the trade between two countries will result in increase in world output, that will be allocated between the two countries through the international trade. Virtually every country has a comparative advantage in the production of certain goods.

When countries specialize and trade according to the Ricardian model, the relative price of the produced good rises, income for workers rises and imported goods are less expensive for consumers. Trade is predicted to benefit both high productivity and low productivity countries, although trade may change the distribution of income within countries. High productivity or low wages give countries cost advantage that allows them to produce efficiently.

Although empirical evidence supports trade based on comparative advantage, transportation costs and other factors prevent complete specialization in production.

1.3.4.Heckscher-Ohlin theory

The theories of the English classics on international trade, showing the possibilities and advantage of international exchange on the basis of absolute and comparative advantages, did not explain the origin of these benefits.

Disadvantages of the classical theory have been identified at the beginning of the 20th century by Swedish economists, Eli Heckscher and his disciple Bertil Ohlin. They developed an international trade model called factor proportions theory.

The Hechscher and Ohlin examine the possibilities for international trade in terms of abundance or scarcity of production factors, that different countries are endowed with. Their theory states that a country's comparative advantage is based on its endowment of the factors of production, so that a country should specialize in those goods for production of which it has the relevant factors of production (capital, labor, land). As a result, international trade in goods is, in the words of B. Olin, "excessive exchange factors for the missing factors."

The country is considered to be endowed with an abundance of, for example, labor force, if the ratio between the amount of labor force and other production factors in its economy is higher than in the surrounding world. In such a country labor-intensive goods tend to be cheaper, and thus they become internationally competitive. In a country with a capital surplus will capital-intensive goods be more competitive.

Therefore, the exchange of goods between countries, carried out in accordance with Heckscher – Ohlin theory primarily explains the structure of international trade. The theory allows identifying the causes of differences in prices among the countries before establishment of trade and reduction of these differences under the influence of international exchange.

1.3.5. Alternative trade theories and interpretations

In 1948, Paul Samuelson has formulated the theory based on the H-O model, that under certain conditions (homogeneous factors of production, identity, technology, the availability of perfect competition, full mobility of factors of production), when the prices of the output goods are equalized between countries, the international trade can equalize factor prices in each trading country.

The Stolper-Samuelson theorem that is closely linked to *the factor-price equalization theorem* continued developing of the H-O trade theory and examined the effect that international trade will reduce the income of the scarce factor of production and increase the income of the abundant factor of production within a country.

Empirically the Heckscher-Ohlin model proved problematic in terms of applicability to the reality, especially the well-known Leontief research which found out that the United States was more abundant in capital compared to other countries, but tended to export labour-intensive goods instead of capital-intensive ones. This phenomenon was called *the Leontief paradox*. Among a number of possible explanations for such results, one of the important ones introduces the term "*human capital*" and states that the labour is not homogeneous, and that much of the U.S. labour force possesses human capital – the education, training and job skills embodied in labour that increase its productivity.

In the middle of the 60s *the theory of product life-cycle* was, for the first time, presented by Raymond Vernon based on the affirmation that for the most of 20th century a majority of the world's new products had been invented in the USA and first distributed in the U.S. market, as well. Generally it describes the process that the new products are introduced in the developed country requiring heavy R&D expenses and refinement in production, followed by product

utilization in design and production and finally complete standardization and production in a developing country¹⁴.

Thereafter appears an attempt to revise the previous theories and make them more applicable to the modern conditions, including the fact that most trade is between countries with similar factor endowment and productivity levels, the large amount of multinational production (FDI). It receives the name of *the new trade theory* and is based on assumptions of monopolistic competition and increasing returns to scale.

The *gravity model* provides more empirical research on the subject of trading patterns. It predicts that size of the economy and distance between markets play a vital role in the volumes of international trade of this economy, as larger economies have larger GDP meaning they produce more goods and services available for export and generate more income enabling the population to buy more imports; and also distance influences transportation costs and, consequently, the cost of imports and exports, personal contact and communication. Besides size, other important variables in this model include cultural affinity, geographical conditions (presence of ocean harbors, or mountain barriers influence transportation and trade); multinational corporations (MNC's import and export many goods between their divisions); borders (formalities that take time, tariffs, non-tariff restrictions, different currencies)

Other new trade theories deepened the studies of the existent models in the sphere of their applicability to more countries and more commodities (modern development of the Ricardian theory of international trade by McKenzie and Jones); to the inclusion of input goods into the Ricardian theory because any commodity is a product made by means of commodities (neo-Ricardian trade theory started by Sraffa); expanding to the cases of traded inputs (McKenzie and Jones, Samuelson with the term Sraffa bonus), providing theoretical bases for ideas such as outsourcing, fragmentation and intra-firm trade (Ricardo-Sraffa theory) and the new approach to the subject matter of international trade in terms of the success of the firms competing on the

international market (theory of the competitive advantage of nations by Michael Porter)

1.4. Benefits associated with international trade

To be precise, identifying the benefits associated with international trade, it is important to define the object, whether we examine it from the perspective of world picture, benefits for particular country as a whole, particular company, or particular group of individuals.

All the models and theories of international trade described above studied gains that the countries would attain if the trade occurs, but as these theories have different limiting assumptions, they all examine the international trade and its benefits from the different angle. And according to those models we could say that in given conditions the consumers benefit, or the producers benefit, or one or another country as a whole, but analysis must be done with particular cases, countries and circumstances.

In general, international trade contributes to the growth of world production. Specialization based on exploitation of comparative advantages promotes more efficient allocation of world resources, and hence the growth of volumes of the world output.

Entrance of the country into the system of global economy by participating in international trade is generally accompanied by the increase in total output of the country which means that foreign trade stimulates economic growth. However this question is rather disputable and is a topic of research for economists because of the examples of developing countries becoming over dependent on the export of raw materials and primary commodities and with time leading to negative effect of foreign trade on the economic conditions of the country.

International trade increases the income and living standards of the participating countries. As a result of specialization and trade, countries have a greater number of each type of the products. Consequently, the workers can afford buying more goods on their wages. Each free trading country can move beyond its productive capacity, not only by their resources or using the results of scientific and technological progress, but at the expense of international trade.

International trade promotes competition and restricts monopoly. Increased competition of foreign firms makes local firms move to manufacturing technologies with the lowest costs. This forces local firms to introduce the latest achievements of scientific and technical progress and improve product quality and ultimately contribute to economic growth.

Free trade provides consumers with a choice from a wider range of products. The benefits of international specialization and trade based on the principle of comparative advantage are obvious. A nation that ignores this principle is likely to have paid a lower standard of living and economic slowdown.

To sum up, international trade is associated with the following positive effects:

- stimulation of economic growth and development increase in the total world output;
- increasing standard of living;
- opportunity to achieve economies of scale;
- availability of wider range of goods and services;
- increasing efficiency by optimum allocation and utilization of resources

- prices equalization/stabilization (surplus of some product is exported and the price does not go down, deficit of some product is imported and the price does not get higher)
- promotion of competition;
- better quality of goods and services due to higher competitiveness and possible standard requirements for imports;
- generation of the employment opportunities as higher amount of output needs higher inputs;
- promoting the world peace: when countries cooperate in economic terms, they have to maintain good diplomatic relationship; with increasing global integration there are no more "cold wars".

1.5.Problems in international trade and its negative effects

International trade - is a special sphere of international economic relations. It has a number of specific features that differentiate international trade from intra-national. These specific features distinguish international trade into the object of special study. However numerous are the positive effects that may be caused by international trade, there are also number of risks and problems in this sphere, which might appear as "another side of the coin" of the positive effects.

"Saying that everyone could be made better off with increased international trade is not the same as people actually being made better off. There are winners and losers from increased international trade, and while I agree that the gains exceed the losses in almost all cases, the gains haven't

been distributed in a way that leaves everyone, or even most everyone, better off (see, e.g., widening inequality and where the costs of these kinds of adjustments fall)¹⁵

Approaching the negative effects connected to international trade it is even more important to understand from what perspective it is done, because they might be completely different for a country, a company, an individual, or trade itself as a process.

International trade with the wrong policy and condition may lead to the slowing down of economic growth, damaging domestic industries, infant industries or agriculture.

For developed countries the threat of international trade lies in decreasing standard of living, and increasing unemployment caused by outsourcing, offshoring and loss of domestic jobs. The example is concern of the U.S. workers about their jobs being taken by the cheaper labour force from India and other emerging economies: the number of export-related American jobs has stagnated and multinational companies are now expanding payroll overseas while cutting it in America, the reverse of their traditional pattern¹⁶.

For developing countries it may become a trap when a country is specializing in export of mainly primary goods and raw materials, becoming dependent on uncertain sectors which suffer most in the period of economic recession. As recent economic crisis proved, trade in primary goods and raw materials was affected more severe than any other type of products which caused a significant decrease in the output of the developing countries, with Kazakhstan being a bright example.

Another threat of international trade exists for smaller countries and developing economies which have less power and political authority to influence

¹⁵ Blinder, A. Free Trade is great, but Offshoring rattles me, The Washington Post. May 6,2007

¹⁶ The Economist, A sorry story of American trade. [online]
<http://www.economist.com/blogs/freeexchange/2011/09/trade-0> (accessed on 3.10.2011)

the terms of trade, they cannot influence world prices and demand, thus they often have to concede to less favorable conditions for them while the rules are dictated by the larger and powerful economies which seek more benefits for them.

A country should regulate its foreign policy and deal with trade deficits or surpluses that affect a country's balance of payments.

Foreign trade statistics and monitoring also represents a problem, because while trade in tangible goods is quite easy to track by means of Customs declarations and evidences, trade in services is difficult to identify and it is missing out of national statistics. Internet heightened the problem, because providing of services through the internet or small trades such as through online shopping (Amazon, eBay) bypass the registration and involvement of Customs in many countries.

The example of great statistical inaccuracy on the global scale is that according to IMF's World Economic Outlook, the world exported \$331 billion more than it imported in 2010¹⁷.

Further part of the problems in international trade refers to the immediate actors that conduct the trade itself – the businesses. If the company intends to go to the international market it should take into account the following risky factors:

1. political interference and control

The government actively intervenes and strictly controls foreign trade relations and associated commercial operations. Government regulations differ significantly in the degree and nature from those that apply to domestic trade. The Government of each sovereign state in the framework of its foreign trade policy creates its own system of tariffs and restrictions on imports, export

¹⁷ The Economist, Exports to Mars. Official statistics probably exaggerate global current-account imbalances. [online] <http://www.economist.com/node/21538100> (accessed on 13.11.2011)

subsidies and its own tax laws, etc. The company has to count with those restrictions that influence the quantity of products or services that can be traded and also its price.

2. different currencies

As countries use own currencies there is a risk of negative fluctuations in the foreign exchange rate. Even if the fluctuations are positive, it is not constant, and brings about uncertainty into forecasting and planning. Difference in currencies also leads to additional conversion and transaction costs.

3. differences in the movement of production factors between countries

Capital moves more freely within the country than between countries, due to the presence of institutional barriers, differences in the tax legislation, other measures of state regulation of economy and business.

Other problems are related to difference in languages (marketing, packaging), geographical disposition (distance, geology, infrastructure influence transportation costs).

CHAPTER 2. ANALYSIS OF KAZAKHSTAN FOREIGN TRADE DEVELOPMENT

2.1. Transition period and formation of foreign trade in Kazakhstan

Kazakhstan is the 9th biggest country in the world, its territory is five times larger than France and approximately equals to the whole Western Europe. Though vast in size, its population density is less than 6 people per square kilometer with 16.6 million people according to the latest 2011 estimates. The territory is endowed with significant reserves of natural resources, including oil and gas, uranium, chromium, lead, zinc, barite, wolfram, manganese, copper, coal, iron ore, silver and gold.

The soviet system made Kazakhstan, as well as other Central Asian republics, an exporter of raw materials and importer of finished goods. On December 16, 1991 Kazakhstan became the last Soviet republic to declare its independence. Since then, it has been working hard to recreate and develop as a sovereign competitive state in the new world. After collapse of the USSR, Kazakhstan went through some very difficult years. Due to the rupture of economic ties with other republics, the country got into a deep recession, when extensive setback in production resulted in decrease of the total county's output by half.

Nursultan Nazarbayev became president of the newly formed independent state and with the government started working to the reform conditions for integration into the international market and to become in future an important part of the global economy. The strategy started to be realized by price liberalization through reduction of subsidies and deregulating prices; balanced government budget through increased taxes and cuts in government spending, as well as new monetary policy through an increase in the Central Bank interest rate. During the transition period Kazakhstan devalued the

domestic currency to bring it down to the domestic market rate, also went through the processes of privatization and restructuring state monopolies. Creation of the market environment was stimulated by legislative and regulatory reforms of banking, capital markets, civil and contract law.¹⁸

One of the main focuses was put on international trade and foreign relations. Encouraging foreign trade liberalization, Kazakhstan exercised a number of reforms in this sphere: lifting tariffs, export and import licenses and granting the companies authorization to engage in foreign trade. In the beginning of the 90s Russia was virtually the only trade partner with dominating 90% of Kazakhstan trade, and by the end of the decade its share in Kazakhstan exports has fallen to 34% and imports constituted 46%, while the share of Asian and Western countries has considerably risen. In 1996 Kazakhstan applied for membership in the World Trade Organization (WTO) which is still being considered and discussed by both sides.

With all the reformation and improvements in economics and policy, banking and financial sector, the positive climate has been created for attraction of the foreign investments. The primary sector for FDI has been petroleum industry, as Kazakhstan belongs to top fifteen countries in the world according to proved oil and gas reserves. In the middle of the 90s large oil corporations such as Shell, Chevron, Exxon, were drawn to the development of oil and gas complex, brought modern technologies and equipment and started expanding production in the Kazakhstan part of the Caspian region. With the help of foreign investors the Republic built several oil-trunk pipelines. The first one, with Russia's assistance, went from Tengiz oilfield across the Caspian Sea and Northern Caucasus to Novorossiysk, and from there – to the European countries. The second pipeline connects to Russian city Orsk, where crude oil is processed into benzine and other petroleum products. The third oil pipeline goes along the eastern coastline of the Caspian Sea to the South of the country and through Turkmenistan reaches Iran, where it is delivered to the western

¹⁸Madiyarova, D.M.: *External Trade of the Republic of Kazakhstan in the global economy*. Almaty, 2003

partners. The forth pipeline was constructed with help of China and delivers crude oil to the western provinces of PRC.

Thereby, recession and decay was overcome and in the end of 1990s and the country stepped into new millennium on its way to rapid economic development and progress, with increasing importance of foreign trade. The World Bank describes Kazakhstan development: "Since independence in 1991, Kazakhstan has maintained a strategic vision for economic development based on integration into the global economy. Kazakhstan succeeded in nation building, achieved macroeconomic and fiscal stability, and recently embarked upon an ambitious public administration reform. With time, its development programs have become increasingly focused on competitiveness issues, such as the investment climate, institutions, human capital, basic infrastructure, and the environment."¹⁹

2.2. Comparative analysis of the long-term development of foreign trade

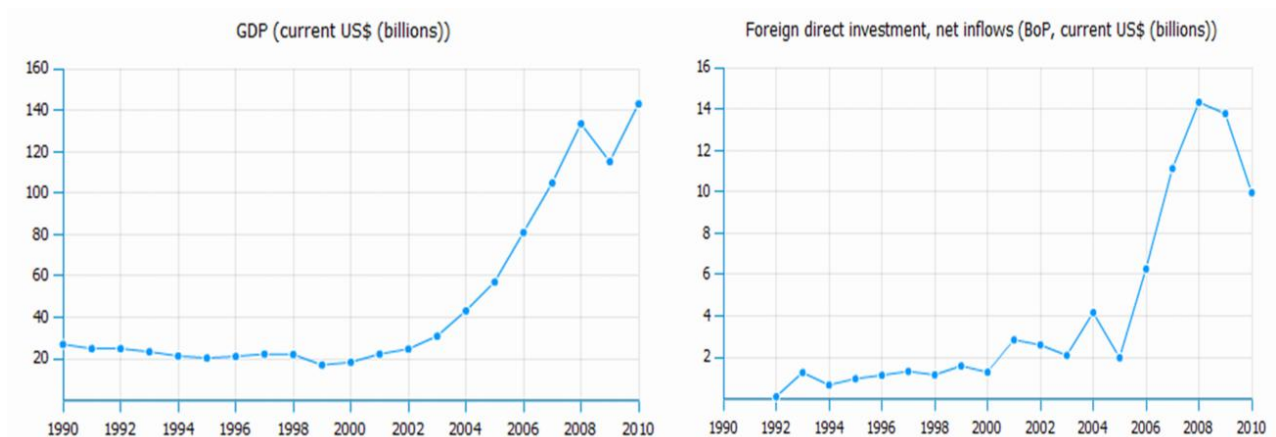
As it was mentioned above, external trade relations of Kazakhstan on the earliest stages of development were mainly with other post-soviet countries. The data of the years 1991 - 1994 are not exact, due to the fact that ruble was still in use until 1993, then tenge was introduced into circulation, but was undergoing a period of stabilization. There also was restructuring of all the government, administrative and other institutions including the statistical agency. The earliest statistical data on foreign trade available on the Agency on Statistics of the Republic of Kazakhstan are from the years 1994 – 1995. Therefore, the year 1995 will be taken as the first point in the comparative analysis, so that the whole period under consideration makes 16 years up to the

¹⁹ World Bank, country profile: Kazakhstan [online] accessed on 12.10.2011
<http://www.worldbank.org.kz/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/KAZAKHSTANEXTN/0,,menuPK:361875~pagePK:141159~piPK:141110~theSitePK:361869,00.html>

year 2010 when the world economic crises considerably influenced the performance of foreign trade in the end of the first decade of new millenium. The year 1995 also represents a demonstrative sample of the foreign trade in the 90s, picturing the early stages of the foreign trade development. The last year's recovery and this year's start will be reflected in the current trends of foreign trade.

To get the full picture of the foreign trade development, it is necessary to provide some information on the country's economic development as whole.

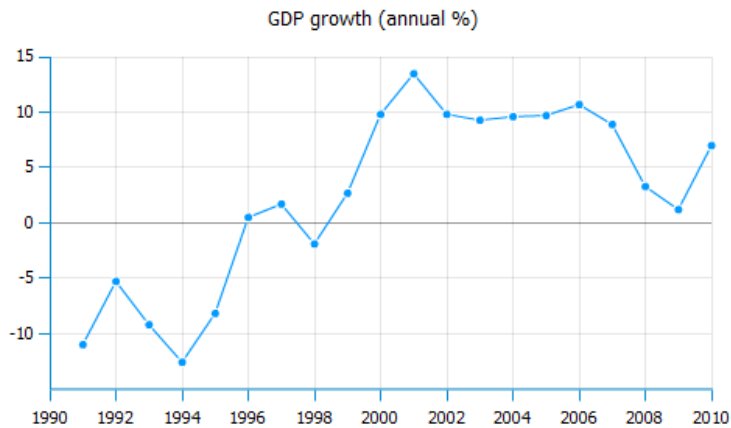
Graph 1 GDP and net inflows of FDI, current US\$



Source: Worldbank database

As we can see on the graph 1, the gross output had a slightly decreasing trend in the 1990s, generally staying in the same range about 20 billion US\$ up to the year 2000, when the inflow of FDI started to increase more rapidly, combined with the growing world prices on raw materials, especially petroleum prices resulted in acceleration of growth in Kazakhstan. The next few years were marked by the best performance indicators during the years of independence, showing the average 10% annual growth which can be observed on the Graph 2.

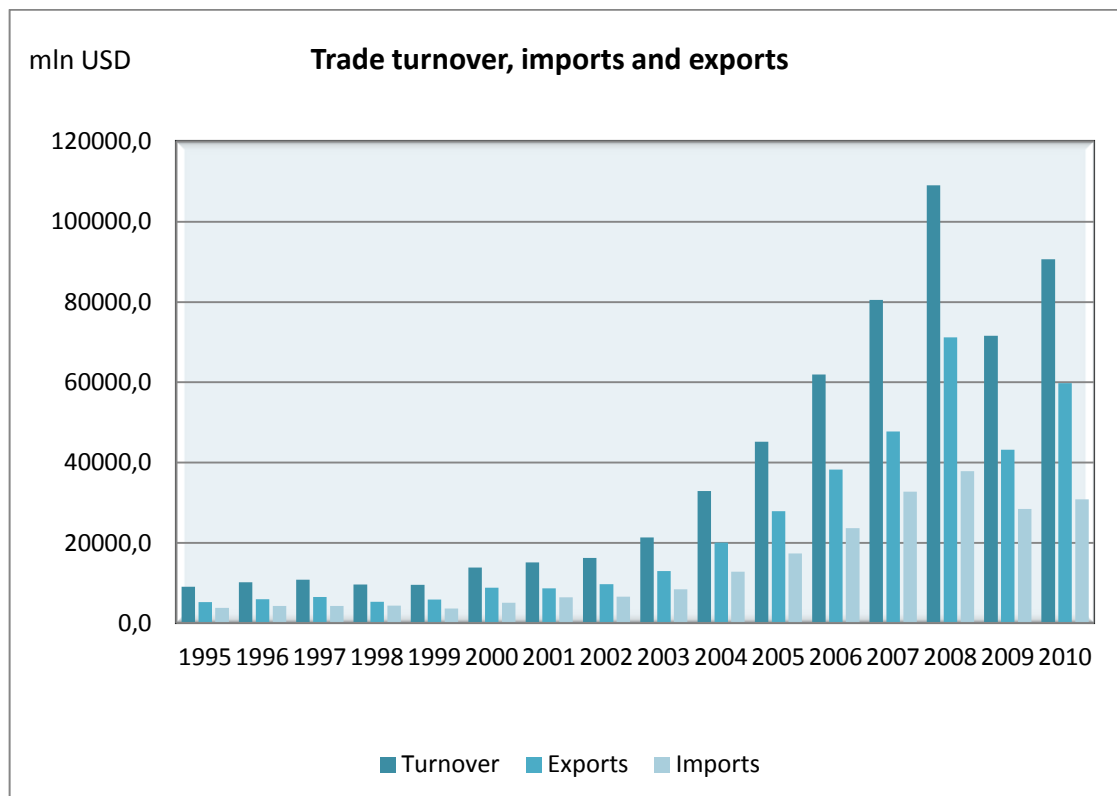
Graph 2 GDP annual percentage growth rate



Source: Worldbank database

Approximately the same visual picture we find in the trends of trade indicators, with the highest annual increase in the period 2003 – 2008, until the global financial crisis. Through the whole examined period Kazakhstan maintained positive trade balance, with exports dominating imports.

Graph 3 Trade indicators 1995-2010

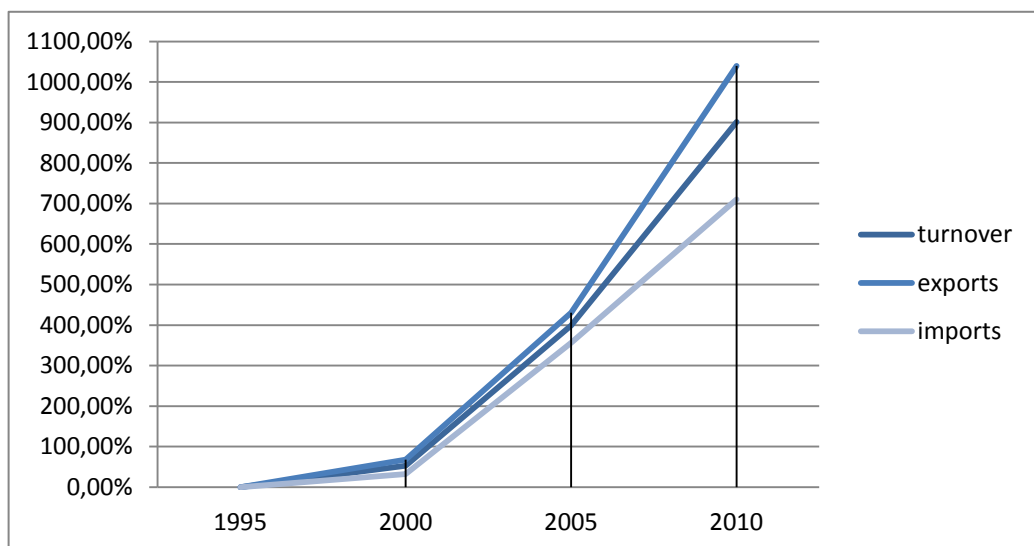


Source: compiled from the data of ASRK

In the year 1995 total foreign trade turnover made up 9056,9 million US\$, with exports of 5250,2 million US\$ exceeding the value of imports 3806,7, resulting in positive trade balance of 1443,5 million US\$. (Table 1 in Appendix)

By the year 2000 the turnover increased by 52,9% and after 16 years increase 10 times making 90669,6 million US\$ in 2010. Exports grew by more than 1000% from 1995 to 2010. (Graph 4, according to the data from Table 1 in the Appendix)

Graph 4 Percentage changes of the indicators from the year 1995

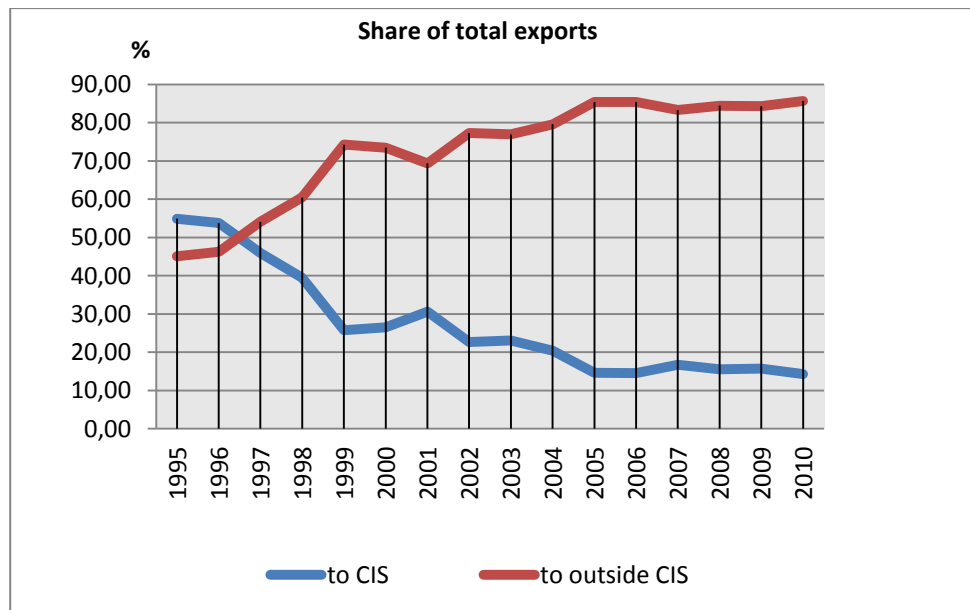


Source: compiled from the data of ASRK

Even after gaining its independence, historically formed mutual economic ties between the Soviet republics which have been functioning for many years dominated the geographical pattern of the foreign trade. Thus, in 4 years of independent development share of CIS countries in Kazakhstan exports was about 55%, while in import terms the country depended on those ties even more – almost 70%. Having analyzed the share of former soviet

republics in Kazakhstan trade over time, it is clear that the country worked hard on diversification of trade relations and it is possible to say, succeeded in it.

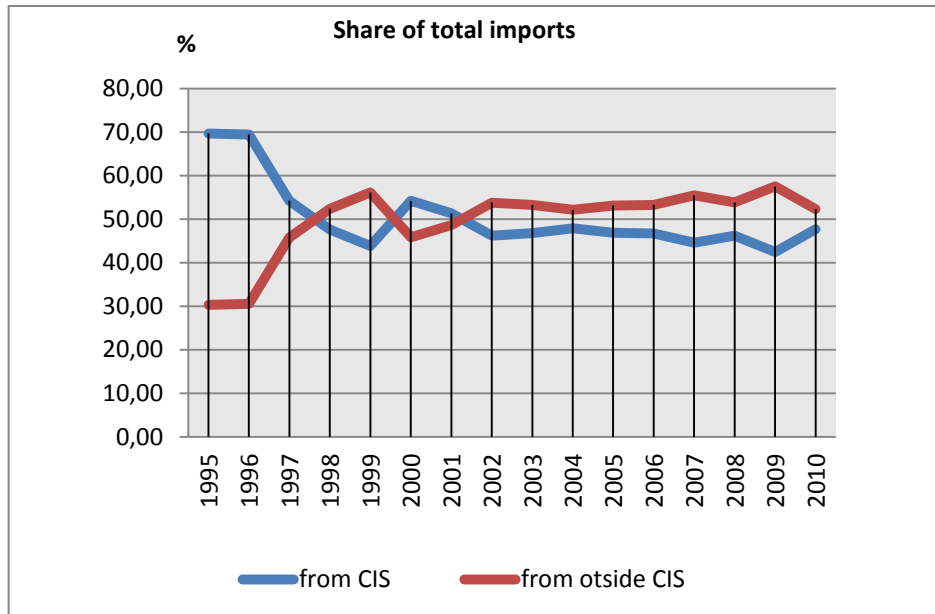
Graph 5 Share of CIS and other countries in exports



Source Compiled from the data of ASRK (Appendix 2)

The home production now goes more to other parts of the world, with general trend showing significant annual decrease to the year 2005, after that slowing down and fluctuating around 16%. Last year share of CIS was estimated at 14,3% which is considerable change to 54,9% in 1995.

Graph 6 Share of CIS and other countries in imports



Source Compiled from the data of ASRK (Appendix 2)

The production flowing into the country, however, still mainly originates in the closest neighborhoods and constitutes 47,7% in 2010, which has slightly increased from the 2009 smallest recorded share of 42,5%. In comparison to the year 1995 with its 69,9% there is a fair progress (full data in the Table 2 in the Appendices).

Besides Russia, other important trade partners among CIS countries include Uzbekistan, Ukraine and Turkmenistan.

In general, during the years of independence, exports of RK grew almost 50 times.

In 2011, according to the Ministry of Economic Development and Trade Kazakhstan's exports volume will amount to 76.3 billion dollars. In the first year of independence, the country could only dream of such volumes. Even 10 years ago, in 2001, exports were ten times lower and amounted to only \$ 8.6 billion.

And 20 years ago, in 1992, exports of Kazakhstan consisted of 81 articles and were equal to 1.4 billion dollars.

In 2001, exports from RK were going to 111 countries, and in 2010 – already to 126. Geography of exports in 2011, unlike in the past decade, expanded significantly. In addition to traditional markets Kazakh products are now sold to countries in Africa and Latin America.

Traditionally, the major export markets for Kazakhstan remain European countries: Italy, France, the Netherlands. In 2010 exports goods to the EU were worth more than \$ 30 billion, including Italy - 9.6 billion dollars. In recent years the fastest-growing export market for Kazakhstan production is Poland. If in 2006 the export of RK in the country amounted to 204.4 million dollars, in 2010 – it was 215.5 million dollars. As in other European countries, a significant proportion of exports to Poland is occupied by oil and gas. At the same time exports represent a wide range of processed products: fertilizers, pumps for liquids, batteries, construction materials and yarns. The volume of exports of these products is still small, but the analytical experts have concluded that there are opportunities for the further expansion of trade and economic cooperation.

In the past 5 years export of processed products is growing dynamically: compared with 2005, it rose more than 2 times and amounted to 16.6 billion dollars. The main consumers of the processed products are China, Russia and other CIS countries. This is mainly metals and their products, metal, uranium and other chemical products, wheat flour and rye flour, rice. Copper and brass wire, uranium, ferro alloys, aluminum rolling are supplied to China. Starting from 2009 Kazakhstan has started to export propylene polymers to China.

Nomenclature of Kazakhstan production consumed in Russia has remained largely unchanged for many years. It includes metal products, ferro alloys, aluminum, bauxite, uranium and other products that are raw materials for

Russian industrial enterprises. This situation is a legacy of policy distribution of productive forces of the Soviet period, when the main manufacturing, producing goods more highly processed and ready for consumption, were mainly located in Russia. However, the consumer goods and capital are also supplied to the neighbor.. They are: radiators for central heating of ferrous metals, electrical capacitors, railroad cars, pumps.

Over the past 5 years except for the traditional markets Kazakhstan processed goods have been shipped to Iraq, Serbia, Morocco, Albania, Uganda, Benin, Mozambique and other countries. Petroleum gases, as well as various mechanisms: bulldozers, fluid pumps, fire extinguishers were delivered to Serbia.

Iraq buys products from ferrous metals, such as pipes and tubes of different diameters, tanks and containers for various purposes, metals, liquid pumps, machinery which is used in the development of minerals.

The first 6 months of the year 2011 are characterized by positive dynamics of export volumes, both primary and processed. Exports volume of intermediate consumption goods has almost doubled compared to the same period of 2009 and amounted to \$ 8.7 billion. The volume of exports of the means of production has increased by 3 times, exports of consumer goods - by 2.8 times. Monitoring of the state of the manufactured exports' commodity structure shows that there is strong demand in overseas markets for metals, rolling, various petroleum products and mineral resources in semi-manufactured form.

Naturally, when exported to foreign markets, production of RK with higher added value faces higher level of competitiveness. Therefore, to improve the competitive opportunities and for promotion on the world market this commodity group requires support from the state. To provide system support, from the range of manufactured goods in Kazakhstan exports a focus group was selected, represented by about 300 commodity items, total exports of

which in the first half of this year amounted to \$ 1.6 billion. A significant proportion of this group took the goods of intermediate consumption (1.1 billion dollars).

The share of production of agri-food sector in total exports of goods of intermediate consumption is equal to 23.6%. Leading position in this group belongs to wheat flour or wheat-rye flour, export of which in this period amounted to 235.2 million dollars. Kazakhstan flour has been exported to 8 countries: Uzbekistan, Tajikistan, Afghanistan, Kyrgyzstan, Turkmenistan, Mongolia, Moldova, Russia. Oilcake and other solid waste also go to exports.

Of the group of mineral products the value of exported cement products amounted to 12.2 million dollars, which is 2.5 times greater than in the first half of 2010. In addition, exports of gypsum, coal tar and lime have also increased.

The group of chemicals is represented by a wide range of products and takes a share in total exports of goods of intermediate consumption, equal to 27.3%. Hydrogen, rare gases and other non-metals are exported to Europe, particularly to Germany, Czech Republic and Poland.

Export of oxides and hydroxides of chromium amounted to 58.3 million dollars, and over two years increased by 3 times. Products were exported to Belgium, Great Britain, Latvia, Russia, Hong Kong. Phosphinates and polyphosphates also go for export.

Exports of mineral fertilizers in the first half of 2011 totaled \$ 24.1 million. biggest share is exported to Ukraine, Kyrgyzstan, Belarus, but also to Afghanistan, Hungary, Romania, Azerbaijan, Russia.

Of the total exports of pharmaceutical products (1.7 million dollars), products worth \$ 1.2 million are sent to Switzerland, and earlier this export was not carried out.

Exports of raw hides and tanned leather, pulp and paper products, textiles and textile products has declined slightly due to objective reasons.

Exports of consumer goods in the first half of 2011 amounted to 317.9 million dollars, which is three times higher than in the first half of 2009. The largest volume of exports was registered for heading "Fish fillets and other fish meat", which is in demand in the markets of European countries, Canada and Russia. The volume of supplies to the markets of Lithuania, Germany, Denmark and other countries has significantly increased.

Exports of other food products is mainly distributed in the CIS countries: Kyrgyzstan, Russia, Uzbekistan, Turkmenistan and Tajikistan. Confectionery and chocolate are also available in Germany and pasta - in Mongolia.

Drugs in the first half of 2011 were exported on the sum of \$ 11.2 million dollars, which is 80.6% more than in 2009. Finland, Kyrgyzstan, Mongolia, Uzbekistan, Tajikistan and Switzerland bought medicines containing insulin or antibiotics put up for retail sale.

Export growth has also occurred in the group "meteorological, hydrological and geophysical devices and instruments ". More tank wagons of all types were sold in Lithuania, Ukraine, Russia, Finland, Afghanistan. Kazakhstan started exporting portable computers weighing less than 10 kg.

There is also a dynamic growth of exports to the countries - partners in the Customs Union. Despite the objective difficulties that accompanied the transition to the new rules of trade, manufactured exports of Kazakhstan to the CU countries increased in the first half of 2010 by 66.4% over the same period in 2009. It was stimulated by the economy's recover from the recession after the crisis in previous years.

In particular, exports of processed goods from Kazakhstan to the union countries increased by 25.1% compared with the first half of 2010. Thus, it

increased by 2 times. The current picture shows that the decision to establish a Customs Union has stimulated the growth of mutual exports.

At the same time in the analytical department KAZNEX INVEST note that the institutional changes of external commodity markets of Kazakhstan's exports did not make substantial adjustments in existing geographic structure of exports, including processed. The largest share goes to the EU, in second place - China.

2.3. Improvements of the foreign trade regime

The main directions for improvements of the foreign trade regime in Kazakhstan are:

- gradual reduction of customs duties on imported goods. This issue will be one of the main in negotiations on WTO accession. To make a decision on the pace of reduction in rates of customs duties on imported goods it is necessary to carry out the estimations to assess the impact on domestic consumer market and the economy of domestic producers. Such estimation would be the rationale for determining marginal tax rates and the way how the import tariffs would be bound. For Kazakhstan economy, which is not fully recovered from the crisis state and where foreign trade plays a significant role, rapid pace of decreasing the rates may create profound impact on the domestic market and economic situation of economic agents. All aspects of the possible application of GATT articles need to be considered, so in case of deterioration of development of the national economy it would be possible to re-take protective measures;

- production of consumer goods is weakly competitive, and therefore a decrease in import duties will bring about more difficult situation for it. In this regard, there is a problem of application of protective measures. To address

this issue, a system has been developed to prevent dumping prices in foreign trade. It was determined that the subjects of external economic activity of Kazakhstan irrespective of their organizational-legal forms and bodies of executive power can make proposals on the application of protective measures against the use of foreign exporters dumping prices in foreign trade (special anti-dumping and countervailing duties). Introduction of quantitative restrictions against the mass importation of foreign goods, which undermine the economy of industries producing similar products is considered for implementation as well.

An important issue will be the work of the TRIPS Agreement (intellectual property rights). The share of trade in intellectual property products in the total volume of foreign trade is still insignificant. At the same time, Kazakhstan has great potential in this area, and to use it effectively, there is a need to create an effective mechanism for protection and use intellectual property.

Currently, a law on copyright and related rights is adopted the practical aspects of its implementation are being developed. Meanwhile, the system should ensure the transparency of all the changes in the sphere of intellectual property, and develop standards for protection and application of those changes. It is necessary to create a complex mechanism of functioning system of Trade-Related Aspects of Intellectual Property Rights. Without it, it is impossible to make effective use of the WTO agreement.

Topical direction of the foreign trade regime is to develop a regulatory framework for trade in services. Currently, the share of the population employed in the service sector accounts for 40% of the total employees, and the volume of production has been gradually increasing to more than 50% of GDP. The main types of services in Kazakhstan are construction, financial services, transport and communication services. Upon accession to the agreement on services, Kazakhstan has an opportunity to identify those service sectors that it can open for other countries.

In this connection it is necessary to develop a mechanism of interaction of these sectors with the sectors closed to foreigners, to reveal aspects of cross-border services, to develop clear criteria and the possibility of movement of persons across the country. In order to implement the mechanism of trade in services there is a need to draw up a national list of services for foreign representatives.

All these ways of improving the foreign trade regime can generate enough liberalized foreign trade system that meets generally accepted international norms.

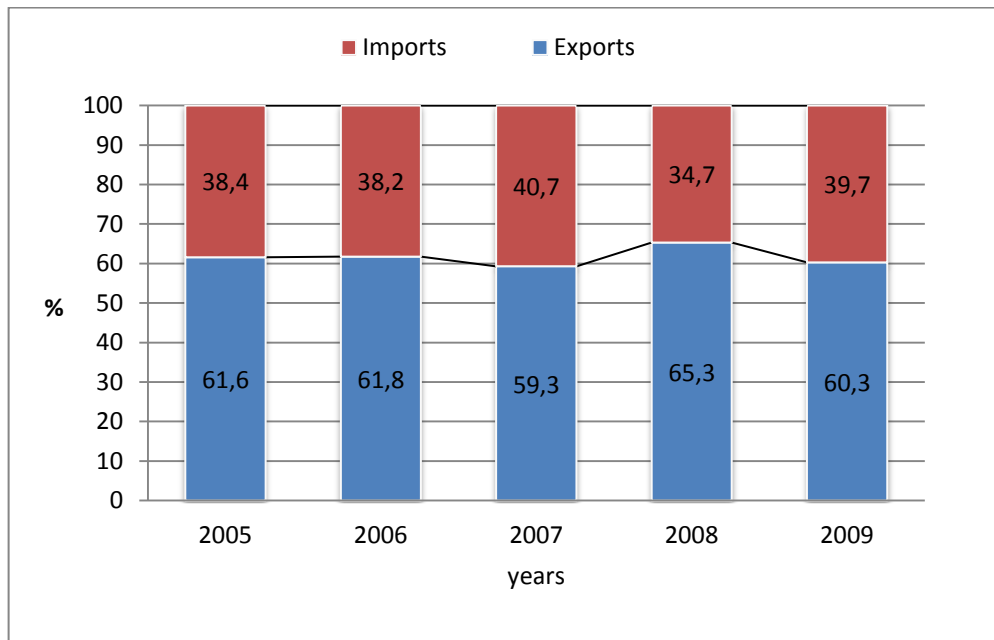
CHAPTER 3. DEVELOPMENT OF KAZAKHSTAN EXPORT POTENTIAL.

3.1.Evaluation of exports composition and development

Analysis of the main parameters of external trade of Kazakhstan and the dynamics of changes in the share of domestic goods on world markets is based on Trade Performance Index methodology, elaborated by International Trade Center WTO/UNCTAD. All the goods are grouped into 11 major categories (groups), in accordance with the Customs Committee of the Ministry of Finance of RK. The calculations are performed at the product level and in the context of commodity markets, and the results are presented both at the sectoral level, and for the economy as a whole. Main indicators of Kazakhstan's export position, as well as indicators of their changes in 2005-2009 are shown for each trade partner and for each commodity group.

The maximum volume of foreign trade turnover was recorded in 2008 and amounted to 109.1 billion U.S. dollars. The share of exports was 65.3% and imports - 34.7% (Graph 7).

Graph 7 Structure of foreign trade turnover, 2005-2009 (% to the total)



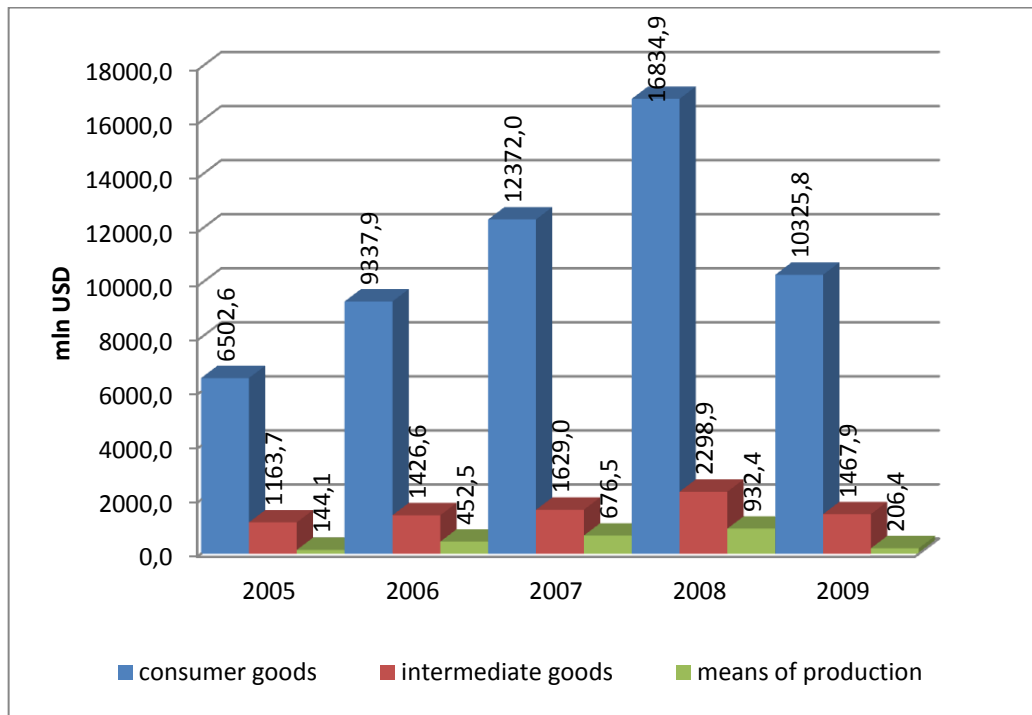
Source: Compiled on the basis of data from ASRK

Such a dramatic upsurge was caused mainly by a significant increase in world prices for energy and mining products. Thus, in early July 2008 oil prices on the world market have seen their maximum going up to \$US 146 for barrel. Since oil is main export article of Kazakhstan, export growth in 2008 was 49% compared to the year 2007. But in 2009 due to global economic crisis and lower global demand for key raw materials and energy resources, export of Kazakhstan significantly decreased by 39% down to 43.2 billion U.S. dollars.

Dynamics of changes in imports in the analyzed five-years period is of a smoother character, and its structure remained relatively stable. The average annual growth of imports during these years was 13%.

The maximum share of manufactured goods (30.7%) in total exports of the country for five years was registered in 2007 and the minimum one (27.8%) - in 2009 (Graph 8).

Graph 8. Export composition of manufactured goods from the RK, 2005-2009



Source: compiled from the data of Customs Control Committee of the Ministry of Finance of the RK

A significant portion of the manufactured products is represented by goods of intermediate production, including raw materials in their primary treatment (processing). These goods are used in the manufacturing of final consumption products, such as metals, chemical products, various pieces of equipment, etc.

Share of consumer (finished) goods amounted to 12.2% in 2009. Moreover, the specific weight of products of this category has not changed significantly over the past five years, and their average annual value amounted to 1.6 billion US dollars. Most frequently exported items in the category of consumer products are gasoline and foodstuffs such as flour, fish products, sugar, confectionery products and beverages.

Export articles in the category of "means of production" include transformers, dishwashing machines, overhead, tower and gantry cranes, engines and power units,

computing machines and standard computing blocks, non-electric radiators for central heating, electrical capacitors. Their exports has been steadily growing during the 2005-2008 reaching 932 million U.S. dollars by the end of this period, but in 2009 it fell sharply to 206 million U.S. dollars. Export articles categorized as "means of production" are the most important for Kazakhstan economy, as their producers, for the most part, are city-forming enterprises which play an important role for regional socio-economic development in reducing unemployment and replenishing budgets of both regions and country as a whole.

The most accurate measure of the external trade performance of the country is *net export*, because acquisition costs of imported components of export-oriented production are deducted from the country's export earnings. In Kazakhstan manufacturing sector much of the equipment and technology, as well as components and raw materials for production of finished goods are imported from abroad.

Net exports indicator in Kazakhstan has a steadily positive value. The average annual growth during last five years was 9%. This is achieved by the dominant exports of mineral products, metals and products thereof (Table 1).

Table 1 Net export of the RK by commodity groups, 2005-2009, mln US\$

Commodity group		Net export				
code	name	2005	2006	2007	2008	2009
01-24	Foodstuffs and raw materials of animal and vegetable origin	-595	-598,2	-231,2	-10,1	-820,2
25-27	Mineral products	18 230,50	24 135,60	29 000,50	46 003,50	28 908,00
28-40	Chemicals and associated	-1 077,40	-976,5	-1 587,30	-1 498,70	-1 172,00

	products					
41-43	Hide, peltry-ware and articles thereof	240,8	220,9	322,8	421,9	294,4
44-49	Timber, lumber and pulp and paper products	-581	-787,1	-1 079,60	-1 039,80	-871,7
50-63	Textiles and textile products	-10	-24,6	-64,7	-132,1	-189,4
64-67	Shoes, headwear and haberdashery products	-45,9	-41,3	-50,3	-61,1	-42,3
68-69	Construction materials	-246,2	-369	-524,2	-487,6	-359
70-71, 93-97, 99	Other	-54,6	38,4	-315,1	-171,3	86,3
72-83	Metals and articles thereof	1 872,70	3 009,70	3 821,70	4 454,00	-228,8
84-92	Machinery, equipment, transport and devices	-7 237,20	-10 034,40	-14 293,60	-14 184,30	-10 818,10
total		10 496,80	14 573,50	14 999,00	33 294,50	14 787,10

Source: compiled from the data of Customs Control Committee of the Ministry of Finance of the RK

Foreign trade for the rest of commodity groups, with the exception of hides, pelts and products thereof, is carried out consistently with a negative balance. The highest value of negative balance is observed in the commodity

group "machinery, equipment, transport and devices". Years 2007-2008 were marked by the maximum amount of imports of these commodities in Kazakhstan. Favorable market conditions prevailing at that time on the world energy and grain market has allowed economic entities to upgrade existing production capacity. In the export of foodstuffs positive balance is observed in trade in grain and flour. Net exports of grain in 2009 amounted to 625 million U.S. dollars, and flour - 560 million U.S. dollars. The least favorable situation develops in trade in dairy products: in 2009 Kazakhstan imported 285 million U.S. dollars more dairy products than it has sold. Sugar also belongs to the import-dependent products; in 2009 its imports were estimated as 245 million U.S. dollars more than exports. Given that the overall trade balance for this commodity group is -820 million USD, the share of dairy products and sugar together accounts for more than a half.

One of the important indicators of the development of export potential in the national economy is export per capita, which reflected the general trend in foreign trade during 2005-2008, i.e. stable increase until 2009 and decline in by 40% (Table 2).

Table 2 Export per capita in Kazakhstan, 2005-2009

	2005	2006	2007	2008	2009
Total exports, mln US\$	27849,04	38250,35	47755,34	71183,54	43195,76
Population of Kazakhstan, mln people	15,07	15,22	15,40	15,57	15,78
Exports per capita, US\$ per person	1847,98	2513,16	3101,00	4571,84	2737,37

Source: compiled from the data of ASRK

The growth of this indicator is mainly stimulated by the increase in the export of primary goods for intermediate consumption (Table 3). Primary commodities for final consumption, which include fruits and vegetables, are exported from Kazakhstan in very small quantities. On average, in the equivalent of each citizen of the country their exports make \$ 5 per year.

Table 3 Kazakhstan per capita export by types of goods, 2005-2009, US\$

	2005	2006	2007	2008	2009
manufactured goods total	518	737	953	1289	761
including					
manufactured consumer goods	77	94	106	148	93
manufactured intermediate goods	431	614	804	1081	655
means of production	10	30	44	60	13
primary goods total (raw materials)	1329	1776	2148	3283	1977
including					
primary consumer goods	4	5	8	9	5
primary intermediate goods	1325	1771	2141	3273	1973
total	1847	2513	3102	4571	2738
<i>Additionally</i>					
GDP per capita, US\$	3771,3	5291,6	6771,6	8499,4	6865,1
Share of exports in GDP per capita, %	49	47,5	46	54	40
Share of manufactured exports in GDP per capita, %	13	13	14	15	11

Source: compiled from the data of Customs Control Committee of the MoF of the RK

The period 2005-2008 was also marked by an upturn in exports per capita in Kazakhstan and at the same time increase in its share of GDP. However, in 2009 the former indicator dropped by 1.7 times, while the second - by 4%. The effectiveness of Kazakhstan exports still quite low, since it still strongly focuses on energy component, in particular, on the export of primary commodities (85%).

General characteristics of the main indicators reflecting the level of diversification of Kazakhstan's exports shows the following: dynamics of Kazakhstan exports in 2005-2009 characterized by unstable growth, average annual growth over these years amounted to 3.8 billion U.S. \$. Due to high oil prices export peak happened in 2008. In 2009, exports volumes plummeted as a result of a fall-off in prices on mineral products and slump in global demand owing to the global economic crisis. However, not all export positions came to the negative range. Thus, exports of certain Kazakhstan's goods were growing.

All Kazakhstan export positions are roughly divided into 6 major groups, on the basis of the nature of export development and the predominance of positive or negative trend. These groups are:

- goods with exports recorded only in 2009, i.e. a set of new export products (new trade);
- goods, exports of which has a stable positive trend over the period (stable growth);
- goods with unstable dynamics of exports, while rates in 2009 are higher than in 2005 (unstable growth);
- goods with a stable negative trend of exports over the period (stable decrease);
- goods when exports represent unstable dynamics, while rates in 2009 are below the 2005 level (unstable decrease);
- goods exports of which has stopped in 2009.

Table 4 Main parameters of Kazakhstan exports, 2005-2009

	Number of	Annual change of exports
total	682	
new trade in 2009	2	
stable growth	41	484,002
unstable growth	376	3 549,63
stable decrease	13	-21,931
unstable decrease	213	-166,694
stopped trade in 2009	37	

Source: compiled from the data of Customs Control Committee of the Ministry of Finance of the RK

Analysis of the dynamics of Kazakhstan's exports in the context of commodity groups by product according to 4-digits code level of Commodity Classification of External Economic Activities (CC EEA, equivalent to Harmonized system), exports of which constituted more than 100 thousand U.S. dollars in 5 years, allowed grouping the products by the aforesaid structure and to identify commodities with high competitiveness. (Table 4).

The maximum value of the average annual increase in the value of exports in 2005-2009 in the amount of US\$ 3.5 billion accounted for a group of 376 commodities ("unstable growth" group). This group consists of "mineral products" and includes 27 products with an average annual growth rate of exports of 2.7 billion U.S. dollars. The greatest share in this commodity group belongs to "crude oil" (HS Code - 2709) with an USD 2.2 billion increase in value.

During the period 2005-2009 41 types of commodities with 484 million U.S. dollars average annual increase in value have been stably exported. The main component of this commodity group is represented by the uranium products (HS Code - 2844), with an average increase in exports value amounting to 341 million \$U.S.

In general in the analyzed five-year period the average annual growth of exports of Kazakhstan has a positive tendency. Number of commodities, exports of which retained positive trend exceeded the number of products with negative trend in exports. In particular, prior to 2008, exports were characterized by growth in almost all the commodity groups except for the following:

- a) "textiles and textile products" (codes 50-63);
- b) "timber, lumber and pulp and paper products" (codes 44-49);
- c) "shoes, headwear and haberdashery products" (codes 64-67)

3.2. Analysis of exports' concentration and diversification

Kazakhstan's exports concentration determined on the basis of Hirschman Index is above average (KAZNEX INVEST)²⁰. In 2005-2008 the index has an insignificant downward trend. In 2009, there has been an increase in the index, which almost reached the level of 2005. Presumably, the increase in the degree of concentration is associated primarily with an increase in prices on energy resources, which make up the bulk of Kazakhstan's exports, as well as crises effects in the global economy, which adversely affect the conditions of processing industries.

²⁰ Export development and promotion, Kaznex Invest National Export and Investment Agency [online] <http://www.kaznex.kz/napr/export/development.php> (accessed on 10.09.2011)

Table 5 Concentration of Kazakhstan exports, 2005 -2009

	2005	2006	2007	2008	2009
Hirshmann Index	0,756	0,739	0,72	0,748	0,754
Share of 5 most exported commodities, %	71,9	70,6	68,4	69,3	71,8
Share of 10 most exported commodities, %	77,5	77,5	75,1	75,4	77,6
Share of 20 most exported commodities, %	84,7	83,6	81,8	82,3	85,5
Number of commodities with exports exceeding 1 mln US\$ value	326	351	403	476	373
Number of commodities with exports exceeding 5 mln US\$ value	137	161	186	233	171

Source: compiled from the data of Customs Control Committee of the Ministry of Finance of the RK

A more detailed analysis of exports dynamics for the period of 5 years separately for each commodity group and by product type made it possible to determine products that are leaders and outsiders in exports (Table 5).

The degree of concentration of exports of Kazakhstan shows that the country mainly exports unprocessed raw materials. And the share of five most exported commodities in 2009 was 71.8%, while the share of the top 20 exports exceeds 85%.

Out of more than 10 thousand of exports items, only 171 exports positions exceed U.S. \$ 5 million and 373 exported commodities account for more than U.S. \$ 1 million.

Content analysis suggests that Kazakhstan can improve growth prospects of its exports, implementing one of two alternative ways: either by producing and exporting more traditionally exported goods, or gradually pass on the production and export of new goods with higher value-added.

The observation of the situation on the level of commodity groups, characterizing major export flows to the partner countries, which are supplied with the Kazakh products (Appendix 5,6) allows to trace potential opportunities for further development of export potential of the republic.

Analysis of Kazakhstan export diversification according to the CC EEA commodity groups has shown the following. In terms of product diversification, as well as product markets from large amount of the declared exports the degree of export concentration identifies just several, and the specific weight of standard deviation from the average value for each product is high. For example, for groups of 72-83 "Metals and products thereof" 124 products were recorded in 5 years on the average, while exports concentrated in only six types of products. Evidence of Kazakhstan's exports is recorded in the markets of 99 trade partner countries, but the main share of exports falls on only 8 countries. Thus, focus is paid on 6 products out of 124, and 8 countries out of 99 trade partners. Such a pattern of diversification is observed almost for each product.

3.3.Problems and perspectives of Kazakhstan exports

The dynamics of diversification over the observed years is characterized by minor variations of these quantities. In general, diversification pattern is formed by the export of certain goods and individual markets, which have the largest weight. For each commodity group, there are predominantly allocated first five products and markets. This testifies the high dependence of Kazakhstan's exports on traditional export items and markets.

As a result, export from Kazakhstan is highly vulnerable to various disasters in the world commodity markets, happening due to changes in market

conditions, the use of protectionist actions by governments of partner countries in order to protect their own market, as well as other critical events in the global economy. All of the above-listed becomes the cause of the sharp decrease in export supply volumes and, consequently, the deterioration of the socio-economic indicators of the country. The support of this claim comes from the deplorable results of 2009 which demonstrate the consequences of non-diversified exports.

At the same time, the conducted analysis shows that there is a potential for development of exports. There appeared a set of new export products, albeit in small volumes. Exports of the selected products grow despite the crisis. This is the starting point for the identification of competitive products and markets for diversification and increase of exports of processed, manufactured products.

With the potential of Kazakhstan in the global trading system it is possible to say that our country has the basic comparative advantage for example, in agriculture and food industry. With minimal expenses Kazakhstan can create competitive advantages at least for the following commodity groups: grains and cereals, oilseeds and vegetable oils, meat and meat products, milk and dairy products, fruit and vegetables, cotton. In each of these groups there is a subgroup with the best prospects for trade on domestic and / or foreign markets.

Results of the study indicate that the export flows of Kazakhstan are characterized by weak diversification of product portfolio and the degree of concentration in the foreign markets. The list of leading exports includes mainly raw materials and manufactured goods of intermediate consumption, requiring further processing. The structure of the manufactured exports shows that the most demanded goods of Kazakhstan production are rolled metal, ferrous and nonferrous metals, and their products, chemical products, fertilizers, rubber products, general mechanical rubber goods and caoutchouc, cotton, leather, wool, flour, vegetable oil, confectionery, various special purpose vehicles, reciprocating pumps, transformers, accumulators, batteries and other products.

Thus, in conditions of an increasing international competition on the world markets, it is necessary to increase Kazakhstan's export potential at the expense of high-tech, innovative products in various industries and also agriculture. This would rather be corresponding to the trends of international trade. Its structure has seen significant changes in recent years. In particular, share of services in information and communication technologies (ICT) has considerably increased, while simultaneously the share of trade in commodities and agricultural products has been gradually decreasing.

Conclusion

The present work has thoroughly studied the development of foreign trade of Kazakhstan from the period of the country's transformation into the market economy up until recent years. Upon entering into the global market Kazakhstan had to adapt to the tactics and strategies of the implementation of trade policy, and adopting economic instruments as its tools.

However, the transition to the stage of the balanced economy has not reflected considerable changes in the commodity structure of foreign trade. The main feature inherited from the Soviet Union, remained, the country still in trade terms represents the supplier of the raw materials to the rest of the world. This was proved and even intensified in the 2000s, when the share of these commodities intensively grew, and the volumes multiplied several times in comparison with the 90s. Such a tendency is explained by the growth in world prices for crude oil and other energy resources, and the growing demand, consequently caused the increased production and exports. The main exported commodities are oil and gas, oil products, ferrous metals, chemicals, machinery, coal and agri-products; imports mainly include all kinds of machinery, equipment and devices, metal products as well as foodstuffs.

Unlike commodity composition, geographical structure of the foreign trade has undergone a significant reorientation. The ties with the former Soviet Republics, being very strong in the 90s have been weakening over the time, and in 16 years share of CIS countries decreased from 55% to 14,3% in terms of exports and smaller but still seriously dropped from 70% to less than 50% in terms of imports. Now the leading roles in Kazakhstan exports belong to China and members of the European Union, Italy, Netherland, France, and others.

Having conducted a research, assessing Kazakhstan exports on the subject of its diversification and concentration on the level of commodity groups over the latest five-year period, Kazakhstan exports were proved to be highly concentrated, especially on the group mineral products. The share of the five

most exported commodities amounted to 72% of the whole exports and out of ten thousand export items, only 373 constitute more than 5 mln US\$ value in exports.

The diversification picture of the commodity groups and products market showed that out of a group of 124 items the exports concentrates on 6 of them, and from 99 trade partner most of the exports go to the major 8.

Results of the study prove the dangerous tendency of every country endowed with so many resources, to be highly dependent on exports of natural resources and world demand and prices on these commodities. The trade statistics showed that in 2009 all the indicators fell by average 30% which slowed down the economic growth of the country from average annual 10% down to 3,2%.

The focus of Kazakhstan should be paid to diversifying its exports, and production of more manufactured products, especially with higher value added, which will be a change of quantity into quality. Some steps were already done in this direction, but compared to the total volumes, share of this group of goods is still relatively small. A special support should be given by the state to increase competitiveness of the Kazakhstan production on the foreign markets, especially for the selected focus group of 300 leading exports products.

An important role in foreign trade plays economic integration and after 20 years of independence Kazakhstan again came to closer cooperation and entered the Customs Union with Russia and Belarus, which were later joined by Kyrgyzstan. This union will also contribute to the development of Kazakhstan trade and improving economic performance.

Thus, all the objectives of the thesis were fulfilled and the hypothesis proved to be true and Kazakhstan is still highly dependent on the exports of primary goods and raw materials; the geographical structure of foreign trade indeed changed significantly since the 1990s, however the commodity composition remained virtually unchanged.

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Appendices

Appendix 1. Development of FT indicators

	FT turnover		Exports		Imports		Balance
	mln \$US	% to the previous year	mln \$US	% to the previous year	mln \$US	% to the previous year	mln \$US
1995	9056,9	-	5250,2	-	3806,7	-	1443,5
1996	10152,1	112,1	5911,0	112,6	4241,1	111,4	1669,9
1997	10797,8	106,4	6497,0	109,9	4300,8	101,4	2196,2
1998	9648,0	89,4	5334,1	82,1	4313,9	100,3	1020,2
1999	9526,7	98,7	5871,6	110,1	3655,1	84,7	2216,5
2000	13852,2	145,4	8812,2	150,1	5040,0	137,9	3772,2
2001	15085,1	108,9	8639,1	98,0	6446,0	127,9	2193,1
2002	16254,3	107,8	9670,3	111,9	6584,0	102,1	3086,3
2003	21335,4	131,2	12926,7	133,6	8408,7	127,7	4518,0
2004	32877,5	154,1	20096,2	155,5	12781,3	152,0	7314,9
2005	45201,5	137,5	27849,1	138,6	17352,5	135,8	10496,6
2006	61927,2	137,0	38250,3	137,3	23676,9	136,4	14573,4
2007	80511,7	130,0	47755,3	124,8	32756,4	138,3	14998,9
2008	109072,6	135,5	71183,6	149,1	37889,0	115,7	33294,6
2009	71604,4	65,6	43195,7	60,7	28408,7	75,0	14787,0
2010	90669,6	126,6	59830,3	138,5	30839,3	108,6	28991,0

Source: ASRK

Appendix 2. Exports and Imports, 2 main groups of countries, mln US\$

	Exports					Imports				
	total	including			total	including			% of total	
		to CIS	% of total	to outside CIS		from CIS	% of total	from outside CIS		
1995	5250,2	2883,5	54,92	2366,7	45,08	3806,7	2652,7	69,69	1154,0	30,31
1996	5911,0	3178,9	53,78	2732,1	46,22	4241,1	2945,5	69,45	1295,6	30,55
1997	6497,0	2981,9	45,90	3515,1	54,10	4300,8	2332,2	54,23	1968,6	45,77
1998	5334,1	2107,8	39,52	3226,3	60,48	4313,9	2054,0	47,61	2259,9	52,39
1999	5871,6	1510,5	25,73	4361,1	74,27	3655,1	1603,8	43,88	2051,3	56,12
2000	8812,2	2336,7	26,52	6475,5	73,48	5040,0	2731,7	54,20	2308,3	45,80
2001	8639,1	2644,6	30,61	5994,5	69,39	6446,0	3309,5	51,34	3136,5	48,66
2002	9670,3	2194,4	22,69	7475,9	77,31	6584,0	3043,2	46,22	3540,8	53,78
2003	12926,7	2980,5	23,06	9946,2	76,94	8408,7	3932,3	46,76	4476,4	53,24
2004	20096,2	4097,2	20,39	15999,0	79,61	12781,3	6117,9	47,87	6663,4	52,13
2005	27849,0	4066,7	14,60	23782,3	85,40	17352,5	8133,9	46,87	9218,6	53,13
2006	38250,3	5574,0	14,57	32676,3	85,43	23676,9	11063,5	46,73	12613,4	53,27
2007	47755,3	7965,3	16,68	39790,0	83,32	32756,4	14599,3	44,57	18157,1	55,43
2008	71183,6	11078,4	15,56	60105,2	84,44	37889,0	17496,8	46,18	20392,2	53,82
2009	43195,7	6781,1	15,70	36414,6	84,30	28408,7	12067,8	42,48	16340,9	57,52
2010	59830,3	8554,8	14,30	51275,5	85,70	30839,3	14701,6	47,67	16137,7	52,33

Source: own calculations, according to the data from ASRK

Appendix 3. Exports by country, mln US\$

	Iran	Italy	China	Netherlands	Russia	Turky	Ukraine	France	Switzerland	Germany	Japan	Total
1995	49,2	142,5	297,0	511,5	2365,8	70,4	121,5	11,3	188,6	171,1	45,2	5250,2
1996	62,5	197,1	458,9	303,0	2484,4	51,7	212,5	6,4	211,4	183,0	87,2	5911,0
1997	83,3	357,3	442,2	203,6	2287,8	102,2	303,5	5,6	285,6	353,0	107,7	6497,0
1998	76,5	495,1	384,3	268,8	1579,0	92,4	239,3	22,1	316,1	263,3	49,6	5334,1
1999	91,6	428,5	469,8	163,5	1146,5	36,4	129,7	25,1	327,1	349,3	23,4	5871,6
2000	203,3	917,6	673,7	226,7	1751,4	62,3	254,2	15,6	453,7	550,9	9,7	8812,2
2001	208,9	956,3	659,6	144,2	1759,5	74,2	490,2	10,4	408,7	501,8	19,1	8639,1
2002	309,9	904,2	1 023,00	123,6	1 497,80	97,4	291,5	27,4	792,4	220,3	23	9670,3
2003	411,1	1 013,10	1 653,10	186,1	1 967,90	99,2	426,2	278,1	1 679,90	146,4	10,4	12926,7
2004	712	3 109,00	1 967,30	464,6	2 838,10	147,1	277,8	1 468,20	3 759,80	212,8	29,7	20096,2
2005	886,1	4 190,50	2 423,90	877,8	2 927,10	157	200,4	2 665,10	5 509,50	408,9	137,3	27849,1
2006	2 077,60	6 891,60	3 592,50	1 704,50	3 731,10	348,2	622,8	3 347,00	6 721,20	553,5	214,1	38250,3
2007	2 451,40	7 774,20	5 639,60	2 464,30	4 659,10	934,4	1 113,10	3 982,70	7 475,90	392,3	382,6	47755,3
2008	2 039,50	11 920,30	7 676,60	4 638,70	6 228,00	1 903,80	2 003,30	5 388,70	11 281,40	614,2	803,9	71183,6
2009	1 279,00	6 686,80	5 888,60	2 222,50	3 547,00	791,8	1 289,20	3 381,50	2 668,10	898,1	247,5	43195,7
2010	1 093,90	9 576,80	10 122,10	4 161,00	5 387,10	1 234,80	665,7	4 433,10	1 234,90	1 749,70	539,3	59830,3

Source: ASRK

Appendix 4. Imports by country, mln US\$

	Iran	Italy	China	Netherlands	Russia	Turky	Ukraine	France	Switzerland	Germany	Japan	Total
1995	13,8	30,2	34,7	29,5	1 899,70	123,5	85,7	26,1	55,2	196,7	8,4	3806,7
1996	6	42,2	35,8	49	2 324,60	151,2	92,3	34	45,8	197,7	18,1	4241,1
1997	8,9	84,7	46,6	70,1	1 969,40	177	93,3	59	49,5	367,7	28,9	4300,8
1998	9,4	85	55,6	91,5	1 709,60	204,3	91,3	80,3	64,4	364,4	69,4	4313,9
1999	7,8	105,4	79,8	99,6	1 351,80	106,1	58,1	55,8	41,3	282	118,2	3655,1
2000	13,3	155,9	151	65,6	2 439,20	144	81,2	75,6	54,3	335,7	105,1	5040,0
2001	11	268,9	172	85,4	2 891,90	137	155	141,6	67,6	490,2	142	6446,0
2002	12,4	219,2	313	87,5	2 548,80	173,7	217,1	110,2	60,2	586,2	164,6	6584,0
2003	12,8	250,2	523,7	127,6	3 282,10	209	324	196,9	61,7	734,2	212	8408,7
2004	13	426,2	758,2	179,3	4 812,50	342,4	722,6	313,7	107,1	1 053,10	398,2	12781,3
2005	14,8	678,8	1251,8	140,5	6 591,20	399,9	844,7	291	201,1	1 300,70	598,6	17352,5
2006	21,6	1 430,40	1924,9	189,5	9 072,90	558,4	983,9	459,5	97,2	1 809,70	914,1	23676,9
2007	44,4	1 130,90	3507,3	375,7	11 626,90	959	1 528,50	705,2	248,1	2 587,30	1 369,70	32756,4
2008	58,9	1 240,80	4 565,10	275,8	13 765,60	971,3	2 105,20	812,9	162,5	2 573,50	979,3	37889,0
2009	24,1	1 915,30	3 569,50	319,1	8 896,50	570,9	2 131,50	460,1	155,8	2 041,90	635,1	28408,7
2010	26,4	1 580,60	3 964,50	301,8	12 063,70	616,3	1 358,50	501,3	179,4	1 828,20	554,8	30839,3

Source: ASRK

Appendix 5. Exports of the RK by main trade partners

	2008		2009		2010	
	mln.US \$	as % of total	mln.US \$	as % of total	mln.US \$	as % of total
TOTAL	71183,6	100	43195,7	1002	59830,3	1003
of which:						
CIS COUNTRIES	11078,4	15,6	6781,1	15,7	8554,8	14,3
THE EAEC COUNTRIES	8376,7	11,8	5124,3	11,9	7419,4	12,4
Belarus	170,8	0,2	54,7	0,1	247,1	0,4
Kyrgyzstan	437,2	0,6	390,5	0,9	424,3	0,7
Russian Federation	6228,1	8,8	3547	8,2	5387,1	9
Tadzhikistan	268,5	0,4	240,3	0,6	259,7	0,4
Uzbekistan	1272,1	1,8	891,8	2,1	1101,2	1,8
Non - EAEC COUNTRIES	2701,7	3,8	1656,8	3,8	1135,3	1,9
Azerbaijan	208,9	0,3	91,5	0,2	342	0,6
Turkmenistan	217,6	0,3	108,9	0,3	91,6	0,2
Armenia	6,3	0	2,7	0	7,6	0
Moldova	215,8	0,3	164,5	0,4	28,5	0
Ukraine	2003,3	2,8	1289,2	3	665,7	1,1
OTHER COUNTRIES OF THE WORLD	60105,2	84,4	36414,6	84,3	51275,5	85,7
EUROPE	41916,8	58,9	23822,1	55,1	32051,7	53,6
EU COUNTRIES	30554,4	42,9	21036,8	48,7	1749,7	2,9
Austria	3,1	0	1196,9	2,9	0,2	0
Belgium	63,9	0,1	22,8	0,1	921,4	1,5
Bulgaria	261,1	0,4	182,4	0,4	169,2	0,3
Great Britain	1810,5	2,5	1235,1	2,9	135,6	0,2
Hungary	123,6	0,2	42,9	0,1	195,4	0,3
Germany	614,2	0,9	898,1	2,1	1749,7	2,9
Ireland	0,1	0	0,3	0	0,2	0
Spain	896,6	1,3	580,3	1,3	921,4	1,5
Italy	11920,3	16,7	6686,8	15,5	9576,8	16
Latvia	237,3	0,3	97,2	0,2	270,1	0,5
Lithuania	61,4	0,1	122,3	0,3	67,3	0,1
Netherlands	4638,7	6,5	2222,5	5,1	4161	7
Poland	461,5	0,6	835,8	1,9	1215,5	2
Romania	1010,8	1,4	840,3	1,9	1281,9	2,1
Slovak Republic	773,4	1,1	1045	2,4	536,5	0,9
Finland	73,1	0,1	451,2	1	1269,4	2,1
France	634,1	0,9	3381,5	7,8	4433,1	7,4
Czech Republic	5388,7	7,6	27,4	0,1	40,2	0,1
Sweden	444,5	0,6	169,9	0,4	241,9	0,4
Estonia	21	0	6,4	0	52,7	0,1

Other countries	1116,5	1,6	991,7	2,3	1772,5	3
Non-EU COUNTRIES	11362,4	16	2785,3	6,4		
Switzerland	11281,4	15,8	2668,1	6,2	1234,9	2,1
Croatia	0	0	108,9	0,3	20,4	0
Other countries	81	0,2	8,3	0	14,1	0
ASIA	16320,1	22,9	10215,3	23,7	15209,5	25,4
Afghanistan	617,1	0,9	408,4	0,9	362,8	0,6
Viet Nam	72,9	0,1	66,4	0,2	10,8	0
Georgia	49,8	0,1	19,8	0	68,6	0,1
Israel	2226,6	3,1	1121,4	2,6	1279,7	2,1
India	164	0,2	96,1	0,2	117	0,2
Indonesia	15,1	0	34,8	0,1	0,3	0
Iran	2039,5	2,9	1279	3	1093,9	1,8
China	7676,6	10,8	5888,6	13,6	10122,1	16,9
China, SAR Hong Kong	61,5	0,1	1,1	0	4,8	0
Malaysia	0	0	0,3	0	0,5	0
Mongolia	33,3	0	31,3	0,1	22,7	0
UAE	90,5	0,1	20,1	0	13,8	0
Pakistan	25,2	0	22,6	0,1	16	0
Republic of Korea	330,9	0,5	131,7	0,3	232,9	0,4
Saudi Arabia	65,8	0,1	0,3	0	10,9	0
Singapore	1,2	0	0	3,3	3,3	0
Thailand	28,2	0	2,5	0	14,1	0
Taiwan Province of China	10,2	0	3,1	0	0	0
Turkey	1903,8	2,7	791,8	1,8	1234,8	2,1
Philippines	1,3	0	0	0	0	0
Japan	803,9	1,1	247,5	0,6	539,3	0,9
Other countries	152,5	0,3	48,5	0,1	60,7	0,1
AMERICA	1170,6	1,6	2319	5,4	3835,7	6,4
Virgin Islands (Brit.)	160,2	0,2	297,1	0,7	418,5	0,7
Canada	398,2	0,6	1385,3	3,2	2439,1	4,1
Columbia	2,2	0	0,1	0	-	-
Panama	1,8	0	0	0	-	-
USA	579,6	0,8	612,6	1,4	868,1	1,5
Ecuador	0	0	0	0	0,1	0
Other countries	28,6	0	23,9	0,1	109,9	0,2
AFRICA	678	1	47,9	0,1	158	0,3
Algeria	13,9	0	0,6	0	0	0
Egypt	239,7	0,3	10,6	0	91,6	0,2
Morocco	56,2	0,1	5,3	0	15,4	0
Tunisia	321,6	0,5	11,5	0	8,4	0
Other countries	46,6	0,1	19,9	0,1	42,6	0,1
AUSTRALIA AND OCEANIA	19,6	0	10,3	0	20,7	0

Source: ASRK

Appendix 6. Imports of the RK by main trade partners

	2008		2009		2010	
	mln.US \$	as % of total	mln.US \$	as % of total	mln.US \$	as % of total
TOTAL	37 889,0	100,0	28 408,7	100,0	30 839,3	100
of which:						
CIS COUNTRIES	17496,8	46,2	12067,8	42,5	14701,6	47,7
THE EAEC COUNTRIES	14857,7	39,2	9699,3	34,2	13198,2	42,8
Belarus	396,2	1	367,1	1,3	478,6	1,6
Kyrgyzstan	171,2	0,5	116,5	0,4	165,7	0,5
Russian Federation	13765,6	36,3	8896,5	31,3	12063,9	39,1
Tadzhikistan	8,6	0	14,8	0,1	16,6	0,1
Uzbekistan	516,1	1,4	304,4	1,1	473,3	1,5
Non-EAEC COUNTRIES	2639,1	7	2368,5	8,3	1503,3	4,9
Azerbaijan	256,7	0,7	145,4	0,5	102,7	0,3
Turkmenistan	220,3	0,6	61,4	0,2	9,5	0
Ukraine	2105,2	5,6	2131,6	7,5	1358,5	4,4
OTHER COUNTRIES OF THE WORLD	20392,2	53,8	16340,9	57,5	16137,7	52,3
EUROPE	9480,8	25	8244	29	7536,4	24,4
EU COUNTRIES	8580,8	22,6	7780,5	27,4	7238,5	23,5
Austria	316	0,8	254,1	0,9	222,2	0,7
Belgium	199,2	0,5	157,4	0,6	176,1	0,6
Bulgaria	41	0,1	23,6	0,1	84,5	0,3
Great Britain	689	1,8	702,3	2,5	724,7	2,3
Hungary	150,6	0,4	99,5	0,4	127,7	0,4
Germany	2573,5	6,8	2041,9	7,2	1828,2	5,9
Greece	17,6	0,1	12,5	0	16,8	0,1
Denmark	114,9	0,3	56,8	0,2	71,9	0,2
Ireland	74,4	0,2	66	0,2	82,6	0,3
Spain	158,7	0,4	120,5	0,4	100,3	0,3
Italy	1240,8	3,3	1915,3	6,7	1580,6	5,1
Latvia	56,9	0,2	43,7	0,2	65,9	0,2
Lithuania	118,5	0,3	107,5	0,4	109,2	0,4
Netherlands	275,8	0,7	319,1	1,1	301,8	1
Poland	426,4	1,1	421,6	1,5	376,6	1,2
Romania	96,7	0,3	37,9	0,1	122,4	0,4
Slovak Republic	72,1	0,2	49,3	0,2	53,1	0,2
Finland	186,1	0,5	309,7	1,1	207,6	0,7
France	506	1,3	460,1	1,6	501,3	1,6
Czech Republic	812,9	2,1	179,2	0,6	166,8	0,5
Sweden	301,7	0,8	262,2	0,9	207,9	0,7
Estonia	54,5	0,1	48	0,2	21,8	0,1

Other countries	97,5	0,3	92,3	0,3	88	0,3
Non-EU COUNTRIES	900	2,4	463,5	1,6	297,9	1
Switzerland	162,6	0,4	155,8	0,5	179,4	0,6
Croatia	16,6	0	11,6	0	15,9	0,1
Other countries	720,8	2	296,1	1,1	102,6	0,3
ASIA	7992,9	21,1	5922,7	20,8	6452,9	20,9
Georgia			17,3	0,1	21,2	0,1
Israel	204,9	0,5	97,7	0,3	96,2	0,3
India	203,8	0,5	157,3	0,6	196,8	0,6
Iran	58,9	0,2	24,1	0,1	26,4	0,1
China	4565,1	12,1	3569,5	12,6	3964,5	12,9
China, SAR Hong Kong	4,6	0	2,4	0	3,6	0
Malaysia	69,4	0,2	69	0,2	77,1	0,3
Mongolia	1,1	0	1,1	0	0,6	0
UAE	204,6	0,5	142,2	0,5	110,6	0,4
Republic of Korea	423,3	1,1	373,9	1,3	527,3	1,7
Singapore	45,2	0,1	50,9	0,2	63,6	0,2
Turkey	971,3	2,6	570,9	2	616,3	2
Japan	979,3	2,6	635,1	2,2	554,8	1,8
Other countries	261,4	0,7	211,3	0,7	193,9	0,6
AMERICA	2723,5	7,2	2004,2	7,1	1977	6,4
Brasil	247,9	0,7	201,4	0,7	225,4	0,7
Canada	329,4	0,9	245,9	0,9	217,2	0,7
Cuba	43,7	0,1	13,1	0	0,7	0
USA	1928,8	5,1	1391,5	4,9	1313,1	4,3
Other countries	173,7	0,4	152,3	0,6	220,6	0,7
AFRICA	136,9	0,4	123,1	0,4	124,7	0,4
AUSTRALIA AND OCEANIA	58	0,2	46,9	0,2	46,7	0,2
Australia	55,3	0,1	43	0,2	45,2	0,1
Other countries	2,7	0,1	3,9	0	1,5	0

Source: ASRK