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Position of Kazakhstan in International Trade and Business

Author: Yekaterina Batyrkhanova

Thesis instructor: doc. Ing. Ludmila Štěrbová, CSc

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Declaration:

I hereby declare that I am the sole author of the thesis entitled "Position of Kazakhstan in International Trade and Business". I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

In Prague on 15.05.2015

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Yekaterina Batyrkhanova

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CONTENT

Introduction

Kazakhstan's economic circumstances and situation have changed in various ways, and this has been attributed by the country's operational strategy. After the crisis that destroyed the general economy, the country has strategically established measures that have contributed towards the success in its economic practices (Country Reports-Kazakhstan, 2014; Australian government, 2014). The problem resulted in various economic imbalances and a total decline in various activities that destabilized the country's economy. All sectors were affected, which included the agricultural, business, industrial, and other related sectors (Organization for Economic Co-operation and Development, 2013). However, the country comes up with measures that have contributed towards a robust macroeconomic health and economic growth.

Kazakhstan plays an important role in the economy of the whole world based on various business activities and trading. Economic reform practices are evident from the way the country's economic growth is improving from its previous crisis that resulted in a total decline. The oil sector has contributed a lot towards the transformation of the macroeconomic management progress, especially in terms of structural reforms. The rapid increases in the oil production and pipeline capacities have contributed to the general outlook of the economy. Therefore, the country projects the realization of a high gross domestic product and still hopes for further improvements (Manoli, 2013, p. 52).

The non-oil private sector has been low in terms of their investment activities. However, it is clear that the policy reforms have enhanced the creation of incentives, especially in the private sector (Kazakhstan, 2013). Most of the institutions in this sector were hampered because of the poor quality of the infrastructure. The increase in domestic consumption has contributed towards the growth of the oil sector. Poverty has also reduced significantly because of the improvement in the country's economy. The income inequality in the country is interesting because people earn in relation to their occupation levels. Employment levels have also risen as compared to the period of the economic crisis (Manoli, 2013, p. 54).

Kazakhstan's foreign direct investment data shows various economic practices have been enhanced, which have increased investment and helped the economy to grow in comparison to the previous years (Ipek, 2007). Economic transactions have grown and increased steadily based on the strategic measures that have been implemented by the government. The sum of equity and reinvestment activities has also increased because the economy has also stabilized. The long-term and short-term capital has stabilized due to the established standard terms of operations that have contributed towards the growth of various practices. Foreign investors have also increased their investments, which have contributed towards the high investment activity in the country. As a result of various diversification measures, the economy has been stabilized as a result of multiple policies and practices (Manoli, 2013, p. 55).

There are policies that govern various export and import business transactions, which have contributed to the improvement in the overall trading business in the country. The fiscal performance of Kazakhstan's exports, imports, and trade has not been performing to the expectations in comparison to the previous years (Simon, 2010). In this regard, there was a decrease in the exports following the crisis that the country encountered (Afontsev, 2014; Isakova & Plekhanow, 2012).

Kazakhstan has established trade relations with the World Trade Organization to help in boosting and remedying the country's economic practices. The WTO has a direct impact and contributes positively towards the growth and improvement of the economy in the country. The WTO aims at raising the standards of living of the citizens in order to support the growth in production, trade, and income through the liberalization of the economy (Selivanova, 2011). Additionally, it has helped to minimize the trade barriers that may affect and hinder international trade relations in various ways. In addition, the WTO strikes a balance that is evident among the desirable members that engage in trading activities. Therefore, Kazakhstan subsidies and trade remedies in the WTO agreement have contributed towards the economic improvement. In addition, other related aspects like subsidies are established on the terms and conditions of the unions (Manoli, 2013, p. 56).

This research paper will assess the position of Kazakhstan in the international business and trade. It will also examine the country's economic position through three major sectors. The paper will evaluate the country's macroeconomics, international markets, and competitiveness. The focus will be on the country's macroeconomic trends, economic reforms, and an analysis of the country's economic position through an analysis of various sectors such as agriculture, natural resources, FDI, as well as industrialization. In relation to the country's international business operations, the nation's commercial policy, trends in the exports and imports, regional and global trade agreements that the country has, and the nation's customs union will be examined. Finally, the paper will assess Kazakhstan's competitiveness in international business. Topic such as the developmental challenges, future growth prospects, as well as the business and investment perspectives will be evaluated.

1. Analysis of macroeconomic situation in Kazakhstan

1.1 Macroeconomic trends

Kazakhstan is the second largest country of the former Soviet Republics and is one of the richest economies in Asia, particularly Central Asia, with an estimated GDP (PPP) of $395 billion and a GDP per capita of $23,211 as at 2013 (World Bank, 2014). The economy is ranked 11th out of 42 countries in the Asia-Pacific region. Supported by a booming oil sector, which accounts for approximately 25% of the country's GDP, Kazakhstan's economy has depicted impressive performance in the past one decade, maintaining an average growth rate of 8% per year. From 2000 to 2007, GDP growth remained between 8.9% and 13.5%, before declining to between 1-3% in 2008 and 2009 as a result of the global financial crisis (World Bank, 2014).

The economy has however recovered significantly after the financial crisis. In 2010, a growth of 7% was posted, while performance in 2011 grew to 7.5% (World Bank, 2014). Compared to the pre-crisis period, the economy of Kazakhstan has been performing poorly. While growth before 2007 averaged 10%, growth after 2009 has remained below 8%. In 2012, GDP growth declined to 5%, but recovered to 6% in 2013, with 2014 estimates indicating that growth will decline to 5.1%. Table 1 below shows GDP growth rate in the last 10 years. Though growth appears to be slowing down, Kazakhstan economy promises impressive performance in the near future taking into account the country's thriving consumer sector.

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
GDP Growth rate (%)	9.1	9.5	10.6	8.5	2.4	1.2	7	7.5	5	6	5.1

Table 1: GDP growth rate 2004-2014 (Source: Index Mundi, 2013; World Bank, 2014)

Foreign exchange rates have remained stable in the recent past as a result of a sound monetary policy. Inflation has however been a major challenge in the country. During the three years preceding the 2008/2009 global economic recession, inflation shot rapidly from 7.5% in 2005 to 17% in 2008 (Index Mundi, 2013). This was the highest rate of inflation in more than a decade. Inflation has however declined significantly after the economic recession, dropping to 7.3% in 2009. The significant drop in consumer price indices can be attributed to robust economic growth during the post-crisis period. In 2013, inflation was recorded at 5.3%, though this was a slight increase from 5% in 2012. Commercial bank prime lending rates in Kazakhstan are quite high compared to most developed countries as well as its peers in Asia. In 2012, bank-lending rates stood at 6.6% (CIA World Factbook, n/d).

Another important macroeconomic indicator is unemployment. With a labor force of approximately 9 million people, Kazakhstan has depicted impressive performance in terms of addressing the problem of unemployment. In fact, the rate of unemployment has declined consistently from 2005, declining from 8.1% in 2005 to 5.3% in 2013 (Index Mundi, n/d). One thing that cannot go unnoticed is the fact that even during the 2008/2009 financial crisis, the rate of unemployment continued declining. On the global map however, Kazakhstan's rate of unemployment is quite high, taking position 52 (CIA World Factbook, n/d). Table 2 below shows inflation and unemployment rates from 2004 to 2013.

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Inflation (%)	6.9	7.6	8.6	10.8	17	7.3	7.8	7.9	5	5.3
Unemployment (%)	8	8.1	7.4	7.3	6.6	6.3	5.5	5.4	5.3	5.3

Table 2: Inflation and unemployment rate 2004-2013 (Source: Index Mundi, 2013; World Bank, 2014)

Kazakhstan's public debt has declined significantly over the past one decade. In 2000, the country became the first former soviet republic to repay all its debt to the IMF ahead of the 7 years schedule, consequently becoming the first former Soviet Union republic to receive investment grade credit rating (Datkhayev, 2013). From 2002 to 2007, public debt dropped consistently from 17.6% to 5.9%, before rising to 6.7% in 2008 and

10.2% in 2009 (Index Mundi, 2013). This can be attributed to the devastating 2008/2009 financial crisis.

Compared to the pre-crisis period, the post-crisis period has depicted poorer performance in terms of public debt. In 2013, public debt as a percentage of GDP stood at 15.6%, representing an increase from 13.2% in 2012 (World Bank, 2014). Actually, public debt has increased consistently from 2008, which has worsened the country's global ranking in terms of public debt. Table 3 below shows Kazakhstan's public debt as a percentage of GDP from 2002 to 2013. The growing public debt in recent times points to increased government expenditure aimed at supporting the economy after the financial crisis. All in all, Kazakhstan has a stable fiscal situation, which has been enabled by a conservative fiscal policy and the accumulation of oil revenue savings.

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public debt (% of GDP)	17.6	14.9	11.4	8.1	6.7	5.9	6.7	10.2	10.7	11.2	13.2	15.6

Table 3: Public debt as a percentage of GDP 2004-2013 (Source: Index Mundi, 2013; CIA World Factbook, n/d)

Overall, Kazakhstan boasts a robust economy. From GDP growth to per capita income and other macroeconomic indicators such as inflation, unemployment, and interest rates, Kazakhstan is indeed one of the promising economies in the developing world. These indicators are a clear indication that the country's economy will continue depicting impressive performance in the foreseeable future.

1.2 Economic Reforms since Independence

Kazakhstan has entered its third decade since gaining independence from the Soviet Union. Prior to gaining independence, the country had been marked as an economy with the potential for creating a market-based economy (Koch, 2013; Ibrayev, Badjanov & Li, 2014). This was because of its relatively higher living standards and abundant human capital endowments. After gaining its independence from the Soviet Union, the country's economy experienced significant contractions (Sagitova, 2012; Xi, 2007). In 1994, for instance, the economy registered a negative growth of 12%. As a result, the government embarked on a journey of economic reform to revive the deteriorating economy. Between 1995 and 1997, the government focused on economic reforms through privatization in a bid to transform the formerly socialist economy to a market economy (Aitzhanova, et al. 2014). Privatization was seen as a way bringing efficiency to the poorly performing public sector. In particular, the minerals and energy sectors became part of the private sector (Datkhayev, 2013). Following the privatization of the oil sector, a new pipeline was constructed to transport oil from the country's primary oil field in Tengiz to the Black Sea. This expanded the country's capacity to export oil. In 1997, the economy posted positive economic growth (1.5%) for the first time since independence (Index Mundi, 2013). Privatization therefore played an instrumental role in stabilizing the economic performance of Kazakhstan.

In 1998, however, the economy went into a downturn again. This can be attributed to the 1997 Asian financial crisis, which caused a significant decline in the prices of oil, which is the backbone of the country's economy. The 1998 Russian crisis also affected the economy severely (Bendini, 2013). Consequently, the government focused on diversifying its oil-based economy. In 2000, the government came up with an industrial policy, which was aimed at developing the light industry (Aitzhanova, et al. 2014). Later on, more economic reforms were initiated to attract foreign investors and to open the country to the global economy (Ibrayev, Badjanov & Li, 2014). These reforms particularly revolved around tax restructuring, banking, customs, and price liberalization. In 2003, for instance, the Law of Changes to Tax Code was adopted, leading to significant reduction in tax rates, particularly income tax, which fell from 30% to 20% (Koch, 2013). Due to its evident commitment to economic reforms, Kazakhstan was granted a market economy status in 2002. This status steered more reforms in diverse areas such as government control over the economy, wage rate determination, and openness to foreign investment (Watson, 2010).

Other reforms have been directed to the agricultural sector. The reformation of the agricultural sector has been important considering that besides feeding the country the sector provides employment to more than a quarter of the population (Kalyuzhnova, 2011). These reforms have been aimed at providing incentives to farmers and creating market for agricultural goods. There have also been economic reforms aimed at addressing social problems. For instance, through better education programs, the country has been able to develop a more competitive labor force for both the local and the international market. Today, one in every 10 citizens in Kazakhstan has a higher education qualification (Datkhayev, 2013).

Year	1999	2001	2004	2007	2008	2009	2013
Population below poverty line (%)	35	26	19	13.8	12.1	8.2	5.3

Table 4: Population below poverty live from 1999-2013 (Source: Index Mundi, 2013)

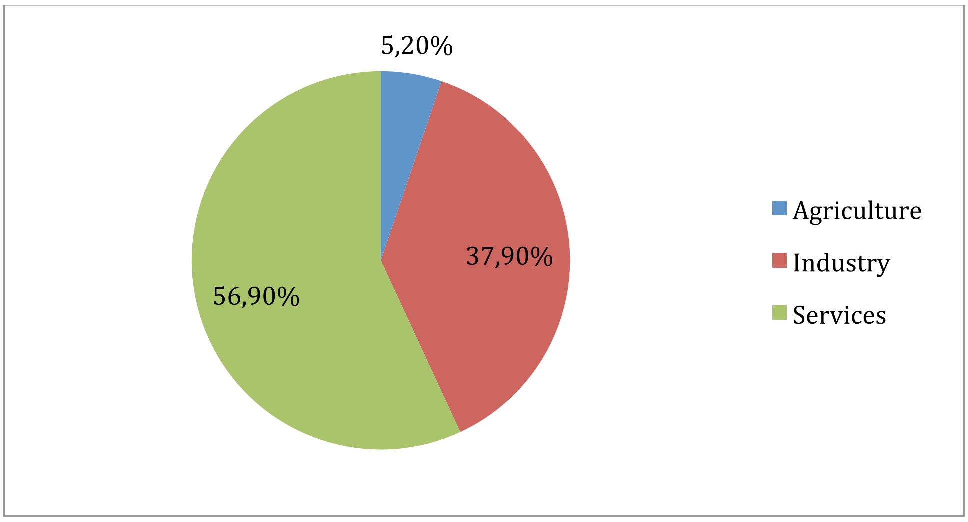
Overall, the positive outcomes of economic reforms in Kazakhstan have been seen. For instance, as shown in Table 4 above, the population below the poverty line dropped from 35% in 1999 to 8.2% in 2009 and to 5.3% in 2013 (Index Mundi, 2013). In addition, the country has moved from a low-income status to a middle-income status. It is important to note that most of the reforms have been enabled by a favorable political environment, which has an impact on a creation of a friendly environment for investment (Burke, 2009). Though Kazakhstan has pursued significant economic reforms since independence, the country is yet to join the World Trade Organization (WTO). Nonetheless, the government has been pursuing this course since 1996, and it is expected that in the near future the country will be a member (Kalyuzhnova, 2011).

1.3 Role and Position of Kazakhstan in a World Economy

Though it does not belong to the WTO, Kazakhstan holds a significant position in the global economy. According to some analysts, Kazakhstan will play an instrumental role in the world economy as foreign investment shifts from developed countries to developing countries. (Sarybay, 2014). This is because Kazakhstan is a rapidly developing economy, presenting immense investment opportunities for investors across the globe. Additionally, the country has made tremendous progress in terms of pursuing market liberalization and opening up its economy to the rest of the world, which are major sources of competitive advantage for the host country (Bendini, 2013).

The significance of Kazakhstan in the world economy stems from its richness in natural resources, particularly oil and minerals. Kazakhstan boasts plentiful supply of oil reserves and other minerals such as copper and uranium. According to projections, the country's oil production is expected to double in less than 10 years (Bendini, 2013). Resource scarcity is a reality that is increasingly being faced by the world. However, Kazakhstan's vast natural resources place the country in an advantageous geopolitical position (Sarybay, 2014). The implication is that Kazakhstan will be a major source of resources to fuel the world economy taking into account the increasing demand for those resources across the globe. Nonetheless, a complex challenge faces the country in terms of efficient resource utilization in a world where resources are dwindling by the day.

1.4 Economy of Kazakhstan by Sector



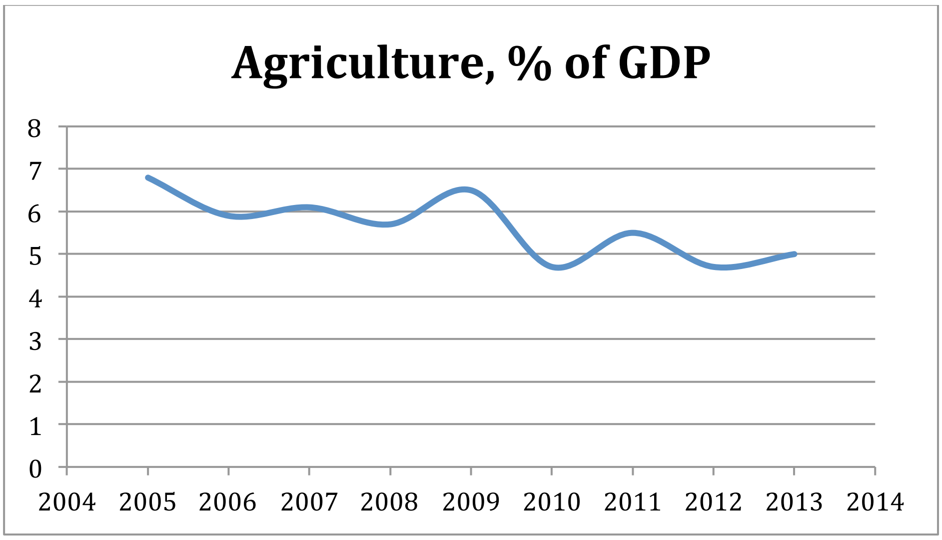
Graph 1: GDP composition by sector (Source: Index Mundi, 2011)

The above Graph shows the percentage share of Kazakhstan's economy by sectors. Three major sectors will be analyzed with its impact to the gross domestic product of the country. The analysis is shown below.

1.4.1 Agriculture

Agriculture is an important sector in the economy of Kazakhstan, accounting for approximately 5% of the total output (Aitzhanova et al., 2014). Its vast land accommodates both livestock and crop production. In particular, there are about 205,000 square kilometers of arable land and more than 600,000 square kilometers of pasture land. Though the sector accounts for a smaller percentage of GDP compared to the other sectors, it provides employment to approximately 25% of the population (Index Mundi, 2013). The most important agricultural commodities include grain, vegetables, melons, potatoes, and livestock (Koch, 2013; Ibrayev, Badjanov & Li, 2014). Wheat and barley comprise the major agricultural products in Kazakhstan's export trade. Major livestock products include meat, leather, dairy products, and wool.

In the recent past, the performance of the agricultural sector has been declining as shown in Graph 2 below. In 2005, the sector accounted for 6.8% of total GDP. This declined to 5.9% in 2006 and further to 5.7% in 2008 at the height of the financial crisis. The sector was badly affected by the crisis, with performance declining to 4.7% in 2010. Since then, the sector has recovered slightly, but it is yet to reach the pre-crisis levels.



Graph 2: Agricultural output as a percentage of GDP (Source: Index Mundi, 2011)

1.4.2 Natural Resources

Kazakhstan boasts huge fossil fuel reserves and an abundant supply of other minerals, including copper, zinc, and uranium, which are exported to various parts of the world (Francis, 2011). These resources have attracted much of the more than $100 billion in foreign investment in the country since independence. Oil, gas, and mineral extractions represent approximately 57% of the total industrial output in the country, which translates to 13% of the total GDP (Bendini, 2013). Statistics indicate that Kazakhstan harbors the world's second largest deposits of zinc, uranium, and lead, the third largest deposits of copper, and is one of the largest producers of coal and iron (Kalyuzhnova, 2011). The country also harbors significant reserves of gold and diamond. Uranium is Kazakhstan's major mineral export, accounting for about 35% of total global production (Datkhayev, 2013). Essentially, mining is a major undertaking in Kazakhstan.

Oil and gas represent the major natural resources in Kazakhstan, representing a significant driver of the economy. According to global rankings, Kazakhstan harbors the 11th largest deposits of oil and natural gas, with about 160 proven deposits (World Bank, 2014). As at 2012, Kazakhstan produced 1.6 million barrels of oil per day. As shown in Table 2, Kazakhstan's oil production has increased consistently in the last one decade. Though Kazakhstan has huge deposits of oil, it has only three refineries, which do not have the capacity to process the country's crude output. As a result, most of its crude oil is exported to Russia.

Year	2001	2004	2005	2007	2009	2011
Oil production, barrels per day (millions)	0.8	1.2	1.3	1.45	1.54	1.61

Table 5: Oil production in Kazakhstan (Source: World Bank, 2014)

1.4.3 Industrial Goods

A wide range of industrial goods is manufactured in Kazakhstan. The major industries in the country include oil, iron ore, iron and steel, zinc, manganese, uranium, copper, agricultural machinery, construction materials, and electric motors. Other industries include gold, silver, phosphates, and sulfur. The highly diversified industrial sector accounts for 4.22 percent of all the fixed production assets in the country (Badjanov & Li, 2014). Machine building occupies the greatest share of the industrial sector. Military goods are also produced in the country. Statistics indicate that close to eleven percent of the military goods produced in the countries that comprised the former Soviet Union come from Kazakhstan (Burke, 2009). The light industry, which has received robust government support since independence, is also a major sub-sector in the country, coming second after the machine-building sub-sector. The light industry focuses on the production of ferrous and non-ferrous metals. The other significant sub-sector is the food-processing industry (Datkhayev, 2013; Francis, 2011). Most of the agricultural commodities produced in Kazakhstan are processed before exportation.

Despite its booming industrial sector, Kazakhstan still lags behind in as far as its industrial growth rate compared to the rest of the world is concerned. As at 2013, its industrial production growth rate stood at 2.1%, taking position 122 in the world (Index Mundi, 2013). Generally, Kazakhstan's industrial production growth rate has been declining since 2000. In 2000, its industrial production growth rate was 14.9%, declining to 11.4% in 2001. Further decline occurred all through to 2005, reaching 4.6% in 2005. Table 6 below shows Kazakhstan's industrial production growth rate from 2000 to 2013.

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Industrial production growth rate (%)	14.9	11.4	10	8.8	10.6	4.6	7.7	7.2	2.4	3.3	7.3	3.4

Table 6: Industrial production growth rate (Source: Index Mundi, 2013)

1.5 Foreign Direct Investment (FDI)

Foreign direct investment has played key role in the economic growth of Kazakhstan since independence. This has largely been facilitated by the government's robust commitment to creating a favorable environment for both local and foreign investment. In 2013, FDI in Kazakhstan exceeded $123 billion (Ibrayev, Badjanov & Li, 2014). Kazakhstan is considered by foreign investors as one of the most favorable investment destinations in Central Asia. FDI in Kazakhstan has come in different forms, ranging from green field investments to acquisitions and joint ventures.

1.5.1 Forms of International Trade and Capital Flows

The major forms of international trade include capital inflows and capital outflows. Due to its attractiveness, Kazakhstan has lured a great deal of capital inflows in the recent past. In 2007, the stock of direct foreign investment in Kazakhstan stood at $40 billion, increasing to $55 billion in 2008 (Index Mundi, 2013). As seen in Table 7 below, the 2008/2009 financial crisis did not affect capital inflows as they grew further to $69 billion in 2009 and $83 billion in 2010.

Year	2007	2008	2009	2010	2011	2013
Capital inflows ($ billions)	40.1	55.6	69.5	83.3	92	123

Table 7: Capital inflows (Source: Index Mundi, 2013)

Netherlands is the main FDI investor in Kazakhstan, accounting for 22% of the capital inflows (World Bank, 2014). This is followed by the United States, United Kingdom, France, and Canada, respectively. Kazakhstan has also depicted impressive performance in terms of capital outflows. This has particularly been true after the 2008/2009 financial crisis. In 2007, Kazakhstan's capital outflows stood at $3.97 billion, declining in 2008 to $2.2 billion. After the financial crisis, however, the magnitude of Kazakh investments abroad has increased dramatically. In 2009, the stock of direct foreign investment abroad grew by more than double to $5.7 billion as compared to 2008. As at 2013, capital outflows had hit the $26.5 billion mark. Table 8 below shows the growth of Kazakhstan's capital outflows.

Year	2007	2008	2009	2010	2011	2012	2013
Capital outflows ($ billions)	3.97	2.19	5.71	7.21	18.12	25.5	26.5

Table 8: Capital outflows (Source: Index Mundi, 2013)

Kazakhstan has strong trade relationships with countries in North America, Australia, South America, Europe, and Asia (Kudebayeva & Barrientos, 2013). In 2013, Kazakhstan's exports stood at $87.23 billion. Oil and minerals comprise the major exports from Kazakhstan. Kazakhstan's largest trading partners include Russia, China, and the EU (Bendini, 2013). The economy of Kazakhstan is particularly tied to Russia due to historical and geographical reasons. The geographical proximity of China has played a key role in boosting trade between the two countries. The EU accounts for 39.9% of Kazakhstan's exports, while China and Russia account for 20.5% and 9.7%, respectively (Bendini, 2013). In terms of imports, which mainly include foodstuffs, metal products, and machinery, Russia accounts for the largest share (31.4%). China accounts for 26.5% while the EU accounts for 19.9%. Table 9 shows Kazakhstan's origin of imports and destination of exports in 2012.

Origin of imports	**Destination of exports**
Russia- 31.4%	EU – 39.9%
China – 26.5%	China – 20.5%
EU – 19.9%	Russia – 9.7%
Ukraine – 4.4%	Canada – 4.8%
Turkey – 2.6%	Ukraine – 4.6%

Table 9: Major trading partners (Source: Bendini, 2013)

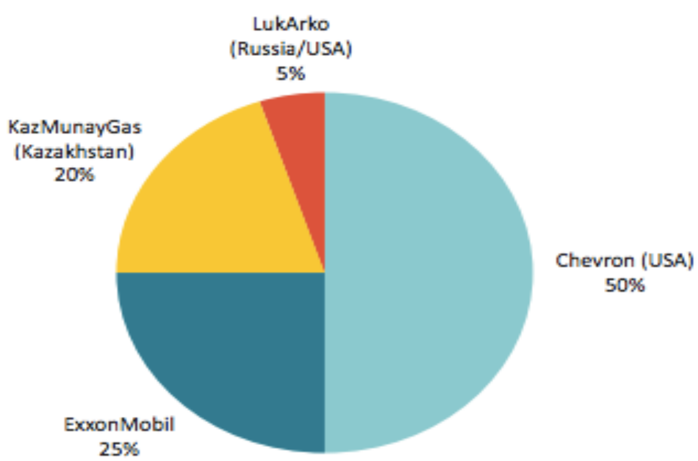
1.5.2 FDI by Sectors

Though Kazakhstan has focused on diversifying its economy, FDI inflows are still largely concentrated in natural resources. In fact, FDI in natural resources accounts for more than half of the total capital inflows in the country (Bendini, 2013). Nonetheless, all sectors of the economy are open to foreign investment, including manufacturing, wholesale and retail trade, professional services, construction, and finance and insurance. Table 10 below summarizes FDI by sectors.

Sector	**Share of FDI (%)**
Natural resources	33.6
Manufacturing	13.1
Wholesale and retail	9.8
Professional services	34.1
Construction	5.1
Finance and insurance	4.2

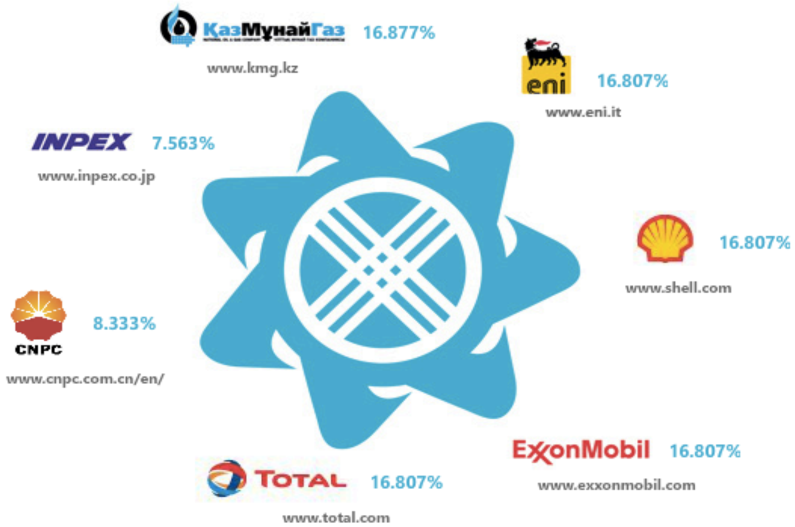
Table 10: FDI by sectors (World Bank, 2014)

Major oil and gas sectors are found in different fields across Kazakhstan, those are Tengiz, Kashagan, and Karachaganak fields. From Figures below it is visible the impact of foreign investments from other countries than Kazakhstan by field.



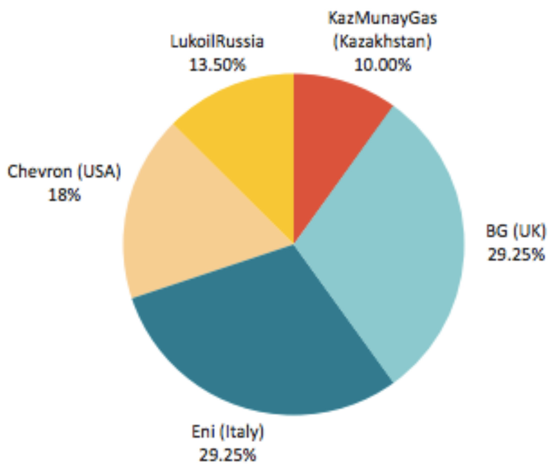
Graph 3: Shareholders of TengizChevroil LLP (Official website of TengizChevroil LLP, 2014)

Graph 3 shows that major shareholder is the US, which accounts for 50% of TengizChevroil while KazMunayGas has only 20% shares. Other shareholders are ExxonMobil (US) with 25% and LukArco (Russia/US) with only 5%.



Graph 4: Shareholders of Kashagan project, % (Official website of NCOC, 2014)

The North Caspian Operating Company represents Kashagan field, purchased by foreign and national companies as it is shown in Graph 4. Approximately, equal percentage shared among foreign companies such as ExxonMobil (USA, 16.8%), Shell (Netherlands/UK, 16.8%), ENI (Italy, 16.8%), Total (France, 16.8%) and local company KazMunayGas (16.87%). The rest 15.8% shared between CNPC (USA) and INPEX (Japan) companies.



Graph 5: Shareholders of Karachaganak petroleum operation group (Official website of BG Group, 2014)

Karachaganak field is owned by UK (29.2%), Italy (29.2%), USA (18%), Russia (13.5%) and smallest share is represented by KazMunayGas (10%).

As it is shown from above graphs, these three fields play significant role in oil and gas sector. Investors are interested in the production of oil and gas in Kazakhstan, thus they are ready to invest in one of the major natural resources sector.

1.5.3 Foreign Investors

Today, more than 15,000 firms with foreign capital operate in Kazakhstan, including more than 200 Fortune 500 companies (Ministry of Industry and New Technologies, 2011). Some of these companies include Chevron, Cameco Corpotation, The Coca Cola Company, Microsoft, Siemens, General Electric, HSBC Bank, and Henkel. Other foreign firms include ArcelorMittal, The Royal Bank of Scotland, TeliaSonera, Philip Morris International, Metro Cash and Carry, and Eurasian Natural Resources Corporation. It can therefore be seen that the US and other Western countries have topped the chart as major sources of foreign investors in Kazakhstan. The United States in particular has been an important direct investor in Kazakhstan. In 2011, for instance, there was close to $1.2 billion in terms of direct investment from the US (Holtzblatt & Tschakert, 2014). The US mainly invests in mining, energy, professional services, financial services, electric energy, and real estate operations.

Netherlands has also been a major source of foreign investment in Kazakhstan. Netherlands alone accounts for $49 billion worth of foreign investments in the country, with Dutch firms investing in a wide range of sectors ranging from oil and gas to financial services. Other major sources of foreign investment include the UK, Russia, and China. Investments from the UK presently amount to $24.7 billion, with companies such as Dando Drilling International, Petrofac, and Atkins holding substantial investments in the country’s primary and secondary sectors. Most Chinese and Russian companies target the petroleum and mining industries. Chinese firms such as the China National Petroleum Corporation (CNPC) have invested heavily in the country’s energy sector. Statistics shows that by 2015, Chinese companies may have invested in more than 40 percent of Kazakhstan’s oil and gas industry, thereby surpassing local firms (Ibrayev, Badjanov & Li, 2014).

1.5.4 Local Investments

The government of Kazakhstan has robustly been committed to encouraging domestic investment. This has been enabled through initiatives such as creation of a favorable monetary environment and the creation of market opportunities for local products (Kudebayeva & Barrientos, 2013; Kutan & Wyzan, 2005). Acquiring business financing was a challenge, but with the new Kazakh law on regulation of banking and financial institutions, locals can readily access credit (Aitzhanova, et al. 2014; Burke, 2009). Domestic investments in Kazakhstan range from the primary sector to the tertiary sector. Firms like Kazakhgold, Kazakhmys, and Kazatomprom have invested heavily in the mining sector. In the oil and gas sector, firms like PetroKazakhstan and KazTransOil have made substantial investments. Local firms such as Kazkommertsbank have also made huge investments in the banking sector. Essentially, local investments in Kazakhstan stretch across virtually all sectors of the economy.

1.5.5 Terms and Conditions for Investors

The government of Kazakhstan has since independence played an instrumental role in terms of creating a favorable environment for investment. Arguably, the government has adopted one of the most favorable investment climates in the region, which highly favors foreign investment (Niyetullayev & Almond, 2014). The law provides for full protection of investors and ensures proper interaction between investors and local authorities. In 2003, the Investment Law was adopted to regulate the legal and economic framework for investments in the country (Schatz, 2013). The law seeks to maximize the support of the government in as far as foreign investment is concerned. Most importantly, the legal framework strives to foster equal and just treatment of local and foreign investment (Francis, 2011). Particularly, the Investment Code guarantees equality between local and foreign investors. The code also protects the rights of investors and gives investors the right to repatriate profits (Koch, 2013). This has promoted fair competition in the country. Other major incentives for investors include tax waivers, exemptions from some duties, and special economic zones (Ibrayev, Badjanov & Li, 2014).

Additionally, the law has enabled a friendly monetary environment. Through appropriate monetary policies, the government has managed to keep lending rates relatively lower, thereby easing access to credit. Moreover, investors are guaranteed of free movement of capital and other factors of production (Kaiser & Pulsipher, 2006). This is a key ingredient of success in the business environment. Kazakhstan has been ranked number 53 out of 183 economies in terms of the ease of doing business (Pytheas Limited, 2011). Despite these tremendous steps, investors continue to complain about restrictions on investment particularly in the banking and mining sectors (Bendini, 2013). Other challenges include inadequate infrastructure, limited export diversification, and the landlocked nature of the country. Nonetheless, given its impressive macroeconomic indicators - a steady GDP growth, low debt, a low inflation rate, and so forth – as well as relative political stability, the country remains an attractive destination for investors.

1.5.6 Impact of FDI on Economic Growth of Kazakhstan

Literature provides strong evidence for the relationship between FDI and the economic growth of the host country. Besides stimulating economic growth, FDI reinforces the host country's capacity to absorb technology, innovation, skills, and knowledge (Aizhan & Makaevna, 2011). FDI also enhances international trade integration, thereby increasing the competitiveness of the host country. Some commentators however argue that FDI has more impact on economic growth when the host country is export oriented (Aizhan & Makaevna, 2011).

In the case of Kazakhstan, FDI became a significant driver in reviving the economy following the separation from the Soviet Union. During the early 1990s, shortly after Kazakhstan gained independence, there were significant declines in economic growth. By 1995, real GDP had dropped by close to 30% compared to its 1990 level (Aizhan & Makaevna, 2011). Nevertheless, towards the end of the 1990s, as the government increased its focus on opening up the economy to the rest of the world, remarkable growth was seen, with economic growth reaching 10.5% in 2000 and 12.2% in 2001. All through to the beginning of the 2008/2009 financial crisis, economic growth remained above 9%. By 2007, capital inflows had hit the $40 billion mark (World Bank, 2014). Today, Kazakhstan is a rapidly growing and emerging economy, presenting an attractive destination for investors.

FDI creates market for locally produced goods. In essence, inviting investors serves as a way of marketing a host country's goods in other countries. This explains why countries like Russia and China have become Kazakhstan's key trade partners. Particularly, China and Russia are significant investors in the countries oil and gas industry. This has happened largely because of FDI, which has translated to economic growth on the part of the host country.

Foreign direct investment has opened the Kazakh economy to the globe at large, thereby enabling the construction of a relatively diversified economy. Shortly after independence, Kazakhstan was a largely oil- and mineral-driven economy (Ibrayev, Badjanov & Li, 2014). However, as a result of the government creating a favorable environment for foreign investment, the non-oil sector has flourished significantly. In particular, the services sector contributes to more than half of the total GDP in the country (CIA World Factbook, n/d). This has certainly had positive implications for the country in terms of economic growth.

The impact of FDI on Kazakhstan can also be viewed from the perspective of employment creation, knowledge transfer, and infrastructural development. When foreign firms become present in a host country, jobs are created for the locals. In addition, since much of FDI comes from developed countries, the host country benefits from knowledge and technology transfer, which are crucial for economic acceleration. Most significantly, FDI is mostly associated with infrastructural development for supporting the state of the art investments foreigners make in host countries (Kalyuzhnova, 2011). Today, Kazakhstan boasts relatively lower rates of unemployment and a higher level of infrastructural development compared to its peers. All these have directly or indirectly supported economic growth.

2 International business operations of Kazakhstan

This chapter analyses the international business operations of Kazakhstan. It mainly examines three key areas. These are Kazakhstan's commercial policy, its export and import performance, and its foreign trade relations (including its bid to accede into the WTO).

2.1 Commercial policy of Kazakhstan

This section explores Kazakhstan's commercial policies. These are export policies and import policies.

2.1.1 Export policies

Kazakhstan is a nation that is dependent on exports. As a result, it has put in place export policies that seek to maximize the country's export potential while at the same time helping the country achieve its political and wider economic goals. As much as possible, Kazakhstan aspires to export its products based on prevailing market prices (Svejnar, 2002).

Although this policy has not been adhered to in some cases, it is mostly the policy of the country regarding exports. The notable exception involves sales of oil and gas to Russia, which gets the products at lower-than-usual prices (Alam & Banerji, 2000). This has been in order for Kazakhstan to advance its multi-vector policy.

The other export policy is that there are duties levied for all exports of oil. These were re-introduced in the year 2010 after having been scrapped in 2009. In the year 2011, these oil export duties were increased. The only oil exporters that are exempted from export duties are those whose contracts include tax stabilization clauses.

Exports of energy products from Kazakhstan are also closely regulated; and there are bans of specified products from time to time. Such bans are often put in place by the decree of the Minister of Energy of Kazakhstan approved by the Ministry of National Economy and the Ministry of Finance. For instance, starting January 2015, there was a six-month ban on all exports (outside the Customs Union) of light distillates and products, middle distillates kerosene, gas oil, diesel oil, and other petroleum products (except for domestic heating oil). The ban aims to shortages of these particular products as well as to help keep their prices low in the domestic market (Aitzhanova et al., 2015).

All products for personal use are exported for free. These include toilet articles, cameras, personal jewellery, clothing, and portable projection devices (among others) (Vakulchuk & Irnazarov, 2014).

There are certain products, however, which are prohibited. These include precious metals such as gold and silver and their associated products; antiquities, objects of art, arms, ammunition, and furs (Pomfret, 2014). The prohibition is meant to help control the prices of these products in the domestic market by controlling their supply. Otherwise, the products are considered to be of national importance and pride. For others (such as arms and ammunition), prohibition is meant to help keep the country secure (Zamanbekov, 2013).

Some other items are prohibited from export unless the relevant government ministry permits them. These include carpets and jewelry items that are not antique. For most goods under this category, verification (in the form of special permits) is required to prove the nature of the item. Furthermore, the exporter might be required to pay certain export duties. The prohibition is aimed at promoting their local use and checking domestic prices (Isakova & Plekhanov, 2012).

Customs duties on the export of goods from the territory of the Republic of Belarus (for crude oil and petroleum products), the Republic of Kazakhstan and the Russian Federation outside the customs territory of the Customs Union, and for each of these Parties have individual lists of headings and the corresponding rates of export duties.

2.1.2 Import policies

From the very outset, it is important to note that on July 1 2010, Kazakhstan became a member of the Customs Union. As a result, most of its import policies – especially those that touch on customs duty – are determined by the Customs Union. Other than customs duties levied, the Customs Union has laws regarding clearance of goods. The fees levied for customs clearance, however, are subject to domestic laws. Therefore, Kazakhstan's customs clearance fee is 60 Euros for the first page of the customs declaration and an additional 25 Euros for each extra page of the customs declaration (Sharshenova, 2013).

Customs duties are generally imposed on all imports of goods and vehicles into Kazakhstan. However, the rates do vary on the basis of the type of imported gods. Furthermore, these rates are often charged on the concerned product's customs value. Imports of good from specified counter are exempted from customs duties (Vakulchuk &

Irnazarov, 2014). In addition, any goods imported into territory of Kazakhstan are subject to the obligatory procedure of certifications printed and signed in both Russian and Kazakh languages. These are pursuant to international treaties, which the country has ratified. For instance, goods imported from within the Customs Union (made up of Kazakhstan, Russia, and Belarus) are exempt from customs duty. Within the Customs Union, uniform customs rules and a common tariff apply. Therefore, the same import customs rates are applied for goods from the Customs Union (Vakulchuk & Irnazarov, 2014).

Persons over the age of 18 are able to import for free certain goods/items from outside of the Customs Union. These include 200 cigarettes or 50 cigars or 200g of tobacco products; 3 liters of alcoholic beverages or wine; and a reasonable quantity of perfume for personal use (Isakova & Plekhanov, 2012).

All goods up to an amount of EUR 1,500 and weighing less than 50kg meant for personal use only, can also be imported for free. In cases where the value or weight allowances are exceeded by residents or foreign nationals, this should be reported to customs and the appropriate forms should be completed (Isakova & Plekhanov, 2012). All goods that have been declared have to be taken back out of the country on departure by all visitors (Pomfret, 2014).

The import ban on certain goods from Russia is growing due to inability to compete with Russian goods since a liberalization of trade between states. Kazakhstan imposed ban on certain alcoholic beverages from Russia in connection with violation of standard requirements for alcohol such as vodka. Even though Kazakhstan imposes bans on some goods imported from Russia, the Kazakh market is still attacked by other insignificant Russian products inflows.

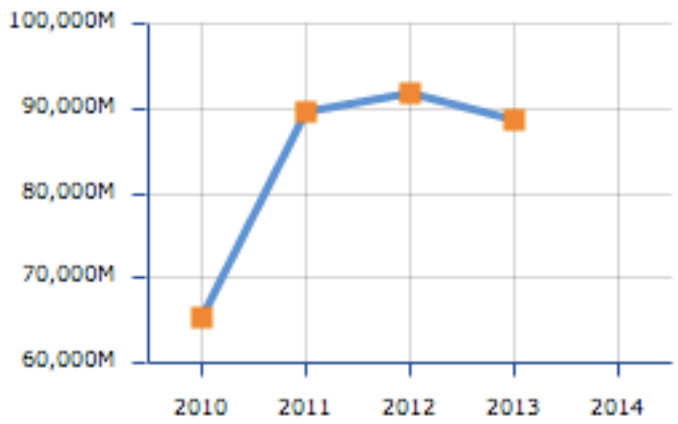
Kazakhstan as other members of CIS signed agreement on the creation of Economic Union to form common market with free movement of goods, services, capital, and labor among CIS countries.

2.2 Export and import performance

In this section of the chapter, Kazakhstan's export and import performance is examined. The exports and imports of Kazakhstan are a major indicator of its balance of trade. Therefore, critical examination of the performance of Kazakhstan's exports and imports is very important in determining the country's indicators in terms of trade both now and in the future. If export partners are not quite dependent on Kazakhstan, then it is likely that the country's exports might reduce in value or lack an appropriate market.

2.2.1 Export performance

As Graph 6 below shows, the exports of goods and services in Kazakhstan account for 88,692 million USD in 2013. This was a decrease from the value of 89,503 million USD registered a year earlier in 2011. But still an increase compared to value of 65,502 million USD in 2010.



Graph 6: Exports, Millions USD (2010-2013). (Source: Global Edge, 2015)

The Agency of Statistics of the Republic of Kazakhstan believes that there has been an overall increase in exports since 1999. The favorable exports of the country have largely been attributed to its being a resource-endowed nation and one that is without a very large population. Kazakhstan has only 17,2 million people (Pomfret, 2014). This is a very small number compared to the vast quantities of natural resources and other resources that the country is endowed with. This means that most of goods and services that are produced locally are exported. This is due to an extremely low local consumption. Actually, a very small market is a major setback for Kazakhstan in terms of competitiveness. However, it is a lack of a large market that has enabled it to be a net exporter (Alam & Banerji, 2000).

Kazakhstan's economy is export-oriented. This is because of the country's heavy reliance on exports (Svejnar, 2002). One of the main exports is oil and related products, which account for 73% of the total exports of the country. These are exported mainly to the EU and China. To export to the EU, most of Kazakhstan's oil and gas products have to go through Russia. This is one major limitation to Kazakhstan's export potential (Sharshenova, 2013).

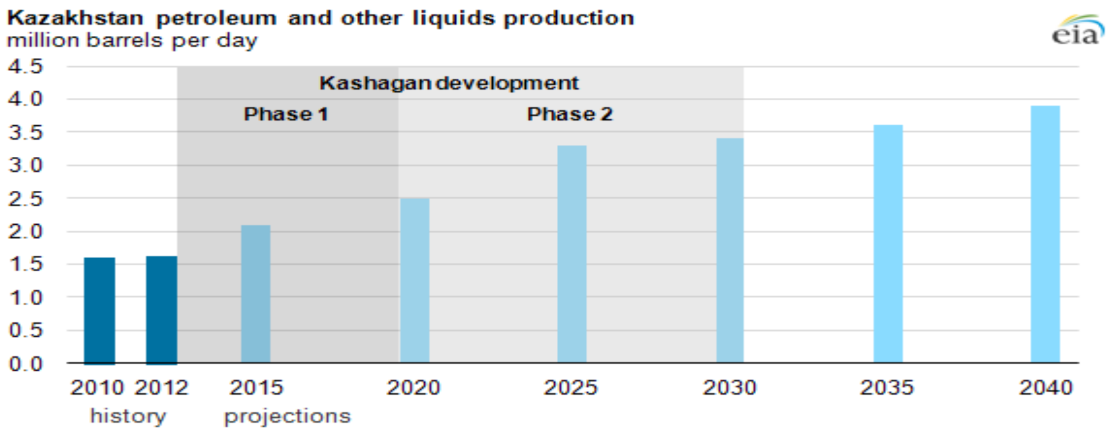
Owing to its lack of appropriate oil and gas infrastructure such as pipelines, Kazakhstan has had to perennially rely on Russian infrastructure to export to key markets in Europe. This has in turn reduced its earnings from these exports because it has to comply with Russian transit policies that are not always favorable (Zamanbekov, 2013).

For instance, Kazakhstan has had to offer Russia oil and gas at prices that are artificially lower compared to the prevailing prices on the international market. Although this is part of Kazakhstan's multi-vector foreign strategy, it is nonetheless still a major hindrance to the country's export and general growth potential (Sharshenova, 2013).

2.2.1.1 Exported goods and services

Kazakhstan exports various goods and services. Oil and related products accounted for approximately 69.88% of all Kazakhstan's total shipments to overseas markets. This value is an increase from that registered in 2012 of about 55% of total exports (Aitzhanova et al., 2015).

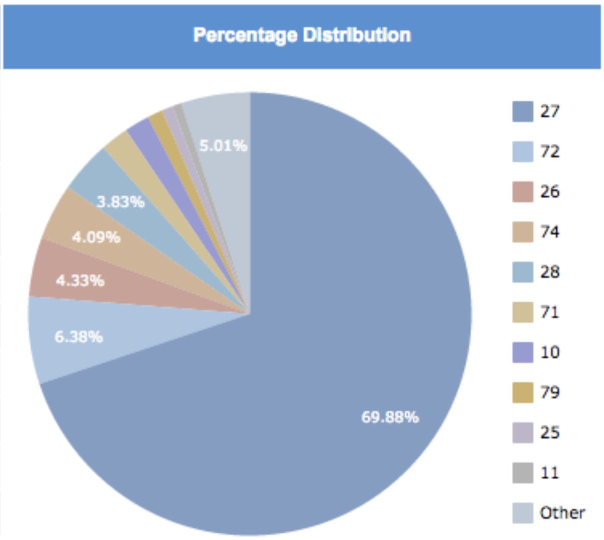
As shown in Graph 7 below, Kazakhstan's production of petroleum and related products has been increasing over time. It is expected that this upward growth in production is bound to increase. By the year 2020, production is expected to reach 2.5 million barrels per day; and this is expected to increase to approximately 3.25 million barrels per day in 2025, 3.4 million barrels per day in 2030, and just less than 4.0 million barrels per day in 2040. Most of this production is to be exported given that the local consumption still remains low.



Graph 7: Production of petroleum and other liquids in Kazakhstan (Source: www.eia.gov US Energy Information Administration, 2015)

Therefore, other than oil and gas and related products, the other major exports of the country include refined copper (4.09%), iron and steel (6.38%), ores (4.33%), copper (4.09%), inorganic chemicals (3.83%), precious stones and metals (2.05%), cereals (1.84%), zinc (1.12%), natural minerals and stone (0.80%), mining products (0.67%), and other (5.01%). Kazakhstan also exports in large quantities livestock and textiles (Vakulchuk & Irnazarov, 2014).

Top 10 Export Goods (by HS Code)	Export Volume ($)
27 (Oil & Mineral Fuels)	$64,485,650,420
72 (Iron & Steel)	$5,890,384,760
26 (Ores)	$3,994,003,170
74 (Copper)	$3,770,430,830
28 (Inorganic Chemicals)	$3,533,895,450
71 (Precious Stones & Metals)	$1,893,374,090
10 (Cereals)	$1,694,925,050
79 (Zinc)	$1,031,579,780
25 (Natural Minerals & Stone)	$742,320,140
11 (Milling Products)	$619,361,110



Graph 8: Traded Goods (Source: Global Edge, 2015)

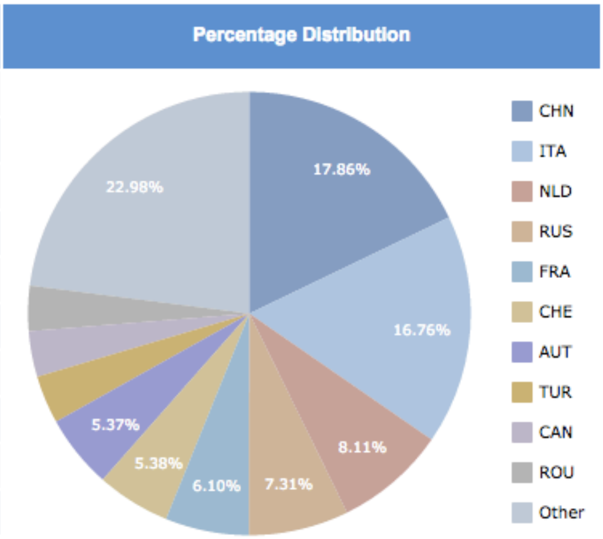
From Graph 8 above, it is clear that Kazakhstan relies heavily on its extractive sector (oil and minerals). The proportion of exports derived from the non-extractive sector is far less compared to that derived from the extractive sector.

2.2.1.2 Main partners for export

Kazakhstan has several export partners from across the world. Since Kazakhstan's primary export is oil and gas, its exports partners are countries, which are heavily reliant on oil as a source of fuel (Pomfret, 2005). However, its rich mineral resources and other natural resources make it an exporter of diverse goods and services to equally diverse nations (Zamanbekov, 2013).

As shown in Graph 9 below, the leading export partners of Kazakhstan, based on 2015 estimates are China which accounts for 17.86% of the exports, Italy which accounts for 16.76% of the total exports, Netherlands which receives 8.11% of the exports, and Russia which accounts for 7.1% of the total exports. The other export partners of Kazakhstan are France (accounting for 6.10% of total exports), Switzerland (accounting for 5.38% of the exports), Australia (accounting for 5.37% of the total exports), Turkey (3.50%), Canada (3.34%), and Romania (3.29%) (Vakulchuk & Irnazarov, 2014).

Top 10 Export Partners	Export Volume ($)
China	$16,484,409,000
Italy	$15,465,718,400
Netherlands	$7,479,432,500
Russia	$6,747,212,050
France	$5,632,973,000
Switzerland	$4,965,170,500
Austria	$4,955,939,300
Turkey	$3,229,013,000
Canada	$3,080,055,700
Romania	$3,033,789,100



Graph 9: Kazakhstan's Trade Partners (Source: Global Edge, 2015)

It can be noted from the Graph 9 above, Kazakhstan has been diversifying its exports and therefore increasing or expanding its export destinations. Similarly, it has been reducing its export reliance on certain markets while increasing others. Notable markets are Russia and China both of which Kazakhstan has tended to export less and less in successive years (Ongdash et al., 2014). Compared leading export partners of Kazakhstan, based on 2012 estimates are China which accounts for 21.0% of the exports, Russia which accounts for 9.9% of the total exports, France which receives 9.3% of the exports, and Germany which accounts for 6.9% of the total exports (Pomfret, 2014).

Although this could be attributed to those countries' decision not to rely on Kazakhstan for their products, it is also likely to be part of the wider Kazakh strategy of seeking a balance between China and Russia on one hand and the West on the other (Sharshenova, 2013). This multi-vector policy has been the hallmark of Kazakhstan's very existence. As a result of being located between very powerful neighbors on all sides, Kazakhstan has set and implemented its economic policies to help it achieve political goals as well (Pomfret, 2014).

In order not to maintain cordial relations with China, Russia, and the West, Kazakhstan has tried as much as possible to maintain its exports to them (Pomfret, 2005). Therefore, it is highly likely that in future the same trend in terms of export destinations will remain fairly unchanged. In essence, Kazakhstan is likely to continue supplying most of its energy resources to China, the EU (and partly the US), and Russia.

The changing volumes and destinations for Kazakhstan's exports could also reflect the changes in the destination countries' energy security strategies. This is a very important issue to consider and one that has ramifications for the future exports of Kazakhstan (Aitzhanova et al., 2015). Any nation that is dependent on another for exports is in at least one way vulnerable to the source country of the exports. This means that as long as Kazakhstan continues exporting in large quantities to China, Russia, and the West, then these nations are dependent on Kazakhstan for the specific exports and therefore vulnerable to it (Pomfret, 2014).

Yet this is not a state or situation that any of these nations want to be in. Politics based on exports are very common and well understood. Each nation, while seeking to access export markets, also aspires not to be very dependent on one source. This explains at least some of the changes in Kazakhstan's export partners and export volumes of key exports such as oil and gas. Today, oil and gas are the world's main sources of energy. Dependence on them means dependence on the few producing countries (Pomfret, 2014).

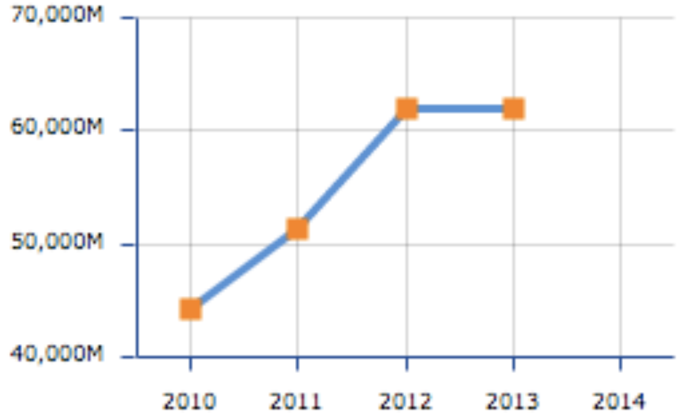
Therefore, Kazakhstan can be sure to continue seeing changes in the volumes of oil and gas exported to these three countries over time. It can also expect to see some of these nations either increasing their imports of Kazakhstan's oil and gas or reducing and even ending such imports altogether. It all depends on the specific countries' priorities (Sharshenova, 2013). For Kazakhstan, however, diversifying its exports and finding alternative markets for oil and gas is imperative if it has to maintain its competitive advantage in the export trade.

2.2.2 Import performance

In spite of its wide variety of exports, which have made it one of the major export nations in the region, Kazakhstan is not self-sufficient. Instead, it also relies on imports of goods and services to supplement those goods and services produced locally or cover those not produced locally. As such, the country has its own imports and exports partners (Isakova & Plekhanov, 2012).

2.2.2.1 Imported goods and services

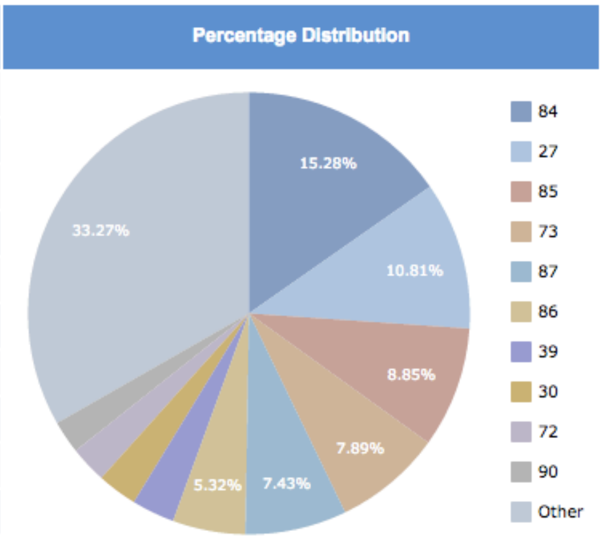
According to Year 2013 estimates, the imports of Kazakhstan amounted to – or were valued at – 61,902 million USD. Kazakhstan's imported goods include mainly machinery and equipment, foodstuffs, and metal products (Isakova & Plekhanov, 2012).



Graph 10: Exports, Millions USD (2010-2013). (Source: Global Edge, 2015)

As shown in Graph 10, the main imports of Kazakhstan in 2015 were industrial machinery accounting for 15.28% of the total imports, oil and mineral fuels 10.81% of imports, electrical machinery accounting for 8.85%, iron and steel accounting for 2.79% of the total imports of the country. The others are transport equipment, which accounted for 12.75% of the imports; plastic accounting for 3.14%, pharmaceuticals for 2.92%, precious instruments for 2.39%, and other accounted for 33.27% of the imports.

Top 10 Import Goods (by HS Code)	Import Volume ($)
84 (Industrial Machinery)	$6,806,655,690
27 (Oil & Mineral Fuels)	$4,814,039,040
85 (Electrical Machinery)	$3,940,517,220
73 (Iron & Steel Articles)	$3,514,205,798
87 (Motor Vehicles & Parts)	$3,309,111,230
86 (Railway Equipment)	$2,369,972,200
39 (Plastics)	$1,397,442,940
30 (Pharmaceuticals)	$1,298,442,090
72 (Iron & Steel)	$1,204,677,690
90 (Precision Instruments)	$1,066,428,257



Graph 11: Traded Goods (Source: Global Edge, 2015)

From Graph 11, it can be noted that the country actually mainly imports those products that it does not produce locally. Since Kazakhstan has a lot of minerals and other natural resources, most of the products it imports are not natural resources. In fact, most imports are products not derived from natural resources (Ongdash et al., 2014).

Furthermore, most of the imports are finished products that the country needs for consumption – including foodstuffs and beverages, electronics, and machinery. Unless Kazakhstan diversifies its economy to reduce its overreliance on natural resources, it is highly likely that it will continue importing finished products and few raw materials to help support the growing foreign investments (Pomfret, 2014).

2.2.2.2 Main partners for import

The main import partners of Kazakhstan are Russia, China, Ukraine, and Germany. In terms of dependence, Kazakhstan depends on Russian imports to a tune of 38.42%, on Chinese imports to a tune of 16.83%, on Ukrainian imports to a tune of 6.56%, and on German imports to a tune of 5.10%. These estimates are for the year 2015 that are also slightly different trading partners compared to year 2012 as in case of export trading partners mentioned before.

Top 10 Import Partners	Import Volume ($)
Russia	$17,110,459,435
China	$7,497,716,200
Ukraine	$2,922,953,200
Germany	$2,270,489,500
United States	$2,119,807,600
Italy	$959,222,900
Korea, South	$956,685,600
Japan	$904,849,000
Uzbekistan	$817,199,900
Turkey	$786,137,800

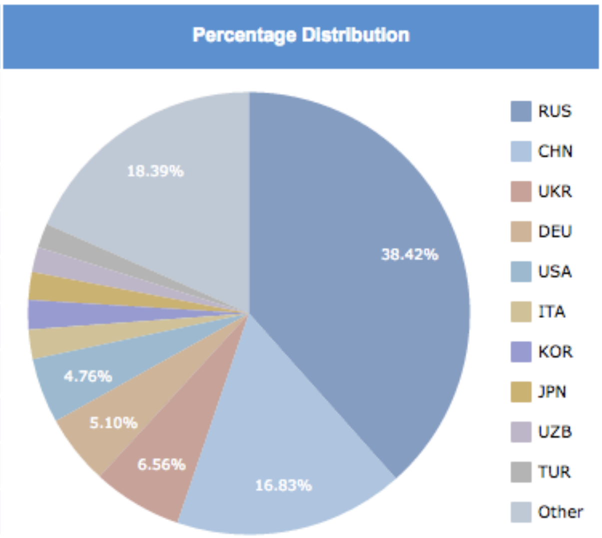


Table 11: Kazakhstan's Trade Partners (Source: Global Edge, 2015)

From Table 11, it is evident that the dependence of Kazakhstan on some import partners has increased while for others it has decreased. For instance, dependence on Russian imports has increased while dependence on China has decreased. Imports from China have reduced from 26.6% in 2012 to 14% in 2014. The imports from Russia increased from 31.6% to 41%. The changes could indicate Kazakhstan's efforts to reduce dependence on nations outside the Customs Union whose imports are more costly for the country.

The increase in dependence on imports in general could be attributed to an increase in foreign investments (Aitzhanova et al., 2015). Furthermore, imports could be increasing because as the country rids itself of dependence on Russia and other states that were members of the former Soviet Union, it has to find alternative ways of getting the products that were previously made available to it from these partners (Isakova & Plekhanov, 2012).

Other than the above reasons, another possibility for this change could be Kazakhstan's pursuance of its multi-vector foreign policy. This policy seeks to please both Russia and China while at the same time keeping close ties with the US and the rest of the Western World (Pomfret, 2014).

It is no wonder, then, that there are new entrants in Kazakhstan's import partners. Kazakhstan might have decided to balance its imports such that all the dominant players in international politics, trade, and investments get to benefit. This could be a move aimed at ensuring that neither the US on one hand nor China and Russia on the other feel left out by Kazakhstan (Pomfret, 2014). Therefore, importing evenly (or as close to even as possible) from all three could be the only way available for Kazakhstan.

2.3 Foreign trade relations and World Trade Organization (WTO)

Kazakhstan has been an active advocate of and participant in a number of international trade organizations and treaties (Vakulchuk & Irnazarov, 2014). That is, Kazakhstan participates in international trade relations with other countries with a view of better positioning itself to both compete and benefit from a global world that is more interconnected than ever before (Vakulchuk & Irnazarov, 2014).

Kazakhstan has also been involved in partnership and relations with other countries and groups of countries. In fact, it has been participating in a number of free trade agreements with several nations and blocs of nations. The most notable bloc of countries that Kazakhstan has been relating with is the European Union (EU). With the EU, Kazakhstan has trade and economic relations. Other than the EU, Kazakhstan has also been dealing with the Commonwealth of Independent States (CIS) (Teal, Toxanova & Izzo, 2011); the Economic Cooperation Organization (ECO) for promotion of cultural, technical and economic cooperation; the Eurasian Economic Community (EurAsEC) based on economic-trade cooperation between participants; Asian Cooperation Dialogue (ACD) to create a cooperation based on mutual interests; and Customs Union (Ministry of Foreign Affairs, 2015).

2.3.1 Accession to the WTO

Kazakhstan has been quite instrumental in its quest to accede to the World Trade Organizations. The country is optimistic that it is ready and prepared to open up its domestic markets to goods and services from other WTO member states. It also believes that it stands to benefit a lot more if it accedes to the WTO than if it does not. This explains its continued quest to get membership in the organization that is largely dominated by Western states (Burkitbayeva & Kerr, 2014).

Joining the WTO might not be as good and beneficial as Kazakhstan might be thinking, however. In fact this is an issue which a number of Kazakh nationals are already rising. Contrary to assurances by the government of Kazakhstan that WTO accession would mean greater trade and more foreign investments, the people – especially domestic investors – are wary that membership in the WTO could be the start of the problems for the country's otherwise flourishing economy (Szulczyk, 2013).

These citizens argue that opening up domestic markets as is the requirement of WTO will effectively destroy local industries as they lack the capacity to compete effectively with the more developed industries of major WTO member states. There is therefore every possibility that Kazakhstan stands to lose just as it stands to gain (Szulczyk, 2013).

A more realistic outcome will be that the local industries will struggle even as goods and services from other member states of WTO flood in. Nations like China, which have comparatively cheaper costs of production, are likely to benefit more from such a move by Kazakhstan. Chinese imports – which are quite cheap abroad in part because of the low value of the Chinese Yuan – are likely to flood the Kazakh market and therefore erode the value of Kazakh's own products. Unless Kazakhstan manages to restructure its economy and reduce its dependence on oil, gas, and minerals, it will most likely not experience favorable trade in the near future (Pomfret, 2014).

In the event, if Kazakhstan manages to accede to the WTO, it will be able to reap benefits from the organization if it is gradually opening up its domestic markets. This is the only sure way of guarding against the very adverse effects of accession to the WTO and realizing benefits thence. It will be about ensuring that there are sufficient restrictions to make the domestic economy cope with the expected strong inflow of foreign products. Kazakhstan will need a national strategy that is well developed in order to ensure that it significantly improves its domestic competitiveness. Without such competitiveness, it stands to lose by joining the WTO at the moment (Teal, Toxanova & Izzo, 2011).

Definitely, Kazakhstan is fairly very competitive even at the moment. This is because it has been able to keep its economy fairly open to foreign investors. However, this level of competitiveness currently enjoyed by Kazakhstan might not be sufficient to shield it enough from the negative effects that come with joining the WTO (Burkitbayeva & Kerr, 2014).

A good starting point for the country, therefore, would be to accede to the WTO in phases that would take five years to complete. This would mean that it takes time to open up its domestic economy, removing restrictions to trade gradually and not all at once. A five-year transition period would ensure that the country adequately prepares for the changes that are expected while at the same time experimenting with these changes on smaller scale. This transition is especially important to enable Kazakhstan align its trade and economic policies with those of the WTO (Burkitbayeva & Kerr, 2014).

Kazakhstan is as yet not considered a participant in the WTO. However, it has been working to ensure that it realigns itself with the mandates and policies of the WTO (in anticipation of its member ship in the organization). This has been demonstrated by its collaboration with the EU on the issue of policy realignment. The EU has been advising Kazakhstan on how best to go about this to achieve greater benefits and minimize the losses. For instance, Kazakhstan's trade legislation has been made to conform to the requirements of the WTO as contained in its agreements. Furthermore, accelerated trade integration by Kazakhstan means that it has been intensifying its efforts to join the WTO. Such accelerated efforts are good for the country's preparation (Mizik, 2011).

Moreover, Kazakhstan has the benefit of having almost all of the major WTO member states supporting its bid to accede. This means that they have confidence in the country's ability to meet the laid-down procedures and rules. Although a few areas remain to be in disagreement with WTO rules – notable among them telecommunications, hindrances to foreigners' work permits, and finance – these are expected to be resolved over time (Burkitbayeva & Kerr, 2014).

Having noted that, it is worth adding that the very decision by Kazakhstan to become a member of the Customs Union together with Russia and Belarus has actually hindered its prospects of acceding to the WTO. This is contrary to general belief that such greater integration would expedite its accession to the WTO (Mizik, 2011).

The Customs Union is a hindrance to Kazakhstan's bid to accede to the WTO because it means that the policies of not just Kazakhstan but also of the entire Customs Union have to be in conformity with those of the WTO (Mizik, 2011). Considering the other two members of the Customs Union, it is practically impossible for Kazakhstan to as much as influence – let alone actually change – these countries' trade policies. Kazakhstan can only change its own policies; and this leaves the policies of Russia and Belarus to themselves to change if they indeed want to (Sharshenova, 2013).

Although Russia has constantly supported Kazakhstan's WTO bid and would therefore be expected to help it achieve that quest by making its own domestic policies to be aligned with those of the WTO (Mukan, Rayev & Tokmirzayeva, 2013). In short, as long as Kazakhstan is not in full control of its own trade policies but these policies are also controlled by Russia and Belarus, it might not get the nod to join the WTO (Burkitbayeva & Kerr, 2014).

2.3.2 Trade and economic relations with the EU

Of all the trade and economic relations that Kazakhstan has, relations with the EU are the most significant. Starting in the year 2002, Kazakhstan's trade and economic relations have been intensifying and expanding. Currently, the EU is Kazakhstan's largest trading partner. This has seen the exports of Kazakhstan to the EU accounting for over 40% of the total exports of the country (Pomfret, 2014).

In the year 2007, the main exports of Kazakhstan to the EU were mainly oil and gas, which accounted for 80% of total exports to the EU. The EU, in the year 2007, is estimated to have imported goods and services whose total value was €13.35 billion and €1.52 billion respectively. In return, Kazakhstan imported from the EU goods and services valued at €6.04 billion and €1.92 billion respectively (Anceschi, 2014).

As the above statistics show, Kazakhstan benefits more from its relationship with the EU. This is especially because it exports more goods to the EU than the EU exports to it. In terms of services, however, the EU exports more services to Kazakhstan compared to those it imports. This gives the EU an upper hand in trade in services while Kazakhstan has the upper hand when it comes to trade in goods (Nicholson, Cardais & Ryehauge, 2014).

Another area of cooperation between the EU and Kazakhstan other than trade is investment. In total, Kazakhstan had approximately $7.3 billion of foreign direct investment in the year 2006. Of these, at least half were from the EU. It is partly due to Kazakhstan's great importance to the EU especially in terms of energy supply that the EU has been a keen supporter of Kazakhstan's accession bid into the WTO. The EU understands that WTO membership for Kazakhstan will enable it to better negotiate its energy needs with Kazakhstan based on internationally agreed standards (Grigoriadis, 2014).

In the year 2014, over half of the total trade of Kazakhstan was conducted with the EU. This trade alone accounted for $53.4 billion in 2013 and $28.4 billion in the first half of 2014 in export earnings. As has been noted before, FDI is another area where the EU and Kazakhstan have been major partners. In the year 2014, over half of the gross foreign direct investment of Kazakhstan came from countries that are member states of the EU. This accounted for approximately $100 billion (Nicholson, Cardais & Ryehauge, 2014).

Kazakhstan has also been investing heavily in the EU even as the EU invests in Kazakhstan. A number of Kazakh companies from different sectors of the economy have been increasingly investing in the EU. In the year 2007, for instance, Kazakhstan's state-owned oil company (KazMunayGas) was able to acquire a controlling stake in Rompetrol, a Romanian refining company. This acquisition was worth approximately $2.7 billion. Ever since, KazMunayGas has continued to invest heavily in the development of Rompetrol (Nicholson, Cardais & Ryehauge, 2014).

Still in the area of oil and gas, which is Kazakhstan's main contributor to the economy, there have been partnerships and cooperation between the EU and Kazakhstan (Nazarbayev, 2014). A more recent area of cooperation has been in the development of appropriate infrastructure that would see oil and gas transported from Kazakhstan to Europe a lot more cheaply and with limited time (Stoddard, 2013). This has seen the two sides partnering in the construction of new oil pipelines that are aimed at transporting oil both to Europe and China within a shorter time (Nicholson, Cardais & Ryehauge, 2014).

The new transcontinental transport routes are to give a very powerful impetus to the cooperation between the EU and Kazakhstan (Aizhan, 2013). A notable route to this effect is the Western Europe-Western China transport corridor. This transcontinental transport route runs through Kazakhstan and is expected to help cut the time taken to for Kazakhstan to deliver oil and gas to Europe and China by half. This is when this new route is compared to the existing seaborne transport (Stoddard, 2013).

Aside from the Western Europe-Western China transport corridor, Kazakhstan has also been a key participant in yet another critical alternative route from Central Asia and the Caucuses to Europe. This route, referred to as the EU's Transport Corridor Europe-Caucasus-Central Asia, is also expected to help reduce the period of time that it takes to deliver oil and gas from the Central Asia region and the Caucuses to Europe (Stoddard, 2013). Both projects are given priority because of the heavy dependence that the EU has on energy from the Caucuses and Central Asia (Nicholson, Cardais & Ryehauge, 2014).

While not always directly stated, the EU's increased cooperation with Kazakhstan in the area of energy (specifically oil and gas) has been in part driven by the EU's desire to reduce its overreliance on Russian energy. Russia, though a substantial supplier of gas to Europe, has proven to be a less reliable energy partner especially because of political interests tend to overshadow economic ones (Nicholson, Cardais & Ryehauge, 2014).

The EU therefore sees in Kazakhstan a partner that is not just economically more reliable but also politically more stable (Luecke, 2011). Pegging the EU's energy future on such a more stable partner is far better than relying on Russia, which is very volatile and politically and economically unpredictable. Therefore, it is evident that the EU's economic cooperation with Kazakhstan aims to achieve many objectives other than just economic gains (Osińska, 2012).

As has been noted, the need for petroleum by the EU has especially been the hallmark of cooperation between the EU and Kazakhstan. This means that the most prominent area of cooperation between the EU and Kazakhstan is the energy industry. As of 2014, Kazakhstan was the EU's third largest supplier of energy among the non-OPEC states. This is after Russia and Norway (Grigoriadis, 2014).

It is expected that cooperation in the energy sector will expand and continue in days to come. This is especially so given the increased interest that EU companies have in exploration activities in Kazakhstan. These activities, though generally covering the whole country, have especially been concentrated in the Kashagan oil field, which is by far the largest field in the Caspian Sea (Stoddard, 2013).

Even as cooperation between the EU and Kazakhstan in the energy sector continues, Kazakhstan has been seeking to solicit the help of the EU to diversify its otherwise oil-dependent economy. The country hopes to achieve this by adopting a new green policy where it seeks to derive over half of its energy from renewable sources such as solar and wind come the year 2050 (Aitzhanova, Katsu, Linn & Yezhov, 2014). At the moment, only 1% of the total energy produced in the country is from green, renewable sources. Therefore, the country has been optimistic that its relations with the EU will help it achieve the goal (Aitzhanova, Katsu, Linn & Yezhov, 2014).

To help realize the goal, Kazakhstan has been hosting various exhibitions with international participation being emphasized. Through these exhibitions, Kazakhstan hopes to be able to attract important EU companies to invest in alternative green energy solutions. The country is scheduled to host EXPO 2017 whose theme is "Future Energy". Through this expo, European companies are among those expected to take part (Zamanbekov, 2013).

In order to ensure that economic and trade ties between the EU and Kazakhstan bring about the maximum benefits possible, both sides have been working to fast rack and generally ease the movement of not just goods and services but also labor across their borders (Grigoriadis, 2014). More recently, Kazakhstan has been able to implement a number of measures that are aimed at reducing or even eliminating visa restrictions for investors and other people from the EU and the wider Europe (Anceschi, 2014).

This measure has seen visa-free policies being implemented by Kazakhstan in 2014. This targeted a number of EU states and the US. These include the UK, France, the Netherlands, Italy, and Germany. This free and unrestricted entry of people from these select EU states and the US is regarded by both Kazakhstan and the EU as a critical one in fostering and strengthening their mutual partnership (Pomfret, 2014).

Bilateral economic and trade relations between the EU and Kazakhstan have been conducted under the legal framework known as the Partnership and Cooperation Agreement (PCA) with Kazakhstan. This legal framework came into force in 1999 and has remained in place ever since. Enhanced cooperation between Kazakhstan and the EU in the field of energy was realized when the two sides signed a Memorandum of Understanding on cooperation in the field of energy in the year 2006 (Anceschi, 2014).

Going forward, European Commission (EC) assistance is set to focus on priority areas of the cooperation. These include the promotion of ongoing reform processes at social, political, judiciary, and economic level. The other priority areas are building of infrastructure and energy sector cooperation (Grigoriadis, 2014).

All other future cooperation objectives, priority fields, and policy responses between the European Commission and Kazakhstan are contained in the EC Regional

Strategy Paper for Central Asia 2007–2013 (Szulczyk, 2013). This paper also covers similar relations between the EC and the rest of Central Asia. Kazakhstan has also been a key participant in various ongoing regional programs. This is in addition to assistance under the Development Cooperation Instrument (DCI) (Nicholson, Cardais & Ryehauge, 2014).

On Tuesday, March 3, 2015, the Cooperation Council between the EU and Kazakhstan was able to hold its fourteenth meeting. This meeting was held under the chairmanship of Kazakhstan's Foreign Minister Erlan A. Idrissov. At the meeting, the delegation from the EU was led by the Foreign Minister of Latvia (Edgars Rinkēvičs). It was at the meeting that the EU reaffirmed its commitment to support Kazakhstan’s bid to join the WTO (Anceschi, 2014).

Realizing that the future of economic and trade relations and partnerships between the two sides are dependent on the mutual security of both Kazakhstan and the EU, the two have also been emphasizing the need for enhancing security and promoting educational, social, and cultural cooperation. In terms of security, cooperation between the two sides has emphasized the need to face and fight mutual security threats jointly so as to foster economic and trade cooperation. Both sides have underscored the need there is for true peace and tranquility if trade and investments have to thrive (Nicholson, Cardais & Ryehauge, 2014).

Therefore, cooperation in the area of security is more or less a secondary one aimed at strengthening trade and investment. To this end, Kazakhstan and the EU have been cooperating since 2013 with the specific aim of achieved greater security. This cooperation, conducted within the EU-Central Asia High Level Security Dialogue framework, has its greatest emphasis on achieving stability in Afghanistan. Both the EU and Kazakhstan believe that the stability of Afghanistan is paramount for their own security. Kazakhstan has worked jointly with the EU to help provide education to a number of Afghan students. They have also been supporting efforts to ensure improved coordination of international efforts in Afghanistan (Nicholson, Cardais & Ryehauge, 2014).

Generally, the whole of Central Asia finds itself right on the frontlines in the global fight against religious extremism and other forms of terror. Groups such as the Islamic State particularly present this new threat. Kazakhstan and the EU believe that they need to work together to help enhance religious tolerance and pluralism in Kazakhstan (Osińska, 2012).

Another more recent security threat – and one that threatens the economic and trade cooperation between the EU and Kazakhstan – is the ongoing crisis in Ukraine. This crisis has pulled in other players that are not directly involved, notable among them Russia and the EU. While Russia supports the Ukrainian rebels, the EU supports the government of Ukraine. Since the EU relies on Russia for gas to a very large extent, this conflict is threatening the EU's energy security. It has therefore been imperative that the EU relates more closely with Kazakhstan or it risks becoming more energy insecure (Grigoriadis, 2014).

Both the EU and Kazakhstan have been working together to bring about an amicable end to the conflict. Both believe that a future Ukraine that is friendly to both the EU and Russia is what should be achieved. All these issues are now covered within the new PAC (Anceschi, 2014).

Kazakhstan and the EU have also realized the importance of cultural cooperation in fostering good trade and economic relations. Without cultural cooperation, it is not possible for the two sides to cooperate effectively in trade and other economic aspects. This is because trade and investment (a key economic aspect) are largely dependent on how well the participants know each other. To this end, the EU needs to understand the way of life of Kazakhs just as Kazakhstan has to learn about European culture and education (Grigoriadis, 2014).

To bring these issues to convergence, the EU and Kazakhstan have extended their cooperation to cover cultural issues. Today, the EU and Kazakhstan have very strong (and expanding) social and cultural ties. The area of education has especially been given priority. The Bolashak International Scholarship Program in Kazakhstan has been used to help talented Kazakh students study in the EU and other best schools in other parts of the Western world (Nicholson, Cardais & Ryehauge, 2014).

European universities have particularly been recipients of Kazakh students. In the year 2010, Kazakhstan became the first ever post-Soviet state to fully take part in the Bologna Process. The Bologna Process seeks to harmonize the education systems and bring them together. This is with a view to creating what is known as a European Higher Education Area. Through the new CPA, these already existing ties have been strengthened and new ones have been built (Nicholson, Cardais & Ryehauge, 2014).

2.3.3 Customs Union

Kazakhstan belongs to Customs Union (the Russia-Belarus-Kazakhstan customs union). This Customs Union is commonly referred to as the Eurasian customs union; and it came into being on 1 January 2010 (Tarr, 2012). At the time, it consisted of only three states namely Russia, Belarus, and Kazakhstan. Since January 1 2015, however, the customs union has been expanded to include Kyrgyzstan and Armenia (Tarr, 2012).

The original treaty on which Customs Union was based was terminated following the adoption of an agreement that established the Eurasian Economic Union, which was signed in 2014. This agreement incorporated the Customs Union into the legal framework of the EU. The Eurasian Customs Union's launch was meant to serve as the first step in efforts to form a broader EU-type economic alliance consisting of all the former Soviet states (Tarr, 2012).

Initially, all the member states had to continue integrating and later remove all their customs borders between each other. The deadline for this was July 2011. A joint Commission was put together on 19 November 2009 to help foster closer economic ties with an initial plan to create a Eurasian Economic Union by 2015. A single economic space whose purpose was to be promotion of further economic integration was set up on 1 January 2012 by the three states. Currently, the Eurasian Economic Commission acts as the regulatory agency for the Customs Union as well as the Eurasian Economic Community (Tarr, 2012).

The decision of Russia, Kazakhstan and Belarus to establish a customs union led to significant changes in trade policy that affected the degree of integration of the three major countries of the CIS. While all the three member states of the Customs Union have benefitted immensely from it, Kazakhstan has benefited even more given that it is an export-dependent country. The Customs Union has especially helped the country to significantly lower the costs of doing business within its territory as well as the costs of its exports abroad. Within the Customs Union, all exports are guaranteed a zero rated tariffs. Another guarantee is that there are exemptions in the form of refunds of all excise taxes as long as there is enough documentary evidence provided to prove that the exports were actually carried out (Tarr, 2012).

However, the three countries have devised a formulary of sharing the import duties levied on the goods they import into the Customs Union. Russia provides 87.95% of all the customs import duties levied; Belarus provides 4.7%, while the remainder is provided by

Kazakhstan. This arrangement has helped the three countries shield themselves from the adverse effects created by high costs of imports (Tarr, 2012).

One of the anticipated benefits from the creation of Customs Union was to attract more FDI. Kazakhstan is considered to be an attractive destination, for example, for those investors who wish to enter the Russian market, but not ready (due to the investment climate or other reasons) to make direct investments in Russia. Within the Customs Union, therefore, Kazakhstan has been able to import all that it requires at a constant import duty (all the remainder is provided by the other member states). This has especially made Kazakhstan to be a key destination for foreign investors. Foreign investors operating in Kazakhstan are therefore able to import goods from outside the Customs Union at a flat rate. Imports from within the Customs Union are not levied import duty (Tarr, 2012).

Another major advantage for Kazakhstan is that movement of its people within the Customs Union is not restricted. It means that visa restrictions have been abolished and Kazakhs can visit Russia and Belarus without travel visas. This free movement of goods, services, capital and people has really revolutionized Kazakhstan's other sectors of the economy. Being able to travel to Russia and Belarus without limitations has opened the doors for greater exchanges and transfers of labor within the three countries (Tarr, 2012). This has in turn boosted economic growth in Kazakhstan.

The Russia-Belarus-Kazakhstan customs union has not been without its own measure of challenges and criticism. One of them is that especially the West has constantly criticized Russia for giving the other member states a raw deal. This is based on Russia's continued levying of import duty on imports from Belarus and Kazakhstan (Tarr, 2012).

To counter any such a threat, Kazakhstan has continued to trade with Russia while at the same time cooperating with the US on a myriad of key global issues of interest to the US (Pomfret, 2006). A notable area of cooperation between the US and Kazakhstan has been – and continues to be – the war on terror. Kazakhstan was one of the few countries in Asia to agree to provide logistical support to the US-led war on terror. This it did by offering the US a military base for use in the Afghanistan War (Kim, 2012).

Many other aspects associated with the activities of the Customs Union arise from the breakdown of the old systems and often even a lack of new once. These problems are inherent to any transitional period, which might last for about 3-5 years before the creation of set of documents, guidelines, and standards can effectively lead to a solution of the problem posed to the Union. Another important drawback is the threat of reducing the competitiveness of domestic goods relative to the Belarusian and Russian. Thus, it might be more difficult for the Kazakh workers to operate and compete towards other participants in the market. However, the competition might also improve the business processes of the Kazakh businessmen.

Another negative aspect is the rise in prices. Due to an increase in customs tariffs, there is the rise in prices for goods from third countries. In fact, some of Kazakh products are cheaper than Russians, which means that Kazakh producers have a real competitive advantage to the Russian or Belarusian.

2.3.4 Commonwealth of Independent States (CIS)

Kazakhstan is a member of the CIS. The development of relations with the CIS countries including multilateral integration cooperation with these countries is the main priority of foreign policy of Kazakhstan. In 1994, the CIS countries have taken steps of transition to a multilateral free trade regime on the basis of the relevant Agreement to establish a free trade zone. However, the CIS countries failed to develop and agree on a multilateral basis of a common list of exemptions from the free trade regime provided by the Agreement. Therefore, in the CIS countries signed in 1999 the Protocol on Amendments to the Agreement on the establishment of a free trade zone has been established that the exemptions from the free trade regime, with temporary, can be applied on the basis of bilateral documents. The process of an economic integration of the CIS countries is complex and controversial due to a different level of economic development of the states and the discrepancy of certain political and economic interests of the states.

The integration followed by the creation of new organizational structures and mechanism of interaction. This was primarily the creation of the CIS Anti-Terrorist Center. Another aspect was a notable issue with regard to the CIS is Kazakhstan's role in the fight against illegal drugs (Yeager, 2012). Kazakhstan has consistently been used as both a source and transit point for illegal drugs such as Cannabis and opium. In fact, the production of both drugs in Kazakhstan has remained to be an issue of international concern from as way back in time as the Soviet days. According to estimates (1998) by the United Nations Office on Drugs and Crime, as much as 1,517 tons of cannabis was harvested in Kazakhstan (Yeager, 2012). Since these drugs get sold to other CIS member states, this has negatively affected Kazakhstan's relations with them (Mizik, 2011).

The problem that Kazakhstan finds itself in is that the illegal trade in these drugs erodes its image in terms of transparency. Because of the inability or unwillingness of the country to fight the illegal trade, Transparency International has consistently ranked it among the corrupt nations in the world. As low, a score as 2.2 out of ten has been given Kazakhstan to show just how corruption has hindered efforts by the government to deal with the drug issue and other issues undermining transparency (Yeager, 2012).

Other than cooperation on crime prevention, Kazakhstan has not benefitted much from the CIS (Pomfret, 2006). An attempt to form the CIS free trade area has not been entirely successful. This is partly because members of the CIS – including Kazakhstan – take part in other free trade arrangements such as the Customs Union. As such, most of the benefits that Kazakhstan accrues from CIS are similar to those accrued from its participation in the Customs Union (Pomfret, 2006).

To sum up, the objectives of the Commonwealth of Independent States were to create cooperation between member states in the political, legal, cultural, environmental, and other areas of cooperation in order to ensure an international peace and security. In addition, the creation of a common economic space ensuring cooperation and integration in interests of a comprehensive and balanced economic and social development of its members. Importance the CIS is a mutual assistance in order to create peaceful living conditions of the people and ensure collective security. The CIS influences on a peaceful settlement of disputes and conflicts between the participating countries and gives the ability for free communication, contacts, and movement for its citizens within the countries of the Commonwealth.

2.3.5 Impacts of Kazakhstan on international trade

As a major source of exports, Kazakhstan has had a very big impact on international trade. This is especially in the areas of oil, gas, and minerals. The fact that the country ranks top (or among the top) in the production of these key natural resources makes it to have a lot of impact on the nature and direction of international trade (Mizik, 2011).

A notable impact that Kazakhstan has had on international trade is influencing the amount of oil and gas available on the international market and therefore the price of oil and gas. Generally, the price of oil and gas on the international market depends on the supply (Pomfret, 2014). As a result of Kazakhstan's contribution of oil and gas to the international market – the supply of which is not restricted or placed under quotas by OPEC – the global prices of these products have tended to be relatively stable (Kenzhebayeva, Toiganbayeva & Akhmetova, 2014).

The same effect has been felt in the export of minerals in general and important minerals such as gold, silver, diamonds, and Uranium in particular. Generally, international trade in these minerals depends to a significant extent on Kazakhstan's own production and export. Reduction in the quota supplied by Kazakhstan always drives up global prices. Therefore, Kazakhstan has been a very important player in international trade, impacting it in many ways (O'Neill, 2014).

3 Analysis of Kazakhstan's competitiveness

Kazakhstan is one of the most competitive countries not just in Central Asia but also in the whole world. This is attributed to a number of factors, which are discussed in this chapter. As a whole, though, this chapter undertakes an analysis of Kazakhstan's competitiveness as a country. This includes analyzing its business and investment prospective; the developmental challenges it faces; improvements of goods, labor, and finance markets efficiency; and its future growth prospects.

3.1 Business and investment perspective

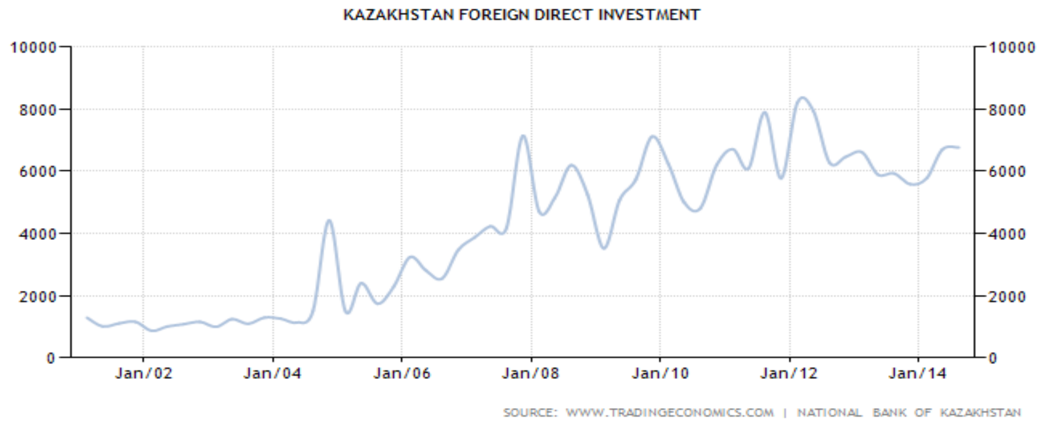
Kazakhstan has emerged to become one of South Asia's most competitive nations in terms of international trade and general commerce and investment. Internationally, the country is ranked 49th in terms of ease of doing business (Epstein & Portillo, 2014). As a result of this very favorable ranking, Kazakhstan has the potential to attract a lot of foreign direct investments in future just as it has been the case in the past.

According to the 2014 Economic Freedom Index made public by the Washington DC-based Heritage Foundation, Kazakhstan has been able to gain 22 economic freedom points in the last 17 years. This shows that the country has been among the most improved in terms of performance (Epstein & Portillo, 2014). This is because such an improvement is among the best ever recorded by any country. Kazakhstan was position 11 in the Asia-Pacific region. This was out of 42 countries. The overall score of the country was above not just the regional average but also the world average. Such openness is likely to attract business and investments from across the world.

In the same vein, the World Economic Forum in Global Competitiveness Report for the year 2010-11 ranked Kazakhstan in position 72 in the whole world in terms of economic competitiveness. Just a year later in 2012, yet another report – the Global Competitiveness Report – ranked Kazakhstan in position 50 in terms of the most competitive markets. These rankings underscore Kazakhstan's high level of competitiveness in various aspects of the economy – including trade and investment (both direct and indirect investments). This gives the country the potential of attracting massive foreign investments from across the world because investors will certainly keep looking for investment destinations that are very competitive.

Future competitiveness of Kazakhstan can be best ascertained by examining its competitiveness in the recent past and at the present. As shown in figure 13, the fixed investments of the country increased by 7.1% to reach a total of 2.8 trillion tenge or $18 billion US dollars in 2013. This was compared to the same period the preceding year. In the year 2012, the country also attracted a total of $14 billion worth of foreign direct investment inflows. This was a 7% growth rate and this made Kazakhstan the most attractive place to invest in out of all the CIS nations (Epstein & Portillo, 2014). This trend is likely to persist even as the competitiveness increases.

Overall, Graph 12 shows that Kazakhstan's inflows of foreign direct investments have been on an increase since January 2002. This growth can be attributed to the country's generally favorable investment and business climate driven by economic and trade policy reforms.



Graph 12: FDI inflows for Kazakhstan. (Source: Trading Economics)

In the year 2011, the Doing Business Report ranked Kazakhstan in position 59 worldwide. This means that the country was number 59 in terms of having a favorable climate for doing business. This high-ranking gives the country an upper hand in business compared to many in the region (Aitzhanova et al., 2015).

Actually, the same Doing Business Report ranked only one other country in the region above Kazakhstan. This country, at position 54, was Azerbaijan. The rest of the Central Asian nations were much lower compared to Kazakhstan. Not even China – which has a poor record in terms of protection of intellectual property – was close by. After Kazakhstan, the other states in region were Belarus at position 68, China at position 79, Russia at position 123, Ukraine at position 145, and Uzbekistan at position 150 (O'Neill, 2014). This shows that Kazakhstan is likely to remain a leading business destination in future.

In a related rating by the Center for the study of Global Competitiveness of the International Institute for Management Development (IMD), Kazakhstan once again excelled more than most of its regional counterparts. According to IMD ratings contained in the World Competitive Yearbook (for the year 2010), Kazakhstan was position 33 behind China, which was at position 18. Russia was at position 51 while Ukraine was at position 57 (Kenzhebayeva, Toiganbayeva & Akhmetova, 2014).

Therefore, it can be clearly noted that Kazakhstan – small and unpopular though it is – has the potential of competing almost on the same level as major world powers such as China, which are better established economically. For Kazakhstan to be ranked superior (or only slightly behind China) is a real vote of approval for its competitiveness as a future business destination. Generally, these international ratings show the confidence that the whole world has a given country and therefore their willingness to do business with and in the country (Aitzhanova et al., 2015).

Kazakhstan's strategic location close to large markets also makes to have great business and investment potential. This is because proximity to large markets as China, the EU, India, and Russia make sit more competitive globally. As a result, it is likely to attract businesses and investments from not just Central Asia but also the EU, China, India, Russia, and even the Middle and Far East.

More specifically, Kazakhstan is likely to continue being a continental bridge for goods moving from East to West as well as those from South to North. This is because the country links the Asian continent to Europe and the Far East, bringing together the world's leading and key markets such as China, India, Russia, and the EU. Basically, three out of the four BRIC countries are located next to, or in close proximity with, Kazakhstan. These are China, Russia, and India (Kalyuzhnova, 2006).

The Asian continent and Europe are two major world business centers. Kazakhstan sits abreast both of them. In fact, while the country is officially in Asia, some of its regions are geographically in Europe (specifically the smaller part west of the Ural River). As such, Kazakhstan serves – and will continue serving – as the main transit point in the region. Almost all goods passing from East and the South will continue going through it (Kim, 2012).

With Kazakhstan being home to three out of the four Eurasian railway lines, it is likely to make the movement of goods through it quite expedient and possible. It takes only about 10 days and a distance of 8,445km for goods to be transported on land from Western Europe to Western China (through Kazakhstan). The sea route, which is about

24,000km long, takes 30 -35 days (Laruelle & Peyrouse, 2012). These railway lines are likely to continue boosting the country's competitiveness in terms of being a link to other markets.

In the year 2010, Kazakhstan joined the Kazakhstan-Russia-Belarus Customs Union. The Customs Union has an estimated market capacity of over 170 million people and a combined GDP of nearly $2 trillion. As a member of the Customs Union, Kazakhstan's competitiveness in business, commerce, trade, and general commerce has increased significantly and is likely to continue increasing. Membership in the Customs Union has effectively given the country greater market capacity that it could not have attained operating outside it. This is especially where trade with and investment from other members of the Customs Union is concerned.

Kazakhstan has been able to create for its investors and potential investors a market that is more attractive and which has a total of over 170 million people (Tarr, 2012). This large market offers the country with an easy market where it can sell its numerous exports. Furthermore, this extended Customs Union will enable the country to have easier access to imports that it needs to supplement its own domestic production. Within the Customs Union, Kazakhstan will have an enhanced position that will effectively make it open to many possibilities for effective investment projects.

That aside, Kazakhstan now has access to a unified customs territory. This means that its exports to other states in the Customs Union are uniformly levied or taxed in terms of customs taxes. With a uniform trade policy and a uniform customs code only possible with the Customs Union, Kazakhstan has been able to reap more trade- and investment-related benefits. Furthermore, the customs area has allowed the country to participate in free trade of goods as long as it is within that customs area (Tarr, 2012). These benefits are bound to increase in future even as more integration in the Customs Union takes place.

Finally, the free movement of goods, services, labor, and capital made possible within the Customs Union is likely to add to the competitiveness of Kazakhstan. This is because such free movement will reduce the overall cost of doing business and therefore make the products of the country more competitive in other nations outside the customs area.

In terms of monetary issues, Kazakhstan has performed well in managing its monetary policy. This has especially been noted in its success in taming inflation especially in the wake of the country's heavy reliance on natural resources such as oil, gas, and minerals (Epstein & Portillo, 2014). In the year 2001, for instance, it took the prudence of the country's monetary policy to ensure that strong foreign currency inflows were properly managed without the risk of triggering inflation.

Therefore, Kazakhstan's competitiveness is largely going to be brought about by its very favorable business climate. For instance, the high inflows of FDI serve as evidence that the investment climate in the country is going to remain favorable. FDI inflows are an indicator of the investment climate in a country (Epstein & Portillo, 2014). High levels of FDI inflows show a favorable investment climate while low FDI inflows show that the country is not a favorable investment destination. Between 1993 and 2010, Kazakhstan was able to attract approximately $118 billion worth of FDI (Kenzhebayeva, Toiganbayeva & Akhmetova, 2014). This shows that FDI inflows in the country are likely to keep growing.

Another major attraction for Kazakhstan is its vast natural resources. So endowed with natural resources is the country that it ranks sixth in the world in terms of having the largest reserves of natural resources. These resources include oil, coal, iron ore, Uranium, bauxite, copper, lead, silver, gold, molybdenum, chrome, and zinc. These vast resources are also found in very large quantities.

This is in part the result of the country being quite massive and with a fairly low population. With only about 17 million people and a land area whose size is much larger than that of the whole of Western Europe (Kazakhstan's total land area is 2,724,900 square kilometers or 1,052,100 square miles), Kazakhstan has a very low population density (less than 6 people per square kilometer or 15 people per square mile) (Pomfret, 2014). This has provided ample room for the discovery and exploitation of a variety of natural resources.

The vast land area that is not occupied serves as a natural habitat for the country's many natural resources. Even more important, the low population density and the vast land available increases prospects for investors seeking to channel their investments in key sectors of the economy such as minerals, agriculture, oil and gas, and even real estate. The huge land also means that the initial costs of setting up for foreign companies investing in the country will continue being comparatively low. This is because costs associated with acquiring land often form a large part of the total cost of investing in foreign countries.

The other competitive advantage that Kazakhstan could have is that all its vast mineral and fossil fuel resources will most likely remain easily accessible (Kalyuzhnova, 2006). This is the reason why the country has been able to attract many foreign investors; and is therefore enough reason to attract more investors in future. In fact, petroleum, natural gas, and minerals have attracted most of the Kazakhstan's over $40 billion worth of

FDI since 1993. This value accounts for about 57% of the total industrial output of the country (approximately 13% of GDP) (Aitzhanova et al., 2015). It means that oil and gas sectors are likely to be the leading destinations for investments in the country.

Yet, development of oil and gas will not be the sole areas for future investment. The minerals deposits of the country are in very high quantities, meaning that it will be quite profitable to invest there too. The country has the world's second largest reserves of some of the key minerals. These include zinc, lead, chromium, and uranium (Luecke, 2011).

Starting in the year 2010, Kazakhstan became the world's leading exporter of uranium. It has the third largest reserves of Manganese in the world and the fifth largest reserves of copper in the world. Kazakhstan is also ranked among the top ten counties in the terms proven reserves of gold, iron, and coal. Even more attractive for the country is that it is a leading exporter of diamonds (Luecke, 2011).

Kazakhstan is also endowed with large deposits of phosphorite. The Karatau basin is the largest with over 650 million tones of P_2O_5. Next is the Chilisai deposit of Aktyubinsk/Aqtobe phosphorite basin found in northwestern Kazakhstan. This one has resources of 500–800 million tones of 9% ore. All these huge and accessible reserves of very important minerals – coupled with ownership of the world's 11th largest reserves of petroleum and natural gas (Luecke, 2011) – make Kazakhstan a very attractive destination for investors in the minerals sector both now and in days to come.

Oil and gas are the natural resources for which Kazakhstan is most widely known and which are likely to contribute immensely to its future attractiveness and international competitiveness as a destination for foreign investments. The country has a total of 160 deposits, each having over 2.7 billion tons of petroleum (Luecke, 2011). In fact, the oil explorations conducted so far in the country reveal that the petroleum deposits found in the Caspian shore form only a very small part of a much larger deposit. As much as 3.5 billion tons of oil and 2.5 trillion cubic meters of gas are believed to be available in the same area. In total, therefore, Kazakhstan's oil reserves could amount to 6.1 billion tons (Kalyuzhnova, 2006). This is the more reason why it is likely to continue attracting investors and other businesses in the area of oil and gas.

Other than natural resources, the competitiveness of Kazakhstan lies in its very stable macroeconomic environment. This stable macroeconomic environment has seen the country's economic performance improve across most – if not all – indicators. One notable economic indicator is economic growth. Kazakhstan's economy is one of the largest in the world and also between the fastest growing. Within Central Asia, the economy of Kazakhstan is both the largest and the strongest in performance (Luecke, 2011).

In the decade leading up to the year 2014, the economy of the country grew at an average rate of 8% per annum. As a result of the high oil and gas prices, the country's GDP grew by between 8.9% and 13.5% between the years 2000 and 2007. This rapid economic growth declined slightly in 2008 and 2009 to between 1% and 3%. This decline can be largely attributed to the global financial crisis, which greatly and negatively affected global demand for commodities – including oil and gas (Ruziev & Majidov, 2013).

When the crisis ended, however, the country's economy began growing again starting in 2010. As a result of this fast growth largely buoyed by high prices of oil and gas on the international market, Kazakhstan was able to fully repay its debt owed the IMF. It was therefore the very first country from the former Soviet Republics to ever do so; and this it did a full 7 years before the scheduled time (Ruziev & Majidov, 2013).

Going forward, therefore, Kazakhstan is likely to attract more businesses and investments as a result of its proven track record in terms of economic growth. With the economy of the country projected to keep growing, this will attract more investors to the country in addition to fuelling business growth.

Kazakhstan's stable macroeconomic environment has also been underscored by the very stable fiscal situation. Generally, the policies of the government make the country to be an attractive destination for investments, trade, and general business. The government has consistently pursued a very conservative fiscal policy that has been characterized by close control of budgetary spending and accumulation of oil revenue savings in its Oil Fund (Samruk-Kazyna) (Kalyuzhnova, 2006).

It is indeed true that the country was negatively affected by the global financial crisis, which forced it to significantly increase public borrowing in order to keep the economy from collapsing. In spite of this stress scenario, however, the government was able to achieve an overall fiscal surplus amounting to 4.5% between the years 2012 and 2013 (Kenzhebayeva, Toiganbayeva & Akhmetova, 2014). This shows that the country's economy is likely to remain resilient even in times of stress. Therefore, this is likely to be a major attraction for businesses and investors keen on investing and doing business in countries with less exposure and higher capability to deal with global economic crises.

Another very strong area of success in fiscal and monetary policy in Kazakhstan is the successful management of interest rates. The Kazakh government has been able to keep interest rates low without causing inflation. This policy was adopted in the year 2002 and is still in place. In future, therefore, the country is highly likely to manage interest rates effectively without causing inflation. This will in turn attract businesses and investors keen to utilize the stable macroeconomic environment that will no doubt continue prevailing in the country.

To underscore Kazakhstan's competitiveness in terms of a stable macroeconomic environment, the country was granted market economy status by the US Department of Commerce (under the US trade law) in March 2002 (Aitzhanova et al., 2015). This was in recognition of the country's very substantive reforms in a number of areas that had direct influence on the overall functioning and openness of the Kazakh economy. These areas include wage rate determination, convertibility of currency, openness to foreign investments, and government control over both allocation of resources and means of production (Pomfret, 2005).

In the same year (2002), Kazakhstan's competitiveness as a nation was clear when it became the very first nation in the CIS to be given an investment grade credit rating. That this was from a major credit rating agency means the country was indeed performing well in its economic approaches in general and handling of foreign debt in particular. The rating also means that the country is – and will most likely remain being – among those with a favorable investment and business climate.

By the end of the year 2003, the country had a gross foreign debt of about $22.9 billion. The corresponding total governmental debt was $4.2 billion, 14% of GDP. Overall, Kazakhstan has experienced a reduction in its government debt to GDP ratio over time. This ratio stood at 21.7% in the year 2000. However, it dropped to 17.5% in the next year; and fell further to 15.4% in the year 2002 (Pomfret, 2005).

Graph 13 below shows that the external debt of Kazakhstan has been increasing at least starting in the year 2000. In January 2000, the external debt was approximately 10,000 million US dollars. This rose to about 30,000 million USD in 2005 and then further to 117000 in 2010. By January 2015, it was 155000 million USD. Therefore, Kazakhstan's international indebtedness has continued to increase. How, this is no cause for concern because the country's debt can be offset by its equally high value of exports.

Graph 13: The external debt of Kazakhstan (USD million). (Source: Trading Economics, 2015)

The general government finance has also dramatically improved from the budget deficit level of 3.5% of GDP experienced in 1999 to a deficit of 1.2% of GDP in the year 2003. This was attributed to economic growth as well as a combination of earlier tax and financial sector reforms. Between the years 1999 and 2001, the revenues of the government increased from 19.8% of GDP to 22.6% of GDP. However, they reduced to 16.2% of GDP in the year 2003. In order to consolidate the gains made in these areas, the country was also able to adopt a new tax code in the year 2003 (Pomfret, 2005).

The bottom-line with regard to Kazakhstan's macroeconomic environment is that it is very stable; and this is likely to be an incentive for business and investments. In future, investors and business operators from Central Asia, the wider Asia-Pacific region, India, Russia, China, Europe, and even as far as the US are bound to rely on the prevailing favorable and stable macroeconomic environment in Kazakhstan to invest in and do business with the country.

Another key area in the future competitiveness of Kazakhstan is likely to be the tax rate. In order to generally lower tax rates in the country, there was – On 29 November 2003 – an adoption of the Law on Changes to Tax Code. As a result of this law, various key taxes went down significantly. More specifically, Value Added Tax (VAT) reduced from 16% to 15%. Social tax dropped from 21% to 20% while personal income tax went down from 30% to 20% (Pomfret, 2005).

Personal income tax was reduced further in July 2006 to a flat rate of 5% for personal income that is in the form of dividends and 10% for other forms of personal income. The country's reforms were taken a step further when on 20 June 2003 a new land code was adopted. This was preceded by adoption of a new customs code on 5th April 2003 (Epstein & Portillo, 2014). With these lowered taxes, Kazakhstan is likely to be an attractive destination for investments and business in future.

Investors in general and foreign investors in particular are also likely to receive better protection in Kazakhstan. This protection will make the country to be among the most desirable investment destinations in the world. Returns on investments – which are the major determinants of investors' willingness to invest in a given venture or place – are dependent in part on the guarantee that investments will be protected. This means that countries that generally offer protection for investments tend to attract more investors than those, which have a bad record in terms of protection of investments (Aitzhanova et al., 2015).

Kazakhstan has been given an index of 5.5 when it comes to strength of investor protection (World Bank, 2013). This puts it in second position ahead of New Zealand whose investor protection index has a strength value of 9.7 out of 10. Still, Kazakhstan performs much better in terms of investment protection compared to other countries in the region such as Russia (5.3), Tajikistan (5.3), Ukraine (4.7), and Moldova (4.7) (World Bank, 2013).

Since these favorable trends in terms of protection of investors are sure to prevail for longer, Kazakhstan will remain to be a leading destination for investments from al over the Asia-Pacific region, Europe, and the Middle East. This is especially because nations from these regions have been the leading sources of foreign investment to the country in the past and are extremely keen on investor protection.

To show that Kazakhstan has the potential of remaining a leading destination for foreign investments in future, it has been working in partnership with other countries across the world to ease restrictions on investments and generally ensure that investments are protected. One very effective way through which this has been done is the signing of mutual investment protection agreements with these countries (World Bank, 2013).

By the year 2012, Kazakhstan had signed a total of 44 such mutual investment protection agreements with different countries. These include the US, India, Russia, Ukraine, Switzerland, Germany, Spain, Italy, the UK, France, China, and Korea. Essentially, Kazakhstan has a mutual investment protection agreement with the world's leading sources of foreign investment. This is an assurance by Kazakhstan to these countries that they will be able to invest in Kazakhstan without having to worry about the risk of losing their investments (Epstein & Portillo, 2014).

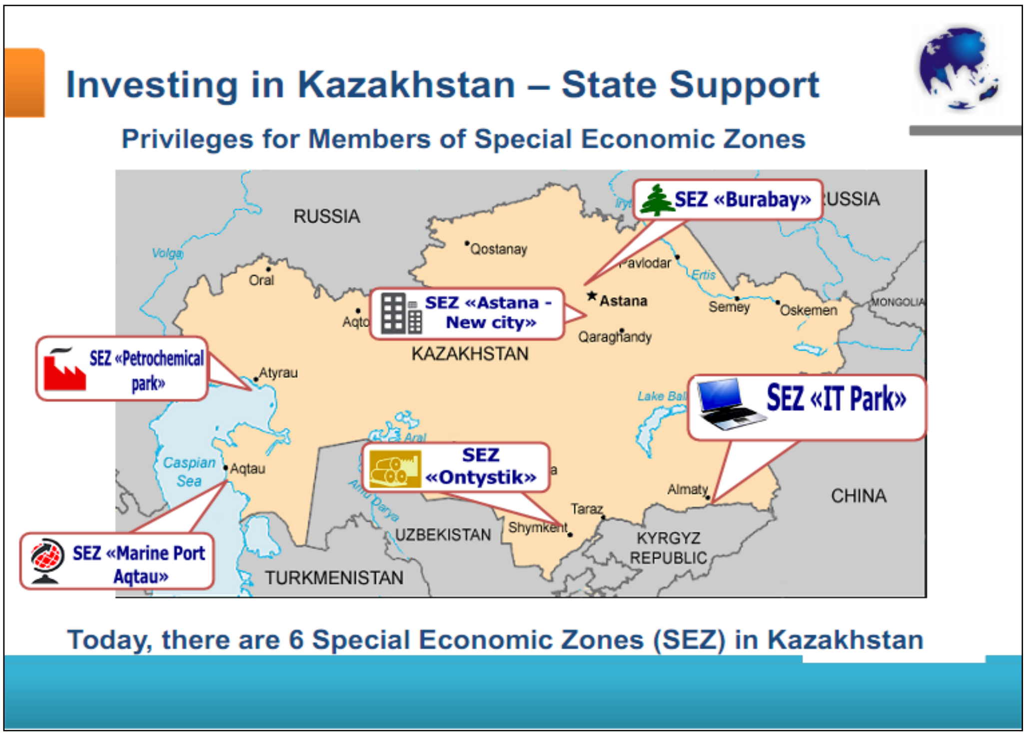
Other than the mutual investment protection agreements, Kazakhstan has gone a step further and made itself a more attractive destination for foreign investments by ensuring that investors are assured or guaranteed that their investments will be safe. This has been done in part by granting foreign investors national status. This effectively means that there are no distinctions between foreign and domestic companies. Instead, all companies, foreign and domestic, receive equal treatment from the state and both work under the same conditions.

The existence of the country's Foreign Investors Council under the chairmanship of the country's president has helped promote direct dialogue between foreign investors and the Government of Kazakhstan. This has in turn helped expedite various processes related to foreign investments in the country. The Council has also helped address critical investment-related issues that foreign investors in the country are faced with. These investment protection guarantees are expected to be key future attractions for foreign investors from all over the Western World, the Middle East, and the Asia-Pacific region.

With development of the country's economy being part of the key agenda of the Council, it has been quite easy for Kazakhstan to realize great investment growth owing to this Council's existence. By the year 2012, the Council had 29 foreign companies taking part in its activities (Epstein & Portillo, 2014).

There are three main instruments of investor support in Kazakhstan. The first one is the use of economic incentives for investors (Auty, 2001). Under this instrument, investors have been given special economic zones as well as offered investment preferences. The special economic zones allow the investors to operate under most favorable conditions (privileges). These include exemption from corporate tax, a customs-free policy, and exemption of tariffs on selected goods and services (specifically those offered in SEZ territory and those made or consumed in activities that are related to the creation of the SEZ).

The other privileges include 40% in the marginal rate of depreciation used for IT software, and 0% to the mid-year cost of taxable products when calculating the tax for property. As of the year 2012, there were 6 Special Economic Zones (SEZ) in the country (Aitzhanova et al., 2015).



Graph 14: Kazakhstan's six Special Economic Zones. (Source: KazNex, 2015)

According to Graph 14, six SEZs are present in the country. They are evenly distributed across the country to ensure that every region is able to attract investors. These SEZs have helped investors to take advantage of the investment opportunities in the country.

Investor preferences, on the other hand, are measures that ensure that all investors are given certain preferences. These include being granted national treatment (treated as though they were domestic investors) and sometimes offered tax holidays. Other types of investor preferences include being exempted from customs duties for imported equipment and its components (as long as they are meant for implementation of the investment project); tax incentives; natural grants; and deductions (Aitzhanova et al., 2015).

Those who qualify for investor preferences are current as well as potential investors (Auty, 2001). However, these preferences are offered based on terms and conditions. The main conditions are that only those investments channeled into priority sectors of the economy can benefit from the investment preferences.

The second investor support instrument is institutional support. This is where the Special Permanent Commission on Foreign Investment is set up to basically ensure that investors are taken good care of and are in turn operating based on the rules. This is essentially the OMBUDSMAN equivalent for investors (Aitzhanova et al., 2015)

The third instrument for investor support by the state is called service support for investors. This is undertaken or overseen by the National Export and Investments Promotion Agency, which has been described as a one-stop shop for all investors. All three-support instruments have helped Kazakhstan achieve competitive advantage over most of its competitors in the region in the area of foreign investment, trade, and general commerce (Aitzhanova et al., 2015).

With these investor support programs in place, it is expected that there will be almost no limit to the number and variety of foreign investments seeking to come to Kazakhstan in future. As a result of these clearly very favorable investment conditions not found in most other nations in Central Asia, it is highly likely that Kazakhstan will attract more investors from different places. It is possible that other than its traditional sources of foreign investments (China, Russia, the EU, and the US), more foreign investments are likely to come from the Gulf states, the Greater Middle East, India, Japan, and even North Africa. Key areas of investment will most likely remain to be oil and gas, minerals, and manufacturing.

3.2 Development Challenges

One major challenge to the country has been managing huge inflows of FDI without sparking inflation (Kenzhebayeva, Toiganbayeva & Akhmetova, 2014). The risk of inflation under such circumstances is usually very high. These strong inflows of foreign currency threaten to cause inflation as the amount of money in supply increases out of step with the supply of actual products and services to support them.

However, thanks to the country's superb monetary policies, inflation has been avoided even in the face of increasing FDI inflows (Epstein & Portillo, 2014). To this end, the government should be lauded for managing to keep inflation under control. Although this control has not been entirely very successful, it has been generally favorable for a country with such strong foreign currency inflows (Epstein & Portillo, 2014).

The other challenge pertains to Kazakhstan's lack of a large domestic market. With slightly over 17 million people, the country's domestic market is quite small compared to the vast populations of most of its other neighbors and business and investment competitors. They include China, Russia, and the EU. If Kazakhstan could have a larger market, it could clearly have had better business and investment prospects (Laruelle & Peyrouse, 2012).

It is not that Kazakhstan's very small population relative to that of its major competitors has worked to lower its competitiveness entirely. Instead, it is just being used for comparison purposes with major world economies with which Kazakhstan has been competing in terms of business, trade, and foreign investment.

In essence, the inability of Kazakhstan to offer a large market for global products has in a way hindered it from competing on an even platform with the likes of the EU, the US, and China (Kim, 2012). In terms of global competiveness, however, Kazakhstan is proving to be doing even much better than some of these global economic giants. This makes the country to be among the most attractive destinations for trade, investment, and general business (Kim, 2012).

The other major challenge facing the country and one that has tended to negatively affect its competitiveness is that it lacks sufficient petroleum infrastructure. The most notable one is refineries (Auty, 2001). The country only has three refineries located in the cities of Atyrau, Pavlodar, and Shymkent. The three refineries lack the capacity needed to process the large volumes of crude oil produced daily in the country (approximately 1,540,000 barrels or 245,000 m^3 per day in 2009). As a result, much of the country's crude oil has had to be exported to Russia for refining.

3.3 Future growth prospects

Kazakhstan has very favorable prospects for growth. The economy of the country may not grow as fast as it has done in the last decade. However, it will keep growing even if this is at a slower pace than before. This is largely because the country has managed to implement appropriate macroeconomic policies and economic reforms which have made it to become quite competitive (Khaki & Malik, 2013).

This competitiveness relative to many of its competitors in the region gives it better prospects of growth. With one of the most open economies in the world and its dependence on exports, Kazakhstan is likely to keep attracting foreign investments. As it has done before, Kazakhstan is likely ride on the strong exports and foreign investments to grow its economy (Kenzhebayeva, Toiganbayeva & Akhmetova, 2014).

There are caveats to the growth prospects of the country, though. The first one is that growth will depend on the performance of its key exports. Since the country is heavily dependent on oil and gas, its future growth is pegged on the prevailing prices of oil and gas on the international market (Kenzhebayeva, Toiganbayeva & Akhmetova, 2014).

If oil and gas prices keep rising as they have been doing up until around mid 2014, then Kazakhstan's growth prospects are positive. However, if the prices of oil and gas continue falling, as has been the trend lately, then growth prospects are not as promising. In essence, the growth of Kazakhstan is dependent on the performance of oil and gas prices on the international market. Since Kazakhstan – being a non-member of OPEC – has no or little control over the price of oil and gas, its growth will simply take the direction taken by global oil and gas prices (Epstein & Portillo, 2014).

The other caveat has to do with whether or not the country will accede to the WTO. Accession in the WTO, while beneficial in the long-term, is surely going to have negative growth impacts on Kazakhstan in the short-term. This is because as yet Kazakhstan has not put in place all the mechanisms necessary to make its economy resilient enough to withstand the pressures that come with opening up its economy to the rest of the WTO members (Kenzhebayeva, Toiganbayeva & Akhmetova, 2014).

Therefore, short-term growth will surely be absent if Kazakhstan accedes to the WTO but will be realized if it does not. On the other hand, long-term growth prospects are likely to be favorable if the country's WTO bid succeeds. If it fails, growth might still be realized in the long-term as long as the economic reforms currently being implemented are maintained or even expanded.

3.4 Improvements of goods, labor, and finance markets efficiency

In the year 1998, Kazakhstan embarked on an ambitious pension reform program, which has come to greatly influence the country's performance in terms of the financial sector as a whole (Auty, 2001). By the year 20-12, the pension's assets were valued at $17 billion or KZT 2.5 trillion. That same year, the number of saving pension funds was 11.

The privatization in 2006 of the country's only state-owned pension fund (State Accumulating Pension Fund) paved the way for significant reforms in the pension fund. Currently, for instance, the pension funds of the country are overseen and regulated by the unified financial regulatory agency. There has been a big increase in demand for pension funds for quality outlets. This has in turn triggered the rapid development of the debt securities market (Khaki & Malik, 2013).

As a result, pension funds capital has been invested almost exclusively as government and corporate bonds. This includes Eurobonds belonging to the government of Kazakhstan. There is a study currently underway by the government whose aim is the creation of a unified national pension fund into which all the accounts from the private pension funds could be transferred.

In terms of banking, Kazakhstan has not been left behind either. The banking system has been rapidly developing; and this has seen its capitalization exceeding $1 billion (Khaki & Malik, 2013). In order to strengthen the banking sector, deposit insurance has been introduced by the National Bank (Epstein & Portillo, 2014).

However, there is a risk of loss of stability in the banking sector owing to troubling and non-performing bad assets. Still, the country plays host to a number of major foreign banks. Such banks with branches in Kazakhstan include HSBC, Citibank, and RBS. Other major that are in the Kazakh market include Kookmin and UniCredit both of which have been able to enter by way of acquisition and stake-building (Epstein & Portillo, 2014).

Conclusion

The purpose of this research paper was to evaluate the main trends and the position of Kazakhstan in foreign trade. A comparison of global demand and the Kazakh proposal was identified for the export and import potential. Macroeconomic trends, exports and imports, and foreign trade relation are the main indicators for the disclosure of Kazakhstan's performance and the current position of the country in the system of world trade.

Kazakhstan’s performance economically is fairly good. The country has been able to significantly transform its economy from the time it became independent. Kazakhstan has especially continued implementing several micro- and macroeconomic reforms that are geared towards ensuring that it attains and maintains competitiveness in the Central Asian region. Compared with other states in the region, Kazakhstan is considered being the most favorable country to attract attention of foreign investments.

Economic diversification is still a major challenge. The country’s economy is still very heavily dependent on the petroleum sector. Apart from oil and gas and related products, Kazakhstan’s other major sectors are still those that rely heavily on natural resources such as minerals. This has posed a challenge with regard to diversification. As a result, the country’s exposure to the Dutch disease has remained. This means that its immense wealth derived from natural resources, while helping expand the economy, are hindering the development of other industries.

Kazakhstan’s exports did not represent a strong change since year 2011 and 2013 as well as the mostly unchanged situation shown in import operations. However, there is a change shown in major export and import partner countries. Due to the membership in organizations, Kazakhstan’s trade partners vary along with the amount of exported and imported goods to or from the country.

The growth and expansion of foreign economic relations has a strategic importance for Kazakhstan, because it contains two fundamentally important issues. On the one hand, the foreign economic relations contribute to the country’s economic problems at the expense of attraction and effective use of foreign capital and Kazakh resources. On the other hand, the foreign economic relations play an important role in getting Kazakh economy out of the crisis since the anticipated growth of the domestic economic system, industry, agriculture, and other. In addition, foreign economic activity helps strengthen the international position of Kazakhstan, the integration of the Kazakh economy into the global economic system, and acceleration of the improvement in the welfare of Kazakh citizens.

Joining the WTO, Kazakhstan expects to have a specific set of benefits from membership in the global World Trade Organization. But there are some concerns: what will be the influence on the domestic market of goods and services along with the current economic life of the country after the accession to the WTO. Kazakhstan is being an active participant in many of integration associations, trying to become a full participant in the global economy and to develop its external economic relations by engaging in various regional associations.

From the perspective of the EU partnership enlargement, basically means to strengthen political ties and encourage democratic processes in Kazakhstan, which will result in a long-term stability of the country and its development. Kazakhstan hopes to gain greater international recognition and greater access to the European market.

Participation in the processes of globalization implies a solution to one of the most acute problems of global governance - the problem of collective action at the international level and division of global responsibility. Prerequisite for increasing the effectiveness of global economic governance in Kazakhstan and the former Soviet Union countries are the need to strengthen existing international structures and the development of institutional structures that link global commitments to national priorities. A consequence of the formation of a customs union was to enhance competition in the common market and the food market of agricultural raw materials, especially grain, flour, meat and dairy products among member countries.

For Kazakhstan, it is necessary to improve the institutional framework of a market economy, increase its transparency and reduce corruption, and to focus on technology and innovation development of the country. Taking into account the objective of improving the competitiveness of the country it is also necessary to raise living standards, increase an employment growth, reduce unemployment, and raise productivity.

Corruption and lack of enforcement of the law have also hindered the country's economic development. Corruption is rampant and has been a major obstacle to public sector growth. The general weakness in enforcement of laws has also remained a challenge. Although laws have been enacted and are in place, poor or no enforcement has made them to be of no real value to the country.

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Graphs/Tables