



MINISTRY FOR FOREIGN  
AFFAIRS OF FINLAND



# Aid for Trade Needs Assessment – Kazakhstan TRADE AND HUMAN DEVELOPMENT





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AFFAIRS OF FINLAND



*Kazakhstan*

## Aid for Trade Needs Assessment – Kazakhstan

### Trade and Human Development



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The **Aid for Trade** agenda is one of the most important development-related outcomes of the 2005 WTO Ministerial Conference in Hong Kong. It targets developing countries through strengthening their productive capacities, trade-related infrastructures and the ability to compete in regional and global markets. Trade plays an important role in development, although the relationship between trade and human development is not automatic. In order to be inclusive, trade has to be set in a human development framework. It needs to be conceived as a tool to enlarge the abilities and choices of people.

The Aid for Trade initiative covers the following categories:

- Trade policies and regulations;
- Trade development;
- Developing productive capacities;
- Trade related adjustment, and;
- Other trade-related needs.

UNDP's regional **Aid for Trade project** '*Wider Europe: Aid for Trade for Central Asia, South Caucasus and Western CIS*', financed in the context of Finland's Wider Europe Initiative, focuses on the identification of capacity gaps and technical assistance needs both at the national and sub-regional level in Central Asia, South Caucasus and Western CIS and support to the economic development in the areas located along the selected transport corridors, helping small entrepreneurs to gain from new trade opportunities.

The **Wider Europe Initiative** is Finland's harmonised regional development framework. The initiative targets the following themes: security, trade and development, information society development, energy and the environment and social sustainability. The framework includes three regional cooperation programmes - in Eastern Europe (Belarus, Moldova and Ukraine), the South Caucasus (Armenia, Azerbaijan and Georgia) and Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan).

The **Needs Assessments** produced under the Aid for Trade project form part of a long-term vision of developing trade capacities, which will benefit human development in the region. The recommendations presented are expected to constitute the basis for a second phase (2011 – 2013), focusing on the implementation of the recommendations developed in the national and regional Needs Assessments.



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**ACRONYMS**

AB	Agribusiness
ACC	Agrarian Credit Corporation
AfT	United Nations Development Programme's Aid for Trade Initiative
ADB	Asian Development Bank
AMS	Aggregate measure of support
BRIC	Brazil, Russia, India, China
CB	Central Bank
CC	Chamber of Commerce
CCL	Commodity code listing
CCT	Common Customs Tariff
CIF	Cost, insurance, freight
CIP	Committee on Intellectual Property Rights
CIS	Commonwealth of Independent States
CPI	Consumer price index
CU	Customs Union
EBRD	European Bank for Reconstruction and Development
ECA	Export Credit Agency
EU	European Union
EurAsEC	Eurasian Economic Community
FAO	United Nations Food and Agriculture Organisation
FDI	Foreign Direct Investment
FEA	Foreign economic activities
FEZ	Free Economic Zone
FMSA	(See RK FMSA)
FOB	Free on board
GATT	General Agreement on Tariffs and Trade
GCT	General Customs Tariff
GDP	Gross domestic product
GNP	Gross national product
HEI	Higher education institution
HS	Harmonised system
IDL	International division of labour
ISO	International Standardisation Organisation
KZT	Kazakhstan Tenge
LE	Legal entity
NIPI	National Intellectual Property Institute
POS	Point of Sale
R&D	Research and development
RFCA RA	JSC 'Rating Agency of Regional Financial Centre of Almaty'
RK	Republic of Kazakhstan
RK FMSA	Agency of the Republic of Kazakhstan on Regulation and Supervision of the Financial Market and Financial Organisations
RK MEDT	Ministry of Economic Development and Trade of the Republic of Kazakhstan
RK MINT	Ministry of Industry and New Technologies of the Republic of Kazakhstan
RK MJ	Ministry of Justice of the Republic of Kazakhstan
SAP	2003-2005 State Agri-food Programme of the Republic of Kazakhstan
SBS	Small business sector

SCC	State Customs Committee
SFTC	State Foreign Trade Companies
SMB	Small and Medium Sized Business
SML	Subsistence minimum level
SPECA	Special Programme for Economies of Central Asia
STB	Second Tier Banks
SWOT	Strengths Weaknesses Opportunities Threats
TNC	Transnational corporation
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WHO World	Health Organisation
WTO World	Trade Organisation



## Foreword

An increasing number of developing countries globally are trying to improve their understanding of the impact of the growth and liberalisation of trade on human development by exploring interrelations in the regulation of macroeconomic indicators, industrial, trade and institutional development.

This research '*Kazakhstan: The Impact of Trade Policy on Human Development*' was compiled within the framework of the United Nations Development Programme's Aid for Trade (AfT) Initiative in Kazakhstan. The overall aim of the AfT Initiative is to strengthen economic growth in Kazakhstan by promoting trade and enhancing the country's competitiveness. The main objectives of the project are to improve identification and implementation of pro-poor trade reforms; develop measures aimed to build the country's trade potential by identifying and curing shortcomings impacting on development; and identify Kazakhstan's national and regional priorities in the trade facilitation system with a special focus on challenges arising during the crisis period and prospects following the end of the global economic crisis.

This is a research report on the macroeconomic situation of the Republic of Kazakhstan; prospects for the development of trade policies and their impact on economic growth and human development; the impact of agricultural trade policy liberalisation on human development and national policy priorities in the development of distribution services.

Based on the findings of the research undertaken, this paper presents AfT proposals for potential donor intervention at the national level and recommendations on challenges in the regulation of Kazakhstan's trade activities to improve human development gains from trade.

This paper is intended to be of practical use in the area of trade development facilitation for expert sessions and SPECA ministerial meetings.

## SECTION I. MACROECONOMIC SITUATION

**1.1. Kazakhstan's Economic Growth Indicators.** The years 2000-2007 saw high and stable economic growth of the Republic of Kazakhstan. Key economic growth drivers included foreign capital inflows, high world prices of oil and other exports and growing industrial and agricultural output.

In 2008, real GDP was 103.3% and 203.2% compared to 2007 and 2000 respectively, which means that the country's GDP doubling, targeted for 2008 was achieved two years ahead of schedule (Table 1.1).

***Real GDP Changes in Kazakhstan, 2000 - 2008***

	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>GDP, US\$ mln.</b>	69.4	78.8	86.5	94.5	103.6	113.6	125.8	136.5	141.0
<b>% year-on-year</b>	109.8	113.5	109.8	109.3	109.6	109.7	110.7	108.5	103.3
<b>GDP per capita, US\$</b>	1,229.0	1,490.9	1,658.0	2,068.0	2,874.2	3,771.3	5,291.6	6,771.6	8,513.5

Source: compiled by the authors based on the data of the RK Statistics Agency and World Development Data Base.

In 2007, real economic growth in current prices reached 8.5%, a 110.7% drop from 2006. In 2008, the global financial and food crises pushed RK GDP growth down to 103.3%.

In January-September, 2009, a further drop in RK GDP by 2.2% resulted from falling industrial, trade, transport, construction and financial sector outputs, with commodity and service output shrinking by 1.7% and 2.8% respectively. The GDP share of commodities has increased to 42.3%, with that of services decreasing to 56.4%.

The RK National Bank estimates GDP end-use figures to drop by 3% from January to June 2009. Final consumption has grown by 0.9%, with gross savings decreasing by 1.8%.

The drop in final consumption had to do with a slowdown in household and government consumption growth. The decrease in gross savings had to do with a reduction in fixed capital formation by 17.6 percent.

**Year-on-year inflation** rate was 5.8 percent (9.5 percent in December 2008). Since the beginning of 2009, prices have grown by 5.6 percent (9.2 percent in 2008).

In November, the inflation rate was 0.5 percent (0.4 percent in November 2008). Prices of food, non-food products and paid services grew by 0.2, 0.8 and 0.5 percent respectively. Thus, a slowdown in growth of prices of food and paid services facilitated the slowdown in inflation in November.

Railway passenger transport, healthcare, education and cultural services have demonstrated growth in prices by 1.0, 0.9, 0.7 and 0.3 percent respectively. As far as public utilities are concerned, power and hot water tariffs recorded an increase of 2.7 and 1.1 percent respectively. At the same time, prices of gas transmitted via distribution networks dropped by 0.5 percent.

During the period January-November, 2009, **investment** fell by 2.3 percent, with funds primarily invested into transport and communications, industry, healthcare and social services. Lack of own-funds and borrowing restrains investment growth.

An increase in FDI and, accordingly, in production of oil and gas condensate pushed the oil and gas share in the country's GDP upwards. In particular, in 1998-2008 it increased by 2.4 times, reaching 18.7 percent in 2008 (Table 1.2). The share of the



oil and gas sector in the country's GDP expanded to 22.6 percent during the first six months of 2008 and dropped to 16.2 percent during the first six months of 2009.

*Table 1.2  
GDP Breakdown, Republic of Kazakhstan, 1998, 2007-2009 (%)*

	1998	2007	2008	1H-2008	1H-2009
<b>GDP</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Commodities, including:</b>	<b>37.9</b>	<b>43.4</b>	<b>45.6</b>	<b>46.7</b>	<b>40.0</b>
<i>Agriculture</i>	8.5	5.6	5.2	2.6	3.1
<i>Manufacturing industry</i>	12	11.5	11.8	12.9	12.0
<i>Mining industry including oil and gas sector</i>	7.9	15.1	18.7	22.6	16.2
<b>Industry</b>	<b>24.4</b>	<b>28.3</b>	<b>32.2</b>	<b>37.3</b>	<b>30.3</b>
<b>Services including:</b>	<b>56.7</b>	<b>54.3</b>	<b>52.1</b>	<b>52.4</b>	<b>60.0</b>
<i>Construction</i>	4.9	9.4	8.1	6.7	6.7
<i>Transportation</i>	12.3	9.0	8.5	8.3	8.0
<b>Other sectors</b>	<b>5.4</b>	<b>2.3</b>	<b>2.3</b>	<b>0.9</b>	<b>0</b>

Source: compiled by the authors based on RK Statistics Agency's data. In 2008, industry accounted for 32.2 percent of the RK GDP, up from 24.4 percent in 1998; the share of services reached 60 percent in the first half of 2009, with the share of construction increasing from 4.9 percent in 1998 to 8.1 percent in 2008 and transportation dropping from 12.3 percent in 1998 to 8.5 percent in 2008. Growing world hydrocarbon prices drove oil companies to increase production since the main share of oil is exported. In total exports, the share of oil and gas condensate reached 63 percent, having increased in value terms by 22 times over the past 15 years. As a whole, over 85 percent of oil produced in the country is exported. A major part of Kazakhstani oil exports goes to the European Union, CIS and China, with their share growing steadily. In 1995, the CIS countries accounted for 44.2 percent of the total value of hydrocarbon exports compared to 19.0 percent in 2000 and 5 percent now.

## 1.2 Employment, Poverty and Income Distribution Levels

GDP per capita was US\$ 6,771.6 in 2007 and reached US\$ 8,513.5 in 2008.

In November 2009, unemployment in Kazakhstan rose to 6.5 percent, with the number of unemployed estimated at 548,500 in November 2009.

By the end of November, 79,700 people were officially registered with the employment bodies of the Ministry of Labour and Social Protection of the Population of the Republic of Kazakhstan. Registered unemployed people accounted for 0.9 percent of the economically active population, a 0.2 percentage point increase from the previous year.

In November, the Kazakh economy was estimated to employ 7.9 million people, an increase of 15,700 or 0.2% from the same period previous year. During the said period there were a total of 5.2 million employees (66.2% of the entire employed population).

At the same time, the social sector remains the most vulnerable area of the Kazakh economy. When compared to the Central Asian countries, high real incomes are not an objective indicator of the status and solvency of

population. The country experiences dramatic wage differences by sectors and regions. Wages and incomes of Kazakhstani citizens are growing slowly. In 1998-2005, nominal average monthly wages increased in the country from US\$ 123.7 to 256.6, i.e. by 2.1 times (Table 1.3).

Table 1.3

**Monthly Average Nominal Wages per Worker in Kazakhstan by Sector, 1998-2006**

(KZT/USD)

	1998	1999	2000	2001	2002	2003	2004	2005	2006*
<b>Kazakhstan, total</b>	9,683	11,864	14,374	17,303	20,323	23,128	28,329	34,060	53,558
	<b>123.7</b>	<b>99.3</b>	<b>101.1</b>	<b>117.9</b>	<b>132.6</b>	<b>154.6</b>	<b>208.2</b>	<b>256.6</b>	<b>424.7</b>
<b>Mining</b>	20,317	24,659	32,059	36,625	40,045	45,594	54,305	65,762	107,924
	<b>259.5</b>	<b>206.3</b>	<b>225.6</b>	<b>249.6</b>	<b>261.3</b>	<b>304.8</b>	<b>399.3</b>	<b>494.9</b>	<b>856.0</b>
<b>Education</b>	7,247	8,149	8,512	9,937	12,863	14,406	17,964	20,326	27,017
	<b>92.6</b>	<b>68.2</b>	<b>59.9</b>	<b>67.7</b>	<b>83.9</b>	<b>96.3</b>	<b>132.0</b>	<b>153.0</b>	<b>214.3</b>
<b>Healthcare and Social Services</b>	6,454	6,821	7,267	8,288	10,863	12,112	15,195	18,043	24,306
	<b>82.4</b>	<b>57.1</b>	<b>51.1</b>	<b>56.5</b>	<b>70.9</b>	<b>81.0</b>	<b>111.7</b>	<b>135.8</b>	<b>192.8</b>

Note: \* data is provided for December 2006;  
top-row numbers are in KZT, bottom-row numbers (in bold) are in USD.

Source: RK Statistics Agency.

The share of the population with incomes below the subsistence minimum remains high, at over 30 percent, i.e. one third of the entire population. However, following recalculations using the new subsistence minimum level (SML) assessment procedure effective since 1 January 2006, the share of population with incomes below subsistence minimum became 12.1 percent in 2008 (Annex 1).

In August 2009, the SML increased by 4.8 percent from the previous month and amounted to KZT 13,568, with food accounting for KZT 8,141 and non-food products and paid services accounting for 5,427 KZT of this amount, as reported by the RK Statistics Agency.

In August, the SML amounted to KZT 12,001 for children under 13 years of age, KZT 16,837 and KZT 12,898 for boys and girls aged 14-17, KZT 15,958 and 12,661 for the working-age population over 18 years of age, including men and women; KZT 12,492 for pensioners and elderly persons. The trend of importing considerable amounts of non-food products still remains, which has a negative impact on inflation. Yet another factor impacting on the inflation growth dynamics is high prices for services, which have increased by 4.7 times over the past 10 years (Table 1.4). According to the RK Statistics Agency in January 2007 prices of all goods and services have grown by 287% compared to 1995.



*Table 1.4*  
**Change in Prices of Consumer Goods and Services in Kazakhstan  
2000-2005** (% , December 1995 = 100)

	As of the end of the period					
	2000	2001	2002	2003	2004	2005
<b>All goods and services</b>	<b>88.5</b>	<b>100.6</b>	<b>113.8</b>	<b>128.2</b>	<b>143.6</b>	<b>162.0</b>
<b>Food</b>	66.8	81.5	94.4	108.3	123.6	141.8
<b>Non-foods</b>	40.1	46.4	55.6	66.4	76.7	87.1
<b>Paid services to population</b>	326.9	341.8	367.5	394.9	424.3	466.3

Source: RK Statistics Agency.

Kazakhstan has considerable regional disproportions in terms of incomes and differences in price levels, which, as a whole, impact on the pattern of cash expenses of the population as a concentrated expression of consumption. For example, the minimum set of goods and services in Astana and Almaty is almost one and a half times more expensive than in the poorest regions (*Source: Analytical material from the website «Dumaem.ru»*).

The inflation rate measured in all countries with the help of the consumer price index (CPI) does not reflect the real cost of living in the country. This has to do with the fact that CPI does not reflect a rise in real estate prices, an essential factor for Kazakhstan, which has experienced a construction 'boom' and skyrocketing real estate prices in the past few years. Therefore, the real cost of living index is considerably higher since **in 2006 alone, housing market prices in Kazakhstan grew by 1.3-1.7 times (with the steepest growth, by 172 percent, recorded in Almaty).**

All these factors have had a negative impact on labour productivity in the country and the level of professionalism and social protection of working population. Thus, the national economy is still developing primarily on an extensive basis.

### **1.3 Analysis of Trade Development during Economic Reforms and Accession to the World Trade Organisation**

Foreign economic policies pursued by the Republic of Kazakhstan immediately after its has been declared an independent state are primarily geared towards a gradual liberalization of foreign economic activities and openness of the domestic economy in toto.

World practices demonstrate that an open state of economy multiplies opportunities for using external factors to good advantage on the way of development invigoration. This, however, implies that the national economy should widely apply state-of-the-art foreign technologies, new generations of machinery and equipment, advanced management experience, raise additional funds and possibly join international production cooperation, which has failed to find its way to the Kazakh economy.

In 1994-1995, foreign trade experienced considerable liberalisation including cancelled export quotas, a shortened list of licensed products, cancelled export customs duties, customs and tax privileges and a monopoly of 13 SFTC engaging in strategic commodity operations. In August 1995, the requirement to surrender 50% of export gains was cancelled.

As a result of the country's foreign economic policies, the trade balance has considerably improved.

At the same time, improved openness brings not only benefits, but also poses certain threats, especially for economies in transition. This gives rise to various external risks such as the deeper dependence of certain sectors on the global market situation, trade and financial policies of both industrialised countries and key trade partners, the squeezing out of national commodity manufacturers by foreign competitors, etc. It is also obvious that even partial isolation from foreign markets can entail negative consequences. Exporters can lose their sales markets, which can bring about a decline in utilisation of production capacities, and, hence, employee displacement and declining competitiveness of domestic commodities.

The Asian financial crisis, August 1998 events in Russia, the global economic slowdown and declining prices of oil and others energy resources have highlighted Kazakhstan's considerable dependence on external factors.

Thus, positive trade balance policies pursued at that time are an example of competing macroeconomic policy goals. Such policies were correct from the perspective of avoidance of a large foreign debt burden, but had a negative impact as far as investment strengthening through large-scale imports of equipment is concerned. At the same time, the balance of trade turned out to be negative due to a considerable turnover of non-organised trade primarily accounted for by unofficial imports. The share of cars and equipment did not exceed 15-16% of all imports (in FOB prices).

In this context, focus on openness alone could not remain the only decisive area of the country's foreign economic policies.

Foreign economic regulation measures recently emphasised by the Government of Kazakhstan included safeguard measures to protect national production against adverse impacts from the outside, i.e. external risks. Therefore, of particular relevance is the analysis of the state of the global economy, in particular, that of Kazakhstan's key trade partners including Central Asia economies.

An upward trend in average export prices on the back of relative stabilisation of average import prices drove trade conditions to improve until 2008 and allowed a considerable positive balance of trade, almost double to that in 2007, to be achieved (Table 1.5).

**Table 1.5**  
**RK Foreign Trade Indicators, 2007 - 2009**

Indicators	2007	2008	9 months of 2008	9 months of 2009	Growth rate, % (2008/2007)	Growth rate, % (9 months of 2009 / 9 months of 2008)
Commodity turnover	81,611.32	110,422.78	85,258.43	32,722.16	135.30	38.44
FOB exports	48,351.14	71,970.81	56,705.93	29,887.82	148.85	52.71
FOB imports	33,260.18	38,451.97	28,552.50	20,834.34	115.60	72.97
Trade balance	15,090.95	33,518.85	28,153.43	9,053.48	222.11	32.16

Source: compiled by the authors based on the data of the National Bank of the Republic of Kazakhstan

In 2009, exports experienced strong fluctuations and are projected to decline further. In the third quarter of 2009 (vs. Q3-2008) EU GDP fell down by 4.3 percent, CIS GDP is estimated to have decreased on average by 9 percent during the period





January-September, with China alone recording GDP growth by 7.7 percent in the period January-September. Declining foreign demand has caused Kazakhstan's foreign trade turnover with CIS and other countries to fall by 36.2 and 40.8 percent during the period January-October 2009 respectively.

A substantial increase in export flows will be impeded by the ongoing global economic recession, which according to the analysts from the UN Conference on Trade and Development (UNCTAD) results, in a majority of developing countries, from varying factors such as their initial current account and net foreign asset positions, degree of exposure to private international capital flows, composition and direction of international trade in manufactures and services, dependence on primary commodity exports and inflows of migrants' remittances. At the same time, despite a notable export- import imbalance domestic manufacturers depend heavily on external factors, as seen from an essential reduction in the range of export commodities, changes in their pattern and price factor instability.

At this stage, competitiveness of the national economy is only secured by abundant natural resources and cheap labour, such advantages, however, being temporary ones.

Of the entire range of products manufactured in Kazakhstan, foreign markets have a demand mainly for primary resources, which may threaten the country's economy with further structural shifts and a stronger industrial sector bias towards extraction of non-renewable energy and mineral resources due to large investment inflows coming into the oil and gas sector.

Mineral sectors are under a strong influence of globalisation and policies pursued by multinational corporations, and, as consequence, the country's economy is not fully protected from the negative impact of external factors.

In this context, the prospects of structural reforms in the national economy are fading to a certain extent, with its dependence on the world market growing. At the same time, there is a possibility that capital can migrate from the domestic market.

At present one can state that the country has put in place a market economy based on private ownership and free competition. The country has established market economy institutions, with about 85 percent of the gross domestic product coming from the private sector. Moreover, the USA has recognised Kazakhstan as a market economy, which also testifies to openness of its economy and liberalisation of foreign trade policies. Negotiations with the European Union regarding the same matter will finish soon.

Contemporary world development is dominated by globalised economic processes, enhanced international competition, accelerated development of high and information technologies designed to yield technology- and knowledge-intensive output. In this context, Kazakhstan intends to develop clean production, to keep and develop core enterprises, protect the labour market, step up its policies to secure employment, reduce poverty and restructure energy-, labour- and resource-intensive plants.

As prescribed by the Decree of the President of the Republic of Kazakhstan No. 922 dd. February 1 2010 'On the Strategic Plan for Development of the Republic of Kazakhstan till 2020', the forthcoming decade will see the Government of Kazakhstan focusing on five key areas: preparation for post-crisis development; accelerated economic diversification; investment into the future; services for

citizens; ensuring inter-ethnic concord, security and stability of international relations.

### 1.4 Development of Services, Investment Policies and the Impact of Foreign Capital on the Economic Development of Kazakhstan

The services sector remains one of fastest-growing sectors and will garner increasing attention in the future. Since 1990, the share of services in GDP has been growing gradually, having peaked in the first half of 2009 at 60 percent and averaging over 50 percent of the GDP in the past decade.

At the same time, however, the services balance deficit emerging in 1994 and promptly escalating over the past years from 2000 to 2009 has weighed negatively on the service sector (Table 1.6).

Table 1.6

#### **Balance of International Services and Investment Income (USD million).**

	1993	2007	2008	9 months of 2009
<b>Balance of services, total</b>	382.8	-8,071.8	-6,615.7	-4,301.5
<b>Export of services</b>	810.4	3,554.9	4,382.9	3,115.6
<b>Growth rate, %</b>		<b>438</b>	<b>123</b>	
<b>Import of services</b>	-427.6	-11,626.8	-10,998.7	-7,417.14
<b>Growth rate, %</b>		<b>2,719</b>	<b>94,5</b>	
<b>Investment income</b>	N/A	-13,085.99	-19,322.54	-8,153.52
<b>Balance</b>			<b>147,6</b>	
<b>Growth rate, %</b>				

\* Source: compiled by the authors based on the data of the National Bank of the Republic of Kazakhstan (RK Balance of Payments).

Despite services export growth (123%) slightly outstripping that of imports (94.5%) in 2008, the negative balance stood at US\$ 6,615.7 million and US\$ 4,301.5 million over 9 months of 2009.

As far as trade in services is concerned, foreign direct investment (FDI) enterprises account for more than 90% of turnover of architectural, construction and different professional services.

Foreign suppliers provide services in such areas as transport (sea, air and railway), geological prospecting, product certification, insurance, legal and other consulting services, computer data processing and technical services.

A slowdown in service development reflects a lower number of service sectors where Kazakhstan had had a positive balance in the past years. Whereas in 2003 Kazakhstan was a net exporter of cargo pipeline transport, auxiliary transport services, accounting, audit, advertising, marketing and research services, in 2008 this list was reduced to one type of service, public services, with a positive balance for 2008 being US\$ 242 million; in 2009 two types of services boasted a positive trade balance, transport services and public services, with a positive balance of US\$ 282 million and US\$ 290 million respectively, but apparently positive balance indicators in these service sectors are still quite low.





Analysis of service exports and imports on a national and regional scale has shown that the negative service trade balance to a greater extent has to do with the import of services from non-CIS countries.

Against this background, Kazakhstan's recurrent and progressing 15-year-long services trade balance deficit is, first of all, the main economic factor negating the positive commodity trade balance, and, secondly, reflects the existing integration of the service sectors into the global economy due to their low competitiveness and emerging nature. **At the moment, Kazakhstan is an absolute net importer in a significant number of service sectors.**

At the same time, the service sector statistics base is still being improved to adequately reflect service development trends, and service sector regulation measures are being determined to effectively balance the presence of foreign services providers in particular domestic service sectors. All of these taken together make it very difficult to determine clear cut criteria of their further liberalisation and for Kazakhstan to commit to further liberalisation of the service sector.

In this context, Kazakhstan considers it feasible to use, on a temporary basis, state service trade regulation measures in order to set up a competitive environment promoting balanced development of the service and labour markets to avoid adverse economic and social implications for Kazakhstan's economy.

Furthermore, the current national legislative framework governing the service sectors is not yet adequate. It provides for no mechanisms regulating relations arising out of certain new types of services to be provided. In this context, the Government of the Republic of Kazakhstan is taking active efforts to develop legislation on services that would enable their further liberalisation. One should mention certain progress made in the past few years in drafting and adopting laws on a number of service sectors, which served as a basis for outlining commitments with respect to access to Kazakhstan's services markets.

### **1.5 Investment Policies and the Impact of Foreign Capital on Economic Development of Kazakhstan**

**Foreign direct investment** inflows continue to go primarily into the mining sectors, which has to do with the implementation of projects involving foreign investments.

Investment income figures (a negative balance of US\$ 19.3 billion in 2008) in the RK balance of payments (Table 1.6) reflect the consequences of the Government's economic policies as far as attraction of foreign investment is concerned.

This implies that while achieving high growth, Kazakhstan, at the same time, is suffering considerable losses of financial resources (incomes) in favour of foreign investors and to the detriment of the national economy.

**A significant negative balance of international services and investment income negating the positive balance of commodity trade and gross national product (GNP) should be viewed as key economic indicators reflecting the consequences of spontaneous and non-transparent privatization, low Kazakhstan content, imperfect tax policies and, as consequence, inefficient integration of Kazakhstan into global economic relations and IDL, which subsequently has a direct negative impact on human development in Kazakhstan.**

Furthermore, such enormous and continuous GNP reduction has a direct impact on the country's national security, poses a risk of augmenting the country's current account deficit, which is compensated by foreign direct investment inflows and foreign borrowings, and making it difficult to cover.

If this problem stays on for a long time and no urgent preventive measures are taken, Kazakhstan will face the threat of a financial crisis due to a dramatic increase in the balance of payments deficit and the foreign debt burden of private companies and second-tier banks.

## 1.6 The Impact of the Global Financial Crisis on Kazakhstan's Economy

The global liquidity crisis, which started in August 2007, along with a fall in world prices of primary resources in the second half of 2008 brought about a global economic recession.

Kazakhstan's financial sector, manufacturing, agriculture, trade and construction services were struck by the crisis more than the others, and small and medium sized business output has shrunk.

Kazakhstan's **banking sector** found itself in a difficult situation. Having lost foreign funding opportunities, Kazakhstani banks almost curtailed their lending and raised their interest rates in 2008. As a result, sectors relying on bank lending almost stopped their development. Consumer demand kept afloat, to a large extent, by bank loans has declined drastically.

As a result, whereas in 2007, loans in the country grew by 54.7 percent, in 2008 and during the period January-July 2009 they only grew by 2.7 and 8.3 percent respectively.

In this context, the Government of Kazakhstan had to offer strategic assets for sale to foreign entities in 2009. Kazakhstan's banking sector was on the threshold of collapse, whereas the national currency, the Kazakh tenge, faced large-scale devaluation. The government of Kazakhstan represented by the Samruk-Kazyna National Welfare Fund has acquired a 78.14 percent stake in the troubled BTA bank. BTA Group is one of leading banking networks in the CIS and the largest one in Kazakhstan. As of the end of the third quarter of 2008, the bank had consolidated assets totalling KZT 3,671 trillion, or about US\$ 30.6 billion, a consolidated net income of KZT 35.2 billion, or US\$ 293 million, and a loan book of KZT 2,814 trillion (US\$ 23.5 billion).

Three other systemic banks, Alliance Bank, Halyk Savings Bank and Kazkommertsbank, also received governmental support.

Because of higher borrowing costs and lack of refinancing opportunities Kazakh banks faced a liquidity squeeze. A 30-percent fall in secondary market housing prices made the situation even worse since collateral for most loans was provided by real estate.

Despite the Government's considerable efforts to boost industrial and innovative development, the share of **manufacturing industry** in the country's GDP has dropped from 16.5 percent in 2000 to 11.8 percent in 2008 and did not exceed 12 percent in the first half of 2009. The share **of the construction sector** in the country's GDP declined from 9.4 percent in 2007 to 8.1 percent in 2008.

The financial crisis has had a negative impact on the country's **small business sector** (SBS). As of 1 January 2009, the number of small business entities active in the market has decreased by 3.1 percent compared to the same period of the previous year and totalled 621,114 entities including 58,480 legal entities (LE), 392,948 individual entrepreneurs and 169,686 farms. Individual entrepreneurs, farms and LEs accounted for 63.3, 27.3 and 9.4 percent of the SBS respectively.





Small business employment has dropped by 4.7 percent and totalled 1,726,170 persons including 484,188 LEs (28 percent), 816,091 individual entrepreneurs – (47.3 percent) and 425,891 farms (24.7 percent).

In January-December 2008, output (commodities and services) of active small business entities has dropped from the same period of the previous year (in real terms) by 9.7 percent and amounted to KZT 2,182,199.9 million, including KZT 1,405,028.4 million by LEs (64.4 percent), KZT 479,562.6 million by individual entrepreneurs (22 percent) and KZT 297,608.9 million by farms (13.6 percent).

**The output (commodities, services) index has dropped to 90.3 percent (in real terms).** All the country's regions experienced a drop in output, most noticeably, South Kazakhstan (by 19.5 percent), Kyzylorda (by 13.6 percent), Pavlodar (by 13.2 percent), Almaty (by 12.3 percent) Oblasts, and the cities of Astana (by 14.4 percent) and Almaty (by 14.2 percent).

Compared to January-September 2008, in January-September 2009, the share of trade, car maintenance, household products and personal items in **small business** output (commodities and services) has dropped by 5.6 percent (KZT 518,113 million in 2008), with that of construction and industry down by 9.3 percent (KZT 262,696 million in 2008) and 8.2 percent (KZT 172,821 million in 2008) respectively.

A decrease in output was most noticeable in West Kazakhstan (by 10 percent) and Aktyubinsk (by 4 percent) Oblasts and the city of Almaty (by 3.6 percent).

**To address the existing situation, Government authorities had to take active measures.** With that end in view, the Priority Action Plan to Stabilise Kazakhstan's Economy has been in place since the autumn of 2007. Under this plan, the state budget allocated over US\$ 4.5 billion (4.2 percent of GDP) from the autumn of 2007 through the first half of 2008 to support shared construction investors, agriculture, small and medium sized businesses.

In late 2008, the President of Kazakhstan instructed to develop the 2009-2010 Joint Action Plan of the Government, National Bank and the Financial Supervision Agency to Stabilise the Economy and Financial System. US\$ 10 billion, an equivalent of more than 8 percent of the GDP, was allocated from the National Fund to fund the aforesaid Plan.

Five activity areas were identified:

- financial sector stabilisation;
- housing sector development;
- small and medium sized business support;
- agriculture development;
- implementation of innovative, industrial and infrastructural projects.

### ***The National Bank's Regulation Measures***

On 4 February 2009, the National Bank devalued the tenge and set an exchange rate corridor at KZT 150/USD 1 with a fluctuation range of 3 percent or KZT 5.

The one-step change in the exchange rate has considerably lowered devaluation expectations that had been mounting over the past few months. As a result, from 4 February 2009 to date the tenge rate has been KZT 148-151 per U.S. dollar at the Kazakhstan Stock Exchange.

The established exchange rate corridor is designed for the medium term. It means that the National Bank does not intend to revise it, upwards or downwards, in the near future.

Furthermore, the National Bank assisted by RK FMSA and RK RFCA rating agencies has drafted the Concept of Post-Crisis Financial Sector Development of Kazakhstan.

This Concept determines the following basic areas of development of the financial sector:

1. Use of **public-private partnerships** as the main mechanism to finance the development of the national economy.

Construction of infrastructure facilities will become one of the core priorities of economic development of Kazakhstan. Use of public-private partnership mechanisms should become the main component of an upgrade of such strategic economic sectors as transport and telecommunication infrastructure, chemical industry, metallurgy, power industry, housing and utilities. This type of partnership will help realise and develop the potential of private entrepreneurial initiatives and attract institutional investors' funds, on the one hand, and maintain the functions the state has in socially significant economic sectors, on the other hand.

2. Financial sector regulation and supervision of the **counter-cyclicity** principle  
The key conclusion, which the global financial community has made in the aftermath of the current crisis and which requires particular attention in the future in the context of an upgrade of the regulatory system and prevention of such crises, is that regulation pro-cyclicity should be minimised.

It is suggested to introduce the counter-cyclic approach implying that financial sector regulation and supervision should be toughened during economic upswings and softened during recessions.

3. Selection of **optimum regulation** of the financial sector.

Development of an optimum mechanism to prevent accumulating imbalances, emergence of 'bubbles' in real and financial assets markets and minimise system risks remains relevant for the medium-term. The future model of government policies in this area will be geared towards macro-prudential regulation principles. Development of macro-prudential regulation implies key decision-making on subjects (institutions), objects (activities, markets) and systemic risk zones.

4. Changing the **legislation** governing financial sector relations on the back of the lessons learnt from the global financial crisis.

The Concept of Post-Crisis Financial Sector Development of Kazakhstan being currently developed contains a section targeting enhanced financial sector competition. As a direct measure, it stipulates a gradual increase in the minimum capital requirements, first of all, for banks. Their integration and consolidation or reorganisation into other types of financial institutions will facilitate the growth of the market share of medium-sized banks capable of properly competing with large banks as far as mass products are concerned. Moreover, the competitiveness of banks and bank products remains the most successful condition for their development. It is also important from the point of view of expansion of population coverage and access to the widest possible list of bank services, in particular, in the regions.

At the same time, to identify a proper degree of regulation and supervision of all systemic financial institutions, markets and tools the National Bank will develop a methodology to determine whether a bank is a systemic or a systemically important one against a wide number of factors such as their size, debt-to-equity ratio, their interrelation with other financial organisations, markets and tools, shock transformation mapping methodology and regulatory impact analysis tools.

If needed, limitation of foreign participation in the financial sector to 50 percent of the total authorised capital for each segment of the financial sector separately will be considered.

Over US\$ 4.5 billion has been allocated from the state budget to support small and medium-sized **businesses**.



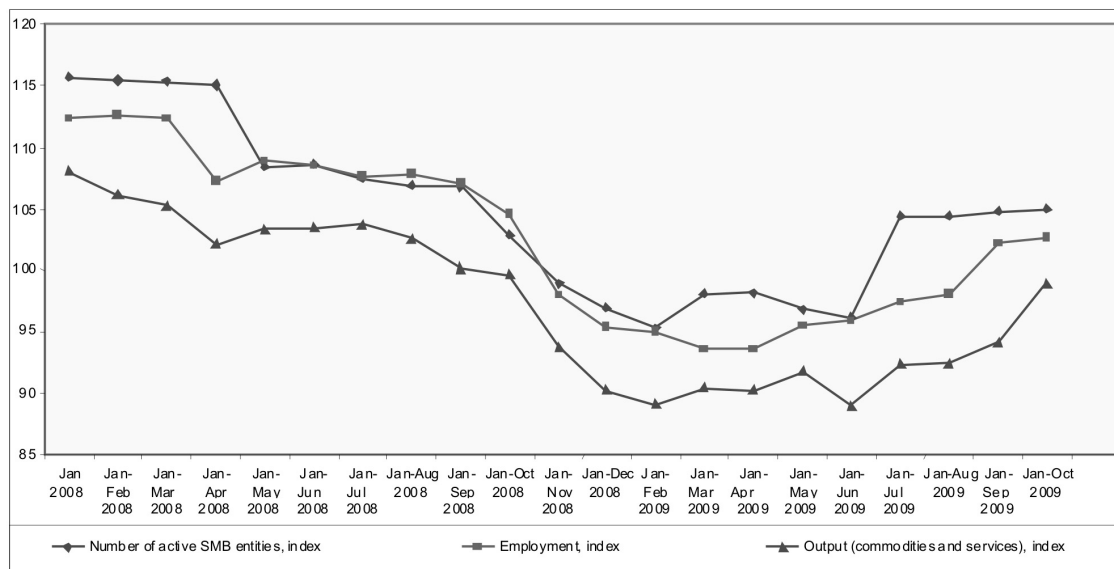


As a result, in October 2009, as compared to September 2009, basic indicators describing the development of small and medium-sized businesses changed: output grew by 16.5 percent (in real terms), employment by 1.1 percent and the number of active SMB entities by 0.1 percent.

Thus, these indicators demonstrate the dynamics of gradual growth of small and medium sized businesses (Graph 1.1).

**Decrease (Increase) in Key Indicators Describing Development Small and medium sized business (SMB)**

*Graph 1.1  
as a % to the corresponding period of the previous year*



Source: Ministry of Economy and Budget Planning

Official monthly economic figures for October-December 2009 indicate a gradual recovery of the economy from the recession, with an exception of the financial sector still experiencing certain challenges. Seasonally adjusted fourth-quarter GDP dynamics on the basis of monthly data demonstrates about a five-percent growth from the previous quarter and a seven-percent growth from the fourth quarter of 2008. Strong real growth of agriculture in the fourth quarter of 2009 (51.9), which, most likely, has to do with late statistical recording of a part of grain crops and/or the so-called low-base effect (last year's poor harvest and output) was somewhat unexpected.

For the sake of effective post-crisis economic development, the President of Kazakhstan issued Decree No. 958 dd. 19 March 2010 approving the 2010-2014 Forced Industrial and Innovative Development Programme (hereinafter 'State Programme').

The State Programme is a logical continuation of economic diversification policies being currently pursued and integrates key approaches of the 2003-2015 Strategy of Industrial and Innovative Development and other industrial development programme documents.

According to the State Programme the main priority of forced industrial development policies is to implement large-scale investment projects in traditional export-oriented economic sectors, with replication of new business opportunities for small and medium sized businesses through focused development of Kazakhstan content, upstream operations and processing.

Also, to achieve the goals of the State Programme, four different programmes of financial support of operating enterprises and investment projects, both republican and local, are underway. These include 'Investor 2020', 'Productivity 2020', 'Export 2020' and 'Business 2020'.

**'Investor 2020'** Programme promotes attraction of foreign direct investment by providing investor privileges and preferences including establishment of a FEZ and required infrastructure.

**'Productivity 2020'** Programme aims to replace fixed assets, upgrade and enhance productivity of existing enterprises.

The goal of **'Export 2020'** Programme is to promote domestic companies in foreign markets. As a measure to facilitate export, it stipulates compensation of costs incurred to promote output in foreign markets.

To insure exports, secure lending for export trade operations and certain accompanying services of non-oil and gas small and medium sized businesses it is planned to set up an export credit agency (ECA).

**'Business 2020'** Programme aims to develop business outside of Almaty and Astana and targets, first of all, small and medium sized businesses. The key areas of this budget programme are as follows: loan interest rate subsidies, partial loan guarantees for small and medium sized businesses, grant funding, staff retraining and improvement of professional skills and regional infrastructure.





## **SECTION II. TRADE POLICY DEVELOPMENT PROSPECTS AND IMPACT ON ECONOMIC GROWTH AND HUMAN DEVELOPMENT**

### **2.1 Regional Trade Development (EurAsEC, CU) Accession of the Republic of Kazakhstan to the World Trade Organisation: Assessment of Economic Implications**

#### **Eurasian Economic Community (EurAsEC) Integration Stages**

In August 2006, the heads of the EurAsEC countries decided to set up a Customs Union representing a higher degree of integration than a free trade area currently existing between EurAsEC and CIS member states.

The next stage of integration within the Customs Union would be setting up a Common Economic Zone.

#### **Establishment of EurAsEC Free Trade Area**

As prescribed by Articles 8 and 9 of the Agreement on a Customs Union and a Common Economic Zone dated 26 February 1999 signed by the Heads of Belarus, Republic of Kazakhstan, Kyrgyz Republic and Russian Federation, implementation of the free trade regime without exceptions and restrictions on the basis of bilateral and multilateral free trade agreements provides that:

- (a) no tariff or quantitative restrictions shall be imposed on goods originating in the customs area of one Party and being exported (imported) to the customs area of another Party and intended for free circulation in the customs area of the Parties;
- (b) a single system shall be introduced for the levy of indirect taxes;
- (c) nothing shall prevent one Party from temporarily applying protective measures with regard to the import of goods from another Party in conformity with generally recognised international norms and rules or with its national legislation;
- (d) no third State, which is not a party to the Agreement, shall be granted a trade regime which is more favourable than that granted by the Parties to each other without the agreement of the Parties;
- (e) restrictions on competition caused by the actions of economic entities or by interference on the part of governmental or territorial bodies, shall be eliminated, to the extent that such activities could affect the mutual trade of economic entities of the Parties.

At the moment, the free trade regime for goods is operating between the EurAsEC states in accordance with bi- and multilateral agreements.

Application of specific protective, antidumping and compensatory measures in mutual trade within the EurAsEC is regulated by Protocols dated 17 February 2000 and 28 October 2003 and does not contradict the provisions of the General Agreement on Tariffs and Trade (WTO) and Agreement on a Customs Union and a Common Economic Zone dated 26 February 1999.

The common principle of levy of indirect taxes based on the country of destination is applied in mutual trade between the Community states.

At the moment EurAsEC member countries are working to approve the draft EurAsEC Free Trade Area Declaration, which is expected to state the fact that establishment of the free trade area is completed.

## Establishment of EurAsEC Customs Union

As prescribed by Article 21 of the Agreement on a Customs Union and a Common Economic Zone dated 26 February 1999 the customs union, being a trade and economic association, assumes that there is:

- (a) a Common customs zone;
- (b) a common customs tariff;
- (c) a regime that excludes all tariff and non-tariff restrictions (licensing, quotas) in mutual trade unless otherwise provided for in the Agreement;
- (d) simplification and subsequent elimination of customs controls along the internal customs borders;
- (e) uniform mechanisms for regulating the economy and trade based on universal market principles of management and on harmonised economic legislation;
- (f) management bodies securing conditions for the functioning and development of the customs union;
- (g) a single customs policy and application of single customs regimes.

To elaborate EurAsEC member states' unified foreign trade policies with regards to third countries, the Community states are unifying legislation in the main foreign trade regulation areas: customs tariff and non-tariff areas.

### 1. The customs tariff area includes:

- application of unified customs duties for goods imported from third countries – formation of the General Custom Tariff (GCT) (hereinafter 'Common Custom Tariff' (CCT));
- application of unified trade regimes in trade with third countries and application of the common preference system in trade with developing and least developed countries.

At the moment, trade regimes applied by the Community states with respect to third countries and lists of countries using the common tariff preference system with developing and least developed countries have not been unified within the EurAsEC.

### 2. The non-tariff regulation area includes:

- commodity import and export licensing;
- technical regulation, sanitary, veterinary and Phytosanitary measures;
- introduction of special protective, antidumping and compensatory measures;
- export control.

EurAsEC has:

Agreement on Uniform Non-Tariff Regulation Measures in Formation of the Customs Union dated 22 October 1997;

Unified list of goods under an import and/or export ban or restriction by Customs Union member states in foreign trade with third countries dated 22 January 2004;

The Protocol on Uniform Rules for Licensing of Commodity Import and Export and Certain Types of Activities of Eurasian Economic Community Member States dated 25 October 2004;

The Protocol on Uniform Procedures for Application of Technical, Medical, Pharmaceutical, Sanitary, Veterinary, Phytosanitary and Environmental Standards, Norms, Rules and Requirements with Regard to Commodities Imported into Customs Union Member States dated 28 January 1999;

Agreement on Foundations of Harmonisation of Technical Regulations of Eurasian Economic Community Member States dated 24 March 2005;

List of EurAsEC Priority Technical Regulations to Be Developed dated 24 March 2005;





The Mechanism of Application of Special Protective, Antidumping and Compensatory Measures in Trade between EurAsEC Member States is determined in Protocols dated 17 February 2000 and 28 October 2003;

The Agreement on Uniform Procedures for Export Control of Eurasian Economic Community Member States dated 28 October 2003;

Model Lists of Goods and Technologies Subject to Export Control (approved on 21 September 2004).

Rules for Issue of Licences for Foreign Economic Operations Associated with Export of Goods and Technologies Subject to Export Control were approved (27 September 2005).

As far as non-tariff regulation is concerned, the main provisions of EurAsEC member states' legislations governing quotas, licensing, technical regulation, application of sanitary, phytosanitary, veterinary and environmental measures were unified.

There is still a need to continue unification of list of goods subject to quotas and licensing, develop and implement uniform sanitary, phytosanitary, veterinary and environmental measures and technical regulations. A document is expected to be developed on unification of licence conditions by groups of goods subject to licensing (other than goods and technologies under export control).

To set the stage for the establishment of the Customs Union and Common Economic Zone, the EurAsEC Interstate Council decided in 2002 that conditions of Russia's accession to the WTO should be assumed as the basis for WTO negotiations by other EurAsEC member states.

As demonstrated by Russian Federation's bi- and multilateral consultations and analysis of consequences of the Community member states' negotiation positions, incomplete WTO negotiations prevent large-scale changes (unification) of current custom duties of Russia, Kazakhstan and Belarus from being made. At the same time, it is expedient to unify customs duties on certain goods provided that such changes will reinforce the negotiation position of each of the three countries within the framework of the WTO accession process.

To streamline the establishment of the customs union and common economic zone, the Heads of the EurAsEC member states issued a resolution dated 16 August 2006 (in Sochi) providing that the customs union, and, subsequently, the common economic zone will initially consist of three countries, Russia, Belarus and Kazakhstan, with other EurAsEC member states to join later.

According to the aforesaid resolution the Republic of Belarus, Republic of Kazakhstan and Russian Federation have prepared a set of 13 documents and the draft Action Plan for Establishing the Customs Union within the Eurasian Economic Community, which establishes the sequence of actions for 2007-2010.

At the 19th session of the EurAsEC Interstate Council on 6 October 2007 the heads of the three Community states signed documents key for functioning of the customs union, forming its institutional framework and determining the mechanism of accession of other states to the customs union:

**Agreement on the Customs Union Commission;**

**Agreement on Establishment of the Common Customs Territory and Establishment of the Customs Union;**

Protocol on Procedures for Entry into Force of, Accession to and Withdrawal from International Treaties Forming the Contractual and Legal Framework of the Customs Union.

The Action Plan for Establishing the Customs Union within the Eurasian Economic Community was approved.

Heads of all Community states have signed the Protocol of Amendments to the

Agreement on Establishment of the Eurasian Economic Community dated 10 October 2000.

During the 20th session of the EurAsEC Interstate Council on 25 January 2008, the heads of the governments of the Republic of Belarus, Republic of Kazakhstan and Russian Federation signed the remaining nine documents forming the legal framework of the customs union of the three states:

Agreement on Common Customs Tariff Regulation;  
 Agreement on Export Customs Duties for Third Countries;  
 Agreement on Uniform Rules of Determining the Country of Origin of Goods;  
 Agreement on Uniform Measures of Non-Tariff Regulation with respect to Third Countries;  
 Agreement on Coordinated Policies in the Area of Technical Regulation, Sanitary and Phytosanitary Measures;  
 Agreement on Application of Special Protective, Antidumping and Compensatory Measures towards Third Countries;  
 Agreement on Determination of Customs Value of Goods Moved across the Customs Border of the Customs Union;  
 Agreement on Maintenance of Customs Statistics of Foreign and Mutual Trade in Goods of the Customs Union;  
 Agreement on Principles of Levy of Indirect Taxes When Exporting and/or Importing Goods, Performing Works, Providing Services in the Customs Union.

The EurAsEC Interstate Council and the Customs Union Commission decided to introduce a number of agreements governing application of customs tariff and non-tariff regulation measures.

Furthermore, the Common Custom Tariff of the Customs Union and the Uniform List of Goods, to Which Uniform Non-Tariff Regulation Measures will be Applied have come into force on 1 January 2010.

The Agreement on the Customs Code of the Customs Union stipulating the entry of the Customs Code into effect on 1 July 2010 has been signed, with specific mechanisms uniform for all the three Customs Union states introduced.

### **Formation of Common Economic Zone**

As far as establishment of the common economic zone is concerned, there is still a need to establish the contractual framework to set up:

- a common service market,
- a common financial market and development of currency integration, and
- a common labour market and cooperation in the area of migratory policies and in the social and humanitarian area.

Establishment of the common service market requires that the stage be set for liberalising mutual trade in services, coordinated policies towards third countries, exceptions from the most-favoured-nation treatment in favour of EurAsEC member states in contractual relations with third countries and customs unions.

There is a need to take efforts to arrange conditions ensuring freedom of movement of capital, to establish a common financial market and coordinate principles of and conditions for transition to a single currency within the EurAsEC.

Migratory policy cooperation calls for coordinated social policies, conditions for free movement of citizens on the basis of simple, clear and understandable measures to control population migration, development of labour migration regulation principles and increased labour mobility of the population of the Community member states;





social and humanitarian cooperation such as creation of a common education zone. The EurAsEC Interstate Council (supreme customs union body) at the level of the heads of the states issued Resolution # 35 dated 19 December 2009 to proceed with establishing the contractual and legal framework of the Common Economic Zone of Belarus, Republic of Kazakhstan and Russian Federation.

Considerable differences in the economic potential and the structure of the Community economies and a different market transformation pace should be regarded as main EurAsEC integration challenges.

Furthermore, while establishing the customs union and the common economic zone the EurAsEC states (other than Kyrgyz Republic) are carrying on simultaneous negotiations on accession to the World Trade Organisation, which requires coordination of their activities during the negotiation process.

Unification of the parties' tariff and non-tariff regulation legislation is a long process, with negotiations to further proceed in this area.

Within the EurAsEC, 112 documents pertaining to economic and foreign trade activities, customs, border policies, energy, transport, agribusiness, social and humanitarian area, etc. have been signed including 21 foreign trade acts (including nine documents within the Customs Union of Russia, Belarus and Kazakhstan).

### **Participation of Kazakhstan in the Customs Union: Challenges and Prospects**

The Customs Union establishes deep economic integration mechanisms. Expansion of the free commodity market is always a blessing for all countries. It should be mentioned that the smaller country, the more it benefits since its commodity market expands due to the common area.

The Customs Union is the basis for creation of the Common Economic Zone, which is quite realistic. The following factors are regarded as positive aspects of establishment of the Customs Union of Belarus, Kazakhstan and Russia:

- extensive resource base;
- enough of qualified workforce;
- total population of almost 170 million;
- improvement of cross-border cooperation due to cross-border cost minimisation effect;
- possible creation of the Common Economic Zone with unified power and transport systems;
- possible establishment of a currency union in the long run on the basis of a uniform currency unit.

The goal of the Customs Union being, first of all, to seek establishment of a uniform trade area suggests that conditions will be set for raising labour productivity, economic competitiveness of the Customs Union states, enhancing the responsibility of the business community and, as a result, improving the well-being of the population.

The global crisis has shown that the world trade system can break up into regional unions. Countries start forming economic zones around themselves and seek to create regional stability zones. Establishment of the Customs Union consisting of the three states can be seen as opposition to negative consequences of the global economic crisis. The CU gives the three countries a chance to secure economic stability in the region, set the stage for economic growth, lift existing trade barriers, develop a common development strategy relying on internal sources, and sets a

goal for the business community to enhance the competitiveness not only within the economic zone, but also in the global market.

Establishment of the Customs Union will be of benefit for both the citizens of the Customs Union countries and businesses. Business entities of the three countries will have favourable conditions to develop their activities, expand industrial and technological operations and implement joint projects. A large common domestic market will help remove trade barriers, improve the investment climate and increase the commodity turnover considerably.

Integration will allow the Customs Union to become a real global player along with other integration unions in the immediate future, and its operations will create synergies for the economic development not only of Belarus, Kazakhstan and Russia, but all EurAsEC and CIS countries.

Kazakhstan's accession to the Customs Union together with Russia and Belarus since 1 January 2010 aims to unify custom tariffs between the countries and set up a common customs zone that will have the common custom tariff (CCT) in mutual trade and have no customs duties or economic restrictions. The three states will enter the common level of economic integration and maintain the uniform foreign economic activity commodity classification. In the future, it is planned to determine a list of countries using the Customs Union's tariff preference system and goods subject to such import preferences; a list of sensitive goods subject to a consensus decision of the Customs Union Commission; a list of goods and rates in respect of which a Customs Union member state applies import customs duties different from CCT rates during the transition period. At the same time, it is planned to approve agreements on the tariff quota terms and mechanism, protocols on conditions of and procedures for application of import customs duties different from CCT rates in exceptional cases, protocols on provision of tariff privileges and protocols on the Customs Union's common tariff preference system.

The aforementioned procedures for transition to the common economic zone should be completed within the next one and a half years and will result in establishing an enormous common market with an industrial potential of USD 600 billion. The three countries have a total GDP of two trillion U.S. dollars, agricultural GDP of USD 112 billion and a commodity turnover of USD 900 billion.

Experts believe that, if established, the Customs Union will allow Russia, Belarus and Kazakhstan to gain in additional 16.8, 16.1 and 14 percent of their current GDP level over a course of five years.

Since the outset, a majority of mutual trade barriers will be removed and the commodity turnover between the countries will increase. At the same time, as a result of unification of custom duties Kazakhstan will have higher tariffs on commodities originating from third countries. At the moment, the RK Government is considering a wide range of measures to support domestic manufacturers such as targeted subsidies; provision of access to credit and lower debt service burden; provision of additional tax incentives to non-oil and gas sector; establishment of an infrastructure for investment attraction purposes. An increase in import duties will entail a certain increase in internal prices.

**Accession to the Customs Union suggests that the process of accession of the three countries to the WTO on the same terms and conditions and at the same time will be stepped up.**

At the end of the day, the Customs Union should set the basis for the Common Economic Zone by becoming a prototype of highly integrated economies such as those currently existing in the European Union.





Given that the WTO is the only international organisation in charge of global rules of international trade, the right balance should be struck in terms of the single common set of rules, privileges and commitments applied uniformly to all WTO members given that WTO members are at very different stages of development.

For the sake of economic feasibility, accession to the WTO and opening of national markets can only be taken step by step and can be performed after a challenging structural reorganisation is completed and sustainable economic growth is achieved. Terms and conditions for accession should be commensurate with benefits and advantages to be gained by each country from its membership in this organisation, possibilities to resist foreign competition and protect domestic commodity producers.

## 2.2. Prospects for the Development of Export-Oriented and Import-Substituting Industries

The priority objective for promoting Kazakhstani output in foreign markets is to determine a list of priority sectors and extent of their liberalisation without damaging various sectors. Priority sectors can now be classified as follows:

1. those oriented primarily towards foreign markets and developing the country's existing resource potential (oil, ferrous and nonferrous metals);
2. manufacturing industries oriented, for the most part, towards the domestic market and developing on the basis of the country's resource potential (light, chemical, petrochemical, pharmaceutical, medical, food and textile industries) and manufacturing higher value-added products;
3. Agricultural output.

**The first group** includes the following priority sectors taking into account their development prospects: **energy, including oil production and refining; gas industry; nuclear power and mining industries.**

Kazakhstan's **electric power sector** (power development, transmission and distribution) is now virtually an open market for companies from all over the world and, overall, arrival of foreign companies in our market has had a positive impact.

As far as **the second group of priority sectors** is concerned, in case of accession to WTO a comprehensive mechanism of protective measures will in many respects support competitiveness of **light, chemical, petrochemical, pharmaceutical, medical, food and textile** industries, which will include the level of import customs duties required for protection as one of principal types of support. These sectors need to be developed to address social problems as far as an increase in employment and improvement of the well-being of the population of Kazakhstan are concerned.

**Agricultural and manufacturing industries** have a list of priority or 'sensitive' goods requiring a certain degree of protection: meat and dairy products, butter, wheat, peas, rice, sunflower oil, sugar, tomatoes and jam.

Despite agricultural growth recorded over the past years and having to do with grain production and sale, this economic sector calls for considerable reforms.

In this context, Kazakhstan intends to improve the national legislation, in particular, on land ownership, agricultural equipment lease and protection of agricultural producers' rights and interests and to implement advanced forms of credit and financing of farm projects.

These and a number of other measures will also target such challenges faced by agriculture as:

- low competitiveness of agricultural output;
- minor investments into agriculture;
- under-equipped agricultural industry and under-developed equipment leasing;
- underdeveloped agricultural output procurement and wholesale systems;
- lack of soil fertility monitoring, poor crop cultivation practices, reduced fertilizer use, poor forage reserve and, as a consequence, low productivity;
- poor water supply in southern areas, lack of targeted government support of hydro-technologies.

Whereas the country had a system of governmental support for agricultural production established, the same is yet to be put in place for processed output.

As a result, foodstuff imports are increasing; the threat for the country's food dependence is emerging, with an opportunity to enter foreign food markets lost.

Only 15 percent of manufactured meat and 7.8 percent of milk are used for processing in food-processing enterprises compared to 71 and 61.1 percent in 1990 respectively.

At the same time, existing food manufacturing capacities other than mills are under-utilised, with 54, 26, 26, 50, 40, 30 and 47 percent of capacities of sugar, oil-extraction, fruit-and-vegetable, canned meat, sausage, cheese and butter plants, respectively, utilised. Low-technology and obsolete equipment prevents competitive products compliant with international standards from being made.

Maintaining sustainable economic growth, a favourable investment climate, the presence of own financial resources and a need to implement a structural manoeuvre to increase the share of manufacturing industries have predetermined the need to develop a new medium-term industrial policy.

Particular focus will be made on addressing the problem associated with the input-intensive industry structure. The main reason for high input intensity of the economy is equipment wear and tear and obsolescence. Over 40 percent of worn-out fixed assets are operated in coal-mining, textile, wool-working industries, production of nuclear materials, non-ferrous metals and plastic products, machine-building industry and municipal services.

As far as services are concerned, **a list of sensitive service sectors requiring the greatest level of protection for their effective development** such as financial, legal, commercial, transport, telecommunication, tourism, construction, research and development services was made.

There is a need to elaborate a **strategy of development of Kazakhstani service markets** in the context of WTO integration in the following main areas:

- establishment of the domestic legislative framework to regulate trade in services;
- expansion of potential and enhancement of competitiveness of domestic service sectors;
- development of human resources and technical capacity building;
- improvement of service forms (telecommunication infrastructure, cross-border trade), development of the national service export strategy.

Overall, Kazakhstan's estimated per capita export potential is considerably higher than that of EurAsEC member countries. However, in terms of per capita export our country considerably lags behind the average figures for the Euro countries.

If the export structure is not improved by increasing the share of the manufacturing industry, finished agricultural and food high value-added products, the country's export competitiveness prospects appear doubtful. This will have a negative impact on the overall competitiveness of the national economy.





To determine the main areas of enhancement of Kazakhstan's export potential competitiveness, **a national export programme** needs to be developed.

### 2.3 Trade and Industrial Policy Harmonisation Areas

The share of the mining industry in Kazakhstan's economy has been increasing year in year out, resulting in its lop-sided development and reducing the overall competitiveness of Kazakhstani economy. At the same time, the mining industry should form the basis for development of other economic sectors and promote macroeconomic stability, modernisation of the economy and social well-being of the people of Kazakhstan.

As demonstrated by international experience, efficient state regulation of economic relations can yield positive economic results, however, government policies should not be limited to consumer impact measures alone, but should, at the same time, ensure development of the capacity of the domestic industry.

Unfortunately, current indicators describing the level of Kazakhstan content are low, since the output and, accordingly, procurement of domestic goods, works and services of Kazakhstani origin is insignificant compared to imports. At the same time, one should admit that the domestic manufacturing industry is capable of saturating the home market with competitive domestic output.

The main ways for the state to impact on the existing situation are as follows:

- strengthening of regulatory measures in the procurement processes of state authorities, enterprises, managing entities, which are a part of national holdings, subsoil user companies;
- granting various privileges and preferences to domestic goods, work and service producers;
- provision of information support of domestic commodity producers;
- further development and improvement of mechanisms of enhancement of the quality of domestic output in line with international requirements;
- elaboration and promotion of quality management principles establishing priorities for Kazakhstani commodity producers in terms of improvement of the competitiveness of products and services.

Development of Kazakhstan content depends directly on increased competitiveness of domestic enterprises, full realisation of export potential and maximum effective utilisation of available resources and abilities. It will also help Kazakhstan join the 50 most competitive countries of the world.

This Concept of Development of Kazakhstan Content was developed to implement Decree of the President of the Republic of Kazakhstan No. 733 dated 27 January 2009 'On Certain Issues of Kazakhstan Content in Procurement of Commodities, Works and Services by Organisations and State Authorities' and 'Strategy of Industrial Innovative Development of the Republic of Kazakhstan for 2003-2015' approved by Decree of the President of the Republic of Kazakhstan # 1096 dated 17 May 2003.

Trade policies should be a component of the development strategy. The problem is that the today's trading system is out of line with these frontier issues in economic thought. In a study published by Boston University Pardee Center for Study of the

Longer-Range Future, lawyer Rachel Denae Thrasher and P. Krugman examined the extent to which the World Trade Organisation (WTO) agreements, European Union's trade agreements and United States regional trade agreements bit into a nation's ability to deploy strategic trade and conduct industrial policies to benefit from the globalisation process. The authors have come to a conclusion that the world trading system makes it much more difficult for nations to craft strategic trade and industrial policies for growth and development as a whole. Enshrined in virtually all trade agreements is the national treatment regime, which requires that a WTO country must treat foreign producers no differently than its domestic producers, which directly contradicts the domestic industry support idea.

That may make sense when developed nations compete against each other, but in a world where 57.6 percent of the population lives on less than US\$ 2.50 per day, the same trading rules cannot fit all the countries. This restriction is accentuated in provisions for foreign investment, intellectual property, and subsidies.

Negotiations between WTO countries regarding the development of provisions of the Agreement on Subsidies and Compensatory Measures (SCM) are continuing, but not in favour of developing countries yet. Developed countries, in particular USA, seek to expand a list of forbidden subsidies to support and develop the economy's industrial sector.

It should be emphasised that developed countries achieved a high level of industrial development through direct state support in the form of long-term application of a wide number of subsidies over the past decades. In this context, developing countries point to asymmetry emerging at today's stage of industrial development of developing countries, which under the influence of increasingly tougher provisions of the Agreement on Subsidies and Countervailing Measures bear a risk of facing considerable problems and inhibiting further industrial diversification.

**Kazakhstan should pay more attention to the provisions of the Agreement on Subsidies and Countervailing Measures, in particular, at the most recent WTO negotiations aiming to increase the number of prohibited industrial subsidies in order to maintain flexibility in their further application.**

Below is the SWOT analysis of economic implications of the accession of the Republic of Kazakhstan to the World Trade Organisation (Table 2.1).

**Table 2.4 SWOT analysis of economic implications of the accession of the Republic of Kazakhstan to the World Trade Organisation**

Strengths	Weaknesses
1. Expanded access of Kazakhstani goods to WTO member countries' markets; WTO member countries giving Kazakhstan the same rights as all other trade partners, in particular, no current quantitative restrictions, unfair antidumping duties and other discriminatory measures can be applied to exports from Kazakhstan;	1. Difficult climatic conditions, lack of adequate transport infrastructure, low population density, remoteness of commodity markets, land-locked status; 2. raw-materials orientation of manufacture and export of commodities; 3. non-competitiveness of high value-added foods; 4. high transportation costs when





<p>2. Establishment of a transparent and predictable domestic legislative environment in line with international standards;</p> <p>3. Assistance in protection of intellectual property rights;</p> <p>4. Expanded quantity and quality of goods offered to a consumer;</p> <p>5. Promoted economic growth through long-term trade expansion;</p> <p>6. Use of the WTO dispute settlement mechanism.</p> <p>7. Participation in a new multilateral trade negotiation round on a wide range of issues and, through voting, in making decisions that will determine long-term international trade rules.</p>	<p>exporting/importing commodities;</p> <p>5. under-developed production and social infrastructure;</p> <p>6. limited ability to apply protectionist measures, in particular, impossibility to apply quantitative restrictions.</p> <p>7. insufficient knowledge and experience in foreign trade operations;</p> <p>8. under-developed marketing and information services, lack of awareness of potential sale markets and foreign trade rules.</p>
<p>Opportunities</p>	<p>Threats</p>
<p>1. staged and gradual trade liberalisation using a transit period;</p> <p>2. use of tariff quotas as an intermediate tool between tariffs and quantitative restrictions;</p> <p>3. release of more competitive output based on the country's comparative advantages;</p> <p>4. finding new markets for specialised domestic output.</p>	<p>1. strengthened competition and, as a consequence, possible deterioration of the status of certain most sensitive economic sectors; this is true, first of all, for agriculture, light and food-processing industries, various services;</p> <p>2. more limited ability, as far as introduction of new regulation measures for trade in goods and services is concerned, in issues of government support and subsidies for certain types of industries;</p> <p>3. impossibility to use quantitative trade restrictions other than in special cases;</p> <p>4. prevalence of larger trade partners' opinions and position in the course of multilateral negotiations.</p>

Source: compiled by the authors.

## SECTION III. IMPACT OF AGRICULTURAL TRADE POLICY LIBERALISATION ON HUMAN DEVELOPMENT

### 3.1. Agribusiness in Kazakhstan: Peculiarities, Current Status and Development Trends, Impact of the Global Food and Financial Crises on Agribusiness

Agribusiness is a major component of Kazakhstan's economy. It produces socially vital products and concentrates a huge economic and human potential. The agribusiness development level determines the level of the country's food safety and socio-economic conditions. Stable functioning of the agrifood sector is one of the key components of economic growth.

The most crucial element of agribusiness is agriculture, which holds a special place not only in agribusiness alone, but in the entire national economy. Development of agriculture facilitates the development of other sectors, which supply production factors, use agricultural products as an input, and provide transportation, trade and other types of services.

Statistics state that as of 1 October 2009 Kazakhstan's rural population accounted for 46.6 percent of the entire population or 7,422,000 people. The agrarian sector employs 2.4 million people, or about 30 percent of the total employment.

Kazakhstan's agriculture is peculiar due to the country's challenging climatic conditions, large territory, low population density, remoteness from sales markets and land-locked status. At present, it has to function in the context of strong degradation of agricultural lands due to large-scale ploughing of virgin lands, use of worn-out and obsolete equipment and outdated technologies, aggravated water and environmental problems.

All areas of Kazakhstan see a steady land deterioration trend: reduced humus and nutrient content in soil; a change in the vegetation species composition and efficiency. Agricultural lands are exposed to degradation and pollution and are losing their fertility and reproductive ability.

The threat of deindustrialisation of agriculture is still there. Over 80 percent of technical equipment needs to be immediately replaced due to its deterioration. Vehicle fleet renewal rates are low, with annual rates of renewal of tractors and grain harvesters averaging 0.87 and 3.2 percent respectively.

Gross agricultural output dynamics are unstable. In particular, crop production growth rates fluctuate considerably year by year.

The share of agriculture in the country's GDP dropped from 34 percent in 1990 to 3.1 percent as at the end of the first six months of 2009 (see Table 1.2), with crop output decreasing by almost a third and livestock output dropping by more than half. Accordingly, the area under basic crops has reduced by more than twofold, whereas the cattle and poultry numbers have shrunk by more than 90 percent<sup>1</sup>. At the moment, about 85 percent of cattle and poultry are concentrated in subsidiary farms of the population.

Permanent financing problems, lack of working capital, dramatic wear and tear and application of outdated technologies have caused an ongoing reduction in production efficiency, a fall in farming practices and labour productivity in agriculture. Despite an increase in agricultural output observed since 1999, the share of agriculture in GDP is still dropping (see the table).

<sup>1</sup> RK Statistics Agency



Growth rates of this vital sector remain insignificant, with an extremely high dependence of production on climatic factors and market status.

Tables 3.1 and 3.2 and chart 3.1 show agricultural output growth rates as a whole, as well as livestock and plant products.

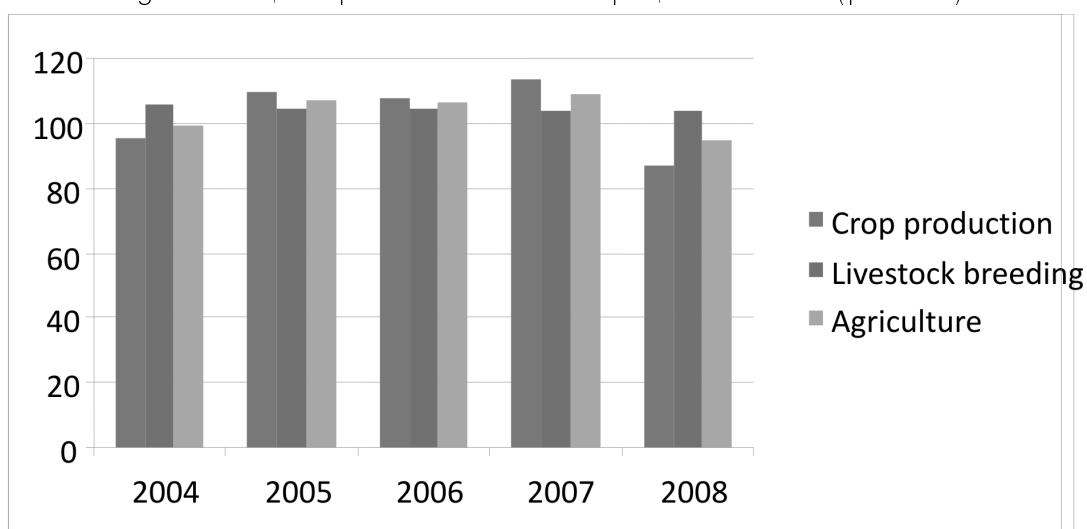
The agricultural producer structure is also changing. Thus, in 1997 agricultural plants, farms and population's subsidiary plots accounted for 43.8, 10.2 and 46.0 percent of gross output, whereas in 2007 the shares of these categories were 27.2, 23.7 and 49.1 percent respectively. Apparently, the country's agricultural output remains small-scale and, as result, technologically outdated.

The relative density of breeding livestock, at only 1.25 percent is also low. Comparison of the level of livestock industry development of leading meat exporters (Brazil, USA, etc.) has shown that the basic output there is concentrated on large commodity farms, which ensure preservation of high efficiency and increased livestock output.

### Physical Agricultural Output Index, 2004-2008

(as % of previous year) <sup>2</sup>

**Chart 3.1** –Agricultural, Crop and Livestock Output, 2004-2008 (percent)



Source: calculated by the authors based on the data provided by RK Statistics Agency

**Table 3.1**

Output	2004	2005	2006	2007	2008
Crop	95.1	109.5	107.7	113.8	86.6
Livestock	105.6	104.6	104.5	103.8	102.5
Agriculture	99.5	107.3	106.2	108.9	93.6

<sup>2</sup> According to RK Statistics Agency

## Gross Agricultural Output of the Republic of Kazakhstan in 2004-2009 (in effective prices, in KZT billions)

**Table 3.2**

	2004	2005	2006	2007	2008	01/10/2009
Total	698.8	763.8	853.3	1,121.8	1,384.2	1,386.9
Crop	391.2	400.2	432.5	630.8	761.1	829.3
Livestock	307.6	363.6	420.8	491.0	623.1	557.6
As a % of GDP	7.1	6.4	5.5	5.7	5.2	6.1
As a % to previous year	99.5	107.3	106.2	108.9	94.4	100

Source: RK Statistics Agency

As a whole, livestock output growth outstripping crop output growth has caused an increase in the former's share in the total agricultural output from 39 to 49 percent during the period in question. However, despite growing livestock output over the past few years, livestock output in 2006 was only 58 percent of the 1990 level, whereas crop output was about 73 percent.

A degree of stabilisation and an increase in agricultural output during the period 2000-2008 enabled an increase in agricultural output. Agricultural output growth over the past eight years was 143.7 percent, which included crop output growing by 144.9 percent and livestock output by 141.0 percent (Tables 3.3 and 3.4).

*This year's agrarian sector growth rates are the highest over the past eight years. Thus, over 11 months the sector has grown by another 10.6 percent including 16.5 percent in crop output and 2.5 percent in livestock industry. Outstripping parameters are reached first of all due to the record-breaking grain harvest, 20 million tons with a 10 million export potential<sup>3</sup>.*

### Dynamics of Main Livestock Output Types

**Table 3.3**

	2004	2005	2006	2007	2008
Meat (carcass weight), thousands of tons	737.1	762.2	808.6	838.7	874.2
Milk, thousand of tons	4,556.8	4,749.2	4,926.0	5,073.2	5,198.8
Eggs, millions	2,316.8	2,514.0	2,494.7	2,664.2	2,989.1

Source: RK Statistics Agency

### Dynamics of Main Crop Outputs (thousand of tons)

**Table 3.4**

	2004	2005	2006	2007	2008
Grain (weight after processing)	12,374.2	13,781.4	16,611.5	20,137.8	15,578.2
Potatoes	2,260.7	2,520.8	2,361.6	2,414.8	2,354.4
Vegetables	2,059.3	2,168.8	2,059.2	2,196.4	2,280.0

Source: RK Statistics Agency

In general, Kazakhstan's agriculture sticks to extensive development. The insufficient agribusiness output level has led to the country's high dependence on many agricultural imports. For example, imports meet 37 percent of demand for vegetable oil, 49 percent of sugar, 39.4 percent of sausages, 56.5 percent of

<sup>3</sup>Source: *Kazakhstanskaya Pravda*, 11 December 2009





confectionery products, 78.6 percent of fruit and vegetable preserves and 42 percent of canned meat. Dependence on import of fish and fish products standing at more than 80 percent is extremely high. Kazakhstan is a net importer of such vital foods as meat products, milk, cream, sugar, confectionery products and chocolate, vegetable oil and fats. This situation should cause a concern from the food safety perspective as import exceeds the 'safe' threshold level determined by the International Food Organisation (FAO) at 17 percent. Meanwhile, the country has considerable potential to meet its own demand for basic foods.

One of the factors ensuring dynamic agribusiness development and its recovery on the back of modern market principles is the presence of qualified experts of all levels.

In a number of the country's regions, technical and vocational training institutions were privatised or closed down, which has considerably reduced the availability of technical and vocational training, especially for rural youth, and resulted in a lack of qualified experts that could secure the development of agribusiness sectors. There is a need for 5,700 more highly skilled university-trained agrarian personnel and 40,000 more staff who have passed technical and vocational training (including that in colleges, professional lyceums and schools). Furthermore, research entities are in need of experts in a number of priority agrarian areas, in which the country provides no professional training at all.

The processing agribusiness sub-complex includes strategic economic sectors and over more than 11,000 associations, joint-stock companies, enterprises and shops employing over 370,000 people.

The level of the manufacturing industry determines the well-being of the population and is an important part of the country's food safety.

The manufacturing industry is marked by the crisis in a majority of food enterprises and in the ageing of basic production assets. Almost no efforts are being taken to manufacture equipment, new types of foods providing a required set of vitamins and proteins. The range of manufactured diabetic and special products has shrunk considerably.

The main reasons for unsatisfactory performance of the manufacturing sectors are as follows:

- high wear and tear of process equipment;
- enterprises lacking high-quality raw materials;
- insufficient competitiveness of processed products;
- ongoing rise in energy prices;
- rigid borrowing conditions.

Given that processing is one of weak links in the agrarian sector, the RK Government plans to reinforce state promotion and support and by doing so to achieve the technical and technological upgrade of the sector.

The need to strengthen state support to the processing sector has also to do with the fact that Kazakhstan spends about US\$ 1.9 billion each year to import deep-processed products, with more than half of them being from Russia and Ukraine, where the processing enjoys strengthened state support measures.

One of main reasons for the current situation in Kazakhstani agribusiness is a price increase disparity. During reforms years prices of industrial goods grew much faster than those of agribusiness output.

To address these problems, the 2003-2005 State Agrifood Programme (SAP) of the Republic of Kazakhstan was adopted, aiming at 'ensuring the Republic's food

safety on the basis of an efficient agribusiness system and production of competitive output'<sup>4</sup>.

In pursuance of the SAP, an objective was set to streamline government support measures, with general and special measures determined.

General measures included state funding of diagnostics, monitoring and combating particularly dangerous animal and plant diseases, laboratory and phytosanitary analysis of products subject to quarantine, agricultural crop grade testing, assessment of the ameliorative condition of irrigated land, storage of state reserve grain, the preservation and development of elite seed production and livestock breeding, subsidies for purchasing mineral fertilizers, establishment and development of an agricultural information system and applied research. General measures also included preferential taxation for agricultural producers (a patent for legal entities and a single land tax for farms) and a grace period for budget debts.

Basically, the above-described types of aid are characteristic of a majority of WTO member countries and belong to the so-called 'Green Box'. As far as these measures are concerned, WTO rules admit that they render no or minimal impact on international trade in agricultural goods, therefore, the countries are not restricted in their ability to render such aid.

Special measures were aimed at supporting specific sectors and industries. As a rule, they are provided on a reimbursement basis and target financially sound business entities: procurement of crop output, first of all, grain, cotton and livestock output by the state, loans for agricultural machinery lease, loans to local budgets to perform spring sowing and harvesting campaigns, establishment of a system of rural credit associations, and provision of agriculture credits by the state using raised foreign funding, etc.

The SAP provided for measures to increase the amounts of the described state support types and streamline such aid to gain the maximum effect from better competitiveness of domestic output and target orientation of budget financing. In particular, it provided for introduction of tax regulation measures, better access of commodity producers to credit resources, technical and technological standards of production and quality assurance of food on the basis of ISO-9000 quality system, development and implementation of regulatory legal acts on veterinary services, according to which veterinary and quarantine laboratories will be re-equipped with state-of-the-art lab-ware and equipment.

According to the SAP, by 2005 republican budget expenses to support agriculture in Kazakhstan were not less than 1.8 percent of GDP including the republican budget support amount per one agricultural entity of \$2,500 or \$15.9 per hectare of arable land.

This was more than the state support amounts for agrifood enterprises provided earlier, but is still not sufficient to align competitive advantages of domestic agricultural output compared to similar imports.

In this context, it is relevant to determine an optimum structure and size of state support and switch from traditional support forms to more advanced and efficient ones. The main objective here is to avoid violation of rights in international trade and ensure truly better access to the world commodity and service markets, while retaining food safety and a possibility for efficient development of the country's agrarian sector.

<sup>4</sup> RK State Agrifood Programme for 2003-2005



The SAP also set a task to develop a substantiated tariff policy in regulating the export/import regime as the main foreign trade policy tool.

The completion of the SAP resulted in certain positive shifts towards stabilisation and further development of agribusiness. One can observe growing production of agricultural output and processed products, decreasing food imports and improving equipment and agricultural machinery availability. There is an increase in the number of processing enterprises, first of all, processing of fruits and vegetables, grain crops, sugar and cotton. Efforts are being taken to develop national agribusiness standards, harmonise national and international standards and help processing enterprises to introduce ISO international standards.

Work was started to set up the information and marketing system. Specifically, Kazagromarketing Joint-Stock Company was set up in 2003, with a mandate to research markets of agricultural output and processed products and to provide marketing information to agricultural producers. Rural information and consultation centres were started to be set up to offer assistance to agricultural producers in arranging sale and promotion of their goods. Under the dedicated agriculture post-privatisation support project, agricultural producers benefited from educational and consulting services on enterprise management, commercial and technological activities.

To address the shortage of funds for procuring equipment and acquiring working assets the state initiated rural credit associations. The Agrarian Credit Corporation (ACC), set up specifically for these purposes, is developing the Credit Association Development and Support Programme till 2010, which provides for annual allocations from the republican budget for these purposes. The corporation provides state support to agribusiness in implementing budget programmes for development of agricultural producer associations and direct lending to agribusiness entities using raised extra-budgetary funds and proceeds of the National Fund (Table 3.5). The ACC is an effective tool for interaction between the state and rural producers promoting growth of this economic sector.

#### Investments into RK Agricultural Fixed Assets in 2004 – 2008 (in KZT millions)

**Table 3.5**

	2004	2005	2006	2007	2008
<b>Total</b>	1,703,684	2,420,976	2,824,523	3,392,112	4,210,878
<b>Including agriculture</b>	43,844	47,975	47,143	55,973	77,772

Source: RK Statistics Agency

To protect agricultural producers' ownership interests, the Law 'On Mandatory Insurance in Crop Production' was passed in 2004, aiming to protect property interests of crop output producers against the consequences of adverse acts of nature resulting in partial or full loss of crop, in which case insurance payments including those from the republican budget become payable.

Furthermore, machinery and technological stations are set up using state budget funds in order to provide services in crop cultivation, sale and repair of agricultural machinery, equipment and spare parts.

Despite the measures taken, the efficiency level of the sector is still insufficient. The country's agricultural production remains small-scale and, as a consequence, technologically outdated. The sector is in desperate need of prompt substitution of capital assets and, first of all, technical fleet. About 80 percent of agricultural output is sold as unprocessed primary goods, while finished products are hardly competitive due to technological backwardness of processing enterprises, obsolescence and wear and tear of their equipment.

Despite a positive balance in foreign trade in agricultural products and processed products recorded over the past years, the agricultural output trade structure remains inefficient. Kazakhstan exports mainly primary products such as wheat, rye, barley, flour and rice.

A high share of primary products in agricultural exports makes the Kazakh economy vulnerable to changes in the world markets. Thus, experience shows that negative consequences for the country's economy can be observed both when world prices grow and fall. The situation existing in the market of grain, one of the country's most important export items, is, therefore, illustrative.

In the context of the emerging global food crisis and bread grain shortage, world grain prices have been observed to grow over the past few years. In 2007 alone the price of grain in the world markets has more than doubled.

This facilitated growth in grain production and export from Kazakhstan to a large extent. Thus, in 2007 grain production reached a record-breaking level for the Republic, 2.1 million tons. In 2007, export of grain crops from Kazakhstan grew by almost 50 percent, and totalled 9 million tons taking into account flour exports. Growing exports and, simultaneously, world grain crop prices have also caused a considerable increase in export revenues. In 2007, grain crop export proceeds more than doubled from previous year and exceeded US\$ 1.5 billion. As a result, the share of grain in total exports also grew by more than two times and accounted for about 3 percent in 2007.

In recent years, the grain export growth trend has still been there. Monthly exports in early 2008 were estimated to total about 1.1-1.4 million tons.

At the same time, growing world prices of agricultural goods in the context of economic openness and dependence on imports of a large number of foods were to a large extent responsible for a considerable rise in prices of foods in Kazakhstan's domestic market.

Thus, in December 2007 food prices have grown by 26.6 percent from December 2006. In March 2008, food prices grew by 27.1 percent from March 2007. Inflation remained high in 2008 as well. Surprisingly, despite Kazakhstan being a large producer and exporter of grain, primarily, wheat, inflation affected such essential foodstuffs as flour and bread most. Thus, during the period in question the price of flour and bread grew by 67 and 42.4 percent <sup>5</sup>.

A high rise in prices of basic foodstuffs affects standards of living, first of all, that of socially vulnerable groups, and must be addressed by the country's Government through inflation reduction measures including adjustments in foreign trade policies. Agricultural imports are dominated by goods with a higher degree of processing, canned meat, fruit and vegetable preserves, dairy products, sausages, confectionery products, baby food, etc. One can observe a high dependence of consumption on imports of all these products, which considerably exceeds the maximum permissible level of food imports from the food safety perspective.

<sup>5</sup> According to the express information provided by the RK Statistics Agency





Hence, it still remains relevant to ensure further development of agribusiness on the basis of growing labour productivity and development of competitive advantages of domestic products.

To continue reforms started under the SAP, the country adopted the Agribusiness Sustainable Development Concept for 2006-2010 and the corresponding Priority Programme for its implementation. The aforesaid documents set the following priority objectives:

- Ensuring technical and technological upgrade of agribusiness sectors;
- Regional specialisation and integration of agricultural enterprises;
- Establishment of integrated plants on the basis of cluster initiatives;
- Development of financial, insurance, information and marketing infrastructure;
- Development of the system of preparation of and wholesale trade in agricultural output;
- Improvement of the output quality and safety monitoring system;
- Development of research and innovation infrastructure and agribusiness staffing improvement<sup>6</sup>.

The Programme details ways and mechanisms to implement the set objectives and provides for considerable republican and local budget allocations for these purposes. Thus, in 2006 it was about KZT 70 billion, and by 2007 and 2008 it had already exceeded KZT 120 billion.

In 2008, the state economic policy focus on long-term development of the capacity of large-scale agriculture and associated industries started to emerge.

The essence of the 'food scenario' is that Kazakhstan is capable of providing with food a population which exceeds the current population of 16 million by many times, on the back of its land resources, climate, labour and technological experience. Twenty five years ago Kazakhstan was a large exporter of the most valuable products, hard wheat and meat, and had powerful agribusiness. Since then, the resource potential has dropped by almost two times, agricultural machine-building was disrupted; mineral fertilizer chemistry is in little demand, while agricultural stock processing capacities are under-utilised. The entire rural infrastructure has degraded, starting from power supply and repair of equipment to agronomics and veterinary science. In recent years, the defects in the pattern of Kazakhstani food production sector were compensated due to imports.

Transparent and rational use of budget funds has become a pressing problem. Money was actually used to only maintain the former level, while not creating an effective base for further development. However, a number of agribusiness management reforms implemented in the course of the programme became a major outcome of the completed state programmes.

To identify further agribusiness development prospects, the RK Government adopted the 2009-2011 Sustainable Development Concept, aiming at sustainable development of agribusiness, maintenance of the country's food safety, development of national competitive advantages of domestic output and adaptation of agrarian production to the country's accession to the World Trade Organisation (WTO).

Agribusiness characteristics require that the state should pursue agrifood policies, with state regulation and support to play a bigger role than in other sectors. It is not only necessary to adopt an adequate programme of further development of agribusiness, but also to increase the size and types of agricultural output subsidies, and strengthen control over use of state investments into agriculture. In the future, it would be necessary to set up a system of state monitoring of the economy from the

<sup>6</sup> 2006-2010 Agribusiness Sustainable Development Concept, 2006-2008 Priority Programme to Implement the 2006-2010 Agribusiness Sustainable Development Concept

food safety prospective, and a system of food production incentives and subsidies taking into account regional specialisation.

Development of the agrifood sector should become one of main priorities for the country's socioeconomic policies.

**In recent years, international food trade has become a sensitive political process jeopardizing integrity of countries and survival of peoples.** Food supply is becoming a 'national idea' for a majority of countries, whereas export serves as an indicator of a country's economic power.

The current global food market is peculiar in that the demand for grain (on the part of the poorest consumer countries) and meat and dairy products (first of all, on the part of the BRIC countries) has been growing simultaneously. Given biofuel consumption, chemical contamination of food and mistrust of genetically modified foods, the demand for regularly shrinking resources of traditional food and agrarian primary goods has been ever increasing. Therefore, prices of high-quality (biologically and chemically clean) foodstuffs will grow in the long term, with prices of high-quality livestock output marked by a longer production cycle to grow at an accelerated pace. The key area of Kazakhstan's food safety is accelerated development of forages, efficient and balanced in their composition, which are the main agribusiness output in terms of tonnage. Only this will allow meat, poultry and fish output to be increased. Forages are not so much about grain, as about vegetables, potatoes, cultivated herbs and biological additives. Therefore, the key part of the long-term rural strategy is to build up the fodder balance and agricultural microbiology.

Hence, the pattern of areas under crops should be changed dramatically and industrial high-quality forage production should be enhanced. In Kazakhstani context, in order to maintain a stable productive herd (and reduce the cost of agricultural output as a whole while increasing the profitability) it is necessary to revert to state policies aimed at creating and maintaining a forage stock for 1.5-2 years (depending on the regional context).

Previous experience and forecasts for the future show that at this point of time it is impossible to come back to the former style of economy. Therefore, the following requirements to short-term crisis mitigation measures arise:

1. Artificial 'heating' of any sector (e.g., agriculture) results in an inevitable crisis in this sector. An investor needs long-term market incentives (first of all, demand) rather than cheap investments.
2. Normal investment activities cannot be secured without relying on enterprises' (and entities') own funds.
3. Demand will be determined not only by an average income level, but also by income distribution. The higher the number of people earning well is, the stronger the economy is.
4. Short-term measures should be designed with due regard for mid- and long-term development.

Mitigation of negative crisis consequences and Kazakhstan's recovery from the subsequent depression will depend on the state's structural policies and medium-term activity.

### 3.2 Peculiarities of Rural Human Development

About 47 percent of the country's population lives in rural areas. A deep agricultural crisis in the 1990s has affected rural human development indicators. First of all, it is true for life expectancy, a key human development indicator. A considerable drop in





life expectancy explains an overall decrease in Kazakhstan's human development index. While in 1990 life expectancy was 68.1 years, in 1995 and 2008 it was 63.5 and 67.1 years respectively.

Despite an insignificant improvement in this indicator over the past decade, it still remains quite low. It is much below the peak this indicator reached in Kazakhstan in 1987 (70.5 years). It is remarkable that in terms of life expectancy Kazakhstan lags behind not only developed countries, but also almost all CIS countries including Tajikistan and Azerbaijan, where life expectancy is more than 72 years.

High mortality, low birth rate and a negative migration balance have for a long time affected growth of the country's population. A slowing natural increase of the rural population is particularly noticeable in this context. Thus, over the past five years a natural increase of rural population totalled 25 percent, whereas for the urban population it grew by 63 percent. This fact reflects, first of all, an increasing relative difference in the overall level and quality of life in rural areas and large cities. However, social factors and deterioration of the social infrastructure in rural areas are the most important factor underlying negative rural trends from the human development perspective. Thus, following the cost optimisation in the country's national education and healthcare systems, about 60 percent of rural settlements were left without public healthcare facilities, libraries and clubs, and over 50 percent were left without post offices.

Lack of healthcare facilities, qualified experts, poor quality of existing medical institutions in many rural settlements were reasons for growing rural mortality from infectious and parasitic diseases, first of all, tuberculosis. Respiratory diseases account for about half of all diseases in the country's population<sup>8</sup>. This also has to do with deteriorating environment and lack of high-quality water supply and sewage infrastructure and severe pollution of surface and ground waters.

In terms of river flows, Kazakhstan is one of countries with the poorest water supply. Water sources originating within the country provide only 56 percent of water resources, with other flows coming from adjacent states. Furthermore, the quality of almost all water facilities is assessed as unsatisfactory. Water supply of rural settlements has been almost completely destroyed, with more than 72 percent of settlements having no water pipes.

Despite a certain drop from previous years, maternal and infant mortality in rural areas remains high.

The number of children not attending school for health or money reasons is growing. Twenty one percent of rural settlements have no schools, whereas a part of existing schools fail to comply with standards and occupy premises without running water and sewage. Almost half of rural schools have no sports gyms; many of them have no libraries, study rooms or workshops.

Despite secondary education being mandatory, low population density and uneven distribution of rural population pose certain challenges for secondary education in rural areas. A shrinking network of boarding schools and an increase in the number of ungraded schools render a considerable negative effect on the quality of education in rural areas. There is an obvious shortage of teaching staff in rural areas and a high staff turnover, whereas the quality of rural teaching staff leaves much to be desired.

<sup>7</sup> Source: RK Statistics Agency.

<sup>8</sup> Source: RK Statistics Agency.

Cultural and sports life in rural areas is almost 'frozen'. As a result of cost optimisation, regional culture departments, which were in charge of leisure in rural areas, were dissolved. The number of movie theatres dropped by 15 times; rural clubs have been privatised; a majority of existing rural libraries have no access to information systems and are in need of maintenance and repair. Sports facilities are primarily inactive and there is a shortage of sport's instructors in rural areas.

As a result, the gap between educational and cultural levels of rural and city youth is growing, implying that inequality between rural and urban population will further be continued and will grow.

Deepening inequality between rural and urban population to a large degree has to do with the income inequality level. Average agricultural yearly wages reported by the RK Statistics Agency are the lowest among all sectors. In 2008, monthly average wages per worker were KZT 31,397 (cf. KZT 81,072 in construction, KZT 74,644 in industry). This is 48.3 percent lower than the average republican figure. On the average, the country's per capita incomes exceed per capita incomes in rural areas by almost two times.

Growing unemployment and the lack of official income-earning opportunities led to a considerable growth in the so-called self-employed population. According to official statistics, in 2007 1.8 million (about 70 percent) out of 2.6 million self-employed lived in rural areas. Thus, the majority of those employed in agriculture, i.e. over 73 percent, are self-employed. For more than 90 percent of self-employed this is not about the development of private entrepreneurship, but the only way to survive. Such employment also means exclusion of the self-employed from the social fund support.

As a result, the share of rural population with incomes below the subsistence minimum exceeds the urban one by almost two times. This also leads to a large outflow of population, first of all, youth, to cities and other countries. At the moment, the rural population is dominated by elderly people and children. More than a third of all women employed in the economy work in rural areas.

Thus, in terms of all human development indicators, the Kazakhstani rural population is worse off than the urban population. In this context, high GDP growth demonstrated by the country since 2000 and growing budget revenues have failed to play a significant positive role in the improvement of rural population's life. In many respects, this has to do with insufficient republican budget allocations for social purposes, first of all, healthcare and education. Thus, in 2006 healthcare expenses accounted for only 2.2 percent of the GDP, 2-3 times lower than in developed countries<sup>9</sup>. Cf: healthcare costs total 3.7 percent of GDP in Russia, 4.8 percent in Belarus and 2.9 percent in Ukraine.

The same is true for education outlays. In 2006, education expenses accounted for 3.2 percent of GDP, which is less than a half of those in developed countries and lower than in Belarus (6 percent) and Ukraine (4.2 percent). As a whole, education and healthcare outlays are 1.5-2 times lower than in 1991, which suggests that there is a need for a noticeable increase in spending in these two major human development areas. This is particularly relevant for rural population, who are not able to address the large-scale problems they face by themselves.

Low agricultural output growth, a rise in agricultural prices almost five times less than that in industrial prices since the 1990s, the lamentable state of the industrial



<sup>9</sup> Source: RK Statistics Agency

and social infrastructure have predetermined a need to develop and adopt the 2004-2010 State Programme of Rural Development. Its primary goals are to secure a higher standard of living for the rural population, set the stage for sustainable rural development, address environmental problems and achieve more efficient resettlement of the population.

The aforesaid programme provides for an improvement in physical infrastructure and rural healthcare. Construction, reconstruction, major repair of healthcare facilities and provision of all required medical equipment and ambulance vehicles are performed under the 2005-2010 State Healthcare Reform and Development Programme. Under this Programme, 90 healthcare facilities were constructed, 450 were repaired, and population's need for tuberculosis treatment and obstetric aid in rural areas is met. To provide rural healthcare facilities with qualified medical staff, effective mechanisms to ensure settlement of staff in rural areas are being elaborated, such as the provision of free housing, one-time benefits, repayment of state education loans and allocation of targeted education grants provided that the staff has worked in rural areas for at least three years.

Agricultural production is peculiar in that the agriculture is not only a production area, but also a habitat for a large part of the country's population. Therefore, the agribusiness status and its development render a key impact on human development and vice versa. Whereas at the initial stage state efforts were focused primarily on agricultural output development and growth, the critical state of human development indicators for rural population can turn out to be the most significant barrier on the way towards further development of agribusiness.

### 3.3 Competitiveness of Agricultural and Food Products

Over the past half a century the world trade in manufactured goods has increased by 54.5 times, in agricultural output - by 6.9 times and in mining output - by 9.5 times. Whereas in 1990 the global export of manufactured output was 50 percent of the 2000 level, in 2007 it grew by more than 1.5 times. In 2007, world agricultural exports exceeded the 2000 level by a third. The quoted data testify to outstripping the growth in global production and export of manufactured output compared to that of production and delivery of agricultural production to the world markets.

Meanwhile, Kazakhstan has a different situation. The republican exports are dominated by mining output. According to the WTO the share of manufactured output in 2007 was 13 percent, agricultural output – a little more than 3 percent. As a comparison, in 2007 the mining, manufacturing and agricultural output in Russia accounted for 72.5, 19.4 and 6.6 percent respectively.

As is well-known, **agriculture** (including **food-processing industry**) is one of Kazakhstan's most sensitive sectors. Therefore, assessment of competitiveness of agricultural and food output is of particular relevance.

A special project of the Ministry of Agriculture implemented in cooperation with the World Bank in 2005-2009 was dedicated to enhancing the country's agricultural competitiveness. The project aimed to improve the agricultural competitiveness through facilitation of access to markets by improving the quality and safety of agricultural products, facilitating access knowledge and information. Expected project outcomes included, among others, accelerated introduction of new equipment and advanced technologies, increased productivity of agricultural entities and improved variety and quality of output.

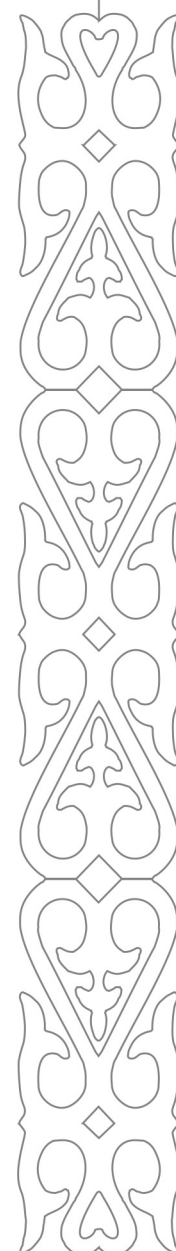
The highest degree of competitiveness is characteristic of Kazakhstani wheat exports. Over the past 10 years, exports of all products of the food-processing industry, other than flour, are absolutely non-competitive.

In the past two years, Kazakhstan became the world leader in flour export, with a dominant share of the world market (18 percent in grain equivalent in 2007/2008), followed by EU, Argentina, Turkey (largest exporter in 2005/2006) and China (listed in the descending order). The main importer of Kazakhstani flour is Uzbekistan (50.56 percent in 2007), the largest world importer of this product in 2006/2007. Last year Brazil became the largest world importer followed by Tajikistan (32 percent), Afghanistan (8.84 percent), Kyrgyzstan (3.9 percent) and Turkmenistan (1.95 percent).

Let us analyse the situation with certain absolutely non-competitive products of the food-processing industry. For example, the situation with sugar exports is quite logical. During the USSR period the share of sugar import as compared to its production was about 77 percent. In 2001-2007, this indicator has dropped considerably, reaching 41.2 percent of production by the end of the period. Sugar exports from Kazakhstan are rather insignificant, with the exception of 2003-2005, when 117.119 and 128.000 tons of this product were exported. Consumption of this output in the country dropped by 35.4 percent compared to 1990. It is impossible to state that the share of imported sugar in personal consumption demonstrates a stable downward trend. Nevertheless, in 2001-2007 this indicator dropped as compared to the 1990s, whereas in 2007 it was about 40.7 percent (43.5 percent in 1990). From 1990, sugar production increased by 12.8 percent, but the domestic market demand is traditionally met by imports, primarily from the CIS countries. In 2007, 95 percent of sugar was imported from Russia, Belarus, Kyrgyzstan, Azerbaijan and Ukraine (listed in the descending order). Domestic sugar is exported to the CIS countries, with the most supplies in 2007 delivered to Kyrgyzstan followed by Russia, Ukraine and Tajikistan. In 1995-2007 sugar imports were 10 (or more) times higher than its exports. This situation changes when it comes to the export of meat and meat products. Over the past decade, the export of meat and meat products has become absolutely non-competitive. In 1990-2007, export of meat and meat products dropped from 341.7 to 2,900 tons, i.e. almost by 118 times, whereas imports have increased from 13,500 to 193,200 tons, or by 14.3 times. This situation has to do, to a certain extent, with a considerable drop in production, which more than halved during the period 1990-2007.

Of special concern is the situation with poultry imports (chicken thigh quarters) and edible by-products. For example, in 2007 147,100 tons of these products were imported (including 145,400 tons from non-CIS countries), accounting for 70.6 percent of total consumption of this product in the domestic market (62.6 percent in 2004). Sixty four thousand tons of poultry and edible by-products were produced in 2007, 2.3 times less than imported. Let us also add that poultry production has dropped by 68 percent, from 200,900 to 64,000 tons, from 1990.

Meanwhile, compared to the markets of other types of meat, the world poultry market has been the fastest-growing one. Chicken accounts for the main part of the global poultry production and consumption. As a whole, over the past quarter of the century the poultry market landscape has changed dramatically. With Europe being the largest manufacturer of this product in the early eighties the USA, Brazil and EU became the main poultry suppliers to the world market by the early 21st century. About 30 percent of poultry is produced in Asia, Northern and Central America. South America and Europe account for a combined share of approximately 15 percent. In 2000,







poultry exports grew by 6 percent and reached a record level of 8.7 million tons, whereas the global demand has exceeded 85 million tons, which caused the USA, Brazil and EU to increase world market supplies. The highest demand growth is reported in China and in the east. The world's largest poultry importer is Russia. Vegetables, melons and gourds produced in and exported from Kazakhstan are highly competitive. The country's exports of vegetables, melons and gourds are steadily growing: in 2003 exports increased by 74 percent from 1990, with their production growing by 77 percent. Over the said period, the import dynamics remained almost unchanged. The relative share of imported vegetables, melons and gourds of the country's production is insignificant and decreased considerably in 1990-2003, from 3.4 to 2 percent.

On the contrary, production of fruits, berries and grapes has lost its competitiveness since the 1990s. During the period 1990-2003, total output of fruits, berries and grapes dropped by 2.3 times. At the same time, exports of these types of products have increased by 4 times, whereas import dynamics are quite unstable. However, its share of the country's own output is large enough and totalled 45.4 percent in 2003 (13 percent in 1990). Unfortunately, due to lack of data on export and import of vegetables, melons and gourds, fruit, berries and grapes in 2004-2008 it is impossible to determine their competitiveness during the said period. Nevertheless, it is quite clear that the country does not pay due attention to fruit. This is a rather negative factor for a country that can grow a wide range of these products in significant quantities (other than citrus and exotic fruits). A drop in the output resulted in an increase in the share of fruit imports, which in 2003 accounted for almost half of the entire personal consumption of these products (14 percent in 1990).

As a whole, the Kazakh agrarian sector output is non-competitive due to a number of traditional reasons: obsolescence and wear and tear of facilities, low labour productivity, rather low crop and livestock industry efficiency. At the moment, budget subsidies (both direct and indirect) to Kazakh agricultural manufacturers are essentially lower than in many WTO member countries. In Kazakhstan, the amount of state support per hectare of arable land is estimated at US\$ 7.5, 11 times lower than in Canada, 15 times lower than in the USA, 115 times lower than in the EU and 570 times lower than in Switzerland. According to the World Bank, developed countries spend US\$ 1 billion every day to support their agricultural producers. Therefore, the negotiation partners' requests for considerable agricultural concessions are completely unjustified. The agrarian sector of the WTO member countries has incomparable competitive advantages; therefore, many Kazakh agricultural producers will be merely stamped down to the ground. At the same time, the Kazakh market will receive imports in such quantities (but not of the best quality) that will pose serious problems for the country's food safety. Meanwhile, as convincingly demonstrated by the global experience, if exceeding the threshold of 30 percent of the food market, imports jeopardize a country's economic safety.

As far as per capita exports are concerned, in 2005 EurAsEC member countries lagged behind the Eurozone's indicators by more than 45 years, with Kyrgyzstan, Tajikistan and Uzbekistan trailing by more than 60 years, Belarus and Russia by more than 45 years and Kazakhstan by 45 years (for your information: EU8 countries lagged behind the Eurozone's per capita average exports by 30 years).

Note: The 'EU8' includes Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, Czech Republic and Estonia.

Of all the EurAsEC member countries, Kazakhstan reported the highest per capita exports in 2005.

### 3.4 Agricultural Trade Policy Reforms in the Context of the Republic's Accession to the WTO and its Impact on Human Development

At present, the country's foreign trade policies are quite liberal, imposing no quantitative restrictions on imports, having rather low customs duties and its export and import licensing system focused on a short list of goods, primarily dual-use goods, etc.

The country's legislative framework, as a whole, is in line with WTO principles and rules, which is evidenced by current top-priority and most relevant laws on foreign trade such as the Customs Code, the Patent Law, RK Laws 'On Trademarks, Service Marks and Names of Places of Origin of Goods', 'On Protection of Selection Achievements', 'On Plant Quarantine', 'On Standardisation', 'On Certification', 'On Measures to Protect the Domestic Market in Case of Import of Goods', 'On Antidumping Measures', 'On Subsidies and Countervailing Measures', 'On Unfair Competition', etc.

The main foreign trade policy tool is customs duties. The overwhelming majority of tariffs (over 85 percent) are ad valorem. The average tariff rate is about 8.6 percent. Ad valorem rates range from 0 to 30 percent, with commodity items having a rate of 0 to 15 percent accounting for 95 percent of all commodity items. Due to Kazakhstan's accession to the Customs Union on 1 January 2010, customs duty rates will increase. In Kazakhstan, the preference system is also applied to a number of developing and less developed countries based on the common preference system adopted in international trade. According to this system goods originating from developing and less developed countries are subject to more preferential customs duties (for developing countries) or are exempt from customs duties (for least developed countries).

Along with customs duties, imports are also subject to a value-added tax, VAT (16 percent), and excise tax. VAT depends on the country of destination is levied for almost all countries and all goods. Fees for customs clearance, storage and other customs procedures are fixed and reflect the cost of respective services rendered to foreign trade activity entities.

In the context of changes in customs procedures due to Kazakhstan's accession to the Customs Union, the focus on further foreign trade policy reforms should be made not only on measures applied at the border, but also those within the country. These can include introduction of international quality standards, sanitary and phytosanitary measures, provision of access to information and new technologies, respective institutional reforms enabling benefits from wide involvement into regional and international trade associations. Here, key elements would be establishment of an efficient regulatory environment, development of measures to support and promote production of hi-tech competitive goods, establishment of institutions for supporting and promoting Kazakh goods in international markets.

Since further development of agricultural trade policies is connected with Kazakhstan's accession to the WTO Agreements, foreign trade policy tools should also be in line with the rules and principles of this international organisation. Trade in agricultural goods is governed by dedicated WTO's Agreement on Agriculture, according to which trade policy regulation consists of the three key elements:

1. market access;
2. domestic support;
3. export subsidies.





Access to the market of agricultural goods is only regulated by tariffs. Special protective measures can be applied in certain cases to compensate, in part, a dramatic decrease in import prices or a dramatic increase in import volume. In some cases, minimum access is secured with the help of tariff quotas.

To maintain food safety, developed countries implement the following government programmes: crop insurance, earmarking funds for stabilisation of farmers' incomes, protection of farmers' revenues in case of commodity market instability and adverse weather conditions; interest-free advance loans for spring sowing campaigns, autumn interest-free credits allowing farmers to postpone sale of seasonal products, information and consulting services, in farmers' debt re-structuring mediation programmes, agricultural output marketing support, a decrease in taxes in case of forced sale of breeding cattle in drought-prone areas. They also apply guaranteed purchase of surplus products at minimum prices, procurement and commodity interventions in the food market, specific soft loan forms; customs regulation (economic and administrative regulation), etc.

At the moment, Kazakhstan does not apply quantitative restrictions for trade in agricultural goods. Furthermore, the country's average weighted tariff for agricultural imports is 16.3 percent, which is considerably lower than import tariffs in other countries, developed or developing. For example, WTO member countries' average weighted tariff rates are as follows: Bulgaria – 35 percent, Latvia – 34 percent, Jordan – 25 percent, Oman – 31 percent etc.

A rather low import tariff, its further reduction as a result of Kazakhstan's WTO accession negotiations, lack of quantitative restrictions at present and lack of possibilities to use them in the future call for expansion of trade policy measures that are legal from WTO's perspective, with tariff quotas being one of them. Active use of this tool by the WTO member countries including those with developed agriculture, variety of tariff quota forms and administration methods applied by the countries beg a conclusion that it is feasible to keep such an important tool in the country's foreign trade policies. Use of tariff quotas is particularly relevant for Kazakhstan pursuing structural reforms, in the context of lack of clearly established traditional commercial links and sustainable markets as well as high dependence on imports. In this case, tariff quotas can act as a protective measure helping not to admit to the country imported goods in excess of a certain quantity threatening domestic production. If it is impossible to preserve a higher single uniform tariff binding level on certain sensitive goods, application of tariff quota by binding a rate at a high level, even after reaching certain import quantities, it would be some kind of a palliative.

Domestic support measures are governed within the framework of reduction of the total aggregate measure of support (AMS), i.e. total subsidies granted to the agricultural sector.

Each WTO member assesses its AMS measure based on the data for the next three years and commits to achieve a 20-percent reduction over a six-year period (for developed countries) or 13-percent reduction over a 10-year period (for developing countries).

Measures having a minimal impact on trade ('green box') are excluded from reduction commitments. Such measures include general services rendered by state entities,

for example, research, disease control, general infrastructure and food safety. Certain direct support forms, structural adjustment assistance and direct payments under environmental programmes and regional aid programmes also belong here.

Excluded from the AMS assessment are certain state assistance measures to facilitate the development of agriculture and rural regions in developing countries and other forms of support accounting for an insignificant part, the so-called "de minimis", i.e. five percent of total output for developed countries and 10 percent for developing countries.

As mentioned above, Kazakhstan is implementing certain government programmes to develop agribusiness, improve its efficiency and develop rural areas including solution of social and environmental problems. The aforesaid programmes provide for allocation of significant and increasing budget funds for these purposes.

Among them are general measures aiming to control pest and diseases of crops and livestock, personnel training and retraining, agricultural science, development of information and marketing service, development of general infrastructure, including the hydraulic network, engineering facilities, etc. According to the WTO's classification such measures have no or minimal negative impact on trade and are treated as 'Green Box' measures that are known to be excluded from reduction commitments.

Apart from these measures, significant amounts of budget funds are spent on agricultural production support. These measures include: state grants targeting development of elite seed production and livestock breeding, purchase of fuels and lubricants, mixed fodders and mineral fertilizers by farms, water supply for agricultural producers and subsidies for purchasing agricultural goods for further processing. Considerable amounts of funds including those from local budgets are allocated for organisation and performance of spring field and harvesting campaigns.

Recently, national companies have been playing an increasing role in assisting agricultural producers through specialised funds including the Fund of Financial Support of Agriculture, Small and Medium Business Support Fund and relevant national companies such as Agrarian Credit Corporation, Food Corporation, KazAgroFinance JSC and Mal Onimderi Corporation.

Both the republican budget and these companies themselves allocate significant resources to finance spring sowing campaigns, set up machinery and technological stations and rural credit associations for providing services to agricultural producers. They also provide soft loans for procuring and leasing agricultural machinery, process equipment and spare parts.

The Fund of Financial Support of Agriculture also effects direct payments under mandatory crop production insurance programmes and offers microcredit to low-income producers.

For more efficient administration of state aid to agribusiness, control over all of these organisations was transferred to KazAgro National Operating Holding Company. The primary goal of the holding company is to implement state policies to facilitate the development of agriculture of the Republic of Kazakhstan by ensuring efficient management of investment assets and developing the corporate culture of joint-stock companies operating in agriculture whose shares it received in consideration for placed shares.





KazAgro's objectives within the set goal are to: focus investments on addressing priority objectives of the agribusiness; improve the efficiency of state investment into agriculture; develop the agrarian industrial and service infrastructure; assist in establishing and developing agricultural clusters; develop agricultural output exports; regulate and stabilize domestic food markets; enhance the efficiency of corporate governance.

At the moment, the holding company has started the 2010 agribusiness entity lending programme aiming to finance spring sowing and harvesting campaigns and purchase agricultural products for subsequent financing of agricultural producers by entering into forward procurement contracts and replenishment of agribusiness entities' working capital. The total loan amount will be KZT 80 billion to be borrowed by KazAgro from the republican budget. The total amount of the financial support for the rural sector in 2009-2010 taking into account the turnover will be KZT 248.6 billion. In 2009, KZT 17.6 billion was disbursed for investment projects, KZT 68.8 billion was spent on the spring sowing and harvesting campaigns, KZT 55.1 billion was spent on grain procurement.

***To ensure the food market stability, KazAgro National Operating Holding Company placed a KZT 120 billion bond issue paid from the National Fund proceeds. A part of these funds was used to finance 12 agribusiness investment projects totalling KZT 10 billion. In 2008, Samruk-Kazyna Fund placed target deposits with second-tier banks (STB) for an amount exceeding KZT 20 billion. These funds were disbursed for production and processing of white sugar, vegetable oil, milk and meat<sup>10</sup>.***

Higher agribusiness competitiveness is particularly important due to limitations of the country's home market, need to search for new markets, diversification of production and expansion of agricultural exports. Along with this, agricultural exports can be limited due to remoteness of world markets, the country's land-locked status and, therefore, high transportation costs. However, it should be noted that it is questionable whether agricultural export subsidies can be used since there is a trend to prohibit this form of support within the WTO.

As is well-known, the Agreement considers export subsidies to be direct export subsidies contingent on export performance, internal transport subsidies applying to exports; subsidies to reduce the cost of marketing goods for export and some others. The WTO members, who reserve their right to provide export subsidies, identified certain goods subject to subsidies. Such commitments provide for a gradual reduction in export subsidies expressed both in value terms and volumes of subsidised exports. Thus, the developed countries have committed to reduce during the six-year implementation period commencing in the year 1995 the amounts of direct export subsidies by 36 percent from the base-period level and the volume subsidized exports by 21 percent. Developing countries are expected to reduce the budgetary outlays for export subsidies by 24 percent and export volumes by 14 percent in the course of 10 years. Therefore, it would be important for Kazakhstan to use certain kinds of such subsidies, in particular, to reduce marketing costs for agricultural export and internal transportation of exports.

Proceeding from the current status of the Kazakh agriculture, its multi-functionality, it would be very important to use the Special and Differential Treatment stipulated by

<sup>10</sup> Source: 50.KZ, Issue # 10, 2009

the WTO's Agreement on Agriculture for developing countries. It is particularly relevant to use state assistance measures for promoting the development of agriculture and rural regions, investment subsidies and raw-material subsidies, which, as a rule, are provided to low-income or resource-poor producers. The Special and Differential Treatment for developing countries implies that such measures will be excluded from the reduction commitments.

It is even more important due to the fact that Kazakhstan's agriculture can suffer considerably from strengthened competition as a result of further liberalisation of trade and accession to WTO Agreements, especially in the short-term prospect. Therefore, further liberalisation steps should be phased, consecutive and within a clear-cut timeframe.

Completion of agricultural reforms and the successful and stable development of agriculture call for targeted state policies and respective financial support. It is also important to point out the ultimate goal of all reforms, which is human development in its broad sense, i.e. meeting a person's growing vital needs, formation and realisation of a person's capabilities in economic, social, cultural and political areas. At the same time, agribusiness development will promote the rural population's wellbeing, growing revenues and quality of life, as well as an increase in the consumption of high-quality and various foods made in Kazakhstan. Together with a reduction in forced migration of rural population to cities, primarily youths, all these will also mitigate the housing and labour market tensions and promote human development in the country, as a whole.

**Table 3.5 –SWOT analysis of the impact of trade, trade policies and Kazakhstan’s accession to the WTO on human development: agricultural sector**

Strengths	Weaknesses
<ol style="list-style-type: none"> <li>1. Trade liberalisation promotes more efficient distribution of limited resources, including labour, growth production efficiency and labour quality;</li> <li>2. Participation in international division of labour based on comparative advantages, improvement of professional skills and labour specialisation;</li> <li>3. Ensuring long-term economic growth and human development in the long-term prospect;</li> <li>4. Expansion of quantity and quality of goods at more affordable prices for consumers;</li> <li>5. Stable and transparent legislative framework in line with international standards;</li> <li>6. Creation of more favourable conditions for attracting foreign</li> </ol>	<ol style="list-style-type: none"> <li>1. Challenging climatic conditions, lack of adequate transport infrastructure, low population density, remoteness of commodity markets, land-locked status;</li> <li>2. raw-materials orientation of manufacture and export of commodities;</li> <li>3. non-competitiveness of high value-added foods;</li> <li>4. high transportation costs when exporting/importing commodities;</li> <li>5. under-developed production and social infrastructure;</li> <li>6. limited ability to apply protectionist measures, in particular, impossibility to apply quantitative restrictions.</li> <li>7. insufficient knowledge of and experience in foreign trade operations;</li> <li>8. underdeveloped marketing and information services, lack of awareness</li> </ol>





<p>investment, new technologies and know-how;</p> <p>7. Expansion of commodity markets for domestic output, export diversification;</p> <p>8. Participation in development of the international rules of trade in goods and services through WTO membership;</p> <p>9. Obtaining the most-favoured-nation treatment from WTO member countries;</p> <p>10. Possible use of the WTO dispute settlement mechanism.</p>	<p>of potential sale markets and foreign trade rules.</p> <p>9. small-scale production and fragmentation of agricultural producers;</p> <p>10. strengthened competition and, as a consequence, possible deterioration of the status of the country's agriculture, especially in the short-term prospect;</p> <p>11. more limited ability, as far as introduction of new regulation measures for trade in goods and services is concerned, in issues of government support and subsidies for certain types of industries;</p>
<p>Opportunities</p>	
<p>1. Stage-by-stage and gradual liberalisation of trade in agricultural goods using the transit period;</p> <p>2. Use of tariff quotas as an interim tool between tariffs and quantitative restrictions;</p> <p>3. Almost unlimited state aid possibilities in developing the overall agriculture infrastructure, improving agricultural workers' qualifications, providing information and consulting services;</p> <p>4. provision of targeted state financial aid to agricultural producers in increasing efficiency and expanding production to the extent possible for the WTO member countries within the framework of the stipulated Aggregated Measure of Support;</p> <p>5. Use of Special and Differential Treatment provided under the Agreement of the WTO on Agriculture;</p> <p>6. Manufacture of more competitive output based on the country's comparative advantages;</p> <p>7. Search for new markets for specialised domestic output.</p> <p>8. A decrease in unemployment among rural population, poverty level and social tension.</p>	<p>12. impossibility to use quantitative trade restrictions other than in special cases;</p> <p>13. prevalence of larger trade partners' opinions and position in the course of multilateral negotiations.</p> <p>14. undeveloped information and marketing services, no knowledge of potential commodity markets and foreign trade rules;</p> <p>15. lack of the clear-cut export strategy;</p> <p>16. insufficient consideration of the peculiarities of the agricultural sector, which is at the same time rural population's habitat, in international trade rules;</p> <p>17. limited ability to develop rural areas, ensure food safety and solve water and environmental problems;</p> <p>18. growing unemployment among rural population and strengthened social tension in the transition period;</p> <p>19. internal migration growth.</p>
<p>Threats</p>	
<p>1. failure to obtain in the course of WTO accession negotiations the required level of the Aggregated Measure of Support required during the transition period as stipulated by the Agreement of the WTO on Agriculture, for adaptation of agriculture for functioning within the WTO membership context;</p> <p>2. preservation and strengthening of the country's dependence on imports of a considerable number of foods;</p> <p>3. preservation of raw-materials orientation of export;</p> <p>4. preservation and replication of poverty among rural population.</p>	

Source: compiled by the authors.

Note:

Opportunities mentioned in items 6 and 7 can have a positive impact on unemployment, poverty and reduction in social tension.

Threats (consequences of Kazakhstan's accession to the WTO) mentioned in items 2, 3 and 4 should be taken into account, since Kazakhstan needs the transition period to complete reforms aimed at enhancing the production efficiency in agribusiness, maintain employment and keep export positions.

The threats cited in items 2, 3 and 4 have to do with possible occurrence of competitive pressure, especially during the transition period. Following Kazakhstan's accession to the WTO, as a result of liberalisation of the agricultural domestic sector it is highly likely that foreign enterprises with the best management, best productivity and higher capitalisation will emerge in the home market. In the long-term period, it is possible that competitive Kazakhstani enterprises will appear in this area.





## SECTION IV. NATIONAL POLICY PRIORITIES IN DISTRIBUTION SERVICES DEVELOPMENT

### 4.1 The Role of Distribution Services in National Economy and Population Employment. The Impact of the Global Financial Crisis on the Distribution Services Sector

Distribution services are Kazakhstan's largest economic sector, with its share remaining at 12 percent of RK GDP during the past ten years. According to official statistics, retail trade alone employs 1.2 million people, or about 15 percent of the economically active population (unofficial statistics show this at about 3 million). About 40 percent of legal entities are engaged in domestic trade. At the same time, this sector faces problems associated with deterioration in the country's financial sector and the social status of the population and presence of administrative barriers.

**In Kazakhstan, distribution services include wholesale, retail, exchange trade, Internet trade and multi-level network marketing.**

Wholesale trade is marked by an under-developed trade infrastructure, weak wholesale chain, frequent change of players and lack of own working capital. These prevent wholesale trade from regulation of commodity flows.

In early 2009, there were 814 trade markets. Classification of bazaars as trade markets is rather formal and does not encourage enterprise owners to invest actively into development of the markets. Lengthy permission procedures of supervisory authorities prevent the markets from timely construction of new facilities and reconstruction of the existing infrastructure.

Assessment of the real state of affairs in retail trade calls for ongoing collection of statistics on various indicators. The RK Statistics Agency, however, does not keep a record of trade networks, food, non-food and department stores, which makes it impossible to assess the real status of the sector, identify retail trade development trends, compare the ratios of foreign and Kazakhstani networks, expose development trends and identify the number of jobs provided by retail trade.

While determining state policies for securing a streamlined access of goods to consumers, trade administrative barriers should be analysed.

Shortage of working capital is a problem for 65 percent of entrepreneurs, whereas 55 percent of them consider poor variety of goods, which may result from lack of working capital, as a problem. Over a third of entrepreneurs (35 percent) faced supply interruptions, which testifies to poor infrastructure and organisation of commodity supplies. A total of 22.5 percent often deal with poor-quality goods, which is a consequence of lack of an adequate infrastructure for storing and preparing goods for sale. 42.5 percent reported difficulties in certification and licensing, which calls for a reduction in and simplification of licensing and certification procedures.

Retail trade entities, more than others, are inspected by various state bodies. Most often, entrepreneurs deal with the tax authorities (82.5 percent), state sanitary and epidemiological control bodies (72.5 percent), fire inspection (52.5 percent) and akimat employees (37.5 percent). According to entrepreneurs, officers of the aforesaid authorities are 'leaders' in receiving unofficial payments. Primarily, entrepreneurs pay in order not to have administrative proceedings initiated against

them (37.5 percent), or to escape administrative liability (20 percent) or to get a smaller fine (12.5 percent).

The problem of retail trade financing by banks and financial institutions deserves special mention. Thus, almost half of entrepreneurs (45 percent) have no access to financing, with 30 percent of entrepreneurs having no access due to high bank interest rates, and 17.5 percent unable to provide guarantees. Only 20 percent of entrepreneurs believe they have sufficient own funds. These findings beg a conclusion that Kazakh banks now fail to offer products supporting retail trade and, therefore, those entrepreneurs, who need additional funds, have to expand their range of products and sales premises using their own funds or do not do it at all.

One can point out the following retail problems: the high price of modern sales technologies and business processes; the high cost of capital investment (land, rent, wage fund); under-developed retail consultancy market; impossibility to lower prices due to high direct costs, undeveloped logistics and expensive transportation services, etc.

Relations with manufacturing companies hold a special place in the functioning of the retail trade. Manufacturers report difficulties dealing with trade entities, namely, obstacles in placement of their products because of high refrigerator equipment prices, the need to publish advertising materials, etc. These relations still call for an improvement in functioning mechanisms, with all parties concerned to participate in this process.

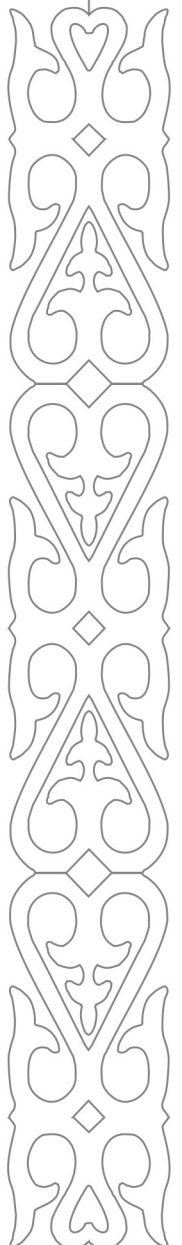
In Kazakhstan, the market share of organised retail trade ranges from 5 to 10 percent. A few other challenges in this sector can be pointed out.

- Kazakhstan has no standards with respect to the declared shop format. Quite often supermarkets call themselves hypermarkets and set a high rent price when shopping areas are lacking. Discount stores, in their turn, overprice their merchandise for no obvious reason. It should be noted that due to lack of high-quality sales premises in the Kazakh real estate market world-famous brands refuse to deliver their merchandise to RK, for which reason new shopping centres experience considerable difficulties attracting lessees.
- high logistic costs and lack of warehouses compliant with modern standards.

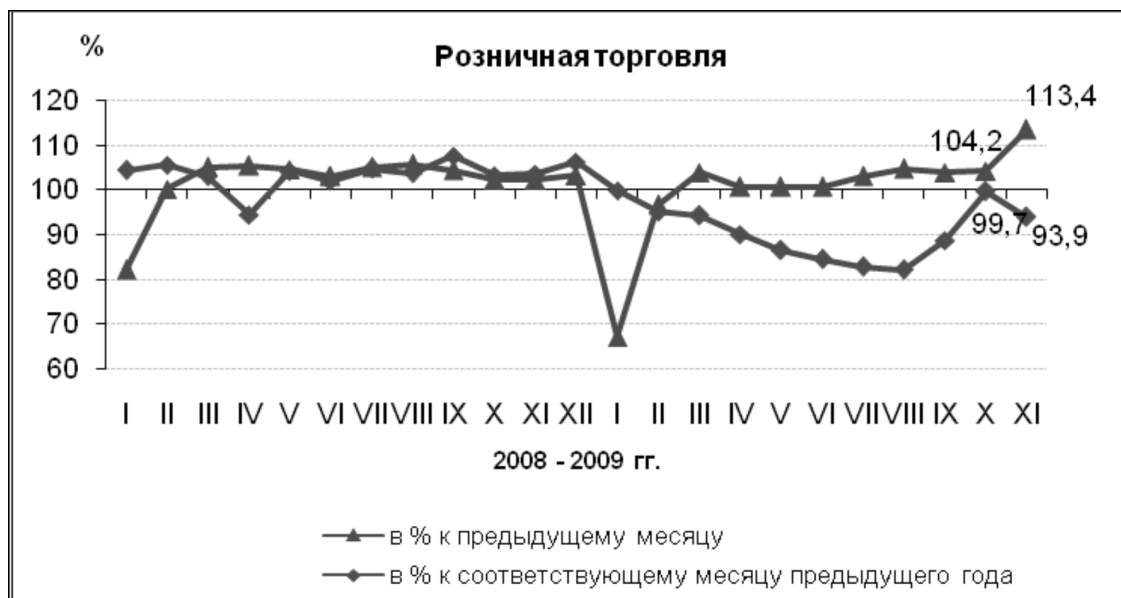
**Due to the impact of the financial crisis, these difficulties, previously unnoticed, have rendered a perceptible effect together with problems associated with imbalances in the Kazakh economy.**

Insufficient consumer demand prevents retail trade from considerably improving its state. In November 2009, commodity turnover was down by 6.1 percent from November 2008, but up by 13.4 percent from October 2009 (Chart 4.1). Such retail trade growth over a month was due to an increased activity both in fixed shops and in markets.

In 2009, the retail commodity turnover dropped by 10 percent from 2008.



**Chart 4.1**  
**Retail Trade**



Source: National Bank of the Republic of Kazakhstan

In 2010, the commodity turnover is forecasted to keep shrinking by an estimated 0.4 to 8.4 percent depending on the scenario of development of international and domestic markets and oil prices.

The main reasons why the situation with distribution services is getting worse are as follows: worse financing terms, heavy debt load of trade enterprises, reduced incomes of the population, administrative barriers.

Particularly, trade enterprises experience a drop in received working capital and, thus, can afford less primary products and materials. According to the National Bank of the Republic of Kazakhstan, in the first quarter of 2009 the rate of such drop was 7 percent from the same period in 2008, whereas in the third quarter of 2009 it was as large as 50 percent. During the first six months of 2009 the Anti-Crisis Programme allocations were disbursed, but such allocations will stop in the second quarter of 2009 and in 2010. Increased provisions for foreign currency loans issued to borrowers earning their income in tenge, a requirement introduced by the Financial Supervision Agency (FMSA), also played its role. Generally, the quality of loan portfolio is deteriorating. Rating agencies believe that the level of loans under stress may exceed the officially reported one by several times. Unsolved trade finance problems result in credit limits still being closed for the Kazakh banks.

According to the Customs Control Committee of the Ministry of Finance of the Republic of Kazakhstan the gap between customs prices and retail prices increased by 4 times over a week, from 30 October to 5 November 2009, compared to a normal level at 2.5-3.

Weak trade prospects for 2010 also have to do with a heavy debt burden of entrepreneurs and reduced incomes of the population.

The level of the debt burden of trade enterprises is 3 times higher than that in other sectors. Alongside with that, incomes of the population keep shrinking, which will affect trade in 2010. Based on the results of the first three quarters of 2009, income dropped by 11.2 percent. Incomes are expected to drop by 25 percent by the end of 2009.

However, even in this context, rigid administrative barriers are still there, requiring three years to set up a business and one day to close it down. According to an

entrepreneur surveys in Kazakhstan, in order to open a small shop an entrepreneur would have to pay 147 visits to 37 state supervisory and licensing authorities, prepare a set of 431 documents, pay from 865,000 to 935,000 tenge and wait for 812-840 days before opening the shop.

### **Trade Service Regulatory System in Kazakhstan**

- clause 2 of the Civil Code governing basic civil law principles of obligations and duties of parties to a purchase agreement,
- Law of the Republic of Kazakhstan dated 12 April 2004 No.544-2 'On Trade Regulation',
- Law of the Republic of Kazakhstan dated 31 January 2006 no.124-3 'On Private Entrepreneurship';
- Domestic trade regulations approved by Government Decree dated 21 April 2005 No. 371,
- Rules of Organisation of Trade Market Activities approved by Government Decree dated 05 February 2003 No.131,
- Rules of Retail Trade outside of Trading Premises Performed through Network Marketing, Social Marketing, Mail-Order Sales and Other Methods approved by Government Decree of the Republic of Kazakhstan dated 14 September 2005 No.918,
- Rules of Cross-Border Trade approved by Government Decree dated 05 April 2007 No. 272,
- Law of the Republic of Kazakhstan dated 4 December 2002 'On Sanitary and Epidemiological Well-being of Population' and sanitary and epidemiological requirements to establishment, maintenance and operation of food trade facilities approved by the Order of the Minister of Healthcare of the Republic of Kazakhstan dated 30 January 2004 No.100.
- Order of the Minister of Healthcare of the Republic of Kazakhstan dated 15 November 2007 No. 669 'On Approval of Rules for Issuing, recording and Completing Hygiene Certificates for Food Production and Storage Facilities, Domestic Trade Facilities and Vehicles';
- Law of the Republic of Kazakhstan dated 22 November 1996 No.48-I 'On Fire Safety',
- Law of the Republic of Kazakhstan dated 16 July 2001 No. 242-II 'On Architectural, City Planning and Construction Activities in the Republic of Kazakhstan',
- Law of the Republic of Kazakhstan dated 10 July 2002 No.339-II 'On Veterinary Services',
- Environmental Code of the Republic of Kazakhstan dated 09 January 2007.

### **Product Requirements**

- Law of the Republic of Kazakhstan dated 09 November 2004 No.603-2 «On technical regulations»,
- Law of the Republic of Kazakhstan dated 05 July 2008 No. 61-4 "On accreditation in conformity assessment",
- Law of the Republic of Kazakhstan dated 07 June 2000 No. 53-2 "On ensuring the unity of measurements".

### **Liability for Offences**

- Criminal Code
- Code of Administrative Offences



**The time for waiting and performing procedures to set up a shop should be reduced to six months and unlawful payments to state bodies should be eliminated.**

#### **4.2 The Development and Liberalisation of Wholesale and Retail Trade**

Since 1995, retail and wholesale commodity turnover in Kazakhstan has been steadily growing. Retail commodity turnover increased 17-fold by 2009, compared to 1995, whereas wholesale commodity turnover increased 129-fold for the same period (see Table 4.1).

**Table 4.1**

#### **Retail and Wholesale Trade in the Republic of Kazakhstan (in KZT millions)**

<b>Year</b>	<b>Retail Commodity Turnover</b>	<b>Wholesale Commodity Turnover</b>
1995	150,855.8	50,316.2
1996	248,365.2	117,206.6
1997	341,452.7	130,461.5
1998	424,325.2	198,387.7
1999	460,783.2	602,411.7
2000	570,446.0	703,187.4
2001	719,550.0	926,327.2
2002	826,325.0	1,112,615.2
2003	968,938.5	1,565,128.0
2004	1,218,922.8	2,398,103.4
2005	1,408,697.8	3,021,220.5
2006	1,736,760.0	4,129,252.8
2007	2,092,794.4	5,814,910.2
2008	2,442,827.2	6,963,186.1
2009	2,525,250.1	6,496,251.3

Source: Statistics Agency of the Republic of Kazakhstan

Much of the focus in the distribution services area is placed on the establishment of developed trade infrastructure equipped with state-of-the-art trade equipment enabling high-quality customer care using modern trade forms and methods, development of large specialised and universal malls.

As a rule, new trade facilities are of the supermarket type, using the shelf product placement and offering both retail and small wholesale services.

Almost in all large shopping centres and malls customers may pay with credit cards via POS terminals. Efforts taken in this area facilitate the reduction of cash turnover and expansion of non-cash payments.

Efforts are being made in the trade service area to bring trade markets in conformity with the Rules approved the Government Decree of the Republic of Kazakhstan. They are being reconstructed, with large pavilions constructed and appropriate conditions arranged for customers and sellers and sanitary, hygienic and technical conditions improved.

Supplies of essential goods to distribution service markets are monitored (at present, such essential goods as salt, sugar, vegetable oil and rice are reserved by main

wholesale providers in the oblast consumer market). Food reserves in oblasts and cities are analysed on a weekly basis (10 food items).

In order to ensure stable saturation of the domestic market with home-made sugar and vegetable oil at reasonable prices trilateral memoranda have been signed between the oblast Akimat, wholesale and retail economic entities.

Meetings are held on a regular basis with entrepreneurs, manufacturers and management of trade markets to discuss supply, price checks and trade network expansion.

In order to provide real assistance to agricultural producers, trade places were allocated in oblast food markets specifically for producers to sell their products.

Direct product supplies from producers' representatives to retail networks are practiced, which reduces the number of intermediaries between producers and customers.

In order to provide people of Kazakhstan with agricultural products at lower prices, retail trade fairs have been arranged since October 2004 in the markets and malls, which involve agricultural entities, processing entities and individuals from all regions of an oblast. A wide range of products, such as meat, milk, fresh fish, eggs, vegetables, potatoes, flour, bread and bakery products are provided. These products cost 10–15 percent less than average market prices.

During agricultural trade fairs selling premises were provided to manufacturers free of charge.

### 4.3 Outlook for Efficient Distribution Services Development

It is recommended to make the following arrangements for further efficient development of distribution services:

- to revoke secondary legislative acts that create administrative barriers to development of trade services in Kazakhstan;
- to improve regulatory acts governing retail and wholesale trade, including the following trade regulation areas in Kazakhstan:
  - amending the Administrative Code in order to ensure compliance with the requirements imposed to the market, establishment of a trade enterprise register, trade market certification, implementation of regulatory requirements to provision of population with sales premises, separation of rights and obligations between market owners and market administrators, and assignment of responsibility upon market administration for actions taken in trade markets and reporting;
  - introduction of a common system of rules for retailer operations in the Republic of Kazakhstan. The primary objective of the standards introduced is to make relations between product suppliers and trade enterprises as transparent as possible, and to protect consumers from retail trade monopolization;
  - introduction of main standards to prevent monopolisation of regional markets by large trade networks through imposition of restrictions – one network can control no more than 25 percent of sales of food products within one oblast entity, municipal Akimat or rayon;
  - setting deadlines for payment for products depending on their category. A product with a shelf life of up to 10 days should be paid no later than 10 days after the date of its acceptance, with a shelf life from 10 to 30 days – no later than 30 days, for food products with a shelf life of above 30 days, and alcoholic products made in Russia – no later than 45 days.





Furthermore, given that shuttle trade business is socially important, being a way for a significant part of the population, especially in the border areas, to survive, focus should be placed on administrative barriers and imperfection of legislation governing shuttle trade, which affects this type of business.

In this regard, the Kazakhstan Entrepreneurs Forum proposes to hold a legal awareness workshop programme for entrepreneurs and civil servants, to analyse the existing regulatory framework and prepare proposals on changes and amendments, as well as to publish a booklet 'Rights and Duties of Shuttle Trader'. Insufficiency of sales premises is a still pressing problem in Kazakhstan, which causes anti-competitive actions on the part of market owners and high rental costs and, therefore, affects prices of goods.

According to the Statistics Agency of the Republic of Kazakhstan there are 164.0 square metres of sales premises including those in trade markets per 1,000 of the population.

This figure indicates that Kazakhstan is falling behind average standards in developed countries, including CIS countries. In this regards, there is a need to introduce the standards for urban areas.

In the context of insufficient sales premises and markets, especially in urban areas, Akimats should elaborate regional plans for upgrading and developing trade markets till 2012, taking into account the requirements and location recommendations and implement mechanisms to facilitate an upgrade of sales premises.

**Table 4.4 – SWOT Analysis of economic opportunities for development of distribution services in the Republic of Kazakhstan**

Strengths	Weaknesses
<p>1. Geopolitical location of Kazakhstan in the heart of the Eurasian Continent has a significant transit potential and provides terrestrial communication between Europe and Asia, as well as Russia and China;</p> <p>2. Stable political and socioeconomic environment in the country;</p> <p>3. A general increase in population's solvency (without crisis data);</p> <p>4. An increase in industrial output, rise in foreign trade, wholesale and retail trade turnover.</p>	<p>1. Difficult climatic conditions, lack of adequate transport infrastructure, low population density, remoteness of population centres, land-locked status;</p> <p>2. Low consumer product demand elasticity;</p> <p>3. Undeveloped transportation and logistics systems and logistic (warehouse) infrastructure in the country, hence, high logistic costs;</p> <p>4. Undeveloped distribution systems, product distributors, logistic service providers and industrial enterprises manufacturing products.</p> <p>5. Certain undeveloped types of distribution services, for example, retail trade;</p> <p>5. Sophisticated territorial and administrative structure of Kazakhstan's government bodies;</p>

	<p>6. Uneven distribution of food and industrial plants;</p> <p>7. Bulkiness of the existing distribution services regulation framework;</p> <p>8. Undeveloped information and marketing services;</p> <p>9. Dramatic lack of qualified staff and a comprehensive training and retraining system for distribution services staff</p>
Opportunities	Threats
<p>1. Making Kazakhstan a trans-continental economic link for interaction of European, Asian, Pacific and South Asian trade economic systems;</p> <p>2. Establishment of a developed service centre in Kazakhstan for the entire Eurasian region in order to provide a wide range of distribution services meeting international standards;</p> <p>3. Establishment of a transparent and predictable domestic legislative framework for distribution services in line with international standards;</p> <p>4. Expanded quantity and quality of products provided to customers;</p> <p>5. Opportunities to establish transnational companies (TNC) in the food industry within Eurasian Economic Community (EurAsEC);</p> <p>6. Promotion of economic growth through domestic trade expansion in the long term.</p>	<p>1. Reduced food safety of the country;</p> <p>2. Higher retail prices of consumer products reducing the purchasing power and social protection of the population;</p> <p>3. Reduced quantities, required range and quality of products supplied to the domestic market;</p> <p>4. Lack of a competent influential public association of trade enterprises in Kazakhstan can lead to tougher competition, and consequently, possible deterioration of the status of trade enterprises in Kazakhstan.</p>

Source: compiled by the authors.





## SECTION V. CONCLUSIONS AND PROPOSALS

Outstripping GDP growth rates recorded in 2007 and the first half of 2008 were primarily due to the booming natural resources sector caused by an increase in oil production and a rise in world hydrocarbon prices. The global financial crisis has impacted on the fall in Kazakhstan's GDP growth rates in the first half of 2009 by 2.4 percent as compared to the same period of 2008. Nevertheless, the estimated GDP for the third quarter of 2009 and the fourth quarter trends have demonstrated an increase in Kazakhstan's 2009 GDP by about 0.5 percent as compared to 2008. The current crisis has exposed considerable vulnerability and a low degree of independence of Kazakhstan's economy from external shocks, which has to do with economic structure inefficiencies and remaining disintegration between the financial and industrial sectors.

In this context, at the post-crisis development stage, Kazakhstan's economy needs to implement structural reforms and convert to the **industrial development model**, which will allow the dependence of the economy on the world energy and mineral prices to be mitigated.

There is also a need to enhance the investment appeal of Kazakhstan's economy by setting a favourable investment climate in the real economic sector. To this end, Kazakhstan needs to develop justified investment policies, with an effective system of regulation of their sectoral and regional focus to be determined.

In the context of the ongoing global financial crisis, cooperation within the EurAsEC and **establishment of the Customs Union by Belarus, Republic of Kazakhstan and Russian Federation** can be considered as an effort to jointly overcome the negative consequences of the crisis. The Customs Union, an advanced regional union, is open for other CIS countries to join. Integration of Kazakhstan with SPECA countries is also seen as a promising option.

To date, the Customs Union countries have already implemented a unified and preferential trade regime within the Customs Union (import duty rates in the three countries are zero). Moreover, further integration within the Customs Union will make it possible for producers to apply uniform third-party trade regulation measures, which will facilitate deeper economic relations between real sector manufacturers and lead to a more favourable investment regime throughout the Customs Union.

At the same time, the Customs Union countries are negotiating foreign suppliers' access to their commodity and service markets, state agriculture support measures and intellectual property rights within the framework of the WTO accession negotiation process. In the future, at subsequent stages of development of the Common Economic Zone, these areas will require close attention in the context of the integration of Belarus, Republic of Kazakhstan and Russian Federation.

Effective integration of the Customs Union countries and WTO accession will call for the best possible harmonisation of domestic legislation and the three countries' WTO commitments in the area of services, state agriculture support measures and intellectual property rights.

Particular emphasis should be placed on effective development of **agriculture**. Without an effective state support system, promotion of potential consumers' solvent demand and structural policy prioritisation in the market adaptation context, it would be impossible to pursue efficient competition policies and enhance domestic agricultural producers' competitiveness.

A set of measures needs to be developed to protect domestic agricultural producers. Focus should also be placed on protecting the home market from unjustified

expansion of imports and on supporting domestic producers in the domestic and foreign markets.

There is a need for enterprise managers to focus more on improvement of the quality of products and services, development of new competitive types and models of products. An increase in the share of imported foods saturates the market with cheap, poor-quality and often unhealthy imports. Certainly, this undermines the competitiveness of domestic agricultural producers, leads to growing dependence of the country's consumer market on imported foods. In this context, a number of measures need to be taken to reduce imports of foods produced in the country in sufficient quantities. This is true for all types of meat products traditionally consumed by the country's population, vegetables, melons and gourds. Fruit and berries hold a special place on this list. Strict measures need to be taken with respect to imports of those products, whose quality and other consumer properties cause serious concerns. In order to harmonise national standards with the recommendations of the World Health Organisation (WHO), UN Food and Agricultural Organisation (FAO) the main principles of their elaboration in World Trade Organisation (WTO) member countries need to be considered. This will help develop an efficient set of measures to regulate the quality and safety of agricultural output for maintaining the required high quality of foods and facilitating accession of the Republic of Kazakhstan to the WTO.

One of the reasons aggravating the fall in domestic agricultural output is loss of access of the rural population and agribusinesses to affordable credit. The main reason for diminishing competitive advantages of Kazakhstani goods is low efficiency of utilised production factors. The quality indicators of economic dynamics were affected by a wider gap in labour productivity rates and wages favouring the latter.

The main efforts of the government's agrarian policies should be focused on protection of the home market against food imports. Sugar, meat, meat products, vegetables, melons and gourds, fruit should become the main areas of trade regulation in years to come. The meat segment of the domestic food market, first of all, poultry should be of special concern. It appears expedient to implement quotas for meat imports into Kazakhstan.

As far as human development is concerned, the analysis of the trade policy as a whole, and certain sectors specifically enables the following conclusions to be made:

- agriculture is Kazakhstan's most sensitive sector that suffered more than others from transition from a centralised economy to a market economy and from dissolution of traditional inter-farm connections; a fall in this sector's output was so considerable that it is now expedient to revive and develop production to maintain a minimum level of own production required on the grounds of the country's food and economic safety considerations;
- the fall in the country's output as a whole and, in particular, in agriculture, was accompanied by a considerable drop in all human development indicators including a drop in life expectancy and population incomes and unemployment growth;
- agricultural output growth trend recorded in the past few years is yet to lead to an improvement in the main human development indicators;
- production growth is a necessary, yet insufficient condition for human development; economic growth should be accompanied by economic development, which incorporates human development as a mandatory component;





- to ensure human development, economic growth should be accompanied by targeted social policies and efficient educational, healthcare and environmental policies;
- the goal of achieving sustainable economic development calls for structural reforms, diversified production and enhanced output competitiveness;
- all this suggests, among other things, that highly-skilled workforce, high-quality management and certain manpower mobility should be in place, i.e. there are certain requirements to the human factor;
- insufficient human development at this stage can be a serious obstacle for maintaining long-term sustainable economic growth.

Taking into account the aforesaid, economic policies, be it macroeconomic, sectoral or regional, should make human development their primary concern. As far as trade policies are concerned, the following should be mentioned.

1. Subsequent trade and trade policy reforms should be aimed at further strengthening of the clear and transparent legislative system and regulatory practice, lowering administrative barriers, creating fair conditions for all foreign trade participants in the country.
2. Further trade liberalisation in the context of Kazakhstan's accession to the WTO Agreements should take into account peculiarities of the country's transition period and meet the primary goals of the current development stage, i.e. to raise production efficiency and competitiveness and to diversify the economy.
3. There is a need for a detailed substantive and quantitative analysis of economic and social implications of Kazakhstan's accession to the WTO Agreements for the economy, as a whole, and certain sectors specifically.
4. A set of measures needs to be developed to adapt sensitive economic sectors to functioning in the context of an open economy and the country's future WTO membership.
5. As far as agriculture is concerned, there is a need to apply, along with tariffs, tariff quotas permitted by WTO rules and allowing higher protection of certain economically important industries.
6. Given the ongoing crisis in agriculture, sufficient state support should including Amber Box measures be secured in order to enhance the production efficiency in the sector, decrease the dependence on imports of essential foods and secure overall food safety.
7. There is a need to achieve the level of support permitted by the WTO rules for developing countries including the so-called Special and Differential Treatment, complying with the development objectives and allowing developing countries to provide investment subsidies as well as subsidies for development of small and medium sized businesses in rural areas.
8. Given a high share of private subsidiary farms, there is a need for a set of measures to develop the trade and transportation infrastructure, information and marketing support and an effective system of procurement and preparation of agricultural stock.
9. There is a need to facilitate development of entrepreneurship in rural areas including doing so by establishing agricultural producer associations and unions and offering methodical, technical and financial aid in setting up and developing small and medium sized businesses.
10. Along with enhancing economic growth in agriculture, it is necessary to implement the programme of social, medical, educational and cultural revival of rural areas.
11. As far as **distribution services** are concerned, there is a need for shaping

trade policies and improving legislation governing trade activities. There is a need to remove administrative barriers in retail and wholesale trade, address trade finance and income reinvestment issues in order to create an effective supply chain. It is necessary to note a dramatic lack of qualified staff and a comprehensive training and retraining system for those working in this sector.

12. There is a need to examine carefully social and economic implications of the so-called 'shuttle' trade including its impact on employment, status of certain economic sectors, budget revenue part and, as a whole, the country's short- and long-term economic development.

13. The aforesaid measures associated with the use of trade policies will promote economic diversification, enhanced production efficiency and competitiveness and solution of long-term economic development challenges, which is a precondition for further human factor development and improved life quality in Kazakhstan.

14. Proposed measures do not contradict free trade principles and integration of Kazakhstan into the international trade system, but will allow Kazakhstan to participate in globalisation processes taking into account key national interests and promote further economic development.

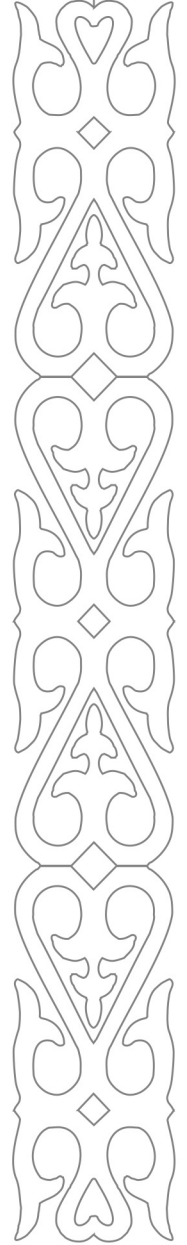
**In this context, in order to facilitate human development-focused trade the following Action Matrix (Table 5.1) was developed and the following projects were identified for potential national-level donor intervention based on the proposals of RK Parliament Mazhilis, ministries and departments (Table 5.2).**



**Table 5.1**  
**Action Matrix**

	<b>Action recommended</b>	<b>Objective and outcome indicators</b>	<b>Implementation period</b>	<b>Implementing agencies</b>
<b>1.</b>	<b>Foreign Economic Policy and WTO Accession Actions</b>			
1.1	Performance of detailed quantitative and substantive assessment of economic and social implications of Kazakhstans accession to the WTO for agriculture and human development in rural areas	Shaping and defense of Kazakhstans objectively substantiated negotiation position on WTO accession	Short-term	Ministry of Economic Development and Trade , Ministry of Agriculture
1.2	Development of a set of measures adapting agriculture to operation in the WTO context including state support measures and tariff quota application	Mitigation of possible negative consequences of Kazakhstans accession to the WTO for agriculture	Short-term	Ministry of Economic Development and Trade
1.3	Elaboration of a strategy of service market development of Kazakhstan in the context of its integration to the WTO	Establishment of an internal service trade regulatory framework; enhancement of the potential and competitiveness of domestic service sectors.	Short-term	Ministry of Economic Development and Trade , National Bank, Ministry of Transport and Communications, Ministry of Oil and Gas
1.4	Development of Kazakhstans export strategy	Identification of main areas for enhancing competitiveness and Kazakhstans export potential	Short-term	Ministry of Economic Development and Trade , KAZNEX Export Promotion and Development Corporation

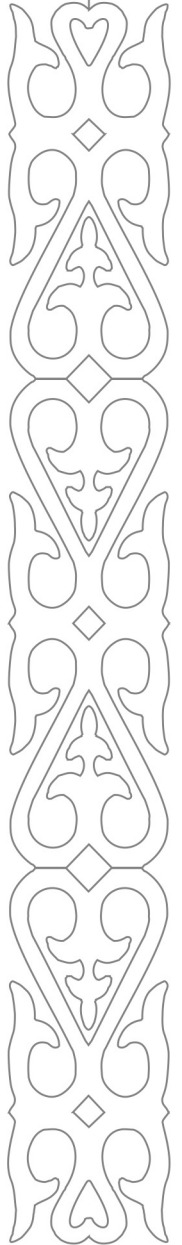
1.5	Development of Kazakhs tans sound investment policies, with an effective system of regulation of their sectoral and regional focus to be determined.	Elimination of sectoral imbalance in Kazakhstans economy; achievement of a positive social and economic impact of investments and solution of related problems.	Short-term	Ministry of Economic Development and Trade , Ministry of Industry and New Technologies
2.	<b>Agribusiness Activities</b>			
2.1	Elaboration of a set of measures to develop the trade and transport infrastructure (including an effective system of procurement and preparation of agricultural stock)	Enhancement of competitiveness of Kazakhstani goods; trade expansion	Medium-term	Ministry of Agriculture, KazAgro National Managing Holding JSC
2.2	Enhancement of fodder balance and agricultural microbiology	Increase in meat, poultry and fish output	Medium- and long - term	Ministry of Agriculture
2.3	Stepping up efforts to set up agricultural producers associations and unions	Development of more effective rural entrepreneurship; enhancement of agricultural output competitiveness	Medium-term	Ministry of Agriculture, KazAgro National Managing Holding JSC
2.4	Development of rural marketing and information service; provision of technical and methodical aid; arrangement of courses on doing business in rural areas	Development of rural small and medium sized business; trade expansion	Medium-term	Ministry of Agriculture, KazAgro National Managing Holding JSC, Kazagromarketing
2.5	Stepping up efforts to implement international standards including ISO quality management and food safety systems	Competitiveness of Kazakhstani goods enhanced; trade expansion	Medium-term	Ministry of Industry and New Technologies , Technical Regulation and Metrology Committee, Ministry of Healthcare





2.6	Search for and involvement of international organisations including FAO, IBRD, ADB, EBRD, Eurasian Bank of Development into technical and investment projects on development of agriculture and rural areas	Development of Kazakhstans agriculture and rural areas	Medium- and long term	Ministry of Agriculture, KazAgro National Managing Holding JSC
2.7	Development and implementation of social, medical, educational and cultural revival programmes for rural areas	Ensuring rural social development	Medium- and long term	Ministry of Agriculture, Ministry of Education and Science, Ministry of Healthcare
2.8	Creation of databases for expanding sale opportunities and arranging agricultural fairs and customs warehouses; launch of trade missions in trade partner countries ; establishment of an export promotion fund	Expansion of capacities for storing, processing and selling agricultural output	Medium- and long term	Ministry of Industry and New Technologies , Ministry of Agriculture
3.	<b>Distribution Services Improvement Activities</b>			
3.1	Identification of domestic trade development areas and development of an effective trade activity policy	Ensuring progressive development of distribution services	Short-term	Ministry of Economic Development and Trade
3.2	Improvement of regulatory acts governing retail and wholesale trade	Creation of regulation measures compliant with modern business realities and satisfactory for all trade entities	Short-term	Ministry of Economic Development and Trade
3.3	Elaboration of regional plans for upgrading and developing the trade market till 2012 with due regard for requirements and location recommendations; implementation of mechanisms to promote the upgrading of trade areas.	Availability of trade areas and markets for the population	Short-term	Akimats

	requirements and location recommendations; implementation of mechanisms to promote the upgrading of trade areas.			
3.4	Removal of administrative barriers and improvement of the legislation governing shuttle trade.	Simplification and streamlining of activities of population engaged in shuttle trade	Short-term	Ministry of Economic Development and Trade, Forum of Businessmen of Kazakhstan
3.5	Expansion of ongoing collection of various trade statistics	Analysis of real status of the sector; identification of domestic trade development trends; comparison of the ratio of foreign and Kazakhstani trade networks	Short-term	RK Statistics Agency



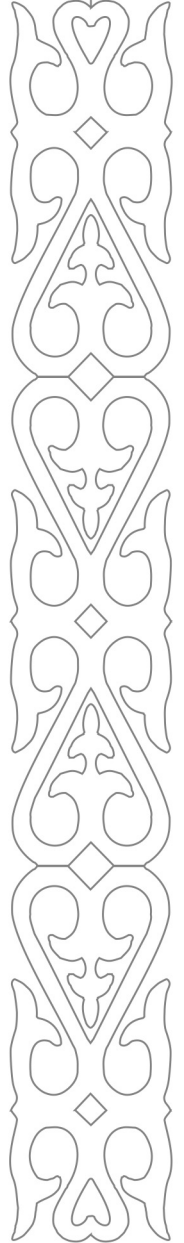


**Table 5.2**  
**List of Projects for Potential National-Level Donor Intervention to Facilitate Human Development-Focused Trade in Kazakhstan**

#	Project	Project Goals and Objectives	Ministry, Department, Organisation	Project Duration	Cost, USD million
<b>Industrial Export Diversification and Innovative Development</b>					
<b>1.</b>					
<b>1.1</b>	<b>Establishment of innovative SME centres in higher educational institutions</b>	Innovations, inventions of domestic scientists and professors implemented, with their intellectual property rights protected.	RK Parliament Mazhilis, RK MINT, RK higher educational institutions	2 years	1
<b>1.2</b>	<b>Project document reviewing Kazakhstans investment policies prepared</b>	The project document will be a guide for further improvement of national policies on facilitating and attracting foreign investments into non-oil and gas sectors and manufacture of high value-added products.	RK MEDT, United Nations Conference on Trade and Development (UNCTAD)		0.115243
<b>Agricultural Goods Trade Development</b>					
<b>2.</b>					
<b>2.1</b>	<b>Project addressing the problem of growing costs of grain export from Kazakhstan</b>	Stage for Kazakhstan to participate in environmental goods markets set, with Kazakhstans share in these markets to grow in the future.	KazAgro National Managing Holding JSC	2 years	750
<b>2.2</b>	<b>Project addressing the problem of agricultural output price control and its impact on well-being of Kazakhstans population in the food safety context.</b>	Agricultural output price controlled and food safety achieved. Kazakhstan needs a project to determine whether positive consequences of price control outweigh negative ones. Is the assumption that a majority of the countrys population needs low food prices to maintain their life activities true and, if yes, what is the most effective way to achieve this goal?	KazAgro National Managing Holding JSC	2 years	6



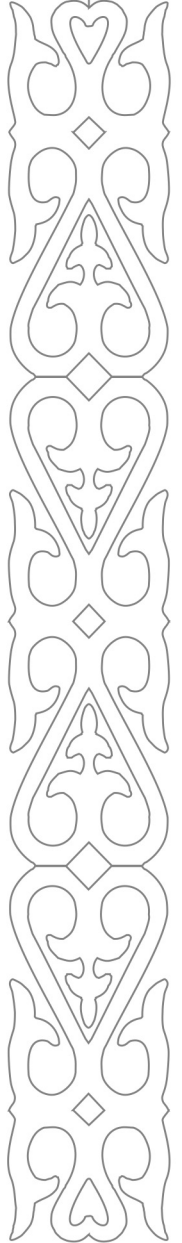
	<b>safety context.</b>	majority of the countrys population needs low food prices to maintain their life activities true and, if yes, what is the most effective way to achieve this goal?			
<b>3.</b>	<b>Export Facilitation Trade Policies</b>				
<b>3.1</b>	<b>Development of Kazakhstani sector (umbrella) brands (Made in Kazakhstan brand)</b>	<p>Being a fast -growing country , Kazakhstan needs recognizable and strong sector (umbrella) brands. Domestic product branding should promote export development and contribute to sustainable development by diversifying sectors. Reliance on international experience and experts within don or-aided projects would be quite relevant if the following basic activities targeting development of domestic sector branding are pursued:</p> <ul style="list-style-type: none"> <li>- analysis of foreign countries successful experience in sector branding promotion;</li> <li>- a research to identify products/co mpanies for promoting Kazakhstani sector (umbrella) brands;</li> <li>- development of a domestic branding promotion concept and a roadmap/algorithm of promotion of Kazakhstani sector (umbrella) brands;</li> <li>- development of an algorithm of promotion of Kazakhstani sector (umbrella) brands.</li> <li>- an approximate list of sectors: food, machine building, textile and pharmaceutical sectors;</li> <li>- cost items: international consultancy, analysis of international experience including visits to foreign countries (5 countries 3 persons each, an approximate list of countries (Turkey, Chile, Australia, South Korea, etc.) and training of Kazakhstani experts.</li> </ul>	KAZNEX Export Promotion and Development Corporation, RK MINT	6 months	0.3





<p><b>3.2 Development of Kazakhstani commodity export packing functions</b></p>	<p>KAZNEX conducted a packing market research and identified the following priority tasks to be addressed to develop the sector:</p> <ul style="list-style-type: none"> <li>Development of the packing infrastructure including a stage where a special entity will be established to address the problems and objectives and accumulate global consumer pack experiences and practices;</li> <li>Harmonisation of Kazakhstani and world legislation, development and improvement of Kazakhstani legislative framework, development and adjustment of the existing state and other standards;</li> <li>Accession to international packing organisations and associations;</li> <li>Development of special programmes and privileges supporting domestic manufacturers, assistance in development of own raw -material base and easing of requirements for importing raw materials in order to enhance the price competitiveness of local manufacturers using them.</li> <li>Cost items: international consultancy, analysis of international experience including visits to foreign countries (3 countries 3 persons each) and training of Kazakhstani experts.</li> </ul>	<p>KAZNEX Export Promotion and Development Corporation, RK MINT</p>	<p>4 months</p>	<p>0.2</p>
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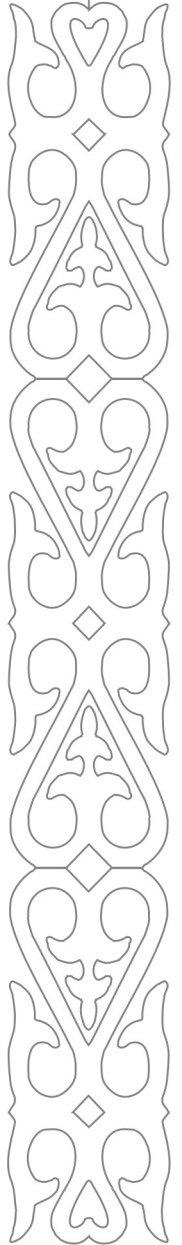
<p><b>3.3</b></p>	<p><b>Adding Kazakhstani goods to humanitarian supplies system</b></p>	<p>KAZNEX prepared an overview of the relief aid market containing the following actions required for Kazakhstani manufacturers to enter the humanitarian supplies market:</p> <ul style="list-style-type: none"> <li>• Organisation of a series of consultations between the Government of the Republic of Kazakhstan and United Nations agencies at the employee and top management (Minister) level. The purpose of consultations is to: (1) get United Nations agencies' endorsement of Kazakhstan's programme to support expansion of supplies to humanitarian organisations; (2) agree on high-level representatives' participation in an event in Kazakhstan;</li> <li>• Organisation of procurement workshops for enterprises involving purchasers from humanitarian organisations;</li> <li>• Participation in an annual International Aid and Trade exhibition/forum at the level of ministers of Kazakhstan ministries concerned;</li> <li>• Selection and preparation of Kazakhstani enterprises for participation in International Aid and Trade and Kazakhstani event;</li> <li>• Preparation and publication of a Guide for</li> </ul>	<p>KAZNEX Export Promotion and Development Corporation, RK MINT</p>	<p>4 months</p>	<p>0.2</p>
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	<p>relief aid suppliers;</p> <p>Organisation and conduct of a regular Humanitarian Aid and Trade exhibition/forum in Kazakhstan, probably, a regional one (Asia, Central Asia, CIS, hereinafter referred to as region);</p> <p>Establishment and maintenance of relations with procurement divisions of humanitarian organisations through their local representative offices (if any) and headquarters;</p> <p>Examination and regular update of information on humanitarian procurement markets such as main procurers, requirements to products, procedures, conditions for being included into supplier registers (fees, certification, accreditation, pre-selection audits), tender admission conditions, information sources (supplier registers, tender publication sites, etc.).</p> <p>Preparation and distribution of materials that need to be known for entering this market;</p> <p>Consulting and informing enterprises on paperwork, procedures, stages of inclusion into registers;</p> <p>Identifying and addressing obstacles for and support of potential suppliers (for example,</p>	

		<p>state guarantees, tender bulletin subscription, supply with other information);</p> <p>Wide and ongoing coverage of works in the national press and electronic mass media and in international media and events;</p> <p>Training own staff on how to search for, organise and place humanitarian aid procurements in Kazakhstan and in the region. Cost items: international consultancy, analysis of international experience including visits to foreign countries (3 countries 3 persons each) and training of Kazakhstani experts.</p>			
<b>4.</b>	<b>Protection of Intellectual Property Rights of Small and medium sized business Owners</b>				
<b>4.1</b>	<b>Crafts showroom established</b>	<p><b>Goals</b> Development and adoption of RK Law 'Protection of Genetic Resources, Traditional Knowledge and Folklore' in 2011.</p> <p>- provision of applied art masters from different parts of the Republic of Kazakhstan with an opportunity to approach their consumers, make a showroom for them in the capital city, obtain one common address and, in the future, let the world community discover Kazakhstani masters' artworks.</p> <p><b>Objective</b> preservation of historical and cultural heritage of the Republic of Kazakhstan for future generations, preservation of professions closely associated with the country's history. At present</p>	Intellectual Property Committee, National Intellectual Property Institute under the RK MoJ Small and medium sized business representatives	2 years	0.9





			<p>some masters work as restorers, others produce artworks using technologies improved by multiple generations of handicraftsmen. Craft trades disappear almost every day, in particular, due to the crisis.</p> <p>Social focus, creation of jobs, support of best masters, handicraftsmen and national craft enterprises. These efforts target small and medium sized business support and development, especially among youths, raising awareness and development of workmanship, national art crafts and strengthening of Kazakhstan's international contacts.</p>	
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**Information on Poverty, Employment and Income Distribution Levels in the Republic of Kazakhstan  
Annex 1**

Economic Indicator	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2008 <sup>2)</sup>		2009	
														IQ	IIQ	IQ	IIQ	
Income distribution (bottom decile) <sup>1)</sup>	-	-	-	-	2.94	3.09	2.95	3.19	3.30	3.56	3.60	3.50	3.58	3.93	-	-	3.82	3.73
Income distribution (top decile) <sup>1)</sup>	-	-	-	-	27.76	25.77	26.12	25.84	24.55	24.26	24.34	25.86	25.70	24.23	-	-	23.46	23.79
Decile ratio (fund coefficient, times) <sup>1)</sup>	-	-	10.2	11.3	9.4	8.3	8.8	8.1	7.4	6.8	6.8	7.4	7.2	6.2	-	-	6.14	6.38
Gini coefficient (by deciles) <sup>1)</sup>	-	0.319	0.338	0.347	0.332	0.307	0.339	0.328	0.315	0.305	0.304	0.312	0.309	0.288	-	-	0.285	0.288
Poverty depth <sup>1)</sup> , %	-	11.4	12.1	12.8	13.7	10.3	14.8	13.3	10.2	8.3	7.5	3.9	2.4	2.3	-	-	2.1	2.9
Poverty acuteness <sup>1)</sup> , %	-	5.2	3.1	3.8	5.5	4.0	6.5	5.5	3.9	2.9	2.5	1.3	0.8	0.7	-	-	0.6	1.0
Percentage of population with incomes below subsistence minimum <sup>1)</sup> , %	-	34.6	38.3	39.0	34.5	31.8	46.7	44.5	37.5	33.9	31.6	18.2	12.7	12.1	10.6	13.5	11.1	12.6
Percentage of population with incomes below food basket <sup>1)</sup> , %	-	-	12.7	16.2	14.5	11.7	16.1	13.8	9.1	6.3	5.2	2.7	1.4	1.2	0.8	2.1	1.1	2.1
Employment level, as % of:																		
population aged 15 or more	59.5	59.8	59.9	57.3	57.1	57.6	62.9	63.6	63.9	64.0	63.8	64.3	65.3	66.4	65.7	66.5	65.5	66.0
economically active population	89.0	87.0	87.0	86.9	86.5	87.2	89.6	90.7	91.2	91.6	91.9	92.2	92.7	93.4	93.1	93.4	93.1	93.3

1) For reasons of comparability to 2006 data, the 2001-2005 data were calculated using the new subsistence minimum assessment method introduced on 1 January 2006.

2) In 2008, 3,000 households were covered by the household survey on a quarterly basis; therefore, these indicators were not assessed.





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