

Kazakhstan in the System of Integration Processes: Opportunities and Challenges

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Abstract. The paper analyzes the key trends of Kazakhstan's integration processes on the example of the Customs Union. The existing problems in the integration union are discussed; quantitative and qualitative parameters of the socio-economic impact of integration are identified, and also factors causing some degree of threat to sustainable development of the national economy are revealed.

Keywords: Economic Integration, the Customs Union, Integration Processes, Social and Economic Consequences of Integration.

1. Introduction

Development of integration processes is an important characteristic of modern world economy. Processes of international economic integration intensified in the second half of XX century in various parts of the world. On the threshold of the present century emerged the so-called "new regionalism."

Kazakh scientist Isingarín N.K. considers tendency of any country towards regional foreign economic convergence to be an objective and logical process. According to him "the integration of the economies produces for each participant an additional, systemic effect, which cannot be obtained by the countries that are limited only to mutual trade." [1, p.4] The main form of expression of this process in the cross-country context is foreign economic relations.

For Kazakhstan strategic priority for the long term is to ensure the economic growth based on two fundamental points: first, ensuring the increasing openness of the national economy and, second, taking advantage of special geopolitical position of the country.

Because of the geographical location, Kazakhstan, as noted by Karibdzhanov E.S., "is mostly drawn to several major national markets: Central Asian (combining the markets of Kazakhstan itself, neighboring Uzbekistan, Kyrgyzstan, Tajikistan and Turkmenistan), South Asian (India, Iran, and Pakistan), Russian and Chinese. According to the priorities put forward in the "Kazakhstan - 2030» Strategy in foreign economic policy factors of 'intermediate position' between these markets will be long term and sustainable. In the geo-economics aspect such foreign economic orientation will be justified, since the growth intensity of the volume of world economic ties in this region of the world economy will increase." [2, p.159].

Kazakhstan is an active participant in various integration associations. In this article the Customs Union of Kazakhstan, Russia and Belarus, which is the most promising union in Eurasia, is discussed. In early 2012, the Customs Union of Kazakhstan, Russia and Belarus has been transformed into the Common economic space.

2. The Main Results of the Study

Analysis of the major trends in the development of integration in the unified economic space allows identifying a number of quantitative and qualitative changes. First, there was the abolition of customs barriers and customs posts, which often prevented the rapid movement of goods and reduced business costs. Thus, reduction of rail transit through Russia in a single year has given effect in the amount of about \$ 350 million, which has a positive effect on the foreign trade balance of Kazakhstan. [3]

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Removing the borders created conditions for free movement of goods, labor, services and capital, and the unification of the requirements and standards for goods and services. Introduction of a coordinated industrial policy should help to prevent the technology gaps and inconsistencies of the products.

However, the abolition of internal tariffs did not remove many of the problems, as in the practice of management there are still many obstacles to the delivery of certain goods in the market of neighboring countries, in accordance with production regulations. Thus, due to a mismatch of technical regulations in Kazakhstan for dairy products makes it impossible to supply them to the Russian territory.

Second, the harmony of interests between the parties of transactions in the market was not reached. So, on the one hand, the nature of gains from integration, as it is known, is accumulated on the four fully autonomous management levels: consumers, producers, country and, in general, across the integrated entity. Today, consumers hit the bell, which is natural, since the food prices in July 2011 compared with July 2010 rose by 12.8%. [4]

Meanwhile, the decline in prices is observed on the pole of manufacturers of industrial products and manufactured products went down in value by 1%. Herewith, the price of production services rose 0.8%. Price reduction, in general, was observed in mining by 1.7%; at the same time, in the manufacturing industry, they increased by 0.8%. [5] Goods and products that are exported from other countries outside the Customs Union, the last two years have a tendency to sharp rise in price, especially this affected fuel, vehicles, appliances, agricultural products and other essential goods. It should be noted that 80-90 percent of imported food products comes from the CIS countries. [5]

Thus, high tariffs on goods imported from the third countries and preservation of export duties on the export of goods from the Customs Union prevent from achieving the harmony of interests within the framework of mechanisms established by the CU. Policy on export prices, especially important for Kazakhstan. Change in export prices is crucial, since the lion's share (58%) of exported goods are minerals and hydrocarbons: chromium compounds, iron ore, petroleum products, oil, coal, etc. As for the increase of competitiveness, in the last five years, Kazakhstan has a competitive product in 22 headings of the commodity nomenclature of foreign trade. These include crude oil, mining of copper ores and concentrates, copper alloys, radioactive chemical elements and radioactive isotopes of chromium ores and concentrates, iron, steel and ferroalloys, refined copper, the Kazakh wheat and maslin, and precious and semiprecious stones.

This means that by the end of the "period of adjustment" in 2015, the total effect of Kazakhstan's participation in the Customs Union should amount to 15% of GDP and its growth will be achieved only exports of traditional products. [6]

Further process of building competitive advantages of participating countries can be based on achieving a lower cost of production by reducing costs, including the costs of speculative nature, a negative example of which was shown by the situation in the Russian food market in autumn 2010. [7]

At present, countries of the Union do not comply with the requirements of the full competition with the advanced countries. So, now there is the reduction or complete collapse of the small and medium business in many sectors of Kazakhstan's economy, which will become more complicated after accession of the Customs Union to WTO because of the high dependence on imports. So, in 2010, were eliminated 2132 enterprises. [8] Despite a series of losses from the formation of the Customs Union, however, the companies of the Member States got simplified access to each other's markets, and implementation of the set objectives of the Common Economic Space, will have significant benefits in the long term. And in the long term benefits of the Customs Union greatly outweigh the costs, with considerable effort, to enter the new path of development with an increase in economic efficiency.

According to official data, in January 2012 the mutual trade of Kazakhstan with Customs Union countries amounted to almost \$ 1.5 billion, which is approximately 13 percent more than in January 2011. Export to CU countries reached 487 million U.S. dollars (4.5% less than in 2011), import - 988 million USD (24.1% increase). [4]

Geographic focus of the foreign trade of the Customs area. As the data of Eurostat shows, in 2011, CU ranked third in the list of the main trade partners of the EU. The share of China's large economy accounts for 8.9%, CIS, 8.7% of total exports. As for imports, 44% comes from the EU, China - 17% of the CIS countries

- 9.1%, USA - 5.2%, Japan - 4.9%, and South Korea - 3.8%. Meanwhile, the importance of integrated countries in trade with the third countries is ambiguous: Russia accounts for 83.6%, Kazakhstan and Belarus -11.4% - 5%.

Assortment structure of the mutual trade between the CU countries essentially preserves dominance of raw product exports, as the three items accounts for almost 92% of exported volume, including more than half (55.4%), made up by mineral products, metals and their products, and products of chemical industry that respectively takes up (26.5%) and (9%).

The product structure of mutual trade of the Customs Union significantly changed. Now it is represented by more diversified products with a high degree of processing than in foreign trade with the third countries. Thus, the ratio of exports of mineral products in foreign and domestic trade is 72.6%: 41.1%, while the machinery, equipment and vehicles, respectively, 2.4%: 19% of total exports. Accordingly, this affects change the motion vector of factors of production, as domestic trade among countries increases more rapidly than external. Thus, increasing the total volume of mutual trade of the Customs Union in 2011, compared to the previous year by 36% trade with third countries, increased by about 33%. [4]

As a result, mutual trade with the countries - members of the Customs Union in 2011, occupied 46.4% of total foreign trade of the Republic of Belarus, 18.2% of foreign trade of the Republic of Kazakhstan, and 7.5% of the total foreign trade of the Russian Federation.

An export of the Republic of Belarus in the framework of bilateral trade is as follows. The following major product groups are delivered to the Russian Federation: road transport facilities (22.2% of total exports of the Republic of Belarus to the RF), dairy and meat products (17.4%), machinery and equipment (15.6%). The most important exported products to Kazakhstan are road transport facilities (18.4% of the total export of the Republic of Belarus to the Republic of Kazakhstan), dairy and meat products (17.9%), and machinery and equipment (15.3%). [4, 9, 10, 11]

An import of the Republic of Belarus is represented by supplies from Russia: mineral fuels (64.7% of total imports), ferrous metals and their products (9.4%), from Kazakhstan - mineral fuels (27.2% of the total export of the RK to Republic of Belarus), ferrous metals and their products (23.9%), aluminum and its products (21.4%). [4, 9, 10, 11]

Export of the Republic of Kazakhstan to the Russian Federation consists of metal ore (30.9% of the total export of the Republic of Kazakhstan to the Russian Federation), mineral fuels (26.9%), ferrous metals and their products (12%). Imports - mineral fuel (26.9% of total imports), machinery and equipment (15%), ferrous metals and their products (12.3%). [4, 9, 10, 11]

Thus, it can be noted that, as with all members of the Union - Kazakhstan retains its former raw specialization and in mutual relations unequal exchange takes place, as from the territory of partners country brings products with higher added value.

Efforts in the regional integration structures are of Kazakhstan and Belarus are identical on many issues and partners find common ground in the relationships of strategic partnership and mutual support, creating within the CU favorable conditions for the development of trade, production, strengthening economic and political ties of states.

However, although there is a common understanding based on proximity and similarity of goals of national interests, the development of economic space is accompanied by different changes of development indicators in CU as a whole, and in Kazakhstan in particular:

- The main supplier of commercial products on the market of the Customs Union is the Russian Federation, while the Republic of Belarus and the Republic of Kazakhstan are represented mostly by the consumers and a negative balance amounts about 9.2 billion U.S. dollars. [4, 9, 10, 11]
- Ambiguities in the country's adaptation to the qualitative changes in the harmonization process. Thus, in Kazakhstan according to the leveling of tariffs under the Customs Code, 47.7% tariffs were raised to the Russian level, 45% remained the same, and only 5% decreased. [3]
- Uneven impact of integration on the development of countries, since 65.2% of the volume of bilateral trade accounts to Russia, Belarus - 23%, Kazakhstan - 11.8%. At the same time, an expanded export of Belarus for 2009-2011 to Kazakhstan was 15%, while to the Russian market 20%. Kazakh

producers increased their exports to the Russian market by 10%. Meanwhile, the Belarusian market did not become the object of increasing Kazakhstan production. At the same time, the share of Russian supplies in Belarus decreased significantly by 1.5% and in the Kazakhstan market came to an increase of 30%. [3]

- Uneven burden on producers and investors due to the state of advancement of reforms. As the entrepreneurs of the partner countries of the Union state, they are attracted by the respectful attitude towards business in the area of social benefits. In addition, the partners are responding positively to the advancement of the Kazakhstan legislation in property protection. In this direction also worked the improvement of the permit system for businesses in Kazakhstan, which reduced means, time and effort to start business by one-third. So, in a week's time in Kazakhstan, you can register a new company with a minimum of necessary documents, as well as solve on-line problems of land use for a business activity. The cumulative effect of this reduction, according to the Ministry of Economic Development and Trade is about 27 billion tenge. [3]

According to the World Bank ranking Doing Business in 2012 Kazakhstan occupies 47th place of 183 countries, which ensures its leadership in the CIS. [12] Moreover, country leads the list of 10 countries that have achieved the greatest success in creating a favorable investment climate and provide conditions for doing business. Accordingly, the softer investment climate attracts to the Kazakh market a significant number of Belarusian and Russian businessmen. In Kazakhstan, the value added tax (VAT) is 12%, personal income tax (PIT) - 10%, while in Russia, respectively, account for VAT - 18%, PIT - 13%, in Belarus and VAT - 20% , PIT - 12% [3].

Based on the stated above, the following conclusions can be drawn:

(1) In spite of the great economic potential, Kazakhstan does not show a sufficient activity in the market of the Customs Union;

(2) Given that the process of integration of education requires a long period, the level of Kazakhstan's participation in the Customs Union achieved at baseline, led to a series of deterioration in socio-economic situation that without a radical change there is a possibility of certain challenges to sustainable development, which can be ranked as follows:

- Preservation of involvement of the domestic industry as a satellite of the Russian industry and entire customs area in the category of raw materials and screwdrivers;
- Formation of the inefficient ratio of assembly and other low value productions, and, accordingly, their threshold values, excess of which involves new threats to the State Program of forced industrial-innovative development;
- Increase of social tension due to the price growth of food and manufactured goods, the growth of unemployment.

Unsettledness of these problems creates increasing pressure on Kazakhstan labor market, which determines:

- Rising unemployment, especially among the self-employed, that, in the end, leads to the possibility of loss of position of domestic producers on the domestic market. Among these sectors including manufacturing, processing, imports of food, equipment, and accessories that can help to wash away domestic producers from the labor market.
- Reducing the "shuttle" business due to the higher import duties from third countries creates threat of additional 500,000 people, employed in the field of trade, joining unemployed army.

Among the objective and subjective factors that underlie the origin of these threats can be identified organizational and methodical factors. Thus, Kazakhstan's economy is under pressure from manufacturers of partner countries with bigger financial weight, the presence of Russian and Belarusian holdings and other integrated structures. Hard protectionism that is still present in the Russian real sector creates unequal conditions for sales both inside and outside of the market area. This is especially true in engineering and production of spare parts for machinery.

Reasons of methodical nature lie in the lack of predictability of global markets condition and in the weakness and uncertainty of forecasting in Kazakhstan markets for new businesses when the strategy of integration is formed.

These factors could potentially create a threat to the priority projects for the state program of forced industrial-innovative development in the field of pricing strategy. Studies show that only 4-5 items of the petrochemical construction can be implemented outside of Kazakhstan. As for gasoline supplies from Russia, considering the conditions of the Customs Union, its projected growth by 1.5 times may cause an excess in the market.

In addition, the formation of the development program of the real sector the existence of powerful industrial complexes in the neighboring industrialized countries such as China and Russia is not sufficiently taken into account. And it poses a real threat to those industries that are the objects of modernization through budgetary support now in Kazakhstan. Low level of competition in comparison with companies in neighboring countries, on the one hand, does not regulate the conditions ensuring complementary development in the process of creation of new industries, as funds are invested in the same industry that developed in China and Russia. Availability of cheap labor and minimal security costs, environmental impact, as well as ease of transport logistics in the multitude of sea ports provide railway engineering and automotive industry of China the lowest cost. Such price competition from Chinese goods will be difficult to sustain by the Kazakh producers. Similarly, the Russians widely use price competition.

In the Kazakhstan market prominently appears lopsided private investments primarily in the areas of high-return, as a service, trade, and tourism. Whereas investment in the real sector often at high risk, in terms of sales, both now and in the longer term. Anticipating the medium term perspectives, it should be noted that in these circumstances, depending on the situation, the national economy will take disadvantageous position, and often in their tactical approach to integration in the world will be forced to go to the infringement of its national interests.

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