

# STATE AND DEVELOPMENT OF INTEGRATION COOPERATION BETWEEN KAZAKHSTAN AND FOREIGN COUNTRIES: TRADE, ECONOMIC, AND INVESTMENT ASPECTS

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## ABSTRACT

*The analyzes of how Kazakhstan strives to make the most of the opportunities of its participation in the intensifying process of international division of labor, various forms of interstate cooperation, the creation of a common economic space with other countries has been provided in the article. The authors have studied the issues of mutual trade, economic, and investment cooperation of foreign states in the framework of integration and the impact on the further development of national economies.*

**Keywords:** Integration, Investment, Mutual Trade, Kazakhstan, Division of Labor.

## INTRODUCTION

It is well known that economic integration is the process of uniting the economies of countries into a coherent system based on stable economic relations between its member states. It, in turn, is a process based on proximity, mutual adaptation of economic systems, mutually beneficial interests of its subjects and international division of labor.

As international experience shows, as the integration process deepens, the value and weight of a particular region will increase. Integration processes are simultaneously leading to the development of economic regionalism, resulting in individual groups of countries creating favorable conditions for mutual trade and, in some cases, interregional movement of production factors to all other countries (Alshanov, 2004).

Experience has shown that international economic integration allows countries to benefit from the following:

- Widespread access to resources, including financial, material, labor resources and technologies in the region, as well as production of products based on the market of the entire integration group;
- The economic approximation of countries creates conditions for firms from integration companies to be protected from competition from third country firms;
- Allows integration countries to jointly address acute social problems;
- As economic space expands competition among integrated country enterprises increases, which stimulates them and leads to more efficient production;

- A more stable situation is created for mutual trade and produces good results in the field of international trade policy;
- The ability of countries to benefit from national economies to expand the market, support their producers, and reduce interstate trade costs;
- The proposed economic space contributes to attracting foreign investment;
- A favorable foreign policy environment is created and cooperation between the countries is strengthened not only in economic, but also in political, cultural and other spheres;
- The factor of limitedness and complexity is overcome, and the country turns into a full-fledged and equal to all other subjects of international relations (Rakhmatulina, 2007).

## LITERATURE REVIEW

According to analysts, the formation and development of economic integration (international and/or regional) begins with the establishment of trade relations between individual countries and continues at the level of integrated economic cooperation of states, up to the full internationalization of national economies (Sher'yazdanova, 2010).

The development of integration processes, in turn, will contribute to the resolution of economic and social problems, improvement of the political climate of each of the integrating countries, strengthening the friendships of their inhabitants and having much in common in history (Bishkek, 2002).

It should be noted that important factors of economic growth within the framework of integration are deepening of international specialization and cooperation, as well as intercountry technology exchange.

That is why the Republic of Kazakhstan strives to make the most of its opportunities to participate in the deepening process of international division of labor, various forms of interstate cooperation, and the creation of a common economic space with other countries, while solving the problems of national economy growth, its technical re-equipment and increasing the competitiveness of products.

Kazakhstan, having inherited an undeveloped economy after obtaining sovereignty, began its independent life without strong institutions of power or experience and connections with the outside world. Having become an independent subject of international relations, having and disposing of the wealth of its bowels, making balanced decisions, the country got the opportunity to choose its own model of development and connection with the world community (Butyrina, 2013).

It should be noted that despite the appearance of new various associations and institutions in the post-Soviet space - in the countries of the Commonwealth of Independent States (CIS) - the process of integration was developing really slowly. They did not work effectively enough.

For example, trade and economic relations among Central Asian (CAR) countries were mainly limited to energy supplies and transit of goods. Mutual exports and imports of manufactured goods and foodstuffs were insignificant. And, in Kazakhstan's trade turnover, the CAR countries account for about 0.6% on average, which indicates the unrealized potential of mutual trade of Central Asian states. In particular, the share of the Kyrgyz Republic in the total trade turnover of Kazakhstan was only 0.7%, Tajikistan - 0.3%, Uzbekistan - 1.1%, Turkmenistan - 0.2%, respectively (Dzhekshenkulov, 2000).

However, recently in the development of trade and economic relations of the CAR countries a positive trend has emerged that the economic potential of these countries allows raising the mutual trade turnover to a higher level.

It should be noted that the level of development of intraregional investment cooperation is still insufficient. In particular, in Uzbekistan the number of enterprises with the Kazakhstan capital makes up only 1.5%, which is connected, first of all, with the policy of restricting trade and economic relations with neighboring states pursued in the republic (before Uzbekistan joined the Eurasian Economic Union - EAEU) (Kuchukova, 2009).

Also, the share of Kazakhstani enterprises in Kyrgyzstan is low (a significant decrease in investment activity in this country is explained by political events that have occurred recently) and Tajikistan (Kazakhstani investments, in our view, could be more actively involved in the development of the energy sector in this country).

## METHODOLOGY

The paper is based on empirical research and data have been collected from Information of the National Bank of the Republic of Kazakhstan. The objective of this study is to analyze trade and investment opportunities of Kazakhstan with other countries for which secondary data were used.

## RESULTS & DISCUSSION

As analysts note, cooperation with Central Asian countries particularly affects the economy and other areas of our country. It is important to note the share of Kazakhstan's participation in each country separately. The volume of Kazakhstan's investments in the economy of Central Asian states in 2016 is presented in Table 1.

<b>Kazakhstan</b>	<b>Kyrgyzstan</b>	<b>Uzbekistan</b>	<b>Tajikistan</b>	<b>Turkmenistan</b>
309.2	152.3	94.0	-	-

Source: Information of the National Bank of the Republic of Kazakhstan

The analysis of the presented data allows drawing a conclusion on the unrealized potential of investment cooperation with these countries. We believe that it is necessary to further strengthen economic and political cooperation not only with the Central Asian states, but also with Russia and China. Create a solid foundation for stability, open dialogue and interaction in the region.

The investment opportunities of the European Union (EU) member states are also of great interest to our country, as the EU countries are important trade partners of Kazakhstan. Thus, according to the ranking.kz website, in 2018 there was a decrease in investment in Kazakhstan's economy from the EU countries. At the same time, the gross inflow of FDI in these countries has been reduced by 12.2%. As this site notes, the gross inflow of foreign direct investment in Kazakhstan in 2018 amounted to \$24.3 billion. The total foreign direct investment inflow to Kazakhstan was US \$24.3 billion, up 15.8% from US \$21 billion a year earlier. In 2016, after the crisis in 2015, in which FDI declined by as much as 35.5%, investment flows began to form a positive trend. Over the past three years, FDI has increased by 58%.

At the same time, the largest share in the total volume of trade turnover of Kazakhstan with the EU countries belongs to such countries as the Netherlands - 7.3 billion with an increase of 23.8%, Switzerland - 2.5 billion with a decrease of 14.3% compared to last year.

At the same time, almost half of the European Union countries have reduced their investment flows to Kazakhstan. Thus, Finland reduced FDI in Kazakhstan by 63.3% at once, thus reducing the volume of FDI from 30.1 million USD to 11 million USD per year. Belgium has lowered investment flows by 1.9%, which is US 19.9 million dollars in money equivalent. Austria invested only USD 3.2 million. A year earlier, Austrian investors invested 86.9 million USD in our economy. Experts note that in total 12 EU countries reduced investment flows to Kazakhstan by 12.2% last year.

It should be noted that most of these investments were directed to the fuel and energy complex.

As analysts note, today it is important for our country to concentrate investments of European partner countries in science-intensive and innovative industries. Also, according to experts, it is important to create sufficiently favorable conditions for the injection of Kazakh investments in the economy of the European Union. According to some expert estimates, now the capacity of our country to invest in foreign countries is higher than in previous years.

At present, the priority for Kazakhstan's economy is the qualitative expansion of bilateral cooperation. Experts note that Europe should receive not only our energy resources, but there is also a need to develop cooperation using the European transport and processing infrastructure. In this regard, the provision of favorable access to the EU market remains a priority issue of trade and economic cooperation for Kazakhstan.

The long-term goals of the state, outlined in the “*Kazakhstan-2050 Strategy*”, aimed at the implementation of the strategy of Kazakhstan's entry into the 30 competitive countries of the world, envisage an increase in the volume of production of goods with high added value, the development of the processing sector of the economy, the consistent development of small and medium-sized businesses capable of producing goods based on innovative technologies.

It is well known that the main producer of GDP should be the private sector, focused on the production of competitive goods and services. However, the goals of technological and innovative transformations are clearly unattainable, with the financing of science below 1% of GDP. Under such conditions, Kazakhstan's economy threatens to remain forever dependent on imports, a raw material appendage of developed countries (Kolesov & Os'mova, 2000).

It should be noted that our country's exports to China in 2016 exceeded imports by 1.7 times. At the same time, the trade balance of Kazakhstan with China in 2015 was positive and exports of goods from the Republic of Kazakhstan to China exceeded the volume of imports by 1.5 times. According to analytical data, trade turnover between Kazakhstan and China over the past year amounted to US12.24 billion, increasing by a quarter (US 9.2 billion).

In particular, exports from Kazakhstan to China increased by 37% last year and amounted to US 7.7 billion (63% of trade turnover). 66% of exports consisted of commodities in accordance with the classification of broad economic categories (BEC).

According to the analysis of statistical data, we see that the structure of Kazakhstan's commodity exports to China looks as follows: 53% are crude oil products, 8% are iron, chrome, copper ores and concentrates, and 5% are other. The share of processed goods in Kazakhstan's exports last year was 34%. The processed products supplied by Kazakhstan to China represent 90% of the industrial raw materials, namely 56% of processed products are metal products (copper wire, cathodes, zinc, ferrochrome, rolled steel), fuel (11%), uranium (8%), and leather (14%) and wool (2%). This year, exports of all these products, except for copper and ferrochrome cathodes, have shown an increase compared to last year (Eurasian Economic Union Undertaken Transit, 2015).

As noted, Kazakhstan is a member of many international integration organizations. The established partnership relations with Europe and Central Asian countries give Kazakhstan high profit. Italy and China are the largest buyers among Kazakhstan's partner countries.

Thus, the largest share of Kazakhstani exports is accounted for by Italy (15.4%), China (13.6%), Russia (8.3%), France (7.8%) and Switzerland (7.3%). The volume of imports to Kazakhstan in January-October decreased by 26.7% compared to last year, amounting to US 23 billion. Including, in the CIS countries - by 31.7%, in other countries - by 22.5%.

Kazakhstan's further economic development will be carried out within the framework of improving technologies to the level that allows for an absolute reduction in the specific consumption of raw materials and waste per unit of production and to ensure the creation of a recycling system for secondary resources, reducing the impact on the environment.

In the sphere of currency and financial cooperation, further maintenance of positive trends will be largely determined by the results of the formation of the Kazakhstan stock market, as well as the creation of an integrated currency market, the main purpose of which is to build an effective infrastructure for conversion operations with national currencies and, ultimately, to significantly increase their use in mutual settlements.

A strategically important priority for Kazakhstan, which has no access to the world ocean, is the development of the oil pipeline system. In order to take effective measures to improve the oil and gas transportation infrastructure, Kazakhstan is expanding its ties with many countries of the world, such as Russia, China, the United States and other countries.

Bilateral cooperation between China and Kazakhstan is currently under way. Both sides confirmed their interest in closer economic cooperation, especially in the energy sector. One of the important decisions was the continuation of the construction of an oil pipeline from Kazakhstan to China, followed by the construction of a gas pipeline (Mansurov, 2009; Smailova, 2005).

## CONCLUSION

In conclusion, it could be stated that Kazakhstan today needs to participate in the ongoing structural shifts towards the post-industrial economy, to make a countermovement to the global balanced state. The key question is in what form and for what time Kazakhstan will approach to a new strategic balance.

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