Kazakhstan in the EAEU: Economic Cooperation and Financial and Economic Effects

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**Kazakhstan in the EAEU: Economic Cooperation and Financial and Economic Effects.**

This report describes the key aspects of Kazakhstan’s membership in the EAEU from the time when it joined up to the present day. We will focus on the economic and financial effects of this cooperation on Kazakhstan. The report includes a detailed analysis of trends in trade between Kazakhstan and the EAEU and of Kazakhstan’s foreign trade in general. We also examine how membership has impacted the country’s domestic markets for goods and services and influenced government policymaking. The final section of the report describes Kazakhstan’s trade relations with other regions, based on the examples of China, the United States, the EU, and the countries of Central Asia.

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**Key words:** EAEU, mutual and foreign trade of Kazakhstan, market for goods and services, non-tariff barriers, market consolidation.
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Introduction

The Eurasian Economic Union (EAEU) was formed in 2015. At the time, Vladimir Putin, a key proponent of the project, called it a historic event. The purpose of the union is to harmonize or standardize the policies of the member states in various economic sectors by ensuring free movement of goods, services, labor, and capital. The union seeks to unify the countries into a new, cohesive economic unit, the first institution of this type in the post-Soviet space.¹

As a preliminary matter, we should note the important moves toward integration that Kazakhstan took before the formation of the EAEU. In 1995-1996, Russia, Belarus, Kazakhstan, and Kyrgyzstan established a Customs Union (CU-95), which existed mainly on paper. The failure of this project became clear when Kyrgyzstan joined the WTO in 1998 without consulting the other member states. About 60% of the tariff positions adopted by Kyrgyzstan as a result of its negotiations with the WTO were significantly lower than those agreed upon within the union.²

In 2000, Vladimir Putin proposed to transform the CU-95 into a more realistic and functional organization – the Eurasian Economic Community (EurAsEC), the goal of which was to promote the formation of a Customs Union (CU) and a Common Economic Space (CES).³ In October 2007, Kazakhstan, Russia, and Belarus signed a treaty creating a Customs Union (CU), after which the common Customs Code took effect in July 2010. Customs control was discontinued at the borders of these countries in July 2011.⁴ However, statistics on bilateral trade indicate that, despite the consistent efforts taken since the mid-1990s to promote integration, Russia’s share of Kazakhstan’s foreign trade had declined significantly by the time the CU was created. In 1995, Russia accounted for 47% (USD 4.2 billion) of Kazakhstan’s total trade; it had fallen to 30.2% (USD 4.1 billion) by 2000 and to 17.4% (USD12.4 billion) in 2009.⁵

In January 2012, Astana (now Nur-Sultan), Moscow, and Minsk took another step toward integration by establishing the Common Economic Space (CES), which ultimately led to the creation of the Eurasian Economic Union (EAEU) in January 2015.⁶ Also, in November 2015 Kazakhstan joined the WTO, becoming the 162nd member of that organization. Kazakhstan’s experience is unique in that it was a member of the CU before joining the WTO, so for three years before entering the WTO, Kazakhstan was

⁴ Kassenova, op. cit., p. 5.
working to harmonize its obligations and rules within the CU and WTO framework: amendments were adopted to more than 50 laws of Kazakhstan and 10 agreements within the CU.7

Russia’s agreements on the WTO and the CU were not identical, and this affected the member states of the CU in different ways, primarily involving the level of customs protection. The Single Customs Tariff (SCT) agreed upon within the RBK8 CU was not immediately agreed to at the level contemplated by the WTO.9 As a result, when it was implemented, 43% of Kazakhstan’s tariff lines remained unchanged, while for Russia and Belarus this figure was 82% and 74%, respectively. So Kazakhstan had to make major concessions by raising its import duties to Russian and Belarusian levels, causing significant price increases for cars, appliances, clothing, and footwear from China, Turkey, and Western Europe.10

As a result of this discrepancy between the SCT and the tariff concessions required to join the WTO, the CU countries gave priority to the WTO, as expressed in the Agreement on the Operations of the Customs Union within the Multilateral Trade System, which was signed on May 19, 2011, in Minsk. In practice, this reduced the SCT to a level no higher than the binding level agreed upon by Russia and the WTO, which for Kazakhstan meant a return to the customs barriers of 2007 (Table 1).

Table 1. Import duties: Average applicable tariff, CU countries

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>11.0</td>
<td>10.5</td>
<td>11.4</td>
<td>9.2</td>
</tr>
<tr>
<td>Belarus</td>
<td>11.3</td>
<td>10.6</td>
<td>11.4</td>
<td>9.2</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>7.8</td>
<td>5.9</td>
<td>11.4</td>
<td>9.2</td>
</tr>
</tbody>
</table>

Source: Russia’s Accession to the WTO: Main Obligations, Potential Effects. International Trade Center. P. 32. [based on data from WTO Tariff Profiles].

Kazakhstan Joins the EAEU

Officially, the first president of Kazakhstan, Nursultan Nazarbayev, is considered the founding father of this project, because he was the first to propose such a union back in 1994.11 However, Kazakhstan lacks a well-established platform for public discussion of major issues of foreign and domestic policy. The key decision-maker is the president of the country, and the processes through which policies are adopted

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8 RBK – Russia, Belarus, Kazakhstan
9 “The average level of import duties under the SCT is 10.29%, but the average level under the agreement between Russia and the WTO is 7.15%. The difference is about three percentage points, or more than 30% of the average duty under the SCT.” [Russia’s Accession to the WTO: Main Obligations, Potential Effects // International Trade Center. Department of World Economics, 2012. P.32 ]
10 Ibid.
remain opaque. The business community and the public were not involved in the integration decisions and processes, which in turn led to overpromising by the government, skepticism among the public, and constructive criticism from business.

Poor communication between government and business is a major problem, including in the drafting of decisions involving the EAEU, which often fail to properly take into account the long-term interests of Kazakhstan’s business community. However, this problem is officially recognized, and actions are being taken to address it, primarily through dialog between the government of Kazakhstan and the Atameken National Chamber of Entrepreneurs (NCE), which was created in 2013. For example, experts from the country’s business circles are actively involved in the ongoing process of drafting the Customs Code (CC), which took effect in 2017. Previously, only representatives of government agencies took part in this process. Under an agreement with the government, the Atameken NCE submitted a package of 87 amendments reflecting proposals from the business community. About 60% of the proposals from the National Chamber were supported in the process of drafting the agreement on the EAEU Customs Code.

Still, in an environment of continuing macroeconomic uncertainty, the public in Kazakhstan is not seeing any particular economic return or personal benefit from the EAEU, despite the government’s public relations campaign in support of joining the union. In the early stages of the CU and EAEU, integration was expected to yield rapid and sustained benefits. Recently, many people in Kazakhstan have begun attributing the country’s economic instability to its membership in the EAEU and the supposedly unhelpful attitudes of its partners in integration toward Kazakhstan and its business community. Surveys indicate a growing opinion among the public and business that Kazakhstan should retain certain protectionist measures to shield the domestic economy within the framework of the union, primarily from Russian economic expansion. The top leadership in the country has begun to pay more attention to this view: at the meeting of the Supreme Eurasian Economic Council on May 19, 2020, President Tokayev proposed to delay the adoption of the EAEU Development Strategy until 2025, stating: “Given the special importance of this document, which sets the main contours of integration for years to come, it seems appropriate to discuss it further and adopt it at an in-person meeting.”

Kazakhstan’s Special Customs Status

To allow Kazakhstan to be a member of both the EAEU and the WTO, the members of the Eurasian Union agreed to grant the country a special customs status. Under the existing regime, Kazakhstan enjoys special terms that apply to “goods released for free circulation in the Republic of Kazakhstan at lower

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rates of import customs duties\textsuperscript{17} than the Single Customs Tariff of the Eurasian Economic Union (such goods must be used within the Republic of Kazakhstan).\textsuperscript{18}

Kazakhstan is obligated to ensure that goods admitted with these rates are used only within the country and not re-exported to other countries. For this purpose, the country has its own goods tracking system using electronic tax invoices.\textsuperscript{19}

Under the SCT EAEU, the customs rate for Kazakhstan was reduced from \textit{10.4} to \textit{6.5}.\textsuperscript{20} The weighted mean customs rate of Kazakhstan before the formation of the CU was \textit{6.2},\textsuperscript{21} In 2020, Kazakhstan will exempt 3317 items,\textsuperscript{22} compared to 1347 items when it joined. The SCT for Kazakhstan on agricultural products is \textit{10.8} (compared to \textit{17} for member states of the EAEU) and \textit{7.3} for industrial goods (compared to \textit{8.7} for member states).\textsuperscript{23} According to the RK (Republic of Kazakhstan) Ministry of Finance, customs duties accounted for 7\% of total government revenues in 2010, before the country joined the EAEU, 12\% in 2014,\textsuperscript{24} and 10\% in 2019. It should be noted that Kazakhstan receives only about 7\% of the total customs revenue of the EAEU member countries.\textsuperscript{25}

\textsuperscript{17} “lower duty rate” means an import customs duty rate that is lower than the current import customs duty rate of the Single Customs Tariff of the Eurasian Economic Union (hereinafter the “SCT EAEU”) and is set at the maximum rate consistent with Kazakhstan’s obligations in the World Trade Organization.


\textsuperscript{19} Ibid.

\textsuperscript{20} After completing the actions to fulfill its obligations, Kazakhstan’s average final binding rate will be 6.9\%. \textit{I. E. Tochitskaya. Kazakhstan After Joining the WTO // IPM Research Center} (http://www.research.by/webroot/delivery/files/20190130_Tochitskaya.pdf). Date accessed: February 20, 2020.


\textsuperscript{22} Decision 109 “Revising the list of goods on which the Republic of Kazakhstan, in accordance with its obligations undertaken as a condition for accession to the World Trade Organization, applies import custom duties lower than the duty rates of the Single Customs Tariff of the Eurasian Economic Union, and revising the rates of such duties” (https://atameken.kz/uploads/content/files/109.pdf). Date accessed: February 20 2020.


\textsuperscript{24} 373,800 million tenge, 1,054,055 million tenge, and 1,375,915 million tenge, respectively // Data from the RK Ministry of Finance

Table 2. Kazakhstan’s Foreign Trade Indicators, 2010-2019, USD million

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports to countries outside the Union</th>
<th>Imports from EAEU countries</th>
<th>Exports to the EAEU</th>
<th>Imports from countries outside the union</th>
<th>Kazakhstan’s foreign trade turnover</th>
<th>Mutual trade with the EAEU</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>18,898.7 million</td>
<td>21,296 million</td>
<td></td>
<td>24,603.7 million</td>
<td>26,789.2 million</td>
<td>29,094.9 million</td>
</tr>
<tr>
<td>2011</td>
<td>19,124.6 million</td>
<td>21,429.9 million</td>
<td></td>
<td>25,601.8 million</td>
<td>26,863.5 million</td>
<td>28,025.3 million</td>
</tr>
<tr>
<td>2012</td>
<td>19,350.5 million</td>
<td>21,563.4 million</td>
<td></td>
<td>26,589.9 million</td>
<td>26,936.7 million</td>
<td>28,000.1 million</td>
</tr>
<tr>
<td>2013</td>
<td>19,576.3 million</td>
<td>21,696.9 million</td>
<td></td>
<td>27,578.0 million</td>
<td>26,999.9 million</td>
<td>28,076.8 million</td>
</tr>
<tr>
<td>2014</td>
<td>19,799.8 million</td>
<td>21,829.8 million</td>
<td></td>
<td>28,565.9 million</td>
<td>26,962.7 million</td>
<td>28,045.6 million</td>
</tr>
<tr>
<td>2015</td>
<td>20,023.1 million</td>
<td>21,962.6 million</td>
<td></td>
<td>29,552.8 million</td>
<td>26,925.4 million</td>
<td>28,007.5 million</td>
</tr>
<tr>
<td>2016</td>
<td>20,245.5 million</td>
<td>22,094.5 million</td>
<td></td>
<td>29,536.8 million</td>
<td>26,888.2 million</td>
<td>27,969.3 million</td>
</tr>
<tr>
<td>2017</td>
<td>20,467.9 million</td>
<td>22,226.4 million</td>
<td></td>
<td>29,520.8 million</td>
<td>26,850.9 million</td>
<td>27,931.2 million</td>
</tr>
<tr>
<td>2018</td>
<td>20,691.0 million</td>
<td>22,358.2 million</td>
<td></td>
<td>29,504.8 million</td>
<td>26,813.6 million</td>
<td>27,893.1 million</td>
</tr>
<tr>
<td>2019</td>
<td>20,913.0 million</td>
<td>22,489.9 million</td>
<td></td>
<td>29,488.8 million</td>
<td>26,776.3 million</td>
<td>27,855.0 million</td>
</tr>
</tbody>
</table>

Sources: Data from the Eurasian Economic Commission (EEC).
(http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/time_series/Pages/default.aspx)


As Table 2 shows, from 2010 to 2019 mutual trade with the EAEU grew by 12.7%, from USD 18,898.7 million in 2010 to USD 21,296 million in 2019. Growth peaked in 2013 at 30.2% (USD 24,603.7 million).

In the period from 2015 to 2017, the trend was negative: the cyclical nature of mutual trade between Kazakhstan and the EAEU is due to volatility in prices of raw materials, which make up a large proportion of the country’s exports, fluctuations in the currency exchange rates of the countries in the union, critical declines in demand, and changes in the structure of goods traded by its member countries.

Kazakhstan’s foreign trade volume was USD 94,769.7 million in 2018, so the rate of growth over the baseline year of 2010 (USD 91,397.5 million) was 103.7%. According to Statistics Committee data, there have been no significant changes in the proportion of exports and imports, which suggests no qualitative changes have occurred in the makeup of goods and sectors in foreign trade. As Table 3 below shows, most of Kazakhstan’s foreign trade is still exports (USD 61,111.2 million in 2018, which is 1.4% more than in 2010). The share of mineral products remains at just about the same level: 74.7% (USD 45,034.2 million) in 2010 and 74.5% (USD 45,546.7 million) in 2018. In turn, among imports the biggest growth is seen in machinery and equipment, from 24.9% in 2010 (USD 7,761.7 million) to 26.7% in 2018 (see Table 3).

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26 EEC note: Hereinafter from 2010 to 2011 – Customs Union (Belarus, Kazakhstan, Russia), from 2012 to 2014 – Customs Union and Common Economic Space (Belarus, Kazakhstan, Russia).
Table 3. Kazakhstan’s Foreign Trade Turnover, 2010, 2018, USD million

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL EXPORTS</td>
<td>60,270.8</td>
<td>61,111.2</td>
</tr>
<tr>
<td>of which, mineral products</td>
<td>45,034.2</td>
<td>45,546.7</td>
</tr>
<tr>
<td>other</td>
<td>15,236.6</td>
<td>15,564.5</td>
</tr>
<tr>
<td>TOTAL IMPORTS</td>
<td>31,126.7</td>
<td>33,658.5</td>
</tr>
<tr>
<td>of which, machinery and equipment</td>
<td>7,761.7</td>
<td>9,038.9</td>
</tr>
</tbody>
</table>

Date accessed: February 20, 2020

Further, the structure of Kazakhstan’s mutual trade with the EAEU (Table 2) – both in 2019 and throughout the entire period of the study – shows a negative trade balance. According to data from the Statistics Committee, as of today, the total amount of imports is USD 14,978.8 million (versus USD 12,899.5 million in 2010)\(^{28}\), and exports total USD 6,317 million (compared to USD 5,892 million in 2010), i.e. imports grew 16.1% over the baseline year of 2010, while exports grew 7.2% over 2010.\(^{29}\)

We also see a clear trend toward growth in Kazakhstan’s trade with countries outside the union in periods when demand for energy products and raw materials was rising on the world market: 2011-2012 and 2017-2018 (Table 2). The data in Table 2 also show that, to a large extent, Kazakhstan’s exports go to countries outside the union. Its leading export partners are Italy, representing 14.5% (USD 8.4 billion), followed by China at 13.6% (USD 7.8 billion) and Russia at 9.7% (USD 5.6 billion).\(^{30}\) The dominant position of oil and petroleum products among Kazakhstan’s exports (see Table 4) accounts for this rapid growth (77.2% or USD 41,875.4 million in 2010, and 76.9% or USD 39,547.4 million in 2019).

\(^{28}\) Ibid.
\(^{29}\) Calculations by the authors based on data from the RK Statistics Committee
\(^{30}\) Main Foreign Trade Indicators of Kazakhstan by Country // Data from the RK Statistics Committee
Table 4. Export of goods from the Republic of Kazakhstan by aggregated product groups in trade with all countries, 2010 and 2019 (foreign trade)

<table>
<thead>
<tr>
<th>Product Group</th>
<th>2010</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rawhide, pelts, and goods made from them</td>
<td>1,887.8</td>
<td>1,910.3</td>
</tr>
<tr>
<td>Wood pulp and cellulose and paper goods</td>
<td>4,187.5</td>
<td>3,954.7</td>
</tr>
<tr>
<td>Textiles, textile goods, and footwear</td>
<td>6,538.9</td>
<td>6,124.3</td>
</tr>
<tr>
<td>Machinery, equipment, and vehicles</td>
<td>1,260.7</td>
<td>1,650.7</td>
</tr>
<tr>
<td>Chemical industry products</td>
<td>1,235.5</td>
<td>1,457.5</td>
</tr>
<tr>
<td>Food products and agricultural raw materials</td>
<td>5,235.1</td>
<td>6,235.1</td>
</tr>
<tr>
<td>Metals and metal goods</td>
<td>3,235.1</td>
<td>3,235.1</td>
</tr>
<tr>
<td>Mineral products</td>
<td>2,377.9</td>
<td>2,377.9</td>
</tr>
</tbody>
</table>

(http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/tables/archive/eCU201112/Pages/GROUP.aspx)
Date accessed: February 27, 2020

As Table 5 below shows, “Machinery, Equipment, and Vehicles” is the predominant category in Kazakhstan’s imports: USD 8,346.7 million (45.8%) in 2010 and USD 12,266.4 million (52.5%) in 2019. Among imports in 2019, Russia led with 36.7% (USD 14.1 billion), followed by China with 17.1% (USD 6.6 billion), South Korea with 8.9% (USD 3.3 billion), Germany with 3.9% (USD 1.5 billion), and the United States with 3.5% (USD 1.3 billion).31 According to EEC data, Kazakhstan led all EAEU member states in growth of imports from third countries in the period 2018-2019: the country imported goods worth USD 23,377.9 million, an increase of 18% from 2018.32

We see that after joining the EAEU, Kazakhstan began importing more and exporting less in trade with the EAEU countries. The share of chemical industry products fell from 14.9% (USD 2,719.1 million) to 13.9% (USD 3,235.1 million), and the share of food products fell from 9.5% to 7.6%. Imports of metals and metal goods as a share of the whole remained at about the same level throughout the study period.

31 Data from the Statistics Committee of the Republic of Kazakhstan
32 Foreign and Mutual Trade in Goods of the European Economic Union // EEC data
(http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/time_series/Pages/default.aspx)
Table 5. Imports of Goods into Kazakhstan by Aggregated Product Groups, 2010 and 2019, USD million

![Graph showing imports by product groups]

Source: Export and Import of Goods of the Republic of Kazakhstan by Aggregated Product Groups // Eurasian Economic Commission. Statistical Tables
(http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/tables/archive/eCU201112/Pages/GROUP.aspx)
Date accessed: February 27, 2020

The structure of goods in mutual trade with the EAEU (Table 6) essentially mirrors the structure of Kazakhstan’s foreign trade with all countries (Tables 3 and 4). It should be noted that, according to EEC data, in 2019 Kazakhstan exported USD 6.3 billion in goods to the EAEU countries and imported goods worth USD 15 billion. Thus, the balance of mutual trade was negative – USD 8.7 billion, which was the highest such indicator among EAEU member countries.33

Table 6. The Structure of Goods in Kazakhstan-EAEU trade, 2011 and 2019, USD million

![Graph showing structure of goods in trade]

Source: Mutual Trade // Eurasian Economic Commission. Statistical Tables

33 Foreign and Mutual Trade in Goods of the Eurasian Economic Union // EEC data
(http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/time_series/Pages/default.aspx)
The structure of goods in Kazakhstan’s imports and exports with EAEU countries shows a high degree of differentiation among items (Tables 7 and 8).

Table 7. Structure of Exports of the RK to the CU34 (2010) and the EAEU35 (2019), USD million

<table>
<thead>
<tr>
<th>Category</th>
<th>2010</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wood pulp and forest products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction materials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Textiles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery, equipment, and vehicles</td>
<td>3,211.5</td>
<td>490.3</td>
</tr>
<tr>
<td>Animal and plant products</td>
<td>1,881.2</td>
<td>2,490.3</td>
</tr>
<tr>
<td>Chemical industry products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metals and metal goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mineral products</td>
<td>1,000.0</td>
<td>500.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,051.8</td>
<td>6,317.2</td>
</tr>
</tbody>
</table>

Source: Exports by Main Product Groups to EAEU countries.
Statistics of Foreign and Mutual Trade // Data from the RK Statistics Committee
https://stat.gov.kz/official/industry/31/statistic/6

In 2010, the largest share in exports to CU countries was mineral products36 (53.1%) – USD 3,211.5 million, while in 2019 this group represented 39.4% of exports (USD 2,490.3 million). Exports of animal and plant products, in turn, grew by 8.3% to USD 633.7 million (compared to USD 100.0 million in 2010), and we also see a growing share of machinery, equipment, and vehicles (USD 490.3 million or 7.8%) in 2019 versus USD 280.5 million (4.6%) in 2010.

Imports into Kazakhstan from its partner countries in the union in 2010 comprised mainly mineral products – USD 4,036.0 million (31.6%), along with machinery and equipment – USD 2,508.5 million (19.6%). In 2019, mineral imports as a share of imports fell 19% (by USD 1,889.8 million) compared with 2010, as imports in all other categories increased, except timber and forest products (4.7% in 2010 versus 4.6% in 2019) (see Table 8).

34 The Customs Union had three member countries: Kazakhstan, Russia, and Belarus.
35 The EAEU has five member countries: Kazakhstan, Russia, Belarus, Kyrgyzstan, and Armenia
36 including fuel and energy products.
Table 8. Imports to the RK from Partner Countries (CU in 2010, EAEU in 2019), USD million

<table>
<thead>
<tr>
<th>2010</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD 12,787.1 million</td>
<td>USD 14,978.8 million</td>
</tr>
</tbody>
</table>


Kazakhstan’s Domestic Market for Goods and Services

Kazakhstan’s membership in the EAEU has accelerated the consolidation of assets in the banking and telecom sectors, in part due to expectations of greater competition from Russian companies.

For example, in July 2017, Narodniy Bank of Kazakhstan JSC acquired a controlling interest in Kazkommertsbank Joint Stock Company, the second largest bank in Kazakhstan, and fully consolidated its assets in July 2018. With assets of 8.9 trillion tenge as of December 31, 2018, Narodniy Bank of Kazakhstan JSC is the largest financial institution in Kazakhstan and Central Asia, with the most extensive customer base and branch network: 656 branches and offices throughout the country, with subsidiary banks in Greece, Kyrgyzstan, Russia, and Tajikistan.37 Sberbank (Russia’s largest bank), which obtained a permit from Kazakhstan’s financial regulators in 2005 to purchase 100% of the shares in the Kazakhstan bank Texakabank,38 is currently in second place among second-level banks in the Republic of

Kazakhstan by amount of assets and total loan portfolio.\(^{39}\) Kazakhstan currently offers the most attractive investment terms for foreign investors within the EAEU.\(^{40}\)

Moreover, in late 2019 the law entitled “Ratifying the Agreement to Harmonize the Laws of EAEU Member States on the Financial Market” was published, setting the stage for the future creation of a common financial market in the countries of the union. The harmonization is scheduled to be completed by 2025, and reducing technical barriers should improve access by the member countries of the union to Kazakhstan’s financial market.\(^ {41}\) An interesting feature of the situation on Kazakhstan’s banking market is the replacement of European financial businesses with Russian ones. As banks like Allianz (the German insurance company), UNI Credit (Italy), ABN AMRO (Netherlands), Royal Bank of Scotland, and HSBC (UK) exit the market, subsidiaries of Russian banks – Alfa Bank, Sberbank of Russia, and VTB Bank – are increasingly taking their place.\(^ {42}\)

As a result of the accelerating processes of integration and the opening of domestic markets in Kazakhstan, full foreign ownership is now allowed in the telecom sector, excluding Kazakhtelecom, the country’s main communications carrier. Foreign companies wishing to acquire over 49 percent of shares in a fixed-line telecommunications company must obtain a permit from the appropriate government authorities. For mobile service, there are no restrictions on foreign ownership.

Notably, Kazakhtelecom JSC, the largest telecom company in Kazakhstan, acquired a controlling interest in Kcell, owned by the Scandinavian company Telia, in order to concentrate the telecom market even further. Moreover, the Swedish telecom company Tele2 AB entered into an agreement with Kazakhtelecom JSC on the terms of its exit from Kazakhstan. Thus, the quasi-state company Kazakhtelecom JSC controls three of the four cellular operators in the country: Kcell, Tele2, and Altel.\(^ {43}\) The only private mobile communications operator is Kar-Tel LLP, a telecom company that provides services under the Beeline brand (the trademark is owned by the Russian company Veon).


Domestic Competition

Specific examples of industrial cooperation between Kazakhstan business and EAEU companies, based on the inflow of investments from the countries of the union, include mainly projects with Russian partners. Unlike several other countries, whose investments are concentrated in Kazakhstan’s mining sector, Russian investment is distributed rather evenly among other sectors, including processing industries, such as metallurgy, pharmaceuticals, and machine-building.

Gross inflow of direct foreign investment (DFI) from the EAEU countries grew markedly to 1.5 billion dollars in 2019, which is 2.5 times higher than 2015. The volume of investments in Kazakhstan from the countries of the union has grown by $4.6 billion (66%) over the entire period of its existence. Russia represents the largest share of investments from EAEU countries – 1.4 billion dollars in 2019.

The leader in gross inflow of DFI is the European Union (EU); but a significant portion of this is investments by companies owned by individuals and legal entities in Kazakhstan that are registered in EU countries for various reasons (preservation of capital, tax optimization, etc.). For example, in the Netherlands (DFI volume USD 7.3 billion in 2019, a share of 30.2%) there are many subsidiaries and other companies with Kazakhstan capital that are shareholders in Dutch banks and other companies (including national companies). This explains the disproportionately large amount of investment from that country in Kazakhstan.

In terms of foreign capital, the number of active foreign legal entities in the RF has doubled in the last nine years (8,565 in 2010, 8,041 in 2014, and 17,362 in 2019). We should also highlight the increase in the number of EAEU companies active in Kazakhstan: in 2015 there were 6,300, and by the beginning of 2020 the number had grown 36.6% to 8,600.

Most enterprises with capital from the EAEU are small and medium-sized businesses.

According to data from the Statistics Committee, the biggest growth is seen in the following sectors: wholesale and retail trade, repair of automobiles and motorcycles (+3,449 companies), construction (+564 companies); processing industry (+483 companies), and other types of services (+1,406), which are mainly small businesses. The share of EAEU member countries in the construction sector in 2019 was 36% with 748 active companies (where Russia comprises 30%), while in the wholesale and retail trade, including repair of automobiles and motorcycles, half of the companies (4,119 active entities) represent

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47 Ibid.


50 Over the last nine years, according to data from the RK Statistics Committee
EAEU countries (Russia dominates with 42%, followed by Kyrgyzstan at 5%). In processing industries, countries of the union account for 38% of all active entities with foreign investment, with Russia representing 32% (320 active entities). In the other services’ sector, 33% of companies (776 active entities) are from EAEU countries, 22% from Russia and 9% from Kyrgyzstan. According to the data, the growth in the share of EAEU countries comes mostly from Russia (with the biggest share) and Kyrgyzstan. The number of companies from Armenia and Belarus is negligible. Outside the EAEU, Turkey has the largest share of companies with foreign investment with 9%, followed by China and Uzbekistan with 6%, and Ukraine with 3%. Among EU countries, Germany (3%) and the Netherlands (3.3%) have the largest share. The share of foreign companies in the total number of active legal entities in the country has increased modestly: from 4.5% in 2010 to 5.6% in 2019.

**Government Policy**

The transition to a floating exchange rate in August 2015 caused a sharp devaluation of the national currency, which in turn pushed inflation upward: from about 3.8% per year before August 2015 to 16.7% in May 2016. During 2019, the exchange rate of the tenge to the dollar continued to fall. Overall the weakening of the currency corresponds to the trend in oil prices, but it tracks just as closely with fluctuations in the exchange rate of the Russian ruble (see Fig. 1).

As a result, Kazakhstan has a limited ability to conduct an independent monetary policy; moreover, under article 64 of the Treaty on the EAEU, the countries of the union are obligated to coordinate their macroeconomic and currency policies. However, this provision has not yet been implemented through any legal or regulatory documents. The National Bank of Kazakhstan emphasizes that “issues of monetary policy and currency regulation remain fully within the authority of the central banks of the EAEU countries,” and “there are no plans to establish a currency union or introduce a common currency.” We should add that clause 2 of article 103 of the Treaty on the EAEU states that after they complete the harmonization of their laws on financial markets, the member states shall adopt a decision on the powers and functions of a supranational body to regulate the financial market, which is scheduled to be created in 2025.

On March 9, 2020, oil prices fell due to the global quarantine measures and the collapse of the OPEC+ deal, when Russia rejected a proposal to cut production by an additional 1.5 million barrels per day.

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51 Active Legal Entities, Branches, and Representative Office with Foreign Investment, by Regions of the Republic of Kazakhstan. Company Statistics // Data from the RK Statistics Committee
52 Calculations by the authors based on data from the RK Statistics Committee
53 There was a 5.3% reduction compared to the same period in 2018. [Sustaining Growth Momentum. Economic Report on Kazakhstan. World Bank, 2019. P. 14.]
57 Organization of Petroleum Exporting Countries (OPEC) – an international intergovernmental organization formed by oil-producing countries for the purpose of establishing quotas on oil production.
The price reduction had a negative effect on the exchange rate of the ruble, and the Kazakhstan tenge fell by about 15%. The National Bank raised the base rate from 9.25% to 12%. Russia also took quick action: “The Central Bank declared a halt to currency purchases on the market, and the Ministry of Finance announced that it would begin selling currency to make up for budget shortfalls.”

Figure 1. Changes in the Exchange Rate of the Tenge and the Ruble and in Oil Prices (percentage change from the same period in 2018)

Regarding the government’s fiscal policy, we will briefly review the recent tax changes that affect mutual trade with the EAEU (in particular, the value-added tax (VAT)), as well as business subsidies, as tools to stimulate Kazakhstan’s exports.

Exports in Kazakhstan are taxed at a zero rate, i.e. this tax is reimbursed by the government so the exporter does not bear the costs of selling goods abroad. However, getting this money back has always been a lengthy and cumbersome process. The recent introduction (on January 1, 2019) of a control account for VAT transactions will not only reduce reimbursement times (to 15 days), but also make it possible to move away from the use of cross-audits. The VAT rate in Kazakhstan is 12%, which is lower than the rate in Armenia, Belarus, and Russia (20%). It should be noted, though, that local businesspeople still encounter a large number of barriers, exemptions, and restrictions, especially non-tariff barriers, some of which are inconsistent with previous agreements and hinder the use of all the opportunities created by integration. For example, Belarus still has different VAT rates for certain domestically produced goods and for similar imported products.

60 Law of the RK No. 121-VI, dated December 25, 2017, implementing the Code of the Republic of Kazakhstan on Taxes and Other Mandatory Payments to the Budget, added article 433 to the Tax Code, effective January 1, 2019, entitled “Special rules for the refund of excess value-added tax when the payer of value-added tax uses a control account for the value-added tax”.
The EAEU countries are currently working on a mechanism to tax services in electronic form, which will be based on the experience of the EU, Russia, and Belarus. However, the concept of “taxation of services in electronic form” does not yet exist in Kazakhstan law. For individuals to perform their obligations to submit tax statements, the current proposal is for them to file, sign, and send their tax statements online using an EDS [electronic digital signature]. Further, in order to improve tax administration, it is proposed to require foreign internet companies to pay VAT. As of today, however, these ideas have not been implemented.

Export Subsidies

An important factor in Kazakhstan is the financing of exports, because domestic lending rates in the country are many times higher than in the CIS countries, which makes the ultimate rate for an exporter uncompetitive compared with companies in Russia and Belarus. Within the EAEU, access to inexpensive financing could also be seen as a non-tariff barrier, because Russia has state-owned financial institutions whose purpose is to support export companies.

The Commercial Code of the Republic of Kazakhstan includes provisions for “reimbursement of a portion of the costs incurred by businesses engaged in industrial innovation in promoting domestic processed goods and services to foreign markets” and “financing, lending, and insurance for export goods”. For example, in order to create a competitive advantage and meet the CIRR rate (2.8% annually), Russia subsidizes the rate of bank fees by financing exports. In Kazakhstan, the government began doing this by subsidizing export transactions by the export insurance company KazakhExport.

Tariff rates are determined based on risk assessments; country risk, in turn, is determined based on the tariff schedule, in which countries are divided into seven categories by risk level (from 1 to 7, where 7 represents the highest risk). The EAEU countries are unusual in that they have different ratings: Belarus (7), Kyrgyzstan (7), and Armenia (6) are among the countries with the highest risks for long-term

68 The official rate for export loans in OECD countries
insurance, while Russia is in the middle risk category (4). Countries like Germany, South Korea, China, Japan, the Netherlands, etc., have the “lowest risk”.70

Non-Tariff Barriers
Here we should note the relevance of the trade barriers facing Kazakhstan, in particular non-tariff barriers and obstacles created by the expansion of non-tariff trade regulation measures as the role of tariff-based tools has diminished.71 A survey of EAEU businesses found that 66% of companies in Kazakhstan viewed competition on the Russian market as a barrier (second only to Belarus, at 76.8%).72 In addition, 40% of manufacturers in Kazakhstan and Belarus encounter quasi-barriers like unavailability of information on foreign markets. To address these issues, Kazakhstan has programs to support companies involved in foreign trade: the aforementioned KazakhExport acts as an export credit agency (subsidies), while non-financial support is provided by Kazakh Invest National Company JSC.73

Russia and Belarus still have unnecessary bureaucratic and regulatory procedures. The longstanding currency instability of EAEU trading partners, along with the frequent problem of nonpayment, is seen as an additional impediment to the growth of trade within the EAEU.

In turn, government procurement policies and sanitary and phytosanitary measures both in Kazakhstan and Russia are restricting factors for Belarusian exporters sending “agricultural, metal, and processed wood products, and certain other groups of goods” to Kazakhstan.74 Kazakhstan also creates certain problems for the transit of cargo from Kyrgyzstan (traffic congestion at the border), and the requirements for products from Kyrgyzstan on the markets in Kazakhstan and Russia are stricter than the country’s requirements for products from other EAEU countries.75

Table 9 shows a comparison of the obstacles in each member country of the EAEU.

Table 9. Number of obstacles in EAEU countries in 2020

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>ARMENIA</th>
<th>BELARUS</th>
<th>KAZAKHSTAN</th>
<th>KYRGYZSTAN</th>
<th>RUSSIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>NUMBER OF OBSTACLES</td>
<td>46</td>
<td>47</td>
<td>48</td>
<td>44</td>
<td>49</td>
</tr>
<tr>
<td>Of which, barriers</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Exemptions</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Restrictions</td>
<td>35</td>
<td>35</td>
<td>35</td>
<td>35</td>
<td>37</td>
</tr>
</tbody>
</table>

72 Ibid. P. 70.
73 Ibid. P. 81.
75 This was said by economist Azamat Akeneyev at a roundtable discussion of how to make products from Kyrgyzstan more competitive on EAEU markets in 2020. [A. Petrov. Shelf Space. What is preventing Kyrgyz manufacturers from finding their niche in EAEU markets // Rossiyiskaia Gazeta. № 23(8077) // rg.ru. 02/06/2020 (https://rg.ru/2020/02/06/v-bishkeke-obsudili-konkurentosposobnost-kirgizskih-tovarov-v-eaes.html)
According to the EEC’s website, there are currently 66 obstacles in the EAEU (15 barriers, 14 exemptions, and 37 restrictions). We should note that they are distributed almost evenly among the five countries (from 46 to 49 obstacles), and most of the restrictions are found in all five countries, because they arise due to the absence of a common legal framework in the union.\(^76\) In the case of Kazakhstan, the majority of the obstacles are found in the following sectors: 25% in energy policy, 19% in technical regulation, and 13% in transportation policy, which corresponds almost exactly to the distribution of obstacles in Russia.\(^77\)

**Advisory Committee on Cooperation Between the EEC and the EEC Business Council**

In 2015, the Atameken National Chamber of Entrepreneurs of the RK proposed the creation of the EAEU Business Council, which is a “permanent coordinating and advisory body of business circles of the member states of the Union.”\(^78\) The proposal was unanimously supported by the major business associations of the EAEU countries, which became members of the Business Council.\(^79\) In late 2016, the Advisory Committee on Cooperation Between the EEC and the EAEU Business Council was formed to be “a platform for discussion of strategic and systemic issues involving the development of the EAEU in conjunction with the business associations of the Union.”\(^80\) The Advisory Committee includes representatives of the Atameken chamber (including the chairperson of the board and experts), and representatives of other business associations in the country.\(^81\) According to the minutes of its meetings on the EEC website, the Committee meets once a year (in the fall or winter), and the results of the meetings are recorded in minutes and made publicly available.

Information on the efforts to identify and eliminate obstacles on the EAEU domestic market is available to the public on the website of the Atameken NCE. As of today, the Republic of Kazakhstan has submitted “11 messages concerning barriers, of which seven have been eliminated and four are under review by the EEC,” according to the website atameken.kz. The Committee is currently working on 12


\(^79\) The members of the EAEU Business Council are: the Union of Industrialists and Entrepreneurs (Employers) of Armenia, the Confederation of Industrialists and Entrepreneurs (Employers) of Belarus, the Atameken National Chamber of Entrepreneurs of Kazakhstan, the Kyrgyz Union of Industrialists and Entrepreneurs, and the Russian Union of Industrialists and Entrepreneurs.


issues involving obstacles (including “Advance Notification Points established by the Federal Service for Veterinary and Phytosanitary Oversight of the RF [Russian Federation]”, “Obstacles identified that are contrary to the Customs Union’s common principles of the market for the sale of goods and services (issue involving the sale of cement in the Russian Federation)”, and others).\textsuperscript{82}

To facilitate prompt review and decision-making on business issues involving obstacles on the domestic markets of the EAEU, Atameken created a Mediation Commission at the Atameken NCE. Its members include Kazakhstan government officials and representatives of the chamber. On January 25, 2019, the Commission held its first meeting, at which it discussed issues raised by business and gave appropriate directions to government agencies.\textsuperscript{83} Further information about its activities has not yet been published.

**Labeling of Goods with Identification Marks**

An important aspect of the harmonization of technical regulations within the EAEU is the agreement on labeling of goods, which was hotly debated. This EAEU agreement entitles each country in the union to propose mandatory electronic labeling of specific products throughout the EAEU. Russia first proposed this idea.

Kazakhstan’s business community opposes this agreement and considers it ill-conceived: the effectiveness of labeling has not been demonstrated, and it will cause prices in the country to increase by more than 10%.\textsuperscript{84} “The business community of Kazakhstan does not support mandatory and forced labeling of goods with identification marks, because this will impose unfair costs for equipment purchases, reduce profitability, increase prices, and exacerbate social tensions in the country,” according to a statement by the business community, members of the Mazhilis [Parliament], experts, and activists.

Before imposing a labeling requirement, a country must submit a proposal for consideration by all EAEU countries (which have three months to make a decision) regarding the specific product. If there is no consensus among all members, then two or more countries may introduce labeling within their territory, based on their laws and the principles set forth in the agreement on labeling of goods in the EAEU. The other countries will then be asked to agree and introduce labeling, and if a country declines, exporters will encounter a barrier to access to the market of that country. The NCE believes “the decision to introduce mandatory labeling within the EAEU should be made unanimously.”\textsuperscript{85}

**Kazakhstan’s Foreign Trade with Other Countries**

According to EEC data, in the past year Kazakhstan has increased imports to countries outside the union by 19.5% over the prior year: from USD 19.6 billion to USD 23.4 billion. As shown in Table 10, the

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\textsuperscript{83} Ibid.


country’s main trading partners in 2019 were the EU countries (USD 21.3 billion – 22.2%).\textsuperscript{86} Notably, the share of the EU in total trade fell by 8.2% between 2011 and 2019, while Asia’s share increased by 9%, from USD 28.9 billion in 2011 to USD 31.5 billion in 2019. In this region, the countries with the biggest growth in turnover over the past year are China (USD 14.4 billion), Korea (USD 6.5 billion), and Turkey (USD 3.1 billion).

Broken down by individual countries, Kazakhstan’s main trading partner is Russia, with turnover of USD 19.6 billion, of which imports account for 14 billion dollars. Among major export destinations, Italy leads with 14.5% (USD 8.4 billion), followed by China with 13.6% (USD 7.8 billion) and Russian with 9.7% (USD 5.6 billion).\textsuperscript{87} However, according to World Bank data, the average level of growth among Kazakhstan’s main partners\textsuperscript{88} declined from 3% in 2018 to 1.7% in 2019. Sluggish activity in world trade and low oil prices had a negative effect on exports.

We should also note that together, China, the EU, and Russia represented 66.1% of Kazakhstan’s total exports in 2019, which makes Kazakhstan vulnerable to economic conditions in those countries. For example, the trade war between the United States and China has undermined investor confidence and reduced flows of direct foreign investment (DFI). China’s economy grew more slowly than expected in 2019, which further suppressed global prices for raw materials and adversely affected Kazakhstan’s exports. The coronavirus pandemic in 2020 and the slowdown in economic growth in China and Russia will likely push raw materials prices further down and weaken demand in China, which will inevitably impact Kazakhstan.

Table 10. Geographic structure of Kazakhstan’s foreign trade, by major groups (2011-2019)\textsuperscript{89}, USD million

\begin{table} 
\centering
\begin{tabular}{|c|c|c|c|}
\hline
 & 2011 & 2019 \\
\hline
EAEU countries & 23,019,0 & 21,296,0 \\
CIS countries outside the EAEU & 5,298,5 & 7,852,5 \\
EU & 49,837,4 & 45,343,6 \\
Asia & 31,343,6 & 31,495,6 \\
America & 6,411,4 & 6,336,0 \\
\hline
\end{tabular}
\end{table}

Source: Statistics of Kazakhstan’s Foreign and Mutual Trade by Country // Data from the Statistics Committee of the RK https://stat.gov.kz/official/industry/31/statistic/6

\textsuperscript{86} Data from the Statistics Committee in the Ministry of National Economy of the Republic of Kazakhstan
\textsuperscript{87} Main indicators of Kazakhstan’s foreign trade, by country
\textsuperscript{88} The EU, China, and Russia
\textsuperscript{89} 2011 data for CU countries // Statistics Committee
Kazakhstan and the EU

Kazakhstan’s exports to the EU are predominantly oil and gas, commodities with very high price volatility that account for over 80% of the country’s total exports.\(^90\) Price volatility and the different ways it affects exports to the EU and the EAEU explain the trends in export volumes to these destinations. For example, in 2013–2016, the decline in goods turnover with the EU by 2.3 times, from USD 55.2 billion to 24.2 billion, was caused by this factor, closely correlating with the fall in oil prices in the same period (by 2.4 times, from 108 to 43 dollars per barrel).\(^91\) Turnover with the EAEU was less volatile due to the smaller share of raw materials in exports and greater diversity of products, as described earlier in this report.

It is important to note that many large businesses in Kazakhstan have received investments from EU countries, which contribute to social and economic development at both the national and regional levels. For example, companies from the EU – ENI (Italy) and Royal Dutch Shell (Netherlands, UK) – own large equity interests, 29.5% each, in the Kazakhstani company Karachaganak Petroleum Operating (KPO). The Russian company Lukoil owns 13.5%.\(^92\) European business is also extensively represented in another major oil consortium, NCOC (North Caspian Operating Company)\(^93\), in which Total, Shell, and ENI each own 16.8%,\(^94\) together holding a majority stake in this massive project. This consortium also includes companies like ExxonMobil (USA), CNPC (China), Inpex (Japan), and KazMunayGas (Kazakhstan).

We should also note that the Enhanced Partnership and Cooperation Agreement (EPCA 2015) between the EU and Kazakhstan, which officially took effect on March 1, 2020, grants to businesses in the EU rights similar to the rights enjoyed by EAEU entities. This means that businesses from both unions have equal rights in Kazakhstan.\(^95\) In light of Ukraine’s refusal to join the EAEU, the EU has limited its relationship with Russia and strongly preferred to deal with EAEU member states on a bilateral basis. The EU was particularly successful in reaching comprehensive cooperation agreements with Kazakhstan (EPCA 2015) and Armenia (Comprehensive and Enhanced Partnership Agreement, 2017). These agreements are fully consistent with the countries’ obligations both in the WTO and the EAEU.\(^96\)

Notwithstanding the EU’s preference for bilateral relations with individual EAEU member states, experts from the European Commission had an unofficial dialog with their EEC counterparts on the issue of

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\(^{92}\) About the company – KPO B.V. // Official website of KPO https://www.kpo.kz/ru/o-kompanii.html


harmonizing technical norms and standards. This issue is becoming more important for Kazakhstan, because the norms and standards used by China in the Silk Road Economic Belt could be different.97

**Kazakhstan and China**

China is one of Kazakhstan’s largest trading partners, representing 15% (USD 14.4 billion) of the country’s total turnover in 2019. Compared to other countries, Kazakhstan’s trade with China is balanced, with parity of export and import volumes. In 2019, Kazakhstan exported mineral products, copper, ores, iron, and zinc to China, and imported from China mainly electronics (USD 1.2 billion) and machinery (USD 1.4 billion). Notably, over the past three years both exports and imports have grown (Table 11).

**Table 11. Trends in Kazakhstan’s Exports and Imports with China, 2017-2019 (USD billion)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>5.8</td>
<td>4.7</td>
</tr>
<tr>
<td>2018</td>
<td>6.3</td>
<td>5.4</td>
</tr>
<tr>
<td>2019</td>
<td>7.8</td>
<td>5.5</td>
</tr>
</tbody>
</table>

*Source: Bilateral trade between Kazakhstan and China // ITC. Date accessed: March 5, 2020.*

The list of joint projects between the two countries in the areas of investment and industrialization includes 55 projects totaling USD 26.7 billion.98 Major Chinese companies like Sinopec (SNPC) are involved in developing all of the key oil fields, along with other multinational corporations. It is symbolic that China’s Silk Road Economic Belt and Kazakhstan’s Nurly Zhol [Bright Path] program both contemplate development of infrastructure and industry in Kazakhstan, and their coordination99 should have a synergetic effect on economic development in the country. Kazakhstan’s top priority in this effort is developing transportation infrastructure.100

However, the key issue remains of how the Silk Road Economic Belt will fit with the EAEU, because these two projects are focused in different directions. The goal of the Silk Road Economic Belt, which is to move Chinese products to markets in Central Asia and Russia, and through them to Europe and the

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97 Ibid.
Middle East, with subsequent creation of free trade zones in the Central Asian region, is contrary to the primary objective of the EAEU in its current stage of development.¹⁰¹

**Kazakhstan and CAREC [Central Asia Regional Economic Cooperation program]**

As a region, Central Asia is not a uniform economic space, since the countries in this area are open to trade (regional and international) and various forms of cooperation to varying degrees. As Table 12 shows, Kazakhstan accounts for the majority of turnover in the region (USD 9,608.0 million in 2019).¹⁰² Most of its transactions are with Uzbekistan: turnover between the two countries was USD 2,747.8 million in 2019.¹⁰³ Kazakhstan’s exports to Uzbekistan in 2019 comprised mainly wheat (USD 406.3 million), semi-finished iron and steel goods (USD 356.2 million), and mineral products (USD 215.3 million). Kazakhstan imports mainly fruit (USD 292 million – 58% of imports), mineral products (USD 159.6 million), vegetables (USD 90 million), and plastics (USD 71 million).¹⁰⁴

Table 12. Goods Turnover of Central Asian Countries (USD thousand), 2015–2019

![Graph of Goods Turnover of Central Asian Countries](image)

*Source: ITC Trade Map.*  
*Date accessed: March 5, 2020.*

Kazakhstan is a member of the Central Asian Regional Economic Cooperation (CAREC) program, which enhances Kazakhstan’s role as a transit and trade corridor between Europe and Asia. As of December 2018, over 9.11 billion dollars had been invested in 28 projects under the auspices of the CAREC program to improve transportation, trade, and energy infrastructure in Kazakhstan.¹⁰⁵

It should also be noted that four of the six CAREC corridors pass through Kazakhstan. The most important ones are the CAREC 1 Corridor, an important cargo transit route from China through

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¹⁰² Data of Uzbekistan and Tajikistan for 2019 are not available.
¹⁰³ Data from Trade Map. [https://www.trademap.org/](https://www.trademap.org/)
¹⁰⁴ Bilateral Trade Between Kazakhstan and Uzbekistan in 2018 // Data from Trade Map. [https://www.trademap.org/](https://www.trademap.org/)
Kyrgyzstan and Kazakhstan into Russia and on to Europe, and the CAREC 2 Corridor, an east-west pipeline linking Kazakhstan with China and Russia, and also with the Caucasus region and beyond.\textsuperscript{106}

\textbf{Kazakhstan and the United States}

Trade with the United States totaled 2.2 billion dollars in 2019 (0.9 billion in exports and 1.3 billion in imports), compared to 1.7 billion dollars in 2017 (0.4 billion in exports and 1.3 billion in imports). Exports more than doubled in this period.\textsuperscript{107} The largest component of exports at 55\% was “mineral products” (USD 0.5 billion), while exports in this category totaled only USD 364,000 in 2017. The next largest export categories were: “inorganic chemicals”, the share of which dropped from 26\% (USD 0.1 billion) in 2017 to 12\% (USD 0.1 billion) in 2019, and “steel and iron” (46\% of total imports in 2017 and 12\% in 2019). The category “aircraft, spacecraft, and their components” grew by 28 times to 10\% of the country’s total imports.\textsuperscript{108} In 2018 Kazakhstan was the 85\textsuperscript{th} largest export market for U.S. goods.\textsuperscript{109}

The United States has been one of the largest investors in the country’s economy since independence (second only to the Netherlands), having invested about 50 billion dollars.\textsuperscript{110} Most of this investment has been in oil and gas: the multinational corporations Chevron and Exxon Mobile are among the biggest players in this sector of the economy. Tengizchevroil (TCO), of which the American partner controls 75\%, produced 27.1 billion barrels of oil in the Tengiz and Korolev fields (Atyrau Region) in 2019. Direct financial payments by the company into the economy of the RK exceeded $10.6 billion in 2019.\textsuperscript{111}

Regarding import policy, it should be noted that the sanctions on Russia have made it more difficult for goods from third countries to transit through Russia into Kazakhstan. On November 20, 2018, the Russian authorities imposed a temporary prohibition on the transit of poultry from the U.S. through Russia into Kazakhstan, on the pretext that Kazakhstan was not complying with sanitary and phytosanitary standards, making it impossible to properly monitor goods subject to veterinary inspection. The prohibition was removed in January 2019, but it was replaced by the following requirements: (1) poultry shipments must be registered with Russia’s Mercury cargo tracking system,\textsuperscript{112} and (2) any transshipment and transit to Kazakhstan must be handled through EU agencies accredited to store animal products.\textsuperscript{113}

\begin{footnotesize}
\textsuperscript{106} Ibid.
\textsuperscript{107} Data from TradeMap. Date accessed: March 5, 2020.
\textsuperscript{108} Ibid.
\textsuperscript{111} Data on payments include wages paid to employees from Kazakhstan, purchases of goods and services of domestic manufacturers and service providers, payments to state-owned enterprises, dividend payments to Kazakhstan partners, and taxes and royalties paid to the government. TCO published its results for 2019. // www.tengizchevroil.com. February 17, 2020 (http://www.tengizchevroil.com/about/media/tconews/item/tco-stories/2020/02/17/2019-year-end-results) Date accessed: March 5, 2020.
\textsuperscript{112} Electronic verification system for imported and domestic goods
\textsuperscript{113} 2019 National Trade Estimate Report. P. 299
\end{footnotesize}
Conclusion

As this study has shown, Kazakhstan’s cooperation with the EAEU countries cannot be described as entirely successful or problem-free. On the one hand, the EAEU states, especially Russia, are very important trading partners for Kazakhstan. In fact, the EAEU was established in order to open new opportunities for trade among its members. However, the data show that in the past year, Kazakhstan’s highest negative balance of mutual trade was with the EAEU countries. Businesspeople in Kazakhstan still complain about numerous technical and administrative barriers and unfair competition. This indicates that, five years on, the EAEU still suffers from a number of structural problems that are preventing this organization from becoming more than a Customs Union.

In the early stages, the country’s business community and public were not involved in the processes and decisions involving integration. As a result of poor communication between business and government, the long-term interests of Kazakhstan’s business community were frequently ignored. This problem is now recognized and, as this study shows, it is currently being addressed through dialog between the government and the Atameken NCE. Nevertheless, the public in Kazakhstan is not yet seeing meaningful economic return or personal benefit from the EAEU. If Uzbekistan joins the union, it will need to reach out to its business community and public and consider their interests in making decisions on integration within the EAEU, to avoid making businesspeople and the public skeptical about its benefits. It is quite likely that this country, like Kazakhstan, will have to work hard to counter disinformation from Russia that challenges the sovereignty of the other members of the union, as happened, for instance, with its statement on a common currency.

Still, the EAEU market is critically important to Kazakhstan, especially in supporting export manufacturers, because non-resource goods make up over half of all products exported to EAEU countries. At the same time, the value of the national currency (tenge) depends not only on changes in oil prices, but also on the Russian ruble. The country’s economy is highly dependent on the economic situation in China, the EU, and Russia, which indicates that Kazakhstan’s membership in the EAEU has not made its economy more competitive, and not much has been done within the country to make this happen.

As this study shows, in Kazakhstan’s foreign trade with other countries, issues involving harmonization of technical norms and standards still need to be addressed, because in addition to its active cooperation with the EU, as a member of the EAEU Kazakhstan is also working with China within its Silk Road Economic Belt initiative. Time will tell how these processes develop in the future, especially in light of recent events.

Based on all of the above, we can conclude that the EAEU is not yet a full-fledged economic union and is still in its formative stages: the existence of barriers to free movement of goods and the asymmetry of the markets, with one country clearly dominating, deprives the member states of the opportunity to distribute the economic benefits effectively. One common recommendation, but by no means the only recommendation, is to continue harmonizing laws within the scope of the EAEU. Another is to find ways to increase exports of goods from Kazakhstan to the countries of the union. We can only hope that the future brings fewer barriers between the countries and more freedom of trade.
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