Development of Foreign Trade Relations between Kazakhstan and the EU under the Influence of Geopolitical Changes

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Abstract: Kazakhstan, the most impressive reformer and the most developed country in the Central Asia region, has undergone major economic changes in last years. The country has played an important role in providing stability and security in the region. For the EU it is the most important trade partner from the region of Central Asia. The relations between Kazakhstan and the EU has developed also in other areas as political, cultural or social but the trade relations still play the most important role in the mutual relations. The aim of the article is to examine the position of Kazakhstan in the EU foreign trade relations, to analyze their mutual development in recent years on the basis of Trade Intensity Index and to draw out further possibilities of the future mutual foreign trade cooperation during the time of geopolitical changes.

Keywords: EU, foreign trade relations, Kazakhstan, Trade Intensity Index

JEL Classification codes: F13, F19, F60

INTRODUCTION

Kazakhstan is the ninth largest country in the world and the most developed economy of the Central Asia. (Drieniková, 2018). At present, Kazakhstan and the entire region of Central Asia play an important role in the current geopolitical relations of Russia, China, the EU and other regional players as Iran. For China, Kazakhstan is particularly interested in rich oil and gas supplies and as a transit country through which goods from China pass through a project of the New silk road heading to the Middle East and the EU. Russia is striving to strengthen its political and economic influence in the country. For the EU, Kazakhstan is an important importer of energetic materials, but also as a country that ensures safety and stability in the region. Iran focuses on economic cooperation and offers its territory as a transit territory for oil transport to Turkey and the EU.

The European Union and Kazakhstan have established a close economic and trade partnership since the independence of Kazakhstan. The cooperation between the EU and Kazakhstan is developing not only in field of trade, but in last years it also covers political, cultural or technical cooperation.

1 LITERATURE REVIEW

The ongoing geopolitical changes in the world economy and the gradual adaptation of the EU foreign trade policy to the turbulent development of the world economy in recent years have been accompanied by a number of unexpected phenomena. An important indicator of economic growth influencing the effective functioning of the whole economy is the positive development of foreign trade itself. (Baláž, Hamara, Šopková, 2015). A decisive factor in the
current global economy is the increasingly active interference with globalization processes that are directly or indirectly present in almost all types of economic activities. The development of the world economy over the last three decades has led to significant qualitative changes, the intensity of which is increasing even more at present (Ružeková, 2013). This phenomenon also applies to the development of foreign trade relations between the EU and Kazakhstan.

Kazakhstan has not only been an important trading partner from the Central Asia but has also become a reliable EU partner ensuring peacekeeping in the region. The main area of mutual cooperation is still the energy sector (Drieniková, 2018). The EU is trying to strengthen its position towards this region mainly because of the resources of raw materials, efforts to expand the sphere of its influence and the geostrategic importance of the region (Gast, 2014). Since the independence of Kazakhstan, relations between the EU and Kazakhstan have developed not only in the field of trade, but also in recent years we can also see closer cooperation in the field of politics, culture and social affairs (Kembayev, 2016). In comparison with China and the US, the EU has a lower political influence in Kazakhstan, but a rather significant economic impact (Peyrouse, 2016). The most important documents which show the direction of cooperation between the EU and Kazakhstan are the Enhanced Partnership and Cooperation Agreement (EPCA) and the Partnership and Cooperation Agreement (PCA). The EPCA allows better conditions for the political and economic cooperation and strengthening relations between Kazakhstan and EU contributing to the diversification of the Kazakh economy and thus increasing the overall competitiveness of the Kazakhstan economy (Drieniková, Kašťáková, 2016).

The field of trade flow tracking was first used by Brown (1949) and later by Kojima (1964) through the trade intensity index. Business intensity defined as trade between two countries in relation to the total value of world trade and its share of it. In the course of ten years, Yamazawo (1971) applied a trade intensity model and analysed trade between two countries and assessed trade changes and factors that affect trade intensity. At the same time, trade intensity could be estimated not only between countries, but also as the internal trade intensity or external trade intensity of some countries or regions (Lapadre, 2004).

2 METHODOLOGY

The aim of the article is to examine the position of Kazakhstan in EU foreign trade relations, to analyze their mutual development in recent years on the basis of the Trade Intensity Index and to draw out further possibilities of their mutual foreign trade cooperation during the time of geopolitical changes.

Several theoretical methods are used in the article to achieve the aim (synthesis, analysis, induction, deduction, comparison). The graphs are used to make foreign trade data more transparent.

The Trade Intensity Index (TII) is used to assess whether the trade volumes between two countries are larger or smaller than it would be expected on the basis of their world trade position. It is defined as the share of one country’s exports going to a partner divided by the share of world exports going to the partner. (World Bank, 2010)

It is calculated as:

$$ TII_{ij} = \frac{\left(\frac{x_{ij}}{X_{it}}\right)}{\left(\frac{x_{wj}}{X_{wt}}\right)} $$

where:

- $x_{ij}$ represents the value of export from country $i$ to country $j$;
- $X_{it}$ represents the value of total exports of country $i$ to world;
\( x_{wj} \) represents the value of total world exports to country \( j \),

\( X_{wt} \) represents total value of the world exports.

TII values range from 0 to +∞. If the index value is 1, it means that the exporting country \( i \) exports to country \( j \) exact ratio of exports, which is a matter for country B considering its share in world import. If the index value is higher than 1, the business flows between examined countries are on a higher level, as it would be expected in view of the world economy. This means, that country \( i \) exports to country \( j \) in a ratio of more goods than to the rest of the world. It is thus an intense trade relationship. If the value is less than 1, then the intensity of trade is at a level lower, than it would be expected. (World Bank, 2013)

For the purpose of this research, the source of the data were Ministry of economy of the Slovak Republic, Embassy of the Slovak Republic in Astana and Embassy of the Czech Republic in Astana which provided data for the analysis of foreign trade between Kazakhstan and the EU.

Foreign trade commodity structure was classified according to the Harmonized System nomenclature. The data required for the calculation of TII were used from the EUROSTAT database and United Nations Conference on Trade and Development (UNCTADSTAT).

3 RESULTS AND DISCUSSION

Kazakh Republic is an inland state with an area of 2 724 900 km2 and population of approximately 18.6 million. (Czech Trade, 2018). It is the most developed state of Central Asian countries. The country has experienced tremendous economic development over the last 25 years and undergone transformation to market economy. From the economy with lower middle income it transformed into an economy with a higher average income (World Bank, 2018).

In 2017, Kazakhstan’s GDP was 158.2 bln. $ (Embassy of the Slovak Republic in Astana, 2018). Although agriculture contributes only to a small percentage to GDP, it employs up to 15% of the population. The country has a rich supply of minerals, mainly petroleum, natural gas, black coal, uranium, gold, silver, or copper. The most important area of industry is the mining industry whose share in Kazakhstan's GDP in 2017 was 13.3% (Embassy of the Slovak Republic in Astana, 2018). Other major sectors are metallurgical, food, chemical, engineering, construction, metalworking and the pharmaceutical industry. Kazakhstan has been trying to diversify the structure of the economy in recent years and reduce its dependence on mining and exports of minerals. Services in Kazakhstan are represented mainly by wholesale and retail, real estate services and transport (Czech Trade, 2018). Kazakhstan spends money on road and rail construction. The rail link connects China, Kazakhstan and other Central Asian states, leading to the One Belt One Road (OBOR) project.

In 2012 Kazakh president Nursultan Nazarbajev promoted new strategy called The Strategy 2050 according to which should Kazakhstan become one of the 30 most developed countries in the world. The new strategy builds on Strategy 2030, adopted and implemented since 1997. The new strategy focuses on 7 long-term priorities which should support the development of the economy of Kazakhstan (strategy2050.kz, 2018).

3.1 Development of foreign trade and investments in Kazakhstan

For the last 18 years, Kazakhstan has had an active trade balance. In 2017, Kazakhstan’s total foreign trade turnover was 77.6 bln. $, of which 48.3 bln. $ represented exports and 29.3 bln. $import (Ministry of economy of the Slovak Republic, 2018).
The development of Kazakhstan’s growth and foreign trade during the period 2014-2018 was negatively influenced by decline of prices of oil, EU sanctions against Russia, devaluation of Russian ruble against the Kazakhstani Tenge (Konopelko, 2018). As the Kazakh’s economy is highly dependent on the export of oil and other raw materials, the decline in the oil prices on the world markets caused the slow-down in the economic growth of Kazakhstan. As Russia is one of the three most important partners of Kazakhstan concerning foreign trade, the decline in the economic growth and foreign trade of Russia evocated by the EU sanctions against Russia effected negatively the foreign trade of Kazakhstan. Foreign trade of Kazakhstan in 2013 – 2017 is displayed on Fig. 1.

**Fig. 1** Kazakhstan Foreign Trade in 2013 – 2017 (bln. $)

Source: processed by the authors according the data from the Ministry of economy of the Slovak republic

Kazakhstan's most important trading partner in 2017 was the European Union with a 38.7% share of Kazakhstan's foreign trade followed by Russia 20.6% and China 13.5%. Among the European countries, Italy (12.4%), the Netherlands (6.5%), France (4.4%), Germany (2.4%) had a significant share on Kazakhstan’s foreign trade in 2017. From non-EU countries, Kazakhstan's most important trading partners were Russia (20.6%) and China (13.5%), Uzbekistan (2.6%), Turkey (2.4%), Ukraine (2.1%) (Embassy of the Czech Republic in Astana, 2018). A detailed overview of Kazakhstan's most important foreign trade partners is shown in Fig. 2.

In 2017 Kazakhstan's largest share on exports had mineral products 87.1%, base metals 3.8%, pearls and precious metals 3.8% and product of chemical industry 1.9%. The main import goods in 2017 were machinery and appliances 33%, products of chemical industry 19.7%, transport equipment 11.5%, optical instruments 6.2% and base metals 5.8% (European Commission, 2018).
By January 1st, 2018 the amount of FDI in Kazakhstan was 147,064 mil. $. Most of the investments came from the Netherlands (42.7%), the US (18.4%), China (9.6%) and France (9%) (Embassy of the Czech Republic in Astana, 2018). Kazakhstan is trying to attract potential investors by offering attractive conditions for investment. In 2014, the government of Kazakhstan adopted new investment legislation including tax holiday, investment aid, exemption from custom duties and other. A detailed overview of Kazakhstan’s FDI development for 2017 is shown in Fig. 3.

**3.2 Foreign trade relations between Kazakhstan and the EU**

The European Union plays very important role in the development and stability of Kazakhstan. The Delegation of the EU TO Kazakhstan was opened already in 1993. The European Union and Kazakhstan have established a close economic and trade partnership since the independence of Kazakhstan. The detailed development of the foreign trade between Kazakhstan and the EU in 2013 – 2017 is illustrated in the following figure.
The decline in the foreign trade of Kazakhstan with the EU during the period 2015-2017 was caused by general decline of the foreign trade of Kazakhstan which was caused by factors already mention in the article before. In 2017 we can observe growth in Kazakhstan’s exports to the EU caused mainly by the growth of oil prices.

The EU is the most important partner for Kazakhstan. It has participated 19.6% in the import of Kazakhstan and 50.2% in Kazakh exports. On the other side, Kazakhstan is not a priority trade partner for the EU and is 32nd largest trade partner with only 0.6% of the EU’s foreign trade turnover, 1% of total imports and only 0.3% of EU exports (trade.ec.europa.eu, 2018).

<table>
<thead>
<tr>
<th>HS2</th>
<th>Kazakh export to the EU</th>
<th>Value in mil. €</th>
<th>Share in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>27</td>
<td>Mineral fuels, mineral oils</td>
<td>15354,2</td>
<td>87,6</td>
</tr>
<tr>
<td>71</td>
<td>Natural or cultured pearls, precious or semi-precious stones</td>
<td>663,3</td>
<td>3,8</td>
</tr>
<tr>
<td>28</td>
<td>Inorganic chemicals</td>
<td>329,8</td>
<td>1,9</td>
</tr>
<tr>
<td>74</td>
<td>Copper and articles thereof</td>
<td>259,5</td>
<td>1,5</td>
</tr>
<tr>
<td>72</td>
<td>Iron and steel</td>
<td>226,0</td>
<td>1,3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HS2</th>
<th>Kazakh import from the EU</th>
<th>Value in mil. €</th>
<th>Share in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>84</td>
<td>Nuclear reactors, boilers, machinery</td>
<td>1202,1</td>
<td>23,8</td>
</tr>
<tr>
<td>30</td>
<td>Pharmaceutical products</td>
<td>533,1</td>
<td>10,5</td>
</tr>
<tr>
<td>85</td>
<td>Electrical machinery and equipment and parts thereof</td>
<td>479,2</td>
<td>9,5</td>
</tr>
<tr>
<td>87</td>
<td>Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof</td>
<td>317,9</td>
<td>6,3</td>
</tr>
</tbody>
</table>
According to data from Embassy of the Slovak Republic in Astana, most exported commodities from Kazakhstan to the EU in 2017 were mineral fuels 87.6%, natural or cultured pearls 3.8% and inorganic chemicals 1.9%. The most imported commodities from the EU to Kazakhstan were nuclear reactors 23.8%, pharmaceutical products 10.5% and electrical machinery and equipment 9.5%. Detailed information is displayed in Tab. 1. Kazakhstan, after Russia and Norway, is the third largest importer of oil to the EU outside OPEC. As Kazakhstan has to export oil to the EU through Russian territory, the tension in the relationship between the EU and Russia to a great extent negatively affected European-Kazakh economic and trade relations (Drieniková, 2018).

The barriers which are European companies facing when exporting to Kazakhstan have mainly non-tariff character. These companies are facing problems concerning certification and export financing.

European union is also the largest investor in Kazakhstan. In 2017, most of the foreign direct investments from the EU came from the Netherlands (42.7%) and France (9%). These investments were located mainly in oil and gas sector (68.2%), transportation (6.1%) and processing industry (4.7%). In Kazakhstan there are active European companies as Henkel, Danone or Siemens (Embassy of the Czech Republic in Astana, 2018).

The cooperation in foreign trade between the EU and Kazakhstan is since the independence of Kazakhstan focused mainly on the cooperation in field of energy but as the EU tries to diversify the suppliers of the oil, gas and raw materials, it is possible that the cooperation in this field will slowly decline in following years. The EU has its energetic interest in the region of Central Asia and therefore there is an assumption of the future cooperation with Kazakhstan and other countries from Central Asia in this field.

Kazakhstan has also strategic location and is becoming more important country concerning new trade and transit routes, mainly regarding Chinese project Belt and Road, which should be used for the transportation of Chinese goods to the EU. Kazakhstan became one of the first states engaged in Belt and Road initiative. In Kazakhstan, on the Kazakhstan-Chinese border, there is located very important logistical and transport node – Khorgos Gateway, the dry port, which is the strategic facility, which enable to cover the world market from China to Europe. China’s Belt and Road initiative triggered a new EU interest in Asia. The EU, Kazakhstan and also China have interest in using this initiative to develop their economies. Kazakhstan expects to transit 2 million containers by 2010 which should bring 5 billion in transit fees (Gotev, 2018). In 2010, there were zero Chinese containers shipped via Kazakhstan to Europe, in 2017 the number grew to 200,000 and by 2020 the number should reach 1.5 million containers (Gotev, 2018).

### 3.3 Analysis of mutual trade relations between Kazakhstan and the EU based on Trade Intensity Index

To evaluate the size of mutual trade between Kazakhstan and the EU we used the Trade Intensity Index (TII). TII assesses whether the value of the trade between assessed countries is bigger or smaller than could be expected based on their position in international trade. A
detailed overview of mutual trade intensity between EU and Kazakhstan between 2008 and 2017 is illustrated in Figure 5.

The figure 5 shows the trend of Trade Intensity Index of Kazakhstan and the EU (TII\textsubscript{KZ-EU}) and of the EU and Kazakhstan (TII\textsubscript{EU-KZ}) in years 2008 – 2017.

**Fig. 5  Development of the TII between Kazakhstan and the EU in 2008 - 2017**

![Graph showing the development of TII between Kazakhstan and the EU from 2008 to 2017](image)

Source: processed by the authors according the data from UNCTADSTAT and EUROSTAT

In years 2010-2017 TII\textsubscript{KZ-EU} was more than 1 and therefore we can claim big activity of exporters from Kazakhstan to the EU market. The figure also says that EU is an important partner for Kazakhstan. It indicates intense trade relationship. In 2014 the EU imposed sanctions on Russia, which caused decline in Kazakh export in years 2014 – 2017 by almost half as Kazakh economy is dependent on Russian economy. The biggest decline was recorded mainly in the export of raw materials. There was also a decline in Kazakh export to the EU but not that big as in total Kazakh export as the EU was still importing oil from Kazakhstan. Therefore, we can observe growth in TII\textsubscript{KZ-EU} in years 2014-2015. There was a decline in 2016 in the TII\textsubscript{KZ-EU} which does not have to be caused by decline of the export but by also other factors as decline in oil prices. The highest value recorded in TII\textsubscript{KZ-EU} was in year 2017 when there was an increase in Kazakh total exports and also Kazakh exports to the EU. TII\textsubscript{EU-KZ} reached value less than 1 which not intense trade relationship and Kazakh share of 0.6% on the EU’s foreign trade turnover, 1% of total imports and only 0.3% of EU exports (trade.ec.europa.eu, 2018). The increase in TII\textsubscript{EU-KZ} in 2014 and 2015 may be influenced by increase of reexport from the EU to Kazakhstan caused by the EU sanctions against Russia.

### 3.4 Future perspectives of the development of foreign trade relations between Kazakhstan and the EU

Kazakhstan is for the EU a priority country within the Central Asia. Relations between the EU and Kazakhstan are regulated by the Enhanced Partnership and Cooperation Agreement (EPCA), which is an agreement signed on December 21st, 2015 in Astana (Delegation of the European Union to Kazakhstan, 2018). Majority of the chapters provisionally entered in force on May 1st, 2016. The relations between EU and Kazakhstan are also regulated by The Partnership and Cooperation Agreement (PCA) signed in 1995 and came into force in 1999.
which is an agreement valid until all member countries of the EU ratifies EPCA (Embassy of the Czech Republic in Astana, 2018).

The economic part of the EPCA creates better regulatory in areas such as: (ec.europa.eu, 2018)

- trade in services
- establishment of companies
- capital movements
- raw materials and energy
- government procurement
- intellectual property rights

Trade relations between the EU and Kazakhstan should be strengthened by membership Kazakhstan in the World Trade Organization (since November 2015). The commitments to transparent rules and trade regulation and reduction of tariff rates should create better conditions for foreign trade between the EU and Kazakhstan.

So far, the cooperation between Kazakhstan and the EU was mainly economically oriented but in recent years we can observe also deepening relations in the social or cultural area (Kembayev, 2016). According to EPCA, the future cooperation between Kazakhstan and the EU will focus not only economic issues but also on other 29 key areas including financial, energy, transport, education, cultural and social issues (Drieniková, Kašťáková, 2016).

The Belt and Road initiative should also strengthen economic relations between Kazakhstan and China but also Kazakhstan and the EU. The country which is big in an area but not that big in terms of population or economy, can benefit from this initiative and therefore the foreign trade between Kazakhstan and the EU can increase in following years.

CONCLUSION

Kazakhstan is the most developed country of Central Asia and in last years it has undergone major economic, politic and social changes which has started the economic growth and the development of the economy. Kazakhstan also became a member of important international and regional organizations as WTO, Eurasian Economic Union, Shanghai Cooperation Organization, which also affects the focus of the trade policy mainly on the EEU member countries and China.

Kazakhstan is for the EU the most important trade partner from Central Asia (it accounts for up to 85% of EU trade with the whole of the region) but is also seen as a partner in promoting peace and security in the region. For Kazakhstan, the EU is the largest trade (almost 39% of foreign trade) and investment partner (almost 50% of foreign direct investment). There was a decline in foreign trade between Kazakhstan and the EU caused by EU sanctions against Russia in years 2014-2015 and other decline in 2016 caused by fall in oil prices. Because of the EPCA should improve some areas of economic cooperation between the EU and Kazakhstan and it should also contribute to the development of the cooperation between European and Kazakhstani companies.

The most important role in the trade relations between the EU and Kazakhstan plays energy sector. The country is also very important partner for the EU providing the stability and peace in the region. Kazakhstan has also an important strategic geopolitical location and in the future it should be used mainly as the transit country for the transportation of Chinese goods to the EU and Middle East.

Based on the analysis of Trade Intensity Index, we came to conclusion of intense trade relationship from Kazakhstan to the EU influenced in last by EU sanctions against Russia and
drop in oil prices and not intense relationship from the EU to Kazakhstan. We expect the increase of TII in following years which can be caused by more factors as the Belt and Road initiative, limitation of trade barriers, diversification of Kazakh export to the EU, stability in oil prices.

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