



**JSC “Economic Research Institute”**

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# **Kazakhstan in the Common Economic Space: evaluation of the macroeconomic and industry effects**

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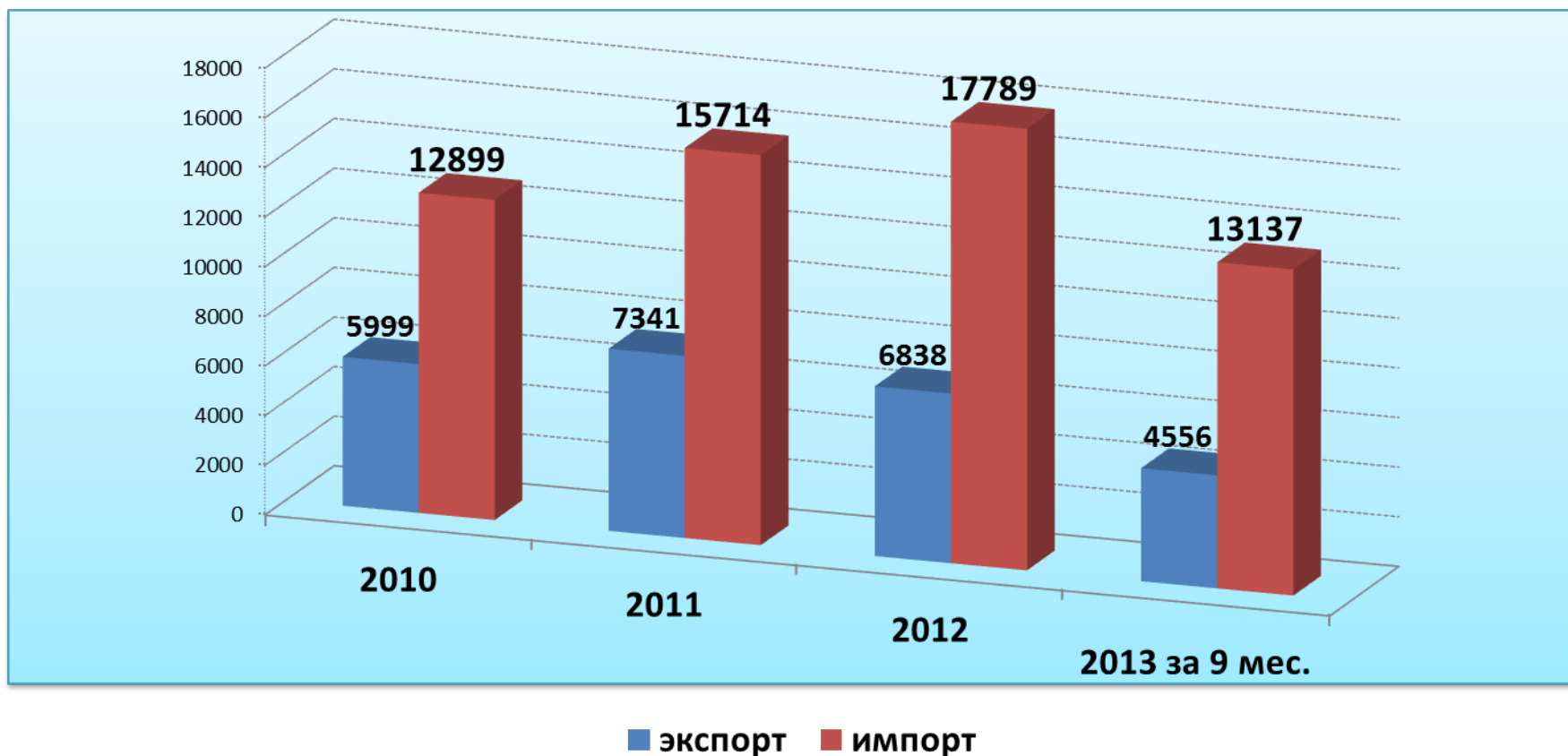
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# **Analysis of the integration processes within the Customs Union**

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## Export and import dynamics of Kazakhstan with the CU, mln USD.



- **Over 2010-2013, Kazakhstan's total imports from the CU annually exceeded the total exports to the CU countries increasing from 12.9 billion dollars to 17.8 billion dollars., in 2013 it continues to grow and exceed exports.**
- **Total exports from Kazakhstan to the CU countries are much lower and rose slightly from 5.9 billion dollars. to 6.8 billion dollars.**

## Indicators of the integration of the CU countries on the goods, services and labor markets

Country	Year	Goods market		Services market		Labor market	
		Index of the mutual openness of the economy	Indicator of the significance of mutual trade	Index of the mutual openness of the economy	Indicator of the significance of mutual trade	The balance of migration flows	Indicator of the significance of migration with the CU
		<i>Turnover ratio of trade to GDP</i>	<i>Turnover ratio of mutual trade turnover to trade with all countries</i>	<i>Turnover ratio of trade in services to GDP</i>	<i>Turnover ratio of mutual trade in services to trade with all countries</i>	<i>The number of arrivals from CU countries minus the number of departures</i>	<i>The ratio of net migration to population</i>
<b>KAZAKHSTAN</b>	2010	12.77%	23%	2.11%	20%	-15,8	-0,10%
	2011	12.26%	18%	1.71%	21%	-23,9	-0,14%
	2012	12.21%	20%	1.61%	18%	-22,7	-0,13%
<b>RUSSIA</b>	2010	3.04%	7%	0.32%	4%	22,6	0,02%
	2011	3.24%	8%	0.27%	3%	37,9	0,03%
	2012	3.37%	8%	0.28%	3%	46,9	0,03%
<b>BELARUS</b>	2010	52.96%	48%	3.37%	24%	5,7	0,06%
	2011	75.33%	46%	4.05%	24%	5,5	0,06%
	2012	71.03%	48%	4.17%	26%	3,9	0,04%

- *In terms of mutual openness of the economy and the importance of mutual trade in the goods and services Belarus had the greatest effect from joining the CU.*
- *After joining the CU these indicators for Kazakhstan tend to decrease.*
- *Kazakhstan experienced migration outflow to the CU countries in the 2010-2012, while Russia and Belarus had positive net migration from the CU countries.*

## Dynamics of money transfers and travel Kazakhstan with the CU

Year	Transportation services market		Money transfers		
	Index mutual openness of the economy in terms of travel	Indicator of the significance of the mutual trade trips	Money transfers from Kazakhstan to the CU, million USD	Money transfers from CU to Kazakhstan, million USD	Money transfer intensity indicator
2010	0.60%	39%	404,66	87,93	25,37%
2011	0.50%	33%	1 675,13	175,62	29,40%
2012	0.41%	27%	1 831,97	167,42	36,50%

- *Kazakhstan experienced a decline in mutual openness of the economy and the importance of mutual trade of trips, with the CU.*
- *Money transfers from Kazakhstan to the CU countries increased in 2010-2012 by 4.5 times and are almost 10 times more than money transfers to Kazakhstan*

## Dynamics of gross inflows and outflows of foreign direct investment in Kazakhstan within the CU

Mln. USD

Indicator	2008	2 009	2010	2 011	2012
Gross inflows of foreign direct investment in Kazakhstan, total	19 760	19 017	19 059	21 056	22 469
From the CU countries	945,3	666,1	972	1062,4	515,3
Indicator of the significance of the investment from the CU to the gross volume of investments	4,8%	3,5%	5,1%	5,0%	2,3%
Gross outflow of direct investment from Kazakhstan, total	4 642	5 151	10 322	7 797	2 627
To the CU countries	577,8	86,9	155,4	142,5	130,7
Indicator of the significance of the gross outflow of investment to the CU to the gross outflow of investments	12%	2%	2%	2%	5%
Indicator of the significance of the investments from CU countries to GDP	0,7%	0,6%	0,7%	0,6%	0,3%

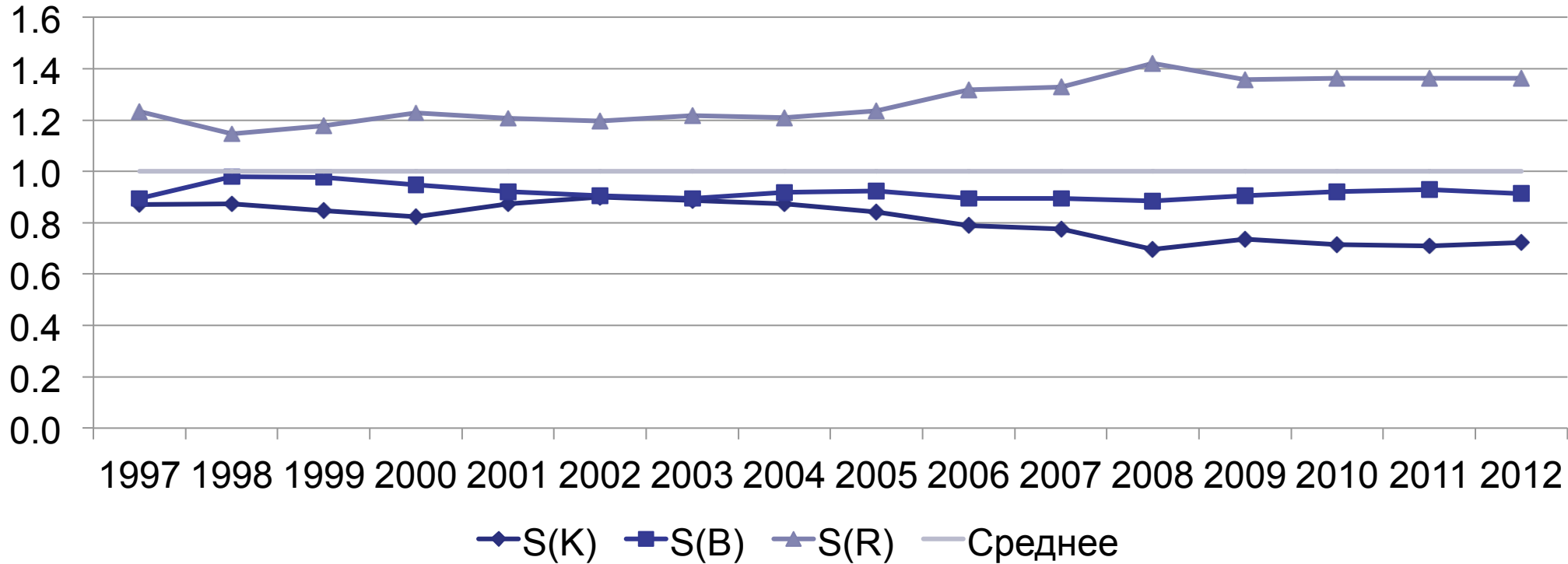
*Gross inflows of foreign direct investment in Kazakhstan from the CU for 2008-2012 increases and exceeds the gross outflow of direct investments from Kazakhstan to the CU countries.*

- *Indicators of the significance of investments from the CU are minor in relation to the gross volume of investments (2.3% in 2012.) And GDP (0.3%).*

## Conclusions

- ☞ *Total imports from the CU countries increased from \$ 12.8 billion to 17.8 billion over 2010-2012. The total exports grew only from 5.9 billion to \$ 6.8 billion.*
- ☞ *Belarus experienced the greatest effect from joining the CU in terms of mutual openness of the economy and the importance of mutual trade in the market of goods and services. After joining the CU these indicators for Kazakhstan tend to decrease.*
- ☞ *In the Republic of Kazakhstan from 2010 to 2012, the migration balance is negative, and in Russia and Belarus its positive, while the significance of the indicator for RK is higher than for the rest of the CU countries.*
- ☞ *Remittances from Kazakhstan to the CU countries increased in 2010-2012 by 4.5 times and are almost 10 times higher than remittances from the CU to Kazakhstan.*
- ☞ *Gross inflows of foreign direct investment in Kazakhstan from the CU over 2008 -2012 exceed the gross outflow of direct investments by several times.*
- ☞ *Commodities have the largest share in the structure of exports to the CU countries, while imports from the CU are represented mainly by food products, machinery and other manufactured products.*
- ☞ *During 2011-2012, there is a noticeable increase in imports from the CU to Kazakhstan in the following main groups of goods: food and agricultural raw materials, machinery, equipment and vehicles, mineral products, metals and metal products, chemical products, raw hides and skins , wood, pulp and paper products, textiles, textile products and footwear.*
- ☞ *Exports from Kazakhstan to the CU countries are much less than import in many industries, except mineral products, metals and products from them.*
- *Grubel-Lloyd index showed that intra-industry trade with the CU countries is typical for mineral products, metals and products from them.*
- ☞ *Due to the growing imports it is necessary to develop measures of government policy to protect domestic producers in these sectors.*

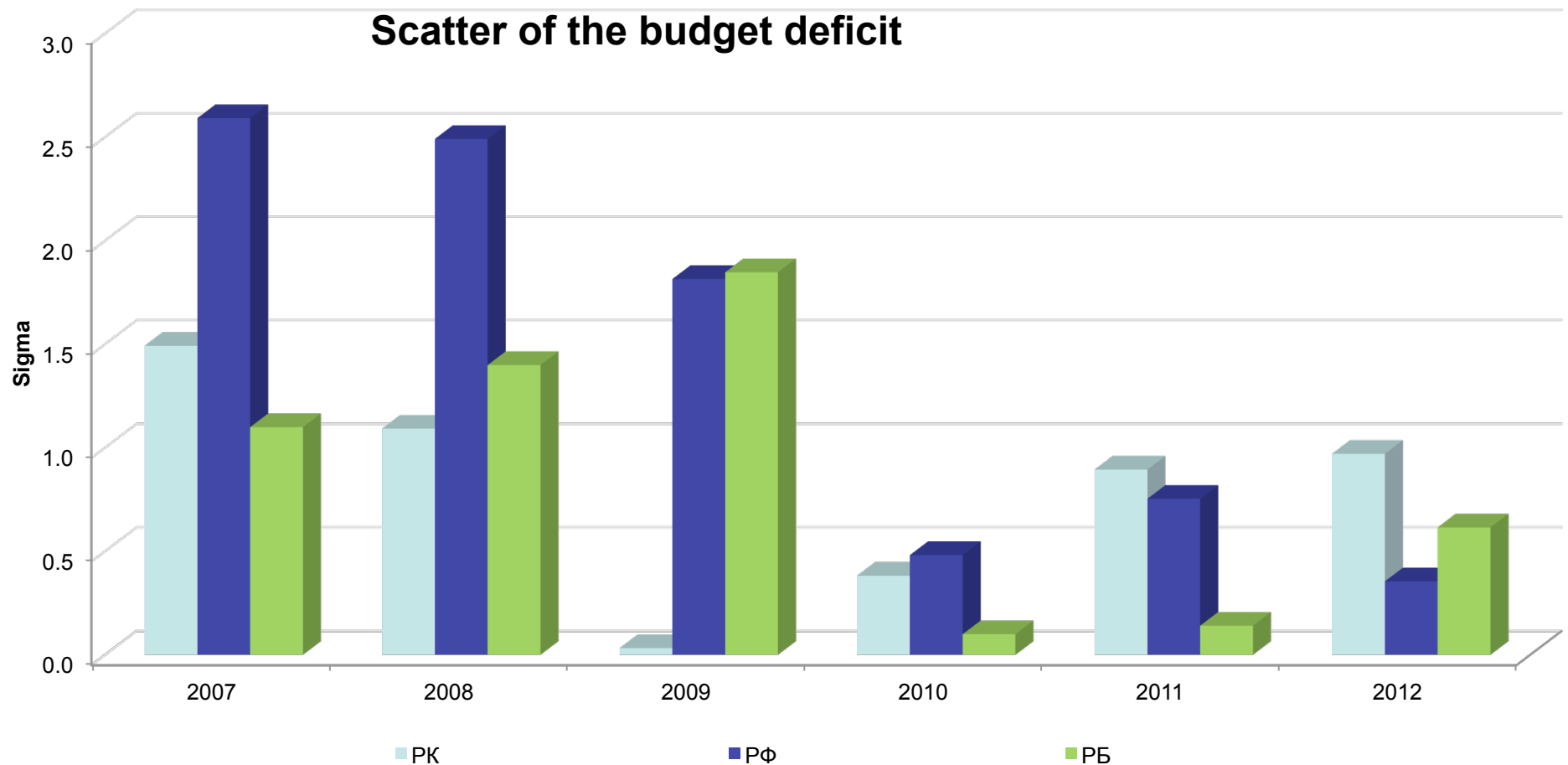
## Economic convergence



- Economic convergence - an indicator comparing the level of welfare of the country with an average level of CES. Measured by the ratio of GDP per capita(PPP) of the country to the average for the CES.
- No essential features of economic convergence are observed as a result of the CES.



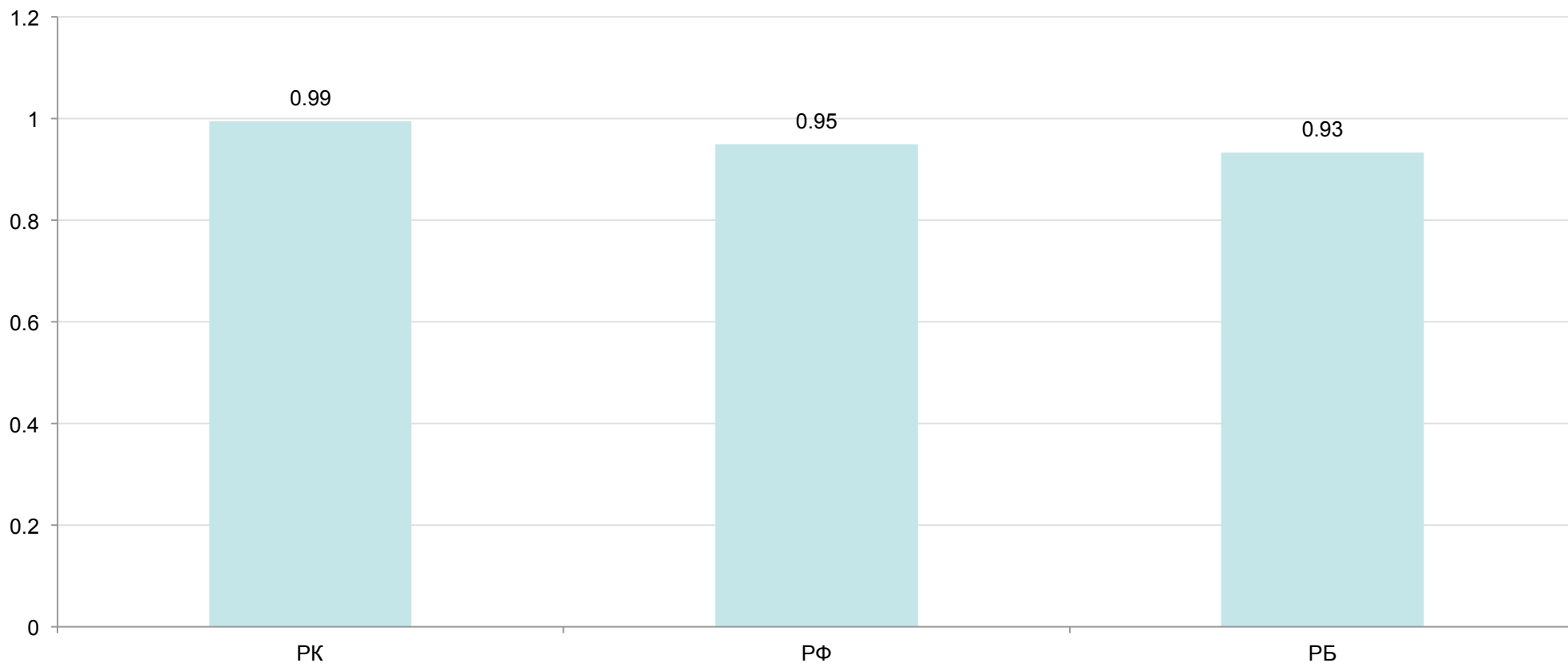
# Public sector



- **Variation of state budget deficit of all countries decreased significantly since 2010, so government deficits have become closer to the average value for the CU.**

## Public sector

### The correlation coefficient of the state budget to GDP



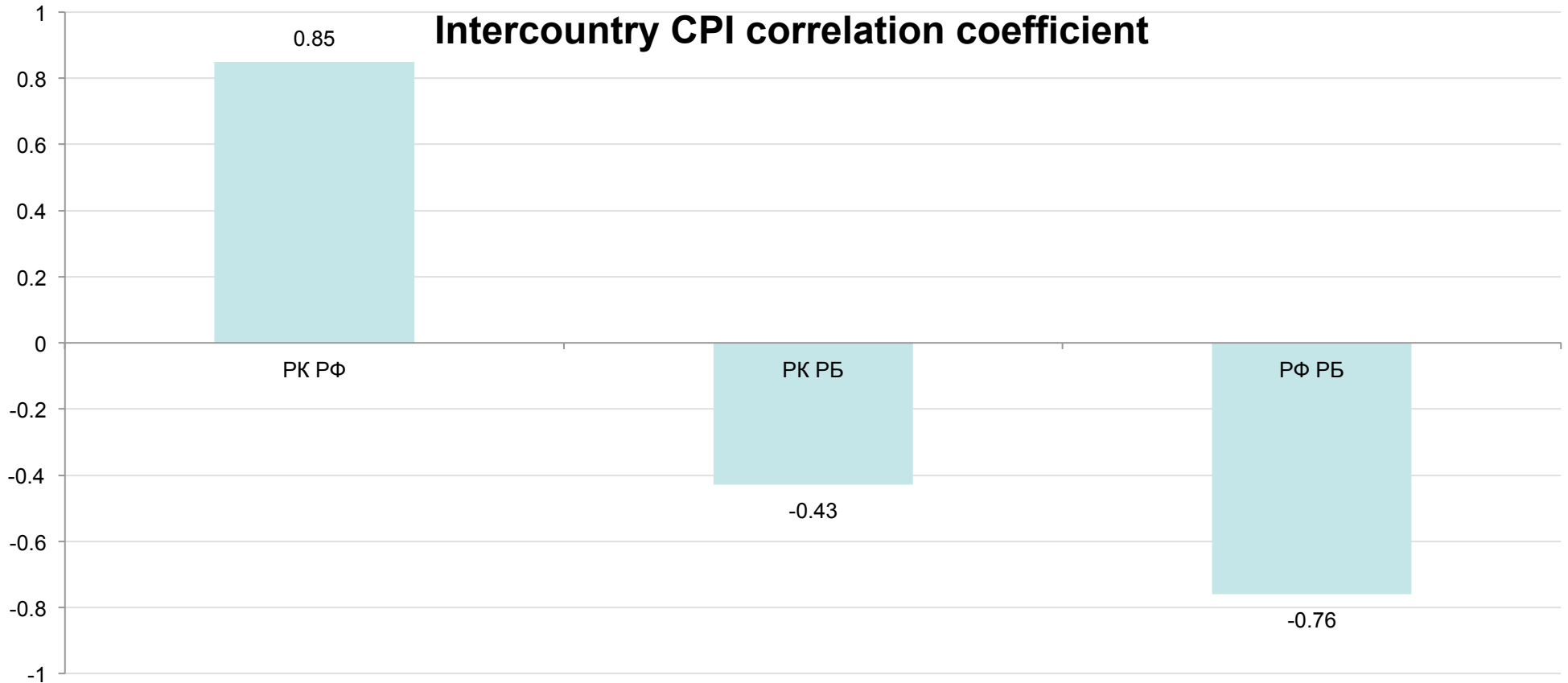
- **The indicator reflects how a systematic change of the state budget corresponds to the change in GDP.**
- **In Kazakhstan, the size of the public budget increase is in line with GDP growth.**

## Public sector



- The indicator reflects the ratio of public debt to GDP of each participant to the average for the CES.
- Belarus has the greatest deviation of public debt from the average.

# Inflation



- **The highest correlation coefficient of the CPI is between the Russian Federation and the Republic of Kazakhstan (0.85).**
- **Indicators analyzing spread and correlation, identify common trends, but do not provide information about the causes of trends.**

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# **Impact of sectoral agreements on the economy of Kazakhstan**

*(e.g. unification of the railroad transit tariffs in the CES)*

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## Comparison table of the unification of transit tariffs in Kazakhstan, Russia and Belarus (10.09.13)

Product name	Railway tariff for transportation over 500 km, U.S. \$ / ton						Ratio of the unified tariffs over transit tariffs		
	KAZ		RUS		BEL		KAZ	RUS	BEL
	unified	transit	unified.	transit	unified.	transit			
Crude oil	48,56	49,00	47,22	44,71	41,10	29,62	<b>0,99</b>	<b>1,06</b>	1,39
Petroleum products	21,43	49,00	38,15	44,71	32,47	29,62	<b>0,44</b>	<b>0,85</b>	1,10
Coal	5,67	24,39	10,20	18,79	10,87	13,34	<b>0,23</b>	<b>0,54</b>	0,81
Ferrous metals	20,40	24,39	25,28	42,95	36,57	26,67	<b>0,84</b>	<b>0,59</b>	1,37
Non-ferrous metals	20,40	48,77	37,40	41,34	23,86	53,34	<b>0,42</b>	<b>0,90</b>	0,45
Iron ore	6,99	24,39	12,56	19,33	9,78	13,34	<b>0,29</b>	<b>0,65</b>	0,73
Non-ferrous ores	7,22	24,39	25,35	35,97	19,55	26,67	<b>0,30</b>	<b>0,70</b>	0,73
Construction materials	14,37	30,15	16,02	33,18	11,51	32,97	<b>0,48</b>	<b>0,48</b>	0,35
Grain	6,96	24,39	16,98	29,53	11,81	22,67	<b>0,29</b>	<b>0,58</b>	0,52
Chemicals and sodium	8,14	26,16	18,87	28,79	23,11	28,61	<b>0,31</b>	<b>0,66</b>	0,81
Chem. and min. fertilizers	7,52	24,39	14,45	26,84	16,62	24,00	<b>0,31</b>	<b>0,54</b>	0,69
Scrap metal	23,71	27,94	31,32	36,90	18,59	30,55	<b>0,85</b>	<b>0,85</b>	0,61
Others	7,70	26,31	15,50	28,96	14,51	28,78	<b>0,29</b>	<b>0,54</b>	0,50

# Coal market

**Conclusion: The loss of JSC "NC" KTZ "as the carrier is going to be 31.5 million U.S. dollars per year. Unification transit tariff shall not bring significant losses to exporters.**



1. Coal exports in January-September 2013 amounted to 21.8 million tons. Including 18.2 million tons (83% of exports of coal) on the already unified tariff.
2. Reduced fare transit through Kazakhstan by 4 times, strengthens the competitive position of the Russian Federation on the markets of China and Kyrgyzstan, where RK delivers 0.7 million tons (3% of coal exports)
3. Improvement of the competitiveness of Kazakhstan in Ukraine and the Netherlands (10.6% of total exports).

Pros	Cons
<ul style="list-style-type: none"> <li>➤ Cheapening transit through Russia by 46% for 10.6% of Kazakh coal exports.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Risk of growth of transit and increase the competitive advantages of the Russian Federation on the markets of China and Kyrgyzstan, as transit tariff decreases 4 times</li> <li>➤ Decline in yield of JSC "NC" KTZ" by 31.5 million USD.</li> </ul>

# Flat-rolled products

## Applying uniform tariff instead of the transit tariff

**Conclusion: The Unification of the transit tariff shall not be significant losses to exporters. Decline in yield of JSC "NC" KTZ "due to lower tariffs.**



### Unification of the transit tariff:

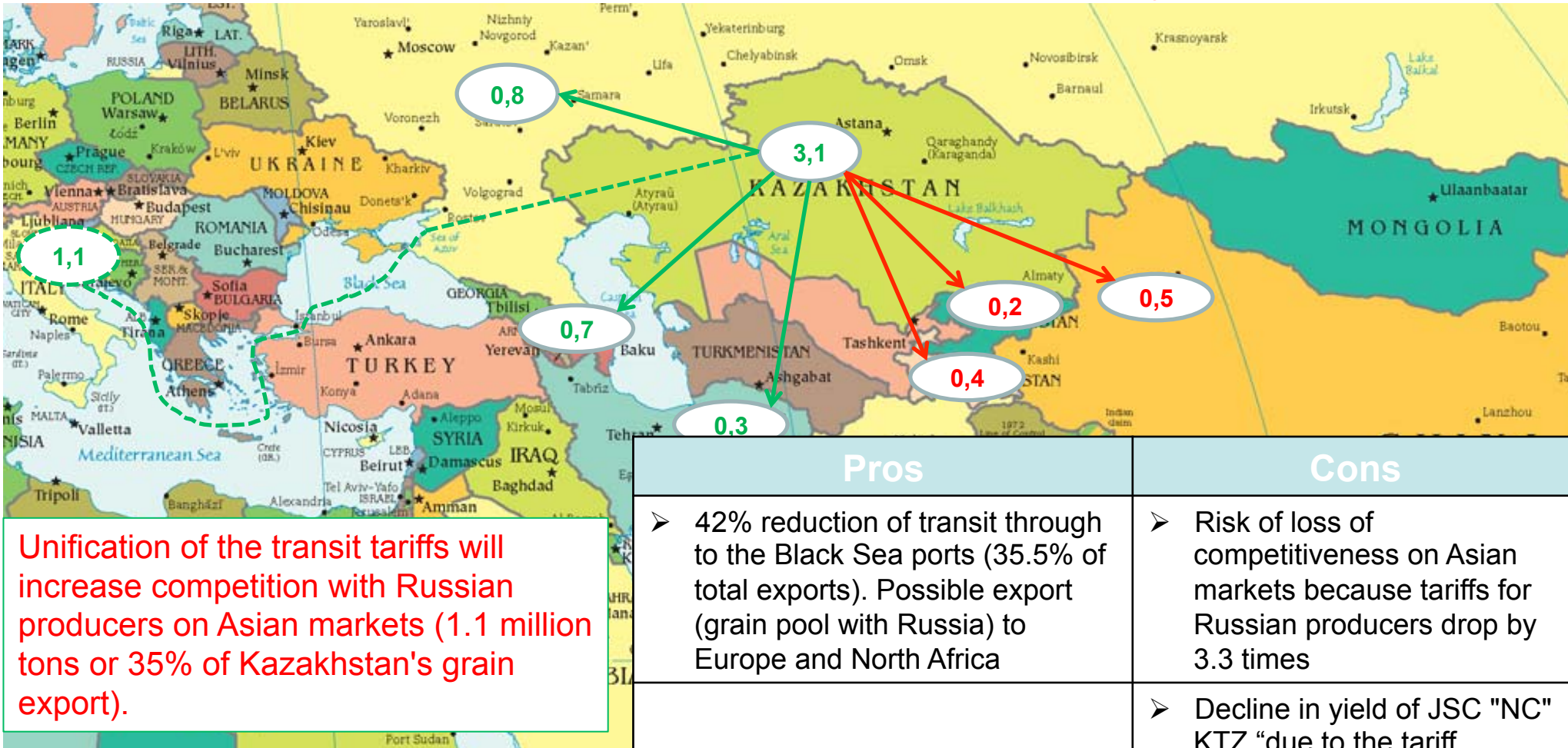
1. Increase competition with Russia on the Chinese market, where Kazakhstan exports 0.1 million tons (8% of total exports).
2. Improve Kazakhstan's competitive position in Europe (8% of total exports of Kazakhstan).

Pros	Cons
<ul style="list-style-type: none"> <li>➤ Cheapening transit through Russia by 41% for 8% of total exports of Kazakhstan.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Decline in yield of JSC "NC" KTZ " due to the 16% decline in the tariff for Russian carriers.</li> </ul>



# Grain market

**Conclusion: The Unification of the transit tariff may increase competition on the Asian markets. JSC "NC" KTZ "carrier loss will be 14 million U.S. dollars per year**



Unification of the transit tariffs will increase competition with Russian producers on Asian markets (1.1 million tons or 35% of Kazakhstan's grain export).

Pros	Cons
<ul style="list-style-type: none"> <li>➤ 42% reduction of transit through to the Black Sea ports (35.5% of total exports). Possible export (grain pool with Russia) to Europe and North Africa</li> </ul>	<ul style="list-style-type: none"> <li>➤ Risk of loss of competitiveness on Asian markets because tariffs for Russian producers drop by 3.3 times</li> </ul>
	<ul style="list-style-type: none"> <li>➤ Decline in yield of JSC "NC" KTZ "due to the tariff reduction</li> </ul>

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## Conclusions

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### **Unification of the transit tariffs:**

- may increase competition with exporters from Russia on the Asian markets of grain, flour, iron ore, nonferrous metal ores, fertilizers, ferrous alloys, non-ferrous metals;
- creates additional competitive advantages for exporters of Kazakh coal, fuel oil, flat-rolled products, diesel fuel, in European markets due to the reduction of transportation costs by 64.3 billion tenge in total;
- estimated loss of revenue of the National carrier, according to the Ministry of Transport and Communications of the Republic of Kazakhstan and JSC "Center for Trade Policy", may reach 32 bln per year (3.5% of the expected level of income).