Analysis of Sino-Kazakh economic and trade relations

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Abstract:
The aim of this article is to provide analysis of Sino-Kazakh economic and trade relations for the past decade (2008-2018) with a focus on the export and import commodity structure, total trade value and foreign direct investments (FDI).

Key words: import, export, trade, foreign direct investments

1. An analysis of foreign trade of Kazakhstan

Kazakhstan’s economy is an export oriented economy. The total trade value of import and export in Kazakhstan in 2018 increased of 20.5% compared to the previous year: with an export value of 54.67 billion US dollars – increase of 26.4%, and the import value of 29.67 billion US dollars – increase of 11%. It’s foreign trade surplus reached 25 billion US dollars, which is 51% higher compared to 2017. The degree of dependence on foreign trade in 2017 became 43%, including a degree on export of 26.6% and degree of dependence on import of 16.4%. The total trade value of import and export in Kazakhstan reached 84.3 billion US dollars.

The major trading partners of Kazakhstan, in exports of Kazakhstan in 2018, were listed following countries: Italy, Netherlands, China, Russia, France and Switzerland. As one of the major trading partners of Kazakhstan in exports, China increased it numbers from 51.9 billion US dollars in 2017 to 56.5 billion US dollars in 2018 – increase of 9%. In imports, the major partners of Kazakhstan in 2018 were Russia and China. Countries were clearly dominating with a joint share in imports of more than 50% of total import value. (Table 1).

Table 1. Kazakhstan’s major trade partners in 2018

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Total trade value</th>
<th>Share in total trade value, %</th>
<th>Export</th>
<th>Share in total export value, %</th>
<th>Import</th>
<th>Share in total import value, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Russia</td>
<td>157.0</td>
<td>18.6</td>
<td>46.3</td>
<td>8.5</td>
<td>110.7</td>
<td>37.3</td>
</tr>
<tr>
<td>2</td>
<td>Italy</td>
<td>120.8</td>
<td>14.3</td>
<td>106.7</td>
<td>19.5</td>
<td>14.1</td>
<td>4.8</td>
</tr>
<tr>
<td>3</td>
<td>China</td>
<td>106.2</td>
<td>12.6</td>
<td>56.5</td>
<td>10.3</td>
<td>49.7</td>
<td>16.7</td>
</tr>
<tr>
<td>4</td>
<td>Netherlands</td>
<td>59.9</td>
<td>7.1</td>
<td>57.0</td>
<td>10.4</td>
<td>2.9</td>
<td>1.0</td>
</tr>
<tr>
<td>5</td>
<td>France</td>
<td>39.7</td>
<td>4.7</td>
<td>33.5</td>
<td>6.1</td>
<td>6.1</td>
<td>2.1</td>
</tr>
<tr>
<td>6</td>
<td>South Korea</td>
<td>32.3</td>
<td>3.8</td>
<td>23.5</td>
<td>4.3</td>
<td>8.7</td>
<td>2.9</td>
</tr>
<tr>
<td>7</td>
<td>Switzerland</td>
<td>28.8</td>
<td>3.4</td>
<td>27.2</td>
<td>5.0</td>
<td>1.6</td>
<td>0.5</td>
</tr>
<tr>
<td>8</td>
<td>Uzbekistan</td>
<td>22.6</td>
<td>2.7</td>
<td>14.8</td>
<td>2.7</td>
<td>7.8</td>
<td>2.6</td>
</tr>
<tr>
<td>9</td>
<td>USA</td>
<td>20.1</td>
<td>2.4</td>
<td>8.3</td>
<td>1.5</td>
<td>11.8</td>
<td>4.0</td>
</tr>
<tr>
<td>10</td>
<td>Germany</td>
<td>19.7</td>
<td>2.3</td>
<td>4.4</td>
<td>0.8</td>
<td>15.4</td>
<td>5.2</td>
</tr>
<tr>
<td></td>
<td>Other countries</td>
<td>236.3</td>
<td>28.1</td>
<td>168.4</td>
<td>30.9</td>
<td>67.9</td>
<td>22.9</td>
</tr>
</tbody>
</table>
The structure of imported and exported commodities in Kazakhstan in 2018 is characterized with 74.4% of total export accounted for mineral products, which is primary resource for the import revenue. At the same time, imported commodities had wider varieties and relatively equal in the shares within the total value except for group of “Machinery, equipment, vehicle, device, apparatus” which is 40% of the total import value in 2018.

Diagram 1-2. Import and Export commodity structure in 2018

Through decades of independence Kazakhstan’s economy still heavily rely on export of mineral and energy products, which is constantly higher of 70% in total export commodity structure. Other main exports include: ferrous metals, copper, aluminum, zinc and uranium.

2. China & Kazakhstan bilateral trade analysis

Ever since the Republic of Kazakhstan proclaimed it independence, China became one of it’s primary partners with bilateral trade values growing each year (Table 2). The positive dynamic of bilateral turnover is evidenced by growth of its volume from 432 million US dollars in 1992 to 10.6 billion US dollars in 2018. According to the statistics of the WTO and International Trade Centre (ITC) the top 10 major commodities exported by Kazakhstan to China in 2017 were:

- Copper and articles thereof with a total value of 1110.4 million US dollars (19.2% of the total export value)
- Ores, slag and ash with a total value of 1066.6 million US dollars (18.5% of the total export value)
- Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, etc. with a total value of 1027.7 million US dollars (17.8% of the total export value)
- Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral etc. with a total value of 1001.4 million US dollars (17.3% of the total export value)
- Iron and steel with a total value of 880.1 million US dollars (15.2% of the total export value)
Zinc and articles thereof with a total value of 325.5 million US dollars (5.6% of the total export value)

Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable etc. with a total value of 70.7 million US dollars (1.2% of the total export value)

Cereals with a total value of 57.5 million US dollars (1% of the total export value)

Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal etc. with a total value of 47.5 million US dollars (0.8% of the total export value)

Lead and articles thereof with a total value of 47 million US dollars (0.8% of the total export value)

First five commodities share in total exports is almost reaching 90 %, meaning that the major products imported by China are mineral resources and raw materials.

Table 2. Bilateral trade between Kazakhstan and China in 2008 – 2017 (0.1 billion US dollars)

<table>
<thead>
<tr>
<th></th>
<th>Kazakhstan's Export to China</th>
<th>Kazakhstan's Export to World</th>
<th>Export Ratio (%)</th>
<th>Kazakhstan's Import from China</th>
<th>Kazakhstan's Import from World</th>
<th>Import Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>76.8</td>
<td>711.7</td>
<td>10.8</td>
<td>98.2</td>
<td>378.2</td>
<td>26.0</td>
</tr>
<tr>
<td>2009</td>
<td>58.9</td>
<td>432.0</td>
<td>13.6</td>
<td>77.5</td>
<td>284.1</td>
<td>27.3</td>
</tr>
<tr>
<td>2010</td>
<td>101.2</td>
<td>572.4</td>
<td>17.7</td>
<td>93.2</td>
<td>240.2</td>
<td>38.8</td>
</tr>
<tr>
<td>2011</td>
<td>162.9</td>
<td>881.1</td>
<td>18.5</td>
<td>95.7</td>
<td>380.1</td>
<td>25.2</td>
</tr>
<tr>
<td>2012</td>
<td>164.8</td>
<td>922.8</td>
<td>17.9</td>
<td>110.0</td>
<td>445.4</td>
<td>24.7</td>
</tr>
<tr>
<td>2013</td>
<td>143.7</td>
<td>847.0</td>
<td>17.0</td>
<td>125.5</td>
<td>488.0</td>
<td>25.7</td>
</tr>
<tr>
<td>2014</td>
<td>98.0</td>
<td>794.6</td>
<td>12.3</td>
<td>127.1</td>
<td>413.0</td>
<td>30.8</td>
</tr>
<tr>
<td>2015</td>
<td>54.8</td>
<td>459.5</td>
<td>11.9</td>
<td>84.4</td>
<td>305.7</td>
<td>27.6</td>
</tr>
<tr>
<td>2016</td>
<td>42.1</td>
<td>367.8</td>
<td>11.5</td>
<td>82.9</td>
<td>251.7</td>
<td>32.9</td>
</tr>
<tr>
<td>2017</td>
<td>57.8</td>
<td>483.4</td>
<td>12.0</td>
<td>115.6</td>
<td>293.5</td>
<td>39.4</td>
</tr>
</tbody>
</table>

Data source: Data calculated and compiled by author on basis of statistics of Ministry of National Economy of the Republic of Kazakhstan: Statistics Committee, 2018

Among the top 10 major commodities imported by Kazakhstan from China in 2017 were:

- Footwear, gaiters and the like; parts of such articles with a total value of 1685.3 million US dollars (14.6% of the total import value)
- Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof with a total value of 1219.4 million US dollars (10.5% of the total import value)
- Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television etc. with a total value of 1113.3 million US dollars (9.6% of the total import value)
- Articles of apparel and clothing accessories, not knitted or crocheted with a total value of 858.6 million US dollars (7.4% of the total import value)
- Other made-up textile articles; sets; worn clothing and worn textile articles; rags with a total value of 591.7 million US dollars (5.1% of the total import value)
- Articles of iron or steel with a total value of 413.4 million US dollars (3.6% of the total import value)
- Plastics and articles thereof with a total value of 390.1 million US dollars (3.4% of the total import value)
- Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, etc. with a total value of 128.3 million US dollars (1.1% of the total import value)
- Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral etc. with a total value of 37.3 million US dollars (0.3% of the total import value)
- Organic chemicals with a total value of 35.1 million US dollars (0.3% of the total import value)

All the above data indicates that, commodities China exported to Kazakhstan had a wider variety and mostly were finished products, some of which were driven by projects invested by Chinese companies in Kazakhstan.

2017’s features of the bilateral trade of Kazakhstan and China were following:

1) Increase in both export and import values, with import values almost twice higher than export. The total value of bilateral trade reached 17.34 billion US dollars, with a structure division, where export share is 33.3% and import share 66.7% accordingly. A growth of a trade of 38.7% compared to the previous year was mostly attributed to export by China to Kazakhstan.

2) Increase in both values and volumes of Chinese import to Kazakhstan. Almost 40% growth of China’s total export value to Kazakhstan compared to the previous year with dominating commodities of machinery, equipment, vehicles, devices and apparatus, alongside with footwear and apparel.

3) Increase in Kazakhstan’s export to China was 1.6 billion US dollars, mostly driven by mineral products. As 75% of Kazakhstan’s export consist of oil and gas sector, Kazakhstan has suffered from the fall in world prices in 2015 and 2016, Kazakhstan’s export values to China declined almost two times. Year 2017’s growth after 3 years in a row decline in figures demonstrates small recovery towards favorable trade balance with China.

3. Analysis of Chinese FDI to Kazakhstan

Foreign Direct Investment (FDI) of Kazakhstan from 2005 to the 1st February of 2017 added up to 13.9 billion US dollars (Diagram 3).

China plays a key role in Kazakhstan’s Foreign Direct Investments and it’s a one of a major strategic partners in Kazakhstan’s investment development strategy. The gross inflow of FDI increased by 36.8 million US dollars in 2017, amounting to 998.7 million US dollars against 961.9 million US dollars a year earlier. In total, Kazakhstan’s obligations to Chinese investors were 15.8 billion US dollars, which is 4.5% (688.7 million US dollars compared to a previous year). The main recipients of the FDI were the mining industry, geological exploration and processing.

In 2017 China was on the 6th place among the other countries investing into Kazakhstan’s economy.

Diagram 3. FDI of China to Kazakhstan (million US dollars)
4. Conclusion

The economic and bilateral trade relations of Kazakhstan and China improving each year. However, there are still opportunities for both countries to improve for more beneficial conditions. Kazakhstan’s main issue in the bilateral trade, not only with China, but with other countries as well, is insufficient diversification of its export. As it was mentioned before, almost 90% of export comes from mineral resources, so Kazakhstan needs to optimize its industrial structure.

Kazakhstan’s Government policy is encouraging FDI with different favorable measures such as reduction or waiver of taxes, subsidies, total or partial exemption from duties and taxes on equipment, raw materials etc. which means, that there is still place for growth of Chinese FDI to Kazakhstan. A law which was applied on 1st January 2015 grants preferential treatment for investors operating in “priority investments projects”, in order to shift economy from its dependence from mineral resources. As one of the examples, in 2017 there was launched program called “Kazakhstan National Technology Initiative” which suppose to encourage innovations and new technologies. It’s advisable for Chinese investors to expand from energy fields to non-energy fields as well.

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