

Impact of WTO Membership on the Kazakhstan's Export

Assilov Balzhigit*, Yan Zhi Jun**
Nanjing University of Science and Technology

CORRESPONDENCE: Yan Zhi Jun, School of Economics and Management, Nanjing University of Science and Technology, Nanjing, P. R. China

ABSTRACT: *This research paper is devoted to the Impact of the World Trade Organization (WTO) on the Export of Kazakhstan. The aim of this study is to understand the problems and consequences that Kazakhstan will face in obtaining WTO membership and to analyze of the influence of the WTO on Kazakhstan's exports by studying the experience of several WTO members. WTO membership is a great opportunity for Kazakhstan to improve its economic and business environment and gain more political strength and power over other countries in the international arena.*

KEYWORDS: *Economy of Kazakhstan, Export Trade, Kazakhstan, World Trade Organization.*

I. INTRODUCTION

Kazakhstan is increasingly drawn into the orbit of globalization; the country is building an open democratic society, a form of liberal economic system that has extensive contacts with many countries of the world. So, date 27 July 2015, it became historically significant for Kazakhstan. On this day in Geneva, the President of Kazakhstan N. Nazarbayev signed a Protocol on Accession of Kazakhstan to the WTO.

The World Trade Organization established in 1995, replaced the General agreement on tariffs and trade (GATT). WTO is the only global international organization dealing with the rules of trade between countries. The foundation activities are the WTO agreements, signed by most countries and ratified in their parliaments. The purpose of the organization is to help producers of goods and services, exporters and importers in conducting business.

Accession of Kazakhstan to the WTO opens producers' great opportunities. It is worth noting that this event is of high importance for the economy of the country, because more than 90% of foreign trade turnover of the Republic of Kazakhstan is trade with countries-members of WTO. This is especially important for domestic export-oriented enterprises, because there are no more barriers for access to international markets.

As we know, the WTO can bring benefits and disadvantages as well. But how the WTO will impact Kazakhstan's economy, especially how it will affect export as a trade indicator, for example, trade determines the country's economic development; exports play a very important role worldwide and for each state.

II. EXPORT OF THE KAZAKHSTAN: AN OVERVIEW

Kazakhstan is becoming a more active participant in world trade. On the background of Kazakhstan's accession to WTO the interest of many global players to the trading capabilities of the country increases. External trade of Kazakhstan for the last ten years rapidly developed. External sector remains a dynamic sector of the national economy, stimulating the growth of the local economy and providing a solution to important social and economic problems.

Currently, the export potential of Kazakhstan has clear raw material dependence and is formed due to fuel, metallurgical, chemical complex. In the structure of Kazakhstan's exports the main share of oil and oil products, nonferrous metals, ferrous metals, ore, a certain portion of exports crops. Open trade policy is objectively necessary for Kazakhstan, which has a small domestic market and requires access to expanding global markets.

Kazakhstan's exports reached a peak in 2012, amounting to 86.4 billion U.S. dollars. Later, in 2016 the cost of Kazakhstan's exports fell by about two times compared to 2012. Such a sharp drop in exports was observed only in the crisis year 2009, Exports of goods of the Republic of Kazakhstan by the end of 2016 amounted to 36.8 billion U.S. dollars (Figure 1).

"It is important to note that, with the fall of raw material prices and the export volume fell. In this case, if the primary sector can fairly safely to regain its position in the global market with the growth of prices for raw materials, the non-oil sector to recover lost export position much more difficult. This is due to objective features of production of manufactured goods, which complicates the conditions of export:

- High sensitivity to transport costs and time of transportation and logistics;
- High dependence on prices and access to imported intermediate resources;
- A large dependence on the level of technology, knowledge-intensity of production, quality and cost of labor.

Figure 1: Kazakhstan's Exports in 2007-2016

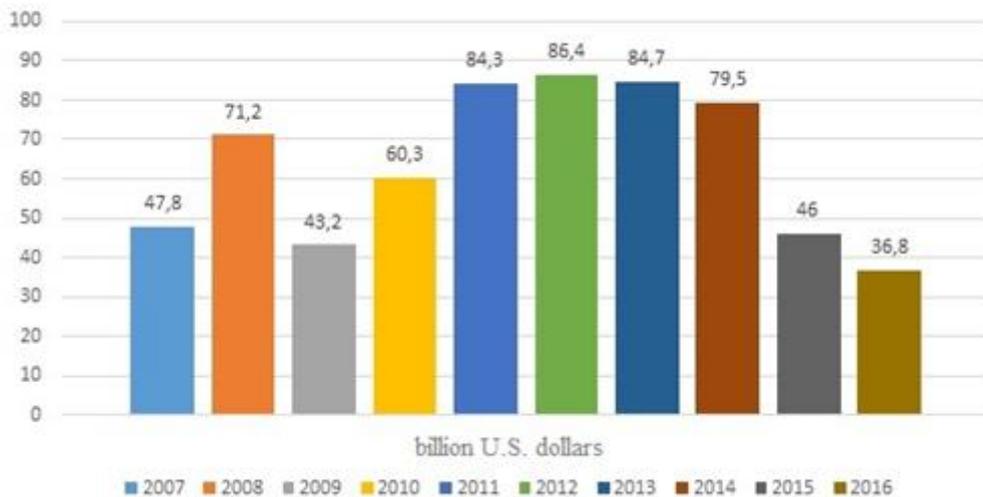
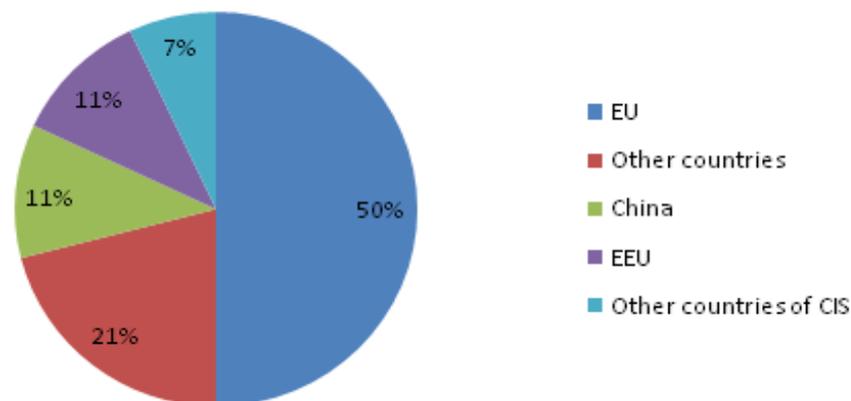


Figure 2: The Geography of Kazakhstan's Exports in 2016



Exactly half of the exports of Kazakhstan are directed to the EU countries – 18.5 billion US dollars. It should be noted that the EU had the largest decrease in exports, both in monetary terms and in percentage 5.8 billion U.S. dollars and 50% respectively. In China delivered 11% of total exports of Kazakhstan. The export share is delivered to the EEU was 11%, in CIS countries – 7%. In the rest of the world was heading for 21% of exports (Figure 2).

III. RESEARCH METHODOLOGY

The model of gravity was one of the famously successes in the empirical economics. Its application has now become standard for the evaluation of various issues in trade, investment, migration, currency unions, etc. In particular, it used as an alternative or supplement to the models of CGE. The model of gravity was also used to assess the impact of the WTO on the multilateral trading models (Rose (2002a) and Subramanian and Wei, 2003), which assessed the sign and the value of the “WTO dummy” after monitoring the traditional “gravity effects”. In the same way, I will use the “Kazakhstan-centered” model of gravity to analyze Kazakhstan's trade determinants and patterns, with particular emphasis on the role of the WTO.

Specification of the standard model of gravity binds total trade turnover or imports and exports as an independent variable to distance and GDP as dependent variables. Most models of gravity also included additional independent variables such as population, GDP or dummy variables denoting borders, former colonies, and membership in free trade areas, currency unions, etc. To distinguish the importance of the WTO regarding export it is necessary to control over the membership of the exporting countries. The base model will be defined as follows:

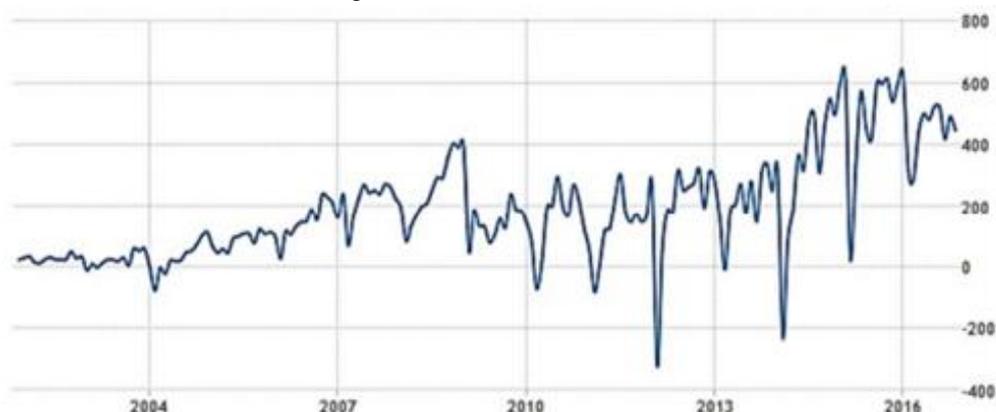
$$\ln(X_i) = \ln(D_i) + \ln(Y_{kaz} * Y_i) + \ln(y_{kaz} * y_i) + USSR_i + COMECON_i + EEU_i + \\ +BORDER_i + WTO_i$$

where X means export from Kazakhstan to the country i; D is the distance between countries i and Kazakhstan, and the two terms Y denote the products of Kazakhstan's and i partner's GDPs and y is GDPs per capita respectively; USSR and COMECON means the partner states former status as Soviet Republics or former members of the Council for Mutual Economic Assistance; EEU means for the states included in the Eurasian Economic Union; BORDER represents the boundaries of the status in bordering states, and reflects the variable WTO membership of partner states to the WTO. This model focuses in this way: how do these countries trade and not just trade? This study adds an additional level of detail, focusing on how trade has changed as a result of WTO membership.

IV. THE RESULT OF THE RESEARCH

The impacts of WTO to export and import are differently. As a example bellow did analyze of several developed and developing countries such as Kyrgyzstan and China. There is a figure of China's trade balance as a High-income state and Kyrgyzstan's trade balance as a developing state and Kazakhstan's data for research the influence of the WTO to the Kazakhstan's export. This research paper devoted to the influence of WTO's membership to the export of Kazakhstan by studying the several member states of the WTO. WTO's affects to the country's imports and exports in different ways, depending on the level of its economic development.

Figure 3: Trade Balance of China

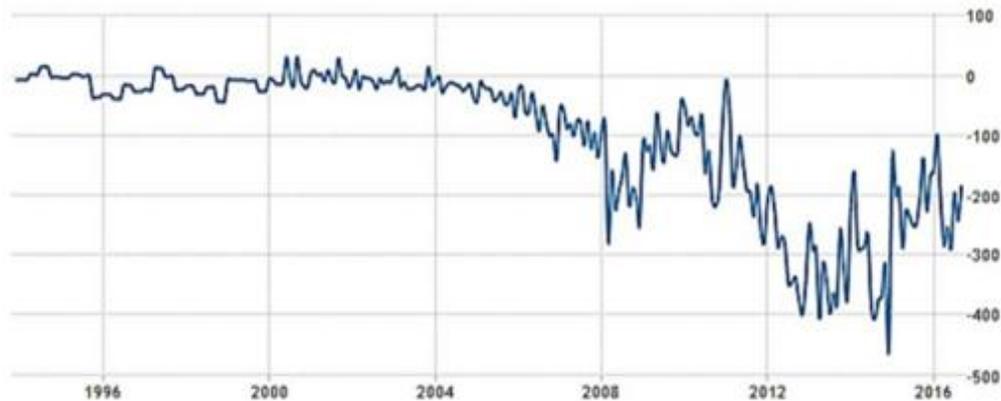


High-income states have stable and significantly higher levels of imports and exports. Countries with middle and low incomes have not benefited from the WTO. Studies show that after accessing the WTO, China and

Kyrgyzstan increased exports and imports. But affects of WTO to the trade balance is different developing and developed countries.

China's exports unexpectedly rose 0.1% from a year earlier to 196.81 billion US dollars in November 2016, after falling 7.3% in the previous month and beating market estimates for a 5% drop. This was the first increase in 8 months. China's imports grew by 6.7% year-on-year to 129.12 billion US dollars in November 2016, the biggest gain since September 2014, compared with a fall of 1.4% in October and market expectations of a decline of 1.3%. Trade balance in China amounted to an average of 88.98 HML US dollars from 1978 until 2016. In October 2016, the trade surplus amounted to 49.06 billion US dollars.

Figure 4: Trade Balance of Kyrgyzstan



Exports of Kyrgyzstan averaged 86.88 million US dollars from 1993 to 2016, while Kyrgyzstan's Imports averaged 180.86 million dollars from 1993 to 2016. Yes, after accessing the WTO (1998) exports and imports of Kyrgyzstan increased, but the trade balance of Kyrgyzstan (in figure 4) decreased. This means that the WTO has not been profitable for Kyrgyzstan's foreign trade, as well as for the economy. But for China, joining the WTO was successfully, through country reforms, trade policies, competitive enterprises, and the ability of the Chinese people to work hard.

V. CONCLUSION

According to the study, according to research by data for exports, imports and trade balance of developed and developing states, states with low and middle income aren't benefiting from the WTO, as did states with a high level of income. The WTO is intended for doing business for those who export more than import. The country should be compatible with the world, as Kazakhstan can mainly offer the world only raw materials, and Kazakhstan does not yet have compatible brands, technologies and products. For this reason today the Kazakhstan faces the same fate as Kyrgyzstan. Even in the short accession period, the trade surplus fell by 24 percent within one year. WTO increases Kazakhstan's imports due to reduction of import tariffs in accordance with WTO requirements, reduction of Kazakhstan's exports due to the competitiveness. But I think that for Kazakhstan it is important to conduct trade between WTO members on a non-discriminatory basis, due to the large involvement of our country in the world export of oil, petroleum products, natural gas, electricity and coal. Accession to the WTO will give us the greatest advantages with 162 member states and will give us a number of advantages in the field of export licensing, standards, anti-dumping and countervailing duty applications and will contribute to the growth of foreign economic activity of the state in the future, as well as consider state strategies, there is still a chance to be compatible, increase exports and benefit from WTO accession.

VI. Acknowledgements

I am so pleased to thank Allah the almighty for blessing me to complete well this research work. I would like to express the deepest gratitude to every single person who has provided me invaluable assistance. It is a pleasure to thank those who made this research paper possible.

First of all, I would like pay special thankfulness the Chinese Government for offering me the opportunity to study in China. Another sincere gratitude for staff of Nanjing University of Science and Technology, especially School of Economics and Management for ensuring me a chance to study in International Trade.

Secondly, I would like to express the deepest warmth and appreciation to my supervisor Yan Zhi Jun, for his vital support and assistance. His encouragement, guidance, patience and excellent advice made it possible achieve the goal.

Thirdly, my sincere thank goes to my family, who raised me up with great love, patience, and support through whole life. I will always be grateful for what they have been doing to me. In addition, I would like also thank all my teachers, who taught me this three year period, and my friends for their moral and academic support during the completion of the research work.

REFERENCES

- [1.] Jesper Jensen and David Tarr, "The Impact of Kazakhstan Accession to the World Trade Organization", *Beyond Transition*, December 2006, 9-10.
- [2.] Jan Ceysens, "The impact of agriculture-related WTO agreements on the domestic legal framework of the Republic of Kazakhstan", *FAO Legal Papers Online*, № 57 June 2006.
- [3.] Vugar Bayramov, "A comparative analysis of CIS countries' WTO accession; ways to European integration", 2008.
- [4.] Krista Nadakavukaren Schefer, "Assessment of the impact of trade policy reform in countries acceding to the World Trade Organization: the gender dimension", *United Nations Publication*, ISSN 1816-2878, 2010, 39-42.
- [5.] Arastou Khatibi, "Kazakhstan's Accession to the WTO: A Quantitive Assessment", *ECIPE working paper*, № 02, 2008.
- [6.] Brian Hindley, "Kazakhstan and the world economy: An assessment of Kazakhstan's trade policy and pending accession to the WTO", *Jan Tumlrir Policy Essays*, ISSN 1653-8986, March № 01, 2008.
- [7.] Marina Zubtsova, "The influence of the WTO accession on Russian trade through improved institutional quality", 2013.
- [8.] "Enhancing Competitiveness and Diversification of the Kazakhstan's economy", *Country economic work*, December 2011.
- [9.] Madina Nurakisheva, "Kazakhstan's accession to the WTO. Trade negotiations: practices and approaches", 2015.
- [10.] "Nazarbayev signs Kazakhstan's WTO accession protocol in Geneva", *Astana Calling*, №416 July 31, 2015, 2.
- [11.] Sholpan Dossymkhanova, "Reduced Customs Duties Following Kazakhstan's Accession to the WTO and Electronic Invoices – How They are Linked and What Kazakhstan Business Needs to Know about Them", *Kazakhstan. Investment*, May 2016, 8-9.
- [12.] Ashimbaev, M., "State Support to Domestic Commodity Producers of Agricultural and Food Sector of the Republic of Kazakhstan in Conditions of Globalization", 2002.
- [13.] Hekala Walter and Creskoff Steve, "Kazakhstan's new customs Code heralds a new era of openness in law making and modern customs administration", July 2005.
- [14.] "Economic Reforms in Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan", *IMF Occasional Paper*, 1999.
- [15.] Rakhmatulina, G., "Kazakhstan WTO accession: problems and perspectives for industrial development", 2006.
- [16.] Yermukanov, M., "Kazakhstan's rough road to accession", *Eurasia Daily Monitor*, №1 2004.
- [17.] Marchetti Juan A., "Developing countries in the WTO services negotiation", *Staff Working Paper*, 2004.