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## **EXPANDING KAZAKHSTAN'S AGRICULTURAL EXPORTS: OPPORTUNITIES AND CHALLENGE**

This paper considers of opportunities expanding Kazakhstan's agricultural export. This is due to the fact that Kazakhstan is now widely regarded as a key player on world agricultural markets, with considerable export potential in the wheat, beef and dairy sectors. This analysis offers new insights into the constraints that hamper further economic growth and provides an assessment of the government's agricultural development strategy. Along with, in this paper discusses the challenges of expanding Kazakhstan's agricultural exports. Meanwhile, to being essential for food security and social stability, agriculture is also an essential part of the government's strategy to diversify the economy and reduce its dependence on mineral and fossil fuel resources. Agriculture has consistently been identified as a priority sector in government programs for diversification, export promotion and the attraction of foreign direct investment.

**Key words:** Agriculture, development strategy, competitiveness, national economy, export.

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### **Қазақстан ауыл шаруашылық өнімдерінің экспортталуын кеңейту: мүмкіндіктер мен қауіп-қатерлер**

Аталған мақалада Қазақстан ауыл шаруашылық өнімдерінің экспортталуын кеңейтуінің мүмкіндіктері жөнінде айтылады. Себебі, қазіргі таңда әлемдік ауылшаруашылық нарығында Қазақстанның бидай, сиыр және сүт өнімдерінің экспортталуының кеңінен таралуына байланысты. Бұл сараптамада ел экономикасының одан әрі дамуына кедергі болатын мәселе туралы және мемлекеттік ауыл шаруашылық бағдарламасын бағалауын қамтамасыз етуін ұсынады. Сонымен қатар, осы мақалада ауыл шаруашылық өнімдерінің экспортталуын кеңейтуінің мүмкіндіктерімен қатар мәселелері де қарастырылады. Сондай-ақ, ауыл шаруашылық секторы экономиканы әртараптандыру негізінде мемлекеттік стратегиясының бір бөлігі ретінде және экспортты жандандыру мақсатында тікелей инвестицияны тарту және минералдық және мұнай қазбасының тәуелділігінен азайту мақсатында үкіметтің маңызды стратегиялық бағытының бірі ретінде қарастырылады.

**Түйін сөздер:** ауыл шаруашылығы, даму стратегиясы, бәсекеге қабілеттілік, ұлттық экономика, экспорт.

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### **Расширение экспорта казахстанской сельскохозяйственной продукции: возможности и вызовы**

В данной работе рассматриваются возможности расширения экспорта казахстанской сельскохозяйственной продукции, так как Казахстан является одним из ключевых игроков на мировом рынке сельскохозяйственной продукции с учетом значительного экспортного потенциала пшеницы, говядины и молочной продукции. Этот анализ предлагает новое видение проблемы, препятствующих их дальнейшему экономическому росту, а также делает оценку государственной стратегии развития сельского хозяйства. Кроме того, в данной статье обсуждаются вызовы расширения экспорта сельскохозяйственной продукции Казахстана. Сельское хозяйство также является важной частью стратегии правительства по диверсификации экономики и снижения ее

зависимости от минеральных и ископаемых топливных ресурсов. Таким образом, сельское хозяйство было определено в качестве приоритетного сектора в государственных программах по диверсификации, стимулированию экспорта и привлечения прямых иностранных инвестиций.

**Ключевые слова:** сельское хозяйство, стратегия развития, конкурентоспособность, национальная экономика, экспорт.

## Introduction

Agriculture is one of the key sectors of the Kazakh economy. It becomes obvious that with an increasing the number of population in the world, the state with the ability to export food become the most successful and influential in the world market. Thus, agriculture is considered as the main and most promising sectors of Kazakhstan's economy. According to the President of the Republic of Kazakhstan NA Nazarbayev, where in his annual Message said: "The agricultural sector of Kazakhstan has great expertise and high potential for the introduction of investment. Year by year the demand for food in the world is increasing. In regarding with, our country should not miss this opportunity. "[1]

Therefore, the national interests of the Republic of Kazakhstan in terms of agricultural sector includes: ensuring the necessary volume of their own food production; maintaining at the normative level, the state food reserve; ensuring that the quality of produced and quality of food and food safety standards.

The paper deals with the following aspects: the significance of agriculture sector, export capacity of country as well as to focus on opportunities and challenges of expanding export on agriculture products. There should be noted that after Kazakhstan's accession to the WTO will have a strong impact on the development of both the economy as whole and individual industries. Therefore it is necessary to evaluate possible trends and directions of development of this branch of the economy in the face of increasing competition and liberalization of the economy. It makes the relevance of development strategy of agriculture of the Republic of Kazakhstan and systematic study of factors affecting its competitiveness and, consequently, the country's agriculture as a whole.

That's why, the topic of this paper is relevant to research. This is due to the fact that Kazakhstan has no higher priority than improving the competitiveness of the national economy. Therefore, agriculture sector is considered an essential part of the government's strategy to diversify the economy and reduce its dependence on mineral and fossil fuel resources. This means competitiveness on production and consumption are not only in the domestic level as

well as in foreign markets products. Only in this case we have an effective and stable developing economy. Therefore, expanding export capacity of agriculture sector can bring a huge opportunity for the country.

### Experimental Part

Agriculture is a sector of vital economic, social and strategic significance in Kazakhstan. The significance of Kazakhstan's agricultural sector is closely related to the country's geography and abundant land resources. With a total surface area of 2.74 million km<sup>2</sup>, Kazakhstan is the largest landlocked country in the world. The vast majority (over 77%) of Kazakhstan's territory is classified as agricultural land, most of which is occupied by permanent pastures. Arable land makes up only 9% of the total land area, yet Kazakhstan still has 1.5 hectares of arable land per capita: the second highest ratio in the world after Australia (2.1 hectares per capita).[2] Agricultural output is expanding rapidly, along with trade and foreign investment. The main food products in Kazakhstan's agricultural sector are cereals (representing 19% of total production in 2015), horticultural crops (17%), dairy cattle (16%) and beef cattle (14%). Kazakhstan is a major producer and exporter of grain, ranking sixth in the world for wheat exports in 2015. [3]

According to the Minister of Agriculture of Kazakhstan in March 2015 Kazakhstan had almost doubled agricultural production in the past 5 years. He also noted that the agricultural exports had increased by 1.6 times during that period and had reached 3 billion USD.

On July 23, 2015, the Kazakhstan Vice Minister of Agriculture said that within the framework of the law "On Agricultural Cooperation" a special tax regime would be introduced for agricultural cooperatives. This initiative is expected to contribute to the development of the agricultural sector of Kazakhstan. Here should be noted that from 1995 to 2015 Kazakhstan's volume of agricultural production has increased by 41%. The Ministry of Agriculture of Kazakhstan reports that agricultural exports were worth \$379 million in 2015. [4]

Moreover, to being important for food security and social stability, agriculture is also an essential part of the government's strategy to diversify the economy and reduce its dependence on mineral and fossil fuel resources. Agriculture has consistently

been identified as a priority sector in government programs for diversification, export promotion and the attraction of foreign direct investment.

In order to improve export competitiveness of the agricultural sector, government settled up strategic policy which is called the program “Agribusiness 2020. This program provides for the implementation of financial recovery; increase the availability of goods, works and services for agricultural entities, the development of public support systems and improving the efficiency of state regulation in agriculture.

The importance of agriculture is also reflected in Kazakhstan’s agricultural policies and institutions, which have expanded their objectives beyond the traditional areas of food security, efficiency and competitiveness to encompass areas such as environmental protection, sustainable development, improving the social and technical infrastructure, and rural development. A number of central state agencies are active in the agricultural market. These include a network of “social entrepreneurial corporations”, responsible for developing investment projects in Kazakhstan’s regions through public-private partnerships, and KazAgro Holding, which is made up of seven subsidiary agencies operating in a range of areas relevant to agricultural policy (Food Contract Corporation, Agrarian Credit Corporation, KazAgro Finance, Fund for Financial Support to Agriculture, KazAgro Garant, KazAgro Product and KazAgro Marketing). In addition to designing and implementing agricultural support programs, some state agencies also hold dominant positions in specific markets and are invariably involved in commercial operations and the financing of large-scale investment projects

Thus, within the program “Agribusiness 2020” and state support programs, that allows improving the export competitiveness of Kazakh products by

reducing its cost and quality, significantly increasing the market supply of domestic production.

### Results and Discussion

Agriculture is the key sector of Kazakhstan’s economy, which providing food security as well as provides substantial agricultural output for exports. In 2010-2015 the value added of Kazakhstan’s agriculture as a percentage of GDP was slightly changing and accounted for nearly 7%. The percentage of agriculture output to total export is relatively stable in 2010-2014 and accounted for merely 17.4% by medium. There was a significant increase in 2015 due to an abrupt decline in total exports in nominal terms resulted from national currency devaluation. [5]

The gross agriculture output continues to grow. In 2010-2015 the annual output averaged about KZT 2.2 trln. Structurally, two main groups of agriculture – plant growing and cattle breeding – accounted for about 52.5% and 47.2% of gross agriculture output. The percentage of agriculture services is extremely low and doesn’t exceed 0.01% of gross agriculture output. The sharp increase of gross agriculture output in 2011 was due to the record high grain harvest of 26.9 mln. tons that is comparable with the harvest of 1992. According to Committee on statistics of the Republic of Kazakhstan, Figure 1 shows in 2015 wheat comprised 61% of exports of agricultural products, while Linen comprised 10% of exports of agricultural products, barley - 9%. Moreover, agricultural production has increased compared to the same period last year by 3% to \$ 2.58 trillion. tenge. The volume of crop production rose by 3.1%, livestock - by 3%. [6]

Wheat Linen Barley Sunflower seeds Rice Oilseed Vegetable legumes Others

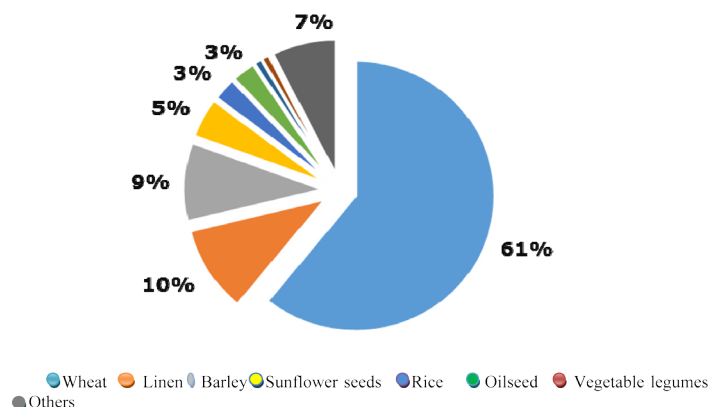


Figure 1 – Structure of agricultural products export in 2015

Source: Committee on statistics of the Republic of Kazakhstan, RA RFCA

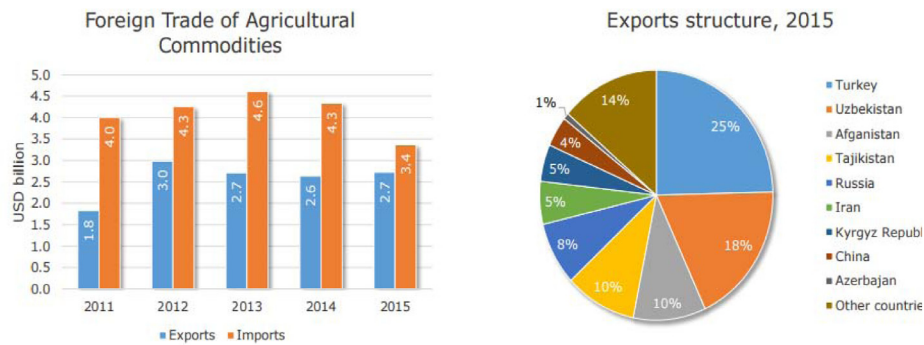


Figure 2 – Source: Committee on statistics of the Republic of Kazakhstan, RA RFCA

To be more precisely, Kazakhstan's agricultural exports consists mainly of grain, flour and oilseeds that form 80% of total agricultural exports. The main export markets are Turkey, Uzbekistan and Afghanistan consuming more than 50% of Kazakh agricultural exports.

According to above given statistical analysis, Kazakhstan has a huge opportunity of expanding its export on agricultural sector. In such regard, government of Kazakhstan has adopted a number of legislative acts aimed at creating favorable conditions for Kazakhstan's agricultural producers. For example, October 29, 2015 President of Kazakhstan signed the "On agricultural cooperatives," which comes into force from January 1, 2016 This law was passed to eliminate barriers to economic integration in the cooperation of various small-scale farmers. In the last months of the year, the Ministry of Agriculture in conjunction with the National Chamber of Entrepreneurs "Atameken" is actively working to explain the benefits to farmer's cooperatives.

Also, November 28, 2015 in the framework of the WTO accession by Kazakhstan adopted a law "On the production of organic products", which will create conditions for development of organic production. It should be noted that organic farming is a priority in the development of Kazakhstan, as well as a part of development initiatives "green economy".[7]

Along with this, in the accompanying law "On organic production," the law was amended in the field of seed production, livestock breeding and state regulation of agro-industrial complex. This amendment would provide agricultural producers the right to use advanced breeding achievements, except the period of time required for testing the variety and reduce administrative barriers and ensure equal access for individuals and legal entities to the market breeding production (material), as well as the transfer to self-breeding and breeding work.

Moreover, there are several institution designed to assist and support export activities of Kazakh companies. They are Kazakhstan Development Bank, which provides credit instruments for export operations; Centre of trade policy development allows systemic analysis of foreign trade, Chamber of Industry and Commerce that provides development of business contacts with international consumers, National agency of export and investments "KAZNEX Invest", which makes sure of export development and investments attraction.

Thus, there has been a marked surge of interest of foreign investors in Kazakhstan's agricultural sector lately. According to Committee on statistics of the Republic of Kazakhstan Favorable investment climate contributed to the investment attractiveness of the agricultural sector. Thus, the volume of investments in the agricultural sector in 2015 amounted to kzt 167 billion. Many large agricultural corporations, especially Italian (Cremonini, Granorolo) and Chinese (Rifa, CITIC, COFCO) have stirred up negotiations regarding the building of full-scale production facilities. There are several reasons for the interest in the country's agriculture on the part of foreign investors: 1) increasing global demand in food products and fodder; 2) low land lease in Kazakhstan; 3) development of transport infrastructure in Kazakhstan and the region.[8]

However, Kazakhstan's agricultural sector has faced a number of serious problems. The main problem of agriculture of Kazakhstan is the low level productivity. According to independent sources, the performance of agricultural workers of Kazakhstan is five times less comparing with Eastern Europe. For instance, the average level of grain per hectare is 25 quintals of the US, while in Kazakhstan this figure is only ten. This figure depicts of low level of productivity. Another problems is insufficient financial resources to fully satisfy the needs of rural producers in credit facilities as well as lack of

implementation of scientific developments into production. Most likely the root of the problem solution can be found in the improvement of production technology, progressive management and de-monopolization of the agricultural sector, which is now observed the opposite trend, as there are many small farms, many of which operate at a loss and there are very strong agricultural corporations, which have a monopoly trends that squeeze small producers from the market through economies of scale, infrastructure development and more support from the state, which stimulates the concentration of ownership in this sector.

### Conclusion

In conclusion, the remarkable thing is that there is a number of programs, the main of which is the program for the agriculture development in the Republic of Kazakhstan for the period of 2013–2020 «Agribusiness 2020», in order to increase productivity and improve business conditions in the agricultural sector. Today, in the context of the WTO not only opportunities have opened for Kazakhstan,

but also the hard realities of competition. Under these conditions, new aid instruments will help to mitigate the period of adaptation for Kazakh agriculture sector. Moreover, by facilitating the investment into agriculture, cooperation, providing access to cheap financial instruments and developing agricultural science is the key to successful development of agricultural sector of Kazakhstan.

In general, the agricultural sector in Kazakhstan could be a harbinger of economic growth, but this requires a lot of support and attention from the state. In the meantime, only the financial assistance would not be able to completely change the course of events, since the problems of management, the implementation of the agricultural strategy is big deal as well.

Development and structural reforms still remain on the agenda in the field of agricultural state policy. These factors must be taken into account when ascertaining the results of the sector to provide financial assistance, which will be able to revive the agriculture of Kazakhstan taking into an account the current system changes and economic conditions.

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