
KAZAKHSTAN ECONOMIC OVERVIEW: GREAT STEPPE UNDER BLUE SKIES

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28.03.2016

Economic Calendar, March 26, 2016

Kazakhstan is a top-10 country in many things. Being the worlds ninth biggest country it is the largest economy in Central Asia and second largest among former Soviet Republics. Kazakhstans land holds the entire periodic table of elements with active production of over 60 of them.

With around 5,000 deposits of 1,225 types of minerals, Kazakhstan holds first place in explored reserves of zinc, wolfram and barite; second in silver, lead and chromite; third in copper and fluorite; forth in molybdenum; sixth in gold. The country also possesses rich deposits of oil and natural gas and is second in explored reserves of uranium.

Economic Overview of Kazakhstan

Kazakhstans economy today is largely dependent on the export of its rich resources. But it took some time getting the country to where it is now. Because the main economical hubs of the USSR were republics now known as Russia, Ukraine and Belarus, providing most goods for the other twelve member states, Kazakhstans economic potential was largely unexplored or underdeveloped during the better part of the XX century. The country saw a large-scale industrialization in the 80s with over 400 factories built, but those were mostly specialized in heavy machinery and metalworking.

As a result, with the collapse of the Soviet Union in 1991 and economic links between republics lost, the people of Kazakhstan practically fought for survival during the first years of the countrys independence. In 1992 inflation toppled over 2500%; GDP dropped 9.2% in 1993. And although all the resources were there long before the nomadic Turkic tribes settled in the region, deposits first needed to be explored and developed. During 25 years of the countys independence over \$100 billion came to Kazakhstan in the form of direct investments. Only with the coming of the new millennia, after implementing a number of reforms and restructuring the countrys economy, Kazakhstan became a major regional power.

Kazakhstans Export/Import Structure

According to monthly reports of the Statistics Committee of Republic of Kazakhstan (RK) export made up from 57% to 65% of the countrys overall foreign trade activity in 2015. The two biggest consumers of Kazakhstans exported goods are its neighboring superpowers: Russia – over a third of all exports; and China – 15-17%. Among importers are also Germany, USA, Japan, Ukraine, Turkey, France, Italy and many others. In 2015 \$30 billion worth of mineral resources have been exported out of the country.

Among Kazakhstans imported goods machinery and equipment have contributed to around one third of RKs monthly purchases in 2015, signifying the countrys dedication to the development of its own natural resources potential. The country also imports essentials, products of the chemical industry, and vehicles, among other things.

Oil – Kazakhstans Main Source of Income

If mineral resources contribute from 60% to 75% of Kazakhstans monthly exports, then crude oil comprises some 35% of the same. The country holds ninth place in terms of confirmed oil deposits and the history of oil exploration and production on Kazakhstans territory dates back to the end of the nineteenth century, long before operations began in counties such as Iran, Kuwait, Mexico and Saudi Arabia.

The Energy Information Administration (EIA) has forecasted Kazakhstans production at 1.72 million barrels per day for 2016 and estimated oil reserves are at 30 billion barrels. The countrys oil fields are situated in the western regions as well as offshore in northern Caspian Sea; largest fields being Tengiz, Karachaganak and Kashagan. RKs interests in the oil industry, as well as natural gas industry, are represented by the state-owned KazMunayGas (KMG) that besides holding stakes in the countrys oilfields, oversees two of three Kazakhstans oil refineries and all pipelines. Like its neighbor – Turkmenistan, Kazakhstan has utilized the practice of shared production resulting in companies like Chevron, ExxonMobil, LukArco (a Lukoil and BP joint venture), BG, Eni, Shell, Total and China National Petroleum Corporation operating alongside KMG.

Being the worlds largest landlocked country, Kazakhstan has relied on pipelines and railroads to transport its oil, successfully expanding and diversifying its export capabilities over the duration of its independence. Major export routes are the two pipelines into Russia: the Caspian Pipeline Consortium (CPC) pipeline to the Black Sea port of Novorossiysk and the Uzen-Atyrau-Samara pipeline, and the Kazakhstan-China pipeline that stretches 930 miles from the town of Atasu to the

Chinese border town of Alashankou. Besides Russian and Chinese directions, another perspective route for Kazakhstan lies through the Kazakhstan-Turkmenistan-Iran railroad commissioned in December 2014. Not only does it provide a direct connection with Kazakhs neighbors – the Turkmen, but, in perspective, it also opens a way to the countries of the Persia Gulf and their markets through Irans port of Bender-Abbas. Kazakhstan and Iran have agreed earlier this year to raise volumes of cargo shipments between the two countries to 2.5 million tons in 2016.

Another crude oil export route utilized by Kazakhstan is carrying it by tankers across the Caspian Sea to Azerbaijan. From there oil is dispatched further West via Baku-Tbilisi-Ceyhan or Baku-Novorossiysk pipelines, mainly into Europe.

Despite having a substantial crude oil supply, Kazakhstan always experiences a deficit in refined oil products. The three oil-refining plants at Atyrau, Shymkent and Pavlodar, are outdated and operate at around 60-70% of their total capacity, which is 350,000 barrels per day. As such, the country is forced to import a third of its oil products requirements, usually, from Russia. In order to minimize the deficit, the government banned the export of oil products as a temporary measure and made investments to modernize the refineries. Modernization is scheduled to be completed in 2016 aiming to meet the countrys demand for gasoline and diesel by 2017.

Natural Gas

Kazakhstans oil deposits also hold sizable volumes of natural gas that amount to 85 trillion cubic feet. 46% of the total volume is concentrated at the Karachaganak field. Although gas production increased four times since 2000, almost half of what is extracted is re-injected into oil fields to boost production; the rest is used for commercial purposes. Kazakhstans natural gas production is perfectly capable of fully covering the countrys needs, but due its size and a lack of infrastructure to carry gas from western provinces to the rest of the country, Kazakhstan imports it from Uzbekistan for its southern regions and from Russia for the north and east. Nonetheless, a project of domestic Beyneu-Bozoi-Shymkent gas pipeline in the south is being realized in order to address the issue. The country also holds a portion of the Central Asia-China pipeline that delivers gas from Turkmenistan and Uzbekistan to China and Russia.

Kazakhstans Mining Indutry

Mining industries of Kazakhstan account for a third of the countrys overall production. Possessing the worlds eighth largest iron ore deposits, Kazakhstan exports over 70% of it produces. Over the years, the republic restored its iron ore production volumes of about 24 million tons annually that were largely crippled after the collapse of the USSR.

Production of aluminum, lead, zinc and copper has also risen since 1990s. Today, Kazakhstan is one of the worlds top producers and exporters of refined copper, with its main importers being Germany and Italy. The country is also a big producer of gold, with over 170 registered deposits.

Kazakhstan is among the top ten countries in terms of coal deposits, production and exports, most of it going to former Soviet Union members like Russia and Ukraine.

Kazakhstan holds first place in uranium production volumes and second in its reserves behind Australia, holding about 20% of the worlds supply.

Agriculture in Kazakhstan

Located in a vast steppe, Kazakhstan holds great agriculture opportunities. It is the third country in CIS in terms of grain production behind Russia and Ukraine. Wheat, corn, oats, barley, various vegetables are all grown on Kazakhstan soil. Thanks to irrigation efforts, rich harvest of rice, tobacco, cotton and sugar beet are gathered in the countrys southern regions.

USD/KZT: Tenge – Kazakhstans national currency

Introduced in November 1993, the tenge substituted the Soviet ruble as Kazakhstans currency. Since then it has suffered four cases of rapid devaluation. Since the tenges introduction until 1998, Kazakhstans National Bank maintained a free-floating currency policy due to the necessity to conduct major reforms within the financial institution itself, a lack of monetary funds needed to keep a currency stable and the overall inexperience of policymakers. As a result, a 4.7 tenge for \$1 exchange rate in 1993, turned into 88 tenge for \$1 by 1998. By the end of 1998 Kazakhstans economy was heavily pressured by the Russian and Asian financial crises. After several months and \$600 million spent in attempts to keep the currency stable, the National Bank finally let it into freefall in April 1999. Tenge devalued 64.6%. Over the next few years the Kazakh currency kept getting cheaper to a point of 155 for \$1. In 2003, however, it turned around due to rising export profits, mainly from oil production, to a mark of 120 tenge for dollar.

At this very mark tenge met its second devaluation on February 4, 2009. As the global financial crisis was hitting hard at the world largest economies, Kazakhstans currency had no choice but to sink after billions of dollars spent by the National Bank to keep it afloat.

The third devaluation came five years later in the wake of a sharp rise of an exchange rate of USD and Euro to many CIS countries currencies. On February 11, 2014 the head of the National Bank of Kazakhstan announced the devaluation of the tenge, despite previously promising that it will not occur. The statement also mentioned a new corridor of the currency fluctuation around 185 tenge for \$1, give or take 3 tenge. Prior to this the national currency was back to its 2003 value of 155 tenge for a single dollar. After devaluation was announced, car sellers and a number of the countrys largest e-commerce websites suspended their operations. Protests began to impeach president Nazarbaev, but the petitions webpage was soon blocked on Kazakhstans territory. Protesters rallied before the building of the National Bank calling its head to step down. On February 15 protests against tenges devaluation were held in the nations capital of Almaty. Several dozens of protesters were detained.

The fourth devaluation followed in August 2015 after the National Bank announced yet again that the tenge will be set free. The most plausible reason for such a move was the intention to maintain the national economy in the wake of the plummeting Russian ruble. Prime-minister Karim Massimov underlined that the formation of a market value without the involvement of the government will create a background for the restoration of economic growth, a rise in lending and investment activity, creation of jobs and a decrease of inflation.

Following the results of 2015, tenge has been recognized as Europes most devalued currency (a smaller part of Kazakhstan is in continental Europe), falling 85.2%. The pressure on Kazakhstans currency was caused by weakening of the Chinese yuan and decline of Brent oil price.

Human Rights in Kazakhstan

Like any other country in Central Asia, Kazakhstan has issues with providing human rights for its people. From arrests of activists for critical posts on Facebook, torture and ill-treatment of prisoners by members of law enforcement agencies and prison staff to persecution of political opposition; Nursultan Nazarbayev, independent Kazakhstans first and only president to date, has been criticized time and time again by international human rights advocates.

The culmination of Nazarbayevs fight against freedom of speech in his country happened in 2011 in the Mangistau region of South-West Kazakhstan. Protests by oil industry workers first began in 2008 in the wake of rising consumer goods prices due to an increase in the average wage rate within the country, caused by a flourishing economy. However, for most for the majority of the population, wages remained the same.

In 2010 a large number of workers of the local KazMunaiGaz subsidiary took a more active position in demanding better labor conditions and increased salaries. In May of 2011, 700 people in the provincial capital of Aktau were on strike, causing the state oil company to lose an estimate of \$1.6 million over ten days. In the nearby town of Zhanaozen some 1,500 people refused to continue working under given conditions.

During 2011 numerous attempts were made by the workers to negotiate with state authorities, but to no avail. At the same time, leaders of the labor union and activists groups suffered threats, as well as unlawful fines and arrests.

On December 16, 2011, on the day of the celebration of Kazakhstans independence, a clash broke out between the workers and local police, with officials and activists later casting blame on each other on who first provoked the unrest.

Reports indicated anywhere from one to three thousand people involved in street fighting in Zhanaozen with police opening fire to subdue the protesters as rocks and Molotov cocktails were thrown in retaliation.

Fighting continued well into the next day, when the Head of Ministry of Internal Affairs of Kazakhstan reported the situation to be under control. 46 objects that included vehicles and buildings were burned. 14 people were reported dead, although, workers of the local morgue mentioned receiving 64 during the two days that the fighting took place. Many more were injured and detained.

The event resonated around the country and in world media as opposition activists were arrested in Almaty; strikes and unrest was reported in other towns of the Mangistau region.

Conclusion

Despite Kazakhstans disregard of basic principles of human rights and freedom of speech, it remains the most prosperous and modern country in Central Asia. It is open to collaboration with foreign investors and its vast natural resources and beneficial geopolitical situation will continue to fill the countrys coffers for years to come.

Kaynak/Source: