WTO ACCESSION AND ITS IMPLICATIONS ON KAZAKHSTAN: ISSUES AND PROSPECTS

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Abstract

Since the Soviet era, Kazakhstan has been both geographically and economically isolated from the rest of the world. Thus, as an emerging transition economy, Kazakhstan faces the need to open its borders to the world and quickly integrate into the global economy. Yet, on the contrary to the widespread belief, a speedy WTO membership may not only fail to provide the expected outcomes but also bring unfavorable consequences to Kazakhstan given the country’s unique economic environment. This paper examines the various implications of WTO accession on Kazakhstan and illustrates the significance of fostering bilateral trade relations with several key countries as an alternative strategy to a rapid acquisition of membership.

Keywords: WTO accession; Kazakhstan; Global economy.

JEL Classification Codes: K33; M29.

1. Introduction

After Kazakhstan became independent from the former Soviet Union in 1991, it entered a significant economic transition period. The restructuring efforts undertaken by the country during this period have been marked by a gradual shift from the country’s centrally planned economy to a market economy. To implement this new economic perspective, various policies were adopted, resulting in price liberalization and privatization of state-owned enterprises. Since the Soviet era, Kazakhstan has been both geographically and economically isolated from the rest of the world. Therefore, as a newly developing transition economy, Kazakhstan faces the need to open its borders to the world and rapidly integrate into the global economy.

In order to achieve a sound global economic integration, Kazakhstan established a new foreign trade policy supported by special laws. The new Investment Law provides multinational investors with incentives such as duty exemption and tax preferences in priority sectors (Terterov, 2004). Since then, investment in and trade with Kazakhstan has received increased attention from the world. As a result, many foreign companies entered the Kazakh market to take advantage of the numerous business opportunities in the country. The Kazakh government aims to attract additional foreign direct investment to the country in the upcoming years.

Experts believe that the accelerated development of foreign trade will speed up the economic transition in Kazakhstan. Thus, the Kazakh government applied to become a member of the World Trade Organization (WTO) in 1996 with the ultimate goal of enhancing its foreign trade activity. However, a premature WTO membership may actually bring unfavorable consequences to Kazakhstan given the country’s unique economic environment. The purpose of this paper is to examine the implications of WTO accession on Kazakhstan and to emphasize the significance of fostering bilateral trade relations with several key partners as an alternative strategy to a speedy acquisition of WTO membership.

2. Benefits of WTO accession for developing countries

Many developing nations are known to have derived various benefits from WTO membership. Based on the literature review, five major benefits most commonly realized by emerging markets are identified: 1. Expansion of international trade; 2. Increased competition; 3. Stronger economic cooperation; 4. Speedier economic growth; and 5. Improved business infrastructure. It should be noted that these benefits are experienced over time as the acceding countries strengthen their trade relations with other WTO member nations.

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Expansion of international trade
One of the primary benefits of WTO accession for developing economies is the increased volume of trade activity with other member states. Membership allows developing countries to enter foreign markets more easily under the special regulations governing this trade agreement. These economies face the immediate need to find new markets and trading partners to sell their products. With the reduction or elimination of trade barriers such as tariffs, quotas, and licenses, developing countries are expected to expand their level of exports through WTO membership.

In addition, after decades of protectionist policies, developing countries are now opening their borders to foreign investors. Since majority of the industries in emerging countries remain inefficient, multinational firms can take advantage of the untapped business opportunities in these markets. Accession will help these economies provide foreign companies with an easier market access and a favorable investment climate (Cheng, 1999). This trend of increased trade and investment will strengthen the economic ties between the old and new WTO members.

Increased competition
After their accession to the WTO, developing countries will become major export markets for numerous multinational firms. The influx of these foreign companies into the developing economies will create an increased competition in many industries. Such intense competition will present consumers in these countries with many benefits. Consumers will enjoy widely available foreign goods imported from other countries and have a broad array of product choices when it comes to making purchase decisions. Moreover, consumers will realize advantages from an expanded range of services such as insurance, finance, banking, and telecommunications offered by foreign companies in these countries (Zumwalt, 2002). Above all, the rivalry among various sellers to capture additional market shares will lead to price wars as well as quality improvements. This means that consumers will be able to afford higher quality products and services at lower prices.

Pressure from competition will distinguish efficient and innovative firms, regardless of whether they are local or foreign, from those that lag behind (Cheng, 1999). It will force domestic companies to be more productive in order to outmaneuver the multinational firms in other markets (Zumwalt, 2002). Hence, increased competition has direct implications on the long-term economic growth prospects of developing nations.

Stronger economic cooperation
WTO accession will provide developing economies with more stable economic relations with other WTO members. Since all member states must follow the agreed upon trade rules and regulations set forth by the WTO, the economic relations among the members become relatively more consistent over time. In other words, WTO members cannot discriminate against the products of other member states in their home markets (Zumwalt, 2002). As a result, the volume of international trade between the member countries is less likely to be affected by the unexpected disruptions in bilateral relations. Also, in the case of trade related disagreements, the parties have to abide by the organization’s dispute settlement mechanism (Michalopoulos, 1998). Thus, WTO membership prevents random settlement of disputes and encourages stronger economic cooperation among member states.

Besides, increased cooperation among the members will attract multinational firms that would like to enhance the underdeveloped economy in emerging markets. This may take the form of foreign direct investment which will not only bring in additional capital but also transfer invaluable management and technological know-how to these emerging markets. These shared learning practices further contribute to the development of closer economic cooperation between the WTO member states.

Speedier economic growth
WTO membership leads to faster economic reform in developing economies. First, the fierce competition between the domestic and foreign firms both at home and abroad will prompt a massive restructuring across many industries in these countries (Cheng, 1999). Accordingly, developing countries will transfer their resources to the industries where they have a comparative advantage over other countries. Second, the
entry of multinational firms into emerging markets will streamline the deregulation initiatives taken to reduce the legal barriers to doing business in these countries. Also, the acquisition of state-owned enterprises by foreign firms will result in large-scale privatization and demonopolization programs in these industries.

As WTO members, emerging economies will have more comprehensive legal systems to oversee their foreign trade activities. Member countries are required to guarantee uniform application of laws, protection of private and intellectual property, and adequate standards governing disclosure, accounting, and transparency. They also must reform their regulatory structures to develop a strong judicial system. Such developments are predicted to expedite the economic development process in these countries.

**Improved business infrastructure**

Accession to the WTO will help developing economies improve their business infrastructure noticeably. The benefits derived from the deregulation and privatization programs will ensure a more investor friendly business environment for both domestic and foreign companies. Such a favorable business climate is integral to attracting and sustaining the increased volume of trade activity that is expected with the membership. In addition, since accession will speed up the economic development process in these countries, it will bring more efficient government operations and public services which are crucial to creating an ideal business environment (Michalopoulos, 1998).

Furthermore, WTO membership will bring about numerous improvements to the business landscape. For instance, new initiatives will be employed to reduce the bureaucratic obstacles currently encountered in many enterprises leading to major organizational restructuring efforts. Moreover, personnel in these firms will acquire a thorough understanding of international trade principles. This new mindset will reflect itself in terms of higher levels of productivity, better quality of output, and improved services all of which constitute the building blocks of a sound business infrastructure in these countries.

3. Risks of WTO accession for developing countries

Based on extensive prior research, it is observed that the benefits of WTO membership experienced by one country can easily become risks faced by another nation depending on the particular country’s nature of economy, timing of accession, and membership conditions. Five major risks confront developing countries that are in early stages of economic development as a result of WTO accession: 1. Weak industrial foundation; 2. Decreased competition; 3. Higher level of unemployment; 4. Trade imbalances; and 5. Limited national sovereignty.

**Weak industrial foundation**

Perhaps, one of the biggest challenges faced by developing countries after WTO accession is in the area of economic development. In particular, countries that do not have well-established national industries are to realize several problems with WTO membership. Since many industries remain underdeveloped in emerging markets, foreign firms will try to take advantage of the various prospects in these infant sectors (Starr, 2005). Yet, if the local companies are not resourceful enough to take on the new competition, they will have to leave the marketplace. This situation may hamper the local entrepreneurial spirit and discourage other domestic firms from starting businesses in these industries. Moreover, multinational companies will then maintain total control over these sectors and create widespread monopolies by dumping their products to the national market.

This kind of dominance by foreign investment and enterprises prevent industrial development by killing the domestic competition. That is, the national sectors lose the opportunity to advance their operations and develop a strong foundation. Countries that lack solid industries that fuel the economic growth cannot achieve self-sufficiency and will be economically dependent on foreign companies. From a macro perspective, absence of a strong domestic industrial base will hurt sustainable development of an economy in the long-run.

**Decreased competitiveness of local firms**

Although, under ideal conditions, consumers in emerging economies are expected to be the direct beneficiaries of WTO accession, the opposite can also hold true based on the unique business environment
in each country. Sometimes, the entry of numerous multinational companies into these countries actually destroys the competitiveness of the local firms in the marketplace (Tennenbaum, 2000). Local firms do not usually possess the wide variety of abundant resources that are available to the giant multinational organizations. Therefore, domestic companies that cannot compete with their foreign rivals usually go out of business. If this situation prevails following the WTO membership, then the consumers in developing economies will suffer from dire consequences.

**Higher level of unemployment**

Given that most domestic firms in developing economies have limited financial resources, the salaries paid to employees are usually lower than those paid by foreign businesses. Furthermore, the pressure exerted by multinational firms entering the emerging markets as a result of WTO membership force local firms to reduce their costs even more to remain competitive. Hence, workers in these companies are quite likely to face deep cuts in their salaries. In addition, some enterprises will struggle to stay efficient and profitable against the foreign competition. Such unproductive firms will leave the marketplace to stronger foreign businesses causing massive layoffs (Tennenbaum, 2000).

Some of the personnel who lose their jobs in local companies can find employment opportunities in multinational firms. However, especially in the initial stages of WTO membership, the possibility of such human resource transfers is relatively low. This is because the domestic personnel should undergo intensive training to possess the qualifications required by the foreign companies. They require technical supervision in the business areas that are underdeveloped in emerging economies. Since foreign companies need time to improve the quality of the domestic human resource pool, it is realistic to expect a higher level of unemployment in industries where local firms are replaced by multinational firms during the initial stages of WTO accession.

**Trade imbalances**

Another negative consequence of WTO accession for developing economies may arise from trade disparities between the member states. In other words, increased trade volume between the old and new members may not always bring equal benefits to the parties involved in the exchange. Developed countries frequently reap advantages from trade at the expense of developing countries that are usually new members. Emerging economies do not usually possess the adequate infrastructure necessary for building strong export industries. On the other hand, they are major importers of a variety of goods and services.

With the WTO membership, imports by developing nations are expected to further increase (Tennenbaum, 2000). This represents a disproportionate growth in trade volume for the emerging countries since the goods and services flow mainly from the developed countries to the developing economies. An unbalanced trade growth is often accompanied by a trade deficit as well as a negative balance of payments. In order to avoid such large deficits and debt, developing countries should not open their markets to international trade beyond their control.

**Limited national sovereignty**

WTO accession can threaten a member country’s national sovereignty. By joining the organization, member states agree to follow the policies, rules, and regulations set forth by the WTO. Yet, countries often have to face difficulties where the WTO regulations contradict with the country’s own self-interests (Tennenbaum, 2000). This situation has severe implications particularly for the developing nations that are WTO members. For example, since the WTO does not allow its members to maintain protectionist measures, developing countries have to fully open their underdeveloped industries to international trade.

On the other hand, a high level of openness in these sectors hampers the prospects of economic development in these nations. In such instances, member states must abide by the WTO policies even if doing so brings them several disadvantages. That is, the members can no longer exercise their right to implement laws to protect themselves from the adverse consequences caused by the WTO accession. In other words, member nations become dependent on other WTO members by giving up their decision making authority on the issues that carry national significance.
4. Assessment of Kazakhstan’s unique economic environment
Kazakhstan’s unique economic environment has a direct impact on the country’s WTO accession process. First, as a transition economy Kazakhstan faces additional challenges to comply with the WTO regulations. Second, Kazakh economy enjoys the abundance of valuable natural resources such as oil, natural gas, and minerals. With its significant geopolitical location, Kazakhstan also serves as a strategic entry point to the rest of Central Asia and borders regional powers such as Russia and China. These factors contribute to the unique economic environment in Kazakhstan making the nation’s accession process different than that of any other developing country.

Transition economy
Kazakhstan is a country undergoing economic transition since its independence from the former Soviet Union in 1991. The government has successfully implemented extensive reforms to accompany the switch to a market economy. Yet, the country still needs to overcome the challenges that persist in the areas of deregulation, privatization, and legal infrastructure in order to adopt a strong market economy. First, Kazakhstan needs to expand its deregulation initiatives beyond the finance and banking sector especially to construction, energy, and mining industries (Tugut & Lee, 2007). This would attract additional foreign direct investment to these sectors by eliminating the old rules and restrictions that apply to foreign direct investment. Second, the country needs to streamline its privatization programs to end the state monopolies in several heavy industries of the economy (Tugut & Lee, 2007). Kazakhstan needs to urgently modernize the old and inefficient facilities and equipment left from the Soviet era. Upgrades of such a large magnitude can only be achieved with the assistance of foreign direct investment which will bring the state-of-the-art technology and management systems to Kazakhstan. Furthermore, the country should develop clear and comprehensive laws governing the different areas of business, including the interpretation of business contracts and protection of private and intellectual property which are cited as the major sources of disputes between domestic and foreign firms (Terterov, 2004). Besides, Kazakhstan should work towards reducing the legal obstacles that exist in the form of logistical, tariff, and customs barriers. Establishment of an investor-friendly legal framework in accordance to the principles of market economy that would firmly support the deregulation and privatization efforts is integral to drawing foreign direct investment to the country.

Natural resource based economy
Kazakh economy has demonstrated a remarkable rate of growth in the recent years. The main engine behind the country’s impressive economic growth has been the oil and metal exports which together account for more than 70% of the total Kazakh export earnings (Oleynik, Alexander, & Cherepanya, 2002; Terterov, 2004). Hence, the country’s economic progress heavily depends on its supply of natural resources such as oil, natural gas, and minerals. This overdependence results in an unstable economic environment especially due to frequently fluctuating oil prices in international markets. Therefore, one of the key policy objectives for the Kazakh government is to employ an economic diversification initiative that will encourage investment in other industries and promote a well-balanced economic growth in every sector (Jedrzejczak & Rodriguez, 2003). Although the country needs additional foreign direct investment particularly in its underdeveloped industries, Kazakhstan enjoys a steady inflow of hard cash receipts from its oil, natural gas, and mineral exports. This situation makes Kazakhstan unique among Central Asian countries since the Kazakh government possesses a significant level of financial resources to advance its economic transition. Kazakhstan has also embraced economic policies aiming to stimulate its economy by promoting free trade practices, supporting small and medium-sized businesses, encouraging foreign direct investment, and increasing R&D in non-oil industries as well as in technology-based sectors, in addition to modernizing its energy industry (Jedrzejczak & Rodriguez, 2003). The main purpose of these activities is to build a solid foundation for the emerging national sectors as well as to expand the current institutional and productive capacities. At the same time, Kazakhstan should develop a systematic management approach to sustain the success of its oil, natural gas, and mining industries while preventing their exploitation by foreign companies.

Condition of logistical infrastructure
Kazakhstan suffers from a chronic problem of poor physical infrastructure which reflects itself as inadequate transportation and telecommunications systems. Kazakh cities are dispersed all over the country’s vast territory and the road and railroad networks connecting these population centers remain quite
underdeveloped. The country lacks a modern highway system and the railroad networks, which carry the bulk of Kazakhstan’s freight traffic, are not reliable and organized (Oleynik et al., 2002; Spechler, 2003). In addition, the telecommunications services are inefficient to accommodate the rapid economic growth experienced by the country over the recent years. Kazakhstan still uses the obsolete telecommunications equipment left from the Soviet era and the coverage of the telecommunications services is limited. Telecommunications services are not available in remote areas which are far from the population centers. The current equipment operates at full capacity and is not capable of sustaining heavier service loads that has occurred with the economic expansion (Oleynik et al., 2002). Hence, there is an urgent need to replace the outmoded equipment and upgrade the existing telecommunications technology. Kazakhstan also needs widespread internet, mobile phone, and broadcasting services as well as other digital communications systems in the country. The weak transportation and telecommunications infrastructure represents challenges for multinational companies operating in Kazakhstan. These include lengthy delays in the interflow of goods and materials within supply-chain and distribution networks and difficulties in communicating with suppliers, distributors, and customers located in different parts of the country. Hence, the existing transportation and telecommunications systems are not capable of serving the needs of the population effectively and demand immediate action.

Proximity to China
Despite its notable progress towards a market economy, Kazakhstan has been slow to establish vital industries that would produce the goods needed by its citizens. Therefore, Kazakhstan imports large quantities of consumer goods from the Western countries and some of its neighbors. China, as a result of its geographical proximity, is one of the major suppliers of consumer goods to Kazakhstan. Chinese-made products are found virtually everywhere, from stores and bazaars to streets, at extremely low prices. These goods are often cheap replicas of well-known Western brands sold on a thriving black market. The types of consumer goods exported to Kazakhstan by China range from food products and electronics to textiles and chemicals (Spechler, 2003). While it is hard to estimate the exact trade volume since much of the trade remains unreported, trade with China undoubtedly constitutes the largest share in the flow of consumer goods to Kazakhstan (Pomfret, 2003). In spite of the challenges such as the insufficient physical infrastructure and excessive inspections and fees confronting the Chinese traders in Kazakhstan, China continues to pour its products into this country. This situation concerns the Kazakh people about the results of China’s intention to become the dominant economic and political power in the region.

Characteristics of the Kazakh market
Kazakhstan is the ninth largest country in the world, stretching over a vast territory in Eurasia. However, when compared with its land mass, the country has a relatively small population of approximately 15 million people (Oleynik et al., 2002). For some foreign companies, this may mean a narrower customer base and a smaller market share compared to other country markets. Moreover, the fact that the large majority of the Kazakh population has a limited purchasing power makes it very risky to invest in this country. Multinational firms may also think that the low sales volume resulting from the small size of the domestic market would not recover the huge cash outlays initially incurred to enter the market. Above all, the small Kazakh market may not allow foreign companies to enjoy cost benefits through economies of scale. Thus, for foreign firms that do not possess the resources to endure these adverse consequences, entering the Kazakh market may not be a lucrative venture. On the other hand, for multinational companies that have other country markets with high levels of profits to compensate the initial losses in this one, Kazakhstan is an ideal entry point in the region to expand to the rest of Central Asia (Tugut & Lee, 2007). The combined market size of all Central Asian countries presents great business prospects for foreign firms and eliminates the potential difficulties caused by Kazakhstan’s small domestic market.

5. Expected outcomes of Kazakhstan’s rapid WTO accession
In the long run, WTO membership will undoubtedly bring various advantages to Kazakhstan. First, the country will have a much wider access to foreign markets to export its products and services. This closer integration with the world economy will aid Kazakhstan in finding additional markets and diversifying its range of export goods (UNESCAP, 2001). Also, as the country opens its market to international trade and adapts its legal system to the WTO regulations, more foreign companies are expected to invest in the emerging Kazakh industries. These foreign investors will not only help build the country’s economic infrastructure but also speed up the transition to a market-oriented economy. Moreover, with the increased
level of competition between the domestic and foreign firms, Kazakh consumers who currently depend on the cheap imports from a few countries will enjoy a broader selection of quality products and services at lower prices. In addition, Kazakhstan will benefit from the WTO trade dispute settlement mechanism which will provide the country with stable economic relations with other member states.

Although WTO accession has positive implications on Kazakhstan in the long run, a speedy membership may lead to unfavorable consequences for the country. Kazakhstan needs to comply with numerous regulations to become a WTO member state (Terterov, 2004). Yet, accepting these obligations at this point may cause the country to assume high risks and would have irreversible effects. A rapid accession would hurt the successful economic transition efforts undertaken so far and fail to present the expected positive outcomes. Kazakhstan needs to develop a strong economic foundation before it joins the WTO. WTO accession can only provide the above-mentioned long-term positive results if Kazakhstan achieves a stable economic infrastructure. Hence, Kazakhstan should be cautious about becoming a WTO member too soon at the expense of its own long-term economic interests.

Perhaps, the biggest negative consequence of a swift WTO membership for Kazakhstan is the threat to the country’s infant industries. Kazakhstan is a country which yet needs to establish a wide range of industries in order to become less dependent on foreign imports. The benefits of wider access to international markets and increased volume of exports can only be realized in the long run once the country launches these crucial industries (UNESCAP, 2001). Without developing these integral sectors, Kazakhstan will not be able to protect its interests against other WTO members. With the membership, domestic companies may find it difficult to compete with the resourceful multinationals and can eventually go out of business. This situation will then hamper the initiatives taken to support the domestic firms in building the country’s industrial infrastructure and can actually increase Kazakhstan’s dependence on foreign businesses. In order to prevent this problem, Kazakhstan should wait to achieve a self-sustaining level of industrial growth before it becomes a WTO member state.

Foreign suppliers already enjoy more favorable conditions than domestic firms in various service sectors. Despite this advantage, WTO members demand increased access to vital Kazakh industries, including telecommunications, financial services, construction, travel, and transportation services (UNESCAP, 2001). Accordingly, Kazakhstan is expected to further open these sectors to foreign investors in order to become a WTO member. However, these industries are among the emerging sectors in Kazakhstan which should be substantially developed to contribute to the country’s economic growth before foreign competitors are allowed in.

Above all, it should be noted that the membership conditions for acceding countries are much more demanding than for the current member states (Michalopoulos, 1998). For instance, although Kazakhstan is defined as a developing country based on economic indicators, the accession demands would classify it as a developed country (UNESCAP, 2001). Likewise, there are additional requirements that are perceived as quite unfair. For example, Kazakhstan is forced to reduce the level of duties that apply to both raw materials and finished goods to open its market to foreign competitors. On the other hand, developed countries impose high tariffs on the import of finished products in an attempt to protect their national industries. This means Kazakh producers will face steep barriers to export their own finished goods to the industrialized nations.

Furthermore, Kazakhstan has been asked to lower the state support to the agricultural sector and reduce the import tariffs. However, developed countries not only subsidize their domestic agricultural production but also increase their tariff rates on agricultural imports to prevent imports from other countries. Kazakhstan also faces major obstacles in its mineral exports to the European Union, the United States and some developing countries due to the restrictive measures imposed by these countries (UNESCAP, 2001). Since mineral exports constitute a large portion of its total exports, Kazakhstan needs to overcome this situation immediately.

In spite of these unfavorable socio-economic consequences, the Kazakh government expresses interest in a rapid membership. The main reason behind this objective is closely tied to the country’s efforts to make Almaty an international finance hub. The Kazakh government believes that WTO accession will strengthen
Almaty’s position to become a major finance center. Nonetheless, this reasoning seems to be based on wrong priorities. In other words, Kazakhstan’s immediate focus should be successfully completing its transition to a market economy. The idea of Almaty becoming an international finance center at this point does not have any realistic basis for various reasons. First, Kazakhstan lacks both the tangible and intangible foundation needed to establish a financial hub. Today’s international finance centers such as New York, London, Singapore, and Hong Kong have historically been associated with Western culture, the latter two being former British colonies. Besides, these are metropolitan areas with quite diverse populations and English as the spoken language. In addition, as port cities they have favorable locations. Above all, the countries that host these international finance hubs all possess significant industrial foundation, facilitate high volumes of foreign trade, and employ highly skilled personnel. Kazakhstan, on the other hand, does not carry any of these historical, cultural, linguistic, geographical, or economic characteristics.

Second, in order to become an international finance hub, countries have to eliminate all restrictions that pertain to financial activity. In Kazakhstan’s case, this would kill the prospects of sustainable development of the national economy. Foreign investors can easily invade the Kazakh financial system with speculative money which will go beyond the system’s capacity and cause frequent crises, inflation, unemployment, loss of domestic industries, and drain of national wealth. For all these reasons, Kazakhstan should not push for an immediate WTO membership which, on the contrary to what is expected, will not make Almaty a major international finance center. However, Almaty has a high potential to become the regional finance hub of Central Asia since Kazakhstan possesses a relatively more advanced and stable financial and banking system compared to the other Central Asian republics (Jedrzejczak & Rodriguez, 2003).

The current financial crisis in Kazakhstan confirms that WTO membership in the short run would adversely affect the country. Until recently, majority of the Kazakh banks had relied on the cheap credit from foreign financial institutions. Although access to foreign credit helped fuel the rapid growth of the Kazakh banking sector, this heavy dependence made Kazakh banks vulnerable to external shocks. Lack of liquidity caused by the subprime mortgage crisis in the U.S. along with the higher interest rates demanded by international lenders to compensate for the risks faced in this emerging market caused the current financial problems in Kazakhstan. Due to this massive lending spree, the Kazakh tenge lost its value making the repayment of foreign debt more difficult for Kazakhstan.

In addition, to reverse these problems, the Kazakh government is now reclaiming ownership of the troubled financial institutions and companies. This situation is a considerable drawback for the privatization efforts undertaken to attain a market economy. The government has the hard cash from oil and natural gas exports to bail out these distressed establishments. However, these money receipts are desperately needed to finance the development initiatives in the emerging sectors in Kazakhstan. The current financial crisis is a direct result of overexposure to foreign borrowing on the part of the Kazakh banks. Kazakhstan opened its underdeveloped financial and banking system to foreign investors beyond its control and with the influx of foreign money, the country lost its leverage to prevent the negative results encountered today. A similar scenario awaits Kazakhstan with a swift WTO accession which will require Kazakhstan to open its other newly emerging infant industries to foreign investors. Such a high degree of openness may spell an imminent economic disaster for Kazakhstan.

6. Recommended strategies
Kazakhstan would benefit immensely from developing stronger bilateral relations with several other countries before it becomes a WTO member in the future. The country should attain a sensitive balance in establishing close economic and diplomatic ties with the major global and regional powers. Kazakhstan possesses invaluable natural resources which, if used strategically, can help achieve this balance. Also, due to the country’s geographical proximity to some of the world’s troubled regions, Kazakhstan should seek reliable partners that can provide the needed support against its potentially aggressive neighbors. There are several countries that would not only serve as model nations for Kazakhstan’s future economic development but also offer fruitful cooperation towards the country’s path to a market-oriented economy. Korea is the only country in the world that has transformed from one of the poorest to one of the most advanced economies in one generation. Therefore, Korea’s experience and knowledge of this miraculous economic growth constitutes an ideal example for Kazakhstan’s transition economy. Besides, Korea is
quite willing to provide Kazakhstan with its state-of-the-art technology and extensive know-how regarding industrial development. Korean companies are already among the chief investors in many Kazakh industries and provide financing to large scale projects contributing to the country’s booming economy (Oleynik et al., 2002). With no potential threat to Kazakhstan, Korea would be a reliable partner which also shares many cultural similarities with Kazakhstan.

Japan is another country with a proven success record that can offer Kazakhstan various benefits. It is one of the countries with the best national competitiveness as high quality Japanese products are preferred by consumers around the world. Like Korea, Japan is also eager to transfer its modern technology, expertise, and financial resources to Kazakh companies (Oleynik et al., 2002). Kazakh industries can acquire the much needed information about quality management concepts from Japanese companies. Above all, since China’s objective to become the economic leader in the region sometimes threatens Kazakh interests, Japan would be a strong ally for Kazakhstan to provide leverage against China and other potentially dangerous neighbors.

Kazakhstan can also build stronger bilateral relations with Singapore. Singapore has one of the most effective and transparent political systems in the world. It has a knowledgeable government leading the country with a strong vision. Thus, Singapore can serve as a model country for Kazakhstan’s political leadership. Singapore also functions as a major international finance hub. Kazakhstan can learn from Singapore’s experience as it strives to make Almaty the regional finance center of Central Asia.

Bilateral relations with India can offer the investment needed to support Kazakhstan’s booming economy (Starr, 2005). Kazakh companies can acquire advanced technical expertise from Indian firms in the area of information technology (IT) through joint ventures. Software development would especially be an ideal sector to start in Kazakhstan with the help of Indian partnership. Since this industry is virtually nonexistent in Central Asia, Kazakh companies can satisfy the demand throughout the entire region. Emerging sectors in Kazakhstan’s fast growing economy also require IT support services. Building a software development industry does not require huge cash outlays but claims skilled human resources. Indian firms can train the Kazakh personnel by transferring them the necessary skills required by the industry. Also, the rapid economic growth in India calls for additional energy sources to meet the needs of its population. Therefore, India can become a big export market for Kazakhstan oil and natural gas. Moreover, close relations with India will serve as “checks and balances” against potentially unfavorable Chinese policies towards Kazakhstan.

Establishing strong relations with the European Union (EU) countries would also assist Kazakhstan. EU members such as Great Britain and France already have significant investments in major Kazakh industries such as oil extracting and construction (Oleynik et al., 2002). EU countries can provide the much needed capital, technology, and human resources to develop Kazakhstan’s industrial backbone. On the other hand, EU nations need a continuous supply of energy at stable prices. Hence, EU views Kazakhstan as a key partner in oil and natural gas trade. Unlike several former Soviet Union republics situated in Eastern Europe, Kazakhstan is isolated from the European market due to its geographical location. Kazakhstan should strive to develop stronger relations with the EU countries to compensate for this geographical disadvantage.

For Kazakhstan, maintaining close ties with the United States (U.S.) is integral to the country’s economic, political, and social development. U.S. is among the chief foreign investors in Kazakhstan with substantial investments in the critical sectors of the economy such as oil extracting and financial services (Oleynik et al., 2002). U.S. companies provide logistical infrastructure, capital, and personnel to help advance the operations in these industries. At the same time, U.S. also searches for a steady supply of energy at reasonable prices. Kazakhstan’s vast oil resources can effectively satisfy the U.S. demand. In addition, U.S. aims to maintain stability in Central Asia because of the region’s strategic geopolitical location (Starr, 2005). A partnership between Kazakhstan and the U.S. can benefit both parties. U.S. can support Kazakhstan’s stance against the potential pressure from regional powers like China and Russia. An ally of the U.S., Kazakhstan can defend the U.S. interests in Central Asia.
Kazakhstan needs to maintain close relationships with its neighbors as well. In particular, the country can cooperate with Russia in order to sustain its economic and political stability. Availability of the Russian-made products and equipment is crucial for the success of most Kazakh industries. Thus, Kazakhstan needs
continuous economic support from Russia to complete its transition period. Besides, since building secure borders is especially important in a volatile region such as Central Asia, stronger economic and diplomatic relations with Russia provide Kazakhstan with power against a potential threat from neighboring China.

Kyrgyzstan would be the most ideal partner for Kazakhstan among the other Central Asian republics. The two countries share ethnic, cultural, and social similarities. For Kazakhstan, it is of utmost importance to keep a secure southern border. This is because instability in region has historically originated from the countries in the south such as Uzbekistan, Tajikistan, and Afghanistan. Kazakhstan and Kyrgyzstan should cooperate together in order to prevent these negative influences from spreading to their territories. Furthermore, Kyrgyzstan carries significance as a major exporter of agricultural products to Kazakhstan. Likewise, given the close proximity between Bishkek and Almaty, Kyrgyzstan’s financial services sector is expected to benefit from Almaty’s prospects of becoming the regional finance hub (Lee & Tugut, 2007). Tourism industry in Kyrgyzstan can grow further with stronger bilateral relations as Kyrgyzstan has traditionally been a popular holiday destination for Kazakh visitors (Lee & Tugut, 2007). Above all, as a WTO member, Kyrgyzstan is a model country with similar characteristics that can share its accession experience with Kazakhstan. Through this, Kazakhstan can avoid making potentially detrimental mistakes that would hurt its development initiatives.

Although Chinese policies sometimes threaten Kazakh interests, Kazakhstan should foster positive relations with its eastern neighbor. As mentioned earlier, China supplies Kazakhstan with the daily necessities and consumer goods such as clothing, personal-care products, electronics, and household appliances. Hence, Kazakhstan needs an ongoing relationship with China to sustain the livelihood of its citizens. China is also eager to invest in extensive projects to help build the country’s infrastructure. It started the construction of pipelines that will carry the Kazakh oil and natural gas to China (Spechler, 2003). Currently, China’s energy resources cannot meet the needs of its thriving economy. China would be a rewarding market for the Kazakh oil and natural gas exports if Kazakhstan can use its natural resources strategically as a leverage to secure more favorable trade agreements with China.

7. Conclusion
Kazakhstan has been economically isolated from the rest of the world throughout its history. As the national economies become more and more dependent on one another, the need for Kazakhstan to integrate into the global economy is now bigger than ever. Yet, on the contrary to the widespread belief in Kazakhstan, the key to achieving further economic growth is not a speedy acquisition of WTO membership. At this point, Kazakhstan needs to reprioritize its economic development plans with a long-term perspective. Also proven by the current financial crisis, a rapid accession may bring harsh socio-economic consequences beyond Kazakhstan’s control given the country’s present economic condition.

Meanwhile, Kazakhstan is recommended to foster bilateral trade relations with other countries as an alternative strategy to a swift WTO accession due to the unique natural resource based structure of its economy. With this strategy, Kazakhstan will be in a better position to choose the most favorable partners that can support its economic transition objectives. Also, Kazakhstan should take time to advance its vital industries in order to establish a strong foundation for its sustainable development. Once the Kazakh economy is well diversified into various industries that are strong enough to face the rigorous foreign competition, the country will be ready to open its borders to the world through WTO membership. Consequently, a gradual accession process will enable Kazakhstan to not only maximize the potential benefits but also avoid the huge detriments associated with a hasty membership.

References


