Kazakhstan-Italian Economic Collaboration: History, Challenges and Prospects

Zhuldyz Musaevna Tulibayeva and Aizhan Temirbolatovna Serikbayeva

L.N. Gumilyov Eurasian National University, Astana, Kazakhstan

Abstract: The article highlights live issues of the development of bilateral economic relations between Kazakhstan and Italy in Kazakhstan’s course for sustainable development context. The main concern of this research is focused on statutory and legal aspects of bilateral relations. On the basis of conducted analysis of trade and economic cooperation, in particular of foreign trade turnover between the two countries, the main factors affecting further development of foreign trade relations between Kazakhstan and Italy were determined, also to define the market shares that could be captured by Kazakhstani products.

Key words: Trade and economic cooperation • Economic integration • Foreign trade policy • Bilateral collaboration

INTRODUCTION

The modern foreign policy of the Republic of Kazakhstan is directed on development of equal in rights and mutually beneficial cooperation with European countries among which Italy was and remains to be a perspective partner. «Kazakhstan’s geopolitical position in the center of the Eurasian continent, at the juncture of Europe and Asia, its vast area and abundant natural resources predetermine the republic’s special mission. Its participation as an equal player in international relations and its wide-ranging interests necessitate and promote the country’s orientation toward both the Euro-Atlantic and the Asia-Pacific regions» [1].

This article explores the evolution of the main directions of the Kazakhstan-Italian relations defined by mutual interests. Kazakhstani policy is aimed at increase of European presence, including the Italian Republic playing a significant role in the European and world politics, diplomacy, economy, trade, education and culture. The bilateral relations with Italy have unique features and as a whole, with regard to readiness of the EU to expand political dialogue with Kazakhstan, provide the Republic of Kazakhstan with opportunities for investment activity, large international projects implementation, application of advanced technologies and knowledge, all of which contribute to Kazakhstan’s consolidation into world cultural space. In this respect Italy practices steady cooperation with Kazakhstan.

Kazakhstan and Italy develop strategic partnership which quickly transforms relationships between two countries. One of main objectives of the Italian foreign policy, regardless of political the government’s orientation, is to ensure stability of power supply. Italy imports about 85 % of energy resources. This need for energy resources partly explains Italian government’s cool reaction to military intervention in Libya [2].

It is necessary to note that Italy actively supports priorities of Kazakhstan foreign policy, including CICA (Conference on Interaction and Confidence Building Measures in Asia) process. Furthermore, the Italy supported Kazakhstan efforts as the OSCE (2010) and OIS (2011) Chairman.

Trade and economic collaboration between the countries was initiated September 22, 1994 in Rome. One of the major bilateral cooperation factors is the energy factor. Kazakhstan currently exports energy to Europe amounting over $10 billion. Energy supplies security, Kazakhstani hydrocarbons transport routes deepening and expanding are the key point of energy cooperation [3].

However, the potential of the two countries within the framework of bilateral cooperation is not realized in full. Today Kazakhstan pursues the policy of departure from commodity orientation, while one of the main objectives of Italian foreign policy is to ensure the energy supplies stability.

Corresponding Author: Tulibayeva, L.N., Gumilyov Eurasian National University, Mirzoyana Street, 2, 010000, Astana, Kazakhstan.
The purpose of the report is to identify the main problems in the bilateral economic relations development and determine the strategic directions for further Kazakhstani-Italian cooperation.

To achieve this goal the analysis of the following documents signed between Kazakhstan and Italy was conducted: Declaration on Economic Cooperation, the Joint Declaration on Relations Principles and the Agreement on Encouragement and Mutual Protection of Investments; Convention for the Avoidance of Double Taxation with Respect to Income Taxes and Fiscal Evasion Prevention. The author studied bilateral trade dynamics and reviewed the role of Italian investments and their impact on Kazakhstan economy.

Main Directions of Economic Cooperation of the Two Countries: The start of Kazakhstani-Italian cooperation was initiated in 1992 through the signing of the contract between the FIAT concern and the Government of Kazakhstan.

For two decades bilateral cooperation between Kazakhstan and Italy steadily featured partner approach to interrelations and mutually advantageous interests both in political and in economic areas. The parties reached strong political consensus in favor of further dynamic strengthening of bilateral ties in all areas. Top-level dialogue is supported by intensive contacts between legislative, executive and judicial authorities.

Cooperation between Italy and Kazakhstan is carried out both on bilateral and multilateral basis within a strategic course and the comprehensive program of the European Union in relation to the countries of Central Asia. Today the European Union is one of the world political, economic and cultural centers and Italy is the political and geographical center of the largest and difficult European region of the Mediterranean and the Balkans which possesses considerable economic and political weight.

Foreign researchers point out that “FDIs in Kazakhstan, in terms of flows and stock, were dominated by investors from developed countries” where Italy has a leading position [4].

Most actively the Kazakhstan-Italian cooperation develops in the trade and economic area. Italy is one of the largest foreign trade partners.

Statutory and Legal Framework: Trade and economic collaboration between the countries was initiated September 22, 1994 in Rome. This year Kazakhstan and Italy signed a number of the fundamental documents regulating relationships between the countries in various areas. The most important documents will be further reviewed in detail.

Joint Declaration on Principles of Relationships between the Italian Republic and the Republic of Kazakhstan confirms the political cooperation based on principles of sovereign equality of the states, respect of territorial integrity, invariance and inviolability of borders, peaceful settlement of disputes, equality and mutual benefit and fulfillment of international obligations in good faith.

According to this declaration the Parties stated their conviction that the future of their countries, as well as of Eurasian continent as a whole will be defined to a great extent by progressive development of economy and creation of the market economy based system. They expressed aspiration to promote creation of conditions necessary for the development of new forms of mutually beneficial cooperation in various areas. The parties also undertook to take measures aimed at creation of the necessary political, economic and legal conditions favorable for strengthening and development of bilateral cooperation [5].

The economic relations of the countries are based on the Declaration on economic cooperation between the Italian Republic and the Republic of Kazakhstan. The Declaration on economic cooperation of the two countries emphasizes that it will be carried out on the basis of principles of mutual respect, equality and mutual benefit. Assistance in implementation of Kazakhstan economic reforms is supposed to be one of main goals. The parties intend to promote development of all cooperation forms practiced by relevant enterprises and organizations.

The Republic of Kazakhstan and the Italian Republic undertake, for the benefit diligent and fruitful bilateral economic relations development, to provide regular service for bilateral financial obligations secured with governmental guarantee and for medium-term line of credit being established. Bilateral economic cooperation should concentrate in such priority areas as: fuel and energy branch; mining industry; chemical and pharmaceutical industry; production, processing, storage and distribution of agricultural production; transport and communication; development of small and medium-sized enterprises; tourism.

Taking into consideration the difficulties of Kazakhstan’s transition to market economy, the countries will cooperate in the field of vocational training and management training. Italy is ready to put the best practices in medium-sized and small enterprises area at disposal of Kazakhstan.
Realizing importance of scientific and technological cooperation in development of the relations between the two states it was unanimously decided that it should be focused on the following priority areas: conventional and nonconventional power; protection of environment and the industrial accident prevention; nuclear security; space technologies; health care, food, pharmacology; technological processes in the field of mechanical engineering and the chemical industry, new materials, automation, robotics, computing and technology of communication facilities; biotechnology, geology, hydrogeology, seismology and new technologies in agriculture; technological processes for mineral raw materials processing.

The special attention was given to researches in the field of power, use and transportation of gas and hydrocarbon raw materials; to development of cooperation in environmental protection area; to cooperation aimed at nuclear power plants safety strengthening paying particular attention to brining of nowadays existing objects in compliance with the international security regulations; as far as it is reasonably practicable, assistance to development of their relations in transport and communication area [6].

At that time the relations between the countries were based on economic cooperation therefore first of all it was necessary to settle legislatively such important fields as taxation and investment. These issues were considered in the Agreement between the Government of the Italian Republic and the Government of the Republic of Kazakhstan on Encouragement and Mutual Protection of Investments and also in the Convention signed between the Government of the Italian Republic and the Government of the Republic of Kazakhstan on Elimination of Double Taxation with Respect to Taxes on Income and Prevention of Fiscal Evasion. It was agreed to abolish double taxation. This Convention was ratified in Kazakhstan on April 21, 1995 [7].

The important document signed between the countries is the Treaty on Strategic Cooperation. The Treaty on Strategic Partnership between the Republic of Kazakhstan and the Italian Republic was signed on November 5, 2009 during the official visit of the President of the Republic of Kazakhstan, N. Nazarbayev, to Rome by the State secretary - the Minister of Foreign Affairs of our country Kanat Saudabayev and the Head of Foreign Policy Department of the Italian Republic Franco Frattini.

The document was initiated by the Kazakhstan party in the framework of implementation of the State program “The way to Europe” and complies with its main objective—“Kazakhstan’s achievement of the level of strategic partner of leading European countries” and the European Union as a whole.

The Treaty on Strategic Cooperation integrates earlier existing agreements between the countries, but at the same time sets forward new challenges among which is mutual development of tourism in Kazakhstan [8].

Foreign Trade Cooperation of the Republic of Kazakhstan and Italy: In 2012, Kazakhstan's external economic ties were developed against the background of increase of the world prices for goods of Kazakhstamian export and the growth of volumes of industrial production in the country and that process had positive impact on the exports, imports and volume of turnover of the republic.

In 2012, Kazakhstan's external economic ties were developed against the background of unstable world prices for goods of Kazakhstamian export and insignificant increase of volumes of industrial production in the country. Even so, the exports, imports and volume of turnover of the republic have increased in comparison with 2011.

The total volume of foreign trade of the Republic of Kazakhstan amounted to 136,825.0 million US dollars without regard of unorganized trade according to the data of the Agency for Statistics of the Republic of Kazakhstan in 2012 and increased by 9.8% in comparison with the corresponding period of the last year, at the same time exports amounted to 92,285.6 million US dollars (increase of 5.3%) and imports-44,539.4 million US dollars (increase of 20.2%). There has formed trade surplus that amounted to 47,746.2 million (decrease of 4.7%) [9].

Analysis of data characterizing indexes of turnover of the main country-trade partners of the Republic of Kazakhstan is set out below (Table 1).

For the last 5 years China has achieved the most significant results in the growth of turnover with Kazakhstan, having increased this index practically by 2 times at the cost of increase of the Kazakhstamian supplies by 2.1 times. The mutual supplies with the other countries set out in the table increased not so significantly in value terms. Only turnover with Switzerland decreased by 2.2 times due to the reorientation of the raw streams.

The following table characterizes data of the foreign trade of the Republic of Kazakhstan for the last period of 2013 (Table 2).
Table 1: The main country-trade partners of the Republic of Kazakhstan for 2008-2012 on turnover

<table>
<thead>
<tr>
<th>Denomination</th>
<th>2008 Mlrd USD</th>
<th>%</th>
<th>2009 Mlrd USD</th>
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<th>2010 Mlrd USD</th>
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Table 2: Basic indexes of the foreign trade of the Republic of Kazakhstan on exports

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<th>2010 Mlrd USD</th>
<th>%</th>
<th>2011 Mlrd USD</th>
<th>%</th>
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Table 3: Basic indexes of the foreign trade of the Republic of Kazakhstan on imports

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<th>%</th>
<th>2010 Mlrd USD</th>
<th>%</th>
<th>2011 Mlrd USD</th>
<th>%</th>
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</tr>
</tbody>
</table>

Kazakhstanian export to China was noted with the highest paces (by 2.1 times) as it has already been mentioned above. In addition the growing supplies to the Netherlands (by 1.6 times), Italy (1.3 times) and Austria should be noted [10]. Exports to Russia have increased insignificantly over the period under consideration. Geographic structure of the Kazakhstan's import has not undergone significant changes over the last 5 years; Russia and China are the main suppliers as usual. The share of these two countries keeps stably in the range of 48-55% in the total imports.
Fig. 1: Share of turnover between Italy and the Republic of Kazakhstan
Note: it has been elaborated according to the data of the Agency for Statistics of the RK by the author

<table>
<thead>
<tr>
<th>Denomination</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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</table>

In 2012, the number of enterprises, with which KAZNEX INVEST interacted in the framework of the work of export development, increased. The number of enterprises that used services of KAZNEX INVEST increased by 181 companies in comparison with 2011 and numbered 1,638. There were 1,552 manufacturing enterprises, 131 transport, logistic and travel companies among them [11].

The main purchasers of Kazakhstanian production are China (18.5%), Italy (17.1%), Russia (8.5%), the Netherlands (7.5%), France (6.2%), Switzerland (5.6%), Austria (4.4%), Turkey (2.9%), Canada (2.7%), Germany (1.8%) and Uzbekistan (1.3%).

The main exporting countries of their production to Kazakhstan are Russia (42.8%), China (13.2%), Germany (5.5%), Ukraine (4.6%), the USA (4.5%), Italy (3.0%), Uzbekistan (2.0%), Turkey (1.9%) and Japan (1.7%).

Italy has significantly advanced on volume of turnover in the list of country-trade partners of Kazakhstan: from the seventh (1997) to the third place (2000), certain slowdown has moved it to the fourth place with the foreign countries (2003) and Italy is the third largest trade partner after Russia and China today.

Mainstays of Kazakhstan's export are traditionally represented by oil, natural gas, noble metals, products of oil refining, cotton, copper, zinc, other non-ferrous metals and their production, ferrous metals, chemical production, construction materials, spare parts and equipment for machines and others.

Range of the import expands. The Italian production is substantially represented by the consumer goods, intermediate products, machinery and construction (construction equipment and materials: tile, sanitary and hygienic goods, etc.), ranking the medium-high niche of the market; also there are machinery, equipment, chemical and pharmaceutical productions. The Kazakhstanian export of the raw (fuel and energy) materials to Italy and state credits contributed to the growth of the mutual trade in the 1990s.

Italy's share has increased from 11.9 to 15.5 milliard US dollars in the total volume of the external turnover, the Kazakhstanian exports are 97% of this volume. In 2014, increase of the exports is projected particularly in relation to non-EU trade partners [12]. After the recession that has been observed in 2012 the EU economy is expected to stabilize in the first half of 2014. As predicted, growth of GDP will become positive gradually in the second half of 2014. As predicted, economic activity will increase by 1.4% in the EU and 1.2% in the Eurozone in 2014.
According to representatives of Italy, Kazakhstan plays an important role for the Italian companies not only in terms of export, but also of strategic partnership, as necessary conditions for the development of business, elaboration and introduction of innovations, attraction of foreign investments and formation of sustainable market economy have been created in the country [13].

In the last year, year and a half, business and industrial relations between Italy and Kazakhstan have experienced important turning point, beginning with the visit of representatives of major Italian industrial groups and perhaps, most importantly, of the delegation consisting of the heads of the companies of small and medium business to Astana and Almaty in October 2007. However, the real breakthrough actually occurred only in April 2010, when visit of the delegation headed by the Deputy Minister of Foreign Trade Adolfo Urso, which included 50 representatives of our industry, took place. As a result, agreements on establishment of the special free industrial zone in Aktau Port were signed.

At the moment, big Italian companies from Todini to UniCredit Group function in the Republic of Kazakhstan. Currently, 42 Kazakhstanian-Italian joint ventures and 80 representations of the Italian companies work in Kazakhstan. Generally, they work in the sphere of field development, agro-processing, food industry. Kazakhstan imports production, mainly oil and natural gas. However, Italy has insignificantly been represented in Kazakhstan, for all that.

After the signing of the treaty of cooperation between the National Economic Chamber of Kazakhstan “Atameken” Union and “Italian-Kazakh Chamber of Commerce” in 2009 the representatives of the Italian party will closely cooperate with Kazakhstanian colleagues. Currently, eight major Italian companies are ready to create joint ventures and to open factories and plants. All conditions for Kazakhstanian and Italian businessmen have been created to open joint ventures and companies as per the arrangement.

Today, “Italian-Kazakh Chamber of Commerce” has united more than 8,000 Italian companies under its wing and has done everything to create the optimal conditions for conduction of joint business by the Kazakhstanian and Italian parties in the last four years. The Trade Chamber of Kazakhstan “Atameken” is a reliable partner today.

Also major Italian companies are involved in the construction of several branches of the international transit corridor of Western Europe-Western China route, where the Silk Road has passed formerly. Volume of the Italian direct investments numbered 450 million US dollars in 2011. Speaking of the Italian exports to Kazakhstan, this sum amounted to 900 million in 2011. In turn, Ambassador Extraordinary and Plenipotentiary of Italy to the RK Alberto Pieri has added that Kazakhstan exports 75% of the Italian goods to the countries of Central Asia [14].

According to Alberto Pieri, in spite of the geographical distance, our countries become closer from year to year and it is manifested in the community of cultural roots, similarity of mentalities, national traditions and culinary preferences.

Despite the fact that interrelations are notable for high intensity of contacts and evaluated as friendly relations without discord on the most of issues of international policy, global and regional problems, just the stated directions require deepening, scientific analysis and practical recommendations.

Thus, the Kazakhstan-Italian Trade Is Characterized:

- Positive balance in favor of Kazakhstan;
- Limited nomenclature of Kazakhstan deliveries and raw orientation of export;
- Statutory and legal base of economic interaction, including the Agreement between the Republic of Kazakhstan and the Government of the Italian Republic on Mutual Encouragement and Protection of Investments.

Trade and economic relations development deterrents are the following:

- Geographical remoteness of Kazakhstan from Italy and absence of direct sea and other transport communications;
- Low competitiveness of qualitative and price characteristic of Kazakhstan goods;
- Insufficiently developed system of Kazakhstan export crediting and insurance institutions.

In the sphere of investment there are following challenges which was specified by researchers:

- Administrative burdens for small and medium-sized enterprises;
- Corruption;
- Intellectual property rights protection [15].
According to the agreements all conditions facilitating opening of joint ventures and companies for Kazakhstani and Italian businessmen are created. At present large Italian companies like Todini and Unicredit Group operate in the Republic of Kazakhstan. At the moment 42 Kazakhstan-Italian joint ventures and 80 branch offices of Italian companies operate in Kazakhstan. Generally they work in the field of development of mineral deposits, agricultural products processing and food industry. Kazakhstan imports production, generally oil and natural gas. However Italy was insufficiently represented in Kazakhstan.

CONCLUSION

According to the purpose of a state program “The way to Europe” (2009-2011) the Republic of Kazakhstan aims to the reach level of strategic partnership with the leading European states, including Italy [16]. Structuring of Kazakhstan-Italy relationships complex in such areas as technology, power, transport, trade and economics, humanitarian field is an actual demand of the international practice.

Today it is very important to continue to develop trade relations between Italy and Kazakhstan. The developed relations between two countries are not simple result of our diplomatic success and of our industry development level; they are the result of more difficult, many-sided process.

Italy is one of the key economical partners of Kazakhstan in Europe and also is reckoned among the largest foreign-trade partners of Kazakhstan. Senior Research Fellow with the Central Asia and Caucasus Institute & Silk Road Studies Program Sebastien Peyrouse in his article noticed the dominant role of Italy as trading partner among EU states [17].

During the time being elapsed since the moment of establishment of diplomatic relations, economic interaction among the countries has developed growing and in all spheres of the economy. Turnover’s increase is the evidence of the high level of the economic partnership, in spite of the persistence of the crisis phenomena in the global economy. Relations between the two countries are developed in the confidential atmosphere of full mutual understanding.

Given Kazakhstan's desire not to be a raw material orientated country, it is necessary to develop joint technological production. For example, leather processing could become one of these areas. In Italy there are technologies that provide excellent leather processing, but there is lack of raw material, while Kazakhstan has it in abundance. In addition, the creation of optimal conditions for the joint business of Kazakhstan and Italian parties will promoted by establishment of Service-Centers for legal assistance and the elimination of language barriers for Kazakh and Italian businessmen.

Thus, the important role in Italy’s intend to develop trade and economic cooperation with Kazakhstan belongs to search of new markets for goods and technologies and new opportunities for capital investments in the conditions of rather rigid international competition.

Italian market represents a certain interest for the export of Kazakhstani production. This proves that there is a niche in the Italian market which can be occupied by Kazakhstani production. Kazakhstan shows a strong export potential proven by the data for year 2011, demonstrating that Kazakhstan exports its goods to other world countries almost under all import articles of Italy. These include commodity positions of Kazakhstan’s export to world economy, including Italy. On these commodity positions Italy has a stable demand in the world markets and there are some indicators showing attractiveness of Italy for Kazakhstan to import: negative trade balance, high rate of annual import gain, the country imports faster, than the world exports.

Thus, the search for new markets of production and technologies distribution and new spheres of investment under conditions of sufficiently severe international competition plays an important role in the aspiration of Italy to develop trade and economic cooperation with Kazakhstan.

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