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Economic Cooperation between South Korea and Kazakhstan

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ECONOMIC COOPERATION BETWEEN SOUTH KOREA AND KAZAKHSTAN

Central Asia is composed of five countries, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. It covers an area of 3,916,000 square kilometers with a total population of 56.92 million and possesses abundant underground resources and extensive farmland areas.¹ Once known as the center of Silk Road, Central Asia used to play a minor role in the international economy during the Soviet era. However, since the dissolution of the Soviet Union, Central Asia's role has been rising to the surface, being watched by the world with keen interest. The abrupt change of the strategic environment for Central Asia is the main reason behind the region's increasingly important role. In this way, we could not agree more with Sodik Sa-faev's comment: "Central Asia has been reclaiming its geopolitical and geoeconomic role, which used to be played by the area from 8 BC to the latter half of the Middle Ages."² Now, Central Asia is no longer in the outskirts of the international community for it has become strategically important in determining the geopolitical relationship of the Eurasian Continent, and has gained strategic interests from major countries of the world.

The first reason for Central Asia's increasing geopolitical and geoeconomic role is based on the region's location. Central Asia is located in the Eurasian Continent between Asia and Europe, and holds great strategic importance in terms of military and security. Second, this area has large amounts of oil and gas resources, enough to be called "the second Middle East," and therefore, the region is economically valuable as a new source of supply for energy resources. Third, Central Asia is rising as a prospective market for promising products and being viewed as a region for good investment because the region has been expanding the infrastructure of its main industries into a structure centered on energy exports. Fourth, since Central Asia serves as an intersecting point that connects the Eurasian continent in all directions, it is likely to become one of the main international distribution centers. Finally, among Brazil, Russia, India, and China (BRICs), Central Asia is adjacent to all of them except for Brazil, which demonstrates its potential for future development and its important role of forming an economic community for the Eurasian continent in the long run.

Recently, as the strategic value of Central Asia has been growing, major world players have been advancing into Central Asia. Russia, China, India, and Japan are all strengthening their relationships with the countries in Central Asia and also competing against each other to increase energy and economic cooperation with the countries in Central Asia. Central Asia is important both politically and economically from South Korea's point of view. First, for South Korea, which depends 97 percent of their energy from imports, Central Asia holds great potential for foreign resources development because the region has abundant natural resources including oil and energy. In other words, Central Asia is a very important area for South Korea in developing and securing foreign energy resources. Second, Central Asia is a promising area for South Korea's foreign investment and expansion of its export market in the future because of the size of Central Asia's market is rapidly expanding both economically and in terms of population. Third, with the birth of the newly independent countries at the end of the Cold War, Central Asia has not only become South Korea's diplomatic development area, but also an important axis of within the Eurasian multinational security belt that could help guarantee peace and prosperity on the Korean peninsula. In addition, since about 350,000 ethnic Korean reside in Central Asia, the region is an important area where these descendants' rights and interests should be protected and their relations with their previous homeland, Korea, should be improved.³ Based on these points, building a cooperative relationship between South Korea and Central Asia is urgent.

Among the countries in Central Asia, Kazakhstan has shown the highest tangible economic development results. Moreover, Kazakhstan, compared to other Central Asian countries, has the richest natural resources, a superior economy size, and a relatively stable political situation that could increase the speed of political modernization. Kazakhstan is also leading the region in terms of market reforms. Hence, South Korea should make Kazakhstan a priority country for increasing economic cooperation, and concentrate on short- and mid-term initiatives that will facilitate advancement into other Central Asian

countries in the future.

This article will examine the status of economic cooperation between South Korea and Kazakhstan and suggest basic policies to improve relations between the two countries. First, it will examine Kazakhstan's current economic status and its long-term development outlook. Next, cooperation between South Korea and Kazakhstan will be analyzed and evaluated. Finally, based on these observations, policy prescriptions for increasing economic cooperation between the two countries will be presented.

KAZAKHSTAN'S CURRENT ECONOMIC STATUS AND ECONOMIC DEVELOPMENT OUTLOOK

Market Valuation

There are drastic differences among the Central Asian countries in terms of their cultures, regimes, customs, territories, populations, and levels of economic development. In order to devise effective mid- and long-term trade strategies towards these countries, a valuation of each country's market and economy is necessary.

Energy resource-based export countries tend to have higher marketability than non-energy resources export countries, and Kazakhstan has the highest marketability among the five countries in Central Asia. As demonstrated in Table 1, among the Central Asian countries, Kazakhstan was predominantly high in terms of its GDP, GDP per capita, and level of imports and exports. In 2008, Kazakhstan made up 76 percent of Central Asia's total GDP, 73.4 percent of total exports, and 70 percent of total imports. Additionally, Kazakhstan's population ranked second. For reference, Kyrgyzstan's and Tajikistan's GDP sizes were only 2.7 percent and 2.6 percent, respectively, of Central Asia's total GDP, and their GDP per capita ranked at the bottom. Among the non-energy resource-based export countries, Uzbekistan showed high marketability. Uzbekistan ranked second after Kazakhstan in terms of imports and exports. However, Uzbekistan's income level was relatively low, only one-fifth the size of Kazakhstan's GDP.

Table 1: Index of 5 Central Asian Countries' Marketability (2008)

	Population (1 mil.)	GDP (USD1 bil.)	GDP(USD) per Capita	Amount of Export (USD1 bil.)	Amount of Import (USD1 bil.)
Kazakhstan	15.6	141.2	9,076	48.3	33.2
Turkmenistan	5.3	8.1	4,181	5.9	4.0
Uzbekistan	27.2	26.6	979	9.0	5.2
Kyrgyzstan	5.3	5.1	951	1.1	2.4
Tajikistan	6.5	4.8	741.5	1.5	2.6

Note: These are the International Monetary Fund's (IMF) estimates. Each country's GDP and GDP per capita is based on current prices, except for Turkmenistan, where its GDP is based on Economic Intelligence Unit's (EIU) estimates.

Sources: Economic Intelligence Unit (2009) and IMF (2008).

Among the Central Asian countries, Kazakhstan is superior in terms of possessing natural resources, an important yardstick for determining its potential for economic development. In particular, Kazakhstan makes up 86.2 percent of Central Asia's estimated and explored oil deposits. It has 172 oil fields, 42 condensation fields, and 94 gas fields. Additionally, it makes up

25 percent of the world's uranium deposits, and currently mines 8 percent of the world's uranium.⁴ Furthermore, Kazakhstan ranks first in terms of proven reserves of zinc, tungsten, and barite; second in terms of silver, lead, and chromium; third in terms of copper, manganese, and fluor spar; fourth in terms of molybdenum; and makes up 8 percent of the world's iron ore reserves. With coal deposits of 35.8 billion tons, the country makes up 3.6 percent of the world's deposits, and its gold reserves ranks in the top ten.

The degree of market reform among Central Asian countries, which is closely associated with respective trade environments, varies greatly from one to another. As shown in Table 2, based on Heritage Foundation's index of economic freedom in 2009, among the countries in Central Asia, Kyrgyzstan has the highest economic freedom (61.8), followed by Kazakhstan (60.1), Tajikistan (54.6), Uzbekistan (50.5), and Turkmenistan (44.2). Kazakhstan, together with Kyrgyzstan, which joined the World Trade Organization (WTO) in 1998, has been leading the implementation of market reforms among Central Asian countries. In contrast, Uzbekistan and Turkmenistan have been slow to carry out market reforms and therefore, the degree of government intervention in these economies still tends to be very high.

Table 2: Index Economic Freedom of Central Asian Countries

Country \ Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Kazakhstan	41.7	47.3	50.4	51.8	52.4	52.3	49.7	53.9	60.2	59.6	61.1	60.1
Uzbekistan	31.5	33.8	38.1	38.2	38.5	38.3	39.1	45.8	48.7	51.5	51.9	50.5
Kyrgyzstan	51.8	54.8	55.7	53.7	51.7	56.8	58.0	56.6	61.0	60.2	61.1	61.8
Tajikistan	41.1	41.2	44.8	46.8	47.3	46.5	48.7	50.4	52.6	53.6	54.4	54.6
Turkmenistan	35.0	36.1	37.6	41.8	43.2	51.3	50.7	47.6	43.8	43.0	43.4	44.2

Source: Heritage Foundation (2009).

Such valuation is not indisputable. However, it serves well in showing the degree of market-openness among Central Asian countries. Nevertheless, grievances by foreign investors against Central Asia include: government-controlled economies, weak private organizations, limits on foreign capital, corrupt bureaucrats, and more.

From a geographic perspective, Kazakhstan has been considered an important point for advancing into Central Asia because its location connects Asia and all parts of the Commonwealth of Independent States (CIS). Kazakhstan has superior accessibility and connection between West Siberia in Russia (CIS' largest economy) and the western part of CIS. Both Russia and Kazakhstan are actively supporting intra-CIS economic cooperation and economic cooperation with other regions as well.

Long-term Economic Development Outlook

As Central Asia's country with the largest territory and abundant energy resources, Kazakhstan rose as the region's major economic power by maintaining an average annual economic development rate of 10 percent from 2003 to 2007. Kazakhstan's rapid economic development is based on fostering an advantageous investment environment, attracting large-scale foreign investment, achieving relatively rapid market reforms, increasing oil exports and related industrial production during the recent high global oil prices, and steadily increasing investment and consumption. However, since 2008, Kazakhstan's economic growth rate has largely dwindled to 3.2 percent, less than most other Central Asian countries.⁵ The reason behind such a decrease is known as the credit crunch, which resulted from the financial sector in summer 2007 as well as the international financial crisis and sharp decline in global oil prices during the second half of 2008.

Including Kazakhstan, Central Asia's economies are mostly dependent on energy resources and agricultural goods exports that are sensitive to changes in the international market. Thus, Central Asia's economic outlook should naturally change as changes in the international economy take place. According to Global Insight, an organization that provides comprehensive international economic data and forecasts future international economic outlook, from 2009 to 2020, Kazakhstan is projected to record 3.5 percent economic annual growth, and in 2020, Kazakhstan's GDP per capita will reach USD 14,976, which will be the highest among the countries in Central Asia. However, just about one year ago, Global Insight forecasted Kazakhstan's average annual economic growth rate as 6 percent. The reason behind this decrease may be due, in part, to the effects of the recent international economic crisis, which is expected to have a relatively larger negative impact on Kazakhstan as compared to the other Central Asian countries.

Table 3: Central Asian Countries' Economic Growth Outlook

Country / Year	Real GDP Growth (%)	GDP (USD) per Capita
	2009~2020	2020
Kazakhstan	3.5	14,976.0
Turkmenistan	5.0	7,264.7
Uzbekistan	4.8	2,073.2
Kyrgyzstan	2.5	1,176.2
Tajikistan	3.1	1,352.7
Total	3.8	5,368.6

Source: Based on Global Insight Database.

Kazakhstan has an underdeveloped economic infrastructure that is largely dependent on energy and raw materials, both of which are sensitive to international economic changes. Kazakhstan may be faced with difficulties if it continues to maintain this economic configuration. However, Kazakhstan's current government is promoting industrial diversification with gains from energy resources and raw materials exports by rearing high-tech industries and revitalizing other industries. If this continues, foreign investment concentrated in developing raw materials could expand into manufacturing and high-tech industries as well.

From a mid- to long-term perspective, Kazakhstan's domestic and international politics and economic environment are configured to have a positive impact on overall economic development. To clarify, first, the price of international energy resources and raw materials, which have served as the driving force for Kazakhstan's economic development, could temporarily decrease, the probability of oil prices falling below USD 20~30 per barrel again is unlikely to reoccur. Second, as political democratization continues, Kazakhstan's political instability should decrease immensely in the future. Third, Kazakhstan will soon be joining the WTO, and this is expected to further improve its trade and investment environment as the degree of free trade and market opening deepens.

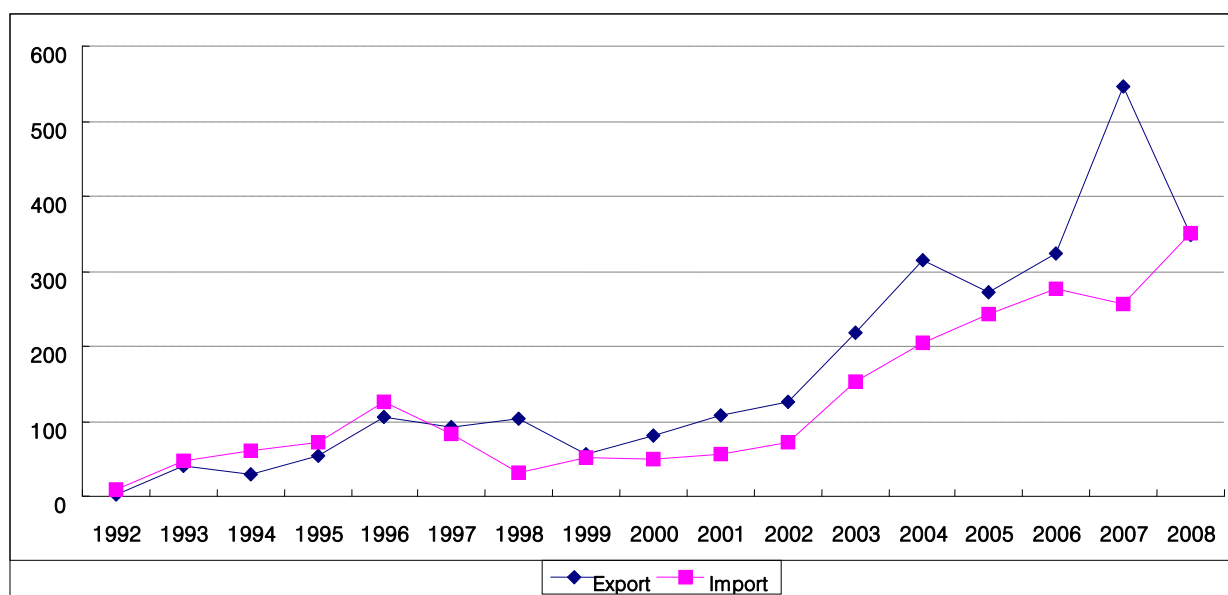
In any case, Kazakhstan's economic development is expected to slow down due to the international financial crisis for two to three years. Nevertheless, as the country is adjacent to China, Russia, and India, which are known as the rising economic powers, Kazakhstan is likely to become a part of the post-BRICs economies, rising to a country possessing high economic growth and marketability rates.

ANALYSIS OF THE CURRENT COOPERATION BETWEEN SOUTH KOREA AND KAZAKHSTAN

Trade and Investment

The trade volume between South Korea and Kazakhstan increased from about USD 10 million in 1992 to about USD 800 million in 2007. Trade between the two countries has steadily increased except during the period from 1997 to 1999, when trade between the two temporarily decreased due to South Korea's and Russia's successive economic financial crises. In particular, trade between the two countries since 2000 has increased tremendously due to price increases for oil and other international raw materials. Additionally, after 2000, South Korea's has maintained a trade surplus with Kazakhstan which, in 2007, amounted to almost USD 289 million. However, in 2008, as the price of international raw materials suddenly rose sharply due to an increase in import prices, and exports decreased due to the international economic recession, trade volume decreased about 13 percent to USD 698 million compared to the previous year, and recorded a trade deficit of USD 2 million. As a result, in 2008, Kazakhstan was ranked as South Korea's 78th export country, falling 15 levels from the previous year.

Figure 1: South Korea-Kazakhstan Trade Development (Unit: USD 1 million)



Source: Korea International Trade Association (KITA)

South Korea's export products to Kazakhstan are mainly based on electronic goods and automobiles; raw materials, such as mineral resources, make up the majority of its import goods. In the early 1990s, clothing and textiles, and manufactured food were among the top export goods to Kazakhstan, but in the 2000s, automobiles, petrochemicals, electronic goods, and industrial machinery became their main export goods. Imports from Kazakhstan to South Korea, since the initial stage of trade between the two countries, have consistently been steel, nonferrous metals, metals, and synthetic chemicals.

From 1992 to 2008, South Korea's foreign direct investment (FDI) into Kazakhstan, on the basis of the total accumulated amount of investment, was about USD 976.55 million and accounted for 0.8 percent of South Korea's foreign investment.⁶ In 2000, Kazakhstan ranked 71st of countries receiving FDI from South Korea (0.007 percent of the total Korean FDI to the

Table 4: Top 10 Export Categories of South Korea and Kazakhstan (2008) (Unit: USD 1 million)

Rank	Export Category	2007		2008	
		Amount	% of Increase	Amount	% of Increase
1	Plastics	55	46.8	53	-4.4
2	Automobiles	78	136.1	31	-59.9
3	Air Conditioners	4	-77.8	22	429
4	Construction Heavy Machinery	25	112.0	19	-25.1
5	Motor Trucks	44	62.3	18	-59.6
6	Color TV	17	16.6	15	-12.5
7	Coffee	7	34.0	12	60.1
8	Elevators	29	18.6	11	-61.6
9	Cathode Ray Tube	5	-52.8	10	84.7
10	Tobacco	6	15.9	8	53.1
	Total	546	68.6	348	-36.3

Note: MTI 4 units, top 10 categories based on the order of the highest amount. The rate of increase is from the same period a year earlier.
Source: Korea International Trade Association (KITA).

Table 5: Top 10 Import Categories of South Korea and Kazakhstan (2008) (Unit: USD 1 million)

Rank	Import Category	2007		2008	
		Amount	% of Increase	Amount	% of Increase
1	Ferrous alloy	72	-31.8	139	92.7
2	Hot Rolled Steel	54	-15.3	106	95.8
3	Copper and Scrap	40	54,604.8	42	5.5
4	Magma and Scrap	2	-	40	1,785.5
5	Silver	6	-74.4	16	186.9
6	Other Fine Chemicals	4	152.4	5	34.9
7	Steel Plate	0	-	1	-
8	Other Machinery Parts	0	-	0	27,733.6
9	Corn Flour	0	-	0	-
10	Other Printed Matters	0	134.9	0	12.4
	Total	257	-6.9	350	36.5

Note: MTI 4 units, top 10 categories based on the order of the highest amount. The rate of increase is from the same period a year earlier.
Source: Korea International Trade Association (KITA)

world), but ranked 20th in 2008 (0.95 percent of the total Korean FDI to the world). Although the amount of South Korean investment to Kazakhstan is still relatively low, Kazakhstan’s importance to South Korea is steadily rising.

Table 6: South Korea and Kazakhstan Investment Trend (USD 1,000 per Case)

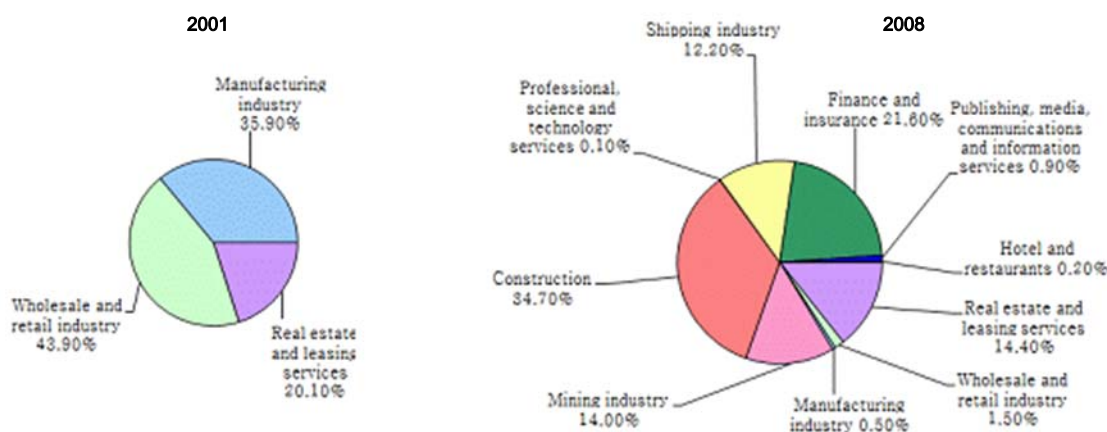
Year	2003	2004	2005	2006	2007	2008	Accumulation
No. of Reported Cases	6	25	32	62	127	65	370
No. of New Corp.	4	9	19	26	42	27	159
Invested Amount	13,820	22,527	29,570	264,379	321,078	206,654	976,549

Note: The number of reported cases includes the number of common investment cases and the number of increased amount cases.

Source: The Export-Import Bank of Korea.

Initially, South Korea’s investment in Kazakhstan was concentrated on low-wage manufacturing industries to promote exports. Now, investment is focused on construction, real estate and leasing services, as well as resource development and mining. Most recently, the scope of investment has been expanding into finance and insurance, technology, leisure-related services, and more. The increase in the amount of investment and cases after 2006 resulted from South Korea’s active investment in real estate and leasing services and construction of large-scale housing complex.

Figure 2: Comparison between South Korea's investment in Kazakhstan in 2001 and 2008 by Category of Business



Note: The relative importance of invested category of business is based on the invested amount.

Source: The Export-Import Bank of Korea.

South Korea’s investment in Kazakhstan is mostly by small and medium enterprises (SMEs) rather than by large corporations. As of the end of 2008, the investment rate of SMEs made up 73.7 percent of the total accumulated investment. FDI from South Korean SMEs in Kazakhstan was USD 104.2 million, whereas the amount of investment by large corporations recorded USD 91.59 million. However, in 2008, Kazakhstan’s credit crunch and economic slowdown reduced 60 percent of the investment by SMEs, compared to the previous year.

Energy and Resources

South Korea's entrance into Kazakhstan's energy resources market was facilitated by the establishment of a resource cooperation committee and of formal diplomatic relations between the two countries. Regular visits of high-ranking Korean officials to Kazakhstan—such as the former South Korean President Roh Moo-hyun in 2004, former South Korean Prime Minister Han Myeong-sook in 2006, and South Korean Prime Minister Han Seung-soo in 2000—helped South Korea to conclude a contract for oil exploration in the Zhambyl mining area, a contract which had previously been making slow progress when working-level personnel were involved in the negotiation.

Additionally, partial shares in a total of nine oil fields have been secured and are either undergoing exploration or in the planning stage for future exploration. These fields include the exploration of the ADA land mining area, which the Korea National Oil Corporation (KNOC) has completed, and starting in 2009, is expected to undergo extensive development. Additionally, South Korea had exerted efforts to participate in three petrochemical complex building projects, but these projects are on hold due to insufficient business value. Reasons for these delays are assumed to be the inability to guarantee the supply of low price raw materials for the petrochemical complexes or to secure the locations for dealers. Hence, currently, because oil or gas fields in production by South Korea do not yet exist, the cooperation between the two countries is still only in a beginning phase.

Table 7: The Current Status of Oil and Gas Field Development of South Korea and Kazakhstan

Name of Mining Area	Expected Reserves	Present Status
Zhambyl Marine Mining Area	12.6 Bil. Barrel	Concluded a formal contract for oil exploration.
Egizkara Land Mining Area	200 Mil. Barrel	Acquired shares of the mining area.
ADA Land Mining Area	170 Mil Barrel	Entered development state in 2009.
West Bozoba Land Mining Area	160 Mil. Barrel	Completed 3D seismic exploration.
Sarkramabas Land Mining Area	270 Mil. Barrel	Exploration drilling is in progress.
8 Mining Area	250 Mil. Barrel	Scheduled for exploration drilling.
South Karpovski Land Gas Field	46 Mil. Ton	Acquired shares of the mining area.
21 Mining Area	-	Exploration is in progress.
15 Mining Area	-	Exploration is in progress.

Prepared by the author based on various sources.

Meanwhile, progress is being made in developing uranium and other mining resources. For instance, since 2003, Korea Resources Corporation and Kazakhstan's Committee of Geology have been working together to explore the southeastern part of Kazakhstan (about 150,000 square kilometers).⁷ Kazakhstan's uranium ore development is in the promotion stage by the private sector. However, development in these areas has not reached a level of equal cooperation in terms of choosing joint business, and so forth. In May 2008, Prime Minister Han Seung-soo concluded a long-term contract introducing Kazakhstan's uranium to South Korea, and between 2011 and 2017, a total of 3,140 tons of uranium concentrate will be imported from Kazatomprom. From the private sector, Samsung C&T Corporation advanced into the copper refining business by se-

lecting Kazakmys PLC as their commission management company from 1995 to August 2004.

Cooperation on electric power is also in progress. In March 2008, Korea Electric Power Corporation (KEPCO) signed a memorandum of understanding (MOU) with CAPEC, an energy export company, to cooperate on electric power. KEPCO and Samsung C&T Corporation organized a consortium to apply for the Kazakhstan Balkhash thermal power plant construction project, and are currently being considered as a negotiation candidate.

Information and Communication Technology

In November 2006, an MOU was signed between South Korea's and Kazakhstan's postal administrations to provide consulting services for modernizing Kazakhstan's postal services. Before signing the MOU, expert trainees from Kazakhstan visited South Korea in July 2006. In August 2006, through the request of KazPost, South Korean consulting experts were dispatched to Kazakhstan. This provided an opportunity for IT companies related to South Korea's postal services to expand their export market and advance into the Central Asia.

KazPost is planning to promote the modernization of its postal services until 2011 with a total of USD 50 million. Building e-Logistics for postal matters, worth USD 5.57 million, is expected to be the primary project for 2008. This includes building a control system founded on the geographic information system (GIS), a shipping management system, a tracking system, and more. In early 2008, South Korea's SK C&C, a system integration (SI) enterprise, entered into a contract with KazPost after being selected as the final business enterprise for building e-Logistics in Kazakhstan. This opportunity for SK C&C established a foundation for a "vertical export system" of SI enterprises advancing into other territories, partnering with SMEs. This is different from the previous export system that centered on SMEs and terminals, and is significant for securing a bridgehead of South Korean postal services IT companies participating in future modernization projects.

In September 2008, an MOU was signed between a South Korean consortium composed of Shinhan Bank, Korea Highway Corporation, and INO Group LLP and Kazakhstan's Ministry of Transportation and Communications for a social overhead capital (SOC) project. Through this MOU, the South Korean consortium has the chance to participate in future transportation and communications SOC projects, such as building expressways. Shinhan Bank will be in charge of providing financial support for financial consulting and fundraising, and the Korea Highway Corporation is expected to dispatch consulting experts to develop policies and review technology of expressways and transportation and communications system. This will serve as momentum for South Korean financial organizations to raise funds for various SOC projects with Kazakhstan and Kazakhstan to integrate South Korea's express highway technology, toll collection systems, and transportation management, into Kazakhstan's toll way system.⁸

Since September 2006, South Korea's Ministry of Information and Communication has been supporting Kazakhstan's e-government master plan in terms of providing consulting services in building Kazakhstan's government intranet. On July 17, 2008, Seoul and Astana signed an MOU for exchanging experiences and strengthening cooperation related to e-government.

Construction Infrastructure

Since the first advancement of a South Korean company into Kazakhstan in 1993, South Korea's Ministry of Land, Transport and Maritime Affairs has been working together with Kazakhstan under private auspices in construction, including Astana and Almaty real estate development projects. In May 2008, South Korea's Ministry of Land, Transport and Maritime Affairs and Kazakhstan's Ministry of Industry and Trade signed a construction cooperation MOU to share technology and experience of construction related fields. Both countries, under governmental auspices, are expecting to share information on

construction and engineering, and participate together in construction works as well as provide education and exchange construction experts, researchers, and technicians. Such cooperation will be able to further increase mutual cooperation. Through this MOU, South Korea will be able to build a diplomatic foundation for a “package deal” that could include infrastructure and resources.

In July 2008, Seoul and Astana signed an MOU strengthening mutual trade and cooperation regarding urban development. Through this MOU, Seoul has agreed to provide its know-how on building new towns and developing the Han River, and to recommend South Korean construction companies as candidates that could participate in the development plan and offer financial support using Seoul’s international cooperation funds.

Finance

In an environment where globalization of stock markets rapidly occurs, developing an effective depository settlement system is crucial to secure trust from capital markets. On October 2, 2008, Korea Securities Depository and Kazakhstan Central Securities Depository (CSD) signed an MOU to revitalize mutual cooperation and information exchange. This MOU represents cooperation between the two organizations in the future of Kazakhstan’s stock market. Therefore, South Korea will be able to export their depository settlement system and provide consulting services to Kazakhstan in improving their CSD’s system.

On September 3, 2008, Hyundai Securities Co., Ltd. signed an MOU with the Regional Financial Centre of Almaty (RFCA), which is Kazakhstan’s governmental organization, to collaborate on developing a financial center in Almaty. Thus, both parties became mutual participants in Almaty financial center development by constructing a RFCA complex within the financial district, and in particular, Hyundai Securities will be providing financial advice regarding joint business. In this sense, Hyundai Securities will be able to utilize RFCA’s networking system, and take part in project financing (PF) and principal investment (PI) related to Kazakhstan’s major real estate, construction of infrastructure, and resource development.

Additionally, in 2008, Kookmin Bank acquired 30 percent of Bank Center Credit (BCC), which ranks 6th in Kazakhstan, and is planning to invest an additional USD 400 million to secure over 50 percent of the bank’s stake.⁹ Kookmin Bank’s acquisition of BCC’s stake is significant in that it secured a way to enter into Kazakhstan’s financial market and also into the adjacent Central Asian markets. This investment is also expected to provide diverse and abundant business opportunities to South Korea in entering the large CIS market, which has potential for future growth.

ODA

Until 2007, the total amount of South Korea’s official development assistance (ODA) to Kazakhstan was about USD 33.7 billion, including Korea International Cooperation Agency’s grants of about USD 17.4 billion and credit assistance through the Economic Development Cooperation Fund (EDCF) of about USD 16.3 billion. The expenditure through EDCF includes only one communication network modernization case and only makes up 0.5 percent of EDCF’s total work. This is relatively very low in terms of amount or cases compared to the amount expended in Uzbekistan of USD 105.8 billion (4 cases), which took place during the same period.¹⁰ EDCF’s low investment level in Kazakhstan is due, in part, to Kazakhstan’s government not wanting to receive foreign aid in the form of credit assistance.

Currently, ODA to Kazakhstan is based on grants through KOICA and concentrated on building a certification qualification system of the country’s technology, revitalizing special economic zones, strengthening the capacity of export support, building education infrastructure for ICT, training human resources in public technology universities, developing and establishing a national tourism industry master plan, preparing to join the WTO, and analyzing Kazakhstan’s economic influence.

In terms of grants, Kazakhstan's education and information and communication sectors were contributed to the most, and the administration system and development of human resources sectors most successfully conformed to development demands. South Korea is expanding cultural cooperation by inviting to Seoul Korean-ethnic education personnel from Kazakhstan for Korean language study and training. South Korea is also inviting educational personnel for training and inviting Kazakhstan's university students to study in Korean universities, and holding study abroad fairs and seminars. In terms of IT training and knowledge transfer, South Korea is providing IT policy decision-makers and IT personnel from Kazakhstan with training and information sharing, and offering graduate-school level IT technology and policy courses. South Korea has also provided Kazakhstan's schools with second-hand personal computers (PCs) and consulting services.

In terms of cooperation in the sciences, South Korea and Russia were planning to work together to expand into other CIS markets and promote a South Korea-CIS science cooperation project, but Central Asian cooperation for the project turned out to be unsatisfactory. In addition, Korea has submitted a proposal to establish IT management and Korean related majors in Kazakhstan's universities, with an ultimate goal of developing a Korean academy which focuses on mid- to long-term Korean and IT vocational training.

In terms of meeting Kazakhstan's most pressing economic infrastructural needs, KOICA is suggesting projects that focus on knowledge-based consulting and information transfer rather than simply supplying goods to the country. KOICA is also planning to expand the annual scale of projects to more than USD 5 million.

SOUTH KOREA AND KAZAKHSTAN'S ECONOMIC COOPERATION VALUATION AND DIRECTION OF COOPERATION

Economic Cooperation Valuation

Since establishing diplomatic relations in 1992, South Korea and Kazakhstan have been building a relationship based on cooperation and mutual benefits. Not only does Kazakhstan have abundant natural resources that could help it sustain economic growth, but it also has a complementary economic structure that could successfully integrate South Korean capital and technology to its economy. Therefore, Kazakhstan is a country highly conducive to economic cooperation with South Korea.

However, South Korea and Kazakhstan have yet to realize that potential. For example, in 2008, while annual trade volume between South Korea and Uzbekistan amounted to USD 1.386 billion, annual trade volume between South Korea and Kazakhstan was only about USD 698 million. Since Kazakhstan's GDP is much larger than that of Uzbekistan, South Korea's trade volume with Kazakhstan is relatively extremely low. In the case of South Korea's investment in Kazakhstan, it is currently concentrated in construction, real estate leasing services, resource development and mining. Because these types of investments are counter to Kazakhstan's priority emphasis on developing high-tech industries that promote exports, it is difficult to realize synergies. Financial sectors are also experiencing difficulties in achieving real cooperation, although one MOU has been signed between Korea Securities Depository and Kazakhstan Central Securities Depository and another between Korea Exchange and RFCA to serve as the foundation for deeper cooperation. In the energy and resources sector, regular policy discussions by the resource cooperation committee are building a cooperative framework, but the actual outcome has not lived up to expectations. In terms of real resources development, while South Korea's interests are focused on developing mining fields that could turn a profit within a short period of time, Kazakhstan's interests are in long-term development of manufacturing sectors.

Reasons for the unrealized economic potential between South Korea and Kazakhstan include the following. First, from

South Korea's perspective, Kazakhstan's absence of a stable legal system, excessive distribution costs, prevalent resource nationalism, and tendency to favor domestic enterprises, are just some of the main barriers South Korea faces in entering Kazakhstan's market.¹¹

Second, South Korea has not yet established a coherent strategy for entering Kazakhstan's market. Unlike the Western countries that entered the Central Asian market in the early 1990s, South Korea's interests in Central Asia only started to develop in 2004. Hence, from the government's perspective, a systematic and comprehensive strategy and support policies have not been developed sufficiently to aid South Korean companies entering Kazakhstan's market.¹²

Third, the two countries have insufficient information about each other and generally lack human infrastructure. This has caused problems in being able to build trust with each other. In particular, Kazakhstan has a vertical governance system, and therefore, the President's political will functions as an important element in international economic cooperation. However, until now, contact through high-ranking officials has been limited and South Korea has been unable to offer solutions for the lack of South Korean experts on Kazakhstan.

Fourth, Kazakhstan's goals for cooperation are very different from South Korea's. South Korea is looking to secure energy resources and explore new markets, whereas, Kazakhstan is seeking to acquire technology and know-how to achieve sustainable economic development and increased competitiveness in its pursuit of developing its manufacturing industries.¹³ In other words, South Korea and other major countries have viewed Kazakhstan only as a means to secure energy and Kazakhstan has been unable to successfully benefit from that investment in ways that foster sustainable economic growth. In fact, Kazakhstan is unsatisfied with South Korea for not investing in mid- to long-term projects, as both China and Japan have done.

Mid- and Long-term Direction of Cooperation

Taking all of this into account, the direction for mid- to long-term cooperation between South Korea and Kazakhstan should conform to four principles (see Figure 3).¹⁴ First, South Korea should expand cooperation with Kazakhstan to areas that help fulfill Kazakhstan's economic development needs. Despite the fact that securing energy is a long-term and comprehensive task, South Korea is missing important strategic opportunities by solely engaging Kazakhstan on short-term energy resource development projects. This is not to say that energy resource development is not on Kazakhstan's list of priorities, as it is an important part of Kazakhstan's development strategy. However, as discussed, Kazakhstan needs to diversify its economy as well, in order to create a platform for sustainable growth. Therefore, South Korea should guarantee long-term, comprehensive cooperation that fulfills Kazakhstan's needs as a means of securing energy resources for itself and strengthening relations with Kazakhstan. This strategy should include investment and assistance in the areas of finance, education, science and technology, information and communication, and urban planning and development.

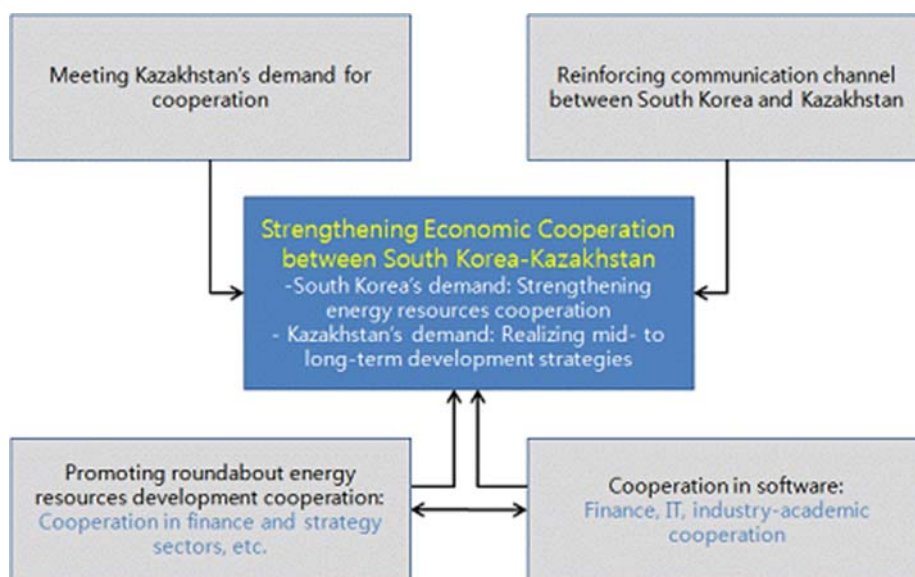
Second, communication channels between South Korea and Kazakhstan should be strengthened. One of the biggest problems both countries face is a lack of information about each other. In this regard, both sides should work towards creating more opportunities for both formal and informal contact, communication and exchange between the two countries. For example, the "South Korea-Central Asia Cooperation Forum" has been held twice since 1997, and this forum could be gradually elevated from minister-level talks to prime minister-level talks and eventually to summit talks. Regularly-held summit talks between South Korea and Kazakhstan to promote mutual economic cooperation could improve diplomatic relations by building trust between the two countries.

Third, roundabout energy resource development cooperation should be promoted. When compared to investment potential

and investment levels from the advanced Western companies as well as Russian and Chinese enterprises, South Korean companies are at a disadvantage in terms of size and technology. As a result, South Korea should promote roundabout resource development concentrated in areas in which Kazakhstan needs support.

Fourth, technological cooperation should be reinforced. To expand economic cooperation with Kazakhstan, a cooperation package that produces mutual benefits is necessary, and to implement such package, reinforcing cooperation in software is necessary. Providing lessons learned and best practices from South Korea's own economic development experience, supporting Kazakhstan's admission as a WTO member, and aiding the diversification of Kazakhstan's industries, would all contribute to an advantageous cooperation package tailored to Kazakhstan's economic development needs.

Figure 3: Direction of South Korea-Kazakhstan Mid- to Long-term Cooperation



In summary, to increase economic cooperation between South Korea and Kazakhstan, South Korea should assess Kazakhstan's economic development needs and combine governmental and private sector efforts to help create a coherent and comprehensive mid- to long-term economic cooperation strategy towards Kazakhstan. In this regard, South Korea should not be tied to short-term benefits and results, but should support significant projects that could bring huge ripple effects to Kazakhstan's economy. It is necessary for South Korea to work towards attaining mutual benefits and demonstrate to Kazakhstan that South Korea is a trustworthy partner for mid- to long-term cooperation.

CONCLUSION

Economic development in Central Asia will unfold differently from country to country, just as how political development has varied throughout the region. Therefore, instead of approaching Central Asia with vague expectations or illusions, South Korea should develop a cooperation strategy that is based on sufficient understanding of how Central Asian economies may develop. In order to promote effective economic cooperation in the region, South Korea should begin by concentrating efforts into the country with the highest international economic potential. In this scenario, priority should be given to the country that holds the greatest potential for achieving economic cooperation with South Korea and is politically stable. Establishing strong relations with the priority country can prove advantageous to future expansion into adjacent countries.

As discussed, Kazakhstan has the largest abundance of energy resources and exports among the Central Asian countries. Kazakhstan also has a higher degree of market openness and a favorable trade environment, and it is located at a key point that connects Asia to all CIS countries. Kazakhstan's earnings from oil and gas exports are invested into its weak industrial and social infrastructure, and manufacturing industries are being diversified. Hence, Kazakhstan seems to have high potential for future development. In this regard, South Korea and Kazakhstan both have what the other party needs in terms of long-term economic development and therefore, have complementary economic structures. In other words, Kazakhstan possesses abundant energy and raw materials, which South Korea very much needs and South Korea holds the necessary manufacturing industries and technology for the diversification of Kazakhstan's industries. In this sense, South Korea should select Kazakhstan as the priority economic cooperation country and build its capacity for economic cooperation, before expanding to other areas of Central Asia.

For future market expansion and economic cooperation, it is crucial that the South Korean government establishes a systematic and comprehensive advancement strategy into Kazakhstan. This process should build trust between the two countries and promote win-win cooperation. For example, as a means of helping to secure energy resources, South Korea could assist the development of Kazakhstan's financial industry by introducing IT systems into its capital market, educating capital market participants, initiatives which are of high importance to Kazakhstan's government. Moreover, South Korea should develop and process Kazakhstan's energy resources and raw materials to add value and cooperate with Kazakhstan in building its industrial infrastructure. As a powerful IT country, South Korea should also take into account the Industrial-innovative Development Strategy of the Republic of Kazakhstan for 2003-2015, promoted by the government of Kazakhstan to improve Kazakhstan's IT industry, and provide important IT know-how.

Finally, South Korea should work to improve its image in Kazakhstan, by providing lessons learned and best practices regarding South Korea's economic development and market opening, information which Kazakhstan is very much interested in, and by offering humanitarian assistance for vocational education and medical and health projects, building the foundation for long-term economic cooperation with Kazakhstan and fostering trust in the region to assist future expansion into Central Asia.

¹ Kuzimina E. M. (2007), *Geopolitika Tsentral'noi Azii'* (Moskva: Nauka), 15.

² Jan M. Kalicki and Eugene K. Lawson ed. (2003), *Russian-Eurasian renaissance?: U. S. trade and investment in Russia and Eurasia* (Washington, D. C.: Woodrow Wilson Center Press), 404.

³ Lee, Jae-Young and Park, Sang-Nam ed. (2007), *Emerging Central Asia and the Korean Countermeasures* (Seoul: Korea Institute for International Economic Policy), 15.

⁴ Kuzimina E. M. (2007), *Geopolitika Tsentral'noi Azii'* (Moskva: Nauka), 19-20.

⁵ *E'konomicheskie novosti*, February 19, 2009.

⁶ This amount is similar to South Korea's FDI in Russia and until 2008. The total accumulated amount of South Korea's FDI in Russia is USD 1,001,500,000.

⁷ Kim, Il-soo, et al. (2008), *The Giant of Central Asia, Kazakhstan* (Seoul: Goong-li), 41.

⁸ Lee, Jae-young, et al. (2008), *Proposal of Real Cooperation between South Korea and Kazakhstan* (Seoul: Korea Institute for International Economic Policy), 42.

⁹ Ministry of Foreign Affairs and Trade (2008), *Guide to Korea's Enterprises Entering into Central Asia's 5 Countries* (Seoul: Ministry of Foreign Affairs and Trade), 59.

¹⁰ Data from the Korea Export-Import Bank. <<http://www.koreaeximbank.go.kr>>.

¹¹ Ministry of Foreign Affairs and Trade (2008), *Guide to Korea's Enterprises Entering into Central Asia's 5 Countries* (Seoul: Ministry of Foreign Affairs and Trade), 69.

¹² Lee, Jae-Young, "Economic Cooperation Initiative with Central Asia: Focusing on Kazakhstan," *Sino-Soviet Affairs*, Vol. XXX, No. 4 (Winter 2006/2007), 160.

¹³ In September 2007, Bulat K. Sultanov, the Director of Kazakhstan Institute for Strategic Studies under the President of the Republic of Kazakhstan, said, "Discussing energy with Central Asia is no longer new. Central Asia needs diversification in their industries and cooperation should be focused on this area."

¹⁴ Lee, Jae-young, et al. (2008), *Proposal of Real Cooperation between South Korea and Kazakhstan* (Seoul: Korea Institute for International Economic Policy), 78.

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