

STATE REGULATION OF EXPORT GRAIN PRODUCTION IN KAZAKHSTAN

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Abstract

This paper describes the development of the grain market of Kazakhstan and one of its elements, government regulation. Particular attention is paid to measures concerning the support of producers and a review of international examples, which are aimed at the development of exports.

Meanwhile, the strategy for achieving the export potential of Kazakhstan grain is proposed. As a result of discussion it was concluded that Kazakhstan needs to form a cluster model with a large grain output of grain processing enterprises.

Key words: grain production, world experience, grain market, state regulation, Kazakhstan

JEL codes: O13

1. INTRODUCTION

Nowadays the grain production of Kazakhstan is in third place in the CIS after Russia and the Ukraine. According to UNESCO Kazakhstan's share in global grain production is about 1% and in the world exports - 1.4%. (Torgayev, 2009)

Kazakhstan has all the prerequisites for growing high yield crops and a significant increase in gross yield of high-quality grain. It has favorable soil and climatic conditions, skilled labor, advanced production and market infrastructure.

Accordingly, the development of practical recommendations for improving organizational and economic fundamentals of the grain market is an actual scientific problem. Relevance of the study of the mentioned problems intensified

the need to consider the following aspects: the development of the grain market of the country and its state-specific regulation of grain production.

The aim of this paper is to study the proposals which are intended to improve the functioning and development of the grain market and its exports.

2. THEORETICAL FRAMEWORK AND RELATED LITERATURE

In the economic literature there are various interpretations of the essence of the market, which reflect certain aspects of this multifaceted economic category and as noted by George Stigler in "Perfect competition: a historical perspective", "No concept in the economy - and in any other area - never able to determine so clear that it makes sense to stay clear in all circumstances ". (Galperin, 2000)

In Western economic literature can be found the following interpretation of the term "market". So, F. Kotler sees the market as a combination of existing and potential customers. (Kotler, 1996:28)

Economists E. Dolan and J. Lindsay understood market as any interaction in which people come to trade with each other. (Dolan, Lindsay, 1994:20)

C. McConnell and S. Brue believe that market - is a tool or mechanism, bringing together buyers (representatives of demand) and sellers (suppliers) of particular goods and services. (McConnell, Brue, 1992)

The role and function of the market can be properly understood if we consider it as part of a wider system - the commodity-market economy consisting of commodity production and the market, which are united by forward and backward linkages. The original link in the overall system is the production of grain. It has a direct impact on the market in several areas:

- a) in the industrial sector creating useful products, which then enter into the market exchange;
- b) in the production created the income of grain producers and not least revenue income of suppliers of agricultural machinery, fertilizers, etc.

c) owing of the social division of labor created the need for the market exchange products. "Give me what I need, and you'll get what you need" Adam Smith. (Anthology of economic classics, 1991:91)

In turn, the market has a reverse effect on the process of producing goods. Reversing the economic ties also makes special functions of the market. According to E. F. Borisov, it is possible to allocate the following functions of the market: the first function is that the market integrates the production and consumption spheres. Without the market commodity production cannot serve consumption, and the area of consumption will appear without the benefits satisfying inquiries of people. (Borisov, 1999:95)

A second function: the market acts as a chief controller outcome of production. In the direct market exchange revealed the extent in which the quality and number of established products meet the needs of customers. Finally, an important function of the market is shown in the fact that market exchange is the way of the economic interests of sellers and buyers. (Borisov, 1999:96)

Finally, an important condition for the emergence and functioning of the market is the free exchange of resources. Only the free exchange existing in spontaneous orders, allows to be created the free prices which will prompt economic agents to the most efficient direction of their activity. (Chepurina, Kiselev, 1998:77)

The grain market and its products have several specific features. Gordeev A.V. and Butkovskiy V.A. highlight some of them:

- grain market is the backbone of the agro food market in the country;
- grain market products (grain, flour, cereals, etc.) are vital and irreplaceable;
- demand for bread and grain products is a little elastic, i.e. the rise in prices practically does not lead to decrease of their consumption or even increases (Geffen's effect);
- low capital productivity due to seasonal work, the high cost of agricultural machinery and output volatilities;

- collision in the consumer market of low-elastic massifs - grain production and market products, the production of which is associated with the grain, making the price of grain and these products unstable, so that the price mechanism cannot be the regulator of supply and demand;
- the grain market is cyclical in its behaviour where the boom can be replaced by rapid contraction and recession. (Gordeev, Butkovskiy, 2003)

Another important feature of the grain market is the low elasticity of supply. Serova E.V. examines in detail the issue and the response of supply to changes in prices in the immediate, short-term and long-term periods. (Serova, 1999)

Thus, along with the supply, demand, price, one of the elements of the grain market is government regulation. Market regulation expressed in the creation of common "rules of the game", creating an enabling environment for business development and support for social services. "Market regulation implies that the state represented by the legislative and executive authorities with the greatest general conduct of market participants, usually in the form of" soft "or" narrow "restrictions on the types of goods, conditions of sale, prices". (Raizberg, 2000:253)

The structure of the market consists of both entrepreneurs and workers who sell their labor, and the end users and the owners of the loan capital, the owners of securities, etc. The main actors of the market economy are usually subdivided into three groups: households, businesses (entrepreneurs) and the government.

3. DEVELOPMENT OF GRAIN EXPORT FROM KAZAKHSTAN: PROPOSALS

Measures for inducing exports can be taken not only at the state level, but also within regional structures (within powers of the last). (The Bureau of Economic Analysis Found, 1999)

In the current practice of international trade foreign countries are actively involved in supporting its producers through various programs. Consider the basic ones that offer key players in the grain market (Table 1).

These programs, taken from Table 1, are directed on support of exporters, both by means of financing, and by means of consultations, providing information on an environment in the international markets. It seems that in these circumstances the information obtained can be characterized as timely and reliable.

The Black Sea niche" Kazakhstan competes not only with Russia and the Ukraine, but also with key world suppliers of grain: USA, Canada, EU, and Australia.

Table 1 – Programs of development of export of the main grain countries

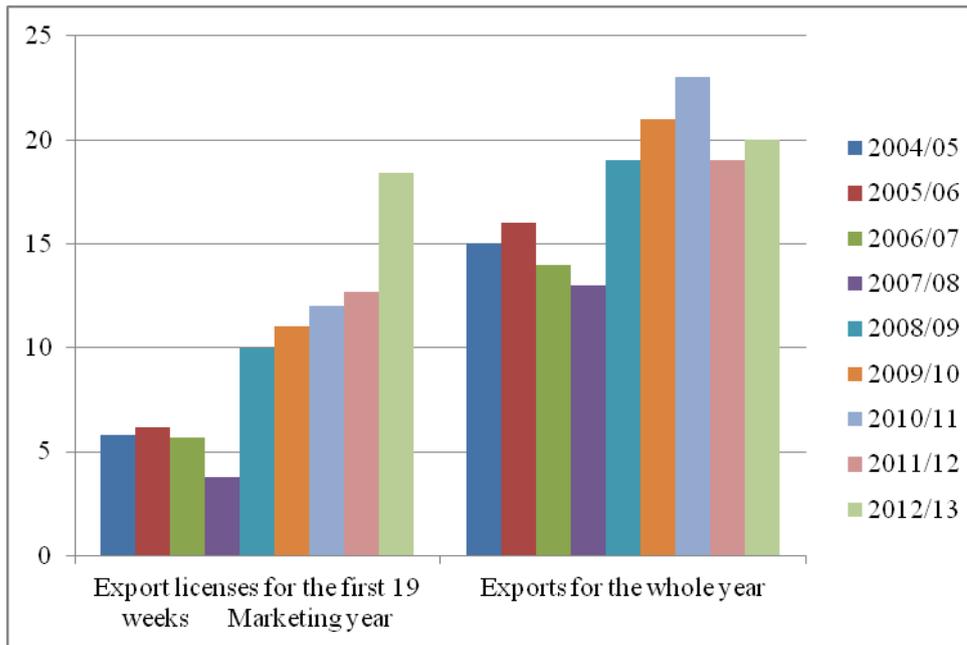
Country	Programme	Support directions
1	2	3
Argentina (Whittle Janet, 1998)	Direccion de Promocion de las Exportaciones Subsecretaria de Comercio Exterior (Division of the Secretariat of Foreign Trade); Subsecretaria de Relaciones Comerciales Internacionales (A division of the Commission on International Trade Relations)	Promotion policy and guidelines on various aspects of trade.
	Direccion de Promocion Comercial (Bureau of Trade Progress)	Market information regarding trading opportunities, the organization of trade missions in foreign markets.
	Administracion Nacional de Aduanas - National Customs office	Customs procedures, data collection and processing of information on foreign trade, control of unfair competition from importers.
	Programa de Modernizacion de los Servicios Agropecuarios - The Program of Modernization of Agricultural Services	Support the development of important agricultural sectors.
	The Sistema Integrado de Informacion Agropecuaria y Pesquera (Integrated Information System for Agriculture and Fisheries)	Gather and provide information for the planning and implementation of agricultural policies.
Canada	The Ago Food Trade Service (Agri-Food Trade Service, 2013)	Help to the companies concerning export from preliminary researches to a successful entrance on the foreign market.

Figure 1 shows an aggressive export policy of the European Union. The beginning of the 2008/2009 season was marked by a jump in the number of licenses issued for export of wheat from the EU due to the strong demand of importers, especially the Mediterranean and the Middle East, and also a good harvest of grain crops in the Ukraine and Russia. All this led to aggressive sales of exporters of the EU. Within the first 19 weeks of the marketing year export licenses on wheat reached 9,9 million tons that is almost twice as much as the last several years. (World Markets and Trade, 2008) There is an opinion that in the first stage, grain buyers are obligated to buy 2 thousand tons from Russia and the CIS countries before purchasing Kazakh grain. And in the near future, Kazakhstan has to launch its own production of grain-based on the Petropavlovsk Heavy Engineering Plant. (Tleubayev, 2011)

Thus, in this situation is observed the conflict of interests of business and the government. The conditions of the wheat world market 2010-2011 years disposed to export of the Kazakhstan wheat in connection with the high price. (Table 2).

According to Article 14 of the Law "On State Material Reserve" in the case of a crisis and threatening imbalances between supply and demand in the domestic market resources of the state reserve based on the decisions of the Government of the Republic of Kazakhstan in accordance with the law can be used to provide the regulatory impact on the market. (Law of RK, 2000)

Figure-1: Issue of licenses for wheat export from EU (including soft wheat, durum, flour, semolina)



Note: compiled by the author

Public procurement of grain to the state resources of grain, as well as public procurement of services for the storage and handling of public grain by Agent (JSC "NC" Food Contract Corporation according to the current legislation of Republic of Kazakhstan, the Law of Republic of Kazakhstan on January, 19 2001" On Grain ""Rules of formation, storage, refreshment, movement and use of public resources grain" and agreement with the competent authority. The formation and annual state reserve of food grains are made by purchasing grain from the national budget or the transfer of grain from its state of realizable resources. (Provisions of the Government of the Republic of Kazakhstan, 2005, 2008, 2001)

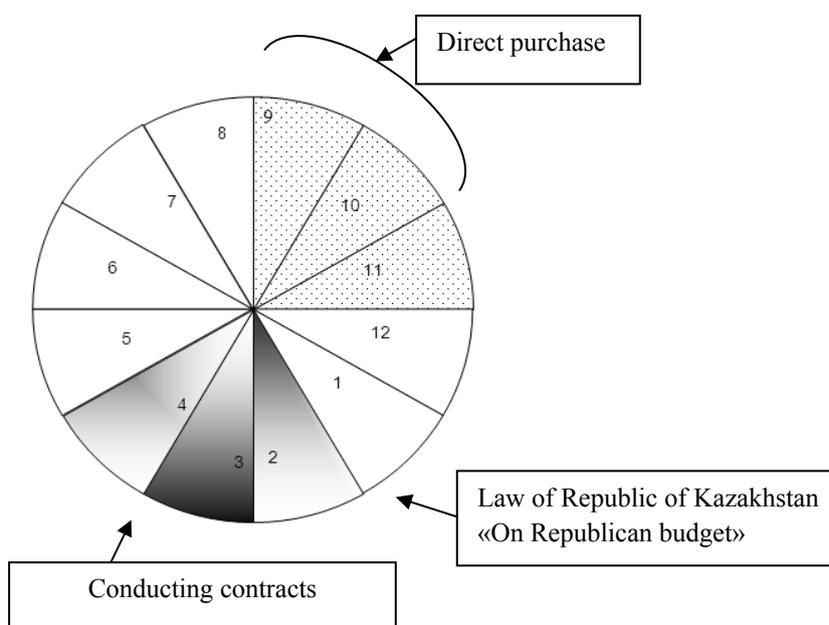
Currently the purchase of grain for the state reserve is represented by a two-tier system. The first level provides for purchase of grain on a futures basis in the spring and summer by providing interest-free cash loans. After the introduction of the Law "On Republican Budget" for the relevant year of "NC" Food Corporation "concludes contracts with agricultural producers for the supply of grain, and the fall run contractual obligations. The remaining part of the planned state of volumes sold through the direct purchase (Figure 2).

Table 2 – Wheat market in the 2010/11 marketing year

	Estimate of production (million tons)	Change for the period (in %)	Estimate of consumer (million tons)	Change for the period (in %)	Evaluation of reserves (million tons)	Change for the period (in %)	Futures, U.S. dollars per ton	Change for the period (in %)
Kyrgyzstan	1,0	0,0	1,3	5,7	0,8	- 5,5	-	-
Kazakhstan	9,7	0,0	7,7	0,0	6,7	- 20,2	310	- 16,1
Russia	41,5	0,0	45,8	- 3,6	4,3	11,9	168	- 22,9
USA	60,1	0,0	32,1	0,3	22,8	2,6	289	- 4,4
EU -27	136,1	- 0,3	122,0	0,0	12,5	- 7,1	355	7,6
Australia	26,0	4,0	9,0	6,5	6,7	- 7,6	298	- 13,4
China	114,5	0,0	109,5	0,6	59,3	- 1,2	396	- 1,0

Source: World market for grain (2011)

Figure 2 – Procedure for procurement of grain to the state reserve



Note: Numbers corresponding months

The use of extra charges for collecting subsidies, provided in case there is considerable change of an environment in the world market in comparison with those conditions which existed at the time of fixing. Obtaining licenses and

certificates depends on an importation pledge which acts as a guarantee of realization of the foreign trade operations in time, specified in permission to their carrying out. If such an operation is not carried out, the pledge is not restored. (Zimnin, 2006:12)

Thus, the development of transport infrastructure, the development of programs of support of the companies in foreign economic activity and the improvement of the accounting of grain will achieve full realization of an export potential.

4. DISCUSSION AND CONCLUSION

The operation of the grain market of Kazakhstan seems appropriate not only based on the principles of free market competition, but also effective state regulation. One of mechanisms of the grain market and exports, which meets the requirements of this balance, is the formation and operation of the cluster.

Some importers possess capacities for grain processing; it is more favorable to get grain, instead of flour or other finished stocks in Kazakhstan. Kazakhstan has successfully operating companies that produce grain, and act as grain traders and processors of both wheat and rye flour. The number of such large, integrated organizations is enough to characterize their relationship based on the competition. Each of them tries to make the production of the best quality, than their competitors; offered a decent price for the raw materials to small and medium-sized producers.

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