

## Formation of Innovative Approaches in the Agro-Industrial Sector in the Republic of Kazakhstan

<sup>1</sup>Sh. Shaken Turmakhanbetova, <sup>1</sup>A. Kasiya Kirdasinova

<sup>2</sup>M. Lyailya Mutaliyeva, <sup>3</sup>K. Aigul Jumaeva and <sup>3</sup>D. Akmaral Mukasheva

<sup>1</sup>L.N. Gumilyov Eurasian National University, Astana, Kazakhstan

<sup>2</sup>Kazakh University of Economics, Finance and International Trade Astana, Astana, Kazakhstan

<sup>3</sup>Atyrau State University named after Kh. Dosmukhamedov, Atyrau, Kazakhstan

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**Abstract:** Socio-economic development of any country is closely connected with the integration processes in the economy sectors, including agricultural sector. This study provides a literature review of domestic and foreign authors, who conducted the study of agricultural development from various aspects of economic development of the world economy. The study gives an analytical overview of the current state and development of agro-industrial complex in the Republic of Kazakhstan. Also, it provides distinctive features of administrative processes in the field of agriculture. In addition monitoring of the agricultural sector of the republic was conducted. The researcher studied the institutional agribusiness management practices considering state support for the development of priority sectors, including investments attraction. The study describes the method of estimating food security in Kazakhstan. The studies systematize theoretical and methodological aspects of development of agriculture systems and food security of Kazakhstan and on the basis of which the conclusions are made and recommendations to improve the management agro-industrial complex of the republic are proposed.

**Key words:** Agriculture, agro-industry, gross output, food, livestock, crop production, investment, government support for business

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### INTRODUCTION

The current state of agro-industrial complex of the Republic of Kazakhstan has a dynamic development but at the same time, requires innovative approaches to the problems of state regulation and support of the agricultural sector.

There is a need to focus on the development of such mechanisms of sectors governance which on the one hand, react faster to demand changes and on the other develop the labor market in rural areas. It is well known that the countries position in the world today is determined by economic potential.

Particular importance should be given to such indicators as per capita consumption of food products in Kazakhstan which demonstrates the economic and social policy of the state.

The level of development of the agricultural sector is today one of the most important factors that determine the level of development of the national economy. The foregoing reflects the relevance of the current research topic the results of which are presented in this study.

**Literature review:** Review of publications on the current state of agro-industrial complex has shown that

agriculture as a branch of economic activity and its role and importance in the socio-economic development is explored in publications of following Kazakhstani scientists such as: Rakhimzhanova (2011), Lokotko and Tretyakova (2011) and Kurmanov and Baydakov (2014). They examined the development of market relations in the agrarian sector of the economy and modern aspects of agricultural production management in the risk conditions, taking into account the management decisions optimizations.

Researchers Karbetova and Karbetova (2012), Kaltayeva (2012) have been studying the branches of agriculture from the standpoint of the strategic objectives implementation analyzing the methods of the competitiveness of local producers.

Foreign scientists-economists also examined certain aspects of the agricultural industry (Altukhov *et al.*, 2015) examined the main factors of the competitiveness increase of individual types of domestic food and agricultural raw materials, the implementation of science-based agreements on agricultural policy in the countries of the EAEC, the main directions of formation of the common agricultural policy in the new integration structures (Ivanov and Lazhentsev, 2014) reasoned the regional characteristics of the the agricultural sector

modernization. The study by Kundius (2010) assesses the inter-regional and inter-state food links, substantiates the prospects for market development, information and market infrastructure, logistics, outsourcing and reengineering of food corporations, the formation of agro-industrial clusters and particularly important agricultural areas. Paptsov (2009), Rybkin and Romanyuk (2011), Semina and Sandhu (2013), Boyko (2015) studied the major trends in the development of agricultural markets and land relations in agriculture.

Despite conducted studies in the context of theoretical and methodological aspects, the issues on sector improvement and efficiency increase with consideration of the competitiveness of the agro industrial complex are poorly understood create opportunities for further research.

In this regard, the purpose of this research is to study the current state of agriculture of the Republic of Kazakhstan and the development of recommendations on the industry development.

## **MATERIALS AND METHODS**

In the current state there are various institutional agribusiness management practices in the Republic of Kazakhstan, that take into account the state regulation of the economy and investment attraction. Table 1 shows the basic institutions of governance. holding includes 7 specialized subsidiaries:

- JSC National company “food contract corporation”
- “KazAgroFinance”
- JSC “Agrarian credit corporation”
- JSC “KazAgroprodukt”
- JSC “Fund for Financial Support of Agriculture”
- JSC “KazAgroGarant”
- “Kazagromarketing”

In accordance with the Development Strategy of JSC “NMH KazAgro” for 2011-2020 approved by Government of the Republic the following strategic direction and key tasks were identified:

- To stimulate productivity growth and the agro industrial complex through industrialization and diversification
- Participation in providing food security of the country
- Promoting the development and implementation of export potential of the agro-industrial complex
- Improving the availability and accessibility of services in support of the subjects of agro-industrial complex

- Improving quality of corporate governance and transparency of the holding

By 2020 the holding will become the leading management company in the implementation of public policies to improve the efficiency of agro-industrial industries of the Republic of Kazakhstan. As the financial operator of the most important strategic projects of agriculture, holding will provide an affordable, targeted and effective use of state and attracted resources, implementing further development of industrial, information and service infrastructure of agro-industrial complex.

One of the key projects of the holding is the sectoral program “Agribusiness 2020 in which the holding acts as the primary financial statement. This program was adopted in 2013 and is a strategic framework for the further development of agriculture policy. In its activities, holding focused not on getting the maximum yield as banks of the second level which are aimed at the sector with the highest level of profitability but to increase credit availability to the subjects of agriculture in the agricultural sector.

To date, the holding developed a line of credit products, taking into account the size of the business for which they are focused. The main share of loans holding Agriculture accounts for long-term or “long” loans, that is very important for the current situation of agriculture which requires the modernization of fixed assets, capital re-fund. At the same time, the popularity of long-term money among economic entities of agro-industrial complex is explained, first of all, by relatively long payback period, the possibility of establishing a grace period of flexible interest rates.

In the volume of bank lending to agriculture, >55% are short-term loans (<1 year) which results in lower volumes compared with the lending share of STB in the overall loan portfolio in agriculture (about 55%, 484 bln). The share of the total loan portfolio of the holding amounted to 45% of the total volume of credits in agro-industrial complex or 396 bln.

As part of the financial rehabilitation 292 subjects of agro-industrial complex were approved with an aggregate principal amount 313 bln. tenge while 245.9 bln. tenge or 78% was funded by holding. The total amount of fines and penalties reduction is of 2.9 bln. tenge, retained >25 thousand work places.

About 30% of agro-industrial complex lending volume accounts for leasing program, in 2014 the volume of financing totalled 44 bln. tenge.

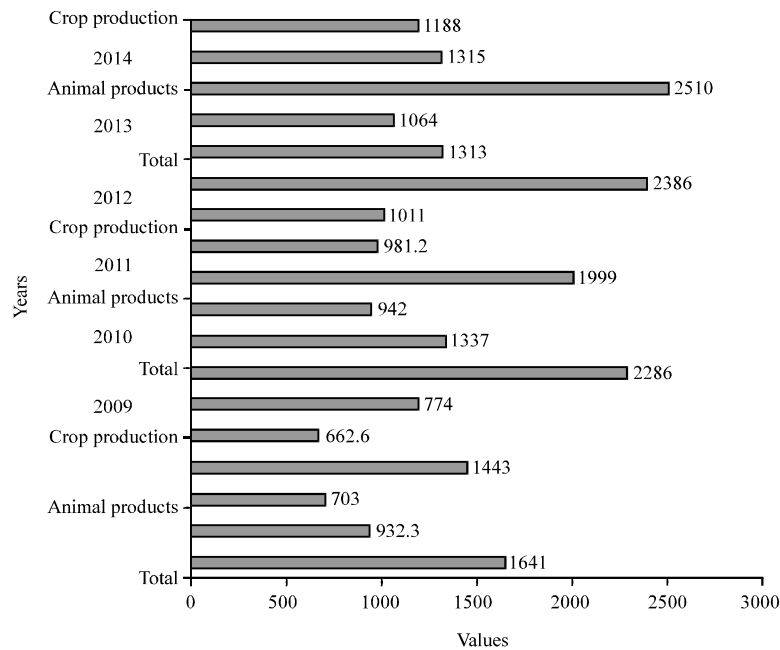


Fig. 1: Gross agricultural output (bln. tenge)

Table 1: Institutional sphere of agro-industrial sector of the Republic of Kazakhstan-JSC "National Managing holding" "KazAgro"

Institutions	Activities
Food contract corporation	National grain operator
KazAgro finance	Lending to investment projects. equipment and machinery leasing
Agrarian credit corporation	Lending to small and medium-sized businesses
Fund for financial support of agriculture	Rural microcredit
KazAgro product	Purchase of livestock production and exports
KazAgro garant	Providing guarantees on receipts
KazAgro marketing	Marketing and consulting support of agricultural producers

During harvesting in November 2014 unfavorable weather conditions could lead to financial losses of agricultural producers. To neutralize the negative impact on agriculture, holding through its subsidiary established attractive purchase prices for wheat and barley which allowed to repay existing obligations of agricultural producers and to prevent losses.

Overall, in 2014 the total amount of funding directed by group of companies "KazAgro" for the development and support of the agricultural sector amounted to 222, 2 bln which is 15% more than the previous year (193 bln). At the same time employment was provided to 41.2 thousand people which is 2 times higher than the result of 2013. The number of issued loans to agricultural producers rose from the 15 435 units to 19 020. Figure 1 shows the dynamics of lending to businesses in the agricultural sector. Within the framework of international cooperation which allows to study the world's leading experience and adapt it for the purposes of Kazakhstan's agro-industrial complex, holding carried out activities such as:

- Hungarian-Kazakh business forum in the framework of which an agreement between the Hungarian Export-Import Bank Plc (Eximbank) and Hungary holdings to form a joint private equity fund was reached
- Memorandum on cooperation with the French company Irrifrance Groupe which plans to release irrigation equipment in Kazakhstan. Work is being conducted with the French companies such as Bongrain and Andros for the production of sugar, milk processing
- Bilateral meetings with German agricultural companies were conducted for the production of animal feed and processing of residual animal products
- With the purpose to the presentation of investment opportunities of the agricultural sector of Kazakhstan held the 1st Agribusiness Investment Forum which was attended by over 90 foreign investors from 17 countries

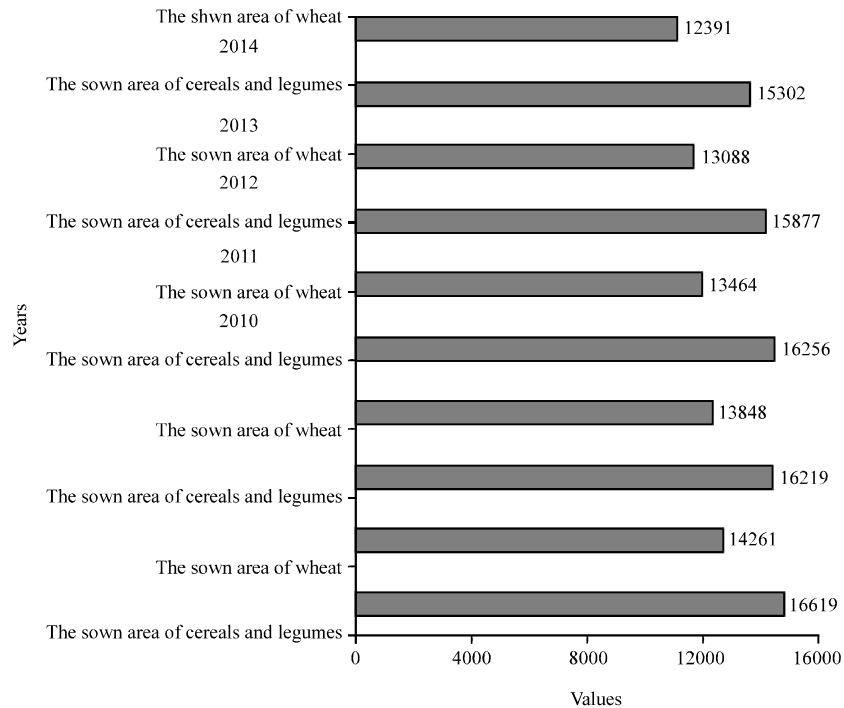


Fig. 2: The sown area of grain and leguminous crops (ha)

- A meeting with the Korean company Harim Corporation in the course of the meeting discussed issues of cooperation in the construction of poultry meat

One of the major companies supporting the development of the agricultural sector in Kazakhstan is “KazAgroFinance”. Since 2000, the JSC has invested 510.8 bln. Tenge to the development of agriculture, including >34 thousand units of machinery and equipment totaling 351.3 bln. tenge. Figure 2 shows the main types of machinery and equipment.

Since 2007, 385 projects worth 201.3 bln. tenge were commissioned. Since 2011, the import of 44, 348.00 head of cattle was carried out, including 37, 304.00 heads of beef breeds and 7,044.00 heads of dairy breeds.

Another institution in the development of agro industrial complex is “KazAgroProdukt”. As part of a cluster development for industrial beef production, the cattle fattening program on a tolling basis is being implemented which:

- Provides a common platform for partnership of all major producers and buyers of meat products
- Develops the industrial fattening technology, using the most successful examples from farmers
- It is the main operator of the meat market for the promotion of exports of meat and in the procurement of cattle

In order to organize the infrastructure of the industrial cattle fattening, the program “construction and expansion of feedlots with capacity of 3,000 head of cattle a 1 time content” in the years 2015-2016 is being implemented. Since 2011, JSC successfully implementing a program on transformation of public pedigree and commercial herds through the use of highly productive meat breeds bull’s pedigree. Active participants of the program are rock transformation Akmola, Karaganda, West Kazakhstan, North Kazakhstan and East Kazakhstan oblasts. Annually produced offspring with improved gene pool indicates the high quality of meat products. Figure 3 shows the realization of cattle by regions. At the end of 2015 205 licensed economic enterprises of Kazakhstan were participants of the system of guaranteeing performance of obligations under grain receipts and were located in 2 regions of Kazakhstan. The total capacity of grain storage by members of the company amounted to approximately 665.3 thousand tons of grain or 4.8% of the total storage capacity of the existing economic enterprises Kazakhstan. During the same period 4 companies of the 17 cotton-licensed organizations in Kazakhstan with a total guaranteed cotton-raw 18, 1 thousand tons. Thus, at the present stage of JSC “national managing” KazAgro “holding experiencing high currency risks. These risks relate to the fact that the involvement of external loans in foreign currency in this case loans in the local market are issued in the Kazakh currency thereby creating a negative

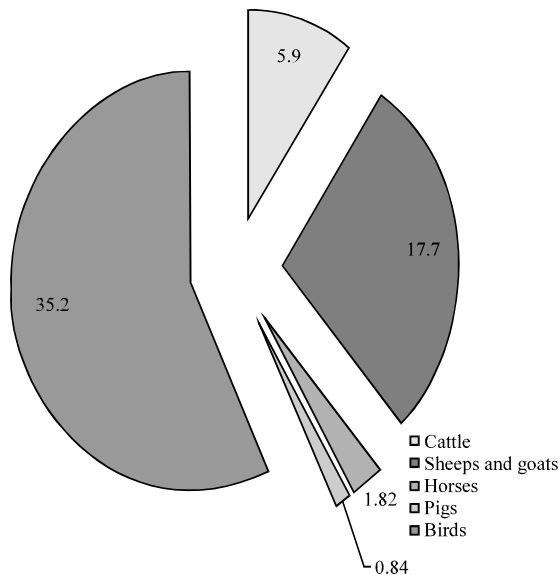


Fig. 3: The number of livestock in the Republic of Kazakhstan in 2014 (mln. heads)

exchange rate differences and JSC takes all the risks themselves. In contrast to these risks holding pursues a very conservative (with a minimum of risk) and profitable strategy for investing free funds to high-yield savings and current accounts of STB and other financial instruments. Next, we consider quite relevant aspect of development of agriculture-food security.

#### Methods of assessment of food security in Kazakhstan

**Physical accessibility of food:** Studies show that the development of all forms of ownership and many systems in the agricultural sector, no doubt, contribute to the competitiveness and the creation of favorable economic conditions.

Crisis decline of production in agriculture, resulted in a reduction in the volume of sales of agricultural products. It was one of the reasons for the sharp reduction in the release of food enterprises of food and processing industry. The value of the food industry downturn in decades was >50%, including meat and dairy 80%.

Analysis of the basic food consumption shows that the current level of consumption by the population of the republic in many vital foods corresponds the normal physiological range, however, for some other food consumption levels even below those standards.

One important reason for the reduction of food consumption and the deterioration of the food structure is the reduction in effective demand caused by advancing the rise in food prices compared to the incomes of the population.

Evaluation of physical access to food is carried out by comparing the level of the actual consumed volumes with the country food consumption standards which are mainly developed by the Kazakh Academy of Nutrition based on the recommended level of consumption of the average inhabitant of the country.

Per capita food consumption in Kazakhstan is considerably varies from year to year in the given period as well as in different types of food. During the study period there was a constant reduction in bread consumption (from 10.3-10.5 kg per month), meat and meat products (from 3.7-3.3 kg), milk and dairy products (from 19.6-15.8 kg), vegetables (from 7.2-5.9 kg), potato (from 5.5-3.9 kg).

Recently there was an increase in the consumption of most essential food products, resulting in bread consumption per capita was 10.2 kg per month (for 1 kg or 10.9% more than the standard level), oils and fats-1.1 kg (on 0.35 kg or 46.7% more than the standard), meat and meat products-4.4 kg (2.4 kg or 35.3% less than the norm), fish and seafood-0.8 kg (0.7 kg or 46.7% less than the norm), milk and milk products-16.75 kg (0.7 kg or 49.6% less than the norm), eggs-10.8 pc (13.5 units or 44.4% less than the norm.), fruits-4.0 kg (5.4 kg or 57.4% less than the norm), vegetables-5.9 kg (6.3 kg or 51.6% less than the norm), potatoes-3.5 kg (4.6 kg or 56.8% less than the norm), sugar, jam, chocolate and confectionery products 2.5 kg (0.6 kg or 19.3% less than the norm).

Thus, only two of the ten most important food products had an excess consumption standards, indicating the presence in the country serious problems with food security.

Because food safety is an integral part of the economic security of the country, an important objective of economic policy should be to secure its security. In solving the problem of ensuring national food security serious attention should be paid to the country's self-sufficiency main types of food (2009, 2011).

**Food self-sufficiency:** means meeting the needs of its primarily through domestic supplies with minimal dependence on foreign trade (2003, 2004). Self-sufficiency is a characteristic of the physical availability of food.

To achieve self-sufficiency in country's food, there is a need in production of quality products in the volumes to meet the needs of the population at the threshold and prices that ensure the availability of the majority of products for all social groups of the population throughout the country. To determine the level of self-sufficiency in basic foodstuffs in Kazakhstan, we suggest using the following equation researcher:

$$S = 1 - (SC - O) / SC$$

Where:

S = The level of self-sufficiency the unit share

SC = Standard food consumption

O = Actual output per capita

At the same time on all types of food (except corn) as the standard of consumption physiological norms of food consumption were used and as per grains-1 ton of grain per 1 inhabitant of the republic as grain is not only used for the production of human nutrition products but also for animal feed for production of biofuels as well as exported.

The highest level of self-sufficiency has been achieved over the potatoes, vegetables and melons as well as grain, the actual production of which exceeded the per capita consumption of the existing rules. The effectiveness of implementation of the self-concept is affected by a number of factors that should be considered when designing and implementing agricultural and food policy, namely (2012): the rational disposal of production in order to effectively exploit the potential of different soil and climatic and economic areas of the country, including the deepening of their specialization and creation specialized food zones; the use of technologies that increase the productivity of crop and livestock productivity. The impact on agriculture of social upheaval and political instability as well as environmental degradation and others.

When analyzing the capacity of the domestic food market of the republic the following can be observed. The degree of security of solvent demand with domestic production of canned meat-51.5%, sausage products-62, condensed milk and cream-20.6, dry milk-44,5 butter 66.4, cheese-44.5, fermented milk products-77,2, sugar-69.7, confectionery products-45%, juice-68.5, canned tomato 46.3, canned fruit and vegetables-at least 10%. Internal flour market is fully provided by domestic production.

The simulation based on quasi models of the dynamics of the time series of food security level in Kazakhstan for the period up to 2024 was conducted by authors and results show that.

Threshold level of food safety for meat Kazakhstan (84% of the physiological norm) will be surpassed in 2017 100% self-sufficiency in meat in the republic according to physiological standards will be achieved in 2024.

- Threshold level of food security for milk will be surpassed in 2016 and 100% self-sufficiency in milk republic in accordance with the physiological standards will be achieved in 2024
- Threshold level of food security for the egg will be surpassed in 2018 and 100% level of egg production in accordance with physiological norms of consumption will be achieved in 2024

## RESULTS AND DISCUSSION

**The macroeconomic situation of the economy of Kazakhstan:** In 2014, Kazakhstan's economy experienced external influences: regional geopolitical developments, the decline in oil prices, the fall of the ruble against the US dollar, the reduction in external demand from China and Russia on materials and steel products in Kazakhstan.

As a result, GDP growth in Kazakhstan in 2014 slowed down by 1.7% compared with 2013 and became to 4.3% (compared to 6% in 2013). The devaluation of tenge in February 2014 led to a weakening of consumer confidence and as a consequence decline in food purchasing. To restore confidence in the tenge and encourage lending, measures were taken to stabilize the exchange rate, increase the supply of tenge liquidity and address the lack of long-term financing in tenge and a high level of dollarization of the banking system.

Government identified reforms aimed at diversifying the economy and the expansion of the oil sector. Also, the new package of measures was adopted to attract direct investment into the country's economy, including investment subsidies, tax incentives and improvement of the visa regime and business services for investors. A program to support the development of small-and medium-sized businesses was adopted and included measures to remove barriers related to access to credit. In addition, researcher to improve the national system of regulation and control was also carried out, the results of which expected to be an increase of the transparency and efficiency of economic transactions, promotion of private sector participation and improve services for the population.

Thus, the measures taken to stabilize the economy in Kazakhstan show that the first results of the agribusiness -2020 program in 2014 demonstrated the correctness of the strategy of reforming the agricultural sector.

**The current state of the industry:** Presently about 7.73 million people live in rural areas of the Republic of Kazakhstan which is about 45% of the total population of the republic. At the end of 2014 the number of employed population in agriculture is 1,823.9 k people or 21% of total employment in the country.

According to the data of Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, the volume of gross agricultural output in 2014 was 2.5 trillion. KZT, exceeding that of 2013 by 5% while the share of agriculture in gross domestic product was 4.3% (in the calculation of GDP by production method). At the same time, the volume of food production increased to \$1 trillion. tenge (an increase of 2.9%). The

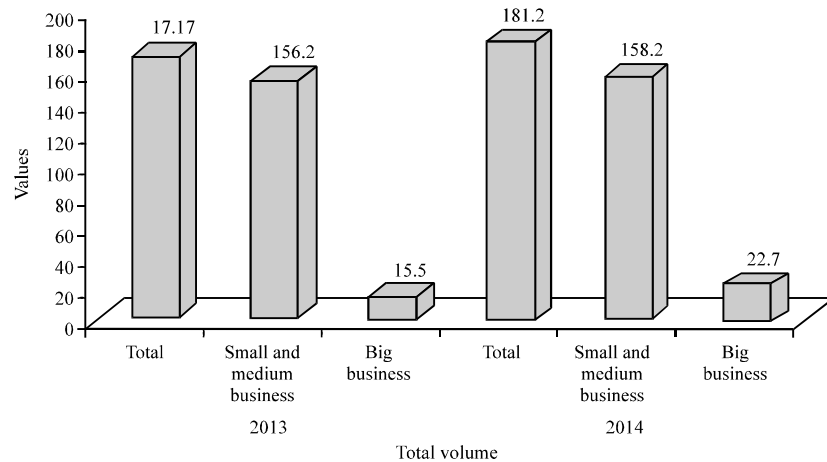


Fig. 4: The total volume of lending to agricultural sector, including small and medium-sized businesses (bln.)

volume of investments in fixed assets of agribusiness became 166.4 bln. tenge, increasing by 14.4% within a year. This growth was made possible by the introduction of the state support in 2013.

Owing to state support, the agricultural sector showed a positive dynamics in 2014, becoming a driver of economic growth. At the present stage of Kazakhstan occupies the 3rd place in grain production among CIS countries after Russia and Ukraine as well as among the top ten countries in the world exporters of wheat and flour, also a significant proportion of the country's total agricultural export products accounts to cotton (15%), leather and fur (25%).

Availability of land fund with vast areas of agricultural land (including arable land, grassland and pastures) is a major factor in the successful development of the agricultural sector in Kazakhstan.

The territory of the Republic of Kazakhstan is 272.49 mln. ha whereas agricultural land area is 222.24 mln. ha (82%), including pastures -187.55 mln. ha, arable land 29.41 mln. ha, perennial plantations -0.12 mln. ha, hayfields -5.16 mln. ha.

The volume of the gross output of Kazakhstan's agro-industrial complex show a steady growth trend. Over the past 6 year, the volume of gross output increased by >1.5 time, including crop production by 1.4 time of animal products by 1.7 time (Fig. 4).

**The development of crop and livestock production in Kazakhstan:** The main agricultural industry is in Kazakhstan-grain farming. In recent years, the overall cereal crops occupy an average of 80% of the sown area of agricultural crops. According to the to the statistics committee the total sown area of the main agricultural institutions in 2014 amounted to 21 462.5 thousand

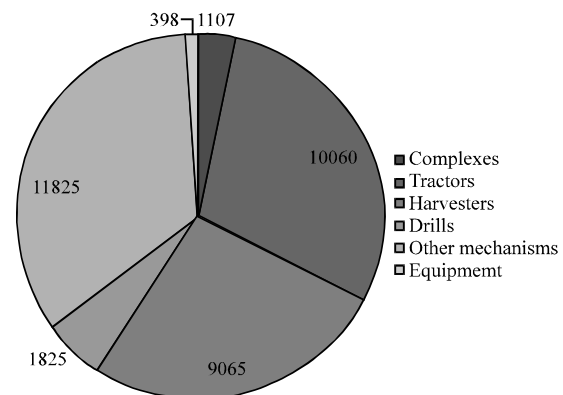


Fig. 5: Total number of machinery and equipment, financed by "KazAgroFinance" (units)

ha increasing by 191.5 thousand ha (or 0.9%) compared with 2013 year. The 15 302.5 thousand ha of which or 71.3% of the total cultivated area is designed for grain and legumes, 3 316.3 thousand hectares (15.5%) under forage crops, 2 300.4 thousand ha (10.7%) under oilseeds.

In average of 13.5-20.1 mln. tons of grain are produced in the country. The average grain yield of 10-16 quintals per hectare. The main wheat growing regions are Akmola, Kostanay and North Kazakhstan region which accounted for over 80% of cultivated area devoted to wheat. The sown area of cereals and legumes (including rice) in 2014 decreased by 575, 1 thousand hectares (3.6%) and amounted to 15 302.5 thousand hectares compared to the previous year. In 2013, the sown area of cereals accounted for 15 877.6 thousand ha for the past Fig. 5 year, the annual reduction in acreage of grain and leguminous crops averaged 2.2%, due to ongoing government policy to diversify the crop and increase the area under oilseed and forage crops. In 2014, 17 162.2

thousand. tonnes of cereals (including rice) and legumes were harvested. Gross harvest of wheat amounted to 12 996.9 thousand tons. The average yield of grain crops (including beans) was 11.7 quintals per hectare, including wheat yield was 10.9 centners per hectare.

The presence of the country's competitive advantages contribute to livestock development in Kazakhstan (Fig. 6):

- Large pastures, over 180 (mln. ha)
- Favorable geographical location and participation in the customs union
- Distant-pasture cattle is historically traditional sector

According to the Committee on Statistics in 2014 the number of cattle was:

- Cattle-5.9 (mln. ha)
- Sheep and goats-17.7 (million heads)
- Horses-1.82 (million heads)
- Pigs-0.84 (million heads)
- Birds-35.2 (million heads)

In all categories of farms by the end of 2014 1.6 tons of livestock and poultry in live weight were slaughtered and sold for slaughter, also 5.02 mln. tonnes of milk and 4,270,000 eggs were produced. In addition 10.2 mln. tons of skins of bovine and small and medium-sized animals were produced and 36.4 tons of wool were sheared. Average milk yield per cow was 2335 kg per year in average in the country. Average egg yield per hen was 153 eggs per year.

## CONCLUSION

The conducted studies deepened theoretical and methodological foundations of functioning and development of agriculture and food security system of Kazakhstan and the following conclusions and recommendations are proposed.

In the context of globalization and the transition of Kazakhstan's economy to a sustainable development, the economic policy of the state in the agro-food sector should be focused on the formation and development of management systems that promote the efficient use of the resource potential of agriculture and processing industry ensuring the food security of Kazakhstan. In order to assess the level of the country's population with food security it is suggested to use the following criteria: about 80-85% of total food consumption should be produced by domestic producers; consumption of foods with an optimal level of calories (2956 kcal per day).

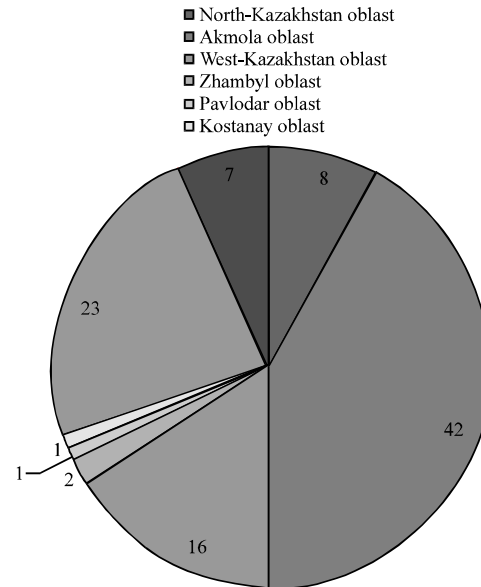


Fig. 6: Total number of machinery and equipment, financed by "KazAgroFinance" (units)

Ensuring the rational food structure and the complete satisfaction of the population's needs in accordance with physiologically justified rules; match the quality of food products with the technical regulations; creation of an insurance reserve of food at 25% of the annual volume of food consumption.

Ensuring the possibility to meet needs in nutrition that are not produced domestically or produced in insufficient quantities by imports; per capita production of <1 ton of grain:

- The national interests of the state in the food sector include
- Ensuring the required level of own food production
- Renovation and completion of the state food reserve, regardless of the impact of external and internal negative factors
- Ensuring that the quality of produced and sold food based on quality and food safety standards
- Ensuring the required cost of living, decent living and high quality of healthy living of the population
- Formation of an effective agricultural sector management of the economy, the preservation of the achieved volume and expanding production of competitive food products with a focus on exports
- Ensuring a uniform scientific-technical policy in the food sector
- Strengthening the material-technical base of agriculture, food and processing industry



- Implementation of the state food market control, including accounting and control of production, internal and external supplies, food supplies
- The creation of economic and legal conditions that exclude the growth of the informal sector of the economy of agro-industrial complex
- A reasonable degree of state regulation that meets the criteria of effectiveness and social orientation of the development of agribusiness

In order to increase the export of Kazakh agricultural raw materials as well as food and processing, industry should implement the following set of measures: to change the structure of foreign trade of agricultural products by optimization of its import and development of its export potential as well as the transition from food and raw material imports for its production to procurement of modern equipment, advanced technologies and licenses.

To streamline and reduce imports to develop food and raw materials production; to use import quotas system for specific food types that are produced by domestic farmers but in insufficient quantities to participate in the international division of labor in the field of agricultural production:

- To form trade flows of products of the agricultural sector
- To subsidize export and to bring prices for the products to be exported in accordance with the world prices
- To improve tariff regulation of export-import operations, reduction of customs duties, benefits and countervailing duties in accordance with WTO requirements

Efficient use of material, labor, financial and land resources lead to an increase in crop yields and livestock productivity, provides high-quality processing of agricultural raw materials, creates the necessary conditions for the storage and delivery of products to the consumer.

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