

Analytical review of probable economic risks for Kazakhstan within the Customs Union

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Abstract. This article reveals the necessity and the objective basis for intensification of integrative processes in the post-Soviet territory. The role of the Customs Union of Kazakhstan, Belarus, and Russia is studied as a reflection of these processes. The author shows the nature and the meaning of creation of the Customs Union for the economies of the three countries. An important aspect of the analysis in the article is the characteristic of the stages of development of the integrative cooperation, the objectives of improvement of its legal framework, and the problems that arise on this way.

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Introduction

Currently, Kazakhstani politics admit that the assumption that the Customs Union (CU) will open the 150 million market to Kazakhstan has confounded expectations yet. For example, the share of Kazakhstan in the Customs Union in 2011 decreased by 20%, and in 2012 – by 17%. Being the Minister of Finance of the Republic of Kazakhstan, Bolat Zhamishev announced repeatedly this issue. According to him, export of Kazakhstan to the countries of the Customs Union reduced drastically. Where, according to the data of the Agency of Statistics of the Republic of Kazakhstan, the export of Kazakhstan to the CU countries decreased in 2012 by 3.7%, the import from Russia and Belarus increased by 12%. In 2013, following the results of the first semester, export of our goods and raw materials decreased by 10.8%, and import increased by 10.3% accordingly. Against this background, the trade and economic relations within the Customs Union extensively develop; the intertrade indexes increased by 1.8% since January until May of 2013 and exceeded 9.4 billion US Dollars. The intertrade with the Customs Union countries in January-October of 2013 equaled to \$19,853.6 million, which is by 1.6% more than in the January-October of 2012, including export for \$4,967.2 million (5.6% decrease) and import for \$14,886.4 million (4.3% growth) [1].

The figures were quite expected, the trade turnover within the CU will be growing further, with the growth rate increasing.

Methodology

For Kazakhstan, the most important thing is to achieve positive export-import balance in this turnover and try to maintain this index. Kazakhstan

exports to their union partners raw materials and receives finished products from them. It is necessary to emphasize that the ready products are made of the raw materials exported by Kazakhstan. The political analyst Dosym Satpaev notices that bureaucrats in power have started mentioning the negative consequences of the Customs Union. "Currently, we can see that Kazakhstan authorities raise concerns stating that Kazakhstani products are expelled from the Russian market", he says [2].

Body of the work

On the other hand, it is necessary to highlight that formation of the Customs Union brings certain risks and threats to the market of consumer goods of Kazakhstan and to the Kazakhstani state-owned companies. For example, despite the common methodology and principles of formation of customs statistics, the data of the mirror statistics evidence differences in the values of intertrade between the members of the Customs Union. The other serious risk for Kazakhstan within the Customs Union is deterioration of price terms for consumers. According to the analysis of the effect of the Common Customs Tariff in 2013, it is to be noted that as much as 82% of its rates were taken from the Customs Tariff of the Russian Federation (Table 1).

Table 1. National and common customs tariffs (CCT)

Level of import duties	Kazakhstan	Russia	CCT
Weighted average	6.2	10.6	10.6
including for industrial goods	4.6	9.4	8.5
for agricultural goods	12.1	15.1	16.7

Note: prepared by the authors based on statistical data

The comparative analysis of the influence of the CCT on the market of consumer goods of the members of the Customs Union shows that this union

is mainly beneficial for Russia, as the level of profitability increases for 14% of the consumer market, remains unchanged for 82%, and decreased only for 4% of the market. The consumer market of Kazakhstan loses a lot, as it shows reduction of profitability and price growth for 45% of the consumer market, the increase of profitability for 10% of the consumer market, and the rest part of the market maintains the same level of profitability. We need to note also that transition of Kazakhstan to the CCT rates resulted in price hikes for products, commodities, and services of state enterprises offered in the internal consumer market, which has resulted in decreasing and depressing demand of consumers and growth of competition with Russian and Belarussian goods (Table 2).

Table 2. Change of prices for consumer goods for individual equal groups after Russia, Belarus and Kazakhstan joined the Customs Union

For Belarus	For Kazakhstan	For Russia
Increase:	Increase:	Increase:
individual types of the meat group	transport group	lamb, horse beef, goat meat
finished preserved groceries	Wood	finished preserved groceries of meat
individual items of steelwork	refrigerating equipment	individual clothing
passenger vehicles	pharmaceutical preparations	
	home appliances	
	clothing and footwear	
Decrease:	Decrease:	Decrease:
clothing	individual types of agricultural products	groceries for infants
carpets	animal hides	wool, textiles
leather and textile footwear	medical tools and devices	pharmaceutical substances
pharmaceutical substances		footwear parts
		materials for photography
		concentrates of juices of exotic fruits

Note: prepared by the authors based on analytical data

The main risk is associated with the fact that in the circumstances of industrial and export expansion of Russia, Kazakhstani enterprises can hardly compete with Russian goods, which have flooded the Kazakhstani consumer market. Besides, despite the adopted government measures, Kazakhstan does not yet have a developed processing sector of economy, and the level of state enterprises and enterprises, in which the government has a share, remains low in this sector.

Some Kazakhstani analysts express concerns that the Customs Union is an economic and political threat to the independence of Kazakhstan.

At that, representatives of the opposition point at the growth of prices for cars, fuel, groceries in Kazakhstan after it entered the Customs Union with Russia and Belarus.

"The decision to enter the Customs Union was more of political nature rather than economic", believes Timur Nazkhanov, Vice President of the Independent Association of Entrepreneurs. "The countries - members of the Customs Union have different weight categories. We are lighter than

Belarus, and even more than Russia. Therefore, we were condemned to lose in this race. If we create normal competitive environment, the business will survive, but this will require equal initial conditions", he insists [3].

"This union is beneficial for that part of the industrial capital, which deals with raw materials: oil, natural gas, metals, and grain crops. The decision was taken for the benefit of this narrow circle", believes Nazkhanov.

He says, "Even before entering the Customs Union, we exported raw materials and currently, we remain at the same level. The flow of goods from China has not decreased. Entrepreneurs find it more profitable to bring goods from China, than import goods from Russia and Belarus. We were not ready to enter the Customs Union. As a result, the business suffers" [3].

Results and discussion

What benefits does the Customs Union offer to us?

1. The Kazakhstani market has been flooded with expensive Russian goods of poor quality. And Kazakhstan did not have ready products to export to Russia. The export of Kazakhstan to Russia decreased by 3.6%, to Belarus – by 13.7%, the import of Russia to Kazakhstan grew by 13.8%, of Belarus – by 11.6%. It means that Kazakhstan not only loses to Russia, but also shows its feebleness to Belarus.

2. Within the Customs Union, Kazakhstan has suffered a setback in both raw materials and industrial sectors. As Kazakhstan does not have a developed industrial sector. The advantage of Belarus before Kazakhstan is that before entering the Customs Union, it rectified its industry. Due to this, Belarus has managed to keep its interests safe in the CU.

3. By increasing customs duties, we targeted defense from import. But this objective has not been achieved. Import from the other CU countries equaled to just 11.7%, from other countries – 23%, and from China – 49%. It means that there is no advantage here except for price hikes for goods [4].

The bank message says, "Currently, only Russia feels the favorable effect of the Customs Union in terms of activation of the trade turnover, as many import duties were reduced as a result of creation of the Customs Union" [5].

As for disadvantages, mainly they are the price hikes for groceries and consumer goods, the negative influence on the domestic small and medium businesses, for example, due to growth of import duties for a number of goods from third countries. Besides, it is complication of customs administration, which is often emphasized by the Kazakhstani

Association of Customs Brokers. These are unilateral acts by Russia with regard to protection of its internal market and limitation of the opportunities for Kazakhstani entrepreneurs here. This is the inconsistency of qualitative and quantitative indexes of the turnover growth between the member countries, and absence of a unified system of technical regulation.

In political terms, it is difficult to give such an unambiguous estimate. On the one hand, there is progressive development of cooperation of Kazakhstan with Russia and Belarus in the form of not only bilateral, but also multilateral interaction. Kazakhstan has great opportunities for certain political maneuvers in the international scene in accordance with its multidirectional foreign policy. Besides, participation in the Customs Union and the Common Economic Space can restrain to a certain extent the negative effect on Kazakhstan caused by China, the USA, transnational corporations, etc.

On the other hand, the political and economic expansion of Russia is growing, which in some or other way is able to limit the sovereignty of Kazakhstan.

In the circumstances of the Common Economic Space, Kazakhstani companies found themselves under serious pressure by their Russian competitors. It is profitable for the Russians to place their productions in our country due to more comfortable taxation. Since 2011, there has been strong expansion of the Russian business to Kazakhstan: according to the data published by entrepreneurial associations, there are currently between 500 and 800 large and mid-size enterprises with Russian participation in our country. Representative offices of Russian manufacturers of groceries, machinery, chemical products actively work here. Russian and Belorussian import grows at a fast rate. This process is particularly notable in the markets of groceries, home appliances and some other commodities, where our partners by the Customs Union and the CES since recently have been showing the obvious strategy of expulsion by low prices. And this phenomenon is hard yet to counteract.

The business community of our country does not just ring the bell about the difficulties that they have to face within the CU and the CES. Some seriously speak about bankruptcy and ask for help. Obviously, there is serious stress in the Kazakhstani business circles: many projects face the threat of bankruptcy as a result of active in-flow of duty-free Russian and Belorussian commodities [6].

The growing import from Russia has made many Kazakhstani projects unprofitable, and even

senseless. The Russians win by stronger brands and lower prices.

Within the common space, Kazakhstani manufacturers have felt serious dumping by Russian companies during few previous months, which sell in the territory of Kazakhstan at the prices that are 20-30-40 percent lower than the same is in Russia.

Some Kazakhstani experts even claim that integration in the Eurasian space in the form of the Customs Union is not merely an economic benefit, but imperial ambitions of Russia. Allegedly, Russia wants to control the customs borders of the union and, at the same time, to hard sell its products.

For 2012 and the first quarter of 2013, Belarus' export reduced by 25.3% and import increased by 22%. Kazakhstan's export dropped by 21.7% and its import rose by 7.4%. The export of the Russian Federation decreased by just 4%, and the import increased by 11.6%. Totally, trade in the CU has come down by 2.2%. Simply speaking, Russia sells its goods and raises its export to Kazakhstan and Belarus by 11.6% on the average. At that, Russia blocks sales of goods from Kazakhstan and Belarus by decreasing their export sales by 20-25%. At that, Russia has cut off the flow of cheap goods from China to Belarus and Kazakhstan. The main part of customs revenues – above 80% – goes to Russia, 12% – to Belarus, and about 5% – to Kazakhstan. At the same time, prices in Kazakhstan have risen by 42% [7].

By now, Russia has virtually totally seized the Kazakhstani market. As the experience shows, after a while, it will result in price hike for groceries, including vital goods. The matter is that Russian companies are very large. Which means they can afford selling goods at prices lower than our small manufacturers can offer due to their large turnover. It is a common scheme to squeeze competitors from a market; obviously, consumers prefer cheaper goods from neighboring Russia. But only for a while: as soon as they totally own the market, the prices will be raised inevitably. And Kazakhstan's joining the WTO in such circumstances will be disastrous for the domestic business. When western goods flood Kazakhstan, our manufacturers will not be able to compete with the European quality and range of products.

There are reasons to say that the Russian influence on the economy of Kazakhstan in the Customs Union will reduce as Kazakhstan joins the WTO. But only the time will show whether it will be generally good or bad for the local business. Of course, expansion of the Russian companies will not be prevented by that. But we may expect levelling off the investment conditions and, accordingly, the

opportunities for any projects in Kazakhstan – the Ukrainian, German, Indian, or Russian ones.

The certain extent of politicization of the Customs Union and the Common Economic Space, and the issues of Kazakhstan's participation in them are determined by insufficient clarity of real purposes and further prospects of development of the integrative processes and, which is most important, their consistence with the national interests of the member countries. It is obvious that Kazakhstan was and is the generator of certain integration concepts and an active participant of the processes of their implementation, but Russia is currently the real driver of all these processes. Therefore, the wide public's prevailing viewpoint is that in this case the matter is only political projects implemented by Russia in accordance with its geostrategic interest in the post-Soviet territory. Besides, it is not clear, which format of the new level of integration planned to be launched starting from 2015 the members of the Customs Union and the Common Economic Space are about to build. Russia is generally for the Eurasian Union, i.e. inter-state alliance of confederative nature with its parliament and other supra-national bodies, where Kazakhstan appeals more to the Eurasian Economic Union. Thus, there is actual competition of the two models of integration – the political and economic ones, while the latter prevails so far.

Representatives of a number of large businesses of the CIS countries are against the Customs Union due to the following factors:

- * The suspicion that the Customs Union is mainly beneficial for Russia, as it corresponds to its plans of creating internal closed-type technological production. All the more so as 90% of duties derive from those in effect in Russia.

- * Forced creation of the Customs Union, which has already resulted in serious problems in the sphere of external economic activity. Currently, the member countries are often busy with counting losses caused by hasty decisions. The Customs Union is rather declarative, as a huge number of items of customs duties have not been agreed on yet.

- * Unfair allocation of customs duties between the members of the union from the point of view of Kazakhs and Byelorussians. Russia, as the most important exporter, counts upon the greater part of revenues.

- * Several exceptions have already been made from the general rule of free movement of goods within the Customs Union. Apparently, in the circumstances of the world crisis, Russia will not be able to open completely its internal market to Byelorussian agricultural products, as well as Belarus – its own to Russian products; otherwise, according to Byelorussian experts, nearly 80% of the production

in the country will merely stop. Belarus assumed, for example, that oil duties would also disappear. The continuing measure on protection of internal markets discredit the benefits of joining the Customs Union.

- * Disaffection of oil extracting companies. The matter is that the Customs Union assumes unified export duties for oil. It means that Kazakhstan, which has been selling oil without any duties for a long time, will have to abide by the general rule, which means the oil companies will gain less profit.

- * Customs-related issues. There are concerns that trafficking of Chinese goods to Russia will be growing on the Kazakhstan's border with Kirghizstan, as there is no due customs control there. Byelorussian products of both textile and engineering industry will face difficulties at competing with cheap Chinese import.

- * Difference in VAT between the CIS countries. Russian customs officers raise concerns that because of the difference in VAT, Russian companies will be clearing goods in the territory of Kazakhstan.

- * Problems foreseen by Byelorussian motor carriers. They are worried about the issues of cargo insurance, forwarding, and financial security of the delivery. Meanwhile, they have to count losses and sort out jams at customs offices.

- * Price hike. For example, the Byelorussians are concerned with the prospects of growing prices for cars by 30% after the duties are unified.

- * If Russian customs duties are adopted, nearly 20 thousand jobs will be liquidated in Belarus. Kazakhstan expects considerable growth of prices for cars, footwear, clothing, groceries, and perfumes. Taking into account that the major part of customs duties goes to Russia, Kazakhstan can lose as much as approximately \$470 million.

- * Growth of transborder organized criminal gangs, according to R. Nurgaliev, the Minister of Interior of Russia, which gangs will try to make use of the gaps in the legislation of the Customs Union in order to import smuggled goods and money laundering [8].

- * A hit at the domestic manufacturers. As the tariff policy of the Customs Union is based on the rates of Russia, Kazakhstan raises concerns that this will result in growing share of Russian and Byelorussian goods in their internal market. Only the leading Kazakhstani enterprises will survive this impact. However, the members of the Customs Union have reserved the right to adopt transitional tariffs, different from the unified customs tariff for a period between 1.5 and 4 years.

- * The best prospects for Ukrainian trade locate in the West. The EU market is larger than the

market of the CIS countries is – almost 500 million people live there. But this market is in fact closed for Ukraine. The Ukrainian government is not satisfied with the current level of relations with the EU. In May of 2010, 11th round of talks between Ukraine and the EU will take place with regard to creation of a free trade area, but things are not moving. According to the people's deputy of the Party of Regions V. Lukyanov, Ukraine "has no choice: either the EU opens its doors to us and we join the EU, or the EU does not make any signals to us and we will not have any other option but to join the CES" [9].

Experts believe that Ukraine's references to the WTO are only a pretext to avoid membership in the Customs Union. According to the Prime Minister of Kirghizstan Daniyar Usenov, Kirghizstan sees no problems in joining the CU despite it is a member of the WTO [10]. The Customs Union is built in accordance with the rules of the WTO. It is well-known that this organization supports customs unions, which provide for free trade within them. That remains to be seen whether the Customs Union will become another empty declaration, whether it is going to have the fate of other integrative projects that easily appeared and disappeared in the post-Soviet space (remember the CIS, the EurAsEc, the Union State, the CES), or, having overcome the developmental issues inevitable for any new project, it will become a real alternative for economic breakthrough and upswing for its member countries.

Analysts believe Ukraine will not most probably strive to join the Customs Union in full, but try to maneuver between the Customs Union and the EU. Currently, the most obvious format is believed to be "3+1", i.e. not joining the Customs Union by Ukraine, but its cooperation with the organization in those domains, which do not contradict already concluded legal agreements. Obviously, Ukrainian diplomatic officials will find dozens of "intrinsic" reasons for implementing such a compromise format: contradiction with the provisions of the Constitution of Ukraine, the necessity to adopt a battery of laws by Verkhovna Rada (the Parliament) of Ukraine, approval of the listed problems on the level of interstate committees of ministries and agencies of all countries of the Customs Union, and many other reasons [11].

That remains to be seen what happens next, which will surely be affected by the next wave of the global economic crisis.

In January-June of 2013, the intertrade of the Republic of Kazakhstan with the Customs Union countries equaled to \$12,081.6 million, which is by 9.6% more than in the January-June of 2012, including export for \$3,181.1 million (increase by

2.9%) and import for \$8,900.5 million (increase by 12.3%).

Minerals (40.3% of the total export to the CU countries), metals and metal products (24.5%), and products of chemical industry (14.6%) prevail in the structure of export of the Republic of Kazakhstan.

Kazakhstan mainly imports minerals (27.4% of the total import from the CU countries), machinery and equipment (22.2%), metals and metal products (15.7%), products of chemical industry (11.0%), animal and plant products, and finished groceries (9.9%) from the Russian Federation and the Republic of Belarus [12].

To improve the efficiency of operation of enterprises in Kazakhstan, which is a member of the Customs Union, the governments of all partner countries (Russia, Belarus, and Kazakhstan) are to take major efforts on coordination of the customs tariff policy and trade policy, which assumes solution of a bunch of tasks, including [13, 14, 15, 16, 17, 18 and 19]:

- unifying national legislations of the member countries. Ratification by Russia and Belarus of the Kyoto Convention's agreements, which will allow fully implementing the international standards of customs administration and control, could play an important role in this. Adoption of a unified mechanism of insurance of customs risks by the members of the Customs Union is also of top priority. Besides, it is necessary to unify the principles of taxation VAT rated for state companies. It is necessary to collect the VAT not from the total turnover of goods, but from the added value, which will considerably facilitate tax administration with regard to state companies having small turnover:

- setting the most acceptable financial criteria for obtaining the status of an authorized economic operator (the €1 million security required currently is impracticable for companies with small turnover). The Customs Code must exclude reference provisions and set a unified order of calculation of customs duties;

- determining customs tariffs with account of the consumer demand and offer in the markets of the Customs Union members. Particularly, it is necessary to adopt changes in the rates of the CCT for a number of raw materials and components imported in Kazakhstan, which is important for further development of industrial manufacture in the country;

- forming unified trade policy within the Customs Union with regard to third countries based on the analysis of the existing trade regulations:

- introducing a unified certificate of origin of goods, which would provide for free movement of goods within the territory of the Customs Union;

– developing institutional cooperation of state companies within the framework of the Customs Union, including establishment of joint ventures and interstate clusters. This will contribute to the economic growth, increase in tax and other revenues in the budgets of the countries.

Conclusions

To our opinion, implementation of the described objectives will ensure development of the consumer market, increase efficiency and profitability of enterprises, including state companies, expand free movement of goods, and, based on that, create prerequisites for stable development of national economies in the post-crisis period.

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