

Kazakhstan's WTO accession and its impact on Eurasian Economic Union

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Abstract

This article discusses the impact of the Kazakhstan's accession to WTO on the workings of the EEU. Authors argue that it might result in increase in non-tariff barriers and hinder further trade liberalization among the Union members.

Key words: WTO; Eurasian Economic Union; Rules of Origin; Exemptions; Free Trade; Tariff barriers; Non-Tariff barriers; Common External Tariff;

Introduction

The accession of Kazakhstan to World Trade Organization (WTO) took almost twenty years, one of the longest negotiations in the history of the organization. The negotiations were also complicated by the fact that Kazakhstan was bound by its commitments to the Eurasian Economic Union (EEU). The EEU maintains Common External Tariffs (CET) for imports from non-member countries and it was initially planned that countries will support each other with accession to the WTO, particularly such an agreement existed between Russia and Kazakhstan.

Although Russia was already a member of WTO, it was difficult for Kazakh negotiators to find compromise in lowering tariffs for around two thousand categories of goods. This resulted in large number of exemptions, when tariffs of Kazakhstan are different from CET of the EEU.

This article discusses the impact of the Kazakhstan's accession to the WTO on the workings of the EEU in the light of the above mentioned exemptions and differences in foreign economic policies of the EEU member states. Kazakhstan's more liberal commitments to the WTO may have serious implications on the EEU, particularly it might result in increase in non-tariff barriers and hinder further trade liberalization among the EEU members.

Literature review

Several authors have provided descriptive assessment of how Kazakhstan's WTO accession will impact on Eurasian Economic Union. For instance, Rustem Falyakhov affirms that Kazakhstan is experiencing EEU on strength.[1] The main reason for that is now member-State countries of Eurasian Economic Union have to live by the rules that will vary and may stabilize in ten years, and once again to strengthen the fight against smuggling. Falyakhov argues that in terms of Belarus (member-State of EEU) it has some negative effects, as well as low tariffs can decrease production of Belarusian products.

In her assessment Patrizia Tumbarello argues that WTO accession after forming Eurasian Economic Union could increase the overall level of trade protection of member-states of EEU, as well as they do have an experience on the field of trade through integration.[2] She stresses that a cooperative approach to WTO accession might significantly affect welfare of member states depending on what interests prevail. One member may dominate and lead the negotiations on behalf of Union members, which leads to different ways of benefits distribution among Union members.

Margarita Lyutova claims that there are re-export risks recognized: importers may try to import the goods in Kazakhstan at a lower rate and then sell to other

countries of Eurasian Economic Union, as well as the average rate after accession will be 6.5% versus 10.4% which is in the Eurasian Economic Union.[3] Taking into account this, Kazakhstan will have to administer the export ban. It is not clear how to do this in the absence of customs borders, says Alexander Knobel professor of Gaidar Institute.

A different opinion holds Jos Boonstra, the head of the program for Eastern Europe, Caucasus and Central Asia, the Foundation for the study of international relations and dialogue with the outside world (FRIDE, Spain). He maintains the opinion that Kazakhstan's participation in the WTO and the Eurasian Economic Union will not necessarily lead to a contradiction; because Russia is a member of the WTO, so the accession of Kazakhstan to the WTO can bring positive results for the Eurasian Economic Union.[4] In particular, accession to the WTO will positively affect to Kazakhstan, as this will help the implementation of the regulation and, perhaps in field of economic governance reforms. Furthermore, Kazakhstan's largest trading partner and the biggest investor in the country is the European Union. According to him, Kazakhstan's accession to the WTO, can probably help to expand agreement on partnership and cooperation between Kazakhstan and the European Union, that initiated earlier. Now within Kazakhstan's WTO accession is under new mutually beneficial conditions for both sides and probably close to ratification.

Jos Boonstra notes that it is also good news for the trade partners of Kazakhstan (Eurasian Economic Union) and Central Asia region, which will benefit from the increase in the number of WTO members.

Discussion of Possible Scenarios

The ongoing negotiation among the EEU members shows that countries are now trying to find solutions to the existence of large number of exemptions. There are two possible scenarios to solve the issue:

1. The first one is positive in terms of maintaining the main principle of functioning of Eurasian Economic Union - that is the promotion of free trade. It is re-consideration of the CET based on Kazakhstan's commitments to the WTO.
2. The second one is negative and can seriously hinder free trade among the EEU members. It is controlling for differences in tariffs through creation of barriers to trade of goods that are in exemption list. It can be done through setting strict rules of origin and increase in the number of controls for goods transit.

If the **first scenario** is realized, there will be no need for imposing extra controls for transit of goods through Kazakhstan and for implementing stricter rules of origin as the risk of re-exports will be minimized.

However, the realization of the first scenario seems less possible in short-term. For example, Minister of Trade of the Eurasian Economic Commission Andrei Slepnev proposes to monitor and manage the system of movement of goods, which may be introduced in Kazakhstan at lower rates.[5] He says that, in case of necessity, exports of goods in exemptions list could become subject of control in order to detect violations related to re-export of commodities. Although these proposals target only goods in exemptions list, they may influence all goods exports from Kazakhstan to other EEU members. Alexey Ulyukayev, Minister of Economic Development of Russian Federation, proposes the strengthening of administrative measures to prevent re-exports from Kazakhstan to other EEU members.[6] The statements of trade official in the EEU member countries and the latest decision of the Eurasian Economic Commission shows that **second scenario** is more likely to shape trade relations among the EEU members in short-run.

Minister of Economic Integration of the Republic of Kazakhstan Zhanar Aitzhanova affirms that with Kazakhstan's accession to WTO it is clear that tariffs on import for some commodities will be lower in Kazakhstan in comparison with other member-States of the Eurasian Economic Union, that's why as a solution two options ought to be implemented for importers of exempted goods:

1. The first option – importing goods at lower duties, in accordance with the commitments taken by Kazakhstan as WTO member. However, that goods can be sold only in the territory of Kazakhstan.
2. The second option – importing at higher duties equal to common external tariff of Eurasian Economic Union if Kazakhstan is just transit state for the goods in exemption list.[7]

The point of Zhanar Aitzhanova is rational and fully adequate in terms of maintaining trade rules of Eurasian Economic Union, but in fact how effective these options will operate is unclear yet. Because even after applying the above mentioned options, the issue of possible risk of re-export from Kazakhstan to Eurasian Economic Union zone will still exist.

Moreover, the Heads of the Integration of Eurasian Economic Union signed the "Protocol on certain aspects of entry and circulation of commodities on the customs territory of the Eurasian Economic Union", which entered into force on January 11 of 2016.

In accordance with the signed Protocol, the Republic of Kazakhstan has committed itself not to allow the export of commodity items that are in the list of exemptions to other countries of Eurasian Economic Union.

The import of commodity items included in the list of exceptions, shall be carried to the territory of the Republic of Kazakhstan either by lowered rates of WTO, but without right to export from Kazakhstan to other member-States of Eurasian Economic Union, or at higher rates of Eurasian Economic Union with a view of further implementation to the Member-States of the Union.

In this regard, the importation of goods to Kazakhstan after January 11, of 2016 the taxpayers need to follow requirements below:

- 1) The commodity items imported to Kazakhstan on WTO rates from the List of exemptions, are prohibited for export and handling outside the Republic of Kazakhstan;
- 2) The goods imported to Kazakhstan at the rates of Eurasian Economic Union, for export to member-States of Eurasian Economic Union should be accompanied with a copy of the customs declarations and electronic invoices, and must be certified by the authorities of State Revenue;
- 3) In case if exporting goods from Kazakhstan to other member-States of Eurasian Economic Union were produced in Kazakhstan, and if the goods of this group are in the list of exemptions, a certificate of origin form ST-1 must be provided, as approving document from State Revenue assurance bodies.[8]

In order to monitor turnover of commodity items from exemption list in the Department of State Revenue created "mobile group" with the equipment of vehicles and means of communication. "Mobile Group" provides traceability and chronometer inspection seizure of goods.

Conclusion

The Eurasian integration from its commencement promoted free trade among the countries in Central Eurasia through eliminating trade barriers. However, difference in economic development and foreign trade policies led to slow progress in trade liberalization. Although the establishment of the EEU was big step forward towards free trade, there are still some problems and the Kazakhstan's accession to the WTO has further complicated the issue.

The large number of exemptions from the CET applied by Kazakhstan required a solution. In the short-term, the solution was found in increasing the number of administrative controls in order to prevent re-export of goods from non-members to the EEU member states through Kazakhstan. The re-introduction of customs borders eliminated in 2011 is not discussed but the measures implement may increase non-tariff barriers for trade among the EEU members.

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