

THE INFLUENCE OF RECENTLY CREATED INTEGRATION STRUCTURES ON FOREIGN TRADE OF KAZAKHSTAN

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Abstract

The paper focuses on the dynamics of foreign trade in Kazakhstan in recent years. The integration processes that take place between Belarus, Kazakhstan and Russia already resulted in creation of the Customs Union and Common Economic Space. During disintegration years the foreign trade of Kazakhstan was diversified, however, with the deepening integration the structure of foreign trade seems to become reoriented towards former dominant partner, Russia. However, it is likely that export opportunities of Russia increase, while Kazakhstani export to Russia did not increase as it was expected resulting in discontent of local producers and giving grounds for integration opposing views. Numerous foreign trade analyses were conducted thereafter providing some conclusions, for example, concerning common external tariff increase supported by majority of the studies. However, most of studies also provide contradictory data and conclusions regarding other issues. The paper provides analysis of various studies regarding influence of integration on foreign trade stressing the problem of discrepancies caused by differences in used data.

Key words: integration, foreign trade, common external tariff, data reliability

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Introduction

The recently created structures of the Customs Union (CU) and the Common Economic Space (CES) between Russia, Kazakhstan, and Belarus appear to resemble the structures created by the European countries in the 20th century, so that they can be defined as created according to traditional way of gradual integration. The main reason that speaks in favor of choosing traditional way hides in huge similarities between the participating states in nearly all spheres (Afontsev, 2012). Although Kazakhstan occupied a significant territory within the USSR, it was considered as a periphery of the Soviet empire providing technologically incomplete production. Despite the economic decline and mass exodus of educated population, mainly Slavic, Kazakhstan managed to become a large exporter of raw materials and minerals during

the independence years. The success of Kazakhstan is often questioned considering the fact that economic growth depended on increase in the world oil prices in many respects. Researchers of Russian economy also pose the same question of whether the economic growth was largely the result of increasing oil prices (Bendini, Deryugina, 2013). Disintegration processes in post-Soviet space continued despite the numerous integration attempts which have been made since the early 1990s. The main cause of disintegration is seen by many researchers in different levels and paths of economic development and overall weakness of economic and political systems (Chernyshev, 2000, Kasenova, 2012). Foreign economic relations in context of integration could not be considered as priorities after the break-up as general economic degrade forced countries to be limited in their ability to support each other in order to create atmosphere of trust necessary for integration.

However, starting from 2000s when most of the countries of CIS managed to enter the path of economic growth and relatively stabilized their economies, many of them met growing need in integration. If to consider Kazakhstan and Russia, it is relevant to divide causes for integration into political and economic. Political part includes traditional loyalty of Kazakhstani authorities towards integration, significant share of ethnic Russian population, the necessity to counteract the economic expansion of China, and political instability in the development of Kazakhstan's southern neighbors, including Afghanistan. At the same time Russia has strong political component for all post-Soviet countries remaining a key political partner for most of post-Soviet countries and the most important guarantor of safety; however, recent ongoing processes in Ukraine pose numerous questions for political studies. As concerns economics, most of national infrastructure in Kazakhstan is connected with the Russian Federation. Kazakhstani territory is traversed by key Russian assets and communications with Central and South Asia, as well as the trans-Siberian arterial line. Economic cooperation of businesses between Russia and Kazakhstan became crucial when the period of combatting effects of the break-up ended (Libman, 2008). It can also be mentioned that political elite of Kazakhstan is tightly bounded with economic elite since privatization times led by decisive accretion of government officials with business structures. Seeking ways of further economic expansion private actors tend to lobby the support of integration initiatives in legislation. Finally, Russian direction was chosen not only because of its sole attractiveness, but also due to failures in alternative directions of integration. Up to date all the integration initiatives within Central Asia downgraded and economic actors see little or no necessity in accelerating the integration processes as practical results seem to be

significantly lower than the potential of possibilities (Burakovsky, 2004). The real trigger for creation of particular integration structures is likely to hide in the crisis of 2008-2009. Political leaders have realized the importance of building and developing the internal market and regional institutions for regional cooperation during the crisis to strengthen trade, economic cooperation, and political cohesion. The CU was formed immediately after the crisis in 2010 followed by the CES in 2012 which are open for other members to join. Vielmini concludes that this time and with unprecedented speed, the three countries managed to remove the majority of mutual trade barriers, agree on a unified customs tariff vis-à-vis third party countries.

1 Russian share in foreign trade and integration structures

Although only several years passed since creation of integration structures various studies were conducted to assess the consequences. Assessment of the economic prospects of the launched integration projects vary in a wide range - from the official optimism, where the CES in the coming years should become one of the leading players in the global economy, to the restrained skepticism grounded by the risks of rising protectionism, loss of national identity, and other problems (Afontsev, 2012). One of the crucial points assessed by the researchers is the Russian share in foreign trade of Kazakhstan. The disintegration years clearly resulted in reorientation of export flows from CIS market to the markets of 3rd countries. The degree of reorientation differs. Burakovsky states that it accounts for 90 % in Azerbaijan and Russia, 71% - in Ukraine, and more than 50% in Armenia, Kazakhstan and Uzbekistan. The export reorientation was not the only cause of economic estrangement. The economic crisis experienced by Russia and Kazakhstan in the late 1990s led them to levy heavy tariffs on each other's imports. The disintegration, anyway, was reflected in economic relations, for instance, commodity turnover decreased by 24 % between Russia and CIS in 1999 (Chernyshev, 2000). Starting in 2004, the EU surpassed Russia as Kazakhstan's main trading partner, and in 2009 its share in the latter's total trade turnover reached 40.2 % (against Russia's 17.4 %). China's trade with Kazakhstan has been growing significantly as well. In 1999 it comprised 5.7 % of Kazakhstan's external trade and in 2009 it comprised 13.2 %. The bilateral trade statistics showed that despite the consistent efforts to integrate that took place since mid-1990s, Russia's share in Kazakhstan's foreign trade decreased considerably. In 1995 Russia comprised 47 % of Kazakhstan's total trade turnover, while in 2000 its share had declined to 30.2 %, and in 2009 to mentioned 17.4 % (Kasenova, 2012). However, the data concerning overall turnovers of export and import severely differs among researchers due

to the following problem. The data in the Table 1 summarize import figures for Kazakhstan (in bln. of USD) according to two sources, CIA data to the right and National Agency of Statistics to the left. The data for Russian import was taken from National Agency of Russia.

Table 1. Dynamics of Russian share in import of Kazakhstan

Year	Import to Kazakhstan	Import to Kazakhstan from Russia	Share
2003	8,41	3,28	39%
2004	12,78	4,66	36%
2005	17,35	6,52	38%
2006	23,68	8,97	38%
2007	32,76	11,92	36%
2008	37,89	13,30	35%
2009	28,41	9,15	32%
2010	31,1267	10,80	35%
2011	36,9058	14,10	38%
2012	46,3584	15,08	33%
2013	48,8725	17,46	36%

Year	Import to Kazakhstan	Import to Kazakhstan from Russia	Share
2003	9,60	3,28	34%
2004	8,60	4,66	54%
2005	13,10	6,52	50%
2006	17,50	8,97	51%
2007	22,00	11,92	54%
2008	38,50	13,30	35%
2009	28,80	9,15	32%
2010	32,00	10,80	34%
2011	40,40	14,10	35%
2012	49,10	15,08	31%
2013	52,00	17,46	34%

Source: National Agencies of Statistics, CIA WF

According to the data the Russian share of import to Kazakhstan did not significantly changed during last years, comprising about 35 %, relatively stable. The data presented by CIA reflect the decrease of Russian share mentioned by studies above in favor of increasing shares of the EU and China, while national statistics does not show it at all. According to the World Bank experts, in general, during 2009-2011 the import share of the CU partners in Kazakhstani trade increased from 32.6 % to 44.5 %, while import share of the European Union decreased from 27.4 % to 19.3 %. This is not reflected by either pool of data presented. It should be mentioned that, according to report of Statistical Agency of Kazakhstan, Russia's share in import in 2007 was 36.7 % while it comprised 46 % in 2011, thus almost regained its "share strength" lost during early 2000s. However, 38 % in 2011 is obtained using statistical data of Russian agency. This fact puts serious questions before the national statistical agencies concerning convergence of calculation methods and before the researchers. Using different data a study can depict different conclusions, which can serve to a particular bias, for example

in national and official research or in skeptic criticism. It should be convenient for politically based studies to interpret unreliable data in order to create necessary picture followed by erroneous perception by ordinary consumers across the CES. Up to date the only sound conclusion might be one driven by Burakovsky back in 2004 and still being true that due to its economic weight, Russia occupied a special place among the countries and despite the decline remained an important trading partner for Kazakhstan. However, such formulation is severely diffused if one is to study the increasing or decreasing role of Russian import after creation of integration structures. The diffusion and contradictions in data, nevertheless, do not prevent researchers to make conclusions about increasing or decreasing share. As it can be seen in this particular example it is not permissible approximations that are questioned; the discrepancies are significant. One can only take on trust the fact about decreasing Russian import share before 2008 and increasing thereafter, as most studies agree with that within certain limits.

2 Mutual trade in the Common Economic Space

2.1 Dynamics of foreign trade

The increase in mutual trade is usually named as a positive consequence by the researchers (Shkurenko, 2012). At the same time whether the trade, in general, was affected positively is severely doubted by others (Vielmini; Afontsev; Blockmans, Kostanyan, Vorobiov, 2012). Wisniewska states that the trade volumes within the Customs Union rose for 25 % in 2010, over 30 % in 2011, and 8.7 % in 2012. Another study provides figures that in 2010 the turnover between Russia and Kazakhstan increased from \$12.4 bln. to \$17.9 bln. and between Kazakhstan and Belarus - from \$421 mln. to \$865 mln. (Kasnova, 2012). At the same time both studies point out that it is difficult to estimate the degree to which the growth was affected by the integration process as the tariff barriers on a number of categories of goods were already low prior to creation of the CS. The overall impression of trade increase between Kazakhstan and Belarus is commonly presented by officials as a real success of launched integration processes. Fivefold increase in the volume of trade between Belarus and Kazakhstan in 2010 is named as explicitly positive result of integration by most governmental researchers. Independent authors, however, link overall growth with general recovery of world economy and favorable conditions on raw materials markets. On the other hand, experts of the World Bank state that the CU and the CES creation already led to a partial reorientation of volumes of trade in favor of Russia, while emphasizing on Kazakhstani specialization in raw materials, minerals and metals providing insignificant opportunities in expanding exports of other goods, such as footwear and machinery. Some studies note the “flash” character of

mentioned increase in 2010 with Belarus which was followed by corresponding decrease in 2011 while the growth in exports of Belarus to other CIS countries grew faster in 2011 (Afontsev, 2012). As it can be seen from the Table 2 in subsequent years the tempos of Kazakhstani export to Belarus continue to fall, and slow down for the figures for Russia signifying about persisting inaccessibility of these markets for Kazakhstani goods (Vilemini, 2013; Abaibullayeva, 2014) assuming leaving many local producers dissatisfied. Possibly the ambiguity appears due to the contradictions in views on trade creation and trade diversion effects. Many authors state that trade diversion effects grow over trade creation when the integration deepens, while inverse situation is necessary for success (Soloaga and Winters, 2001, De Rosa, 2007, Afontsev, 2012). However, according to another research volatile dynamics in major export-oriented sectors of Russia's economy fail to supply strong evidence for the sustainable trade-creation effects of the introduction of the CU (Blockmans, Kostanyan, Vorobiov, 2012). The effect of trade diversion analyzed by De Souza in 2011 showed that there is a dominance of trade diversion effect, which is caused by protectionist character of the CES, consequently, influence of this factor can lead to reduces of GDP by 0.38 % for Russia and 3.2 % for Belarus providing growth of only 0.04 % for Kazakhstan. According to one more study, the trade between CU member countries in 2011 increased by 18.3 %, while trade with 3rd countries decreased by 2.39 % if compared to 2008 (Alzhanova, 2012). Comparing these results with the summarizing foreign trade data with CU members presented in Table 2 it can be concluded that import from the CU members to Kazakhstan grows by much higher tempos than export. Some researchers argue that while Russian goods have full access to Kazakhstan, Russian authorities at the local level using double standards block Kazakhstani goods by various non-tariff barriers. There is a widely shared opinion that Russian companies are using aggressive marketing tactics, actively resort to political and administrative resources, possess much larger capital, and use anti-competitive methods.

Table 2. Trade between Kazakhstan and CU members

Trade flow (in mln. of US dollars)	2008	2009	2010	2011	2012	2013
Export to Russia	6379,0	3697,1	4477,9	6579,0	8617,8	9010,7
In % to previous year		-42%	21%	47%	31%	5%
Export to Belarus	171,8	74,9	405,8	137,0	119,0	82,3
In % to previous year		-56%	442%	-66%	-13%	-31%

Import to Russia	13299,0	9147,1	10795,7	14098,6	15080,3	17460,1
In % to previous year		-31%	18%	31%	7%	16%
Import to Belarus	365,2	313,4	464,8	674,0	806,9	868,2
In % to previous year		-14%	48%	45%	20%	8%

Source: National Agency of Statistics of Republic of Kazakhstan

To sum up, the increases in trade in 2010 and 2011 with Russia and Belarus presented as clear achievements of integration as time passes by more and more seem to be questioned. Since 2008 the export of Kazakhstan to Belarus remains volatile, but does not provide a clear trend, moreover, in the last years the volumes continue to decrease. As concerns imports, the amount doubled since 2008 and was constantly increasing especially in after crisis years. The volumes of trade with Russia increase, but the import growth is also higher.

2.2 Tariff increase

The CU led to lifting the barriers with notable exception of oil trade. Among negative aspects for Kazakhstan nearly all studies name the increase in common external tariff (Blockmans, Kostanyan, Vorobiov, 2012; Vielmini; Bendini; Wisniewska, 2013). Wisniewska stresses that a single common tariff (SCT) introduced was to a great extent based on the one previously applied in Russia, and about 80% of the common customs rates were the same as the rates used by Russia. She also marks that according to the Customs Union Commission's estimates, before the SCT was introduced, import duties in terms of the number of items had been harmonized between Russia and Belarus for 90 %, while only for 38 % between Russia and Kazakhstan. As a consequence of these changes, Kazakhstan's weighted average import duty rate rose from 6.2 % to 10.6 %. According to another study this rate rises from 4.3 % to 12.67 % (Kasanova, 2012). One more study names increase of average import tariff for Kazakhstan in 2010 from 6.7 % to 9.2 % with tariff rate being increased for 5400 tariff lines (Bendini, 2013); this comprised 47.7 % of types of goods. It is necessary to mention that negative consequences of the SCT introduction were limited by negotiation of a list of goods with over 400 items which would not be covered by the single tariff in the transitional period. Vielmini (2013) argues that the fact that Kazakhstan had to significantly increase the majority of its import tariffs reflects the fact that the motivations at the root of the project are more political than economic. As it can be seen preferential conditions could also be viewed as having significant share of political agreements interfering economic. This consequence is

paired with the strengthening protectionist policy by Russia applied towards third countries, considered to be unfavorable for Kazakhstan and Belarus contributing to improving the price competitiveness of goods from Russia, despite their lower quality. At the same time, possibilities of re-exporting Chinese goods Kazakhstan have been dramatically reduced after establishing common alliance border with Kyrgyzstan. Thus, the integration has primarily been aimed at restricting access for entities from third countries, and has not been focused on improving the competitiveness of the market itself (Wisniewska, 2013). Several studies conclude that the introduction of higher external tariffs hurt Kazakhstani producers (except for exporters of minerals and metals) and consumers, while the opening of the customs borders did not result in a major growth of Kazakhstani exports to CU member-states. The impact of the revised customs arrangements has left a number of Kazakhstani exporters dissatisfied, while the adoption of Russian tariffs has increased the price of goods such as vehicles, electric appliances, textiles and food (Vielmini, 2013; Kasenova, 2012). The mentioned studies mostly agree that there is a notable success in introducing free movement of labor; however, they focus on difficulties in introduction of free movement of goods, services, and capital. Although tariff barriers were significantly liberalized, the differences in technical requirements are still present. All the members strictly regulate the presence of foreign entities on their market. New regulations in various areas have reflected an attempt to increase the “local content” in the economy (local workforce, local suppliers), in ways that are not always economically favorable (Hindley, 2008). The services sector became part of the integration process only within the framework of the CES. Before that, this market segment had been developing autonomously in each of the countries. Russia’s conduction of protectionist policy increases the risks of barriers arising in services trade.

To sum up it should be added that most analyses carried out address the question of SCT introduction, as the CU was formed in 2010 and sufficient time has passed for them to appear, while assessment of CES created in 2012 is a still ongoing process, a fact which poses certain difficulties in providing studies and assessments. It should be stressed that there are significant discrepancies among researchers in this question and others as well. For example, increase in the total GDP of Russia, Belarus and Kazakhstan forecasted being induced by integration is valued to be increased by 18-20 % (Shkurenko, 2012), 2.5 % (Ivanter et al, 2012), 3.7-17.5 % (Jensen and Tarr, 2007), while De Souza states negative values. These discrepancies partially are conditioned by differing statistical data provided by national agencies mentioned in chapter above and demonstrated by an example with the import share

of Russia. Most of mentioned authors mark that there are difficulties in obtaining the data, including statistical and the unreliability of obtained; many parameters differ between national statistical offices across the CES. For instance, the data for bilateral foreign trade between Belarus and Kazakhstan, published by national statistical agencies, contains significant differences in almost all positions associated with shadow movement of goods and services. Authors also mark that there is a limited number of economic models for Kazakhstan, probably due to poor quality of the data available. There is a widespread practice of glossing over of the official statistics, which exhibit phenomena in an unfavorable way. As concerns exhibitions in favorable way studies can even offer a “legal basis” using different data.

Conclusion

There is little doubt that integration will not deepen further, moreover with likely accelerated pace. Meanwhile, the political leaders of Russia, Kazakhstan, and Belarus do not seem to be particularly concerned about the presence of skeptical and critical views, and continue to head for the further deepening of integration processes and plans. The conducted analyses of participation in integration structures significantly vary in terms of qualitative assessments and obtained data. A brief overview of the studies regarding analyzes of integration consequences on foreign trade for Kazakhstan can show that the diversification of trade in Kazakhstan before renewal of integration processes led to constant decrease in volume of import from Russia, while current trend proves that the share of Russia in import structure will grow, according to most researchers. This could result in less imported technology from the more technologically advanced European Union and other countries leading to a loss of productivity gains in the long-run. However, the reliability of data concerning volumes of trade could be questioned and needs thorough analysis which should involve national statistics agency officials. There is also no increase in export of Kazakhstani goods to CES partners registered, while particular increase in trade between Kazakhstan and Belarus in 2010 is likely to be an exception, which is presented excessively positive by government officials and research. Various politicized speculations on the issues regarding integration make it difficult to obtain objective evaluation. Most researchers marked that common external tariff for Kazakhstan increased while liberalization had clear improvements only in movement of labor factor marking the problems in sphere of movement of services and non-tariff barriers. However, some authors argue that liberalization of trade in services, movement of capital and labor may begin much later within integrated union, and there is no reason to require the integration group to speed up this process (Chernyshev, 2000). Studies argue that increase in

tariff hurt trade structure with the 3rd countries while Kazakhstani goods did not receive expectable access to common market resulted in discontent of particular producers.

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