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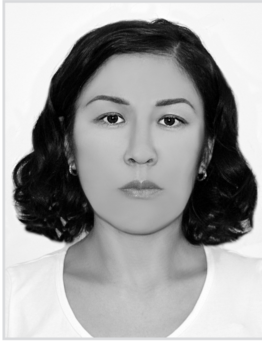

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The role of WTO and the Customs Union in the country's competitiveness increase

Abstract
The article analyzes the current state of business communities, assesses their competitiveness, as well as positive and negative aspects of its accession to the WTO. It shows the dynamics of Kazakhstan's foreign trade turnover. In the course of the research, the authors have concluded that Russia and Belarus will benefit most from the economic activities of the Customs Union, as they are able to satisfy domestic demand need and come up with a surplus for export. By joining the WTO, Kazakhstan expects the trade preferences in international operations and the attraction of foreign investment. In our opinion, Kazakhstan needs, first of all, to develop its industrial production and agriculture, to increase the share of domestic consumption of national products. In the long term, it is expected that WTO membership will result in small business starting to compete with foreign companies.
Keywords: Customs Union; WTO; Kazakhstan; Businessmen; World Trade Organization; Business Community
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Роль СОТ і Митого союзу в підвищенні конкурентоспроможності країни
Анотація
У статті запропоновано аналіз поточного стану бізнес-спільнот Казахстану, оцінку її конкурентоспроможності, а також виявлено позитивні й негативні сторони вступу до СОТ. Показано динаміку зовнішньоторговельного обороту Республіки Казахстан.
Від вступу до СОТ Казахстан очікує преференцій у торгових міжнародних операціях, а також залучення іноземних інвестицій. У довгостроковій перспективі передбачається, що членство в СОТ приведе до того, що невеликий бізнес почне конкурувати з іноземними компаніями.
Ключові слова: Митний союз; СОТ; Казахстан; підприємці; бізнес; бізнес-спільнота.

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Роль ВТО и Таможенного союза в повышени конкурентоспособности страны

Аннотация
В статье дается анализ текущего состояния бизнес-сообществ, оценка их конкурентоспособности, а также выявлены положительные и отрицательные стороны вступления в ВТО. Показана динамика внешнеторгового оборота Республики Казахстан. В ходе исследования, авторы пришли к выводу что от функционирования Таможенного союза больше всего выигрывают Россия и Беларусь. От вступления в ВТО Казахстан ожидает преференции в торговых международных операциях, а также привлечение иностранных инвестиций. В долгосрочной перспективе ожидается, что членство в ВТО привет к тому, что небольшой бизнес начнет конкурировать с иностранными компаниями.

Ключевые слова: таможенный союз; ВТО; Казахстан; предприниматели; бизнес; деловое сообщество.

1. Introduction

Kazakh businessmen's concerns about joining the WTO are quite explainable today. In the conditions of the Single Economic Space Kazakh companies turned out to be under serious pressure on the part of Russian competitors. It is favorable for Russians to place their productions in our country on terms of a more beneficial tax mode. From the year 2011, there has been a powerful expansion of the Russian business to Kazakhstan: according to data published by enterprise associations, there are about 500 – 800 big and medium-sized enterprises with Russian participation in the country in the current period (Ikonnikov, 2012) [3].

The main reproach to the Russian companies working in Kazakhstan market, is the fact of dumping – the sales of goods 20-30% cheaper compared to the prices at which the goods are sold in Russia. In the opinion of Nikolay Radostovts, the Director of the Association of Mining and Metallurgical Enterprises, besides Russian companies, Byelorussian businesses are also dumping in Kazakhstan (Kozhantaeva, 2012) [5].

This fear is caused by the fact that after joining the WTO, competitive pressure of Russian and Byelorussian goods in the local market will be increased by the expansion of foreign companies.

2. Brief Literature Review

According to the research «Assessment of Expenses and Benefits from the Customs Union for Kazakhstan» (the first report within the work known as «Studying World Practice Integration/Customs Associations», the main authors Dzhesper Janszen and David Tarr, the World Bank, 8 June 2011), the growth of tariff receipts to the budget of Kazakhstan (announced by the government as the first positive effect of the Customs Union) happened only due to the growth of expenses of the Kazakh business and the consumption of imported goods. According to the calculations done by the analysts, who have developed a computable model of the general balance of Kazakhstan by 57 sectors taking into account the conditions of spring 2011, the introduction of the single customs tariff (SCT) will cause the real income loss of the country by 0.2%, a decrease of the real salary by 0.5% and a decrease of the real profit on the capital by 0.6%. Thus, according to the estimation provided by the authors, resources within the tariff range are displaced towards the spheres of inefficient production, and the trade of Kazakhstan with other countries of the world, if compared with Russia, Belarus and other CIS countries, is reduced. Such is the situation in the current period. But there is an optimistic scenario in the model. It means that a considerable simplification of foreign trade activities done by Kazakhstan and the decrease of non-tariff barriers within the Customs Union and with the third countries may give an increase of the real income by about 1.4% of the cost of consumption of Kazakhstan, which approximately compensates for the losses from full introduction of the single customs tariff (SCT) after cancellation of exceptions. However, it is emphasized that for this purpose «serious adherence to the improvement on the part of corresponding institutes is required, which in some participating countries and sectors are struck with a problem «pursuits of a rent» and aren't inclined to changes» (Bukeeva, 2012) [2].

In year 2006, the same Dzhesper Janszen from J-Consulting and David Tarr from the World Bank, at the request of the government of Kazakhstan assessed the possible effects of the entry of the country's accession to the WTO. According to their assessment, which considered aspects such as improvement of market access, a reduction of trade tariffs, removing the barriers on the way of transnational service providers,the reform policy reforming concerning «local content», as well as VAT for the transnational companies of the oil sector, the benefits of Kazakhstan from joining the WTO will make about 6.7% (3.7% of gross domestic product) of consumption in Kazakhstan in the medium-term period and up to 17.5% (9.7% of gross domestic product) in the long-term period (taking into account the positive impact of joining the WTO on the investment climate). According to their calculations, about 2.3% of workers had to change jobs; at the same time an increase in salary up to 5% (due to the country's accession to the WTO) in the medium-term period and up to 15% was expected in the long term.

3. The purpose of the research is to carry out an analysis of the current state of business communities in the conditions of the Customs Union, to give an assessment of competitiveness of small and medium-sized enterprises within the Customs Union, to consider positive and negative aspects of Kazakhstan's accession to the WTO, to determine the country's interests in the context of integration, to identify the causes of tension within business communities of our country and make essential recommendations for the improvement of Kazakh businessmen's welfare by providing support to them and protecting them from competitors of the neighboring countries.

4. Results

Within the Customs Union, the participating countries have agreed to establish the following shares in distribution of customs payments: Russia – 87.97%, Kazakhstan – 7.33%, Belarus – 4.7%. Thus, it was claimed that initially Russia suggested to give 3.5% to each partner country and to take 93% for itself. Nevertheless, in the course of the bargaining, Kazakhstan's authorities managed to raise the share from 3.5% to 7.33%. That was presented as a convincing victory. Unfortunately, neither the data, nor the technology for calculations, nor the calculations themselves (on the basis of which the above mentioned shares had been calculated) were published on the official websites of state agencies of all the three countries, or on the website of the Eurasian Economic Commission.

Finally, in the negotiations on defining shares Russia suggested to give Kazakhstan 3.5%; later it agreed to almost double the share – up to 7.33%. If the same rule is to be applied to the share of Kazakhstan from the general import of the Customs Union for receiving a share in the total amount of customs receipts of the Customs Union, we receive 22% instead of 11%. This figure is almost equal to the number of votes of Kazakhstan in the organization, which is 21.5%. Moreover, such a share of the EurAsEC general budget is financed by Kazakhstan. 22% can be already considered as a real concession from Russia, and 7.33% is lowering of a fair share of Kazakhstan in the Customs Union. However, it is necessary to understand that 22% is loss for Russia, but only in the short-term planning because the long-term gain will compensate for these losses, and it is practically an inevitable result (Khudaibergenov, 2012) [6].

Tab.: **Dynamics of trade turnover of Kazakhstan with The Eurasian Economic Union (EEU) and third countries in 2009-2015, million US dollars**

	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015 January -August**	**2014 to 2009, %**
Russia	12,443.6	17,973.8	22,330.6	23,096.6	23,847.0	18,908.4	9,077.2	152.0
Belarus	421.8	914.1	698.5	791.7	756.6	756.8	371.3	179.4
Eurasian Custom Union	12,865.4	18,887.9	23,029.1	23,888.3	24,603.6	19,665.2	-	152.9
Armenia	5.1	10.8	5.7	3.7	7.9	8.2	4.2	160.8
Kyrgyzstan	507.0	588.8	695.1	1,004.6	1,027.9	1,056.3	-	208.3
EEU-5	13,377.5	19,487.5	23,729.9	24,896.6	25,639.4	20,729.7	-	155.0
Third countries	58,739.0	72,509.6	98,212.6	108,918.9	108,902.3	99,785.5	-	169.9
EU	28,817.3	38,054.2	49,447.4	54,642.2	54,719.5	53,072.4	-	184.2
China	9,458.1	14,084.1	19,706.3	21,672.7	22,738.2	17,182.1	-	181.7
Total	71,604.4	91,397.5	121,241.7	132,807.2	133,505.9	119,450.7	-	166.8

Source: Nurseitov, 2015 [7]

It is necessary to provide all possible support to the national producer until they will be able to win import in their territory. It is necessary to withdraw from participation in trade associations and maintain relations on the basis of bilateral contracts, which will reflect national interests more flexibly. When the national producer gets stronger, then it is necessary to join trade associations and win new sale markets.

Belarus has won most of all due to elimination of mutual barriers; its national producer is capable to satisfy domestic demand and come out with a surplus to export. Russia wins as well, but Kazakhstan loses. And there is one interesting and natural nuance: Russia's export to the third countries has fallen, it has been stabilized in Belarus, and it has been growing in Kazakhstan. In other words, it is not the Russian market that serves us, but it is Kazakhstan's market that is open to Russian producers. The Kazakh producer is very weak: the share of domestic production in domestic consumption of non-food products varies from 0% to 30%, whereas food products comprise about 65%, although in Kazakhstan it could be possible to provide 100%.

The data in Table show that the volume of trade with Russia decreased by 20.8%. Trade between Kazakhstan and the EU grew in 1.8 times in five years, from 28.8 billion dollars in 2009 to 53.1 billion dollars in 2014, and 1.8 times with China, from 9.5 billion dollars to 17.2 billion dollars in 2014, which is higher than the increase in trade with Russia in the same period in 1.5 times. It should be noted that in 2014 the trade turnover with Russia, compared to the year 2013, fell by 20.8%. Thus, in Kazakhstan's total trade turnover the share of the EU countries in the five years increased by 4.2% to 44.4%, the share of China was 1.2%, which increased to a level of 14.4%. At the same time, the share of the EEU decreased by 1.4% to a level of 17.3%, despite the intensification of the processes of regional integration [10].

According to the estimates of Belarusian transport companies, the abolition of barriers and restrictions in the transport sector, in particular the system of permits would double the volume of cargo turnover in three years and also increase their fleet of vehicles by 30-40% a year. Respondents in Kazakhstan believe that the existence of barriers and restrictions in the Russian market leads to an increase in the cost of transport services by an average of 10-20% [9].

In our view, accession to the WTO threatens agriculture and food security. However, there is a number of advantages, which, in particular, will allow the country to obtain more favorable conditions of access to the global market, the elimination of discrimination and the possibility of realization of national interests in trade contribute to the development of international business. It should be noted that data on foreign trade show the importance of trade and economic relations with Europe and China for the development of Kazakhstan's economy.

Thus, we may come to conclusion that the main mechanism by which Kazakhstan was enticed in the Customs Union, hasn't worked. Such results are not surprising. Everything is extremely logical and predictable. Belarus has strong producers, who are capable to win import in its territory and are ready to enter foreign markets. The Russian producer isn't capable to completely win competitors from the developed countries, thus they redirect surplus goods to Kazakhstan. It should be mentioned that a two-year period is not an indicator. Unfortunately, this argument is inappropriate as Kazakhstan alone has bad results; when considering Russia and Belarus, it should be stated that they have good indicators.

The negotiations on Kazakhstan's accession to the World Trade Organization (WTO) started on 26 January 1996. The Director of analytics and consulting of the Institute for Political Decisions of the Republic of Kazakhstan Rustem Burnashev believes that both Russia and Kazakhstan first of all expect preferences in international trade operations from their accession to the WTO. In one of his interviews, he noted that the majority of Kazakhstan's trade partners are members of the WTO. Therefore, to benefit from joining this organization it is important for the country to have independent value irrespective of actions undertaken by Russia. In the opinion of Professor Murat Laumulin, the chief researcher of the Kazakhstan Institute of Strategic Researches (KISR) under the President of the Republic of Kazakhstan, this step is no more than the question of political prestige, the desire to be in the so-called «world stage». Actually, the WTO is no more than fiction. All big players stipulate their own conditions in joining the organization and as an example China succeeded in holding negotiations in such a way, that it could get unilateral benefits from this step. It is important to emphasize that China, has «destroyed» the Italian textile industry. All big players pursue their own economic policy, regardless of the fact that they are demanded to follow the charter and WTO obligations. The European Union is closed by tariff barriers, the USA conducts trade wars. Though «if the principles of the organization are followed, nothing similar should take place», Laumulin considers (Nekrasov, 2012) [8].

Prospects of Belarus aren't clear yet. According to estimations of the head of the Russian negotiators and part-time leader of the Customs Union negotiating group Maxim Medvedkov, Kazakhstan lags a year behind Russia, whereas Belarus is about half way. Maxim Medvedkov believes that Russia has lost nothing. Officials from the Ministry of Economic Development confirm that Russia's negotiations are more favorable, because the WTO makes concessions to a big economy more willingly. If the vector of Russian movement is logical and clear, there will be some decrease in import duties in connection with the accession to the Customs Union and their further decrease in the WTO; Kazakhstan path looks absurd. For example, import duties for cars are rising from domestic 10–15% (depending on age and class) to common 30–40%, while Russia makes arrangement with the WTO about a decrease of autoduties to 15%.

According to calculations of the World Bank, Kazakhstan, with its average tariff rates before joining the Customs Union equal to the WTO countries, doubled them from the average 6.7% to 11.1% without weighing and from 5.3% to 9.5% after weighing, taking into account specific weight in cost volume. According to the World Bank, the negative effect is already seen and benefits are possible only in perspective, providing that certain conditions are satisfied.

«Now it is obvious that joining the WTO is favorable and strategically important for us despite the Customs Union foundation. … It is necessary to take into account that export of 34 most developed countries of the world, where 15% of the planet population lives, makes more than a half (52.3%) of the worldwide export volume», Nursultan Nazarbayev marked at the St. Petersburg International Economic Forum (Tengrinews, 2011).

Meanwhile, one year of functioning of the Customs Union has changed the mood of a considerable part of national business concerning the WTO. According to G. Shestakov, the chairman of the Kazakhstan Association of Customs Brokers, the accession to the WTO will rescue both the government and the local businessmen, as well as the consumers [1].

«We expect Kazakhstan to join the WTO, we will engage many investors thanks to more attractive investment climate», the Deputy Prime Minister of the Republic of Kazakhstan Kayrat Kelimbetov considers (Kelimbetov, 2012) [4].

5. Conclusions

Kazakhstan has lost from its accession to the Customs Union on many parameters.Thus, it is necessary to change at least two key parameters in order to increase advantages from such membership to Kazakhstan. Firstly, to increase the share of Kazakhstan in the Customs Union from 7.33% to average 16-22%, to raise the issue of a transition period within which Kazakhstan should have the right to support domestic producers of goods with the domestic production which is less than 80% of the consumption. Secondly, it is necessary to immediately harmonize the antitrust legislation within the single space in order to conduct investigations on the inquiries of Kazakhstan's consumers about Russian companies working in Kazakhstan's territory for the purpose of the country's market protection from dumping on the part of Russian and Belarusian companies. Accession to the WTO will be beneficial for Russian and Belarusian consumers, whereas difficulties may arise for Kazakhstan's consumers, though in medium term perspective the benefits of WTO membership will become visible. Therefore, different conditions should be created for the development and protection of Kazakh businessmen within country's accession to the WTO.

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