

“Kazakhstan’s ascension to the WTO provoked many questions from its EAEU partners. They are worried about how the EAEU activities will develop in light of Kazakhstan’s new commitments to the trade organization. Publically, these integration projects are often opposed to each other,” - Dinara Nurusheva analyses the role and meaning of the WTO for Kazakhstan in this cabar.asia exclusive.



After over twenty years, Kazakhstan has become a member of an organization that accounts for 97% of global trade. The WTO seeks to develop international trade and effectively regulate the trade relations of its member-states. The organization offers rules and principles for trade relations that do not emphasize obtaining defined results. After submitting an application to join the WTO, a country holds negotiations with all interested partners and members regarding each economic sector. The country’s conditions for accession are laid out only after a consensus has been reached.

The effectiveness of WTO participation depends above all on the readiness of a country to defend its interests, its starting position, and the continuing reform of certain institutions and mechanisms. Although many changes and amendments to Kazakhstani legislation have been undertaken over the course of many years, society still asks questions about new challenges, new opportunities, and the advisability of the country’s ascension to the WTO.

Opinions on the trade organization itself are mixed, and its activities often draw criticism.

For example, the research of Andrew Rose states<sup>[1]</sup> that the trade of states outside of the WTO does not differ greatly from that of member-states.<sup>[2]</sup> He does consider participation in the organization to be necessary. Other authors feel that coordination mechanisms decrease the effectiveness of the organization.<sup>[3]</sup> More than anything else, the organization is accused of acting only in the interests of developed countries. Researchers Joanne Gowa and Sooyeon Kim concluded that the USA, Great Britain, Germany, France, and Canada received relatively greater positive influence from WTO membership as opposed to other countries.<sup>[4]</sup>

An increasing number of individual WTO member-states are entering into regional trade agreements (RTA)<sup>[5]</sup>, which lends credence to the challenges appearing to the organization itself.

However, Matthew Wilson believes that the number of RTAs will continue to grow, but

multilateral dispute settlement within the WTO framework will remain relevant.<sup>[6]</sup> Other academics feel that RTAs complicate international trade by creating additional barriers and undermining the principles of nondiscrimination.<sup>[7][8]</sup> The web of rules and requirements within which WTO member-states cooperate combined with other trade agreements has been called a “bowl of spaghetti”.

Nevertheless, there are 162 WTO member-states, and a number of countries are involved in negotiations to join the organization. Kazakhstan began the WTO harmonization process in 1996. 19 years later, in June 2015, its partner-states for WTO ascension announced that Kazakhstan was ready to join the organization. The most important part of this process is not the length of the negotiations but rather the result of the accession conditions the country was able to gain during the negotiations. The conditions for Kazakhstan’s ascension to the WTO were made public only after it was announced that it had become a member-state.<sup>[9]</sup>

### The Peculiarities of EAEU-WTO Cooperation

Kazakhstan’s ascension to the WTO provoked many questions from its EAEU partners. They are worried about how the EAEU activities will develop in light of Kazakhstan’s new commitments to the trade organization. Publically these integration projects are often opposed to each other.<sup>[10]</sup> Although Kazakhstan is not the only country that simultaneously operates within the framework of an RTA and an international trade organization such as the WTO. Moreover, 4 out of 5 EAEU member-states are also WTO member-states.

Table 1. Chronology of EAEU States Joining the WTO

EAEU member-state	Date of WTO Ascension
Kazakhstan	25 June 2015
Russia	22 August 2012
Armenia	5 February 2003
Kyrgyzstan	20 December 1998
Belarus	Underway

The Belarusian Foreign Minister issued a statement claiming that Kazakhstan’s ascension to the WTO could slow EAEU integration.<sup>[11]</sup> There were concerns expressed regarding the flow of goods imported through Kazakhstani territory. Meanwhile, some Russian specialists

voiced their opinion that any new difficulties stemming from Kazakhstan’s WTO ascension would be temporary. According to experts, the changes will more heavily impact those Russian businesses that conduct foreign economic activities across the EAEU external borders in Kazakhstan and Belarus.

Alibek Akimbai and Kairat Moldashev corroborate the concerns of EAEU member-states. They believe that Kazakhstan’s WTO ascension may lead to an increase in non-tariff barriers among EAEU states and complicate trade liberalization within the union.<sup>[12]</sup>

This is also the opinion of Catherine Putz,<sup>[13]</sup> who stresses that the spread of some of Kazakhstan’s obligations to the other members of the Eurasian Union is an irritant in relations among member-states. Considering the similarities in the economic structures of EAEU member-states, which compete with each other more often than not, one could presume that these WTO requirements may introduce corrections into the overall architecture of the union.

Despite the fact that the experiences of each EAEU and WTO member-state are unique, it will be interesting to observe certain results of regionalism and regionalization. Kyrgyzstan was the first to join the ranks of the WTO. Roman Mogilevskii from the Centre for Economic Research believes that Bishkek did not receive “direct and immediate benefits.”<sup>[14]</sup> Aziz Aliev, a former state secretary from the Kyrgyzstani Ministry of Economic Development and Trade, proposes that the WTO helped the country develop “open trade practically without limitations.”<sup>[15]</sup>

The main economic indicators showed growth in Armenia after it joined the WTO in 2003.<sup>[16]</sup> Armenian exports expanded their access to European markets. Simultaneously there was an increase in business competitiveness, a loss of jobs and purchasing power, and an increase in the amount of imports.<sup>[17]</sup>

Based on the results of the Russian Federation’s first year in the WTO, there was an increase in imports of some goods, the rate of which has been reduced. Pharmaceutical imports increased by 34.6%, the import of clothes and shoes by 8.6%, and the import of foodstuffs and agricultural raw material by 10.5%.<sup>[18]</sup> At the same time, Vladimir Obolenskii, head of the Russian Academy of Science’s External Economic Research Center, clarifies that in the early years global market conditions and trends impacted the Russian economy more significantly than joining the WTO.<sup>[19]</sup>

Belarus has been engaged in negotiating its ascension to the WTO since 1995. Intensity in the negotiations has been noticeable as Belarus’s allies join the WTO. The Belarusian

Ministry of Foreign Affairs predicts that the government will be able to conclude negotiations within 2-3 years. In its monthly review of the Belarusian economy, the IPM Research Center notes that Russia’s ascension to the WTO led to a decrease of Belarusian exports to Russian markets.<sup>[20]</sup> Minsk also expects competition on the Kazakhstani market and an influx of re-exports from Kazakhstan following Astana’s ascension to the WTO.<sup>[21]</sup>

Without question, membership in the organization does not provide immediate benefits. Becoming a member of the WTO should not be a final goal, but it must rather be a stimulant for effective long-term policies. If the Eurasian integration was once considered a practice run for the WTO, then it can now be said that, without an increase in the competitiveness of the internal potential of each of the EAEU members, it will be difficult to expect significant results from global integration.

### **Kazakhstan in the WTO: Expectations**

Meanwhile a debate is underway in Kazakhstan between differing points of view on what WTO membership will lead to. One group speaks of an increase in investment and export opportunities; the other predicts an influx of cheap imports and a decrease in state subsidies.

Representatives of leading state agencies spoke in interviews about how the process of gaining membership in the WTO contributed to a qualitative improvement in several legal documents and an increase in their transparency. Advocacy at the international level has created a need to adapt and adjust existing legislation.

According to the WTO conditions, Kazakhstan is required to create equal conditions for both local and foreign businesses.<sup>[22]</sup> For example, if earlier legislation enshrined differing understandings of local and foreign investment by providing preferential conditions to the former, then now the difference in how investors are defined does not diverge based on their country of origin.

All subsidies connected to exports and import substitutions have been repealed. According to Kaiyrbek Arystanbekov, director of the Economic Policy Institute, Kazakhstani negotiators were unable to secure the phased reduction in export subsidies that Bulgaria was able to secure.<sup>[23]</sup> Meanwhile, the transportation costs for Kazakhstani exports are considerable, which in turn requires the development of alternative support measures.

Entrepreneurs receiving state support have voiced concern about a decrease in subsidies,<sup>[24]</sup> while others do not feel that WTO membership will impact their business. Meanwhile, key

ministries have announced an increase in state support for infrastructure and scientific research as well as other measures not directly impacted by trade.<sup>[25]</sup>

It is worth noting that Kazakhstan also received observer status in the Agreement on Government Procurement. Considering that both private and public economic actors in Kazakhstan often operate in the same field,<sup>[26]</sup> WTO conditions may lead to a decrease in the later’s access to resources. If the list of goods and services can be harmonized, then the country could become party to this agreement in 4 years. All local content requirements for subsoil use contracts must be abolished by 2021.<sup>[27]</sup>

If we consider the list of exceptions (3,512 commodity categories including automobiles, lumber, jewelry, wires, cables, and beverages among others),<sup>[28]</sup> then we could presume that it would be cheaper for the population to import goods at rates well below the rates of the EAEU. Notably, Russia’s experience<sup>[29]</sup> demonstrates that a reduction in import duties for the most part primarily benefited vendors due to decreased costs.

According to the assessments of experts and representatives of government agencies, the effects of joining the WTO will probably only be felt in the mid-to-long-term. Experts confirm this by providing the example of how Kazakhstani tariff changes before and after joining the Customs Union (6.2% and 10-12% respectively) did not impact the level of imports, which continued to climb. After joining the WTO, Kazakhstan will decrease customs tariffs to 6.5%.

Becoming a member of the WTO is without a doubt a signal for foreign investors. However, as William Easterly wrote in “The Elusive Quest for Growth”, investment alone cannot stimulate development. After a few years it will be possible to judge the first results of Kazakhstan’s functioning within the framework of the trade organization.

It should not be forgotten that the WTO cannot guarantee quality development. The productivity of participation will depend largely on the internal preparedness of all economic actors. It is necessary to effectively utilize the country’s internal potential so as to avoid becoming lost in the “spaghetti bowl”.

Functioning within the framework of the organizations requires quality preparations and an effort to defend national interests. Kazakhstan needs to operate with adequate measures aimed at creating conditions for economic activity in the country.

Due to this, steps must be taken to address the large number of challenges in providing effective mechanisms for the implementation and adaptation of policies that support the

economy while not losing sight of the commitments made.

Kazakhstan should therefore:

- Improve the capacity of specialists to detect and combat unfair competition as well as the use of prohibited measures in trade;
- Increase awareness among economic actors of the specifics of functioning with the framework of the WTO and the opportunities in to participate in the settlement of trade disputes;
- Increase the transparency of the decision-making process within the frameworks of the EAEU and the WTO.

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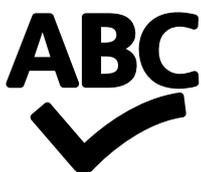
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