**Report No. 96863**

**Kazakhstan Trade Report**

**Improving the Trade Policy Framework**

**Trade Policy Note 1**

**January 2014**

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| KAZAKHSTAN - GOVERNMENT FISCAL YEAR |
| January 1 – December 31 |
| Currency Equivalents  (Exchange Rate Effective as of May 29,2015 ) |
| Currency Unit Tenge |
| US$1 = 185.50 Tenge |
| Weights and Measures  Metric System |

**ACRONYMS AND ABBREVIATIONS**

|  |  |
| --- | --- |
| ADR | Alternative Dispute Resolution |
| AFTA | Association of Southeast Asian Nations Free Trade Area |
| AFTA-CER  AKTISA | Association of Southeast Asian Nations Free Trade Area - Closer Economic Relations  Association of Southern Asian Nations - Korea Agreement on Trade in Services |
| ASEAN | Association of Southeast Asian Nations |
| BEC | Broad Economic Classification |
| BKR-CU | Belarus-Kazakhstan-Russia Customs Union |
| CEM | Country Economic Memorandum |
| CER | Closer Economic Relations (Trade Agreement Between Australia and New Zealand) |
| CES | Common Economic Space |
| CET | Common External Tariff |
| CGE | Computable General Equilibrium |
| CIS | Commonwealth of Independent States |
| CTPD | Center of Trade Policy Development |
| CU | Customs Union |
| DFTR | Department of Foreign Trade Regulations |
| DIEI | Department of International Economic Integration and Regulations |
| EAC | East African Community |
| ECA | Europe and Central Asia |
| EEC | Eurasian Economic Commission |
| EU | European Union |
| EU27 | All EU member states except Croatia |
| FTA | Free Trade Agreement |
| GDP | Gross Domestic Product |
| GMO | Genetically Modified Organism |
| GOST | *Gosudarstvennyy Standart* (State Standard) |
| HS | Harmonized System |
| ITC | International Trade Center |
| MEBP | Ministry of Economy and Budget Planning |
| MES | Ministry of Education and Science |
| MFA | Ministry of Foreign Affairs |
| MINT | Ministry of Industry and New Technologies |
| MLT | Maximum Tolerance Limit |
| NACEK | National Center of Certification and Expertise |
| Non-CU CIS | Non-Customs Union Commonwealth of Independent States |
| NTM | Non-Tariff Measure |
| OECD | Organisation for Economic Cooperation and Development |
| PSI | Pre-Shipment Inspection |
| PTA | Preferential Trade Agreement |
| QC | Quantity Control |
| ROO | Rules of Origin |
| RTA | Regional Trade Agreement |
| SEZ | Special Economic Zone |
| SME | Small and Medium Enterprises |
| SPS | Sanitary and Phyto-Sanitary |
| TBT | Technical Barriers to Trade |
| UNCTAD  USTR | United Nations Conference on Trade and Development  Office of the United States Trade Representative |
| WTO | World Trade Organization |

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| Vice President: |  | [Laura](http://intranetncb.worldbank.org/servlet/main?pagePK=81000034&piPK=60001822&theSitePK=265640&upi=000018567) Tuck |
| Country Director: |  | Saroj Kumar Jha |
| Acting Sector Director: |  | Roumeen Islam |
| Sector Manager:  Country Manager: |  | Ivailo Izvorski  Sebnem Akkaya |
| Task Team Leader: |  | Dorsati Madani |

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## Why Does The Trade Policy Framework Matter?

1. **Kazakhstan’s authorities operate in a complex trade policy environment, defined by ongoing Customs Union integration, World Trade Organization accession negotiations, and numerous other changes to global trade.** This note provides a focused trade analysis to help the authorities with their policy options in this dynamic trade policy environment. A 2012 trade report, *Kazakhstan: Taking Advantage of Trade and Openness for Development*, undertook a broad-based analysis of the opportunities the economy faces and the challenges it needs to overcome to sustain its path to high income. A second 2012 report, *Assessment of Costs and Benefits of the Customs Union for Kazakhstan*, delved more specifically into the potential impacts of this agreement and the non-tariff measures and trade facilitation policies that could enhance the country’s gains.
2. **This report, prepared at the request of the authorities, addresses specific policy questions that arose from the findings of the last two reports and the evolving trade policy environment since mid-2011.** It answers four questions. Section 2 looks at how trade has performed since early 2011. Section 3 analyses the consequences for Kazakhstan if it were to adopt the Russian World Trade Organization (WTO) accession tariff schedule. Section 4 asks whether there should be concern about the source of the country’s intermediate imports. Section 5 asks whether Kazakhstan should pursue new Free Trade Agreements (FTA) after WTO accession. Section 6 concludes.

**In summary, the analysis finds that:**

1. **Kazakhstan’s exports are still driven by demand for hydrocarbons.** These exports were helped by a rebound in European Union (EU) demand and increased exports to the rest of Europe and Central Asia (ECA), including Turkey. China remains a solid client. After a surge in 2010, Kazakhstan’s exports to Customs Union (CU) partners were declining through most of 2012, a trend likely reflecting the adjustments to new regional regulations. Data for January-August 2013 suggest a slight recovery in exports to the CU partners. Sustained strong demand for hydrocarbons abroad continues to lead to further concentration of Kazakhstan’s exports. In view of Kazakhstan’s 2050 development goals, this concentration will need to be addressed through a structural diversification in the economy in the medium to long term. The analysis *Kazakhstan–Beyond Oil: Kazakhstan’s path to greater prosperity through diversifying* (World Bank, 2013) provides recommendations in this regard.
2. **On the import side, while Kazakhstan experienced trade diversion - an initial surge of imports from the CU partners in 2010-11, other global partners will be driving Kazakhstan’s imports over the longer term.** First, much of the import surge from the CU appears to be thanks to a doubling of transport equipment to 12 percent of total imports (HS-2 import category). Second, there was a rather pronounced shift in import partners from the EU to China as far back as 2005. This shift was accentuated after the creation of the CU: it impacted negatively the EU-27 exports to Kazakhstan in almost all HS-2 import categories, while China made inroads in almost all the same sectoral markets. This shift is a reflection of how competitive China remained in view of new CU tariffs affecting its imports compared to the EU. Finally, the role of smaller exporters, such as North America and the rest of Asia, remains steady.
3. **Accession to the WTO using the Russia tariff schedule will benefit Kazakhstan, especially if the implementation timeline is short**. The analysis assumes implementation to start in 2012, and finds that by 2016, the average weighted tariff rates will fall back close to 2009 pre-CU levels, reversing the CU related tariff increases and consequent trade diversion.Accession to the WTO will lead to aggregate welfare gains of 0.1 percent of GDP per year. Sectoral impacts on output and employment are varied: tradable goods industries will tend to lose while services will gain. Regardless of these sectoral differences, labor and capital earnings will increase modestly (by about 0.5 to 0.6 percent per year). While aggregate trade increases modestly (0.6 percent per year), tariff revenues fall due to tariff liberalization. If implementation of the tariff schedule is accompanied by a 30 percent decrease in the costs of trade facilitation, the impact on overall welfare will increase to 0.9 percent of GPD per year, while labor and capital incomes will increase by 1.8 percent and 1.1 percent per year, respectively.
4. **Accession to the WTO using the Russia tariff schedule will alleviate the** **impact of higher CU tariff schedules on intermediate imports**. This should ease the concern that the higher CU tariff may in the long run affect the knowledge and technology content of intermediate inputs and by extension the productivity growth in Kazakhstani sectors that use them. Nevertheless, the authorities should remain vigilant regarding the knowledge content of imports to facilitate technological upgrading and increased productivity in the economy. This can be done by developing and implementing regular in-depth trade reviews, combined with business surveys.
5. **In fact, the authorities should consider joining the WTO on a more liberal tariff schedule than Russia’s schedule**. A more liberal schedule would give Kazakhstan producers improved access to global inputs and its consumers a larger choice of products. The Russia WTO tariff schedule translates into weighted tariffs on capital goods and intermediate goods that are higher than pre-CU levels: by 2020 the mean trade weighted tariffs on intermediate goods and capital goods will still be higher than in 2009 by 0.5 percent and 2.0 percent respectively. Also, the Russian tariff schedule has some 1200 lines of bound tariffs (WTO commitments) that are higher than their applied tariffs. This can be a negotiation lever for Kazakhstan to use in discussions with Russia/CU as well as other negotiating parties.
6. **Finalizing WTO negotiations in the disciplines not related to market access (tariffs) will help advance the accession process**. These include: the services agreement; regulations and practices governing sanitary and phytosanitary (SPS) measures and technical regulations; the pending issues related to state-owned enterprises, subsidies, local content requirements and discriminatory VAT preferences; and trading rights and treatment of natural persons.
7. **Kazakhstan should take time to carefully study any proposal to negotiate a new FTA.** Regional and bilateral agreements can be complex and are prone to failure. Before negotiating, Kazakhstan should heed the experience of other countries and take time to assess the benefits and costs of such a membership. This would include analyzing proposals fully and building capacity to implement them properly.
8. In the short term, four priority actions can strengthen the trade policy framework:

* Finalize the WTO accession process. For tariff negotiations, the Kazakhstani authorities may wish to try to lock in a tariff schedule more liberal than the one used by Russia at accession, especially as it relates to intermediate and capital goods.
* Finalize the WTO accession process. Negotiations on a number topics still needs to be finalized. These topics include the services agreement, SPS, TBTs, issues related to local content rules, state-owned enterprises subsidies, discriminatory VAT preferences; and trading rights and treatment of natural persons.
* Assess comprehensively the potential economic impacts of an FTA before engaging in negotiations.
* If negotiating an FTA, the authorities should adopt a design that includes (i) low external MFN tariffs; (ii) few sectoral and product exemptions; (iii) nonrestrictive rules of origin; and (iv) measures to facilitate trade.

1. **Taking full advantage of membership in the WTO and other preferential trade agreements requires full understanding and proper implementation of their disciplines.** This will in turn require building analytical and institutional capacities across the board in the country. Trade policy institutions are discussed in Note 2 of this report.
2. **Once tariff commitments have been locked into a WTO agreement, addressing second generation issues, such as non-tariff measures (NTMs) and trade facilitation should become the central focus of trade policy.** It is in fact the tackling of these potential costs that will contribute to making Kazakhstan producers more competitive across the region and beyond. NTMs are discussed in Note 3 of this report.

## How Has Trade Performed Since Early 2011?

1. **Kazakhstan experienced trade diversion for two years after joining the Customs Union – and this effect may be abating.** Kazakhstan exports are still driven by demand for hydrocarbons and by a rebound in EU demand and increased exports to the rest of Europe and ECA, including Turkey. China remains a solid client. Analysis suggests that Kazakhstan’s export performance is almost entirely due to higher petroleum prices and some compositional changes rather than improved competitiveness of its products. After a surge in 2010, Kazakhstan’s exports to Customs Union (CU) partners were declining through most of 2012, a trend likely reflecting the adjustments to new regional regulations. Data for January-August 2013 suggest a slight recovery in exports to the CU partners (Table 1).

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| Figure : Exports are Still Driven by Petroleum Products and Dominated by EU and China  (Share of exports, percent) |
|  |
| *Source:* Official data and World Bank staff calculations. |

1. **Kazakhstan’s exports have a relatively low market penetration, which worsened after the 2008 global economic crisis much as in other countries in ECA.** Kazakhstan exported to 91 markets in 2006-07 and to 75 markets in 2010-11 while Russia exported to 133 countries before the crisis and 113 after the crisis (Varela, 2013a). Between 2008 and 2010, the share of the top three markets for all top 10 exports of the country was above 55 percent. EU, China and Canada purchased 88 percent of Kazakhstan’s petroleum oil exports, the top export of the country; 70 percent of the export of unwrought zinc, the tenth top export went to EU, China and Turkey (World Bank, 2013; Annex 1).[[1]](#footnote-1)

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| --- | --- | --- | --- | --- |
| Table : Exports to Select Partners  (In percent of total exports) | | | | |
| Trading partner | 2011 | 2012 | Jan-Aug 2012 | Jan-Aug 2013  (prelim.) |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |
| CIS | 13.9 | 13.2 | 12.8 | 13.3 |
| of which Customs Union | 8.1 | 7.2 | 7.2 | 7.5 |
| Belarus | 0.1 | 0.1 | 0.1 | 0.1 |
| Russia | 8.0 | 7.1 | 7.1 | 7.4 |
| EU Countries | 48.8 | 52.4 | 53.7 | 54.0 |
| Europe outside EU | 5.7 | 5.9 | 6.1 | 5.8 |
| Asia | 26.6 | 24.1 | 22.7 | 23.1 |
| China | 18.6 | 16.5 | 14.5 | 16.4 |
| America | 4.7 | 4.2 | 4.4 | 3.7 |
| *Source:* Data from Kazakhstan Statistical Agency, World Bank staff calculations. | | | | |

1. **Furthermore, Kazakhstan’s exports have become more concentrated since the 2008 crisis.** The number of products exported fell from 779 in 2006-07 to 574 in 2010-11, comparable to other CIS countries (Table 2). This concentration of products is also evident in Kazakhstan’s trade with the CU. Through 2012, the decline in the share of exports to CU partners in overall exports was most likely associated with a period of adjustments to new regional technical and border regulations, as reported by Kazakhstani businesses (Figure 1 and Table 3). Data for 2013 suggests a potential recovery, but it is partial and preliminary, and therefore too early to assess. Four main categories of products (minerals, machinery and electronics, metals and transportation) represent about 94 percent of all Kazakhstani exports to the CU in 2012, unchanged from 2009. The export performance of Kazakhstan has been analyzed in depth by several recent reports.[[2]](#footnote-2)

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| Table : Kazakhstan’s Exports Have Become More Concentrated after the 2008 Crisis  (Number of products) | | | | | | |
| Period | ARM | AZE | BLG | KAZ | RUS | UKR |
| 1996-1997 | 234 | 347 | 1055 | 968 | 3278 | 2452 |
| 1998-1999 | 196 | 296 | 971 | 643 | 3493 | 2287 |
| 2000-2001 | 241 | 271 | 874 | 638 | 3620 | 2281 |
| 2002-2003 | 208 | 249 | 917 | 544 | 3565 | 2233 |
| 2004-2005 | 244 | 328 | 1078 | 691 | 3604 | 2500 |
| 2006-2007 | 421 | 445 | 1165 | 779 | 3558 | 2660 |
| 2008-2009 | 301 | 415 | 1212 | 792 | 3408 | 2606 |
| 2010-2011 | 243 | 290 | 1041 | 574 | 3104 | 2289 |
| *Source*: Valera, 2013b. *Note:* The threshold for counting exports is $100,000. | | | | | | |

1. **Kazakhstan has a potential for experimentation and diversification, but the authorities need to address the reasons behind the low export survival rates.** Kazakhstan has a scoreof 5 percent on the index of export market penetration (IEMP), meaning that the country has served about 5 percent of the potential market-product flows available in world markets. By comparison, Russia has an IEMP score of 10 percent. [[3]](#footnote-3)  While it would be desirable to have a higher IEMP, a low score suggests that Kazakhstan has a greater potential for diversification than larger economies.[[4]](#footnote-4) This potential is being further fed by the high experimentation in export, which need to show a higher survival rate. World Bank (2012) finds that the experimentation rate or the share of potential additional products in a broad product category, which appeared in the export basket, was high, especially in metals, textiles, and manufactured goods. However as of 2010, new products had a survival rate of 27 percent while existing products had a survival rate of was 79 percent.[[5]](#footnote-5) A more in-depth analysis of the drivers of experimentation and survival rates at the firm level would allow more insight into the dynamics of exports and policy that would facilitate them.
2. **Kazakhstan experienced an initial surge of imports from CU partners in 2010-11, which appears to be subsiding.** Overall imports from CU rose sharply in 2011, following a sharp overall increase in tariff structures for the rest of the world and new regional regulations (Figure 2 and box 1). However, in 2012 overall imports from CU dropped back down to about 38 percent of total imports – on par with 2010 – suggesting that the initial impact of CU membership may be waning (Table 3). The partial 2013 data appears to match 2012 data, but it is preliminary and should be assessed with caution. A closer look at the sourcing of sectoral imports (HS-2 product category) reveals an increase in market share for the CU in about 90 percent of product categories compared to other competitors between 2007-2009 and 2010-2012 (Table 4). Looking at the composition of the import basket from the CU, four categories of products (minerals, machinery and electronics, metals and transportation) constitute 64 percent (2009) to 66 percent (2012). Three of these categories show a steady import pattern between 2007 and 2012, with an occasional annual variation. The only noted exception is a doubling of imports in the transport subsector between 2009 and 2012 (Table 5).

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| Figure : Imports are Still Driven by Global Dynamics  (Share of imports, percent) |
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| *Source:* Official data and World Bank staff calculations. |

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| --- | --- | --- | --- | --- |
| Table : Imports From Select Partners  (In percent of total imports) | | | | |
|  | 2011 | 2012 | Jan-Aug 2012 | Jan-Aug 2013  (prelim.) |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |
| CIS | 51.0 | 47.6 | 48.2 | 46.2 |
| of which: Customs Union | 43.0 | 38.0 | 37.8 | 37.5 |
| Belarus | 1.6 | 1.4 | 1.4 | 1.3 |
| Russia | 41.4 | 36.6 | 36.3 | 36.2 |
| EU Countries | 19.8 | 20.1 | 20.1 | 18.2 |
| Europe outside EU | 0.7 | 0.7 | 0.7 | 0.5 |
| Asia | 21.6 | 24.7 | 24.5 | 27.7 |
| China | 13.6 | 16.1 | 15.8 | 17.4 |
| America | 6.5 | 6.2 | 5.9 | 6.6 |
| *Source:* Data from Kazakhstan Statistical Agency, World Bank staff calculations. | | | | |

1. **But the longer term dynamics of Kazakhstan’s imports are still global**. Aside from the three main trade partners (CU, EU and China), there are still a number of well performing exporters to the Kazakhstani market. After a drop in 2010, the non-CU CIS exports to Kazakhstan recovered and are providing about 10 percent of the overall Kazakhstani imports in 2012. The rest of Asia and North America each continue to capture approximately 5 percent share the overall Kazakhstani imports. Kazakhstan’s imports started shifting from EU to China as far back as 2005. Figure 2 shows that this shift was accentuated after the creation of the CU: it impacted negatively the EU 27 exports to Kazakhstan in almost all HS-2 import categories, while China increased its share in 60 percent of the HS-2 product categories (Table 4). While China gained grounds despite the tariff rises, EU lost ground in an almost mirror image, especially in machinery, electronics and Transport (Annex I, Figures A1 and A2). There are two explanations to this switch. On the one hand it can be argued that China remained competitive in the market compared to the EU despite the higher CU tariffs. On the other hand, there is also the possibility that the variety and quality of imports within each HS-2 product category changed, ultimately affecting the benefits accruing to consumers and producers in Kazakhstan. This note does not have the appropriate data to access such variety and quality shifts.

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| Table : Change in Import Shares in Kazakhstani Market Since the Custom Union  (HS-2 imports, select markets) | | | | | | | |
|  | Share | CU Partners | China | EU 27 | N. America | Rest of Asia | Non-CU CIS |
| 84-85 Mach/Elec | 24.0 | 4.9 | 10.5 | -8.0 | -2.4 | 1.9 | -0.5 |
| 86-89 Transportation | 13.9 | 8.2 | 6.7 | -9.7 | -3.8 | -7.0 | 5.7 |
| 25-27 Minerals | 12.7 | 4.3 | -0.4 | -0.6 | -0.2 | 0.2 | -3.4 |
| 72-83 Metals | 12.3 | 12.5 | -3.2 | -3.4 | 0.8 | 0.3 | -6.1 |
| 28-38 Chemicals | 8.2 | 1.7 | 0.1 | -4.4 | 1.5 | 0.7 | 0.4 |
| 16-24 Foodstuffs | 4.9 | 4.1 | -0.2 | -1.7 | -0.1 | -0.1 | 1.0 |
| 39-40 Plastic/Rubber | 4.7 | 6.6 | 1.8 | -7.2 | -1.7 | 2.1 | -1.1 |
| 90-97 Miscellaneous | 4.6 | 12.7 | -4.2 | -4.2 | -1.1 | -1.1 | 0.1 |
| 44-49 Wood | 3.7 | -4.7 | 0.5 | -8.1 | 10.4 | 0.4 | 1.2 |
| 06-15 Vegetable | 2.7 | -13.2 | 1.2 | -1.2 | 0.1 | -4.3 | 23.6 |
| 68-71 Stone/Glass | 2.5 | 8.3 | -3.7 | -2.1 | 0.3 | -0.2 | -0.7 |
| 50-63 Textiles, Clothing | 2.5 | -4.8 | 11.4 | -11.8 | -0.8 | 1.7 | 1.6 |
| 01-05 Animal | 1.9 | 0.7 | -0.8 | 4.2 | 2.8 | 0.2 | -6.2 |
| 64-67 Footwear | 0.8 | -3.4 | 30.7 | -13.1 | -1.8 | -5.3 | -2.6 |
| 98-99 Special | 0.4 | 0.2 | 0.1 | -0.4 | -13.9 | -0.9 | 11.0 |
| 41-43 Hides, Skins | 0.2 | 2.4 | 13.3 | -14.2 | -0.4 | -0.9 | 0.0 |
| Source: Official data and World Bank staff calculations.  Note: '+' means an increase in 2010-12 compared to 2007-09). | | | | | | | |

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| Table : Imports from and Exports to CU Partners  (Select HS2 categories, shares, 2007-12) | | | | | | | | | | | | |
| HS2 product categories | Import shares (%) | | | | | | Export shares (%) | | | | | |
| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| 25-27 Minerals | 29 | 35 | 27 | 32 | 27 | 27 | 46 | 53 | 51 | 52 | 55 | 39 |
| 84-85 Machinery/Electronics | 13 | 14 | 14 | 12 | 14 | 14 | 17 | 20 | 21 | 28 | 27 | 31 |
| 72-83 Metals | 16 | 15 | 17 | 15 | 11 | 13 | 22 | 15 | 18 | 13 | 8 | 14 |
| 86-89 Transportation | 12 | 8 | 6 | 6 | 9 | 12 | 5 | 4 | 4 | 3 | 5 | 10 |
| 16-24 Foodstuffs | 6 | 6 | 8 | 8 | 7 | 7 | 5 | 4 | 3 | 1 | 1 | 2 |
| 28-38 Chemicals | 6 | 6 | 7 | 6 | 7 | 6 | 2 | 1 | 2 | 1 | 1 | 1 |
| 39-40 Plastic / Rubber | 4 | 4 | 5 | 6 | 5 | 5 | 1 | 0 | 1 | 0 | 1 | 1 |
| 44-49 Wood | 5 | 4 | 5 | 5 | 4 | 4 | 1 | 1 | 1 | 1 | 1 | 1 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total share out of 100 percent | 90 | 91 | 88 | 89 | 83 | 88 | 98 | 97 | 99 | 99 | 98 | 98 |
| *Source:* Official data, World Bank staff calculations. | | | | | | | | | | | | |

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| Box : The Belarus-Kazakhstan-Russia Customs Union  The CU was implemented in 2010. Kazakhstan’s entry into the Customs Union marked a major change in its trade policy. Kazakhstan joined the CU to help attract investment and smooth the way to a common economic space of 170 million people. With free trade agreements between the three countries already in place before the CU implementation, the major steps taken by the CU until now have been the adoption of a common external tariff (CET), adoption of the new customs code and elimination of customs clearance along internal borders. The CU is slated to become a Common Economic Space by 2015. In parallel, Kazakhstan is expected to join the WTO in the near future.  Kazakhstan’s tariffs increased significantly as a result of implementing the CET, with trade-weighted average tariff protection levels nearly doubling from 6.72 to 11.51 percent. Tariff dispersion measured by the standard deviation of the average effective rate increased as well (World Bank, 2012). With the accession of Russia to the WTO in late 2011, about 1200 CU tariff lines were revised downward. A recent World Bank report (2012) predicted that the increase in the external tariff level would cost 0.2 percent in real income per year as of mid-2011. Two scenarios explored the potential gains or losses in joining the Customs Union. The pessimistic scenario assumes that Kazakhstan will adopt the higher external tariffs fully but not make any progress in reducing non-tariff measures or costs related to trade facilitation. The optimistic scenario assumes full implementation of the common external tariffs but also substantial reduction in non-tariff measures and costs related to trade facilitation. The analysis finds that Kazakhstan will lose about 0.3 percent in real income per year as a result of fully implementing the common external tariff (compared to its 2009 tariffs). In the optimistic scenario, the real income would increase by about 1.5 percent of consumption per year mainly due to reduced trade-facilitations costs. The gains from reduced non-tariff measures roughly offset the losses from adopting the common external tariff.  While manufacturing sectors were seen to benefit from higher tariff protection, services were said to lose as they would not receive similar protection. The costs to business and consumers of imports had increased and resources were shifting to areas of inefficient production. Perhaps most important from a dynamic perspective, less imported technology from the more technologically advanced countries of the world (as a result of tariff-induced diversion to CU partners) threatened to cause a loss in Kazakhstan’s long-term productivity gains.  Welfare Impact of the Customs Union   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | Customs Union  Immediate Impact | Customs Union Outlook | | Decomposition of  Optimistic Customs Union Scenario | | |  | 2011 tariffs transition rates | Pessimistica/ | Optimisticb/ | Regional cuts in border costs | Regional cuts in NTMs | | As % of consumption | -0.2 | -0.3 | 1.5 | 1.4 | 0.4 | | As % of GDP | -0.1 | -0.1 | 0.7 | 0.7 | 0.2 |   *Source:* World Bank (2012).  Note: a/ Pessimistic Scenario: only tariff increases, no improvements in border or NTM costs; b/ Optimistic Scenario: tariff increases, but there are 30 percent cut in CU related NTMs and border costs.  Besides the impact on tariffs, the CU has also had important effects on NTMs. Traditionally a relatively open economy; Kazakhstan has now aligned its trade policy to the more restrictive Russian standards and technical regulations. The regulatory framework, such as procedures on declaring goods, customs valuations, and import licensing as well as SPS and TBT measures, have mostly been revised to comply with the Russian approach. (Tarr D. and Jensen, J. *Assessment of Costs and Benefits of the Customs Union for Kazakhstan*.2012. World Bank). |

## Joining the WTO Will Offset Some of the Negative Impacts of Joining the Customs Union

1. **Joining the WTO using Russia’s tariff schedule will reduce Kazakhstan’s tariff rates substantially and raise consumption and GDP.** The scenario was chosen by the authorities given Kazakhstan’s ongoing regional integration efforts and WTO negotiations and Russia’s 2011 accession to the WTO. This study uses the same CGE model that was used by Tarr and Jensen (2012) to study the impact of Kazakhstan joining the Customs Union, but it looks at WTO accession and uses the 2012 tariff rates as the departure point (Box 1).[[6]](#footnote-6) It assumes 2012 as the implementation, when Russia started implementing its WTO tariff obligations. The choice of 2020 as the end-date is intended to illustrate a decade of trade developments. The model is used to consider how lower tariff rates will impact Kazakhstan’s domestic production, trade volumes, household welfare, and GDP. Constant returns to scale and competition are assumed. Two additional scenarios offer a re-take on the potential “optimistic” and “pessimistic” scenarios that were described in Tarr and Jensen’s 2012 study (Box 1). An update on the border costs and trade facilitation is included. We do not account for services and economies of scale in the model. Adding the services sector and a fuller assessment of the gains from regulatory improvements and trade facilitation is expected to enhance the impact of WTO accession.[[7]](#footnote-7)
2. **Adopting the same tariff schedule as Russia to accede to the WTO will lead to a sharp decline in average tariff rates.** The current un-weighted mean tariff rates would decline from 10.6 percent at the end of 2012 to 7.9 percent in 2020. Average trade-weighted rates will fall from 8.9 percent in 2012 back down to 5.5 percent by 2020. Most of the reductions occur by 2016 while a few sectors are liberalized more slowly. The 2020 tariff regime is similar to Kazakhstan’s pre-Customs Union rates in 2009, which averaged 5.3 percent on a trade-weighted basis (Shypotylo, 2013). The trade weighted tariff dispersion (standard deviation) will also fall sharply from 8.77 in 2012 to 5 by 2020 (Table 3). Figure 3 shows first the almost unanimous tariff increases in 2010 related to joining the CU and then a gradual decrease in tariff rates associated with the current scenario of acceding to the WTO.

Table : By 2020 Mean Tariffs Will be Close to Pre-CU Rates

(In percent)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | N | Mean | | Standard Deviation | |
| Simple | Trade Weighted | Simple | Trade Weighted |
| 2009 | 10,853 | 6.72 | 5.33 | 9.8 | 8.3 |
| 2012 | 11,313 | 10.64 | 8.93 | 13.80 | 8.77 |
| 2020 | 11,557 | 7.89 | 5.48 | 9.26 | 5.01 |
| *Source:* Official data and World Bank staff calculations, 2013 Note: 2009 statistics are based World Bank (2012) report. Trade weights are computed based on import statistics of Kazakhstan for 2009 (2009 rates) and 2012 (2012 and 2020 rates). | | | | | |

|  |
| --- |
| Box : Status of Negotiations for WTO Accession  Kazakhstan applied for WTO accession on January 29, 1996. A working party was created on February 6, 1996 to help support the accession process. Negotiations moved ahead until 2008, when Kazakhstan focused on launching the Russia-Belarus-Kazakhstan Custom Union by January 1, 2010. Since 2010, the authorities have intensified their re-engagement in the WTO accession negotiations and are now expected to join the organization in 2014.  The country was considered to be at an advanced stage of negotiations in June 2013. The Working Party on Kazakhstan’s Accession to the WTO consists of 43 members of the WTO, 30 of which have signed bilateral goods market access negotiations with Kazakhstan. Of these 30, 14 have also reached a bilateral market access agreement in Services. The authorities are said to have a consolidated draft services schedule and as well as a consolidated draft goods tariff schedule, and have proposed a timeline for making their agricultural subsidies WTO compatible (July 1, 2018) and binding export subsidies at zero upon accession.  As of December 2013, however, the authorities still need to negotiate a number of critical issues to finalize the accession package. The principal hurdle in completing Kazakhstan’s market access negotiations is the tariff schedule upon accession. The tariff negotiations involve resolving discrepancies between bilateral market access agreements negotiated by Kazakhstan with WTO members prior to joining the Custom Union, Russia’s schedule of commitments and the common external tariff of the customs union of Belarus, Russia and Kazakhstan. WTO members did not accept the methodology for adjustment proposed in July 2013 by Kazakhstan. Additionally, the authorities need to finalize negotiations on the tariff rate quota volumes and administration and export duties; the regulations and practices governing sanitary and phytosanitary (SPS) measures and technical regulations; WTO-inconsistent trade-related investment measures (TRIMS), including those embedded in state-owned enterprises, on local content requirements and discriminatory VAT preferences; trading rights and treatment of natural persons.  *Source:* World Bank Staff. |

1. **The overall results from tariff reduction suggest gains for the economy.** Gains from tariff liberalization in goods will improve welfare by 0.3 percent (as percent of consumption) per year by 2020 (or 0.1 percent of GDP per year by 2020). [[8]](#footnote-8) This is compared to 2012 CGE results that showed membership in the CU would have a negative effect on the GDP (-0.1 percent of GDP). Most of the gains will kick in by 2016, when most of the tariff liberalization will take place. In 2020, aggregate exports would be 0.7 percent higher and aggregate imports would be 0.9 percent higher holding all else equal. Labor and capital earnings grow modestly, between 0.5-0.6 percent and demand for labor increases as well. As tariff rates decline, government budget revenue will decline, by 26 percent in by 2016 and about 30 percent by 2020. Because these revenue losses are not offset by compensating taxes elsewhere in the model, part of the welfare gains are attributed directly to the transfer of revenues from the government toward the private sector. While Kazakhstan’s fiscal position is strong, the loss in revenues could be a significant issue as they contribute to non-petroleum revenues. Capital and labor both benefit in the aggregate from the liberalization of trade, though, there will be a differentiated sectoral response (Table 9).

|  |
| --- |
| Figure : Acceding to the WTO Using Russia’s Tariff Schedule Will Substantially Reduce Tariffs in Most Sectors  (Simple average tariffs of listed rates, percent) |
|  |
| *Source:* Official data and World Bank staff calculations 2013. Acronym list in annex I, table A5. |

|  |  |  |  |
| --- | --- | --- | --- |
| Table : Kazakhstan Will Benefit From Joining the WTO, Especially if it Eases Non-Tariff Barriers to Trade  (Results are percentage change from initial equilibrium, unless otherwise indicated) | | | |
| Scenarios | 2016 Tariff Rates | 2020 Tariff Rates | 2020 Tariff Rates and NTB Reform |
| *Aggregate welfare (real income****)*** |  |  |  |
| Welfare (EV as % of consumption) | 0.2 | 0.3 | 0.7 |
| Welfare (EV as % of GDP) | 0.1 | 0.1 | 0.3 |
| *Government budget* |  |  |  |
| Tariff revenue (% of GDP) | 0.9 | 0.9 | 0.9 |
| Tariff revenue | -25.9 | -29.8 | -32.8 |
| *Aggregate trade* |  |  |  |
| Real exchange rate | 0.5 | 0.5 | 0.8 |
| Aggregate exports | 0.6 | 0.7 | 0.9 |
| *Factor Earnings* |  |  |  |
| Capital | 0.6 | 0.6 | 0.9 |
| Labor | 0.5 | 0.5 | 1.0 |
| *Factor adjustments* |  |  |  |
| Capital | 0.2 | 0.2 | 0.2 |
| Labor | 0.2 | 0.2 | 0.2 |
| *Source:* Official data. World Bank calculations. | | | |

1. **Acceding to the WTO based on Russia’s tariff schedule will impact sectors differentially**. Because the Customs Union tariff schedule had high tariffs for some products and low tariffs for others, different sectors of the Kazakhstan economy will be impacted differently when the rates are lowered after WTO accession (Table 8). A number of industries involved in production of traded goods will see more of negative impact, though not all. For instance, even though food and beverages show the largest increase in imports, domestic production does not fall much – only 2.0 percent. This is because the food and beverage sector in Kazakhstan is large and the value of trade as a portion of the domestic sector is small. The largest output reductions are for leather products (9.5 percent), metal products (7.7 percent), and pulp and paper (5.6 percent).On the other hand, the motor vehicles and parts industry shows the largest gains, with output rising 8.0 percent. This large increase appears to be associated with re-exports from Kazakhstan to Russia: the model shows a large export from this category to the CU (228 percent rise) while imports from rest of the world and EU suppliers rose as well.[[9]](#footnote-9) By CGE model design, services sectors are not assumed to be impacted by WTO accession, as they are not determined by tariff rates, but instead by non-tariff barriers. The services sectors are impacted only indirectly, where higher household incomes and improved terms of trade (through a weaker currency) lead to small gains in almost all services sectors. Hotels and restaurants gain most (2.3 percent), and some sectors show minor losses, such as “public associations”, partly because these associations receive government funding, which may suffer if government resources decline as a result of lower tariff revenues.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table : Differentiated Sectoral Output and Employment Impact  From Joining the WTO  (Percent change from benchmark, in 2020) | | | | | |
| Some Losses in the Traded Goods Industries | | | Small Gains in Almost all Services Industries | | |
|  | Output | Labor Income |  | Output | Labor Income |
| Agriculture and hunting | -0.8 | -0.2 | Air Transport | 0.1 | 0.7 |
| Chemical Industry | -2.4 | -1.8 | Auxiliary financial services | 0.0 | 0.6 |
| Crude oil and natural gas | 0.8 | 1.4 | Auxiliary transport services | 0.1 | 0.6 |
| Electrical machinery | -3.9 | -3.3 | Communications | 0.0 | 0.6 |
| Fishing | -0.1 | 0.5 | Computer technologies | 0.1 | 0.7 |
| Food and beverages | -2.0 | -1.4 | Construction | 0.1 | 0.7 |
| Forestry | -0.7 | -0.1 | Education | 0.0 | 0.6 |
| Furniture and other products | -2.6 | -2.0 | Electricity, gas and hot water | -0.1 | 0.5 |
| Leather products | -9.5 | -8.9 | Financial intermediation | 0.0 | 0.6 |
| Machinery and equipment | 0.0 | 0.6 | Government | 0.0 | 0.6 |
| Metal products | -7.7 | -7.2 | Health and social services | 0.0 | 0.6 |
| Metallurgical industry | -0.5 | 0.1 | Hotels and restaurants | 2.3 | 2.9 |
| Mining of coal and lignite | -0.1 | 0.5 | Insurance | 0.3 | 0.9 |
| Mining of metals | 0.1 | 0.7 | Land transport | 0.2 | 0.8 |
| Motor vehicles and trailers | 8.0 | 8.6 | Other services | 0.1 | 0.7 |
| Office machinery | 1.1 | 1.7 | Public associations | -0.2 | 0.4 |
| Other mineral products | -2.3 | -1.8 | Real estate | -0.2 | 0.5 |
| Other mining | 0.4 | 0.9 | Recreation, culture and sports | 0.1 | 0.7 |
| Other transport equipment | -0.8 | -0.3 | Recycling | -0.5 | 0.1 |
| Precision instruments | -0.8 | -0.2 | Renting of machinery | 1.2 | 1.8 |
| Publishing and printing | 0.3 | 0.9 | Research and development | 0.2 | 0.8 |
| Pulp and paper | -5.6 | -5.1 | Retail trade | 0.0 | 0.5 |
| Radio and television | -3.9 | -3.3 | Sewage and waste | 0.0 | 0.6 |
| Refined petroleum | 0.0 | 0.6 | Trade in motor vehicles | 0.1 | 0.6 |
| Rubber and plastic | -4.1 | -3.5 | Water | -0.1 | 0.5 |
| Textiles | -3.5 | -3.0 | Water transport | 0.2 | 0.8 |
| Tobacco products | -0.7 | -0.1 | Wholesale trade | 0.2 | 0.8 |
| Wearing apparel | -3.5 | -2.9 |  |  |  |
| Wood products | -2.6 | -2.0 |  |  |  |
| *Source:* World Bank, 2013. | | | | | |

1. **Joining the WTO on terms that are more liberal than the Russian tariff schedule would enhance further the competitive forces in the economy.** Prior to joining the Customs Union, Kazakhstan was engaged in WTO accession negotiations and had agreed with several counterparts to tariff schedules that were more liberal than the Russian WTO accession schedule. These agreements are reported to cover several thousand tariff lines and have been a snag to the current accession negotiations. The joint Kazakhstan-Russia formula that proposed a compromise on the difference between Kazakhstan’s early tariff commitments and Russia’s WTO commitments was rejected by the counterparts in the summer of 2013, and negotiations are ongoing to find a mutually acceptable alternative solution. Kazakhstan would benefit if the content of some of these more liberal agreements were included in the final accession agreement. A more liberal tariff agreement will reduce the overall tariff rates and some sectoral rates for Kazakhstan and the Customs Union. Lower tariffs would lower the costs of imports for both national producers and consumers, while encouraging domestic competition.
2. **Finalizing WTO negotiations in the disciplines not related to market access (tariffs) will help advance the accession process.** While tariff negotiations were at a standstill as of December 2013, negotiations on a number of other important issues still need to be finalized. Obtaining WTO members’ final agreement on the draft services agreement will be positive outcome for the Government. Pushing ahead with the complex negotiations on the regulations and practices governing sanitary and phytosanitary (SPS) measures and technical regulations is also necessary. Finally, the authorities still need to conclude negotiations on WTO-inconsistent trade-related investment measures (TRIMS), including those related to state-owned enterprises, local content requirements and discriminatory VAT preferences; and trading rights and treatment of natural persons. Given that Kazakhstan is a CU member, it needs to address the added complexiting of ensuring that these agreements are compliant to the CU policy framework or take the necessary steps to adjust the CU frameworks to these new agreements.
3. **The gains from WTO accession will be enhanced if trade facilitation is improved**. While the government of Kazakhstan is working to improve trade facilitation, the challenge remains important due to the landlocked nature of the country and the complex process of unifying regulations within the Customs Union.Kazakhstan was ranked 186 for cross-border trade in the doing business indicators for 2013 and 2014. To export a standard 40-foot shipping container requires nine documents, takes 81days, and costs US$4,685. To import a similar container requires 12 documents, 69 days, and costs US$4,665. The cost of importing and exporting has risen from US$3,005 in 2011 to US$4,685 in 2013, an increase of 56 percent. The Customs Union is supposed to lower these border costs, at least for internal trade between union members. In theory, the pact should create a “border free” economic area, where people and goods flow as easily between countries as they do between regions. However, the unification of the standards and procedures for quality control and inspection within the Customs Union are still being worked out. Currently and during the transition period, trade between Kazakhstan and Russia is still affected by extensive regulations, procedures, documentation and testing, which causes delays and increases prices. In this light, a one third improvement in border costs would lead to noticeable gains to the economy by 2020. Welfare would improve by 1.9 percent of consumption by 2020 (0.9 percent of GDP). Aggregate exports will rise by 2.3 percent due to the trade facilitation efforts, compared to the initial gains of 0.7 percent in the baseline scenario. Capital and labor earnings will be a solid 1.1 percent and 1.8 percent, compared to 0.5 percent and 0.6 percent in the baseline scenario.

## Joining the WTO is Expected to Return Sourcing of Intermediate Inputs to Pre-CU Patterns

1. **The sourcing of intermediate input and its effect on productivity growth are important.** Access to low-cost, high-quality inputs is of critical importance to increasing the quality and sophistication of Kazakhstan’s exports. Economic theory suggests that intermediate imports have an effect on exports because they affect firms’ productivity levels.[[10]](#footnote-10) As of mid- 2011, the Customs Union’s common external tariffs caused diversion of intermediate input sourcing toward its members and away from EU but also China. This had raised early concerns that if imports from CU contained less knowledge, it may have potential long term effect on the competitiveness of Kazakhstan’s manufacturers*.*
2. **Data analysis suggests that by the end of 2012, there was a rebalancing of Kazakhstan’s intermediate imports.** This is in line with the evolution of general trade discussed above. EU27 appears to still be losing ground, but not just in favor of CU partners, rather, in favor of China, non-CU CIS and North America and the rest of Asia. This should give Kazakhstani producers the opportunity to benefit from a wider variety of knowledge rich technologies to improve their productivity and competitiveness. Nonetheless, it will be important for the authorities to revisit this topic on a regular basis to ensure that this diversity is protected. This may involve looking at CU wide non-tariff measures such as technical regulations that could make intermediate imports from non-CU members un-necessarily costly. Furthermore, the general trade trends discussed earlier suggested a rebalancing of import from EU partners to China dating back to 2005 and speeding up after 2010. While this shift is not discernible in Table 9, it will be useful to keep a careful eye on such shifts in suppliers as the knowledge content of their products may be different, and affect Kazakhstani producers differently.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Table : Kazakhstan's Intermediate Imports by Market  (Share, in percent) | | | | | | |
| Intermediate imports (BEC) | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| CU Partners | 44.1 | 39.5 | 33.5 | 43.3 | 47.4 | 45.5 |
| EU27 | 20.2 | 20.7 | 25.7 | 22.2 | 18.9 | 15.4 |
| China | 11.5 | 15.9 | 15.1 | 13.6 | 12.5 | 14.9 |
| Non-CU CIS | 10.2 | 9.9 | 12.1 | 5.6 | 6.2 | 8.7 |
| North America | 4.1 | 4.0 | 4.4 | 4.8 | 5.5 | 5.9 |
| Rest of Asia | 3.2 | 3.0 | 3.7 | 4.2 | 4.4 | 5.1 |
| Rest of Europe and ECA incl. Turkey | 4.3 | 4.1 | 2.9 | 3.1 | 2.4 | 2.4 |
| *Source:* Data from Kazakhstan Customs Authority*.* World Bank calculations.  Note: BEC *=* Broad economic classification. | | | | | | |

1. **Furthermore, with accession to the WTO, the tariff structure will revert back partially to the 2009 levels.** This should reverse the impact of higher CU tariff schedules on intermediate imports. Average trade weighted tariff rates on intermediate inputs in 2020 will be within 0.5 percentage point of the 2009 rates, while that of 2012 capital goods rates will remain well above the 2009 rates. The 2020 structure of the tariff schedule is more conducive for developing of manufacturing industry, due to larger positive impact on productivity. At the same time, the pre-CU tariff schedule of Kazakhstan had been even more open for importers of capital and intermediate goods. Kazakhstan could propose higher tariff reduction for capital and intermediate goods to its CU partners.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Table : Simple and Trade-Weighted Average MFN Tariffs Partially Reverses the Custom Union Tariff Increases | | | | |
| Year | Capital Goods | Consumer Goods | Intermediate Goods | Raw Materials |
| Simple average | | | | |
| 2009 | 1.0 | 9.9 | 5.3 | 9.6 |
| 2012 | 5.7 | 14.6 | 8.4 | 12.9 |
| 2020 | 4.2 | 9.7 | 6.6 | 12.9 |
| Trade-weighted average | | | | |
| 2009 | 1.7 | 9.1 | 5.4 | 8.2 |
| 2012 | 4.7 | 14.0 | 8.9 | 16.1 |
| 2020 | 3.4 | 8.5 | 5.9 | 6.9 |
| Source: Official data. World Bank calculations.  Note: The mapping of the six-digit HS code into four product categories according to WTO –SoP schedule is available at <http://wits.worldbank.org/wits/data_details.html>. 2009 statistics are based on author’s computations performed for World Bank (2012) report. They use the same methodology; therefore can be compared with the computations performed in this study. Trade weights are computed based on import statistics of Kazakhstan for 2009 (2009 rates) and 2012 (2012 and 2020 rates). | | | | |

1. **Kazakhstan’s pre-CU imports from its four main trading partners show a typical pattern for a developing small open economy.** In 2009, the four main trade partners were the Customs Union, the European Union, other CIS countries, and the Rest of the World, including China.Imports from OECD countries are dominated by large, complex manufactured items such as construction machines, passenger vehicles, mobile handsets, and other devices that require a high share of research and development and complex production facilities. Imports from the EU, show that 40 percent of imports are machinery and equipment, 20 percent are chemicals, followed by another 10 percent of electrical machinery and apparatus, and 8 percent of vehicles. Conversely, the pattern of imports from Russia is dominated by basic resources and low-technology items. The largest single import from the Customs Union is crude oil and natural gas, followed by processed foods and beverages. Machinery and equipment are certainly imported from the Customs Union, but closer inspection shows that this machinery does not contain any significant amount of new intellectual property. Chemicals and base-metals round out the remainder of major imports from the Customs Union (Table 11). The profile of import from other CIS countries matches that of Russia, while imports from the ROW are most similar to those from EU. This pattern of trade dictates the magnitude of change after Kazakhstan’s WTO accession.

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| --- | --- | --- | --- | --- | --- |
| Table : The Pattern of Imports Depended on the Trading Partner in Pre-CU Period  (2009, billion Tenge and percent) | | | | | |
| European Union | | | Other CIS Countries | | |
|  | Value | Share (%) |  | Value | Share (%) |
| Machinery and equipment | 408.5 | 40 | Base Metals | 68.7 | 24 |
| Chemicals | 200.2 | 20 | Processed food products, beverages | 56.8 | 20 |
| Electrical machinery and apparatus | 101.5 | 10 | Other transport equipment | 46.9 | 16 |
| Fabricated metal products | 92.1 | 9 | Crude oil and natural gas services | 38.0 | 13 |
| Motor vehicles, trailers and semitrailers | 80.9 | 8 | Machinery and equipment | 36.0 | 13 |
| Other transport equipment | 77.6 | 8 | Electrical machinery and apparatus | 21.8 | 8 |
| Medical, precision and optical instruments | 50.9 | 5 | Chemicals | 17.1 | 6 |
| Total: | 1011.7 |  | Total: | 285.3 |  |
| Customs Union | | | Rest of the World | | |
| Crude oil and natural gas services | 267.7 | 26 | Machinery and equipment | 350.1 | 38 |
| Processed food products, beverages | 176.3 | 17 | Motor vehicles, trailers and semitrailers | 134.6 | 15 |
| Refined petroleum products & other materials | 148.7 | 15 | Chemicals | 122.1 | 13 |
| Machinery and equipment | 141.1 | 14 | Agriculture, animals, and related services | 94.9 | 10 |
| Chemicals | 136.8 | 14 | Base Metals | 80.2 | 9 |
| Base Metals | 78.4 | 8 | Processed food products, beverages | 75.3 | 8 |
| Rubber and plastic products | 63.2 | 6 | Electrical machinery and apparatus | 71.0 | 8 |
| Total: | 1012.2 |  | Total: | 928.2 |  |
| *Source:* Official data. World Bankcalculations. | | | | | |

1. **Membership in the WTO will lead to a strong rebalancing of imports to pre-CU patterns.** Total import value increases by 56.7 Billion Tenge (or 1 percent of 2009 imports of 5,728 Billion Tenge) from the benchmark 2012 case as a result of accession. The base case CGE results show that by 2020 imports will raise significantly for non CIS, non-CU trading partners (table 14). On the other hand, imports from Russia and other neighboring trade partners fall sometimes significantly.[[11]](#footnote-11) The increase in imports is particularly strong in sectors where CU barriers had been high, and where potential trade volume shifts are large. Processed foods, basic metals, metal products, and tobacco products are examples. Although the change in value is different among each trading partner within a specific industry, the percentage change is identical within the Customs Union and CIS group, and also identical within the EU and Rest of World group. This is because the update of the CGE only includes a tariff reduction, and the tariff reduction is equal for all trading partners except the CU and CIS countries. Within the CU and CIS countries, import tariffs are already zero, so the relative change in import price is the same for CU and CIS. The quantity change is different because the percentage change is applied to the base-year import value for each region, which is unique to each trading partner and sector.

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| --- | --- | --- | --- | --- |
| Table : WTO Accession Will Rebalance Some of the Effects of the CU Membership on Imports by 2020  (Percent change of sectoral imports, benchmark 2012) | | | | |
| Sector | Customs Union | Other CIS | European Union | Rest of the World |
| Agriculture and hunting | -4.6 | -4.6 | 5.3 | 5.3 |
| Chemical Industry | -13.1 | -13.1 | 6.9 | 6.9 |
| Crude oil and natural gas | 0.5 | 0.5 | 0.5 | 0.5 |
| Electrical machinery | -12.6 | -12.6 | 6.4 | 6.4 |
| Fishing | -8.4 | 0 | 12.4 | 12.4 |
| Food and beverages | -11.9 | -11.9 | 44 | 44 |
| Forestry | 0 | 0 | 0 | 0 |
| Furniture and other products | -9.6 | -9.6 | 12 | 12 |
| Leather products | -27.8 | -27.8 | 17.1 | 17.1 |
| Machinery and equipment | -3.2 | -3.2 | 0.7 | 0.7 |
| Metal products | -20.9 | -20.9 | 14.8 | 14.8 |
| Metallurgical industry | -6.7 | -6.7 | 14.1 | 14.1 |
| Mining of coal and lignite | -0.5 | -0.5 | -0.5 | -0.5 |
| Mining of metals | 2.1 | 2.1 | -18.3 | -18.3 |
| Motor vehicles and trailers | -27.4 | -27.4 | 7.3 | 7.3 |
| Office machinery | -0.4 | -0.4 | -0.1 | -0.1 |
| Other mineral products | -9.8 | -9.8 | 18.9 | 18.9 |
| Other mining | -1.4 | -1.4 | -0.9 | -0.9 |
| Other transport equipment | -4.7 | -4.7 | 4.9 | 4.9 |
| Precision instruments | -6.8 | -6.8 | 1.5 | 1.5 |
| Publishing and printing | -1.6 | -1.6 | 1.5 | 1.5 |
| Pulp and paper | -17.6 | -17.6 | 18.4 | 18.4 |
| Radio and television | -15.8 | -15.8 | 3.6 | 3.6 |
| Refined petroleum | -0.2 | -0.2 | 0.1 | 0.1 |
| Rubber and plastic | -16.1 | -16.1 | 17.5 | 17.5 |
| Textiles | -15.7 | -15.7 | 14.8 | 14.8 |
| Tobacco products | -7.1 | -7.1 | 70.1 | 70.1 |
| Wearing apparel | -12.4 | -12.4 | 5.1 | 5.1 |
| Wood products | -8.1 | -8.1 | 34.2 | 34.2 |
| *Source:* World Bank. | | | | |

1. **Beyond the benefits of WTO related tariff liberalization, the authorities will need to address the significant NTMs adopted as a result of joining the CU. These NTMs are likely to lead to some trade diversion towards its members.** Among the most challenging CU regulatory changes are: (i) issuance of more stringent regulations; (ii) excessive mandatory certifications; (iii) new state product registration requirements; (iv) new requirement of registering third country suppliers; and (v) prevalence of quantitative controls. Compliance with these requirements may be very costly for both companies seeking to export and those that source their inputs abroad, especially in emerging and developing countries. Countries imposing them may end up hurting their own competitiveness by making it difficult for domestic producers and exporters to access critical inputs in a timely fashion. The WTO acknowledges the need for countries to ensure safety and health of their citizens. At the same time WTO discipline encourage adoption of NTMs that would be the least restrictive to trade. This report includes an analysis of NTM issues and provides various suggestions to alleviate their impact.

## Kazakhstan Should Assess Carefully Before Pursuing New FTAs

1. **Since 2000, the lack of progress with multilateral liberalization has been accompanied by the proliferation of various forms of preferential trade agreements (PTAs)**. For instance, as of January 2010, ASEAN member countries had signed or were implementing 91 PTAs, 32 were under negotiation, and 36 were proposed. These numbers include a variety of agreements, ranging from the comprehensive to the so-called “trade-lite”, and thus they are not strictly comparable. As of mid-2013, Central Asia has a comparably low number of FTA engagements (Table A6).
2. **Kazakhstan is interested in joining new FTAs and PTAs**. While it joined a number of regional and bilateral FTAs, the current custom union is the only one with substantial effects on its economy (Table A5). Nonetheless, one of the Kazakhstan’s trade policy objectives is “the initiation of negotiations of free trade agreements with Turkmenistan, EFTA, and Serbia, and preferential trade agreements with Egypt, Jordan, Israel, Afghanistan, and the Gulf countries”.
3. **Economic theory and practical considerations suggest that for Kazakhstan launching new FTA negotiations in the near future may be premature.** First, numerous economic analyses suggest that joining WTO first and then a free trade agreements is more welfare enhancing for a country. In the case of Kazakhstan, recent World Bank analyses find results that are aligned with this conclusion. Also, the implementation of the WTO commitments and the upcoming transformation of the custom union into a common economic space will take time and human and financial resources. In fact, substantial analytical work, policy and legal reforms and capacity building will be needed to translate CU and WTO commitments into national policies and regulations. Given this already challenging agenda, launching new FTA negotiations and agreeing to further commitments in the near future may not be an optimal policy.
4. **International experience suggests that FTA can lead to potential gains.** The FTAs that are most likely to increase national welfare over time are those designed with (i) low external MFN tariffs; (ii) few sectoral and product exemptions; (iii) nonrestrictive rules of origin; and (iv) measures to facilitate trade. Static gains can accrue from goods trade liberalization among new members that affect the allocative efficiency of countries; terms of trade changes from changes in trade taxes; and capital accumulation. Dynamic gains can accrue from productivity gains related to competition, technological know-how and FDI and services trade liberalization. General equilibrium models are often used to capture the potential global impact of FTAs. For instance, a CGE model simulated that the ASEAN Free Trade Area - Closer Economic Relations with Australia and New Zealand (AFTA- CER) would lead to gains of US$48.1 billion of GDP (in net present value terms over the period 2000 to 2020). The gains are US$25.6 billion for AFTA, and US$22.5 billion for CER, of which New Zealand gains US$3.4 billion.[[12]](#footnote-12) These models can also provide simulations on sectoral impacts, as well as trade, investment, labor production, and welfare. Partial equilibrium models are used to capture specific effects of FTAs, such as increases in share of trade with FTA partners. For instance, gravity models can be used to assess the impact of FTAs on trade flows.[[13]](#footnote-13)
5. **However, while FTAs have the objective of opening markets and fostering regional integration, they may have negative impacts**. They can lead to discrimination against third parties and have adverse effects on its members (e.g, trade diversion effects). They can introduce a plethora of administrative and bureaucratic hurdles that impede trade, especially when countries become members of overlapping FTAs with different tariff schedules, sectoral and/or product coverage, implementation timeframes, rules of origin, and customs procedures. Finally, they can introduce a level of discretion and uncertainty in the trade regime when they are not implemented according to timetable or remain ‘paper agreements’.
6. **Furthermore, international experience also suggests that FTA agreements are complex and prone to set backs and even failures.**[[14]](#footnote-14)The Mercado Común del Sur (also known as MERCOSUR) and South Asia FTA (SAFTA) are two examples of FTAs that have not flourished. Even though regional integration in the EU has spanned 50 years and is considered a success in many aspects, it still faces difficulties and setbacks, as witnessed by the current multi-year financial crisis. ASEAN has decided to not try the full integration scheme of the EU and is moving at an even slower, more differentiated pace it calls “The ASEAN Way”.
7. **If the authorities decide to pursue an FTA, it is useful to first assess comprehensively the potential economic impacts of such an agreement.** The trade strategy includes launching FTA and PTA negotiations with a number of countries. An assessment will help prioritize which negotiations to undertake and whether they should be preferential trade agreements or free trade agreements. The analysis should determine the effects of the proposed FTAs before engaging in the negotiations in order to identify winners and losers, design support mechanisms for the transition periods that facilitate and promote adjustments as well as complementary policies to reap the potential benefits, such as attraction of investment. The assessment should include an analysis of how the proposed FTA will deal with issues that directly affect the access of Kazakhs products in the prospective trading partner’s market. This should include tariffs and non-tariff barriers that affect Kazakhs producers, and barriers to trade in services and investments. Studies should also be conducted at the CU level, to analyze how the FTAs will affect the CU overall and each member. This will provide a concrete baseline to discuss potential compensating mechanisms among members at the CU level.
8. **Best practice suggests this assessment should include a thorough social, environmental and economic analysis to identify the potential positive and negative impacts of such agreements**. Such an analysis should include qualitative and quantitative analytical methods, economy wide as well as sectoral computable general equilibrium models, sector specific analysis, use of partial equilibrium analysis such as gravity models to predict trade patterns and poverty and environment assessments. [[15]](#footnote-15) Systematic public consultation is a key element of such an assessment. This methodological approach is time consuming and expensive, but ultimately worthwhile as it provides quantitative and qualitative assessments of the costs and benefits of joining an FTA. EU has undertaken a number of such comprehensive analyses, including the 2009 EU-India FTA and the 2012 EU-Georgia FTA analyses (Annex IV).[[16]](#footnote-16),[[17]](#footnote-17)

|  |
| --- |
| Box 3: Kazakhstan and Free Trade Agreements: A Working Agenda  Kazakhstan is interested in pursuing negotiations of several FTAs/PTAs. To help this agenda succeed, the authorities should consider the following:  The conclusion of WTO accession should continue to be a priority. The WTO agreements are the umbrella under which member countries’ trade policies are conducted. Kazakhstan’s trading partners are bound by the WTO rules regarding economic integration. The advantages that WTO members can offer to Kazakhstan, in particular, on goods trade, are limited by these rules. WTO membership will, on the other hand, help Kazakhstan’s negotiating team address the country’s commercial interests. However, engaging in bilateral trade negotiations may also affect Kazakhstan’s WTO accession process. In effect, concessions exchanged in FTAs negotiations may be requested by WTO members to ensure a level playing field for their products.  Kazakhstan FTA/PTA policy agenda should be closely coordinated with CU partners and consistent with CU rules. If the FTAs agenda will largely be defined at the CU level authorities should negotiate with its partners to ensure that the CU strategies respond to the country’s commercial interests – in particular the impact on Kazakhstani domestic industries, SMEs and exporters - and medium-long term development goals. This may require a reassessment of the country’s existing initiatives to integrate them as necessary into the CU’s strategy with third countries. Finally, Kazakhstan should assess to what extent the strategy to join TFAs supports the broader policy objectives expressed in its national different strategic plans described above, including policies promoting export growth, upgrading and diversification.  Undertake analysis of potential effects of joining an FTAeffects before the start of negotiations. Potential topics and methodologies are discussed in the text of this note.  Set clear negotiating goals, align them with the country’s strategies, and prioritize market strategies. Prioritizing objectives with the support of research and solid coordination mechanisms for negotiation will facilitate the allocation of scarce resources according to a hierarchy of objectives. Sectoral objectives should be in the lead, especially if trade policy and negotiation objectives have been properly aligned with Kazakhstan’s export and enterprise development objectives. Allocating additional human resources will facilitate participation in simultaneous negotiations. Countries of a similar size as Kazakhstan, such as Chile, have been able to conduct several negotiations at the same time. Chile, for example, had to negotiate in parallel with the US and the EU.  In order to implement the national` FTA agenda, the authorities should strengthen the teams working on WTO, CU and FTA affairs as follows:   * Strengthen the Geneva mission responsible for WTO negotiations can help facilitate the finalization and later implementation of WTO commitments and will help the country to deal with the on-going multilateral agenda. The team can be composed of 5 to 6 officials, including an Ambassador, * Establish a dedicated office in Moscow that would address the negotiating agenda of the CES. * To deal with the FTAs negotiations, the team should be composed of a core team of officials from the different ministries fully dedicated to these activities.   *Source: World Bank Staff* |

1. **Generally, Kazakhstan should seek trade with countries with which it has a high complementarity of products**.[[18]](#footnote-18)While FTAs can span a large number of topics and sectors, one simple method to assess the gains from potential goods trade is to look at the product complementarity index of countries trading with Kazakhstan. Analysis shows that regional integration agreements where members had higher complementarity of products appear to be more successful. Countries with complementary trade structure are likely to trade more, whereas economies with similar trade structure often struggle to improve trade share unless there is substantial intra-industry trade. For instance, within ASEAN product complementarity for Indonesia is 48, Malaysia 63, Philippines 60, and Singapore 63. For Kazakhstan, analysis shows that product complementarity is below 20 with the Central Asian economies, Russia and Mongolia. China and Belarus are the only countries with which Kazakhstan has a complementarity score above than 30, which is a low score (Table 11). So if there is interest in new FTAs, it behooves the authorities to investigate options beyond this group of countries, for instance, with East Asia or Middle East**.**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Table : Bi-lateral Trade Complementarity Indices  (Index range: 0-100) | | | | | | | | | | |
| From: | AZE | BLR | CHN | KAZ | KRG | MNG | RUS | TJK | TKM | UZB |
| Azerbaijan |  | 30.2 | 16.2 | 11.2 | 5.6 | 5.8 | 3.9 | 8.9 | 3.1 | 8.3 |
| Belarus | 16.9 |  | 12.3 | 18.3 | 16.6 | 32.2 | 12.6 | 21.7 | 15.7 | 16.5 |
| China | 29.3 | 24.5 |  | 31.5 | 18.4 | 22.4 | 39.1 | 20.2 | 24.3 | 23.3 |
| **Kazakhsta**n | 5.7 | 35.2 | 23.9 |  | 8.1 | 7.5 | 6.0 | 12.2 | 3.7 | 11.3 |
| Kyrgyz Republic | 11.4 | 9.2 | 7.9 | 11.8 |  | 9.0 | 11.7 | 9.34 | 7.7 | 7.6 |
| Mongolia | 1.6 | 6.9 | 16.5 | 8.1 | 2.2 |  | 2.7 | 4.6 | 1.2 | 6.1 |
| Russia | 10.7 | 48.0 | 27.4 | 17.8 | 15.1 | 23.9 |  | 19.8 | 8.3 | 16.6 |
| Tajikistan | 5.7 | 4.9 | 5.1 | 4.2 | 3.5 | 5.6 | 5.5 |  | 4.8 | 5.9 |
| Turkmenistan | 2.6 | 19.0 | 8.1 | 8.8 | 9.9 | 20.1 | 3.2 | 14.7 |  | 7.1 |
| Uzbekistan | 9.3 | 18.1 | 9.2 | 9.3 | 7.9 | 9.8 | 10.6 | 9.0 | 6.1 |  |
| *Source:* Calculations based on Gillson and Reyes (2011) and data from Comtrade (via WITS).  *Note:* The complementarity index ranges from zero to 100. Higher values indicate higher potential for trade. | | | | | | | | | | |

1. **If** **negotiating an FTA, the authorities should adopt a design that includes the following:** (i) low external MFN tariffs; (ii) few sectoral and product exemptions; (iii) nonrestrictive rules of origin; and (iv) measures to facilitate trade. The authorities can use a pragmatic policy approach to negotiating a new FTA. This approach can be summarized by thinking of the gains and losses of joining the agreement using the following three pillared framework: scope, factors and actors.

**Scope**

1. **The authorities will need to decide whether to negotiate an FTA with a narrow scope or a wide scope.** An agreement with a narrow scope would focus more on the basic goods and possibly services agreements. The authorities would need to assess what goods and services sectors they wish to include in the FTA negotiations. In this case, it is especially important that trade between prospective FTA partners be highly complementarity. This would suggest more potential for trade growth and therefore a more economically viable and politically attractive FTA. In fact, experience suggests that the more comprehensive the sectoral coverage, the higher the probability of gains from the FTA. For instance the recent KOREA – ASEAN Agreement on Trade in Services (AKTISA) includes 112 sectors and sub-sectors.
2. **An FTA with a wider scope could address critical topics of interest to negotiating parties.** For instance, competition policy can be included in the FTA agreement, with an eye to ensuring adequate regulatory oversight of fair competition. FTAs have been used to secure market enlargement in specific markets such as electronic commerce, digital products, financial services, business services. In the case of Singapore and India, one point of high interest was to secure access rights for Singapore Airlines in India. More recently, FTA can also be used to facilitate regional value chains with an eye to secure supply of competitive and reliable inputs. The China-ASEAN agreement appears to include such an objective.

**Factors**

1. **The authorities will need to address the treatment of labor and capital movements.** If movement of labor is to be included in the FTA, it is necessary to assess Kazakhstan’s labor market needs and its migration policy. For instance, Philippines, which is well known for exporting labor services, succeeded in securing better access to Australia and New Zealand labor markets for its workers through the FTA ASEAN signed with them**.** Permission to import or export labor services will have economic impacts on the domestic labor market, labor/household income and remittances. It may also engender social and political sensitivities that will need to be anticipated and mitigated to ensure social harmony.
2. **One of the potential gains from any FTA is the possibility of additional capital inflows**. If investment flows are to be facilitated by the FTA, authorities should consider what type of flow they wish to attract and ensure the country’s regulatory framework is adequately prepared. For instance, is the FTA to facilitate green-field investments? Are specific sectors to be targeted for such investment? Also, portfolio investments can be of interest to help deepen national financial markets, but can also be a source of potential destabilization if the country is affected by a financial crisis.

**Actors**

1. **The authorities should address issues that can affect the implementation of FTA.** These issues can be bundled into two categories. The first category deals with topics such as NTMs, trade facilitation and the role of the public sector. For NTMs, it is important to assess whether there will be explicit commitments to simplifying NTM regulations. In a counter-intuitive way, availing countries of extensive trade remedy measures can in fact have the opposite effect to that intended by the agreement. The South Asia Free Trade Agreement (SAFTA) is a case in point. India, a member of SAFTA has successfully used the trade remedy measures provided by the agreement to protect its industries, thus negating its intended goal for trade expansion. Also, the rules of origin (ROO) can stifle growth in trade, especially the development of value chains. To ease the potential restrictiveness of the ROO, FTA members can agree to adopt the rules governing non-preferential trade. Alternatively, more flexible ROO formulas can be used.[[19]](#footnote-19) In trade facilitation/logistics, it will be critical that new FTA partners monitor and evaluate the gains on the ground instead of just relying on legal and regulatory texts. Often the texts are not appropriately or fully implemented, causing undue costs to traders. Given the issues highlighted above, the public sector institutions have a central role in making an FTA a success or a failure.

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| Box : Assessing Readiness to Join an FTA  **Before launching negotiations for a new FTA, authorities should consider the following three issues:**   * What are the objectives of joining an FTA: political, security, economics, socio-cultural? * Does the country have the institutional capacity to properly negotiate and implement a new FTA? * Has there been an in-depth study of the potential impacts of joining a new FTA?   **During negotiations, the authorities should consider the following three pillars**:   * Scope: how extensive and how intensive the trade privileges will be? * Factors: how to deal with labor and capital flows? * Actors: have the authorities ensured that the critical details are well worked out in the agreement and well implemented on the ground (NTMs, ROOs and trade facilitation)?   A cross-cutting issue before, during and after negotiations of an agreement is extensive consultation with all parties who will be potentially impacted by the FTA, including private sector and civil society. This will permit information sharing, but also developing mitigative measures to help alleviate negative impacts of the FTA on specific groups.  *Source:* World Bank. |

1. **Finally, for an FTA to be successful, the authorities need to consult regularly with the private sector and the civil society before, during and after negotiations.** The success of this component will depend on the regular assessment of the benefits and costs. For instance, a firm-level survey undertaken among exporters in ASEAN countries revealed that only 28 percent used the FTA benefits. Furthermore, open and frequent information sharing and consultation will allow the private sector to acquire knowledge about the potential opportunities offered by the FTA. In China, the authorities provide a hotline and website with information on such benefits for the private sector. Consultation with the civil society will provide the authorities with information about the concerns of impacted groups, so that targeted assistance can be directed to them. Mitigative measures will help ease the impact and resistance to such agreements. For instance, in the case of NAFTA, the US predicted its textile industry will suffer. One tool it used was providing support to textile workers to retrain and find jobs in other sectors.

## Conclusion

1. **In conclusion, this note provides a number of suggestions to improve Kazakhstan’s trade policy framework.**

* First, it suggests the authorities accede to the WTO with a tariff schedule that is more liberal than the one used by Russia. A more liberal tariff schedule would give Kazakhstani producers’ further access to global inputs and its consumers a larger choice of consumption products. Also, agreeing to a short timeline for implementing WTO tariff commitments will liberalize the tariff structure quickly and almost fully the pre-CU tariff schedule.
* Second, the authorities should consider larger tariff reductions for capital and intermediate goods than the ones included in the Russian schedule. The note finds that accession to the WTO using the Russia tariff schedule will alleviate the impact of higher CU tariff schedules on intermediate imports. This should ease the concern that the higher CU tariff may in the long run affect the knowledge and technology content of intermediate inputs and by extension the productivity growth in Kazakhstani sectors that use them.
* Third, finalizing WTO negotiations in the disciplines not related to market access (tariffs) will help advance the accession process. These include: the services agreement; regulations and practices governing sanitary and phytosanitary (SPS) measures and technical regulations; the pending issues related to state-owned enterprises, local content requirements and discriminatory VAT preferences; and trading rights and treatment of natural persons.
* Fourth, Kazakhstan should take time to carefully study any proposal to negotiate a new FTA. Regional and bilateral agreements can be complex and are prone to failure. Before negotiating, Kazakhstan should take time to assess the benefit and costs of such a membership. This would include analyzing proposals fully and building capacity to implement them properly.
* Finally, if negotiating an FTA, the authorities should adopt a design that includes (i) low external MFN tariffs; (ii) few sectoral and product exemptions; (iii) nonrestrictive rules of origin; and (iv) measures to facilitate trade.

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Annex I: Kazakhstan Exports and Imports Patterns

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| --- | --- | --- | --- | --- | --- | --- |
| Table A1: Main Destinations for Kazakhstan’s Top 10 Export Products, 2008-10  (In percent, unless otherwise indicated) | | | | | | |
| HS4 | Product | Rank in 08/10 | Top 3 Destinations  (product exports for 08/10 in brackets) | | | Exports in Top  3 Markets |
| 2709 | Petroleum oils | 1 | EU27 | China | Canada |  |
| [66.8] | [16.3] | [4.6] | 87.7 |
| 7202 | Ferro-alloys | 2 | China | Japan | EU27 |  |
| [28.2] | [23.1] | [18.0] | 69.3 |
| 7403 | Refined copper | 3 | China | Turkey | EU27 |  |
| [50.2] | [30.4] | [13.7] | 94.4 |
| 2711 | Petroleum gases | 4 | Ukraine | EU27 | Turkey |  |
| [54.7] | [25.7] | [14.6] | 95.0 |
| 2710 | Petroleum oils | 5 | USA | EU27 | Ukraine |  |
| [31.2] | [28.4] | [19.1] | 78.6 |
| 2601 | Iron ores and concentrates | 6 | Russia | China | Kyrgyz Republic |  |
| *[55.5]* | [44.4] | [0.1] | <100 |
| 2844 | Radioactive chemical elements | 7 | China | EU27 | Russia |  |
| [49.0] | [15.3] | [13.4] | 77.7 |
| 1001 | Wheat and meslin | 8 | Turkey | Azerbaijan | EU27 |  |
| [23.7] | [17.1] | [15.7] | 56.5 |
| 2701 | Coal | 9 | Russia | Ukraine | EU27 |  |
| [67.2] | [22.7] | [6.3] | 96.1 |
| 7901 | Unwrought zinc | 10 | EU27 | China | Turkey |  |
| [27.5] | [22.6] | [19.4] | 69.6 |
| *Source:* UN-COMTRADE mirror data, World Bank Staff calculations. | | | | | | |

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| --- | --- |
| Figure A1: China Gained Grounds in the Kazakhstani Market Despite the CU Induced Tariff Rises | FigureA2: EU Lost Ground in Almost Mirror Image, Especially in Machinery and Electronics and Transport |
|  |  |
| *Source:* Official data and World Bank staff. | *Source:* Official data and World Bank staff. |

Annex II: Impact of Accession to the WTO with the Same Schedule as Russia.

**Table A2: Change to Import Values by Region – 2020**

(Billion Tenge)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Item | European Union | Customs Union | Other CIS | Rest of the World | Net Import Change |
| Food and beverages | 14.69 | -21.11 | -6.8 | 33.33 | 20.12 |
| Chemical Industry | 13.92 | -18.03 | -2.25 | 8.49 | 2.12 |
| Metal products | 13.7 | -11.2 | -2.73 | 9.37 | 9.15 |
| Pulp and paper | 6.81 | -5.93 | -1.78 | 1.66 | 0.76 |
| Electrical machinery | 6.52 | -7.18 | -2.77 | 4.56 | 1.12 |
| Motor vehicles and trailers | 5.96 | -11.4 | -1.21 | 9.92 | 3.28 |
| Rubber and plastic | 5.59 | -10.21 | -1.18 | 8.12 | 2.31 |
| Other transport equipment | 3.79 | -2.78 | -2.23 | 2.25 | 1.02 |
| Metallurgical industry | 3.4 | -5.3 | -4.64 | 11.38 | 4.84 |
| Other mineral products | 3.21 | -5.81 | -1.4 | 6.67 | 2.67 |
| Machinery and equipment | 2.93 | -4.53 | -1.16 | 2.51 | -0.25 |
| Wood products | 2.49 | -3.93 | -0.25 | 1.53 | -0.16 |
| Furniture and other products | 1.74 | -2.68 | -0.85 | 2.5 | 0.7 |
| Textiles | 1.03 | -1.24 | -0.36 | 1.85 | 1.28 |
| Agriculture and hunting | 0.84 | -1.2 | -0.44 | 5.03 | 4.23 |
| Precision instruments | 0.77 | -1.33 | -0.1 | 0.77 | 0.11 |
| Radio and television | 0.71 | -1.13 | -0.3 | 1.95 | 1.23 |
| Leather products | 0.4 | -0.57 | -0.2 | 1.18 | 0.8 |
| Wearing apparel | 0.28 | -0.34 | -0.02 | 0.65 | 0.58 |
| Publishing and printing | 0.16 | -0.4 | -0.04 | 0.13 | -0.16 |
| Tobacco products | 0.14 | -1.3 | -0.01 | 1.66 | 0.5 |
| Refined petroleum | 0.01 | -0.25 | -0.01 | 0.01 | -0.24 |
| Fishing | 0 | 0 | 0 | 0.01 | 0.01 |
| Mining of coal and lignite | 0 | -0.02 | 0 | 0 | -0.02 |
| Crude oil and natural gas | 0 | 1.24 | 0.18 | 0 | 1.42 |
| Mining of metals | 0 | 0.08 | 0.1 | -0.65 | -0.48 |
| Other mining | -0.01 | -0.05 | 0 | -0.02 | -0.08 |
| *Source:* Official data, World Bank calculations. | | | | | |

**Table A3 Weighted Mean of Applied Tariffs under the WTO Accession Scenario for Sectors**

(Percent)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Sector | Sector Description | Year | | | | | | | | |
| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| 1 | Agriculture | 5.37 | 4.84 | 4.49 | 4.19 | 4.02 | 3.73 | 3.73 | 3.73 | 3.73 |
| 2 | Forestry | 9.96 | 5.22 | 5.14 | 5.07 | 5.07 | 5.07 | 5.07 | 5.07 | 5.07 |
| 3 | Fishing | 10.00 | 8.17 | 7.56 | 6.58 | 6.48 | 6.48 | 6.48 | 6.48 | 6.48 |
| 4 | Mining of coal and lignite; extraction of peat | 4.98 | 4.98 | 4.98 | 4.98 | 4.98 | 4.98 | 4.98 | 4.98 | 4.98 |
| 5 | Extraction of crude petroleum and natural gas; service activities incidental to oil and gas extraction | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| 6 | Mining of metal ores | 1.30 | 4.96 | 4.94 | 4.94 | 4.94 | 4.94 | 4.94 | 4.94 | 4.94 |
| 7 | Other mining and quarrying | 4.77 | 4.69 | 4.69 | 4.69 | 4.69 | 4.69 | 4.69 | 4.69 | 4.69 |
| 8 | Manufacture of food products and beverages | 20.07 | 13.96 | 12.76 | 11.78 | 11.37 | 11.30 | 11.29 | 11.29 | 11.17 |
| 9 | Manufacture of tobacco products | 27.77 | 23.25 | 20.19 | 16.63 | 16.22 | 16.11 | 16.11 | 16.11 | 16.11 |
| 10 | Manufacture of textiles | 14.71 | 12.61 | 11.46 | 9.80 | 9.53 | 9.26 | 9.25 | 9.25 | 9.25 |
| 11 | Manufacture of wearing apparel; dressing and dyeing of fur | 15.22 | 14.66 | 14.47 | 12.01 | 11.97 | 11.93 | 11.93 | 11.93 | 11.93 |
| 12 | Tanning and dressing of leather; manufacture of luggage | 17.31 | 16.51 | 14.78 | 11.64 | 8.55 | 8.52 | 8.52 | 8.52 | 8.52 |
| 13 | Manufacture of wood and of products of wood and cork | 16.30 | 15.10 | 12.74 | 10.42 | 9.79 | 9.74 | 9.74 | 9.74 | 9.74 |
| 14 | Manufacture of pulp | 12.21 | 9.52 | 8.24 | 6.84 | 6.02 | 5.98 | 5.98 | 5.98 | 5.98 |
| 15 | Publishing | 1.02 | 0.72 | 0.61 | 0.56 | 0.53 | 0.53 | 0.53 | 0.53 | 0.53 |
| 16 | Manufacture of coke | 5.00 | 4.96 | 4.96 | 4.96 | 4.96 | 4.96 | 4.96 | 4.96 | 4.96 |
| 17 | Manufacture of chemicals and chemical products | 8.53 | 7.28 | 6.30 | 5.57 | 5.12 | 4.98 | 4.96 | 4.96 | 4.96 |
| 18 | Manufacture of rubber and plastic products | 12.94 | 11.08 | 9.86 | 8.63 | 7.84 | 7.08 | 7.03 | 7.03 | 7.03 |
| 19 | Manufacture of other non-metallic mineral products | 14.97 | 13.61 | 12.31 | 11.10 | 10.41 | 10.11 | 10.11 | 10.11 | 10.11 |
| 20 | Manufacture of basic metals | 10.94 | 9.83 | 8.68 | 7.57 | 7.54 | 7.54 | 7.54 | 7.54 | 7.54 |
| 21 | Manufacture of fabricated metal products | 13.76 | 11.48 | 9.22 | 7.98 | 7.43 | 7.36 | 7.36 | 7.36 | 7.36 |
| 22 | Manufacture of machinery and equipment n.e.c. | 3.94 | 4.03 | 3.84 | 3.53 | 3.31 | 3.28 | 3.28 | 3.28 | 3.28 |
| 23 | Manufacture of office machinery and computers | 0.04 | 0.15 | 0.05 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 24 | Manufacture of electrical machinery and apparatus n.e.c. | 7.47 | 6.23 | 5.21 | 4.38 | 4.21 | 4.13 | 4.13 | 4.13 | 4.13 |
| 25 | Manufacture of radio | 3.81 | 1.21 | 0.78 | 0.43 | 0.43 | 0.43 | 0.43 | 0.43 | 0.43 |
| 26 | Manufacture of medical | 3.24 | 2.74 | 2.34 | 1.88 | 1.85 | 1.84 | 1.84 | 1.84 | 1.84 |
| 27 | Manufacture of motor vehicles | 16.14 | 13.51 | 13.15 | 12.79 | 11.67 | 10.71 | 9.77 | 9.15 | 9.15 |
| 28 | Manufacture of other transport equipment | 9.22 | 9.40 | 8.89 | 8.61 | 8.35 | 8.10 | 7.89 | 7.67 | 7.67 |
| 29 | Manufacture of furniture; manufacturing n.e.c. | 13.79 | 15.27 | 14.63 | 13.76 | 12.35 | 11.13 | 9.97 | 9.97 | 9.97 |
| Total |  | 8.92 | 7.67 | 6.96 | 6.27 | 5.87 | 5.67 | 5.55 | 5.48 | 5.48 |
| *Source*: Official data, World Bank calculations | | | | | | | | | | |

**Table A4: Weighted Mean of Bound Tariffs under the WTO Accession Scenario**

(Percent)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Sector | Sector Description | Year | | | | | | | | | | | | | | | | |
|  |  | 2012 | | 2013 | | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | | 2019 | | 2020 |
| 1 | Agriculture | 5.37 | | 5.81 | | 5.28 | | 4.88 | | 4.71 | | 4.42 | | 4.42 | | 4.42 | | 4.42 |
| 2 | Forestry | 9.96 | | 5.22 | | 5.14 | | 5.07 | | 5.07 | | 5.07 | | 5.07 | | 5.07 | | 5.07 |
| 3 | Fishing | 10.00 | | 8.17 | | 7.56 | | 6.58 | | 6.48 | | 6.48 | | 6.48 | | 6.48 | | 6.48 |
| 4 | Mining of coal and lignite; extraction of peat | 4.98 | | 5.00 | | 5.00 | | 5.00 | | 5.00 | | 5.00 | | 5.00 | | 5.00 | | 5.00 |
| 5 | Extraction of crude petroleum and natural gas; service activities incidental to oil and gas extraction | 5.00 | | 5.00 | | 5.00 | | 5.00 | | 5.00 | | 5.00 | | 5.00 | | 5.00 | | 5.00 |
| 6 | Mining of metal ores | 1.30 | | 4.98 | | 4.96 | | 4.96 | | 4.96 | | 4.96 | | 4.96 | | 4.96 | | 4.96 |
| 7 | Other mining and quarrying | 4.77 | | 4.97 | | 4.97 | | 4.97 | | 4.97 | | 4.97 | | 4.97 | | 4.97 | | 4.97 |
| 8 | Manufacture of food products and beverages | 20.07 | | 14.39 | | 13.09 | | 12.03 | | 11.62 | | 11.55 | | 11.54 | | 11.54 | | 11.42 |
| 9 | Manufacture of tobacco products | 27.77 | | 24.03 | | 20.58 | | 16.63 | | 16.22 | | 16.11 | | 16.11 | | 16.11 | | 16.11 |
| 10 | Manufacture of textiles | 14.71 | | 13.54 | | 11.77 | | 9.85 | | 9.57 | | 9.30 | | 9.29 | | 9.29 | | 9.29 |
| 11 | Manufacture of wearing apparel; dressing and dyeing of fur | 15.22 | | 19.04 | | 16.67 | | 12.88 | | 12.83 | | 12.79 | | 12.79 | | 12.79 | | 12.79 |
| 12 | Tanning and dressing of leather; manufacture of luggage | 17.31 | | 17.81 | | 14.83 | | 11.68 | | 8.58 | | 8.55 | | 8.55 | | 8.55 | | 8.55 |
| 13 | Manufacture of wood and of products of wood and cork | 16.30 | | 15.15 | | 12.74 | | 10.42 | | 9.79 | | 9.75 | | 9.75 | | 9.75 | | 9.75 |
| 14 | Manufacture of pulp | 12.21 | | 9.82 | | 8.45 | | 6.97 | | 6.14 | | 6.06 | | 6.06 | | 6.06 | | 6.06 |
| 15 | Publishing | 1.02 | | 0.73 | | 0.62 | | 0.57 | | 0.54 | | 0.54 | | 0.54 | | 0.54 | | 0.54 |
| 16 | Manufacture of coke | 5.00 | | 4.96 | | 4.96 | | 4.96 | | 4.96 | | 4.96 | | 4.96 | | 4.96 | | 4.96 |
| 17 | Manufacture of chemicals and chemical products | 8.53 | | 7.80 | | 6.64 | | 5.84 | | 5.38 | | 5.23 | | 5.22 | | 5.22 | | 5.22 |
| 18 | Manufacture of rubber and plastic products | 12.94 | | 11.55 | | 10.10 | | 8.77 | | 7.93 | | 7.17 | | 7.12 | | 7.12 | | 7.12 |
| 19 | Manufacture of other non-metallic mineral products | 14.97 | | 13.77 | | 12.38 | | 11.15 | | 10.44 | | 10.14 | | 10.14 | | 10.14 | | 10.14 |
| 20 | Manufacture of basic metals | 10.94 | | 10.32 | | 9.14 | | 8.01 | | 7.96 | | 7.96 | | 7.96 | | 7.96 | | 7.96 |
| 21 | Manufacture of fabricated metal products | 13.76 | | 12.15 | | 9.66 | | 8.29 | | 7.70 | | 7.61 | | 7.61 | | 7.61 | | 7.61 |
| 22 | Manufacture of machinery and equipment n.e.c. | 3.94 | | 7.75 | | 6.50 | | 5.80 | | 5.49 | | 5.46 | | 5.46 | | 5.46 | | 5.46 |
| 23 | Manufacture of office machinery and computers | 0.04 | | 5.58 | | 1.67 | | 0.01 | | 0.01 | | 0.01 | | 0.01 | | 0.01 | | 0.01 |
| 24 | Manufacture of electrical machinery and apparatus n.e.c. | 7.47 | | 8.88 | | 7.45 | | 6.34 | | 6.16 | | 6.08 | | 6.08 | | 6.08 | | 6.08 |
| 25 | Manufacture of radio | 3.81 | | 1.71 | | 1.03 | | 0.51 | | 0.48 | | 0.48 | | 0.48 | | 0.48 | | 0.48 |
| 26 | Manufacture of medical | 3.24 | | 5.67 | | 4.91 | | 4.15 | | 4.12 | | 4.11 | | 4.11 | | 4.11 | | 4.11 |
| 27 | Manufacture of motor vehicles | 16.14 | | 15.00 | | 14.61 | | 14.22 | | 13.06 | | 12.07 | | 11.14 | | 10.51 | | 10.51 |
| 28 | Manufacture of other transport equipment | 9.22 | 11.67 | | 10.95 | | 10.39 | | 9.81 | | 9.23 | | 9.02 | | 8.80 | | 8.80 | |
| 29 | Manufacture of furniture; manufacturing n.e.c. | 13.79 | 17.72 | | 16.03 | | 14.31 | | 12.82 | | 11.55 | | 10.40 | | 10.40 | | 10.40 | |
| Total |  | 8.92 | 9.68 | | 8.32 | | 7.33 | | 6.87 | | 6.65 | | 6.53 | | 6.46 | | 6.46 | |
| *Source:* Official data, World Bank calculations. | | | | | | | | | | | | | | | | | | |

**Table A5: Acronyms for the 57 Sectors of the CGE Model**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Number | Code | Sector |  | Number | Code | Sector |  |  |
| 1 | agr | Agriculture and hunting | | 30 | rec | Recycling |  |  |
| 2 | frs | Forestry |  | 31 | elg | Electricity, gas and hot water | | |
| 3 | fsh | Fishing |  | 32 | wtr | Water |  |  |
| 4 | coa | Mining of coal and lignite | | 33 | cns | Construction | |  |
| 5 | oga | Crude oil and natural gas | | 34 | trm | Trade in motor vehicles | | |
| 6 | mmo | Mining of metals | | 35 | wht | Wholesale trade | |  |
| 7 | omi | Other mining | | 36 | rtr | Retail trade | |  |
| 8 | fob | Food and beverages | | 37 | hot | Hotels and restaurants | | |
| 9 | tob | Tobacco products | | 38 | ltp | Land transport | |  |
| 10 | tex | Textiles |  | 39 | wtp | Water transport | |  |
| 11 | wap | Wearing apparel | | 40 | atp | Air Transport | |  |
| 12 | lea | Leather products | | 41 | otp | Auxiliary transport services | | |
| 13 | lum | Wood products | | 42 | cmn | Communications | |  |
| 14 | ppa | Pulp and paper | | 43 | fin | Financial intermediation | | |
| 15 | ppr | Publishing and printing | | 44 | isr | Insurance | |  |
| 16 | p\_c | Refined petroleum | | 45 | afi | Auxiliary financial services | | |
| 17 | chm | Chemical Industry | | 46 | rea | Real estate | |  |
| 18 | rpl | Rubber and plastic | | 47 | rem | Renting of machinery | | |
| 19 | nmm | Other mineral products | | 48 | cte | Computer technologies | | |
| 20 | met | Metallurgical industry | | 49 | rad | Research and development | | |
| 21 | fmp | Metal products | | 50 | ots | Other services | |  |
| 22 | mme | Machinery and equipment | | 51 | gov | Government | |  |
| 23 | ofm | Office machinery | | 52 | edu | Education | |  |
| 24 | ema | Electrical machinery | | 53 | hea | Health and social services | | |
| 25 | rtc | Radio and television | | 54 | sew | Sewage and waste | |  |
| 26 | mpo | Precision instruments | | 55 | pua | Public associations | |  |
| 27 | mvh | Motor vehicles and trailers | | 56 | amr | Recreation, culture and sports | | |
| 28 | otn | Other transport equipment | | 57 | per | Personal service | |  |
| 29 | fur | Furniture and other products | |  |  |  |  |  |
| *Source:* World Bank | | | | | | | | |

Annex III: Central Asian Countries Membership in Various FTAs (as of Mid-2013)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table A6: Central Asian Countries Membership In Various FTAS (as of Mid-2013) | | | | | |
|  | KAZ | KGZ | TJK | TKM | UZB |
| Common Economic Zone | x |  |  |  |  |
| Eurasian Economic Community | x | x | x |  |  |
| CIS FTA 2011 | x | x | x |  | x |
| CIS FTA 2011 | x | x | x |  |  |
| Economic Cooperation Organization | x | x | x | x | x |
| GUUAM |  |  |  |  | x |
|  |  |  |  |  |  |
| Kazakhstan |  | x |  |  |  |
| Kyrgyz Republic | x |  |  |  | x |
| Tajikistan |  |  |  |  |  |
| Turkmenistan |  |  |  |  |  |
| Uzbekistan |  | x |  |  |  |
|  |  |  |  |  |  |
| Russia |  | x |  |  |  |
| Armenia | x | x |  | x |  |
| Georgia | x |  |  | x |  |
| Ukraine | x | x | x | x | x |
| Moldova |  | x |  |  |  |
| *Source:* Global Preferential Trade Agreements Database available on World Integrated Trade Solutions - information extracted in July 2013. | | | | | |

Annex IV: European Union’s Assessment Methodology for Free Trade Agreements

|  |
| --- |
| **Box A1: The EU General Approach is in Three Phases**  The main objective of the Trade Sustainability Impact Assessment (TSIA) is to assess the potential economic, social, environmental and fundamental human rights impacts of a Deep and Comprehensive Free Trade Agreement (DCFTA) to be negotiated between the EU and other countries.  This TSIA has a quantitative and qualitative research angle, in line with the general methodology designed for TSIAs by DG Trade in 2005. The main activities and analyses conducted in these phases consist of the following:   * + **Phase 0:** Methodology finalization and preliminary scoping of key issues.   + **Phase 1**: Assessment of overall economic, social and environmental impacts of the DCFTA, including: - Scenario analysis and Computational General Equilibrium Modeling (econometric simulation) on DCFTA impacts at macro-economic and sector level.     - Additional quantitative modeling of social effects;     - Additional quantitative modeling of environmental effects;     - Additional analysis of fundamental human rights issues;     - Stakeholder inputs on key impacts to be expected.   + **Phase 2:** In-depth analysis of two or three sectors or horizontal issues where we assess the impacts of the DCFTA for negotiating parties. The selection of sectors or issues is based on the outcomes of Phase 1. The assessment is based on causal chain analysis as well as key stakeholder inputs.   + **Phase 3:** Based on the findings in the previous phases, policy recommendations are formulated. These can relate to both measures within the scope of the DCFTA and broader issues.   ***Six main methodological pillars are used***   1. Screening and scoping analysis. 2. Scenario analysis and CGE modeling. 3. Additional quantitative and qualitative analysis. 4. Sectoral analysis. 5. Causal chain analysis. 6. Dissemination of key findings to, and consultations with, key stakeholders, including notably civil society.   *Source:* European Commission. 2011. Trade Sustainability Impact Assessment in support of negotiations of a DCFTA between the EU and Georgia and the Republic of Moldova.  <http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc_150105.pdf> |

1. Kazakhstan–Beyond Oil: Kazakhstan’s path to greater prosperity through diversifying (World Bank, 2013). [↑](#footnote-ref-1)
2. These reports include two works by Gonzalo Varela in 2013 as well as the 2013 Country Economic Memorandum, “Beyond Oil: Kazakhstan’s Path to Greater Prosperity through Diversifying,” and the 2012 World Bank analysis on “Kazakhstan: Taking Advantage of Trade and Openness for Development.” [↑](#footnote-ref-2)
3. Formally, for exporter ‘j’, for whom Iij is the set of products (i) in which positive exports are observed, Yij=1 if Xijk>0; and Zik=1 for Mik>0, else Zik=0, where Xijk is the value of exports of product i from exporter j to importer k, and Mik is the value of imports of product i by importer k. The  The index of export market penetration combines information about the product and market dimensions. The index of export market penetration measures the number of market-product combinations served by exporters in country ‘i’ as a proportion of the number of potential market-product flows.For a given range of products that a country exports, this index will be higher for countries serving a large proportion of the number of markets around the world that import the product. Similarly, for a given range of destinations a country serves, the index will be higher for countries that export a larger variety of products. [↑](#footnote-ref-3)
4. Gonzalo Varela, 2013b, IEMP. [↑](#footnote-ref-4)
5. Survival rates were low across the board, while the highest survival rates were observed for some foods, chemicals, minerals, and some electrical/manufactured products. [↑](#footnote-ref-5)
6. The model is built on the algebraic structure of the models of Jensen and Tarr (2010) and Balistreri and Tarr (2011). A full algebraic description of the model is available in the latter. There are 57 sectors in the model. These include 18 imperfectly competitive goods sectors and 39 competitive goods and services sectors. The cost, production, and pricing structures in the two categories of sectors differ widely. Labor and capital are the two primary factors of production. For further information refer to Tarr and Jensen (2012). [↑](#footnote-ref-6)
7. A 2008 by Jensen and Tarr accessed the impact of WTO accession the Kazakhstani economy. The study included a CGE model for Kazakhstan and carefully computed the welfare and trade effects that can be expected from Kazakhstan’s accession to the WTO, especially the impact of service-sector liberalization. In the first report, Jensen and Tarr estimate the potential gains from trade of Kazakhstani WTO accession to be large, nearly 6.7 percent of household consumption, or 3.7 percent of GDP, mostly driven by services liberalization. Box 1 above presents the analysis undertaken by the second study. [↑](#footnote-ref-7)
8. These results are similar to the results related to gains from increased trade in goods in the 2008 Jensen and Tarr, when WTO accession for Kazakhstan was considered. In the Jensen and Tarr study, the central results showed that liberalization in both goods and services could lead to welfare gains equal to 6.7 percent of household consumption, but the decomposition of those gains revealed that tariff liberalization in goods alone represented only 0.4 percent welfare gains. [↑](#footnote-ref-8)
9. The model is such that vehicles are imported to KAZ, and then are “integrated” into the economy using the Armington aggregate import function (where imports are combined with domestic varieties, to create a single “vehicle”), then since Russia’s trade policy is assumed to be constant here, vehicles are re-exported to Russia. This type of effects would not occur if the model used a multi-regional trade model – where production and trade are modeled independently for each country. In that case, since Russia is also reducing its tariff barriers, then those cars should be coming directly from the EU or ROW, and not indirectly through Kazakhstan. But since the model is a single-economy model, and Russia’s trade policy is held constant, this effect is created. [↑](#footnote-ref-9)
10. Markusen (1989) argues that trade liberalization of intermediates raises technical productivity at the final good production stage, if the final and intermediates sectors have non-constant returns to scale. This is because of the complementarities of domestic and foreign specialized inputs and because imports allow a quicker process of technological upgrade. With free trade in inputs “each country essentially confers a positive technological externality on its trading partner” (Markusen, 1989). Feenstra et al. (1999) show that an increase in input variety is positively correlated with total factor productivity (TFP). [↑](#footnote-ref-10)
11. The level of imports used for this table is the benchmark 2009 import level. Populating the CGE model with up to 2012 would provide a more accurate assessment of the impact of WTO accession. [↑](#footnote-ref-11)
12. Centre for International Economics. 2000Economic benefits from an AFTA-CER free trade area. Government of Australia. http://www.dfat.gov.au/fta/aanzfta/economic-benefits-aftacer-cie-2000.pdf. [↑](#footnote-ref-12)
13. Copenhagen Economics. 2011. Ex-post assessment of six EU free trade agreements – an econometric assessment of their impact on trade. http://trade.ec.europa.eu/doclib/docs/2011/may/tradoc\_147905.pdf. [↑](#footnote-ref-13)
14. An FTA is not always based on economic principles. It can be driven by political and security consideration, and if advanced enough are perceived by members and non -members as a defense blanket. The European Union is one such example. The agreement can be more based on foreign affairs agreement, looked at from a “friendship” agreement, with no real drive to implement its economic provisions. The non-economic reasons may have enough policy appeal that they override economic concerns. [↑](#footnote-ref-14)
15. “Methodology forImpact Assessment of Free Trade Agreements” Michael G. Plummer, David Cheong, and Shintaro Hamanaka, ADB, 2010 and Sequencing Regionalism: Theory, European Practice, and Lessons for Asia, Richard E. Baldwin, ADB, June 2011. [↑](#footnote-ref-15)
16. Trade Sustainability Impact Assessment for the FTA between the EU and the Republic of India.(European Commission – DG Trade), 2009. [↑](#footnote-ref-16)
17. <http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc_150105.pdf>. [↑](#footnote-ref-17)
18. The bilateral complementarity index between two countries *j* and *k* can be defined as: where represents the share of good *i* in total exports from country *j* and represents the share of good *i* in total imports to country *k*. The index is a measure of the similarity between the export basket of one country and the import basket of another. The value of the index ranges from zero to one hundred, representing no complementarity and a perfect match, respectively. The exercise can be undertaken at a more detailed product line analysis for pairs of countries. [↑](#footnote-ref-18)
19. It is recommended that FTAs not use the typical value added approach for determining tariff and taxes on a product. The recommended approach is based on the product having changed enough to have a different tariff heading. [↑](#footnote-ref-19)