

**SOME ISSUES CONCERNING THE FORMATION
OF THE COMMON ECONOMIC SPACE
OF KAZAKHSTAN, RUSSIA AND BELARUS**

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Abstract

The article discusses the issues of creating a common economic zone with the countries of the Common Economic Space by comparing this economic area to the area of the European Union. Analysis of contracts for its establishment is for consideration, as well as the pluses and minus of the implementation of the grant agreement on the CES industrial countries. A comparison of these two economic zones with similar economic problems will enable the future of their cooperation.

**WYBRANE ZAGADNIENIA DOTYCZĄCE TWORZENIA WSPÓLNEJ PRZESTRZENI
GOSPODARCZEJ KAZACHSTANU, ROSJI I BIAŁORUSI**

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Słowa kluczowe: Wspólna Przestrzeń Gospodarcza, unia celna, handel zagraniczny, import, eksport.

Abstrakt

W artykule omówiono problematykę utworzenia od 1 stycznia 2012 r. Wspólnej Przestrzeni Gospodarczej (CES) Kazachstanu, Rosji i Białorusi. Celem artykułu jest przybliżenie istoty utworzonej przestrzeni gospodarczej wraz z posiadanym potencjałem na bazie obrotów handlowych z jednoczesną analizą silnych i słabych stron wskazanego obszaru gospodarczego. Poznanie wybranych aspektów nowej, wschodnioeuropejskiej przestrzeni gospodarczej przybliży problematykę wymiany handlowej, co z kolei pozwoli wyeliminować bariery integracji obu obszarów w przyszłości.

Introduction

Since January 2012, the Customs union has been transformed into the Common Economic Space. 17 agreements between these states are in force which assume the introduction of general economic mechanisms which are based upon „the principle of four freedoms”: trade in goods, trade in services, movement of financial capital, and the free movement of citizens of the participating states¹. Participation in the CES can promote a considerable improvement of economic indicators in Kazakhstan. The creation of a new international integration association demands the accurate and coordinated solution of an entire complex of problems: the creation of scientific and technical reserves, the organization of mass production, transport service, the concentration of financial markets, (including credit resources), information

Table 1

Comparison of economic zones

Rate	CES-RKB	EU
Countries	3	27
Surface area	20,030,748 km ²	4,381,376 km ²
Population	170 mln	505 mln
Inhabitants km ²	9/km ²	115/km ²
GDP	2.895 bn \$	16,584.0 bn \$
GDP per inhabitant	16,137 \$	32,021 \$
Unemployment	6.2%	12.1%

Source: Eurostat 2013 and the Federal State Statistics Service of Russian Federation 2013.

¹ COMMON ECONOMIC SPACE-Transnational regionally-economic community of States Customs Alliance – Belarus, Kazakhstan and Russia. The decision to create ECONOMIC ZONE entered into force on 1 January 2012. In the full extent integration agreement CES operate from July 2012. CES represents the one of the forms of interstate integration, the aim of which is to liberalize international economics relations within the union and the collective realization of protectionism for its borders. ZONE task is to protect the so-called „four freedoms” between the countries – participants: Movement of goods, capital, services and the working force, and security began to coordinate economic policy of the states – participants regarding macroeconomic and financial sector, transport and energy, trade, industrial and agro- industrial complexes and product.

support, marketing, etc. It is necessary to resolve these issues not alone as a single country, but as a set of the countries interested in this project (ABALKIN 2002 s. 32). At present, a fight against financial difficulties, such as inflation must be carried out through import substitution, the strengthening of export and an exit strategy to achieve a positive balance of foreign trade. A comparison of the CES (Russia, Kazakhstan, Belarus) and the EU are presented in Table 1.

Analysis of the latest research and publications

The scientific proposal for the direction of the formation of the common economic space and its single theoretical and practical questions are investigated in the works: ABALKIN (2002), KULESHOV et al. (2011), URUNOV (2003), MOLENDOWSKI (2012), ZYSK, GROMALA (2013) as well as others. At the same time, a significant number of scientific problems concerning the formation of the common economic space between countries of the Customs union is still unresolved.

The main **objectives of research** on the formation of the Common Economic Space (CES) are:

- the effective functioning of the general (internal) commodity market, services, capital and labor;
- the creation of conditions for the stable development of a restructuring of the economy of these countries – participants according to an increase of living standards for their populations;
 - carrying out a coordinated tax, monetary and credit, currency, financial, trade, customs and tariff policy;
 - the development of unified transport, power and information systems;
 - the creation of a general system of measures for the state support of developing priority branches of the economy, as well as production, scientific and technological cooperation.

Main results of the Analysis

According to operational data, the current volume of foreign trade in goods of member states of the Customs union for January-May 2012 was 383,6 billion US dollars². Export volume in comparison to January-May 2011 in current

² The results of external and mutual trade of the Customs Union in January-May 2012 www.tsouz.ru

prices has increased to 12.8%, or 28.9 billion US dollars, import volume has increased to 5.9%, or 7.2 billion US dollars. In January-May 2012 there was a positive balance in foreign trade of goods of 125.8 billion US dollars. In January-May 2011 its volume was 104.1 billion US dollars (Tab. 2).

The volume of mutual trade in January-May, 2012 was 28.3 billion US dollars, or 115.5% as compared to the level of January-May, 2011 (Tab. 3).

Table 2
Volume of foreign trade for the members of the Customs union in January-May 2012
(billions of US dollars)

The name of the states	Export	Import	of Balance	To % by January-May 2011	
				export	import
Customs union RKB	254.7	128.9	125.8	112.8	105.9
Including:					
Republic of Belarus	14.3	6.8	7.5	151.5	75.4
Republic of Kazakhstan	35.7	9.7	26.0	115.6	131.1
Russian Federation	204.7	112.4	92.3	110.4	106.8
European Union	1,525.0	1,714.0	-189.0		

Source: World Trade Organization 2013.

Table 3
Volume of mutual trade between member states of the Customs union in January-May 2012

The name of the states	Bln. dollars. USA	In % by January-May, 2011	The Specific weight in the volume (%)
Customs union RKB	28.3	115.5	100
Including:			
Republic of Belarus	6.7	116.4	23.7
Republic of Kazakhstan	2.7	75.3	9.4
Russian Federation	18.9	124.6	66.9

Source: Federal State Statistics Service of the Russian Federation 2013.

It is shown in the table that 9.4% of the volume of mutual trade between the states (members of the Customs union) is for Kazakhstan. The main share is occupied by Russia – 66.9%. Taking into account international experience, any economic integration is accompanied by various problems and difficulties. Part of these difficulties are connected with working out standards for the unified customs legislation in practice. A number of agreements have been developed and accepted for the question of the regulation of mutual recognition of documents by customs authorities, among them main economic problems are concerned (Tab. 4) (KULESHOV et al. 2011, p. 12–17).

Table 4
Analysis of Agreements on the formation of the Common economic space of Kazakhstan, Russia and Belarus

The name of agreements	Purpose of agreement	Impact upon Kazakhstan	
		positive side	negative side
1	2	3	4
The agreement for cooperation and counteraction concerning illegal labor migration from third countries	definition of the directions and forms of cooperation of the parties	decrease in illegal migration. Increase in number of the organizations on migratory service in RK	increase in number of illegal immigrants to the republic that will sharply increase work on deportation and the maintenance of illegal immigrants
The agreement on legal status of workers – migrants and members of their families	definition of the law status of migrant workers and members of their families, and also procedure regulation by workers – migrants of labor activity and the questions connected with their social protection	common market of labor without restrictions labor outflow, especially from the industrial sphere	deficiency of labor, increase of labor cost
Agreement on common rules for the state support of agriculture	establishment of rules, implementation of state support of producers of agricultural goods	establishment of identical subsidies for the agriculture of 3 countries	the market for grain will be significantly extended the competition for meat and dairy animal husbandry will increase
Agreement on common principles and competition rules	establishment of common principles and the rules of competition providing the identification and suppression of anti-competitive actions in the territory. The parties and actions having negative impact on competition in cross-border markets on the territories of two or more Parties	access to a common market	competition for Kazakhstani producers is increasing. Much time is required to enter the agricultural production of the Russian market
The agreement on the common principles of regulation in the sphere of protection and protection of intellectual property rights	unification of the principles of regulation in the sphere of protection and protection of the results of intellectual activity and means of an individualization of goods, works and services which are protected by the national legislation of the Parties	has no influence	prosecution of intellectual property „pirates”

cont. table 4

1	2	3	4
<p>Agreement on the government (municipal) procurements</p>		<p>organization of the common market of government procurements. Kazakhstani agricultural producers will gain access to the Russian market through local intermediaries. The arrival of Russian firms to the market of government purchases of Kazakhstan is possible. In particular, project and scientific works which are currently performed by foreigners</p>	-
<p>Agreement on common rules of granting industrial subsidies</p>	<p>establishment of common rules of granting subsidies for the territories of participating countries of the present Agreement concerning industrial goods</p>	<p>establishment for the industries of 3 countries to have identical subsidies</p>	
<p>The agreement on coordinated macroeconomic policy</p>	<p>definition of the directions of carrying out the coordinated macroeconomic policy of the Parties and formation of the principles, order and the mechanism of its coordination</p>	<p>lack of additional benefits at the Russian and Belarusian suppliers at the expense of inflation of their currencies. Possible increase in transfers from National fund. Registration of Russian firms in Kazakhstan for a decrease in tax loading</p>	<p>most likely, tangible devaluation</p>
<p>Agreement on agreed principles of currency policy</p>	<p>carrying out a coordinated currency policy</p>	<p>a coordinated currency policy without sudden devaluation, etc.</p>	<p>most likely, a supranational settlement monetary unit. The impossibility of sharp jumps of national currency</p>
<p>The agreement on creation of conditions in the financial markets for ensuring free movement of capital</p>	<p>ensuring free movement of capital in the financial markets. Creation of a common financial market</p>	<p>creation of a common financial market. Investment of Kazakhstani investors into the economy of these countries. Release of Kazakhstani securities to the Russian exchanges</p>	<p>departure of Kazakhstani financiers to the labor market of Russia and Belarus</p>

cont. table 4

1	2	3	4
<p>The agreement on trade in services and investments in the states – participants of the Common economic space</p> <p>The agreement on common principles and rules of technical regulation in the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation</p>	<p>creation of the common principles and rules for mutual trade in services, investments in the states – participants of CES</p> <p>the parties make a coordinated policy in the field of technical regulation, being guided by the provisions of article 2. Agreements on carrying out the coordinated policy in the field of technical regulation of sanitary and phytosanitary measures from January 25, 2008</p>	<p>common market of investments and services. Mutual recognition of licenses</p> <p>standardization of technical standards which will allow the reduction of competition from the third countries</p>	<p>it will increase the dependence of production and business on bodies of technical regulation</p>
<p>Agreements on an order of application of special protective, anti-dumping and countervailing measures during a transition period</p>	<p>the coordinated application of special, protective, anti-dumping and countervailing measures in trade with third countries and definitions of an order of transfer and distribution of special, anti-dumping and countervailing duties</p>	<p>protection of member states of the Customs union concerning the import of goods from third countries</p>	
<p>The agreement on regulation of access to services of railway transport, including bases of tariff policy</p>	<p>ensuring access of consumers to services of railway transport and implementation of transportation across the territory of the state of the Parties on terms not less favorable than for state consumers</p>	<p>export of Kazakhstani goods to the Russian and Belarusian railroads on their internal tariffs. The general access to the market of transportation</p>	<p>competition with Russian carriers. Increase of internal tariffs</p>
<p>Agreement on the creation of a common market of oil and oil products</p>	<p>formation of a common market of oil and oil products</p>	<p>free supply of Russian and Belarusian oil products to Kazakhstan without quotas and restrictions. Free application of tolling schemes</p>	<p>inflation will be increased as a result of a rise in prices for oil products. A rise in prices for oil products will negatively affect on the costs of agricultural production</p>

Source: Official site of the Customs union of the RKB 2014.

It would especially be desirable to focus on the Agreement of common rules on the support of agriculture in the participating countries of the Customs union which assumes that the amount of state support in Belarus, Russia and Kazakhstan will be identical. Meanwhile, experts predict that an attempted unification of the total amount of state support for the Customs union countries – will lead to deadlock. Experts are focusing their attention on the differing total amounts of state support for agrarian and industrial sectors in the countries of the Customs union, and the requirement to reduce indicators to a common denominator will bring negotiations on this question into a deadlock.

The analytical center for economic policy in agrarian and industrial sectors analyzed this project agreement and came to a conclusion that separate provisions of this document need additional study at the level of the ministries. Some experts consider that in focusing on state support it is necessary to proceed from a product line, others suggest to agree upon a level of state support falling on each commodity position, etc. Thus, the Customs union countries within the agreement came to a common position, having established an allowed level of 10% from the gross cost of made production³. This norm will give a chance to Kazakhstan to increase volumes of state support for the agrarian branch from the present 4% to 10%, and that will allow the country to increase rates of agricultural production and to provide the population with domestic production.

The creation of the CES which unifies the Republic of Kazakhstan with Russia and Belarus also provides the possibility of refusal from some industrial subsidies giving support to certain enterprises. Such measures are taken for the purpose of ensuring fair competition.

The force of economic relations between market institutions of certain CIS countries is different. The actual level of integration of commodity markets and services, capital, as well as labor movement also differs. Quite probably in the long term, many countries will belong at the same time to several groups, which will testify that economic integration happens in many measurements and on different bases (Urunov 2003, s. 32–35).

On the one hand, the Agreement upon industrial subsidies for the economy of Kazakhstan will provide a number of advantages, but on the other hand, opportunities which could arise with state support, will be missed. For example, the guaranteeing of credits and the subsidizing of interest rates for these credits are forbidden subsidies and must be excluded. As a result, it is necessary to weigh all the pluses and minuses of all opportunities with the

³ Information and reference materials. Common Economic Space. Information prepared by the regional office of the CCI of Russia in Central Asia. Run. O. Hmel'nitskaya. Almaty. January 2012.

standardization of legislation in the Customs union concerning industrial subsidies (Tab. 5)⁴.

Table 5

The main pluses and minuses of implementation of the Agreement on industrial subsidies in CES countries

Positive aspects	Negative aspects
Formation of conditions for development of national industrial production on the principles of fair competition	creation of risks of deterioration of separate branches of the national economy
Creation of incentives for economic cooperation and expansion of mutual trade between the countries – participants of the CES according to interests of consumers	possible reduction in the export of industrially produced goods and a decrease in the export potential of the country
Elimination of unreasonable barriers to the export of national industrial output on the markets of the participants of the CES	

Source: own work on the basis Tamozhennyj Sojuz – nezavisimoe obozrenie, on line: www.customsunion.kz

As a whole it should be noted that advantages from the implementation of this agreement exceed the potential minuses connected with the process of introduction and ensuring the implementation of obligations, accepted by the parties within the Agreement. Nevertheless, it is necessary to pay special attention to noted potential threats and risks, in order to provide necessary norms and to take adequate measures for their minimization taking into account the interests of the Republic of Kazakhstan.

Some other agreements have been accepted, excepting those agreements mentioned by the countries of the Customs union. For example, the cooperation and mutual aid agreement in customs affairs concerning the activity of customs service representatives, about the organization of exchanging information for the realization of analytical and control functions of customs authorities of member states of the Customs union, etc. It should be noted that all of these agreements within the CES are directed toward the creation of a huge market and will be a strong incentive for Kazakhstani producers to develop business, and produce competitive goods and services.

However, at the same time it is necessary to notice the obvious minuses which will be caused by the introduction of the Customs union. The first minus will be an essential rise in prices for many goods of 10–20%. Customs tariffs for Russia and Belarus coincide, but for Kazakhstan these tariffs were much lower. Therefore, 80% of commodity positions of Russian tariffs will be applied, despite a request by Kazakhstan to delay this process for 5–10 years.

⁴ Customs Union: history of development. Astana, November 29, 2012. www.bnews.kz

In the Commission of the CES, 57% of the votes belong to Russia, with the remaining votes split evenly between Kazakhstan and Belarus at 21.5% each. If Kazakhstan and Belarus want to make any changes, they only have the right to do so with the approval of Russia. Therefore, it will be difficult for Kazakhstan to defend its own economic interests. Nevertheless, it is still too early to draw hasty conclusions. By the estimates of the Russian Academy of Sciences, Russia at the expense of the integration process will receive an additional 16.8% of the modern level gross domestic product, Belarus-16.1%, Kazakhstan-14.7%. Thus, the total integration effect by 2015 will earn approximately 400 billion dollars. Other analysts consider that it is a favorable transit project between the European Union and China. By their estimates, the trade turnover between the East-West in the years 2012–2015 will reach a level of 1 trillion US dollars.

Conclusions

As a result of the research conducted, it is possible to confidently tell about the notable advantages of the formation of a common economic space with the countries of the Customs union:

- a Common customs territory which does not break the frontiers of the participating countries has been formed;
- in the territory of the Customs union, it is possible to move duty-free goods of native or foreign production, naturally, in the presence of the relevant documents;
- turnover of mutual trade in connection with the cancellation of customs barriers (costs of brokers and registration of export declarations) will increase;
- standard terms for the release of goods in free circulation (it being considerably reduced) has changed;
- non-tariff regulation is cancelled: the requirement of licenses, permissions, and the observance of quotas to participants of foreign economic activity has been cancelled;
- economic and political stability;
- a significant change in the market of fuel and energy production, nonferrous and ferrous metallurgy, and agricultural grain has been extended;
- the branches which have fallen into decay – winemaking, cultivation of fruit and vegetables, etc. have been developed;
- favorable conditions for cross-country modulations of capital and labor have been created;
- competition between producers that will favorably affect the economy-wide dynamics of domestic production will increase.

The next stage is to be the creation of the Eurasian Economic Union by 1. January 2015. It is the proposed political and economic union of Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Uzbekistan, Tajikistan and other countries, in particular the post-Soviet states.

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