

Customs union

[Economics](#), [Trade](#)



Outline I. Introduction Thesis statement: The Customs Union for Russia, Kazakhstan, and Belarus is a purposeful union, which serves to meet several aims. II. Body A. In the light of common aspiration to the WTO accession, it is worth of examining why preference of states was given to multilateral over preferential trade. B. The idea of the multilateral cooperation and creation of a common economic space, elimination of borders and regional integration is not new in the post-Soviet space. 1. “ Putinomics” an attempt of Putin to bring back Soviet Union and Russian supremacy; 2. “ Eurasian Union” similar to “ ASEAN”;

C. In theory, customs unions are created to eliminate the trade barriers and decrease customs obligations between several states. 1. It requires confidence in partners and share of responsibilities; 2. single economic region; D. There are many different assumptions why Customs Union was created. 1. supremacy of Russia over the territory of the former Soviet states; 2. a strategic step in the WTO accession; 3. reduction of Chinese influence and prevent massive imports of Chinese goods; 4. beneficial for entrepreneurs and domestic production enterprises; 5. fair competition; 6. effective legal protection against corrupt schemes and fraud mechanisms; E. Several other post-Soviet neighboring states were also invited to join the club. 1. The Ukraine; 2. Tajikistan; 3. Kyrgyzstan; F. It is noteworthy of saying that pre-existing Customs Union trade relations and economic ties cannot be described as dynamic ones. 1. statistical numbers; G. An interesting observation is that “ with few exceptions, all the countries bordering the Western fringes of the former Soviet Union have intensified their trade relations with the European Union as well as with China, whose

importance in Central Asian trade has been growing. . statistical data; H. Official Astana firmly defended its position on the Customs Union accession, and denied any political motivations behind the membership of the alliance with Russia and Belarus. 1. a unified customs territory would make Kazakhstan even more attractive for foreign investors; 2. geopolitical position, as the largest land-locked country; 3. access to global markets; 4. expand trade with Russia and China; 5. diversity of economy through technological and service advances; I. Belarusian position toward the Customs Union brought many obstacles. 1. “ arm-twisting” politics of the Kremlin; 2. Russian pressure;

J. At first it seemed that Russia benefited from creation of the Customs Union more than others, as it has the largest market and biggest production industries. 1. diversification of opinions; K. What does the World Trade Organization is? 1. a network of agreements; 2. a single system, which regulates trade relations of members; 3. advantages and requirements; L. The decision to create the Customs Union between three states could signal willingness to engage in deeper cooperation and integration, and thus, the WTO accession provides access to more states willing to cooperate and a platform for finding new “ friends”. . advantages and disadvantages of being a member of WTO; M. Russia was the only Security Council and G8 member not on the WTO, thus its accession was a requirement to be fully admitted as one of the superpowers. 1. further policy of Russia toward Kazakhstan and Belarus; III. Conclusion Creation of the Customs Union between Russia, Belarus and Kazakhstan caused a lot of debates about why these countries

are forming the union, what are the benefits that they get and why exactly these states?

First of all, I would like to define the meaning of “ Customs Union”. According to Business Dictionary “ Customs Union is an agreement between two or more (usually neighboring) countries to remove trade barriers, and reduce or eliminate customs duty on mutual trade. A customs union (unlike a free trade area) generally imposes a common external-tariff (CTF) on imports from non-member countries and (unlike a common market) generally does not allow free movement of capital and labor among member countries” (Business Dictionary. com, n. d.).

In part, debates were around preference of regional over multilateral trade, as for many years Russia, Belarus and Kazakhstan aspired to join the World Trade Organization (WTO); therefore, creation of the Customs Union was at first seen as an alternative to the WTO accession. However, just after the ratification of the Customs Union charter and all relevant agreements, Russia joins WTO club and leaves the rest to wonder what is going to happen to the Customs Union. The Customs Union for Russia, Kazakhstan, and Belarus is a purposeful union, which serves to meet several aims.

In the light of common aspiration to the WTO accession, it is worth of examining why preference of states was given to multilateral over preferential trade. In particular what pre-conditions existed prior to the Customs Union creation that inspired Russia, Belarus and Kazakhstan to create the Union and what benefits it provided that three states could not obtain by joining the WTO only? The idea of the multilateral cooperation and

creation of a common economic space, elimination of borders and regional integration is not new in the post-Soviet space.

Adelaja (2012) asserts that a number of political scientists and former Soviet Republics believe in so called “ Putinomics” – an attempt of Putin to bring back Soviet Union and Russian supremacy (p. 1). It is difficult to label the Customs Union creation an attempt to bring back the Soviet Union and expansion of the Russian authority over the territory of the former Soviet states. However, the countries are clearly bound by the common past that unlike others (Ukraine, Turkmenistan) makes Kazakhstan and Belarus seek for cooperation with Russia. According to Eurasian Union (n. d. , another regional cooperation the idea of “ Eurasian Union” belongs to Nursultan Nazarbaev, the idea is to create a union similar to ASEAN (p. 3). After collapse of the Soviet Union, states tend to isolate themselves from their post-Soviet neighbors and especially from Russia. In part, it happens due to unwillingness to cooperate with possibly depending neighbors and also due to the aspiration to get rid of rudiments of the Soviet centralized economy that intentionally established mutual dependence of the Union states. Thus, existing regional organizations are not effective in terms of policy implementation.

CIS and EurAsEC could become a platform for negotiations and decision making over regional integration. However, states are reluctant to give up their sovereignty and create supranational body authorized to decide on behalf of its member states. Instead, states were defining their foreign policies depending on national interest and regional integration was not one of them. Thus, Customs Union between Russia, Belarus and Kazakhstan

could become first real and effectively operating regional cooperation body, where states would indeed execute provisions of signed agreements and declarations.

In theory, customs unions are created to eliminate the trade barriers and decrease customs obligations between several states. It requires confidence in partners and share of responsibilities. Initially, the Customs Union was created and signed by Kazakhstan and Russia. Belarus was negotiating its interests with Russia and postponed ratification of the agreement until July 2011. To illustrate the advantages of the union, official media was speculating with huge market that the Customs Union opens for three states. The union has a population of 167 million, a total GDP of USD 2 trillion and goods turnover of USD 900 billion. The aim of the Customs Union is to create a single economic region and eliminate the state borders and to facilitate the freedom of movement” (Krotov, 2010, p. 1). According to Prajakti and Varadzhakov (2012), further to demonstrate that the Customs Union brings advantages not only to Russia, official media reported Kazakhstan agriculture and steel sectors will benefit from newly introduced import duties for non-Customs Union member states (p.). In addition, Kazakh and Belarus obtained access to Russian labor market. In general, the Customs Union agreements should have improved quality of goods, increase competition and help diversify economies of three states. There are many different assumptions why Customs Union was created. Some see hidden agenda and conspiracy behind creation of the union. Opponents of the Customs Union claim that it only benefits Russia and establishes its supremacy over the territory of the former Soviet states.

Zlatkin (2012) comments that opponents also interpret Belarus unwillingness to join the union as a rebellion against Russia, and say that in the end Belarus was forced to join the union. Russia, Kazakhstan, Belarus (2012) Russian supporters say that the creation of the Customs Union was a strategic step in the WTO accession, as it was obvious that Russia will become a member first and then it will promote its partners in the WTO accession (p. 1). In the end, they add that Russia needs reliable partners and friends in the WTO and promotion of Kazakhstan and Belarus interests still benefits Russia.

Russia, Belarus, Kazakh (2012) claim that the Customs Union was created to reduce Chinese influence and prevent massive imports of Chinese goods (p. 1). Other reasons are less sophisticated and mostly indicate economic benefits that three states obtain from participation in the union. “ Eurasian Development Bank study released, that the effects of economic integration of 2011 – 2030 will reach 14% of gross domestic product of Belarus, 3. 5% in Kazakhstan, and Russia (2%)” (Russia, Belarus, Kazakh, 2012, p.). The Customs Union was also said to be beneficial for entrepreneurs and domestic production enterprises, as they got greater market access, fair competition and effective legal protection against corrupt schemes and fraud mechanisms. Decreased trade barriers should have contributed to the free movement of goods and services between three countries, and improved quality of products. Russia, Belarus, Kazakh (2012) states that in total, Customs Union opened access to about 170 million consumers (p.). Several other post-Soviet neighboring states were also invited to join the club. In particular they were Tajikistan, Ukraine, and Kyrgyzstan. None of three

Central Asian countries have fully considered and started the Customs Union accession negotiations. Ukraine was assessing and comparing its benefits from the Customs Union versus WTO accession, as well as waiting for the decision on Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union.

Adilaja (2012) asserts that in a while, official Kiev preferred to abandon its plans on the Customs Union accession negotiations, saying that this will destroy its ongoing negotiations with the European Union. According to Russia's Inevitable (2012) asserts that for Tajikistan and Kyrgyzstan, membership in the Custom Union would have brought access to the labor market and increase cooperation in the field of the energy resources supply with Russia and Kazakhstan (p. 2).

Although, Kyrgyzstan is currently a member of the WTO, its historical ties and economic dependency on Russian energy resources contributed to its willingness to join another union with Russia. It is noteworthy of saying that pre-existing Customs Union trade relations and economic ties cannot be described as dynamic ones. " European Union Institute for Security Studies describes trade relations between Customs Union member states prior to the Customs Union creation. In particular, share of intra-CU trade to the total amount of trade of CU-member states within three years prior to CU creation.

Thus, 48. 1% of Belarusian the total amount of trade in 2008 accounts for Russia and Kazakhstan. While only 7. 3% of Russian trade turnover in 2008 accounts for Belarus and Kazakhstan. And 18. 8% of the total volume of Kazakhstan trade turnover accounted for Russia and Belarus in the same

<https://assignbuster.com/customs-union/>

period. 2009 indicators did not change significantly, but in 2010, the year of establishment of the Customs Union, the share of intra-customs union trade of Russia dropped” (Zagorski, 2012, p. 5).

An interesting observation is that “ with few exceptions, all the countries bordering the Western fringes of the former Soviet Union have intensified their trade relations with the European Union as well as with China, whose importance in Central Asian trade has been growing. There is a trend that between 41 and 45% of Russian exports to former Soviet states are currently comprised of energy resources, while 39 percent of its imports consist of machines and equipment” (Adelaja, 2012, p.). These facts makes many experts doubt trade relations of the Customs Union states; while others suggest that the Customs Union could become a fundamental change in relations between former Soviet states and that become a push to growth in trade. The figures mentioned above, as well as the fact that post-Soviet states were reluctant to form another union, made the decision to establish the Customs Union look spontaneous and unjustified.

However, throughout the whole process of negotiations and ratification of the Customs Union policies and implementation of the necessary procedures, official governments were justifying their decision to create a union and finding new benefits of the participation in the regional cooperation between three states. Although not all of them played in a concert, all three were citing economic benefits that countries obtain from the participation in the regional union. Official Astana firmly defended its position on the Customs Union accession, and denied any political motivations behind the membership of the alliance with Russia and Belarus.

Kazakhstan officials were speculating that “ a unified customs territory would make Kazakhstan even more attractive for foreign investors who have considered Kazakhstan as one of the most attractive markets in our part of the world” (Accession to the WTO, n. d. , p. 1). Kazakhstan also speculated over its geopolitical position, as the largest land-locked country and the state with the most number of transit routes that will ensure large income from transit tariffs.

For Kazakhstan the membership in the Customs Union will increase access to global markets, expand trade with Russia and China, and diversity of economy through technological and service advances. Belarusian position toward the Customs Union brought many obstacles. Belarusian President Alexander Lukashenko has openly complained about the “ arm-twisting” politics of the Kremlin, saying that his country had been under pressure to cede control of some of its juiciest companies like Belarusian potassium company (Belkali) and Belarus’ state-run Minsk Automobile Plant (MAZ) unless the country joined the union. “ Given the importance of ‘ champion enterprises’ such as MAZ and Belkali for Belarus or Gazprom for Russia, it is still unclear how the states can agree on regulating these enterprises with supranational institutions, especially when they are governed not by economic, but by political logic,” said George Plaschinsky, an associate analyst at the Center for European Transformation in Minsk. “ Previously the Russian authorities had an experience of imposing different decisions on gas and oil companies in order to achieve some political aims and assert them as the ‘ energysuperpower. ” (Russia’s Customs Union, 2012, p. 2). At first it seemed that Russia benefited from creation of the Customs Union more than

others, as it has the largest market and biggest production industries. Experts suggested that some competition from Kazakh and Belarusian producers will be beneficial, but not risky for Russian producers and entrepreneurs. In addition, it will create positive conditions for transition from Soviet centralized to market economy. Russia would also benefit from the labor market of its neighbors, as Russia's own demographic situation is worse than in Kazakhstan and its population is aging.

It is also working on North and South stream gas pipelines to bypass such transit countries, such as Ukraine. Thus, a union with some of its neighbors would ensure protection of Russia's interests and concessional conditions for pipelines placement. In addition to traditional argument on competition for the regional dominance in the Central Asia, a union would solve some tensions between Russia and neighboring states regarding debt payment for gas supply, political influence and alliances creation.

However, some experts were more skeptical. "Some businesses are likely to move to the neighboring states, like Kazakhstan, where the investment climate is more favorable," said Alexei Devyatov, the chief economist at Ural Sib Capital (Adelaja, 2012, p. 2). Russia might also lose from the opening of its market to the labor from Kazakhstan and Belarus, as Russia also has a huge population of unskilled and unqualified population that will be left out from participation in the market taken over by foreign nationals.

Considering positions of the Customs Union member states expressed above, it is crucial to consider what regulations or conditions influenced Russia, Belarus and Kazakhstan in their decision to access WTO. What does the World Trade Organization is? The WTO is a network of agreements. It unites

<https://assignbuster.com/customs-union/>

states around the world into a single system and regulates their trade relations. The WTO member states may choose the degree of integration, but should aspire to opening of deeper and wider access to domestic markets. The WTO member states are allowed to create the regional agreements and unions within the organization.

General goal of the organization is free trade and liberalization of the economies. As it was mentioned above, the Customs Union between Russia, Belarus and Kazakhstan was also created to facilitate liberalization and decrease trade barriers without fully abolishing tariffs. The WTO does not require elimination of borders, unlike the customs union that stipulates common border and single economic space. Thus, the Customs Union requires deeper integration of its member states than primary WTO accession documents.

The decision to create the Customs Union between three states could signal willingness to engage in deeper cooperation and integration, and thus, the WTO accession provides access to more states willing to cooperate and a platform for finding new “ friends”. Creation of the Customs union with outside WTO partners can also be a sign that the state relies on partners who do not necessarily share the idea of free trade on global level. Interestingly, with the creation of the Customs Union, Russia, Kazakhstan and Belarus enhanced WTO accession process.

In this case, the creation of the trade liberalization institution could be an illustration of states’ readiness to access the WTO and negotiate conditions. The main reason of the WTO accession for many states is said to be a wide access to foreign markets and integration into a global club of “ advanced”

nations. Some of the advantages are improved competition that ensures supply of qualified products, attraction of more foreign investors to the country, securing their interests and protection by legislation common in the WTO space, as well as lowering the costs of running business. According to General benefits from WTO (n. d. , however, there are also some disadvantages of being a WTO member, such as limited abilities to protect infant industries, inability to compete with advanced economies, prohibition of governmental subsidies and elimination of fixed currency rates (p. 1). Economies of state applicants for the WTO accession should be ready for a drastic change and shock therapies. Even with the transitional period, the changes brought by the WTO accession and commitments made by states are significant. Russia was the only Security Council and G8 member not on the WTO, thus its accession was a requirement to be fully admitted as one of the superpowers.

Putin and other Russian governmental officials assured other Customs Union member states that with the accession of Russia to the WTO, it is still going to preserve the Customs Union and keep close relations with Belarus and Kazakhstan. Furthermore, Russia has promised promotion of two countries in their accession to the WTO. Experts believe that Russia will not abandon its partners, as it is still interested in integration of the post-Soviet states, and will not give up on the struggle for domination in the region.

Therefore, even after the WTO accession it is not efficient for Russia to exclude Kazakhstan and Belarus from its foreign policy. In case Kazakhstan is left outside of the WTO, it will become a reliable partner of Russia outside of the organization. While Belarus can be more reluctant in implementation of

the agreement reached before the WTO accession. Thus, Russia will probably use more force to get Belarus remain in the union. Since Russia dominates in the union, in case all member states access the WTO, Russia will be established as a single power in the region that decides on economic and political processes.

Other states will be bound by obligations under the agreements, and since their accession comes after Russia, it is most likely that they will negotiate similar if not the same tariffs as Russia did. Considering unequal political positions of the Customs Union member states, and economic ties prior to the creation of the Union that did not directly contributed to the establishment of the union, it can be assumed that the Customs Union was created as a demonstration of the commitment to the trade liberalization and aspiration to be a part of the globalized world.

It is also important to mention that it is a Russian-led union and neither economies of its partner states or their political leadership are sufficiently competitive to challenge Russian industries, market and politics. Russia played very important role in the promotion of the idea of the union, and the Customs Union could become the first effectively working regional integration mechanism on the post-Soviet space. However, since Russia aspired to join the WTO, Customs Union member states have to catch up and also join the club, although they might be less interested in it than Russia.

Bibliography Adelaja, T. (2012). Putinomics Abroad. Russia Profile, Section: Politics. Retrieved November 16, 2012 http://russiaprofile.org/politics/57118/print_edition/ Krotov, I. (2010). Customs Union between the Republic of Belarus, the Republic of Kazakhstan and the Russian <https://assignbuster.com/customs-union/>

Federation within the framework of the Eurasian Economic Community. World Customs Journal, 5 (2). Retrieved November 16, 2012, from <http://www.worldcustomsjournal.org/media/wcj/-2011/2/Krotov.pdf> Prajakti, K. , & Varadzhakov, S. (2012).

The Customs Union between Russia, Kazakhstan and Belarus: First Steps Towards the Revival of the Silk Road, Academia, 894. Retrieved November 18, 2012, from http://cambridge-centralasia.academia.edu/PrajaktiKalra/Papers/472081/The_Customs_Union_between_Russia_Kazakhstan_and_Belarus_First_Steps_towards_the_Revival_of_the_Silk_Road

Zagorski, A. (2012). Russia's neighbourhood policy. European Union Institute for Security Studies. Retrieved November 16, 2012, from <http://www.iss.europa.eu/publications/detail/article/russias-neighbourhood-policy/>

Zlatkin, I. (2012). A Sovereign Surge, Not a Soviet Resurgence: The Mutualism of Eurasian Reintegration. SRAS, The Journal of Russia and Asian Studies. Retrieved November 17, 2012, from http://www.sras.org/a_sovereign_surge_not_a_soviet_resurgence_the_mutualism_of_eurasian_reintegration IXGV, Financial News, “ Russia, Belarus, Kazakh customs union will benefit enterprises in Asia”. (2012). p. 1. Retrieved November 17, 2012, from <http://www.ixgw.com/2012/05/russia-belarus-kazakh-customs-union-will-benefit-enterprises-in-asia/>

Astana Economic Forum, News, “ Nursultan Nazarbayev « Eurasian Union: from idea to the history of the future»”, (n. d.), pp. 1 - 10. Retrieved November 16, 2012, from <http://aef.kz/upload/news/statya%20Nazarbayeva.pdf> Belarus Digest, Economy, “ WTO v. Customs Union: Russia Decides”. (n. d.). Retrieved November 17, 2012, from <http://belarusdigest.com/story/wto-https://assignbuster.com/customs-union/>

v-customs-union-russia-decides-7434 Business Dictionary. com. (n. d.). Retrieved November 16, 2012, from <http://www.businessdictionary.com/definition/customs-union.html>

Embassy of the Republic of Kazakhstan, Discover Kazakhstan, Economy, “ Accession to the WTO”, (n. d.). Retrieved November 18, 2012, from <http://www.kazakhembus.com/page/wto-accession> The Fish Site, News and Analysis, “ Russia, Kazakhstan, Belarus Keep Customs Union”, (2012). p. 1. Retrieved November 18, 2012, from <http://www.thefishsite.com/fishnews/17679/russia-kazakhstan-belarus-keep-customs-union> U. S. A. Poultry and Eggs Export Council, News, Analysis, “ Russia's Inevitable Customs Union in Central Asia”. (2012). pp. 1 – 3. Retrieved November 17, 2012, from <http://www.usapeec.kz/en/news/10204/>