

## Some Aspects of Kazakhstan's Membership in the World Trade Organization

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**Abstract:** The recent accession of the Republic of Kazakhstan to the World Trade Organization in 2015 became the hot topic of public discussion within the country. Therefore, in recent years the outcome of the negotiation process and conditions of accession to the WTO has attracted significant public and political attention in Kazakhstan. The researchers compare Kazakhstan commitments with those of the other countries that have recently acceded to the WTO. The goal of the research is to realize opportunities of the WTO accession to Kazakhstan. The researchers outline the problems the Kazakhstani government should radically solve in order to reduce the amount of state business, including the proportion of products manufactured at the state-owned enterprises, to determine the optimal size of government in order to achieve high rates of economic growth. The future generation of Kazakhstan should not regret about the fact that the government of the 1995-2015 year left a legacy of "restricted conditions" for entering to the "club" 30 most developed in the world.

**Key words:** World Trade Organization (WTO), World Bank, UNCTAD, economic policy, international trade, multinational companies, accession, partnership, integration

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### INTRODUCTION

The report of the World Trade Organization noted that international trade has a significant impact on the world's GDP. If in 1995 the volume of world exports and imports of goods and services to the global GDP was 20%, at the end of 2014 this figure reached 30%.

Therefore, it is crucial for Kazakhstan to move towards countries that have achieved impressive results in economic development after joining the WTO. Meanwhile, according to the World Bank in the period of 1990-2000 years the average annual rate of decline in GDP amounted to 4.1% in 2000-2009 years GDP growth reached 8.8% and growth in the period 2009-2013 years reached 6.4%.

However, after a significant drop in prices for oil and other export commodities of Kazakhstan and due to the sanctions against the Western countries against Russia in 2014-2015 the previously achieved economic growth rates declined.

The statistical analysis of the IMF shows that Kazakhstan for the last 15 year (2000-2014 year) compared with other developing countries experienced a trade surplus for a long time and did not allow its deficit. The absence of deficit in foreign trade provides certain advantages during the initial years of membership in the WTO. Afterwards, it all depends on the quality of the economic policy of the government.

According to the official figures of UNCTAD World Investment Report (2014) there are 550 Multinational Companies (MNCs) working in the developed countries. While >15000 their branches with total assets abroad reaching 2 trillion dollars are present in the developing countries. Obviously, several branches of multinational companies are operating in Kazakhstan as well.

Moreover, in 2015 Russia, Belarus and Kazakhstan formed the Eurasian Economic Union (EAEU) created to promote the free flow of goods, services, labor and capital as Armenia and the Kyrgyz Republic joined. Russia has benefited from additional exports under the protection of the higher tariffs (Tarr, 2015). Estimates reveal that the tariff changes resulted in substantial transfers from Kazakhstan to Russia purchased lower quality or higher priced Russian imports that were protected under the tariff umbrella of the common external tariff. Transfers from the Central Asian countries to Russia were the reason the predecessor to the EAEU (known as EurAsEC) failed, so this bodes badly for the ultimate success of the EAEU. Further, the EAEU aims to employ "deep integration", e.g., to reduce non-tariff barriers and improve trade facilitation, create a single market, reduce trade distorting agricultural subsidies and harmonize some regulations. Estimates show that if substantial progress could be made in trade facilitation and reducing non-tariff barriers, this could make the customs union positive for Kazakhstan and other potential Central Asian members.

**Literature review:** A lot of researchers studied different points of the WTO accession of different countries and from their works we can find various points of view. Guzman (2002) considered that the international trading system was one of the great successes of international cooperation but it had not been matched in other important areas of international policymaking, including environmental, labor, human rights and competition policy. Guzman (2002) proposed a strategy that allowed states to discuss trade and non-trade interests and made a proposal to create autonomous, topical departments within the WTO to overcome the trade bias of the institution.

Auffret (2003) argued that the pace of implementation of trade reform in Vietnam has raised new challenges. P. Auffret concluded that implementation of trade reform was a testing ground to reveal the extent of Vietnam's commitment to a market-oriented economy. Ianchovichina and Martin (2003) present estimates of the impact of accession by China and Chinese Taipei to the World Trade Organization. The researchers estimated that the removal of the hukou system was able to raise farm wages and would allow 28 million workers to migrate to nonfarm jobs. These policies had the potential to much more than offset any negative impacts of accession on rural wages and rural incomes generally.

Whalley (2003) studied China's trade policy stance following WTO accession in 2002. His research included three following broad issues: the extent to which WTO accession helps China in dealing with various key trade issues, including anti-dumping and the textiles and apparel trade; China's participation in regional trade agreements post WTO accession; the implementability of China's accession commitments in key service areas (banking, insurance, telecoms). The issues now for China are less the merits of WTO accession and rather its trade policy decisions given WTO membership. Whalley (2005) emphasized that the asymmetries in size and power in the trading system could inevitably produce a two-tier system of large power, non-discriminatory arrangements reflected in common multilateral disciplines and regional agreements negotiated with smaller countries where the major power has the dominant interest.

Rao studied future challenges of Saudi Arabia accession to WTO. Basing on economic situation and analyzing the experience of China and India, he made the important conclusion that WTO membership didn't guarantee success in world trade but it required a paradigm shift and provided a framework for economic and other reforms that helped any country to become competitive in foreign markets and at the same time, provide an attractive environment for investment.

Thapa (2010) who studied an impact of WTO to Nepal, considered that its geopolitical situation made it no other choice than externalizing its economy through WTO membership in order to achieve the desired pace of growth and development. Thapa (2010) also put attention on various factors such as internal and external institutions and social and economic policy preconditions that largely determine to what extent the country and the people benefit from WTO membership.

The group of researchers include (Anderson *et al.*, 2012) discussed advantages of the adoption of the revised GPA in Geneva (December, 2011) and considered that GPA by itself represents a significant milestone in the promotion of market access and transparency in public procurement markets internationally. In addition, WTO negotiation made it possible for the existing GPA Parties to refocus their attention on the pending and possible future accessions.

Idrisov and Magomedov (2014) analyzed factors that were the main determinants of inter-industry differences for the Russian WTO import tariff lines and the sensitivity change of import tariffs to the main determinants subject to industry lobbying. Specifically they tested whether the industry output, industry import and price elasticity of demand for import were the main determining factors for the industry tariff rates after the transition period of Russian accession. Their deep theoretical review based on Grossman-Helpman Model led the researchers to the conclusion that inter-industry differences in import tariffs cannot be fully explained by the industry lobbying, industry output and price elasticity of demand for import.

## **MATERIALS AND METHODS**

It is necessary to intensify the work of improving methods for economic evaluation of the results of scientific-research, giving special attention to determination of the effect of investigations. That is why the research is based on different methods such as system analysis that assumes the structural approach consisting of structural elements in the system at all. The researchers analyze the development trends of the world and national economy in the WTO accession.

## **RESULTS AND DISCUSSION**

Now let's closely examine the conditions of accession of Kazakhstan to the WTO. On 22 June 2015 a package of documents on the accession of Kazakhstan to the WTO was approved and submitted to the WTO General Council for the formal adoption.

The Ratification of the Protocol of Accession of Kazakhstan to the WTO was held before October 31, 2015. Officially, Kazakhstan became the 162nd member of the WTO after 30 day from the date of ratification.

In respect of goods Kazakhstan will reduce the average tariff to 6.5% from the current 10.4% of the Common Customs Tariff (hereinafte-CCT) EAEC. It is worth noting that prior to the formation of the Customs Union of Kazakhstan the weighted average tariff was 6.2%.

For agricultural products the average level of customs duties amount to 10.2% (against 17% in the framework of the CCT) while for industrial goods -5.6% (against 8.7% in the framework of the CCT). In regard to 3512 commodity items (cars, food, wood, jewelry, wires, cables, drinks, etc). Kazakhstan will be withdrawn from the Common Customs Tariff EAEC that is for these goods customs duty rate will be lower than the CET.

There have been achieved agreements to increase the size of the tariff quotas for meat (beef, pork and poultry). Kazakhstan will take over the obligation to ensure access for 10 service sectors, including the 116 sub-sectors (155 subsectors provided by WTO classification), including telecommunications, insurance, banking, transport, tourism, trade and others.

Within four years from the date of accession of Kazakhstan will start negotiations on agreement concerning the accession to the government procurement.

The support measures in the form of local content requirements in the subsoil use contracts should be eliminated until January 1st 2021. With the accession to the WTO there should be prohibited all subsidies related to export and import substitution.

There should be abolished the requirements of local content in the procurement of quasi-public sector for the purpose of commercial resale or use them for the production of goods and provision of services for commercial sale.

The amount of aggregate measures of support to agriculture ("amber" basket) is set at 8.5% of the gross agricultural production of Kazakhstan. For comparison, in the framework of the EAEC, the level of state support distorting trade must not exceed 10%. In general, the right to continue providing subsidies as of Agribusiness 2020 program is kept.

The VAT exemption for domestic farmers and agricultural processors must be removed before January 1, 2018. In accordance with the obligations of customs exemptions for the SEZ participants and owners of free warehouses in Kazakhstan registered before 1 January 2012, their validity will terminate on January 1, 2017. The tariff concessions that apply to existing agreements

industrial assembly in the automotive industry must be removed before July 1, 2018. Kazakhstan also took the obligation to ensure compliance with the technical regulation system as well as sanitary, veterinary and phytosanitary regulations and the rules of the WTO.

The opinion and conclusions formulated by the Minister of Economic Integration Affairs of the Republic of Kazakhstan and the curator of the WTO were among most widespread in the country. In particular, it was told in detail about the conditions under which Astana joined the World Trade Organization.

According to her statement, the final document consists of 36 sections covering different sectors of the economy. In the course of the negotiations with the WTO, Astana had to coordinate their positions with integration partners-Russia and Belarus. However, a closer acquaintance with the findings of the Minister and the results of the negotiation processes of foreign countries that joined the WTO recently, casts doubt on the validity of the conclusion by the Minister and questions its usefulness for solving the certain macro-economic problems of the country in the future as the results of international comparisons and statistical analysis give contrariwise conclusions.

Taking into account the relevance of this issue and the fact that about 42% of the population of Kazakhstan reside in the rural areas we have studied in detail the Minister's viewpoint and examined the issue concerning the conditions of accession to the WTO in the light of international comparison.

On the basis of statistical data and information base of the WTO Secretariat, the World Bank, UNCTAD and the Economic Policy Institute we have compiled and finalized a special table. Alongside, the given table provides such type of information which were previously haven't been shared with the citizens at least, they are not mentioned in any speeches and in any statements by the Minister for Economic Integration.

In that sense, hereby we attempt to formulate a number of acute and unresolved problems of Kazakhstan. Firstly, it's about ITA (Ministerial Declaration on Trade in Information Technology Products). In this case we are talking about the information technology agreement which implies a reduction to zero rate of all import duties and other tariff barriers to trade in the products specified in the agreement in the field of information technology.

In other words, the Minister for Economic Integration did not mention and did not reply to the question concerning the conditions on which Kazakhstan has joined the WTO in the field of information technology and whether any favorable conditions for Kazakhstan achieved on this issue.

Secondly, regarding the sectoral initiatives, i.e., not legally binding initiatives taken by individual WTO member countries for certain groups of goods of Kazakhstan. In other words, the officials who led the negotiations, somehow failed to inform Kazakhstanis on this question which country or group of countries have taken the initiative in relation to domestic goods and services.

Third, the “zero” initiative is the adoption of the country’s commitments to reduce to zero tariffs on certain types of goods. Putting differently, domestic producers still are not aware which obligations the government of Kazakhstan has committed itself in reducing to zero tariffs on certain types of goods. Fourth, Minister considered that Kazakhstan managed to defend the 8.5% of the total agricultural production, the amount of subsidy of agriculture sector. She also added that a similar result in the WTO along with Kazakhstan has achieved only China.

In fact, these findings are far from reality. Moreover with that statement she even misinformed the wide public. In reality, the findings from the official data of the 7th column of Table 1 (aggregate measure of support to agriculture) and the announced data are completely different, even the table statistically refutes the statement regarding unique achievement of Kazakhstan and China as wide array of other countries had similar outcome. Admit them we can find Ecuador (entry year to WTO), etc. If Kazakhstani negotiators have been able to defend the 8.5% support for agriculture, the above-mentioned countries gained even higher level of 10%.

Fifth, in recent years under the WTO the export subsidies are severely limited (column 8 of Table 1). Nevertheless, the team of negotiators led the Minister somehow could not repeat the performance of her colleagues from Bulgaria. The negotiators of the country in 1996 were able to achieve impressive progress on this issue and were able to create a “safety cushion” for the preservation of export subsidies for 6 year.

In contrast to the same Bulgaria, Kazakhstan is among the countries remote from the sea ports of the world, as well as in the category of countries where travel expenses make for a significant share of the cost structure of the export of domestic products in the international market. Finally we should mention the viewpoints and conclusions of the World Bank regarding the issues of export of Kazakhstan. According to the World Bank, the volume of non-oil exports of Kazakhstan in 2013 amounted to 36.9% of total exports.

It is well known that the existing rules of the WTO and the General Agreement on Tariffs and Trade (GATT),

enable to achieve the most favorable conditions (during WTO accession) to countries regularly experiencing some difficulties with the balance of payments. For example, approximately every 3-4 year, the current account of Kazakhstan demonstrates the negative of balance of payments. In regard to the balance of services Kazakhstan never had a surplus.

On this basis we can conclude that the negotiators did not put enough effort to use the legal possibilities in the negotiation process. At least in official documents, news reports and speeches these issues were not mentioned. In addition, the Government of Kazakhstan and Minister of Economic Integration did not discuss the existing risks. In particular, the WTO has an important requirement of non-discrimination of imported goods from the side of importing country. Meanwhile, according to the law “On National Welfare Fund” Samruk-Kazyna, the “National Welfare Fund” Samruk-Kazyna” and its subsidiaries have the right to give preference to domestic producers given the equality of quotations (Helfer, 2003).

Putting it differently, these standards are perceived as “discriminatory” and sooner or later they have to be given up. The requirement of local content is another measure of state support provided to the Kazakh producers and service providers.

As known, some legislative acts including the law “on subsoil and subsoil use” were amended and supplemented with the issues of state support of industrial-innovative activities. As a result, these laws stress on the concept of ‘local content in the provided works (services)’, “local content in human resources” and “local content in the product”.

Meanwhile, the requirement of local content in goods due to non-compliance with the general principle of non-discriminatory regime can be classified as a contradiction with WTO rules such as Article 3:4 of GATT dated 1994 as the state on the requirements of local content in goods are classified as a prohibited subsidy.

Thus, the forthcoming abolition of support measures may have an impact on the activity of quasi-public sector, primarily to the performance of the “Samruk-Kazyna” (Helfer, 2003; Onyusheva and Nizamova, 2015). Moreover the WTO accession may influence partnership in vocational education in form of cooperation of vocational educational institutions with the socio-economic, political and public organizations, based on clear distribution of roles, responsibility, equity participation with the aim of competitive and mobile specialists in labor market (Kashinaa *et al.*, 2016).

Table 1: Conditions of entry of individual countries to the world trade organization

GNP/per capita US	Country	WTO accession date	Tariff concessions for agricultural products	Tariff concessions on other goods	Participation in sectoral initiatives	Aggregate measures of support to agriculture	Export subsidies for agriculture
1310	Ecuador	1996	25.8% (mainly from 15-30%) transition period 5 years SPM application for some products	20.1% (mainly from 15-30%) no transition period		10 (%) of the GNP agr	Zero
1380	Bulgaria	1996	34.9% (mainly from 15-63%) in the transition period of 5-6 years the use of SPM for some products	12.6% (generally from 5-25%), the transition period of 15 years	Only in some "zero" initiatives	Reduction of 79% in two years	The decrease in actual payments by 35.8 and 22.0% in the appropriations for 6 year
350	Mongolia	1997	18.4% (mainly from 10-30%) without transition no use of SPM	20% (mainly from 10-20%) without transition	Chemical harmonization	10% of the GNP agr.	Zero
300	Kyrgyzstan	1998	11.7% (generally from 5-20%) without transition, with the exception of a wool; for wool, 5 years of non-use of SPM	6.7% (generally below 10%) of 7 years transition	Most of the "zero" initiatives, chemical harmonization, ITA	5% of the GNP agr.	Zero
620	Georgia	2000	12.1% (mainly from 12-20%), the transition period of 5 years SPM nonuse	5.8% (generally from 0-12%), the transition period of 5 years	All the "zero" initiatives, with the exception of alcoholic beverages, chemical harmonization, ITA	10% of the GNP agr	Zero
870	Albania	2000	10.6% (mainly from 10-20%) of 7 year transition SPM nonuse	6% (generally from 0-10%), the transition period of 9 years	Most of the "tax" initiatives, chemical harmonization, ITA	10% of the GNP agr.	Zero
370	Moldova	2001	Generally from 10-5% of the maximum 40%, transition period of 4 years non-use of the SPM	Generally from 10-20% at most 40%, the transition 4 years	All the "zero" initiatives, with the exception of alcoholic beverages and furniture, chemical harmonization, ITA	Reduction of 16% in 4 years	Zero
3070	Panama	1997	26.1% (mainly from 10-70%) of the transition period to 14 years, the use of SPM for some products	11.5% (generally from 5-30%) up to transition 14	Chemical harmonization	10% of the GNP agr	Zero
2470	Latvia	1999	33.6% (mainly from 10-40%) of 9 years transition SPM nonuse	9.3% (generally <15%), the transition period of 9 years	Most of the "zero" initiatives, chemical harmonization, ITA	5% of the GNP agr the use of 24 million SDR (SDR) (about 8%) at least until January 1st 2003	Zero
3480	Estonia	1999	17.7% (mainly from 10-30%) of 5 years transition SPM nonuse	6.6% (generally <15%), the transition period of 6 years	Most of the "zero" initiatives, chemical harmonization, ITA	5% of the GNP agr	Zero
1500	Jordan	2000	25% (mainly from 15-35%) 10 years of transition SPM nonuse	25% (mainly 20-0%), the transition period of 10 years	Some of the "zero" initiatives, the chemical harmonization, ITA	Reduction of 13% in 7 years	Zero
4580	Croatia	2000	10.4% (generally from 0-5%), the transition period of 5 years SPM nonuse	5% (generally from 0-10%), the transition period of 5 years	Most of the "zero" initiatives, chemical harmonization, ITA	Reduction in relation to the base period 1996-1998 by 20% annually in equal installments over 5 years from the date of entry	Zero
4940	Oman	2000	30.5% (generally from 0-15%), the transition period of 4 years non-use of SPM	11% (generally from 5-15%), the transition 4 years	Some of the "zero" initiative, the chemical harmonization, ITA	10% of the GNP agr	Zero
2620	Lithuania	2001	Generally from 15-35% of a maximum of 50% of 8 years transition SPM nonuse	Generally from 10-20% of a maximum of 30%, the transition 4 years	Most of the "zero" initiatives, chemical harmonization, ITA	Reduction by 17% over 5 years	Zero

WTO Secretariat, the Economic Policy Institute of Kazakhstan, UNCTAD, the World Bank

## CONCLUSION

In the light of the problems outlined above, the Kazakhstani government should radically reform the quasi-public sector as of “Samruk-Kazyna”, reduce the amount of state business, including the proportion of products manufactured at the state-owned enterprises to determine the optimal size of government in order to achieve high rates of economic growth.

Otherwise, based on the decision of the Government, the bonds issued by the National Welfare Fund “Samruk-Kazyna” with an interest lower than the market rate will further continued to be purchased by the National Fund (473 billion tenge in 2014). This means a direct loss for the buyer of paper that is for the National Fund.

In this way, in the course of the negotiation process (lasted for 19 years), Kazakhstan was not able to fully defend its vital economic interests in the WTO. If the future generations of the country leadership or the government say in 2025, for example, try to subsidize the national exports in the prescribed manner, they will inevitably face lawsuits abroad.

If in 2030 in Kazakhstan will come an urgent need to subsidize agriculture at the level of 9-10%, Kazakhstan will be involved in legal proceedings under the WTO. The future generation of Kazakhstan should not regret about the fact that the government of the 1995-2015 years left a legacy of “restricted conditions” for entering to the “club” 30 most developed in the world.

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