

**POTENTIAL ANALYSIS OF THE REPUBLIC OF KAZAKHSTAN
IN THE CUSTOMS UNION**

By

Kulekeyeva Dinara Zhaxybekovna

THESIS

*Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of*

MASTER OF PUBLIC POLICY

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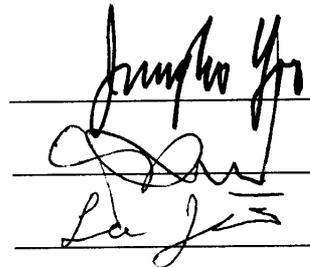
MASTER OF PUBLIC POLICY

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Three handwritten signatures are positioned to the right of the committee members' names. Each signature is written over a horizontal line. The top signature is for Professor Jungho Yoo, the middle for Professor Sung-Joo Lee, and the bottom for Professor Jinsoo Lee.

Approvals as of December, 2011

ABSTRACT

POTENTIAL ANALYSIS OF THE REPUBLIC OF KAZAKHSTAN IN THE CUSTOMS UNION

By

Kulekeyeva Dinara Zhaxybekovna

On January 1, 2010, the leaders of Kazakhstan, Russia and Belarus came to an agreement to create the Customs Union. The politicians of three states predict that the Customs Union will be able to become a single currency area with its own supranational currency in the future; this will be the peak integration of the countries into a single trading community.

There should be a single economic market formed by the year 2012. In fact, a classic version of the construction of such associations is offered, such associations are well-known examples of Europe, as well as other regional alliances, like the EU-Turkey Association (signed in 1963), the Arab Common Market (1964), the Central American Common Market (1961), the Organization of Eastern Caribbean States (1991).

What are the benefits for the Customs Union participants? The Customs Union is an agreement between States to eliminate duties and the boundaries between them, and to introduce common customs tariff for other states. The aim of the Customs Union's participants is significant growth of their economies.

Kazakhstan's participation in the Customs Union is an additional factor, which provides its economical and political stability. This will significantly expand the market of well-developed sectors of the economy and revive the ones which have been at a loss. More comfortable and satisfactory conditions will be created for the cross-country flows of capital and work force; this factor will definitely lead to strong economical and social development.

The sphere of competition will expand immensely; in the long run this will also have a positive influence on economy overall. It is inevitable and crucial for the Customs union's participant countries to strengthen cooperation and use it to solve economical, infrastructural and other issues, which require the unity of efforts.

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Last but not least, I thank my family and my friends for their patience and support during this difficult but very interesting time in Korea.

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TABLE OF CONTENT

I. INTRODUCTION	1
II. THE THEORETICAL BASIS FOR FORMING A TRILATERAL CUSTOMS UNION	4
A. MODERN LINES OF FORMATION OF REGIONAL ECONOMIC BLOCS.....	4
B. THE EXPERIENCE OF CREATING REGIONAL ECONOMIC AND TRADE BLOCS.....	10
C. OBJECTIVE PREREQUISITES FOR THE FORMATION OF CUSTOMS UNION OF RUSSIA, BELARUS AND KAZAKHSTAN.....	19
III. PRACTICAL ASPECTS OF THE FORMATION OF A TRILATERAL CUSTOMS UNION	34
A. ECONOMICAL PREREQUISITES FOR THE FORMATION OF A CUSTOMS UNION OF THREE COUNTRIES.....	34
B. THE FORMATION EXPERIENCE OF THE CUSTOMS UNION MANAGEMENT INSTITUTIOS.....	39
IV. ANALYSIS OF THE CUSTOMS UNION PROBLEMS. DEVELOPMENT OF APPROPRIATE RECOMMENDATIONS FOR THE REPUBLIC OF KAZAKHSTAN	45
APPENDICES	50
APPENDIX 1.....	51
APPENDIX 2.....	53
BIBLIOGRAPHY	57

LIST OF TABLES

1. The most active regional blocs.....	15
2. GDP per capita by PPP and GDP per capita growth for 2000-2010.....	34
3. Industrial structure of the economy of Russian Federation, Republic of Belarus and the Republic of Kazakhstan in 2010.....	35
4. Arithmetic means of customs duties in Kazakhstan and Russia before and after the formation of the CU.....	38
5. Main trade partners of Kazakhstan in 2010.....	38
6. Kazakhstan foreign trade turnover.....	39
7. Economic relations between the Republic of Kazakhstan, the Republic of Belarus and the Russian Federation.....	42
8. Exports of goods and services as per cent of GDP for 1991-2010.....	53
9. Imports of goods and services as per cent of GDP for 1991-2010.....	54
10. Annual growth of exports of goods and services for 1991-2010.....	55
11. Annual growth of imports of goods and services for 1991-2010.....	56

LIST OF FIGURES

1. Gross National Income (GNI) per capita by purchasing power parity (PPP) for 2010.....	51
2. Gross Domestic Product (GDP) growth at constant prices for 2010.....	51
3. Share of CIS countries in world population and mineral reserves.....	52
4. Share of Kazakhstan in CIS countries population and mineral reserves.....	52

I. INTRODUCTION

In 1991 the Soviet Union has collapsed and on ruins of old system 15 independent states were formed. From the earliest days of the collapse of the former Soviet Union various attempts to preserve traditional economic and political ties have been made. However, the three Baltic republics Estonia, Latvia and Lithuania have become more attracted to the countries of the European Union and are now full members of the EU. The other 12 countries of the former Union have created a free trade zone under the name Commonwealth of Independent States (CIS). Several years of hard work of the politicians was aimed at creating a legal framework for the functioning of the CIS. As a result, since 1995, Kazakhstan has a regime of free trade with all the CIS countries except the Baltic countries and Georgia. The CIS countries since their independence have acquired different economic outlines. Several countries have seriously advanced in terms of their economics. These include Russia, Belarus and Kazakhstan. The three mentioned countries account for about 80 percent of the total commodity turnover of the CIS countries, GDP per capita has approximately the same values. Free trade zone between Russia, Belarus and Kazakhstan allowed raising bilateral trade from 13.5 billion to 36.3 billion dollars from 2000-2009, making it a viable idea of creating the customs union.

The Customs Union between Russia, Belarus and Kazakhstan came into existence on January 1, 2010. Since July 1, 2010 within a single customs territory a single customs tariff is used, customs duties and restrictions of economic character are not applied, except in special protective, antidumping and compensatory measures.

The common market of three states with the population about 170 million persons is one of largest in the world. The total industrial potential of the three countries is now estimated to be 600 billion dollars, the oil reserves are 90 billion barrels and the agricultural production volume is 112 billion dollars. More than 85% of the total gross domestic product

of the whole post Soviet Union space is produced on the territory of the Customs Union. The total GDP of the three countries exceeds 2 billion dollars; its growth by 2015 is predicted to be 15-18%. The customs union is the base of creation of uniform economic space. This is confirmed by the following facts: the three countries have a vast resource base, and by having a sufficient amount of skilled labor, there is a significant capacious market. Belarus, Kazakhstan and Russia have a high degree of self-sufficient economy.

The Customs union will promote the regional market and export promotion of the three states, making it one of the most attractive markets in the world.

By the assumption of politicians, the authors of a CU, this circumstance will be the main factor to attract large scale investments in the economies of the Union and should give further impetus to the joint Kazakh-Russian and Kazakh-Belarusian industrial enterprises. Work on the creation of a Customs Union is continuing. Participation in the new organization is always fraught with structural changes and reorganization of the general functional mechanism of economic activities.

Based on the foregoing, it can be concluded that the countries of the Customs Union require an expanded program of research to ensure the integration of the information and estimates. In the absence of such materials, policies will be associated with some risk. This would require constant coordination of information and analysis, since the implementation of integration will inevitably arise new problems that require analysis and evaluation. The studies will provide the political leadership of all countries of the Customs Union, with an array of research materials, which will present a detailed analysis of the nature of the reforms, in combination with their economic, social, organizational and political consequences. Along the development process, political or business interests will be able to identify emerging issues and identify areas for additional research.

The purpose of research is to conduct research in the sphere of mechanisms development for effective integration of national economies into the global economy in a globalized world.

Regulations of the European Union, the Eurasian Economic Community, the Republic of Kazakhstan, the publications of foreign and domestic researchers on relevant topics, materials, media, including national television broadcasters, print media, internet sources, data from international organizations, have served as source of information.

II. THE THEORETICAL BASIS FOR FORMING A CUSTOMS UNION

A. MODERN LINES OF FORMATION OF REGIONAL ECONOMIC BLOCS

Over the past half century, internationalization and transnationalization processes of production, services, capital, which were accompanied by liberalization of international trade regimes and the improvement of mechanisms of international credit and finance, with the growing role of international economic organizations have promptly started to accrue. The world has started to change rapidly since the economic activity of its major businesses is no longer limited to geographical boundaries, decoupling countries. A growing number of commodity markets are also no longer geographically constrained. The rapid transformation of the world community at the end of the last millennium has radically changed economic and political relationship between the countries and commodity markets, making them not only more and more internationalized, but also more global. As a result, the world has come to a time when many states, either intentionally or against their will, abdicate their power to international economic and financial institutions, completely or partially denying their own right to regulate economic and social processes within societies.

Nowadays, international integration, formation of global and regional economic and trade unions are being considered as a natural phenomenon, prepared by the whole development of world economy. Over the past three hundred years of the development of world economy necessary conditions for creation of bases of today's integration processes have been created. Therefore, we can assert that the real international integration is possible only at the rather high level of socio-economic, information-technological, and political development of nation states. On the other hand, efficient and effective international integration is possible only within the highly developed regions of the world where generality of industrial, political and technological culture is observed. Study of international experience

testifies that pockets of international economic integration, which tend to gradually expand, are particularly formed in these regions.

Being generation of technological, political and cultural rapprochement of nations of the world, integration processes have evolved from simple international division of labor to the complex and multi-level system of international relations and interdependencies, and are being implemented in a variety of spatial scales - from bilateral to regional and global levels.

Several historical events have had a tremendous impact on the course of the internationalization of the world economy. First of all, World War II was in many ways, a critical milestone in the history of mankind. It was the last of unsuccessful attempts of the force decisions of geo-economic and geopolitical disputes, and it had showed an absolute failure of such decision-making. Moreover, it ended with creation of essentially new type of weapon – nuclear, where widespread use is fraught with the destruction of all mankind on earth. The appearance of such formidable weapon of mass destruction has caused no alternative to a peaceful solution of any major geo-economic and geopolitical controversy. To some extent, this particular circumstance has pushed the country to find common solutions to complex problems of the world economy through peaceful negotiations.

Second of all, from 1950 to 2000, manufacturing industries was developing in an outstripped pace, including manufacturing of high-tech products. For example, from 1956 to 2000, global production of finished goods increased by 8.2 times, whereas the products of extractive industries has increased by 3.4 times, and agriculture by 3 times. Advanced development of high-tech industries has contributed to a steady deepening of international division of labor, since the increase of world production of finished products was accompanied by the growth of world exports compared to exports of minerals and agricultural products.

Third, thanks to scientific and technological advances, transport infrastructure of international trade was greatly improved at the same period of last century. The emergence of a new generation of aviation, automobile, railway, water transport, as well as expansion of the network of international pipelines made the development of international trade of goods cost-effective.

Fourth, the rapid development of information technologies on the basis of a new generation of computers, satellite communications, Internet and unprecedented growth of worldwide information-retrieval system have led to the obliteration of any physical barriers and state borders on a way of movement of financial flows between countries. This circumstance became the most powerful accelerator of globalization of world economy.

As a result of mentioned circumstances huge changes started to occur in the world economy. At first, for the last 20 years there was a huge jump in the development of transnational corporations (TNC) which arose in the beginning of last century. According to the experts more than 70 thousand TNCs successfully operate in the world. New information technologies allow investors faster and more fully assess an investment climate of any country of the world, the attractiveness of specific projects. The absence of physical barriers on the way of capital movement significantly accelerates export of the capital from country to country, promoting the development of international industrial, financial, commercial relations at the level of separate companies, as well as at level of entire national economy. According to various estimates currently transnational companies control 1/3 to 1/2 of world industrial productions, 2/3 of international trades. Thus, about 40 percent of international flows of goods and services are within the corporate nature. Vigorous activity of transnational corporations has led to emergence of a concept such as the international property of fixed assets. At present, functioning of any county's economy substantially depends on TNC. Therefore transnational corporations became engines of world economic globalization.

Secondly, the new information technologies had accelerated the spread of knowledge of new production and management throughout the world. Developed countries are usually the generators of new technological developments and managerial knowledge. However, high living standards in these countries, high cost of labor often lead to the increase of costs of the products and services. Under the pressure of international competition over the time these facts push employers to move the production to countries where labor costs are lower but the level of workplace culture nevertheless allow them to develop new production. As a result, new technologies are transferred from highly developed countries to less developed periphery, contributing to an accelerated increase of its technological level. Ultimately, world economy becomes increasingly interconnected place.

Thirdly, there was a qualitative shift in international capital market development. Active growth of international trade demanded the creation of institutions of international finance and credit operations. This need has given rise to non-national capital markets, operating with foreign money, to require the so-called Eurocurrency. Such operations do not require currency conversion and so are outside the influence of the national currency legislation and are not subject to the laws and government control. Under such conditions, the cross-border flows of loan capital have increased dramatic.

All these objective changes in the fields of manufacturing, communications, trade, and international financial operations turn the world economy into one global body, welded together not just by the international division of labor, but by the giant-scale transport infrastructure, financial system and planetary information network. The world economic space becomes a single field for big business players. In the course of this transformation one of the major turning points in the history of the world community is accomplished, and it is reducing the role of nation-states that for a long time served as the backbone organizational structures. Currently, the economic literature distinguishes five phases of economic

integration, which differ from each other in terms of delegating the rights to national institutions of regional associations. They are the following.

Free Trade Zone (FTZ)

The simplest form of regional blocs' formation is the creation of free trade zones. Under these agreements, the countries participating retain maximum of sovereignty in the implementation of foreign trade with the third countries. Under the agreement FTZ partner countries implement trade among themselves without duties. Therefore, the FTZ agreement is regarded as the first step towards deeper integration. Under the FTZ member countries are entitled to exercise their own independent foreign trade policy agreements with third countries by imposing their own tariffs. Since the external tariffs for the third countries may be different in different FTZ participant countries, the rules of identifying the origin of goods are important in the case of the FTZ.

Customs Union

The Customs Union is a higher form of integration in comparison to the FTZ, because at this form of the countries participating in the contract requires them to carry out the foreign trade with the rest of the world using Single Customs Tariff. Since exports of third countries are subject to the same external tariffs when crossing the common border, the distribution of customs revenues among the participating countries, as well as speed of customs declarations processing and money transfer to the partner countries becomes an important point. The customs union is an important step in building the common market of regional blocs. Economic integration in Europe (EEC) started from the Customs Union in the 60s of XX century.

Common Market

Formation of a single common market for goods and services, as well as factors of production such as capital and labor is the next, more advanced stage of integration. This

stage of association provides opportunities for free movement of capital and labor resources between the Union countries unlike the Customs Union. Economic borders become symbolic geographical boundaries; they no longer exist as physical barriers to free movement of goods and services, as well as factors of production between countries of the Union.

Economic Union

After the formation of a common market of 27 states with a common currency – the euro, the European Union was the subject of close scrutiny of economists from all over the world. The EU is the highest form of integration in which member countries agreed to hold single supranational institutions, fiscal and monetary policy. In this regard, the experience of the functioning of the European Union (EU) is treated as a separate phase in the development of integration processes.

The Single Economic Space

This is the final phase of economic integration where the economic policy of the participating countries is developed and implemented by supranational institutions.

Without exception, all nation-states that joined regional blocs faced a totally new situation: they increasingly lose their ability to effectively use traditional mechanisms of macroeconomic regulation, such as trade and tariff barriers for imports of goods and services, export subsidies, ensuring the effectiveness of the exchange rate and the discount rate of central bank refinancing. In an increasing relationship between the world countries, their leaders are forced to use the help of macroeconomic regulation instruments, so as not to offend the interest of their neighbor countries. This is a qualitative difference between the globalization and the preceding stages of the economy internationalization. International economic processes have evolved from ethnic, more or less regulated by nation-states unilaterally, bilaterally or multilaterally, into non-national, for instance, global, with little or no measurable state regulation.

It is this fact that has set an unprecedented challenge before the mankind in the second half of the last century, to find fundamentally new mechanisms of global economy regulation. This effective mechanism has still not been created to this day. Therefore, many countries have begun to oppose the challenges of globalization with regional associations, such as free trade zones, customs unions, economic unions, etc. Thus, with the growth of globalization much of the state sovereignty is distributed between local, regional and global regulatory institutions.

B. THE EXPERIENCE OF CREATING REGIONAL ECONOMIC AND TRADE BLOCS

The history of the regional economic and trading blocs, or so-called regionalism in international trade, takes its origins in the second half of XX century. After completion of the Second World War separate countries of the world, including European countries, began to show interest in the implementation of close economic and trade relations as zones of free trade, customs unions. The number of such groups by the end of the 90s according to various estimates ranged from 80 to 100. According to the World Bank, within the limits of such zones about half of world trade is carried out. Among the most known areas: the European Free Trade Association, European Union, the North American Free Trade Agreement (NAFTA), Asia-Pacific Economic Cooperation (APEC) etc. Participants of the nine major international and regional trade blocs are as follows:

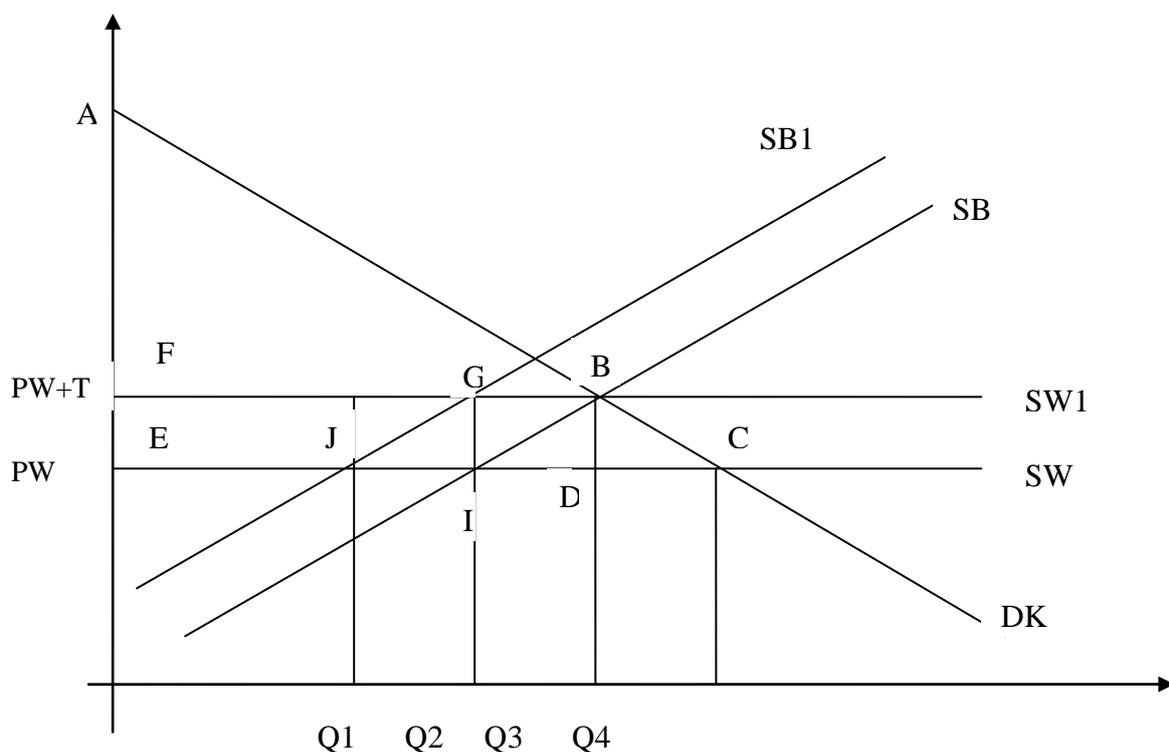
1. The European Union (EU) – Austria, Germany, Great Britain, Italy, Ireland, France, Spain, Portugal, Finland, Sweden, Denmark, Belgium, Luxembourg, Netherlands, Greece, Hungary, Cyprus, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Czech Republic, Estonia, Bulgaria and Romania.

2. The North American Free Trade Agreement (NAFTA) – U.S., Canada and Mexico.
3. The European Free Trade Association (EFTA) – Iceland, Norway, Switzerland and Liechtenstein.
4. Asia-Pacific Economic Cooperation (APEC) – Australia, Brunei, Malaysia, Singapore, Thailand, New Zealand, Papua New Guinea, Indonesia, Philippines, Taiwan, Hong Kong, Japan, South Korea, China, Canada, USA, Mexico and Chile.
5. MERCOSUR – Brazil, Argentina, Paraguay, Uruguay.
6. Southern African Development Committee (SADC) – Angola, Botswana, Lesotho, Malawi, Mozambique, Mauritius, Namibia, South Africa, Swaziland, Tanzania, Zimbabwe.
7. West African Economic and Monetary Union (UEMOA) – Ivory Coast, Burkina Faso, Nigeria, Togo, Senegal, Benin, Mali.
8. South Asian Association for Regional Cooperation (SAARC) countries – India, Pakistan, Sri Lanka, Bangladesh, Maldives, Bhutan, Nepal.
9. The Andean Pact – Venezuela, Colombia, Ecuador, Peru and Bolivia.

The emergence of similar economic blocs results not only in the objective processes of political, economic nature, but also in common historical and cultural heritage of the people involved in these blocs. Thus, formation of free trade areas does not bring basic changes in world economy development. Revitalization of regional trading blocs is twofold. On the one hand it promotes international trade development (within the zones, blocs, regions) and on the other – it creates a number of obstacles for the development of international trade in specific to any more or less closed formation. Therefore, the effects of the formation of trading blocs are evaluated by experts in two ways. On the one hand, the establishment of preferential tariffs within regional blocs leads to an increase of trade between the partner countries. Thus, poor-quality goods at relatively high prices are imported

because of its cheapness which in turn, leads to inefficient barter, instead of having a free trading mode with all countries. This process is internationally defined as “trade deviation”. For reception of the best results from the international division of labor, the country should be guided by the principle of “comparative advantage”. So, if Kazakhstan imports Belarusian goods just because duty-free import is allowed, despite the fact that China and Korea has a comparative advantage in producing certain goods over Belarus, then country's foreign trade activity undoubtedly is becoming less effective. Thus scope of “trading deviations” can be rather essential. It is possible to show it on such simple example.

Let's assume that Kazakhstan and Belarus concluded an agreement on formation of the regional trading block. It is known, that these countries are the countries with relatively small economies in comparison with the rest of the world, so they agree to the price for the goods from the rest of the world (PW), as the set size. DK – Kazakhstan’s demand for import, SB – export proposal of Belarus, country-partner, facing home country, and SW – offer from the rest of the world.



At a free trade, without the formation of regional blocs import would be equal to Q_4 and welfare of the population of home country would correspond to the area of the triangle ACE. Now, let's suppose that the home country sets custom tariff for the imported goods from all countries at the T level. Then the price of imports from the rest of the world rises to the level of $PW + T$, which shifts the curve of the world's supply of goods SW upwards to the new position of SW_1 . Similarly, the Belarusian supply curve SB shifts to SB_1 , as there are no benefits for this country. As a result, total imports of the home country are reduced to Q_3 . At the same time imports from the partner country will be Q_1 , while imports from the rest of the world will be equal to $Q_3 - Q_1$. It is known that an increase in the value of imports affects the welfare of the population to the triangle area $ABF + BDEF$ (revenue from import duties). It is smaller than the area of triangle ACE in terms of free trade in value of the triangle BCD. Suppose now that the home country enters into an agreement on regional integration with Belarus. Since the partner country is no longer paying import tariff T , then its export supply curve shifts to the SB . The rest of the world continues to pay the tariff T , so that the price in the home country remains at $PW_1 = PW + T$. As a result, imports from the partner country of Belarus increases from Q_1 to Q_2 , while imports from the rest of the world are reduced from $Q_3 - Q_1$ to $Q_3 - Q_2$. This trade diversion reflects upon the trade conditions worsening in the home country. Since the customs revenues to the state budget will be reduced to the size of area of a rectangle BDIG, i.e., budget loses revenue amount to the FGIE area. On the other hand, since the price of the goods does not change, regional integration has no effect on consumer surplus, which means no improvements of population's living conditions.

This graph shows that the welfare of the native country from the formation of regional trade union is proportional to the level of imports from partner countries. The gain of the partner country from their home country trade creates a quadrilateral EFGJ. I am not

considering the question of who will be in a better position in the trade union exercise, because it requires a deeper and more comprehensive study. Area of the triangle GIJ corresponds to the net loss of the home country from a trade union. The reason lies in the overall trade diversion, $Q2 - Q1$. This amount was imported to the country from the rest of the world at a relatively low PW price, but after the formation of the trade union it is imported from the partner country at the higher marginal cost.

It should be noted that the formation of regional trade and economic blocs does not mean absolute deviation from the free trade ideas at the international level; however, in the framework of such merger, effective measures are being taken to protect domestic markets from foreign competition. From the previous chart, we can see that the formation of trading blocs is frequently accompanied by a social conditions deterioration of the population in the country. However, despite this «free trade» dilemma and protectionism do not cease to exist. It moved to a different level of foreign trade relations, where is the decision on the choice of economic policies of states regarding third countries is determined. Indeed, the economic power of the union of several states allows the regional blocs to pursue a common economic policy towards third countries from a position of at least a strong partner, and in some cases from a position of strength. First of all, I mean the desire to control key sectors of the economy of any competitor country by the way of exporting goods into the prepared infrastructure. The result is a threat to their “rejection” or the subsequent expansion of exports of goods and associated facilities. The final step is a “credit shock” transfer of national income. On the way to a unified, global system of the world market there are still a lot of obstacles and conflicts of interest that will arise in the interaction of individual countries and trade-economic grouping with each other. The trade blocs participating countries, understand the complexity and contradictions of the current situation on the world market, seeking to find ways for positive solutions to existing problems and contradictions.

Regional trade groupings, according to the World Trade Organization, weaken the mechanism of regulation of international trade and hamper global economic integration. In this regard, the WTO advocates the adoption of a single set of rules governing the conditions for the creation of trading blocs. Thus, trade blocs' participants in trade policy should be compatible with WTO rules and agreements – open to the accession of other countries.

Table 1. The most active regional blocs

Regional blocs ¹	Area (sq km)	Population	GDP (\$US mln)	GDP per capita	Number of members ¹
EU	3,977,487	460,124,266	11,723,816	25,48	27
CARICOM	462,344	14,565,083	64,219	4,409	14+1 ³
ECOWAS	5,112,903	251,646,263	342,519	1,361	15
CEMAC	3,020,142	34,970,529	85,136	2,435	6
EAC	1,763,777	97,865,428	104,239	1,065	3
CSN	17,339,153	370,158,470	2,868,430	7,749	10
GCC	2,285,844	35,869,438	536,223	14,949	6
SACU	2,693,418	51,055,878	541,433	10,605	5
COMESA	3,779,427	118,950,321	141,962	1,193	5
NAFTA	21,588,638	430,495,039	12,889,900	29,942	3
ASEAN	4,400,000	553,900,000	2,172,000	4,044	10
SAARC	5,136,740	1,467,255,669	4,074,031	2,777	8
Agadir	1,703,910	126,066,286	513,674	4,075	4
EurAsEC	20,789,100	208,067,618	1,689,137	8,118	6
CACM	422,614	37,816,598	159,536	4,219	5
PARTA	528,151	7,810,905	23,074	2,954	12+2 ³
Blocs and countries ²	Area (sq km)	Population	GDP (\$US mln)	GDP per capita	Amount of countries (subjects)
UN	133,178,011	6,411,682,270	55,167,630	8,604	192
Canada	9,984,670	32,507,874	1,077,000	34,273	13
China ⁴	9,596,960	1,306,847,624	8,182,000	6,3	33
India	3,287,590	1,102,600,000	3,433,000	3,1	35
Russia	17,075,200	143,782,338	1,282,000	8,9	89
USA	9,631,418	296,900,571	11,190,000	39,1	50
1 – Including data only on active participants					
2 - First two states in the world on the area, the population and GDP					
3 - Including autonomous regions and subjects in the states					
4 – Excluding from data Hong Kong, Macao and Taiwan.					
Source: CIA World Factbook 2005, IMF WEO Database					

From the point of view of studying the experience of formation of regional blocs the instructive example would be European Union which has offered the whole world the reference model of the international integration. Historically, Western Europe was the ancestor of the most important international and even global socio-economic and politico-

legal trends and mechanisms. Their proposed model is based on a high level of socio-economic and technological development of countries in their common interest in expanding the capacity of the market and creating a single currency, on conscious refusal of a part of the national sovereignty in favor of supranational regulating institutions. Similar events can take place only where institutions of a civil society are developed, political leaders of the states submit to the will of people, and people have strong political will to unite and protect common interests of all integrated countries. An important feature of this process – is it's gradual, consistent and based on the multilateral development of peer integration program and a clear sequence of its practical implementation.

The main objectives of the EU are the following. Implementation of the hard-coordinated overall economic policy, which provides basic guidelines and a number of quantitative macroeconomic indicators, should guide national governments of the Member States. Only those participants of EU can introduce euro, who satisfy the necessary conditions, or so-called convergence criteria:

- the inflation rate should not exceed more than 1.5 percentage point average of the same period in the three countries with the smallest price increase;
- interest rates on long-term loans must not exceed more than 2 percentage points, corresponding to the average index for the three countries with the smallest price increase;
- the budget deficit should not exceed 6% of GDP;
- state debt should not exceed 60% of GDP;
- within two years currency should not be devalued and its exchange rate must not exceed the limits of variation set of the European monetary system;
- ensure effective functioning of the united internal market and conducting an overall economic policy in the EU with the means of monetary and credit system, the key

elements of which are created by an independent European System of Central Banks of EU countries led by the European Central Bank, responsible for conducting a single monetary policy of the EU and endowed exclusive right to issue euro and the Trans-European unified billing system in real time - TARGET (Trans-European, Automated, Real-time, Gross Settlement, Express Transfer), which has started to operate simultaneously with the introduction of the euro and maintains operations solely in the new European currency;

- fortification of monetary stability on the international level, which is designed to neutralize the negative impact on the EU's external currency shocks; conversion of euro to one of the major reserve currencies and strengthening its position in relation to the dollar;
- the EU has a unique system of institutions that developed during its formation. The main EU institutions are the European Council, the Council of Ministers, the European Commission (until 1993 the EU Commission, or CEC), European Parliament, the European Court, the Court of Auditors (Chamber). The institutional structure of EU is based on a combination of two types – the interstate and supranational. Functionaries, which belong to the bodies of the first type, act as official representatives of member states (for example, the European Council), members of the second type are also representatives of national states, but they act as individuals, regardless of nation-state identity, and they are not bound by any instructions from their governments. Their main task is the implementation of Community objectives of the EU, regardless of their own national priorities and interests (e.g., European Commission). Such a dual principle of formation helps to maintain balance between the interests of individual Member States and the interests

of the EU as a whole. At the same time a flexible division of competence between the EU institutions and national governments is being implemented;

- the main feature of the legal and institutional system of the EU is the primacy of EU law over national law of Member States within the limits defined by the content of the underlying contracts;
- the EU has its own budget, generated from its own sources and is spent in accordance with the objectives of the European Union. In the financial security of the EU, special structural funds play important role, which are responsible for the implementation of an integrated socio-economic strategy. These include the Regional Development Fund, Social Fund, Guidance and Guarantee Fund of Agriculture, Fund for economic convergence of Member States (the Cohesion Fund). Also a lending institution of the European Investment Bank (EIB) operates within the framework of EU, which supports the implementation of investment projects of communitarian value.

The total population of the European Union is more than 455 million people. The EU is one of the major economic centers of the world economy and its combined GDP (10 trillion euro) and volume of foreign trade is much higher than that of the U.S. and Japan.

Today, Western Europe demonstrates a unique model to the world, especially in terms of specific European regionalism, which manifests itself in three forms. First, it is the formation of the largest geopolitical region – the EU, as some kind of integrity and a strong system of mechanisms of regional character. Within this flexible development mechanism alignment of interests are implemented and in general achieve some balance. Second, in the formation of so-called “dimensions” – the northern or Mediterranean integral regions are also formed. It is noteworthy that they include not only the EU, but also other states, which in turn, proves the openness of the EU system. Third, in motion regions located within the EU, for the expansion of their rights and competencies. To create the CU and its fundamental

documents the politicians carefully studied the huge experience of the EU. In discussions of the economic and political aspects the main argument happens to be the experience of EU states as the best example to follow.

C. OBJECTIVE PREREQUISITES FOR THE FORMATION OF CUSTOMS UNION OF RUSSIA, BELARUS AND KAZAKHSTAN

Since its independence, Kazakhstan has demonstrated peaceful nature of its foreign policy, the main goal of which was the formation and further development of the «multi-vector diplomacy» concept, according to which Kazakhstan is developing equitable and diversified relations in all are as important for the country: the CIS, Central Asia, East and West, Europe and Asia, the Muslim world, and industrial powers. This is due to the fact that Kazakhstan occupies a prime position in the international system, and refers to the Turkic-speaking world and has a religious community with Islamic states, historical background and psychological characteristics of the national spirit, showing its belonging to the East. However, Kazakhstan also applies to the West, because Kazakhstan's Euro-membership is due to the factors of demographic and political character, the nature of the construction of a secular state. Thanks to this policy Kazakhstan has successfully implemented entry into the world community and the various international organizations of global, regional and sub regional levels.

Today, Kazakhstan is a member of the prestigious European as well as Asian and international organizations. On the one hand, such actions were dictated by the government of the country gaining independence, which required not only the creation of government institutions, but also to enhance the credibility of Kazakhstan in the international arena, at least, by entering into many internationally recognized organizations. On the other hand, to

ensure a peaceful and gradual transition from the old socialist system to an economic system based on market principles, it was necessary to preserve the traditional economic and political ties with all countries of the former Soviet Union as long as possible, since the industrial sector in Kazakhstan was closely linked to the economies of the neighboring states first of all with Russia. Moreover, among all the states of the former Soviet Union only in Kazakhstan, the titular nation of the Kazakhs were in minority, which considerably complicated the pursuing of policies aimed at strengthening the national independence. Therefore, in the first years of independence it was vital to look for compromising solutions, which helped to strengthen political and economic unity of the peoples of the country.

The circumstances did not give Kazakhstan a reasonable alternative to enhance cooperation with countries of the Commonwealth of Independent States (CIS), to participate in integration processes in the former Soviet Union, and to be the initiator of many integration processes. In terms of geo-economics, geopolitics, national security and perseverance of the economic integrity of Kazakhstan, forming a broad platform for integration has been and is remaining the most important factor for stable development of the country. Therefore, the strengthening of integration processes in the CIS fully meets the strategic goal of modernizing and diversifying the national economy, its transfer to an innovative development path. Over the past 20 years, the politicians have tried to create the CIS integration associations in the various post-Soviet spaces, which with the participation of Kazakhstan were reduced to four-integration constructions:

- The Central Asian Economic Union (CAEU), Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan;
- Customs Union (CU) between Russia, Belarus and Kazakhstan;
- The Eurasian Economic Community (EurAsEC) – an alliance between the Russia, Kazakhstan, Belarus, Kyrgyzstan and Tajikistan;

- Commonwealth of Independent States (CIS) – an alliance between the 11 countries of the former Soviet Union except three Baltic States and Georgia.

Launched in the early 2000s, the project of forming a single economic space between Russia, Belarus, Kazakhstan and Ukraine did not take place, mainly due to the mismatch priorities of the Ukrainian government.

After the formation of Customs Union, the EurAsEC is the next important thing, because in order to be a member in the Customs Union of Russia, Belarus and Kazakhstan, prior membership in the EurAsEC is required.

When we speak about integrating initiatives of Kazakhstan in Central Asia, it is impossible not to mention the topic of forming a collective security mechanism on the continental scale that made it possible through implementing Kazakhstan's initiative to convene the Conference on Interaction and Confidence-Building measures in Asia. The idea of the Conference on Interaction and Confidence-Building Measures in Asia (CICBMA) was first introduced by the President of the Republic of Kazakhstan Nursultan Nazarbayev at the 47th session of UN General Assembly in October 1992. This idea of convening the CICBMA was supported by 16 Asian countries, whose essence lies in the idea of creating a comprehensive and universal system of Asian security. One of the points of membership condition in CICBMA is the presence of some part of the territory on the Asian continent. Currently, twenty countries are members of CICBMA, six countries and three organizations, such as UN, OSCE and the Arab League, have the observer status. The clear proof that CICBMA is becoming increasingly popular and an important forum on the Asian continent is the joining of such perspective states as Thailand (2004), Republic of Korea (2006), the United Arab Emirates and the Hashemite Kingdom of Jordan (2008). This is an indication that objectives and activities of the CICBMA have received wide recognition of the international community.

The integration processes between the Asian neighbors of Kazakhstan are at a formative stage. Therefore, we should mention the Shanghai Cooperation Organization (SCO) that was established in June 2001. This organization unites states (Kazakhstan, Kyrgyzstan, China, Russia, Tajikistan and Uzbekistan), which share similar views on global development trends and are ready to look together for coordinated approaches to regional and international issues. The other duty of this organization is to strengthen regional economic and cultural cooperation. SCO member countries work closely together and firmly support each other on all key issues, especially in the matter of security. SCO, together with the Collective Security Treaty Organization (CSTO) is considering the issue of creating “security belts” in the areas of terrorism, drug traffic and finance. Implementation of the measures described above would yield the Shanghai Cooperation Organization to a new stage of development, would have put her in some of the most influential international institutions, and would promote Kazakh interests in Asia.

To the above-stated construction, Kazakhstan attached importance of integration strengthening processes among CIS countries. Despite the enormous efforts made, in the absence of favorable economic assumptions, the integration within the CIS failed to rise to a higher level. International experience, including the practice of the European Union show: the actual integration of a group of countries becomes possible when the participants reach a sufficiently high level of the development of science-intensive manufacturing industries that lead to higher cross-country cooperation. In its turn, the development of cooperation between the countries provides a broad diversification of the export-import operations in the country and its deep involvement in the international division of labor.

Currently, the CIS countries do not have a highly developed and diversified manufacturing industry and, therefore, developed intra-cooperative ties, which form the basis of the integration process. Commonwealth states have almost the same industry structure, and

therefore complement each other at inter-sectoral level, which is reflected in the structure of mutual trade.

The predominance of fuel and mineral commodities in the structure of foreign trade, which are heavily dependent on world markets, does not facilitate to the strengthening of horizontal ties between the companies of the CIS countries. Weak progress in the development of integration processes is connected with essential distinctions in levels of economic development of the Commonwealth states. They are caused by different economic potential, differences in industrial structure, different degree of economic reforming and political system of the countries (the status of a market economy among the CIS countries have only Russia, Kazakhstan and Ukraine), the availability of natural resources, dependence on foreign relations and other factors. Every year, these differences are amplified. Therefore, it is difficult for CIS countries to adjust to each other in terms of its economic policy coordination and harmonization of legislation, which is a prerequisite for economic convergence. Regulations of high-level are often ignored by the countries due to mentioned circumstances, weakening the position of integrating initiatives in the CIS.

On the other hand, once reached the path of independent development, each CIS country started to conduct economic policies so that they will not be dependent on their neighbors. Such ambitious goals of the CIS leaders led to changes in the sectoral structure of its economy, but not always for the better. As a result, not only the structure of exports, but also the structure of economies came together, losing its complementarity and moving to the position of competitors, which also greatly reduced the incentives for integration. As a result of these processes mutual trade of the CIS countries has developed in recent years, much slower than the trade with foreign countries. Its share in the total turnover decreased in 2004-2008 from 27% to 21.5%, including import - from 38% to 27%. The share of trade with third countries in total trade of the CIS without Russia has increased over the same period from

59% to 66%, including export - from 70% to 76%, import – from 47% to 54%. For comparison: in 2008 the share of intra-regional trade for the EU-27 amounted to 65% and for the countries of NAFTA (USA, Canada, Mexico) - 40%.

Among the main reasons that worsen the position of the CIS mutual trade, we should note the following factors:

- lack of competitiveness of goods and manufacturing of CIS countries (with few exceptions) as compared to similar products imported from abroad;
- lack of effective financial and other mechanisms that promote mutual export-import ratio of the CIS countries;
- poor technical equipment of border-crossings and complicated bureaucratic procedure sat the borders, often generating corruption;
- generally more significant transportation costs due to the large distances between the CIS countries, as well as higher international freight rates compared to domestic rates;
- periodically imposed reciprocal restrictions on the supply of certain goods to each other markets in order to protect domestic producers.

These factors resulted in the need for new approaches that enhance the integration processes in the former Soviet Union. The politicians were aware that the new integration processes within the CIS reached an impasse. In mid-2008 the world economy, including the CIS countries faced a serious global financial and economic crisis, doubting the potential sources and the future development of both global and national economies. It is known that the CIS countries are rich in fuel, mineral resources, and most of them felt the intensified international competition in the sphere of distribution of natural wealth of these countries.

The CIS region is in the crossing zone of strategic interests of the world's major players, because in the forthcoming years, the fight for influence in the Commonwealth can be especially rigid. With the revitalization of the world's leading powers in the CIS, Russia,

Kazakhstan and Belarus decided on the formation of Customs Union, as a practical tool for countering the new challenges of the global world. On the other hand, the Customs Union is considered as the only way to raise the integration processes in the CIS to a higher level, because CU is open to new members of the trade and economic platform that fosters the integration between the participating countries on a new – closer basis.

In the case of the successful construction the Customs Union could become the center of integration processes, the basis for creating a functioning regional integration in the CIS. Certainly, the formation of Customs Union strengthens the geopolitical position of the “three”. Removing barriers in the mutual trade of goods will create more favorable conditions for business organizations, and will help save time and reduce the transaction costs associated with border crossings and customs clearance documents. The unification of transport tariffs for the carriage of goods, as well as lack of administrative barriers at border crossings will increase the trade turnover between the countries of the CU.

At the same time Russia and Kazakhstan, due to their superior economic potential and geopolitical reasons, would have to bear the burden of the costs of CU development and functioning. The whole experience of regional integration blocs suggests that larger and more powerful members of the association take on the role of “locomotive”, and carry out significant amounts of donor like functions in relation to other participants. For example, financial assistance of the EU to the 12 countries in Central and Eastern Europe that joined the EU in 2004-2007, was according to the European Commission, 0.2% of the total GDP of the 15 old member states. It is expected that by 2013 the volume of aid will increase to 0.3%. In the years 2007-2013 EU spending on adaptation of new candidate countries (Turkey and the Balkan states) would amount to an estimated 11.5 billion euro. These data may be modified upward in relation to ongoing measures to ensure the recovery from the crisis in countries such as Greece, Spain, Ireland, and so on.

In its most general form of the economic consequences for Kazakhstan regarding the creation of CU can be summarized as follows. Among the potential benefits are:

- increase in exports to the Union and business environment improvement on the CU territory
- expansion of intra-industry trade and industrial cooperation by the means of decline in transaction costs;
- cross-border cooperation and trade intensification, and the creation of conditions for the formation of cross-border industrial clusters.

Among the possible adverse effects:

- increase of the cost of some imported, since the average tariffs in Kazakhstan were almost 2 times lower before the creation of the Customs Union;
- quality deterioration of some imported goods, resulting in replacement of their counterparts from non-CIS countries, which can lead to the weakening of the competitiveness of domestic producers;
- increased competition from Russia and Belarus.

It should be noted that the creation of CU in the current and agreed terms and conditions will not have a material adverse effect on the economy and foreign trade of Kazakhstan and the partner countries. The relative importance of the integration factor for economic development of the «three» will increase along the progress towards forming a single economic space and the CU participants in a broader format of the CIS.

Viability of CU and the formation of a single economic space will be largely determined by the solution of two fundamental problems:

- the successful development of horizontal cooperation at the micro level with the involvement of the widest possible range of businesses from the Customs Union;

- effective functioning of created supranational institutions, regulating trade and economic relations of the Customs Union.

The fundamental question is the formation of core integration communication with other CIS countries. Alternative core integration and the periphery integration, which when it is ready, merges with the core is not suitable for CIS, as new members should delegate some sovereign rights to the supranational institutions of the Customs Union. However, the ambitious politicians of other CIS countries have not yet given promising results. So far they are closely monitoring the process of Customs Union creation. In turn, the economic success of the CU can serve as a guide for future expansion of economic space of the Union.

Benefits of the integration will be more appreciable along with the restructuring and modernization of industry in CU, due to the strengthening of industrial cooperation and horizontal intra-industry trade. A process of modernization will have an additional impetus from the free movement of goods, services, capital and labor in countries with single economic space. This level involves the consolidation of the efforts of individual companies of the Customs Union in the fight for third-country market, the concentration of their resources to solve common problems by eliminating or reducing competition in achieving their goals. This integration should provide horizontal building production chains, including the closing stages of the production cycle. In addition, it is necessary to create vertical management, to achieve a marketing strategy for entering the markets of third countries and to increase the share of total enterprises of the Customs Union in the third country markets. Thus, we should talk about production and business optimization by bringing together the interests of companies in the horizontal or vertically-integrated business groups with the appropriate financial, trade and marketing infrastructure. The latter implies not only strict compliance with the integration processes agreements to improve market access, but also the creation of institutions and incentive mechanisms for regional integration.

The political elite of the three states have taken steps upon the creation of institutions of supranational regulation as well as financial institutions. The supranational institutions will be discussed below. I would like to touch on here about the experience of creating financial institutions of the Union. For example, so far the Eurasian Development Bank (EDB) and the EurAsEC Anti-Crisis Fund have been established. The nominal capital of the EDB exceeds \$ 1.5 billion, of which the contribution of the Russian Federation totaled to \$ 1 billion; the share of Kazakhstan's was \$0.5 billion. In February 2009, at the summit of EurAsEC a decision was made to create EurAsEC Anti-Crisis Fund, whose shareholders are Russia, Kazakhstan, Belarus, Armenia, Tajikistan and Kyrgyzstan. The total size of the Fund is planned to amount to \$ 10 billion, of which \$ 7.5 billion was contributed by Russia. In 2010 the Fund contained \$ 8.55 billion, since only Russia and Kazakhstan managed to make their shares. The Fund's resources will be allocated to support the participating countries with low per capita income in conditions comparable to the criteria of official development assistance. Part of the Fund in the amount of \$ 3 billion has already been used to support the economy and balance of Belarus, which, after the presidential election is experiencing a huge demand for foreign currency. EDB has supported several projects aimed at strengthening horizontal links between business structures of the Union. Thus, the newly created institutions gradually begin to operate, promoting integration processes in the former Soviet Union.

In recent years further development of integration processes in the former Soviet Union has faced additional difficulties as the world currency and financial crisis has strengthened the economic gap between the CIS countries. The first group - net energy exporters (Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, Russia), were badly hit by oil prices decline, but managed to recover relatively quickly from the accumulated reserves and rapidly rising cost of oil and gas in the world market. It is important to note that these countries are less dependent on the state of the economies of the CIS. For example, in 2008,

the exports of Kazakhstan to the CIS accounted for only 16% (27% in 2000), and the export of Azerbaijan - 3% (13% in 2000), since almost all the volumes of energy are sent to foreign countries.

The second group of countries - net energy importers, whose growth in recent years was mostly due to the large-scale foreign lending, and increased transfers from migrant workers mainly from Russia and Kazakhstan. The crisis led to a significant weakening of these sources of growth, this caused significant overall deterioration and devaluation processes in the countries of Ukraine and Belarus and in CIS countries with low-income from net energy import – Armenia, Georgia, Kyrgyzstan, Moldova, and Tajikistan. Among these countries Belarus is in relatively good condition due to the fact that it became a member of the Customs Union and was protected by the anti-crisis fund. As for the other countries, they all have enormous difficulties of post-crisis period. However, despite these difficulties they are seeking to strengthen economic, cultural and political relations between themselves. Here the opinion of the peoples of the CIS countries plays a huge role.

To gauge public opinion, the experts of the CIS countries carry out systematic research. One such study was conducted after the establishment of Customs Union. The experts like political leaders, business representatives and the public of the expert community of Belarus, Kazakhstan, Russia and Ukraine were involved; the nature of their professional activity is familiar with the subject of integration. The scale of the study allows comparing the assessment of the current state and prospects of the integration process in the former Soviet territory, as well as the possibility of interaction between different actors of integration, including government, business and the general public. In general, all the experts talk about the need for integration, using with the following reasons:

- Integration is a leading global trend of development, and post-Soviet states should make use of it.

- The integration creates prerequisites for improving the efficiency and competitiveness of economies, as it facilitates the disclosure of their domestic capacity, while trying to preserve the autonomous existence of backwardness.
- Integration is an effective protection from hostile economic, political and ideological intervention on the part of the world's centers of influence.

The following are prerequisites of integration:

- Common history, centuries of experience of socio-cultural, political and economic integration;
- Closely formed, as in the Soviet era and after, economic relations at level of managing subjects, the prevailing cross-country division of labor;
- Compatibility of standards and technologies;
- Common language of international communication;
- Close mentality.

The experts note the following targets of the integration:

- Harmonization of the economic development of states of the former Soviet Union;
- Creation of an effective economic system that could successfully compete with other regions of the world;
- Bringing national legislation into conformity with the regulations, adopted at the international level, ensuring the consistency of the law;
- Creation of a “single social space”, implying free movement of labor;
- Unification of standards and procedures (technical regulation, trade, customs policy, etc.);
- Creating a common security system.

The current situation is characterized by an increased activity of individual economic entities involved in the integration process. First of all, large business enterprises have begun

huge activities. Experts believe that the business community should be the «engine» of the integration process in the former Soviet Union territory. Until recently, the business community faced numerous bureaucratic obstacles to doing business in the territory of integration participating countries. Thus, the business community is ready to actively engage in the integration process, if it is economically feasible and is supported by the political elite. Therefore, it is expecting relevant decision-making from the authorities making.

Kazakh experts believe that Kazakhstan considers Russia as a strategic partner and a «good neighbor»; it sees Russia as a big country, with their interests and aspirations to leadership. Experts do not share these claims, but do not consider it necessary to counter them either. The criticism is due to Russia not having a clear concept of integration, even of its own development strategy. In addition, some individual experts are pointed out to having the Russian “imperial position” side in respect to Kazakhstan. The expert community of Kazakhstan noted the following problems of integration:

- Lack of a clear idea of integration of the former Soviet Union territory. Some experts call this problem the primary one. The absence of a clear concept reduces the motivation of participants of the integration process to cooperate; they “pull the blanket over themselves”.
- Significant differences between the participating countries of the integration processes on the level and rate of development, which complicates the implementation of integration initiatives on a single economic and social platform.
- Political elites’ lack of awareness in the public interest. The actions and statements of government leaders are often dominated by the elements of political expediency, rather than a desire to strengthen ties between the countries of the Commonwealth.
- Inconsistency of the integration process in different areas and levels. As experts say, the multiplicity of organizational forms, self-serving lobbying, the lack of an effective

mechanism for coordination of economic, political, social and resource factors complicate the course of the integration process.

- Lack of organization of the integration subjects: the business community, experts and civil society institutions. Forces that could push more power to take the integration process seriously are business and civil society. However, they are still not organized. According to experts, you need business associations, representing their interests in cooperation with the authorities (because they, not the power structure, are the ones really interested in the effective integration).
- The discriminatory factor, because until now we have the entrepreneurs' discrimination based on nationality, the multiplicity of barriers to the movement of goods and capital, unequal conditions of competition.
- The bureaucratic arbitrariness. Business is tired from the officials' intervention, corruption and bribery. It needs standardized conditions of certainty and legal field, the rest it is ready to do itself and pay the necessary taxes to the State.

Thus, the facts that characterize the experts' opinion prove that the peoples of the CIS countries are determined to maintain their traditional ties between the neighboring countries, although there are a lot of various difficulties. Under these circumstances, to raise the integration process to a higher level the CIS countries need to solve several problems. The most important of them, in my opinion, are the following:

- Technological modernization and innovation development with limited resources and in more complex conditions of aggressive competition. That is the modernized economy and industrial policy can become a reliable platform for development of integration.

- The formation of a single infrastructure for the business community of the Customs Union and the CIS, as well as the creation of well-functioning of supranational institutions.
- Adoption of effective measures aimed at reducing transaction costs of foreign economic activity and simplifying administrative and customs procedures.

Statistics show that today's intensity of trade between member states of the Customs Union, Russia, Belarus and Kazakhstan, is already higher than the average level, relevant for the CIS countries. Mutually beneficial cooperation between the three states of CU attracts other States in the Customs Union. Several CIS countries have declared their readiness to join the Customs Union. All this confirms the correctness of the chosen direction. Enhancing the integration process to a higher level through establishing the Customs Union as the core of the new union of states, which have been tied traditionally over a long period of history.

III. PRACTICAL ASPECTS OF THE FORMATION OF A TRILATERAL CUSTOMS UNION

A. ECONOMICAL PREREQUISITES FOR THE FORMATION OF A CUSTOMS UNION OF THREE COUNTRIES

The formation of economic and trade unions were preceded by a lengthy work of politicians, but there are some objective factors that precipitated the States to the spatial convergence. Some of them are the following:

1. Historical community of people, being the members of regional blocs, and the proximity of the member states, as well as the economic development level, are the main factors of economic alliances formation. Indeed, during the Soviet era of 70 years, there was a special identity of people ‘born’ on the territory of the USSR – “Soviet man” with one language of communication, with close culture and mentality. During the years of Soviet Union, the economic infrastructure was constructed the way that each republic could function as part of a whole. In addition, the level of economic development in Russia, Belarus and Kazakhstan are on one level and stand out from the rest of CIS countries, as evidenced by the data table below.

Table 2. GDP per capita by PPP and GDP per capita growth for 2000-2010

current international dollars

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Armenia	2033	2287	2635	3069	3485	4098	4784	5595	6102	5269	5357
Azerbaijan	2207	2461	2746	3096	3478	4496	6176	7860	8798	9593	10052
Belarus	5227	5618	6025	6622	7628	8541	9788	11103	12654	12820	13951
Georgia	2218	2394	2584	2951	3220	3611	4044	4687	4905	4733	5035
Kazakhstan	4792	5571	6216	6918	7743	8699	9839	10904	11370	11429	12050
Kyrgyzstan	1331	1422	1434	1553	1692	1728	1822	2019	2218	2285	2257
Moldova	1469	1597	1754	1916	2121	2362	2562	2725	3006	2856	3087
Russian Federation	6833	7361	8029	9237	10246	11853	15008	16802	20276	18878	19840
Tajikistan	859	957	1050	1169	1314	1481	1610	1746	1893	2027	2087
Turkmenistan	2058	2499	2898	3415	4056	4668	5296	6013	6700	7081	7628
Ukraine	3276	3696	3991	4496	5223	5583	6228	6959	7299	6310	6674
Uzbekistan	1447	1522	1589	1672	1831	2001	2190	2434	2666	2861	3090

2000=100, per cent

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Armenia	100,0	110,0	124,7	142,2	157,0	178,6	202,0	229,4	244,9	209,6	211,0
Azerbaijan	100,0	109,1	119,7	132,1	144,3	180,6	240,2	297,0	325,3	351,5	364,8
Belarus	100,0	105,1	110,9	119,3	133,7	144,8	160,7	177,1	197,6	198,3	213,8
Georgia	100,0	105,6	112,1	125,3	133,0	144,3	156,5	176,2	180,5	172,6	181,8
Kazakhstan	100,0	113,7	124,8	136,0	148,0	160,9	176,3	189,8	193,7	192,9	201,5
Kyrgyzstan	100,0	104,5	103,7	109,9	116,4	115,1	117,5	126,5	136,0	138,8	135,8
Moldova	100,0	106,3	114,9	122,8	132,3	142,5	149,7	154,7	167,0	157,2	168,3
Russian Federation	100,0	105,3	110,8	119,5	128,7	137,6	149,5	162,7	171,5	158,2	164,7
Tajikistan	100,0	109,0	117,6	128,2	140,2	152,9	160,9	169,6	179,9	190,9	194,7
Turkmenistan	100,0	118,7	135,5	156,3	180,5	201,0	220,9	243,6	265,7	278,2	296,9
Ukraine	100,0	110,3	117,2	129,3	146,0	151,0	163,2	177,1	181,8	155,8	163,2
Uzbekistan	100,0	102,9	105,7	108,9	115,9	122,6	129,9	140,3	150,4	159,9	171,1

Source: World Bank, International Comparison Program database

The table shows that among the CIS countries the greatest values of GDP per capita is in Russia, Belarus and Kazakhstan. The indicators of Russia and Kazakhstan are almost two times higher than the same indicator of Belarus. The CU is an open organization, but due to the economic heterogeneity of the countries of the CIS, further expansion of the Customs Union in the coming years is unlikely.

2. The proximity of the economic structure of countries, as well as the conditions for complementarity is the next important condition for the formation of economic alliance. The following table shows data characterizing the industrial structure of the economy of the three states before the formation of Customs Union.

Table 3. Industrial structure of the economy of Russian federation, Republic of Belarus and the Republic of Kazakhstan in 2010

as per cent to total

		Russian Federation	Republic of Belarus	Republic of Kazakhstan
1.	Production of goods	35,1	44,5	45,1
	<i>of which</i>			
	Industry	26,7	25,6	32,9
	Agriculture	3,5	7,7	4,5
	Construction	4,9	10,3	7,7
2.	Production of services	51,0	41,5	49,6
	<i>of which</i>			
	Transport	6,2	7,5	8,0
	Trade and sphere of circulation	15,7	10,6	13,0
	Communication	2,1	2,3	3,1
	Financial activity	3,8	4,1	3,6
	Other industries	23,2	17,0	21,9

		Russian Federation	Republic of Belarus	Republic of Kazakhstan
3.	Net taxes on products and imports	13,9	14,0	5,3
4.	Gross Domestic Product	100,0	100,0	100,0

Source: Interstate Statistical Committee of the Commonwealth of Independent States

The data in this table indicates that economic industry structures are quite close in these countries. We can therefore assume that the Customs Union between the countries will strengthen their economies on the basis of complementarity.

3. Rapid and successful establishment of the necessary institutions formation of a single trade area after the collapse of the USSR. After the collapse of the Soviet Union, the Commonwealth of Independent States (CIS) was formed; this had a huge role in the preservation of traditional economic and cultural ties between the countries and contributed to the development of integration processes between the newly independent states.
4. The formation of CU among the three countries was preceded by a lengthy rule-making work of the previously formed Eurasian Economic Community. In recent years, the EurAsEC had taken 13 different agreements regulating trade-economic relations between countries.

Taken together, these circumstances led to the formation of Customs Union between three countries, which characterize the onset of a new stage in the development of integration processes in the former Soviet Union. The Republic of Belarus, Kazakhstan and the Russian Federation in accordance with the Treaty of establishing a single customs territory and the formation of Customs Union as of October 6, 2007, formed a Customs Union. By the beginning of 2010, the legal functioning framework of CU was formulated; it consisted of 83 international agreements. They can be roughly be divided into 4 blocs:

- Agreements on measures of tariff and nontariff regulation (Agreement on common customs - tariff regulation, agreement on common measures of non-tariff regulation, agreement on application of special protective, antidumping and countervailing measures)
- Agreements in the sphere of technical regulation, the application of sanitary, veterinary, phytosanitary measures.
- Agreement on customs and tax administration. In particular, the Treaty on the Customs Code, an agreement on the principles of levying indirect taxes, the agreement on the definition of customs value.
- Institutional and technical arrangements: Agreement on Customs Union Commission, the agreement of the CU Secretariat, the agreement on the customs statistics conduct of foreign and mutual trade.

Most of the agreements and treaties had been ratified by the Customs Union by 1 January 2010, so the head of 3 states announced the Customs Union formation from that moment on. However, the main document, the Common Customs Code of the Customs Union, was still in the stage of preparation. It was drafted and ratified by the participant countries of the CU on July 1, 2010. This was the moment the CU became fully operational, and participant countries began to lead a single trade policy with other foreign countries, as well as with countries of CIS. They abolished customs clearance of goods at internal borders of the CU

Before the CU formation, all three countries operated their own customs duties when importing goods from the third countries, this indicates the existence of different trade regimes. The more liberalized trade regime existed in Kazakhstan. This is can be noticed by the data table below.

Table 4. Arithmetic means of customs duties in Kazakhstan and Russia before and after the formation of the CU

	Kazakhstan	Russia	Tariff of CU
Arithmetic means level	6.2	10.6	10.6
on industrial goods	4.6	9.4	8.5
on agricultural goods	12.1	15.1	16.7

per cent

The table shows that on average, after the CU imported goods from the three countries, it rose by 4.4 percentage points or more than 70% for Kazakhstan. Therefore, for the people of Kazakhstan the first months of the CU were proved to be painful, since most were accompanied by rising prices of goods imported from the three countries.

Table 5. Main trade partners of Kazakhstan in 2010

	Import to Kazakhstan		Export from Kazakhstan	
	billion US Dollars	as per cent	billion US Dollars	as per cent
Total	30.9	100.0	59.8	100.0
<i>Of which</i>				
Russia	12.1	39.1	5.4	9.0
EU	7.2	23.5	30.8	51.4
China	4.0	12.9	10.1	16.9
Other countries	7.6	24.6	13.5	22.6

As the data table shows, the main import in Kazakhstan came from three countries, including engineering products mainly from the EU, and consumer goods from China. The rise in Chinese imports prices adversely affected the welfare of the poor Kazakh society.

As expected, gradually, the imports from three countries were replaced with imports from partner countries of CU. As a result, the trade with the countries of the CU in 2010 compared with 2009, increased by 40.3%.

Customs union operates for more than a year, so there are opportunities to summarize the first year. The following table presents data describing the results of foreign economic activity in Kazakhstan in the first half-year of 2011, compared to the same period of last year.

Table 6. Kazakhstan foreign trade turnover*million US Dollars*

	January-June, 2011	January-July, 2010	Rate of development In %
The foreign trade turnover	71489	50678,5	141,1
CIS countries	19728	12782,2	153,3
Other countries	51761	37896,3	136,6
CU countries	15344,7	10096,1	152
Export			
CIS countries	7347,1	4840,6	151,8
<i>Of which</i>			
Russia	4600	3252,2	141,4
Belarus	62,7	64	98
Total CU	4662,6	3316,2	140,6
Other countries	42616,7	29846	142,8
Import			
CIS countries	12381	7941,6	155,9
<i>Of which</i>			
Russia	10358,1	6491,2	159,2
Belarus	324	288,7	112,2
Total CU	10628	6779,9	157,6
Other countries	9144,3	8050,2	113,6

The table shows that trade between partner countries in the CU began to grow. At the same time Kazakhstan began to import more from Russia, however trade with the Republic of Belarus has not undergone significant improvement. Therefore, it is too early to make bright conclusions about the benefits of Customs Union.

B. THE FORMATION EXPERIENCE OF THE CUSTOMS UNION MANAGEMENT INSTITUTIONS

Currently, the newly-created Union is occupied with the formation of Customs Union institutions of governance. The supreme body of the customs union is the Interstate Councils of Heads of States and Heads of Governments where decisions on strategic issues are made upon the consensus.

The main tasks of the Commission of the CU are to create conditions for free trade between Kazakhstan, Russia and Belarus, as well as maintaining equal trade policies with third countries are solved at the level of the Customs Union, a permanent governing body. All decisions of the alliance are taken by consensus among the vice-premiers of the three states, and in case of disagreement on any issue of one of the member of the commission the

decision is not made. The main legal document of the Customs Union is the Common Customs Tariff, which came into force on 1 January 2010.

It should be noted that at the time of the Customs Union creation, Belarus, Kazakhstan and Russia had approximately 40 percent of the fees coinciding, hence, it was necessary to unify about 60 percent of the customs duties. The governments of Kazakhstan, Belarus and Russia followed the following criteria: availability of own production and import structure. During the work process on a regular basis, consultations were held with representatives of local business on the changes in rates of import customs duties. As a result, Kazakhstan has reserved the right to apply a lower rate of customs duties on imports of 400 commodities during a transitional period. The transition period is provided mainly in respect of those goods whose production is planned for the program to diversify the economy.

In the alliance countries, not only the identical customs duties for import from third states, but also unified measures of non-tariff regulation and rules in 12 spheres of service will be applied. As the countries of the alliance established a common customs border, one of the key points was the question of enrollment and distribution of import duties in the budgets of Belarus, Russia and Kazakhstan.

According to the decision of the CU Commission of March 25, 2010 about the mechanism of enrollment and distribution of the import customs duties (other duties, equivalent taxes and charges), the sum of the import customs duties for each participant of the customs union (CU) are distributed as follows: Belarus – 4.70, the Republic of Kazakhstan – 7.33%; the Russian Federation – 87.97%.

The economies of the Republic of Kazakhstan (RK), the Russian Federation (RF) and the Republic of Belarus (RB) are at different stages of reforming. Thus, the level of economy diversification in Russia and Belarus is higher than in Kazakhstan, therefore the benefits of the Customs union for these countries will considerably exceed their expenses. The Customs

Union is not homogeneous. Russia and Belarus are the countries in which manufacture has been developed since the time of the Soviet Union. Kazakhstan was the republic to provide the enterprises of the Union with raw materials: oil, meat, wool, leather, grain.

Kazakhstani industrial enterprises even today do not really start production from scratch. The production is assembled from components and raw materials made in China, Europe and Russia. In other words, it is “screwdriver assembling”.

Prior to joining the Customs Union trade policy in Kazakhstan was much softer, as the product range was not as great as in Russia, and imports were relatively high. Kazakhstan now has a policy to stimulate the development of its own production. The Republic of Kazakhstan has essentially lowered the tax rates:

- VAT rates in the RK – 12%, in the RF – 18% and in the RB – 20%. But Russia has not made the decision on the reduction of the VAT rate to 12% yet;
- VAT return in the RK – 18 days for small and medium business, 60 days for large enterprises, in the RF – 183 days;
- the corporate income tax (the profit tax in the RF) has been decreased from 30% to 20%, the social tax – 11%, the individual income tax – 10%. This is one of the most preferential tax systems in the world.

Nowadays, the corporate income tax rate in the RF is 20%, in Belarus – 24% of the individual income tax: in the RF – 13%, in Belarus – 12%.

In addition, in Kazakhstan the burden on a few raw materials companies increased at the expense of the tax on mineral extraction. During 2009, especially the first half, when commodity prices were down, the country has weakened the tax regime, but in 2010 again returned to a rigid timeline.

In the RK, there are a number of raw materials extraction contracts which are beyond the Tax code, a number of contracts on PSA (Product Share Agreements) which were signed

before 1995 and in a different legal system. There are some legal issues to be reviewed in the negotiation process. There is a good example of the Kashagan field contract in RK, where, after the negotiations, we have found a balance of interests and came to an agreement. New agreement was signed. In all relationships with investors, including raw materials, Kazakhstan remains within the legal field and in the balance of interests.

The goods turnover with Russia testifies the character of Kazakhstan's trade and economic relations with its partners in the Customs union. In 2009, the trade volume between the two countries, having reduced in comparison with the pre-crisis 2008 in one third, was \$12.44 billion. The Russian export was \$8.9 billion, and the import from Kazakhstan – \$3.55 billion.

Table 7. Economic relations between the Republic of Kazakhstan, the Republic of Belarus and the Russian Federation

million US Dollars

	Republic of Belarus				Russian Federation			
	Turnover	Export	Import	Balance	Turnover	Export	Import	Balance
2000	40.9	12.5	28.4	-15.9	4 190.6	1 751.4	2 439.2	-687.8
2001	64.5	44.9	19.6	25.3	4 651.5	1 759.5	2 891.9	-1 132.4
2002	36.9	8.4	28.5	-20.1	4 046.6	1 497.8	2 548.8	-1 051.0
2003	54.0	14.9	39.1	-24.2	5 249.9	1 967.8	3 282.1	-1 314.3
2004	81.0	13.0	68.0	-55.0	7 650.6	2 838.1	4 812.5	-1 974.4
2005	114.8	23.5	91.3	-67.8	9 518.3	2 927.1	6 591.3	-3 664.2
2006	214.6	31.1	183.5	-152.2	12 804.0	3 731.0	9 073.0	-5 342.0
2007	334.3	73.3	261.0	-187.7	16 286.0	4 659.0	11 627.0	-6 968.0
2008	513.0	151.7	361.3	-209.6	19 993.7	6 228.1	13 765.6	-7 537.5
2009	421.8	54.7	367.1	-312.4	12 443.5	3 547.0	8 896.6	-5 349.6

The data of Table 1 show that in 2000-2009 the volume of Kazakhstan's export to Russia increased 2 times, the volume of import from Russia – 3.6 times. In this case the balance has the tendency of growth in Russia's favor. In a Customs Union, given the scale of Russia's economy this trend will grow, while reducing imports from third countries.

Thus, the Kazakhstani companies will have hard times, as competition from the Russian companies will increase. If in the sphere of the food market there are the necessary conditions for competition, there are serious fears in non-food group of goods, since in a

considerable number of products, especially industrial goods, Kazakhstan is inferior to the competitors from Russia and to the countries of South-East Asia. The given circumstance causes the increase of the production efficiency in this sphere, as the Russian enterprises are in an obviously more favorable position in comparison with Kazakhstan and Belarus due to the cheaper energy sources. Now, the Republic of Kazakhstan Government is undertaking a number of steps for the adaptation of Kazakhstan manufacture to work in new conditions.

A crucial factor will be the uses of additional revenue. It is important to focus these resources on supporting existing and creating new high-technologies, oriented to the needs of the Customs Union and international markets. The government is considering a wide toolkit of such measures. It is pointed subsidizing of commodity producers for the purpose of increasing their competitiveness within the limits of the Customs union and beyond them; providing access for the enterprises to credit resources and decreasing the burden of interest rate; granting additional tax stimuli to the non-raw sector; creating an infrastructure for the purpose of investment attraction. Along with the new opportunities, there are also new challenges. To keep the markets and to occupy new export niches, it is necessary to raise the requirements to the quality of the goods and competitiveness of Kazakhstan enterprises. Therefore, the priority of updating and modernizing the existing enterprises and creating new hi-tech manufactures, introducing advanced quality control systems rises. The unique branches or goods of Kazakhstan economy will probably be the most viable, and they will not be monopolized by foreign manufacturers with the help of higher capital expenses. The uniqueness or novelty of a market niche can protect certain manufacturers from many negative consequences of the partners' competition and promote their stability in the new conditions of world economic communications.

On the whole, Kazakhstan's participation in the Customs union provides big opportunities for the national economy and is a step towards further economic integration

between the countries. In carrying out economic policy within the Customs Union it is necessary to significantly raise the quality of managerial decision making, taking into account the benefits and drawbacks of a small country.

A small country disadvantages: (i) Economy size. The Kazakhstan economy about 10 times is less, than economy of Russia. Therefore as small country it loses out to 8-10 points in the basic capital investments distribution for a greater production and service volume. Thus, Russia will always have the competitive advantage of economies of scale that will be manifested in the relatively low production costs, compared to that of Kazakhstani's costs. (ii) Minor bargaining power. In the process of negotiations between us and the third countries, Russia wins as a country with vast territory (transport corridor section), its large market and political power. Therefore, the dominant role of dealing with almost all the questions belongs to Russia.

A small country advantages: (i) Management. Minor and more centralized systems management: Russia has extensive regions autonomy and more levels in comparison with Kazakhstan. Countries with small economies, unitary political system has great advantages in the operational management decisions, compared with a country with a federal political system. With its advantage of rapid response to various external challenges, Kazakhstan can multiply competitive advantage of its national economy. (ii) Geostrategic/political: Russia has not been interested in the development of independent processing industry in Kazakhstan creating competition to the Russian producers for a long time. The situation changed only when Kazakhstan began to reorientate for the partnership with EU, China, Japan, Korea and others in this sphere by forming joint ventures (JV). So Russia, being apprehensive about passing the regional power by, started to establish the machine-building equipment assembly factories jointly with Kazakhstan enterprises.

IV. ANALYSIS OF THE CUSTOM UNION PROBLEMS. DEVELOPMENT OF APPROPRIATE RECOMMENDATIONS FOR THE REPUBLIC OF KAZAKHSTAN

For a viable integration policies within the Customs Union it is necessary to recognize a number of existing problems, under the influence of which Kazakhstan will develop its relations with the participating countries on the long term basis.

1. The currency regime within which the import customs income will be converted. The fact is that, on crossing the borders of every country, the customs rate is calculated using the same tariff but in local currency. The import duties will be included to the budgets of all the three countries regardless of the territory where this product will be sold, i.e. each of the CU participants includes the custom rates to its account and in its own currency. Because of economies of scale and the immensity of the territory of nearly 90 percent, the external revenue is mostly on the behalf of Russia, which suggests their initial calculations and enrollment in Russian rubles. Consequently, the greater part of these instantaneous conversions will be headed from rubles to Kazakhstan's and Belarus's currencies. In other words, Central Bank affects the actual Kazakhstan's share in the structure of the incoming CU payments through the exchange rate anyway.
2. With the creation of the CU, during the initial stage, the customs duties in Kazakhstan will only be reducing. Due to the Customs Union functioning, the budget income will be reduced by 70 billion tenge due to the abolition of import duties for mutual trade between the countries participating in the CU. Originally, the macroeconomic proportions of the CU participants were on the sharing basis, such as national GDP values. Russia's GDP overcomes Kazakhstan's GDP by 14 times and Belarus's by 34 times. However, the structure and national import volume of these three countries are also completely different. If we count the ratio of our economies, then Russia's import

from abroad is substantially less than Kazakhstan's. In 2009, Russia's gross import value was about 167.8 billion dollars, while Kazakhstan imported products with the total price of about 28.4 billion dollars. These figures are explained by the fact that we do not have our own machine engineering, whereas machines, gas and oil equipment and mechanisms are more than 40 per cent in Kazakhstan's import structure. The import volumes of the two countries are different sevenfold, and the rate of the duties sharing almost 14 times. The import policies of the countries participating in the CU are totally different and it often changed. For example, in Kazakhstan import stimulation is actively used to prevent inflation, whereas in Russia the import is pretty clamped to support the local companies.

3. In some sectors of the market, the creation of the Customs Union will lead to job losses. Due to the fact that starting from July 1, 2010 customs clearance will be cancelled, there will be no need for the services of customs brokers specializing in clearing cargoes transported between Kazakhstan, Belarus and Russia.
4. Due to the absence of a free-warehouse practice in Russia and Belarus, this regime will be called off. Meanwhile this exact customs regime had an important role in shaping the technological sectors. It was exactly where Kazakhstan's leading electro technical, engineering and car building companies appeared. Cancellation of the free-warehouse regime means that the products will become more expensive by the amount of VAT, whereas the competitors will enter Kazakhstani market without VAT.
5. Western banks have closed the commercial funding to all Kazakhstan banks. Russian manufacturers' commercial funding limits were and are still open. This is one of the factors which form the competitive advantage of Russian products price, moreover it is not considered when evaluating the influence of the Customs Union on the domestic processing industry.

6. Smuggling from third countries will increase.
7. The recycling sector of our industry is not developed enough, which will let the Russian manufacturers to oust the local ones. Mainly it refers to the food industry. Meat and milk factories, cheese and sausage manufacturing, poultry industry – in Russia all these are highly developed companies with vertical integration and holding structure.
8. Conditions worsening for the consumer who is deprived of any choice. It especially appears in the car sector, where the ‘new’ second-hand cars segment in fact will be cut off. The position of the small business, whose import and export operations were closely connected with foreign countries, will significantly change. It is not a secret that free market’s prices for imported goods went higher even before new customs duties started to work. That was the market’s reaction to the uncertainty, and now the worst expectations of self-employed businessmen are coming true. Strict import limits for a businessman were established (30 kg now versus 2 tons before), and duties for footwear, clothing and food have increased. This condition is especially difficult for the so-called shuttle-traders. All these factors inevitably force the inflation tendencies. Russian goods, whose prices are higher, influence inflation, as an example we can take gasoline and clothing.
9. External trade policy. Russia has many obligations – around 90 contracts and agreements. Belarus has less; we have less than Belarus, which means we will have to work hard on the unification of our external trade policies.
10. Local businesses will have to work very hard to withstand the pressure of Russian imports. “It is going to be quite difficult. Today we suppose that the imported goods will be cheaper in the beginning, and we will have to work hard so that our products, whether it is meat, milk, fish or grains, could be competitive”. Agricultural business,

according to Mr. A. Darinov, the president of the Farmers Union, Kazakhstan has only begun to integrate and organize, whereas in Russia this process began in the early 2000s. Even the relatively successful companies, such as the participants of “KazAlco” (fair alcohol producers association), are alarmed. They asked to delay the vodka tax rate increase to the Russian level.

According to the association leader Amirzhan Kaliyev, the vodka tax rate increase from 50 eurocents to almost 2 Euros per liter will bring this market to the increase of the minimal retail price and will expand the black alcohol market. Herewith, the local professional manufacturers will be price-pressured by Russian holdings manufacturing products of not quite good quality.

Thus, based on lessons learned, the modern realities and prevailing patterns, we can see the fact that the priority of a geointegration approach to build partner relations with the CU participating countries, needs an effective correction of the conceptual basis of the cooperation and new objectives for Kazakhstan at the Post-Soviet territory. One of the main objectives should be the creation of stable and maximally favorable conditions for Kazakhstani business at the Post-Soviet territory with the help of an interconnected system of trade policy and integration agreements with the CIS countries. We should focus on implementing of the long-term joint projects with CIS countries, the goal of which should be the rational use of resources and the available natural advantages in order to enhance the sustainability of economic space in general.

An adequately implemented geointegration model is preferable for Kazakhstan and for the other CIS countries too. The basis of such a model is the opportunities and advantages of using the CIS’s natural, intellectual and labor resources in the framework of the common economic space. In long perspective, the Customs Union countries with their economic, technological and resource potential, market capacity, transport communication and industry

connections configuration will be exactly the ones capable of providing a rational integration of the CIS economic space into the world economy, without destabilizing the technological, economic and organizational structures of these countries. At the same time the maintaining of the CIS countries market, Kazakhstan-oriented (especially the manufacturing area), and the use of their resource potential are essential for the modernization of the Kazakh economy.

It is necessary to discuss and jointly elaborate the Post-Soviet countries new relations doctrine. It should be in sufficient details reflecting the ideas of the partner countries about the economic community configuration they intend to create.

APPENDICES

APPENDIX 1.

Figure 1. Gross National Income (GNI) per capita by purchasing power parity (PPP) for 2010

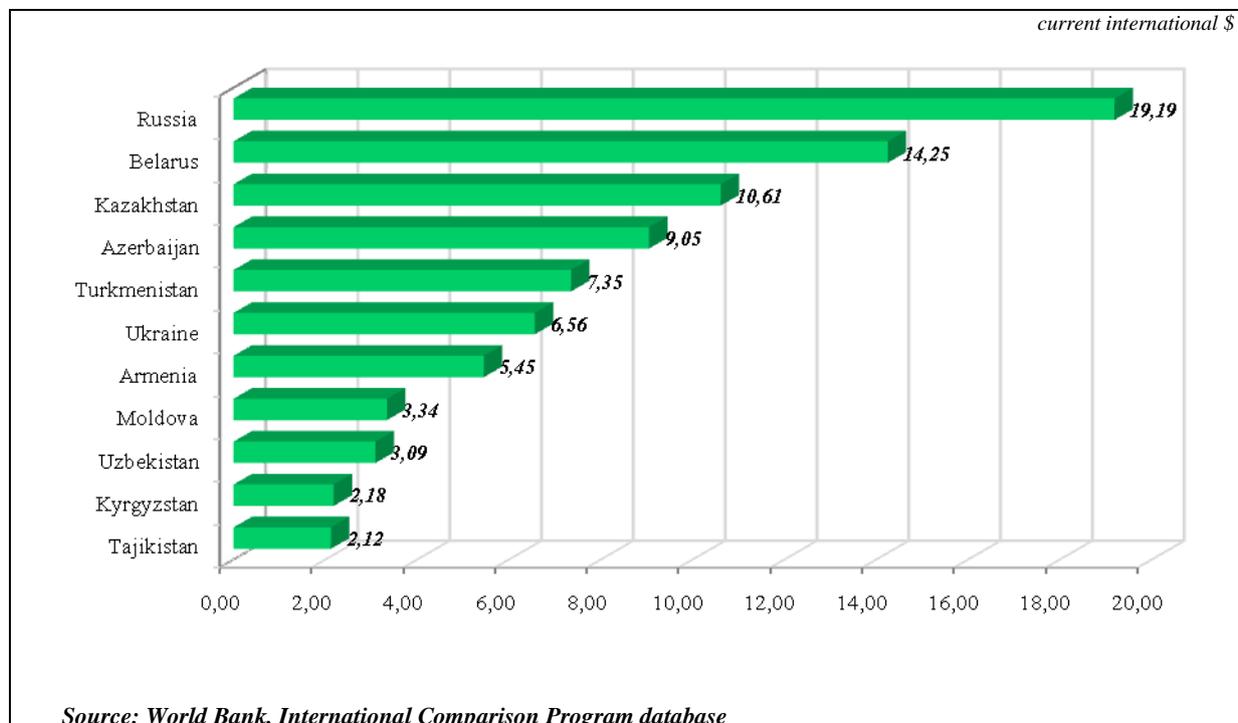


Figure 2. Gross Domestic Product (GDP) growth at constant prices for 2010

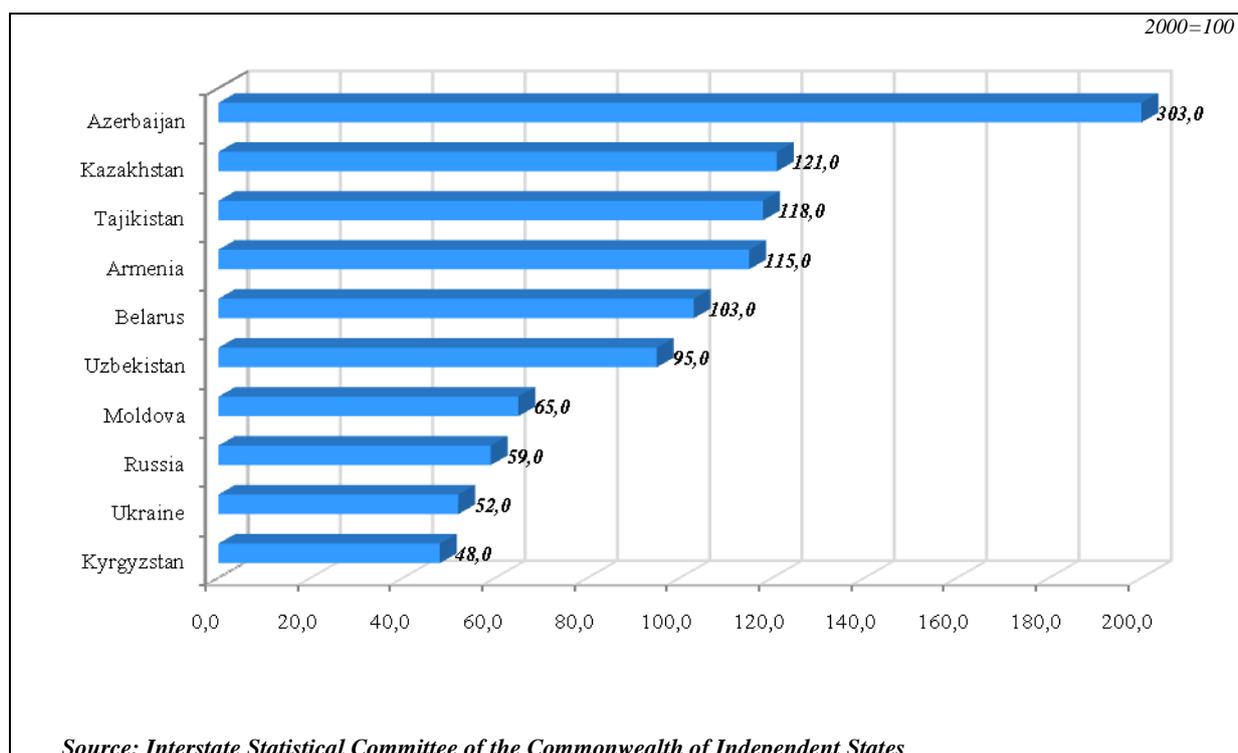


Figure 3. Share of CIS countries in world population and mineral reserves

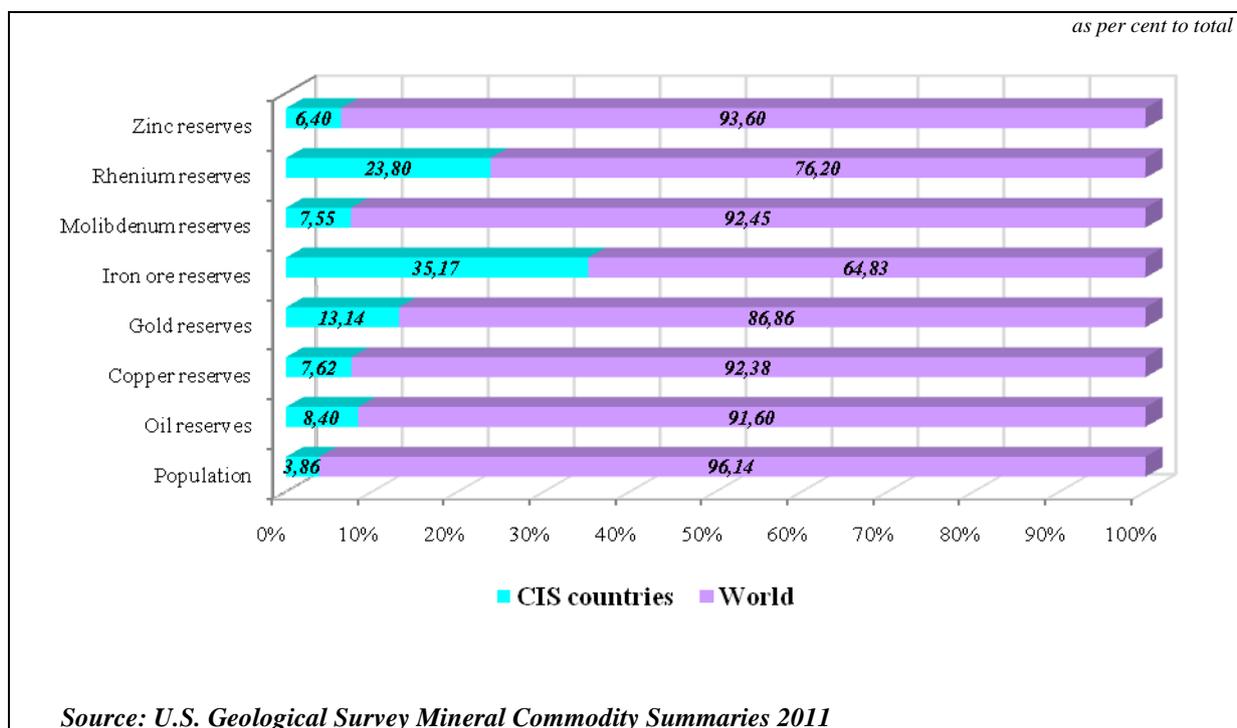
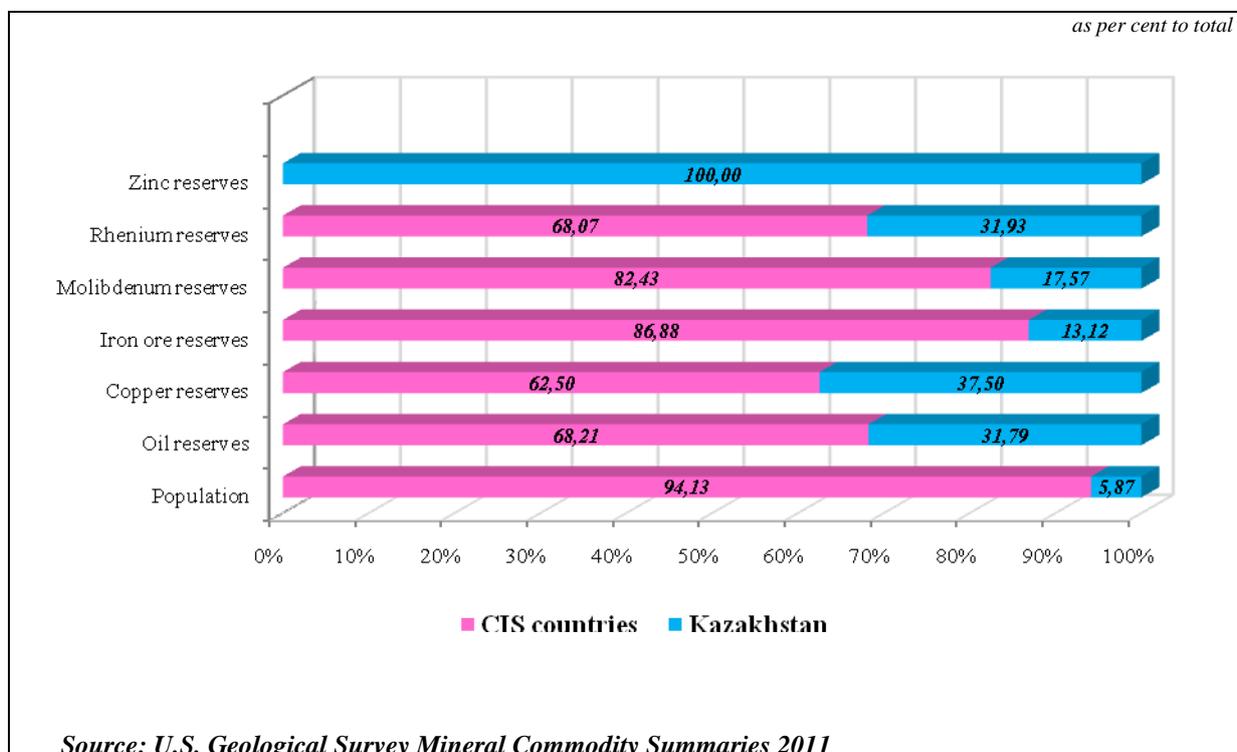


Figure 4. Share of Kazakhstan in CIS countries population and mineral reserves



APPENDIX 2.

Table 8. Exports of goods and services as per cent of GDP for 1991-2010

per cent of GDP

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	19,27	19,81	19,67	20,33	21,46	21,77	22,69	22,75	22,84	24,84
Armenia	40,75	39,82	47,22	39,33	23,93	23,24	20,27	19,00	20,76	23,38
Azerbaijan	45,65	86,20	57,43	24,72	27,90	29,52	29,02	22,70	27,98	39,04
Belarus	36,85	59,29	67,64	71,27	49,67	46,35	59,86	59,05	59,20	69,21
Kazakhstan		74,00	37,90	37,06	38,97	35,27	34,92	30,34	42,46	56,60
Kyrgyzstan	35,33	35,59	33,53	33,76	29,47	30,74	38,29	36,48	42,20	41,85
Moldova	32,43	38,94	21,12	38,24	49,35	55,27	54,79	48,53	52,09	49,78
Russian Federation	13,27	62,32	38,20	27,76	29,29	26,07	24,73	31,22	43,22	44,06
Tajikistan	33,20	9,68	28,55	43,04	65,59	76,59	87,24	48,92	66,07	98,76
Turkmenistan	38,71	67,14	84,70	84,96	83,97	74,58	42,69	32,66	56,14	95,50
Ukraine	26,12	23,98	25,88	35,39	47,07	45,65	40,59	41,89	53,70	62,44
Uzbekistan	35,28	27,03	33,72	16,78	27,95	27,69	27,04	22,50	18,15	24,59

per cent of GDP

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
World	24,16	24,04	24,24	25,75	26,78	28,17	28,69	29,33	24,86	
Armenia	25,47	29,36	32,15	27,38	28,81	23,36	19,19	15,05	12,24	12,24
Azerbaijan	40,92	42,77	42,01	48,79	62,94	66,51	68,13	69,47	52,49	47,57
Belarus	66,75	63,63	65,16	67,89	59,80	60,06	60,94	60,94	50,50	54,44
Kazakhstan	45,90	46,99	48,42	52,50	53,54	51,15	49,44	57,22	42,01	44,86
Kyrgyzstan	36,72	39,58	38,68	42,56	38,73	41,72	44,01	55,62	48,68	55,54
Moldova	49,85	52,74	53,48	50,71	51,14	45,26	47,45	40,82	36,60	41,54
Russian Federation	36,89	35,25	35,25	34,42	35,20	33,73	30,16	31,31	27,96	28,67
Tajikistan	67,99	65,46	63,38	58,31	26,01	23,19	20,62	16,76	13,41	15,20
Turkmenistan	81,39	69,05	62,31	61,65	65,03	73,09	75,39	72,54	81,61	
Ukraine	55,46	55,09	57,75	61,21	51,48	46,62	44,84	41,75	46,38	46,71
Uzbekistan	28,08	30,81	37,25	40,21	37,85	37,14	39,67	43,52	36,38	31,47

Source: World Bank national accounts data, and OECD National Accounts data files, WDI database

Table 9. Imports of goods and services as per cent of GDP for 1991-2010*per cent of GDP*

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	19,38	19,75	19,62	20,17	21,24	21,49	22,26	22,40	22,68	24,93
Armenia	60,12	61,26	60,75	73,10	62,19	55,99	58,27	52,84	49,80	50,54
Azerbaijan	41,20	54,60	75,99	30,63	41,51	55,55	53,02	54,53	41,88	38,38
Belarus	33,41	57,84	83,37	84,10	54,05	50,42	65,66	63,91	61,63	72,40
Kazakhstan		75,33	46,74	47,12	43,55	36,00	37,44	34,86	40,12	49,10
Kyrgyzstan	36,63	47,59	41,18	40,07	42,36	56,56	46,19	58,03	57,00	47,58
Moldova	33,98	40,62	29,72	44,12	57,96	73,92	74,29	75,04	67,42	75,43
Russian Federation	12,99	48,25	30,49	23,20	25,89	21,85	22,53	24,55	26,17	24,03
Tajikistan	32,22	12,55	41,64	54,62	71,94	80,05	93,90	58,01	67,51	100,91
Turkmenistan	26,79	38,18	61,37	85,30	84,21	75,41	68,55	70,81	83,49	80,94
Ukraine	23,94	21,99	26,19	38,56	50,16	48,20	43,65	44,16	48,25	57,41
Uzbekistan	39,14	43,18	30,53	20,55	28,05	34,18	30,00	22,80	18,41	21,52

per cent of GDP

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
World	24,25	23,74	24,07	25,70	26,91	28,30	28,62	29,86	24,85	
Armenia	46,15	46,59	50,04	42,13	43,23	39,25	39,15	40,66	37,19	36,58
Azerbaijan	37,32	50,05	65,55	72,72	52,90	38,76	28,51	24,78	24,77	23,21
Belarus	70,30	67,37	68,99	74,25	59,09	64,23	67,21	68,66	61,82	65,32
Kazakhstan	46,95	47,04	43,05	43,91	44,73	40,48	42,75	37,05	33,79	26,63
Kyrgyzstan	37,02	43,34	45,25	51,26	57,71	79,03	88,53	92,10	78,83	76,62
Moldova	73,53	77,93	87,25	82,00	91,67	91,90	97,14	93,60	72,93	82,23
Russian Federation	24,22	24,46	23,88	22,16	21,51	21,00	21,54	22,07	20,53	20,46
Tajikistan	78,36	76,09	73,49	69,91	52,80	57,16	68,69	71,98	56,34	61,05
Turkmenistan	76,86	53,41	56,61	59,53	47,78	34,92	38,70	45,72	49,49	
Ukraine	53,83	50,71	55,18	53,70	50,64	49,47	50,36	47,83	48,11	48,89
Uzbekistan	27,65	29,35	30,55	32,65	28,66	31,49	36,53	40,79	36,44	30,93

Source: World Bank national accounts data, and OECD National Accounts data files, WDI database

Table 10. Annual growth of exports of goods and services for 1991-2010*per cent*

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	4,04	4,31	4,11	9,45	9,29	6,71	10,00	4,42	5,34	12,60
Armenia	18,50	-58,80	-50,00	15,90	-51,80	7,20	-6,50	-1,60	13,70	18,90
Azerbaijan					-18,53	-0,33	-1,78	31,56	15,06	-1,71
Belarus	-1,10	-34,00	-22,40	-1,20	-22,00	7,80	33,90	-8,30	7,00	12,70
Kazakhstan	-9,00	-11,50	-6,80	-11,00	5,00	2,00	1,20	-11,90	12,70	26,20
Kyrgyzstan			23,88	-18,97	-17,36	6,70	21,05	-8,74	-10,40	10,51
Moldova			-45,83	25,44	29,20	10,74	1,66	-26,41	2,67	10,42
Russian Federation	-29,98	-28,68	2,11	12,57	11,54	3,70	-0,50	1,90	11,20	9,50
Tajikistan	-7,10	-29,00	-18,59	3,11	-7,69	-2,79	12,55	-7,47	2,97	2,82
Turkmenistan		73,62	25,31	-19,20	-4,20	-14,87	-41,06	-18,63	61,67	101,63
Ukraine	-17,20	-47,30	-10,80	10,40	1,10	16,90	-5,40	1,20	-2,20	21,50
Uzbekistan					5,56	10,34	6,29	-7,29	0,14	3,83

per cent

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
World	0,55	3,99	5,53	11,23	8,09	9,99	7,97	3,40	-11,15	
Armenia	27,00	35,80	29,10	-1,70	19,30	-7,30	-3,51	-13,08	-32,77	1,74
Azerbaijan	26,62	10,55	0,53	11,67	48,86	40,91	44,13	10,37	2,85	5,85
Belarus	13,09	8,41	8,59	13,50	-2,70	8,17	5,60	2,10	-8,20	6,00
Kazakhstan	-1,80	16,60	7,50	11,20	1,10	6,50	9,00	0,80	-6,20	-1,53
Kyrgyzstan	-3,24	8,08	5,29	12,81	-10,98	-1,44	25,33	16,87	-6,99	3,65
Moldova	15,10	20,08	18,97	8,31	18,54	-0,11	15,05	-11,11	-7,81	12,82
Russian Federation	4,22	10,28	12,60	11,80	6,50	7,30	6,30	0,60	-4,70	4,60
Tajikistan	-14,50	7,60	29,50	22,60	2,90	6,42	-1,35	16,04	7,11	6,64
Turkmenistan	3,71	7,09	20,89	13,20	25,00	42,54	27,10	29,29	22,15	
Ukraine	2,90	9,10	7,40	21,30	-11,20	-5,60	3,20	2,46	-25,60	6,22
Uzbekistan	0,25	-9,60	7,97	20,95	5,24					

Source: World Bank national accounts data, and OECD National Accounts data files, WDI database

Table 11. Annual growth of imports of goods and services for 1991-2010*per cent*

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	0,94	4,22	3,18	9,51	9,75	7,25	9,69	5,29	6,24	12,68
Armenia	32,10	-57,10	-44,80	27,10	-32,60	-0,60	11,60	-4,90	-1,90	7,20
Azerbaijan					17,87	46,48	28,01	19,93	-20,61	-3,85
Belarus	0,20	-43,00	-20,60	-11,40	-31,40	10,80	26,50	-1,90	-0,20	13,40
Kazakhstan	-29,30	-22,30	-25,20	-5,60	-19,90	-17,10	7,50	-7,20	-18,30	28,00
Kyrgyzstan			6,86	-22,17	-18,45	6,89	-20,18	1,55	-4,92	0,39
Moldova			-26,93	2,83	26,46	31,01	12,30	-10,38	-20,00	26,06
Russian Federation	-46,42	-33,12	-10,16	4,22	21,16	1,30	0,40	-17,40	-17,00	32,40
Tajikistan	-7,10	-29,00	22,43	-25,00	0,89	-19,12	-5,24	11,10	3,07	10,41
Turkmenistan		42,67	59,66	11,97	-4,33	-14,16	-6,40	9,86	10,91	14,90
Ukraine	-25,90	-47,10	-34,70	35,90	-4,60	15,80	-4,60	2,00	-16,70	23,80
Uzbekistan					9,37	33,89	-0,23	-19,73	-7,67	-3,76

per cent

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
World	0,54	3,35	6,06	11,67	8,04	9,26	7,17	2,48	-11,54	
Armenia	6,40	18,90	26,50	-2,90	15,10	3,80	12,99	7,28	-20,96	0,52
Azerbaijan	8,40	48,46	42,16	23,80	10,94	14,31	14,05	13,17	-5,28	8,43
Belarus	12,78	10,20	13,40	19,35	-1,10	21,59	7,33	16,50	-8,60	3,44
Kazakhstan	-1,50	3,10	-7,60	14,90	12,50	12,20	25,80	-11,50	-15,90	-21,28
Kyrgyzstan	-13,84	13,08	16,00	16,27	6,47	36,45	30,62	22,57	-8,38	2,49
Moldova	12,04	18,01	28,57	0,35	24,63	10,89	14,59	-3,83	-19,37	5,11
Russian Federation	18,72	14,59	17,30	23,30	16,60	21,30	26,20	14,80	-30,40	17,86
Tajikistan	-14,50	11,10	23,70	25,90	16,50	-4,29	1,73	17,60	7,68	7,14
Turkmenistan	15,57	-12,29	42,01	20,30	-4,89	-7,31	36,56	58,76	17,53	
Ukraine	2,20	3,70	3,30	15,50	2,10	6,80	19,90	12,51	-38,60	8,75
Uzbekistan	9,65	-8,66	1,30	18,69	4,40					

Source: World Bank national accounts data, and OECD National Accounts data files, WDI database

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