

Kazakhstan chooses the Customs Union over the WTO

On 12 June President Nazarbayev announced that Kazakhstan would be joining the WTO as a member of the Customs Union with Russia and Belarus. This move followed a similar statement made by Russian Prime Minister Putin earlier that week. Russia and Kazakhstan suspended the WTO accession talks, which they plan to resume as a team in January 2010. The EU was taken aback by these sudden developments: both countries gave up on the results of long years of negotiations and efforts to join the organization –16 years for Russia and 13 in the case of Kazakhstan– without any preliminary warning. Several days before Putin's announcement, Russia's minister of economic development, speaking at the St. Petersburg Economic Forum, said that Russia would join the WTO by the end of the year. The Kazakh government also promised to complete negotiations relative to WTO accession in December 2009.

Until the decision was made, Kazakhstan had been following two separate negotiating tracks: one concerning the creation of the Customs Union and the other concerning WTO membership. The Customs Union with Russia and Belarus is conceived as the core of economic integration in the framework of the Eurasian Economic Community. The project, championed by Russia, enjoyed the full political support of Kazakhstan's leadership'. However, obstacles to finalizing a unified customs tariff were considerable and experts remained sceptical about the dates officials had provided for the start of the union.

The financial crisis that began in 2007 triggered even more rhetoric concerning the necessity of faster integration, at the same time sparking doubts as to

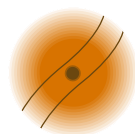
its feasibility in the light of ever increasing protectionism in the economies of prospective member countries. In May 2009, at the meeting of the CIS Council of Heads of States, a decision was taken to adopt a unified customs tariff for the Customs Union by 9 June 2009 (the earlier agreement was for 1 January 2010). It was also noted that 12% of positions had yet to be agreed upon. In May, then, there were signs that a decision would be taken at the highest political level to accelerate the integration process.

On 9 June at the EurAsEC Interstate Council meeting, the adoption of the unified tariff was announced, although no specific details were provided. It is not clear how the most difficult positions were settled over such a short period of time. It is also worth noting that at the same time Russia and Belarus were embroiled in a trade dispute over the export of Belarusian dairy products to Russia.

As for the WTO accession, it was announced that Customs Union member states would resume negotiations in January 2010. While Russia and Kazakhstan had been making progress, Belarus suspended negotiations with the organization in 2005 and is unprepared to move onto a faster track. Some experts estimate that if Russia, Kazakhstan and Belarus decide to join the WTO as a Customs Union, the process might take up to 10-12 years, which means that this move would slow down the further integration of Russia and Kazakhstan in the world economy.

What triggered the decision made by Kazakhstan to choose the Customs Union over the WTO? One possible explanation is that opening up the Kazakh economy in its present state –either now or in the near future– may well damage barely surviving local industries. Another is that a choice had to be made

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between forming a Customs Union with Russia or individual fast-track accession to the WTO. The strengthening of the Chinese economy against the weakening of other economic centres may well have encouraged the Kazakh leadership to prefer vulnerability to Russian economic expansion over Chinese expansion (China is a WTO member). It should be noted that Kazakhstan recently borrowed USD10 billion from China –its biggest loan ever–to support energy and infrastructure projects.

The ongoing anti-corruption campaign: interests and effects

Political life in Kazakhstan has been shaken by a spate of arrests. On 21 May Mukhtar Dzhakishev, the head of the national nuclear agency Kazatomprom, was fired and then arrested by National Security Committee representatives on charges of stealing state property. Three vice-presidents of the company were also arrested. June brought more high-level arrests of executives (most prominently, Serik Turzhanov, an outspoken vice-president of the Chamber of Commerce) and officials from the Ministry of Environment, the State Statistics Agency, the Ministry of Defence, the Ministry of Transport and Communications, and the Ministry of Agriculture.

These arrests sent shock waves among national political and business elites. The arrest of Kazatomprom top managers had a particularly strong impact. Mukhtar Dzhakishev was considered one of the country's most respected and successful senior managers and the man who had revived Kazakhstan's uranium industry and turned Kazatomprom into one of the world's leading uranium producers.

There were two lines of speculation concerning the causes of the arrests. The financial and economic crises had led to a redistribution of assets among financial-industrial clans in Kazakhstan. Kazatomprom was too successful an asset not to cause competition. Another explanation was the alleged decision by the

Kazakh leadership to improve relations with Russia by removing Mukhtar Dzhakishev who was consistently and successfully trying to narrow Kazakhstan's uranium dependence on Russia (the firing and arrest of Dzhakishev coincided with the visit of Prime Minister Putin to Astana).

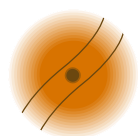
In an unusual show of solidarity, the political opposition and business community representatives made statements supporting Mukhtar Dzhakishev. Twenty-two high profile executives signed a letter to the president stating that the arrest was having a damaging impact on Kazakhstan's business climate, that Kazakh entrepreneurs no longer felt themselves to be protected by the law, and that state agencies had launched "a large-scale offensive targeting business."

Corruption in Kazakhstan is broadly perceived as pervasive and it is generally agreed that steps must be taken to tackle this problem if the country wants to move forward. But although these arrests are said to be part of the anti-corruption campaign, they are nonetheless considered to be selective and geared to pursuing other interests rather than cleaning the system.

Between the CSTO and NATO

On 14 June the Collective Security Treaty Organization (CSTO) member states –Armenia, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan–signed an agreement in Moscow on the creation of Collective Rapid Reaction Forces. Two other members – Belarus and Uzbekistan– did not sign the document. The Belarusian President chose not to attend the meeting because of tensions with Russia over the dairy products export issue. The Belarusian Ministry of Foreign Affairs later sent a note of protest stating that all CSTO decisions should be made on the basis of consensus. Uzbekistan refrained from signing.

The goals of the new forces are to protect the territorial integrity of CSTO member states and to



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fight terrorism and organized crime, including drug trafficking. There are plans to create well-equipped and prepared military units whose capacities are not inferior to NATO's. Russia will contribute 8,000 troops, Kazakhstan 4,000 and other allies one battalion each.

The creation of these rapid reaction forces shows Russia's determination to strengthen its military alliance and to prevent further NATO expansion in the post-Soviet space. Kazakhstan shows readiness to intensify military ties with Russia but at the same time it clearly wants to develop cooperation with NATO. While all Central Asian states are members of the NATO Partnership for Peace Program, Kazakhstan is the only one that has an Individual Partnership Action Plan with this organization. The Euro-Atlantic Partnership Council Security Forum that took place on 24-25 June in Astana provided further evidence of the mutual interest of the parties in enhancing cooperation. The question remains as to what are the limits of combining military and security cooperation with Russia and the West.

¹ Tajikistan has been an OEC member since 1992. Iran, Pakistan and Turkey established the OEC in 1985. In November 1992, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan and Afghanistan became members of the OEC. OEC headquarters are located in Tehran.

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