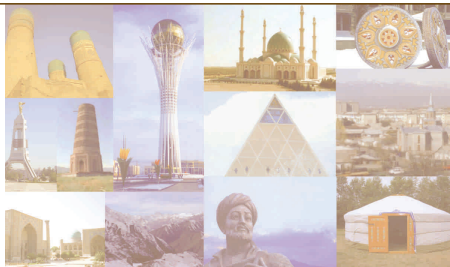


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Customs Code comes into force

On 5 July in Astana, the presidents of Russia, Belorussia and Kazakhstan signed the Customs Code that sets common external tariffs and begins redistribution of duties. Full harmonization of tariffs is expected to be achieved by 2012, leading to the establishment of a Single Economic Space (SES). The creation of a single currency by that time is also viewed as a possibility.

The adoption of the Code marked a major economic integration milestone in the post-Soviet space, long coveted by Moscow and supported by Astana. After years of trial and error, including a failed attempt in the mid-1990s to create a Customs Union made up of Russia, Belorussia, Kazakhstan and Kyrgyzstan, plans for an SES appear to be materializing.

Although the political decision was made in the fall of 2007, major developments took place in 2009. In June 2009 Vladimir Putin famously announced that Russia, Belorussia and Kazakhstan would pursue WTO membership jointly, as a customs union. It is widely held that the accelerated creation of the union at the expense of joining WTO was stimulated by the economic crisis.

Not much time was allowed for deliberating on the implications of the union in terms of the economic and political prospects of the countries involved, or for shaping a consensus on the issue at citizen level. There is no consensus concerning the costs and benefits of joining the union for Kazakhstan. The government is emphasizing the benefits: the removal of barriers will create opportunities for Kazakh businesses and foreign investors. Equally important is the allocation to Kazakhstan of a generous share of duties amounting to the 7.33% of the total. Kazakhstan is forecast to receive \$1.2 billion in duties;

without the Customs Union it would have received \$600 million.¹

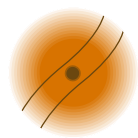
Some experts have appraised this integration in positive terms. According to Zhamilya Bopiyeva from the Institute of Economic Research based in Astana, joining the Customs Union will generate 0.6% additional GDP growth in 2010 thanks to the increase in export-import substitution and services. Kazakhstan can benefit from selling its competitive machinery for the oil, gas and mining sectors to Russian Siberia. The union will also provide Kazakh companies with the incentive to create joint ventures with Chinese and other foreign investors that can be attracted by a larger market.²

Other experts are more sceptical and are highlighting the considerable costs of the Union. Higher tariffs, they argue, will cause consumer product prices to rise, thereby affecting living standards. They have also voiced concerns about the weak competitiveness of local industries in comparison with their Russian counterparts.

Views on the long-term geopolitical implications of the Union also vary. Some people are afraid that joining the Customs Union is the first step toward loss of sovereignty and a re-emergence of Russian domination. Others think re-integration with Russia is the best option and more conducive to promoting security and development in Kazakhstan. Joining Russia is also seen as an alternative to China's domination. Some, however, believe Russia is not developed enough and that joining it would not stimulate the modernization of the country, and that it would therefore be better for Kazakhstan to aim at integration with the EU.³

The EU, in turn, views the Customs Union with caution and is wary of the protectionist measures introduced during the economic crisis becoming consolidated.⁴

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From an EU standpoint, the postponement of Kazakhstan's accession to WTO on account of the creation of the Customs Union is a most unwelcome development. At the same time, both Russian and Kazakhstani officials insist that the Customs Union will be shaped with WTO membership in mind, and that it will be driven by the prospect of integration with European economies.

Astana to host OSCE summit

At the OSCE ministerial meeting that took place in early August, a decision was taken to convene an OSCE summit on 1-2 December in Astana. The organization of the summit was one of the main priorities of Kazakhstan's OSCE chairmanship and, as such, a major victory of Kazakhstani diplomacy.

In January 2010 President Nazarbayev called on leaders of the OSCE member countries to show political will and interrupt the prolonged pause - no OSCE summits have convened since the Istanbul summit in 1999- and jointly contemplate the new realities of the twenty-first century.⁵

The initiative was not met with much enthusiasm since it was not clear what substance this summit could have. Traditionally OSCE summits are held to introduce major documents such as the Charter of Paris and the Charter for European Security. Some Western policy makers felt hesitant to attend what they perceived as a summit being organized for a summit's sake, a "photo-op" gathering⁶. Apart from the lack of clarity in the content of the summit, their hesitation was sparked by the perceived lack of progress in terms of political liberalization in Kazakhstan. OSCE chairmanship was granted to the country in the hope that it would stimulate reforms in this Central Asian country.

Kazakhstan is arguing that the summit is necessary to "re-set" and galvanize the organization, which is in the throes of a crisis. It wants to shape "a united and indivisible security space, free of dividing lines

and different levels of security."⁷ This phrasing is a clear reference to the Russian proposal concerning the new European security architecture. Kazakhstan, however, is more concerned with the Eurasian/Asian component and stresses the necessity of building ties between OSCE and Asian security organizations like the Conference on Interaction and Confidence-Building Measures in Asia (CICA) and the Shanghai Cooperation Organization (SCO).

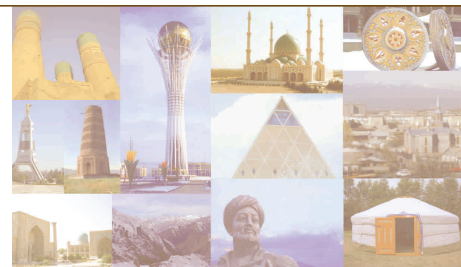
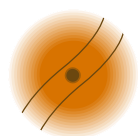
Other topics to be discussed at the summit include reinforcing the OSCE's institutional foundation; strengthening arms control; enhancing the OSCE toolbox in all three dimensions on early warning, conflict prevention, crisis management and post-conflict rehabilitation; and jointly developing ways to peacefully settle protracted conflicts. Overall, like other initiatives plugged by Astana, the idea of the summit seems to be high on rhetoric and short on substance.

End of Kazakhgate

On 6 August, the so-called Kazakhgate bribery case was legally resolved once and for all. James Giffen negotiated a plea bargain with U.S. prosecutors admitting that he was guilty of tax evasion and of giving a multi-million dollar bribe to Kazakhstani government officials.⁸

Giffen was arrested in March 2003 and charged with channelling \$80 million on behalf of four U.S. oil companies, including Mobil Oil Corporation, now part of ExxonMobil, into secret Swiss bank accounts. Prosecutors contend that the money was a bribe to facilitate six lucrative deals for the companies, including a \$1 billion stake for Mobil in the giant Tengiz field. Kazakhstani officials, including both the president and former prime minister Nurlan Balgimbaev, allegedly used the money to purchase jewellery, furs, speedboats and other luxury items.

The case took seven years to try due to the line of defence chosen by Giffen's lawyers who argued that



even if the charges against him were true, he could not be found guilty since he had been working in concert with the CIA, which allegedly used him to level influence in Kazakhstan.⁹ Requests by the defence to introduce classified documents from the CIA and other government bodies as evidence in the case were repeatedly refused by lawyers representing the government.

In Kazakhstan, these developments have only been followed by the opposition press which has small circulation. State-controlled electronic media such as television and radio stations understandably ignored the issue. Kazakhgate has been a spot on the reputation of Kazakhstan's government and may well have ramifications in the future.

¹ Vice-Minister of Finance Ruslan Dalenov's presentation at the Roundtable "Kazakhstan in the Custom's Union: what to do further?", Almaty, 21 April 2010.

² Expert, 7-13 June 2010, pp.16-7.

³ Roundtable "Kazakhstan in the Custom's Union: what to do further?", Almaty, 21 April 2010.

⁴ EU calls on trading partners to remove protectionist barriers", EUROPA Press Releases, Brussels, 28 May 2010 (<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/632&type=HTML>).

⁵ Text of the video address from President Nazarbayev on the occasion of Kazakhstan's assuming the chairmanship in the OSCE, January 2010 (<http://www.eurodialogue.org/osce/Text-of-the-video-address-from-President-Nursultan-Nazarbayev>).

⁶ Kazakhstan: Astana Intensifying Efforts to Hold OSCE Summit", Eurasianet.org, 10 March 2010 (<http://www.eurasianet.org/departments/insight/articles/eav031110.shtml>).

⁷ Kazakhstan: OSCE Chairman in 2010, 17 July 2010 (<http://www.osce2010.kz/en/news/osce-calendar/osce-chairperson-announces-agreement-summit-calls-kyrgyzstan-crisis-vitality-test>).

⁸ After Seven Years, 'Kazakhgate' Scandal Ends with Minor Indictment", Eurasianet.org, 10 August, 2010 (<http://www.eurasianet.org/node/61714>).

⁹ James Giffen became President's Nazarbayev's advisor in 1995. His company "Mercator Corporation" was given the right to represent Kazakhstan in negotiations with Western oil companies.

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