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# The Impact of the Customs Union on Kazakhstan's Imports

Asel Isakova and Alexander Plekhanov

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- Creation of the Customs Union (CU) and Common External Tariff
- Objective of the study: impact on trade creation and trade diversion
- Structure of Kazakhstan's import by region and by sector
- Data and methodology
- Empirical results
- Discussion and conclusion

# Customs Union between Russia, Belarus and Kazakhstan created in 2009

## Objective:

Foster economic integration between the three countries

## Timeline:

November 2009: Establishment of the Customs Union

January 2010: New common external tariff for imports

July 2010: Customs code ratified by the members and formation of the common customs area completed

July 2011: All customs controls are eliminated between the members of the Customs Union

January 2012: Formation of Common Economic Space

# Countries agreed on a Common External Tariff

The three countries agreed to harmonise their import duties:

Belarus: Only  $\frac{1}{4}$  of import tariff rates changed; negotiated higher import tariffs on trucks, electrical engines and equipment , etc.

Kazakhstan: Almost 60 per cent tariff lines changed where 45 per cent increased and 10 per cent decreased. Average tariff rate increased from 5 to 10 per cent

Common export tariff rates are still negotiated

# Effective import tariff for Kazakhstan has increased by around 5 per cent



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## Change in average effective import tariff, in per cent



Source: World Bank 2011

# What is the impact of the Customs Union creation on Kazakhstan's imports?



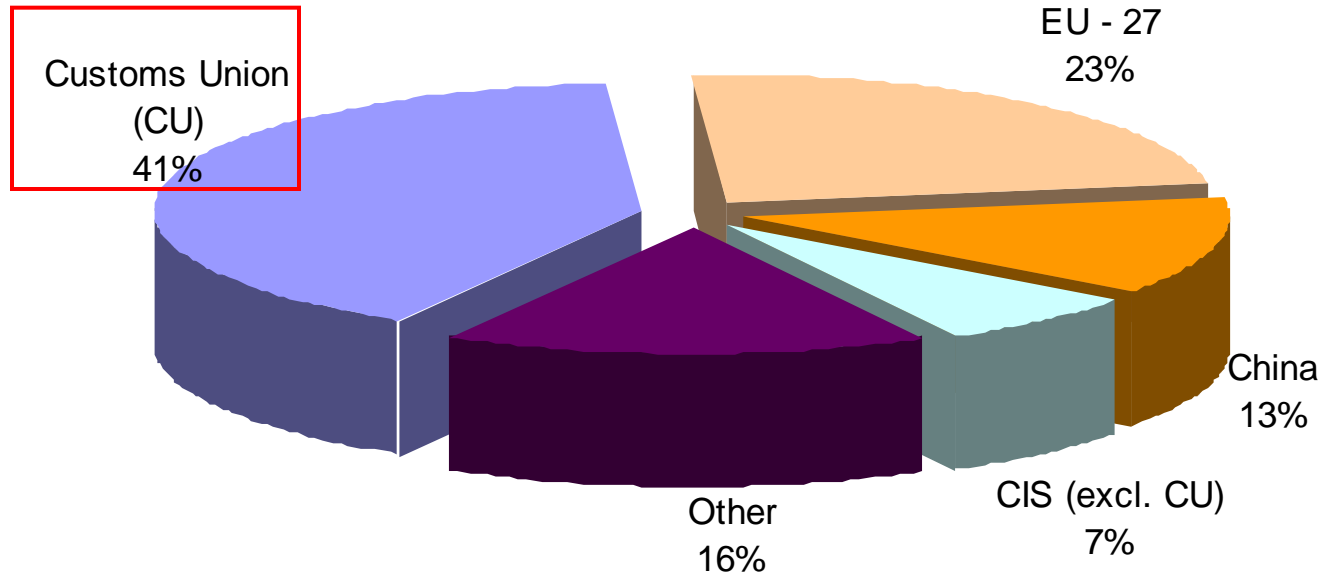
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First assessment of the impact of change in import tariff rates on Kazakhstan's imports from the main trade partners:

? **Trade diversion:** to CU and CIS partners from other regions

? **Trade creation:** with the partners in the Customs Union due to elimination of trade barriers and tariffs

## Structure of imports to Kazakhstan by trade partner in 2010



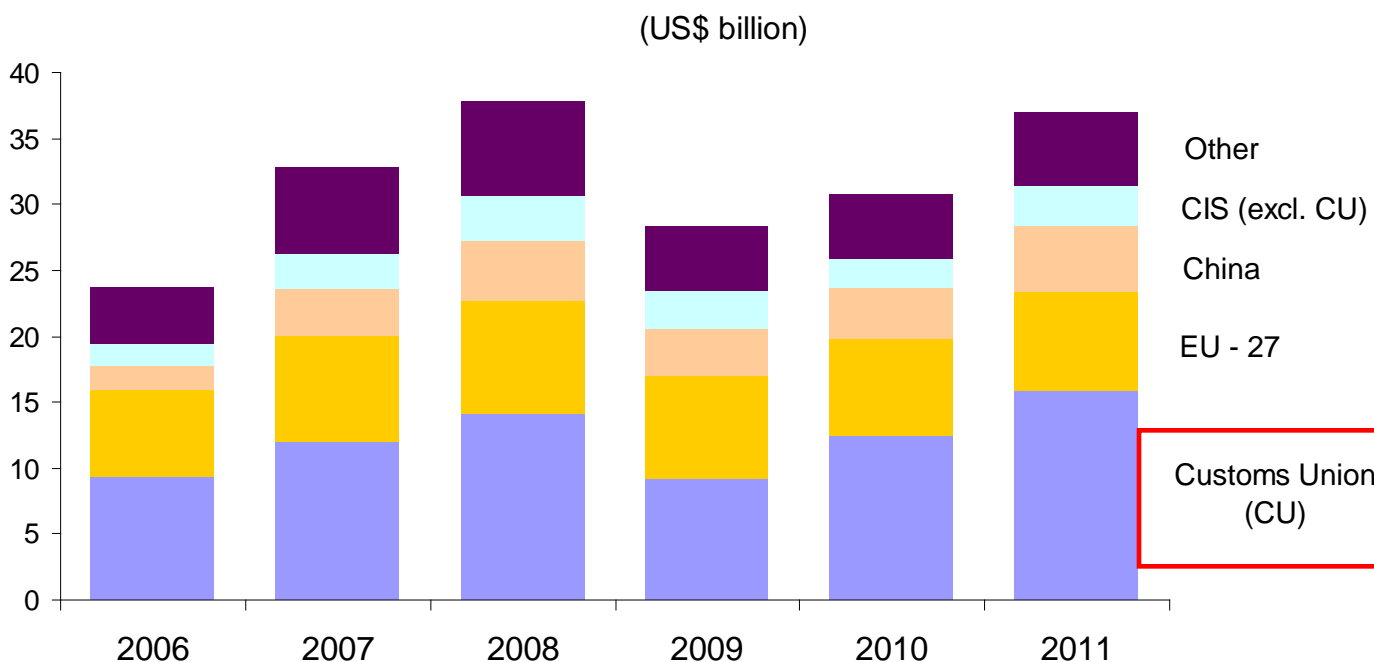
Source: Kazakhstan's Statistical Agency

# Imports from CU grew in 2010 but this might reflect the recovery



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## Structure of imports to Kazakhstan by trade partner in 2006 - 2011



Source: Kazakhstan's Statistical Agency, National Bank of Kazakhstan, Customs Union Committee



# Kazakhstan's import structure differs across trade partners



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CU: minerals and metals (45 % of imports)

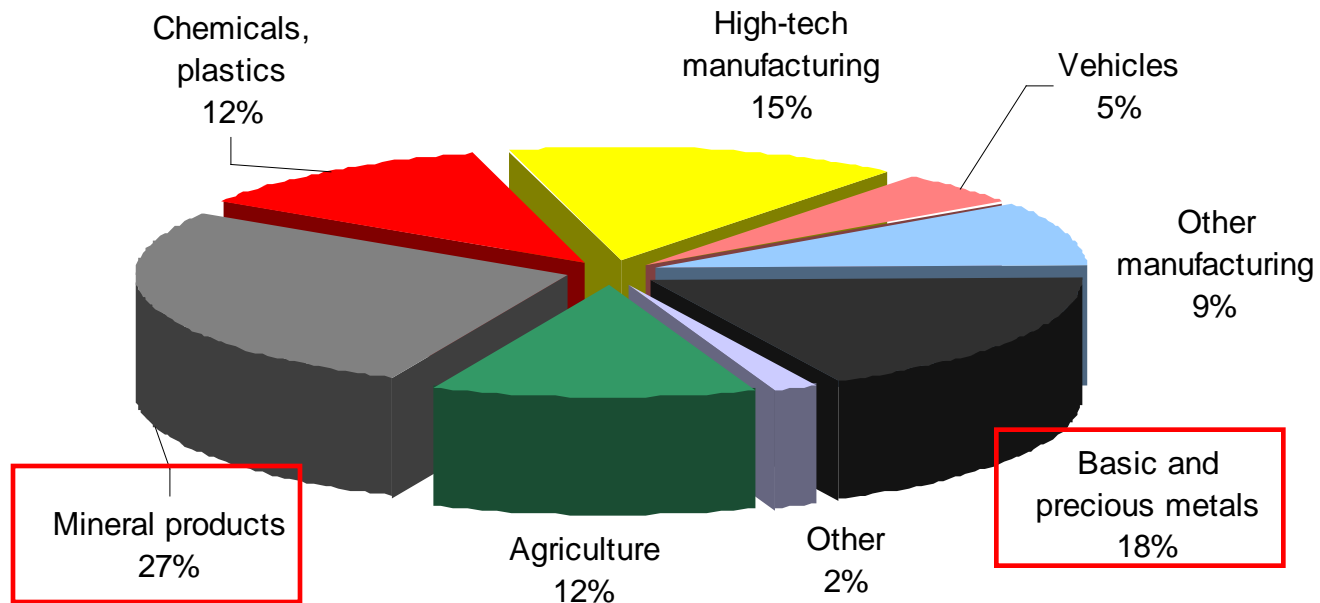
CIS: metals (42 % of imports)

EU: high-tech manufacturing (45 % of imports)

China: metals (35 % of imports) and high-tech manufacturing (36 % of imports)

# Kazakhstan imported mainly minerals and metals from Belarus and Russia in 2009

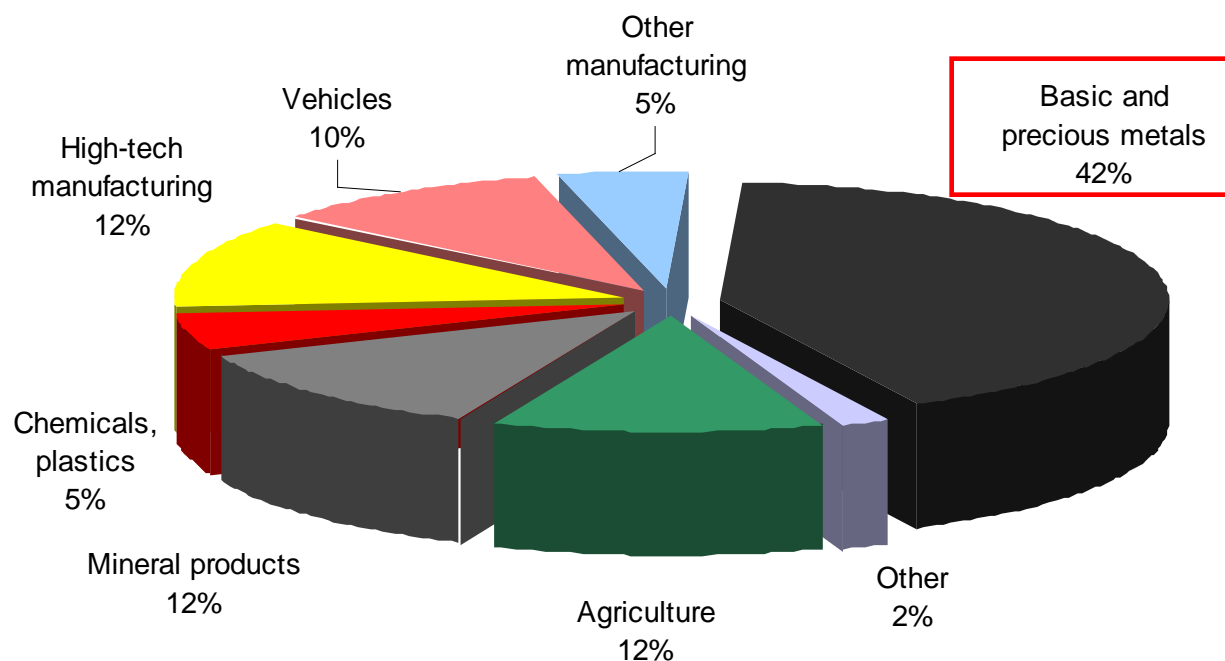
## Structure of Kazakhstan's imports from Russia and Belarus, 2009



Source: International Trade Centre and authors' calculations

# Kazakhstan imported mainly metals from the CIS (excl. CU) in 2009

## Structure of Kazakhstan's imports from CIS, 2009



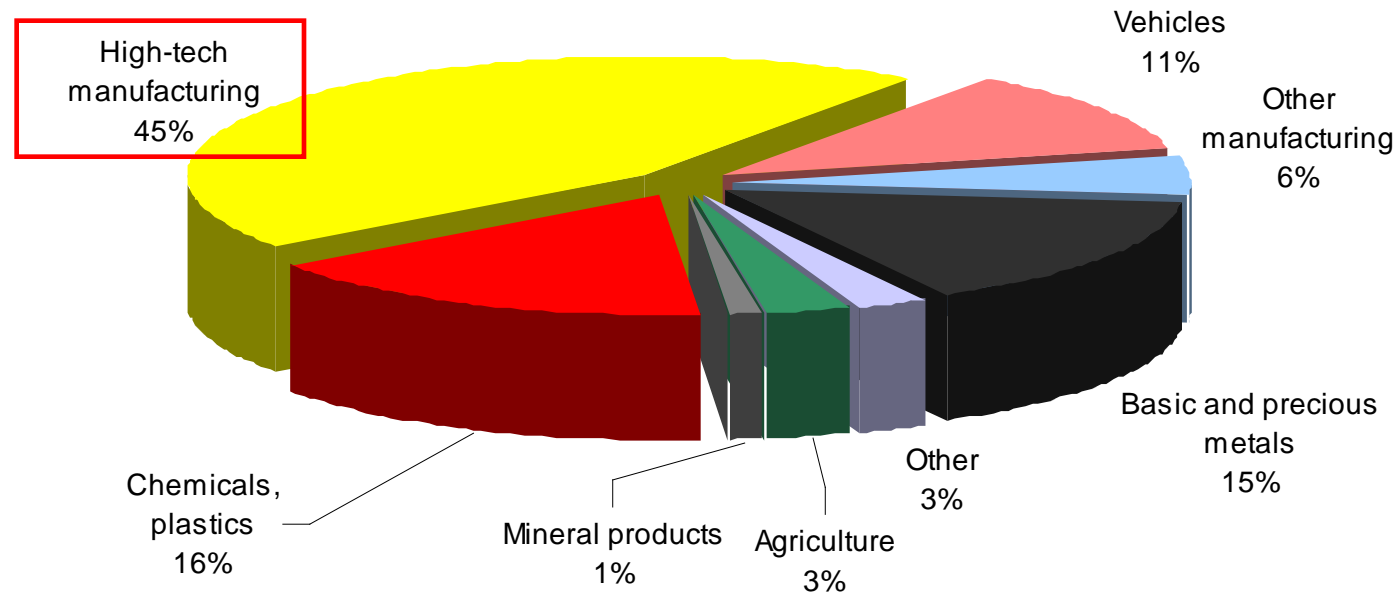
Source: International Trade Centre and authors' calculations

# Almost half of Kazakhstan's imports from EU were high-tech manufacturing goods



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## Structure of Kazakhstan's imports from EU, 2009



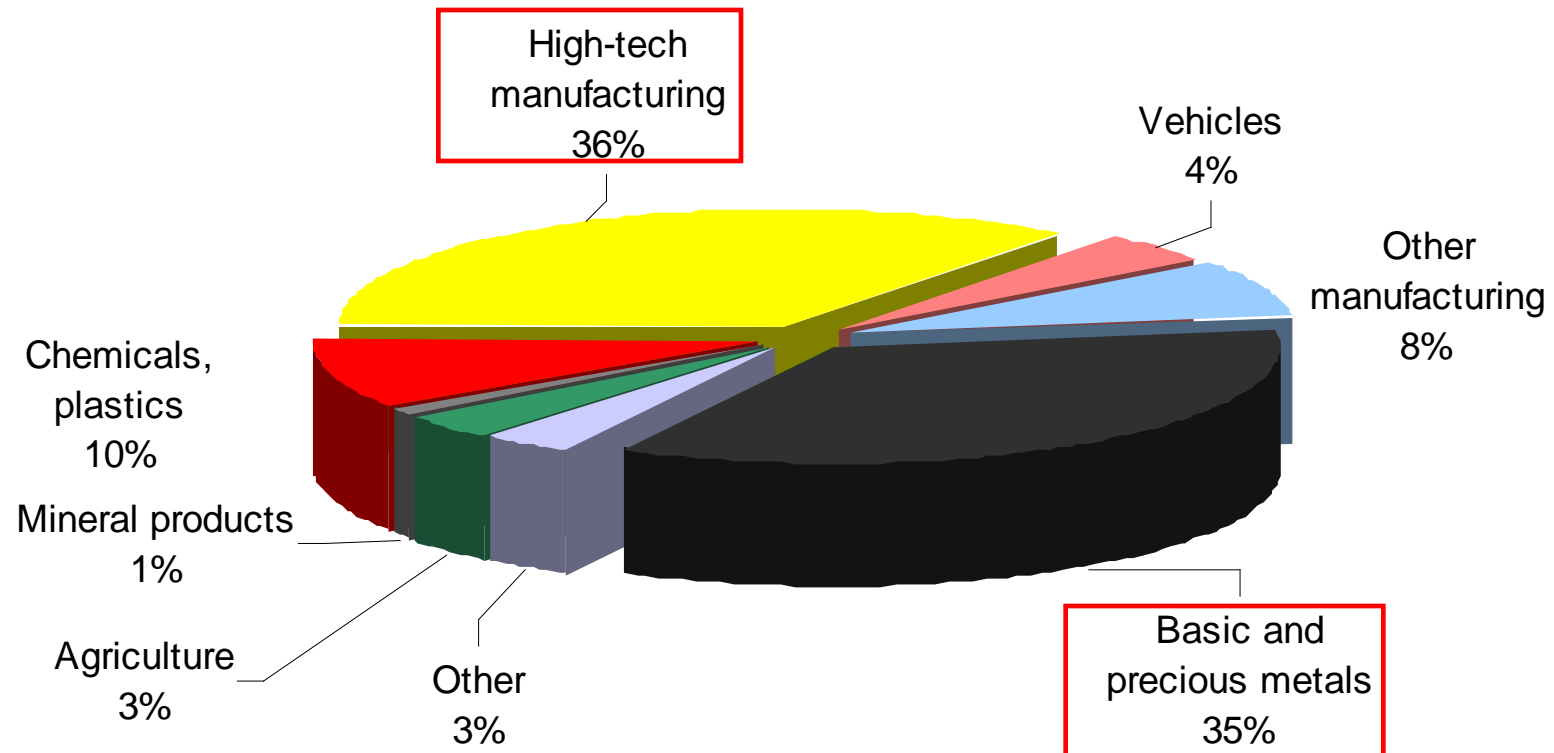
Source: International Trade Centre and authors' calculations

# Main imported goods from China are high-tech manufacturing and metals



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## Structure of Kazakhstan's imports from China, 2009



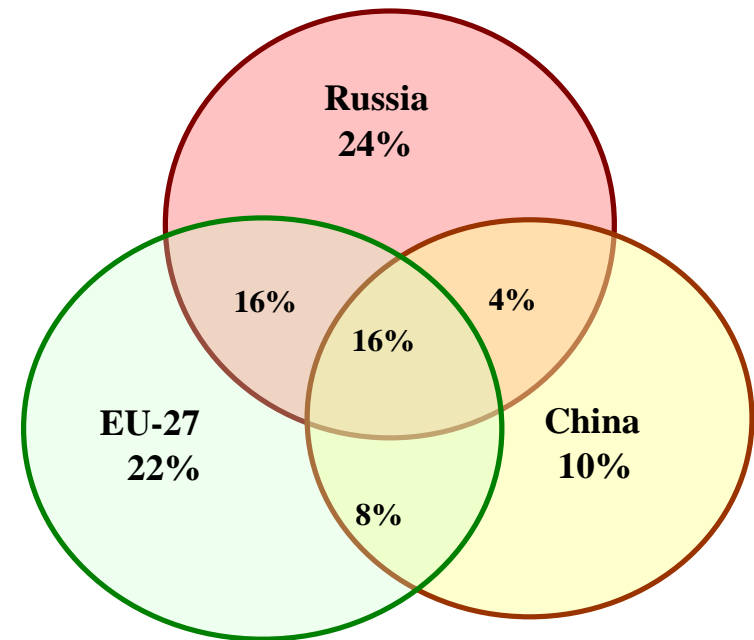
Source: International Trade Centre and authors' calculations

# The three main trade partners overlapped over 16 per cent of import lines in 2009



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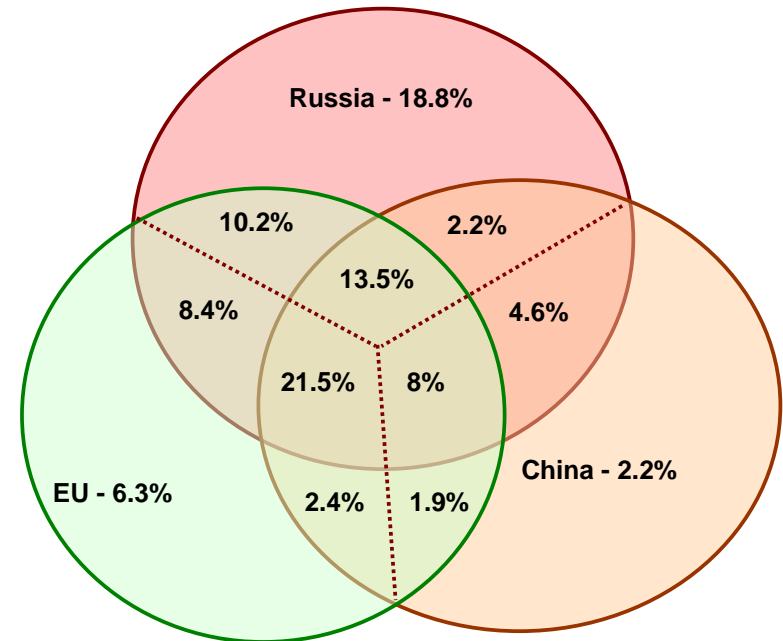
- Russia and EU imports are more unique than imports from China
- The three major partners overlap in 16 per cent of import lines (types of imported goods) to Kazakhstan
- Only 10 per cent of types of goods are imported uniquely from China



Source: International Trade Centre and authors' calculations

# Imports from China are the most substitutable

- Russian imports are the largest in terms of volume for unique import lines, while Chinese imports are the smallest
- EU's contribution is the largest to the imports where all three countries overlap
- Only 2.2 % of Kazakhstan's imports value is uniquely from China



Source: International Trade Centre and authors' calculations

- Trade data from the TradeMap by the International Trade Center, Kazakhstan Statistical Agency
- Tariff data: Customs Union Commission, *Kazakhstanskaya pravda*
- Transition tariffs: Customs Union Commission





- Dependent variable: Change in imports in per cent by region
- Controls: Change in tariff rates, imports growth before the crisis, drop in imports during the crisis, imports volume in 2009
- OLS estimation with fixed sector effect at 3-digit level of disaggregated data

# Results suggest that tariff changes had a positive impact on imports from CU



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## Empirical results: basic regression

	Dependent variables: Difference in log imports, 2009-10						
	(1) <i>World</i>	(2) <i>CU</i>	(3) <i>EU</i>	(4) <i>China</i>	(5) <i>CIS</i>	(6) <i>RoW</i>	(7) <sup>1</sup> <i>CU</i>
<i>Δtariffs</i>	0.0027 (0.0031)	0.0082** (0.0037)	-0.0068 (0.0054)	-0.0092 (0.0081)	-0.0066 (0.0178)	-0.0070 (0.0067)	0.0037 (0.0057)
<i>Δimport_World (2006-08)</i>	-0.0943*** (0.0211)	0.0440 (0.0490)	0.0936 (0.0786)	-0.1404 (0.0972)	-0.2754** (0.1223)	-0.0601 (0.0923)	-0.0519 (0.0959)
<i>Δimport_World (2008-09)</i>	-0.3059*** (0.0323)	0.1642** (0.0650)	-0.2095* (0.1132)	0.1020 (0.1502)	-0.1329 (0.2806)	0.1275 (0.1129)	0.3102** (0.1186)
<i>Constant</i>	0.6914*** (0.1296)	-0.0307 (0.1879)	0.9290*** (0.2951)	1.1088** (0.4376)	2.3592*** (0.8789)	1.2304*** (0.3503)	-0.5238* (0.3006)
Observations	1163	416	443	243	122	288	139
R-squared	0.1526	0.1185	0.2439	0.1235	0.2705	0.3055	0.2070
Number of fixed effects	132	98	87	74	53	82	59

Notes: Standard errors in parentheses. Stars indicate the level of significance: \*\*\* p<0.01,

\*\* p<0.05, \* p<0.1.

1/ Equation (7) includes a change between 2009 and 2010 in exports from the Russia and Belarus to the world (except Kazakhstan).

## Empirical results: extended regression

	Dependent variables: Difference in log imports, 2009-10						
	(1) <i>World</i>	(2) <i>CU</i>	(3) <i>EU</i>	(4) <i>China</i>	(5) <i>CIS</i>	(6) <i>RoW</i>	(7) <sup>1</sup> <i>CU</i>
<i>Δtariffs</i>	0.0024 (0.0028)	0.0076* (0.0039)	-0.0056 (0.0049)	-0.0141** (0.0071)	0.0009 (0.0136)	-0.0078 (0.0062)	0.0058 (0.0055)
<i>Δimport_World (2006-08)</i>	-0.1020*** (0.0198)	-0.0330 (0.0509)	0.0479 (0.0662)	-0.0153 (0.0752)	-0.2297** (0.1010)	-0.1050 (0.0804)	-0.1441 (0.0976)
<i>Δimport_World (2008-09)</i>	-0.3218*** (0.0294)	0.0690 (0.0620)	-0.2468*** (0.0907)	0.1664 (0.1116)	-0.1135 (0.1837)	0.1888** (0.0929)	0.1527 (0.1151)
<i>Constant</i>	0.7099*** (0.1159)	0.3902** (0.1978)	0.9338*** (0.2460)	1.5044*** (0.3662)	2.4767*** (0.6562)	1.5910*** (0.2929)	-0.0885 (0.2980)
Observations	1323	486	542	295	156	363	164
R-squared	0.1760	0.1821	0.2995	0.2221	0.3393	0.3390	0.2087
Number of fixed effects	133	99	93	77	55	83	62

Notes: Standard errors in parentheses. Stars indicate the level of significance: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1.

1/ Equation (7) includes a change between 2009 and 2010 in exports from the Russia and Belarus to the world (except Kazakhstan).

# But reduction in tariffs did not create trade



## Empirical results: extended regression

VARIABLES	Dependent variables: Difference in log imports, 2009-10					
	(1) World	(2) CU	(3) EU	(4) China	(5) CIS	(6) RoW
<i>Δtariffs (increase)</i>	0.0019 (0.0035)	0.0087* (0.0046)	-0.0081 (0.0061)	-0.0190** (0.0088)	0.0168 (0.0164)	-0.0133* (0.0076)
<i>Δtariffs (reduction)</i>	0.0038 (0.0061)	0.0025 (0.0118)	0.0011 (0.0111)	0.0003 (0.0167)	-0.0664 (0.0413)	0.0111 (0.0165)
<i>Δimport_World (2006-08)</i>	-0.1018*** (0.0198)	-0.0328 (0.0509)	0.0477 (0.0662)	-0.0100 (0.0754)	-0.2647** (0.1020)	-0.1040 (0.0803)
<i>Δimport_World (2008-09)</i>	-0.3218*** (0.0294)	0.0686 (0.0620)	-0.2464*** (0.0908)	0.1760 (0.1121)	-0.1259 (0.1819)	0.1939** (0.0929)
<i>Constant</i>	0.7127*** (0.1164)	0.3817* (0.1989)	0.9411*** (0.2464)	1.5658*** (0.3720)	2.3035*** (0.6572)	1.6017*** (0.2927)
Observations	1323	486	542	295	156	363
R-squared	0.1760	0.1826	0.3002	0.2254	0.3595	0.3427
Number of fixed effects	133	99	93	77	55	83

Notes: Standard errors in parentheses. Stars indicate the level of significance: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1.

# What do the results imply?



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- Estimated coefficients suggest that an increase in import tariffs by 2 per cent would cause decrease in imports from China of around 2-3 per cent (approx. USD 100 million in terms of 2009 imports)
- Actual data suggests that imports from China increased in 2009-2010, i.e. there are other factors not controlled for
- Positive impact on imports from the CU might suggest diversion of imports from non-CU to CU
- A similar analysis for the CAREC countries showed no significant impact of changes in tariffs on imports from these region
- The results provide no evidence of trade creation in response to reductions in tariffs

- Results only capture short-term effects (impact on change in imports from 2009 to 2010)
- Incomplete trade data for 2010 for Customs Union
- Assumption of an average elasticity across all sectors but might vary across goods
- Only changes in tariff rates are considered
- Possible increase in informal trade

## Future research:

- More complete data and longer-term effects
- Studying effects of other trade barriers that are not related to changes in tariffs (eg. non-tariffs barriers)

- Results of the present study suggest:
  - a positive effect on imports from the Customs Union
  - a negative impact on imports from non-CU countries
- Some evidence of trade diversion while effects of trade creation are not clear yet
- These results only capture the initial short-term impact of the change in import tariffs
- We expect to see a positive longer-term impact, in particular, from service trade liberalisation and investments, improved market access and lower non-tariff barriers