

Trade Creation and Trade Diversion: The Impact of the Customs Union on Kazakhstan's Imports

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Outline of the presentation

- | 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:

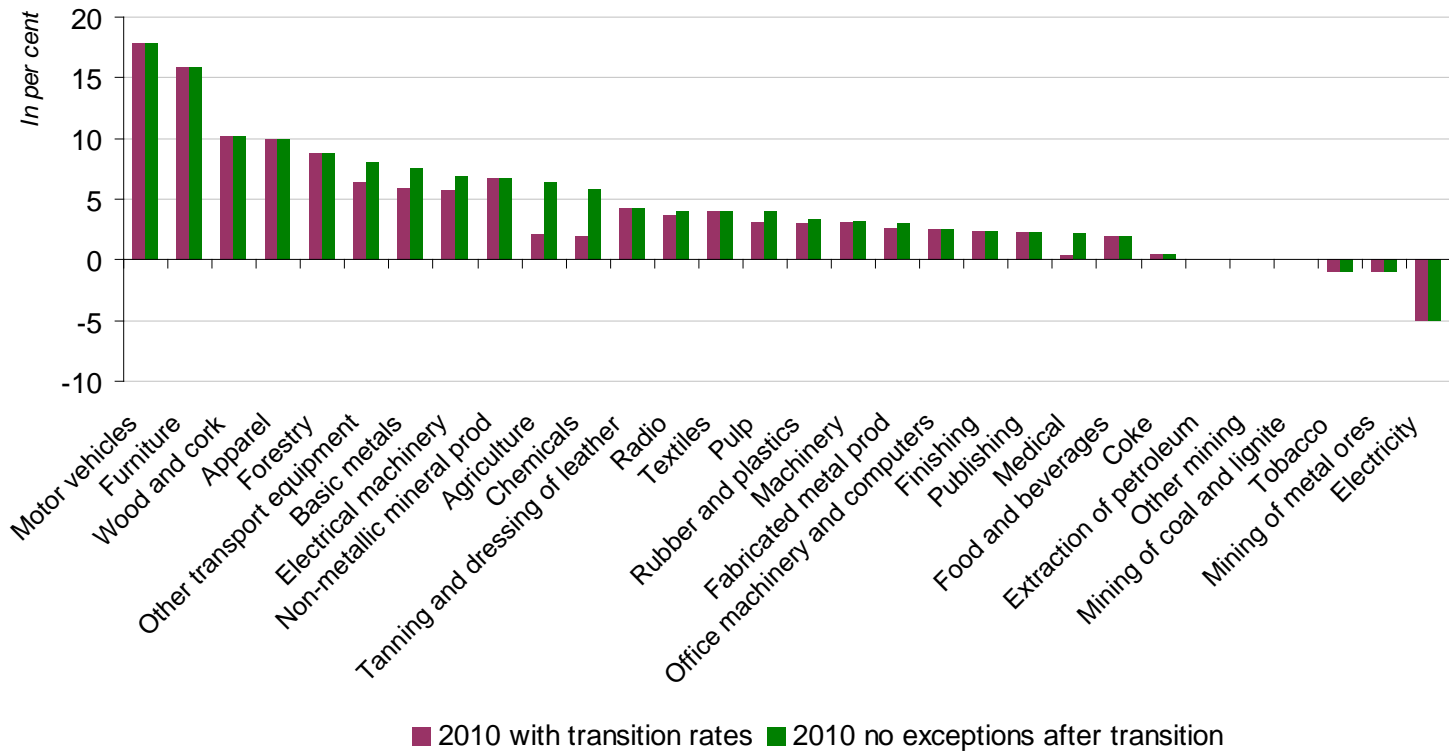
- | Belarus: Only ¼ of import tariff rates changed; negotiated higher import tariffs on trucks, electrical engines and equipment , etc.
- | Kazakhstan: Almost 60 per cent tariff lines changed where 45 per cent increased and 10 per cent decreased. Average tariff rate increased from 5 to 10 per cent

Common export tariff rates are still negotiated



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

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?

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

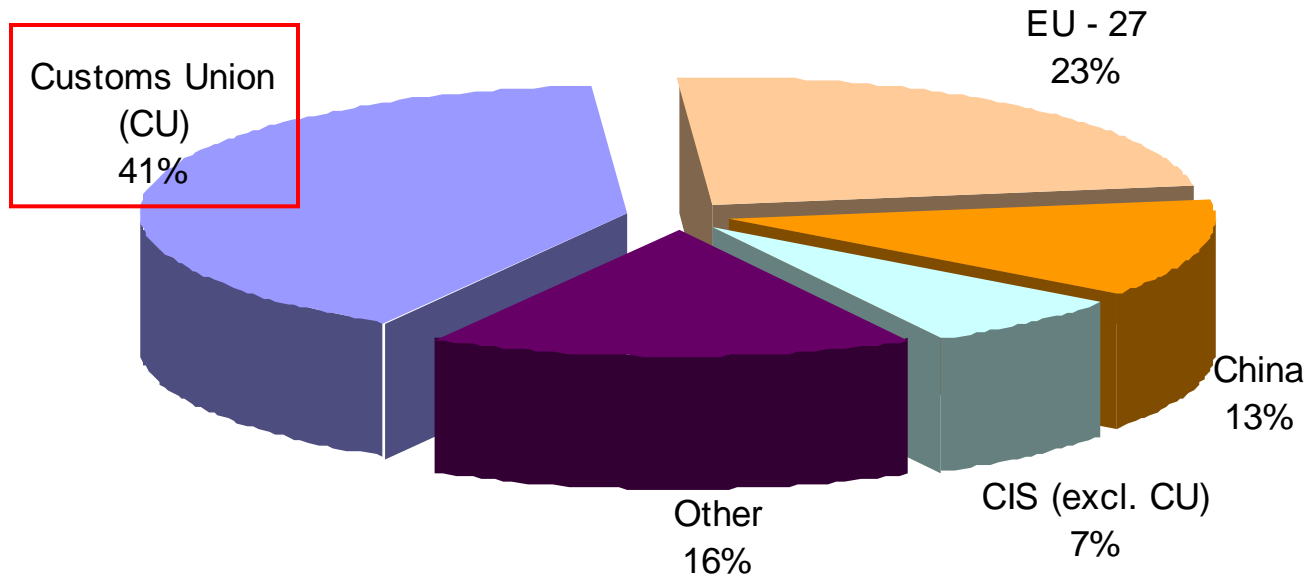
Trade diversion: to CU and CIS partners from other regions

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



Customs Union is Kazakhstan's major trade partner

Structure of imports to Kazakhstan by trade partner in 2010

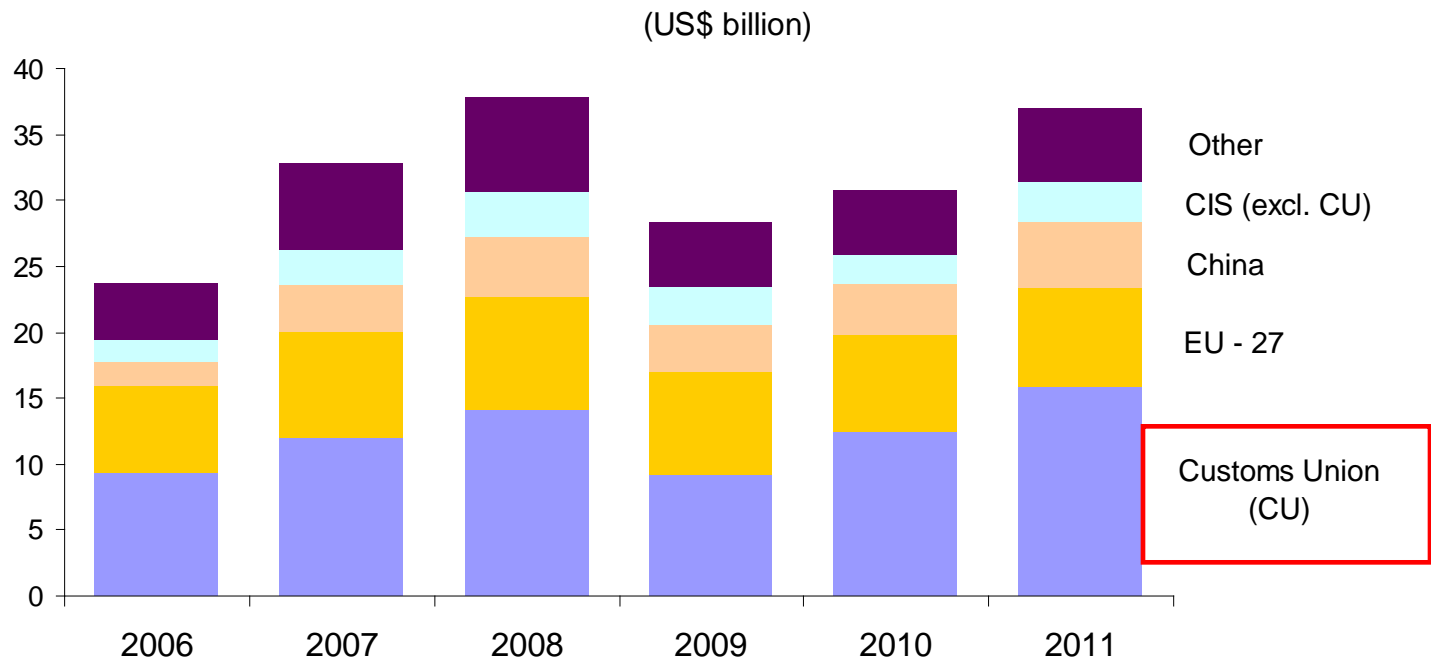


Source: Kazakhstan's Statistical Agency



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

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



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



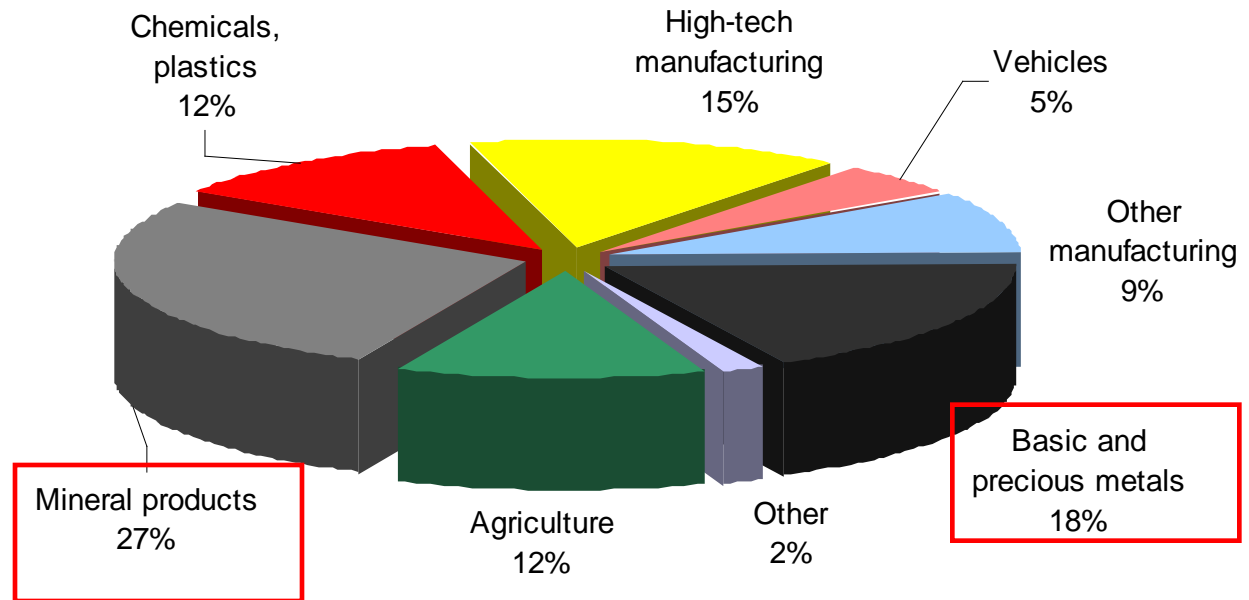
Kazakhstan's import structure differs across trade partners

- | 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

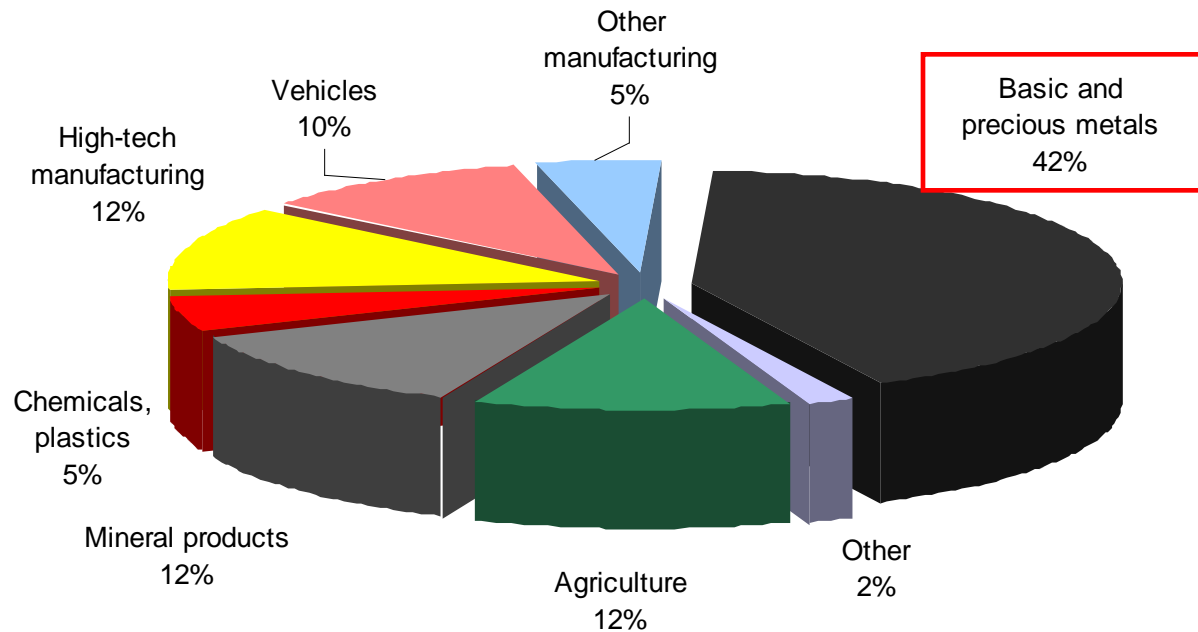


Source: International Trade Centre and authors' calculations



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

Structure of Kazakhstan's imports from CIS, 2009

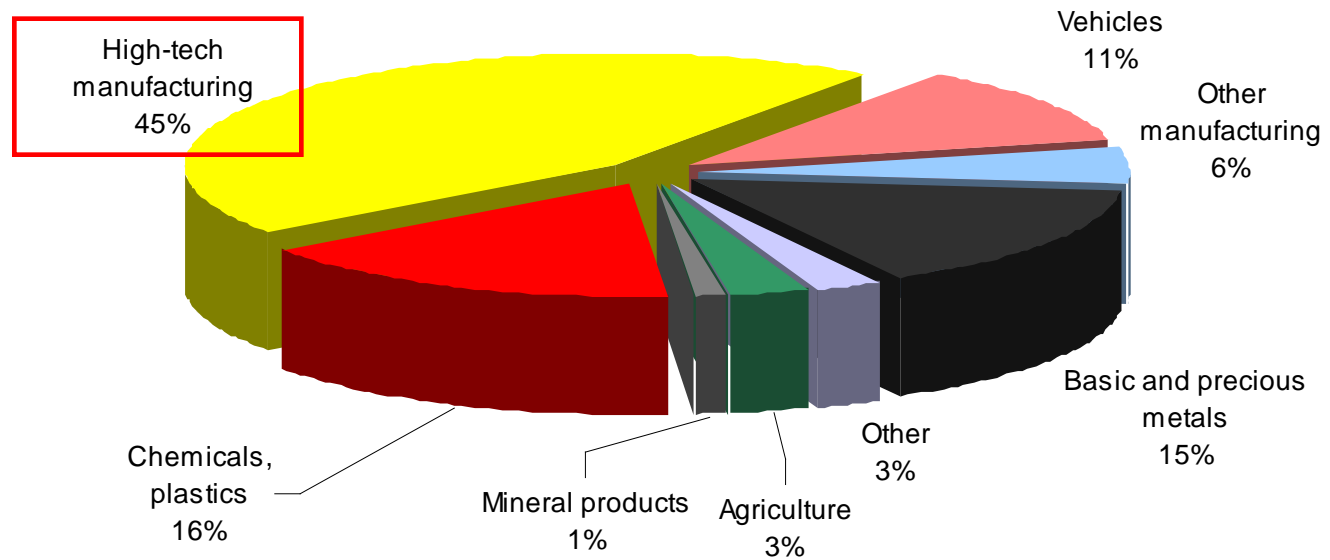


Source: International Trade Centre and authors' calculations



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

Structure of Kazakhstan's imports from EU, 2009

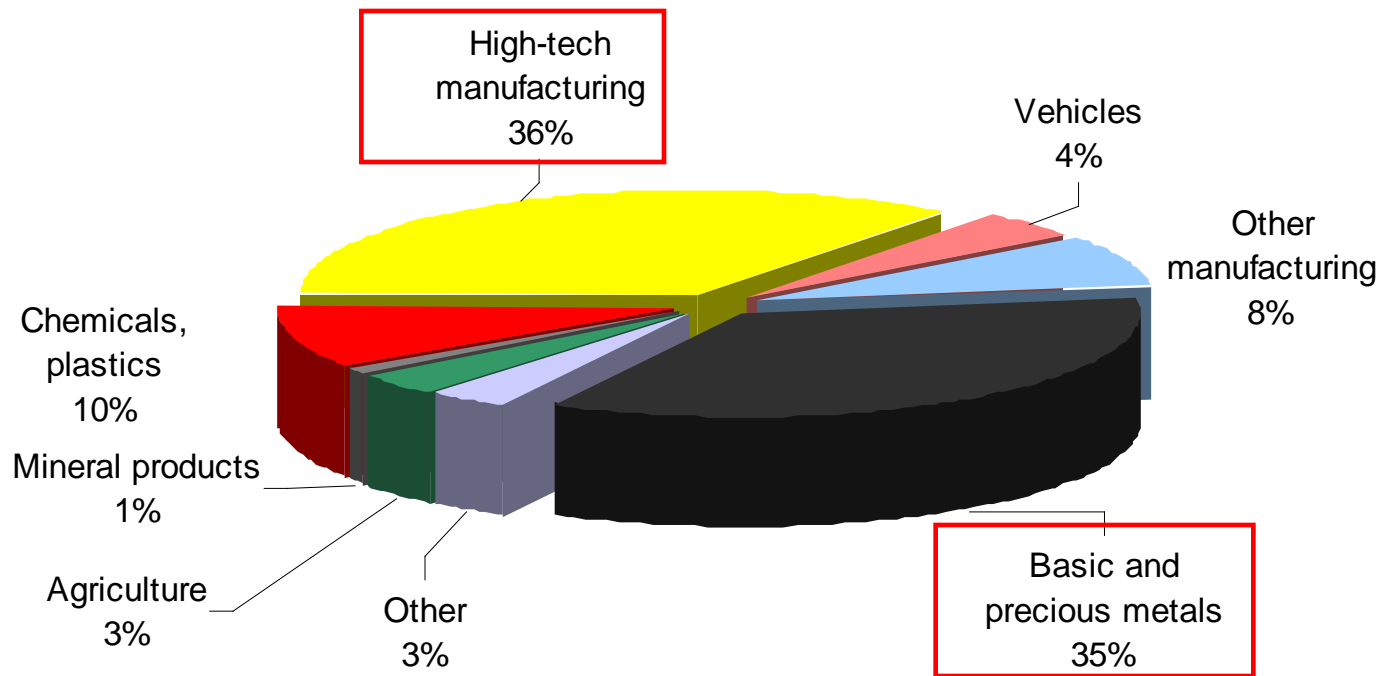


Source: International Trade Centre and authors' calculations



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

Structure of Kazakhstan's imports from China, 2009

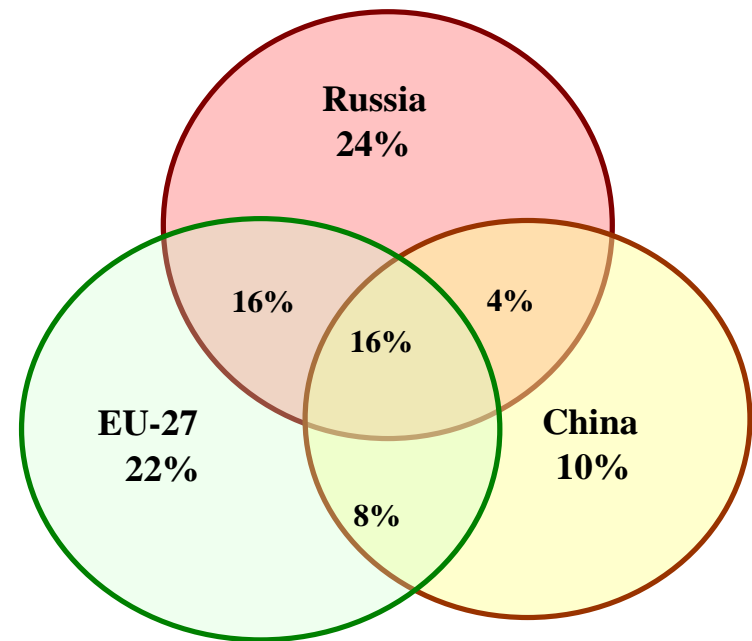


Source: International Trade Centre and authors' calculations



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

- | 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

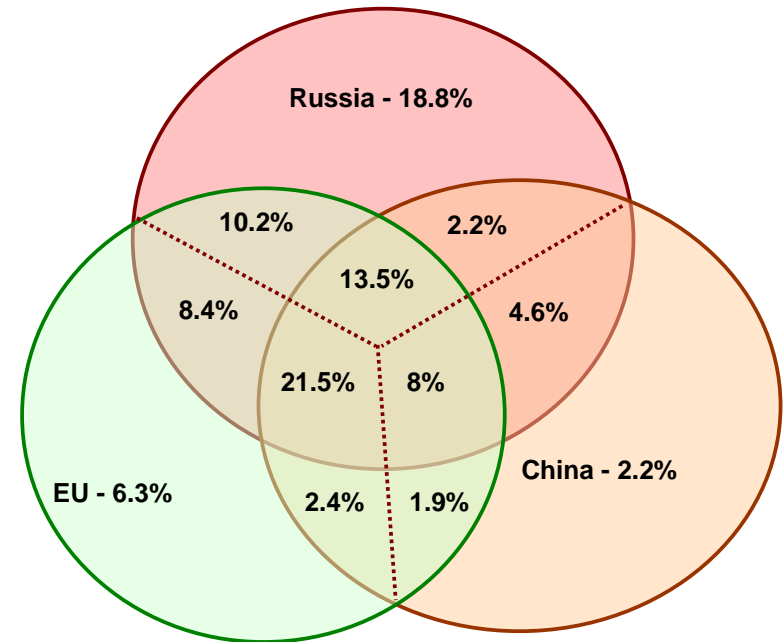


Source: International Trade Centre and authors' calculations



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



Data and methodology used

- | 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



Empirical analysis: estimating elasticity of imports to changes in tariffs

- | 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

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) ¹ <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



But no significant effect on total imports and imports from other regions

Empirical results: basic regression

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There is some evidence of trade diversion

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) ¹ <i>CU</i>
Δ tariffs	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)
Δ import_ <i>World</i> (2006-08)	-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)
Δ import_ <i>World</i> (2008-09)	-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)
Constant	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

What do the results imply?

- | The estimated coefficients suggest that an increased in import tariffs by 1 per cent would cause decrease in imports from China of around 1.4 per cent (approx. USD 50 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



Discussion: caveats and future research

- | 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)



Conclusion

- | 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

