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## TRADE AGREEMENTS AND THEIR IMPORTANCE TO KAZAKHSTAN

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### 1. Introduction

Today every country thinks about increasing efficiency through free trade. Free trade is a system in which the trade of goods and services between or within two or more countries flow unconstrained by government-imposed restrictions [1]. Such government interventions generally increase costs of goods and services to both consumers and producers. Interventions include taxes and tariffs, non-tariff barriers, such as regulatory legislation and quotas. Free trade opposes all such interventions. One of the strongest arguments for free trade was made by classical economist David Ricardo in his analysis of comparative advantage.

Comparative advantage explains how trade will benefit both parties (countries, regions, or individuals) if they have different opportunity costs of production.

Trade agreements are usually created to liberalize trade between countries. They may be bilateral, regional or multilateral, that is, between two states or more than two. For most countries international trade is regulated by unilateral barriers, including tariffs, nontariff barriers, and government prohibitions. Trade agreements aim to reduce such barriers and thus provide all parties with the benefits of increased trade. Reciprocity is a necessary feature of trade agreements, since neither state will be willing to sign the agreement unless it expects to gain as much as it loses. Another common feature is a most-favored-nation clause, which provides against the possibility that one of the parties to the current agreement will later offer lower tariffs to another country. Agreements often include clauses providing for "national treatment of nontariff restrictions," meaning that both states promise not to duplicate the properties of tariffs with nontariff restrictions such as discriminatory regulations, selective excise taxes, quotas, and special licensing requirements. General multilateral agreements are sometimes easier to reach than separate bilateral agreements, since the gains to efficient producers from worldwide tariff reductions are large enough to warrant substantial concessions. The most important modern multilateral trade agreement was the General Agreement on Tariffs and Trade (GATT), which reduced world tariff levels and greatly expanded world trade. Such agreements continue under the aegis of the World Trade Organization (WTO), which replaced GATT in 1995.

## 2. Trade Agreements of Kazakhstan

Kazakhstan as any country in the world also tries to actively participate in international trade relations since its independence. However, immediately after independence, Kazakhstan's economic conditions deteriorated, affected by declining economic activity in the former republics of the Soviet Union. In order to stimulate growth of the economy, Kazakhstan stepped up its transition to a market-oriented economy and advanced its oil field development. Since independence in 1991, Kazakhstan has pursued what is known as the multidimensional foreign policy, seeking equally good relations with two large neighbors, Russia and China, and the United States and the West generally. The policy has yielded results in the oil and gas sector, where companies from the United States, Russia, China, and Europe are present at all major fields, and in the multidimensional directions of oil export pipelines out of Kazakhstan.

In order to improve conditions of trade, Kazakhstan concluded a set of regional and bilateral treaties with the number of countries. Since 1994, Kazakhstan made 5 bilateral trade agreements, 3 regional trade agreements, and 1 cross-continental multilateral agreement. Classification of trade agreements by scope, type, and signed year is represented in the Table 1.

**Table 1: Classification of Trade Agreements of Kazakhstan\***

Title	Member Countries	Scope	Type	Signed Year	In Force Since (Year)
Commonwealth of Independent States Free Trade Agreement (CISFTA)	Armenia Azerbaijan Belorussia Georgia Moldova Russia Tajikistan Turkmenistan Ukraine Uzbekistan Kyrgyzstan Kazakhstan	Regional	Free Trade Agreement	1994	1994

\* The table was drafted by the author of the article

<b>Title</b>	<b>Member Countries</b>	<b>Scope</b>	<b>Type</b>	<b>Signed Year</b>	<b>In Force Since (Year)</b>
Agreement on Free Trade between the Government of Kyrgyz Republic and the Government of Kazakhstan	Kyrgyzstan Kazakhstan	Bilateral	Free Trade Agreement	1995	1995
Eurasian Economic Community (EURASEC)	Belorussia Russia Tajikistan Kyrgyzstan Uzbekistan Kazakhstan	Regional	Customs Union	1995	1997
Agreement on Free Trade between the Government of Georgia and the Government of the Republic of Kazakhstan Free Trade Agreement	Georgia Kazakhstan	Bilateral	Free Trade Agreement	1997	1999
Free Trade Agreement between Government of Republic of Kazakhstan and Government of Republic of Uzbekistan	Uzbekistan Kazakhstan	Bilateral	Free Trade Agreement	1997	1997
Agreement between the Government of the Republic of Armenia and the Government of the Republic of Kazakhstan on Free Trade	Armenia Kazakhstan	Bilateral	Free Trade Agreement	1999	2001
Economic Cooperation Organization Trade Agreement (ECOTA)	Afghanistan Azerbaijan Iran Pakistan Tajikistan Turkey Turkmenistan Uzbekistan Kyrgyzstan Kazakhstan	Regional	Preferential Trade Agreement	2003	2003
Framework Agreement between the Government of the United States of America, and the Governments of Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan concerning the Development of Trade and Investment Relations (US – CA TIFA)	Kyrgyzstan Tajikistan Turkmenistan Uzbekistan United States Kazakhstan	Cross-Continental Multilateral	Framework Agreement	2004	2004

## **2.1 Bilateral Trade Agreements**

Kazakhstan has 5 Free Trade Agreements (FTAs) with CIS countries, 4 of which are bilateral and 1 regional. FTA is a treaty between two or more countries to establish a free trade area where commerce in goods and services can be conducted across their common borders, without tariffs or hindrances but (in contrast to a common market) capital or labor may not move freely. Member countries usually impose a uniform tariff (called common external tariff) on trade with non-member countries [2]. Bilateral FTAs are arrangements in which countries give each other preferential treatment in trade by eliminating tariffs and other barriers on goods. One of the advantages of bilateral agreements is that countries can choose when to enter into agreements [3]. Kazakhstan has concluded such bilateral agreements with Kyrgyzstan, Georgia, Uzbekistan, and Armenia. But terms and conditions in the agreements are not the same for all these countries.

### **2.1.1 Kyrgyzstan – Kazakhstan FTA**

The Free Trade Agreement was signed between Kyrgyzstan and Kazakhstan in 1995 and is in force since that date. According to the agreement, the countries follow the policy of full tariff elimination on goods. Trade was facilitated by discussion on customs procedures (Article 9), trade regulations publication and administration (Article 6), transport and logistics (Article 2), freedom of transit (Article 10), and trade finance (Article 2) [4].

### **2.1.2 Georgia – Kazakhstan FTA**

Georgia and Kazakhstan concluded a bilateral Free Trade Agreement in 1997 which came in force only since 1999. The countries completely eliminated tariffs and developed rules of origin for goods according to which commodity originated from the customs areas of the Sides is determined by regulations determining the originator country of the commodity in accordance with international standards [5]. Articles 4-5 of the agreement refer to the use of discriminative measures, quantitative restrictions to be applied within the framework of GATT and WTO. In order to facilitate trade, the countries agreed on trade regulations publications and administration (Article 7 of the Agreement) and trade finance (Article 6).

### **2.1.3 Kazakhstan – Uzbekistan FTA**

In 1997 the Government of the Republic of Kazakhstan signed Free Trade Agreement with the Government of Uzbekistan that came into force immediately. This bilateral agreement has no WTO notification because the two above stated countries are not members of the WTO [6].

### **2.1.4 Armenia – Kazakhstan FTA**

The bilateral Free Trade Agreement was signed between Armenia and Kazakhstan in 1999 but was in force only since 2001. Trade facilitation was achieved by means of negotiations on customs procedures (Article 9 of the Agreement), customs valuation (Article 9), trade regulations publication and administration (Article 6 and Article 7), freedom of transit (Article 10), transport and logistics (Article 10), and trade finance (Article 4 and Article 10) [7].

## **2.2 Regional Trade Agreements**

In theory a global trade agreement is an ideal solution in terms of resource allocation, economic welfare and economic prosperity. The next best solution is the regional trade agreement which lowers the trade barrier amongst members without having to lower barriers for non-members. However, resolving systemic issues such as rules of origin, antidumping and subsidies are best left to multilateral trade agreements. There are many reasons the momentum of regional trade agreements has picked up in the recent past. One reason is that they can be negotiated quickly, since a limited number of parties are involved, and can charter into areas such as investment, competition, IPR, labor standards, environment provisions, etc.

Regional agreements also help developing countries to experiment with domestic reforms and regulatory policies, and provide an opportunity for domestic markets to learn how to cope with limited foreign competition before a full onslaught in a multilateral regime. A developing country negotiating such an agreement with a developed country can also expect non-trade preferential benefits such as development assistance and freer market access, gaining a point over other competing WTO members.

### **2.2.1 CISFTA**

The first Regional Trade Agreement was signed by Kazakhstan in 1994 with a number of CIS countries such as Armenia, Azerbaijan, Belorussia, Georgia, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, and Kyrgyzstan. The agreement was called Commonwealth of Independent States Free Trade Agreement (CISFTA). The Contracting Parties have agreed not to provide export and other subsidies to the enterprises located on their territories if as a result of providing such subsidies terms and conditions of fair competition are violated. According to Article 3, Parties should, within a 12-month period from the date of entry into force of this Protocol, coordinate their stage-by-stage abolishment of the tariffs and other barriers. The trade facilitation implied negotiations on customs procedures (Articles 4, 5, 6, 7, 11 and 12 of the Agreement), trade regulations publication and administration (Article 9), freedom of transit (Article 10), and trade finance (Articles 5 and 8). In addition, government procurement (Article 17b), competition policy (Article 17a), and dispute settlement (Article 19) were discussed. It was stated in Article 17b that the Contracting Parties should create conditions for liberalization of national markets of government procurement on the basis of non-discrimination and non-mutuality [8].

### **2.2.2 EURASEC**

In 1995 Kazakhstan, Belorussia, Russia, Tajikistan, Kyrgyzstan, and Uzbekistan created Regional Customs Union that was called Eurasian Economic Community (EURASEC) that came into force since 1997.

Customs unions and the so-called free trade areas are common forms of PTAs. Preferential Trade Agreements (PTAs) are agreements among a set of countries involving preferential treatment of bilateral trade between any two parties to the agreement relative to their trade with the rest of the world. Preferences, however, need not extend to all trade between the two, and the coverage could depend on the type of PTAs. Members of most PTAs belong to a well-defined geographical area, such as for example, the European Union (EU), North American Free Trade Area (NAFTA) and Association of Southeast Asian Nations (ASEAN). For this reason regional PTAs are called Regional Trade Agreements (RTAs). The most common form of RTAs are euphemistically named Free Trade Areas (FTAs), with few Customs Unions (CU) which require the partners to maintain a common external trade policy, in addition to free trade with each other [9].

According to EURASEC, negotiations were held on customs procedures (Articles 18, 21, 23, and 24 of the Agreement), customs valuation (Articles 20, 21, 23, and 24), and freedom of transit (Article 22). Another agreement entitled "An Agreement on Foundations on Euroasian Economic Community (EAEC)" was signed in 2000 aspiring for deeper integration [10].

### **2.2.3 ECOTA**

Economic Cooperation Organization Trade Agreement (ECOTA) is a Regional Preferential Trade Agreement that was signed in 2003 by the following countries: Afghanistan, Azerbaijan, Iran, Pakistan, Tajikistan, Turkey, Turkmenistan, Uzbekistan, Kyrgyzstan, and Kazakhstan. The Parties agreed on tariff reduction to maximum 15% in 8 years (15 years for Afghanistan), negotiated customs procedures (Chapter I, Article 8 and Article 9 of the Agreement), customs valuation (Articles 10 and 25), trade regulations publication and administration (Article 11), transport and logistics (Article 13), competition policy, and intellectual property (Article 19) where stressed cooperation activities without substantive IPRs obligations [11].

## **2.3 Multilateral Trade Agreements**

Since its independence, Kazakhstan signed only one multilateral agreement in 2004. The treaty is called Framework Agreement between the Government of the United States of America, and the Governments of Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan concerning the Development of Trade and Investment Relations (US – CA TIFA). It is a cross-continental multilateral agreement. This agreement has no WTO notification. Agreement affirms parties' desire to promote an attractive investment climate and expand trade in products and services consistent with the terms of the agreement. The parties shall establish a United States – Central Asian Council on Trade and Investment, to meet at least once a year for the purpose of monitoring trade and investment relations.

### 3 Conclusion

The agreements have played a key role in fostering free trade in a globalizing world. With the establishment of the General Agreement on Tariffs and Trade after World War II, the multilateral approach was the preferred method of trade liberalization. The World Trade Organization was brought into existence after GATT to fix the anomaly resulting from special treatment allowed under GATT for its member nations to subsidize production or agriculture and limit market access.

Free trade can be contrasted with protectionism, which is the economic policy of restricting trade between nations. Trade may be restricted by high tariffs on imported or exported goods, restrictive quotas, a variety of restrictive government regulations designed to discourage imports, and anti-dumping laws designed to protect domestic industries from foreign take-over or competition. As a result, we see that creation of trade agreements helped Kazakhstan to liberalize trade with a number of countries. Trade agreements allowed Kazakhstan to accomplish the following points with a set of countries:

- Trade of goods without taxes (including tariffs) or other trade barriers (e.g., quotas on imports or subsidies for producers)
- Trade in services without taxes or other trade barriers
- The absence of trade-distorting policies (such as taxes, subsidies, regulations or laws) that give some firms, households or factors of production an advantage over others
- Free access to markets
- Free access to market information
- Inability of firms to distort markets through government-imposed monopoly or oligopoly power
- The free movement of labor between and within countries
- The free movement of capital between and within countries

Whether bilateral and regional trade agreements will act as “building blocks” or, as economist Jagdish Bhagwati puts it, as “stumbling blocks” to a global free trade regime remains to be seen. In the immediate future, for successful co-existence of multilateral, regional, and bilateral trade agreements, it is important that the latter enhance the benefits of the former and compliment them rather than substituting for them.

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