Czech University of Life Sciences Prague

Faculty of Economics and Management

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Master's Thesis

The role of the Eurasian Economic Union in Kazakhstan's industrial policy development

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DIPLOMA THESIS ASSIGNMENT

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The role of the Eurasian Economic Union in Kazakhstan's industrial policy development

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Objectives of thesis

This thesis is focused on the Eurasian integration process aimed to determine trade and economic opportunities for industrial development of Kazakhstan within the Eurasian Economic Union (EAEU) and provide recommendations for increasing competitive advantages of manufacturing industries of Kazakhstan. To achieve these goals the main objectives of the thesis are identified as follows:

1. Specification of Treaty on Eurasian Economic Union and long-term strategic documents adopted by
Eurasian Economic Commission (EEC) to study the regulation of the EAEU and identify the opportunities for industrial sector of Kazakhstan.
2. Examination of WTO Agreements and Working Party on the Accession of the Republic of Kazakhstan to compare obligations of industrial sector of Kazakhstan within EAEU and WTO.
3. Estimation of trade flows of manufacturing goods between Kazakhstan and members of EAEU (Russia, Belarus, Armenia, Kyrgyzstan) to determine the most traded industrial sectors in Kazakhstan.
4. Design the recommendations for Kazakhstan's industrial policy development within the EAEU based on key findings of the research.

Methodology

1) Research objectives definition;
2) Relevant literature overview specification;
3) Structured interviews;
4) Data collection process;
5) Estimation of trade flows of manufacturing goods using Harmonized Commodity Description and Coding Systems;
6) Syntheses of the most relevant results coming from the analytical part of the thesis and their discussion;
7) Identification of key drivers influencing industrial policy;
8) Specification of relevant conclusions (recommendations) related to objectives.

The proposed extent of the thesis

60-80

Keywords

The Eurasian Economic Union, Kazakhstan, World Trade Organization, industrial policy development, international trade, trade turnover (export, import), manufactured goods, Harmonized Commodity Description and Coding Systems, the RCA.

Recommended information sources

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Declaration

I declare that I have worked on my master's thesis titled "The role of the Eurasian Economic Union in Kazakhstan's industrial policy development" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the master's thesis, I declare that the thesis does not break any copyrights.

In Prague on 30.03.2022 ______________________________

Yelena Tsoy

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The role of the Eurasian Economic Union in Kazakhstan's industrial policy development

Abstract

Eurasian Economic Union is the continuous advanced Custom Union created by Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia. It is an ambitious project in the Eurasian continent aimed to facilitate mutual trade and gain economic growth based on principles of free movement of goods, services, human resources, and capital.

The Diploma Thesis is focused on the Eurasian integration process with the aim of determination trade and economic opportunities for industrial development of Kazakhstan within the EAEU and provide recommendations on increasing competitive advantages of manufactured industries. In order to achieve the goals, quantitative and qualitative methods are used. Theoretical part consists of comparison and analysis of resent studies identifying what findings are relevant and mainly discussed nowadays regarding to precondition for international trade, reasons for regional integration and integration process in Eurasian continent. Practical part describes the analysis of the EAEU and WTO legal framework, the examination of the EAEU Treaty and long-term strategic documents adopted by the EEC. After the data collection from official sources the estimation of trade flows of manufactured goods between Kazakhstan and the EAEU Member States is conducted to determine the most traded sectors using Harmonized Commodity Description and Coding Systems. The RCA indexes identified the industries where Kazakhstan has comparative advantages to produce and trade manufactured goods within the EAEU comparing with its Member States in 2011-2020.

Strategic planning in economic policy is a way to help a government be more efficient and more beneficial by distributing the allocation of resources. Therefore, recommendations for Kazakhstan industrial sector on development of inter-state interaction within the EAEU are proposed based on recent Diploma Thesis findings and current political and economic situation.

Keywords: The Eurasian Economic Union, Kazakhstan industrial policy development, World Trade Organization, international trade, manufactured goods, Harmonized Commodity Description and Coding Systems, the RCA

Role Euroasijské hospodářské unie v rozvoji průmyslové politiky Kazachstánu

Abstrakt

Eurasijská hospodářská unie je nepřetržitě se rozvíjející celní unie vytvořená Arménií, Běloruskem, Kazachstánem, Kyrgyzstánem a Ruskem. Diplomová práce je zaměřena na euroasijský integrační proces s cílem se zaměřit na obchodní a ekonomické příležitosti pro průmyslový rozvoj Kazachstánu v rámci EAEU a poskytnout doporučení pro zvýšení konkurenčních výhod zpracovatelského průmyslu Kazachstánu.

Teoretická část se skládá z komparace a analýzy zaslaných studií, která zjišťují, jaká zjištění jsou relevantní a především diskutovaná v současnosti s ohledem na předpoklady mezinárodního obchodu, důvody regionální integrace, integrační proces na euroasijském kontinentu a roli Světové obchodní organizace pro členské státy EAEU.

Praktická část popisuje analýzu právního rámce EAEU a WTO a dále zkoumá smlouvy o EAEU a dlouhodobé strategické dokumenty přijaté Euroasijskou hospodářskou komisí. Následně se aplikuje kvantitativní metoda. Po sběru dat z oficiálních zdrojů se provádí odhad obchodních toků průmyslového zboží mezi Kazachstánem a členskými státy EAEU, aby se určily, jaké jsou nejvíce obchodované sektory pomocí harmonizovaných systémů popisu a kódování komodit. Indexy RCA identifikovaly průmyslová odvětví, ve kterých má Kazachstán komparativní výhody při výrobě a obchodování s vyrobeným zbožím v rámci EAEU ve srovnání s jeho členskými státy.

Strategické plánování v ekonomické politice je způsob, jak pomoci vládě být efektivnějším a prospěšnějším distributorem alokací zdrojů. Proto jsou navržena doporučení pro průmyslový sektor Kazachstánu na rozvoj mezistátní interakce v rámci EU na základě výsledků posledních diplomových prací a současné politické a ekonomické situace. Klíčové poznatky pomáhají kazašské vládě činit rozhodnutí s cílem rozvíjet průmyslový sektor, získat ekonomický růst a vytvořit spravedlivé konkurenční podmínky pro spolupráci s členskými státy Euroasijské hospodářské unie.

Klíčová slova: Euroasijská hospodářská unie, Kazachstán, Světová obchodní organizace, rozvoj průmyslové politiky, mezinárodní obchod, průmyslové zboží, Harmonizované systémy popisu a kódování komodit, RCA.

Table of content

1 Introduction

Nowadays regional integration is considered as a high important process in the context of globalization. The involvement of the Republic of Kazakhstan (hereinafter - Kazakhstan) in international organizations and integrated processes affects economic and trade development, strengthens an investment attractiveness, as well as creates the political image in the international arena. The countries develop inter-regional trade by simplifying customs processes and improving opportunities for sectoral (industrial) cooperation. Regional integration helps to overcome obstacles and barriers created in the process of international trade. The common reasons of creating regional integration are obtaining access to market and trade gains, strengthening domestic policy reform, increasing multilateral bargaining leverage, and establishing strategic multilateral connections with trade partners (Whalley, 1998; Mansfield and Milner, 1999; Mansfield and Reinhardt, 2003; Mansfield and Pevehouse, 2013).

This Diploma Thesis is considered the integration process in Eurasian continent. The Eurasian Economic Union is the continuous advanced Custom Union created by Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia. The Treaty on Eurasian Economic Union was signed on 24th of May 2014 by three Member States of Common Economic Space (Belarus, Kazakhstan, Russia) and came into force on 1st of January 2015. At the same time Kazakhstan has become the 162nd member of the WTO on 30th November 2015. It means that negotiation process of accession conditions to two mentioned above international organizations was conducted simultaneously.

Consequently, building strong and long-term relations with the Member States of the Eurasian Economic Union (hereinafter – the EAEU) and taking advantages of the WTO membership are key priorities of economic, trade and foreign policies of Kazakhstan. Given the fact that the EAEU Member States have different levels of economic development, integration process enhances the competitiveness in common market. The existing constraints directly affect economic growth and trade development especially in developing countries such as Kazakhstan. Thus, regional development requires efficient and specialized institutions, as well as close collaboration between governments, business, and different entities at every level of cooperation. Therefore, it is an important to study an integration process in Eurasian continent and mitigate economic and political risks to create beneficial conditions for further strategic development of Kazakhstan within the EAEU. Results of research should be taken into consideration by governments, local and foreign politics, and decision makers to achieve goals and gain from the EAEU market.

The EAEU is ambitious project in the Eurasian continent aimed to facilitate mutual trade and gain economic growth based on principles of free movement of goods, services, human resources, and capital. The Diploma Thesis narrows down the integration topic and pays attention on industrial policy adopted in the EAEU. The motivation is that the EAEU industrial cooperation is the potential application of effective and mutually beneficial interaction of the Member States to counteract negative trends of global economy, overcome common constraints, accelerate industrial development by increasing the competitiveness and innovative activity of industrial complexes of Member States of the EAEU. The industrial cooperation should be based on mutual interests and strategic perspectives of EAEU itself. It leads to positive effects on the trade development and development the real sector of the economy. As result industrial cooperation improves macroeconomic indicators of the countries involved in the integrated process.

Available materials, scientific articles research the importance of the regional integration and in particular the role of the EAEU and have strong arguments that beneficial conditions and trade facilitation are the main reasons to create interregional cooperation. Some of authors consider that all Member States potentially have the same opportunities to gain from Eurasian integration, the others argue that there is Russian dominance, and it influences on speed of development of whole integration process. However, there is a lack of studies on industrial policy of the EAEU and its benefits to develop. Additionally, the papers about the EAEU rarely consist of recommendations on industrial policy development and cooperation facilitation as well as examination of Treaty on the EAEU and the WTO obligations of Kazakhstan.

Therefore, all mentioned above concerns are studied and investigated in this Diploma Thesis taking into account results derived from conducted research.

2 Objectives and Methodology

2.1 Objectives

The Diploma Thesis is focused on the Eurasian integration process **aimed** to determine trade and economic opportunities for industrial development of Kazakhstan within the EAEU and provide recommendations on increasing competitive advantages of manufactured industries of Kazakhstan.

The subject of research is manufactured industries (industrial sector) of Kazakhstan developing in Eurasian Economic Union.

The object of research is impacts of Eurasian Economic Union on Kazakhstan's industrial policy.

During the work the author examines **research hypostasizes** as follows:

1. The EAEU creates fair competitive conditions for industrial development;
2. Kazakhstan industrial development depends on Russian economy since Rissia has a dominant share in mutual trade of Member States of the EAEU;
3. Industrial cooperation between Kazakhstan and the EAEU Member States boosts the production of manufactured goods.

To achieve these goals following **tasks** are solved in this work:

1. Specification of Treaty on Eurasian Economic Union and long-term strategic documents adopted by Eurasian Economic Commission (EEC) to study the legal framework of the EAEU and identify strategic development and opportunities for industrial sector of Kazakhstan.
2. Examination of WTO Agreement and Working Party on the Accession of the Republic of Kazakhstan to compare obligations of industrial sector of Kazakhstan within EAEU and WTO.
3. Estimation of trade flows of manufactured goods between Kazakhstan and members of EAEU (Russia, Belarus, Armenia, Kyrgyzstan) in 2011-2020 to determine the most traded industrial sectors in Kazakhstan.
4. Calculation of RCA index to identify comparative advantages of Kazakhstan within the EAEU at given period of time.
5. Provide overview of the EAEU perspectives based on structured interviews with corresponding policy experts.
6. Identification of key drivers influencing on industrial policy of Kazakhstan.

7. Design recommendations for Kazakhstan's industrial policy development within EAEU based on key findings of research and structured interviews with policy experts.

2.2 Methodology

To prove or disprove research hypostasizes qualitative and quantitative methods are used in this research.

First, synthesizing qualitative method is applied. This method involves comparison and analysis of resent studies in order to identify what findings are relevant and mainly discussed nowadays. Literature reviewing by reading and re-reading of studies about economic theories as a precondition for international trade, reasons for regional integration, integration process in Eurasian continent and the role of the World Trade Organization is used to obtain theoretical knowledge and produce a new interpretation of synthesizing different opinions of authors.

Then, qualitative analysis mainly relies on the analysis of the Eurasian Economic Union legal framework and regulation. Taking into consideration that Treaty Eurasian Economic Union is the fundamental document establishing Eurasian Economic Union, analysis of the Treaty and long-term documents adopted by Eurasian Economic Commission is crucial part of qualitative method of the current research work. It helps identify the perspectives of regional integration, trade and economic opportunities for Kazakhstan industrial sector based on fundamental principles and international obligations.

The author defines industrial sector of Kazakhstan producing manufactured goods with regards the Harmonized System (HS):

— 25–27 Mineral Products (27 Fuels)
— 28–38 Chemicals & Allied Industries
— 39–40 Plastics / Rubbers
— 41-43 Raw Hides, Skins, Leather, & Furs
— 44–49 Wood & Wood Products
— 50–63 Textiles
— 64–67 Footwear / Headgear
— 68–71 Stone / Glass
— 72–83 Metals
— 84–85 Machinery / Electrical

— 86–89 Transportation

— 90–97 Miscellaneous

Examination of WTO and EAEU obligations regarding industrial subsidies provides insights and complex overview of fair-trade conditions for Kazakhstan as being a member of both international organizations simultaneously.

The structured interview will be conducted to receive expertise and professional opinion. Approximately 5-10 people will be interviewed who work at Eurasian Economic Commission, QazTrade Center for Trade Policy Development under the Ministry of Trade and Integration of the Republic of Kazakhstan, Economic Research Institute under the Ministry of National Economy of the Republic of Kazakhstan and Permanent Mission of the Republic of Kazakhstan to UN office and other international organizations in Geneva.

The quantitative method is data collection and analysis of trade flows of manufactured goods between Kazakhstan and Member States of the EAEU (Russia, Belarus, Armenia, Kyrgyzstan). It determines the most traded industries using Harmonized Commodity Description and Coding Systems. The secondary data is collected from official statistics sources of Kazakhstan, the EAEU Member and Department of Statistics of the Eurasian Economic Commission[1]. Data is time-series data of the period of 2011-2020: 5 years before the EAEU creation (2011-2015) and 5 years after establishing the EAEU (2016-2020).

Diploma Thesis identifies industrial policy as public policy directs to create suitable conditions for industrial sector development including government support, design long-term strategic programs, monitoring key indicators influencing domestic industries (*production, joint venture, strategic industrial development*) etc. Notably, that amount of government support is confidential, therefore it will not be included in the analysis.

Trade analysis is deriving annual change rate in value of the EAEU trade at considering time. Growth rate helps to estimate economic activity over a given period of time and predict future economic indicators. It is computed by dividing the difference between the current and the previous value by the previous value and multiplying by 100% as it is depicted below:

$$\frac{\boldsymbol{Value_{current} - Value_{previous}}}{\boldsymbol{V_{previous}}} * \mathbf{100\%} = \boldsymbol{growth\,rate}$$

[1] Official site of the EAEU. Available at http://www.eurasiancommission.org

After the author calculates the Revealed Comparative Advantage index (RCA) for 14 industrial sectors (codded by HS) for Kazakhstan in 2011-2020. The RCA is used to determine the manufactured sector with comparative advantage of trading country. The index is computing by finding relation of share of a country's total exports of the traded commodity in its total exports and share of world exports of the same commodity in total world exports.

$$\boldsymbol{RCA = \frac{RCA_2}{RCA_3}}$$

$$\boldsymbol{RCA_2 = \frac{Export_{industry\ from\ i\ to\ j}}{Export_{\ total\ from\ i\ to\ j}}}$$

$$\boldsymbol{RCA_3 = \frac{Export_{total\ of\ industry\ from\ \ i\ to\ world}}{Export_{\ total\ from\ i\ to\ world}}}$$

i, j – trading countries (Source: UNCTAD).

If the RCA is lower than 1 then a country does not have comparative advantage in calculated sector. In case where the RCA is greater than 1 – comparative advantage exists.

To calculate the RCA indices data was taken from World Integrated Trade Solution (WITS) site[2] which is collaboration of the World Bank with the United Nations Conference on Trade and Development (UNCTAD) and in consultation with organizations such as International Trade Center, United Nations Statistical Division (UNSD) and the World Trade Organization (WTO) as well as from International Monetary Fund[3].

The reason to compute the RCA index is to provide descriptive statistics or a 'big picture 'of level of regional integration among the EAEU Member States. The results of RCA calculation could be used in Advanced Trade Analysis, such as Input-Output Analysis. Consequently, it will give insights about industrial cooperation within the EAEU and could be used for planning of production chain development.

Taking into account recent findings, current political and economic situation key drivers influencing Kazakhstan industrial policy are identified in this work.

After receiving the most relevant results coming from the qualitative and quantitative methods, recommendations for Kazakhstan industrial sector on development of inter-state interaction within the EAEU are proposed. Strategic planning in international policy is a way to help a government be more productive by distributing the allocation of resources to

[2]Official site of WINTS. Available at https://wits.worldbank.org/
[3] Official site of IMF. Available at https://data.imf.org/

achieve goals and be more beneficial in the EAEU. Key insights of the research help Kazakhstan government make decisions in order to develop manufactured industries, gain economic growth and create fair competitive conditions to cooperate with Member States of Eurasian Economic Union.

As the period of the research is 2011-2020 therefore the Diploma Thesis does not include analysis of the 2022 Russian invasion of Ukraine and its consequences on Kazakhstan economy and the EAEU development. Undoubtedly, Russo-Ukrainian conflict impacts on Kazakhstan directly as Russia is the key trading partner and Member State of the EAEU. There are no sanctions against Kazakhstan imposed by the West and Kazakhstan does not recognize the annexation of Crimea, the so-called republics of Donetsk and Lugansk following the principles and norms of the U.N. Results and Discussion part includes different opinions of experts on Russo-Ukrainian conflict consequences and its influence on Kazakhstan development.

3 Literature Review

The Eurasian Economic Union as regional integration is not learned much as the EAEU was created in 2015. To learn what is done so far, the most efficient is to review different points of authors' views from relevant sources of information. Some scientists believe that the EAEU is ambitious project and has more positive effects rather than negative consequences. Other authors state that Eurasian integration is not competitive and not beneficial for all Member States as Russian dominance in the continent leads to control and dictate the rules for all countries.

3.1 Regional integration

3.1.1 Regionalism

Countries try to strength trade within the region first and then trade globally. The Eurasian Economic Union is a great example of regional integration where Member States started to unite in Custom Union, then Common Economic Space and in 2015 integrated economically.

Obviously, that regional integration as consequence of globalization process increases interests of economists and researchers.

Aggarwal and Fogarty (2003) note that interregionalism "is fundamentally cooperative in nature, intended to bring benefits to both parties through voluntary negotiation and mutual agreement regarding a certain set of rights and responsibilities in cross-regional commerce", consequently, this definition is entirely applicable to regionalism with a remark in a scale of cooperation.

Wilfred J. (1998) stated that the new regionalism is the direct result of the success of multilateral liberalization. New members compete to attract the direct investment for the successful participation in the regional integration as well as regionalism plays key role in expanding and preserving the liberal trade development.

Söderbaum F. (2003) explored the definition of new regionalism including the historical prospective. He stated that new regionalism involves not only government but also it is the object of interest of non-state actors such as civil society and private companies. To review the theories of the new regionalism Söderbaum F. referred to the major theorists across the world – Barry Buzan, Morten Boas, Richard Falk, Andrew Gamble, Bjork Hettne, Helge Hveem, Bob Jessop, Marianne Marchand, Percy Mistry, Iver Neumann, Anthony

Payne, Timothy Shaw, and Diana Tussie. They have all been associated with variety of disciplines, institutions, schools, and debates and so bring a rich set of insights and connection to definition of new regionalism.

Christina J. Schneider (2017) analyzed recent research on regional integration. The author evaluated the development of regional integration agreements (RIAs) from a historical perspective by considering a regional integration as a consequence of the decision-making calculus of office-motivated political leaders who find themselves under pressure from different societal groups interested in promoting or hindering regional integration. Then, she summarizes the determinants and consequences of variations in regional institutional design. Lastly, Christina analyzes the normative and strategic consequences of regional integration.

The role of the EAEU as integrated region is considered in 3.3 part of the Diploma Thesis.

3.1.2 Interregional Trade Agreement

The interregional trade agreements have previously been examined through single case studies such as European Union-NAFTA, European Union-Mercosur, European Union-ASEAN, European Union-Andean Community and Mercosur-Andean Community (Aggarwal and Fogarty 2003; Aggarwal and Fogarty 2005; Bajo 1999; Devlin, Estevadeordal and Krivonos 2000; Faust 2003; Rüland 2001; Szegedy-Maszák 2009; Van der Geest 2004).

For example, Bajo (1999) presented trade liberalization between the European Union and Mercosur as a driving force for cooperation, while Faust (2002) argued that economic interests of domestic groups, ambitions of political actors and WTO stagnation influence partnership between the European Union and Mercosur. Aggarwal and Fogarty (2003) analyzed the European Union's relationship with other integrations by focusing on industrial interests, balance of power and even political and cultural identities converging them into cooperation. As we can see, these cases show separate parts of one picture, as market access, trade gains and effect of the WTO, however, they do not address them in a complex manner as an examining the large number of cases. As pointed out before, Faust (2002) said that domestic politics plays a decisive role in the development of the European Union and Mercosur cooperation, however, this is not applicable for cooperation between the European Union and the Caribbean Community and Common Market (CARICOM), where internal politics do not influence on the process significantly. Aggarwal and Fogarty (2003) did not identify the effect of the WTO and dispute history in considering the cases of European Union's cooperation with other blocs. Therefore, by conducting case studies it is difficult to determine the general factors affecting interregional cooperation and outlining the importance of variable over other one.

Market access and trade gains are the reason for concluding regional trade agreements. Whalley (1998), Mansfield and Milner (2012), Mansfield (2013), Mansfield and Pevehouse (2013) stated that preferential trade agreements have a property to expand further and examine if there is open access to trade areas and fair distributed gains. This means that seeking for a growth of trade induces corresponds to negotiate for access to foreign markets on mutually beneficial terms. It is a general picture, however, as Mattli (1999) noted there is a role of domestic decision-makers, who should be able to comply with the undertaken commitments during integration process. In determining commitments of market access and trade gains, as Milner (1997) argued, certain types of industries, preferences of political leaders and mutual tariff reductions are bases for establishing regional trade blocs. In the same way, Baccini and Kim (2012) focused on an importance of market access, they explain it by exporters, who provoke own governments to conclude preferential trade agreements because of competition in the international market. To be precise, trade arrangements consist of terms and conditions regulating trade barriers and tariffs on goods and services. In so doing, countries will have clear information on products realized in market of a particular country. Moreover, Mansfield (2013) claimed a positive contribution of regional trade agreements in stabilizing political situations in member countries and global market. Hence, the formation of regional trade agreement establishes more stable and profitable partnerships between states.

According to Eurasian Economic Commission the EAEU actively conduct negotiation process on development Free Trade Agreements. The EAEU has signed FTAs with Vietnam, Singapore, Serbia, Iran and 'non-preferential' one with China. The favorable trade regime, elimination of trade barriers, simplification of customs procedures develop trade, economy and attract more investment to Member States.

3.2 Eurasian continent

Eurasian continent attracts more attention from the world with increasing interest from international organizations and developed countries who want to cooperate and invest in projects of region. Over the time the region is developing, and countries belong to the continent integrated their economic and social policies deeper. Regional integration increases strategic significance of the Eurasian continent.

3.2.1 Custom Union

According to the book “The customs union issue” (Viner, J.,2014) Custom Union is trade bloc where countries have ability to improve trade conditions by elimination of tariff or negotiating of tariff reductions, receiving revenue from duties and produce goods at low-cost conditions. The authors argued that reasons for establishing of Custom Union are both economic and political ones.

Weitz, Richard (2014) studied integration process within Eurasian continent from creation of Eurasian Economic Community (EurAsEC; or EEC)[4] in October 2000 “after the CIS proved unable to achieve adequate economic integration or an effective customs union.” Later in 2007 Belarus, Kazakhstan and Russia established predominantly intergovernmental Custom Union in order to facilitate trade and monitor their economic policy, migration issues and currency exchange rule. Notably, that Kyrgyzstan, Tajikistan, and Uzbekistan could not be members of Custom Union due to lower levels of economic development. It is important to mention that the Treaty on Custom Union was aligned to the WTO rules since countries were in negotiation processes to access[5] to WTO.

3.2.2 Common Economic Space

According to Ministry of Economic Development of Russian Federation[6] Common Economic Space (CES) is a project of economic and political integration of three CIS Member States: Russia, Kazakhstan, and Belarus. The Agreement on the formation of the CES was signed in 2003 by the Presidents of mentioned-above countries. Then, after CES regulation was agreed and 17 Agreements were signed CES entered into force in 2012. Member States confirmed to establish supranational executive body as Eurasian Economic Commission which is responsible to ensure the functioning and development of CES.

Wisniewska I. (2012) studied the Common Economic Space and based on the principles of the CES the Member States harmonized their economic policies, agreed on

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[4] Official website of EvRazEs [online]. Available at http://www.evrazes.com/
[5] Russia became member of WTO in 2013, Kazakhstan in 2015, Belarus is still in the negotiation process.
[6] Official website of Ministry of Economic Development of Russia [online]. Available at http://old.economy.gov.ru/

uniform principles of access to natural monopolies, standardization of the competition policy, and harmonization of the services market. Moscow followed the aims to reinforce its position in world political area. Russian prevalence allowed to have influence on the former Soviet Union's European countries (Ukraine and Moldova) as well as strengthening Russia's presence in Central Asia to balance China's increasing activity in the region.

3.2.3 Eurasian Economic Union

Russia, Belarus, Kazakhstan, Armenia, and Kyrgyzstan are members of Eurasian Economic Union since 2015. The Union develops on beneficial conditions and aims to facilitate trade, business cooperation and attract foreign investment. The EAEU was created based on international experience and todays it is object of analysis for scholars.

Blockmans S., Kostanyan H. & Vorobiov I. (2012) considered the opportunities and challenges of transition from the Customs Union to Economic integration. Moreover, authors compared the Eurasian Economic Union with early stages of the European Union (investment flows, migration changes, dynamics of intraunion trade volumes in the most important sectors) and provided comparison of decision-making process in both organizations.

Whereas Vinokurov Y. (2017) theorized Eurasian Economic Union as the single market for goods and services functioning in terms of rules of regional economic integration. The author saw the problem of efficiency of coordination of macroeconomic policies and achievement toward eliminating non-tariff barriers. The paper considers Eurasian Economic Union as the continued high-level regional integration of Custom Union (1995) and Common Economic Space (2003).

Dutkiewicz P. (2015) highlighted the challenges for Member States of the EAEU such as "asymmetric relations within the Union" with the Russian dominant role, "the ability to implement multi-level integration smoothly" and "The ability to reconcile the multi-civilization, multi-cultural, multi-confessional nature of the union".

Yudina T., Osadchaya G., Leskova I., Dolgorukova I. & Kireev E. (2015) analyzed the migration risks come from open borders and free movement principle applied by the EAEU Treaty. The authors considered the question as socio-economic and political phenomenon and stated that the migration risks should be minimized as well as used as potential for development of Russia. They used several methods in order to evaluate the migration risks: analysis of regulatory documents, statistical analysis of national statistics of the countries of the former USSR, countries of Eastern partnership and Russia and qualitative analysis of the publications of scientists, specialists and experts dedicated to the raised issue including quantitative survey. As result the authors concluded that the risks are managing process and with certain measures (preventive and proactive measures of labor market regulation and social protection) applied by the government can regulate the outcomes and influence on the economic and social development of countries.

The migration risks issue was learnt by Later David G. Tarr (2016) as well. He agreed that free labor market condition as one of principles of Eurasian Economic Union can be considered as opportunity for migrants from Armenia and Kyrgyz Republic to work in Russian market. Comparing with previous study the difference is the author considers the free movement of human resources as disadvantage for Russian market not potentiality to improve social development.

Kirkham K. (2016) stated that Russian potential is hegemonic in the regional integration. The idea of the Russian hegemonic project is derived from the geopolitical concept of Eurasianism. The author used neo-Gramscian approach to prove the stated argument. Applied methodology consists of four elements: the institutional design, material capabilities (the capitalist system), security invulnerability (geopolitics) and cultural leadership. This article has theoretical application concluding that hegemony as an evolutionary process, which passes through three phases: initial, transitional, and conclusive.

Golam M., Monowar M. (2018) agreed with previous author and criticized the integration process relying on Russian domination, influence, control, and pressure. They claimed that the reasons of lack of progress and success could be declarative-in-nature or politically motivated goals accompanied by non-stable and dependent on oil price national currency (ruble) of Russia and continuous conflict with Ukraine.

Karaalp H. (2011) studied long-term international comparative advantages using B. Balassa's RCA methodology in 2000-2014. He identified comparative advantage index for four groups of goods according to OECD classification of manufacturing industries. The OECD methodology classifies industries based on level of technology: the high-technology, medium-high technology, medium-low-technology, and low-technology. The author concluded that "paradoxically, the two largest EAEU economies, Russia and Kazakhstan, have a relatively low level of competitiveness in contemporary international trade, given their economic potential." And the analysis showed that Belarus has the most competitive advantage in all categories such as medium-high technology, medium-low-technology, and low-technology.

As we can see literature review shows that there is a lack of studies on industrial policy of the EAEU and its benefits to develop. Additionally, the papers about the EAEU rarely consist of recommendations on industrial policy development and cooperation facilitation as well as examination of Treaty on the EAEU and the WTO obligations of Kazakhstan.

The objective of Diploma Thesis is to fill this gap based on existed studies and to supplement by novelties directly applicable for the industrial policy development in integrated process in Eurasian region. The EAEU should build transparent and fair policy for industrial development by providing sufficient conditions for enterprises to produce goods and services with comparative advantages in local and foreign markets.

3.3 The role of the World Trade Organization

Kazakhstan had negotiation processes to accession to the EAEU and the WTO simultaneously. It took twenty years to Kazakhstan became member of the WTO (November 2015). The Government of Kazakhstan applied for accession (WT/ACC/KAZ/1) to the World Trade Organization (WTO) on 29 January 1996.Notably, that obligations of Kazakhstan within two international organizations should be aligned. Therefore, I consider the key principles of WTO as they are replicated in the EAEU policy as well (*in industrial policy, procurement, agriculture, investment, services*).

The World Trade Organization (WTO)[7] is the global international organization aimed to make international trade transparent and smooth based on rules and fundamental principles of multilateral trading system. The WTO was established on basis of General Agreement on Tariff and Trade (GATT). Therefore, most of the WTO Agreements8 are the result of the 1986–94 Uruguay Round negotiations, signed at the Marrakesh ministerial meeting in 1994. Currently, there are 164 Member States and its accounts around 90% of world trade.

The industrial policy is described in The Agreement on Subsidies and Countervailing Measures ("SCM Agreement") and partially touched by Anti-Dumping Agreement (Implementation of Article VI of the GATT).

[7] Official website of WTO [online]. Available at https://www.wto.org/
[8] Official website of WTO [online]. Available at https://www.wto.org/english/docs_e/legal_e/legal_e.htm

Recently, there are a lot of discussions about losing power of the WTO related to no functionality of Appellate Body[9]. Nowadays, countries try to cooperate regionally *(the EAEU, EU, NAFTA, MERCOSOUR, etc.)* and strength their positions in single market with neighboring countries. Undoubtedly, multilateral trading system brings its benefits but increasing trade wars become challenging to regulate at the WTO planform.

3.3.1 The Most Favoured Nation Principle

The MFN principle is a fundamental principle of WTO which is regulated by Article 1 of GATT. It requires to provide most advantageous treatment to similar product ("like product") of all Member States equally in term of tariffs, regulations on exports and imports, internal taxes and charges on imported products, and internal regulations. It prevents discrimination among different foreign trading partners. Notably, that there are exceptions form MFN principle described in Article XXIV of GATT.

The MFN[10] is also set in the General Agreement on Trade in Services (GATS, Article 2) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS, Article 4)

Note: Paragraph 1 of Article 1 of GATT: "With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports, and with respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation, and with respect to all matters referred to in paragraphs 2 and 4 of Article III, any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties."*

3.3.2 National Treatment

The NT principle is a fundamental principle of WTO[11] which is regulated by Article 3 of GATT. It requires to treat foreign goods and services in domestic market as same way

[9] Official website of WTO [online]. Available at https://www.wto.org/english/tratop_e/dispu_e/appellate_body_e.htm
[10] Official website of WTO [online]. Available at https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm
[11] Official website of WTO [online]. Available at https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm

as local goods and services. Therefore, to not discriminate imported goods. The NT is also provided by Article 17 of GATS and Article 3 of TRIPS.

Note. Paragraph 1 of Article 3 of GATT: "The contracting parties recognize that internal taxes and other internal charges, and laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products, and internal quantitative regulations requiring the mixture, processing or use of products in specified amounts or proportions, should not be applied to imported or domestic products so as to afford protection to domestic production."

The WTO SCM Agreement and Working Party on the Accession of the Republic of Kazakhstan in comparison with obligations of Kazakhstan in EAEU are examined in 4.2 part of Diploma Thesis.

4 Practical Part

4.1 Analysis of Treaty on Eurasian Economic Union and long-term strategic documents adopted by Eurasian Economic Commission (EEC) for industrial development

Industrial policy in the EAEU is the realization of the potential for effective and mutually beneficial interaction between the Member States. Beside this, joint countries' resources help to counter negative trends of the global economy effectively (COVID-19 pandemic), overcome common constraints and ensure the acceleration and sustainability of industrial development. The growth of industrial sector might be reached by increasing the competitiveness and innovative activity of industrial complexes of Member States.

Therefore, the implementation of industrial policy is important component of achieving long term strategic goals of the whole EAEU. The main tasks of the Eurasian Economic Commission are to develop proposals for deepening industrial cooperation between Member States and conduct coordinating role of national industrial policies of the five countries. The industrial policy directions, its rules and obligations are described in the Article 92, 93 and Annex 27, 28 of the Treaty on Eurasian Economic Union (Section XXIV).

The Article 92 on industrial policy and cooperation provides key directions of industrial policy development and Member States responsibilities as well as the Eurasian Economic Commission scope of expertise (creation of technology platforms, engineering centers, technology transfer networks, systems of industrial cooperation and subcontracting).

According to paragraph 1 of Article 92 "the Member States independently shall develop, formulate, and implement national industrial policies, as well as adopt national programs on industry development and other measures of industrial policy, and also determine methods, forms and directions of granting industrial subsides which are not contrary to Article 93 of the Treaty.

Industrial policy within the framework of the EAEU shall be established by Member States by the main directions of industrial cooperation, which approved by the intergovernmental Council and carried out by them with consultative assistance and coordination of the Commission".

The Article 92 and Annex 27 set the goals of industrial policy for Member States: "The purposes of industrial policy implementation within the framework of the EAEU shall be an acceleration and increase of industrial development stability, increase of competitiveness of member States’ industrial systems, implementation of effective cooperation, which shall be addressed to increase of innovation activity, elimination of barriers in industrial area as well as on the way of movement of member States’ industrial products.”

Mutual trade in industrial goods is competitive area where certain rules are applied. These unified rules are established by Article 93 on industrial subsidies. According to the Treaty financial aim should comply three basic elements to be recognized as subsidy: (i) a financial contribution (ii) by a government or any public body within the territory of a Member State (iii) which confers a benefit.

The Article 93 describes mechanism how industrial subsidies should be provided to manufactures of industrial goods, including services that are directly related to the production, marketing, and consumption of industrial goods. The main concern is to not harm mutual trade by unfair conditions which could be caused by subsidized industry.

The Commission ensures control over the implementation of the provisions of Article 93 and Annex #28 "Protocol on Common Rules for Granting Industrial Subsidies" to the Treaty. At the same time, the EAEU Member States independently determine the subjects, methods, forms, and directions for providing industrial subsidies, which should not be contradicted the provisions of the Treaty. The decision of subsidies distribution is made at the national level of each Member State.

According to the Article 93 and Annex 28 there are three types of industrial subsidies: non-actionable, specific, and prohibited. Notably, that the EAEU subsidies rules and obligations (transition periods) are corresponding to the WTO rules.

Non-actionable subsidies direct on R&D, infrastructure development, providing training to human resources etc. The Member States have right to grant above-described subsidies without limitation, and these subsidies cannot be a subject of dispute, investigation, and countervailing duties. The countries provide non-actionable subsidies without the consent of the Commission.

Specific subsidies are subsidies that are specifically provided to an enterprise or industry or group of enterprises or industries. For example, subsidy is applied for car manufacture or enterprises with annual profit of $5 billion. The subsidies are limited by industry or recipient.

It is prohibited to provide export and local content subsidies in the EAEU. These subsidies are considered as subsidies that cause a damage to domestic industry of Member State or lead to the serious infringement of the interests of any of the EAEU State.

To monitor the fulfilment of the obligations of the Member States on industrial subsidies, the EEC analyses the notifications of industrial support measures submitted by Member State each quarter of reporting period. Additionally, the EAEU countries notify about planned industrial subsidies annually.

The Agreement on the Voluntary Reconciliation of Specific Subsidies between Member States and the Eurasian Economic Commission was signed on May 26, 2017. It expands the functions of the EEC and allows Member States provide agreed specific subsidies without application of countervailing measure for certain period.

Moreover, the Agreement establishes the procedure for the EEC of deciding about the admissibility or inadmissibility of specific subsidies based on the criteria adopted by the Member States. The Commission has the right to conduct investigation to prove or decline the evidence of damage of industry caused by subsidized imports. As we can see the Treaty on the EAEU is fundamental document which create provisions for design further strategic documents for industrial policy development within the Eurasian Economic Union.

The Article 92 of the Treaty on the EAEU refers to the main long-term strategic document of industrial policy development within the EAEU as “The Main Directions of Industrial Cooperation” which was adopted by the Decision of the Intergovernmental Council of April 4, 2021, No. 5 (the first version was adopted on September 8th, 2015). This strategic document is aimed to deep industrial cooperation, modern existing facilities and create new innovative industrial sectors and develop competitive export-oriented products. The Member States agreed on the formation of a new innovative economy by developing scientific, technical, and innovative cooperation and the creation of business and scientific infrastructure for industrial sector.

Notably, that despite increased growth of the EAEU there are risks to not meet KPIs due to unpredicted economical situations. Thus, the Agreement was designed for five years and revised taking into account all actual global challenges. The document provides key directions of further development of industrial policy and cooperation within the EAEU up to 2025:

— import substitution by increasing the localization of production and deepening industrial cooperation.

— increasing exports of manufacturing products.

— creation of new innovative sectors of industry and modernization of enterprises in traditional industries.

The Member States agreed to use the EAEU market potential to gain from cooperation and increase export of jointly produced goods and services. It is a fact that technology and innovation facilitate trade and economic growth therefore innovative cooperation and digitalization of industries are key priorities of further devolvement of industrial sector within the EAEU for medium term.

Importantly that strategic directions of industrial policy development and recommendations to the "The Main Directions of Industrial Cooperation" should take into account the implementation of the "Strategic Directions for Developing Eurasian Economic Integration until 2025" (*hereinafter Strategy-2025*). It is an extension of the Declaration on further deepening the integration processes in the EAEU.

The Supreme Eurasian Economic Council (*the heads of the Member States*) have adopted the "Declaration on further deepening the integration processes in the EAEU" on December 6, 2018. The Declaration expands the scope of the Treaty on the EAEU and includes new opportunities, objectives, and directions for further development of the Union (*Decision of the Supreme Eurasian Economic Council dated December 11, 2020, No. 12, Minsk*).

The document declares the maximum efficiency of the EAEU and realization its opportunities for business and consumers by creating an "innovation territory" and stimulating scientific, industrial, and technological breakthroughs. Also, the Declaration strengths the integration potential for people by improving their quality of life and opens mutually beneficial conditions for external partners.

The Strategy-2025 identifies 11 areas for integration processes development. They are the completion of elimination of barriers and the maximum reduction of restrictions on the free movement of goods, services, capital, and labor within the EAEU; the improvement of customs regulation; the formation of a digital space and ecosystems; the expansion of economic cooperation in education, healthcare, tourism and sports, and others. The list of measures and mechanisms is an actual roadmap, and its implementation will create 13 international treaties, more than 60 regulatory legal acts, about 25 amendments and additions to the Treaty on the EAEU, as well as alignments national legislation of Member States to new strategic documents of the EAEU. The Board of the Eurasian Economic Commission is responsible for monitoring of all implementations related to the Strategy-2025.

Notably that by signing the Strategy-25 the Member States agreed to create several common markets and spaces within the EAEU:

— Creation of common markets for energy resources, in particular a common gas market, a common market for oil and oil products, as well as the formation of a common electric power market of the Union.

— Single transport space.

— Coordinated agro-industrial policy.

— Elimination of existing barriers to the movement of goods and labor.

— Formation of a single financial market of the EAEU.

4.2 Examination of WTO Agreement and Working Party on the Accession of the Republic of Kazakhstan in comparison with obligations of Kazakhstan in the EAEU

As I described in previous chapter (4.1) Member States are prohibited to provide export and local content subsidies. This obligation is common requirement for the WTO (The Agreement on Subsidies and Countervailing Measures) and the EAEU (the Treaty on the EAEU). The Article 93 and Annex No. 28 to the EAEU Treaty incorporated the key principles of the WTO Agreement and provided procedures for notification of specific subsidies, monitoring, dispute settlement, and conducting investigations by national authorities.

The Article 93 "Industrial Subsidies" and Annex No. 28 "Protocol on Common Rules for Granting Industrial Subsidies" of the EAEU Treaty established basic rules for granting industrial subsidies.

In this chapter I will provide detailed information about Kazakhstan obligations in industries within the WTO and the EAEU. Full information about all obligations and conditions to access to the WTO can be found in Working Party on the Accession of the Republic of Kazakhstan (WT/ACC/KAZ/93)[12].

Notably, that mechanism of providing governmental aid (subsidies) is transparent. The country should submit notification of all realized financial support in industrial sectors

[12] Official website of WTO [online]. Available at https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=132871&CurrentCatalogueIdIndex=0&FullTextHash=

(*volume and referral to the state program*) to the WTO Secretariat within 90 days of the entry into force of the WTO Agreement (*day of accession, 30 November 2015*). Further, the Member State should notify the WTO Secretariat once per two years.

Note. Subsidies Article 25 of the SCM Agreement requires that Members notify all specific subsidies (at all levels of government and covering all goods sectors, including agriculture) to the SCM Committee. New and full notifications are due every three years with update notifications in intervening years. The notifications are the subject of extensive review and discussion by the SCM Committee.

Comparing with the EAEU, the Member States have to send notification of industrial specific subsidies every quarter of reporting period and annually about planned for next reporting period subsidies to the EEC and all Member States. The structure of the notification is different. The WTO information consists of general information

Note. Paragraph 97 of IX Notification of Annex 28. Member States (competent authorities of member States) shall every three months no later than 30th of the month following the reported quarter, notify each other and the Commission according to form on the subsidies granted on federal (republic) and regional (local) levels.

Table 1 Framework of the Eurasian Economic Union among the Republic of Kazakhstan, the Russian Federation, and the Republic of Belarus

EGISLATION/REGULATION	LEGISLATION NOTICE
Treaty on the Establishment of Common Customs Territory and the Formation of the Customs Union of 6 December 2007 (repealed as of 1 January 2015)	WT/ACC/KAZ/68
Treaty on the Functioning of the Customs Union in the Framework of the Multilateral Trading System of 19 May 2011	WT/ACC/KAZ/68, WT/ACC/KAZ/69
Decision of the Supreme Eurasian Economic Council No. 1 "On the Regulation of the Work of the Eurasian Economic Commission" of 18 November 2011	WT/ACC/KAZ/72/Add.1
Treaty on the Eurasian Economic Union of 29 May 2014	WT/ACC/KAZ/85, WT/ACC/KAZ/85/Rev.1
Protocol "On the Rules of Entry into Force of International Treaties Comprising the Legal Basis of the Customs Union, Withdrawal from Them and	WT/ACC/KAZ/68

Accession to Them" of 6 October 2007 (repealed as of 1 January 2015)	
Statute of the Court of the Eurasian Economic Community, approved by Decision of the EurAsEC Interstate Council No. 122 of 27 April 2003	WT/ACC/KAZ/68
List of International Treaties which Formed Contractual and Legal Base of the Customs Union, approved by Decision of the EurAsEC Interstate Council No. 14 of 27 November 2009	WT/ACC/KAZ/68
Decision of the EurAsEC Intergovernmental Council No. 15 "On the Issues of the Organization of Functioning of the Commission of the Customs Union" of 27 November 2009	WT/ACC/KAZ/68
Decision of the EurAsEC Interstate Council No. 534 of 9 December 2010 "On the Treaty on Judicial Recourse to the EurAsEC Court of the Economic Operators on Disputes within the Framework of the Customs Union and Peculiarities of the Judicial Procedure on Them"	WT/ACC/KAZ/68
Decision of the CU Commission No. 308 "On Regulation on Introduction of Changes on Control Measures of Foreign Trade in the Customs Union Commission (as in force on the Customs Union Commission No. 553 of 2 March 2011)" of 18 June 2010	WT/ACC/KAZ/68
Code "On Administrative Offences" of 22 March 1984, as amended on 1 April 1995 (repealed by Code No. 155-II "On Administrative Offences" of 30 January 2001)	WT/ACC/KAZ/4

Law of the Republic of Kazakhstan No. 536-IV "On Ratification of the Treaty on the Eurasian Economic Commission" of 10 January 2012	WT/ACC/KAZ/72/Add.1

Source: Working Party on the Accession of the Republic of Kazakhstan

The WTO Agreement requires a certain notification requirement in industrial subsidies and countervailing measures. All Member States have an interest in the information provided by all other Members about programs, measures, and recipients. Moreover, the notifications could prevent damage caused by subsidizing import and therefore avoid dispute settlement proceedings. Thus, countries should comply fully with all notification obligations.

According to the SCM Agreement there are three basic areas for which notifications are required under the SCM Agreement:

- specific subsidies
- authorities/procedures/legislation relating to countervailing measures
- and countervailing measures -actions

The paragraph 561 of the Working Party states that state support to the industrial sector was aimed mainly at attracting investment into priority sectors of the economy, development of innovative industries, support of small and medium enterprises and development of regions. The main instruments of State support included: (i) investment preferences in the form of tax and customs duty exemptions on imports; (ii) in-kind State grants; (iii) preferences on land tax and property tax for juridical persons implementing strategic investment projects; (iv) subsidization of interest rates on commercial loans and providing partial guarantees of loans; (v) leasing on preferential terms; (vi) development of industrial infrastructure; (vii) industrial preferences for juridical persons implementing strategic investment projects in socially and economically disadvantaged regions; (viii) service support of businesses; (ix) tax deferrals; and (x) innovation grants.

Kazakhstan took a transition period to harmonize all necessary legislation in accordance with the WTO rules and the EAEU law. If deadline of grating subsidy is different for the WTO and the EAEU, the Member State should take into consideration the WTO obligation. Therefore, the WTO has privilege over the EAEU at certain extend.

All measures required transition period for Kazakhstan are listed below.

Table 2 List of measures, for which the Provisions of the Protocol on Common Rules for Granting Industrial Subsidies shall not be applied

Measure	Transitional period
Subsidizing of interest rates on loans of export-oriented production in accordance with Resolution of the Government of the Republic of Kazakhstan of 13 April 2010 No. 301 «The Program "Business Road Map - 2020"»	Before 1 July 2016 on loans, provided by the credit institutions before 1 July 2011
Customs duty and tax exemption of the goods that are recognized to be of Kazakhstan origin according to the criteria of sufficient processing when exported from the customs free warehouse to the customs territory of the Customs Union, pursuant to the Code of the Republic of Kazakhstan of June 30, 2010, on Customs Procedures in the Republic of Kazakhstan; Law of the Republic of Kazakhstan No 99-1 of December 10, 2008, on Taxes and Mandatory Payments to the Budget (Tax Code); Resolution of the Government of the Republic of Kazakhstan No. 1647 of October 22, 2009 on Approval of Rules for Determining the Country of Origin, Preparing and Issuing an Examiner's Statement of Origin of Goods, and Registering, Certifying and Issuing a Certificate of Origin; Treaty between the Government of the Republic of Belarus, the Government of the Republic of Kazakhstan and the Government of the Russian Federation of June 18, 2010 on Free Warehouses and Customs Free Warehousing Procedure	Before 1 January 2017
Customs duty and tax exemption of the goods that are recognized to be of Kazakhstan origin according to the criteria of sufficient processing during the export from special economic zones into the customs territory of the Customs Union pursuant to the Treaty between the Government of the Republic of Belarus, the Government of the Republic of Kazakhstan and the Government of the Russian Federation of June 18, 2010 on the Issues of Free (Special) Economic Zones in the Customs Territory of the Customs Union and Customs Procedure of a Free Customs Zone;	Before 1 January 2017

Law of the Republic of Kazakhstan on Special Economic Zones in the Republic of Kazakhstan of July 6, 2007; the Code of the Republic of Kazakhstan of June 30, 2010, on Customs Procedures in the Republic of Kazakhstan; Resolution of the Government of the Republic of Kazakhstan No.1647 of October 22, 2009, on Approval of Rules for Determining the Country of Origin, Preparing and Issuing an Examiner's Statement of Origin of Goods, and Registering, Certifying and Issuing a Certificate of Origin	
Measures of investment agreements, concluded in accordance with Order of Ministry of Industry and New Technologies of 11 June 2010 No. 113 "On Certain Issues of Conclusion, Terms and Standard Form of Agreement on Industrial Assembly of Motor Vehicles with Judicial Entities – Residents of the Republic of Kazakhstan" and Decision of the Commission of Customs Union of 27 November 2009 No. 130 "On Common Customs and Tariff Regulation of the Customs Union of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation"	Before 31 December 2020, unless otherwise provided by the Protocol of accession of the Republic of Kazakhstan to the World Trade Organization
Local content in subsurface contracts, between the Government of the Republic of Kazakhstan and subsurface user, concluded before 1 January 2015, in accordance with Law of the Republic of Kazakhstan of 24 June 2010 No. 291-IV "On Subsurface and Subsurface Use"	Before 1 January 2023, unless otherwise provided by the Protocol of accession of the Republic of Kazakhstan to the World Trade Organization
Local content in the procurement of National Wealth Fund (NWF) "Samruk-Kazyna" and organizations fifty or more percent of shares of which directly or indirectly owned by the "Samruk-Kazyna", and companies, which directly and indirectly owned by Government (state share is 50 % and more) in accordance with Law of the Republic of Kazakhstan of 1 February 2012 No. 550-IV "On the National Welfare Fund". These Procurement Rules had	Before 1 January 2016, unless otherwise provided by the Protocol of accession of the Republic of Kazakhstan to the World Trade Organization

been elaborated based on the Model Procurement Rules approved by Government Resolution No. 787 of 28 May 2009	

Source: APPENDIX to the Protocol on Common Rules for Granting Industrial Subsidies

As you can see transition period is ended for all industrial subsidies are not complied with the WTO and the EAEU regulation. Therefore, Kazakhstan is no longer allowed to grant export or local content government support or any measure that could violate rules of international organizations such as the WTO and the EAEU.

Please refer yourself to the Appendix of the Diploma Thesis to explore the last and full notification of the Republic of Kazakhstan in accordance with Article 25.1 of the SCM Agreement which was sent to SCM Committee for its consideration (G/SCM/N/343/KAZ).

4.3 Estimation of trade flows of manufactured goods between Kazakhstan and the EAEU Member States before and after creation of the EAEU

4.3.1 Key Trade Indicators of Kazakhstan in the EAEU

The mutual trade in goods within the EAEU recorded $55.1 billion in 2020, a decrease of 10.7% compared with 2019 ($61,6 billion). As expected, the majority of 63.7% in common trade belongs to Russia, 23.6% represents Belarus, 10.4% is traded by Kazakhstan and about 2% accounts for Kyrgyzstan and Armenia.

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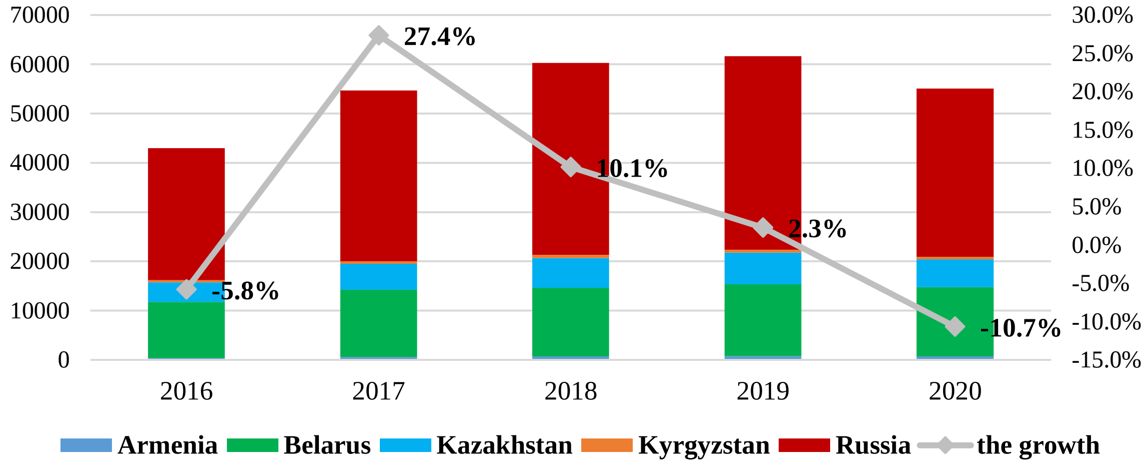
Table 3 The mutual trade in goods within the EAEU ($ mln)

	2016	**2017**	**2018**	**2019**	**2020**
Armenia	393.9	571	688.5	769.2	709.9
Belarus	11384.8	13651	13932.2	14569.7	14009
Kazakhstan	3930.2	5262.5	6046.8	6406.2	5671.9
Kyrgyzstan	447.1	541.5	640.6	641.7	554.5
Russia	26804.3	34685.6	38953.4	39247.2	34108.6
The EAEU	**42960.3**	**54711.6**	**60261.5**	**61634**	**55053.9**

Source: The EEC

The EAEU mutual trade declined after 2017 and it can be explained by devaluation of currencies of the Member States to dollar. Drop in 2020 is caused by COVID-19 pandemic and economic crisis due to restrictions.

Figure 1: The mutual trade in goods within the EAEU ($ mln)



Source: The EEC

Industrial goods are traded most (80%) in the EAEU whereas agricultural goods composed remaining 20%. The main traded industrial groups are mineral products (23.4%), machinery, electronical and transportation (21.7%) and metals (13.3%).

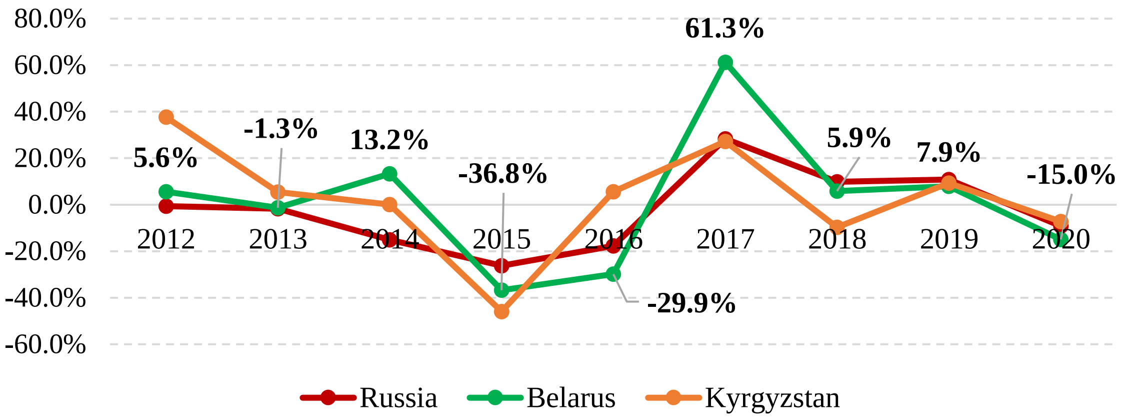
Table 4. Trade structure grouped by HS codes in 2020 ($ mln)

HS codes	Group	EAEU	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia
01-24	Food Products	9,915.6	446.7	4,609.9	655.6	153.4	4,049.9
25-27	Mineral Products	11,867.0	9.9	316.3	2,278.6	127.6	9,134.6
28-40	Chemical products	7,195.9	26.0	1,695.7	874.7	43.1	4,556.4
41-43	Raw Hides, Skins, Leather, & Furs;	118.7	4.2	39.9	1.1	5.0	68.5
44-49	Wood & Wood Products	1,624.9	0.7	444.6	16.8	9.2	1,153.6
50-67	Textiles, Footwear / Headgear	2,210.6	70.3	1,032.7	50.0	76.4	981.3
72-83	Metals	6,767.8	21.6	983.2	1,293.8	41.3	4,427.9
84-87, 90	Machinery / Electrical, Transportation	10,999.1	48.2	3,966.7	435.0	50.5	6,498.6
	Total	**55,053.9**	**709.9**	**14,009.1**	**5,671.9**	**554.5**	**34,108.6**

Source: The EEC

Further information about the mutual trade in industrial goods of Kazakhstan with the EAEU Member States is provided. As the EAEU is created in 2015 I consider trade volumes before its establishing (2011-2015) and after (2016-2020). As you can see from table below that indicators of imported and exported industrial goods are quite similar from the first sight. However, calculation shows the average growth for considering periods is different. For example, average growth of trade with Russia was (-10.9%) in 2011-2015, whereas after the EAEU creation it became 4%. The same situation is characterized for all countries (*Belarus: -13.1%, 27.4%; Kyrgyzstan: 4%, 8.7%; Armenia: -2.4%, 276%)*. Therefore, I concluded that the EAEU impacts on mutual trade within the Union positively.

Figure 2: The growth of mutual trade in industrial goods between Kazakhstan and the EAEU Member States[13] (%)



Source: The Author's calculation

Positive balance of trade is kept for Kyrgyzstan during the considering period (2011-2020). Kazakhstan is recipient in relation with Russia and Belarus (import is greater than export). Volumes of exported and imported industrial goods in trade with Armenia show the stable pattern.

Table 5. The mutual trade in industrial goods between Kazakhstan and the EAEU Member States ($ mln)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Turnover (Ex+Im)									
Russia	22047.3	21910.1	21544.5	18282.2	13488.8	11107.6	14252.5	15661.9	17354.8	15752.8
Belarus	588.9	621.8	613.6	694.9	439.4	308.1	496.8	526.1	567.6	482.6
Kyrgyzstan	242.0	333.1	351.2	351.2	190.0	200.6	255.2	230.4	251.9	233.6
Armenia	4.2	2.2	4.8	5.3	3.1	1.4	5.8	5.6	4.8	7.1
	Export									
Russia	7391.3	6542.7	5384.8	6099.6	4277.6	3240.2	4239.6	4808.9	5169.4	4519.1
Belarus	100.3	78.4	51.4	60.3	52.2	30.1	93.5	84.1	93.1	63.6
Kyrgyzstan	309.5	451.4	387.2	427.5	315.5	223.4	329.5	463.2	419.4	394.5
Armenia	2.3	0.5	0.7	0.4	0.7	0.2	3.7	2.9	1.6	3.8

[13] Graph does not consist of Armenia data in a purpose

	Import									
Russia	14655.9	15367.5	16159.7	12182.6	9211.2	7867.4	10012.9	10853.1	12185.4	11233.7
Belarus	488.6	543.5	562.2	634.6	387.2	278.0	403.3	442.0	474.5	419.1
Kyrgyzstan	242.0	333.1	351.2	351.2	190.0	200.6	255.2	230.4	251.9	233.6
Armenia	2.0	1.7	4.1	5.0	2.5	1.2	2.2	2.7	3.2	3.4
	Balance (Ex-Im)									
Russia	-7264.6	-8824.8	-10774.9	-6083.1	-4933.6	-4627.3	-5773.3	-6044.2	-7016.1	-6714.6
Belarus	-388.2	-465.1	-510.9	-574.3	-335.0	-247.9	-309.7	-358.0	-381.5	-355.5
Kyrgyzstan	67.6	118.4	36.1	76.3	125.5	22.8	74.3	232.8	167.5	160.9
Armenia	0.3	-1.2	-3.4	-4.6	-1.8	-0.9	1.5	0.2	-1.6	0.4

Source: The Author's calculation

In 2020 the most exported industrial goods to Russia are:

— Group 26 (ores, slag, and ash). $1512.1 mln or 33% of total volume of exported industrial goods to Russia.

— Group 28 (inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals). $610.4 mln or 14% of total volume of exported industrial goods to Russia.

— Group 27 (mineral fuels, mineral oils, and products of their distillation; bituminous substances). $461.9 mln or 10% of total volume of exported industrial goods to Russia.

Whereas Kazakhstan imported from Russia following industrial goods:

— Group 85 (machinery, mechanical appliances, nuclear reactors, boilers). $1310.3 mln or 12% of total volume of imported industrial goods from Russia.

— Group 27 (mineral fuels, mineral oils, and products of their distillation; bituminous substances). $1149.9 mln or 10% of total volume of imported industrial goods from Russia.

— Group 87 (vehicles other than railway or tramway rolling stock, and parts and accessories). $892.2 mln or 8% of total volume of imported industrial goods from Russia.

— Group 72 (iron and steel). $896.7 mln or 8% of total volume of imported industrial goods from Russia.

In 2020 Kazakhstan exported industrial goods to Belarus as follows:

— Group 27 (mineral fuels, mineral oils, and products of their distillation; bituminous substances). $26.9 mln or 42% of total volume of exported industrial goods to Belarus.

— Group 72 (iron and steel). $10.9 mln or 17% of total volume of exported industrial goods to Belarus.

— Group 10 (cotton). $6.1 mln or 10% of total volume of exported industrial goods to Belarus.

— Group 79 (Zinc and articles thereof). $4,9 mln or 8% of total volume of exported industrial goods to Belarus.

Whereas Kazakhstan imported from Belarus following industrial goods:

Group 87 (vehicles other than railway or tramway rolling stock, and parts and accessories thereof). $95 mln or 23% of total volume of imported industrial goods from Belarus.

Group 84 (Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof). $72 mln or 17% of imported industrial goods from Belarus.

Group 94 (Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings). $36.7 mln or 9% of total volume of imported industrial goods from Belarus.

In 2020 the most exported industrial goods to Kyrgyzstan are:

— Group 27 (mineral fuels, mineral oils, and products of their distillation; bituminous substances). $125.9 mln or 32% of total volume of exported industrial goods to Kyrgyzstan.

— Group 25 (Salt; sulphur; earths and stone; plastering materials, lime, and cement). $29.7 mln or 8% of total volume of exported industrial goods to Kyrgyzstan.

— Group 72 (iron and steel). $28.4 mln or 7% of total volume of exported industrial goods to Kyrgyzstan.

Whereas Kazakhstan imported from Kyrgyzstan following industrial goods:

— Group 26 (ores, slag, and ash). $96.6 mln or 41% of total volume of imported industrial goods from Kyrgyzstan.

— Group 70 (glass and glassware). $13.2 mln or 6% of total volume of imported industrial goods from Kyrgyzstan.

— Group 39 (plastics and articles thereof). $12.2 mln or 5% of total volume of imported industrial goods from Kyrgyzstan.

In 2020 the most exported industrial goods to Armenia are:

- Group 72 (iron and steel). $2.3 mln or 62% of total volume of exported industrial goods to Armenia.
- Group 85 (electrical machinery and equipment and parts thereof; sound recorders and reproducers, television). $0.7 mln or 17% of total volume of exported industrial goods to Armenia.

Whereas Kazakhstan imported from Armenia following industrial goods:

- Group 71 (natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad). $1.5 mln or 45% of total volume of imported industrial goods from Armenia.
- Group 86 (railway or tramway locomotives, rolling stock and parts thereof; railway or tramway track fixtures). $0.3 mln or 11% of total volume of imported industrial goods from Armenia.
- Group 90 (optical, photographic, cinematographic, measuring, checking, precision, medical or surgical). $0.3 mln or 10% of total volume of imported industrial goods from Armenia.
- Group 30 (pharmaceutical products). $0.3 or 9% of total volume of imported industrial goods from Armenia.

Therefore, the mutual trade is increased during the EAEU functioning. Notably, that trade is expressed in U.S. dollars and need to take into account an exchange rate and weak local currencies of the Member States. Russia and Belarus have a dominant share in mutual trade within EAEU and its import is greater than Kazakhstan export. Moreover, Kazakhstan needs to cooperate with producers from Russia or Belarus to create joint produced goods in order to substitute imported from third countries industrial products or export them to the rest of the world (out of the EAEU).

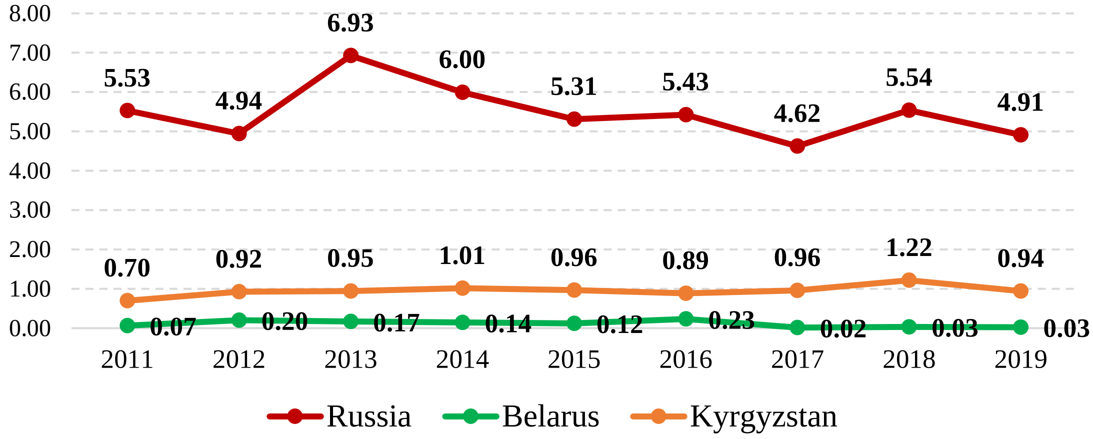
4.3.2 The RCA index calculation for fourteen industries of Kazakhstan

In this chapter I calculated the RCA index for 14 industries for Kazakhstan comparing with the EAEU countries aimed to identify the most competitive traded industries in 2011-2019. The last year is 2019 due to the latest period available on WITS site.

1. **Mineral Products**

Mineral Products industry of Kazakhstan has comparative advantage in export to Russia during all considering period: before and after the EAEU creation. Export of minerals to Kyrgyzstan has potential trade prospects as the RCA is close to 1. There is no competitive advantage comparing with Belarus. Data of Armenian market is not available.

Figure 3: The RCA of Mineral Products of Kazakhstan

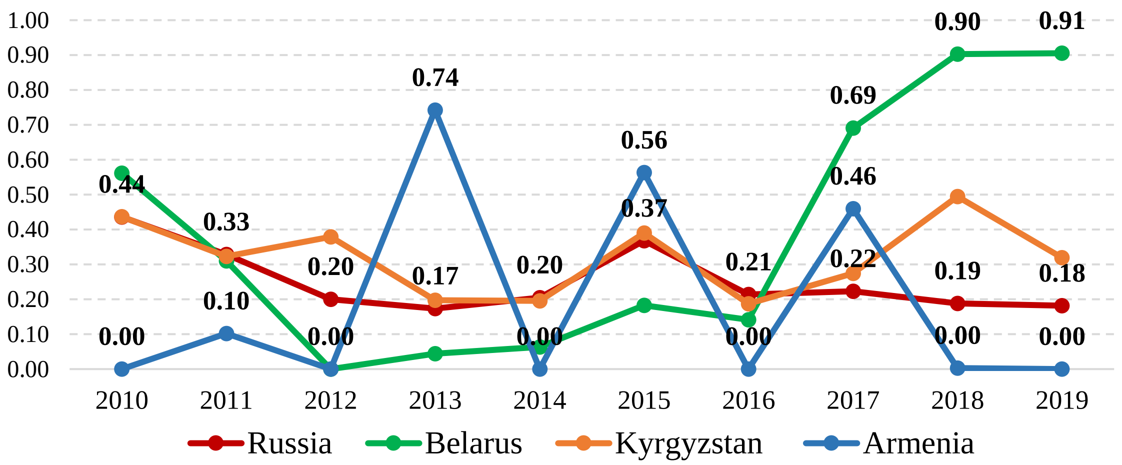


Source: The Author's calculation

2. Fuel

Based on calculation Kazakhstan does not have a comparative advantage in production and export of fuel to all Member States of the EAEU. It is notable that the index increases for Belarus, therefore Kazakhstan has potential in this market.

Figure 4: The RCA of Fuel of Kazakhstan

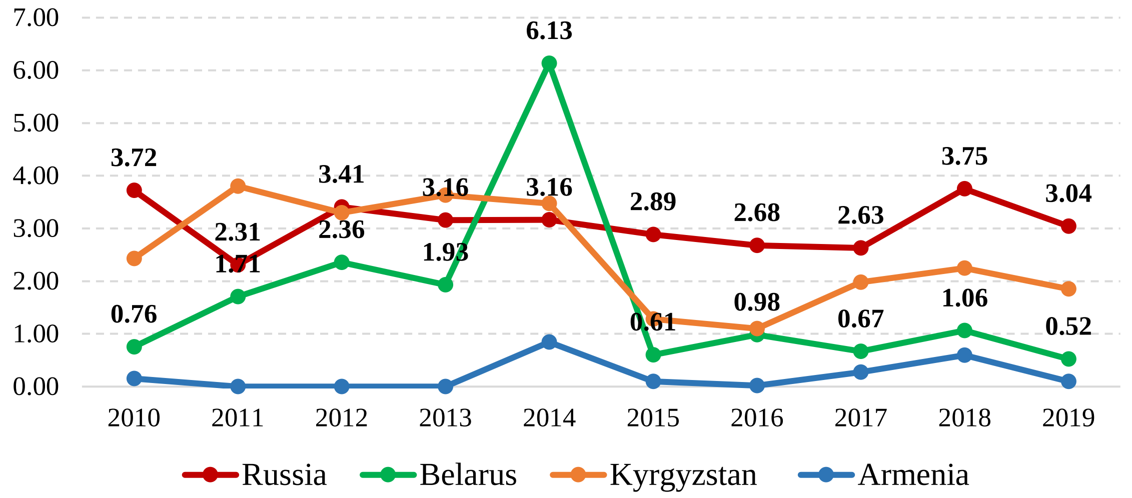


Source: The Author's calculation

3. Chemicals and Allied Industries

There are comparative advantages of chemical and allied industries products exported from Kazakhstan to all Member States markets except Armenia. Moreover, Kazakhstan lost comparative advantage with exporters of Belarus after the EAEU creation (2015). The index is more volatile for Kyrgyzstan and relatively stable for Russian products.

Figure 5: The RCA of Chemicals and Allied Industries of Kazakhstan

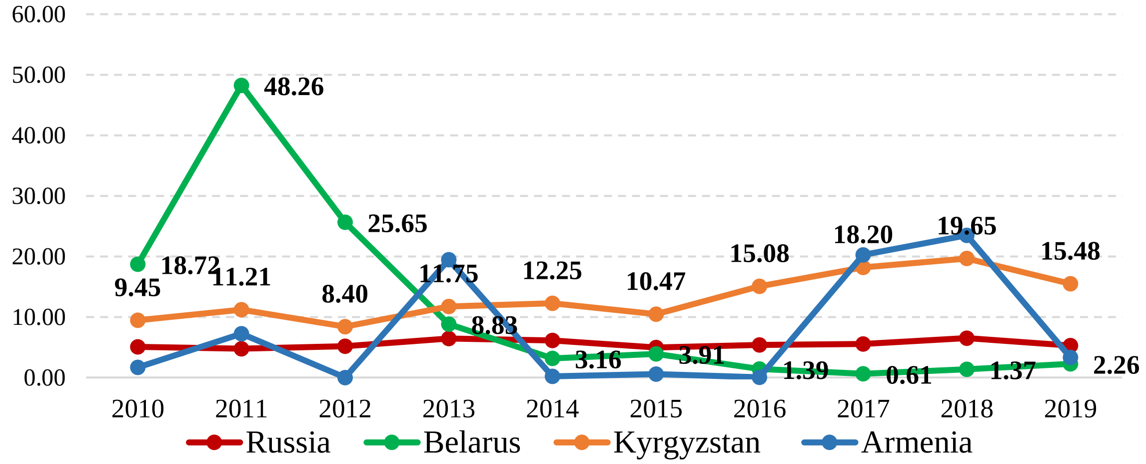


Source: The Author's calculation

4. Plastic or Rubber

The RCA index decreased comparing with Belarusian similar products whereas export of plastic or rubber to Armenia obtained comparative advantage after 2015. For the remaining markets the RCA index remains more or less stable. Despite fluctuations the index is above 1, therefore Kazakhstan has competitive advantage to produce and export plastic or rubber to the EAEU Member States' markets.

Figure 6: The RCA of Plastic or Rubber of Kazakhstan

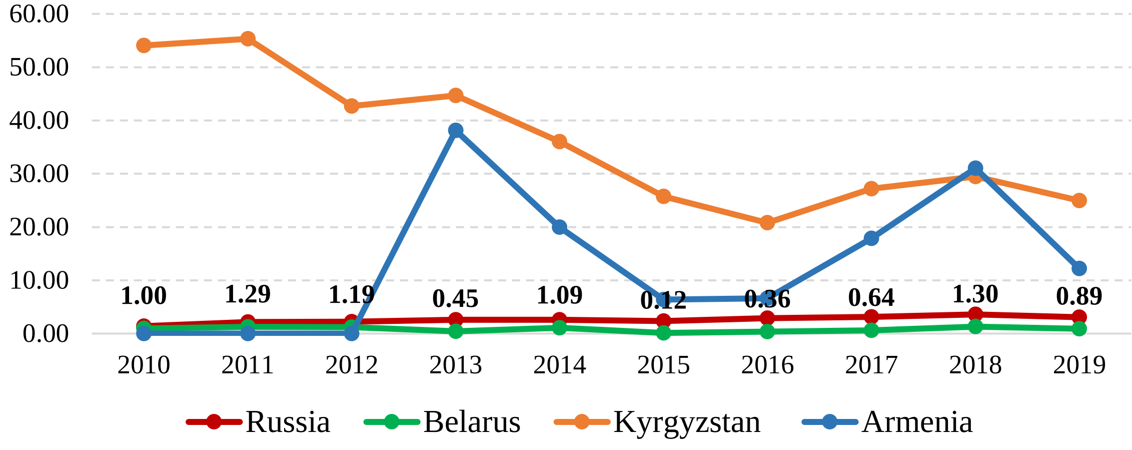


Source: The Author's calculation

5. Food Products

The RCA index for food products manufactured in Kazakhstan is above 1 for all Member States. The higher indicator is characterized for Kyrgyz Republic, and I think it could be explained by common border and as consequences lower costs for logistics and transportation. Also, it is notable that the RCA index for Kyrgyzstan decreased gradually after 2013. More likely because Eurasian Economic Community was created in 2014 and then the Eurasian Economic Union was established in 2015. So, it has strengthened the competition between Member States.

Figure 7: The RCA of Food Products of Kazakhstan

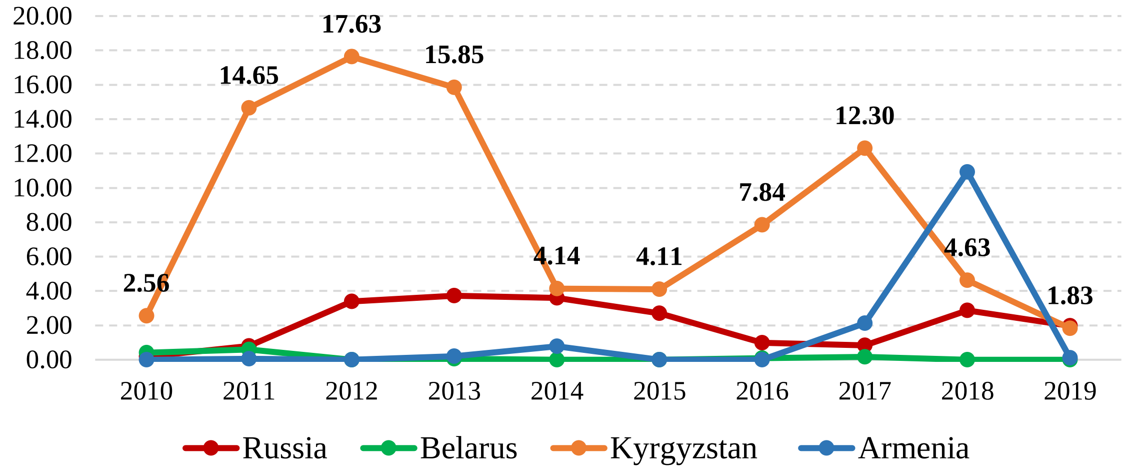


Source: The Author's calculation

6. Raw Hides, Skins, Leather, and Furs

There are no comparative advantages for Kazakhstan products comparing with Armenian and Belarusian products. The RCA index for Kyrgyzstan is fluctuated and it is a decent drop in 2014. The same pattern of decreasing is determined for Kazakhstan export of hides and skins to Russia.

Figure 8: The RCA of Hides and Skins of Kazakhstan

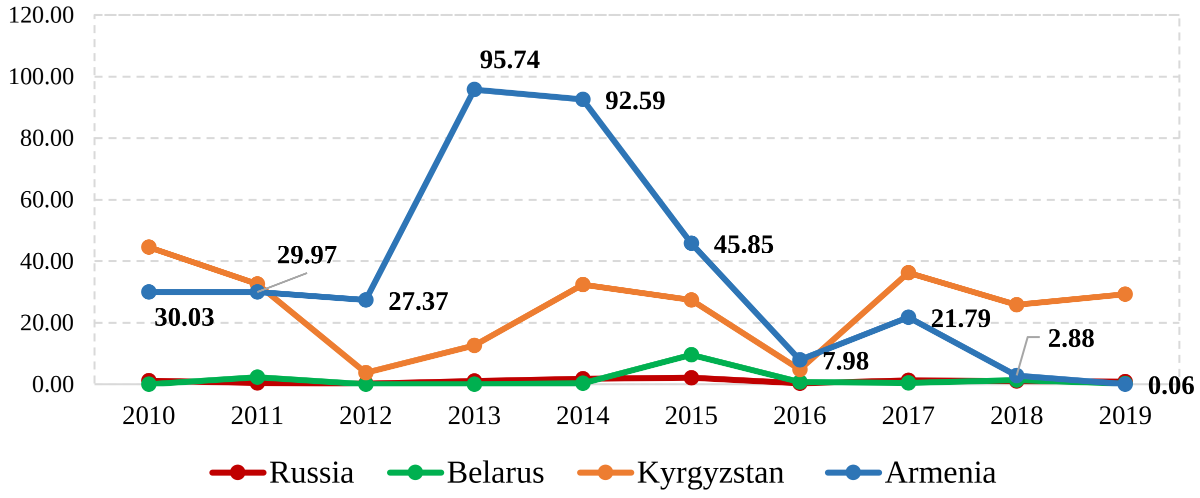


Source: The Author's calculation

7. Wood & Wood Products

Kazakhstan does not have the comparative advantage to produce wood and wood products over the Armenian, Belarusian, and Russian products. The RCA index is higher than 1 comparing with Kyrgyz wood items. Therefore, to export more products of considering industry would be beneficial for Kazakhstan.

Figure 9: The RCA of Wood and Wood Products of Kazakhstan

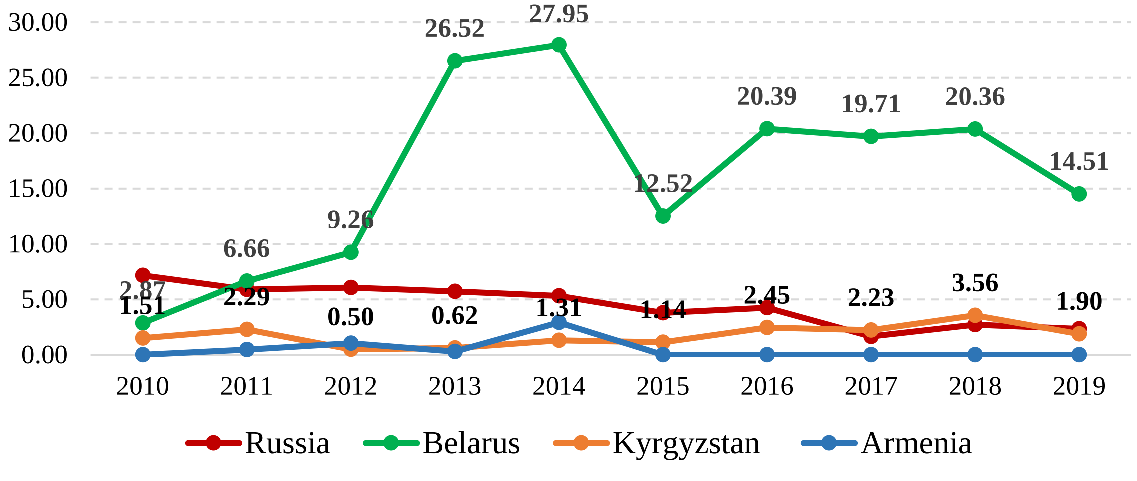


Source: The Author's calculation

8. Textiles and Clothing

There is a comparative advantage for Kazakhstan to produce and export textiles and clothing to the EAEU market (except Armenia). The RCA calculated using trade data of Kyrgyzstan is equal 1.9 which is slightly greater than 1. It could be explained that textile industry is well developed in Kyrgyzstan and Kazakh producers could meet a high competition. I would suggest cooperating with Kyrgyz manufactures to develop considering industries and export jointly produced goods to the EAEU market.

Figure 10: The RCA of Hides and Skins of Kazakhstan

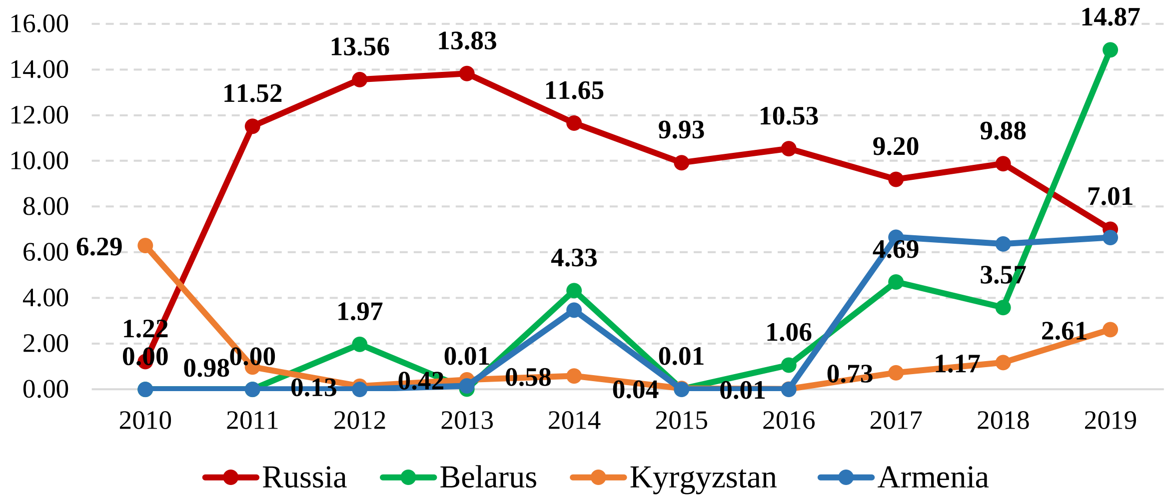


Source: The Author's calculation

9. Footwear / Headgear

After the EAEU creation Kazakhstan started to have competitive advantage to produce and export footwear and headgear. We can notice a drop of the RCA index comparing with Russian manufactures but still the value is greater than 1. The highest RCA index is determined in comparison with Belarus.

Figure 11: The RCA of Footwear/ Headgear of Kazakhstan

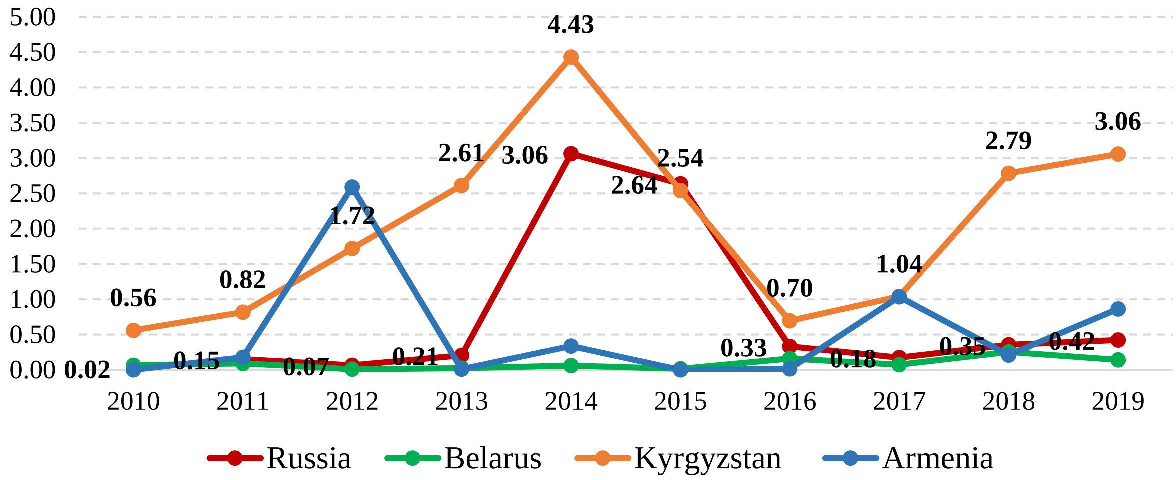


Source: The Author's calculation

10. Stone / Glass

Kazakhstan has a competitive advantage over Kyrgyzstan. Comparing with the rest the EAEU Member States Kazakhstan is less competitive (the RCA <1).

Figure 12: The RCA of Stone/Glass of Kazakhstan

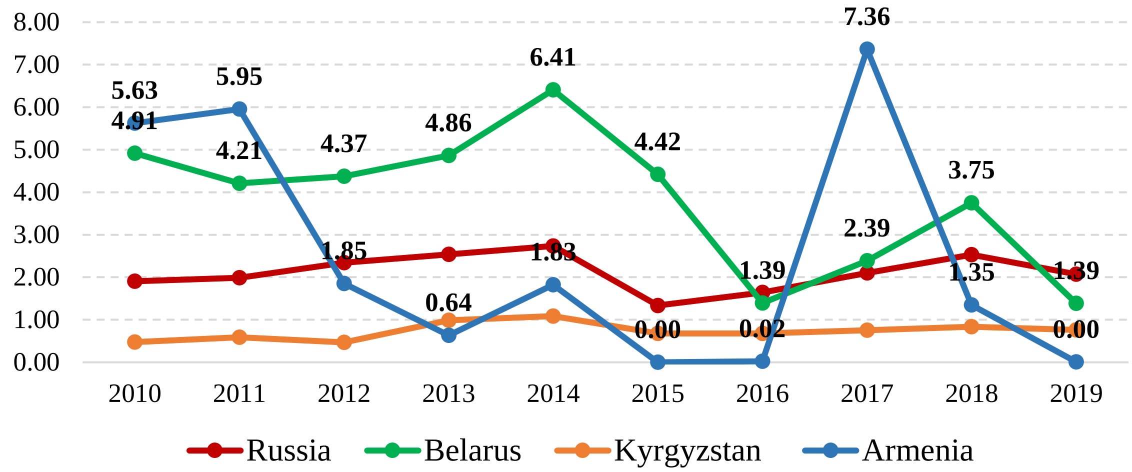


Source: The Author's calculation

11. Metals

The metals industry is well developed in Kazakhstan. Therefore, the calculated RCA index is above 1, hence the country has comparative advantage to export the metals comparing with the Member States of the Union.

Figure 13: The RCA of Metals of Kazakhstan

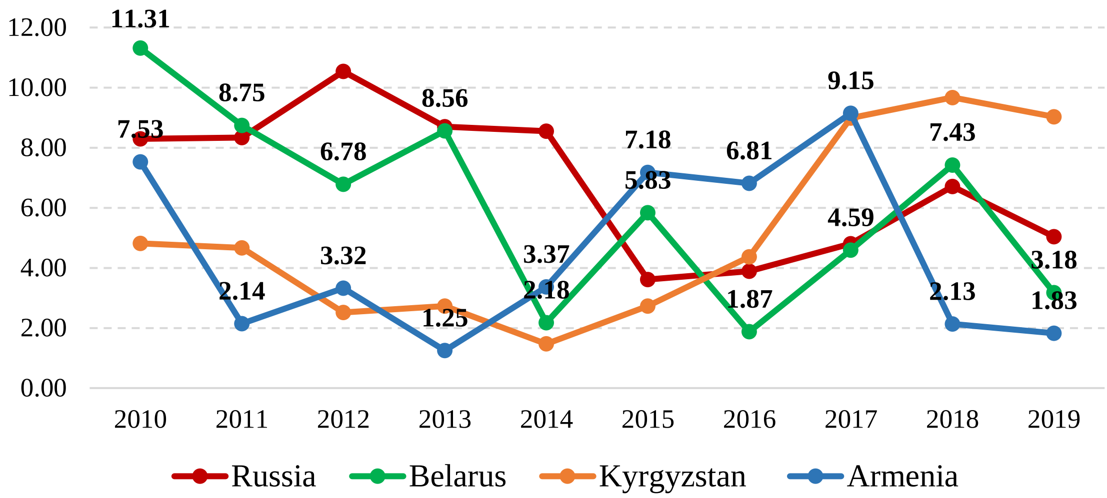


Source: The Author's calculation

12. Machinery / Electrical

The RCA index is fluctuated during the considering period, and it is higher than 1. It states that Kazakhstan has an advantage to produce machinery and electronical goods in the EAEU.

Figure 14: The RCA of Machinery/ Electrical of Kazakhstan

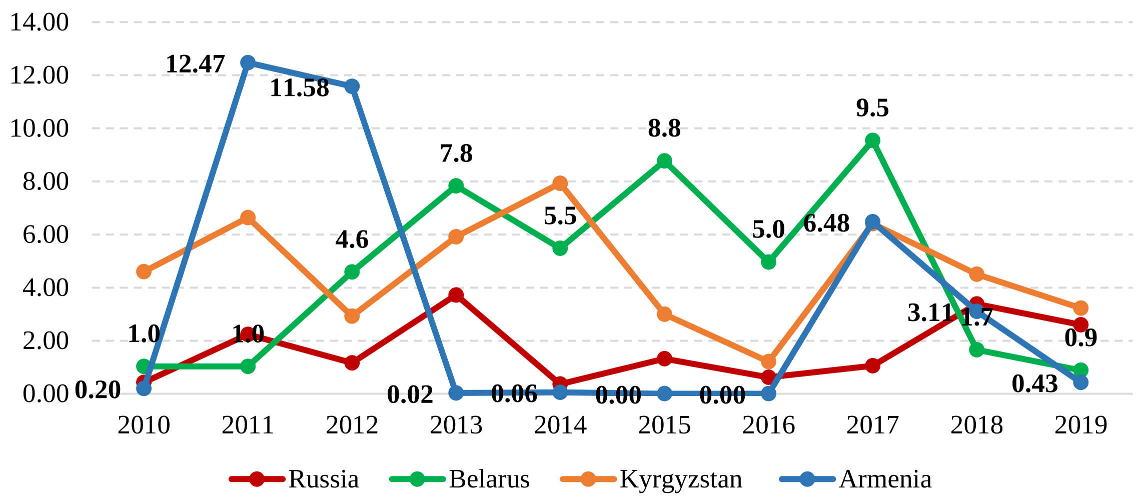


Source: The Author's calculation

13. Transportation

During most of the time (2010-2018) Kazakhstan obtains a comparative advantage in the EAEU market (except Armenia). In 2019 the RCA index became less than 1 for Belarus. Belarus produces transportation goods and is well known in agricultural machinery manufacture. Therefore, there is a high competition with Belarusian products.

Figure 15: The RCA of Transportation of Kazakhstan

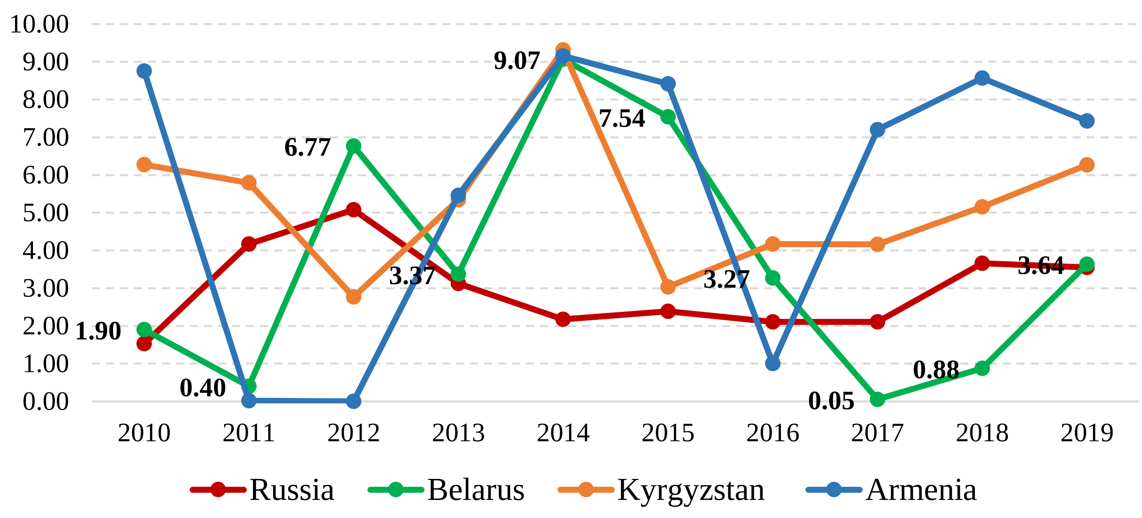


Source: The Author's calculation

14. Miscellaneous

The RCA index for miscellaneous is quite volatile. But despite it the index is greater than 1 during the considering period. Only in 2011 and 2017 Kazakhstan lost an advantage comparing with Belarus.

Figure 16: The RCA of Miscellaneous of Kazakhstan



Source: The Author's calculation

I analyzed 14 industries of Kazakhstan to identify where Kazakhstan has comparative advantages to produce and trade comparing with the EAEU Member States. The Treaty on the EAEU offers numerous opportunities for the Member States to cooperate and produce more. The analysis shows that during the given period (2010-2019) the RCA index is dynamic and fluctuated. Also, I can conclude from the RCA index computation that the most Kazakhstan industries are competitive or greater than 1 except fuel and stone/glass.

Perceptively, Kazakhstan does not have comparative advantage in fuel in the EAEU market. It could be explained that the main countries of petroleum gas exports from Kazakhstan are China ($1.65B), Ukraine ($713M), Russia ($273M), Switzerland ($212M), and Tajikistan ($132M)[14]. And Russia the 4th largest exporter in the world and Belarus is the recipient of Russian crude. The RCA index shows that Kazakhstan has opportunity to export fuel to Belarusian market (RCA=0.9).

4.4 Overview of Kazakhstan industrial development based on structured interviews

The interviews were conducted in order to receive practical and actual information from policy experts who work on the Eurasian Economic Union development.

This approach helps to understand goals and strategic directions of the industrial policy development for Kazakhstan within the EAEU deeply.

I interviewed five policy experts from Economic Research Institute under the Ministry of National Economy of Kazakhstan[15], "QazTrade" Center for Trade Policy Development under the Ministry of Trade and Integration of Kazakhstan[16] , Permanent Mission of the Republic of Kazakhstan to the United Nations Office and international organizations in Geneva[17] and Eurasian Economic Commission[18]:

1. Beisekeyeva Indira, Deputy Director of World Economy Research Center at the Economic Research Institute.

The EAEU was established in 2015. It is 7th year of Eurasian Integration functioning. Could you please conclude about role of the EAEU in Kazakhstan industrial policy development?

In general, it should be noted that the EAEU as an international organization is still very young. And at the stage of forming the principles of cooperation in the industrial sector, the countries did not yet understand how this system would work.

But, as we can see, there are positive, and at the same time, negative consequences of the influence of the EAEU on the industrial sector of Kazakhstan.

[14] Official site of The Observatory of Economic Complexity (OEC). Available at https://oec.world/
[15] Official site of ERI. Available at https://www.economy.kz/en/
[16] Official site of QazTrade. Available at https://qaztrade.org.kz/eng
[17]Official site of Permanent Mission. Available at https://www.gov.kz/memleket/entities/mfa-kazakhstanun?lang=en
[18] Official site of EEC. Available at http://www.eurasiancommission.org/en

Among the positive aspects, it should be noted that with the help of the EAEU, Kazakh enterprises were “recognized” by Russian enterprises and for the first time they were admitted to the negotiating table as equal partners. Strong competition from partners in the EAEU also affects the quality of Kazakhstani manufactured goods. At the same time, of course, trade turnover, as well as transit potential (unification of tariffs for rail transportation), and without discriminatory access to seaports (all related details that may even indirectly but have an impact on the development of domestic industry) are all the benefits of the EAEU.

The negative aspects are the displacement of Kazakhstani enterprises from the market by more competitive players from Member States of the EAEU. As for the single economy it is a big disadvantage but considering it as the ongoing process within a regional integration – acceptable. We can treat it as the processes of evolution: the strongest survives.

But speaking in general, of course, the EAEU has a positive effect on the development of the domestic industry. Kazakhstan is already diversifying its industrial sector giving preference to the manufacturing industry. At the same time, all conditions are being created for the transfer of technologies, the implementation of joint programs and projects, which also have a positive effect on the industrial policy development of Kazakhstan.

“The Main Directions of Industrial Cooperation” was adopted in 2021 for next five years. What are key results of previous document?

The main goal of the *Main Directions of Industrial Cooperation* (*MDIC-1*) is to realize the potential of effective and mutually beneficial interaction between the EAEU Member States to ensure the acceleration of industrial development, increase the competitiveness and innovative activity of the industrial sector of the EAEU countries.

During the MDIC-1 The Member States agreed to work on following tasks:

– Import substitution, including by increasing the localization of production and deepening industrial cooperation

– Increasing exports of manufacturing products

– Creation of new innovative sectors of industry and modernization of enterprises in traditional industries.

It should be noted that the tasks set in MDIC-1 were completed.

Thus, taking into account international experience the Concepts for the creation of the Eurasian network of industrial cooperation and subcontracting and the Eurasian transfer network were adopted (approved by the Decisions of the Council of the Commission dated December 21, 2016, No. 143 and March 30, 2018, No. 23). The phased implementation of these documents is in the process. This is an important step for the industrial digitalization in the EAEU. Moreover, enterprises from third countries have also access to the specified networks which expand the cooperation.

The Regulations on Interstate Programs and Projects in the Industrial Sector (approved by the Decision of the Council of the Commission dated March 17, 2016, No. 17) have been developed. It determines the forms, procedure, and mechanism for interaction between the EAEU Member States in the development, financing and implementation of interstate programs and projects related to innovative and industrial cooperation and aim to achieve the goals and objectives of industrial and innovative development.

Recommendation adopted by the Board of the Commission dated November 14, 2017, No. 24 contains a list of industrial producers of the EAEU Member States which ready to participate in Russian import-substitution projects. The EAEU Industrialization Map has also been formed which includes large industrial projects of the EAEU Member States.

Using the potential of Eurasian integration for the high-tech export-oriented production and their promotion to foreign markets is one of the priority tasks of industrial cooperation within the EAEU. Active work was also carried within framework of MDIC-1.

On 20 December 2017 the EEC Council adopted the Recommendation No. 3 “Measures to promote jointly produced products of priority sectors of the EAEU Member States to the markets of third countries” which provides comprehensive support to producers of joint products at all stages of production chain. The key issue in the implementation of the document was the definition of the concept of "jointly produced products" for promotion on foreign markets.

Also, the recommendations on certain industries development (light industry, ferrous and non-ferrous metallurgy, agricultural engineering, electric vehicles, etc.) have been adopted. The measures reflect individual problems of the industry and contain specific measures to minimize or eliminate them.

In conclusion, I want to point out that the formation and implementation of similar strategic sectoral documents, like the MDIC, makes it possible to develop the industrial sector, as well as to adjust national industrial policy in the context of interaction with the EAEU Member States.

What are obstacles? Could you please provide recommendations for effective usage of Eurasian integration potential for Kazakhstan industrial development?

In general, I want to note that the main barrier to development is the usage of protectionist measures. Even being in the same Union it is not possible not to apply such measures.

Russia or Belarus are more industrialized countries, and the volume of industrial production is not compared with the volume of Kazakhstan. The production has multiplier effect on the entire economy therefore countries strive to protect it by imposing 'defensive' measures which are the main barrier and obstacle.

As a recommendation I can propose to use of all available tools to protect the market from unfair competition. Today unfortunately Kazakhstan entrepreneurs are passively participating in the formation of the industrial strategy within the EAEU. They do not see the full potential for further development and the EAEU opportunities. And it is a government job to explain and provide conditions to involve them fully. In contract, these "benefits" are actively used by our Partners in the EAEU. And it is well known that the potential of the EAEU as a regional integration is a high.

As the recent COVID-19 pandemic has shown, now there is a trend from globalization to the regionalization of production chain and industrial cooperation. Under these conditions the strengthening of the EAEU is seen as correct. And the wise usage of all available tools in the EAEU is what each Member State should do to achieve set goals.

2. Asautayev Bahtiyar, Deputy Director of the Department of Integration Development at the Eurasian Economic Commission.

Kazakhstan had chairmanship at the Eurasian Economic Union in 2021. What are key results of this?

Industrial cooperation has increased. According to the results of the first half of the year, the volume of industrial production of the EAEU amounted to $620 billion, which is 4.4% higher than the same period in 2020. The volume of mutual trade in intermediate goods increased by 40%, to $20.3 billion. Additionally, 1172 new joint ventures have been registered in Kazakhstan with the participation of businesses of the EAEU Member States (+9%).

To date, 80% of the barriers in the EAEU domestic market have been eliminated. The volume of mutual trade in the EAEU for 9 months of 2021 amounted to $52 billion and increased by 32.5% compared to the same period in 2020.

The Member States develop transport potential of the EAEU by adopting a roadmap for the implementation of transport policy for 2021-2023 which provides measures to integrate the transport complexes of the Member States. The volume of transit container traffic in the direction of China - Europe - China increased by 36% compared to the same period.

Productive cooperation of the EAEU countries in digitalization is continued. Following programs are approved: "Digital transport corridors", "Unified search system "Work without borders", application "I travel without COVID".

What recommendations could be provided for Kazakhstan industrial policy?

The EAEU is 5years and people need to see the results of it. It needs a tangible industrial project which will create a brand of the EAEU and provide evidence to people to treat the EAEU as a beneficial integrated project.

To continue monitoring the workload of designing documents. Unfortunately, there is a practice of creating documents due to existing document requirements and it is a never-ending story. Policy experts do not have time to implement the measures but spend time to develop a new legal act.

Thirdly, there are examples when documents are adopted at the meetings of the commission without considering the interests of a Member State. It is a sensitive question that should be solved asap.

Kazakhstan needs to take advantage of the EAEU. If the current strategy is not efficient, the government should take action to adapt to global changes and economic trends (trade wars, oil price volatility, Russian dependence, and local obstacles). Based on evaluation new strategy should be adopted for Kazakhstan industrial policy development.

3. Zhaslan Azenov, Deputy Director of the Industrial Policy Development Department at the Eurasian Economic Commission.

What are strategic goals for further industrial development in the EAEU and what recommendations could be provided for Kazakhstan industrial policy?

In 2021 The main directions of industrial cooperation until 2025 were adopted. It is a fundamental document that determines the vector for the development of industrial cooperation in the medium term in the EAEU.

According to Department of Industrial Policy of Eurasian Economic Commission the main directions of sectoral cooperation within the EAEU are:

— Import substitution of industrial goods from third countries to the common market of the EAEU by increasing mutual supplies of products of the Member States.

— Increasing the localization of production by higher usage of components (raw materials) and technological operations importing from Member States of the EAEU or using local produced materials.

— Gaining the export of manufactured goods due to applying mutual measures of government support.

— Accelerating the technological development of industrial complexes of the EAEU Member States through the creation modern innovative infrastructure.

My recommendations are to strengthen the positions of the Member States in industrial specialization to produce joint goods with competitive advantage to be able to export to the world and specially to countries with whom the EAEU signed the FTA (Vietnam, Singapore, Serbia, and Iran, China (non-preferential)).

4. Dayana Zhakanova, Third Secretory Permanent Mission of the Republic of Kazakhstan to the United Nations Office and International Organizations in Geneva

Kazakhstan became a WTO member in 2015. Could you please describe how this membership impacts on economic development?

WTO membership allows Kazakhstan to conduct trade with its members on non-discriminatory basis, protect and promote economic interests of local producers and providing market access to WTO member states. For these purposes, there are legitimate tools provided for by WTO agreements, as well as WTO working bodies and dispute settlement mechanism that allows timely elimination of discriminatory measures applied by WTO members to Kazakhstani goods and services.

Kazakhstan takes an active part in the work on facilitation of international trade procedures, thereby creating more favorable conditions for the promotion of domestic goods to foreign markets.

Also, as a full member of WTO, Kazakhstan participates in the development of new initiatives (on e-commerce, investment facilitation, WTO reform, etc.) that allow considering national interests and contributing to the development and adoption of WTO rules, taking into account the modern realities of international trade.

Along with that, to defend interests of local business within the WTO counter measures may be applied in cases where WTO members apply discriminatory conditions (measures) against Kazakhstani goods and violate WTO agreements.

What are the opportunities and obstacles for Kazakhstan being a member of the EAEU and the WTO? (pending)

5. Assem Shakirtova, Senior Expert of Department of Subsidies and Safeguards Measures at QazTrade.

How does Kazakhstan support the industrial sector to be aligned with international organizations' obligations and rules?

Kazakhstan as a member of WTO and EAEU do not provide subsidies contingent upon export performance or upon the use of domestic over imported goods, which are considered to be prohibited. Before any new support measure is introduced to industry, it has to undergo several intra-State procedures to be adopted. A support measure is presented in a draft legal act which is agreed upon with the Ministries concerned and the private sector, following approval by authorized body. Thus, it is envisaged that support measures are in line with international obligations of Kazakhstan.

Currently, the main support measures in Kazakhstan include business lending - particularly to small and medium enterprises in manufacturing, lease financing to upgrade equipment and vehicles in priority sectors of the economy, grants for innovations, reimbursement for productivity improvements, service support for the promotion of goods such as marketing tools, participation in exhibitions and trade missions.

What measures should be taken to develop export of Kazakhstan industries?

The authorities in Kazakhstan are fixated on export development of manufactured goods, consequently almost every strategic governmental program has export indicators to achieve. However, in my opinion the main issue of slow export growth of Kazakhstan is not a lack of support measures, but it is a limited production and its diversification, as Kazakhstan is still a heavily geared towards raw materials and based on the extensive exploitation of natural resources.

Instead of immense support of export, authorities should make an effort to overcome raw material orientation in economic development and introduce modern technologies into industry. Only after having a solid industry base, a country should develop it gradual export strategies and introduce effective measures and not vice versa. Thus, most of export support measures applied today are not justify themselves at this point.

What is your expert opinion about further development for Kazakhstan's industries within the EAEU?

In terms of integration one of the main goals for EAEU is to deepen industrial cooperation among members, to coordinate national industrial policies with the prospect of pursuing a coherent industrial policy within the Union. However, how it can be coherent if EAEU country-members are in different stages of the development with Russia being at the top of the game?

In my opinion, even though EAEU is creating a base for 'a coherent industrial policy' through the formation of technological platforms, engineering centers, technology transfer networks, industrial cooperation systems, Members will focus on the development of their own industries rather than expand cooperation due to having a fierce competition among Members for markets and numerous barriers to trade since the establishment of EAEU.

Nevertheless, the EAEU perspective opens an opportunity for mutual cooperation projects among Members solely with the support of the states and political will. I suppose several mutual strategic projects will be implemented in future.

As for Kazakhstan, I believe the government will maintain its series of nationwide five-year campaigns of 'State program of accelerated industrial and innovative development of Kazakhstan' that has started in 2010 with a focus on support of manufacturing industry. The latter program until 2025 aims to increase industrial capacity by stimulating the development of basic industries, improve technological development and digitalization of industries.

4.5 Identification of key drivers influencing on industrial policy of Kazakhstan

Industrial policy of Kazakhstan is influenced by internal and external factors. Internal are level of production including production capacity, government support (subsidies), R&D, access to governmental programs, unemployment rate, inflation etc. External are investment, investment climate, openness to trade, industrial cooperation with international producers, international regulations, trade barriers etc.

4.5.1 Strategic governmental programs for industrial development in Kazakhstan

Strategic programs for industrial policy development adopted by Kazakhstan government are divided by 3 main groups. They are:

1. Long term strategic program for development of national economy. The Strategy Kazakhstan[19] 2050 describes national priorities to become a country of the top 30 global economies by 2050 by implementation sustainable development, digitalization and modernization, economic and political cooperation.

2. Medium term strategic documents aimed to develop national industrial complexes and expand industrial cooperation. The state program of industrial and innovative development of the Republic of Kazakhstan for 2020 – 2025 has been approved by the Government of the Republic of Kazakhstan No. 1050 dated December 31, 2019. The program creates conditions for the manufacturing industry development. It is a main driver of economic growth of Kazakhstan and impacts on increasing competition advantages of industrial goods and services in the domestic and foreign markets. To achieve described-above goals, the government makes conditions for production of innovative and technological industrial goods with higher added value as well as increases capacity of existing enterprises by digitalization and R&D implementation.

3. National sectoral programs stimulating the development of export-oriented industrial sectors. For example, The Comprehensive Plan for the Development of the Pharmaceutical and Medical Industry for 2020-2025 was adopted by Order of the Prime Minister of the Republic of Kazakhstan No. 132-r dated October 6, 2020. The implementation of the program ensures the launch of 30 new production facilities worth $180 million. Therefore, around 2000 new permanent jobs will be created. As a result, the production of the pharmaceutical industry will rise by 2.5 times and exports of medicines will increase by 3 times.

According to strategic national programs for achieving competitive advantages of industrial goods following steps should be proceed:

– Renewal of fixed production assets of existing facilities, technical re-equipment by introduction of innovation and technologies
– Resource saving or transition to new energy sources
– Deepening the processing of raw materials
– Increasing of investment activity

[19] Official site of the state program. Available at: https://kazakhstan2050.com/

– Development of the human capital of the industry by improvement of corporate management model and implementation of an effective system of management practices for the long-term and strategic perspective, etc.

According to Kazakhstan Center for Industry and Export QazIdustry[20] the implementation of measure provided by state programs impacts on industries positively. The share of the manufacturing industry in the structure of GDP increased to 13% in 2020 (2019 – 11.4%). In 2020 due to pandemic the investment in industrial sector decreased by 13.2% comparing with the indicator of 2018 and accounted $ 2.6 billion. However, the main investment was gained to the SME development: chemical industry ($719 mln or 28% of the total investment in the sector), food production ($260 mln or 10.1%), coke and petroleum products ($162 mln or 6.3%) and other non-metallic mineral products ($160 mln or 6.2%). There are industries with less than 1% of investment: industry of paper and paper products, other finished products, wood and cork products, furniture production.

There are developed industries such as non-ferrous metallurgy; ferrous metallurgy; chemical and petrochemical industry; mechanical engineering; building materials industry; transport. Kazakhstan has key well-established large companies operating in the oil, gas, steel, and other industries. However, Kazakhstan's economy is not fully beneficial from industrial sector as these sectors produce raw and exhaustible minerals and intermediate goods.

Therefore, Kazakhstan needs to build a new industrial production of goods and services. The transition from the raw material model of the economy to the development of the production of finished goods is relevant. Manufacturing industry of Kazakhstan should become competitive in the domestic and foreign markets.

Notably, that the industrial development within the EAEU is conducted according to The Main Directions of Industrial Cooperation until 2025, which includes prioritized industries for cooperation and list of sensitive manufactured goods. The interaction of the Member States aimed to achieve the EAEU strategic goals following:

— Monitoring and informing actions related to the list of sensitive goods

— Implementation of joint programs and projects aimed at increasing the efficiency of industrial cooperation

[20] Official site of QazIndustry. Available at: https://qazindustry.gov.kz/en/

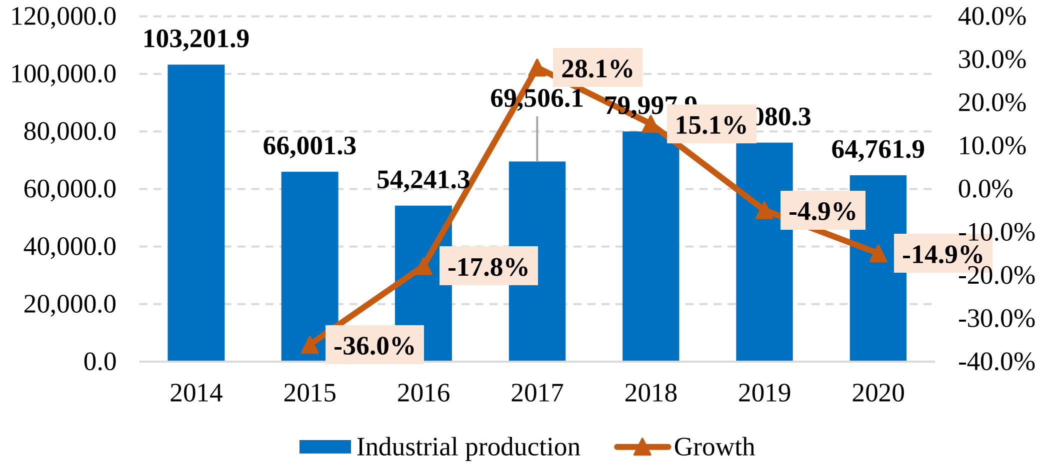
— Designing joint programs for the economic activities' development for industrial cooperation.

Thus, the EAEU opens significant opportunities for the export of industrial products to the EAEU market. This should encourage Kazakhstani companies to expand production capacity, improve the quality of their products (including obtaining international quality certificates) and increase productivity to offer products at more competitive prices.

4.5.2 Production of industrial sector in Kazakhstan

In 2020 the Kazakhstan production of industrial goods amounted to $ 64.8 billion which is a decrease of 15% compared with previous year ($ 76.1 billion). Drop is caused by 32.5% of mining production decreasing whereas production of manufacturing industry increased by 8% in 2020. A decline in 2015 (-36%) is described by Kazakh currency tenge depreciation from 188.38 to 349.12 against the dollar.

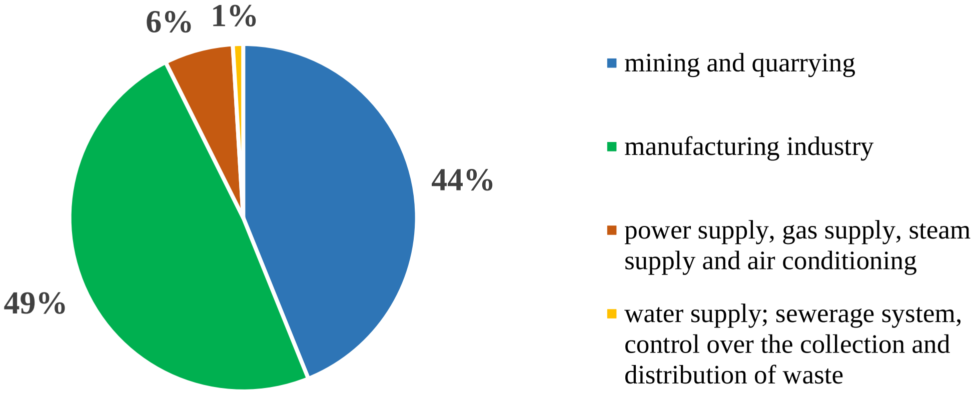
Figure 17: Production of industrial sector in Kazakhstan, 2015-2020 ($ mln)



Source: The EEC

As you can see from the figure below that manufacturing sector has a dominant share (49%) in industrial production in Kazakhstan. Then a mining production accounts of 44% of total produced industrial goods and services in 2020.

Figure 18: Distribution (shares) of industries in Kazakhstan in 2020, %



Source: The Author's calculation

The manufacturing production amounted $ 31.6 billion in 2020 which is higher than indicator of 2019 in 8%. The majority volume of goods was produced in metallurgical industry ($ 13.7 bln or 43.5%), then $ 4.6 bln or 15% is manufactured in food industry. This industry showed growth of 10% in 2020 compared with previous year. Notably, that the growth happened in most industrial sectors in 2020. The highest increase is characterized to production of motor vehicles, trailers, and semi-trailers (56%), production of tobacco products (73%), production of other vehicles (51%) and production of basic pharmaceutical products (39%). Whereas printing and playback of recorded materials decreased by 22%, production of other finished products – by 14% and manufacture of computers, electronic and optical products – by 10% and production of wood and cork products, except for furniture; manufacture of products from straw and plaiting materials declined by 8%.

Table 6 The volume of manufacturing industry production in Kazakhstan, 2015-2020 ($ mln)

Industries	2015	2016	2017	2018	2019	2020	Growth 2020/2019	Share
total	25,936.1	22,520.2	28,086.8	30,249.6	29,257.8	31,576.2	7.9%	100%
metallurgical industry	9,558.0	9,822.1	12,544.9	13,507.0	12,771.2	13,749.5	7.7%	43.5%
food industry	4,847.4	3,902.8	4,535.1	4,515.0	4,259.3	4,671.2	9.7%	14.8%
production of coke and refined petroleum products	2,120.7	1,844.5	2,216.1	2,550.0	2,192.9	2,042.3	-6.9%	6.5%
production of other non-metallic mineral products	1,814.8	1,149.5	1,370.1	1,744.6	1,533.3	1,616.4	5.4%	5.1%
production of motor vehicles,	360.8	208.0	459.4	597.5	939.9	1,484.0	57.9%	4.7%

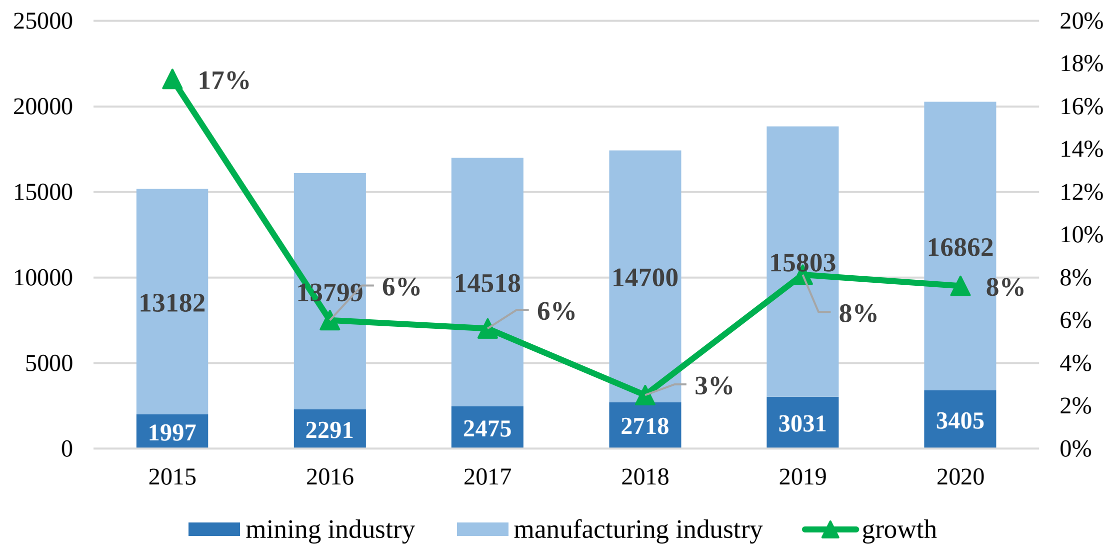
trailers, and semi-trailers								
repair and installation of machinery and equipment	1,305.9	1,004.4	1,163.4	1,381.0	1,344.1	1,380.0	2.7%	4.4%
production of chemical products	1,100.9	810.4	1,002.2	1,124.4	1,218.6	1,135.7	-6.8%	3.6%
beverage production	1,017.2	697.5	917.6	1,001.6	1,052.3	1,049.4	-0.3%	3.3%
manufacture of finished metal products, except for machinery and equipment	651.6	596.5	764.4	699.9	634.7	621.9	-2.0%	2.0%
production of rubber and plastic products	535.5	468.1	538.4	565.4	568.9	584.1	2.7%	1.8%
production of tobacco products	421.5	310.6	325.9	358.7	296.5	512.3	72.8%	1.6%
manufacture of machinery and equipment n.e.c.	386.4	322.0	360.0	435.0	483.9	501.7	3.7%	1.6%
production of other vehicles	282.4	179.2	341.3	221.4	330.0	498.3	51.0%	1.6%
manufacture of electrical equipment	293.7	284.2	361.0	383.4	388.0	422.6	8.9%	1.3%
production of basic pharmaceutical products	143.5	124.0	225.3	228.6	240.5	334.9	39.2%	1.1%
production of paper and paper products	149.3	138.0	164.0	169.1	174.6	188.1	7.8%	0.6%
production of textiles	155.3	114.8	154.5	139.9	155.5	171.6	10.4%	0.5%
printing and playback of recorded materials	211.5	120.4	140.1	148.3	175.0	136.1	-22.2%	0.4%
manufacture of wearing apparel	136.1	94.0	118.1	102.5	110.7	112.0	1.2%	0.4%
furniture manufacture	121.0	76.2	116.5	111.0	99.1	104.4	5.3%	0.3%
manufacture of computers, electronic and optical products	141.7	108.3	118.2	98.0	100.5	90.2	-10.2%	0.3%
production of other finished products	56.2	38.6	50.6	75.9	99.1	85.6	-13.7%	0.3%

production of wood and cork products, except for furniture; manufacture of products from straw and plaiting materials	95.8	82.8	75.6	62.2	60.5	55.7	-8.0%	0.2%
manufacture of leather and related products	28.8	23.4	24.1	29.4	28.6	28.1	-1.7%	0.1%

Source: The EEC

According to Kazakhstan Bureau of National statistics 20 267 entities operate in the industrial sector in 2020. 83% belong to the manufacturing sector and 17% of enterprises work in the mining sector. There is a constant growth of numbers of operating entities officially registered in Kazakhstan during the considering period. The average growth is 8% whereas in mining industries it is considered the higher growth (12%) rather than in the manufacturing industry (7%).

Figure 19: The number of operating legal entities of Kazakhstan in industrial sector, 2015-2020



Source: Kazakhstan Bureau of National Statistics

To conclude the industrial sector of Kazakhstan is dependent on mining production (oil & gas) as well as it manufactures more intermediate goods with lower value added. To be more competitive in the EAEU market Kazakhstan needs to reconsider industrial strategy and support producers to invest in reconstruction, buying new powerful equipment and R&D.

4.5.3 Joint venture between Kazakhstan and Member States of the EAEU

According to Kazakhstan Bureau of National Statistics there are 7657 legal entities, branches, and representative offices with a joint form of ownership operating in Kazakhstan in 2020. This indicator is greater than previous year figure in 2,4%. 3780 or 49% is joint form of ownership with the EAEU Member States. Industrial sector is divided by the mining industry where 222 joint companies operate and the manufacturing industry with 922 entities. The share of the EAEU Member States in the mining sector is 36% (79 companies) and 45% (413 companies) belong to the manufacturing sector. The major form of entity is small business.

Table 7 Numbers of legal entities, branches, and representative offices with a joint form of ownership operating in Kazakhstan in 2020

	All industries				Mining				Manufacturing			
	total	**small**	**med.**	**large**	**total**	**small**	**med.**	**large**	**total**	**small**	**med.**	**large**
Total	7657	7332	171	154	222	170	11	41	922	833	56	33
Armenia	45	45	-	-	3	3	-	-	3	3	-	-
Belarus	109	107	2	-	-	-	-	-	10	10	-	-
Kyrgyzstan	237	234	2	1	3	2	-	1	21	21	-	-
Russia	3389	3300	64	25	73	66	3	4	379	350	22	7
The EAEU	3780	3686	68	26	79	71	3	5	413	384	22	7

Source: Kazakhstan Bureau of National Statistics

There are 452 Kazakh-Russian joint form of ownership entities operating in Kazakhstan in industrial sector in 2020, which:

— 416 small enterprises (from 0 to 50 people).

— 25 medium enterprises (from 51 to 250 people).

— 11 large enterprises (over 251 people).

Most of them operate in the metallurgical industry, the production of rubber and plastic products, the production of motor vehicles and vehicles, trailers, semi-trailers. Large joint companies are identified as:

— LLP STYNERGY (production of high-quality metal tiles, corrugated board, profile) in Almaty region.

— LLP VG-PLAST (production of building plastic products) in East-Kazakhstan region.

— LLP ELECTRIC LOCOMOTIVE KURASTYRU ZAUYTY (production of freight and passenger electric locomotives with current waiting) in Nur-Sultan (Astana).

— LLP LOCOMOTIVE KURASTYRU ZAUYTY (production of railway locomotives and rolling stock) in Nur-Sultan (Astana).

— JSC KAMAZ-ENGINEERING (production of cars and other motor vehicles) in Akmola region.

— LLP SARYARKAAVTOPROM (production of cars and other motor vehicles) in Kostanay region.

There are 10 Kazakh-Belarusian small enterprises (from 0 to 50 people) operating in in following industries in 2020:

— Manufacture of finished metal products, except for machinery and equipment (LLP METALL PROFIL produces cold forming or folding and located in the Karaganda region).

— Manufacture of other parts and accessories of motor vehicles and their engines (LLP KAZBELAGROMASH in North-Kazakhstan region; LLP KAZBELCARD in South-Kazakhstan region)

— Production of agricultural machines (LLP KAZAGROBEL in Akmola region).

— Production of road and earth-moving machines (LLP KAZAKHSTAN EXCAVATOR PLANT in Karaganda region)

— Manufacture of finished textile products (LLP TRADING LIEN HOUSE in Almaty)

— Manufacture of shoes (LLP SAMHAT in Nur-Sultan (Astana)).

There are 6 Kazakh-Armenian and 24 Kazakh-Kyrgyz joint form of ownership entities operating in Kazakhstan in industrial sector in 2020.

One of the main disadvantages affects the development of mutual trade between Kazakhstan and Armenia is the transport problem. Due to the lack of direct transport links between the two countries and the Azerbaijani side's ban on the transit, the costs of the logistics component remain significant.

As we can see that the number of entities with joint form of ownership operating in Kazakhstan increases. Moreover, this is a goal of strategic documents adopted by the EEC. Through industrial cooperation the Member States facilitate relationship, production, and trade (export of mutual produced goods to third countries' markets). Industrial cooperation between Kazakhstan and Member States of the EAEU attracts investment to industrial sector and therefore it boosts the production of manufactured goods.

The adoption of “The Main Directions of Industrial Cooperation" was a strategic decision for the development of industrial cooperation in the EAEU. The implementation of effective industrial policy was due to the creation of an institutional framework for deepening cooperation and creating new innovative sectors of industry, as well as removing barriers in the industrial sector in the EAEU.

The continuation of the document should be aimed at the practical application of the already established regulatory legal framework. Increasing the competitiveness of the industrial complexes of the Member States in foreign markets, using industrial and innovative infrastructure facilities to enhance sectoral and intersectoral cooperation should become key directions for achieving a sustainable industrial development in the EAEU for next five years.

4.6 Recommendations for Kazakhstan’s industrial policy development within the EAEU

Currently, there are not results from the EAEU that directly related to the integration effect for the population (social, scientific, and technological, educational, environmental). This fact does not allow citizens of the EAEU Member States to fully experience the benefits of functioning of the EAEU. Meanwhile, proper industrial policy could create conditions for production goods and services within the EAEU that Member States import from third countries. Subsequently, people will satisfy their needs, new jobs will be created, investment will be directed to infrastructure development.

According to strategic documents adopted in the EAEU, the objectives of the EAEU industrial policy are to accelerate and increase the sustainability of industrial development, increase the competitiveness of the industrial complexes of the Member States, implement effective cooperation for increasing of innovation activity, and eliminate barriers in the industrial sector within the EAEU.

Thus, all measures should be applied to aim of providing a powerful impetus to deepening industrial cooperation between the EAEU Member States. The development of cross-country value chains has great potential in the manufacturing sector, both intermediate goods for further assembly, and final products.

Therefore, **it is recommended** to design a program for financing projects for the modernization of existing production, as well as reducing the costs of manufacturers of cross-border cooperative deliveries of goods. As result, the implementation of industrial policy measures will contribute to the launch of joint research and industrial projects, improve the competitiveness of manufactured products, reduces production costs, and facilitate export to the foreign market.

As we learned that all actions in the EAEU are taken according to the long-term strategic documents, hence **it is necessary to Kazakhstan** takes an active position in designing and approving measures of achievement of the goals of the country's industrial policy and the promotion of its interests in the Eurasian Economic Union.

Considering that Kazakhstan is natural resource county, and it mainly exports oil and minerals which leads to a high dependence of economy on oil price (dollar), **it is necessary:**

- To diversify exports in terms of commodity structure as well as in terms of directions.
- To increase the share of finished products in total exports relative to the export of raw materials.
- To develop high-tech industries and invest in R&D more.
- To develop industrial cooperation with the EAEU Member States and others to attract investment to production and reconstruction of existing facilities.
- To protect domestic producers from unfair trade practices and violations by imported producers/ trading partners.
- To create a strategy for a proactive trade and industrial policies to use opportunities and integration potential.

For the further efficient development of Kazakhstan in the EAEU following actions are proposed:

1. Implementation of activities with highest economic interest for Kazakhstan according to Strategic directions for the development of Eurasian Economic Integration until 2025.
2. Identification, analysis and elimination of barriers, exemptions and restrictions that impede the free movement of domestic goods and services (https://barriers.eaeunion.org/).
3. Cooperation development between the EAEU and third countries, regional integration associations and international organizations based on mutual economic interest.
4. Development of industrial cooperation with the EAEU Member States on equal terms and conditions without protectionism and internal hidden restrictions.

5. To apply government measures in the industrial sector in line with the principles of the WTO, which will contribute to the establishment of fair competition in the domestic market.

6. To prevent the contradictions to the national interests of Kazakhstan within the EAEU and the WTO. Immediately protect the interests of Kazakhstan and Kazakhstani business in international Dispute Settlement. This implies the direct participation of the business community in the development of proposals and the implementation of tools to protect the domestic market.

7. To work closely with the business to design a package of subsidies to comply with fair competition in the EAEU and the WTO.

8. To exercise a cooperation with regards to FTA by exporting jointly produced goods and services.

The analysis of RCA indices shows that Kazakhstan industrial sector is competitive comparing with Kyrgyzstan and Armenia and less competitive than Russian and Belarussian products. Therefore, in order to increase competitiveness next measures could be applied:

– Increasing labor productivity by introducing new technologies and hiring qualified personnel.

– Optimizing production processes by implementing digital and technological solutions.

– Modernization production line of components used in industrial products.

– Stable supply of basic and affordable raw materials for further processing enterprises.

– Quick access to financial resources / governmental program (less bureaucracy).

– To develop new capital-intensive industries with the involvement of foreign investors.

– To improve the digital and certification infrastructure in industrial sector in order to simplify the operational processes.

In general, the EAEU opens significant opportunities for the export of industrial products of Kazakhstan to the Member States and FTA countries since a common market has been created. This should encourage companies to expand production, improve the quality of their products (including obtaining international certificates) and increase productivity in order to offer competitive products in foreign markets.

5 Results and Discussion

The Diploma Thesis is conducted to find answers on research hypostasizes formulated in 2.1 Objectives.

1. The EAEU creates fair competitive conditions for industrial development

Industrial development is depended on industrial policy of the country including government programs, provided subsidies, R&D, etc.

Integration processes create additional conditions for exporters to expand the destinations. However, there are certain restrictions on the providing the state support for exports. These restrictions follow from the Treaty on the EAEU and the Agreement on Subsidies and Countervailing Measures of the WTO. Governmental support measures play key role in competition with trading partners. The uniform rules for providing industrial subsidies are applied in the EAEU. These rules are complied with the WTO rules: prohibition of export subsidies and local content subsidies as having a trade-distorting effect. The EAEU Member States should inform each other and the Eurasian Economic Commission about provided industrial subsidies in reported year and planned industrial subsidies for next year. It should be noted that there is exception from the EAEU and the WTO Agreement that allowed to apply export credits in accordance with the practice of the OECD.

The EEC monitors and conducts a comparative legal analysis of the legislation related to industrial subsidies providing of each Member State as a part of control of compliance of mentioned-above uniform rules. Based on the results practical recommendations are prepared, and, if necessary, notifications are issued on the correction of norms of legal acts that are inconsistent with the EAEU Treaty. This procedure is transparent, and results of monitoring are available for each Member State.

A new stage in the development of integration processes in the field of providing industrial subsidies was the entry into force with The Agreement on the Voluntary Reconciliation of Specific Subsidies between Member States and the Eurasian Economic Commission signed on May 26, 2017. It expands the functions of the EEC and allows Member States provide agreed specific subsidies without application of countervailing measure for certain period.

Moreover, the Agreement establishes the procedure for the EEC of deciding about the admissibility or inadmissibility of specific subsidies based on the criteria adopted by the Member States. The Commission has the right to conduct investigation in order to prove or decline the evidence of damage of industry caused by subsidized imports. As we can see the Treaty on the EAEU is fundamental document which create provisions for design further strategic documents for industrial policy development within the Eurasian Economic Union.

Since the EAEU establishment there is no case on subsidies investigation and countervailing measure application. The Member States send notification of provided industrial subsidies to the EEC quarterly and the EEC studies them carefully.

Overall, the implementation of uniform rules of industrial subsidies by Member States contributes to the industrial development positively. Specific subsidies launch of joint research and industrial projects, improve the competitiveness of products, reduce production costs, and ensure joint access to the foreign markets.

Additionally, the EAEU Member States have a right to provide export credit in accordance with the OECD practice. But the OECD Agreement allows the export credits in the currencies of OECD countries. Therefore, it is needed to develop a methodology based on the practice of the OECD using the EAEU Member States currencies.

2. Kazakhstan industrial development depends on Russian economy since Rissia has a dominant share in mutual trade of Member States of the EAEU

The mutual trade in goods within the EAEU recorded $55.1 billion in 2020, a decrease of 10.7% compared with 2019 ($61,6 billion). As expected, the majority of 63.7% in common trade belongs to Russia, 23.6% represents Belarus, 10.4% is traded by Kazakhstan and about 2% accounts for Kyrgyzstan and Armenia.

Industrial goods are traded most (80%) in the EAEU whereas agricultural goods composed remaining 20%. The main traded industrial groups are mineral products (23.4%), machinery, electronical and transportation (21.7%) and metals (13.3%).

As we can see from the table below that Russia is key trade partner of Kazakhstan and Kazakhstan exports 27% of industrial goods to Russia whereas Russian export of industrial goods accounts 6.5%. At the same time Kazakhstan imports from Russia 38.5% of industrial goods and Russia holds first place in import of all goods to Kazakhstan (42.1%). Russia imports from Kazakhstan only 2.5% and it is ranked 9th place. Hence, Russian import to Kazakhstan is greater than Kazakhstan export to Russia.

The table shows that Russia is ranked from 1 to 3 place in Kazakhstan trade. I can conclude that Kazakhstan economy is dependent on Russian economy. In general, the market of the Russia for Kazakhstan is an important sales market especially for manufacturing companies. Manufacturing enterprises are more dependent on the exchange rate of the

Russian ruble, and mining enterprises on the US dollar exchange rate.

Today when the West have imposed sanctions against Russia, the ruble is devaluated, and it leads that Kazakhstan tenge cheapens as well. Moreover, both economies are sensitive to oil prices.

Table 8 Inter-dependence of economies based on trade indicators in 2020

		Russian for Kazakhstan		Kazakhstan for Russia	
		Share of Russia	**Place**	**Share of Kaz.**	**Place**
Turnover		23.6 %	1	3.4 %	10
Export	All goods	11.5 %	3	3.8 %	9
	Manufactured food products	21 %	3	13.9 %	1
	Fuel and Energy products	1.6 %	15	0.5 %	32
	Industrial goods	27 %	2	6.5 %	-
Import	All goods	42.1 %	1	2.5 %	9
	Manufactured food products	64.6 %	1	1.6 %	18
	Fuel and Energy products	89.1 %	1	20.5 %	1
	Industrial goods	38.5 %	1	2.2 %	-

Source: tradereport.kz

Thus, Kazakhstan needs to diversify trade in terms of commodity structure as well as in terms of directions and gradually diminish its dependence of Russia. And Kazakhstan has a strategic position between China and Russia, East Asia, and Europe. Taking into account that Kazakhstan plans to become the biggest transport, logistics and business hub in Eurasian continent, it could help to reduce dependence from Russia.

3. Industrial cooperation between Kazakhstan and the EAEU Member States boosts the production of manufactured goods

Today, with the globalization of trade, industrial cooperation has become widely used. In practice, the following types of specialization are distinguished:

- completed production
- production of individual parts of the product (components
- specialization at certain stages of the entire production process

The creation of the EAEU contributed to closer cooperation between the Member States. The EAEU opens new opportunities for industrial cooperation for the Member States. The main goals of the Union are import substitution of industrial goods from third countries on the EAEU market by increasing mutual supplies of products and own production; accelerating the technological development of the Member States through the formation of a joint innovation infrastructure; increasing exports of manufacturing products with the support of the EAEU Member States.

The industrial policy of the EAEU is aimed at increasing the sustainability of industrial development, increasing the competitiveness of the industrial complexes of the EAEU countries, removing barriers in the industrial sector.

Bilateral relations of the EAEU Member States include economic cooperation not only in trade, customs, energy, industries, agriculture, but also it develops the business (SME).

In 2020, the number of enterprises with a joint form of ownership with the EAEU Member States operating in Kazakhstan increased by 4.6% (3,780 enterprises). The main industries for industrial cooperation with the EAEU Member States are mechanical engineering, metallurgical industry, light industry, production of building materials, pharmaceutical and chemical industries.

At the same time Kazakhstan production of industrial goods amounted to $ 64.8 billion which is a decrease of 15% compared with previous year ($ 76.1 billion). Drop is caused by 32.5% of mining production decreasing whereas production of manufacturing industry increased by 8% in 2020. A decline in 2015 (-36%) is described by Kazakh currency tenge depreciation from 188.38 to 349.12 against the dollar. The manufacturing sector has a dominant share (49%) in industrial production in Kazakhstan. Then a mining production accounts of 44% of total produced industrial goods and services in 2020.

Thus, there is a linkage between number of enterprises and volume of goods and services produced by manufacturing sector in Kazakhstan. New business with a joint form of ownership is created to satisfy increasing demand in the EAEU market. Therefore, it is necessary to design a program on mutual support for joint produced goods.

It is important to identify areas for cooperation and develop package of joint support measures. However, in order to be a recipient of this support the project should meet the following criteria:

- Social effect for all participants and the Union as a whole
- Utility and profitability of the project
- Non-violation of competition in the EAEU

The application of joint support measures of export of cooperative products will create conditions for the industrial development in the export-oriented sectors and increase the competitiveness of the producers in foreign markets by reducing production and logistics costs.

4. *The experts' opinion on the Russo-Ukrainian conflict and its consequences on Kazakhstan economy and the EAEU*

Russian invasion of Ukraine was 24th of February 2022 and before Russia recognized the independence of Lugansk and Donetsk. From that day the world is changed, and no one can predict the next step of President of Russia and when and how the conflict will end. The civilian casualties are the worst happening in right now. Moral part is important but economic consequences is crucial as well. On response of Russian intensive invasion, the West imposed four packages[21] of sanctions against Russia, including targeting sanctions against the wealthiest Russian businessmen. International companies left Russian market by closing its business there, there is ban on export from Russia including oil and gas, Russian flights have been cancelled, assets of Russian Central Bank are frozen and swift system is switched off in Russia etc. Those measures are the Now is turbulent period and this conflict is close to global as military actions happen near to European Union border.

The EU position is clear, and EU stands that "The EU strongly condemns Putin's decision to recognize the non-government-controlled areas of Donetsk and Luhansk and to invade Ukraine. It also condemns Belarus' involvement in Russia's military aggression". And it is obvious that this conflict impacts everyone as economic consequences are extensive.

Kazakhstan rejected a request for sending its troops to Ukraine as well as does not recognize independence of Donetsk and Luhansk. Additionally, Kazakhstan delivered 82 tons of humanitarian aid worth $ 2.25 million. Those decisions were discussed a lot as Kazakhstan and Russia are Members States of the EAEU and Collective Security Treaty Organization. Moreover, January tragedy in Kazakhstan was stopped with help of CSTO peacekeeping mission. And because of that Kazakhstan position was tales as surprising. The US National Security Council officially welcomed Kazakhstan for its decisions.

Askar A. (2022) said that Russia helped Kazakhstan following several reasons and there is "no "debt" owed to Russia by Kazakhstan". Russia is interested to keep peace in Kazakhstan as countries have long beneficial partnership and economic and political relations. The economies of two countries are linked. Taking the fact of membership of the

[21] EU restrictive measures in response to the crisis in Ukraine. Available at [online] https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-ukraine-crisis/history-restrictive-measures-ukraine-crisis/

EAEU Kazakhstan faces numerous challenges. Askar A. believes that “Kazakhstan is now in a tricky position both politically and economically”.

The Russian economy is collapsing. The high share of Russian goods in Kazakhstan market will lead to a rapid reaction of consumer prices in Kazakhstan. The ruble is falling, and inflation is increasing. Kazakhstan currency tenge is depended on ruble therefore tenge is depreciated as well. Moreover, Russia adopted measure that prohibits an export of wheat, meslin, rye, barley, corn, and sugar to the EAEU countries. And Kazakhstan imports those products from Russia the most. Hence, appropriate measures should be taken by Kazakh government to prevent shortage of the goods and high prices in the local market. The Chief of Executive Officer of QazTrade Center for Trade Policy Development Azamat Askaruly[22] believes that Kazakhstan can supply itself and neighboring countries with the ley crops in good planning aligned with energy consumption. In his opinion inflow investments in infrastructure, technologies, seeds and total overhaul of science will boost the agricultural sector and satisfy needs of agri-food markets.

Richard Weitz (2014) studies Kazakhstan decisions with annexation of Crimea in 2014. Astana attempted to convince Moscow to not intervene in Ukraine. Both Russia and Ukraine are important partners for Kazakhstan. “Russia is Kazakhstan's premier economic and security partner, while Ukraine offers Kazakhstan an important connection with European markets and institutions.” Kazakhstan did not recognize the Crimea referendum based on international law and the United Nations principle of territorial integrity. As we can see, Kazakhstan makes decisions following international legislation. Therefore, in 2022 Kazakhstan did not support Russia in the Ukrainian conflict a second time.

Gavin Helf (2022) points out the problem of migrant workers who live and work in Russia and send money to families in home Central Asian countries (Tajikistan, Kyrgyzstan and Uzbekistan) due to the ban on export of dollars imposed by the Russian Central Bank. In the long run it would destroy the labor markets and one of the four principles of the EAEU for Kyrgyzstan as a Member State of the EAEU. The author states that sanctions hit Russia and paralyze the economy including the energy sector therefore the Eurasian Economic Union will not be considered as an economic partner for Europe as well.

Dumoulin M. (2022) supports the idea of migration problem and increasing unemployment in Central Asia countries as well as in Russia itself. The EAEU countries and

[22] Official site of QazTrade. Available at [online] https://qaztrade.org.kz/eng/executives/

countries with high Russian influence are experiencing the negative economic consequences of the Russo-Ukrainian conflict. Kazakhstan's tenge fell by twenty percent in the last two weeks, and the energy industry faces difficulties in oil export through Russian pipelines.

According to the Economic Research Institute[23] under the Ministry of National Economy of Kazakhstan the trade turnover of Kazakhstan with Russia amounted to $ 24.2 billion in 2021, or 23.9% of the total trade turnover of Kazakhstan wherein the export of Kazakhstan to Russia amounted to $6.9 billion (or 11.5% of all exports), and the Russian import was $17.3 billion (or 42.1% of all imports).

The experts identified the sensitive industries which will be impacted due to significant slowdown of Russian economy:

- production of ores and iron concentrates
- production of chrome ores
- production of ferroalloys
- production of coal and electricity
- production of mineral fertilizers.

As manufacturing production of the above industries is concentrated in particular regions of Kazakhstan it will affect the socio-economic development of such regions: Aktobe, Karaganda, East Kazakhstan, Pavlodar, Zhambyl.

There will be a slowdown of foreign direct investment from Russia. Russia is a TOP-5 investor in the economy of Kazakhstan with gross FDI of $ 1.4 billion (9 months of 2021). The economic downturn in Russia caused by the sanctions may lead to a slowdown in FDI inflows into the economy of Kazakhstan. Based on ERI experts' calculation a $1 drop in foreign direct investment results in a $1.7 drop in exports.

Notably, so far there are no sanctions imposed against Kazakhstan. In case the West decides to extend the list of recipients Kazakhstan will be included. Crude oil is a main account of export of Kazakhstan (52% of the total export of Kazakhstan). Consequently, the embargo on the import of Kazakh oil will reduce the size of the budget significantly. Therefore, there is a high risk that Kazakhstan will not be able to diversify oil exports in the shortest possible time due to the lack of proper oil transportation infrastructure.

Obviously, Kazakhstan cannot be neutral in this conflict. At the same time there will be negative consequences for Kazakhstan economic development in any possible scenario.

[23] Official site of ERI [online]. Available at https://economy.kz/en/

From my personal perspective more important is political stability in Kazakhstan as we experienced massive violent protests in the beginning of January. The Kazakh government declared 10th of January as a day of mourning for victims of the protests.

Thus, the future of Kazakhstan and the EAEU is uncertain. The economic and trade relations of Kazakhstan with Russia are connected within the framework of the EAEU as well as political obligations are bound within the framework of the Collective Security Treaty Organization. The creation of the Eurasian Economic Union determines the positive dynamics in the development of bilateral relations between Kazakhstan and Member States. Therefore, the weakening of the Russian economy will affect the functioning of the EAEU by suspension of existing integration projects and slowdown of all economic processes.

6 Conclusion

The Diploma Thesis analyses industrial policy within the Eurasian Economic Union precisely studying Kazakhstan practice. During the research following tasks have been executed:

1. Examined the Treaty on Eurasian Economic Union and long-term strategic documents adopted by Eurasian Economic Commission (EEC) to study the legal framework of the EAEU and identify strategic development and opportunities for industrial sector of Kazakhstan.
2. Examined the WTO Agreement and Working Party on the Accession of the Republic of Kazakhstan to compare obligations of industrial sector of Kazakhstan within EAEU and WTO.
3. Estimated trade flows of manufactured goods between Kazakhstan and the EAEU Member States (in 2011-2020 to determine the most traded industrial sectors in Kazakhstan.
4. Calculated the RCA index to identify comparative advantages of Kazakhstan industries comparing with the EAEU Member States at given period of time.
5. Provided overview of the EAEU perspectives based on structured interviews with corresponding policy experts.
6. Described key drivers influencing on industrial policy of Kazakhstan.
7. Designed recommendations for Kazakhstan's industrial policy development within EAEU based on key findings of research and structured interviews with policy experts.

The research shows the mutual trade is increased during the EAEU functioning. Notably, that trade is expressed in U.S. dollars and need to take into account an exchange rate and weak local currencies of the Member States. Russia and Belarus have a dominant share in mutual trade within EAEU and its import is greater than Kazakhstan export. Moreover, Kazakhstan needs to cooperate with producers from Russia or Belarus to create joint produced goods in order to substitute imported from third countries industrial products or export them to the rest of the world (out of the EAEU).

The RCA index is dynamic and fluctuated. And the most Kazakhstan industries are competitive with the RCA is greater than 1 except fuel and stone/glass. Perceptively, Kazakhstan does not have comparative advantage in fuel in the EAEU market. It could be explained that the main countries of petroleum gas exports from Kazakhstan are China

($1.65B), Ukraine ($713M), Russia ($273M), Switzerland ($212M), and Tajikistan ($132M)[24]. And Russia the 4th largest exporter in the world and Belarus is the recipient of Russian crude. The RCA index shows that Kazakhstan has opportunity to export fuel to Belarusian market (RCA=0.9).

Nevertheless, the industrial sector of Kazakhstan is dependent on mining production (oil & gas) as well as it manufactures more intermediate goods with lower value added. To be more competitive in the EAEU market Kazakhstan needs to reconsider industrial strategy and support producers to invest in reconstruction, buying new powerful equipment and R&D.

The EAEU impacts on Kazakhstan industrial development positively. The number of enterprises with joint form of ownership operating in Kazakhstan increases. Moreover, this is a goal of strategic documents adopted by the EEC. Through industrial cooperation the Member States facilitate relationship, production, and trade (export of mutual produced goods to third countries' markets). Industrial cooperation between Kazakhstan and Member States of the EAEU attracts investment to industrial sector and therefore it boosts the production of manufactured goods.

In general, the EAEU opens significant opportunities for the export of industrial products of Kazakhstan to the Member States and FTA countries since a common market has been created. This should encourage companies to expand production, improve the quality of their products (including obtaining international certificates) and increase productivity in order to offer competitive products in foreign markets.

It was proved that Kazakhstan is highly dependent on Russian economy as key trading partner and investor. Nowadays when European Union and United States imposed economic sanctions against Russia and most international companies terminated their contracts with Russian business the Russian economy is collapsing. The ruble is falling, and inflation is increasing. Kazakhstan currency tenge is depended on ruble therefore tenge is depreciated as well. Moreover, Russia adopted measure that prohibits an export of wheat, meslin, rye, barley, corn, and sugar to the EAEU countries. And Kazakhstan imports those products from Russia the most. Hence, appropriate measures should be taken by Kazakh government to prevent shortage of the goods and high prices in the local market.

[24] Official site of The Observatory of Economic Complexity (OEC). Available at https://oec.world/

Thus, Kazakhstan needs to diversify trade in terms of commodity structure as well as in terms of directions and gradually diminish its dependence on Russia. Kazakhstan has a strategic position between China and Russia, East Asia, and Europe. Taking into account that Kazakhstan plans to become the biggest transport, logistics and business hub in Eurasian continent, it could help to reduce dependence on Russia. Using the potential of Eurasian integration for high-tech export-oriented production and its promotion to foreign markets is one of the priority goals for Kazakhstan industrial development in the EAEU.

The limitation of the Diploma Thesis is a calculation of the RCA index for 14 industries of Kazakhstan, time, and short existence of the EAEU (7 years). Additionally, the Diploma Thesis does not include analysis of consequences of Russian-Ukrainian conflict and how sanctions imposed against Russia will impact on Kazakhstan economy and the EAEU itself. The invasion was not expected and predicted, and the Diploma Thesis was completed before the war started. I have done a review of experts' opinions about this conflict in Results and Discussion and all of them predict negative economic consequences for Kazakhstan and the EAEU development.

For further development of the research the results of RCA calculation could be used in Advanced Trade Analysis, such as Input-Output Analysis. Consequently, it will give insights about industrial cooperation within the EAEU and could be used for planning of production chain development. Additionally, analysis of risks and opportunities for the EAEU Member States caused by a new membership (Uzbekistan, Moldova) could be done for a continuation of this Diploma Thesis as the RCA index provides useful information about potential trade prospects with new partners. Taking into account the recent political events it would be interesting to investigate the risks for Kazakhstan and analyze scenario for further development in case staying within the EAEU and terminating its membership of the EAEU.

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8 List of pictures, tables, figures and abbreviations

8.1 List of tables

8.2 List of figures

8.3 List of abbreviations

CES – Common Economic Space
EAEU – Eurasian Economic Union
EEC – Eurasian Economic Commission
Member States – Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia
WTO – World Trade Organization
GATT - General Agreement on Tariff and Trade
MFN - The Most Favoured Nation principle
NT – National Treatment
GATS - General Agreement on Trade in Services
TRIPS - Agreement on Trade-Related Aspects of Intellectual Property Rights

Appendix