

REGIONAL ECONOMIES

THE CUSTOMS UNION: HOW IT AFFECTS THE PRIORITIES OF KAZAKHSTAN'S ECONOMIC POLICY

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Introduction

Kazakhstan has been a member of the Customs Union (CU) for more than a year now. This has inevitably affected how its economy functions and given rise to a broad public discussion of the prospects for this kind of integration union, its advantages, and its possible detriment to the country's economic development.

During the first year of its life, the Customs Union had a relatively positive impact on Kazakhstan's economy. However, what real advantages does Kazakhstan business gain from the CU? First, reciprocal trade barriers among its participating states have been removed. Customs registration at the internal borders of the CU was cancelled on 1 July, 2010. Moreover, the tax agencies of the CU states now communicate elec-

tronically and regularly exchange information from commodity import statements and regarding indirect tax payment by taxpayers.

Participants in foreign trade transactions can get up to a 50-day deferment on VAT and excise tax payments. All of this stimulates the expansion of economic trade ties among the CU participating states and helps to boost their reciprocal goods turnover.

Kazakhstan's trade volume with the CU countries in 2010 increased by 28.1% and amounted to almost 20% of the republic's total goods turnover.¹ The total amount of value add-

¹ See: The Customs Union is yielding its first positive results (see [www.kazinform.kz]).

ed tax receipts on imports from the Russian Federation between 1 July, 2010 and 31 December, 2010 amounted to 91.2 million tenge, which is 1.2-fold more than for the corresponding period of 2009. VAT on imports from the Republic of Belarus between 1 July, 2010 and 31 December, 2010 amounted to 3.7 million tenge, which is 1.3-fold more than for the corresponding period

of 2009.² On 1 July, 2011, customs control is transferred from the internal borders of the CU to the periphery of the participating states, which will also promote further development of reciprocal trade among them.

² See: The Customs Union brings the Republic of Kazakhstan 95 million tenge in VAT receipts (see [www.zakon.kz]).

Unanswered Questions

Kazakhstan business is experiencing certain problems in the Customs Union. Transferring to something new is never an easy task. The old laws do not always correlate to the new circumstances and business contracts long in effect do not lend themselves to new interpretation. In particular, Vice President of the Kazakhstan Independent Association of Businessmen T. Nazkhanov noted in an interview: “Even optimists are disappointed with the Customs Union. Not one businessman has said that things have become more profitable or easier in response to our question ‘Has doing business become better or worse?’; on the contrary, most respondents are of the same opinion: the situation has only changed for the worse. The expectations of businessmen have not been justified. The new regulations are hampering long-established and streamlined supply patterns... Even positive initiatives are ultimately turning into problems for businessmen.”³

What are the reasons for this situation?

- First, as many businessmen note, active ties have not yet been established between the state and business. The CU’s contractual-legal base was formed in a very short time; by way of comparison, it took the European Union nine years (from 1959 to 1968) to establish a customs union. Kazakhstan business, on the other hand, had no time to react or participate in drawing up the necessary documents. The CU’s regulatory-legal base was created “from above” as it were.

As Chairman of the Kazakhstan Independent Association of Businessmen notes, the corresponding ministries and departments did not coordinate their activity with businessmen before the CU began to function. Some of the associations represented in the working groups and able to participate in drawing up measures to protect manufacturers either did not have the opportunity to formulate their viewpoints or could not achieve appropriate protection of their interests and ensure advantageous conditions for their industry.⁴

- Second, the CU has led to a significant hike in prices. For example, the price of merchandise purchased in Russia has risen on average by at least 10-20%. External tariffs have also risen. Whereas before Kazakhstan joined the CU, the average level of import duties amounted to 6.2%, when the Unified Customs Tariff (UCT) was introduced, the average level of import duties on merchandise from third countries rose to 10.6%.

It stands to reason that this has had an effect on the inflation rate in Kazakhstan. For example, in the first quarter of 2011, inflation in the republic amounted to 3.7% (in January-

³ G. Nurbekova, “Tamozhennyi soiuz—razocharovanie dazhe dlia optimistov,” *Silk Way. Torgovlia bez granits*, Information and Analytical Bulletin, No. 2, 2011, p. 13.

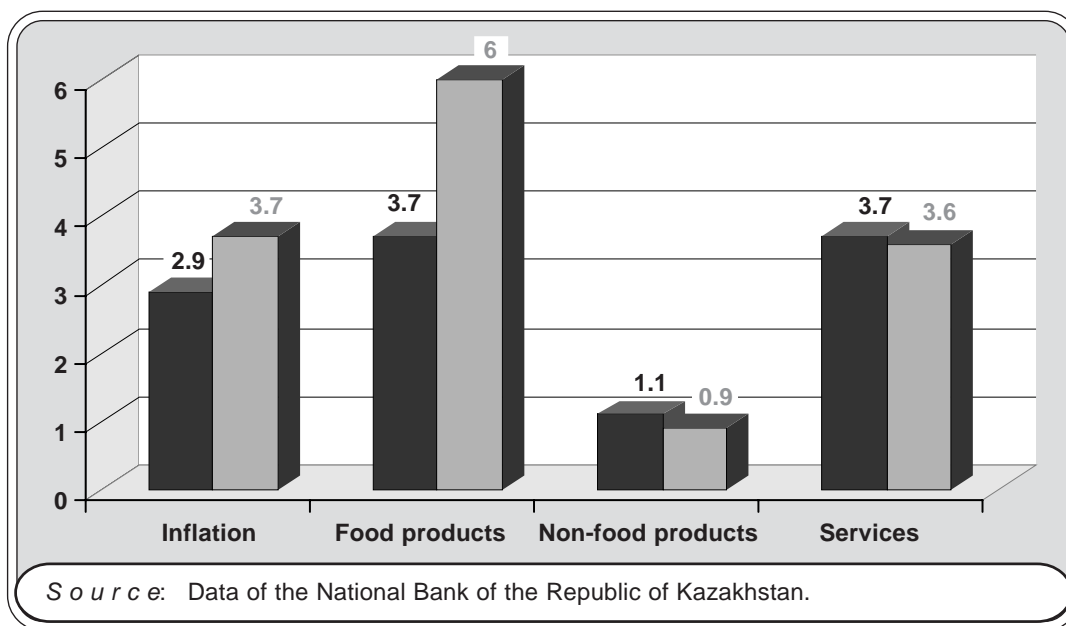
⁴ See: *Ibid.*, p. 16.

March 2010 it was 2.9%). The galloping inflation rate during the first three months of 2011 was caused by the 6.0% increase in the price of food products during this time (in January-March 2010 it rose by 3.7%).

Non-food products rose in price by 0.9% (in January-March 2010 by 1.1%) and paid services by 3.6% (in the first quarter of 2010 by 3.7%) (see Fig. 1).⁵ According to many experts, one of causes of this inflation was Kazakhstan joining the CU. Whereas prices used to be kept under control by means of cheap products from China, joining the CU has caused a hike in the import duties. And this set off inflation in the republic.⁶

Figure 1

**Inflation in Kazakhstan and Its Components
in the First Quarter of 2010 and 2011 (%)**



In particular, the duties levied on imports from China increased by an average of 20%. And this is very disadvantageous for Kazakhstan's manufacturers, many of whom purchase component parts and raw material from the PRC. The increase in the price of Chinese imports justifiably has an impact on the cost of the commodity, the turnover rate, the amount of circulating funds in the company, and its financial prosperity.

Moreover, the accelerated movement of goods and rise in supply of Russian and Belarusian commodities (which are more expensive than Kazakhstan's goods) in the CU have led to an increase in the price of products made by domestic manufacturers. "We cannot keep prices at a lower level than they are in Russia and Belarus, so there is no point in thinking they can be brought down, we can only stop them from rising," claims Chairman of the Union of Business Women of Kazakhstan M. Kazbekova.⁷

⁵ See: *On the Situation in the Financial Market*, Press release of the National Bank of the Republic of Kazakhstan No. 8 of 6 April, 2011, available at [www.nationalbank.kz].

⁶ See: D. Karimova, "Galop, eshche galop," *Biznes i vlast*, 4 March, 2011.

⁷ See: Ibidem.

The increase in cost of processing export-import transactions within the CU and with third countries is one of the reasons for the rise in consumer prices. “And of course an increase in the cost of commodity registration will ultimately lead to an increase in the price of those commodities.”⁸ At the beginning of 2011, new regulations were introduced requiring that additional documents be furnished during foreign economic transactions. For example, commodities from third countries must now undergo an expert’s examination and registration, which is a paid service and means the businessman has to fork out more money. Moreover, when commodities are transported from one CU country to another, instead of two official documents as before, a total of six documents must be submitted to the state agencies: two applications and a statistics form (similar to a customs declaration) to the tax agencies of the import country and the export country.

All of this only complicates the circulation of documents among the CU countries. This process should be simplified (by introducing a product bar-code on electronic tax declaration forms, for example). The extra itemization required for imported commodities is also hindering their movement among the CU countries. “When pencils used to be imported, we put them all in the same commodity group with the same code, now they have to be itemized and sorted into several groups, as well as described in terms of length, color, etc. This requires filling out additional columns in the forms and leads to an immense increase in the cost of importation, particularly with respect to medication and component parts, since each commodity group must be registered on a separate sheet appended to the customs declaration, and only three commodity groups fit on the same page. The cost of each additional page is 20 euro.”⁹

It is now physically impossible for a customs agent to submit 5-8 declarations a day, as before, which is another reason for the increase in cost of processing export-import transactions within the CU and with third countries. A set of declarations that used to take 15 minutes now takes at least one hour.

Transborder Bureaucracy

The use of certificates of origin is an urgent problem in the Customs Union. An agreement has been signed between Kazakhstan and Russia on mutual recognition by the customs agencies of the participating states of certificates of origin. However, when commodities cross from Kazakhstan into Russia, the shipper must replace the Kazakhstan certificate with a Russian one. And when the commodities arrive from Russia, the Russian shipper is issued a Kazakhstan certificate. This means certificates are paid for twice: first in one state, and then in the other.

A unified certificate is needed that will be recognized throughout the CU territory and allow shippers to freely cross the borders. At present, a unified product list has been approved in the CU to which a unified certificate of origin applies. But so far this list includes only 205 commodities from the inventory of the foreign economic activity of the CU states. The participating states must continue their efforts in this direction to cover the entire inventory of commodities. This will help to establish unified principles of reciprocal trade and expand economic trade ties within the CU.

The need for the manufacturer to register a separate certificate of origin for each batch of goods during export transactions in the CU countries is also a serious problem and leads to a waste of time and money. This issue must be resolved and a more flexible mechanism formed for developing reciprocal trade among the CU countries. At present, the Customs Union Commission is examining the

⁸ Ia. Razumov, “Besprimernye trebovaniia detalizatsii importiruemymkh tovarov mogut privesti k udorozhaniu importa,” *Silk Way. Torgovlia bez granits*, No. 2, 2011, p. 17.

⁹ *Ibid.*, p. 18.

draft of a development strategy for a unified system of technical regulation and adoption of sanitary, veterinary, and phytosanitary measures for 2011-2015. The drawing up and adoption of this document will be an important stage in developing integration cooperation among the CU countries and increasing the volume of reciprocal goods turnover.

Another important problem that arose as a result of the sluggishness of Kazakhstan's authorized agencies must also be mentioned. *The matter concerns the register of suppliers from third countries.* Many Kazakhstan businessmen have long established relations with suppliers from third countries, and joint business has been gaining momentum. But due to the fact that many partner suppliers were not entered in the above-mentioned register on time, Kazakhstan businessmen are having to look for and establish new contacts with those suppliers on the register of the Russian side. This is causing interruptions in the delivery of raw material from third countries and breaking down long-established partner ties. Businessmen are again having to go through all the groundwork, accomplished by trial and error, to establish relations with new partners, which is having a negative effect on Kazakhstan business as a whole and on the quality of the products manufactured in particular.¹⁰

All of this points to the need to strengthen ties between the state and business. Ministries and departments must work more actively with business representatives, associations, and unions, supply more information, collect reviews, and take account of the assessments gathered in their work.

The need to step up the participation of business in the functioning of the CU has been repeatedly noted, in particular by representatives of the Kazakhstan Association of Manufacturers and Sellers of Alcoholic Products, KazAlko.¹¹ Bringing the national legislation of the CU countries into harmony with each other is one of the topics on the agenda. For example, relatively favorable conditions have been created in Kazakhstan for importing alcoholic products. In particular, Russian manufacturers can participate in Kazakhstan's internal market under Kazakhstan's excise tax rates, which are much lower than the Russian rates and amount to 400 tenge for 1 liter of absolute alcohol (keeping in mind the 60% increase on excise tax for alcohol since 1 January, 2011). By way of comparison, in the Russian Federation, excise tax translated into Kazakh tenge amounts to approximately 1,200 tenge for absolute alcohol.

Moreover, licensing fees in Russia and in Kazakhstan are incommensurable. For example, the licensing fee for importers in Kazakhstan amounts to 10 monthly calculation indices (MCI) (1 MCI = 1,273 tenge, 10 MCI = 12,730 tenge). In the Russian Federation, a one-time license costs 1,000 minimum wage rates (MWR) (1 MWR = 4,330 rubles, 1,000 MWR = 4,330,000 rubles = 902,083 tenge), and the cost of a general license amounts to 15,000 MWR. Moreover, in Kazakhstan one-time import licenses are issued for one year with no restrictions on the amount of alcoholic products imported. In Russia, a one-time license is issued for only 2 months with restrictions on the amount of imported products. The amount of imported alcoholic products is limited to 10% of the total annual amount of products sold in the country.

Moreover, on 1 July, 2010, Rospotrebnadzor made a decision envisaging that imported products must be state registered and entered on the importer register. And from 1 January, 2011, alcoholic products may only be imported into Russia in special vehicles, that is, using transportation means that are licensed to engage in this type of activity.

These factors are significantly hindering the development of mutually advantageous cooperation between Kazakhstan and Russia and restricting the access of Kazakhstan manufacturers to Russia's internal market.

So it is vitally important that the ministries and departments of the CU countries enhance their coordination and cooperate more closely with the business community. The decisions made at the

¹⁰ See: G. Nurbekova, op. cit., p. 14.

¹¹ See: "Rossia i Kazakhstan ne schitaiut neobkhodimym unifitsirovat' eksportnye tamozhennye poshliny v ramkakh EEP," *Panorama*, 5 November, 2010.

interstate level with respect to intensifying regional integration must ensure the interests of small and medium business (SMB). This is also extremely urgent for Kazakhstan, since the development of SMB is instrumental in the country's economic growth, in forming a middle class, and in strengthening social stability in society.

Tarrification of Trade Flows

The lack of coordination in transport fees for freight shipments in the CU is another problem for Kazakhstan manufacturers. In particular, international transit rail fees in the Russian Federation are much higher than in Kazakhstan. This means that Kazakhstan manufacturers pay 2.5-fold more than Russian manufacturers for transit of their products through Russia. Establishing a reduced fee for shipping Kazakhstan's mining and smelting products by rail through Russia is a hard nut to crack. This problem was discussed by the representatives of the Association of Ore Mining and Smelting Enterprises of Kazakhstan at a round table meeting called "The Customs Union: From Theory to Practice" held on 1 November, 2010 in Astana. In other words, Kazakhstan manufacturers are still not reaping any real benefit from integration in practice. It stands to reason that forming coordinated transport fees is largely the task of the Unified Economic Space. But attempts to resolve the problem of fees within the EurAsEC have been going on for quite some time now. The departments of the participating countries need to step up coordination of the principles of an economic and transportation policy, since the main goal of the CU, and of the Eurasian Economic Community as a whole, is to create conditions for the free movement of goods, capital, and services. And this, in turn, will promote the sustainable development of the participating countries and augment their economic potential.

In order to develop transport cooperation within the CU, the problem of rail shipment taxation must be resolved. In particular, since 1 July, 2010, Russian Railroads has been levying a value added tax of 18% on international shipments to Kazakhstan. The Customs Union Commission made a decision on 20 September, 2010 that required the Russian side to make amendments to the corresponding legislation to cancel this practice. But the decision envisages every kind of shipment apart from rail.¹² This means that Kazakhstan businessmen are still not enjoying the anticipated decrease in the cost of shipping goods by means of Russian rail. "We, the people of Kazakhstan, cannot imagine a railroad being able to act as a 'state within a state' outside the general state policy."¹³

So bringing the national legislation of the CU countries into harmony with each other and creating real conditions for the free movement of goods, capital, and services are high priority tasks. In this respect, the governments of the CU participating states should coordinate efforts better with the corresponding ministries, departments, and business associations in order to smooth out all the rough edges of the new cooperation mechanism and fully create a climate that favors interaction among our countries.

Moreover, Kazakhstan must urgently create a separate structure (under the Kazakhstan Ministry of Economic Development, for example) for monitoring and analyzing the measures carried out within the framework of the CU and for evaluating their impact on the activity of Kazakhstan companies.

It is very important for Kazakhstan to pursue an adequate economic policy in the CU. For example, if Russia's trade policy is compared with Kazakhstan's, it can be concluded that state policy in Russia has always been aimed at supporting the domestic manufacturer. This can be seen, for example, from the average customs duty rates that were in effect in Kazakhstan and Russia before the CU was established. When the Unified Customs Tariff (UCT) was formed, the Kazakh side was forced to

¹² See: Ya. Razumov, "Zheleznaia doroga—'gosudarstvo v gosudarstve': problemy nalogooblozheniia v Tamozhennom soiuze," *Silk Way. Torgovlia bez granits*, No. 2, 2011, p. 20.

¹³ *Ibid.*, p. 21.

raise the customs tariffs on many goods. In particular, the amount of UCT for Kazakhstan increased on average by 4.4% (see Table 1).

Table 1

**Comparison of the Arithmetic Mean of Import Duties
in Kazakhstan and in Russia and
the Unified Customs Tariff (%)**

	Kazakhstan	Russia	UCT
Arithmetic Mean	6.2	10.6	10.6
For industrial goods	4.6	9.4	8.5
For agricultural goods	12.1	15.1	16.7

S o u r c e: Information of the Ministry of Economic Development and Trade of the Republic of Kazakhstan.

Russia actively supports the agroindustrial complex. In particular, the state helps Russian agricultural manufacturers to settle up to half of their loans, which has given a powerful boost to development of Russia's food industry.

The following trend is seen in fish processing. Russian manufacturers buy fish in Kazakhstan at relatively profitable prices. Most Kazakhstan companies comply with this since only seven companies have the Euro certificates needed to export their products to the Far Abroad (the U.S., Canada, Germany) (by way of comparison, there are 70 such companies in Russia), whereby there are fishing quotas for Kazakhstan companies. This means that Kazakhstan enterprises are left without raw material, while the bulk of fish processing is concentrated in Russia.

The same thing is also happening in the dairy industry. Russian companies buy up dairy products in the border areas, while Kazakhstan imports approximately 90% of cheese, as well as curds.¹⁴

In this respect, rendering real support to the domestic manufacturer and creating conditions for the development of small and medium business should become the top priority of Kazakhstan's economic policy.

Today, certain measures are being taken in the republic to develop business. In particular, the Kazakhstan government submitted a draft Law on Making Amendments and Addenda to Some Legislative Acts of the Republic of Kazakhstan on Licensing Issues to the parliament for approval on 10 March, 2011, which envisages cancelling 331 of the 1,051 licensing documents in effect. There are also plans to reduce the number of entities required to obtain licenses for their activity in agriculture and environmental protection.

The licensing procedures are to be simplified in order to save time. Applying the "one stop" principle in all state agencies will make it possible to significantly accelerate the processing of all documents. The new draft law is also introducing such regulations as mandatory document examination within two days and elimination of the need to notarize the submitted documents. The principle of "silence is a sign of consent" applies to all licensing procedures: if a state agency does not submit a justified refusal before the set deadline, the licensing document is considered issued.

Implementation of these regulations will undoubtedly help to speed up business in the country and develop entrepreneurship.

¹⁴ See: G. Nurbekova, op. cit., p. 15.

The CU: Great Expectations

However, with respect to the recent introduction of various innovations to simplify procedures in the business sphere, the justified question arises of why was it necessary to have more than 1,000 licensing documents in the first place? After all, these documents create nothing but obstacles and cause a deterioration in the business climate in the republic. According to the research of the World Bank and International Financial Corporation *Doing Business 2010*, Kazakhstan is 63rd in terms of the Ease of Doing Business Ranking, which means there is much room for improvement. Introducing the above-mentioned regulations will make it possible to solve this task to some extent.

Today, small and medium business needs as much assistance as possible in stepping up its activity. The numerous artificial barriers and obstacles to business are the main reason for the less-than-20-percent share of SMB in the total volume of the republic's GDP. As we know, in developed countries, small and medium business accounts for more than half of GDP. The share of the economically active population engaged in small business in Kazakhstan amounts to 25%. By way of comparison, in developed countries small business accounts for up to 50-80% of all those employed. This shows that the situation in this sector of the economy must be improved.

At present, Kazakhstan has quite a large number of organizations that support SMB. They include both government and public organizations. But there is no unified structure that is directly responsible for coordinating their work and ensuring qualitative implementation of SMB support programs.

The number of measures being drawn up and implemented in the business sphere is also high. But the businessmen themselves do not hear about them on time. There is no unified information system for supplying the latest information about small and medium business projects, and this is also hindering the development of the business sector in the republic.

Today, the Program of Accelerated Industrial-Innovative Development of the Republic of Kazakhstan for 2010-2014 and the Kazakhstan Industrialization Map for 2010-2014 are being implemented in Kazakhstan. And it is very important that these documents include as many small and medium business projects as possible. Conditions must be created for raising the competitiveness of SMB entities, in particular, a more flexible mechanism for their credit provision. Resolving these problems is especially important in the context of the functioning of the CU and in forming a Unified Economic Space (UES) in the future.

At present, the CU countries have drawn up the regulatory and legal basis for the UES. The main agreements were adopted for creating the Unified Economic Space at the Interstate Council meeting of the EurAsEC held on 9 December, 2010 at the head of state level. They included agreements for carrying out a coordinated economic policy, free movement of capital and labor, interaction in the infrastructure branches (power engineering, transportation, communications), and technical regulation. The indicated documents are the basis for executing the four UES principles (the well-known four freedoms: the free movement of goods, services, capital, and labor).

Within the UES, unified conditions will be created for competition, which will make it possible for business to interact under equal conditions. All barriers that hinder free access to infrastructure (pipeline, rail transport) will be removed, and the principles of a unified tariff policy will be introduced. The Kazakhstan manufacturer will gain access to the markets of Russia and Belarus and there will be greater opportunities to participate in the capital of joint ventures in the partner countries. And, in our opinion, the creation of the UES will give business activity in Kazakhstan an enormous boost both in the domestic market and in the CU states. However, the main task is to raise the competitiveness of Kazakhstan's manufacturers. If Kazakhstan goods are competitive within the country, they will also enjoy demand in the other CU countries. That is, the UES will be a kind of dress rehearsal before joining the WTO. If Kazakhstan can withstand the competition in the UES, it will be able to become an equal partner in the WTO and function efficiently in this international organization.

The decisions made on 9 December, 2010 by the EurAsEC Interstate Council will be an important factor in intensifying the integration interaction among the CU countries in the real sector of the economy. In particular, the agreements reached with respect to forming a common oil and petroleum product market within the UES will help to develop Kazakhstan's export potential, increase the volume of oil transportation to the world markets, and fill the domestic market with high-quality petroleum products. For example, in accordance with Art 2 of the Agreement on the Procedure for Organizing, Managing, Operating, and Developing Common Oil and Petroleum Product Markets of the Republic of Kazakhstan, the Republic of Belarus, and the Russian Federation, the main principles for forming a common market are non-application by the Sides in reciprocal trade of quotas and export customs duties and priority fulfillment of the needs of the UES states for oil and petroleum products. According to Art 5 of the Agreement, the Sides shall establish unified tariffs for the transportation of oil and petroleum products throughout the territory of the CU countries. In accordance with Art 6 of the Agreement, the Sides shall coordinate the indicative balances of production, consumption, delivery, and import and export of oil and petroleum products every year before 1 October. An intergovernmental agreement (adopted on 15 December 2010) on an increase in the capacity of the Caspian Pipeline Consortium to 67 million tons will also make a significant contribution to raising the volume of Kazakhstan's oil export.

The agreements adopted within the UES could give an additional boost to development of the republic's mining and smelting complex. The formation of a unified transport tariff policy and a decrease in rail shipment tariffs within the UES in the future could significantly augment the competitive advantages of the mining and smelting complex in Kazakhstan. However, the shortage of rolling stock is still a serious problem for the industry. So experts in the mining and smelting industry are emphasizing the need to draw up an agreement on the creation and use of a unified wagon fleet in the UES, which could resolve the problem of increasing deliveries of Kazakhstan's products to the world markets.

On 9 December, 2010, an agreement on ensuring access to the services of natural monopolies in the energy industry was also signed at the EurAsEC Interstate Council meeting, which will create conditions for forming a common electricity market in the CU. The participating countries will be able to freely trade electricity within the CU. This principle is particularly pertinent for Kazakhstan, since the republic's energy-deficient western regions are not hooked up to the energy grids of the other regions of the Republic of Kazakhstan. At present, the Western Kazakhstan Region uses electricity from Russia, which is much more expensive than Kazakhstan's. Now that the agreement has been signed, the western regions will be able to receive electricity from the northern regions of Kazakhstan via Russian grids. Electricity will be transmitted through the Russian Federation for consumers in Western Kazakhstan by means of interconnected and simultaneous deliveries of equal amounts of electricity from the northern part of the unified electricity grid of Kazakhstan to the unified electricity grid of Russia and from the unified electricity grid of Russia to the western zone of Kazakhstan's unified energy grid via delivery points located on the Kazakhstan-Russian border. Introduction of a transit-substitution scheme will rid Kazakhstan of the need to purchase expensive electricity from the Russian supplier. This is a great advantage, since in 2006-2010 the tariffs for Russian electricity have increased seven times, constituting 250%. TOO Akzhayykenegosauda also received a notification from OAO INTER RAO UES this year on a rise in the price of electricity on 1 January, 2011 to 13.2 tenge per kWh, which constitutes an increase of 160%.¹⁵

The above-mentioned agreement will make it possible to improve the financial-economic situation of the energy-supplying company and save approximately 390 million tenge on the difference in price. The revenue of TOO Ekibastuz GRES-1, which will supply electricity to Western Kazakhstan in amounts that substitute the volumes supplied by OAO INTER RAO UES, will increase by approx-

¹⁵ See: M. Makulbekov, "V pravovoi baze EEP polnostiu uchteny natsionalnye interesy Kazakhstana," available at [www.kazinform.kz].

imately 1 billion 680 million tenge, whereby the amount of net profit will increase by approximately 673 million tenge.¹⁶

Conclusion

The development of regional integration and mutually beneficial cooperation has indisputable advantages for Kazakhstan. It is providing opportunities for stepping up business, cooperating in the infrastructure branches, promoting free movement of goods, capital, and services, and developing the country's export potential.

However, successful implementation of the indicated vectors requires a major boost in the competitiveness of the Kazakhstan economy. In this respect, the modernization of industrial production, its industrial-innovative development, the creation of a favorable business climate in the republic, and the formation of a powerful business class should become the top priorities of Kazakhstan's state policy. Then the advantages of forming the CU and UES will be much higher than the disadvantages.

On the whole, integration cooperation among the CU participating states should be primarily oriented toward the interests of the business sector, for the sake of which this project was begun. Intensifying interaction among the ministries and departments of the participating states both with respect to each other and to the business communities of these countries is also of vital importance.

¹⁶ See: *Ibidem*.