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Trade policy

Торговая политика

HIGHER SCHOOL OF ECONOMICS
NATIONAL RESEARCH UNIVERSITY
Institute of Trade Policy

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Editorial Council

Message from Editor-in-Chief

Dear readers, we are glad to present the English edition of our "Trade Policy" journal. The first Russian edition of the journal was published at the beginning of 2015. It became the major specialized periodical in Russia devoted to trade policy and topical issues of regulation of international trade, investment, foreign economic cooperation, etc. at national, multilateral and global levels. Among authors of the journal there are the most respected experts representing academic, business and expert circles, as well as officials of the Russian government and Eurasian Economic Commission. Our colleagues from other countries also make an important contribution as our authors.

The main topics discussed in our journal are: the theory of trade policy and multilateral regulation; trade policy instruments and implementation practices; global issues and international trade regulation; comments on trade policy made by the leading experts, government and international officials; reviews and analytical materials on current trade policy issues and events; materials on conferences, seminar and other events devoted to international trade policy.

The journal is published by the National Research University Higher School of Economics (HSE). The editorial office operates within the HSE Trade Policy Institute. We publish the journal in cooperation with colleagues of International Center for Trade and Sustainable Development (ICTSD), Geneva. We are very thankful to our foreign colleagues for their help and cooperation.

We consider the trade policy to be one of the key elements of activities of any government in the sphere of international economic relations. It determines the conditions of participation of a country in international division of labor and resources, as well as its position in international trade in goods and services within the framework of the global market.

We hope that the English edition of our journal would not only be interesting and useful for readers abroad but also for those in Russia and CIS countries. It aims to improve mutual understanding among experts, officials, scholars and businessmen who specialize in international trade and trade policy. We hope that our English edition would provide more opportunities for both authors from Russia and the EAEU countries to present their views to foreign English speaking readers, and also for our foreign authors to address their colleagues in Russia and CIS countries directly.

In the first English edition we are glad to present articles of our authors from Kazakhstan, Kyrgyzstan and Russia. The main general topics are the development of trade of the EAEU countries, integration processes within the EAEU and the EU, and economic development and trade of some countries which are important trade partners of Russia. Furthermore, the topic of application and effects of trade policy instruments is presented in this issue as a traditional element of the journal.

Two articles prepared by our colleagues from Kazakhstan are devoted to integration within the EAEU. The first one covers general problems of industrial cooperation and possibilities of formation of value added chains in the EAEU countries in particular. The second article deals with issues of the automotive industry development in the EAEU and possible trade policy measures to improve the sector's development.

Our colleagues from Kyrgyzstan prepared an article containing a detailed analysis of trade relations between Kyrgyzstan and the EAEU countries, as well as with some key trade partners outside the EAEU, such as China and Iran. Participation of Kyrgyzstan in the EAEU is a special emphasis of the article.

Two more article are devoted to analysis of topical trade policy issues regarding important trade partners of Russia, namely Egypt and the United Kingdom. The first article deals with of Egypt in the WTO and main features of the national trade policy, import and export regulations. The second one focuses on

the subject which is probably the most contradictive and thrilling in current trade policy discussions – the Brexit issue. The author presents his point of view on the possible prospects of the UK trade policy after Brexit and possible challenges and opportunities for the UK.

Finally, we present to our readers an article discussing problems of application of voluntary standards and their potential use as a trade policy instrument which influences the market access opportunities.

We hope that our English editions would be engaging and practicable for readers and that our audience would enlarge. We invite our readers to contribute to the journal and their colleagues to get acquainted with different views and opinions under discussion.

M. Medvedkov

Kulbatyrov N., Nyrbossynova S.[1]

Industrial Cooperation as Value Added Opportunities in the Context of Globalization

The article deals with the formation of value added in the member states of the Eurasian Economic Union (Russian Federation, Republic of Kazakhstan, Kyrgyz Republic, Republic of Armenia, Republic of Belarus) and the possibility of establishing cooperative relations allowing to form a common value added chain, where each member state will have its specific role depending on its competitive advantages. The main industrial development programs were analyzed, as well as the priority sectors and several weaknesses of the industry of the EAEU member states identified. The article highlights the main problems that arise in the process of creating added value chain in the member states of the EAEU, and proposes measures for their reduction and elimination.

Key words: *global value chain, Eurasian Economic Union, national economic development.*

JEL F15

According to M. Porter's study, value chain (hereinafter – VC) is a set of activities that creates value for the enterprise, starting from the stage of procurement of raw material through the stage of sale of finished products, including consumer service. These stages can exist within one company, or may be divided among many firms.

Production chains can link a region, multiple countries, or a global network. As a result, a global chain of added value has developed, where one country does not produce the complete commodity, but rather participates in the formation of added value at individual stages of its development, production and sales [1]. Countries compete with others in order to infiltrate a certain link of VCs.

According to the research carried out at Duke University, the main spheres of the VCs are research and development (R&D), design, marketing and services. At the same time, the study notes that those added values are mainly concentrated in eveloped countries, while the production process occurs in developing countries in the picture below.

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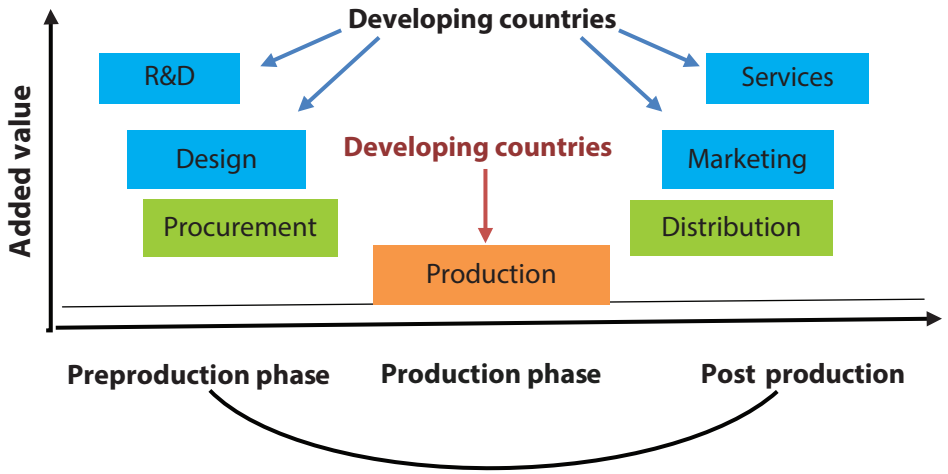

Fig. 1. Links of VCs

Value chains are heterogeneous for different industries, enterprises, products or services. Some parts of the chains adhere to the classical pipeline structures where the product or service is subjected to sequential treatment (snake value chains), while others include the final Assembly of several intermediate goods or services (value chain spiders) [2].

Globalization is the process of increasing integration between countries, in which developed and developing countries depends on political, economic and socio-cultural processes at regional and global levels. The creation of global value chains – large-scale networks of international production and scientific-technical cooperation covering hundreds and thousands of links, allows and encourages the distribution of the technological stages of production of goods and services between producers located in several countries.

The formation of new value chains within the framework of the Eurasian Economic Union (hereinafter — EAEU) also refers to the global value chains, where each member country will have a specific role depending on its competitive advantages. The aim is to create the finished product within the territory of the EAEU, competing with the products of third countries.

Realization of the industrial cooperation potential among the member countries of the Union is one of the main areas of industrial cooperation and the main tool to stimulate economic development of member states. This industrial cooperation can be carried out in both traditional sectors and new industries of strategic importance.

The basic industries, such as metallurgy, chemical industry, food industry, engineering industry and industry of construction materials are all represented in the manufacturing industry of Kazakhstan. Companies that operate in these sectors

are mainly focused on raw materials or work in the segment of intermediate stages, which belong to the segment with the lowest added value.

In Armenia and Kyrgyzstan, the situation is similar. Russia and Belarus, however, had more innovative assets after the collapse of the Soviet Union and a significant sales market, and therefore were able to maintain and develop the VC segments with higher added value.

In the framework of the State program of industrial-innovative development for 2015–2019, the priority sectors of the manufacturing industry of Kazakhstan include 14 sectors, seven of which are export-oriented: ferrous and nonferrous metallurgy chemistry, agrochemical and petrochemical industry, electrical equipment industry, automotive industry, and food industry [3].

The industrial development program of the Russian Federation for 2012-2020 encompasses 21 sub-programs, including machinery-producing industry, chemical industry, metallurgy, light industry, timber industry, manufacturing of composite materials, etc. Some of the sub-programs are aimed at technical regulation system development, standardization and maintenance of unity of measurements, industrial biotechnology, development of engineering and industrial design, and industrial parks [4].

The industrial complex development program of the Republic of Belarus for the period till 2020 is aimed at advancing the development of export-oriented and high-tech industries, with a gradual decline in production in inefficient activities and the modernization of traditional areas of specialization (agricultural engineering, transport engineering, manufacture of building materials, etc.).

The development program of processing industry of the Kyrgyz Republic for 2013-2015 was aimed at the development of production and exports of industrial products, ensuring the competitiveness on the markets of the Customs Union, as well as increasing the share of industrial production in GDP in 17 industries: including 2 industry/mining; 14 industries in the manufacturing sector and the electricity sector as a separate industry[5].

Within the framework of the «Strategy of export-oriented industrial policy» of the Republic of Armenia, the long-term goal of the export-oriented industrial policy is the formation of new industries, which will play a role as a driving economic force by expanding the current export industries and industries with export potential; as well as the improvement of legislative framework for entrepreneurship, modernization of infrastructure, enhanced competitiveness of Armenian products and the attraction of foreign investment. This policy focuses on 11 areas: winemaking, brandy production, diamond processing, manufacture of watches, textiles, biotechnology, pharmacology, production of canned food, bottled mineral water, bottled juices and precision engineering [6]. This is shown in the table below.

State programs of industrial development within the framework of the EAEU

Country	Program	Priority sectors
Kazakhstan	State program of industrial-innovative development for 2015–2019	ferrous and nonferrous metallurgy chemistry, agrochemical and petrochemical industry, electrical equipment industry, automotive industry, food industry
Russia	The industrial development program of the Russian Federation for 2012–2020	machinery-producing industry, chemical industry, metallurgy, light industry, timber industry, manufacturing of composite materials, etc.
Belarus	The industrial complex development program of the Republic of Belarus for the period till 2020	export-oriented and high-tech industries, agricultural engineering, transport engineering, manufacture of building materials, etc.
Kyrgyzstan	The development program of processing industry of the Kyrgyz Republic for 2013–2015	mining industry, manufacturing sector, electrical energy industry
Armenia	Strategy of export-oriented industrial policy	winemaking, brandy production, diamond processing, manufacture of watches, textiles, biotechnology, pharmacology, production of canned food, bottled mineral water, bottled juices and precision engineering

Source: Compiled by the authors.

Under the coordination of the value chain, several weaknesses were identified, among which were the segments of R&D and design.

In order to pass to a new stage of the value chain, it is not enough to merely attract and adapt new technologies. Equally important is the permanent development of scientific potential of the effected industries. However, R&D is one of the most difficult areas to develop, from the point of view of management, as a distinctive feature of most R&D is the unpredictability of the final results of the research and possible commercialization. As a result, large R&D expenditures cannot always guarantee greater profits or greater market share. However, the development of R&D directly affects the development of priority industries.

In the largest modern universities in the EAEU there is a need to create a stronger scientific base. For instant, Nazarbayev University has competence in robotics, a sector which has significant opportunities for all countries, but NU's robotics are suffering a setback as a result of sanctions against Russia on certain types of components qualified as "used in the defense industry". In May 2016, Agency for Technological Development was created in Russia, which will work to increase the number of established license agreements for the purpose of technology transfer to joint ventures. The possibility of joint work between Nazarbayev University and the Russian Agency of Technological Development will create a mutually beneficial environment for both countries, by increasing the competitiveness

of enterprises through their involvement in the processes of modernization and technological renewal, as well as the growth of non-oil exports.

One of the priority sectors of development in Russia, Belarus and Kazakhstan is **chemical industry**. Armenia and Kyrgyzstan do not have a competitive advantage in the form of their own deposits or the availability of human resources.

The development of the chemical industry in all developed countries begins with such segments as basic chemistry, which includes production of inorganic acids, alkalis and salts, and fertilizers. For example, in Japan the development of R&D in the chemical industry began as a search for jobs for a displaced labor pool, which was formed as a result of stopping large enterprises from the production of mineral nitrogen fertilizers. Factories stopped producing fertilizers, by reorientation to more compliable products produced from gas.

For time being, the most advanced cooperative sector of the chemical industry is the production of agrochemicals, which already has a functioning value chain, created by MCC "EuroChem". New methods of development and processing of phosphate ore are being developed in Russia, mined raw phosphate ore is being developed in Kazakhstan in the form of raw materials, fine and coarse ground, and directed to Kovdorskiy mining and processing works (Murmansk region, Russia) for processing into phosphate fertilizer. Starting in 2018, part of the raw materials will be processed in Kazakhstan. At the moment, the excess of raw materials is exported to Belarus.

One of the most promising chains of creation of value could be a collaboration of LLP "Kazphosphate" with the OJSC "Gomel chemical plant" through extension of the VC's technology. LLP "Kazphosphate" can supply phosphate rock at the OJSC "Gomel chemical plant" for the production of mineral fertilizers. Belarus is a net importer of phosphate rock from Russia at a price of 143 U.S. dollars per ton from the factory. Competition from Russia, which subsidized railway tariffs for export products, thereby lowering the prices for consumers, can be a barrier to cooperation. Transportation of mineral fertilizers on the territory of Kazakhstan costs 2157 tenge per ton per 1000 km. The distance from Karatau (Zhambyl region) to Gomel chemical plant (Belarus) is approximately 4000 km. For transportation through the territory of the Russian Federation, it's 1848 tenge per ton per 1000 km, and the distance from Kirovsk (Russia) to Gomel chemical plant (Belarus) is 2500 km. Thus, transportation of 1 ton of mineral fertilizers or mineral raw materials for Russian companies is cheaper than others, so subsidizing the railway transportation of Kazakhstan's companies export products will allow production of LLP "Kazphosphate" to be comparable in price with the Russian phosphate raw materials. In addition, it will increase cargo transportation by JSC "KTZ".

Projects in the sector of petrochemistry in Kazakhstan began to develop with the beginning of implementation of the State program of industrial-innovative development in 2010. In Belarus and Russia, this sector is the most promising and dedicated of the export-oriented development Programs of countries.

Kazakhstan imports products mainly from Russia and China, but in 2017, JSC "Atyrau oil refinery" is planning to launch production technologies for deep processing of oil, the product of which will be para-xylene and benzene. Para-xylene may be used for the following processing chain: para-xylene (JSC "Atyrau refinery", Republic of Kazakhstan) sent to Russia ("SIBUR Holding") for production of granulated polyethylene terephthalate (PET), which later will be processed in Kazakhstan to produce plastic bottles. At this stage, it is necessary to conclude the Memorandum on cooperation between JSC "KazMunayGas" JSC and SIBUR Holding ability of the para-xylene in the form of raw material with the right implementation of granulated PET at its own discretion JSC "KazMunaiGas". In addition, it is necessary to consider the transportation of para-xylene, because the product is hard-transported and it requires special tank cars, which will require updates and increasing of Kazakhstan's car fleet. The production of 300 thousand tons of par-xylene per year would require approximately 280 railcars per month for transportation.

The development of polymer chemistry in Russia and Belarus creates a resource base for Kazakhstan enterprises in the production of plastic products, while maintaining the prices set for Russian and Belarusian consumers for Kazakhstan.

In the sector of machine engineering, the most promising area of cooperation is the sector of the production of equipment for oil and gas industry.

In various countries requirements are becoming more stringent for localization for the international oil and gas companies – the state stimulates the global players to participate more actively in the economy: training and hiring local workers, and developing suppliers of goods and services. If companies want to maintain and improve relations with the public authorities, in response, they will need to reconsider their approach to localization. The main advantage for Kazakhstan is the presence of consumers in the domestic market. Additionally, in the long run, the extension of the Tengiz and Karachaganak oil fields is also expected to start commercial production of the Kashagan project.

The largest Russian investors in the oil and gas sector of Kazakhstan are "LUKOIL" company and OJSC "Gazprom". Since 1995, OJSC NK "LUKOIL" has invested 5 billion U.S. dollars in the country's economy, and OAO "Gazprom" has invested 1 billion U.S. dollars in the development of SMEs to increase local content.

It is possible to create joint ventures with Russian companies for the production of bearings, compressors, pumps and valves for the oil industry in the North East and West Kazakhstan, which would increase and develop the proportion of local content and bolster the eco-system of suppliers. It is possible to organize production on the basis of enterprises of oil and gas industry due to developed infrastructure of transport links, utility networks (electricity, water, heat, sewer connection, etc.), resources (labor, materials, raw materials, etc.).

For now, the barrier is the problem of product marketing, because production is primarily focused on the oil and gas sector, where large mining companies carry out procurement in accordance with internal procedures. At the same time, as a rule, products must comply with API standards, ASME.

For reducing barriers it is necessary to:

- Address the issue of building certification centers collaborating with international institutions such as API, ASME;
- Proceed with further training of local staff through internships and training in Russia for the really popular destinations.

It is necessary to consider the experience of BP in Azerbaijan on creation of enterprises Support Center. In 2002, BP opened an Enterprise Support Centre, which provides services to local small and medium-sized businesses, including those in the field of business education and technical skills, and assists in the search for new opportunities and information about the requirements for localization. Since 2009, this role has been played by the Electronic Support Center companies, also sponsored by BP. In cooperation with the oil and gas industry specialists center of the country continued to support local companies in search of new opportunities.

With the creation of such a Center in Kazakhstan, the largest Russian mining companies would give access to information on opportunities within the supply chain of OJSC "LUKOIL" and OJSC "Gazprom" for local entrepreneurs, as well as representatives of small and medium-sized businesses.

The machinery industry requires the creation of data-centers to ensure free access for all potential producers of information that will help in the initial level to adapt the necessary business processes. For example, the creation of a platform that enables you to centrally track the order, starting from the moment of filing to the final customer is needed.

Further cooperation with Russian and Belarusian producers of agricultural machinery can happen through developments of the design Bureau. It is expedient to carry out technology transfer with the licensing, standards, patent, and other process documentation to be eligible for subsequent upgrades of a product or technology. Another way to attract investors is the development of services (repair and maintenance of machinery and equipment specialized companies or companies manufacturers). In the life cycle of machines, the cost of the service can reach 50 % of the price.

It is necessary to stimulate and support the development of specialized companies that can form a variety of structures in the industry, based on the network interaction method. For example, foundry-mechanical, forging, metalworking, welded-assembly, assembly and other production can make a variety of networks of relations between specialized companies.

Armenia produces electrical equipment for the private sector, Kyrgyzstan produces precious metals, Belarus does not have its own raw materials and is dependent on imported raw materials, between Russia and Kazakhstan there are existing VC. Interest is the establishment of a competence Centre, which will share technology with the aim of creating better products and developing ore deposits with low content of base metal. The Centre will, in effect, take on the role of a research laboratory.

Today, the creation of the center of competence is one of the recommendations of the Unified Economic Committee. However, there is no clear understanding of the location for establishment of the Center. Each of the participating countries would like to create a Center on its own territory, associated with the desire to enhance the R&D segment in their industry. However, for the establishment of the Centre, we must consider the funding mechanism – whether all the participating countries will Finance the Center through financial institutions, second level banks, or development banks of the participating countries, and what measures of state support will be provided. It is necessary to raise these matters at the next round of discussions on the recommendations for the development of the sector of ferrous metallurgy in the countries of the EAEU.

In the ferrous sector, the only country of interest for cooperation is Russia. There is also a need to establish a competence Center by analogy with the sector of non-ferrous metallurgy.

In the framework of realization of strategy of development of ferrous metallurgy of Russia for 2014-2020 and on prospect up to 2030, Russia plans to implement projects promoting the creation of small-scale productions of special steels and alloys, as well as develop a mechanism of compensation for costs associated with the ordering of low-tonnage batches of special steels and alloys, with the aim of ensuring break-even of production.

It is necessary to consider the possibility of cooperation of domestic medium-sized enterprises, LLP "Auriscalpium Steel", LLP "Ferrum Vtor" LLP "KSP Steel" and such Russian manufacturers of special steels, as JSC "Mechel", JSC "Metallurgical plant "Electrostal", JSC "Volgograd steel works "Red October" with the aim of developing new grades of steel: austenitic (corrosion resistant) steel, functional, SMART, adaptive metal hybrid materials with further access to the markets of Central Asia and the growing market of Iran.

In Russia, the largest producer of special steels is JSC "Mechel". Metallurgical direction of Mechel includes enterprises in Russia, Ukraine and Lithuania. The company produces hot and cold rolled stainless, tool and high-speed steel. The company develops its own unique technology of steel production and quality control. There is a solid company position in the market of metallurgical products due to availability in the Group's own extensive service and sales network:

JSC "Metallurgical plant "Electrostal" – the leading Russian enterprise for the production of high-alloyed steels and alloys, whose production covers special pur-

pose steel, heat-resistant, precision and titanium alloys. The plant specialists have developed and mastered over 2,000 grades of steel and alloys.

JSC "Volgograd steel works "Red October" – one of the largest manufacturers of quality metal products, special steel grades for automobile and aviation industry, chemical, petroleum, power engineering and oil industry

The creation of enterprises for low-tonnage production in Kazakhstan will increase competition in the local market, possibly redistributing the existing personnel working at the JSC "ArcelorMittal Temirtau" with the aim of reducing the business's impact on the decisions of the state bodies that are forced to apply to them for concessions in connection with social tensions in the region. Today JSC "ArcelorMittal Temirtau" is a key manufacturer, with almost 70% of total production and employment in the sector of ferrous metallurgy, so that there is a monopolization of the domestic market, leading to unfair competition and disregard of such requirements of law as environmental regulations, the return of income to the government as the modernization or development of R&D activities.

In the industry of construction materials production, cooperation is possible in the sector of production of plastic products: plastic pipes, PVC profiles, etc. (production of polymer raw materials in Kazakhstan is not available), because the production of basic building materials: cement, concrete, wall materials in Kazakhstan covers 70% of the domestic market.

The development of the base polymer raw material for the production of building materials will allow the switch to the production of high value added products such as heat and sound insulation materials as well as floor coverings and paints and varnishes based on polymers. In addition, the development of SEZ "NIPT" will attract one of the most technologically advanced Russian companies - JSC "Kompozit", makers of composite materials, volume-reinforced carbon-carbon composite materials, adhesives, compounds, thermally conductive adhesives, paint thermostatic coating, etc.

The lack of domestic raw materials, however, hampers the development of the industry and reduces its investment attractiveness.

In the food industry, cooperation is complicated by the stiff competition from domestic producers in each country. The development of the VC is challenged by the problems associated with light production, transportation and standardization/ certification of food products. Certification of products, related primarily with food safety, is one of the main barriers to entering new markets.

Currently the territory of the Customs Union applies the technical regulations of the Customs Union "On safety of food products" (CU TR 021/2011), which established General requirements for food products issued into circulation in the territory of three countries of the Customs Union: Kazakhstan, Russia and Belarus.

Compliance of food products with the technical regulations is ensured by the security requirements and the implementation of safety requirements of technical regulations of the Customs Union on certain types of food products.

The most promising and fast-growing market is the organic products market in the EU. However, the EAEU countries struggle to be suppliers of products related to this segment, due to the absence of normative-legal acts regulating the production of organic food. According to analysts, the market volume of certified organic products in the period of 2016-2017 years will exceed 100 billion.

Thus, the establishment of cooperative chains of added value is possible in each of the sectors of the manufacturing industry, however, often businesses in all of the countries face barriers of non-commercial nature. For example, in September last year, the RF Government adopted a Resolution "On priority commodities of Russian origin, works, services performed, rendered by Russian persons, in relation to goods originating from foreign States, works, services performed, rendered by foreign persons". This document has detrimental affects on trade between countries, which in turn has a negative impact on the cooperation relations. Another example of establishing non-trade barriers is the certification of products. The need for certification of certain products separately in each of the countries leads to an increase in costs and reduction in free capital for the development of new investment projects.

In order to strengthen industrial cooperation, an analysis of all barriers between the member countries is needed. It can be conducted through businesses interviewing, which will develop measures to remove them. Equally important is the program of import substitution, which aims to reduce the import of products of third countries and increase cooperation between the existing enterprises of the member states of the Union and the creation of new joint projects. For this purpose, it is necessary to analyze the imported products market of each of the participating countries and identify goods convenient for the production.

Accessible information and organizational support to companies in search of business partners are effective instruments for creating links between enterprises of the membe

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Кульбатыров Н., Нырбоссынова С.[1]

Промышленная кооперация как возможность формирования добавленной стоимости в условиях глобализации

Рассмотрены формирование добавленной стоимости в государствах–членах Евразийского экономического союза и возможности создания кооперационных связей, позволяющих формировать общую цепь добавленных стоимостей, где каждая страна-участница будет иметь свою определенную роль в зависимости от конкурентных преимуществ. Выявлены основные проблемы, возникающие в процессе создания цепей добавленной стоимости в странах-членах союза и предложены меры по их снижению и устранению. Проанализированы основные программы промышленного развития, определены приоритетные отрасли и слабые звенья развития промышленности государств–членов данного союза.

Ключевые слова: *глобальные цепи добавленной стоимости, Евразийский экономический союз, развитие экономики страны.*

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EAEU: opportunity or threat? (the case of the Kyrgyz Republic)

The Kyrgyz Republic has negative trade balance almost every year since its independence. After becoming a member of the Eurasian Economic Union in August, 2015, the country met with additional obstacles in trade: necessity to comply with technical regulations, certificates of quality and conformity, absence of relevant laboratories, disputes with neighbors, etc. Negative influence on trade had last tendency in currency exchange rate with the main trade partners — the EAEU members. There are data on changes in trade, especially in export sector, of Kyrgyzstan in Soviet times, the first years of independence, and years before the entrance to the EAEU and after. The article includes information on measures of governmental export promotion, together with objection, whether Kyrgyzstan could cope with problems, it met the first year of membership in the union.

Key words: *Kyrgyz Republic, Kyrgyzstan, EAEU, trade, export, import, trade balance, export promotion, Central Asia, WTO.*

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Introduction

The Kyrgyz Republic declared its independence on 31 August 1991 after the collapse of the Soviet Union. Kyrgyzstan started to introduce democratic principles of management, where centrally planned economy was replaced by the market economy.

Obtaining its independence, the Kyrgyz Republic faced a huge number of challenges: increase of inflation, corruption, population poverty, etc. Steadily growing in the Soviet Union, the Kyrgyz industry started to declinein 1990s, while markets and bazars started to appear very fast. The neighborhood with China opened abilities to local population to trade any things, like needles, household appliances, textile etc. There were opened two huge wholesale markets in the Central Asia: "Dordoi", located in Bishkek city, the capital of the country, and "Kara-Suu", located in Kara-Suu city of Osh oblast, on the south of the republic. Trade and services sector started to play a big role in the economy of the country.

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However,there was not any development of production of capital-intensive sectors of the economy. The volume of industrial output annually reduced by 25–28% from 1992 to 1994; and in 1995, it was 35% from the 1990 level. The greatest economic decline occurred in 1994. Rates of decline of production level happened in the construction complex as well. Volumes of construction were reduced by 72.3% from 1991 to 1994; only the beginning of construction of the huge gold-mining mill in Kumtor (1995–1997) allowed ceasing this tendency [1].

Due to institutional changes in the agricultural sector of Kyrgyzstan, there appeared more mobile, working private producers and peasant (farming) enterprises instead of large tradable agricultural enterprises. The structure of cultivated areas was changed as well: the increase of the grain area empowered more complete to fill the needs of the population in bread and flour [Ibid]. The most important stage in reforming the agricultural sector was the implementation of the private land ownership that provided an additional incentive for development of this sector and the economy of the country.

The Kyrgyz Republic conducts multi-vector policy; it establishes the necessary contacts with a purposeof inflow of appropriate investments to the country. The republic became a member of the United Nations (UN), the Organization for Security and Cooperation in Europe (OSCE), UNESCO, the Commonwealth of Independent States (CIS), the Organization of Collective Security Treaty (CSTO), the Shanghai Cooperation Organization (SCO), the Organization of Islamic Sardonically (OIC), Economic Cooperation Organization (ECO), the Cooperation Council of Turkic Speaking States (CCTS), , the Eurasian Economic Union and forges relationships not only with CIS member states, but also far abroad.

The government has consistently adhered to the policy of liberalization of foreign trade, maintaining low import tariffs and providing economic agents with freedom to export and import goods. This policy was reinforced by the accession of Kyrgyzstan to the World Trade Organization (WTO) in 1998, becoming the 135th member of the WTO and the first one among CIS countries [1].

On the 12th of August 2015 The Kyrgyz Republic got the status of official member of the Eurasian Economic Union. It became a very important event for the economic development of the Kyrgyz Republic.

Kyrgyzstan during soviet times

The Kyrgyz Soviet Socialist Republic was established as a republic of the Soviet Union on 5 December 1936. During Soviet times, the State Planning Committee of the USSR regulated commodity exchange between union republics, and the Ministry of Foreign Trade of the USSR regulated foreign trade relations [2].

Before the war the republic exported agricultural products to other republics, mostly for industrial processing: wool, leather, cotton, tobacco, cocoons, meat, oilseed crops, fruits and nuts. In 1969–1973 Kyrgyzstan exported production to more than 65 countries of the world including 20 Asian countries, 19 European, 18 African and 3 American. The Republic exported balers, hay-harvesting aggregates, monitoring and metering instruments, pumps, household and automobile electric lamps, cotton fabrics, silk and wool, knitted articles, engineering goods, antimony and non-ferrous metallurgy products etc.

Official data of the National Statistic Committee of the Kyrgyz Republic shows that 29 manufacturing enterprises supplied 59 types of commodities to 65 foreign countries with export volume of 10.5 million rubles in 1985, then 34 enterprises supplied 71 types of commodities to 80 foreign countries with export volume of 41.3 million rubles in 1987.

There was a change of export structure from mainly agricultural products before the war on export of mainly industrial products in the70–80s of the last century, with the growth of foreign states in foreign trade.

According to the author of the research "External Trade of Kyrgyzstan: History, Analysis, Estimation" E.V. Samigullin, if we compare export volumes of the republic to other foreign countries with its indices of production, then these indices are quite small. For example, the share of export of the volume of gross output of production and agriculture was only 0.1% in 1985 and 0.5% in 1987. The reason for it was that the most part of manufactured goods and significant part of agricultural goods were shipped to Moscow and Leningrad cities and other union states, due to resource allocation plans of the State Planning Committee of the USSR [2].

Additional limitation of export activity of the Kyrgyz Soviet Socialist Republic was because of the situation that all positions of the foreign trade activity had to be coordinated with the union ministry.

The separate issue is the development of the mining industry in the Kyrgyz Soviet Republic. In the second half of the 19th century, on the south of the country the first coal minesappeared. Twenty seven coal mines operated at the total capacity of about 100 thousand tons of coal per year in 1913, the Kyrgyz Soviet Republic supplied the coal to almost all Central Asia. In 40–60s the coal mining was conducted on seven mines and five open cast coal mines; the maximum was reached at 4.9 million tons in 1979.Since 1987, the mining industry has grown faster than the economy of Kyrgyzstan as a whole, due to significant investments in a number of enterprises:Kara-Balta Mining Plant, Kyrgyz Mining and Metallurgical Integrated Works, Saryjaz Tin Factory. By the end of the 80s, Kyrgyzstan produced 100% of antimony, up to 64% mercury, to 30% of rare earth products and up to 15% of uranium in the USSR [3]. The break-up of the Soviet Union made adjustments to the development of this industry particularly, and the whole country.

Kyrgyzstan: trade dynamics 1991–2015

After the declaration of their independence, many CIS countries did not have a dramatic drop in trade; moreover, in such Central Asian countries as Kazakhstan, Kyrgyzstan and Uzbekistan trade did not decrease at all in 1991–1993, while there was reduction of international economic activity as a whole [4]. It could be explained by the fact that in planned economy ex-republics did not trade with foreign countries directly, because all contracts were signed in union ministries in Moscow.

As a result of low level of external economic trade openness in the USSR, volumes of trade with foreign countries were not significant, compared to interrepublic trade. A clear example of this is presented in Table 1, with data on the dynamics of exports by commodity group of the Kyrgyz Republic in the USSR, and first years of its independence. Thus, the export of products of light industry to other republics was substantial and was growing in 1987–1992, while export of the same commodities to other, countries, was comparatively small.

Trade balance of the Kyrgyz Republic since its independence has usually been negative. Thus, thevolume of imported goods was higher than the volume of exported goods, and since 1994, negative balance between import and export has been increasing significantly, from –64.2 million U.S. dollarsto –334.3 million U.S. dollars in 1998. The main sectors, which commoditieswere exported by the country, were electrical energy industry, machinery industry, food industry, non-ferrous metal industry and textile industry. The main trade partners of Kyrgyzstan on export were Germany (37% of all exported goods), Kazakhstan (17%), Russia (16%), and Uzbekistan (8%). Most imported goods were from fuel industry, textile industry, medical industry, machinery industry and food industry in 1998. The main importers were Uzbekistan (15% of all imported goods), Russia (24%), USA (5%), Kazakhstan (9%), Turkey (4%), South Korea (3%), China (5%), Italy (3%), Germany (6%) and other countries (26%).

The only year when the trade balance of the Kyrgyz Republic was positive was 2001. It happened because of the increase of the export of gold and products of chemical industry. In 1999 — 2001 gold, that became a traditional export product from 1997 thus far, was exported to not only Germany, but the United Kingdom and Switzerland as well.

For the latest years, there is a tendency of negative trade balance in the Kyrgyz Republic (see Table 2). Import of the country is significantly higher than export for much of that time. Thus, Kyrgyzstan imported commodities for 3,937.7 million U.S. dollars in 2015, while exported only 1,646.40 million U.S. dollars.

The dynamics of trade balance is presented in the Figure 1. There was a negative trade balance (except 2001) during the period 1992–2015, it was dramatically increasing in 2011–2014, then the trade balance decreased in 2015, still being negative.

Table 1

Exports of Kyrgyzstan by commodity group at domestic prices, millions of current rubles

Commodity group	Interrepublic exports						Extrarepublic exports					
	1987	1988	1989	1990	1991	1992	1987	1988	1989	1990	1991	1992
Power	42	78	80	67	188	3047	----	----	----	----	----	----
Oil and gas	11	11	11	10	29	239	----	----	----	----	----	----
Coal	20	22	22	22	14	1013	----	----	----	----	----	----
Other fuel	----	----	----	----	----	----	----	----	----	----	----	----
Ferrous metallurgy	6	8	9	7	12	188	----	----	2	1	----	340
Nonferrous metallurgy	122	129	124	145	492	2208	10	17	18	19	8	3454
Chemical and petroleum	23	25	24	23	218	667	----	----	----	1	----	273
Machinery and metal works	663	939	946	882	2010	20947	11	11	5	11	8	559
Sawmill and lumber industry	5	5	5	4	17	301	----	----	----	----	7	185
Building materials	19	13	17	13	67	1445	----	----	----	----	----	10
Light industry	654	651	650	640	1898	11295	3	14	10	9	3	1414
Food and beverage production	570	521	519	508	1317	3575	8	6	10	8	----	146
Other industries	15	23	26	21	50	523	----	----	----	----	----	2
Agriculture	114	108	96	87	182	792	23	11	6	5	3	33
Other material production	5	5	20	19	12	61	----	----	----	----	11	45
Total exports	*2269*	*2537*	*2549*	*2446*	*6506*	*46301*	*55*	*59*	*51*	*53*	*41*	*6461*

Source: World Bank.

Table 2

Trade balance in 1992–2015, mln USD

	Export	Import
1992	317	420,7
1993	360,2	447,8
1994	340,1	404,3
1995	408,9	558,9
1996	505,4	891,9
1997	630,7	732,3
1998	535	869,3
1999	462,5	613,2
2000	510,9	558
2001	480	471,5
2002	487,3	589,6
2003	582,7	721,8
2004	721,1	946,8
2005	674	1188,7
2006	891,1	1 931,1
2007	1 321,0	2 788,6
2008	1 855,6	4 072,4
2009	1 673,0	3 040,2
2010	1 755,9	3 222,8
2011	2 242,2	4 261,2
2012	1 927,6	5 576,3
2013	2 006,8	5 987,0
2014	1 883,7	5 734,7
2015	1 646,40	3937,7

Source: [5].

For the last 10 years, the largest share of export is presented by gold (see Fig. 2). Thus, there was exported gold amounting to716,923,300U.S. dollars in 2014 which is fewer by19,858,900U.S. dollars than it was exported in 2013. Since the gold mining "Kumtor" company started its work in gold extraction in 1997, the share of gold export of the country is still significant.

The second largest share of exported commodities relates to clothing and clothing accessories. These commodities were exported at 105,481,900 U.S. dollars in 2013, and 99,995,600 U.S. dollars in 2014. Active development of light industry in Kyrgyzstan started in Soviet times. It is a combination of three sectors: textile, clothing and leather and footwear and fur industries. Light industry still occupies a leading position in the economy of the republic, providing high employment in this sector.

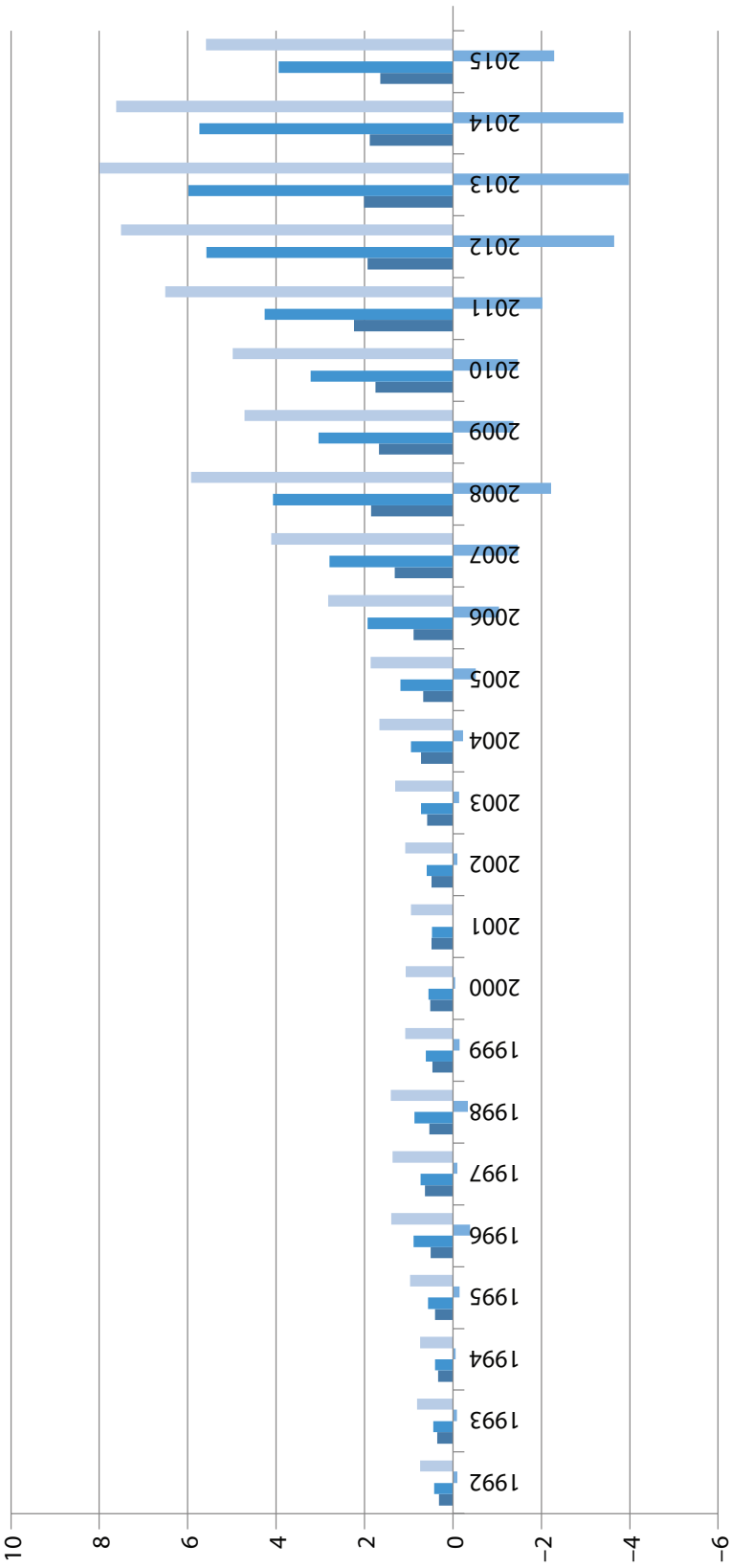

Fig. 1. Trade dynamics in 1992 — 2015, mln. USD:
export; import; trade balance

Source: [5].

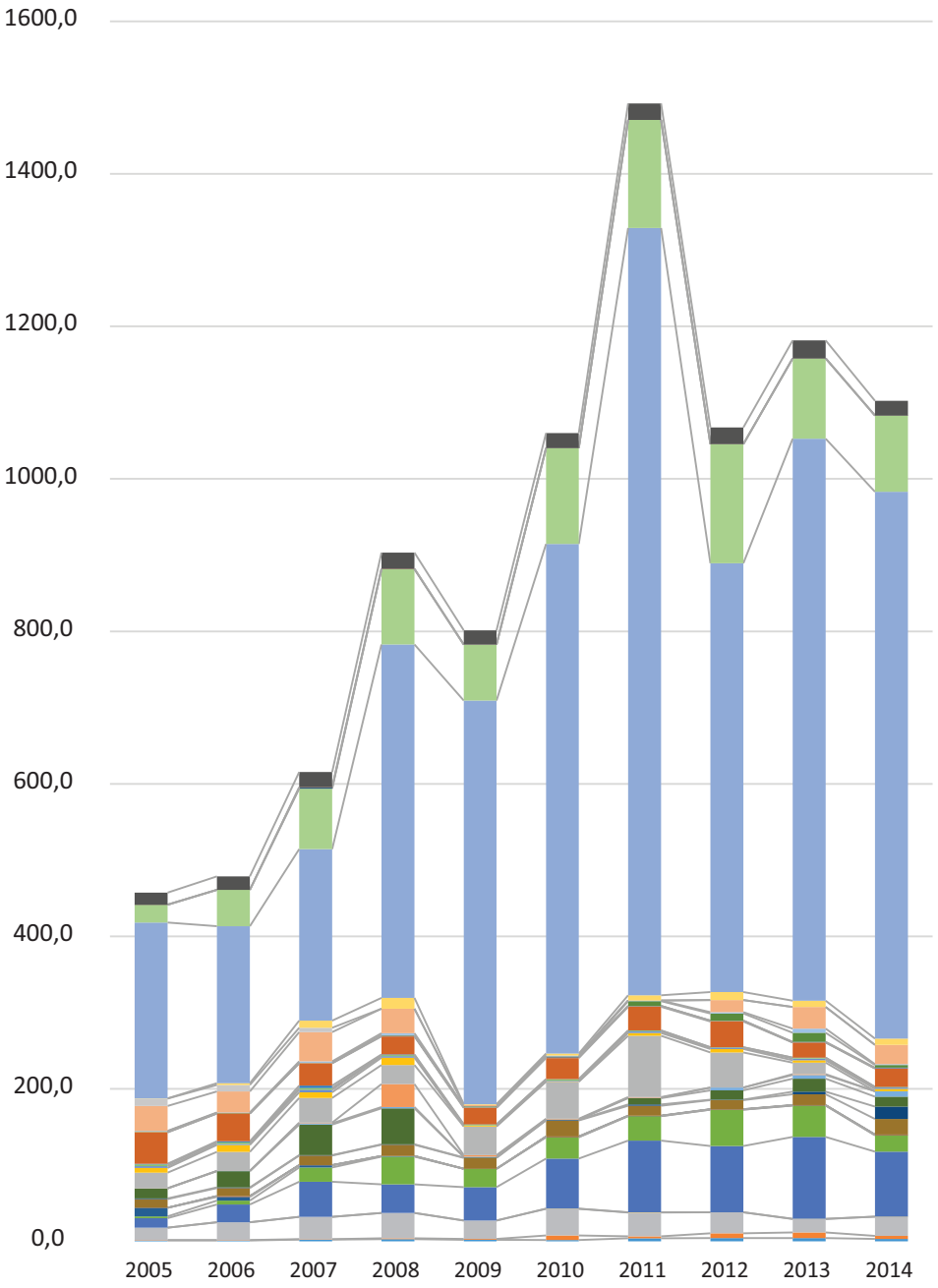

Fig. 2. Export Structure Dynamics, thousand dollars:
Cattle; Meat and subproducts; Milk and dairy products; Corn; Vegetables; Fruits; Sugar; Wax; Ethanol ; Tobacco; Cigarettes and cigars; Cement, Portland cement; Coal; Crude oil; Electricity; Skins of cattle; Skins of sheep and goats; Wool; Wool yarn; Cotton yarn; Cotton fabrics; Woolen fabrics; Carpets; Rolled metal; Metal pipes; Glass; Corrugated sheet (slate); Metal scrap; Gold; Clothing and clothing accessorics; Centrifugal pumps; Alternating current engines; Incandescent lamps, mln units.

Source: [5].

The third largest export sector is fruits and vegetables. The sum of exported vegetables was 107,433,700 U.S. dollars in 2013 and 85,082,800U.S. dollars in 2014. The same decrease of exported amount of fruits was observed in 2014 compared to 2013: there were exported fruits for the amount of 41,318,456 U.S. dollars in 2013, while the sum of export in 2014 was 21,787,830 U.S. dollars.

The main imported goods in Kyrgyzstan weremotor spirit in 2014, with the sales volume of 457,855,200 U.S. dollars. Then, there was imported ofdiesel fuel at the amount of 368,331,200U.S. dollars in 2014 (Fig. 3).

In 2012, the jet fuel composed 61.6% of Kyrgyz exports to the USA, which was supplied to the American military base, stationed on the territory of capital airport "Manas". Due to the fact that the base was withdrawn from the republic in 2014, since this year exports were significantly restructured [6].

The main trade partners of the Kyrgyz Republic during 2005-2015, where Kyrgyz commodities were exported to, were Switzerland, Kazakhstan, Russia, Uzbekistan, United Arab Emirates etc. The main countries, where commodities where imported in Kyrgyzstan from were Russia, China, Kazakhstan, Turkey, the USA, etc.

Geographic structure of both exports and imports since the beginning of the 90s gradually changed in the direction of decreasing the proportion of total trade with CIS countries.For the first 13 years of sovereignty, the trade turnover of Kyrgyzstan with CIS countries in terms of exports declined from 65 to 38per cent but increased from 51.8 to 61.5 per cent in terms ofimports. However, since the early 2000s, the share of CIS countries in total trade turnover of Kyrgyzstan has remained at about 50% [Ibid].

The Fig. 4 presents the decline in trade turnover of the Kyrgyz Republic in 2014–2015. For example, the amount of exported goods to Switzerland has fallen by 13.5 million U.S. dollars in 2015 (compared to 2014), to the United Arab Emirates — by 42.8 million U.S. dollars, to Kazakhstan — by 140.1 U.S. dollars. The same negative dynamics in trade turnover is observed in import. Thus, the amount of imported trade turnover from China has decreased by 171.6 million U.S. dollars in 2015 — by 112.4 million U.S. dollars from the USA and 508.2 million U.S. dollars from Russia.

According to the official statistics, Russia is still the largest trade partner of Kyrgyzstan, despite the fact that Russia's share in imports and export of goods as a whole is declining. The basis of Kyrgyz exports to Russia composes cotton, ready-made clothes (mostly Bishkek production), vegetables, fruits, tobacco, cast and rolled glass, as well as electricitylamps. The main imports from Russia to Kyrgyzstan is fuel (automobile gasoline, jet fuel, diesel oil), petroleum products, metal productsfishing, wood and coal, automotive products, household chemicals and products food and drinks.

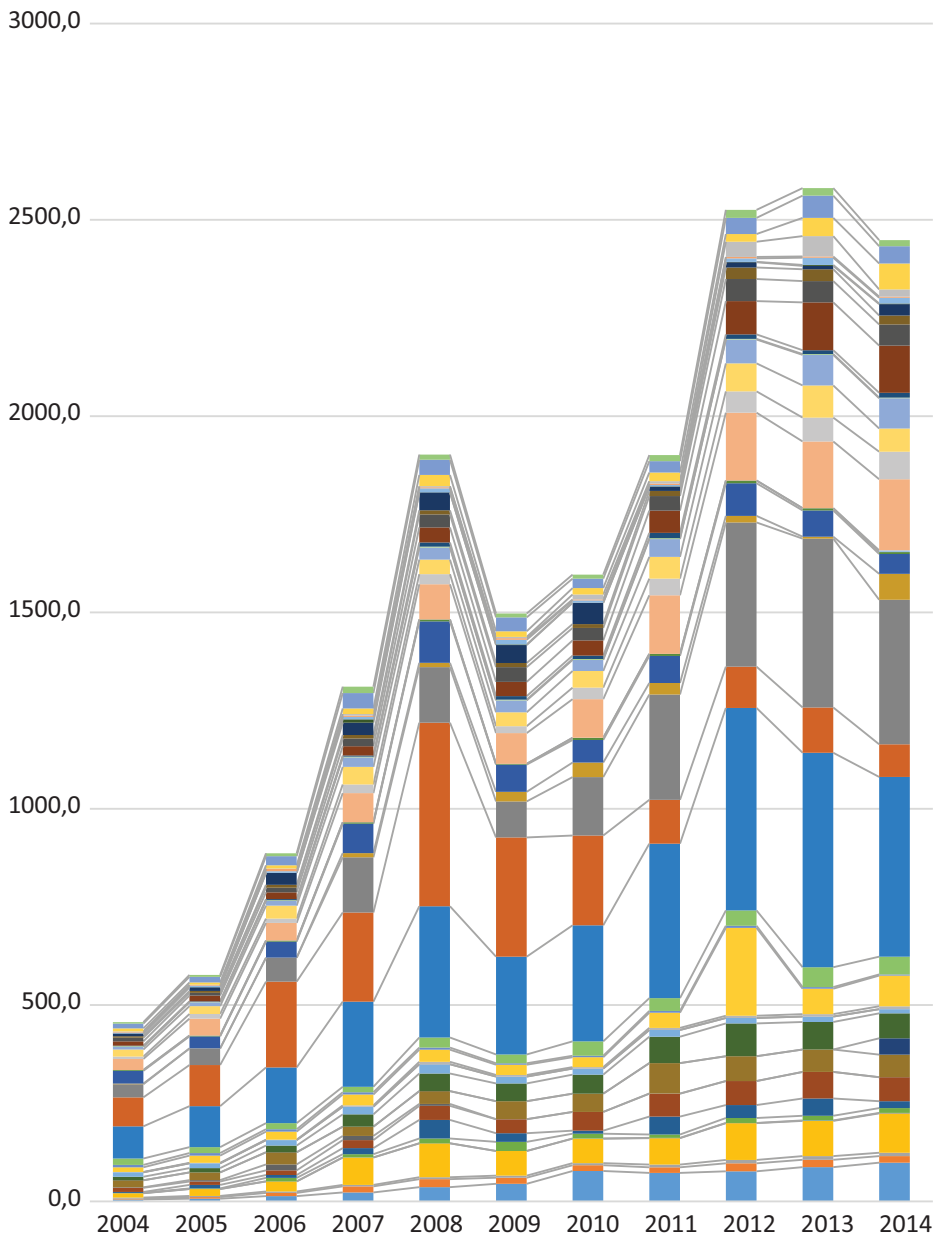

Fig. 3. Import Structure Dynamics, thousand dollars:
Meat and subproducts; Milk and dairy products; Tea; Wheat; Corn; Rice; Wheat flour; Vegetable oil; Crude sugar; Sugar; Wax; Chocolate products; Beer; Ethanol; Vodka; Cigarettes and cigars; Asbestos; Coal; Motor spirit; Kerosene; Diesel fuel; Black oil; Natural gas; Liquid gas; Electric energy; Drugs; Fertilizers; Tyres; Carving wood; Newsprint; Glass; Rolled metals; Metal pipes; Isolated electric wikes and cables; Coal and rocks extracting machines; Combines; Food industry equipment; Light industry equipment; Electric transformers; Cars; Car parts and equipment; Furniture

Source: [5].

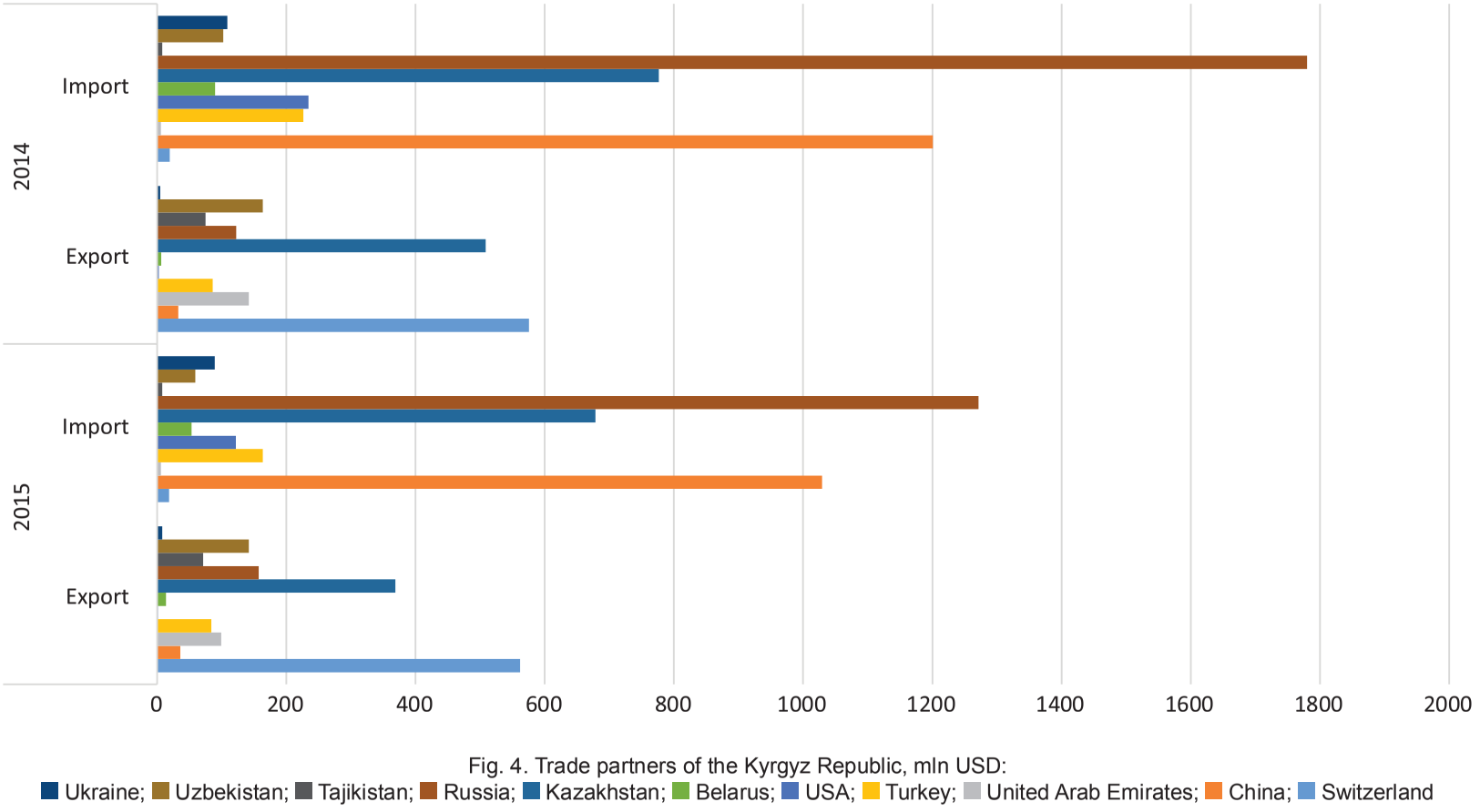

Fig. 4. Trade partners of the Kyrgyz Republic, mln USD:

Source: Ministry of Economy of the Kyrgyz Republic.

Until recently, most importedChinese commodities have been transited through the territory of Kyrgyzstan and re-exported. This became possible due to special simplified government regulation of imports and sale of "bazaar goods," giving individuals the opportunity to benefit from imports customs clearance and tax payments based the weight of goods, not their customs value [7].

Another important point, which made re-export more favourable,was a simplified taxation system applied to individual traders based on tax patents, which are far more auspicious for economic agents than the treatment existing in other sectors of the Kyrgyz economy. This facilitated the transformation of the "Dordoi" and "Kara-Suu" bazaars into the region's largest centers of international trade [Ibid].

The largest regional bazaar "Dordoi' was created in 1992, as a hub of trade between China and Europe. The Dordoi bazaar is made up of a dense maze of 30,000 containers and employs, directly and indirectly, more than 150,000 people, according to World Bank figures from 2009. Its estimated annual turnover is around 3 billionU.S. dollars [8]. It is organized in sections according to the origin or type of goods, coming from Turkey, South Korea, Europe and China. Also, there are rows where ready-made clothes of Kyrgyz production with label "Made in Kyrgyzstan"are sold. These commodities are sold to wholesalers, coming mostly from Russia, Kazakhstan, or are sent to those countries for export. During the last years, the "Dordoi" has faced a big number of problems: difficulties with export of commodities through Kyrgyz-Kazakh border, decrease of trade, increase of internal competition, etc.

Changes during the year

The Kyrgyz Republic became a part of the market of Eurasian Economic Union with population of more than 175 million people.

A most proportion of trade of the Republic with the countries of the EAEU accounts for two countries — Russia and Kazakhstan — 55% and 43% respectively [9].

In the export of goods to Russia dried fruits increased by 6.6%, beans — by 3.8%, clothes — by 0.5%. At the same time in 2.4 times decreased the export of cotton fiber. Imports from Russia increased import of frozen chickens in 1.8 times that of coniferous timber by 36%, soda sweet mineral water–by 22% and other non-alcoholic beverages –by 24%.

Exports from Kazakhstan increased the export of beans bythreetimes, mineral water–by 2.3% and knitted garments by 1.5 times. The import of goods from Kazakhstan increased import of vegetable oilby four times, and dairy products — by 24.5%.

The main trade partners of the Kyrgyz Republic in 2016 were Russia, Kazakhstan, China, Switzerland, Uzbekistan, Turkey (Fig. 5.)

The Table 3 demonstrates that there has been a decrease of trade with Belarus as well. In January–November 2015 the export to Belarus included mostly cotton, parts and accessories for automobiles and tractors, products of animal origin, agricultural products, etc. The sum of export was 5.5 million U.S. dollars which is higher than the exported amount in January-November 2016 that was 3.2 million U.S. dollars. The decrease in import from Belarus to Kyrgyzstan is also observed in January-November 2016. The composition of import from Belarus is processed cereal grains, agricultural equipment, drugs, decorative cosmetics, matches, plastic products, tires, materials for repair and construction works, etc. The decline in imported amount of commodities from Belarus was 3.974 million U.S. dollars in January — November 2015 compared to the same period in 2016.

The volume of mutual trade of Kyrgyzstan and Armenia was not large. According to the official statistics, Kyrgyzstan imported pharmaceutical products, facilities for controlling flow of electricity, electric segregators, glass containers, etc. from Armenia in 2016, amounting to 314,544 U.S. dollars, while it exported to Armenia soft roofing materials and plastic plates, amounting to 6.620 U.S. dollars[1].

Migration

As a member of the EAEU, Kyrgyzstan became a part of the common labour market. The legal status of migrants from Kyrgyzstan when in the territory of other countries of the Union. They got equal rights as compared to the residents in respect to employment. No quota agreement or permits are necessary. For example in Russia they can work only not only under a labor but also under civil law contract, pay income tax equal to the Russian citizens and got the rights for social insurance and health care.

For the first 11 months of 2016, remittances to Kyrgyzstan amounted to $1 billion 834.74 million soms that is almost half of the country's public debt, according to the National Bank of the Kyrgyz Republic [9]. Compared to the same period in 2015, the volume of transfers increased by 18.6%. In November 2016, the inflow of remittances was 174.5 million U.S. dollars, i.e. by 35% higher than in November 2015. The biggest part of money to Kyrgyzstan was coming from Russia: there were 171.1 million U.S. dollars transferred in November 2016. Inflow of money increased by 37.3%. In just 11 months of 2016 1 billion 786.2 million U.S. dollars were received from Russia, which is by 19.8 percent higher than in 2015 [Ibid].

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1 Eurasian Commission. Mutual Trade Statistics. URL: <http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/tables/intra/Pages/2016/12.aspx>.

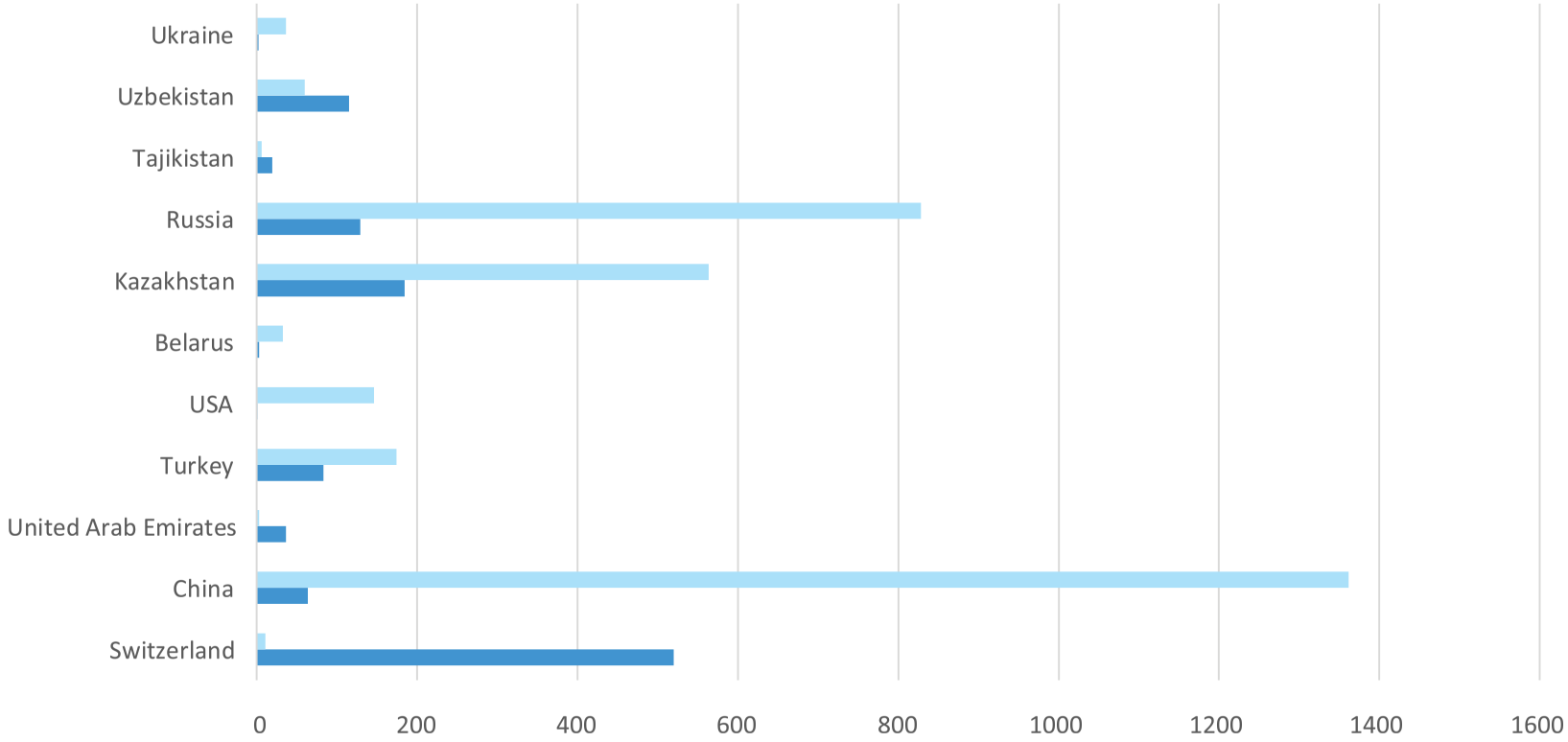

Fig. 5. Trade turnover (export, import) of Kyrgyzstan January-November 2015, 2016, mln USD:
January-November, 2016; January-November, 2016

Source: Ministry of Economy of the Kyrgyz Republic.

Table 3

Trade Turnover of the Kyrgyz Republic, mln USD

Country	January-November, 2016		January-November, 2015		Growth rate		
	Export	Import	Export	Import	Trade turnover	Export	Import
Switzerland	519,86	11,41	541,01	17,32	95,2%	96,1%	65,9%
China	63,8	1361,5	28,15	916,19	150,9%	226,7%	148,6%
United Arab Emirates	36,34	3,11	77,33	5,48	47,6%	47,0%	56,7%
Turkey	83,5	174,2	77,56	155,23	110,7%	107,7%	112,2%
USA	0,4	146,2	1,1	112,1	129,5%	35,3%	130,4%
Belarus	3,2	32,8	5,5	36,7	85,1%	57,9%	89,2%
Kazakhstan	184,7	563,9	199,2	540,2	101,2%	92,7%	104,4%
Russia	129,3	828,7	140,3	1172,0	73,0%	92,1%	70,7%
Tajikistan	19,6	6,3	22,1	7,6	87,2%	89,0%	82,2%
Uzbekistan	115,1	60,4	68,7	52,0	145,4%	167,4%	116,3%
Ukraine	2,8	36,8	7,9	84,0	43,0%	34,9%	43,7%

Source: Ministry of Economy of the Kyrgyz Republic.

In Fig. 6, data on money transfers of individuals performed via transfer systems (for example, Western Union, Unistream, Migom, etc.) is presented. We can see that remittances in 2016 were higher than in 2015. The growth of remittances has been observed since June 2016 and it was higher by 15.4 million U.S. dollars. In August, the difference between remittances of 2015 and 2016 was 74.9 million U.S. dollars; then the gap became smaller.

Currency exchange rate

Kyrgyzstan's accenssion to the EAEU concurred with a line of important events: international sanction against Russia, the drop in oil prices and, finally, changes currency exchange rates: in relation to Kyrgyz som (KGS), there was the devaluation of ruble, national currency of Russia, and tenge, national currency of Kazakhstan; In addition, there was an increase of the exchange rate of dollar per som. For 2016, the official exchange rate of the U.S. dollar in relation to som decreased by 9%, from 75.8969 to 69.0660 soms. For 2015, the exchange rate of grew up in relation to som by 28.9%. from 58.8956 to 75.8993 soms [10].

Because of devaluation of Kazakh tenge, prices of many commodities and services in the Republic of Kazakhstan, where prices are cheaper, became even lower than in Kyrgyzstan now. Local entrepreneurs started to arrive to Almaty, Kazakhstan, to make wholesale purchases and bring them to Kyrgyzstan [11]. For example, some entrepreneurs made wholesale purchases of eggs via intermediaries; now, it is easier for them to go to Almaty by themselves and purchase eggs there due to the devaluation. They travel between cities on their own cars instead of renting transport, and it allows to save money as well. The same problem of cheap import from Kazakhstan is with imported rice, milling industry, sunflower seed oil and other products.

One of the reasons of low prices in the southern capital of Kazakhstan, besides the devaluation of tenge, is the opening of market complex "Khorgos" on Kazakh-Chinese border. That causes a decrease in trade volumes on the "Dordoi" bazaar in Bishkek.

Kyrgyzstan — Kazakhstan

The Khorgos International Center of Boundary Cooperation JSC is a public company established under the Agreements between the Government of the Republic of Kazakhstan and Government of the People's Republic of China for the purpose of creation of the Khorgos International Center for Transfrontier Cooperation at the Kazakhstan and China border in the Panfilov district of Almaty region. The main goals of the activity of the Khorgos ICBC JSC are the implementation of the industrial and innovation policy of the state, mobilization of the region economy by attracting the investment capital and development of the investment climate. Moreover, other goals of "Khorgos" are to increase tax revenues to the budget, to

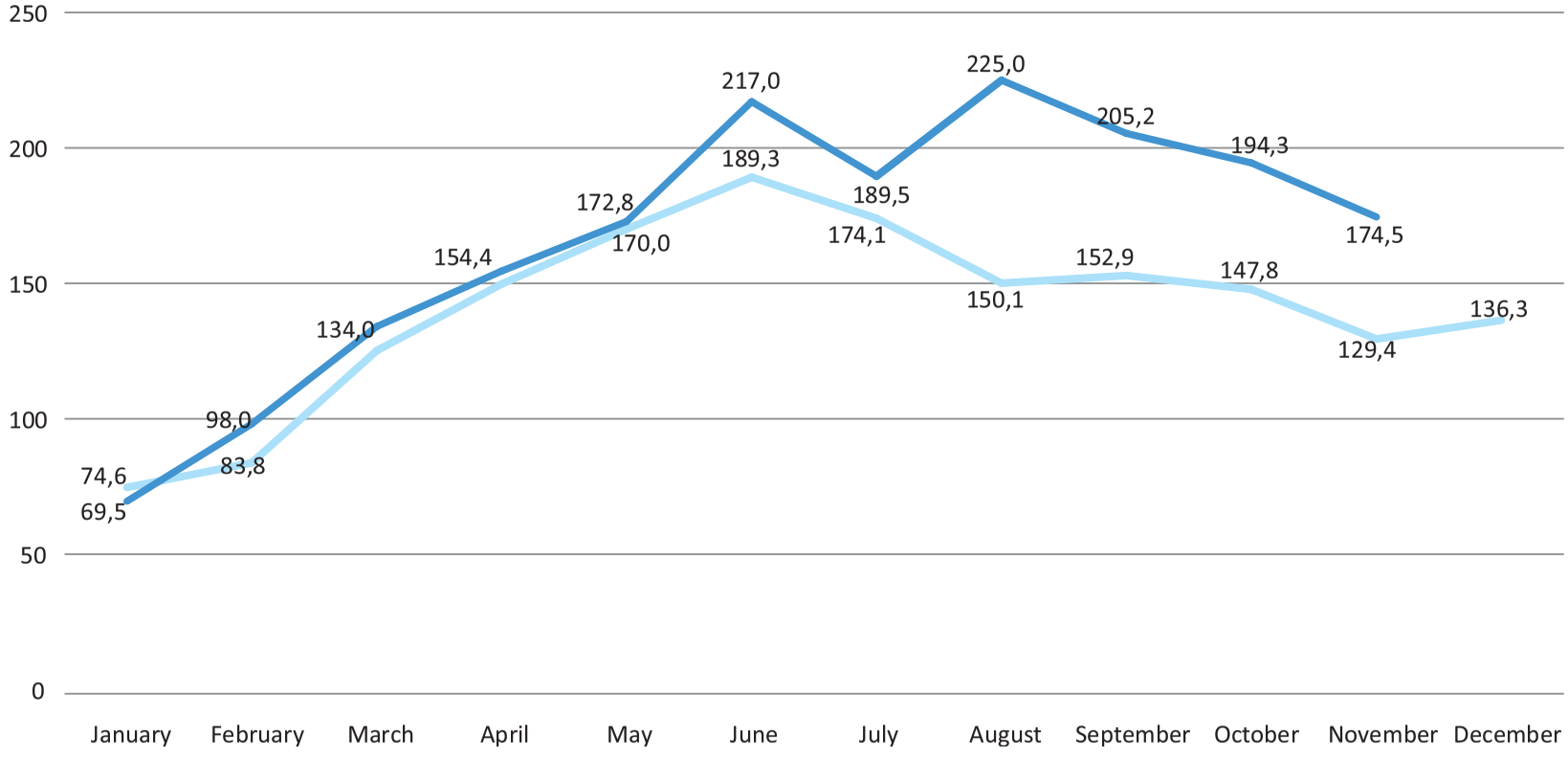

Fig. 6. Remittances, mln. USD:
2015; 2016

Source: National Bank of KR.

introduce the system of the international standards for foreign trade operations, to develop logistics and terminal services of import, export and transit freight flows. Development of the international tourism on the Silk Road, including improvement of tourism, transport and telecommunication infrastructure is one of the main goals of this project as well.

Kazakhstan is the largest landlocked country in the world. During the years of independence, 2,500 kilometers of railways were built in Kazakhstan [12]. The Asian Development Bank (ADB) supports regional cooperation across Asia and the Pacific. The Central Asia Regional Economic Cooperation (CAREC) Program is the largest of such initiatives supported by ADB. Since its inception, CAREC has mobilized more than $24 billion for transport, energy, trade policy, and trade facilitation, of which ADB has financed in excess of $9 billion [13].

According to analyses of CAREC Program team, there are stable logistic chains of delivery of Chinese goods from Urumqi to Kazakhstan and Kyrgyzstan.

The main Corridor, which stretches for 2,787 km within Kazakhstan, passes through Urumqi, Khorgos (Kazakhstan), Almaty, and heads west until it crosses Zhaisan into the Russian Federation. The second corridor links the PRC and the Kyrgyz Republic through the Torugart BCP.

Theoretically, trucks from Kazakhstan are legally allowed to collect cargo in Urumqi and transport it to a final destination in Almaty or other locations. In practice, however, the majority of orders is accomplished with transloading at Khorgos. Trucks from the PRC are used to deliver goods to Khorgos, and then trucks from Kazakhstan are used for transport from Khorgos to Almaty. Goods are transported by authorized economic operators (AEOs), which are a tightly guarded community of about 60 companies with about 400 trucks in operation between Urumqi and Almaty. These operators collect consolidated cargo in Urumqi and invite the traders to collect goods when they arrive in Almaty. Clients can transport relatively small shipments; thus, each truck can contain the cargo of several clients. Clients are expected to pay 800–1,000 U.S. dollars per cubic meter for full delivery of customs-cleared cargo in the AEO's terminal in Almaty.

Authorized economic operators existed before the Treaty about the EAEU came into force. In 2010–2011, they charged three times less per cubic meter than in 2014. The increased customs duties and tightening of control at the Eurasian Customs Union borders, particularly Khorgos, after Kazakhstan's accession, resulted in the increased costs [14]. It was possible to import everything that was not prohibited by law, but there was the main condition — operators had to pay a fixed sum to the budget. AEO had to declare all kinds of goods, but the quantity and the price should be corresponded to customs duties: for consumer goods — 10–11 million tenge, for footwear — 6 million tenge (previously, these amounts did not exceed 700,000 tenge) [15]. This was done to ensure that all customs procedures have to move from "black" schemes of customs clearance to "gray" ones, followed by access to "white" schemes.

For the first time, there were only five authorized economic operators, but after some time past the amount was already one hundred. There was increase in unfair competition, goods were delayed, people started to incur losses [Ibid].

In addition, services of these AEOs are quite expensive. According to ADB survey, logistics costs paid by traders to the AEOs for the transport of one truckload of merchandise delivered through this scheme are 80,000–100,000 U.S. dollars per truck. Contrasted with the estimated value of duties of 60,000–70,000 U.S. dollars, the cost of transport of 5,000 U.S. dollars, and the same value of official and unofficial expenses, the AEOs enjoy a good profit margin for every transaction, explaining why the group is well guarded. Although there was a crackdown in 2011 when several customs officials were jailed, it appears that these profitable arrangements were not eliminated, only that this resulted in greater complexity and costs for traders [Ibid].

Despite the close collaboration of the economies of Kazakhstan and Kyrgyzstan, there are periodic tensions on different issues, starting from customs duties, ending with questions of electricity. For today there are opened questions concerning Kyrgyz agricultural products that go through transit via Kazakhstan.

Right after the accession of the Kyrgyz Republic to the EAEU, there were eliminated customs checkpoints and cancelled phytosanitary control at the Kazakh-Kyrgyz border. However, on 1 January 2017 Kazakhstan has imposed restrictions on the delivery of Kyrgyz meat and dairy products to Russia and the West. Now, the transit is allowed only by rail in sealed wagons; transport by truck is prohibited [16].

Kazakh representatives declare that it is a compulsory measure — they need to exclude any possibility of air and automobile transit carriages, because veterinary control on Kazakh-Kyrgyz border was eliminated in terms of the EAEU. This led to the situation that Kyrgyz products not conforming to veterinary and sanitary norms and standards installed on the territory of the EAEU, began to enter the Kazakh market. According to the Vice-Minister of Agriculture of Kazakhstan Gulmira Isayeva, "the new approach will help to prevent the transfer of dangerous viruses and diseases such as foot and mouth disease, pose a threat to people on the territory of Kazakhstan [Ibid]."

Another problem which was announced on the parliament meeting is that Kazakhstan required from Kyrgyzstan to create ideal conditions in veterinary system as requirements of veterinary control are the highest. It includes the process of identification of animals. The pilot of the program has already started in three regions but it takes time. According to the Deputy Economy Minister, Almaz Sazbakov, "veterinary system of Kazakhstan has statuses in the international epizootic bureau. Some oblasts of the country have free movement without aphtha's vaccination on international level. Kyrgyzstan has the same status. Kazakhstan explains such measures on refusal to remove veterinary control on

the border by the fact that it can influence positive status in the international epizootic bureau" [17].

There has been a trend of higher import from Kazakhstan than Kyrgyz export since 1999. In some years, the amount of imported goods was growing (2011-2012), while in some, e.g. 2013 it was decreasing. We can observe an increase in the amount of goods exported to Kazakhstan since 2009; after 2012, Kyrgyz export experienced some decrease (Fig. 7).

Almost since independence until present, Kyrgyzstan has been exporting to Kazakhstan milk and dairy products, fresh vegetables, paper, cardboard paper and articles thereof, electrical energy, cast and rolled glass, electric incandescent lamps and construction materials from asbestos. The export of cement and portland cement has been stable since the beginning of the 1990s, but its supply has been at zero level since 2010. Significant supply of tea, alcohol drinks (champagne, vodka), cigarettes and mouthpiece cigarettes, cotton fabric and new light motor cars were observed at the end of the 1990s — beginning of the 2000s; thereafter the amount of these reduced. An increase of export of live animals has taken place since 2005 and further, as well as for metallic storage and transportation containers, tires, minerals and articles for transportation or packing made from plastic materials.

The structure of import from Kazakhstan has had some changes since independence as well. Stable import supply consists of wheat, wheat flour, asbestos, coal, automobile gasoline, jet fuel, diesel oil fuel, heating oil and base metals. During the 1990s there were imported maize, liquid gas, ores and concentrates of non-ferrous metal, ferrous metals and articles made of it, cooper and article thereof; the amount of these commodities had tendency to decrease till 2005. On the contrary, the import of beer, sugar, products from grains, mineral water, cattlehides, crude iron, steel, vegetable oils had positive dynamics during the last ten years. Kyrgyzstan and Kazakhstan are allied partners; they have great potential in development of cooperation.

Kyrgyzstan — Russia

Import from Russia was a little bit higher than Kyrgyz export to Russia during 1996–2003; since 2004 the amount of Russian imported goods has started to gain momentum and increase significantly. We can observe decrease of both imported amount of Russian goods and export of Kyrgyz goods to Russia, in 2008 that could be explained by world financial crisis; in 2010 import from Russia started to increase again (Fig. 8).Stable export supply to Russia during the last 25 years consist of fruits and vegetables, tobacco, cotton fiber, electric incandescent lamps, repair parts and equipment for cars, articles of clothing and clothing accessories, glass and glassware. Export of molasses, which was significant during 1990ths, has lost its position during the last years. It is observed the same decrease of export of antimony and articles thereof to Russia, as of alternating current motors.

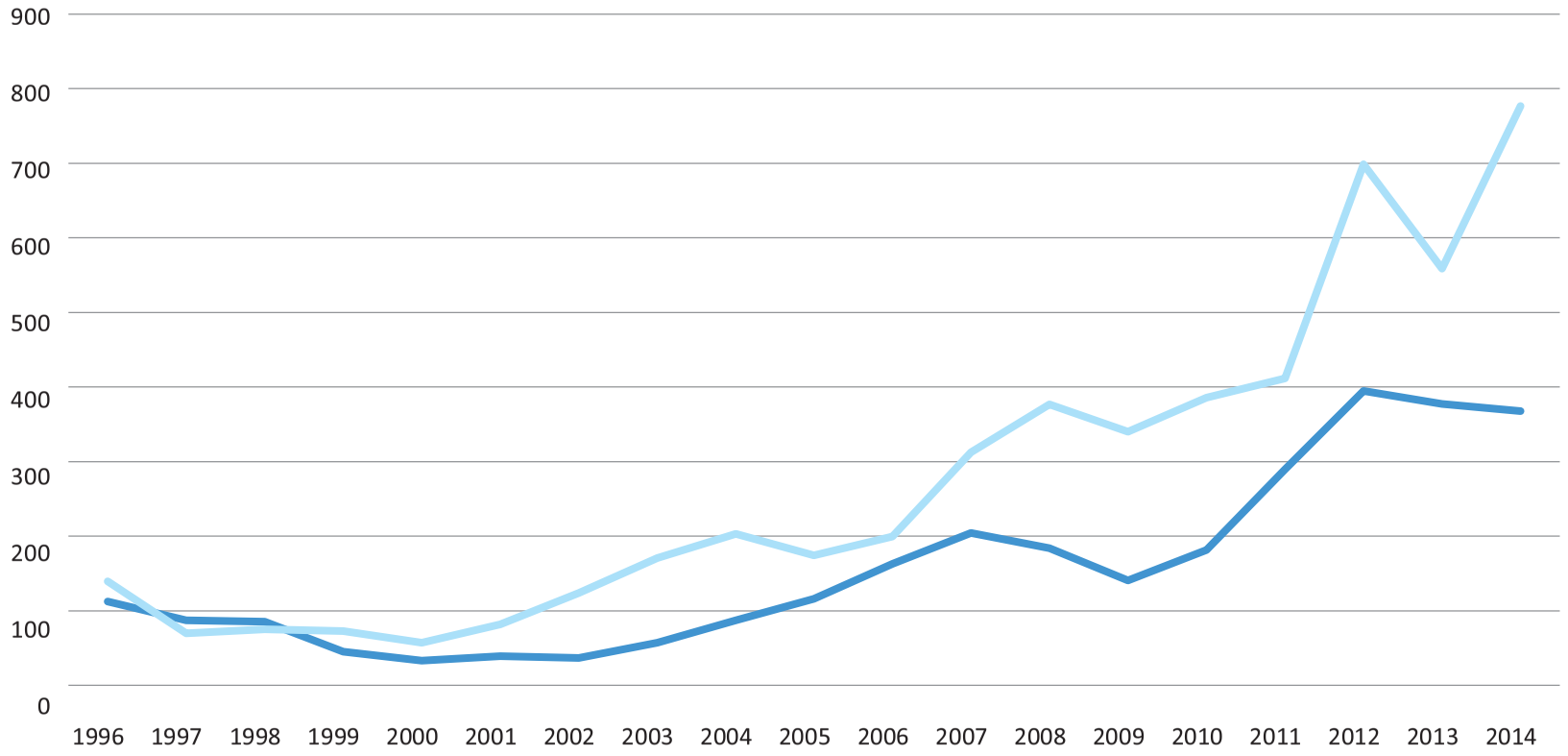

Fig. 7. Mutual trade of Kyrgyzstan — Kazakhstan in 1996–2014, mln USD:

Source: National Bank of the Kyrgyz Republic.

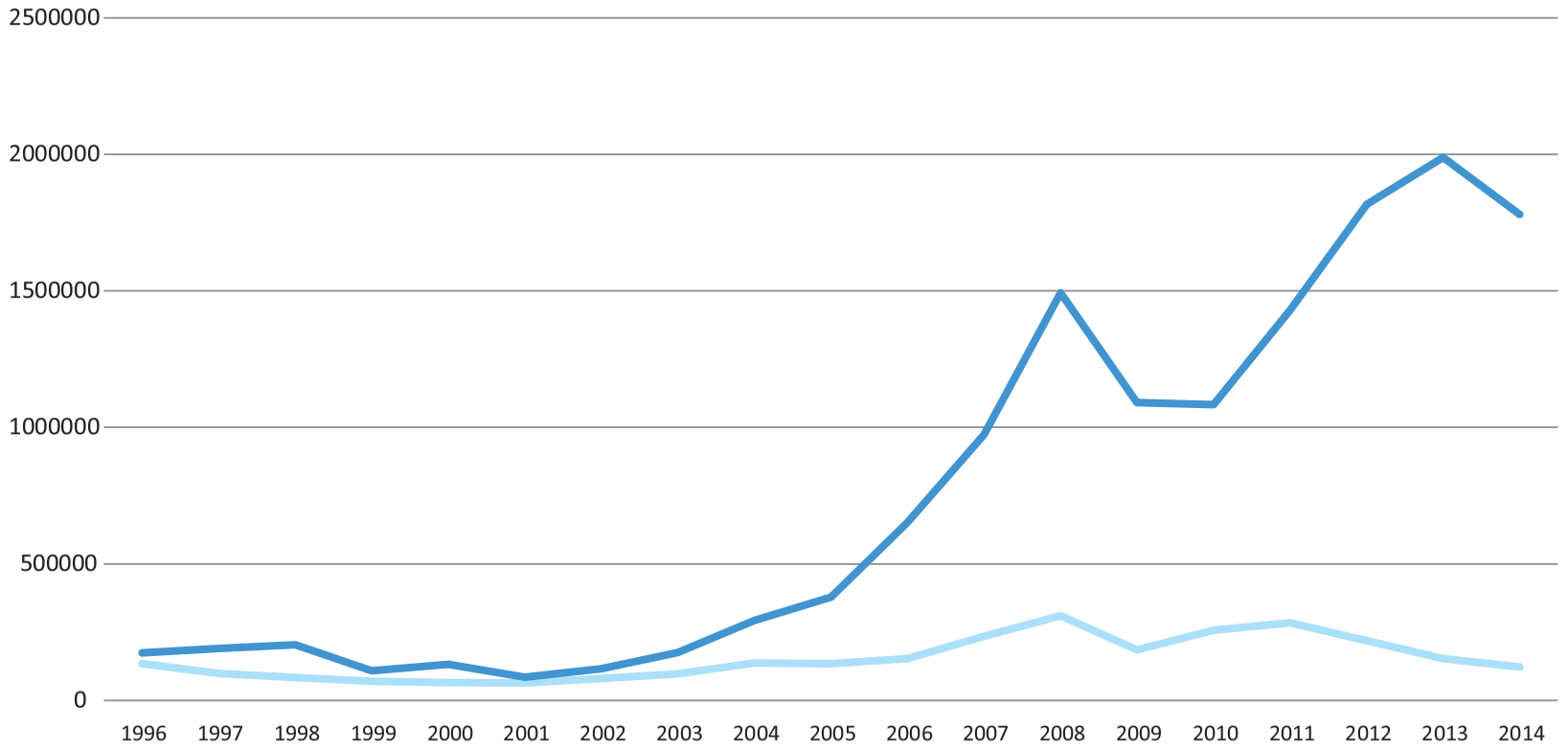

Fig. 8. Mutual trade of Kyrgyzstan — Russia in 1996–2014, mln USD:

Source: [5].

Stable export supply to Russia in the last 25 years has consisted of fruits and vegetables, tobacco, cotton fiber, electric incandescent lamps, repair parts and equipment for cars, articles of clothing and clothing accessories, glass and glassware. Export of molasses, which was significant during the 1990s, has lost its position during the last years. The same decrease of export of antimony and articles thereof to Russia is observed, as well as of alternating current motors.

Import structure of Russian goods is quite stable during the last 25 years. It consists of sugar, automobile gasoline, diesel oil fuel, inorganic chemicals, medicaments, fertilizers, tires, paper and cardboard paper, wood and articles thereof, light motor vehicles, lorries, chocolate and other food products containing cocoa, beer, jet fuel, repair parts and equipment for cars etc. increase of imported amount of articles made from base metals, different food products, crude iron or non-alloy steel articles is observed in the last ten years.

Relationships with Russia have strategic importance in all spheres for Kyrgyzstan. Russia is the main trade and economic partner, as well as the military one. In June 2016, the government of the Russian Federation and the government of the Kyrgyz Republic signed the agreement on partnership in the sphere of oil and oil products supply. This agreement regulates customs free delivery of oil products from Russia to Kyrgyzstan [18].

Taking into account the membership of Kyrgyzstan in the Eurasian Economic Union, it is necessary to promote the supply of agricultural commodities (fruits and vegetables, refined products) to the market of Russia. Compared to Kazakhstan, Russia has agreed on export of animal products to its market from Kyrgyzstan. Currently 20 Kyrgyz enterprises have relevant conformity certificates and can supply their products to the market of the EAEU.

Kyrgyz clothing manufacture takes leading positions in Russia as well. This partnership should be continued as well as partnerships in processing industry, mining and metallurgy industry, transport sector etc.

In 1995–2009, the trade turnover between the two countries increased by more than six times: from 206 million U.S. dollars to 1,283 million U.S. dollars. The Kyrgyz deliveries to Russia prevailed in clothes, raw cotton, vegetables and fruits, electrical equipment. In 2000–2010 food exports of Kyrgyzstan in the Russian Federation has undergone significant changes: dramatic reduce of tobacco supply, but the increase of supply of fruits and vegetables. There were massive delivery amounts of timber, petroleum products, machinery and equipment, chemical products from Russia to the Central Asian countries [19].

The assistance to Kyrgyzstan from Russian side before joining to the EAEU was creation of the Russian-Kyrgyz Development Fund (RKDF).

Russian – Kyrgyz development fund

The Russian-Kyrgyz Development Fund was established and operates in accordance with the Agreement between the Government of the Kyrgyz Republic and the Russian Federation "On the development of economic cooperation under the Eurasian economic integration" May 29, 2014, the Agreement between the Governments of Kyrgyzstan and the Russian Federation "On the Russian-Kyrgyz Development Fund" dated November 24, 2014 [20].

The mission of the Fund is to facilitate modernization and economy development of the Kyrgyz Republic, as well as economic membership between countries of the Fund [Ibid]. The Fund provides funding for projects that, in addition to commercial benefits for owners, carry a positive effect on the economy as a whole: the creation of additional jobs, increase tax deductions, export orientation and import substitution, and have a positive effect on the development of local communities.

In September 2015, RKDF signed an agreement with "Aiyl Bank" and "RSK Bank" on cooperation in launching the program targeted financing of small and medium size enterprises (SMEs) and provided them with 1.2 billion soms. Under this program, entrepreneurs may apply for preferential loans at 12 % per year in KGS for a period of up to five years [21]. As of January 2017, there were 639 approved projects at the amount of 175 million U.S. dollars from the assigned 500 million U.S. dollars to the Russian-Kyrgyz Development Fund [22]. Priority sectors of financing are agro-industrial complex, apparel and textile industries, processing industry, mining and metallurgy industry, transport infrastructure, tourism and medicine (Table 4).

Table 4

Information about credit activity of the RKDF (as of 16 January 2017)

Sector of the economy	Total approved projects, including issued	
	mln USD	Number
Agricultural complex, processing and production of agricultural products	22.006	293
Manufacturing industry, modernization of production equipment	72.361	213
Power industry, construction of mini hydro powers	2.275	5
Mining and metallurgy industry	3.974	13
Transport infrastructure and storage of cargo	28.651	32
Communication and information technologies	3.200	1
Trade infrastructure	2.500	1
Tourism infrastructure	14.302	24
Health service infrastructure	2.277	17
Other sectors	23.002	40
Total, in USD	174.548	639

Source: [23].

Kyrgyzstan and main trade partners

Kyrgyzstan — Uzbekistan

Trade with Uzbekistan is characterized by different dynamics: in some years a higher import volume of Uzbek commodities to Kyrgyzstan than Kyrgyz export was observed, for example in 1996 — 1999 and 2001 — 2007; in 2007 — 2009 the amount of exported commodities to Uzbekistan was significantly higher than the import from that country. A dramatic fall of export to Uzbekistan in 2010 could be explained by the interethnic conflict, which happened in June 2010 in the south of Kyrgyzstan between ethnic Kyrgyz and Uzbeks [24]. The amount of export from Kyrgyzstan to Uzbekistan was higher than the amount of import from that country in 2011, however, it has had a tendency to decrease since 2012 (Fig. 9).

Sales volume of Kyrgyzstan with Uzbekistan for nine months of 2016 was 140.3 million U.S. dollars due to the official data from the national Ministry of Economy. For the same period of 2015 year the sales volume increased on 46.3%, including the growth of export on 78.9% (it is 93.2 million U.S. dollars) and import on 7.3% (47.1 U.S. dollars in 2016) [25].

Kyrgyzstan exports coal, stones, travertine, spirits, incandescent electric lamps, duplicates of machine parts, food products, products of agriculture, washing facilities to Uzbekistan. At the same time, Kyrgyzstan imports fertilizers, products of chemical industry, cognac spirits, products of textile and light industry, natural gas and lubricating oil, agricultural products, engineering products from Uzbekistan.

Uzbekistan was the main supplier of natural gas to Kyrgyzstan. In 2014, Russia's Gazprom took over the Kyrgyz state gas supplier KyrgyzGaz for a symbolic one U.S. dollar. Gazprom also took on KyrgyzGaz's 40 billion U.S. dollars in debt and in the process irritated Uzbekistan. Uzbekistan cut gas supplies to the southern Kyrgyzstan for nearly nine months, only resuming flows in December 2014. Because Kyrgyzstan does not have significant gas deposits of its own and must import, and southern Kyrgyzstan is linked to pipelines in Uzbekistan and the north to Kazakhstan which are not linked to each other. While Gazprom can ensure supply to the northern Kyrgyzstan, until new pipelines are built it cannot supply the southern Kyrgyzstan [26].

Kyrgyz — Uzbek relations received new impulse for constructive dialogue and mutually beneficial cooperation with the election of new President of the Republic of Uzbekistan, Shavkat Mirziyoyev, in December 2016.

Many agreements and contracts with Kyrgyzstan were signed on the First International Food-and-vegetable Exposition in Tashkent on 8–10 November 2016, where local authorities from Kyrgyzstan, private entrepreneurs from Osh and Jalal-Abad oblasts (south of the republic) and other Kyrgyz agricultural companies took stage or were presented.

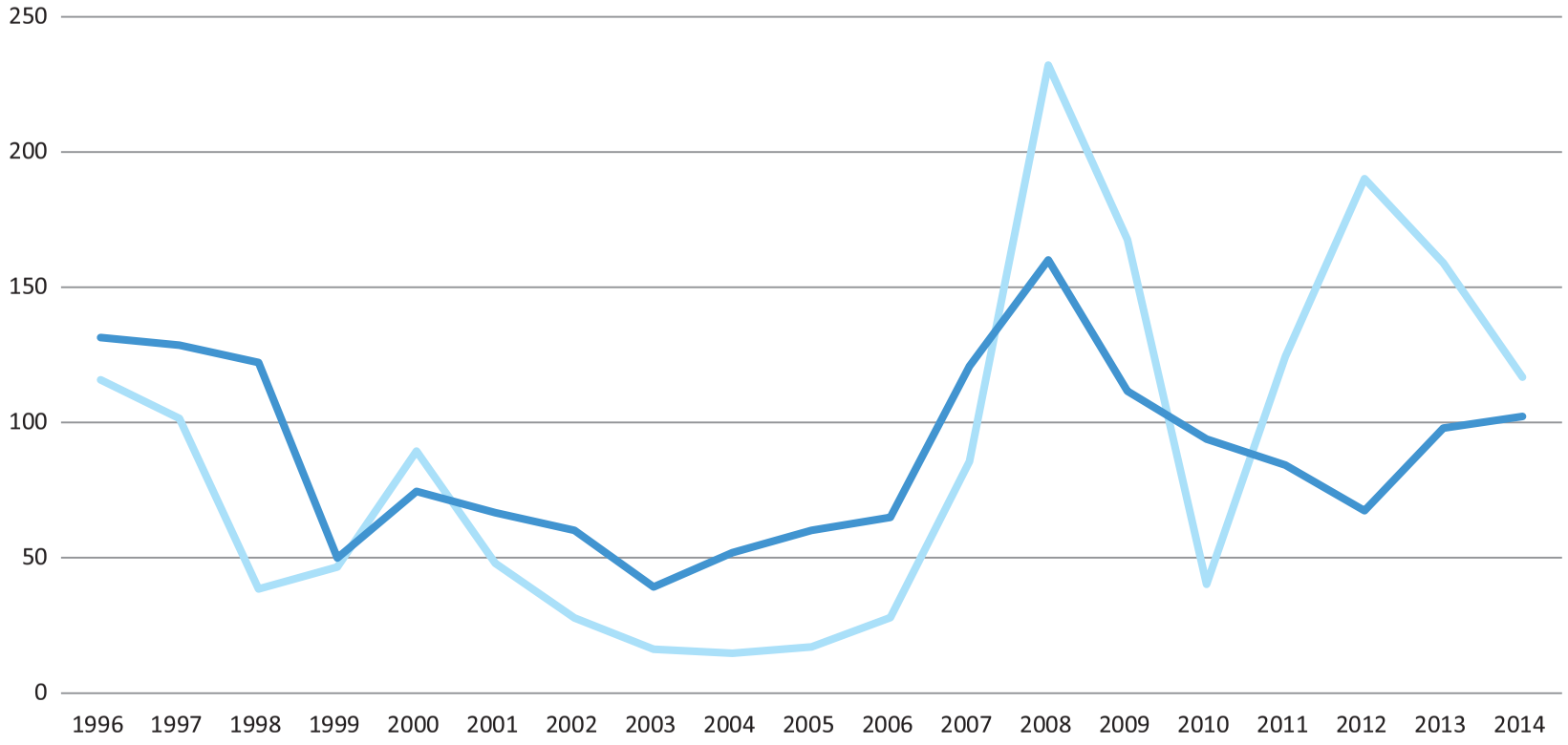

Fig. 9. Kyrgyzstan — Uzbekistan bilateral trade in 1996 — 2014, mln USD:
export to Usbekistan; import from Usbekistan

Source: [5].

Kyrgyzstan — Tajikistan

Export of Kyrgyz commodities to Tajikistan is higher than the amount of imported commodities from it. Import dynamic from Tajikistan has been quite stable during the whole period of mutual trade relationships with Kyrgyzstan; the volume of Kyrgyz export can vary from year to year. Thus, the amount of export had a decline in 2008 — 2009 during the world financial crisis, but in 2010-2012 it was increasing (Fig. 10).

The composition of Kyrgyz export to Tajikistan has not significantly changed since 1995 and consists of live animals, dairy products, vegetables and fruits, tobacco, mineral fuels, plastics products, textile etc. Kyrgyzstan imports from Tajikistan fruits and vegetables cereals, meat, ores, slags, ashes and other commodities.

Relationships of Tajikistan and Kazakhstan are quite stable; the only object of dispute is unfinished process of delimitation and demarcation of state borders and areas along the borders. Today Tajikistan and Kyrgyzstan share more than 900 km of the state border, much of which is not demarcated. The main reason for conflicts lies in the openness of borders and until the parties finalize the demarcation of the state border, disputes and conflicts will continue. On the other hand, demarcation of the border should take place in a peaceful and civilized way but Tajikistan and Kyrgyzstan have different views on determining the common border. The problem lies in the fact that countries use maps issued in different years whilst designing the borders. Tajikistan insists on consideration of the boundaries of the map-based 1924–1939, and Kyrgyzstan defends the right to determine the line boundaries of the maps-based 1958–1959 [27].

Despite the fact that Tajikistan is learning the experience of Kyrgyzstan and Armenia on their accession to the EAEU before entering it too, the presence of Chinese investments into Tajikistan is growing every year. In 2012, the Ministry of Agriculture of Tajikistan leased 500 acres of land for 49 years to Chinese farmers "in order to develop its agricultural sector". Last year a Chinese-Tajik company there was handed over 15 thousand hectares for temporary use for cotton growing [28].

Kyrgyzstan — China

In the last 20 years, amounts of exported goods to China and amount of Chinese import to Kyrgyzstan were almost equal until 2002. As Fig. 11 shows, while the amount of exported commodities to China has showed stable dynamics since 1996, the amount of imported Chinese goods was increasing every year (except for 2008 and 2012, during which the import declined).

Kyrgyzstan exports cattlehides, wool, cooper waste and scrape, waste and scrape of aluminum, aluminum itself, leather, cooper, ores and concentrates of non-ferrous metal. China exports to Kyrgyzstan clothing and clothing accessories, footwear, articles made from base metals, plastics, furniture, rice, tobacco, woven fabrics from artificial textile materials, fruits fresh or dried, inorganic chemicals, textile

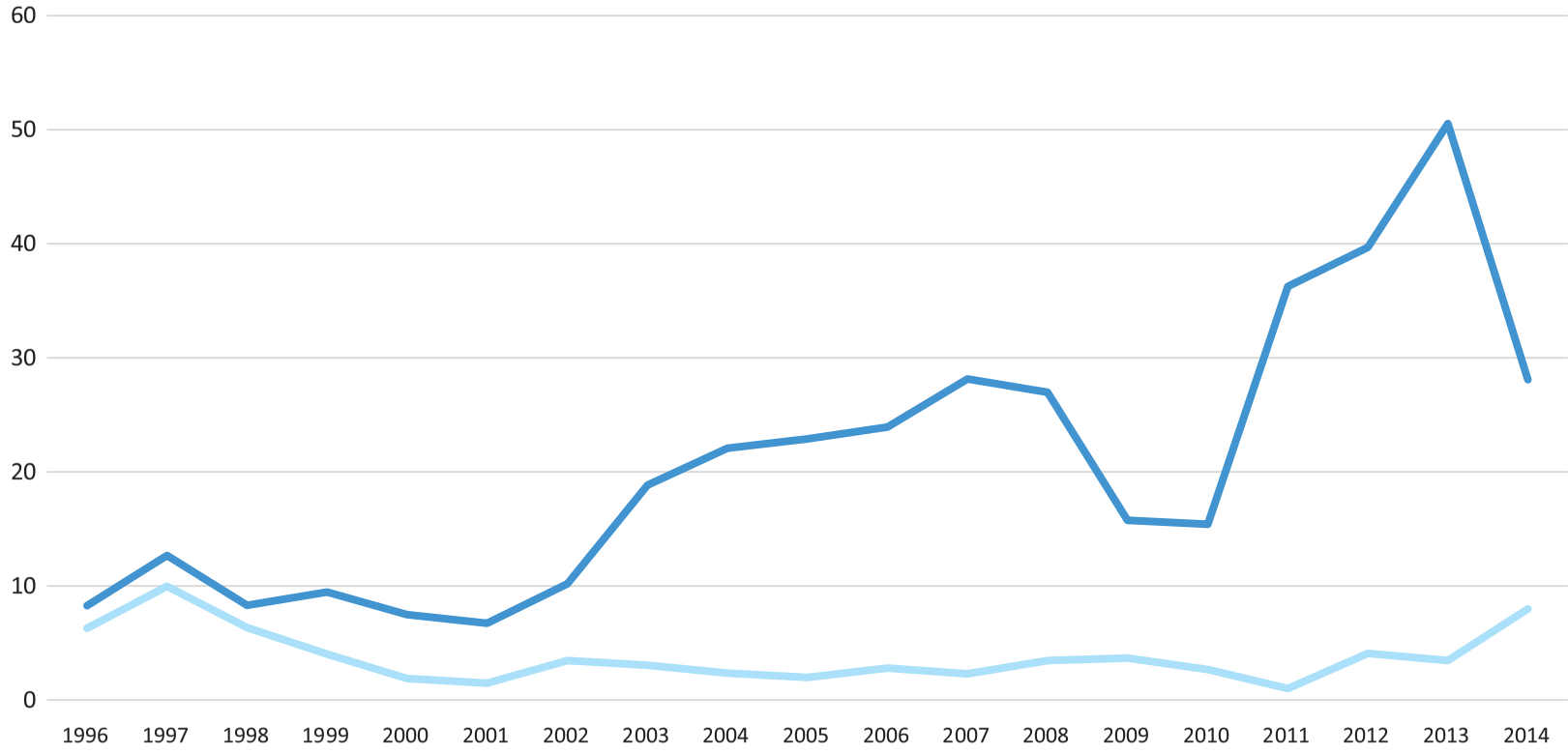

Fig. 10. Mutual Trade of Kyrgyzstan — Tajikistan in 1996–2014, mln USD:

Source: [5].

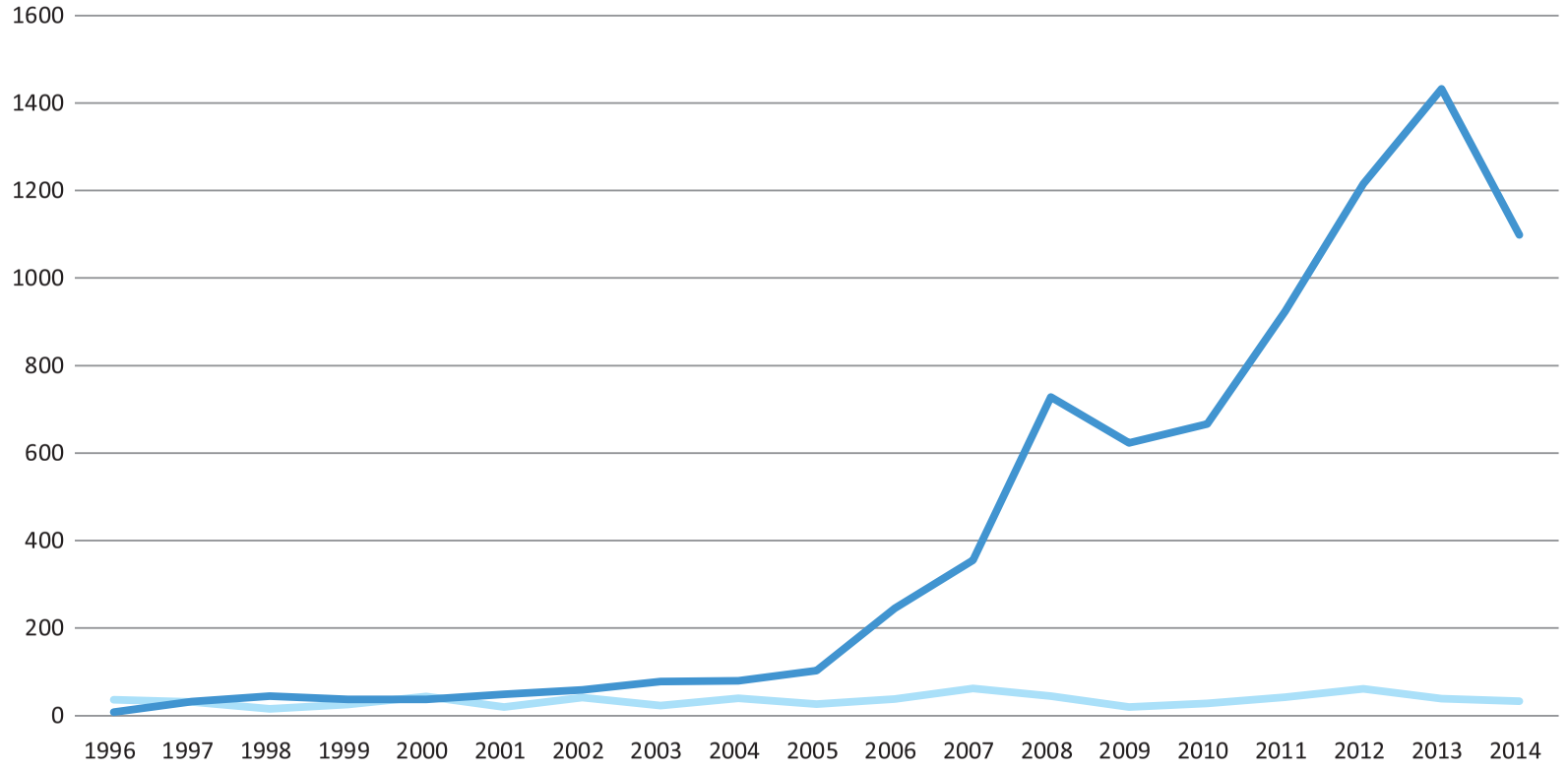

Figure 11. Mutual Trade of Kyrgyzstan — China in 1996–2014, mln USD:

Source: National Statistic Committee

yarns, explosives and pyrotechnics, telephones for cellular networks, machinery for working of food products and rubber or plastics, etc.

Since 2012, after the election of president of China Xi Jinping, it has been implementing a plan on strategic development of relations with all Central Asian countries, including Kyrgyzstan: there is a program of development of a strategic partnership until 2025. Kyrgyzstan is interesting for China from the geopolitical and geoeconomic points of view: China wants all its neighbors to become geo-economically stable and prosperous before 2049 [29].

During 8 months of 2016, the volume of investments from China to Kyrgyz economy was 120 million U.S. dollars which is 57.5% higher than for the same period in 2015. Furthermore, China is one of the main trade partners of Kyrgyzstan: there was an increase in the trade turnover between Kyrgyzstan and China. During January-October 2016 the trade turnover between these two countries amounted to 1 billion 289.4 million U.S. dollars (i.e. growth by 1.5 times). The export to China was not significant and amounted to 48 million U.S. dollars (growth by 1.9 times), while imports from China reached 1 billion 241.4 million USD (growth in 1.5 times). The share of China in the total trade turnover of Kyrgyzstan amounted to 29.3% (while in January–October 2015 it constituted 17%) [30].

China is Kyrgyzstan's second-largest trading partner after Russia though there is a large trade imbalance between the two countries. It is passive imbalance for the Kyrgyzstan side. The possibilities for Kyrgyzstan could be for example increase exports of agricultural products to China. The competitive advantage could be high quality and organic nature of the Kirgiz products.

Investors from China are very active in Kyrgyzstan. The most successful examples were:

- Junda and Tokmok oil refineries in the Chui province, Taldybulak Levoberezhny deposit,
- construction of the North-South motor road,
- reconstruction of the Bishkek thermal power plant,
- rehabilitation of the street network in Bishkek,
- construction of a hotel in Osh in the south of the country.
- To promote the investment Kyrgyz-Chinese investment fund was established.

An investor from China plans to invest $50 million in the construction in Bishkek the new tile plant with a capacity of 10 million square meters of products per year. The businessman from China is interested in not just Kyrgyzstan, but Kyrgyzstan as a member of the Eurasian economic Union. The functioning of the Union has increased the cost of export of tiles from China. Because of this there was decided to open trade within the EAEU. Successful implementation of this major project will make it the first one that will be implemented in the Kyrgyz Republic because of the country's accession to the EAEU. Apart from the fact that in the Republic settles $50 million, the project will create 400 jobs, the market will be full of cheap tile, and tax deductions will amount to over 200 million KGS per year [31].

There are big project to develop the transport infrastructure and improve possibilities for transport links between Kyrgyzstan and China. Kyrgyzstan proposed to launch a Bishkek-Beijing-Bishkek flight. Construction of the China-Kyrgyzstan-Uzbekistan railway is under discussion. Also the huge project of the Silk Road Economic Belt (One Belt and One Road or OBOR) is also to be discussed.

Kyrgyzstan — Iran

The dynamic of bilateral trade flows between Kyrgyzstan and Iran is quite unstable. The higher export of Kyrgyz commodities to Iran than its import was observed in 2006 — 2010; before those years and after them the amount of imported Iranian commodities was higher than export (Fig. 12).

Economic relationships of Kyrgyzstan and Iran are gaining a new momentum. The long-term program of cooperation until 2026 was signed between Iran and Kyrgyzstan in December 2016. During the meeting of presidents of Iran and Kyrgyzstan there was a suggestion from Kyrgyz side of opening of Iranian enterprises in the country — the membership of Kyrgyzstan in the EAEU will allow to export Iranian commodities throughout the union without customs tariffs [32].

Foreign trade turnover between Kyrgyzstan and Iran for the first 9 months of 2016 amounted to 13.43 million U.S. dollars. There were exported Kyrgyz commodities to Iran for the amount of 7.65 million U.S. dollars and import of Iranian commodities for the amount of 5.77 million U.S. dollars for the same period. The main commodities that are imported from Iran are food (meat, nuts, pistachio nuts, sunflower oil), clothing and clothing accessories and plastic products. Kyrgyzstan exports meat, fruits and vegetables, cheese, milk, nuts, scrap and waste of alloyed steel; negotiations on resumption of deliveries of Kyrgyz lamps to Iran are in progress [34].

Kyrgyzstan — EU

Besides the trade partnership with the EAEU members and other neighboring countries, the Kyrgyz Republic has trade agreements with the European Union. On 27 January 2016 Kyrgyzstan became the sixteenth country whom the European Union provided with special preferential regime for sustainable development and effective management (GSP+) for seven years [35]. Getting GSP+ regime reduces tariff duties on certain commodities to zero and eliminates tariff barriers. It makes the European market more attractive and desirable for domestic enterprises. Earlier exporters from the Kyrgyz Republic paid tariff duties for the amount of 14.6% for agricultural products and 5–9% for textile products [Ibid].

Kyrgyzstan is currently the only Central Asian country that has such preferential regime with the European Union. This provides a comparative advantage to representatives of Kyrgyz business, compared to neighbors, in terms of exporting more than 6000 commodities to the European countries at zero tariffs.

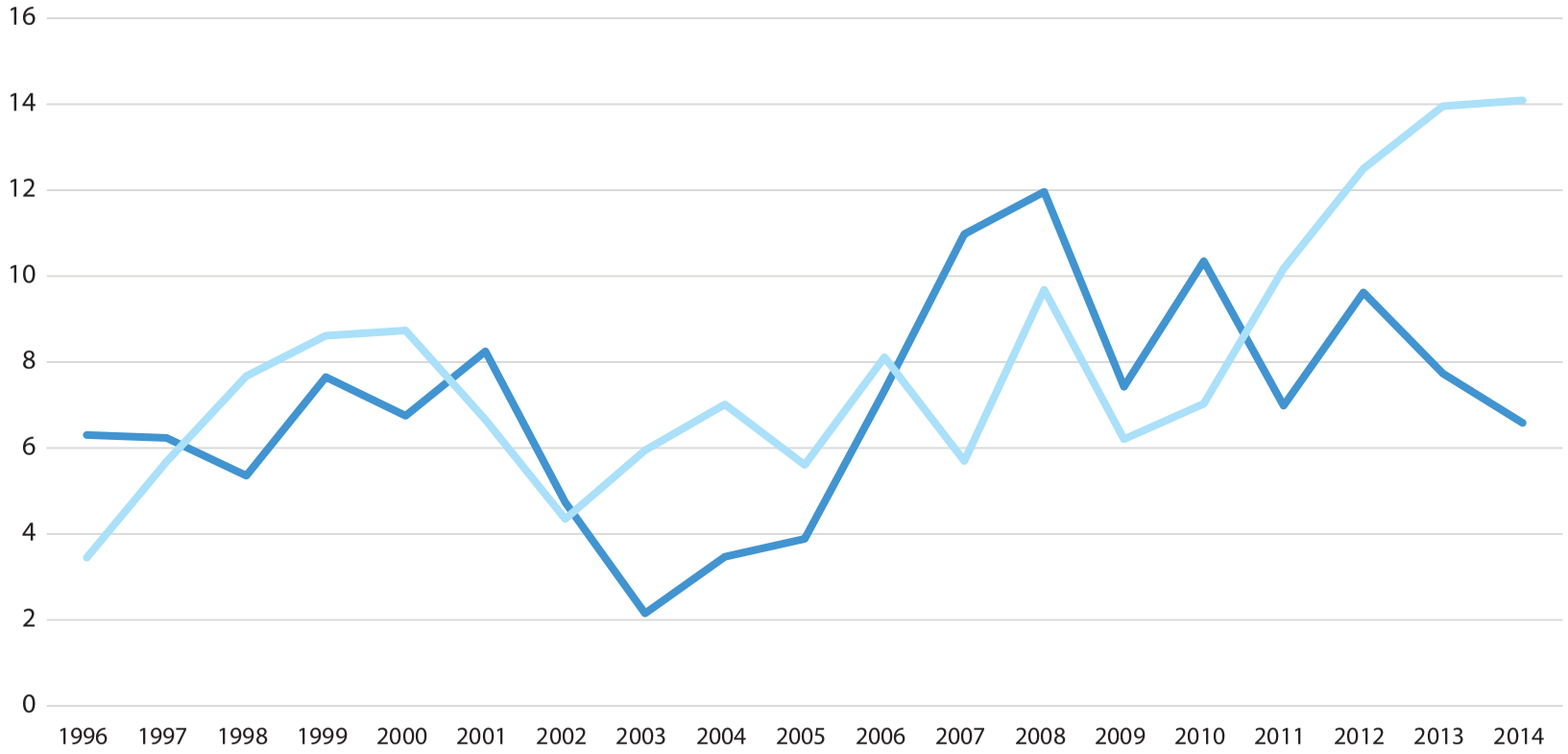

Fig. 12. Kyrgyzstan — Iran bilateral trade in 1996 — 2014, mln USD:

Source: [5].

The traditional composition of trade turnover between the European Union and the Kyrgyz Republic since 1993 has been the following: the EU exports to Kyrgyzstan electrical machinery (25%), machinery (16%), vehicles (14%), measuring, optical and surgical tools (6%), and iron products (4%). Main EU import items are gold (95%), cotton (2%). The main trade partners from the European Union are Austria, Belgium, Germany, Italy, Latvia, Netherlands, Poland, France, Sweden and Switzerland.

Other benefits of membership in the EAEU

The Russian side has previously allocated 200 million U.S. dollars through which ~~in~~ the Kyrgyz Republic equipped customs stations, checkpoints and laboratories: 4 checkpoints (Manas, Osh, Torugart, Irkeshtam) and 7 veterinary checkpoints: Torugart, Irkeshtam, Dostuk, Kyzyl Bel, railway "Kara-Suu", airports "Manas" and "Osh". Also, there are eight checkpoints under construction and equipment from the public budget. Phytosanitary control on Kyrgyz-Kazakh border is removed; phytosanitary quarantine control on the Kyrgyz-Kazakh border is cancelled. 30 accredited laboratories and 9 certification authorities of the Kyrgyz Republic were added to the Unified register of the EAEU. Those release documents which are accepted on the territory of the whole union [36].

Moreover, 19 Kyrgyz animal products enterprises were included in the document covering companies which can produce and deliver their products on the territory of the Customs Union. There are 12 enterprises for milk products, 3 — fish products, 3 — honey production, 1 — meat products.

Since 5 February 2016 there has been an agreement in place between Kazakhstan and Kyrgyzstan on removal of customs support of Kyrgyz transport operators.

There were accepted measures on increase of statistical accounting confidence and improvement of tax management. On 1 January 2016, the VAT threshold was increased from four to eight million soms. The tax from sales of export supplies and supplies outside of the territory of KR was cancelled.

There are also temporary preferences till 1 September 2018 for enterprises of food and processing industries that make a processing of agricultural products.

Program on export promotion

In May 2015, the Government of the Kyrgyz Republic has issued the Act on Plans of the Government on export development of the Kyrgyz Republic in 2015–2017. It was done with the purpose of export possibilities' expansion and increase of competitiveness of Kyrgyz producers in the external market [37].

According to the Act, the main challenges in the promotion of exports are:

1) Export flows of Kyrgyzstan are focused on Kazakhstan and Russia. Trade relations with other countries remain unstable (with the exception of the supply of gold);
2) Exporters, especially SMEs, do not have the production capacity to diversify their customer base and are slow to respond to new qualitative and quantitative requirements of new markets;
3) Institutional support for SMEs at the entrance and retention in undeveloped markets is still very limited;
4) Insufficient level of quality of transport services, cargo handling, certification;
5) Limited institutional capacity in the field of quality management increases the uncertainty and, as a rule, entails additional costs of using skills in more economically developed markets. Especially important is the role of institutions of metrology, testing and conformity assessment when entering the European market and the markets of the countries of the Organization for Economic Cooperation and Development (OECD);
6) The low level of use of different finance mechanisms, including export credits and insurance.

Actions that government determine are aimed on promotion of export potential of Kyrgyz commodities, ensuring harmonization of the normative legal acts of the Kyrgyz Republic in the sphere of technical regulation with the EAEU documents, increasing the competitiveness of Kyrgyz goods and, crucially, increasing the responsibility of producers for their products.

There are assigned directions of export development. Accordingly, there are such commodities of Kyrgyz production on which there is a stable demand; consequently, the export promotion of these commodities should not be very difficult. Such types of commodities are gold, electricity, cotton, vegetables, fruits and other products. We can observe a sustainable growth of export deliveries of wearing apparels of Kyrgyz production.

Significant export potential is in small and medium-sized enterprises. The share of SMEs in the total volume of foreign trade turnover in 2015 amounted to 19.6%, including 11.3% for export and 23.1% for import. Trade balance of SMEs was negative in 2015, and the deficit constituted 722 million U.S. dollars [5]. Many small and medium sized enterprises do not have sufficient export potential; they need to receive support from government.

Due to the analysis of the International Trade Center (ITC) dated 2013, there are the following results of the comparative analysis of sectors, which have export potential (Table 5).

The Plan of the Act of the Government of the Kyrgyz Republic underlines four directions for tasks decision. The first one is the access to trade information and export promotion. It includes the possibility of participants of foreign economic

Table 5

Selection of priority sectors

Social and economic development	Export potential		
	Low	Medium	High
High	—	Tourism	Clothes
Medium-high	Handicraft trade	Fresh fruits and vegetables, nuts; milk and meat products	Processed fruits and vegetables, bottled water
Medium	—	IT services	Cotton
Medium-low	Fur of animals	Hide and skin of animals	Mineral fuel resources and metals
Low	—	—	—

Source: Ministry of Economy of the Kyrgyz Republic.

activities to receive trade information and services from different sources, such as associations, institutes of trade support, the Union of Enterprises of Textile Industry "Soyuztekstil", the Agribusiness Competitiveness Center, Informational and Marketing Center, public authorities, the National Bank of the Kyrgyz Republic or international development partners.

The next step is participation of exporters in specialized exhibitions and fairs. Thus, Association "Legprom" organizes two international exhibitions "Fashion Industry" in Bishkek annually. Besides, it organizes a collective participation of the private sector (textile and clothing) in specialized exhibitions in CIS countries and far abroad. The Chamber of Commerce and Industry of the Kyrgyz Republic organizes participation of SMEs in the world exhibitions "Expo", anniversary exhibitions of the CIS.

The Ministry of Economy of the Kyrgyz Republic and Ministry of Agriculture and Melioration of the Kyrgyz Republic with the support of the German Society for International Cooperation organize participation of Kyrgyz exporters in the international agricultural exhibition "Green Week" in Berlin, Germany. The Ministry of Economy also assists SMEs in participating in the regional exhibition "Expo", held annually in Urumqi in the People's Republic of China.

Despite a great number of different exhibitions and fairs, Kyrgyz exporters do not fully participate in them because of lack of financing. Additionally, there is a low level of awareness of private sector about the importance of trade information for export. The Plan shows some solutions to such problems, e.g. training workshops on export promotion for private companies, taking into account the membership of Kyrgyzstan in the EAEU. Also, it is planned to organize training workshops on export promotion for public authorities involved in shaping foreign trade policy and services provision with a glance to accession of Kyrgyzstan to the Union.

The second direction is trade facilitation. It includes a facilitation of all procedures for delivering Kyrgyz commodities abroad: logistics, customs procedures,

border control, procedures at other control bodies and improvement of transport infrastructure. Such trade facilitation will allow to minimize costs, risks or waste of time; these all will help to increase the country's competitiveness. One of such measures on trade procedures facilitation is the automatization of system of the State Customs Service and implementation of the principle of "single window system" on the basis of informational and communication technologies. This system provides for reducing time spent on bureaucratic procedures.

In many cases, commodities produced in the Kyrgyz Republic cannot compete in foreign markets in terms of prices due to the burden of costs resulting from inefficient trade procedures and poor transport infrastructure. According to the evaluation of the Asian Development Bank, 13% of the export value and 10% of the value of the import is due to travel expenses [5].

One example is the creation of the Sokuluk Logistic Center, which was constructed in Chui oblast in 2015. This logistic center can store 7000 tons of different products (apples, onions, potatoes, cabbages, carrots, etc.). Unfortunately, besides the modern European equipment, there is a lack of laboratories that could provide conformity certificates; presence of an official customs representative at this center could influence on facilitation of all procedures for faster export of fruits and vegetables.

The next important direction is support and development of quality infrastructure. The national system of quality management is not so efficient yet. As a result, that reduces the capabilities of domestic SMEs producing goods and services for foreign markets. It is quite important to support small and medium-sized enterprises in adaptation to the EAEU conditions. It is necessary to implement standards ISO 9001 and HACCP on accession to trade information, export promotion and market diversification, including Europe (GSP+) and Asian countries (including Iran and Arab countries).

The Investment and Trade Promotion Agency under the Ministry of Economy of the Kyrgyz Republic with the assistance of the UNDP project "Aid for Trade", funded by the Government of Finland, started a large-scale campaign "Caravan of Export" in all regions of the Kyrgyz Republic in February 2017. The aim of the campaign is to inform local producers about benefits and conditions of export, to determine the number of producers, potential and existing exporters, and to identify their needs and requirements for providing assistance in entering foreign markets. The target audience of the program are producers of fruits and vegetables, meat, dairy products, clothing products and bottled water [38].

CONCLUSION

To sum up, the analysis and facts, referred in the article, show that the work on integration of the country into the Eurasian Economic Union is ongoing. The situation is compounded by the expiration of preferential regime in August 2017. Kyrgyzstan will start performing 18 technical regulations of the EAEU, including

regulation related to packages of goods, acquisition of licenses in the textile industry, standardization of railway wagons, etc.

Kyrgyzstan is still facing lots of challenges: decrease of trade turnover, veterinary control, identification of cattle, decrease of re-export, implementation of standards, building laboratories and many other problems that should be solved as soon as possible. Over the years, the decrease of trade at huge bazaars like "Dordoi" and "Kara-Suu" took place due to high customs tariffs towards non-members of the EAEU.

At the same time, membership in the EAEU provides many opportunities for Kyrgyzstan, and in the long term the Eurasian integration might have a beneficial effect on the national economy. According to estimates of some researchers, integration into a major regional economic union will lead to the expansion of markets of goods produced in Kyrgyzstan, as well as to an increase in the investment attractiveness of the Republic for the provision of appropriate facilities in its territory. Together, these factors will ensure a good basis for GDP growth and increase of exports. The only constraint is that it does not suggest immediate implementation. The economic integration of Kyrgyzstan into the EAEU will take a long time to change the situation in the economy as well as to conduct relevant reforms and transformations.

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Еникеева З.[1]

ЕЭАС: возможность или угроза? (на примере Кыргызской Республики)

Представлены данные по торговле, в частности, по экспорту, начиная с советских времен. Раскрывается информация о правительственных мерах продвижения экспорта, а также об основных целях торговой политики. Проанализированы итоги первого года членства страны в ЕАЭС.

Ключевые слова: *Кыргызская Республика, ЕАЭС, торговля, экспорт, импорт, торговый баланс, продвижение экспорта, Центральная Азия, ВТО.*

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Automotive Industry Support in the EAEU

The state support of the automobile industry in the EAEU member-states was analyzed within this article. Experience of three countries (the Russian Federation, the Republic of Belarus, the Republic of Kazakhstan) was used as a basis due to the fact that the support of automobile industry is the priority economic development of these countries. The measures of state support were analyzed, the potentially prohibited programs of automobile industry support that are related to the policy of import substitution in the EAEU member states were identified. Taking international experience (EU, China, USA, South Korea) into consideration the support measures were analyzed. Many of them are identical to those applied in Kazakhstan. The article deals with cases in which localization is not used as a criterion for prohibition of state support measures. It is suggested to create major corporations and companies in the scope of automobile and automobile components in order to develop the automobile sector. For this reason positive international experience of cooperation which may be used by the EAEU member states in automotive industry development is covered.

Key words: WTO, localization, state support, EAEU, automobile industry, subsidies, cooperation, import substitution.

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State support is an integral part of industry development policy and it has a great impact on the production of goods. When budgetary subsidizing funds are used, the production cost per unit decreases which gives way for creating new types of goods. As a result, the combination of all of the mentioned factors leads to the increased level of competitiveness.

The regulations of both the WTO and the EAEU assume that fair competition happens when state support is in accordance with established rules. Thus, according to international law, the subsidies provided by the state should not be for export or import substitution [1].

The automotive industry is a leading sector of the domestic engineering industry, which determines the level of economic and social development of the country. Au-

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tomotive industries of the EAEU member states have been unstable for the last few years. On the one hand, there is a rapid growth of the market caused by the development of consumer crediting. On the other hand, the share of domestic manufacturers in the automotive market is steadily declining while at the same time the competition from other member states is increasing. In such circumstances, any further development of this sector of the economy requires massive financial support from the state. Let us consider the development of the automotive industry in three countries of the Eurasian Economic Community (Belarus, Russian Federation, Republic of Kazakhstan) that have implemented effective measures of state support.

It is worth noting that a large automotive industry support programs have been implemented in the Russian Federation. For instance, in 2016 they launched the automotive industry support program that should enhance the efficiency of production in the automotive industry [2], the modernization of the production base, the introduction of new technologies and the growth of competitiveness of Russian products on both domestic and foreign markets. The program provides for such measures as the renewal of wheeled vehicles, which will provide additional production of cars and keep jobs in the motor industry enterprises and related industries, subsidies for automotive companies in order to compensate part of the interest payments on investment loans, which will compensate some part of the manufacturers' loan portfolio service aimed for investment purposes, providing fringe benefits for leasing wheeled vehicles, and providing concessional car loans within its frameworks.

At the same time, the Russian Government Resolution No. 1383 "On State Support of Russian automotive companies"[Ibid] law came into force in 2015, which within its frameworks regulates the rules of the federal budget subsidies to Russian automobile manufacturing companies as a reimbursement of the partial cost of interest on loans taken for implementing investment and innovation projects.

The Russian Federation provides large-scale support for its automotive industry. For example, in 2015 the volume of imports of cars from Russia to Kazakhstan amounted only to 64,989 units (621.9 million U.S. dollars). The largest number of imported passenger cars to Kazakhstan was observed in 2014. Imports amounted to 106,886 units which is the equivalent of 1,159,585,100 million U.S. dollars [3].

Belarus Industrial Complex Development Program for the period up to 2020[4] has set goals one of which puts the development of the automotive industry. Within the frameworks of the program the following measures have been implemented: updating the model range of line-haul trains, the development of a new family of trucks of Euro-5 and Euro-6 levels, equipping trucks with hybrid power units, and the expansion of the model range of trailers through the creation and development of special trailers and semi-trailers for agricultural and construction industries such as dump trailers, tractor trailers, heavy-duty semi-trailers, and prefab trailers.

In 2015 the import from the Republic of Belarus have amounted to 378 units of motor vehicles in the equivalent of 22,055.900 million U.S. dollars. The larg-

est share in total imports, 90.5%, has been represented by motor vehicles for the transport of goods [4].

In Kazakhstan within the framework of the New Economic Policy "Nurly Zhol", "Kazakhstan Development Bank" JSC allocates the funds of the National Fund to support the Kazakhstan car assembly plants. These funds are directed to four commercial banks for lending to individuals for the purchase of cars assembled in Kazakhstan, on the following conditions: the loan period is expected to be no more than 5 years, loan currency has to be tenge, the cost of one unit of passenger cars must not exceed 9 million tenge, and the initial payment (if applicable) has to be no more than 20% of the cost of the purchased car [5].

In 2015 Kazakhstan exported a total of 1,107 units of passenger cars which amounted to 22,088.9 U.S. dollars.

International experience also shows that a proper and conducive government policy leads to good prospects for domestic demand of cars and their subsequent competitiveness on foreign markets.

For instance, in South Korea the direct intervention of the government into the industry's problems in 1947 has become the impetus to a large-scale development of the national automotive industry.

The basis of the governmental program consisted of two fundamental principles: export- orientation of the country and concentration of capital. State leaders encouraged the creation of large companies and mostly large family multi-industrial holdings. These companies have received enormous benefits. Firstly, they have received access to loans with low interest rates and extensive tax breaks. In accordance with the decision of the government, the following four companies have been awarded the right to engage in car production: KIA, Hyundai Motors, Asia Motors and ShinJu (on the basis of which a joint venture Daewoo Motors was later created and KIA later merged with Asia Motors).

In exchange for the privileges granted these automotive companies were obligated to meet some specific requirements. Therefore, the Korean government introduced a regulation according to which each of the existing companies was obliged to achieve by 1980 the volume of auto manufacturing that would be equal to 50 thousand units per year.

South Korean automotive industry by the end of 2004 has reached the scale of production of about 3.62 million units and has begun to occupy the fifth place in the world in terms of volume of production of motor vehicles, preceded only by Germany, China, Japan, and the US [6].

In China, joint ventures are more popular. They are very beneficial to the Chinese, because they allow manufacturing cars based on the models of their

foreign partners and, as a rule, they tend to be able to be successfully implemented. There are requirements for foreign companies to introduce their own research and development in order to facilitate the transfer of technology to Chinese manufacturers directly. To promote research and development in the automotive industry in the People's Republic of China certain privileges are granted [7].

The Chinese government has decided that the share of investment in the car assembling industry should be not less than 40% of the total investment volume in the automotive industry. 25 major projects have been allocated to develop the production of automotive components, which are provided with concessional lending regime. Authorities also cut or released investors from tax on investment in this sector of the economy.

In conditions of an economic crisis we see that many countries are suffering from import dependence. Being aware of this problem, most countries are beginning to intensify efforts aimed at supporting the localization of production on the territory of their country.

Many countries use this mechanism for the development and stimulation of domestic production. This mechanism is popular in manufacturing (in automotive industry), information and communication technologies.

In the US they have introduced a new concept of «localization barriers to trade» (LBT) in the past few years which are the measures aimed for the protection and promotion of domestic production, service providers, intellectual property rights at the expense of goods and services imported from other countries.

The following measures are examples of LBT policies:
- Requirement for local content;
- Subsidies or other incentives that are granted on condition that the product uses something by the manufacturers of local goods and domestic services;
- Requirements for the provision of services, using local equipment or infrastructure.

US experts categorically oppose the use by countries of any types of LBT due to their conflict with the WTO regulations. Any use of the WTO member-states of this mechanism would lead to litigation in the WTO.

The latest case which was discussed in the framework of the WTO was the case concerning the US-India solar accumulator system. In 2013 the USA sent a request to the DSB of the WTO due to the fact that India has discriminated against foreign manufacturers of solar panels, providing manufacturers of solar panels preferences provided they used solar panels of local production instead of imported. This case is still pending at the DSB.

USTR created a special Trade Policy Staff Committee Task Force on Localization Barriers to Trade, which will develop and implement strategic and coordinated approach against LTB (see table below).

Countries which implement projects on localization in 2013–2015

Country	Projects on localization	GDP, bln U.S. dollars	Share of direct investments in GDP, %
Australia	7	1,132	45
Canada	5	1,577	36
USA	14	1,4587	24
Brasil	15	2,088	23
China	10	5,927	10
India	9	1,727	11
Russia	5	1,480	29

The localization mechanism is widely used by countries for the development of the automotive industry. Providing custom and tax preferences for foreign partners, the countries then require them to use a certain level (%) of local raw materials localization. In accordance with the Strategic Plan of the Brazilian industry, for 2011–2014 (Plano Brazil Maior) an expected minimum level of local content (65%) for the automotive sector was introduced. Provided localization of the good is 65%, the automakers receive significant tax benefits. The government is working to increase localization level up to 100% in order to develop the domestic automotive industry. It is obvious that these measures that are implemented in order to support the automotive industry are prohibited under the WTO regulations.

Until recently, the Chinese government has fielded tough demands on the level of localization of production. A vehicle produced in China, had to consist of no less than 40% of their components being of local production, in two years after the start of the manufacturing this rate increased to 60%, and after three years it had to be 80%.

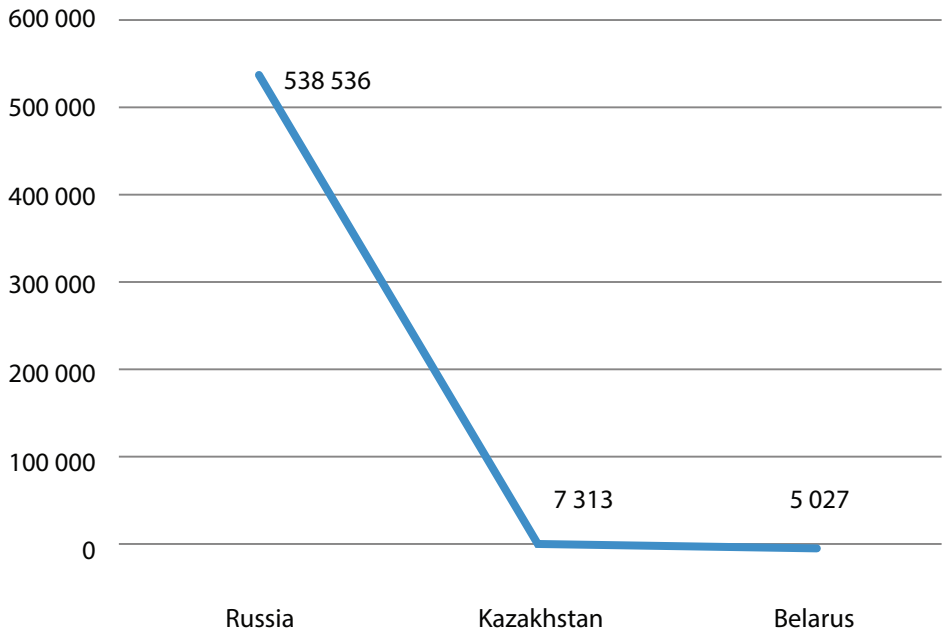
China assured that since their joining the WTO they have overturned all the requirements of local content, and brought national legislation in line with WTO rules. However, in fact and formally the local content requirement is maintained in some provinces of China with regard to the automotive industry. At 60% localization of production Chinese government provides state grants and loans.

At the same time, foreign automakers must comply with the requirement for the "expediency" of the goods, but the local content requirement is provided with special attention.

The chain of barriers and preferences of China's automotive industry followed by the high tariffs on car components has made foreign automakers produce cars and

automotive components in China rather than import them from other countries. According to international experts, the cost of foreign components in vehicles produced in China is 1,115 U.S. dollars, while in England it is at 10,853 dollars level, in Canada it is 9,156 dollars, and in Mexico it equals 6,638 dollars. China conducts LTB policy very skillfully, all the while not formalizing it in legislation, which complicates the process of investigation.

All EAEU member states, in accordance with the Decision of the Supreme Eurasian Economic Council No. 72 "On conditions for the application of the concept of industrial assembly of motor vehicles" on the territories of the states - members of the Customs Union and Common Economic Space" dated 29 May 2014 made a legislative requirement to achieve the level of localization of production of motor vehicles on the territories of member states no less than 30 percent by 1 July 2018, and starting from 1 July 2018 the level of localization has to be at least 50 percent. The picture below indicates the number of motor vehicles produced in several EAEU member states.



Motor vehicles production in 2016

In this case, it is wrong to say that the requirement of Decision No. 72 will be regarded as a prohibited import substitution subsidy. This requirement is set regardless of the measures of support that the state provides for the development of the automotive industry. This measure can be interpreted as limiting the market access of member states of sorts. In other words, in order to implement free circulation in the territories of other member states, the member state must achieve localization to the level of 50%. Currently, of all the countries of the Eurasian Economic Community only cars from Russia and Belarus reach the localization level of 50% or more.

Thus, it should be noted that within the WTO practice the concept of "localization" implies a use of local goods and services in a particular industry. Accordingly, as international experience shows the countries that are currently using the LTB, eventually end up in the DSB for violation of the WTO norms and regulations. In order to avoid legal proceedings after entering the WTO it is necessary to depart from the practice of the concept of localization with reference to supportive measures provided by the state in order to assist the development of a particular sector of the economy.

The model of integration with the construction of the common market requires the unification of national support instruments and promotion of industrial cooperation.

World experience shows that the formation of large corporations and companies in the industry of the production of cars and car components is a good engine for the development of the automotive industry in the country.

For example in the EU countries, the industrial interconnections and cooperation include the licensing and organization of companies, the organization of production, joint development of new technologies, exchange of information, co-production, marketing and other joint projects[8].

The most active industrial cooperation developed in Europe, which basically means the countries of the EU. They adopted a policy that proclaimed the course for sustainable growth and international competitiveness of the European economy in 2000. The policy requires assisting the development of collaboration and cooperation on the business level; the same principles are emphasized in the "Europe 2020" Strategy.

In order to enable SMEs in the cooperative chain within the EU framework there are several informational and advisory networks operating that have an extensive database helping to establish useful business contacts and to enter the global market through international co-operation.

The most successfully functioning network is the European network of business and innovation centers (EBN), established in 1984 on the basis of a joint initiative of the European Commission and Europe's leading industrial companies. European information centers (Euro Info Centres) provide commercial information of a general nature, including those relating to innovations.

In world practice, encouraging joint ventures and joint investments is regularly executed by means of some measures. Usually it is necessary to satisfy the various types of conditions to get benefits, such as:

- increase the number of the employed population;
- promote the development of SMEs
- contribute to the achievement of regional policy objectives;
- contribute to the increase in export.

UNCTAD classifies the incentives into tax breaks, financial incentives, and systemic measures. World practice offers a variety of tax incentives:

1) Reduction of corporate profits tax;
2) A temporary reduction or elimination of tax;
3) The acceleration of depreciation;
4) The inclusion of the initial periods expenses into deferred income;
5) Tax reduction for the projects of investment and reinvestment;
6) Reduction of claims for deductions to social funds;
7) Reducing the amount of taxable income subject to conditions for staff costs;
8) Reduction of the VAT rate and other incentives in the form of reduced corporate profits tax or provision of loans due to increasing levels of local content;
9) Reduction in the export fee
10) Preferential tax rate on export income;
11) Tax cuts in special cases when the foreign exchange earnings of foreign countries, including the cost of the exported goods;
12) Postponement of payment of tax on domestic sales under certain conditions of export earnings;
13) Postponement of payment of tax in the presence of domestic raw materials in the exported goods;
14) Reduction of the tax rates in the case of the production of goods for export.

In terms of financial incentives, the following can be used: subsidies and reimbursement of the partial cost of a specific investment project, preferential loans, provision of loan guarantees, and provision of guarantees for loans.

The following can attribute other types of stimulation of enterprises:

1) Financial and other measures to support the infrastructural development of the investment project;
2) Financial and other measures to support the costs of the services required for quality implementation of the investment project.
3) Finalization of preferential contracts for the supply of goods and services or certain work, under the state order and financed by the state budget;
4) Creating monopoly conditions for certain businesses;
5) Introduction of import substitution measures in trade, etc.

Within the regulations of the Eurasian Economic Community the legal framework for industrial cooperation has been established. It is planned to create a network of industrial cooperation and subcontracting as well as to determine the priority cooperation projects with a prospective priority funding by the Eurasian Development Bank.

Thus, the cooperation will be established in the following way:

- creating the conditions for increasing the participation of industry's players in cooperation within the Eurasian Economic Community in the framework of subcontracting exchanges;
- cooperation projects financing by the Eurasian Development Bank.

The development of industrial cooperation will allow to increase the participation of the EAEU manufacturers in global production chains, as well as for businesses from the post-Soviet Union to engage effective partners among small and medium-sized businesses. Member states should work out the question of development of effective support measures for co-produced goods and create additional incentives for cooperation. Eventually, it will lead to the diversification of production chains, maximum utilization of production, human and scientific potential.

Development of the cooperation chains in a single space of the Eurasian Economic Union will be one of the main vectors of the formation of a new Eurasian Economic Space configuration and also will give new impetus to the industrial development of regions of the member states.

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Поддержка автомобильной промышленности в государствах–членах ЕАЭС

Проанализирована государственная поддержка автомобильной промышленности в государствах — членах ЕАЭС. На основе опыта трех стран (Российская Федерация, Республика Беларусь, Республика Казахстан), так как поддержка автомобильной промышленности — приоритетное направление экономического развития этих стран. Проанализированы меры государственной поддержки, выявлены потенциально запрещенные программы поддержки автомобильной промышленности, связанные с политикой импортозамещения, которая в настоящее время проводится в государствах — членах ЕАЭС. На примере международного опыта (ЕС, Китай, США, Южная Корея) проанализированы меры поддержки, многие из которых меры поддержки идентичны с мерами, осуществляемыми Казахстаном. Раскрыто, когда локализация не является критерием запрещенности мер государственной поддержки. С целью развития автомобильного сектора предлагается формирование крупных корпораций и компаний в области производства автомобилей и автомобильных компонентов, в связи с чем представлен позитивный международный опыт по кооперациям, который может быть использован государствами — членами ЕАЭС в развитии автомобильной промышленности.

Ключевые слова: *ВТО, локализация, государственная поддержка, ЕАЭС, автомобильная промышленность, субсидии, кооперация, импортозамещение.*

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Egypt's Membership in the WTO: A New Chapter in Trade Policy

The state of external trade became a threat to national economic security of Egypt, because the excess of imports over exports creates problems to domestic producers, leads to erosion of the country's foreign exchange reserves and reduces the tax base. The article deals with trade policy measures that the government has maintained to reduce the critical level of trade balance deficit. The author concludes that there was a significant correction of attitude towards foreign trade policy in 2016, compared with the period that lasted from 1970 to 2015.

Key words: *import regulation, anti-dumping, compensatory, external trade.*

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Egypt has been a signatory to the GATT since 1970. The trade weighted average tariff is aggregated to 10% for industrial products and constitutes 12.5% for agriculture.

As regards foreign trade, since 1970s, Egypt has maintained the policy of openness and liberalisation, and since 1990s, the country has been an active party to preferential trade agreements (PTAs).

Since the period between 2015 and 2016 Egyptian foreign economic relations regulations have undergone radical changes: Cairo has embarked on much rougher import policy than in the previous years, having, inter alia, introduced so-called 'protectionist measures', i.e. import restriction and tariff growth. The necessity of putting these measures in place is entailed by the critical level of trade balance deficit.

Import Regulation Adjustment in 2016

During 2016, Egypt introduced several protectionist measures aiming at external trade regulation. The applied measures comprised both protectionist (tariff growth, import ban) and non-tariff ones (administrative formalities). Since 1970s the country has followed the strategy of its external policy liberalization. However, as of now, Egyptian approach towards regulation appears to suffer certain adjustments. At the same time, protectionist measures have been imposed in respect of the WTO rules.

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The 'Arab spring' has been followed by both exports reduction and import growth accompanied by the official reserves depletion. In 2013–2015 there was financial aid of 30 billion U.S. dollars provided by Saudi Arabia, UAE and Kuwait that became the major economic factor to ensure the sustainability of president Abdel Fattah El-Sisi`s regime. Apparently, the status quo implying that immense negative trade balance is offset by soft loans and grants may not be stable. Besides, between 2000 and 2015 import soared having increased by 3.5 times. Therefore, the measures aimed at cutting import and preventing foreign exchange reserves depletion seem to be forced and natural. The alternatives comprise either devaluation, or default following by the latter.

Protectionist measures were put into practice gradually. On the 31st of December 2015 the minister of Industry and Foreign Trade of Egypt Tareq Kabil signed a Decree 992/2015 — which entered into force in March 2016 — banning all the imports other than those from the foreign plants registered in the Egyptian General Organisation for Export and Import Control (GOEIC). Further, on the 16th of January 2016 the ordinance 992/2015 was replaced by 43/2016 (enforced on the 16th of March), which tightened the requirements even more. The order comprised a list of the articles authorised to be imported only under the condition of having been registered in GOEIC by either production or trademark proprietor.

The list includes a wide range of consumer goods, which is why the adoption of the decree is linked to the protectionist and import substitution policy aiming at a sharp reduction of imports of these goods and hence at addressing Egypt's negative balance of payments. The goods listed in the decree may be divided into two groups: those which may be produced internally and those which are not of basic necessity (the regulation of the imports in the latter category will make it possible to save currency reserves) [1]. The document comprised milk and dairy products in the packets of less than two kilograms, oils and fats weighing less than two kilograms, chocolate, pastry, juice, water, cosmetics, perfumery, kitchen facilities, tableware, household appliances, home and office furniture, bicycles, motorcycles, watches and clocks, lamps, baby toys, carpets, textile, clothing, and footwear.

The producers or their representatives are usually obliged to apply for the registration of the goods personally in order to prevent administrative delays and to minimise the risk of refusal, which in fact is a supplementary administrative barrier. All provided documents have to be certified by the Chamber of Commerce and Industry of the country of origin, whereas the latter must be authorised by an Embassy of Egypt abroad. The documents must be translated into Arabian. Besides, a number of additional documents, including proof of trademark ownership, etc. is required. Therefore, Arabian authorities have introduced excessive protectionist barriers.

According to Cairo, such a measure was brought about to maintain control over the quality of imports and does not contradict Egypt's WTO commitments; moreover, that was in advance that Egyptian authorities informed the WTO on the

point of the changes. It is known that in June 2016, the WTO submitted a request to Egypt's government concerning the reasons for imposing import restrictions. They affect such significant Cairo's partners as China, USA, EU and Turkey.

It is worth noting that albeit Egypt has concluded free trade agreements with the EU and Turkey, those countries widely criticise Egyptian regulatory approach. It appears that preferential trade agreements do not prevent Cairo from either changing regulation or imposing tighter restrictions.

Following the limitations of December 2015 and January 2016, a new package of import regulating measures was enforced by the Presidential Decree 538/2016 on 27 November 2016. The WTO approved the application of import restrictions in line with the clauses of GATT and GATS[1]. The WTO rules stipulate that provided a significant negative current account, the so-called safeguard measures, e.g. tariffs increase and import bans, may be temporarily applied.

Egypt is supposed to resort to this mechanism from 10 November 2016 to 31 May 2017 [1]. Egyptian media report that the government presumes to cut imports by 10 billion U.S. dollars, however, the actual amount of the decrease is hardly to constitute such a significant sum.

The changes have had an impact on 320 articles. The list of the goods virtually coincides with that in the decree 43/2016. For a range of goods, the tariffs have reached 60%. The IMF has proved the fact that these changes do not violate Egypt's WTO commitments[2].

The difference between the two documents lies in the corresponding trade policy tools: the Decree 43/2016 introduced non-tariff restrictions, whereas the decree 538/2016 resorted to tariffs. Therefore, during 2016 Egypt was gradually imposing protectionist measures. The country's government has not announced yet whether it is considering increasing tariffs for other categories of goods, however, it seems plausible to assume that if the current account deficit will decrease at a slow pace, Egyptian authorities will have to introduce equivalent measures against certain other groups of articles.

On 23 October 2016 Egyptian state newspaper "Al-Ahram" published an article indicating that Cairo clearly set its focus on the import substitution. In August 2016 the Ministry of Trade and Industry of Egypt announced the commencement of the programme "Made in Egypt with Pride", aiming at rendering Egyptians acquainted with local products of high quality. The products that did not

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1 URL: <http://www.almasryalyoum.com/news/details/1022288>.

2 URL: < http://www.just-food.com/news/egypt-hits-food-imports-with-higher-tariffs_id135332.aspx>.

correspond to the standards defined by either local or international organs were thereby manifestly excluded from the programme, so that to enhance citizens' attitudes. According to what was announced by the Minister of Trade and Industry Tareq Kabil, during the period of nine months of 2016 exports grew by 1 billion U.S. dollars, and import fell by 7 billion U.S. dollars. In total, the government intended to shorten current account deficit by 11–12 billion U.S. dollars in 2016 [2] (the corresponding data has not been published yet; the actual deficit reduction will presumably be to a certain extent lower than planned).

According to the cited source "Al-Ahram", the head of the Central Bank of Egypt Tareq Amer is also a proponent of the concept of import limitation, since he is worried by the depletion of foreign exchange reserves. He estimates the decrease in the import of products other than those of basic necessity to be able to help saving up to 20 billion U.S. dollars annually. This indicator constitutes a third of the import.

T. Kabil has announced that the Ministry of Trade and Industry is developing a strategy that would assure doubling Egypt's exports in the 5 years to follow and will implement it with the assistance of the major exporting sectors. From the perspective of Russia's interests, there are at least three topical issues: PTA with the EAEU; further bilateral trade relations; the policy in respect to the Egypt's major industries exporting to Russia.

During 2016 various measures of Egypt's export promotion and import restrictions met resistance from other countries. USA, Saudi Arabia, UAE, Jordan, and Sudan introduced a ban on the import of Egyptian fruit and vegetables, because these products had been found to be harmful for health. Egyptian strawberries caused particular concern of importers. Thus, in September, the United States reported that 89 Americans who used it were infected with hepatitis.

New standards of quality introduced by Egypt affected exports of wheat from Russia. In August 2016, Cairo tightened the rules on the content of ergot fungus in wheat. Previously an indicator of 0.05% had been acceptable, in line with international standards, and then it was set at 0%. As a result, imports from Russia and many other countries stopped for a few weeks, as the new standard was unrealistic. As it appears, therefore, Egypt expected to strengthen its position in talks over other goods, however, overestimated its capabilities. At the same time, this step demonstrated the readiness of Cairo to the tightening of the rules that may occur in the future.

Russia, for its part, temporarily closed its border for Egyptian fruit and vegetables. Rosselkhoznadzor declared numerous violations of phytosanitary requirements, in particular, that quarantine organisms such as Mediterranean fruit fly, which is damaging the plants, are regularly detected in Egyptian products. Despite the fact that the value of Egyptian exports of fruit to Russia was at times less than Russian exports of wheat to Egypt, this measure hit the Egyptian producers [3,

p. 223]. Moreover, if Russia can diversify its foreign suppliers of fruit and vegetables, Egypt is interested in Russian wheat due to the ratio of price and quality. That's why Cairo returned the rules of the content of ergot to 0.05%, the day before the enforcement of the restrictions of Rosselkhoznadzor.

Even more complex situation took place in the Egyptian-Kenyan trade relations. Thirty three containers with the Egyptian paper production were arrested in the Kenyan port of Mombasa; significant amounts of both sugar and rice were confiscated by Kenyan customs. Nairobi claimed that this was done as retaliation after hundreds of tons of Kenyan tea rotted in the Egyptian ports because of the policy of the local customs authorities[1].

Egypt's Compliance with Obligations within the WTO Framework

Generally, Egypt aims to implement changes in the international trade in appliance with the WTO legal framework. This approach is clearly observed in the Egyptian government's activities as well as in its statements. It also includes some materials which are prepared by ministries and departments of Egypt and outline the fact that the country is "one of the longest serving developing-country Members of the GATT–WTO family, and as one of its most active members in the Uruguay Round" [4]. Cairo regularly and systematically informs the WTO about ongoing changes in the regulation of foreign trade.

At the same time, we can argue that in the 2016 approach to foreign trade has been essentially corrected, compared to period from 1970 to 2015. Now changes don't include the ignoring the WTO rules while relate to variation of conceptual approach to regulation. Earlier the main purpose of foreign trade policy was liberalization. Egyptian authorities proceeded from the fact that liberalization had positive effect on the economy and provide for economic development.

Today main purposes of regulation are import reduction and export increase. Egypt implements protection measures against import surplus. The process of tightening regulation, which began in 2016, hasn't completed, and we can expect the continuation of this policy in 2017–2018. At the same time, implemented measures are in line with the WTO rules because protective measures were applied as a result of significant growth in import.

While we are analyzing conformity of the regulation in Egypt to the WTO rules, it is necessary to accept the important proviso. Egypt generally tries to conceptually observe the WTO rules, but there are some inconsistencies in the details[2].

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1 *URL: <http://www.dailynewsegypt.com/2016/09/25/551574/>.*

2 *URL: <https://www.oecd.org/globalrelations/46340567.pdf>.*

So, despite the fact that Egypt has removed the quantitative limit for the clear majority of export and import nomenclature after 1995, it periodically uses quantitative limit and abundance for import. This practice has been more actively used during the global financial and economic crisis in 2008–2009 and manifested most clearly in 2016.

Technical Barriers to Trade. In 1957, Egypt established a national standardisation body, the Egyptian Organisation for Standardisation and Quality (EOS). It closely interacts with the WTO, is a member of many international organizations such as ISO; the EOS activity is highly appreciated by international experts[1]. The EOS has more than 1,000 permanent staff members. Currently all 8,500 Egyptian standards have been upgraded to meet international standards. The General Organisation for Export and Import Control (GOEIC) is responsible for inspection of imports and exports.

At the same time, there are some problems with external trade regulation that appear not at the EOS level, but at ministry level according to information published by the OECD[2]. Line ministries are responsible for compliance with import and export products standards. In some cases, ministries claims on compliance products can make trade more complicated.

Sanitary and phytosanitary standards (SPS). Egypt implements big amount of sanitary and phytosanitary measures and standards, which regulate import of food. Inspections and tests are often performed in a non-transparent manner. Materials which were prepared by The U.S. Department of Commerce's International Trade Administration outlined that «Egypt often implements sanitary and phytosanitary standards and technical barriers to trade, that are not comply with its obligations under the WTO and prevent access to the market» [5]. However, there is no more specific information. It provides an example that "the importers of with such barriers poultry parts, beef and beef products, seed potato, feather meal".

At the same time we should outline that a wide and coordinated network of institutions, taking into account the SPS Agreement signed by Egypt operates in the country. They include Agricultural Law (53/1996) and Pharmaceutical Law (14/1984) for SPS measures. Also, there is the National Enquiry Point in the Ministry of Agriculture and Land Reclamation. In addition, Ministry of External Trade is in charge of notifying the private sector of newly adopted SPS requirements through weekly newsletters. Ministerial Decree 583/2007 has instituted a process for co-ordinating the work of Egypt's SPS bodies and the flow of information between them. There are another SPS bodies in some sectors.

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1 *URL: <https://www.oecd.org/globalrelations/46340567.pdf>. P. 37.*

2 *Ibid.*

Administrative Barriers to Trade. The restrictions for a variety of products imported by foreign companies may exist. They may be required to use the services of agents registered in the National Register of commercial agents and brokers. This register only includes national companies (Commercial law 17/1999). But in general, Egypt eliminated a significant number of administrative barriers to trade in 1990–2000.

Investment Barriers. In 2007 Egypt acceded to the OECD Declaration on International Investment and Multinational Enterprises by the OECD initiative. Egypt became the first Arab and African country to join the agreement. During the preparation for signing Cairo agreed to review and significantly improved the limitations identified by the OECD in a special document called "The review of the Egyptian investment policy". In particular, there are some limitations in the tourism sector.

Bilateral investment treaty between the United States and Egypt was signed in 1986, according to which Egypt has committed to maintain an open investment regime [6, p. 55]. The contract provided that regarding some investment disputes international law overrides national legislation. Also, national treatment and most favored nation principles for the U.S. companies were registered (with some exceptions).

Complaints against Egypt in the Dispute Settlement Body. Based on the WTO website data, there were four cases where Egypt acted as a defendant since the establishment of the Authority for resolution of the WTO disputes — DS205, DS211, DS305, DS327. Thus, we cannot argue that Cairo is constantly accused by other countries in breaching the WTO rules. At the same time in two of these cases we are talking about very small volumes of imports. DS205 regards to the ban on imports of canned tuna with soybean oil content from Thailand to Egypt. The WTO website only contains information that Bangkok has requested the advice of Cairo, but there is no data about the recognition of Egypt as an offender. DS327 refers to anti-dumping duties on shipments of matches from Pakistan to Egypt. China, the European Union, Japan and the United States joined as third parties to the proceedings. The dispute was settled by mutually agreed solution that Pakistan would increase the price, so it ended in favor of Egypt.

DS305 was initiated by the United States and concerned tariffs on several textile and apparel products. The European Union expressed a desire to join the dispute. In this case panel within the Dispute Settlement Body (DSB) was not created; Egypt and the United States informed the DSB they had reached a mutually agreed solution.

Only one dispute, DS211, was brought to the creation of panels at the DSB. In this case, Turkey accused Egypt of illegal use of anti-dumping measures against imports of steel rebar. The DSB Panel recognized Egypt's violations on a number of points, though most of the claims were dismissed. Then Cairo has fulfilled all the recommendations of panels in nine months.

Thus, the systemic neglect of the WTO rules by Egypt, or that it violates the interests of other countries, were not observed. For its part, Egypt has never acted as a complainant, and eight times joined disputes as a third party.

Egypt's Trade Policy and the WTO

The study of the world's annual Trade Policy Review allows us to make an interesting conclusion that Egypt uses the tools of the WTO and trade policy instruments very actively in comparison with other developing countries [7, p. 228].

So, in 2016 the country rose to the fifth position in the world in the amount of new measures to regulate foreign economic activity. Egypt actively applied anti-dumping, countervailing, safeguard and other measures.

The Trade Policy Review information on the countries compares periods between July of one year to June of the following year. In 2013/14, 2014/15 and 2015/16 Egypt applied the anti-dumping measures 2, 10 and 4 times respectively. A comparative study of the amount of anti-dumping measures applied by Egypt against other countries data is provided in Table 1. The passivity of Egypt in July 2013 is not indicative, since at that moment oppositional political forces were in power in the country (the "Muslim Brotherhood" movement (forbidden in Russia)).

Table 1
Initiations anti-dumping investigations

Indicator	July 2012–June 2013	July 2013–June 2014	July 2014–June 2015	July 2015–June 2016
Measures initiated by Egypt	0	2	10	4
Total number of measures, initiated by countries listed in the Review*	220	266	238	267
Place of Egypt in the number of measures among all countries covered in the Review	25–32 (from 32)	18–20	11	13–15

* The total number of countries for which the WTO Review provides information was 38. Source of information: Overview of developments in the International trading environment. Annual Report by the Director General (Mid-October 2015 to mid-October 2016). WT/TPR/OV/19. 21 November 2016 (16-6373). WTO. Trade Policy Review Body. Geneva, 2016.

Source: [7].

The usage of countervailing measures worldwide mostly correlates with dumping proceedings [8]. Egypt was actively using anti-dumping measures (Table 1),

and often applied and countervailing measures (Table 2). The Trade Policy Review 2015 points out that "from the thirteen members, that use countervailing measures, 50% of all measures necessary to the USA, 20% to Canada, 10% in the European Union, the remaining 20% of the measures used by ten countries, including Egypt that outlined by using this tool 5 times during this period" [7, p. 27]. As it is shown in the previous paragraphs, in 2016 market protection began to be carried out systematically, but Egypt actively enforced it before as well. However, according to the WTO, all five investigations in 2014–2015. concerned one narrow direction — polypropylene terephthalate supplied from different countries.

Table 2
Initiations of countervailing duty investigations

	July 2012–June 2013	**July 2013–June 2014**	**July 2014–June 2015**	**July 2015–June 2016**
Egypt	0	1	5	0
Total 14 countries, listed in the WTO Review	26	38	40	36

Source: [7].

Egypt actively applies safeguard measures as illustrated in Table 3. According to the WTO data, most of them were used by India and Indonesia during four years — 13 and 9 times respectively. They were followed by Egypt (6 times) and Turkey (5 times).

Table 3
Initiations of safeguard duties investigations

	July 2012–June 2013	**July 2013–June 2014**	**July 2014–June 2015**	**July 2015–June 2016**
Egypt	2	0	3	1
Total (38 countries)	25	21	13	20

Source: [7].

Also, the World Survey of the WTO Trade Policy lists a large number of other trade policy instruments used by Egypt. For example, ten countries have sent a request regarding 992/2016 and 43/2016 decrees eligibility. On 17 October 2014 in the Committee on Protective Measures the question related to the Egyptian steel reinforcement, white sugar, and automotive batteries was raised. In 2016 the same question about polypropylene terephthalate, white sugar and motor batteries was raised. In addition, the Permanent Delegation of Egypt to the WTO Secretariat has reported on the several new measures applied in the regulatory process.

Previously, Egypt also conducted all changes in strict accordance with obligations under the WTO. In total, it was very active in the use of instruments of the WTO (Cairo used anti-dumping, countervailing, protective and other measures more often than other countries comparable to its level of development).

It can be argued that in 2016 there was a significant correction of attitude to foreign trade policy, compared with the period that lasted from 1970 to 2015. If previously the forefront of policy was the liberalization of foreign economic relations, as Egyptian authorities proceeded from the fact that openness has a positive impact on the economy, current goal-setting has changed. The key factor is to reduce the deficit and increase exports. At the same time, the taken measures are in line with the WTO rules, since the safeguard measures are applied as a result of significant growth of imports.

Conclusion

Egypt has consistently pursued liberalization of foreign economic relations since 1970s. It joined the GATT in 1970. At present, Egypt's foreign trade is unbalanced. Export of goods in 2015 amounted to just 20 billion U.S. dollars while import was 60 billion. The state of foreign trade became a threat to the national economic security of Egypt, since the excess of imports over exports creates difficulties for national producers, leads to the washing away of the country's gold and currency reserves, reduces the tax base.

Therefore, in 2016 Egypt took several steps to influence imports. It introduced protective measures on 320 consumer goods. The goal was to reduce imports by 10 billion U.S. dollars and to increase exports by two times. It can be supposed that this activist and rather aggressive policy will continue in 2017–2018. In general, Cairo is very active in using the WTO instruments (anti-dumping, countervailing, safeguard and other measures).

It can be argued that in 2016 there was a very significant adjustment of the approach to foreign trade policy, compared the period that lasted from 1970 to 2015. Previously the liberalization of foreign economic relations was the cornerstone of the policy as the Egyptian authorities that assumed that openness would have a positive impact on the economy, but recently the goal-setting has changed. The aim is to reduce the deficit and to increase exports.

Prohibitions and Restrictions on Imports to Egypt

Below limits to the basic lists of imported goods and services applied by Egypt are presented at the basis of data of U.S. Department of Commerce's International Trade Administration (export gov) [5]. Cairo is looking for the practical restrictions meeting the requirements of the WTO.

Apparel. On 1 January 2002 Egypt lifted the ban on apparel imports replacing it later with the excessive specific rate duties. In 2004 the government has adopted the law on the implementation and ad valorem tariffs instead of the specific rate what is in accordance with the commitments of Egypt to the WTO.

Vehicles. Egypt restricts the import of used passenger vehicles. The import is available only during one year after the date of manufacture. Moreover, in May 2014 the Egyptian Ministry of Trade and Industry issued a decree banning the import of motorcycles and three-wheel vehicles for trade, excluding tricycles and chassis. More precisely, the decree prohibits the importation of CBUs (Completely Built Units), meanwhile allows SKD (Semi Knocked Down) vehicles — motorcycles chassis and engines. At the same time, foreign investors have the right to import vehicles in the year of manufacture on a duty-free basis only if they have a particular permission from the Chairman of the GAFI (General Agency on Investments and Free Zones).

Beef and Beef Products. In June 2014 Egypt sent two notifications to the WTO's Committees on Technical Barriers to Trade (TBT) and on Sanitary and Phytosanitary Measures (SPS) — G/TBT/N/EGY/48 and G/TBT/N/EGY/63; G/SPS/N/EGY/56 and G/SPS/N/EGY/57. The notes cover information about changes in the Egyptian standards regarding meat and meat products. This implied establishing a zero tolerance level of hormonal animal growth stimulants.

The standards are more stringent than the world's practice. The American suppliers — the major Egypt's importers — consider the policy is not science based and the residual synthetic hormones do not jeopardize human's health (according to the FAO and the WHO Code). However, there are no claims about the discrepancy with the WTO rules.

Poultry Products. In 2005 Egypt banned import of all frozen poultry hams, parts and offal. Next year, in 2006, the ban of whole frozen hams was substituted with the limitation of import, meanwhile the embargo on parts and offal was maintained. The grounds were that the process of slaughtering is not in line with the halal norms.

More faithful reason was the lobbying of the Egyptian poultry products producers. As a result, the USA were to provide expertise at 22 U.S. poultry farms for the officers of the Egypt's General Organization for Veterinary Services (GOVS), who admitted that the slaughtering was halal.

Feather meal. On 19 March 2012 the Ministry of Agriculture and Land Reclamation issued the Decree 448 banning import of heat-treated feather meal from all origins. As the affirmation Egypt appealed to the contamination and nutritional value concerns. Despite the fact that Egypt informed the WTO, it had violated the National Treatment principle, omitting similar techniques inside the country. What is noted by the American suppliers is that the embargo is scientifically in-

valid and contradicts the OIE's (World Organisation for Animal Health) findings. This Organisation elaborated recommendations for the heat-treated feather meal and poultry products. Precisely, the OIE Terrestrial Animal Health Code (Chapter 10.4 on Avian Influenza, Article 24) recognizes that the treatment of feather meal at sufficiently high temperatures eliminates the AI virus and other potential contaminants.

Seed Potato. The only seed potato importer to Egypt now is the EU, primarily the Netherlands and the UK. Moreover, the negotiations with the USA — another Egypt's major importer of alimentary products — on the bilateral market access are conducted for 5 years. The agreement would guarantee coherent entry for Egyptian oranges and tangerines and the U.S. seed potatoes.

Grain. Soybean imports free from Ambrosia weed seeds are required by the Ministry of Agriculture and Land Reclamation's (MALR) Central Administration for Planet Quarantine (CAPQ). Moreover, at the condition of finding Ambrosia seeds in the shipment it must be sieved at the port of destination, and if the seeds are found after the sieve, the shipment must be re-exported. This practice is criticized by the foreign suppliers for the invalid risks evaluation and zero Ambrosia tolerance level (especially by the U.S. Department of Agriculture's Animal and Plant Health Inspection Services (APHIS)). Additionally, sieving in the port of entry raises costs and can even disrupt trade.

All imported soybeans are used in the production of soybean oils and other goods, and are milled, sieved and heated, which is enough to remove contaminants, including Ambrosia. The same processing is applied by the overwhelming majority of soy beans importers, particularly in the EU, where processing at the crushing facilities is an established and acceptable practice.

The Egypt's tenders for wheat, issued by the Ministry of Supply and Internal Trade, designate the 0.05% tolerance level for ergot fungus that corresponds both the Egyptian norms for wheat and the international standards (Code of the FAO and the WHO). The Egypt's CAPQ standards, however, apply 0% tolerance level since 2002. This discrepancy leads to CAPQ bans of shipments for the excessive level of ergot. For this reasons in August — September 2016 Russian shipments were banned. A lot of countries are calling Egypt to bring the requirements for ergot in line with the international Codex standards. This issue might raise similar questions regarding the FTA between the EAEU and Egypt.

Egypt also requests a six-member inspection on wheat at the port of entry. The group consists of 2 members from three Egypt's agencies: Central Administration of Plant Quarantine (CAPQ), the General Organization for Export and Import Control (GOEIC), and the Ministry of Health (MoH). The group works for the government ordered imports under control of the General Authority for Supply Commodities (GASC). If private actors are interested, they could engage the group to the expertise.

Favorable results of inspections do not guarantee the absence of the examination at the port of destination. GASC consider inter-agency committee as an insurance for the shipment not being banned on arrival by the officers from CAPQ, GOEIC, MoH. As the GASC is the worlds' biggest importer of wheat — 5–5.5 million metric tons (MMT) — the suppliers have to take into account its requirement.

Medical equipment supplies. The MoH banned import of both used and refurbished medical equipment regardless of whether it is the most complex computer-based imaging equipment or the most basic one. The necessary condition of importing even new machinery is testing in the country of origin and safety confirmation certification. To execute import a particular permission from the MoH and the Certificate on safety use in the country of origin is needed.

The importer must submit a special certification from the producer containing information about the year of fabrication and a notification that it was not used before. Additionally, the importer must bring in the certificate of approval from the national service (The European Bureau of Standards or the FDA). The Importer must prove that it has aftersales service, including spare parts and technical maintenance. The MoH Technical Committee examines technical specification of both imported and donated medical equipment before granting import permission.

Pharmaceuticals and Nutritional Supplements. The MoH forbids import of natural products, vitamins, and food supplements in finished form. However, it revises the Decree on multivitamin importation, which would potentially lead to opening imports opportunities for some multivitamins.

At present only local factories are allowed to produce food supplements and to import premixes used in manufacturing. Packaging and delivery are also under their jurisdiction.

The project on creating the National Food Safety Management Unit, supported by the American agency U.S. Aid, is under consideration of the Egyptian government and is about to be approved. The Unit, which is the equivalent of the American FDA, is represented by the four Ministries: Heath, Agriculture and Land Reclamation, Trade and Industry, and Investment.

The MoH's Nutrition Institute and the Drug Planning and Policy Center are obliged to register and approve all food supplements and dietary products. This process lasts from four to twelve months. All importers must file the application for dietary products licensing, validity period of which lasts from one to five years depending on the type of product. After the license is over, the importer must apply for the prolongation that costs about 3,000 EGP. Though, if there is a similar local origin product, the importation would not be licensed.

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Членство Египта в ВТО: новая страница в торговой политике

Рассмотрены меры торговой политики, применяемые государством с целью снижения критического уровня дефицита торгового баланса, поскольку состояние внешней торговли Египта стало угрозой для его экономической безопасности, так как превышение импорта над экспортом создает проблемы для национальных производителей, ведет к размыванию золотовалютных резервов и снижает налоговую базу. Сделаны выводы о том, что в 2016 г. произошла существенная корректировка подхода руководством Египта к внешнеторговой политике по сравнению с 1970–2015 гг.

Ключевые слова: *регулирование импорта, антидемпинговые меры, компенсационные меры, внешняя торговля.*

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UK between Integration and Disintegration: Towards Post-Brexit Trade Policy

The paper elaborates on particular challenges and opportunities for the UK, following its experiments with economic integration and disintegration models, including the decision to withdraw from the EU and design its post-Brexit trade policy along with an alternative to membership. In the circumstances, this paper provides analyses on the nature of forthcoming negotiations, the list of issues appearing to be the most sensitive for the UK's prospective foreign trading relations, based on its current participation in the European single market, as well as agreements Britain would need to strike or renegotiate if it leaves the EU customs union.

Key words: *Brexit, United Kingdom, European Union, single market, economic integration, trade policy.*

JEL F15

Introduction

Economic integration is widely discussed by scholars and researchers worldwide but there is a limited number of papers covering the reverse process, i.e. economic disintegration. In post-Soviet countries it is mainly associated with USSR/CMEA collapse and trends concerning CIS. In fact, there are much more classical examples for this phenomenon. One of them is EFTA which followed gradual disintegration model.

European Free Trade Association (EFTA) originated on the initiative of the United Kingdom and was established in 1960 as an alternative to the continental model of the European Economic Community mostly due to rivalry between Britain and France. Unlike the EEC, the EFTA focused on eliminating tariffs in trade, primarily in manufactured goods, between member states. It did not imply deeper forms of integration. However, this became insufficient for some of its members due course. Britain and Denmark were the first ones to terminate their membership in that trade bloc in order to join the EEC in 1973. In 1986 and 1995 four

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other countries left the EFTA with the same purpose. Nowadays it operates in parallel with the EU but all members participate in the European single market which makes them a part of the European Economic Area.

Such option could be an alternative for membership in the EU for post-Brexit Britain but it was rejected by the UK government. Thus, after decades of integration/disintegration experiments the United Kingdom is now seeking a 'unique' model that will confirm its place as "one of the great trading nations in the world" [1].

Both Houses of the UK Parliament will have to confirm the result of the EU membership referendum by voting for the European Union (Notification of Withdrawal) Bill. The first reading took place on 26 January 2017. If the Bill is passed by the European Parliament and is given Royal Assent by Her Majesty The Queen, it will become an Act of Parliament. Only then, Theresa May would notify the European Council in accordance with Article 50(2) of the Treaty on European Union of Britain's intention to leave the EU.

UK — EU Trade Flows

Post-Brexit UK trade with other European countries will largely depend on a new deal the British government will strike with the EU. Although on 17 January 2017 Theresa May announced her 'hard' Brexit plan, it is still unclear which particular model the UK will really follow. The Prime Minister outlined in that speech that Britain will try to pursue an ambitious Free Trade Agreement (FTA) as a priority. That option cannot mean any participation in the EU Single Market.

Both the so called Swiss model covering bilateral agreements and assuming sectoral approach, and the FTA-based model are destructive for Britain's participation in trans-European supply chains and bilateral trade flows. This is due to growing divergence in trade regulation and additional transaction costs. Crucially, such costs will be distributed among producers and consumers.

Theoretical framework for economic integration shows that trade liberalization leads to significant changes for participating countries, e.g. famous 'trade creation' and 'trade diversion' concepts developed by Viner within the Customs Union theory [2]. Apart from the production effects, there are consumption-side analyses as well, e.g. Meade's concept of correlation between trade expansion and welfare in the case of non-zero elasticity demand patterns [3].

According to Centre for European Reform, the UK benefits from the EU membership which has boosted the country's trade in goods with the EU-27 by 55 per cent, amounting to 130 billion pounds sterling in 2015 [4]. In total, empirical studies suggest that this only has been due to trade with third countries regarding specific sub-sectors like food or clothes production while this is not the case for

other goods. Costs borne by consumers generally increase but they may fall for mentioned protected sub-sectors, respectively.

No matter whether the UK adopts the Swiss model or the FTA approach as an alternative to membership in the EU, it will have a lengthy negotiations period on numerous issues emerging post-Brexit. This includes regulations and standards British companies will be likely to adopt. Otherwise, they will have to adhere to different standards at the same time which incurs additional costs. Other options are unlikely to take place as the EU promotes harmonization instead of recognition.

One of the key achievements in the EU history is the single market with free movement of goods, services, labor force and capital. Under 'hard Brexit' conditions, the United Kingdom will not be able to shape the future of the EU internal market. Even now, the single market still has restrictions, e.g. in the services sector. It should be noted that the European Union's combined commitments on services are not absolutely clear. In fact, they apply to the EU-12 as of 1994 and also further liberalization of telecommunications and financial services is implied. Other member states are bound by individual commitments, and integration with the EU's ones is still not complete. According to the sixth (current) Director-General of the WTO *Roberto Azevêdo*, this makes Brexit even more complicated because it might be hard for some members to negotiate the Brexit terms with both the UK and the EU if the current status of the EU membership is not fully ascertained [5].

As for Britain, one of the papers published by the UK Department for Business, Innovation and Skills before the referendum demonstrates that further liberalization in this sector might increase the country's GDP by seven per cent [6].

The 'hard' Brexit approach implies 'A Truly Global Britain', specifically some conditions like new comprehensive trade agreements worldwide and establishing own tariff schedules at the World Trade Organization instead of being bound by the EU Customs Union's Common External Tariff as well as not being part of the EU Common Commercial Policy. For this reason, the UK will seek a new customs agreement with the EU. However, whatever agreements Britain strikes, in the case of a 'hard' Brexit, it will no longer enjoy the advantages of the single market, e.g. economies of scale. The empirical evidence shows that there is a correlation between productivity and foreign trade. Thus, productivity of British companies is likely to be under pressure because new deals in Europe and globally cannot provide the same benefits as the single market does.

The single market also contributes to competitiveness. One of the factors for that is an opportunity to take part in supply chains which are quite often subject to regional concentration. Within the UK merchandise trade structure, intermediate goods account for approximately half of the imports [7]. Obviously, the United Kingdom's production and foreign trade are dependent on supply chains across Europe.

Although leaving the EU is not beneficial for its member states and Britain at least in terms of foreign trade, it is worth mentioning that generally the significance of trade with the EU as a whole for Britain is much higher than vice versa. Nonetheless, almost all member states have continuously boosted their production and productivity due to the growing British consumers demand. As a consequence, Britain records substantial negative net balances of trade with those partners.

While the share of the UK in the Union's economy was about 16 per cent in 2016 and about half of British exports are to the member states (Fig. 1, Table bellow), the UK accounts for ten per cent of the EU-27 exports [8].

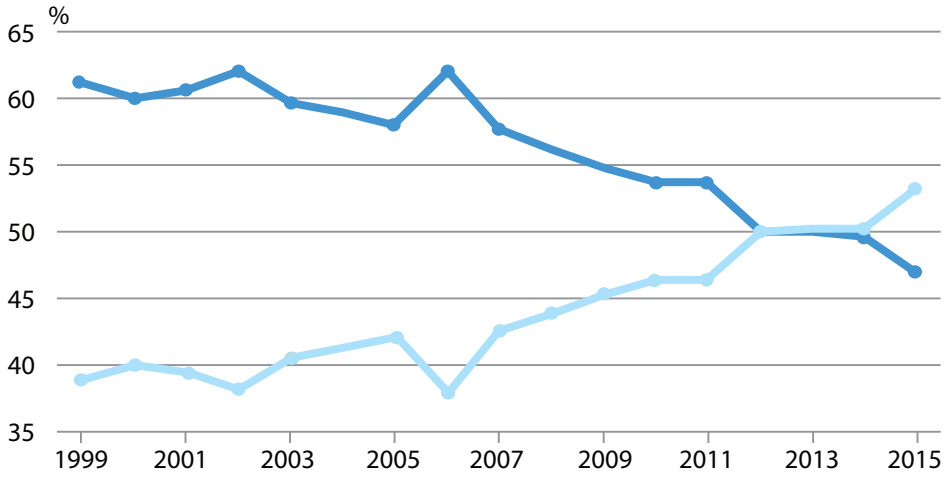

Fig. 1. UK goods exports to the EU and non-EU areas, % of total UK goods exports in current prices in 1999–2015: EU; non-EU

Source: [9].

Britain in trade in 2015

	Exports		Imports	
	£ billions	Share	£ billions	Share
EU countries	2220	44%	291	53%
Rest of the world	288	56%	258	47%
Total	510	100%	549	100%

Source: [7].

Similar to bilateral trade deficits, the overall UK trade balance against 27 members as a whole is also negative.

Just several countries, especially Germany, run positive trade balances against the UK. However, in terms of share of surplus in national GDP, some countries, notably Belgium, Poland, the Netherlands run that trade surplus at more than one per cent [9].

Besides, the UK has run both bilateral trade deficits and surpluses against the Netherlands during last 20 years because of the so-called 'Rotterdam effect'[1]. Just a few members report trade deficits with the UK, mainly Ireland as a traditional importer of British goods. At the same time, a significant number of Irish companies' export into British supply chains. Dynamics for the UK trade balances are shown in Fig. 2.

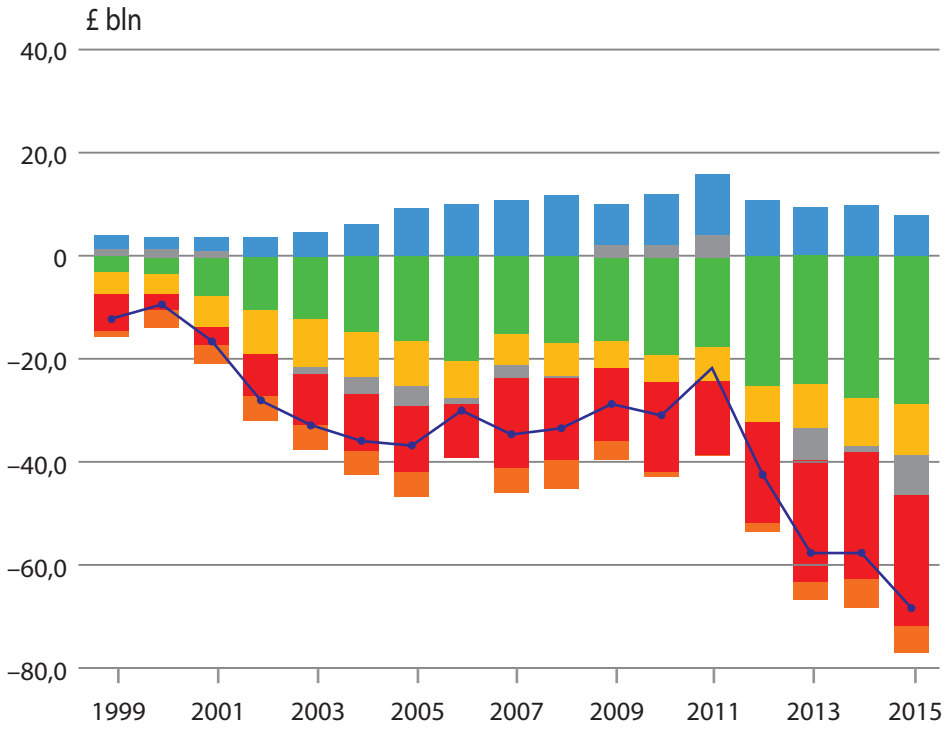

Fig. 2. UK trade in goods and services balance with the EU and selected EU countries in 1999–2015: Total EU 28; France; Germany; Ireland; Netherlands; Spain; Rest of EU

Source: [9].

British firms are more integrated into supply chains worldwide than those of many other EU members. As for services, Britain's financial and business services always play a great role in regional and global supply chains. The same trend is observed regarding exports of chemical and mining products to other countries.

1 Dutch and Belgian trade flows are often overestimated due to the so-called 'Rotterdam effect' (or quasi-transit trade) meaning that goods bound for other EU countries that arrive in Dutch or Belgian ports should be recorded as extra-EU imports by the Netherlands. This in turn increases the intra-EU flows from the Netherlands to other member states.

Post-Brexit Trade Policy

If the United Kingdom adopts one of the alternatives to membership mentioned in the last section, then the government would be able to establish its own trade policy outlines. However, most principles are likely to remain the same as they are set within the EU common trade policy framework. Post-hard-Brexit conditions would not provide as much leverage in foreign trade as the UK currently experiences. This also relates to Britain's participation in the WTO dispute resolution system. Though some disputes are technical, other cases may take on political dimensions. Even if an FTA with the EU is reached, Britain alone would not be so powerful, compared to be a part of the EU united front as a member of the single market.

The European Union as a whole has also gained lots of experience in trade liberalization with external partners. There are three major types of agreements:

- Customs Unions establishing a common external tariff and eliminating customs duties in bilateral trade flows;
- Association Agreements, Stabilization Agreements, (Deep and Comprehensive) Free Trade Agreements or Economic Partnership Agreements reducing or eliminating customs tariffs in bilateral trade;
- Partnership and Cooperation Agreements establishing just basic principles of liberalization of economic relations.

Apart from trade agreements in place, the EU has not yet applied several finalized agreements, namely those with Canada, East African Countries, Singapore, Vietnam and West Africa. Essentially, there is a list of ongoing negotiations with different countries or blocs across the globe, notably with the United States and Japan. Moreover, there are negotiations regarding an investment agreement with China and the Trade in Services Agreement (TiSA). Thus, the European Union is one of key players in the global network of current and prospective agreements.

According to some concepts, regionalism in trade is opposed to multilateral cooperation within the WTO system. Recently this discourse has shifted to Multilateralism—Plurilateralism approach [10, p. 142]. However, whatever flexibility is granted to the UK by 'hard' Brexit provisions in terms of concluding own agreements, it should be highlighted that negotiations are becoming mostly regional or bilateral, so it is the EU that provides leverage to Britain in trade disputes or striking trade deals. Given the circumstances, this is especially significant in trade in services due to regulatory barriers which exist even within the EU single market.

Surely, not trade in goods and services only will be affected should Britain leave the EU. Other matters regulated by the WTO e.g. trade-related aspects of intellectual property rights also depend on the Brexit deal because Britain takes advantage of the economic bloc's weight whilst striking new deals on numerous matters.

Pursuant to a 'hard' Brexit plan, current EU trade arrangements and ongoing negotiations may not be transferred to Britain by default. Actually, the UK would have to

negotiate its departure from the EU as well as trade agreements with it non-EU countries and blocs at the same time. A question arises whether it is possible at all bearing in mind the provisional two-year period according to the Treaty on European Union. As a consequence, it is likely that whilst discussing and voting on a motion regarding Brexit negotiations, Members of the European Parliament will adhere to their current views. Specifically, they might propose conditions that negotiations on time-limited transitional arrangements taking future relations plans into account cannot take place unless the progress towards the UK's withdrawal agreement has been made. Alternatively, a condition on a deal on future UK-EU relations might be made, e.g. that an agreement cannot be reached until Britain has withdrawn from the EU. MEPs have already highlighted they would insist that the UK should meet all financial obligations to the EU despite Britain's contribution to the EU project and institutions.

Besides, the European Union might also be affected by Brexit because the UK contributes to its attractiveness as a trade partner and FDI destination. Although European countries account for about half of world services exports, the share of Britain constitutes six per cent which is larger than individual shares of other EU countries. Furthermore, the UK is the world's second biggest services exporter after the United States [11, p. 70].

Despite some protectionist measures which gained momentum due to crises, the European Union has a progressive and open trade policy partly shaped by Britain. In 2014 the European Commission proposed a new trade and investment strategy called 'Trade for all: Towards a more responsible trade and investment policy' which highlighted effective and transparent trade. On 29 March 2017 the EU Commissioner for Trade Cecilia Malmström addressed European Economic and Social Committee with speech 'A progressive trade policy in a protectionist age' to discuss CETA, TTIP and other agreements negotiated.

In recent years, the European Union's key ambitions regarding foreign trade have been the Transatlantic Trade and Investment Partnership (EU—US) and the Economic Partnership (EU—Japan) while both have not been so prioritized in those countries' trade agendas. However, after D. Trump's decision to abandon the Trans-Pacific Partnership the situation appears to be changing.

Britain's contribution to liberalization of international trade and European foreign economic affairs should not be underestimated. It has advocated the WTO Doha Development Agenda, called for acceleration of TTIP negotiations and proposed trade arrangements in addition to an investment agreement with China.

As for the EU-27 economy, its total GDP is expected to decline by about 15 per cent if Britain leaves the single market [12]. In terms of foreign trade, the share of the EU without Britain is likely to be at the level of around 14 per cent in the world's total while the share of Britain alone would reach about four per cent [Ibid].

It is still too early to say which trade policy instruments Britain will actively use in the future. But surely it will employ trade remedies at a larger scale than it does

now. The European Commission currently handles trade remedies and several UK industries may seek import protection through such measures after Brexit. The UK will set up its own national investigating authority for trade remedies [13]. But it is important to remember that a huge number of domestic consumers and companies depend on imported intermediate goods from outside the EU and would be put at a disadvantage by such contingent trade protection measures.

Conclusion

To sum up, due to complexity of negotiations and related issues it might take much more than two years to negotiate the withdrawal from the European Union, future agreements with this bloc and non-EU countries as well.

Thus, there is nothing certain regarding Britain's withdrawal from the European Union including a model it will adopt as an alternative to membership. This lengthy period might affect investors, financial markets, currencies, employment, trade balance, ongoing and prospective negotiations, and lots of other issues. If it happens that the UK should ensure greater and fair competition, there is much at stake hence adjustment measures are to be designed in advance.

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Гальченко Е.[1]

Великобритания в процессах интеграции и дезинтеграции: торговая политика после выхода из ЕС

Рассмотрены вызовы и возможности для Великобритании, которые появились вследствие ее экспериментов в сфере экономической интеграции и дезинтеграции, включая решение о прекращении членства в ЕС и поиске модели, альтернативной членству в ЕС, наряду с выработкой новой торговой политики. Представлен анализ природы предстоящих переговоров, наиболее чувствительных для будущих внешнеторговых связей страны проблем с учетом текущего участия в едином внутреннем рынке, а также соглашений, которые будет необходимо заключить или пересмотреть в случае выхода Великобритании из Таможенного союза ЕС.

Ключевые слова: *брексит, Соединенное Королевство, Европейский Союз, единый внутренний рынок, экономическая интеграция, торговая политика***.**

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Ionova A.[1]

The Risks of Transformation of Companies' Standards to Non-Tariff Measures

The article deals with a fundamental shift to non-tariff measures in the world trade regulation, thus underlining the importance of standards developed by large companies. Several examples of companies' standards demonstrate that standardization helps to share new technologies as well as to shape the market in the future. Special attention is given to the risks of transformation of these standards to non-tariff measures, which can be categorized as exogenous and endogenous. It was concluded that multilateral cooperation and compliance with the requirements of international organizations are needed for successful implementation of companies' standards in the world trade system.

Key words: *non-tariff measures, trade barriers, ISO standards, companies' standards, standards wars, competitiveness factors, standardization risks.*

JEL F10

At the current stage of economic development there is a heightened need for the world trade regulation. The modern international trade system is characterized by the strengthening trend towards the large-scale liberalization of trade flows. This process began in 1947 after signing the General Agreement on Tariffs and Trade (GATT) and culminated in the establishment of the World Trade Organization (WTO) in 1995. Nowadays the international trade law is based on the WTO principles, which promote trade liberalization, but equally guarantee protection of national markets.

Generally, government can employ two types of trade control instruments to protect domestic markets, namely tariff and non-tariff measures. Although these trade policy measures are quite diverse in nature, they are closely related and are mutually supportive and reinforcing. Therefore, it can be argued that many countries seek a compromise between tariff and non-tariff measures. However, being one of the main restrictions on international trade, tariffs continue to lose ground as a result of trade liberalization. While 20 years ago the average tariff rate comprised 30-40%, it has recently declined, being equal to 10-15% in developing countries and up to 5% in developed ones [1].

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On the contrary, the influence of non-tariff measures (NTMs) on trade flows is increasing. The current trend is explained by world trade liberalization and WTO regulations that require the decrease of tariff rates or total cancellation of tariffs. It should be noted that the impact of non-tariff trade barriers is hard to measure quantitatively because many of them are often hidden. What is more, these measures are flexible in terms of product groups, time period and localization. Accordingly, they can be applied several times regarding the same product. Besides, standards as one of NTMs are considered to be an objective trade regulation mechanism since they are directed towards product characteristics but not towards the product itself or the producing country.

Nowadays the development of non-tariff measures is no longer an exclusive competence of public authorities. Transnational corporations and other large companies aim at creating and establishing their own standards which are used as one of the main instruments of economic competition. In particular, standards include precisely defined product requirements that must be satisfied and met. However, the manufacturers which fail to comply with the requirements are withdrawn from the competition. It is necessary to mention that companies' standards can be transformed to non-tariff measures on the national, regional or even international level. Thus, the thesis of the paper argues that a fundamental shift to non-tariff measures underlines the importance of standards developed by large companies that could become a non-tariff barrier to international trade.

The economic literature devoted to different aspects of non-tariff measures investigates the impact of these measures on international trade. In their work Bora, Kuwahara and Laird (2002) identify the effects of non-tariff measures and examine the measurement question only in relation to these effects. They note that non-tariff measures have differential effects as between foreign trading partners [2, p.4]. This means that the effects of NTMs may vary considerably on different overseas suppliers. In some earlier work Deardorff and Stern (1998) assess currently available methods for quantifying NTMs. They distinguish a number of general features of NTMs, for instance, variability, uncertainty, and welfare and resource costs [3, p.9]. It is also noted that NTMs reduce the quantity of imports, increase the price of imports and change the elasticity of demand for imports. Additionally, Idrisova (2011) investigates the sensitivity of the physical volume of imports of foreign goods to NTMs. She also examines the effects of NTMs and underlines the impermanent effect of NTMs in time since they are often linked to product volumes and prices [4, p.9].

Theoretical aspect of implementation of technical regulation measures is also linked to the notion of externalities. Under externalities it is common to understand the impact that households or firms produce on the benefits or costs of third parties that is not reflected in market prices [5, p.267]. In other words, externalities eliminate market equilibrium, which cannot be restored by market forces and which requires government intervention. Technical regulation acts as one of the ways that the government can abide by in order to control the situation. It

is achieved by the establishment of product requirements and further issue of licenses that allow the products to be sold in free trade on the market. Consequently, the application of technical regulation measures allows minimizing the influence of externalities for the society by setting mandatory requirements in the field of product safety and control over business activity.

Besides, standards can solve the problem of information asymmetry. According to Akerlof (1970), this problem occurs where one party has more or better information than the other [6, p.489]. Both companies and consumers can face information asymmetry that limits trade efficiency and reduces profit of the companies producing a high quality product. One of the ways to overcome information asymmetry is the implementation of standards and further conformity assessment. Therefore, standards can be addressed through Signaling theory. According to Spence (1973), a signal would reveal some piece of relevant information to the other party in case of information asymmetry [7, p.356]. In this way, a «good» party with a desirable attribute can be identified. Similarly, consumers will choose certified products because certification to a standard implies high quality of a product.

Finally, effects and risks of standardization should be observed, taking into account Path Dependency theory. Path Dependency theory was introduced by Paul David in the article, which describes the appearance of keyboards standards. The author argues that a well-known QWERTY-keyboard was established as a result of not the most effective standard [8]. However, this standard has remained till nowadays. Firstly, large investments were made to establish this standard. Since the transition from the old to a new standard was complicated, the standard on QWERTY-keyboard remained and, subsequently, more significant investment was made in this standard. Secondly, economies of scale played a crucial role in upholding this standard. A common standard contributed to cost reduction, which was beneficial for all parties. What is more, QWERTY-effects can be observed in all industries. Thus, QWERTY-effects arise from standards that remain in force for a long time because switching costs are high [8, p.332]. As a result of this effect, the company, which standard was adopted, will control the market since the competitors will have either to withdraw from the market or to accept the standard of the leading company.

Historically, tariff measures emerged significantly earlier, and therefore non-tariff measures are often defined through tariffs. For instance, the UNCTAD defines non-tariff measures as policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both [9]. Within the WTO the definition of the term "non-tariff measures" is replaced with a classification scheme with several hundred types of NTMs. Today this descriptive approach is used by many countries instead of a generalized definition.

There is a need to distinguish two interrelated notions, namely "non-tariff measures" and "non-tariff barriers". Non-tariff measures include all policy measures other than

ordinary customs tariffs. In contrast, non-tariff barriers amount to discriminatory measures. Consequently, protectionism and restrictions on the use of non-tariff barriers in international or national law are seen as their distinctive features.

As has been noted, non-tariff measures play a central role in the international trade agenda. To illustrate this fact, the following graph provides UNCTAD statistics on the overall trade restrictiveness index for high-, middle- and low-income countries. The contribution of tariff and non- tariff measures is reported for all product groups and separately for the economic sectors of agriculture and manufacturing.

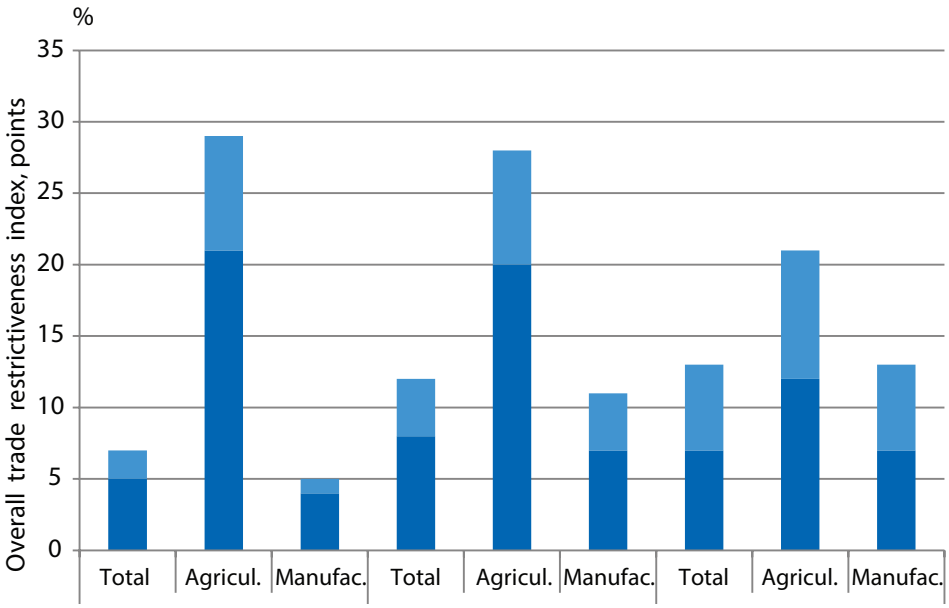

Fig. 1. Overall level of restrictiveness imposed on imports

Source: [10, p.14].

As Figure 1 indicates, non-tariff measures have more influence on import than tariffs. It is worth mentioning that this tendency is observed in all sectors of economy regardless of the income status of a country. However, in low-income countries tariffs continue to affect import since non-tariff regulation is more complex and costly than other trade policy instruments.

Recently, hidden non-tariff measures have begun to play a significant role in international trade. They are intended to protect the environment, human life and health and to ensure security. However, they often act as the instrument of protectionism and take the form of trade barriers. In fact, technical requirements become technical barriers to trade when they pose obstacles to the access of international goods to a national market.

Technical barriers to trade (TBT) have become widespread in all countries. Between 1995 and 2015, over 24,000 notifications of new or revised regulations have been submitted to the WTO [11, p.39]. Actually, the use of these measures has strengthened for the period from 2009 to 2014. To illustrate this fact, the following graph provides WTO statistics on TBT notifications from WTO members. As Figure 2 indicates, TBT notifications showed a steady increase, especially among developing countries.

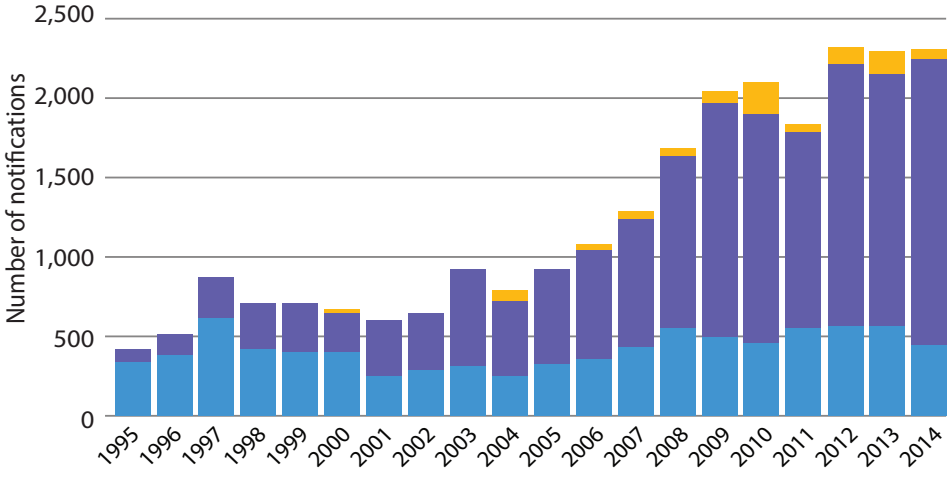

Fig. 2. TBT notifications in 1995–2014, in items:
developed countries; developing countries; least-developed countries

Source: [12, p.4].

Figure 3 shows that on a country level the members, which have notified the most significant number of measures, include the USA, followed by Brazil and the EU.

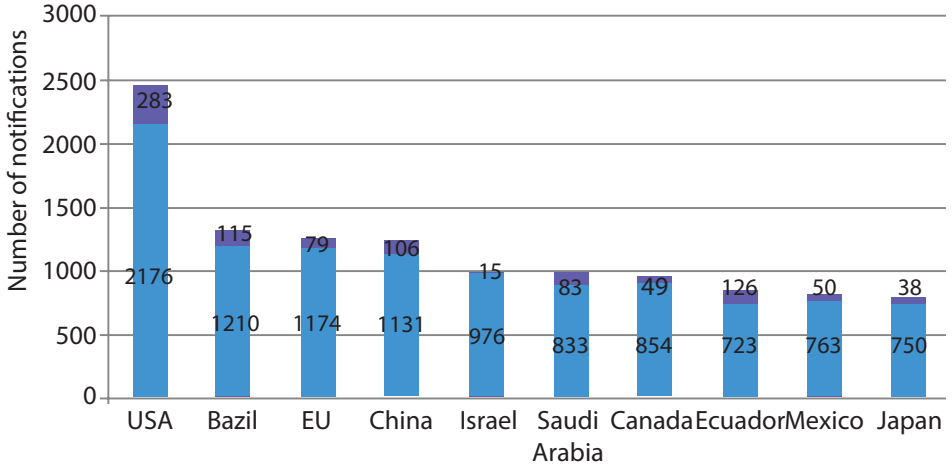

Fig. 3. Most active TBT notifying Members in 1995–2015:
1995–2014; 2015

Source: [13, p.6].

By implementing technical measures countries can pursue different objectives. Figure 4 demonstrates that the objective of protection of human health or safety was predominately cited by WTO members, followed by prevention of deceptive practices, protection of the environment, and quality requirements.

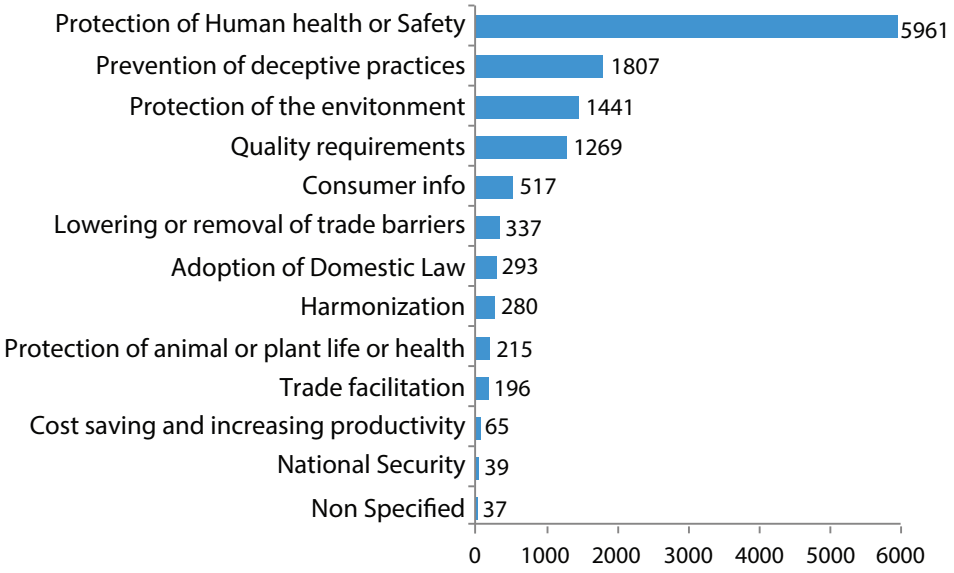

Fig. 4. TBT notifications by objective in 1995–2014

Source: [14, p.12]

It should be observed that product and process requirements are set out in technical regulations and standards. Technical regulation is defined as a document which lays down product characteristics or their related processes and production methods, including the applicable administrative provisions, with which compliance is mandatory [15]. Indeed, technical regulations contain the minimum essential requirements for the product safety. Conversely, standard is a document approved by a recognized body, that provides, for common and repeated use, rules, guidelines or characteristics for products, with which compliance is not mandatory [Ibid]. Thus, standards requirements are voluntary, yet they should not contradict the requirements set by technical regulations. Most notably, manufacturers can benefit from standards implementation since it helps to improve their efficiency and productivity and boost international competitiveness. International standards have been shown to cut costs, improve sales, customer satisfaction and market share, and to have a positive impact on environmental performance [16].

Nowadays international trade is based on the principles that were developed during the 1986-94 Uruguay Round of trade negotiations. It has been observed that international trade participants cannot interact effectively without protectionist instruments. The general rules applicable to these instruments are embodied

in dozens of WTO agreements. It appears that WTO aims to strike a balance between the world trade liberalization and moderate protectionism compared to that in the middle of the last century. In essence, there is no pure protectionist or liberal trade policy in the world practice. Any country uses the elements of both policies and combines them depending on the economic challenges and the global economic picture [17, p.14].

As was stated above, the progressive liberalization of international trade resulted in an increasing reliance upon non-tariff measures. The latest rounds of WTO negotiations and multilateral trade negotiations are focused to a large extent on development of a harmonized regulation regarding the use of NTMs. Although non-tariff measures are in the forefront of the WTO negotiations, a corresponding regulatory framework has not been fully developed yet. Generally NTMs are regulated by articles I and III of the GATT, according to which countries should apply most-favoured-nation treatment and national treatment [18]. However, non-tariff measures are not entirely governed by WTO agreements since their application falls within the competence of national public authorities and national law.

Technical barriers to trade, in turn, are internationally governed by the Agreement on Technical Barriers to Trade that sets the requirements to WTO member countries concerning the development, adoption and implementation of TBTs. The agreement seeks to ensure that technical regulations and standards, as well as testing and certification procedures, do not create unnecessary obstacles to trade [15]. Consequently, TBTs cannot be used for protectionist purposes as well as constrain the development of international trade. The Agreement on Technical Barriers to Trade recognizes only the TBTs that are intended to protect the environment, human life and health and to ensure security.

It should be noted that on the international level standards are set by the International Organization for Standardization (ISO). ISO is closely connected with international trade organizations since its activities have significantly contributed to reducing trade barriers. A major strength of ISO standards is that they are developed by those people who need them. A standard is created in response to a request from industries and other stakeholders. The following procedure is generally observed: industry representatives drive all aspects of the standard development process, starting from deciding whether a new standard is needed to defining all the technical content [19]. Nevertheless, transnational corporations and other large companies aim at creating and establishing their own standards because they can provide significant benefits. By setting its own standard a company can not only bring its experience and expertise, but also shape the market in the future. As a result, large companies with sufficient intellectual and financial potential lay down the foundations for strengthening their leading positions at the market since easily fulfill requirements in their own standards.

Competition in the post-industrial age usually turns out to be a war of standards. This notion describes a situation when incompatible technologies struggle to con-

quer the market. It should come as no surprise that market position of a company is closely linked to its ability to choose right strategies in such wars. However, a standard is not an invention of our century: the cases that will be scrutinized below will demonstrate that economic principles which give birth to such phenomenon remain constant and unchangeable.

The first historical example is dedicated to the standard of railroad gauges. In the early 19th century, when first railroads appeared in the United States, tracks had different gauges. For instance, in 1860 seven types of gauges were employed in the railway network of America. The most popular width of gauge was 4'8 1/2", whereas its main rival that gained huge popularity in the South was of 5' [20, p.2]. Despite all the advantages that standardization of gauge's width could bring to the country, it faced three main obstacles. First of all, modification of existing railroad infrastructure required significant expenses. In addition to this, each group did not want to take an active part, being sure that their opponents must undertake the first step. Finally, the well-being of some workers hinged on this standards' mismatch. Nonetheless, the gauge standardization was brought to life between 1860 and 1890.

The Westward expansion facilitated the search for a solution. Due to the necessity to ensure effective transportation of grains to the East, the lines to the West that were under construction were supposed to have a standard width. In addition to this, the Civil War also contributed to the success of standardization. The Union experienced huge military need to guarantee efficient East-West transportation, providing significant incentives to build new western lines of a standard gauge width. In 1862, when the Congress set the standard width for transcontinental railroads, Southern states had quitted the United States, leaving no opposition for 5' option. After the Civil War, the majority of American railroads employed 4'8 1/2" gauge [Ibid]. Next twenty years were marked by the intensive use of non-efficient connections between Southern and Western railroads. Southern railroad authorities finally gave up in 1886, when more than 11,000 miles of transcontinental railroad tracks were converted to satisfy north-based 4'8 1/2" standard [Ibid].

In fact, many of the issues that are considered in this case are still relevant today:

- Mismatch of standards can arise accidentally and last for long periods of time.
- Network markets usually favour leading player, if its opponents are not ready to coordinate and act collectively.
- Failure to participate in the process of standard setting weakens the market position significantly.
- A dominant consumer (in our case – the government) turns out to be more influential than suppliers in standard-setting procedures.
- Market players that lost in the standards competition can reduce switching costs either by hiring adapters or by abandoning assets that they possess and joining the generally accepted standard.

The next evidence describes quite recent events, namely the adoption of standards for colour television in the United States. RCA company invested significant efforts

and huge amounts of money in the development of black and white TV systems and planned to gain control over the production of personal TV sets. After the Second World War RCA became the dominant player on the black and white TV market of the United States. This company controlled over 80 % of the market [20, p.3]. In 1946 the representatives of CBS company invited a delegation from Federal Communications Commission (FCC) to the official demonstration of the colour television system designed by Goldmark. In addition to this, they expressed their hope to see this system adopted as a national standard. However, RCA representatives were doing their best to create obstacles for this initiative. Thus, RCA stated that the system of Goldmark was based on lower-level mechanic technology that had been no longer employed by RCA and other TV set producers [Ibid].

While the sales of black and white TV sets of the RCA company were growing significantly during post-war years, another argument against the adoption of CBS-developed colour system was brought to light. It turned out to be incompatible with existing TV sets. Everyone who bought black and white TV set could see nothing during coloured telecasts. CBS tried to overcome this argument by developing special converter that could be connected to black and white TV set in order to let it receive colour signals. CBS even issued special advertising materials, advising consumers to wait and buy a colour TV set [Ibid].

As a result, in 1947 FCC decided to postpone the adoption of a standard for colour TV sets. FCC stated that the adoption of an incompatible standard for colour TV sets would create unfair financial burden for the growing number of consumers that had already acquired black and white TV sets. If these buyers had wanted to watch colour TV broadcasts they would have had to pay for a convertor or for the modification of their TV sets. In addition to this, if TV networks had decided to broadcast colour-based telecasts they would have lost significant part of their audience, which would not modify their receivers. Finally, FCC admitted that RCA and its several rivals were working on a colour TV standard that would be compatible with the existing black and white standard. Eventually, this decision of FCC enabled RCA to enlarge the production of black and white TV sets limiting the market for colour TV sets produced by CBS.

Both competing companies (CBS and RCA) decided to freeze the development of the colour television during the last two years of the Korean War. In 1953, when the war came to its end, American consumers bought 23 million of black and white TV sets [20, p.3]. Thus, CBS abandoned its attempt to create a colour scheme. The president of CBS William S. Palley admitted that a significant number of black and white TV sets (incompatible with colour-based system of Goldmark) would not let CBS conquer the potential market of colour TV sets [Ibid]. Evantually, during the same year FCC cancelled its decision and set the colour-based system of RCA as a national standard.

The war of standards has a particular importance for the business success in such markets, where networks effects are strong enough to influence consumer behav-

ior. In other words, in such market conditions consumers attribute significant value to the issue of compatibility. To illustrate this phenomenon it is fruitful to study two simple examples. It should come as no surprise that there is a single universal standard for fax machines and modems, as incompatibility in this case will completely destroy the communication between users. On the contrary, there are various standards for mobile phones and digital television, as the standard compatibility exercises less influence on consumers.

The emergence of new technology does not always lead to the war of standards. For instance, Sony and Philips acted jointly in order to establish a single CD technology. While compact discs were incompatible with existing audio devices, these companies did not wage a standard war. Instead, they chose to convince consumers to switch to CD players and compact disks. It should be noticed that under standards war it is common to see companies or more often alliances of companies that struggle for dominance. In addition to this, the winner in such war is not always the most innovative participant. In some cases the champion controls the greatest number of consumers that use an older technology.

Nowadays the development of companies' standards is often a part of their technology and production strategy. The technology policy of a company consists of strategic measures aimed at improving product quality, resource efficiency, competitiveness and technological development of production. The technology policy is put into practice through conducting research and development work, producing renovated competitive goods, improving production processes and creating corporate standards that set technical characteristics of a product. Although standards are voluntary non-tariff measures, they can also impose trade barriers. These barriers are considered to be quite specific since they do not derive from state regulatory measures. They are connected with the companies' technology policy, which is aimed at securing and expanding their presence on the markets and creating market entry barriers for competitors.

Nowadays the ISO 14000 «Environmental management» family of standards is widely used, namely by more than 300,000 organizations in 171 countries [21, p.26]. The company's requirement regarding obligatory usage of this standard can serve as a non-tariff trade barrier since companies that have not implemented this standard will not be able to cooperate. Meanwhile, the Agreement on Technical Barriers to Trade states that no one is prevented from taking measures necessary for the protection of the environment [15]. For this reason, companies that include ISO 14000 as a requirement for cooperation can avoid being labeled as protectionist, and therefore escape the accusations of unfair competition.

As was stated above, the countries that have notified the most TBT measures include the USA, followed by Brazil, the EU and China. Similarly, companies in these countries develop the most significant number of standards that can be later adopted by national or international standardization bodies and become non-tariff measures. The widespread ISO/TS 16949 «Quality management systems» family of standards

was initially created as a result of cooperation of national associations of automobile manufacturers. In fact, the three largest automobile manufacturers in the USA, namely General Motors, Ford Motor Company, and Fiat Chrysler Automobiles US, which are often referred to as the "Big Three", made the greatest contribution to the development of ISO/TS 16949. In 1994 these companies were the first to require using the QS 9000 «Quality management systems» standard from their suppliers, which was later expanded all over the USA and the world [22].

The Brazilian company selected for study is Festo Brasil, a subsidiary of Festo AG, a German company and a leading worldwide supplier of automation technology and solutions. Standardization has been perceived as a key element in the company's profile. For this reason, a number of standards developed by this company were adopted on national and international levels. At national level, it has created and established ABNT CB 4, SC 04007 «Hydraulics, pneumatics, and automation»; and ABNT/CE 4718 «Hydraulic and pneumatic systems» [23, p.121]. At international level, it has contributed to the development of ISO/TC 131 «Fluid power systems» [Ibid]. Overall, the company has developed several standards to manage its business internally, and to meet the strictest requirements of its industrial suppliers and customers in domestic and foreign markets.

Standardization has always been one of the main strategic instruments of German companies because it secures Germany's position as a leading industrial nation. Being one of the world's largest producers of energy-efficient and resource-saving technologies, Siemens AG focuses on standards within the sector of information and communication technology (ICT). Siemens has a long and extensive experience of standardization since it is considered to be an important tool for ensuring a competitive, future-oriented product portfolio. For instance, the company has developed DIN EN 62271 «High-voltage switchgear and controlgear» standards series, which are essential for the switch technology sector [23, p.250].

Another German company Nanotron Technologies GmbH is a medium-sized engineering company, which also participates in the global ICT sector. Soon after the company's transition to a technology provider, the management decided to participate actively in the development of new standards. Nanotron has played an influential role in the development of the international standard ISO/IEC 24730-5:2010 «Information technology – Real-time locating systems (RTLS) – Part 5: Chirp spread spectrum (CSS) at 2,4 GHz air interface» published in 2010 [Ibid, p.266]. The company plans to engage in future standardization projects in parallel with the development of future products.

With the ever increasing trade volumes, Chinese manufacturers have also realized the importance of standards. The Dalian Shipbuilding Industry Co., Ltd. (DSIC) is one of the leading companies in China in the shipbuilding industry. The company established a standardization committee headed by the vice general manager, with members from all departments. Up to now, the company has developed 1,266 company standards, including 71 basic standards, 433 for design, 300 for process,

99 for testing, 157 for the defense industry, 122 standards for products, ship parts and auxiliary equipment, three for safety, health and environmental protection, and 81 on metering detection and information technology [24, p.176]. The active participation of DSIC in the standardization process has helped the company to push its standards to the national level. Thus, DSIC has developed more than 30 Chinese national standards and over 150 Chinese industry standards [Ibid, p.172].

Another Chinese company Xinxing Ductile Iron Pipes Co., Ltd focuses on pipes and piping systems. Xinxing attach great importance to standardization at all departmental levels. In addition to using external standards widely, Xinxing has formulated a number of internal standards for ductile iron pipe and pipe fitting products [24, p.215]. The company has also contributed to the development of Chinese national standards, including GB/T 6730.5 «Iron Ores – Determination of Total Iron Content – Titanium (III) Chloride Reduction Methods» for testing total iron content [Ibid, p.217]. In particular, the development of the own standards results in reduced moulding costs, increased machine operating uptime, less equipment downtime and fewer defective products [Ibid, p.236].

The rising importance of standards developed by large companies enhances the need to identify and address the emerging risks of transformation of these standards to non-tariff measures. Standardization risks are highly relevant since intellectual property has become a key market asset, which can be protected not only through the patent system, but also through the implementation of these patents in standards of all levels or through the creation of the own standard by the company. The risks of transformation of companies' standards to NTMs can be classified according to their origin, namely exogenous and endogenous.

Exogenous risks are associated with the external factors. With regard to companies' standards, these risks depend on the development of national and international standardization. It should be considered that the businesses in the global market can face the risk of disharmonization. In other words, it means a mismatch between a company's standard and the recognized international standard. This problem will involve the additional costs and complexity during production and selling. For this reason, some companies aim at promoting their standards to national or international level.

Moreover, a company can face the marketing risk that is connected with the attitude of consumers to a product depending on its compliance with standards. This risk is mainly observed in information asymmetry situations. As was stated, consumers tend to choose certified products because certification to a standard implies high quality of a product. In contrast, consumers have less confidence in products, when their quality is not assured by compliance to a standard in information asymmetry situations.

What is more, the transformation of companies' standards to NTMs can cause the technological risk. The appearance of new standards will lead to more expensive

and difficult production processes in the industry. Thus, the company that has developed the standard put its competitors in an awkward position. The competitors will have either to adopt the standard, which requires additional costs, or they will be withdrawn from the market. In fact, this risk can be supplemented by the information risk. This risk implies inaccurate or incomplete information about the standard received by competitors. In this case, the competitors may have to make changes to the product for its compliance with the standard after the development stage. As a result, it will delay the product launch or lead to an increase in its price, and the company that has developed the standard will get a competitive advantage.

Besides, large businesses develop their own standards because the government is unable to finance the development of all standards required by the industries. Conversely, small and medium enterprises (SMEs) are not fully involved in standardization neither financially nor through the delegation of experts. As a result, their interests are not considered when forming the technical regulation system and, more importantly, when forming the state technology and innovation policy. This risk can be eliminated through the establishment of industry associations that can accumulate the resources of SMEs to develop standardization in these organizations.

In comparison, endogenous risks are associated with the standardization activities of a company. Depending on its own potential and market situation, a company can consider various options for standardization engagement, each having its own benefits and risks. A company chooses the best option according to its own capacities and market situation.

On the one hand, a company can participate in the activities of organizations for standardization. The advantages of this approach include cost savings and the guaranteed widespread use of the developed standard. What is more, a company can lobby for including particular provisions in the standard that require the application of patents owned by the company in order to gain a long-term market advantage. However, a number of problems related to this way of participation in standardization should be pointed out. First of all, any company cannot have a fully decisive position in the activities of organizations for standardization. Moreover, participation in international standardization causes the risks of undermining intellectual property rights.

On the other hand, a company can develop standards on its own, which will support its competitive advantages. The standards of a company are based on its technological superiority and are open for use by the third-party manufacturers. The major advantage of this way of standardization engagement is a long-term market leadership based on the QWERTY-effect. QWERTY-effect means a lock-in to a particular standard because of the high switching costs [8, p.332]. As a result of this effect, the company that has issued the standard will control the market since the competitors will have either to withdraw from the market or to adopt the leader company's standard. However, this way of standard setting carries inherent risks since the standard can meet significant opposition from other market

players. In case of failure of the standard, the company will have to cancel the standard and sustain a loss of the initial investment in R&D.

Thus, the evolution and scope of the globalization processes as well as tariff liberalization have led to a completely new type of protectionism, where non-tariff measures play the main role. The scope of NTMs has expanded, while their mechanism is becoming more complex and flexible. There is a considerable number of regulations regarding NTMs within the WTO, which are constantly being updated. It should be noted that being a part of NTMs technical barriers to trade play a central role in the international trade agenda.

Nowadays the competitiveness of a company depends on the effective use of the legal instruments. Therefore, many successful companies use standardization in order to strengthen the leading position in the market. In fact, standardization helps to adopt new technologies quickly as well as to shape the market in the future. For this reason, large companies aim at creating and establishing their own standards because they can provide significant benefits. Nevertheless, there are several risks of transformation of these standards to non-tariff measures, which can be categorized as exogenous and endogenous.

In order to eliminate these risks special attention should be given to the development process of companies' standards. The standards should not only represent the best practice in the industry, but also be developed in an unbiased way. A company should decide, whether to develop the own standard, based on the market conditions, its competitive position and innovation capacity. The innovation capacity of a firm plays a crucial role during «standards wars» since it is a major factor in determining the opportunities of creating the own standard. In addition, it should be emphasized that standards are the main instrument of technology transfer. Therefore, multilateral cooperation and compliance with the requirements of international organizations are needed for successful implementation of companies' standards in the world trade system.

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Ионова А.[1]

Риски трансформации стандартов компаний в нетарифные меры

Рассмотрен один из важнейших моментов в регулировании мировой торговли: переход к нетарифным мерам регулирования. В соответствии с данным трендом всю большую роль играют стандарты, разработанные крупными компаниями. На примере стандартов компаний показано, что стандартизация помогает обмениваться новыми технологиями и формирует рынок. Особое внимание уделено рискам трансформации стандартов компаний в нетарифные меры регулирования, которые можно подразделить на экзогенные и эндогенные риски. Сделан вывод о том, что многостороннее сотрудничество и соответствие требованиям международных организаций в данной области необходимы для успешного внедрения стандартов в систему мировой торговли.

Ключевые слова: *нетарифные меры регулирования, торговые барьеры, стандарты ISO, стандарты компаний, войны стандартов, факторы конкурентоспособности, риски стандартизации.*

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National Research University

Higher School of Economics (NRU HSE)

invites to apply for its new Master's Programme

"International trade Policy",

to be launched in September,

2017 in Moscow campus.

This programme aims to train professionals who are capable of understanding, analyzing and applying the tools of contemporary trade policy in the global economic environment and includes study modules on:
☛ International regulation of trade in products and services
☛ Trade policies of certain WTO member countries
☛ Trade negotiation and resolution of international trade conflicts
☛ National, regional and multilateral regulation of foreign economic relations
☛ Formal and informal institutions of global governance
☛ Prospective issues of international regulation
☛ Trade policy and promotion of business interests
☛ Legal and economic terms and conditions of companies' operations on international markets

The programme has been developed as an innovative educational product aimed at preparing general-purpose specialists, such as analysts, consultants, and experts who work for businesses on international markets and in the field of regulating foreign economic relations. The training results in students learning unique competencies in conducting foreign business operations in a rapidly changing environment. It also gives them the skills required for multilateral and regional regulation, as well as those necessary to use and analyze international trade regulation tools, carry out trade negotiations and interact with government agencies, and regional and international organizations.

The programme is presented by unique Russian team of professionals in the sphere of international trade, trade policy and global economic regulation (NRU HSE, Ministry of Economic Development, WTO Expertise Centre, Vnesheconombank), professors and experts from universities and research centres in Germany, Switzerland, and Spain, as well as experts from international organizations, such as WTO and UNCTAD.

Programme duration — 2 years.
Lectures are held in Russian and English languages

The programme provides students with an opportunity to choose one of its educational tracks:

1. Studying the 2-nd year on MA`s programme of the World Trade Institute in Bern (Switzerland) and getting a double degree (at HSE and at WTI)

2. Studying theoretical and applied issues in economic regulators' and agents' operations, with a short-term topical internship at a foreign partner organization Kiel Institute for the World Economy (Germany).

Application submissions: June 1 – August 16 2017