



German Economic Team Belarus
IPM Research Center

Policy Paper Series [PP/02/10]

**The Customs Union between Belarus,
Kazakhstan and Russia:
An Overview of Economic
Implications for Belarus**

Irina Tochitskaya

Minsk, June 2010

About the IPM Research Center

The IPM Research Center was established in 1999 within the mutual project of the Institute for Privatization and Management (Minsk, Belarus) and CASE - Center for Social and Economic Research Foundation (Warsaw, Poland). It is a member of the CASE research network, William Davidson Institute NGO Alliance, and Economic Policy Institutes Network (project of the UNDP's Regional Bureau for Europe and the CIS). The IPM Research Center actively cooperates with the German Economic Team in Belarus (GET Belarus). Within this cooperation the IPM Research Center provides independent policy advice on economic issues to the different official agencies, namely to the Council of Ministers, National Bank, Ministry of Economy, Ministry of Finance and other organizations involved in the process of formation and implementation of economic policy.

The Mission of the IPM Research Center is to enhance national competitiveness through elaboration of the research-based economic policy recommendation and the promotion of professional dialogue on the urgent issues related to economic performance.

IPM Research Center

50B Zakharova Street, 220088, Minsk, Belarus

Tel: +375 (17) 2 100 105

Fax: +375 (17) 2 100 105

E-Mail: research@research.by

<http://www.research.by>

About the German Economic Team Belarus (GET Belarus)

The main purpose of GET Belarus is to conduct a dialogue on economic policy issues with the government, civil society, and international organizations. Experts of German Economic Team have experience in policy advice in several transition economies, including Ukraine, Russia, and Kazakhstan. In Belarus the IPM Research Center and the German Economic Team provide information and analytical support to the Council of Ministers, the National Bank, the Ministry of Foreign Affairs, the Ministry of Economy and other institutions involved in the process of formation and implementation of economic policy.

German Economic Team Belarus

c/o Berlin Economics

Schillerstr. 59

D-10627 Berlin

Tel: +49 30 / 20 61 34 64 0

Fax: +49 30 / 20 61 34 64 9

E-Mail: info@get-belarus.de

<http://www.get-belarus.de>

The Customs Union between Belarus, Kazakhstan and Russia: An Overview of Economic Implications for Belarus

Executive summary

The paper examines the economic implications of Belarus' participation in the newly created EURASEC Customs Union. The results of the calculations show that after the introduction of a common external tariff (CET) the level of tariff protection in Belarus has not increased noticeably. The reduction in the volume of imports from non-CIS countries equal to USD 1.1 bn (8% of Belarusian non-CIS import in 2008) will be mainly brought about by cancellation of used cars imports from non-member countries. The analyses revealed that Belarusian budget can benefit from participation in the Customs Union (CU). The amount of possible gain will be about 28.3% of total budget revenues from customs duties and customs charges in 2008 due to the fact that approximately 40% of Russian imports may go through customs clearance in Belarus owing to less bureaucracy at the border with respect to Russia, and the revenues from customs charges, which is not planned to be distributed among member countries, will be transferred to Belarusian budget.

However, it is unlikely that CU membership will increase foreign direct investment (FDI) inflow to Belarus, since in the case of South-South regional trade agreements (the type of EURASEC countries CU) FDI usually goes to the bigger country, i.e. to the bigger market. Therefore, most probably that in the regional arrangement in question Russia followed by Kazakhstan will be the main beneficiaries of foreign direct investments.

It is worthy to note that participation in the EURASEC CU and announced intention of three member-countries to make a WTO bid jointly will not help Belarus to speed up the process of accession to this international organization. Taking into consideration that WTO rules and procedures do not provide possibility to entry WTO via a regional trade agreement (free trade zone or customs union) the probability of joining together seems to be rather low. In addition it is important to note that Russia made more progress on the way to WTO, therefore coordination of Belarus' position with this country appear to be unrealistic. Furthermore the Belarusian Ministry of Foreign Affairs statement that Belarus is not going to accelerate the negotiation for WTO accession is in disagreement with Russia's willingness to enter this organization in the nearest future.

Finally, the further implications of Belarus participation in the newly created regional trade agreement (RTA) will highly depend on common CU external and internal trade policy. Belarus membership at EURASEC CU can be considered as a positive element of national trade policy only if the member countries constantly decrease the level of protectionism via reduction of Common External Tariff, decline non-tariff barriers, harmonize sanitary and phytosanitary norms, since all that may not only lead to increases in trade flows but also bring about a rise in consumer welfare and producer competitiveness.

Author

Irina Tochitskaya

tochitskaya@research.by

+375 172 100 105

Reviewer

Ricardo Gucci

gucci@berlin-economics.com

Igor Pelipas

pelipas@research.by

Contents

1. Introduction.....	1
2. History of Integration	1
3. Economic Implications for Belarus	3
4. Conclusions	9

1. Introduction

On 27 of November 2009 Belarus, Kazakhstan and Russia agreed to create a Customs Union (CU), which implementation presupposes not only the formation of the common customs space in July 2010, but should pave the way for deeper economic integration, namely the single economic space that is assumed to be launched in January 2012. Taking into consideration that Belarus participation at this RTA may strongly affect the country's economy it is useful to conduct analysis of the implication of such membership on Belarusian economy and assessment whether membership in CU can help to increase the effectiveness and the competitive ability of the national economy.

Bearing this in mind the paper aims to assess the consequences of Belarus participation in EURASEC-CU on trade flows, budget, foreign direct investment inflow, and competitiveness in Russian market. The paper is organized as follows: first it overviews the history of integration in CIS. Part 3 examines the economic implications of such membership for Belarusian economy. The concluding section summarizes the major arguments and offers some policy recommendations.

2. History of Integration

The last ten-fifteen years have been evidence of the trend towards new wave of regional economic integration. Turning into the dominant factor of the world trade, regionalism affects both economic and political relations between countries, confronting them with the choice should they enter trade agreement, which form of integration should be preferred and who should be a partner. Such questions have been discussed among new independent states after break up of the USSR followed by economic disruption. The CIS countries had the aspiration to maintain and restore the economic ties as well as desire to remain in traditional export markets and to decrease the competitive pressure from the rest of the world using high external trade barriers. Therefore in the first half of the 1990s a large number of regional trade agreements have been signed within CIS.

The CIS countries *Free Trade Zone* should be considered as a first attempt of trade cooperation between Armenia, Belarus, Georgia, Moldova, Kazakhstan, the Kyrgyz Republic, the Russian Federation, Tajikistan, Ukraine, and Uzbekistan. However, this agreement has not been ratified by Russia, who asked for exemptions from FTA (particularly on oil and gas), and therefore Free Trade Zone has not come into force.

In 1995 three countries - Belarus, Kazakhstan and Russia - established a Customs Union that Kyrgyz Republic and Tajikistan agreed to join in 1996.¹ In October 2000 member countries decided to reorganize it into Eurasian Economic Community. This decision was ratified in May 2001. The countries intended to set a common external tariff with respect to the rest of the world countries (non CIS) and harmonize the non-tariff barriers. Yet, member states failed to reach the announced aims. The reason for this was diverse structure of the economy and different level of economic development in Belarus, Kyrgyzstan, Kazakhstan, Russia, and Tajikistan. As a consequence the countries' willingness to protection or open to international competition the economic sectors did not coincide. Besides Kyrgyzstan has been a WTO member since 1990 and hence should conduct its trade policy in accordance with accepted obligations, including the level of external tariff. In addition, due to different reasons countries more and more has reoriented their trade away from RTA. This led to excess of extra-regional trade over intra-regional for all member countries, as a result, the share of intra EURASEC exports shrank and accounted for only 9.5% in total export in 2008, in its turn intra-block imports reduced to 18.5%.

¹ Some other RTAs were created by CIS countries in the Central Asia and Caucuses (GUUAM, Central Asian Economic Union (CAEU)), but since Belarus has not participated in these regional agreements we do not consider them in this paper.

Beyond the above mentioned agreements Russian and Belarus signed in 1999 the Treaty on Union State Formation, it provided for formation of the common economic space and monetary union, establishment of supranational institutions, i.e. Supreme State Council, Council of Ministers, Union Parliament. However, this Union appeared to be more political oriented as all its economic undertakings remained on paper.

Despite the dubious success of previous regional trade initiatives within CIS in September 2003 Belarus, Russia, Kazakhstan, and Ukraine concluded draft agreement on Single Economic Space (SES). The concept of SES was rather vague mainly due to position of Ukraine, which avoided participation in RTAs that presupposed the creation of supranational bodies and went beyond free trade agreement. In addition Ukraine introduces the proviso clause that SES must not contradict Ukrainian constitution and strategic goal of integration into EU. In the process of SES formation countries had different positions and visions of this RTA, thus, Russia and Belarus wanted to introduce a common currency and to form a customs union, while Ukraine insisted on free trade zone without exceptions and limitations. These apparent contradictions resulted in failure of SES regional initiative.

New wave of regionalism within CIS arose in 2007 when EURASEC member states understood that it remained an incomplete free trade zone with trade discrimination problems (e.g. antidumping investigations) and countries were not able to settle their differences. Therefore it was decided to implement regional integration initiatives within this RTA at diverse speed and different levels, i.e. Belarus, Kazakhstan and Russia planed to set a common external tariff and to create a customs union, while Kyrgyzstan and Tajikistan intended to stay in free trade zone. Alongside with that EURASEC has remained operational.

In 2009 the presidents of Belarus, Kazakhstan and Russia have reached the agreement on creation of a Customs Union that was come into effect on January 1, 2010. On November 27 2009 Interstate EURASEC Committee (supreme body of the Customs Union) approve a Customs Code and Common External Tariff (unified external duty rates). In addition it was announced that countries would seek to joint the World Trade Organization (WTO) simultaneously and form a single economic space in 2012. Undoubtedly, the fact that member countries managed to get over controversy concerning type of RTA, its functioning, possible supranational bodies, tariff regimes and introduced the common customs tariffs was the important step towards real integration of the three countries. It should be mentioned that all efforts have been undertaken earlier did not bring desirable results, most of all, because member countries (bar from Belarus and Russia) were reluctant to unify national tariff regimes.

The import tariffs unification before the creation of the EURASEC Customs Union was at the level of 65%, herewith, Belarus and Russia harmonized 95% of tariffs, while Russia and Kazakhstan only 38% (as a consequence the country have to raise tariffs on more than 5,000 goods).² The tariff regime of the new Customs Union is based substantially on Russian duties (92%). Therefore according to Vice Prime Minister of Belarus Andrey Kobjakov, 74.6% of Belarusian tariff lines will be the same as before the EURASEC CU, tariffs on 18.7% goods will be increase, and on 6.7% - decreased. In addition countries adopted the list of 1141 sensitive goods, tariffs on which should be kept unchanged, 632 of this positions are important for Belarus. In addition, Belarus preserved the system of authorized economic operators, for alcohol products, tobacco goods, fish and seafood. These commodities can be imported to Belarus only by these so-called "special importers".

Since Unified Customs Territory should come into force on July, 1, 2010 Customs Union Commission of Belarus, Kazakhstan and Russian approved the mechanism of distribution of import customs duties between countries on March 25, 2010. According to the decision, Belarus will obtain 4.70 % of the total sum of customs duties, - Kazakhstan – 7.33 %, the Russia – 87.97 %.³ There ratios were calculated on the basis of data on volume of import from the third countries,

² http://www.government.by/en/eng_dayevents20091204.html

³ http://www.tsouz.ru/KTS/meeting_2010_03_25/Pages/R_199.aspx

which was obtained from UN database COMTRADE and mean effective values of import duties in the amount of 23.77%, estimated based on the data on import to Russia in 2009.⁴ Customs payments will be transferred in each country to the special accounts in national currency.

3. Economic Implications for Belarus

Tariff changes after creation of the CU

Table 1 shows that before creation of EURASEC Customs Union the Belarusian level of tariff protection was lower than in Russia but higher than in Kazakhstan. According to the World Bank database *World Trade Indicators* the Belarusian weighted average tariff was 8.04%, while in Russia it accounted for 12.34%, likewise tariff peaks and a tariff dispersion was lower in comparison with Russia and Kazakhstan (1.02% vs. 1.11% and 1.79% accordingly). On the other hand, the level of tariff protection in Belarus was higher than in Europe and Central Asia in average.

Table 1: Level of Tariff Protection in Belarus, Russia and Kazakhstan before Creation of the Customs Union

2006-2009	Belarus	Kazakhstan	Russia	Europe and Central Asia	EU27	world
MFN applied tariff (AV + AVE)						
MFN applied tariff (AV + AVE), simple average (%)	10.77	6.16	10.75	6.72	5.46	9.54
MFN applied tariff (AV + AVE), maximum	396.3	475.2	425.4	239.2	228.8	226.6
MFN applied tariff (AV + AVE), dispersion (%)	1.02	1.79	1.11	1.79	1.97	1.80
MFN applied tariff (AV + AVE), weighted average (%)	8.04	5.06	12.34	5.86	3.15	8.53
Tariff peaks						
Share of tariff lines with domestic peaks (value above 3 times the simple average tariff) (%)	1.78	6.54	3.23	8.38	9.79	6.11
Share of tariff lines with international peaks (applied tariff rates that exceed 15 percent) (%)	18.15	7.19	19.11	10.25	11.10	21.73

Note: * AV - ad valorem tariff, AVE - specific tariff in ad valorem equivalent

Source: World Trade Indicators, the World Bank

Table 2, presents the level of tariff protection in Belarus after the adoption of the common external tariff (CET). The indicators in the Table 2 were calculated based on the data on Belarusian national external tariffs and common external tariffs of the Customs Union (all specific tariffs are provided in ad valorem equivalents) at 10-digit level of TN BED (equivalent to Harmonized System Commodity Classification)⁵. As can be seen from the table after the introduction of a common external tariff the level of tariff protection in Belarus has not changed

⁴ http://www.tsouz.ru/KTS/meeting_2010_03_25/Pages/R_199.aspx

⁵ For analysis is based on the computation of the Belarusian external tariff and Common external tariff (all specific tariffs are provided in ad valorem equivalents) at 10-digit level TN BED made at the Institute for the Economy in Transition. Weighted average tariff was calculated using the UN COMTRADE data on imports in 2008.

noticeably. The simple average tariff decreased insignificantly, while weighted average tariff slightly grew up and accounted for 10.34%, tariff dispersion increased as well testifying the rise of tariff schedule variation and more deviation of customs rates from mean. After setup of CET the number of tariff peaks grew up, as the share of tariff lines that exceeded 15% increased by 3.4 percentage points, yet, the share of tariff lines, which value above three times exceed simple average tariff went down by 1.2 percentage points.

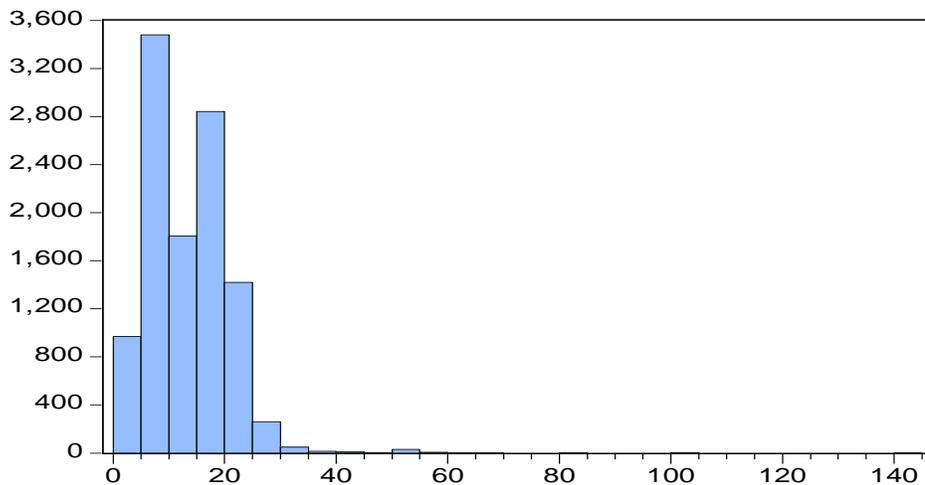
Table 2: Level of Tariff Protection in Belarus after Creation of Customs Union

	Before CU	After CU
MFN applied tariff (AV + AVE)		
MFN applied tariff (AV + AVE), simple average (%)	10.89	10.45
MFN applied tariff (AV + AVE), dispersion (%)	0.7	0.9
MFN applied tariff (AV + AVE), weighted average (%)	9,29	10,34
Tariff Peaks		
Share of tariff lines with domestic peaks (value above 3 times the simple average tariff) (%)	1.97	0.78
Share of tariff lines with international peaks (applied tariff rates that exceed 15 percent) (%)	13.74	17.13

Source: own calculations

Figure 1 depicts the distribution of external tariff rates in 2008 (horizontal axis depicts tariff rates in percents, vertical axis depicts the number of commodity lines). As can be seen 9.2% of all commodities lines were liable to customs duties ranged from 0 to 5%, 32.1% - from 5% to 10%, 16.5% - from 10% to 15%, and for commodities 25.7% the tariff varied from 15% to 20%. Thus the tariff exceeded 20% was applied only for 16.6% goods, and 12.8% had tariff 20-25%.

Figure 1: Distribution of Belarusian external tariff rates in 2008

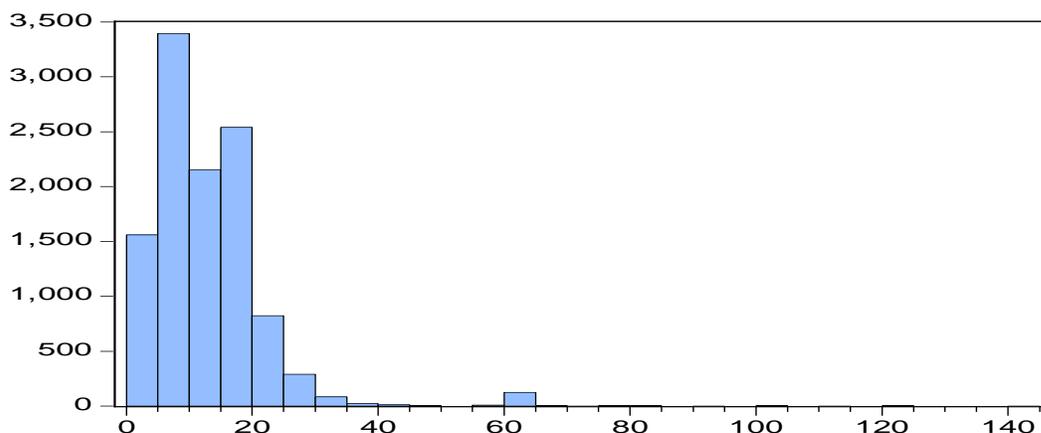


Source: own calculations, 10-digit TNBED

It is worthwhile to say that after the introduction of CET (Fig. 2) the rise of tariffs for commodities had a trend towards accelerated increase. Thus for 60,4% of commodities that

experienced upturn of customs duties these tariff rates grew by 10% and more, for 26.6% the upsurge was 10%- 20%, and for 33.8% - rates increase by 20% and more.

Figure 2. Distribution of Belarusian external tariff rates after adoption of CET⁶



Source: own calculations, 10-digit TNBED

Thus, after joining of the Customs Union the distribution of external tariff rates has been as follows: 13.6% of commodity lines have import duty set at 0-5%, for 30.8% of goods rates vary from 5% to 10%, for 20% of items - from 10% to 15%, for 22.4% of commodities - from 15% to 20%. Import duty higher than 20% is applied to 13.2% of goods, at that 1.1% of commodity lines have tariff that exceed 60% (only 0.6% in 2008)

The most considerable increase in customs duties is registered at following commodity groups:

02 «Meat and edible meat offal» (from 10 to 20 percentage points), moreover for some specific goods within this group, e.g. «refrigerated pork» the rates grew up to 50 percentage points.;

17 «Sugars and sugar confectionery»;

76 «Aluminum and articles thereof», e.g. the increase in external tariff at commodity line «twigs and sections from Aluminum» reach 100 percentage points.;

61 and 62 «Articles of apparel and clothing accessories, knitted or crocheted», «Articles of apparel and clothing accessories, not knitted or crocheted» (up to 10 percentage points).;

87 «Vehicles other than railway or tramway rolling stock», thus within subgroup 8703 «Motor cars and other motor vehicles principally designed for the transport» the external tariff have increase by 20 percentage points (up to 30%) on new vehicle, and by 500 percentage points on second hand vehicle; within subgroup 8704 «Motor vehicles for the transport of goods» the customs duty has raised on average by 15 percentage points on second-hand motor vehicles, and by 15-20 percentage points on new one.

The following goods have been experienced the reduction in external tariff:

73 «Iron and steel», 84 «Machinery and mechanical appliances; parts thereof»; 85 «Electrical machinery and equipment and parts thereof; sound recorders and» (by 10-20 percentage points);

⁶ horizontal axis depicts tariff rates in percents, vertical axis depicts the number of commodity lines

51 «Wool, fine or coarse animal hair; horsehair yarn and woven fabric», 65 «Headgear and parts thereof » (by 5 - 10 percentage points);

37 «Photographic or cinematographic goods» и 58 «Special woven fabrics; tufted textile fabrics; lace, tapestries; trimmings; ...». (by less than 5 percentage points).

Changes in trade flows

The creation of the regional trade arrangements, end especially customs union, raises concern about their trade affects, i.e. whether trade barriers applied in RTAs encourage import from member states at the expense of non-member countries. In order to address this question the estimation of the impact of the introduction of CET on Belarus' trade flows, namely on the import from outside of the EURASEC CU, was made based on the data on changes of weighted average tariff (before and after formation of the CU) at 2 -digit level of TNBED, the volume of imports from non-CIS countries in 2008 at 2-digit level of TNBED, and import demand elasticities.⁷

The calculation showed that, as the result of the introduction of CET, the reduction in the volume of imports from non-CIS countries may reach USD 1.1 bn (8% of Belarusian non-CIS import in 2008). It will be mostly due to the cancellation of used cars imports from non-member countries. The share of this commodity in total volume of imports from non-CIS countries amounted to 8.2% in 2008. It will inevitably lead to rise in supply of motor cars from Russia that gain competitiveness in Belarusian market in consequence of customs duty hike.

According to calculations the shrinkage in imports will be observed for the following groups:

02 «Meat and edible meat offal», it may account for USD 16.7 m or 9.8% of non-CIS imports of this commodity group;

11 «Products of the milling industry; malt; starches» - USD 1.2 m, or 15.2% of non-CIS imports of this commodity group;

17 «Sugars and sugar confectionery» - USD 46.6 m, or 45% of non-CIS imports of this commodity group;

18 «Cocoa and cocoa preparations» - USD 1.4 m, or 3.2% of non-CIS imports of this commodity group;

63 «Other made up textile articles; sets; worn clothing and worn textile articles» - 1% of non-CIS imports of this commodity group;

76 «Aluminum and articles thereof» - USD 17.3 m, or 15.3% of non-CIS imports of this commodity group;

87 «Vehicles other than railway or tramway rolling stock» - USD 47.3 m, or 2.3% of non-CIS imports of this commodity group.

The increase in external tariff rates and reduction in imports for commodity groups 02, 11, 17, 18, 63 is favorable for Belarusian producers, as it will help them to improve competitive positions both on Belarusian and Russian markets.

The growth of customs duty for commodity group 76 will result in diversion of non-CIS imports and replacement it by Russian manufactures. The upward trend in tariff on products of automobile industry (commodity group 87) also correspond to Russia's interest due to the fact that Volvo and Daimler AG are opening truck assembling plants, while Setra and Mercedes buses and coaches have been already assembled in Russia. It can be expected that the above mentioned plants in the nearest future will be he main rivals for Belarusian automotive industry products in Russian market.

⁷ Import demand elasticities were taken from Hiau Looi Kee, Alessandro Nicita, Marcelo Olarreaga (2004) "Import demand elasticities and trade distortions," Policy Research Working Paper Series 3452, The World Bank

However, the introduction of the CET will bring about the rise in non-CIS imports of some groups of commodities due to lowering of customs duties. First of all it refers to the following commodity groups:

15 «Animal or vegetable fats and oils», the reduction may account for USD 1.9 m, or 5.8% of non-CIS imports of this commodity group;

27 «Mineral fuels, mineral oils and products of their distillation» - USD 3.3 m, or 3.4% of non-CIS imports of this commodity group;

39 «Plastics and articles thereof» - USD 6.3 m., or 0,8 % of non-CIS imports of this commodity group;

43 «Fur skins and artificial fur; manufactures thereof» - USD 1 m, or 10.7% of non-CIS imports of this commodity group;

51 «Wool, fine or coarse animal hair; horsehair yarn and woven fabric» - USD 2 m., or 10% of non-CIS imports of this commodity group;

54 «Man-made filaments» - USD 1.6 m, or 1.7% of non-CIS imports of this commodity group;

57 «Carpets and other textile floor coverings» - USD 0.7 m, or 9.3% of non-CIS imports of this commodity group;

58 «Special woven fabrics; tufted textile fabrics; lace, tapestries; trimmings» - USD 2.4 m, or 7% of non-CIS imports of this commodity group;

61 «Articles of apparel and clothing accessories, knitted or crocheted» - USD 2.3 m, or 7% of non-CIS imports of this commodity group;

64 «Footwear, gaiters and the like; parts of such articles» - USD 3.4 m, or 4.9% of non-CIS imports of this commodity group;

84 «Machinery and mechanical appliances; parts thereof» - USD 89.5 m, or 3% of non-CIS imports of this commodity group;

85 «Electrical machinery and equipment and parts thereof; sound recorders» - USD 15.1 m, or 1.3% of non-CIS imports of this commodity group;

90 «Optical, photographic, cinematographic, measuring, checking, precision» - USD 9.1 m, or 2 % of non-CIS imports of this commodity group.

It should be noted that the decrease in tariffs on carpets, apparel, and footwear will make Belarusian companies less competitive in national and Russian market, as well as it may reduce Russian imports of the above goods. The growth of imports of commodity groups 84,85,90, which belong to so-called investment goods, will promote technical upgrading of Belarusian enterprises, and undoubtedly should be treated as a positive fact as it can result in the improvement of competitiveness of their products in the future.

Implications for State Budget

As it was mentioned earlier EURASEC CU member countries agreed on the mechanism of distribution of import customs duties, according to which Belarus will obtain 4.70 % of the total sum of customs duties, - Kazakhstan – 7.33 %, the Russia – 87.97 %. However, it is worth to give a deep look on the implication of Belarus participation in the Customs Union on state budget in order to identify possible sources of losses and gains. For illustrative estimation of the impact of Belarus' membership in the CU on state budget revenues the data on the change of the weighted average tariff after the introduction of the CET was multiplied by the volume of non-CIS imports in 2008. Weighted average tariff based on the data on common external tariffs of the

Customs Union (all specific tariffs are provided in ad valorem equivalents) and non-CIS imports in 2008 at 2-digit level of TN BED.⁸ According to calculations the main losses of state budget, if revenues from customs duties come to the national budget as before, will arise due to the sharp decrease in customs duty revenues on commodity group 8703 «Motor cars and other motor vehicles principally designed for the transport» owing to adjustment of the import tariff rate for Russia's level.⁹ It should be noted that the level of tariff for *second-hand* cars is virtually prohibitive. However, in 2008 budget earnings from customs duties on cars approximately account for 25% of total budget earnings from customs duties, in 2009 this share increased to 33%. After introduction of the CET import of used cars to Belarus will be stopped, and according to estimation of Belarusian Automobile Association the number of imported new cars will go down by 3-4 times compared with 2009 (i.e. it will be around 4640 cars). Thus budget revenues from customs duties on cars will be reduced by 7 times. According to calculation in total budget will lose 21.8% of budget revenues obtained in 2008 from customs duties.

However, it should be noted that at the same time Belarusian budget can gain from participation in the Customs Union, as part of the revenues come to the budget from customs clearance of imported goods (customs processing fees and etc.), which is not planned to distribute among member countries. According to experts estimations 40% of Russian imports will go through customs clearance in Belarus, and consequently, customs charges will be transferred to Belarusian budget. For getting a foretaste of the sum of possible budget gains the following calculations was conducted: 40% of Russian budget revenues in 2008 from customs processing fees only were accounted for USD 455 m. (EUR 310 m.), it is equal to 56.6% of total Belarusian budget revenues from customs duties and fees in 2008. Let's assume that only customs clearance fees will be transferred to Belarusian budget (fees for customs escort and customs storage will come to Russian budget as before). Since we do not know what is the share of customs clearance fee in the total amount of custom charges it was surmised that it accounted for 50%, then the total sum of Belarusian budget gains amount to USD 227.5 m. (EUR 155 m), which is equal to 28.3% of total budget revenues from customs duties and customs charges in 2008 r. In such case this sum will surpass the losses of state budget that was obtained from illustrative estimation of the impact of Belarus' membership in the CU on state budget revenues (see previous paragraph).

Impact on Foreign Direct Investment inflow

An important focus of the debate surrounding all RTAs is how such arrangements may affect inward and outward foreign direct investment flows. Recent theoretical and empirical studies have posited that it is difficult (or even impossible) to make general predictions regarding the results of RTAs on foreign direct investment decisions.¹⁰ In fact, the existing literature provides evidence that the impact of integration agreement on FDI flows depends, in each individual case, on the change in economic environment brought about by the RTA, as well as on the locational advantages of the participating countries and industries, and the motives for foreign direct investment. Effects are likely to vary between small and large countries, and different integration agreements (North-North, North-South, South-South). Furthermore, empirical evidence shows that the liberalization and macroeconomic stabilization (e.g. comprehensive privatization program, which opens several industries to foreign investment.), strong property, legislative and regulatory environments surrounding foreign ownership rights appear to have been a more important

⁸ i.e. assumption is made that the volume of imports after joining the CU would be kept unchanged

⁹ Customs duties for legal entities was increased from January 1 2010, for individuals they should be harmonized with Russian external tariffs on July 1, 2010. Russian import tariffs on used cars are 5-10 times higher than Belarussian ones and are virtually prohibitive. For example, according to pe-CU import tariff individuals should pay for the car produced in 2003 with engine 2000 м3 the amount of customs duty equal to 800 EUR, while according to the CU tariff rate it should be a 8000 EUR. For new cars the CU import tariff is also substantially higher than national Belarusian tariff (30% of car value in comparison with 0.75 EUR per cubic meter of engine before CU)

¹⁰ Blomstrom, M., Kokko, A., (1997) Regional Integration and Foreign Direct Investment A Conceptual Framework and Three Cases, *Policy Research Working Paper*, World Bank, 1750.

determinants of FDI inflows to countries like Belarus than the regional integration is. In addition it should be noted that in the case of South-South RTAs (the type of EURASEC countries CU) the inflows of FDI to the region are not likely to be distributed equally to all participating countries. It is reasonable to assume that in the regional arrangement in question Russia will be the main beneficiary of FDI inflows.

Customs Union membership and WTO accession

After creation of the Customs Union it was announced that they are going to enter WTO jointly (as a block) However, rules and procedures of WTO accession do not presuppose that. Moreover Russia concluded bilateral negotiations with 60 countries within WTO working group. There are only few unsettled questions on the way of Russia's WTO accession, e.g. support of agriculture, export tariff rates on timber, and regulation of state companies' activity. On the whole it has moved well ahead than Kazakhstan and Belarus. Many experts associate Russia's statement about its willingness to start WTO accession as a Customs Union with its annoyance concerning protracted negotiations and the position of the USA.

To be aware that joint WTO accession is unrealistic Russia announced that it will make final decision on how to enter the World Trade Organization (as a CU or separately) at the conclusion of its own negotiation in 2010. Moreover, according to some statements of Russian officials it is high probability that Russia will manage to be WTO member till the end of 2010. Therefore it is unlikely that participation in the EURASEC CU will allow Belarus to speed up the process of WTO accession. The coordination of its position with Russia seems to be not realistic as well, since Russia made more progress on the way to WTO. In addition the Belarusian Ministry of Foreign Affairs statement that Belarus is not going to accelerate the negotiation for WTO accession is in disagreement with Russia's willingness to enter this organization in the nearest future. In far as it concerned the coordination of the negotiation position with Kazakhstan, it will be possible only on narrow range of issues as countries have rather different structures of national economies.

4. Conclusions

The analysis of the economic implications of Belarus' participation in the EURASEC Customs Union reveal that after the introduction of a Common External Tariff the level of tariff protection in Belarus has not changed noticeably. The simple average tariff decreased insignificantly, while weighted average tariff slightly grew up and accounted for 10.34%.

Nevertheless the calculation shows that as the result of the introduction of CET, the reduction in the volume of imports from non-CIS countries may reach USD 1.1 bn (8% of Belarusian non-CIS import in 2008). Yet, it will be mostly due to the cancellation of used cars imports from non-member countries.

According to the results of conducted calculations Belarusian budget can gain from participation in the Customs Union, as approximately 40% of Russian imports may go through customs clearance in Belarus, and the revenues from customs charges, which is not planned to be distributed among member countries, will be transferred to Belarusian budget. The computation shows that the total sum of Belarusian budget gains may account for 28.3% of total budget revenues from customs duties and customs charges in 2008.

Participation in the EURASEC CU can also strengthen of Belarus position as a transit country through less bureaucracy at the border with respect to Russia.

However, it is scarcely probable that CU membership will bring about the inflow of FDI in Belarus. First, because it was empirically proven that the liberalization and macroeconomic stabilization (e.g. comprehensive privatization program, which opens several industries to foreign investment), strong property, legislative and regulatory environments surrounding foreign ownership rights appear to have been a more important determinants of FDI inflows to countries like Belarus than the regional integration is. Second, in the case of South-South RIAs (the type of EURASEC countries CU) the FDI usually goes to the bigger country, i.e. to the bigger market. Therefore it is

reasonable to assume that in the regional arrangement in question Russia will be the main beneficiary of FDI inflows.

It is unlikely that participation in the EURASEC CU will allow Belarus to speed up the process of WTO accession. First, WTO rules and procedures do not provide for possibility to join it within customs union. Second, the coordination of Belarus' position with Russia seems to be unrealistic, since the later made more progress on the way to WTO.

Finally, it is difficult to say now with certainty whether Belarus participation in the CU will be beneficial or harmful for Belarus. If this membership increases trade, leads to decline in NTB, as member-countries announced a gradual reduction of all barriers in mutual trade, and does not bring about increase in protectionism it can be considered as a positive element of national trade policy.