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## **REFORMING CUSTOMS, UZBEKISTAN NODS TOWARD THE EURASIAN ECONOMIC UNION**

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By Nicholas Trickett

Tashkent is harmonizing its import tariffs with EAEU norms.

For all the doom and gloom associated with the Eurasian Economic Union (EAEU), a funny thing is happening in Central Asia □ Uzbekistan is harmonizing its import tariffs with EAEU norms. The move comes amid a larger reorganization of the countrys customs service in an attempt to improve tax collection, the investment climate, and opportunities for the countrys businesses.

Russia has also proposed that Tajikistan pursue observer status within the EAEU as a means to encourage trade. Though Dushanbes response has not yet been articulated, Uzbek President Shavkat Mirziyoyevs decision to push through tariff reforms in line with the frequently incoherent Moscow-led economic and political bloc has provided regional states a potential tool to hedge between external powers.

Chinas infrastructure ambitions in Central Asia and elsewhere spark intense interest in and scrutiny of physical infrastructure □ roads, rails, ports, pipelines, and power plants in particular. But things like legal and normative agreements for tariffs or regulations, trades soft infrastructure, are essential to sustain and develop commercial connections by establishing rules of the road. In this regard, Russia has an instrument in Central Asia to affect the fine print.

On January 1 this year, a new customs codex for member states of the EAEU took effect. The reform was, in part, a means of improving Russias ranking on the World Banks Doing Business index. The codex augments agreements among member states □ Russia, Kazakhstan, Armenia, Belarus, and Kyrgyzstan □ to create a unified set of tariffs for mutual trade. Tariffs matter a great deal, but inefficient customs practices and regulatory requirements often pose costlier impediments to trade.

Though considerable work remains to make any agreement functional, the EAEUs intergovernmental council has already adopted a document laying the foundation for an agreement on a unified customs window – a single framework for the regulatory and physical process of handling customs for imports and exports. The agreement is meant to provide a system for member states to introduce controls that do not violate the Union agreements guidelines so as to then enable these controls to be shared normatively with other member states.

Its unrealistic to expect significant progress soon, despite the expectation that each member state offer plans to fully develop a unified window this December. Russia has not even properly given authority over the project to any ministry or official in Moscow. But tariff adjustments are a relatively limited means to deepen trade and investment ties. Work to simplify declaration procedures for any firm using a supply chain connected to non-member states and simplifying the registration for products points of origin would help national budgets – and affect institutional corruption and trade flows from China across the region.

### Contra-bandits and Khorasans-papiers

According to a decree from Mirziyoyev, importers will be able to declare goods before they reach the border and to dispose of their goods on their own after clearing customs, upending older protectionist practices to allow companies and traders to exert more uninterrupted control over the countrys trade. These reforms can alter the structure of import-export schemes involving customs officials that distort revenues and trade.

Within the EAEU, its estimated that the bloc loses over \$300 million annually for its shared budget to Kyrgyzstans illegal re-export of Chinese goods. In 2016, Kyrgyzstans official import statistics from China totaled \$1.5 billion worth of goods. Chinas export figures showed \$5.6 billion.

This is a huge deal for budgets in Russia and Central Asia. For example, Kazakhstan estimates that 11 percent of its tax revenues come from taxes on foreign trade and operations. Institutional reforms are needed to provide depth to changes to tariff levels that reduce incentives to dodge taxation. Uzbekistans reform process can nudge along other states attempts to increase their tax revenues via trade while reducing barriers to economic cooperation and the costs of trade.

For Uzbekistan, it cuts to the core of how Mirziyoyev seems to want to manage economic growth. The countrys small businesses account for 50 percent of GDP, and only provide 7 percent of budget revenues – namely through Value-Added Taxes (VAT) on goods and services. Reducing tariffs for trade helps reduce business expenditures for the countrys smaller firms while also moving to capture greater revenues via administrative improvements. Mirziyoyev has arrested

high-placed officials in the Customs Service, a symbol that at minimum, he at least subscribes to the dictum that one may steal but shouldn't be a thief. Outwardly, attempts to rein in corruption are in motion.

Institutional reforms are also afoot. New departments tasked with researching new and innovative methods, monitoring operations and risk assessment, and monitoring foreign trade operations have been created. The goal is to bring in international expertise and it's still quite early to assume that these changes will produce meaningful results. However, parallel changes to Uzbekistan's Ministry of Foreign Affairs along with Mirziyoyev's intention to focus on economic diplomacy to attract investment suggest that these initiatives have backing from the highest levels.

Central Asia has lacked a multilateral trade framework for Iran, but that is set to change in the near future. Talks with the EAEU over the creation of a free trade zone and interbank agreements is reportedly making progress. The contents of agreements are as yet unknown. It's likely that energy trade and energy investments will garner the most mutual interest as would agreements to deepen banking cooperation and insulate against sanctions risks.

That dovetails with Uzbekistan's efforts to deepen ties with Iran. Talks over tariff preferences for trade are in motion as well as growing contacts between businessmen and officials via business fora, namely for small and medium-sized businesses. The two states sit astride several transportation corridors. Further, Tashkent is hoping to increase its oil and wheat trade with Iran. Both could benefit from the harmonization of tariffs and procedures with any EAEU agreement, allowing Uzbekistan to become a transit state for Iranian trade with the rest of Central Asia alongside Turkmenistan.

## Dominos Theory and Casinos Royale

The cumulative effect of Tashkent's pivot toward the EAEU is hard to measure, but it can help push the tempo of processes in motion from Moscow and elsewhere. In particular, Russia's entreaty to Dushanbe over observer status takes on new resonance. Tajikistan will effectively be hemmed in by slowly harmonizing customs procedures in Uzbekistan and Kyrgyzstan to adjust its policies if it wishes to remain competitive.

It's akin to a Dominos theory of regional trade: the creation of a model — in this case, the EAEU — as a sort of loose franchise setting quality norms that slowly increases pressure on others to, at minimum, make domestic adjustments if not functionally align policies. If a deal with Iran is reached that includes agreements for the trade of oil, grains, and other commodities, Moscow's goal of creating shared norms for energy markets will become more palatable. Tajikistan, for example, has restarted selling Uzbekistan electricity, laying groundwork for further integration of a

regional electricity grid. Pricing mechanisms could be aligned to EAEU norms over time given the role that member state markets would play. Trade can create a gravitational pull toward policy outcomes that benefit the bloc longer-term.

The biggest issue facing the EAEU remains the personalist nature of decision-making. Institutions are weak and national leaders generally drive infighting and dealmaking. Mirziyoyev faces a wary partner in Astana in President Nursultan Nazarbayev, traditionally keen on taking the mantle as the leader of the regions most dynamic economy. Its not just Russian disinterest or domination that slows down the implementation of agreements, but differing interests between members.

Uzbekistans newfound role leading many integration processes in the region speaks to that problem. Mirziyoyev is responsible for the countrys sudden pivot toward the EAEU as a normative partner for regional trade. That is not terribly encouraging for the sustainability of cooperation through the EAEU, particularly with transition concerns looming in Kazakhstan. But Tashkents interest in using the EAEU as a base model suggests that the bloc perhaps has more going for it than is usually acknowledged.

Uzbekistan is positioning itself to pressure Tajikistan to engage the bloc more and lean on its rules to deepen regional economic integration. Its also preparing deeper cooperation with Iran in a process that may create a sort of bidding process whereby different states try to arbitrage their own customs and regulatory norms. That process can eventually create grounds for cooperation within the EAEU if member states see evidence of potential win-win situations. Uzbekistan has a chance to try and model that behavior, tenuous as progress may be.

Despite Russias economic weakness, its provided a means to hedge against external actors, including itself since states can approach non-member states with larger economies for lobbying support. Countless things can still go wrong, but Tashkent has taken center stage regionally and is using the EAEU in the process. Moscow would be well served to take notice.

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