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MIND Analytical Report

EAEU-Iran FTA: what is in it for Kazakhstan?

Hryhorii Kalachyhin
Miras Zhiyenbayev

MNU MAQSUT NARIKBAYEV UNIVERSITY

Maqsut Narikbayev Institute for Networking and Development

8 Korgalzhyn highway
Astana, Kazakhstan
www.mind.mnu.kz
info.mind@mnu.kz

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Content

Executive Summary

The Eurasian Economic Union (EAEU) and Iran signed the agreement on a free trade area (FTA) at the end of 2023, while the Interim FTA has been in force since October 2019. Although the FTA signing is definitely a positive development of the EAEU economic activity, this policy analysis aims **to analyse its potential benefits and risks** for Kazakhstan. In addition, we also broadly raise some key issues on Kazakhstan's trade policy as the EAEU member.

We have analysed statistics on trade and trade barriers, as well as texts of FTAs between Iran and Kazakhstan. **The primary conclusions** are the following:

- The increased market access due to the FTA **will not have a conspicuous impact** on Parties' economies. Currently, Iran and Kazakhstan account for less than 0.5% of each other's total exports/imports.

- Kazakhstan has a trade surplus with Iran. However, Kazakhstan's exports to Iran barely reached a pre-pandemic level in 2022, while imports from Iran almost tripled. If this tendency continues, we may anticipate a shift to the trade deficit. It is not a negative development per se, but it might have unpleasant effects on the country's macroeconomic indicators.

- Kazakhstan's exports to Iran are non-diversified. This is due to two reasons. First, Iran implements high tariff and non-tariff barriers, which are not regulated on a multilateral level (Iran is not a WTO member). Second, the Interim FTA is a very limited agreement.

- The Interim FTA did not have a valid impact on Kazakhstan's exports as it does not provide preferences on primary exporting commodities. At the same time, the Interim FTA promoted the diversification of Iranian exports to Kazakhstan. Therefore, the Interim FTA is relatively more beneficial for Iran than Kazakhstan.

- A newly signed FTA assumes **substantial market access** to the Iranian market. Moreover, the FTA will increase the predictability of Iranian trade policy and will limit Iran's options to introduce new trade barriers for EAEU goods. This will allow to avoid situations similar to the almost complete cessation of Kazakhstan's exports of ferrous metals to Iran due to the abrupt increase of tariffs by the Iranian government to support their metallurgy since 2017.

To do that we used various ITC platforms such as TradeMap (ITC, 2024) and Market Access Map (ITC, n.d.)

- The FTA **opens the cereals market** (in particular, wheat and barley). It also provides **possibilities for recovering metals exports** to Iran. The Russian Federation is another major player in these sectors; therefore, Kazakhstan’s exports will have to compete intensely with Russian ones for a market share.

- The FTA allows Iran to use tariff quotas for a few of Kazakhstan’s major export commodities. However, we do not anticipate that they will be used soon.

- The newly signed FTA is still limited in the sense that it affects only trade in goods, while other spheres of trade policy are **untouched**. The trade in services is a major example. Since the 1990s, it has been a common practice worldwide to liberalise services sectors through FTAs, but Kazakhstan has not joined it. Our analysis does not provide an apparent reason for this conservative approach to trade policy. However, it gives the most probable reasons: low trade in services flows with its FTA partners and the consequences of the country’s accession to the WTO.

Thus, taking into account the current state of Kazakhstan-Iran trade, as well as the limitations of the Interim FTA, **a newly signed FTA seems to be extremely positive for Kazakhstan**. In particular, we can expect the growth in exports of Kazakhstan’s primary export commodities, contributing to maintaining a trade surplus with Iran. At the same time, this FTA opens up opportunities to enhance the diversification of Kazakhstan's exports and make Iran's trade policy more predictable.

1. Short Background

The Interim FTA between EAEU members and Iran was signed on May 17, 2018, and entered into force on October 27, 2019. This agreement provides partial market access for Parties with an intention to extend it. On December 25, 2023, after several negotiation rounds, the Parties reached an agreement and signed the FTA that covers approximately 90% of the tariff lines.

Iran is not a WTO member and its trade policy actions are not regulated by multilateral agreements. Therefore, the newly signed FTA is not only a way to open Iranian market for EAEU exporters, but also **a guarantee of a more predictable bilateral trade relations.**

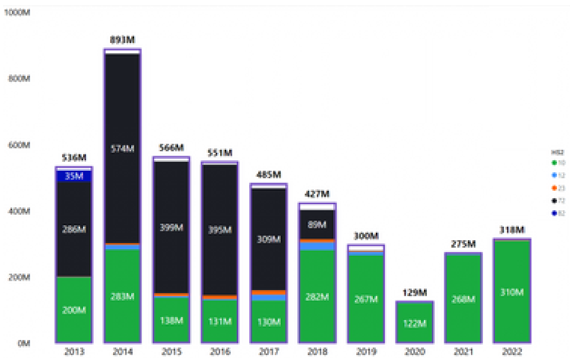
2. The development of Kazakhstan-Iran trade for the last 10 years

To better understand how the newly signed FTA may change the trade between Kazakhstan and Iran, we first consider its development over the last ten years. The Interim FTA was in force for three years during this period (2020-2022).

Our analysis shows that Iran and Kazakhstan play a minuscule role in each other's foreign trade – less than 0.5% of total exports or imports. It signals that the newly signed FTA may not lead to any conspicuous benefits or costs.

As for trade dynamics, Kazakhstan's exports to Iran have been decreasing since 2014 and reached their lowest point ($US 129 million) in 2020, the first pandemic year (see Figure 1). The exports reached their pre-pandemic levels in 2022, which are still around three times less than what was exported in 2014.

Figure 1. Kazakhstan's total exports to Iran in 2013-2022 and its top-5 HS2 categories

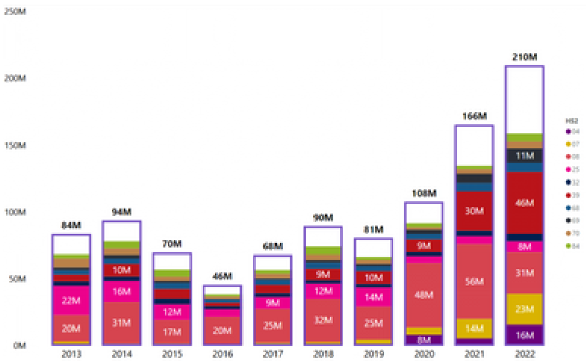


Source: authors' calculations based on TradeMap data

At the same time, Figure 1 shows a weak diversification of Kazakhstan's exports to Iran. It exported mainly **iron and steel** (HS Code 72) until 2019 when it almost stopped. Since then, **wheat** (HS Code 1001) and **barley** (HS Code 1003) have become the major export commodities. It is worth noting that the Interim FTA does not provide any preferences for Kazakhstan to export them. Therefore, the Interim FTA did not play a conspicuous role in restoring Kazakhstan's exports to Iran after the COVID-19 outbreak.

In contrast, the Iranian exports to Kazakhstan did not exceed $US 100 million before 2020. However, in 2020-2022, it almost tripled (compared to 2019) and reached $US 210 million (see Figure 2). As a result, Kazakhstan may have a trade deficit with Iran if such a trend continues.

Figure 2. Iran's total exports to Kazakhstan in 2013-2022 and its top-10 HS2 categories



Source: authors' calculations based on TradeMap data

Iranian exports to Kazakhstan are much more diversified. Its primary export commodities are **plastics and articles thereof** (HS Code 39) and **edible fruits and nuts** (HS Code 08). In addition, exports of **edible vegetables** (HS Code 07) and **dairy products** (HS Code 04) have been increasing since 2020. Moreover, diversification has enhanced in the last few years. Figure 2 demonstrates that the share of the top 10 categories of Iranian exports to Kazakhstan has substantially decreased in 2020-2022. In other words, in Iran-Kazakhstan bilateral trade, **Iran is the main beneficiary** of the Interim FTA.

The analysis showed that the reason for the decline is Iran's increase in import duties in 2017 to support the domestic metallurgy

We also analysed Iran’s and Kazakhstan’s shares in each other’s total imports on an HS 2-digit and 4-digit level. On the 2-digit level, we did not explore any dependency for both parties. It is much anticipated as both countries do not play a significant role in each other’s trade. However, on a 5-year average, Kazakhstan imported from Iran approximately 8% of edible fruits and nuts (HS Code 08) and salt, sulphur, lime and cement (HS Code 25), as well as 5% of edible vegetables (HS Code 07). **At the same time, Iran did not import as much as 1% of each HS 2-digit code.**

The analysis of HS headings (4-digit code) reveals a different picture. In some cases, Iran and Kazakhstan accounted for up to 70% of the total imports over the past five years on average (see Table 1). However, the value of these imports does not exceed $US one million. In other words, these HS headings do not play a significant role in countries’ bilateral trade.

Table 1. The largest headings in which Iran and Kazakhstan occupy each other's total imports (average for 2018-2022)

Iran’s share in Kazakhstan’s imports (>20%)		**Kazakhstan's share in Iran’s imports (>10%)**	
HS Code	%	HS Code	%
0804	70,22%	2303	60,19%
3915	39,90%	1205	15,49%
2516	34,68%	1004	13,44%
0707	31,48%	1204	11,77%
6803	24,39%		
0802	20,64%		
5507	20%		

Note: the headings, 5-year average imports of which has not exceeded one $US million, are highlighted in blue

Source: authors’ calculations based on TradeMap data

Therefore, the trade statistics indicate a **substantial growth of Iranian exports** and the presence of positive effects from the Interim FTA. This indicates the risk of the newly signed FTA's low potential for Kazakhstan due to weak export diversification. In the next section, we consider this issue in more detail based on an analysis of promising trade (sub)headings for expanding intensive and extensive margins of trade between Kazakhstan and Iran.

3. What commodities will be affected by the FTA?

As a part of the Interim FTA obligations, the EAEU liberalised the market access for **502 tariff lines** (10-digit codes), while Iran did the same for **360 tariff lines** (6-digit codes). The newly signed FTA implements a so-called **negative list** of obligations – Annex 1 contains only those tariff lines that are not affected by FTA at all, i.e., stay on the MFN level or face only a partial reduction in import duties. Our analysis shows that the Parties agreed not to implement any transition periods. As a result, all tariff lines (except those mentioned in Annex 1) are zeroed when the FTA enters into force. It is worth noting that Iran has import duties as high as 55%—such a drastic liberalisation provides a substantial competitive advantage to exporters.

We used the ITC Market Access Map and Annex 1 of the newly signed FTA to analyse the planned changes in Kazakhstan's import duties. At the same time, we analysed Annexes of the Interim and newly signed FTAs for changes in Iran's tariff schemes, as the ITC Market Access Map has no data on Iran's preferential tariffs. The following sections consider the potential of export growth in terms of intensive and extensive margins.

Kazakhstan's potential to increase the intensive margin of its exports to Iran

As we said earlier, Kazakhstan's exports to Iran are extremely non-diversified. However, our analysis shows that the major exporting goods did not receive any preferential treatment from the Interim FTA. It will change with the newly signed FTA entering into force (Table 2). In other words, there is a substantial potential for intensification of exports of these goods. In 2022, the **top-5 goods** were wheat (HS Code 1001), barley (HS Code 1003), sunflower crude oil (HS Code 151211), sunflower seed oil-cake and other solid residues (HS Code 230630). However, it is worth noting again that the values of their exports are relatively small, so their doubling or tripling will not lead to conspicuous changes in Kazakhstan's global exports.

For both Schedules of Tariff Commitments of the Eurasian Economic Union and the Islamic Republic of Iran bound rate of customs duty of 0% shall be applied for all goods from the date of entry into force of the Agreement

By intensive margin, we understand the increase in trade of already traded commodities, while the extensive margin is those goods that are not exported now but may be exported after the FTA enters into force.

Table 2. Top-5 HS subheadings of Kazakhstan's exports to Iran as of 2022 and trade regimes' tariff levels

HS6	Import ($US million)	MFN	Interim FTA	FTA	Tariff Margin
100199	180,8	10%	10%	0%	10%
100390	119	5%	5%	0%	5%
100191	9,9	5%	5%	0%	5%
151211	3,3	20%	10%	0%	10%
230630	1,4	10%	8%	0%	8%

Notes: (i) tariff margin is a difference between applied rates under Interim and newly signed FTAs; (ii) the value of tariff margin is calculated as a simple average on a subheading level.

Source: compiled by authors based on Market Access Map, TradeMap and EAEU-Iran FTAs texts

Kazakhstan's potential to increase the extensive margin of its exports to Iran

The newly signed FTA will decrease most tariff lines to zero, which has a substantial potential for export diversification. To reveal what products may be the primary beneficiaries, we use the approach based on the following assumptions and limitations:

1) We do not consider HS (sub)headings, which will face a duty decrease of less than 4p.p.

2) We do not consider mineral fuels and oils (HS Code 27), which are essential in Kazakhstan's and Iran's exports but usually do not face import duties.

3) We define HS (sub)headings that account for at least 0.5% of Iran's global imports (excluding HS Code 27) on average over the last five years.

This assumption is based on the fact that exporters have to comply with additional requirements (e.g. Rules of Origin) and bear additional costs to get a preferential treatment. Francois et al. (2006) empirically estimated that ad valorem equivalent of such barriers is around 4%.

4) We define HS (sub)headings that account for at least 0.5% of Kazakhstan's global exports (excluding HS Code 27) on average over the last five years.

5) We map the data and compile the list of potential beneficiaries.

Our analysis shows that Kazakhstan **almost does not export** goods on which Iran imposes import duties larger than 15%. In other words, Kazakhstan's abrupt access to Iran's market of highly protected goods will not bring any additional benefits. At the same time, the list of potential beneficiaries among HS (sub)headings is exceptionally narrow. Table 3 demonstrates that we may **anticipate an increase** in exports of **iron and steel** (HS Code 72), **iron pipes** (HS Code 7304), as well as **automatic data-processing machines** (HS Code 8471).

Table 3. HS (sub)headings, accounting for at least 0.5% of Kazakhstan's global exports and Iran's global imports

HS	Share in Kazakhstan's exports	Share in Iran's imports	Tariff Margin
HS Subheadings (6-digits level)			
100199	6,34%	1,62%	10%
100390	1,24%	1,66%	5%
720839	0,65%	0,70%	10%
100119	0,60%	1,05%	20%
151211	0,54%	1,62%	10%
HS Headings (4-digits level)			
7202	12,21%	0,79%	12%
1001	7,00%	3,08%	10%
7208	3,52%	1,21%	14%
7210	2,13%	0,78%	21%
7209	1,88%	0,53%	18%
1003	1,25%	1,66%	5%
7304	0,72%	0,77%	11%
8471	0,69%	1,31%	13%
1512	0,55%	1,62%	15%

Notes: (i) the (sub)headings already considered in the previous section, are highlighted in grey (see Table 2); (ii) tariff margin is a difference between applied rates under Interim and newly signed FTAs; (iii) the value of tariff margin is calculated as a simple average on a (sub)heading level.

Source: compiled by authors based on Market Access Map, TradeMap and EAEU-Iran FTAs texts

By our calculations, it corresponds to approximately $US 177 million.
By our calculations, it corresponds to approximately $US 92 million.

Tariff quotas are another tariff barrier that might hinder export growth after the enforcement of the FTA. Our analysis shows that **three priority HS subheadings** may face it, though not in the near future.

- Barley (HS Code 100390) – for EAEU members, Iran imposes a tariff quota of 1.5 million tons with 5% or 10% import duty (depending on the season) if the quota is exceeded. In 2022, Kazakhstan exported around 43,000 tons of barley to Iran, while the Russian Federation exported around 152,000 tons. The total import of barley in Iran was around two million tons. EAEU members exported more barley in some of the previous years, but their total volume has not exceeded 1.1 million tons.

- Sunflower crude oil (HS Code 151211)—the tariff quota is 500,000 tons, with a 10% import duty (less than MFN duty) afterwards. Iran imported around 670,000 tons of sunflower crude oil in 2022, with 25,000 tons from the Russian Federation and 2,000 tons from Kazakhstan. However, the Russian Federation exported around 260,000 tons of sunflower crude oil in 2018, and Kazakhstan exported around 40,000 tons in 2019. Therefore, there is a potential to increase the exports of this product.

- Wheat and meslin, excluding durum wheat (HS Code 100190) —the tariff quota is 200,000 tons, with an MFN duty afterwards. EAEU members did not export this good to Iran in 2021-2022; however, Kazakhstan exported more than 300,000 tons in 2014, and the Russian Federation exported 700,000 tons in 2015.

Thus, the enforcement of the newly signed FTA seems to be rather a beneficial update for Kazakhstan in trade relations with Iran. It provides opportunities to increase Kazakhstan's exports to Iran at both intensive and extensive margins. At the same time, the stipulated tariff quotas for EAEU products should not affect Kazakhstan's exports to Iran in the foreseeable future.

Iran's potential to increase the intensive margin of its exports to Kazakhstan

In contrast to Kazakhstan's exports to Iran, **Iranian exports** to Kazakhstan are **relatively diversified**. It means that Iran has more opportunities to increase its exports in the short term.

Tariff quota is a predetermined volume of goods originating in a specified country/territory can benefit at import into from a more favourable rate of duty than the normal third countries/territories duty.

The allocation of quotas between the EAEU Members is regulated by separate EAEU decisions

However, our analysis shows that the major exporting commodities either already have preferential access to Kazakhstan's market due to the Interim FTA or are included in the sensitive list of the newly signed FTA (Table 4).

Table 4. Top-7 HS subheadings of Kazakhstan's imports from Iran as of 2022 and trade regimes' tariff levels

HS6	Import ($US million)	MFN	Interim FTA	FTA	Tariff Margin
390120	17,2	4%	4%	4%	0%
070960	13,1	9%	7%	0%	7%
080410	12,3	5%	0%	0%	0%
390110	8,1	3%	3%	3%	0%
040210	6,3	15%	15%	15%	0%
290531	6,1	6%	6%	6%	0%
252329	6,0	3%	3%	0%	3%

Notes: (i) this table does not contain goods that face 0% MFN tariff; (ii) tariff margin is a difference between applied rates under Interim and newly signed FTAs; (iii) the value of tariff margin is calculated as a simple average on a subheading level.

Source: compiled by authors based on Market Access Map, TradeMap and EAEU-Iran FTAs texts

In other words, only two subheadings (out of top-7) will face an additional market access: peppers (capsicum, pimenta) fresh or chilled (HS Code 070960) and portland cement, other than white cement (HS Code 252329). However, the tariff margin for the latter is only three p.p., which might not be enough for exporters to apply for preferential treatment.

Iran's potential to increase the extensive margin of its exports to Kazakhstan

We used a similar approach described before to explore the potential for increasing the extensive margin in Iranian exports to Kazakhstan. However, we use a threshold of 0.1% for subheadings in Iranian exports to make the analysis possible. We found that **Iran barely exports** HS subheadings that account for at least 0.5% of Kazakhstan's imports in the last five years (Table 5). A similar situation is observed at the HS headings level. It reveals little potential for an extensive margin increase in Iranian exports to Kazakhstan.

By our calculations, 0.5% of Kazakhstan's global imports corresponds to approximately $US 190 million; and to $US 150 million in Iranian global exports.

Table 5. HS (sub)headings, accounting for at least 0.5% of Kazakhstan's global imports and Iran's global exports

HS	Share in Iran's exports	Share in Kazakhstan's imports	Tariff Margin
HS Subheadings (6-digits level)			
730890	0,13%	0,83%	4%
732690	0,24%	0,68%	4%
HS Headings (4-digits level)			
7214	2,74%	0,59%	4,00%
7216	0,56%	0,54%	4,58%

Notes: (i) the (sub)headings already considered in the previous section, are highlighted in gray (see Table 4); (ii) tariff margin is a difference between applied rates under Interim and newly signed FTAs; (iii) the value of tariff margin is calculated as a simple average on a (sub)heading level.

Source: compiled by authors based on Market Access Map, TradeMap and EAEU-Iran FTAs texts

Thus, our analysis shows that **the newly signed FTA provides more benefits to Kazakhstan than Iran**, in contrast to the effects of the Interim FTA. Although Kazakhstan does not export commodities that face the highest import duties in Iran (up to 55%), the FTA opens the cereals market (in particular, wheat and barley) as well as provides opportunities for the revival of iron and steel exports. However, increased competition with Russian exporters of the like products is also expected. At the same time, Kazakhstan will not substantially open its market to Iran due to the FTA. The first reason is the already low levels of EAEU tariff barriers on an MFN basis. The second is that the amount of HS (sub)headings that account for an important share in Iran's global exports and Kazakhstan's global imports is small and concentrated in metallurgy.

By our calculations, 0.5% of Kazakhstan's global imports corresponds to approximately $US 190 million; and to $US 150 million in Iranian global exports.

4. Discussion: what is absent in the EAEU-Iran FTA?

This study on Iran-Kazakhstan trade and features of the newly signed EAEU-Iran FTA states that Kazakhstan will benefit substantially from its entering into force. Nevertheless, the liberalisation is still limited by trade in goods. This is a typical approach by EAEU members – the only exception is the EAEU-Vietnam FTA, where the Russian Federation also agreed on services liberalisation. **Trade in services is a more promising area;** services play an increasingly essential role in developed and developing economies. Moreover, trade in services is growing much faster than trade in goods. Therefore, the puzzle is why EAEU members (individually or collectively) do not make efforts to further services liberalisation via FTAs?

In the case of the EAEU-Iran FTA, the partner might be the reason. Iran is not a WTO member and, therefore, has a very closed services market with little intention of changing that. However, other EAEU FTA partners, such as Vietnam, are open to expanding their cooperation. Nevertheless, we did not find any evidence that Kazakhstan considers negotiations with its FTA partners or third countries on the liberalisation of trade in services or other areas outside of the Eurasian Economic Commission mandate. We also did not find any public arguments in support of such an approach to trade policy by Kazakhstan. Therefore, we may provide only some suggestions on this peculiarity.

In trade in services, the most likely reason is Kazakhstan's accession obligations to the WTO. It was obliged to liberalise ten services sectors (116 subsectors) (WTO, 2015). Most of these obligations came into force in 2020, five years after the accession. As Kazakhstan consistently has a trade deficit in services (National Bank of the Republic of Kazakhstan, 2024), the subsequent liberalisation of services, even for one partner, might be considered a risky initiative by the government. Another reason might be the absence of substantial trade in services with FTA partners, which makes negotiations in this direction a bit excessive.

The EAEU-Singapore FTA, partially signed in 2019, intended to liberalise not only trade in goods for all EAEU members. This “exception from the EAEU practice” is because Singapore practically does not charge customs duties. Therefore, in return for opening commodity markets to partners, it may offer concessions in other areas, such as trade in services or investment regulation. However, due to Singapore's application of sanctions against the Russian Federation, this agreement is unlikely to be ratified in the near future.

It is worth noting that the liberalisation of trade in services and investment cooperation is not part of the mandate of the Eurasian Economic Commission. In other words, each EAEU member can negotiate on these issues with third countries, in conjunction with or without negotiations on trade in goods within the EAEU.

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Authors

Hryhorii Kalachyhin

Visiting Fellow of Foreign Policy and International Studies at Maqsut Narikbayev Institute for Networking and Development, Maqsut Narikbayev University

PhD-candidate, World Trade Institute of the University of Bern

Miras Zhiyenbayev

Head and Senior Fellow of Foreign Policy and International Studies at Maqsut Narikbayev Institute for Networking and Development, Maqsut Narikbayev University

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