ABSTRACT

1. Sectoral economic cooperation and integration are powerful tools that can enhance the competitiveness of farm produce. Mutual investment would support production, whereas integration initiatives (establishing the Grain pool and the Customs Union and joining the WTO in a coordinated manner) would help the agricultural sector to meet the challenges it faces.

2. Mutual investment in agribusiness is insignificant; the main source of investment is Russia. Foreign investment in agribusiness may efficiently replace public investment, but to date they make up a negligible percentage of the total investment in this sector. This can be explained, first of all, by the fact that agribusiness is not nearly as attractive to potential investors as other sectors, and secondly by the absence of a system stimulating FDI in agribusiness. Mutual investment in agribusiness by the countries under review are also insignificant; the main source of investment is Russia, whose main investment targets are Belarus, Ukraine and, to a lesser extent, Kazakhstan. Kazakh investors are also active in this sector. The major investors are large Kazakh and Russian cereals producers.

3. Agricultural and transport infrastructure, grain, meat and milk processing and farm machinery are all priority targets for mutual investment. In our opinion, the priority targets for investment are export infrastructure (i.e. developing optimal routes to target markets, raising the capacity of grain terminals, etc.), large international grain, meat and milk production assets (the notion of an “Eurasian Agricultural Transnational Company” and the manufacture of farm machinery in the countries under review.

4. The countries under review are net grain exporters and net meat importers. During 2000-2008s the aggregate share of Kazakhstan, Russia and Ukraine in global grain production increased from 6% to 24%. Most of their grain output is being exported to remote markets: South Asia, the Persian Gulf, North Africa and the EU. Belarus, despite its extensive domestic production, imports 400,000-500,000 tones of cereals from other countries. All countries under review are highly dependent on meat import from remote markets (the Americas).

5. Kazakhstan is a leader in cereals trade integration. An analysis of export and import of cereals in the EDB’s System of Indicators of Eurasian Integration (SIEI) suggests that Kazakhstan takes the lead among four countries under review. Mutual trade of cereals by these countries is declining over time, whilst export to remote markets is increasing.
6. All the stakeholders need the Grain pool and will benefit from it. The sound potential of the countries under review is weakened by competition with other grain exporting countries and, primarily, between themselves. This competition reduces the efficiency of their actions and deteriorates the outlook for better positions in the global markets. As a result of their mutual competition, Russia, Kazakhstan and Ukraine lose $10-20 on each tone of grain. Realising their export potential and strengthening their positions in global grain markets will require concerted efforts, a common export policy, and a developed infrastructure. The initiative by Kazakhstan, Russia and Ukraine to establish the Grain pool will be an efficient vehicle to achieve this goal. Creating the Grain pool is a cumbersome process; this is likely to be a long drawn-out process. Kiev’s unclear stance on the Grain pool, shifting under political pressure from the EU, may undermine this initiative. Under a pessimistic scenario Kiev will refuse to participate, and without Ukraine the economic benefits for Kazakhstan and Russia will be insignificant. Another scenario could be that the establishment of the Grain pool may take several years.

7. “In a coordinated manner, but not together”: the optimal position for the Customs Union in negations over joining the WTO. If the countries under review join the WTO making the maximum concessions possible, this will mean unrestricted access for imported products to their domestic markets whilst the developed countries’ markets will remain closed. This in turn will undermine their efforts to develop competitive farm production. On the other hand, joining the WTO in coordination with a major political and economic player such as Russia will enable Kazakhstan and Belarus to secure themselves more beneficial terms of accession.
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