

**The Eurasian Economic Union.
Analysis from a trade policy perspective**

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I. Key features of the EAEU

The relative size of EAEU member countries

	GDP, 2017		Population, 2017		GDP per capita
	USD bn	% of EAEU	m	% of EAEU	USD
Russia	1,527	87%	144.0	80%	10,608
Kazakhstan	161	9%	18.2	10%	8,841
Belarus	54	3%	9.5	5%	5,760
Armenia	12	1%	3.0	2%	3,861
Kyrgyzstan	7	0%	6.3	3%	1,144

Source: IMF

Russia and the EAEU

- 87% of the EAEU's GDP
- 80% of its population

For comparison Germany: 21% of GDP and 16% of population in the EU

→ **No union of equals; dominant position of Russia within the EAEU**

Protection vis-à-vis third countries

Trade-weighted average tariff, 2015			
EAEU members		DCFTA countries, EU and USA	
Russia	5.9%	Moldova	4.3%
Kazakhstan	7.3%	Ukraine	2.5%
Belarus	4.5%	Georgia	1.7%
Armenia	4.6%	EU	3.0%
Kyrgyzstan	7.7%	USA	2.4%

Source: WTO World Tariff Profiles

- Relatively high tariffs
- On top: significant non-tariff barriers (certificates, customs, etc.)

→ **EAEU features a high level of protection**

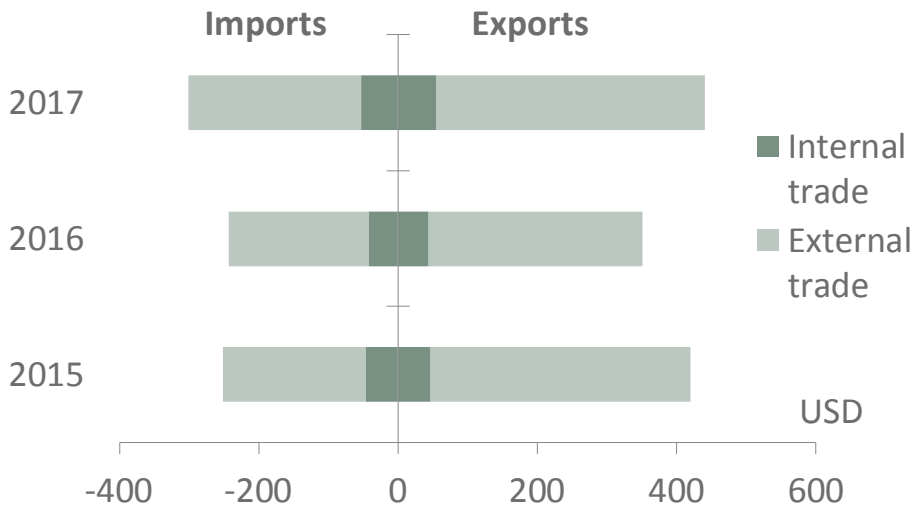
KAZ/ARM/KGZ: upward tariff adjustment to match Russian tariffs

- KAZ: from 5.0% (2008) to 9.3% (2009) due to Customs Union (CU) accession 2010
- ARM/KGZ: significant tariff increase due to EAEU accession 2015
- Cars: tariff will increase from 10% to 23-25% (single external tariff) in 2020/22

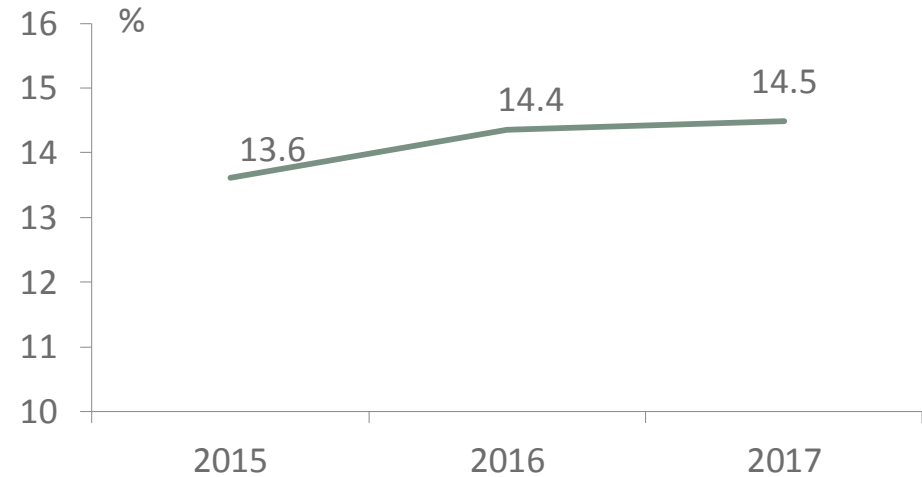
→ **Adjustment towards Russia demonstrates Russia`s dominant position in the EAEU**

Internal vs. external trade

EAEU trade structure



Share of internal trade in total trade



Source: Eurasian Economic Commission; own calculations, only trade in goods;

EAEU: internal trade much smaller than external trade

- Internal trade accounts for only 14.5% of total trade (2017)
- Reasons: dominance of energy exports and large relative size of Russia
- Since 2015: moderate increase in share of internal trade

EU for comparison (2017): 64% of trade of member countries within the EU

→ Limited importance of internal trade in the EAEU

Functioning of common internal market

Non-tariff barriers (NTBs)

- Problems with recognition of certificates, quotas, import bans etc.

Single Customs Tariff: exemptions for ca. 3,000 goods (ca. 1/3 of tariff lines)

- Implication: border controls within the union necessary; impediment for trade

Unilateral Russian sanctions (e.g. against EU)

- Sanctions applied only by Russia, thus weakening the common internal market

Finally: no/weak supranational competition policy (important difference to EU)

→ **Still major barriers to trade within the EAEU**

Symptoms of incomplete internal market

- Trade disruptions between KAZ-RUS for meat, milk products, melons, etc. in 2015
- RUS import restrictions on BYR dairy products since beginning of 2017
- Temporary “blockade” by KAZ of KGZ imports at the end of 2017

II. Perspective from EAEU member countries

Russia and Belarus

Russia

- KAZ (2010) and ARM/KGZ (2015) took over high Russian external import tariffs
- Thus: significant advantage for Russian exports to these countries; positive impact
- However: impact limited, given that only 10% of RUS exports to member countries

→ **Positive, but rather small impact on Russia**

Belarus

- 96% of Belarusian exports within the EAEU are destined to Russia
- Almost 100% of imports from EAEU-members originate from Russia
- **Thus:** for Belarus, the EAEU is not much more than Russia

Before EAEU: Belarus was already closely integrated with Russia and had free trade agreements with the other members

→ **No trade impact on Belarus; neither positive nor negative**

Kazakhstan, Armenia and Kyrgyzstan

Potential advantage of replacing the former FTAs with EAEU accession

- Less trade impediments with member countries; higher exports
- But: limited impact so far, because of deficiencies on common internal market

Disadvantage of EAEU accession (customs union for KAZ)

- Significant increase of import tariffs
- Imports of modern technology more expensive; negative impact on modernisation
- End of independent trade policy
- E.g. ARM: fully negotiated DCFTA with EU could not be signed

→ So far, net negative impact on KAZ, ARM and KGZ;
previous situation (FTAs) was more favourable for these countries

III. Perspective from the EU

The EAEU as a trade partner of the EU

Country / trade bloc	Imports 2017		Exports 2017		Balance
	EUR bn	% of imports from third countries	EUR bn	% of exports to third countries	EUR bn
USA	256	13.8%	376	20.0%	120
China	375	20.2%	198	10.5%	-177
EAEU*	167	9.0%	98	5.2%	-68
Switzerland	110	5.9%	151	8.0%	40
Turkey	70	3.8%	84	4.5%	15
Japan	69	3.7%	60	3.2%	-8
Norway	77	4.2%	51	2.7%	-27
South Korea	50	2.7%	50	2.7%	0
India	44	2.4%	42	2.2%	-2
Canada	31	1.7%	38	2.0%	6

Source: Eurostat;

EAEU: third largest trade partner of the EU, after USA and China

- 9.0% of total EU imports; mainly import duty-free energy resources
- 5.2% of total EU exports; goods facing significant import duties

→ **EAEU is an important trade partner of the EU; export-import-asymmetry**

EU's economic interest vis-à-vis EAEU and its members

Economic interest of EU: higher exports to the EAEU

- How? By reducing existing trade barriers in the EAEU

Realistic interest? Can the EAEU “afford” higher imports from the EU?

- Yes, EAEU has a large trade surplus of 8% of GDP; enough FX is available

What is the most promising way of lowering trade barriers?

- Trade liberalisation? Tariffs high, but dominant member Russia as well as Belarus have no economic interest in a FTA with the EU; no sensible focus
- Trade facilitation? Non-tariff barriers (certificates, standards, regulation, etc.) are quite significant and EAEU members are likely to be interested on negotiations with the EU on such issues

→ EU should focus on trade facilitation with EAEU and its members

Is the EEC an appropriate partner of the EU for trade facilitation?

Eurasian Economic Commission (EEC)

- Policy competence: goods (not services and investment, see FTA Vietnam)
- But: in many cases Russia took unilateral trade decisions, thus disregarding the EEC's (CU's) competence
- When? If geopolitics is involved, e.g. import ban for foodstuffs from EU

→ Limited competence of EEC when geopolitics is involved

EEC the right partner of the EU Commission?

- EEC: responsible for common internal market, i.e. for harmonisation of certification, standards and customs clearance (trade facilitation)
- Many aspects of trade facilitation have no geopolitical dimension

→ EEC appropriate partner for EU Commission regarding trade facilitation

IV. Conclusions

Generally speaking: regional integration - such as the EAEU - makes sense

But: it makes only sense, if protection between members & with partners not high

As of today: protection in EAEU rather high

Two conclusions

1. EAEU has the potential to create benefits for members and partners
2. But: in its current shape, EAEU does not produce tangible economic benefits

What is necessary for grasping potential?

- Clear policy decision in favour of more free trade and less protectionism
- Wide delegation of competence to EEC on trade liberalisation & facilitation

Question for discussion

- Would a EU-EAEU cooperation on trade facilitation contribute to a positive development of the EAEU?

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Annex 1: The EAEU economy in an international context

Position	Country / trade bloc	GDP in USD bn, 2017	GDP EAEU / GDP country
1	USA	19,391	9%
2	EU-28	17,309	10%
3	China	12,015	15%
4	Japan	4,872	36%
5	Mercosur (BRA, ARG, etc.)	2,781	63%
6	India	2,611	67%
7	EAEU	1,761	100%
8	Canada	1,652	107%
9	South Korea	1,538	115%
10	Turkey	849	207%

Source: IMF, European Commission

EAEU economy

- Much smaller than USA, EU & China; significantly smaller than Japan & Mercosur
- Comparable to Canada and South Korea; much larger than Turkey

→ **EAEU is a mid-weight in the world economy**

Annex 2: Significance of the EAEU in international trade

Position	Country / trade bloc	Trade volume, USD bn, 2017	% of world trade
1	EU-28	4,298	15.4%
2	China	4,113	14.7%
3	USA	3,954	14.1%
4	Japan	1,370	4.9%
5	South Korea	1,052	3.8%
6	Canada	853	3.0%
7	India	740	2.6%
8	EAEU	634	2.3%
9	Mercosur (BRA, ARG, etc.)	451	1.6%
10	Turkey	390	1.4%

Source: UN Comtrade, only trade in goods.

Note: For the trade blocs EU-28, EAEU and Mercosur only trade with third countries (internal trade excluded); estimated share in world trade

- EAEU accounts for 2.3% of global trade
 - At the same time: significant share of 6.4% in world energy trade
- **No big player in international trade; but important role in energy trade**

Annex 3: Structure of internal trade by countries

		Importing country, USD m, 2017					
		ARM	BLR	KAZ	KGZ	RUS	EAEU
Exporting country, USD m, 2017	ARM	---	7	5	2	542	555
	BLR	35	---	594	124	12,834	13,586
	KAZ	4	96	---	503	4,515	5,118
	KGZ		9	297	---	262	568
	RUS	1,232	19,385	12,324	1,389	---	34,329
	EAEU	1,271	19,496	13,220	2,018	18,153	54,157

Source: Eurasian Economic Commission

- 59% of EAEU internal trade is conducted between Russia and Belarus
- Further 31% between Russia and Kazakhstan
- Only 1% of total trade between Belarus and Kazakhstan

→ Belarus and Russia strongly integrated; otherwise limited integration in the EAEU