

High-level consultation meeting on Eurasian Economic Integration

IIASA project

“Challenges and Opportunities of Economic Integration
within a Wider European and Eurasian Space”

Executive summary

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EU – EAEU: Audit of mutual interests

Based on seven workshops attended by more than 200 researchers, policy makers and representatives of business circles (2014 – 2017) **interests of the European Union (EU) and the Eurasian Economic Union (EAEU) on bilateral economic cooperation** have been analysed. These interests partially coincide and partially diverge. Detailed analysis of these issues can lay down the foundation of future negotiations for deepened cooperation, which will need to take an approach balancing gains and losses of both sides. The table below summarizes the understanding of EU's and EAEU's interests as emerged from the discussions.

Interests of the European Union	Interests of the Eurasian Economic Union
1. A comprehensive FTA with the EAEU is of interest in short term	1. A comprehensive FTA with the EU is of interest only in the long term and with substantial transition periods
2. Elimination of the measures hindering competition on equal terms between domestic and foreign companies in the EAEU member states	2. a) Growth of FDI from the EU, and b) Transfer of technologies from the EU
3. Energy supply security	3. Energy demand security in the EU

Within the structure of a possible EU-EAEU agreement, there are likely to be **asymmetric mutual concessions** and a broad range of issues might be covered.

In the last decade, the EU approach has been to sign only “traditional”, but more transparent deep and comprehensive FTAs with other countries, which provide an extensive liberalization of trade in both goods and services, the substantial liberalization of the movement of capital as well as of people linked to economic activities. These agreements also provide for either a comprehensive harmonization or mutual recognition of regulations affecting trade and economic relations.

According to Tatyana Valovaya, Minister in charge of the Development of Integration and Macroeconomics, Eurasian Economic Commission (EEC), the EAEU would prefer a “non-preferential trade and investment agreement” with the EU that would cover a much broader range of issues than those covered by a standard free trade area agreement. Such an agreement would include more in-depth regulation of non-tariff barriers, mutual recognition of technical barriers to trade and sanitary – phytosanitary measures, facilitation of the customs procedures, cooperation in science, research and the digital economy.

Asymmetric solutions could be the logical way move forward, where both the EU and EAEU countries would gain additional advantages in exchange for partial, but lesser, trade-offs. The EU supports DCFTAs, not only “simple” FTAs, because Brussels is interested in the opening of Eastern markets, adoption of EU standards and equal completion for European business. The transitional economies of the EAEU are interested in the inflow of FDIs and the transfer of technologies, not but not the elimination of trade barriers that is likely to lead to a substitution of domestic supply with European imports. A potential compromise would be a DCFTA, but with very long transition periods. At the same time, aside from the political context, both sides should be mutually interested in the demand and supply security of energy carriers.

Winners and losers

According to the general economic theory, the creation of an EU-EAEU FTA should produce an **overall positive impact** stemming from the mutual opening of the two unions' markets. According to estimates by Munich-based Ifo Institute, a possible emergence of an EU-EAEU free trade agreement¹ is expected to have a positive effect on trade between the EU and the EAEU. In particular, 30% increase of Russian exports (primarily of natural resources) to the EU is expected. The EU exports to the EAEU are projected to grow by 60% (particularly as regards machine engineering and agricultural products), bringing real income in Central and Eastern European countries (Baltic states, Poland, Czech Republic, Slovakia) up by 1.2 - 1.8%. The inclusion of Ukraine in this FTA would increase the estimated benefits even more.

In the long run, real income in Russia is expected to increase in this case by 3.1%. Belarus income may post an even more significant increase by 4.9%, with growth indicators in the other EAEU member states also winding up in the positive domain. Economic gains from EU-EAEU FTA would even bigger if Ukraine would be covered as well. In Russia, most benefits will be reaped by metallurgy (the national net worth would go up by 23%), mining industry (growth by 17%), and the petroleum industry (growth by 15%). The agriculture and automotive industry, conversely, may suffer (-16% and -37%, respectively).

In the EU, industry trends will be the reverse of those described above, with agriculture and automotive industry being the chief beneficiaries. The European metallurgic companies are less competitive than the Russian and Eurasian ones.

According to other estimates by the Moscow-based CEFIR and the Russian Presidential Academy, a hypothetical EU-EAEU FTA would benefit Kazakhstan (an increase of GDP by 2.6%), the EU and Russia, while Armenia (-3.4% of GDP), Georgia, Azerbaijan, Belarus, and Moldova may find themselves on the losing side. In particular, export of Armenian food and beverages to EAEU member states may drop. It should be noted, however, that these are only preliminary calculations.

¹ Freihandel von Lissabon bis Wladiwostok. Wem nutzt, wem schadet ein eurasisches Freihandelsabkommen? Bertelsmann Stiftung; Ifo-Institut. 216 S. 2016.

EU – EAEU: neighborhood linkages

Vassilis Maragos, Head of Unit, DG NEAR, European Commission (EC) stated during the workshop, that the European Commission is in general open to the idea enhanced cooperation between the EU – Eastern Partnership countries and EAEU and a potential inter-linkage of integrations in Eastern Europe. We should have **“integration of integrations”, instead of “competing integrations”** in Eastern Europe.

When thinking about any potential interlinkage between the DCFTAs and the CIS FTA, implementing the rules of origin would be a logical way to proceed.

Kazakhstan has traditionally been one of the driving forces behind the Eurasian integration process, being one of the three founding the EAEU (2015). At the same time, in 2015 the European Union and Kazakhstan signed the Enhanced Partnership and Cooperation Agreement (EPCA). Armenia joined the EAEU in 2015. However, despite Yerevan's decision in 2013 not to sign the Association Agreement with the EU, including a DCFTA, Armenia and the EU continue their political and trade dialogue in areas where this is compatible with Armenia's participation to the EAEU. Thus, in March 2017 the EU and Armenia initiated negotiations on a Comprehensive and Enhanced Partnership Agreement (CEPA).

It would be beneficial, not least by relieving Ukraine and other EaP/DCFTA countries from impossible “either/or” integration choices as Armenia and Kazakhstan examples illustrate, when they maintain and develop economic relations with both the EU and the EAEU.

Greater Eurasia

The Lisbon to Vladivostok common economic space ought to be thought about within a wider Eurasian context. This is necessary both due to Russia's geo-economic **“Turn to the East”**, and even more so, due to the growing influence of Asia in the global economy, especially through **the Chinese “One Belt One Road” (OBOR) and “Silk Road Economic Belt” (SREB) initiatives.**²

“Greater Eurasia” is both a geographic concept covering the whole Eurasian continent as defined by German geographer Alexander von Humboldt, as well as a way of describing the emerging nexus of continental “integration of integrations” and the network of FTAs within the EU – EAEU - China “triangle”, as well as with other regional players.

The Greater Eurasian agenda thus concerns not only the EU and the EAEU, but also the future relations between the main players in Asia, in particular with China, as a direct neighbor of the EAEU. There are some major developments: China's “One Belt One Road” as a framework idea, the development of railway and road connectivity,

² Development of Transport and Infrastructure in Eurasia. 5th Workshop Report. In: Challenges and Opportunities of Economic Integration within a Wider European and Eurasian Space, 15-16 September, 2015, IIASA, Laxenburg.

large investments projects, including projects related to energy supplies, as an example of possible content.

The concept of the **EU - EAEU - China “triangle”** entails enhanced economic cooperation and eventually economic-trade liberalization in the bilateral relations between each pair of the three major economies, however – at least in the foreseeable future - not an overall trilateral agreement among all three of them. Still, there are a number of challenging opportunities for economic cooperation, including such areas as trade, cross-border transport infrastructure and transit, telecommunications.