

EU–EAEU in Greater Eurasia: Long-Term Agenda for Economic Cooperation

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

Workshop Report

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About IIASA

Founded in 1972, the International Institute for Applied Systems Analysis (IIASA) conducts policy-oriented research into problems of a global nature that are too large or too complex to be solved by a single country or academic discipline. IIASA's research areas are energy & climate change; food & water; and poverty & equity.

IIASA is at the center of a global research network of around 2,500 scholars and nearly 600 partner institutions in over 65 countries. It is funded and supported by its National Member Organizations which represent the scholarly communities in the following countries:

Australia, Austria, Brazil, China, Egypt, Finland, Germany, India, Indonesia, Iran, Japan, Malaysia, Mexico, Netherlands, Norway, Pakistan, Republic of Korea, Russia, South Africa, Sweden, Ukraine, United Kingdom, United States of America, Vietnam.

Background

From June 2013 to November 2016, IIASA organized a series of seven workshops within Phase I of its international research project "Challenges and Opportunities of Economic integration within a wider European and Eurasian Space" with the aim to discuss, analyze, and critically evaluate the diverse issues of regional cooperation and integration within the Eurasian continent. Phase I of this project has been motivated by the ambition to transit toward (re)establishing a win-win deep economic cooperation between the European Union, the Eurasian Economic Union, and their neighbors.

Through six thematic workshops which took place in the framework of the project, the participants - more than 200 recognized scientists, experts, stakeholders and policy-makers from numerous countries and organizations, including representatives of the European Commission and the Eurasian Economic Commission, - addressed such key themes as methodologies for modeling of trade-related issues, trade policies and their possible impacts, non-tariff barriers to trade and technical regulations, energy (oil and gas, electric power), transport infrastructure, as well as labor markets and migration.

On November 22-23, 2016 IIASA hosted the concluding workshop of the pilot phase of the project, at which participants synthesized their findings and looked ahead to a deepened and expanded future research project on economic cooperation in Greater Eurasia. This workshop drew substantive, as well as methodological conclusions and considered the possible extensions for an anticipated Phase II of the research project. It aimed at preparing scientifically well-grounded analyses, options and policy recommendations for potential cooperation to be ready by the time when the political situation will settle down and the conditions to turn these hypothetical scenarios into real ones will be in place.

Over 50 leading economists, experts and policymakers took part in the concluding workshop, among them: Tatiana Valovaya, Eurasian Economic Commission (EAEC), member of the board (Minister) for integration and macroeconomics; Thomas Kuchtik, European Commission (EC), policy coordinator for Russia, CIS, Ukraine and the The European Free Trade Association (EFTA); Péter P.Balás, former deputy director general, DG TRADE, European Commission (EC), senior research scholar of IIASA; Evgeny Vinokurov, Centre for Integration Studies, Eurasian Development Bank (EADB), director; Oleg Karachun, Eurasian Economic Commission (EAEC) Methodology and Analysis Division, head of Macroeconomic Department; and others.

As a special part within the workshop a lecture on the topic "Eurasian Economic Union: Current Developments and Prospects" was delivered by HE Tatyana Valovaya to the participants of the event and students studying in Vienna. .

Phase I: Executive Summary

Coordinating authors: Evgeny Vinokurov, Peter Balas, Michael Emerson, Peter Havlik, Vladimir Pereboev, Elena Rovenskaya, Anastasia Stepanova, Jurij Kofner, Pavel Kabat

For further details, see: Vinokurov E, Balás P, Emerson M, Havlik P, Pereboev V, Rovenskaya E, Stepanova A, Kofner J, et al. (2016) Challenges and Opportunities of Economic Integration within a Wider European and Eurasian Space. Synthesis Report. In: Challenges and Opportunities of Economic Integration within a Wider European and Eurasian Space, IIASA, Laxenburg.

Session I of the workshop “EU–EAEU in Greater Eurasia: Long-Term Agenda for Economic Cooperation” gave a general overview of the purpose, format and results of Phase I of the research project.

Phase I has enabled assembling useful information and revealed important lessons, considering that IIASA and its partner institutions take a long view regarding the EU-EAEU cooperation. The goal of Phase I has been to discuss, analyze, and critically evaluate the diverse issues of regional integration within the Eurasian continent. It was motivated by the ambition to (re)establish a deep economic cooperation between the European Union, the Eurasian Economic Union (EAEU), and their neighbors.

As the importance of various aspects is likely to be different for the two sides, the mutual concessions and compromises would be necessarily interconnected. In particular, due to its current prevailing export structure, the EAEU might be interested not merely in a free trade agreement per se, but in a comprehensive agreement with the EU, going beyond a pure FTA. It is probable that such a deep cooperation cannot be established in one step, rather it would be built gradually, in several stages.

The initial discussions and preliminary policy ideas stemming from the series of IIASA workshops held during 2014–2016 covered the following domains:

Methodology of assessing the economic impact of an EU EAEU integration agreement on its parties. It has been stressed that it should necessarily go beyond estimating the short-term, direct trade effects and should also assess the long-term and indirect effects, especially those related to the non-tariff barriers; a thorough estimation of the impacts of these will require a combination of contemporary analytical and modeling methods

Trade regimes: 20 potential domains of the EU EAEU ‘mega deal’ has been discussed – from trade in goods to services, investment, intellectual property, etc; It has been argued that in order to become mutually beneficial for all sides, this deal should go beyond a traditional, pure free trade area.

Non-tariff barriers: During the discussions it has been emphasized that the economic impacts of NTBs (technical standards, health and veterinary regulations, customs administration, etc.) can be very substantial, far exceeding the impacts of eliminating the remaining import tariffs.

Energy: There was broad agreement that there was a fundamental reciprocal interest in energy security for both the EU and Russia. For the EU, this is supply security (source security, transit security, and fair and predictable prices); for Russia and Kazakhstan, this is demand security (financial and economic security, and fair and predictable prices; for transit countries – stability of revenues and supplies; for all, it is about environmental security and systemic resilience.

Transport and infrastructure: The focus was on the need to modernize and develop the major Eurasian transport corridors (both road and railway) until 2030. As concerns infrastructure, the huge potentials of the development of common electric power markets, pipeline systems and trans-continental fiber-optic links have been also stressed. Adequate regulatory frameworks, security, and investments are key in all these areas.

Mobility of people: There were arguments for the facilitation of issuing visas and residence permits in order to ensure the mobility of businessmen, experts and professionals, as well as the mutual recognition of qualifications. These steps can eventually lead to visa-free regimes, large-scale academic exchanges, and the technical decision for the trans-border mobility of pensions. At the same time, there were strong arguments against prematurely raising the issue of labor migration in the EU EAEU context.

A related topic is the future of trade and economic relations between the EU, the EAEU and Ukraine, Moldova and Georgia, the three states that have already concluded AA/DCFTAs with the EU. The development of EU EAEU relations will require the opening of constructive negotiations on a fair trade policy regime between the three DCFTA signatory states and the EAEU, with the participation of the EU to ensure the compatibility of the EU-EAEU cooperation with the respective DCFTAs.

This workshop drew substantive, as well as methodological conclusions and discussed the project's possible deepening and expansion. Overall, this IIASA initiative intended to provide the scientific underpinnings for potential policy ideas and solutions for the development of future sustainable economic cooperation between the European Union, the Eurasian Economic Union, and their neighbors – Eastern Partnership, Central Asian, and other countries of the region. The negotiations of the EU and of the EAEU with the key Asian players, such as China, Korea, and Japan, as well as the impacts of the USA's trade initiatives in the context of the Eurasian integration process were also discussed. The project aimed at preparing scientifically well-established analyses, options and policy recommendations for potential cooperation to be ready by the time when the political situation will settle down and the conditions to turn these hypothetical scenarios into real ones will be in place.

Phase I: The Eurasian Project's Workshops and Selected Findings

Session II of the concluding workshop of the project was devoted to the presentation and discussion of individual thematic workshop reports and the results.

Methodological Approaches to the Assessment of the Economic Impacts of Eurasian Integration

For further details, see the relevant workshop report: Vinokurov E, Balás P, Emerson M, Havlik P, Pereboev V, Rovenskaya E, Stepanova A, Kofner J, et al. (2016) EU-EAEU Potential Economic Integration: Methodological Approaches to the Assessment of Economic Impact. Workshop Report. In: Challenges and Opportunities of Economic Integration within a Wider European and Eurasian Space, IIASA, Laxenburg.

The session started with the discussion of the methodological approaches for the assessment of economic integration effects. There was a common understanding that a mix of various methods was needed. The modeling of trade integration usually predicts only the macroeconomic effects, but the models are usually agnostic about distributional and other micro- or non-economic caveats.

When used separately, none of the available analytical tools allows a comprehensive assessment of the impacts of a deeper EU-EAEU economic integration. A combination of methods should therefore be used, based on their respective strengths, weaknesses, capabilities and limitations. Experts from all major participants should work together to choose those analytical tools which give the most reliable results, taking also into account the different conditions in the EU and the EAEU. In addition, a limiting factor to the use of any given method is the availability of the required quantitative or qualitative data (for example data on non-tariff barriers, and restrictions to the movement of labor and capital). If the required information is available, it is best to utilize all of the above methods since their combination facilitates the deeper analysis of the multi-faceted regional integration phenomenon. In this case, the quantitative methods of analysis will not compete, but will complement one another. It is important to note that these methods are being actively developed.

Therefore, when using them, new scientific developments presented in the economic literature should be used in the applied analysis.

The different varieties of economic analysis, such as trade indicators; gravity models; computable general equilibrium modeling, and others were discussed during the session.

Thus, indicators of regional trade interdependence include intraregional trade share; intraregional trade intensity and regional trade introversion index. Indicators of comparative advantage, regional orientation, trade complementarity, and export similarity include revealed comparative advantage; regional orientation; complementarity and export similarity.

Gravity models are widely used as a tool of ex-post analysis of regional trade agreements (RTA). To some extent, gravity model allows to look into the future and assess what will be an effect of country's possible participation in RTA by extrapolation of the impact of membership in this RTA on trade of its current members. In addition, the gravity model allows to evaluate whether actual trade between nonmember country (trade block) and RTA is higher/lower than estimated potential trade. But various consideration limiting the validity and application of gravity models.

Computable general equilibrium models (CGE) modeling provides the comprehensive and formalized framework for addressing the issues associated with an impact of regional economic agreement between EU and EAEU. Evgeny Vinokokov noted that MPSGE/GAMS (General Algebraic Modeling System) and GTAP can also be used. Therefore, limited value in utilizing GTAP? Two options: wait for an update as concerns EAEU countries; make our own CGE. The following countries' aggregation can be used in for the assessment of a comprehensive EU-EAEU agreement(s): EU (27 countries); EAEU (5 countries), Ukraine and Turkey; ROW.

The impact of NTB on the economies of the integrating countries can be much larger than trade effects per se. Its evaluation is an extremely difficult task. It is advisable to use a set of various interrelated methods.

Even assuming the use of a combination of the most advanced analytical tools, econometric models, from the EU's point of view high-quality and reliable conclusions about the desirability, possibility and conditions of an EU-EAEU integration can be drawn only by taking into account the actual economic policies, the extent of implementation of existing international commitments, the direct intervention of the state/government in the economy and business decisions and even outright political considerations. Such elements include the declared and undeclared import substitution, local content and localization policies, used on their own or linked to investments (TRIMs), the use of non-tariff measures, like technical regulations and standards, as well as SPS measures for restricting imports, the role of direct government instructions in business decisions, the real business autonomy versus the governmental supervision of State Owned Companies (SOEs), the application or lack of effective competition policies, both with respect of subsidy and anti-trust measures, the practices applied in case of Government procurement or procurement by SOEs, transport and transit measures used to affect trade flows, customs administration and valuation methods, etc.

These kind of measures – with few exceptions – are not declared or formalized, thus even their existence is mostly hidden. Therefore, their impacts can't be taken into account in econometric modelling. Their existence and impacts can be assessed only by such methods as interviews with companies both trading with, and investing in the EAEU member countries, the reports of business associations, think tanks and NGOs covering economic issues, contacts with the Governments whose trade relations are affected, reports by international organizations like the WTO, OECD, IMF, IBRD, EBRD, etc. Thus this element of the assessment process needs a separate work program and targeted actions. The final conclusions about the EU-EAEU relations and possible integration models will have to be drawn from combining the results of both the various modeling techniques as well as the assessment of the economic policy and political measures and practices actually used.

Trade Policy Regimes

For further details, please look up our workshop report: Vinokurov, E., Balás, P., Emerson, M., Havlik, P., Pereboev, V., Rovenskaya, E., Stepanova, A., Kofner, J. and Kabat, P. (2016) Trade policy regimes. 2nd Workshop Report: Challenges and Opportunities of Economic Integration within a Wider European and Eurasian Space, 8-9 July, 2014, IIASA, Laxenburg.

The second section of Session II summarized deliberations on favorable trade policy regimes for creating a common EU – EAEU economic space. Sanctions, anti-globalization movements, Brexit and all have negative consequences for trade liberalization worldwide. Protectionism will have serious adverse consequences. Regarding EU-EAEU potential trade deals, negotiations cannot start unless relations with AA/DCFTA countries (Georgia, Moldova and Ukraine) are settled. EU-EAEU agreement will be more than just a FTA, and results are not to be expected before the next decade. In the meantime, the EU signed an agreement with Kazakhstan already in 2015; EAEU signed a FTA with Vietnam in 2016 and initiated negotiations on FTAs with other countries (e.g. Israel, Egypt, Iran, India, Singapore). Belarus' non-membership in the WTO represents another bottleneck to EU-EAEU trade negotiations.

A number of additional points were raised during the discussion: the impact of US elections on Western sanctions, the sustainability of anti-liberal trade policies, gaps between political and business interests with respect to sanctions, etc. Non-tariff barriers were extensively discussed with respect to the implementation of DCFTA by Ukraine (EU standards will have to be implemented not only by exporters, but at the domestic market as well). EU tariff rate quotas which represent an important barrier to Ukrainian exports will be most likely increased. At the same time, both Armenia (EAEU member) and

Moldova (DCFTA country) would like to have good relations with both the EU and EAEU. It remains to be seen whether a deal can be made: similar EU-Ukraine-Russia negotiations have collapsed in 2015⁶ since Russia insisted on unacceptable (for the EU) conditions with respect to standards.

International economic and especially trade policies is a subject under much discussion. It was mentioned that conditions changed even compared to 1 year ago concerning attitude towards trade, towards opening, liberalization – broad tendency affecting many areas of world. Thus, cooperation/integration should be based on an understanding between the EU and EAEU, as trade is mostly, but not exclusively common competence on both sides. For example, in case of EU, all four freedoms covered to some extent – goods fully, services: MS differences, Investment: recent EU competence, but selective (BITs), movement of people – if linked to economic activities (but labor market policies, visas, residence permits – MS). The linkage of countries of the common neighborhood – be it Eastern Membership, Central Asian or other CIS countries should be part of the work.

Potential elaboration for a trade agreement between the EU and the EAEU can be divided into two key challenges. The first one is the FTA (DFTA) negotiations with third parties, the close neighboring countries of both the EAEU and the EU. Russia has some concerns about the negotiations between the EU and the neighboring countries; that the changes in the trade flows and barriers will lead to a situation where the EU goods end up on the Russian market, by trans-shipped through the countries having FTA or DFTA with European Union and this will lead to the erosion of Russian industries' relative competitiveness.

Participants agreed with the speaker that points where there were different views, ideas or options, where further work and common solutions are needed. Substantial content of integration should be analyzed: just economic cooperation, joint projects, transport and energy networks only - or liberalization to. Nowadays there are different options, with different outcomes: enhanced PCA (New Agreement); economic cooperation in some sectors and areas; selective regulatory harmonization; contacts among Commissions or Unions; preferential agreement (FTA, but not as CU).

Even if agreement on liberalizing agreement, what, when and how liberalization will happen? Thus, the options could be: Simple first - generation FTA (goods only; but here the NTBs aspects should be taken into account); DCFTA; CETA model; or some other models. Areas covered: goods, services, or also investment, energy, etc. Role of state, of state-owned enterprises, government support/subsidies, the conditions for competition challenges in economic/trade policy areas in context of open or closed economies; import substitution and export promotion were disputed.

A gradual approach is necessary. The European Commission and DG Trade are closely following the political situation and should the conditions change, it would contribute to restarting contacts with EAEU. Multilateral (WTO) and broader regional aspects, as well

as global trade trends have also to be taken into account – membership, general and specific obligations. Meanwhile, Russia must also fully meet its WTO obligations before FTA negotiations with the EU could be even seriously considered.

Several types of trade liberalization and integration models exist in the world now, such as bilateral free trade agreements, regional integration blocks and inter-regional integration agreements. As of July 2016 the WTO recorded 635 bilateral free trade agreements (FTA). A majority of these cover just free trade in goods, while an increasing number cover trade in services, too. The most recent ones also cover – to varying extent – the other 2 freedoms, the movement of capital and people. Only a small number are even more ambitious, i.e. becoming customs unions. Of these, 423 were in force. These WTO figures correspond to 460 physical RTAs (counting goods, services and accessions together), of which 267 are currently in force.

The DFTA agreements keep the door open for the partner countries to conduct their trade with the EAEU countries either under the traditional CIS-based agreement or to define new bilateral models for the negotiations to preserve trade free of barriers. Even if it is evident that there is a strong asymmetry of trade between the EU and Russia, the EU-EAEU FTA would generate benefits to consumers and support the modernization of the EAEU countries' industries.

The national level results suggest that the cumulative effects of an FTA with the EU on Russia's GDP would be 0.8% in the short run and up to 2.0 % in the long run. Short-term and long-term impacts on the GDP of Kazakhstan are lower, 0.6% and 1.2 %, respectively. In contrast to the economies of Russia and Kazakhstan, the impact on the economy of Belarus, as it was expected, will be minor but not positive. The EU's GDP would grow by 0.1% in the short run and by 0.2% in the long run.

According to an industry-level analysis (15 industries), the production in Russia would decrease only in two areas in the long run: in the motor vehicles and parts sector and in the wood products and paper sector. A similar pattern can be observed in Kazakhstan. In Belarus, except for these two industries, the production would decrease in agriculture, food industries, as well as in manufacturing. The production in the EU would decrease only in the minerals sector, both in the short and in the long run.

The EU-EAEU FTA would have a positive impact on the households' consumption in Russia and Kazakhstan and in the EU as well (with a minor change though). The household consumption in Belarus would drop in all sectors due to the overall decreases of production. Thus, it is important to note that a deeper integration between the EAEU and the EU would be economically attractive only after sufficient progress was achieved in integration within the Eurasian Economic Union.

In case of the creation of a future FTA between the EU and the EAEU a large number of different aspects should be analyzed: energy and transport relations are important part of process; facilitated movement of people, for economic purposes is needed; conditions

for FDI, broader business/investment environment are part of the conditions. Especially in the areas of investment and the movement of people broader regulatory issues arise; the technical regulations and standards are major obstacles for trade in goods, but also in services. Due to political and economic policy restraints, the creation of an integration framework will be a long-term process. The future FTA should provide mutual benefits for both integration groups and all of their member states.

The possible integration of the two trade blocks should be based on a pragmatic approach, mutual benefits and respect of the interests of both parties as well as on their members' sovereign choices. The development of a free trade agreement could become a source of stable economic growth in the post-Soviet countries.

It is can't be expected that even if the EU-EAEU FTA was signed, it could be fully applied at once. Suitable transition periods would be needed as the adjustment of the EAEU market(s) to a new competitive environment would take time. Thus, a step-by-step FTA scenario with several prerequisites would produce a moderately favorable impact. The competitive industries that are able to compete with EU imports are textile and furniture industries. The non-competitive industries are the investments-goods sectors. The prerequisite for technology exchange that would benefit both sides is a sufficient level of capital investment. However, any FTA should be WTO-consistent, i.e. the pace of removing tariffs and other barriers in the various sectors could be varied, but substantially all bilateral trade should be liberalized by the end of the transition period.

According to another analysis in case of an FTA involving the EU, the EaP countries and the EAEU, compared to the current situation among the EAEU countries the winners would be Kazakhstan and - to a lesser extent - Russia, as well as the EU, while the losers would be Armenia, Georgia, Azerbaijan, Belarus and Moldova. Russia would benefit from the economic integration only if it takes an active role and shapes the FTA and its d implementation according to its needs. The efforts would be rewarded; deeper integration would bring about more improvement of welfare for Russia. However, this will be accompanied by a fall of production in the industrial sector, and adaptation is only possible if changes in the sector's structure are undertaken.

Summing up, the participants stated that the goal of creating an EU/EAEU FTA in the future is positive, its achievement would be beneficial for the whole region. However, deeper analysis and joint work is needed to explore the roots of obstacles and to find solutions. On this basis, policy recommendations could be made to decision-makers once the broader conditions are in place.

Non-Tariff Barriers and Technical Regulations

For further details, see our workshop report: Vinokurov E, Balás P, Emerson M, Havlik P, Pereboev V, Rovenskaya E, Stepanova A, Kofner J, et al. (2016) Non-tariff barriers and technical regulations. 3rd Workshop Report. In: Challenges and Opportunities of Economic Integration within a Wider European and Eurasian Space, 20-21 November, 2014, IIASA, Laxenburg.

The third part of Session II focused on the Phase I research results related to the compatibility and costs of technical regulations and standards (mainly for industrial products), as well as of SPS regulations applied (or to be applied) in the EU, the EAEU and the neighboring countries. The discussion also covered the possibilities of harmonizing various national and regional regulations and standards with each other, as well as with international standards. In particular, the harmonization of terminology and labeling; accreditation, product safety, training in the field of standardization, issues related to accreditation and conformity assessment were discussed. On a more practical level, the possibilities of trade facilitation among the states of the region were analyzed.

Some participants pointed out that technical regulations and other non-tariff barriers (NTBs) were increasingly used by Russia, in addition to the formal sanctions, as tools of import protection.

A convenient way of analyzing NTBs is by dividing them in two groups. The first group (NTB-T) includes measures that might be needed for objective, non-economic regulatory reasons and could hypothetically be harmonized to a certain extent. This group includes sanitary and phytosanitary measures, technical regulations affecting trade, standards, etc. other than sanitary and phytosanitary measures and technical barriers. The second group (NTB-P) includes all other barriers with the purpose of providing economic protection to domestic producers, such as: price control measures; tariff rate quotas, non-automatic licensing, quotas, bans and quantitative control measures financial measures that affect competition such as designating special importers, restricting marketing and public procurement, subsidies, etc. These are measures which can be considered as additional costs of trade, as “sand in the wheels.” Some of them are allowed by the WTO rules, by the countries’ multilateral commitments, while others are WTO-illegal. Theoretically, the latter group should be eliminated completely. However, in practice this is far more difficult than reducing the first group of barriers.

The economic impacts of reducing internal NTBs can be very substantial, in fact far exceeding the impacts of eliminating the remaining import tariffs applied on the border. For example, a 5% decrease of tariffs within the EAEU only (that is, not counting the potential effects of the EU-EAEU economic integration) would give Belarusian overall 2.7% increase in welfare and a 0.9% increase in GDP in the medium term, while an

identical 5% decrease in NTB-P (“sand in the wheels”) would lead to an increase in welfare in Belarus by 4.2% and of GDP — by 1.6%.

In the EU context, the elimination of NTBs has been at the heart of the integration agenda since the 1980s. The 1985 “White Book” prescribed 279 concrete measures aiming at the establishment of the 1992 Common Market. At that time the focus has been more on goods. The decades-long efforts have resulted in a substantive reduction, if not the elimination, of non-tariff barriers of internal trade on physical products. In the last decades, however, with the increasing importance of trade in services, this sector has also moved into the focus of attention but the results in removing even purely protective regulations are still limited.

In the EU-EAEU context, a specific issue is the development of the standards system of the EAEU, with questions raised about how far this will make use of international (ISO) standards and will be compatible with EU regulations and standards.

A related issue of high importance is how far the relevant provisions of the Deep and Comprehensive Free Trade Agreements (DCFTA) between the EU and Ukraine, Georgia and Moldova will impact on trade between these states and the members of the EAEU. The EU, the US and numerous other Western countries, and some Asian countries, as Japan, apply sanctions against Russia both due to political reasons, as well as due to the CIS-inconsistent, protective use of NTBs. These sanctions include diplomatic, individual and economic measures. Russia replied to this with reciprocal sanctions affecting mostly agricultural exports of the Western countries concerned.

With the formal entry into force of the EU-Ukraine DCFTA as of January 1, 2016, Ukraine is legally committed to respect the Agreement’s requirements. Ukraine still has challenges linked to the proper implementation of the existing legislation, the completion of harmonization of the horizontal and sectoral legislation. By the end of 2015 it has become clear that in spite of nearly 2 years’ work in a trilateral format (EU-Russia-Ukraine) there was no way to come to agreement. Thus Russia decided to suspend CIS relations with Ukraine also as of the same date, i.e. January 1, 2016. In addition, the introduction of Russian retaliatory measures against the exports to Russia of products from the European Union and other countries through Belarus and Kazakhstan had an influence on mutual trade.

Meanwhile, in the EU-Ukraine context the transposition of standards, the establishment of proper infrastructure, lack of training, the financial constraints all require further work, including the better utilization of the various forms of technical assistance offered by the EU and other donors. In the area of technical regulation, under the DCFTAs the EaP partners have a right to set their own pace in adopting European technical rules in the specific areas covered by these agreements

The failed trilateral process between Ukraine, Russia and the European Union

focused on what technical and SPS regulations and standards for industrial and agri-food products should prevail between the EU and EAEU can be discussed under two headings:

- first, with the change of the political situation, what an agreed process between the EU and the EAEU/Russia might consist of; and
- second, what might be the rules for those European countries which are neither in the EU nor in the EAEU, such as Ukraine, Moldova and Georgia, which have inherited GOST standards from the Soviet Union and committed to implement DCFTAs with the EU.

At this stage there seems to be little realistic prospect for simplistic solutions between the EU and EAEU, such as e.g. that the latter would simply adopt all EU standards (although such a proposal has not been made). Instead there should be a more selective, steady process, taking undoubtedly many years, based on a careful selection of products for which there could be different solutions. This task has to be broken down into manageable packages. A first package would consist of international standards set by the ISO and the UNECE, of which all EU and EAEU member states are members, and here it should be examined how far both parties fully recognize ISO and other international standards (including those set by the UNECE especially for motor vehicles). A second package would relate to the product standards which the EU has placed under its so-called “new approach” policy. The key point here is that the “new approach” is a two-stage process, first with directives setting out the “essential requirements” for safety, and then followed by technically detailed implementing regulations and standards. The implementing standards are themselves voluntary, and any supplier can propose its own preferred standard as long as it is in conformity with the “essential requirements.”

It is quite possible that many Russian GOST standards do meet these requirements, in which case this should be established and made known. Conversely, it should be examined how far products carrying the mark of compliance with the EU technical regulations are acceptable for import into the Russian and EAEU markets. Given the extent of the market presence in Russia (pre-sanctions) of EU suppliers of a huge number of industrial and agri-food products, there are evidently practical solutions, and these need to be analyzed so that the remaining policy issues could be dealt with in a pragmatic manner. A third stage would then see the identification of a limited number of important products where there could be targeted solutions, including the possibility for mutual recognition.

As regards exports by the three DCFTA states to the Russian and EAEU markets, their manufacturers remain free to produce according to GOST standards, since it is a general practice that the exporting countries produce in line with the standards and technical requirements of the importing countries. The additional idea of the Russian experts that there should be also agreements that imports from EAEU states that conform to GOST standards would still be recognized at the markets of the DCFTA countries, raises more questions. This might be an acceptable solution for a limited transition period, but under

the DCFTAs the three partner countries have undertaken a legal obligation to eventually apply only EU regulations and standards in the sectors covered. Should they fail to do so, their own exports to the EU markets would suffer, as the administrative facilitation which is a major element of the benefits of the DCFTAs, could not be applied. Thus, should at some point the trilateral discussions between the EU, Ukraine and Russia/EAEU be resumed, this issue will need to be thoroughly discussed in order to see the possibilities for solution.

Futures of Energy in Eurasia in the Global Context

For further details, see the workshop report: Vinokurov, E., Balás, P., Emerson, M., Havlik, P., Pereboev, V., Rovenskaya, E., Stepanova, A., Kofner, J. and Kabat, P. (2016) Futures of energy in Eurasia in a global context. 4th Workshop Report. Challenges and Opportunities of Economic Integration within a Wider European and Eurasian Space, 12-13 May, 2015, IIASA, Laxenburg.

The fourth section of Session II summarized the opportunities for future cooperation in the energy sector in Greater Eurasia.

The participants discussed the issue of gas supply diversification and of the increased role of shale gas. The EU experts presented two cornerstones of the EU energy policy: anti-monopoly efforts and supra-national regulations. This work also includes the prospects and implications of energy efficiency improvements and climate change targets.

The participants exchanged views about the evolution of energy prices in the next years and their influence on the economy of different countries of the Eurasian region, the opportunities of solving the Ukrainian conflict, the new global players on the energy market and the situation in the Middle East and North Africa. It was stated that the EU-Eurasian energy cooperation could be greatly enhanced on the basis of the Energy Charter Treaty (1998) mechanism, however, only in case if Russia decides to revise its earlier decision to leave the Treaty.

The border states of the common EU-EAEU neighborhood would greatly benefit from the creation of a common electricity and energy market, both on the supply and on the demand side. A common energy market could enhance the possibilities for Belarus to sell electricity to Poland and the Baltic states, for Armenia to sell electricity to Turkey and Georgia, for Russia to export in general more energy carriers to the European Union.

Development by the Eurasian Economic Commission of a common Emissions Trading System (ETS) in line with EU norms can help increase compatibility of the approaches by both sides in the future, thus enhancing prospects of a common EU - EAEU emission inventory market.

The joint development of the Arctic shelf can be a promising and prestigious long-term project of economic and investment cooperation between the EU and Russia.

Commitment towards the work of the EU - Russia Gas Advisory Council and the “EU-Russia Gas Cooperation Roadmap till 2050” could be increased by both sides – Russia and the EU member states.

An international gas research cooperation program between the European Commission and research institutes of different regional players (not only Russia) could be established which might ensure objectivity and transparency on forecasts in the gas market.

The repeated gas supply crises between Russia and the EU over supply to and transit via Ukraine make the efforts on maintaining cooperation and dialogue between the two even more important.

Despite the fact that Ukraine intends to integrate its energy system into the European Network of Transmission System Operators for Electricity (ENTSO-E), maintaining interconnections with the Russian and Belarusian electricity grid can help it to decrease the rise of electricity prices during the transition period. Energy efficiency in the Ukrainian household sector is a topic of shared interests and needs. Potential cooperation between the Eurasian Economic Commission and the respective Ukrainian research institutions could be useful for comparing approaches being adopted both in Ukraine and by the member states of the Eurasian Economic Union. In this context the Ukraine-EU reverse gas flows and Ukraine energy sector reforms were also touched upon during the exchanges.

The prospects of other pipeline channels were discussed separately, such as Nord Stream 2, Turkish Stream and other.

Similar negotiations and challenging compromises will have to be reached with respect to the harmonization in the areas of energy and transport infrastructures (European Energy Community where all three DCFTA countries are members; Chinese One Road One Belt – Silk Road initiative, etc.). The EAEU plans to establish a common electricity market by 2019 and the common market for oil and gas by 2025. The rising role of China will substantially affect both the EU-EAEU energy, as well as transport infrastructure policies (gas pipelines, shale gas projects, European ports and transport hubs, etc.). The Chinese-Russian and Chinese-Kazakh trade and energy cooperation along the Silk Road are expected to develop, including new energy deals between China and both of these countries. . Among the challenges facing all these projects – apart from geopolitical risks - are the lack of investment resources, the volatility of energy prices, the high capacity utilization of existing rail and road connections. . The future of energy relations in the Eurasian context is mostly about energy security, the growth of mutual trade, and territorial development.

The perspectives of US-EU-Russia-China relations with the coming Trump presidency was also touched upon.

Looking at the future of the Russian economy, all experts consider the impact of the energy sector either as a neutral or negative factor. There is a common view that Russia's dependency on energy exports should be decreased.

A common EU – EAEU energy market would increase stability and lead to a steady raise of oil production in Russia. On the other hand, the move towards a low-carbon economy in Europe would have an adverse effect on the Russian petrol and gas industry. In the future the global, and especially European, energy market will see a convergence of producers and consumers of energy (e.g. by the domestic production of solar power), leading to an increasing number of energy producers, which will have a decisive impact on Russia's dependence on energy exports.

The experts of the workshop from the European side stated that among the Eastern Partnership states Ukraine and Moldova comply with the rules of the Third Energy Package, and that Georgia was on its way to comply. According to their opinion, the Third Energy Package could become the basis for a common EU-EAEU energy market.

Development of Transport and Infrastructure in Eurasia

For further details see the workshop report: Vinokurov E, Balás P, Emerson M, Havlik P, Pereboev V, Rovenskaya E, Stepanova A, Kofner J, et al. (2016) 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.

The fifth part of Session II summed up the various major infrastructure and transport projects in Greater Eurasia, the ways to finance them as well as several important aspects of their implementation.

The Eurasian continent as a single geographical unit represents 61.9% share on the world transport of merchandise. Development of a coherent continental transport system in the wider European and Eurasian space is, however, hampered by the existence of different railway gauges: three types in Europe (1435 mm, 1524 mm, 1668 mm), one in Russia, the post-Soviet space and Mongolia (1520 mm), two in China (1435 mm, 1520 mm) and one in India (1676 mm).

The joint implementation of large transport infrastructure projects could become one of the main directions in the EU-EAEU cooperation agenda. Here are but a few of those: the Trans-European networks (TEN) projects of large infrastructure networks of transport, energy and telecommunications in Europe; the Trans-Siberian Railway & New high-speed

railways in Russia (Moscow-Kazan HSR, Moscow-St.Petersburg HSR, etc.); Trans-Eurasian Belt “Razvitie” in Greater Eurasia (a geo-economic belt of cooperation covering the entire territory between the Atlantic and the Pacific Ocean); the Central Asia Regional Economic Cooperation (CAREC corridors); and the biggest project at the start of XXI century - the One Belt One Road initiative, including both the Silk Road Economic Belt, financed by Asian Bank of Infrastructural Investment (AIID, \$ 100 bln); Silk Road Fund (SRF, \$ 40 bln) and others, and Maritime Silk Road.

Looking in detail at the initiatives cited above, the Trans-European Transport Networks (TEN-T) are a planned set of road, rail, air and water transport networks in the European Union. The TEN-T networks are part of a wider system of Trans-European Networks (TENs), including a telecommunications network (eTEN) and a proposed energy network (TEN-E or Ten-Energy). TEN-T provides integrated and intermodal long-distance, high-speed routes. Nowadays TEN-T projects are technically and financially managed by the Trans-European Transport Network Executive Agency (TEN-T EA), which was established for this purpose by the European Commission in October 2006.

The Trans-Siberian Railway (TSR), is a network of railways connecting Moscow with the Russian Far East. With a length of 9,289 kilometers (5,772 miles), it is the longest railway line in the world. There are connecting branch lines into Mongolia, China and North Korea. It has connected Moscow with Vladivostok since 1916, and is still being expanded. Today the TSR carries about 200,000 containers per year to Europe. But the capacity of TSR is around 100% used.

The One Belt, One Road initiative will promote the connectivity of the Asian, European and African continents and their adjacent seas, establish and strengthen partnerships among the countries along the Belt and Road. The area covered by the initiative is primarily Asia and Europe, encompassing around 60 countries (the countries affected in Oceania and East Africa are also included). The anticipated cumulative investment over a still un-defined timescale for the whole project is put between US\$4 trillion to US\$8 trillion.

According to the recently published opinion of the Organization for Economic Cooperation and Development (OECD), in 2060 China and India will have a share of the worldwide gross production of 46% compared to the current 24%. Compared to that, the share of the Eurozone on the GDP creation is expected to fall from the current 17% to 9%. Similar tendencies are forecast for Russia and the EAEU. How will countries in Eurasia react? Closer cooperation between the EU with the EAEU could be one of the important options.

The Central Asia Regional Economic Cooperation (CAREC) Program is a partnership of 11 countries and six multilateral development partners (Asian Development Bank, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Program, and the World Bank). It should

be noted, that the transport infrastructure in Central Asia needs massive investments and the economic viability of many transport projects should be carefully assessed. Coordination of all stakeholders-countries of the region, including IFIs and major partners, the development of hard and soft infrastructure are important for the countries of the region.

The perspectives of the Arctic shipping routes, as the Northeast Passage, the Northwest Passage, and the Transpolar Sea Route; the Northern Sea Route, and the Arctic Bridge were discussed during the workshop. These routes are currently only navigable by heavy icebreakers. However, due to the increasing decline of Arctic sea ice cover, the route is slated to emerge as the predominant Arctic shipping route by 2030. Creation of canals and artificial waterways on the Eurasian continent also has a potential to develop in the near future.

Maritime transport is very important. Currently, over 60% of world gross domestic product is created in the Asia-Pacific region. The total value of the world's cargo traffic is over US\$ 5 trln and much of it is transported by sea for long periods. The sea route between China and Europe is well-developed, by far the least expensive and has by far the greatest tonnage/container capacity. Economic cooperation in Greater Eurasia requires an efficient and competitive land transport network.

The integration possibilities of the EAEU in the areas of transport and infrastructure determine not only the agenda for cooperation, but also the long-term prospects of the EAEU's development. To achieve development effects, transport corridors are to become also economic corridors. According to some opinions the maximum economic benefit is gained by concentrating economic activity and investment in the regions adjacent to main transport lines. But economic growth in the development corridors should be self-sustaining. This can be a perspective in the EU-EAEU "technology-and-knowledge" exchange.

The discussions about Pan-Eurasian infrastructure are often confined exclusively to transportation issues—railway and road networks. However, the discussions should also focus on related issues. First, the inadequacy of the existing infrastructure, in particular of border crossing points in relation to the projected needs and opportunities for trade. Second, technical issues that define the speed, volume, and costs of logistics, such as the state of border crossings, the railway gauge problem, and development of marine ports and airports were tackled as well. Thus, both economic and non-economic factors should be taken into account. General economic factors include: the economic cycle; supply/demand; inflation. Concrete economic factors are such as taxes; expenses; levels of profit. Specific factors as seasonal; guaranties and service conditions; capacity utilization factors and expenses. Special factors, such as government regulations; currency exchange rates. Non-economic factors, including political and military-security aspects.

There are different ways of funding the mega infrastructure projects in Greater Eurasia: Development Funds; Development Banks; Funding Agencies; Transnational companies; Financial institutions; Project bonds; Non-governmental pension funds; Equity funds; PPP projects; Grants; Loans; Technical Assistance; New financial instruments; New financial mechanisms. Meanwhile, the following instruments should be taken into account: cost-benefit analyzes; risk management; finance insurance; currency issue, and others.

Some participants of the workshop proposed financing of major infrastructure and transport projects in Greater Eurasia by using a «Project Specific Currency Basket» (PSCB), e.g. as used by the IMF, the NDB BRICS, and the AIIB. Priority currencies would be the Euro, the Ruble, the Yuan and the Yen. Development of the transport infrastructure in Central Asia requires massive investments. The economic viability of many transport projects should be carefully assessed. Coordination of all stakeholders - countries of the region, IFIs and major partners is important.

The development of trans-continental fiber-optic links is another huge opportunity. Currently, the land based capacities are limited, and most of data from Europe to Asia is transferred by undersea fiber-optic channels. These, however, have at least two drawbacks, namely their lengths and the time needed for any repairs. Only 6% of Europe–Asia traffic flows through the land-based fiber-optic links. This share can be substantially enlarged. Adequate regulatory frameworks, security, and investments are the key aspects. Similar negotiations and challenging compromises will have to be reached with respect to the harmonization in transport infrastructure (e.g. Chinese One Road One Belt – Silk Road initiative, etc.). China’s rising role will substantially affect both the EU’s and the EAEU’s transport and infrastructure policies (e.g. European ports and transport hubs, etc.). Among the challenges facing all these projects – apart from geopolitical risks - are the scarcity of investment resources, capacity utilization of rail and road connections, uneven commodity structure and trade specialization in EU-EAEU-China exports, etc.

Labor Market and Migration across the Eurasian Continent

For further details, see the workshop report: Vinokurov, E., Balás, P., Emerson, M., Havlik, P., Pereboev, V., Rovenskaya, E., Stepanova, A., Kofner, J. and Kabat, P. (2016) Labor market and migration across the Eurasian continent. 6th Workshop Report. Challenges and Opportunities of Economic Integration within a Wider European and Eurasian Space, 13-14 April, 2016, IIASA, Laxenburg.

The concluding discussion of Session II focused on the impact of migration flows on the sustainable development of the Greater Eurasian region, the labor market challenges, and

the potentials for harmonization of education systems in the EU and the Eurasian Economic Union (EAEU).

Assuming that the Russia-EU political disputes are settled (the EU-EAEU cooperation proposals are long-term ones), passenger and migration flows between the EAEU member-states and the EU will increase. For any serious negotiations about an EU-EAEU visa-free regime to succeed, a complete set of re-admission agreements among all countries involved should be concluded and implemented. The EAEU and the EU can benefit from introducing a visa-free regime that would have the usual limits (for example, 90 days in a year), which will facilitate tourism, student and business exchanges among member states at low cost. However, this will be most probably a gradual process and there might be some modifications and restrictions to the idea of an EU-EAEU visa-free regime to make it politically feasible. These should be accepted to make the deal possible.

Participants discussed such important questions, as labor migration within the EU, migration flows in Europe from the Middle East and North Africa, and migration flows from Central Asia in the EAEU. Some other aspects of regional migrations were also considered, like Chinese labor migration to Kazakhstan, and Ukrainian refugee migration to Russia and the EU. E.g. the estimated number of labor migrants leaving Ukraine exceeded 2,2 – 2,3 million persons at the beginning of 2016 (this corresponds to 10% of the economically active population of Ukraine).

Of particular concern is the refugee crisis in Europe and Turkey. During the workshop it was mentioned that in 2015 a record 1,3 million refugees/migrants applied for asylum in the 28 member states of the European Union, in Norway and Switzerland – nearly double of the previous high water mark of roughly 700,000 that was set in 1992 after the fall of the Iron Curtain and the collapse of the Soviet Union. During 2016 there was a marked drop in the number of applicants arriving by the „Balkan route”, while the numbers arriving via the Mediterranean Sea remained high. Between April 2011 and September 2015, 2,07 mln Syrian nationals applied for asylum in Turkey. Nowadays the problems of safety and security in the region are among the most important concerns.

According to an analysis of the International Monetary Fund of the effects of the refugee surge on the EU labor market, in the short-term the EU's budgetary expenses are estimated to increase by 0,05% to 0,1% of the GDP in 2015 and 2016. Estimates of the fiscal and macroeconomic effects of the refugee crisis on Austria suggest costs of about 0,2% of the GDP in 2015 and 0,4% of the GDP during 2016-2017 (compared to 2014) - mainly in Austria, Finland, Sweden and Germany. A very important questions for the USA, the EU and the EAEU is increasing protection from illegal immigration.

Labor migration should be left out of the EU-EAEU agenda, at least for the medium term. It is a common knowledge that the EU has a well-developed common labor market which comprising the 28 Member States, plus the EFTA countries with a total population of over 510 million (to what extent this situation will change after the UK's Brexit referendum is

unknown as yet.) By contrast, it is still not broadly known that the Eurasian Economic Union also represents a common labor market, effectively uniting five countries with ca. 180 million people. In the EAEU, a citizen of any member state is eligible to work in another member state without being subject to licensing and quota regimes. The labor migrants and their family members enjoy medical protections and access to educational facilities. At the moment, the two common labor markets functions side by side—a well-developed and mature European one and a nascent Eurasian one. In our opinion, due to the extreme sensitivity of labor migration, this issue should be left out of the EU-EAEU agenda for several years.

The EAEU is also moving towards a system of pension portability, based on the principle of proportionality. The EU has recently implemented a system of full international portability of pension rights. Due to the large potential flows of migrants, in particular from the EAEU countries to the EU, this theme is relevant for both the EU and the EAEU and can become an issue for mutual cooperation. While numerous technicalities will have to be ironed out, the parties should base their efforts on the principle of proportional pension accrual seeking a fair and stable international system of social security.

Both the EU and the EAEU regions have rather highly educated labor forces. It would be desirable to achieve progress in the reciprocal recognition of professional certificates and degrees between the EU and the EAEU. The EU and the EAEU member states have different practices for recognition of academic and professional qualifications. Progress in mutual recognition would be helpful to improve the mobility of labor. The main question is: To what extent is the mutual recognition of professional certificates and diplomas possible? While the priority vector should be for the expansion of mutual recognition, it is evident that a large number of exemptions will remain. The European Commission and the Eurasian Economic Commission could start a dialogue on mutual recognition instruments.

From the EU's point of view enhanced possibilities for the movement of people for economic purposes (linked to the delivery of goods and services, or to investments) is always linked to broader economic liberalization agreements. Practically all its integration-type agreements, starting from the traditional goods-only FTAs, to the DCFTAs and the "new generation" broad FTAs, contain provisions about the movement of people. This is based both on the objective need of ensuring at least the minimum conditions for business, especially for the trans-border supply of services and investment activities, as well as the EU's particular economic interests. As the supply possibilities of labor in general, but especially in the regions around the EU, far exceed the EU's needs, the EU links such possibilities for its partners to broader integration structures, covering all four freedoms (movement of goods, services, capital and labor). There is no realistic perspective to enhance the movement of people for economic purposes in an EU-EAEU context if this is not linked to some form of a comprehensive integration agreement.

As concerns the EU-EAEU exchanges of students and teachers, the current Erasmus Mundus and Marie Curie stipend exchanges should be substantially expanded. Truly large-scale educational exchanges could be attractive for both sides, resulting in hundreds of thousands of students and faculty crossing the borders yearly, thus enhancing the mutual understanding and people-to-people contacts.

One of the main problems to be solved within the EAEU is linked to the negative demographic forecasts. For example, Russia will need a sizeable inward migration of about 5 million people in the coming decade; the labor force is projected to decline by nearly 10 million persons until 2035.

The majority of the expected migrants will come from the former Soviet republics and probably will not close the gap in high skilled workers' shortages. According to MiRPAL, the fourth quarter (4 Oct.2015—12 Jan. 2016) closed with 9.88 million foreigners staying in the Russian Federation. That represents a -6.6 percent quarterly decrease and a -10.9 percent year-on-year drop: 1.05 million foreigners less than by the end of 2014.

Current migration and labor market problems lead to attempts to restrict the existing EU regulations regarding migration—this factor played a major role also in the recent UK Brexit referendum. On the other hand, the EU moves forward with visa liberalization with some other countries (Turkey, Ukraine, Georgia and Moldova) as part of broader integration agreements.

It was mentioned that by 2025 every fourth inhabitant of Europe will be older than 60 years. This, combined with the increasing share of non-Europeans in the world population (in 2015 the EU's share in the world's population was only 5%, as compared to China – 17%, and India – 17%), will have a tremendous impact on migration to Europe and the European labor market.

The increase of production requires a growing workforce. Therefore, there is a trend towards raising the retirement age. However, this also raises a number of questions that relate to unemployment benefits, sickness and other costs.

Regarding the recognition of diplomas, including professional education, it was suggested to start an exchange of experiences for the identification, classification, mutual recognition, and certification of new professions, e.g. in the banking and the ITC sectors, linked to the increasing use of Big Data in entrepreneurial activities.

Regarding neighborhood regions, it was suggested to promote enhanced collaboration in order to facilitate cross-border labor markets in the EU-EAEU border areas, and among the EAEU member states, based on the experiences of the EU EURES cross-border partnerships and services.

Regarding large-scale educational exchange (Erasmus Mundus) it was suggested to verify the conditions for applications inside the EAEU for the EU Erasmus program by young entrepreneurs and to expand its area of operations to include managers and technical

staff of the companies of both regions, as a premise to increase the collaboration between companies. The exchange flows between EU/EAEU are still low, so there is scope for growth in future.

As with the current difficulties, both within and between countries and regions, migration is perhaps too sensitive an issue to be a main priority in the short term. Meanwhile work should continue to prepare for a period when relations are better.

It is important to give greater attention to the effects of technological change on future employment – in terms of its effects on types of employment, quality and quantity of employment. This will have profound effects on labor migration and also on cross-border services trade, as well as on many of the issues discussed over both days in this Workshop.

Work should continue the expansion of mutual recognition of qualifications for certain occupations. This includes both direct recognition and, at least in the medium term, recognition following additional small conversion qualifications (e.g. covering necessary language and specific knowledge of the destination country).

Phase II: Suggestions for Further Research

Phase I of the research project brought substantial insight into the challenges and opportunities for deepened economic cooperation in the Greater Eurasian space, especially regarding the prospects for a common economic space from Lisbon to Vladivostok.

By the end of Phase I it has become evident to the researchers (both of IIASA and of other organizations involved) that a second phase of the research project would be necessary in order to undertake deepened and more detailed analyses, using both quantitative and qualitative methods, in order to arrive at a well-founded assessments, options and recommendations for the future EU-EAEU integration.

The first draft of a Phase II document, outlining the aims, the topics and the general framework of the continued work was presented and discussed during Session III of the workshop.

It was agreed that Phase II would be called something like “EU–EAEU in Greater Eurasia: Long-Term Agenda for Economic Cooperation” and that the second part of the research project would cover a period from three to five years (2017-2020-22).

The basic goal of Phase II would be building on Phase I in order to elaborate in a more comprehensive and detailed manner the possible terms, conditions and options for a future integration framework between the EU and the EAEU. The further work should involve deepened, broadened analysis and assessment, as well as possible

recommendations for policy-makers. The work would focus on the substantive economic, legal and technical aspects of such an integration (with the current political obstacles considered as externalities, the solution of which fall outside the scope of the Project.)

The background of Phase II has been the tendency during the last two decades of international economic-trade policies moving towards regional integration. Among the most important driving forces has been the inability of the WTO Members to bring to conclusion the negotiations of the Doha Development Agenda (DDA – “Doha Round”), launched in 2001. Most experts agreed that theoretically the global liberalization of trade in goods and services, as well as of the flows of investments and of persons related to economic activities have the greatest potential to boost economic growth. However, due to the lack of progress in the WTO’s core agenda the integration processes have speeded up also in Europe, as well as in the broader Eurasian region.

The working assumption is that once the political problems will have been resolved, the EU and the EAEU would set as an agreed objective the gradual movement towards a comprehensive Greater Eurasian cooperation and integration structure. Such a structure should be in line with the WTO’s rules and obligations, as well as with the approaches and best practices of other relevant international organizations.

The following basic classification of the forms of international economic cooperation in the Eurasian region (the EU, the EAEU, China, etc.), ranked according to the increasing level of intensity should be taken into account: economic cooperation based on WTO membership; models for WTO + economic relations; regional integration agreements and frameworks in Eurasia. The shaping of relations with non-WTO member countries should be also taken into account.

Phase II is not foreseen to be deepened, but also expanded to involve the upcoming global power, China, as well as looking at the possible links with other important Asian economies like Japan, the Republic of Korea, the ASEAN countries and India. The justification is that in the coming period the global economic importance of China will undoubtedly grow, and being part of the Greater Eurasian region, it will play an increasing role in both the EU’s and the EAEU’s external economic relations. Based on this a new initiative might emerge, what may be called a possible ‘Greater Eurasia’ agenda. The research is foreseen to look at the prospects of developing the bilateral economic-trade relations between each of the 3 major players, i.e. the EU’s links with Russia/EAEU and with China, as well as the Russia/EAEU-China relationship.

Based on this approach, during Phase II of the Eurasian Project it will be important to get a clear picture about the on-going or planned negotiations and agreements both among the 3 major players, as well as with third partners in the broader Eurasian space.

Because of the fact, that the nature of the agreements negotiated by the EU, Russia/EAEU and China, respectively, differ in a number of points, further analysis and detailed studies

are needed to establish what might be the common ground for the potential bilateral integration plans among the three of them. Thus, it is quite possible that there will not be a single model, rather the economic relationship between the EU, and the EAEU will have different features compared to the EU-China and EAEU-China relations. Meanwhile, even under the most optimistic scenario in the foreseeable future only some kind of three-sided, DCFTA-type integration arrangements could be imagined, while any idea of an inter-regional Customs Union is not realistic.

This integration could be realistically implemented only in the medium to long term, in several stages, eventually leading to the creation of a broader Eurasian integration arrangement.

The work should also need to cover the ways of linking the existing AA/DCFTAs between the EU and its three partners, as well as the remaining Eastern Partnership countries (Armenia and Azerbaijan) to the possible development of the EU-EAEU relations. Thereby it could be ensured that, as originally intended by the EU, these agreements act as bridges for increasing trade and economic cooperation with both integrations, rather than considered as barriers to preferential trade relations with the EAEU.

The most probable way of moving towards economic-trade liberalization is a gradual approach, through various stages, as creating the necessary political-economic conditions for comprehensive integration agreements takes considerable time. Thus, possible scenarios for moving towards the final broad preferential agreements among the 3 sides: (1) in the EU-EAEU context, the first option would be to set, as an interim goal, the conclusion of a broad, non-preferential cooperation agreement; (2) a more ambitious aim is to first negotiate agreement(s) which during a transition period, would cover the liberalization of only certain parts of the economic relations (e.g. investments.); (3) in the EU-EAEU context there seems to be only a theoretical possibility of moving straight to a comprehensive liberalization framework, towards a preferential agreement covering all 4 freedoms. It was recognized that ensuring these conditions might take considerable time, possibly many years, thus as a first step probably (point 1) above could be more realistic.

Thus, Phase II of the project could include a detailed analysis of the state and perspectives of both the EU-China and the EAEU-China integration relations. The new project could be called a 'Triangular concept of economic cooperation in Greater Eurasia', covering the EU, the EAEU, and China. Thereby each of the three bilateral relations could be looked at separately and subsequently conclusions should be drawn about both the common features, as well as the differences of the various aspects of the triangle. Some expert work and studies have been already done concerning various aspects of this triangle.

A related very important issue is the plans for future integration in Greater Eurasia in a Single Economic Space and of a wider Eurasian Economic Partnership, announced by the heads of state of China, Kazakhstan and Russia.

It should be noted that both the Eurasian Development Bank and the Eurasian Economic Commission are supportive of the Phase II of the research project.

An ambitious aim of Phase II could be the preparation of draft agreement(s) between the EU and the EAEU for creating a common economic space that could build on the framework and experience of the already existing Canada-EU CETA.

Sectorial research topics of Phase II could cover the following aspects:

1. EU - EAEU: free movement of goods I (tariffs);
2. EU - EAEU: free movement of goods II (NTBs);
3. EU - EAEU: free movement of labor (visa-free regime, recognition of certificates, pension mobility, student exchange);
4. EU - EAEU: free movement of services (non-financial);
5. EU - EAEU: free movement of capital (interregional investment agreement)
6. EU - EAEU: free movement of capital II (e.g. harmonization of banking law and stock exchange law);
7. EU - EAEU: harmonization of intellectual property rights;
8. Infrastructure and transport in Greater Eurasia: Silk Road Economic Belt / One Road - One Belt (EU - EAEU - China);
9. Infrastructure and transport in Greater Eurasia: Northern Sea Route (together with the IIASA Arctic project);
10. Infrastructure and transport in Greater Eurasia: North - South Route (EAEU - Iran/India).

Other issues that need to be addressed by Phase II include sanctions; the feasibility of trade liberalization, how to separate pragmatic economic policy from politics. Indeed, the IIASA research project is currently facing serious challenges owing to geopolitical tensions. Nevertheless, it has essentially a long-term and forward-looking agenda with several potential research areas.

Phase II would involve a clearer direction of work in order to produce high-quality, realistic, as well as innovative and policy-relevant research outcomes. This should rely on all elements of scientific research and analysis, quantitative and qualitative methods, which would allow for the decision-makers to select the desirable substantive parts, as well as working methods for moving towards the broad Eurasian integration framework.

The mid-term and final results of Phase II should lead to the publication of sectorial working papers, some of which could build the basis for the above mentioned EU-EAEU agreement(s) draft, as well as a monography on the EU-EAEU-China(East-Asia) triangle.

Based on the discussions about the new stage of work during the November workshop, an updated version of the Phase II document (Draft 2) has been prepared and is sent separately to the participants and to other interested stake-holders for their consideration. It is expected that the launching of the Phase II project would take into consideration the comments and recommendations to be sent in the coming period and on this basis would the final working document (Draft 3) be prepared to be considered at the launch event foreseen for the spring of 2017.

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The presentation slides and report texts given at the workshop are available by request from the project manager Anastasia Stepanova - stepanov@iiasa.ac.at

Appendix 1: Agenda

IIASA, 22-23 November 2016

Day 1

Session I. Overview of the IIASA Futures Initiative

**"Challenges and Opportunities of Economic Integration within a wider European and Eurasian Space"
(Scoping phase, 2013 – 2016)**

Chair and welcome – Pavel Kabat

Project overview – Evgeny Vinokurov & Peter Balas

General discussion

Session II, Part I. Presentation and discussion of the thematic workshop reports

EU-EAEU Potential Economic Integration: Methodological Approaches to the Assessment of Economic Impact

Presentation and moderated discussion – Evgeny Vinokurov

Trade Policy Regimes

Presentation and moderated discussion – Peter Balas

Non-Tariff Barriers and Technical Regulations

Presentation and moderated discussion – Michael Emerson

Futures of Energy in Eurasia in the Global Context

Presentation and moderated discussion – Peter Havlik

Day 2

Session II, Part II. Presentation and discussion of the thematic workshop reports

Development of Transport and Infrastructure in Eurasia

Presentation and moderated discussion – Anastasia Stepanova

Labor Market and Migration across the Eurasian Continent

Presentation and moderated discussion – Jurij Kofner

“Eurasian Economic Union: Current Developments and Prospects”

Lecture by H.E. Tatiana Valovaya, Minister, Member of the Board of the Eurasian Economic Commission (EEC)

Session III. Discussion of future plans for the second project phase (2017-2022)

Chair – Pavel Kabat

Presentation – Peter Balas & Evgeniy Vinokurov

Special comments – Tatyana Valovaya

General discussion

Appendix 2: List of participants

Aydinbař Hayreddin	Director General, Eurasian House, Turkey
Balás Péter P.	Former Deputy Director General, DG TRADE, European Commission (EC), Senior Research Scholar, International Institute for Applied Systems Analysis (IIASA), Austria
Barisitz Stephan	Senior Economist, Foreign Research Division, Austrian National Bank (OeNB), Austria
Davydchyk Maria	Project Manager, East Forum Berlin, Committee on Eastern European Economic Relations (Ost-Ausschuss der Deutschen Wirtschaft), Germany
Emerson Michael	Associate Senior Research Fellow, Centre for European Policy Studies (CEPS), Belgium; Senior Research Scholar, International Institute for Applied Systems Analysis (IIASA), Austria
Felbermayr Gabriel	Professor, LMU Munich, Director of the Ifo Center for International Economics, Institute for Economic Research (Ifo), Germany
Goujon Anne	Research Scholar, International Institute for Applied Systems Analysis (IIASA), Austria
Gromyko Yuri	Director, Shiffers-Institute of Advanced Studies, vice president, CJSC «Millennium Bank», Russia
Harter Stefanie	Head, Liaison Office to the German Ministries of Foreign Affairs, Defense, Interior and Justice, German Agency for International Cooperation, Germany
Havlik Peter	Staff Economist, The Vienna Institute for International Economic Studies (wiiw) and Guest Research Scholar, International Institute for Applied Systems Analysis (IIASA), Austria
Hofer Andrea W.	International Relations Specialist, The Austrian National Bank (OeNB), Austria
Igityan Haykaz	Macroeconomist, Monetary Policy Department, Central Bank of Armenia, Armenia
Kabat Pavel	Director General and Chief Executive Officer, International Institute for Applied Systems Analysis (IIASA), Austria
Kangaspuro Markku	Research Director and Acting Director, Aleksanteri Institute, University of Helsinki, Finland
Karachun Oleg	Head, Methodology and Analysis Division, Macroeconomic Department Eurasian Economic Commission (EEC), Russia
Knobel Alexander	Head, Foreign Trade Department, Gaidar Institute for Economic Policy (Gaidar Institute), Russia

KofnerJurij	Research Scholar, International Institute for Applied Systems Analysis (IIASA), Austria
KuchtikTomas Policy	Coordinator Russia, CIS, Ukraine, The European Free Trade Association (EFTA), European Commission (EC), Belgium
Lee Chin-Min	Special Advisor to the IIASA Director General and Chief Executive Officer, International Institute for Applied Systems Analysis (IIASA), Austria
Liu Henry C.K.	Professor, Urbanism Center, Graduate School of Design, Harvard University, United States of America
McQuaidRonald	Professor of Work and Employment, Management, Work and Organisation Division, Stirling Management School, University of Stirling, United Kingdom
MityaevDmitry	Vice-President, Federal Governmental and Academic Institute, Council for the Study of Productive Forces (CSPF), Ministry of Economic Development and Russian Academy of Sciences, Russia
MogilevskiiRoman	Executive Director, CASE-Kyrgyzstan, Head of Research, Institute of Public Policy & Administration University of Central Asia (UCA), Kyrgyzstan
MovchanVeronika	Director, Institute for Economic Research and Policy Consulting (IER), Ukraine
Puls Thomas	Senior Economist, Institut der Deutschen Wirtschaft Köln, Germany
Raimondi Paolo	Advisor for the International Economics and Finance, Italian Institute for Asia and the Mediterranean (ISIAMED), Italy
Ricceri Marco	General Secretary, Institute for Political, Social and Economic studies (EURISPES), Italy
Rovenskaya Elena	Director, Advanced Systems Analysis Program, International Institute for Applied Systems Analysis (IIASA), Austria
Schwimmer Walter	Co-chair, Dialogue of Civilizations Research Institute, Austria
Shcherbanin Yury	Professor, Head of Laboratory, Institute of Economic Forecasting (IEF), Russian Academy of Sciences, Russia
Shirov Alexander	Deputy Director, Institute for Economic Forecasting, Russian Academy of Science, Russia

StepanovaAnastasia	Eurasian Project Manager and Research Scholar, International Institute for Applied Systems Analysis (IIASA), Austria
SultanovNurbek	Governmental Project on Systematic Regulatory Analysis, Systematic Regulatory Review Platform, Kyrgyzstan
SultanovaNazira	Senior Expert, WTO Representative, Ministry of Economy, Switzerland
TavadyanAghasi	Researcher, Armenian State Economic University, Armenia
TennenbaumJonathan	Consultant on Economics, Science and Technology, Germany
TkachukSergey	Program Director, Scientific Center for Eurasian Integration, Russia
ValovayaTatyana	Minister in Charge of the Development of Integration and Macroeconomics, Eurasian Economic Commission (EEC), Russia
Van der Togt Tony M.	Senior Research Fellow, Clingendael Research, Netherlands
VinokurovEvgeny	Director, Centre for Integration Studies, Eurasian Development Bank (EDB), Russia
YasinskyVladimir	Head, Center for Eurasian Macrostructural Studies, Institute of Economic Forecasting, Russian Academy of Sciences, Russia
Zhang ZhongXiang	Director, China Academy of Energy, Environmental and Industrial Economics; Distinguished University Professor, College of Management and Economics, Tianjin University, China
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