The European Union and Euroasia: Challenges of Economic Integration

EDB Conference on Deepening and Widening Eurasian Integration
Moscow, 12-13 November 2013

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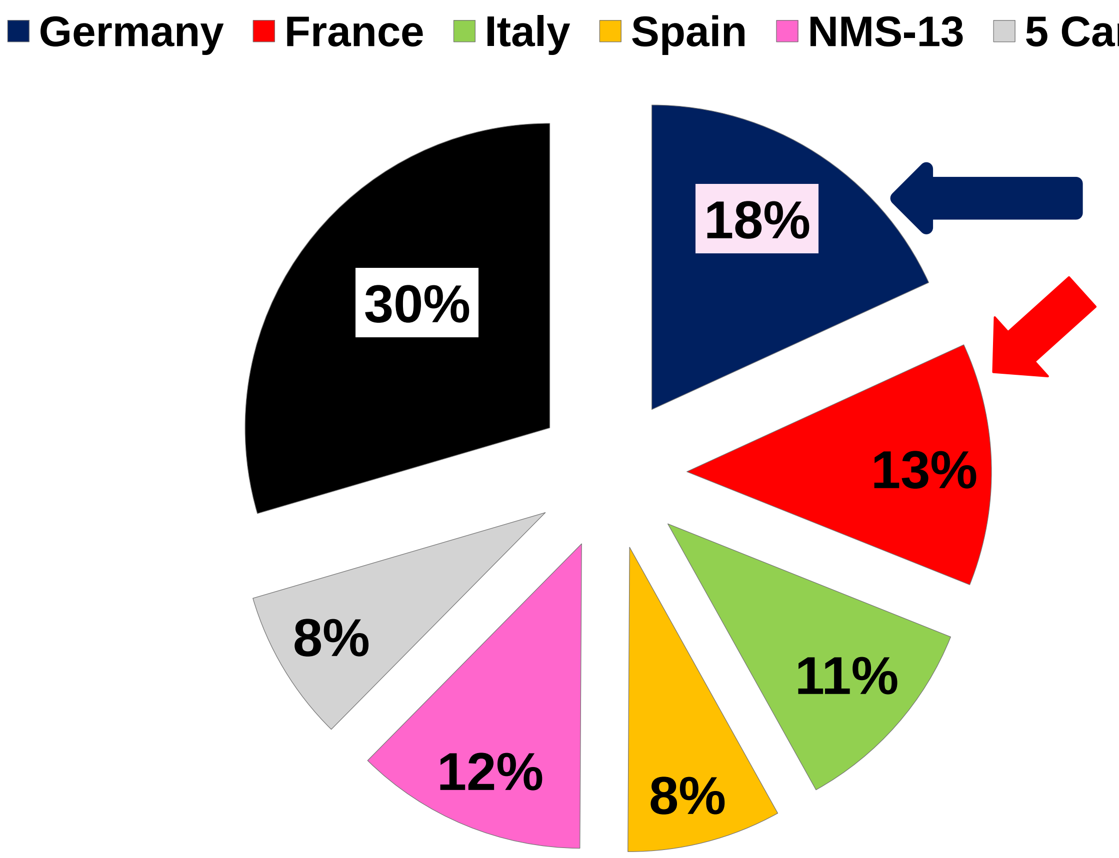
Topics covered

- Two Integrations: the EU and Single Economic Space
- Regional and commodity trade patterns
- What is really inside AA/DCFTA: example of Ukraine
- Integration effects estimates
- Summing up
- List of main references

Real GDP in the enlarged EU (28 members plus five SEE candidates for membership), year 2012, in % of total

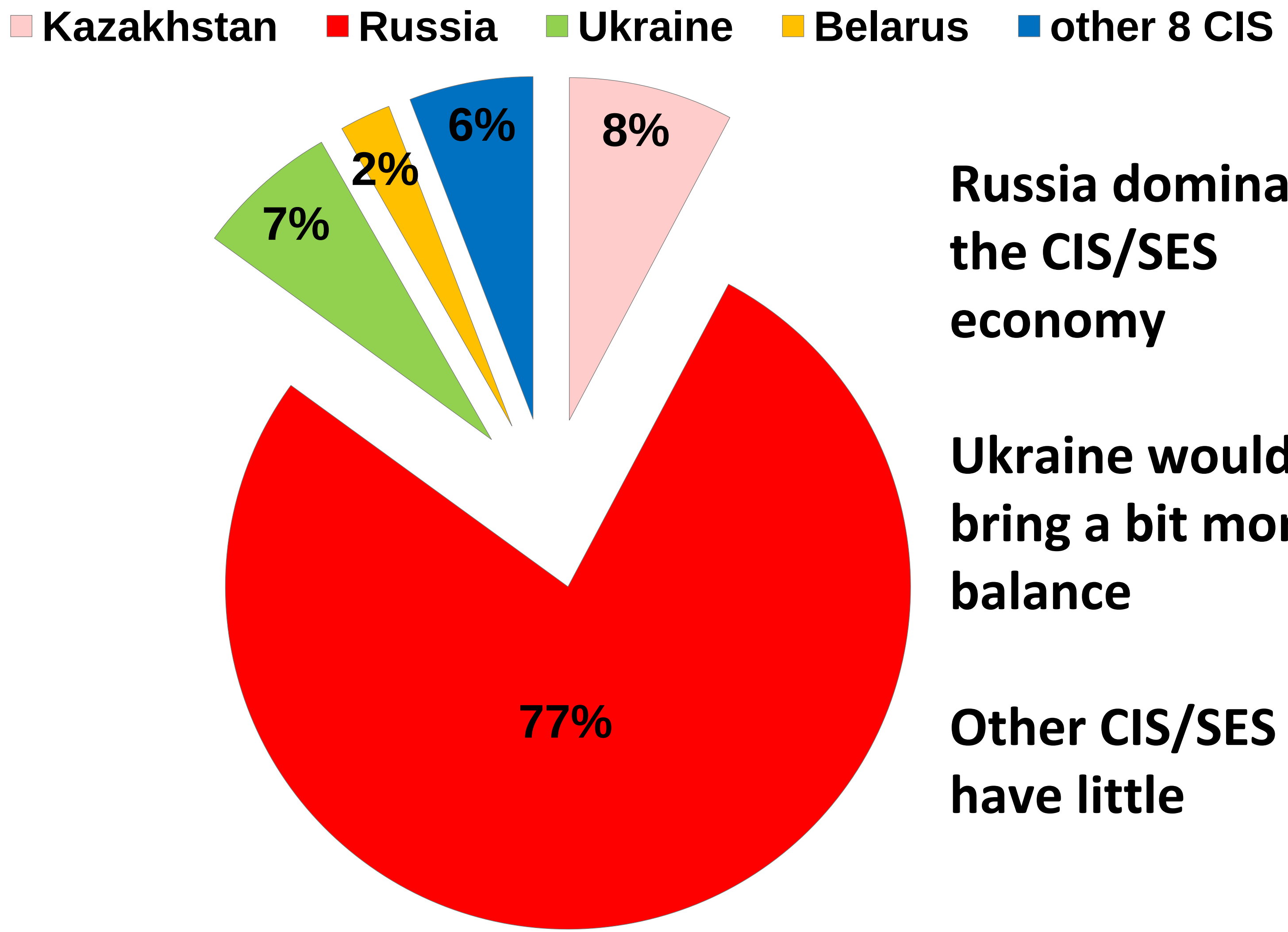


Germany and France account together for more than 30% of enlarged EU economy

New Member States and Candidates for 20%

Sources: wiiw Database incorporating national and Eurostat statistics; own estimates.

GDP in the CIS/SES, year 2012, in % of total



Russia dominates the CIS/SES economy

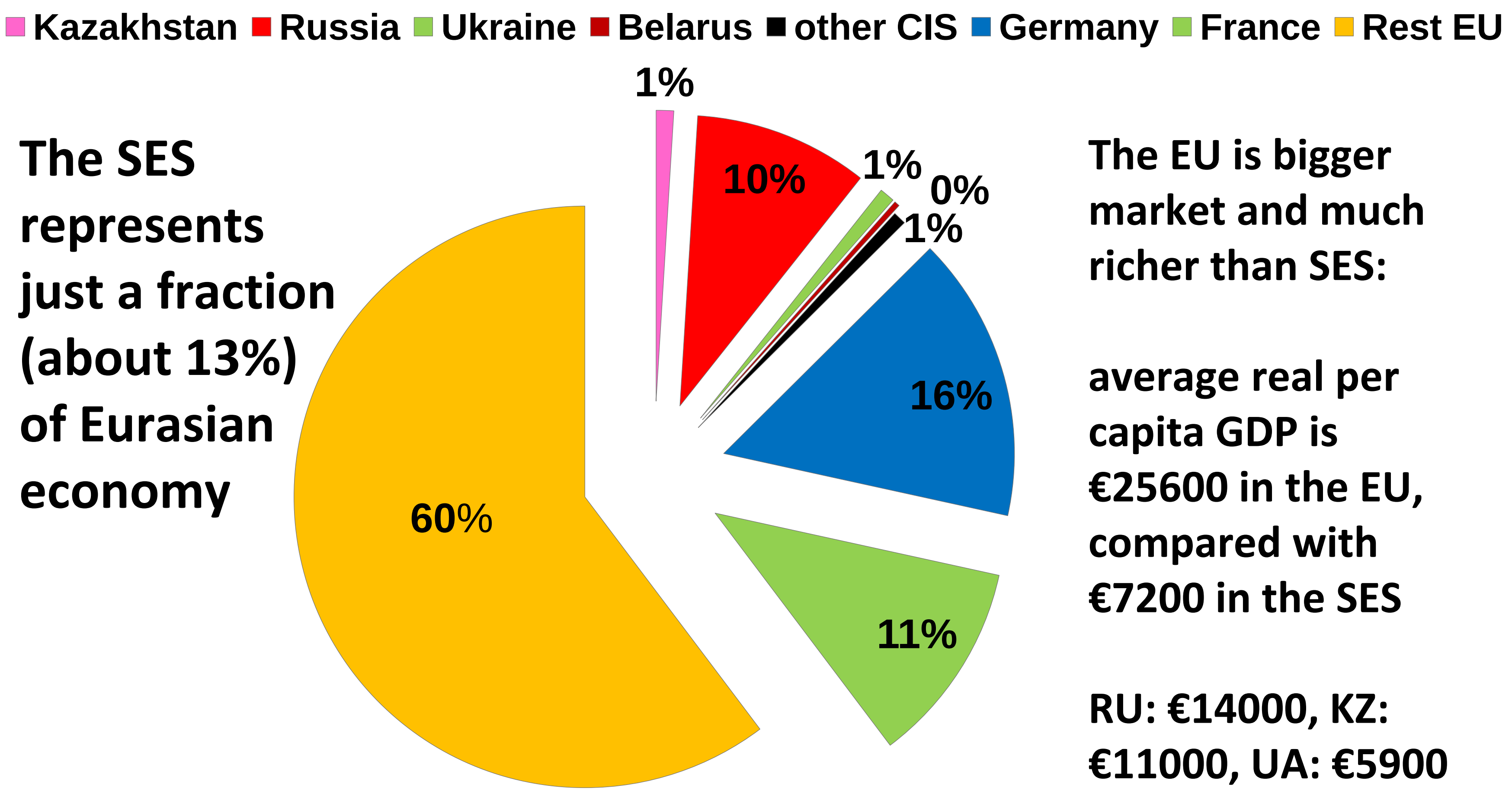
Ukraine would bring a bit more balance

Other CIS/SES have little

Sources: wiiw Database incorporating national and CISSTAT statistics; own estimates.

Real GDP in Eurasia in 2012, in % of total

(total = enlarged EU and CIS/SES)



The SES represents just a fraction (about 13%) of Eurasian economy

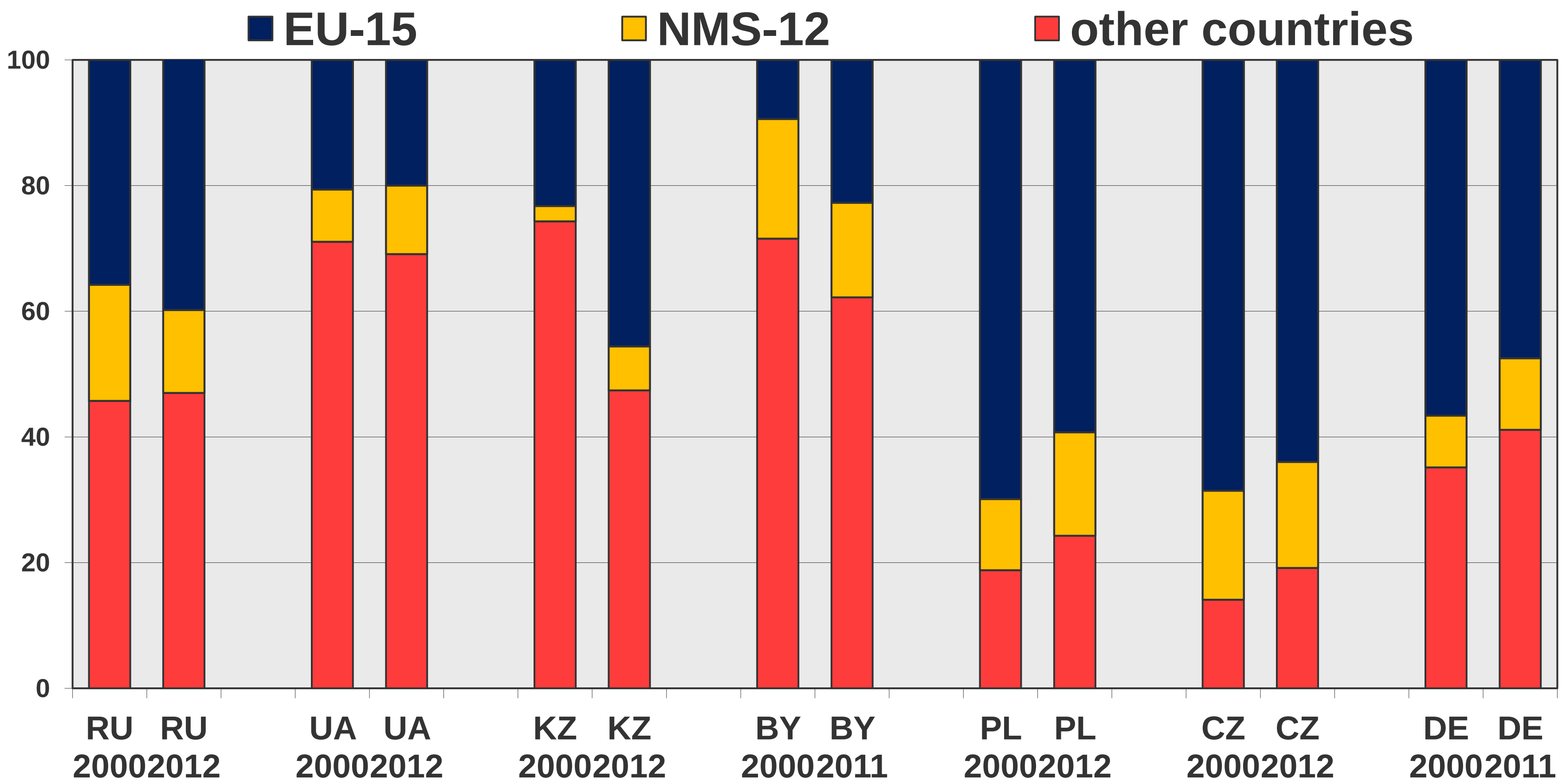
The EU is bigger market and much richer than SES:

average real per capita GDP is €25600 in the EU, compared with €7200 in the SES

RU: €14000, KZ: €11000, UA: €5900

Sources: wiiw Database incorporating national CISSTAT and Eurostat statistics; own estimates.

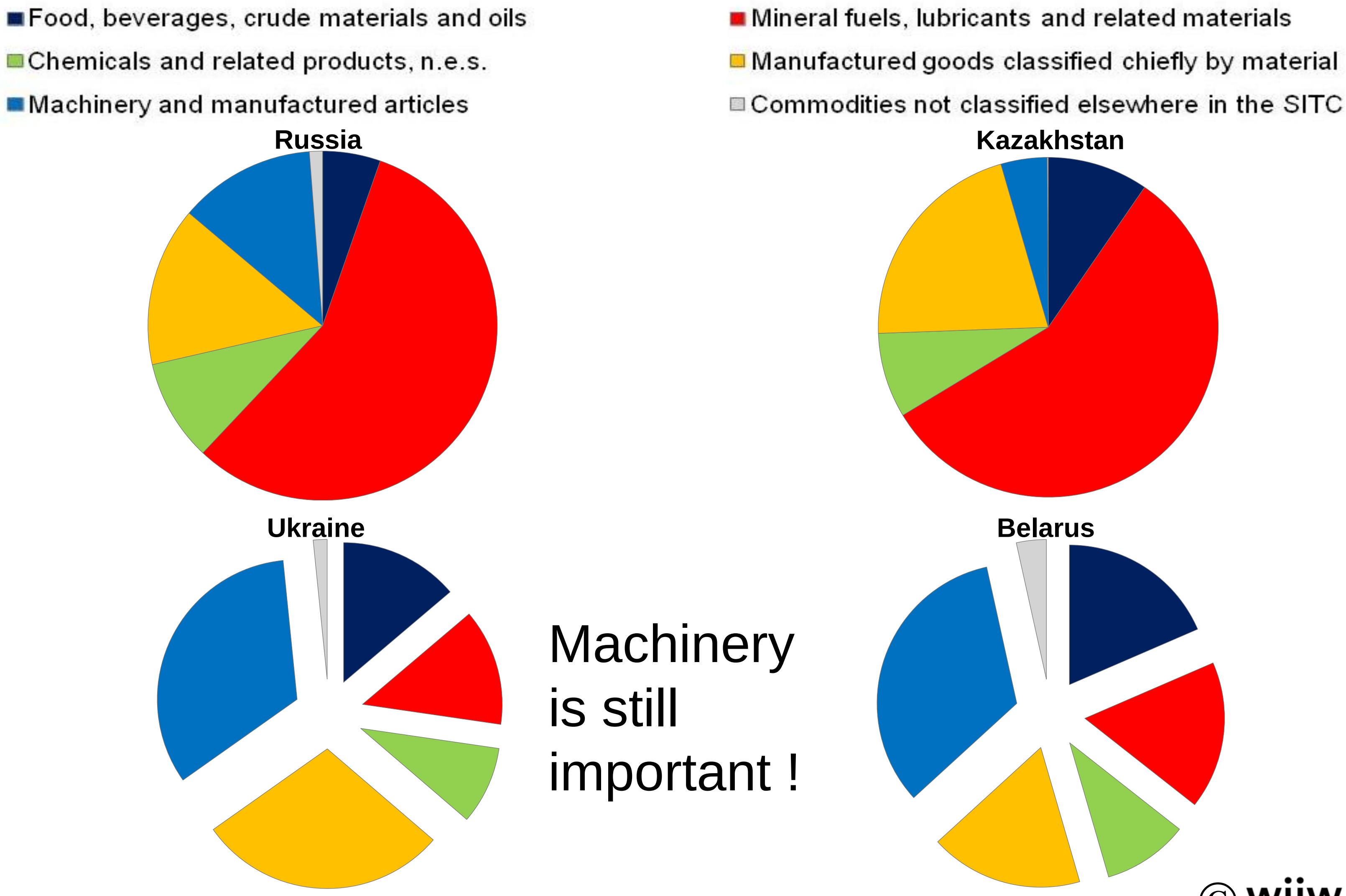
Export destination by country groupings, in % of total



Belarus and Ukraine trade much less with the EU (even less than Russia does) !!!

Source. wiiw Annual Database, EU Comext, UN Comtrade; own estimates.

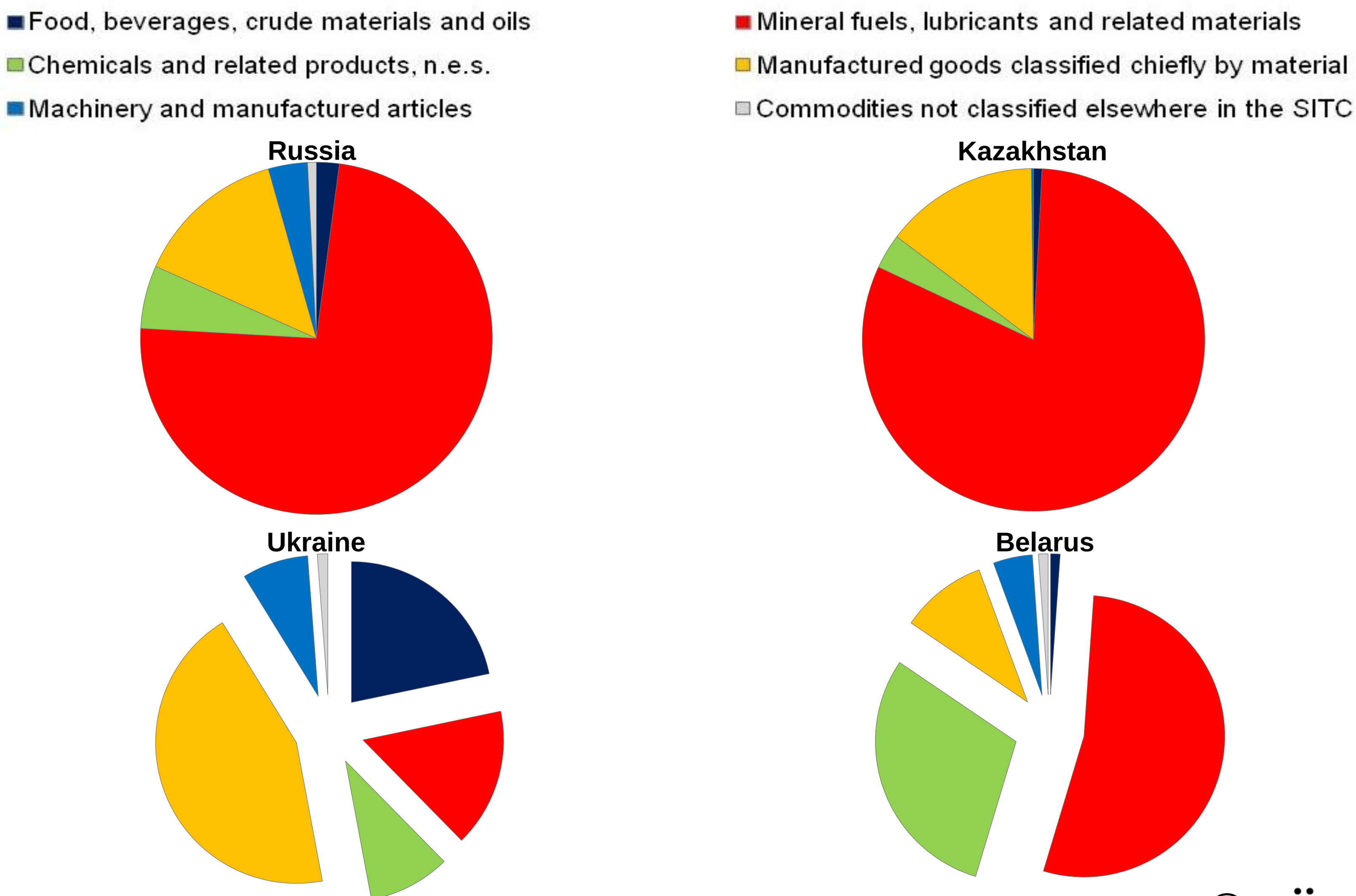
Export structure to the CIS, by commodities, 2011, in %



Machinery is still important !

Source. CISSTAT.

Export structure to the non-CIS by commodities, 2011, in %



Source. CISSTAT.

What is the real content of EU-UA AA/DCFTA?

- DCFTA contains 15 Chapters, 14 Annexes and 3 protocols (altogether 906 pages text, published in November 2012);
- Majority of customs duties (99.1% by Ukraine and 98.1% by the EU) will be removed as soon the Agreement enters into force;
- Transition periods for automotive sector in Ukraine for 15 years and for some agriculture products in the EU for up to 10 years;
- WTO rules will be generally applied to non tariffs barriers;
- Ukraine will progressively adapt its technical regulations and standards to those of the EU (takeover of EU-”acquis”);
- Public procurement exceptions provided for the defence sectors;

What is the real content of EU-UA AA/DCFTA?

- Specific provisions on trade-related energy issues such as
  - rules on pricing,
  - prohibition of dual pricing and transport interruption to third countries,
  - rules on non-discriminatory access to the exploration and production of hydrocarbons;
- DCFTA deals also with rules of origin and defines the “economic nationality” of products needed to determine the duties applicable to traded goods;
- DCFTA “shall not preclude the maintenance or establishment of customs unions, free trade areas or arrangements for frontier traffic except insofar as they conflict trade arrangements provided for in this agreement” (Article 39).

Economic effects of BY–RU–KZ CU/SES

- Estimates differ a lot, depending on authors, methods, data and assumptions:
  - Customs Union (CU) may boost participating countries' GDP by about 15% up until 2015 (Dyner, 2010);
  - Glazyev (2011) estimates that the implementation of the CU and the SES should boost the participating countries' GDPs by between 12% and 18% over a ten-year period;
  - Eurasian Development Bank (2012) expects a 2.5% higher GDP in BY-RU-KZ by 2030 with little or even negative effect on the CU with abstaining Ukraine;
  - Cameiro (2013) finds that Russia will be the CU main beneficiary in the short term while other members will gain in the medium and long run.

Economic effects of BY–RU–KZ CU/SES

- Vinhas de Souza (2011) and The World Bank claim the CU is a welfare-reducing arrangement, first of all for Belarus, whose GDP may decline by up to 6%;
- Tochitskaya (2010) found that the main CU positive effect on Belarus would derive from the upward adjustment of customs duties on imported used cars;
- In Kazakhstan, where CU import duties on many investment goods increased in the CU (and those on food products declined), the effect is expected to be largely negative (ATF Bank, 2010, The World Bank, 2013);
- CESD (2013) sees positive growth effects from CU for Azerbaijan but argues against accession due to loss of independent energy policy.

Economic effects of the CU/AA/DCFTA on Ukraine

- Movchan and Giucci (2011) claim that Ukraine will experience net losses from entering the CU, both in the short and longer run;
- In contrast, AA/DCFTA with the EU would bring Ukraine net welfare gains by 4.3% in the short run, and by nearly 12% in the longer run (ibid);
- Glazyev (2013) even claims immediate negative effects (USD 5 bn deterioration) on Ukraine' trade balance after signing a "discriminatory" AA/DCFTA due to tariffs cuts on EU imports;
- NAS of Ukraine (2011) has found that DCFTA with the EU would increase Ukrainian exports to the EU by 5% per annum; if Ukraine joins the CU, its exports to Russia are expected to increase by 1-5%;
- European Commission (2013) estimates EUR 900 mn savings for Ukraine's exporters after implementing DCFTA due to reduced EU import tariffs.

Economic effects of the BY–RU–KZ CU/SES

- wiiw (2012) estimated negative GDP growth effects for Kazakhstan of up to -2.6% after joining CU; losses being smaller if Ukraine also joins;
- Belarus appears to benefit the most in all integration scenarios, with GDP increase being the highest if Ukraine also joins the CU;
- Economic effects of the CU on Russia are smaller; they do not really depend on Ukraine’s trade integration choices;
- Ukraine is better off outside the CU and a DCFTA with the EU yields significant benefits in the longer run due to more FDI, reform pressures and resulting efficiency gains.

Summing up

- There seems to be little (economic) justification for Russia prompting Ukraine to join the Customs Union;
- Economic dominances have serious implications for integration success and sustainability (viz Germany-EU and Russia-SES);
- Estimates of Customs Union, EU accession , EU Single Market , DCFTA effects, EU-USA Free Trade Agreements, etc. differ widely;
- Long-run effects are always bigger than short-run !!!
- Effects of non-tariff barriers are always more important than customs duties reductions !!!
- Estimation methods, data sources and assumptions matter a lot in evaluations/interpretations of integration effects !!!
- See selected references attached for additional reading.

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