

Report 43

# EURASIAN ECONOMIC INTEGRATION

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# 2017

# EURASIAN ECONOMIC INTEGRATION – 2017

Report 43

 **Eurasian Development Bank**

Centre for Integration Studies

Saint Petersburg

2017

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The report reflects the directions, events, and decisions that determine the current vectors of the integration processes in the Eurasian Economic Union. The authors offer fresh data and analytical insights with respect to macroeconomic development; changes in trade and investment capital flows; the labor market; and progress in non-tariff barriers elimination. They provide a detailed review of certain critical developments, including the endorsement of the EAEU Customs Code; the completion of negotiations on the common drugs and medical products market; and the acceleration of efforts to create free trade areas. The EDB Centre for Integration Studies intends to continue the publication of the report on an annual basis.

**Electronic version of the report is available on the Eurasian Development Bank's website at:  
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# Table of Contents

	Acronyms and Abbreviations .....	4
	Address by Dmitry Pankin, EDB Chairman of the Management Board .....	6
	Introduction .....	10
<b>I</b>	<b>Eurasian Economic Integration .....</b>	<b>14</b>
	The Most Important Events and Decisions of 2016 .....	14
	EAEU Treaty Implementation Progress in 2016 .....	16
	EAEU International Cooperation: New Agreements and Treaties with Third Parties and Regional Associations .....	24
<b>II</b>	<b>Macroeconomic Processes in the EAEU .....</b>	<b>26</b>
	Main EAEU Economic Trends .....	28
	Analytical Outlook. Observance by EAEU Member States of Sustainable Economic Development Indicators Stipulated by the EAEU Treaty .....	35
<b>III</b>	<b>Common Goods and Services Market .....</b>	<b>38</b>
	Common Trends in Mutual and Foreign Trade .....	38
	Trade Reduction Causes: External and Internal Factors .....	39
	EAEU Foreign Trade .....	42
	EAEU Mutual Trade .....	52
	Impact of Growth in Foreign Trade of EAEU Member States on Their Rankings in International Ratings .....	54
	Foreign Trade in Services .....	56
<b>IV</b>	<b>Investments in the EAEU .....</b>	<b>58</b>
	Mutual FDI in the EAEU .....	58
	Investment Cooperation of the EAEU with Greater Eurasia .....	64
	Analytical Outlook. Why Has Competition between Jurisdictions Failed to Take Off? .....	68
<b>V</b>	<b>Common Labor Market .....</b>	<b>70</b>
<b>VI</b>	<b>Public Perception of Eurasian Integration.....</b>	<b>74</b>

## Acronyms and Abbreviations

<b>APEC</b>	Asia-Pacific Economic Cooperation
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>CC</b>	EAEU Customs Code
<b>CCT</b>	Common Customs Tariff
<b>CHI</b>	Compulsory Health Insurance
<b>CIS</b>	Commonwealth of Independent States
<b>CU</b>	Customs Union
<b>EAEU</b>	Eurasian Economic Union
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>EDB</b>	Eurasian Development Bank
<b>EEC</b>	Eurasian Economic Commission
<b>EFSD</b>	Eurasian Fund for Stabilization and Development
<b>EIGC</b>	Eurasian Intergovernmental Council
<b>e-invoice</b>	electronic invoice
<b>EU</b>	European Union
<b>FAS</b>	Federal Antimonopoly Service of the Russian Federation
<b>FDI</b>	Foreign Direct Investment
<b>FTA</b>	Free Trade Area
<b>GDP</b>	Gross Domestic Product
<b>GGG</b>	General Government Sector
<b>GMP</b>	Good Manufacturing Practice
<b>GOST</b>	State Standard
<b>HCDCS</b>	Harmonized Commodity Description and Coding System

<b>IBC</b>	Interbank Credit
<b>IMF</b>	International Monetary Fund
<b>IT</b>	Information Technology
<b>ITI</b>	International Trade and Integration Research Center
<b>Mercosur</b>	Mercado Común del Sur (Southern Common Market)
<b>NTB</b>	Non-Tariff Barriers
<b>OR</b>	Oil Refinery
<b>PPP</b>	Purchasing Power Parity
<b>PRC</b>	People's Republic of China
<b>RF</b>	Russian Federation
<b>SEEC</b>	Supreme Eurasian Economic Council (Supreme Council)
<b>SES</b>	Single Economic Space
<b>TNC</b>	Transnational Corporation (Company)
<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>USA</b>	United States of America
<b>USSR</b>	Union of Soviet Socialist Republics
<b>WTO</b>	World Trade Organization



## Address by Dmitry Pankin, EDB Chairman of the Management Board

Dear colleagues,

The Eurasian Development Bank has prepared the report titled *Eurasian Economic Integration – 2017* for presentation at the St. Petersburg International Economic Forum.

Our main objective, as set by the Council of the bank and stipulated by its Charter, is to facilitate integration processes in the Eurasian space. Its commitment to that objective is clearly demonstrated by its investment lending and analytical activities. At the end of 2016, the share of integration-related projects in the bank's investment portfolio exceeded 50%. The 2016 year-end value of that portfolio stood at \$2.47 billion. The bank's projects have the capacity to generate mutual trade flows of \$3.31 billion per year. Consolidated growth in mutual investments produced by the projects that the bank implemented amounted to \$1.9 billion.

The work performed by the bank's analytical units is also designed to support economic integration processes. We have established a specialized Centre for Integration Studies. Its key goals are to act as the center of excellence for Eurasian integration issues; develop superior economic analyses; and offer informed recommendations on matters within its scope of competence.

This report reflects several nascent trends that have been identified in the EAEU's development. For example, the first signs of a "turn to the east" in foreign trade have emerged. Over the last year, the share of EU countries in EAEU foreign trade turnover has decreased by 2.3%, while the share of APEC countries has increased by 1.8 p.p. to 31.5%. This shift is even more pronounced in the geographical structure of EAEU imports where APEC countries have taken first place (42.3%), pushing EU countries down to second (40.8%). China's share of total foreign trade turnover with EAEU member states has been steadily growing and reached 15.4% in 2016, a 1.8 p.p. year-on-year increase.

2016 became a year of accelerated development in EAEU foreign trade relations. It was decided to start free trade agreement negotiations with Iran, India, Egypt, and Singapore. The first rounds of negotiations were held with China on the execution of a non-preferential agreement. This is an agreement that does not grant tariff and duty preferences in mutual trade. The free trade agreement with Vietnam came into effect.

At the same time, certain potential effects associated with Eurasian economic integration failed to materialize. At the start of the Customs Union in 2011—2012, there was a lot of talk about the possibility of competition between jurisdictions. It would have resulted in thousands of companies moving from country to country, for example, in search of more advantageous tax regimes. Now, five years later, we must acknowledge that the umbilical cord between businesses and their home countries has proven to be stronger than anticipated. This is primarily a result of the state's extensive involvement in the national economy and a result of still relatively high non-tariff barriers.

The report addresses the important topic of mutual investment, one of the staple research targets for the bank's analysts. This is an area where the Eurasian integration potential remains underutilized, with 2015 EAEU mutual FDI stock down by 14.3% from the peak 2012 level. The change, albeit negative, is still considerably better than elsewhere in the CIS region.

However, the key theme of the report is the review of EAEU growth rates in certain practical economic integration areas: trade policy; preparation of the Customs Code; alignment of positions with respect to the common drugs and medical products market; technical regulations; abatement of non-tariff protections; coordination of transportation and industrial policies; financial markets; common labor market; and ongoing free trade agreement negotiations.

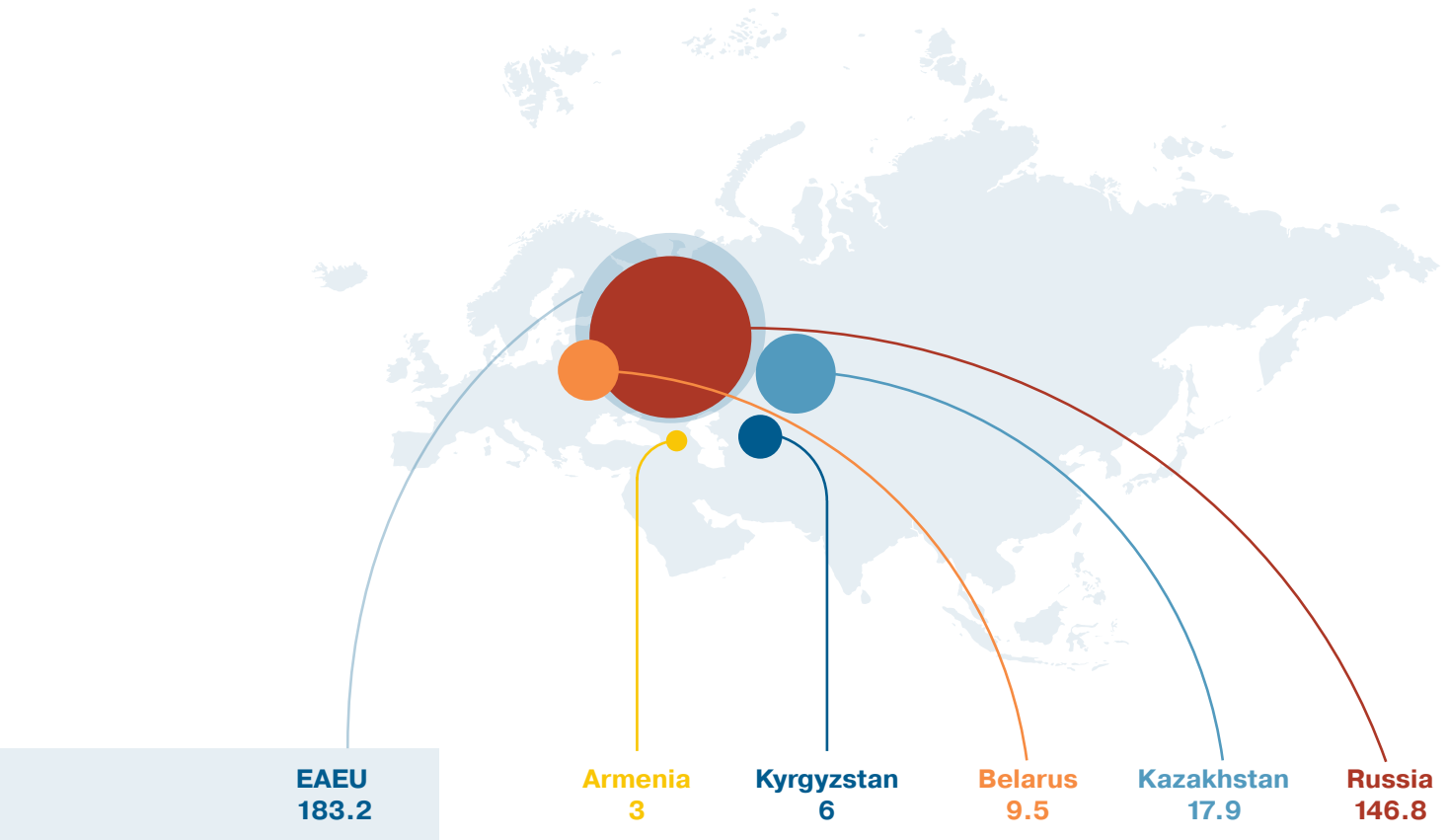
These processes make up the living fabric of the integration process. They affect the business of thousands of companies and the lives of millions of people. If successful, they will make a crucial contribution to placing the Eurasian Economic Union on a path of long-term sustainable growth.

The EDB, in turn, will continue to support Eurasian integration both financially and analytically.

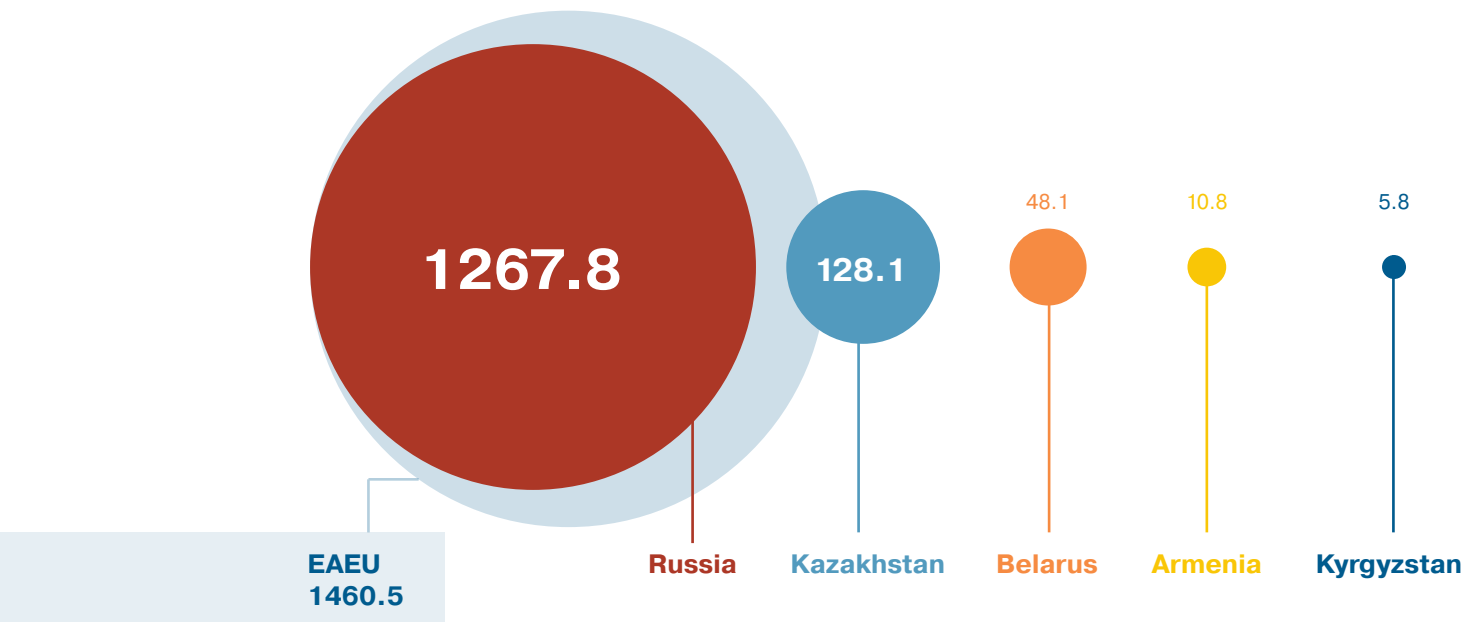
*EDB Chairman of the Management Board  
Dmitry Pankin*

## EAEU in Figures

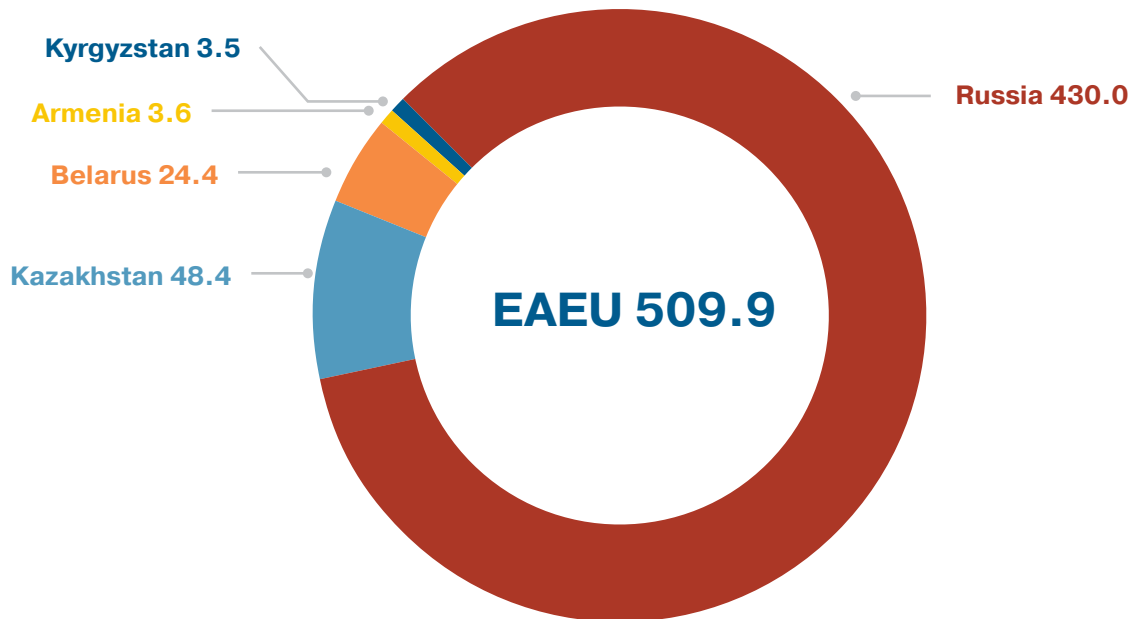
### Population at the Beginning of 2016, million people



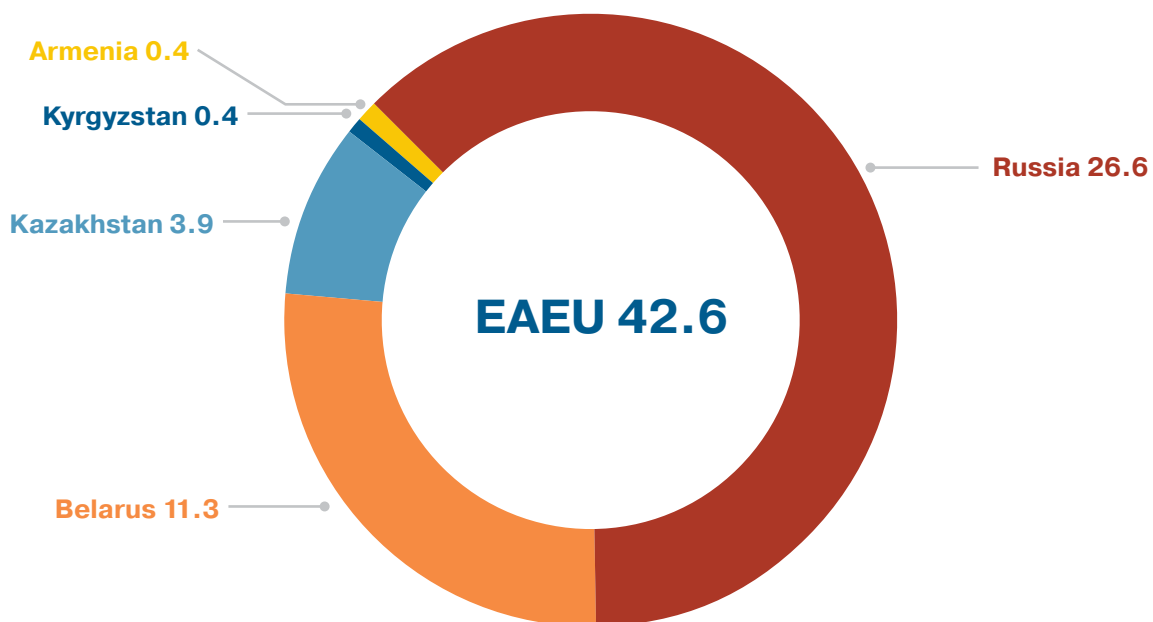
### 2016 GDP in Current Prices, \$ billion



## 2016 Foreign Trade Turnover (Third Countries), \$ billion



## 2016 Mutual Trade Turnover (EAEU Member States), \$ billion



## Introduction

The Eurasian Economic Union is a nascent regional integration organization. It has been operating as a customs union since 2011 and as an economic union since 2015. The union is based on a certain common understanding of long-term political and economic targets by its member states. The purpose of establishing the EAEU was to help its member states make the most of their intra-regional economic ties, modernize their national economies, and forge an environment conducive to stepping up their global competitiveness.

Eurasian economic integration has become a major success story. The Customs Union and the common customs tariff have been implemented; the formation of a common labor market is under way; old GOSTs are being replaced, one by one, with new technical regulations; and there is an operational auxiliary “Eurasian integration infrastructure,” including the EAEU Court, the Eurasian Development Bank, and the Eurasian Fund for Stabilization and Development.

Certain restrictions exist that hamper further growth. In 2015–2016, the initial momentum petered out. This is evidenced, in particular, by the difficult negotiations on the alignment of stakeholder positions with respect to the Customs Code and the common drugs and medical products market. These are the two most urgent issues discussed in 2016. Things will only be getting harder moving forward. That is why this report deals not only with achievements but also with the “stumbling blocks” barring the way towards further expansion of integration.

Last year, negative trends in mutual trade and mutual investments persisted. At the same time, the rates at which those indicators declined in EAEU member states were considerably lower than outside the EAEU. We believe that the EAEU, to a certain extent, operates as an external shock “absorber.” For example, mutual trade within the EAEU decreased by 6.7%, while trade with non-EAEU countries plummeted by 12%. It should be noted that the volume of trade in physical terms increased by 0.4%. EAEU mutual trade value metrics still correlate with global hydrocarbon prices, although the correlation is weakening.

Foreign trade trends emerging in Armenia deserve special mention. In 2016, Armenia’s total exports increased by 20% in value terms, with exports to the EAEU increasing by 53%, to Russia by 51%, to Kazakhstan by 43%, and to Belarus by a factor of 2.1. Kyrgyzstan, another newcomer to

the EAEU, also posted impressive positive foreign trade results. In 2016, its exports to EAEU member states increased by 4.4% and to third countries by 5.2%.

We note a certain convergence of per capita incomes in 2016, although it proceeds at a slower rate than would appear desirable. There have been some alarming developments related to observance of the macroeconomic sustainability indicators stipulated by the EAEU Treaty. For example, each member state was in breach of at least one such indicator in 2016.

The report reflects directions, events, and decisions that have determined the current vector of integration movement in the EAEU in 2016. In our opinion, the following themes have been the most important in 2016:

- negotiations on the EAEU Customs Code;
- negotiations on the common drugs and medical products market;
- acceleration of work on free trade areas.

In 2016, a newly elected EEC Board, chaired by Tigran Sarkisyan embarked on its four-year tenure expiring in 2020.

Coordinated transportation-policy guidelines and implementation stages were approved during the current year. Development has already begun of a series of projects to enable the lifting of all existing restrictions on all types of transportation by 2025.

Important, although often run-of-the-mill, work continued in the area of streamlining current trade policies. It represents one of the central elements of Eurasian economic integration.

Advances in technical supervision included the adoption of five new EAEU technical regulations. There was also ongoing work to make the required amendments and additions to the 36 previously adopted EAEU technical regulations. These are designed to replace the largely obsolete GOSTs and modernize existing technical supervision practices, for example by their partial harmonization with EU best practices.

Serious work was done to reduce the level of non-tariff protection of EAEU markets. To date, 81 obstacles have been removed, but another 450 obstacles remain effective in EAEU markets. It should be noted, however, that 80% of those obstacles are permitted by the EAEU Treaty. They are so-called “exemptions and restrictions.” All other barriers are, in fact, not consistent with EAEU laws and regulations. A new information resource—*Operation of Domestic Markets in the Eurasian Economic Union*—has been launched to identify barriers and restrictions in mutual trade.

When considering the ongoing growth of the common labor market, we note the recently designed pension treaty and the provision of general medical insurance coverage for labor migrants working in Russia. Cash remittances by labor migrants have begun to pick up again.

Joint development of Eurasian integration regulations and institutions (EEC, EDB, EFSD, etc.) represents the pragmatic approach to integration development. Eurasian economic integration benefits the most from a de-ideologized approach driven by practical economic development needs. The pragmatic approach to Eurasian integration is based on perceiving that process not as a goal unto itself but as a tool that can be used to resolve economic problems that the member states currently face. Economic modernization is at the top of the list.

We hope that our report *Eurasian Economic Integration – 2017* will become an important source of analytical information about the most critical aspects of economic interaction in the Eurasian

space. The geographical coverage of the report is Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia. Analysis of priority indicators will enable politicians, managers, and experts to use this report to shape their strategies and expectations and to develop and adjust mid-term target-attainment and decision-making mechanisms.

The report has the following structure. Chapter 1 *Eurasian Economic Integration* presents a structured view of internal EAEU developments related to a variety of key areas and processes. They range from the Customs Code and common drugs and medical products market to non-tariff barriers, financial markets, and current free trade area negotiations. Chapter 2 *Macroeconomic Processes in the EAEU* provides an analysis of the most important indicators of the social and economic development of EAEU member states. It describes the convergence of their economies. Chapter 3 *Common Goods and Services Market*, the largest chapter in the report, focuses on the evolution of mutual trade and the creation of common goods and services markets. In Chapter 4 *Investments in the EAEU*, we proceed to review mutual investments within the EAEU and external investment flows to and from Eurasian countries. Chapter 5 *Common Labor Market* presents information on one of the frequently underestimated success stories of Eurasian integration—the common labor market. It also includes certain incidental matters such as mobility of pensions, cash remittances, and medical insurance coverage for labor migrants. Chapter 6 *Public Perception of Eurasian Integration* deals with how the various aspects of Eurasian integration are viewed by the general population.

# Eurasian Integration Stages

## CUSTOMS UNION

**2010** CU Customs Code

**2011** CU common goods market

17 fundamental international agreements creating the SES **2012**

Single technical supervision policy

## SINGLE ECONOMIC SPACE

## EURASIAN ECONOMIC UNION

**2015** EAEU Treaty

Common services market

Common labor market

Coordinated labor migration policy

Coordinated sanitary, veterinary, phytosanitary, and quarantine policy

**2016** FTA with Vietnam

Common electronic system for EAEU government procurement **2017**

Common drugs and medical products market

EAEU Customs Code **2018**

EAEU common electric power market **2019**

Common alcohol and tobacco market **2020**

Common financial market and coordinated financial policy **2025**

Common oil and petroleum products market

Common gas market

Common transportation services market

## IN PERSPECTIVE



# Eurasian Economic Integration

The first chapter is dedicated to a review of the most serious aspects of the evolution of the Eurasian Economic Union. It reflects directions, events, and decisions that have determined the current vector of integration movement in the EAEU in 2016. In our opinion, the following themes have been the most important during the current year:

- finalization and execution of the EAEU Customs Code;
- launch of the common drugs and medical products market;
- active expansion of internal cooperation within the EAEU.

The chapter starts with a listing of the most important events that occurred, and decisions that were made, in 2016. After that, we analyze the progress achieved in the performance of the EAEU Treaty. There is special emphasis on matters related to the introduction of the EAEU Customs Code and the creation of the common drugs and medical products market. We also discuss other topics, specifically the following: commencement of a new Eurasian Economic Commission “quadrennium”; trade policy matters; development of financial markets; and cooperation in industrial and agricultural production and in power generation. The chapter ends with a section dealing with the international cooperation of the EAEU, including new agreements and treaties with third countries and regional associations.

## The Most Important Events and Decisions of 2016

### On February 1,

a newly elected EEC Board chaired by Tigran Sarkisyan, former Prime Minister of Armenia, embarked on its four-year tenure expiring in 2020. The new Chairman of the Board is a high-caliber politician with a track record directly related to integration construction. According to a decision adopted by the Supreme Eurasian Economic Council (SEEC), each member state of the Union is now represented by two, rather than three, Board members. This assures equal representation of the parties. Therefore, the Board now consists of 10 ministers. The Board Chairman international rotation mechanism has also been activated; in 2020, the Board will be headed by a Belarus representative.

### On May 31,

a SEEC meeting was held in Astana. The presidents of the EAEU member states passed the resolutions required to bring into effect the Free Trade Agreement between the EAEU and Vietnam. The EEC was also mandated to conduct negotiations on the execution of a non-preferential agreement with China. Regular negotiations with China started in October. Heads of state of EAEU member states approved the conceptual framework for the creation of the EAEU common oil and petroleum products market and the common gas market.

**On August 12,**

heads of state of five EAEU member states attended a meeting of the Eurasian Intergovernmental Council (EIGC). They came to an agreement in principle regarding the new version of the Customs Code. The parties endorsed the draft Customs Code and ordered its submission for approval by national authorized bodies. The EIGC also made a decision in principle regarding the operation of the EAEU common drugs market and signed the relevant documents. That decision played a key role in the creation of the common drugs and medical products market.

**On November 16,**

heads of state of EAEU member states approved the draft common Customs Code. All remaining disagreements were eliminated, and final decisions affecting the common drugs and medical products market were adopted. In addition, a set of uniform documents was signed to enable the launch and full-scale operation of the common drugs market in the territory of the Eurasian Economic Union. That concluded the creation of the EAEU regulatory framework required for the launch of that common market.

**On November 30,**

several important decisions related to the further expansion of Eurasian integration were adopted in Moscow at a meeting of the Eurasian Economic Commission Council. The decisions were discussed by the presidents of the member states at a meeting of the Supreme Eurasian Economic Council in St. Petersburg on December 26. Technical regulations of the Eurasian Economic Council, *On Requirements Applicable to Mineral Fertilizers*, were also adopted.

**On December 19,**

a draft Pension Treaty covering citizens of EAEU member states was approved at a meeting of the EEC Board. When it comes into effect, it will deal with the last unsettled matter regarding the regulation of the common labor market, which began to operate in 2015.

**On December 21,**

the EEC Board at a meeting in Moscow recognized the expediency of entering negotiations on a free trade area with the Republic of Singapore. The Board also approved procedures for the implementation by authorized bodies of EAEU member states of measures designed to suspend or prohibit the use of medical products that threaten the life and health of individuals and the use of defective, counterfeit, or falsified medical products. This included their withdrawal from circulation in all EAEU member states.

**On December 26,**

the presidents of the EAEU member states, attending a meeting of the Supreme Eurasian Economic Council,

- reviewed the draft Customs Code endorsed by the heads of five EAEU member states. The document was signed by the presidents of Armenia, Kazakhstan, Kyrgyzstan, and Russia and forwarded for signing to the Republic of Belarus;
- signed a resolution to commence free trade agreement negotiations with Iran, India, Egypt, and Singapore;
- approved coordinated transportation policy guidelines and implementation stages. That marked the commencement of a series of projects that will enable a lifting of all existing restrictions on all types of transportation by 2025. The main purpose is to create a competitive business environment granting equal access to the transportation services market and to develop identical rules and terms of cargo and passenger transportation.

# EAEU Treaty Implementation Progress in 2016

## EAEU Customs Code

Adoption of the Customs Code (CC) is a substantial step forward. Unlike the existing customs legislation, the new EAEU CC is a comprehensive codified international treaty. Its development involved a review of all previously signed international treaties that govern customs relations and of all current customs procedures and technologies; and an adjustment of the customs IT application paradigm.

Development of the new code gave rise to several problems. The negotiating process was long and tedious, and the EEC received about 1,500 comments and proposals. Russia and Belarus proposed hundreds of technical amendments. Kazakhstan insisted that a considerable part of customs regulation powers be delegated to the national level, with the EAEU retaining only powers related to the operation of the single transit system. At some point, the CC endorsement process became embedded into the general political context of international relations. This resulted in the signing of the EAEU CC on December 26, 2016, by four out of five heads of EAEU member states. On April 12, 2017, it was signed by Belarus, which opened the way for the document's ratification and coming into effect over the course of the next few months.

The EAEU Customs Code envisages the following innovations:

**Electronic customs declarations.** The EAEU CC envisages the priority of electronic customs declarations over paper customs declarations, stipulating that goods should be declared for customs purposes in electronic form. The use of paper customs declarations is permitted only in a limited number of situations; for example, when goods are placed under the customs transit regime or moved in or out of the country for personal use.

**Automated customs operations.** Certain customs operations may be completed by the customs information system without the actual involvement of customs officials. The same is true for customs clearance. If the examination of a specific customs declaration does not activate any risk triggers, and the goods release decision is made automatically, the entire customs clearance procedure may be completed in a matter of minutes.

**Reduction of goods release deadlines.** The new EAEU CC considerably reduces the time allocated for the release of goods—from one business day following the date of registration of the customs declaration down to four hours. However, the release period may still be extended by up to 10 business days in situations where it is necessary for customs clearance purposes or to complete previously initiated clearance procedures.

**Authorized economic operators.** This institution is a completely new phenomenon. An authorized economic operator is an entity with an impeccable business reputation that is permitted to use simplified customs procedures in foreign trade operations. Such entities get an opportunity to significantly cut their time- and resource-related costs, while customs authorities may focus on areas that pose real threats.

**Single-window system.** The new draft code provides the regulatory framework for the use in customs operations of a single-window system to accelerate document processing. In this system, the foreign trade operator makes a one-off standardized filing through a single customs channel, whereupon government bodies proceed to process the documents independently. For example, the draft contains a provision whereby documents or data required

for the completion of customs operations do not have to be submitted to the customs bodies at the time of such operations, if such documents or data can be retrieved from information systems maintained by customs bodies, or other government bodies, as part of their information-sharing efforts.

To achieve a compromise and secure seamless processing of documents, it was decided to retain the residency principle in accordance with which the customs applicant may file a declaration only to the customs bodies of its home country, rather than to the customs bodies of any EAEU member state. If that principle were to be rescinded, it would mean that residents of EAEU member states would be able to have their goods released in any EAEU member state. As a result, the bulk of customs regulation authorities would ultimately be left at the national level.

## Common Drugs and Medical Products Market

A large-scale effort was undertaken in 2016 to create, within the Eurasian Economic Union, a common drugs and medical products market.

The agreement on common principles and rules of drugs circulation within the EAEU was ratified on time (i.e., before the end of 2015) by all member states, with the exception of Russia, which completed the ratification process on February 12, 2016.

To launch the market, the Commission prepared a set of 25 supranational regulatory documents in 2016. However, due to the difference of opinion on the central document, which dealt with registration of medicinal drugs, it was decided to postpone the signing and later send the entire set for execution in a single bundle. It took the member states a long time to come to an agreement regarding the introduction of the notion of “interchangeability of medicinal drugs.” In the end, it was resolved that the notion would apply to registration of drugs, if so resolved by each individual country, and would not constitute a mandatory condition.

To secure a full-scale launch of the common drugs market, the Commission, acting jointly with EAEU member states, developed 19 “second-level” regulatory documents in the area of drugs circulation. They included: *Conceptual Framework for Harmonization of State Pharmacopoeias of Eurasian Economic Union Member States*; five documents related to the main types of good practices (laboratory, clinical, manufacturing, pharmacovigilance, distribution); requirements applicable to basic prescribing information; rules governing drug research; requirements applicable to drug labeling; and documents governing examination procedures. EAEU drug laws have been developed in line with the relevant European norms.

The implementation of regulatory approval, and the control and supervision functions, remains at the national level for the time being. Individual countries will also have independent government drug-procurement procedures.

A rather protracted transition period of 10 years (5 years for registration procedures) has been given to market players, whereupon all common rules will begin to operate on the supranational level. Until December 31, 2021, two procedures will be used concurrently in the EAEU to release medical products into circulation. Release will be possible either in accordance with common EAEU requirements or in accordance with applicable national laws of EAEU member states. Manufacturers will have an option to select the preferred registration procedure. A five-year transition period will enable manufacturers to bring medical production into conformity with the new requirements.

The procedure for the registration of medical products in accordance with common EAEU requirements envisages the following: mutual recognition by member state authorized bodies of research

and evaluation findings obtained in the course of registration; and the possibility of simultaneous release of products in the markets of all member states. This procedure makes it possible for the manufacturers to cut their medical products registration costs by eliminating duplication of efforts, and it reduces registration periods.

When a common drugs market is created in the EAEU, there will be no unconditional recognition of certificates of compliance with good manufacturing practices (GMPs) issued by non-EAEU countries. To confirm the safety, quality, and efficiency of medicinal drugs manufactured in third countries, pharmacological companies will have to follow the new EAEU rules.

Digitization of technical-supervision systems and common drugs and medical products markets took place in 2016. One of the operating principles of the EAEU common market is the uniformity of requirements that apply to the labeling of medical products, among other things. As early as in 2017, all EAEU member states will begin to use common information exchange systems in the area of circulation of drugs and medical products, and registers for the identification of foreign trade operators and intellectual property owners.

## Technical Supervision

Technical-supervision matters are exceptionally important for business, even though they seldom make headlines. A considerable part of non-tariff barriers hampering the movement of goods and services belong to this category. The unification of technical-supervision matters will enable a significant reduction of the non-tariff regulatory burden borne by businesses. The second task is to replace largely obsolete GOSTs and modernize technical supervision—for example, by adjusting technical regulations—so that they are partially compatible with EU practices. In 2016, EEC technical-supervision efforts were concentrated in the following six areas:

First, the development of procedures governing the creation and maintenance of a consolidated list of products that are subject to mandatory EAEU safety requirements. Such list is one of the fundamental methodological documents underlying the single technical-supervision policy of EAEU member states.

Second, five new EAEU technical regulations have been adopted dealing with restrictions on the use of hazardous substances in electronic and radio-electronic devices and the safety of hydro-carbon gases; fertilizers; fish and fish products; and amusement rides. They seek, first and foremost, to protect the life and health of individuals:

- *On Safety of Fish and Fish Products.* The document is one of the fundamental EAEU technical regulations in the area of food safety. It establishes mandatory requirements that apply to all fish products manufactured in the EAEU, as well as to manufacturing, storage, transportation, distribution, disposal, labeling, and packaging of such products, with a view to ensure their free circulation in the EAEU market.
- *On Safety of Fertilizers.*
- *On Safety of Amusement Parks.*
- *Standards for Liquefied Hydrocarbon Gases Used as Fuels.*
- *On Restricting the Use of Hazardous Substances in Electronic and Radio-Electronic Devices.*

Third, amendments were made to the following previously approved EAEU technical regulations: *On Safety of Motor Highways, On Requirements Applicable to Mineral Fertilizers, On Safety of Packaging, On Safety of Perfumery and Cosmetic Products, On Safety of Wheeled Vehicles, On Safety of Railroad Rolling Stock, On Requirements Applicable to Power Efficiency of Energy-Using Devices, On Safety of Light Industry Products, On Safety of Chemical Products, and On Safety of Grain.*

Fourth, work was completed on the development of uniform measurement methodologies. The relevant document is to assure mutual recognition of work already performed in the area of government regulation of measurement uniformity matters related to EAEU-manufactured measurement devices.

Fifth, an important sanitary-supervision document was adopted: *Regulations on Development, Approval, Modification and Application of Uniform Sanitary, Epidemiological and Hygienic Requirements and Procedures*. The document stipulates specific stages, procedures, and deadlines, ensuring the requisite level of transparency and legal certainty in the development and application of new uniform sanitary requirements.

Sixth, several normative acts were adopted to enable the launch of electronic automotive passport-processing systems.

## Trade Policy

Trade policy matters lie at the heart of EEC activities. At the operational level, they are basically regarded as routine work. One of the positive developments is that administration of the common customs tariff by the Commission is perceived as a *fait accompli* that does not raise any emotions among government officials and businessmen. Below is a listing of certain decisions made by the EEC in 2016 that, in our view, provide a good illustration of the work that is done. We would like to emphasize that this is only a representative sample of such trade policy decisions, and, in practice, their number is considerably higher.

**On January 11,**

*Protocol on Implementation of Kazakhstan WTO Obligations* came into effect. The document regulates importation into, and transportation within, the EAEU of goods imported from Kazakhstan at reduced customs duty rates in line with WTO accession obligations assumed by Kazakhstan. According to the Protocol, goods imported from Kazakhstan at reduced customs duty rates will be released into circulation only in the Kazakh market. Such goods may be supplied to the EAEU market only after import duties have been paid at CCT rates. Kazakhstan has undertaken to prevent exportation into the other EAEU member states of exempted goods that have been imported at reduced customs duty rates. To accomplish that, it was necessary to create a special record-keeping system based on the use of electronic invoices (e-invoices) and arrange for a real-time exchange of information about such goods between authorized bodies of EAEU member states. The e-invoice system went online in 2016.

**On February 24,**

the EEC Board resolved to reduce the rate of import duty for cocoa products from 3–5% to 0% of customs value until December 31, 2017. The rate was reduced to increase the level of competitiveness of EAEU confectionery-product manufacturers and set off the growth in exchange prices of cocoa beans.

**On March 22,**

the EEC Board resolved to reduce the rates of import duties for Brussels sprouts, cauliflower, broccoli, dried grapes, dates, and pistachios. The production volume of those vegetables, fruits, and nuts in EAEU member states does not fully cover domestic demand, or they are not cultivated in the EAEU because local climate is too harsh for them. The resolution was passed to reduce processing costs and bring down end-consumer prices.

**On April 6,**

the EEC Board resolved to exempt from import duties equipment and components imported into Armenia for the construction of the third Iran–Armenia power transmission line. The resolution was passed to assure proper discharge by Armenia of its international obligations about the construction of the third power transmission line.

**On June 15,**

the EEC passed the first in a series of resolutions on a temporary reduction of import duty rates for components of natural-gas-powered motor vehicles. The rates were reduced to encourage the use of natural-gas motor fuel and boost production of vehicles running on such fuel.

**On May 16,**

the EEC Board approved another reduction of import customs duties related to the discharge by Russia of its WTO membership obligations. The reduction affected 1,780 items, and rates were reduced by 1–2% on average.

**On August 12,**

the EEC Board resolved to temporarily introduce zero import customs duty rates for helicopters with equipped empty weights of up to 1 ton, and for 200 kW aviation piston engines for light aircraft with weights of up to 2 tons. Neither helicopters weighing up to 1 ton nor aviation engines of that type are currently manufactured in EAEU member states. Accordingly, the rate reduction will create favorable conditions for the ongoing development of general aviation and efficient price competition and make it possible to release investment capital and reduce debt burden. At the end of the year, on December 23, the EEC Board extended the period of the temporary duty-free admission of civil passenger aircraft by five years. The exemption does not apply to aircraft with a maximum number of passenger seats ranging from 50 to 110.

Finally, it was resolved to temporarily apply zero import customs duty rates to certain types of hand-knitted and machine-knitted fabrics used by garment manufacturers. The zero-rates will remain in effect until the end of August 2018. The reduction of rates applicable to materials used by garment manufacturers will decrease their production costs and boost their competitiveness.

## Non-Tariff Barriers

The EEC continued its work on *Regulations on Procedures for the Payment of Compensations for Failure to Discharge Government Agricultural Production Support Obligations*. Payment procedures have been developed in accordance with the provisions of Attachments to the EAEU Treaty on obligations in the area of government support of agricultural production.

In 2016, the EEC prepared the so-called *White Book* (published in 2017)<sup>1</sup>. The *White Book* is a policy document listing all existing obstacles to free movement of goods, services, capital, and labor within the EAEU. The document lists the barriers affecting EAEU residents and businesses and contains sections describing the efforts to remove such barriers in 2016 and proposals as to how the Commission, together with national governments, may identify and eliminate such barriers in the future.

In October 2016, a new information resource was launched: *Operation of Domestic Markets in the Eurasian Economic Union*. Its primary objective is to identify barriers and restrictions in mutual trade. The resource is available at the following address: <https://barriers.eaeunion.org>. The new website offers a plethora of information and reference material and has a FAQ section

<sup>1</sup> Available at: <https://barriers.eaeunion.org/api/info/document/38/file>, as of April 13, 2017.

on removal of internal barriers in the domestic markets of EAEU member states. It can be used to follow up on the Commission's obstacle-removal efforts and review current activities and forthcoming events.

In 2016, the Commission, acting within the framework of the EAEU integrated information system, created an electronic Obstacles Register, a consolidated database of EAEU domestic market obstacles that provides an extensive listing of existing non-tariff barriers. As of November 30, 2016, the approved list contained records of 60 obstacles, including 17 exemptions, 34 restrictions, and 9 barriers (obstacles that restrict free movement of goods, services, and capital in breach of EAEU law). It should be noted, however, that the database does not cover all existing restrictions. Several hundred NTBs remain in effect in EAEU markets, of which about 80% are permitted by the EAEU Treaty. All other barriers are, in fact, not consistent with EAEU laws and regulations.

## Financial Market

Pursuant to the EAEU Treaty, the parties undertake to create a common financial market in the banking, insurance, and securities sectors by 2025. The key parameters of the common financial market are stipulated by the EAEU Treaty, which, however, fails to provide a step-by-step sequence of actions to be implemented in that area. Accordingly, it is necessary to develop and endorse a "road map" showing which supranational normative acts will need to be developed and harmonized with their national counterparts, and which steps will need to be taken to create a common or single financial infrastructure. On November 30, a meeting of the EEC Board attended by the Vice Prime Ministers of EAEU member states approved a draft decree of the Supreme Eurasian Economic Council: *On Development of the Conceptual Framework for the Creation of the Common Financial Market of the Eurasian Economic Union*.

On August 9, the EEC Board approved a draft *Agreement on Approaches to Regulation of Legal Relations in Foreign Currency Operations and Implementation of Liberalization Measures in EAEU Member States*. The agreement is designed to assure free movement of capital and cash, and creation in the member states of a common financial market. The document lists currency operations of EAEU residents that will be exempted from currency restrictions by the member states. This includes: settlements between EAEU residents for delivery of goods and services and acquisition of real properties; exchange operations with securities; the extension and repayment of bank credits and loans; and cash remittances made by individuals within the EAEU customs territory. The agreement will give all individuals and legal entities the right to open accounts in all banking institutions operating in EAEU member states on a nondiscriminatory basis. In practice, the sets of requirements that currently apply to residents and nonresidents in the EAEU are different. There remain certain restrictions when residents of one EAEU member state open or maintain accounts with credit institutions of another EAEU member state. Implementation of the agreement will assure equal treatment of all individuals and legal entities residing or operating within the EAEU.

One other important success factor in terms of creating a common financial market is the emergence of a common exchange environment. To facilitate this, the Commission developed an agreement whereby brokers and dealers of one EAEU member state are granted access to exchanges operating in the other EAEU member states. The document grants access to the national exchanges of EAEU member states without the need for additional registration (licensing) of brokers and dealers. In December 2015, a draft of that agreement was endorsed by the EEC Board and forwarded to the EAEU member states for completion of national approval procedures.

## Industrial and Power Policy

*Regulations on Creation and Operation of Eurasian Technological Platforms* was approved by the Intergovernmental Council on April 13. The document was created to establish in the EAEU several centers of excellence to promote the development of priority sectors of the economy and to create conditions conducive to continuous technological renovation. In practical terms, Eurasian technological platforms will facilitate the development and industrial application of joint innovative products and technologies and the construction of new high-tech knowledge-intensive production facilities. The following sectors of the economy have been identified as priority target sectors for the creation of technological platforms: aerospace; information and communication technologies; machine engineering; medical, pharmaceutical, chemical, agricultural, nuclear, and radiation technologies; new materials; food industry; photonics; electronics; power industry; and biotechnologies.

The EEC is preparing for a new stage of integration in the area of provision of industrial subsidies. Pursuant to paragraph 7 of *Protocol on Unified Rules for the Provision of Industrial Subsidies* (Attachment 28 to the EAEU Treaty), all EAEU member states shall, by way of execution within the framework of the Union of appropriate international treaties, provide procedures for voluntary negotiation of specific subsidies with the EEC and for the conduct of EEC examinations, and they shall ensure that such treaties come into effect by January 1, 2017. The EEC has developed a draft *Agreement on Procedures for Voluntary Negotiation between EAEU Member States and the EEC of Specific Subsidies with Respect to Industrial Goods and the Conduct by the Commission of Examinations Related to Extension of Specific Subsidies*, which covers the following matters:

- procedures governing voluntary negotiation with the Commission of specific subsidies, and adoption by the EEC of appropriate resolutions;
- possibility to initiate examinations with respect to industrial subsidies scheduled for an extension in situations where damage may be inflicted on any EAEU member state, and procedures for the conduct of such examinations by the Commission;
- criteria to be used by the Commission to resolve whether specific subsidies should be extended; and
- procedures and conditions for the filing by the Commission of requests to furnish information with respect to any subsidies scheduled for extension.

*Agreement on Methodology for the Generation of Indicative (Projected) Gas, Oil and Petroleum Product Balances within the Framework of the Union* was signed on April 22 by the heads of the relevant ministries of the EAEU member states. This is the first document in the Eurasian space to determine agreed common methodological approaches to the development of union-wide power balances. The list of energy resources for which such balances are to be drawn includes gas, oil, motor gasoline, diesel fuel, furnace oil, and jet fuel. The EAEU will be negotiating projected volumes of mutual trade in those commodity groups within the limits established by such balances.

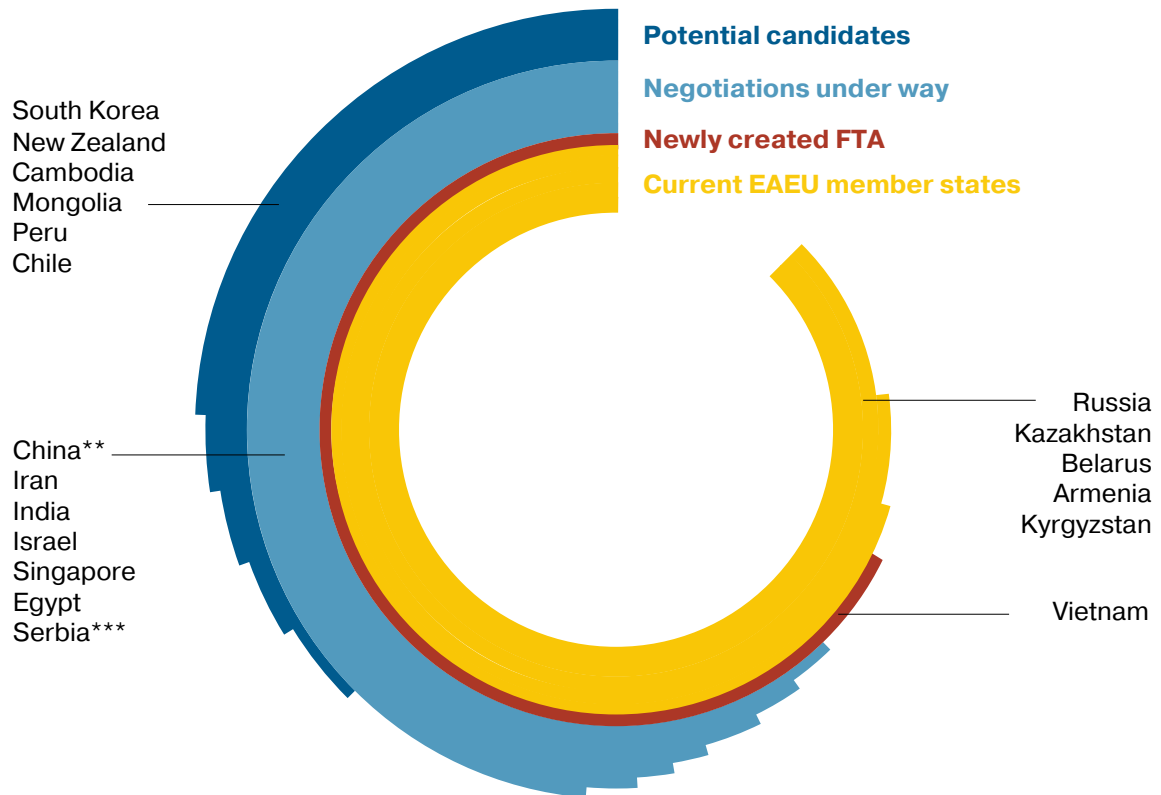
## EAEU Digital Policy

In March 2016, the EEC Board issued the decree *On Establishment of a Working Group to Develop Proposals Regarding the Creation of EAEU Digital Space*. The working group comprising more than 250 experts held fourteen sessions. It designed a draft document on common approaches to the creation of EAEU digital space until 2030; draft strategic guidelines for the creation and development of the EAEU digital space until 2025; and proposals regarding the creation of the EAEU digital space.

On December 26, 2016, a working meeting of the heads of EAEU member states discussed a *Statement on the Eurasian Economic Union Digital Agenda* highlighting the objectives and implementation mechanisms of such agenda. Based on the outcome of that discussion, the EEC commenced preparation of proposals regarding the main areas of implementation of the EAEU digital agenda until 2025 and proposals regarding legal and regulatory initiatives and projects within the framework of implementation of the digital agenda.

## EAEU International Cooperation: New Agreements and Treaties with Third Parties and Regional Associations

### EAEU Trade and Economic Agreements\*



2015 became for the EAEU a year of active expansion of external cooperation. Creation of an FTA with Vietnam became the first event in this area. The FTA between the EAEU and Vietnam came into effect in 2016. It covers both trade and investment arrangements between the parties (see Box 1).

In 2016, the process of expansion of external cooperation gained momentum. At the political level, the process is accorded special status due to the Russian “turn to the east” doctrine and to the perceived futility of self-isolation within the EAEU. Free trade agreements are currently being negotiated with Egypt, Israel, Iran, and Singapore; and talks are under way regarding the establishment of a single preferential trade regime between all EAEU member states and Serbia and regarding the execution of a non-preferential agreement with China. Other potential partners include India, South Korea, Chile, Thailand, and South Africa.

\* As of February 1, 2017.

\*\* Negotiating mandate for a non-preferential trade and economic cooperation agreement received in May 2016.

\*\*\* Common FTA between the EAEU and Serbia will replace bilateral FTAs that Serbia negotiated with Belarus, Kazakhstan, and Russia.



## Box 1. The First FTA of the Eurasian Economic Union

The Free Trade Area Agreement between the EAEU and Vietnam came into effect on October 5, 2016. The agreement deals with the mutual elimination of trade duties and a mutual investment regime.

The document also envisages a gradual mutual opening of the parties' respective markets. By 2015, average import tariff rates in EAEU member states will have decreased from 9.7% to 2% and in Vietnam from 10% to 1%. Zero-duty rates will apply to approximately 60% of mutual trade positions and to 88% upon completion of the transition period. The agreement envisages the use of "insurance" mechanisms to protect the parties from unfair competition and uncontrolled growth of imports. Pursuant to the agreement, Vietnam is opening its market for many potential exports from EAEU member states, including agricultural products (beef, pork, poultry, processed

meat products, canned fish, seeds, flour, dairy products, cheese, vegetable oil, animal feeds, and alcohol products) and industrial products (precious stones, tires, asbestos, pipes, rolled stock, ships, mechanical and electronic equipment, automotive parts, steel products, agricultural equipment, buses, passenger motor vehicles, trucks, and petroleum products).

The set of documents signed by the parties contains *Agreement on Special Regime for Russian Investors and Service Providers*, which, in particular, enables Russian companies to conduct business in Vietnam on the same terms as those that apply to local firms. The agreement covers, in particular, joint car-making projects (GAZ, KamAZ, UAZ) and investments into power generation, transport infrastructure, and oil-refining facilities.

At the end of December 2016, the EEC Board recognized the expediency of entering free trade area negotiations with the Republic of Singapore. Negotiations with Singapore will commence upon completion of a due diligence, which is currently being performed by a joint research team.

On December 26, the presidents of four EAEU member states attended a meeting of the Supreme Eurasian Economic Council. They signed a resolution to commence free trade agreement negotiations with Iran, India, and Egypt. It is expected that the document will also be signed by Belarus. The negotiation process will proceed along two "tracks": trade in goods will be discussed by the Commission and the member states, while trade in services and investments will be dealt with by the member states with general coordination by Russia. The "two-track" arrangement may subsequently be used to negotiate other free trade area agreements.

Parallel to that, the first rounds were held in negotiations with China on the execution of a non-preferential agreement. Non-preferential trade agreements are agreements that do not grant tariff and duty preferences in mutual trade between two or more countries. Such agreements may cover a broader range of trade- and economic-cooperation matters—for example, non-tariff barriers, the regulation and administration of boundaries, capital-movement barriers, and investment regimes. EAEU member states are currently not ready for a full-scale free trade agreement with China—this may simply prove to be too dangerous for their industry. Accordingly, they are discussing an "intermediate agreement" designed to promote economic cooperation between the EAEU and China by reducing certain regulatory barriers in customs administration, capital movement, and other areas.



## Macroeconomic Processes in the EAEU

In this chapter, we will take a closer look at the main macroeconomic trends in the EAEU and at changes in the key social and economic development indicators of its member states.



### Box 2. Main Global Economic Trends

According to IMF estimates, the global economy grew at a rate of 3.1% in 2016. The real GDP growth rates for 2016 in the USA, EU, and China amounted to 1.6%, 1.7%, and 6.7%, respectively (Figure 2.2). Nevertheless, macroeconomic uncertainty remained

quite high. Oil prices dropped to below \$30 at the beginning of 2016. They resumed their growth and in late 2016 received an additional impetus from a production-cut agreement between oil-exporting countries (Figure 2.1).

### Main Indicators of Global Economic Development

Figure 2.1 Nominal Oil Prices, \$/bbl

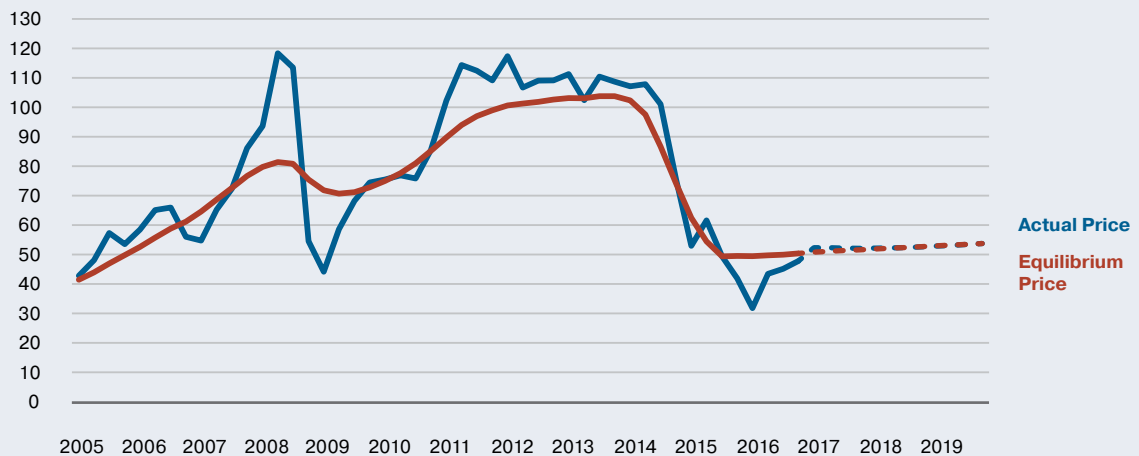


Figure 2.2 GDP Growth Rates, %

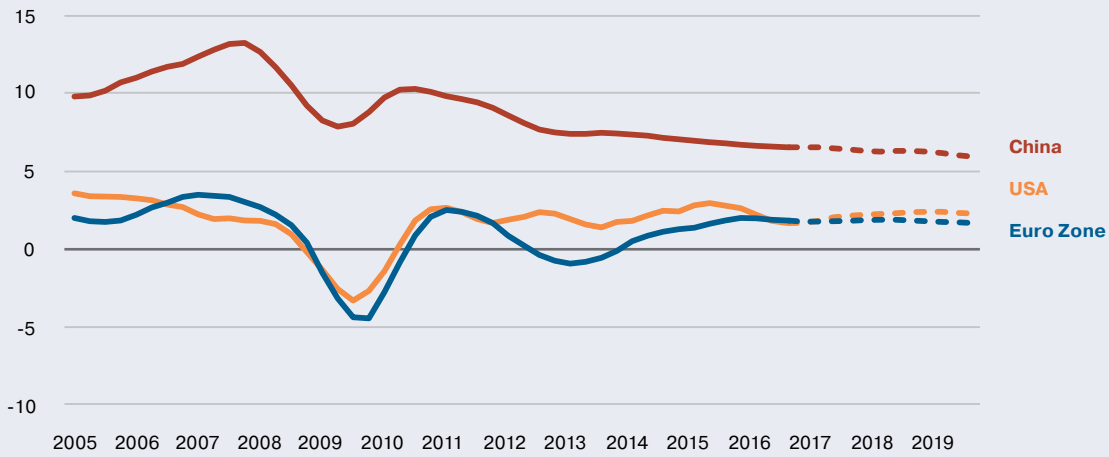


Figure 2.3 Inflation, %

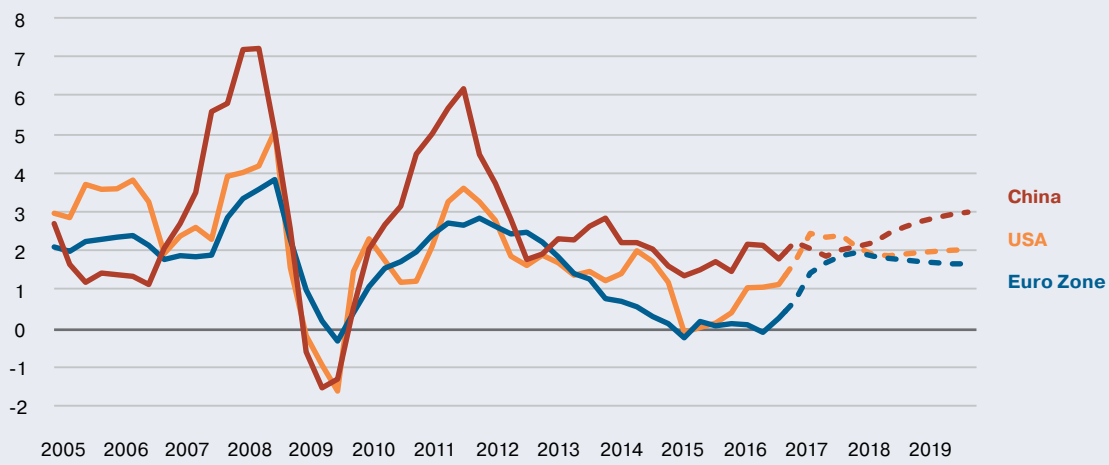
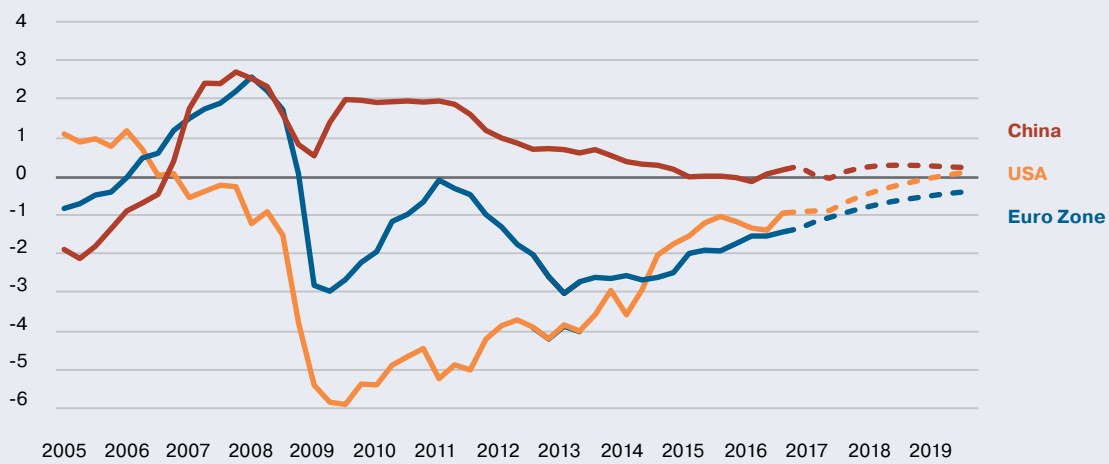


Figure 2.4 Output Gap, %



Source: Bloomberg, National Statistical Agencies, authors' calculations.

## Main EAEU Economic Trends

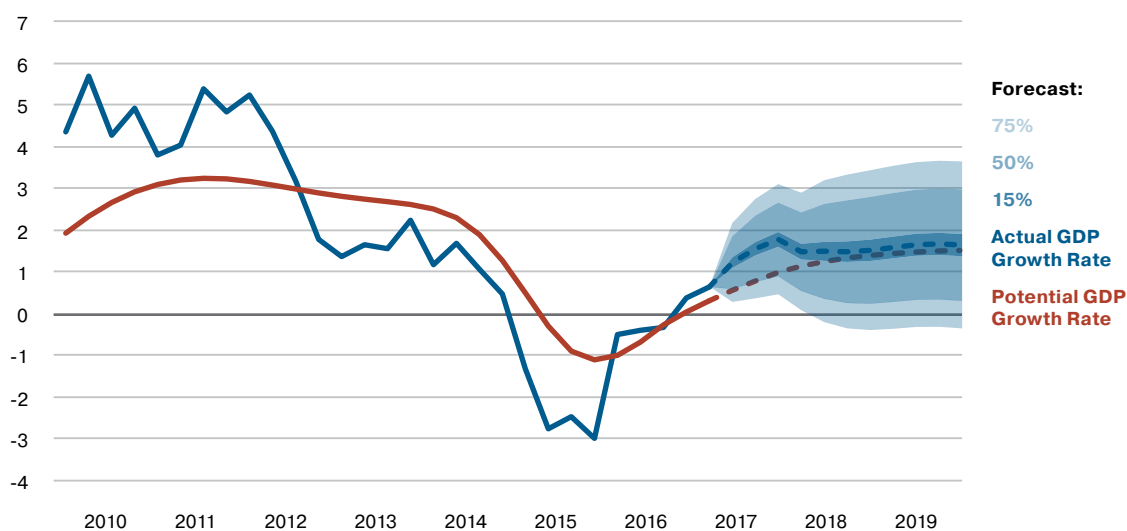
The economic activity of EAEU member states in 2016 remained heterogeneous against the backdrop of diminishing macroeconomic risks and economic imbalances. An analysis of short-term factors shows that the turnaround point in the economic cycle related to the reduction of commodity prices has been passed. The recently implemented policy measures facilitate an adaptation to lower prices and changes in demand structure, and they contribute to the recovery of the economies of the EAEU member states and to the elimination of imbalances.

**Table 2.1** Main EAEU Social and Economic Development Indicators, 2016

	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia	EAEU
<b>GDP</b>						
growth rate in comparable prices, % year-on-year	+0.2	-2.6	+1.0	+3.8	-0.2	-0.1
in current prices, \$ billion	10.8	48.1	128.1	5.8	1,267.8	1,460.5
PPP-based, \$ billion	26.6	165.4	460.7	21.0	3,745.1	4,418.7
PPP-based per capita, \$	8,881.0	17,496.5	25,669.2	3,467.3	26,109.1	21,288.3
<b>Population, million people</b>	3.0	9.5	17.9	6.1	146.8	183.3

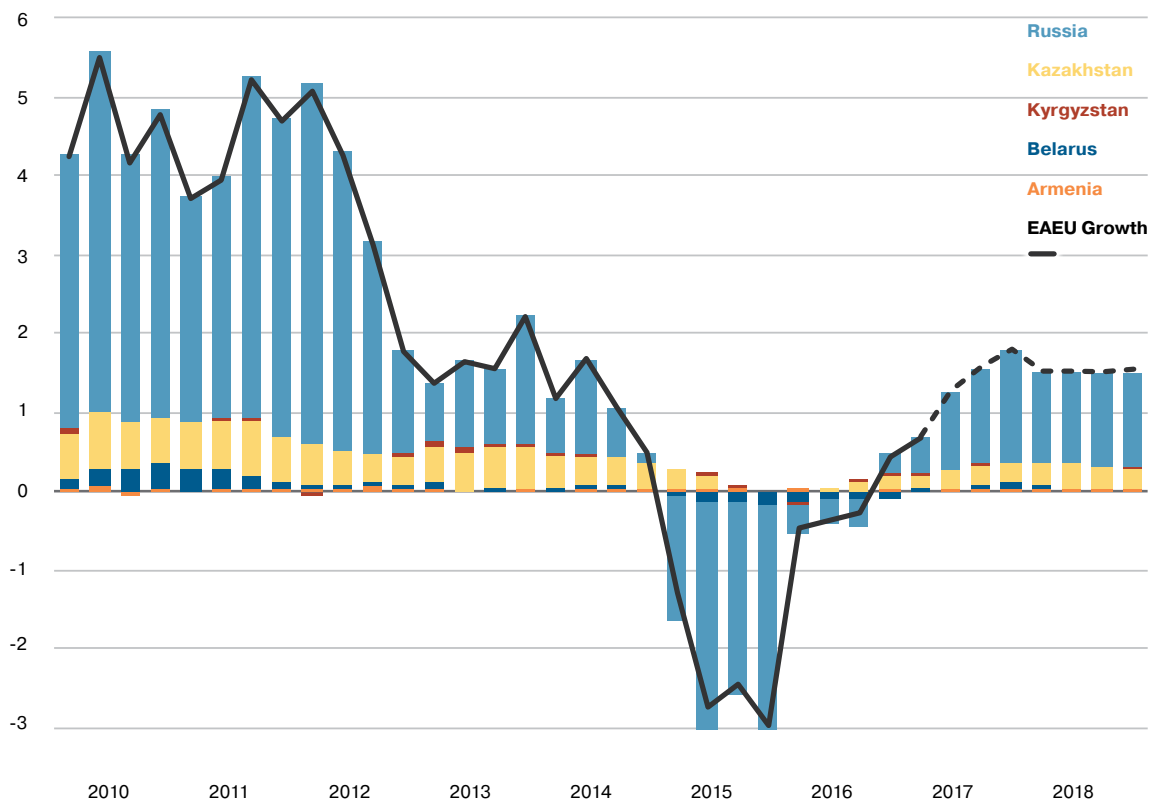
Source: National Statistical Agencies, IMF, EEC.

**Figure 2.5** Actual and Potential EAEU GDP Growth Rate, % year-on-year



Source: Authors' calculations.

Figure 2.6 Decomposition of Actual EAEU GDP, % year-on-year



Source: Authors' calculations.

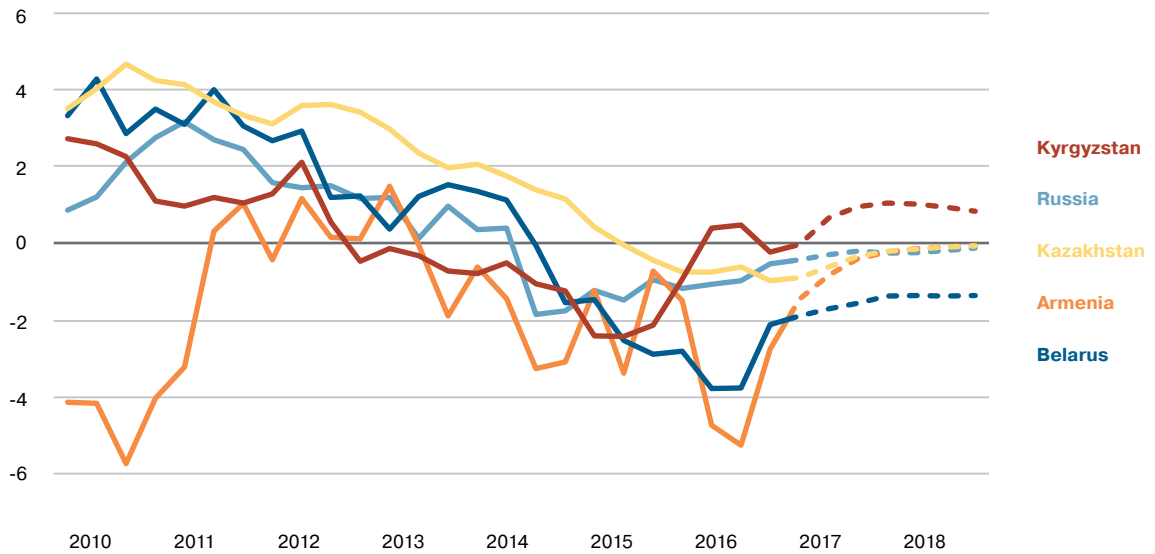
In 2016, most EAEU member states posted economic growth—Kyrgyzstan by 3.8%, Kazakhstan by 1%, and Armenia by 0.2%. Despite this, the general EAEU 2016 growth rate on a consolidated basis was negative (see Table 1, Figures 2.5 and 2.6). It amounted to -0.1% because Russian GDP decreased by 0.2%. In 2017, the EAEU economy is projected to grow at 1.5%. It is also anticipated that all member states will display positive GDP growth rates<sup>2</sup>.

At this point in time, the position of the EAEU economies in the business cycle can be described as disinflationary. In all economies except for Kyrgyzstan, the output gap<sup>3</sup> is estimated as negative. Figure 2.7 shows Russia -1.0%, Kazakhstan -0.6%, Armenia -5.2%, and Belarus -3.7%. This is despite unemployment rates being quite low in all EAEU member states apart from Armenia, where it stood at almost 18% in 2016.

<sup>2</sup> More granular analyses of the current environment and mid-term macroeconomic projections for the Eurasian Development Bank member states are available in the official *EAB Macroeconomic Review*, now under preparation by EDB Chief Economist's Group experts. Available at: <http://www.eabr.org/e/research/publications/EDBMacreview/>.

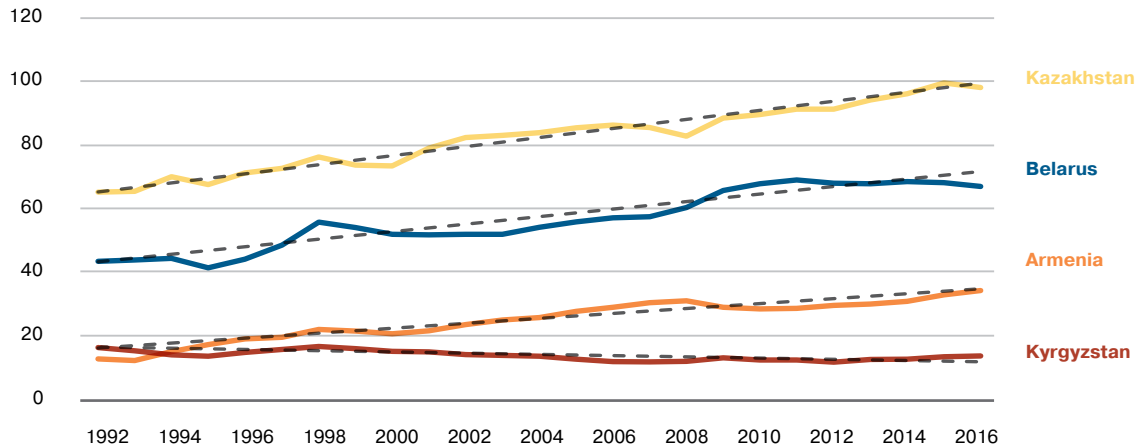
<sup>3</sup> Actual GDP may deviate from the potential (equilibrium) level, being the level of output that can be effected and implemented without triggering changes in price growth rate. The level of potential output is not linked to any particular level of inflation; it merely shows whether conditions exist for its acceleration or deceleration. The difference between actual GDP and potential GDP, expressed in percentage terms, is called "output gap." A positive output gap is used to measure the extent of "overheating" of the economy and the strength of inflationary pressure. A positive output gap is (all other things being equal) a signal that time has come to tighten monetary and fiscal policies. While a positive output gap increases the existing inflationary pressure, a negative output gap, conversely, signals the existence of deflationary pressure. With a negative output gap, an additional increase of actual output leads to the utilization of idle production capacity and to the achievement of the most optimal growth rates of the economy.

Figure 2.7 Output Gap in EAEU Member States, %

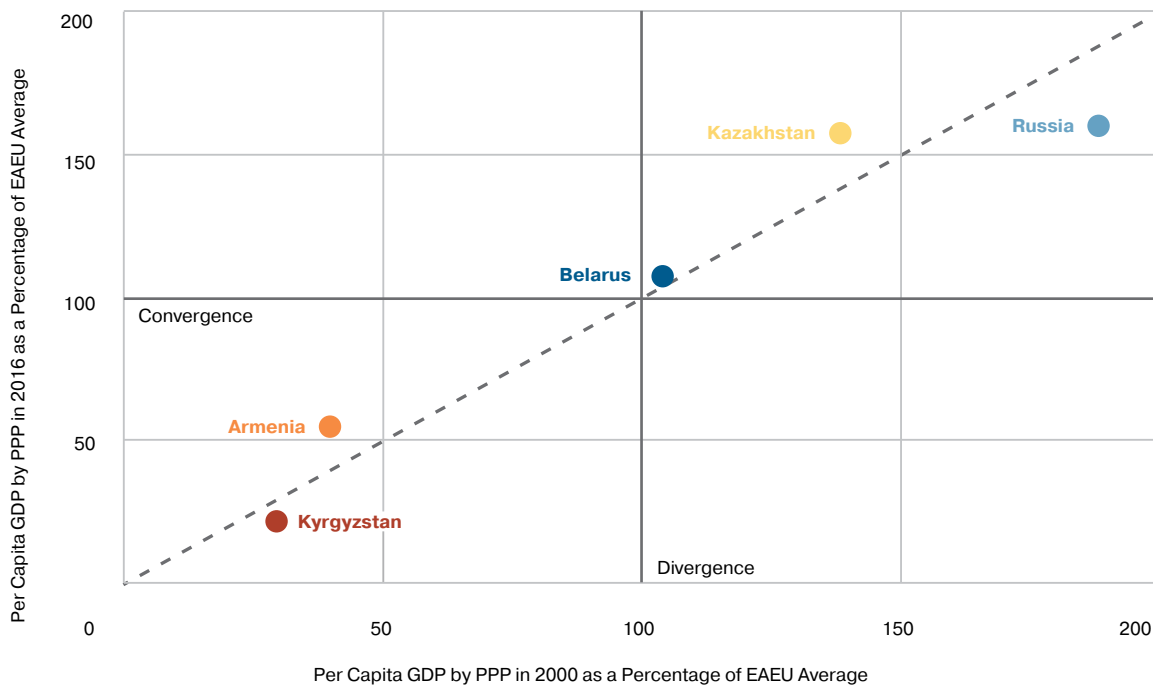


Source: Authors' calculations.

Over the last few years, three out of four countries have been confidently converging with Russia in terms of per capita GDP levels (Figure 2.8). The gap has decreased by approximately 0.7–1.4 p.p. per year (beta-convergence). The exception is Kyrgyzstan. The reduction in the dispersion of per capita incomes (sigma-convergence<sup>4</sup>) proceeds at a slower rate. Thus, only Russia and Armenia find themselves within the convergence zone (Figure 2.9), whereas in Kyrgyzstan, Kazakhstan, and Belarus, per capita incomes deviate from the EAEU average.

Figure 2.8  $\beta$ -Convergence Levels in EAEU Member States, %

Source: Authors' calculations.

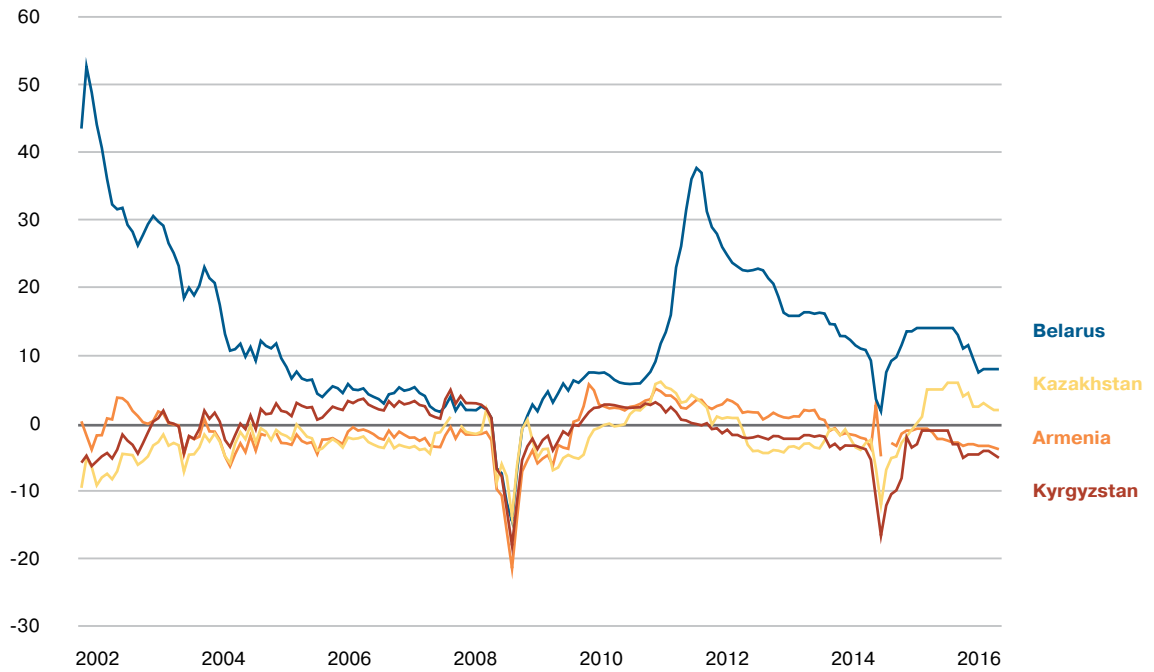
Figure 2.9  $\sigma$ -Convergence Levels in EAEU Member States

Source: Authors' calculations.

In the monetary sphere, the economies of the EAEU member states also tend to converge. Until the end of 2008, one could observe a convergence of short-term interest rates in the EAEU (Figure 2.10). Later financial turbulence in the Russian economy caused the emergence of a negative spread between the rates. Following the crisis-ridden 2008, interest rate spreads remained more or less constant in all countries except Belarus, which experienced a crisis in 2011. The spreads began to increase in late 2014, reflecting the recent turbulence of the Russian ruble. The Belarus interest rate differential is the most significant, and spreads have remained positive virtually throughout the whole observation period. The other three countries have, on average, negative spreads against the Russian rate. Spreads expanded in 2016 compared to periods preceding 2014 and 2015.

<sup>4</sup> The idea of convergence in economics is the hypothesis that in poorer economies per capita incomes will tend to grow at faster rates than in richer economies. As a result, all economies should eventually converge in terms of per capita income. Developing countries have the potential to grow at a faster rate than developed countries because diminishing returns (in particular, on capital) are not as strong as in capital-rich countries. Furthermore, poorer countries can replicate the production methods, technologies, and institutions of developed countries. There are two types of convergence. Beta-convergence is characterized by an inverse dependence of economic growth rates and the initial level of development of particular regions/countries (poorer countries grow faster than rich ones). Sigma-convergence refers to a reduction over time in the dispersion of income levels across regions/countries.

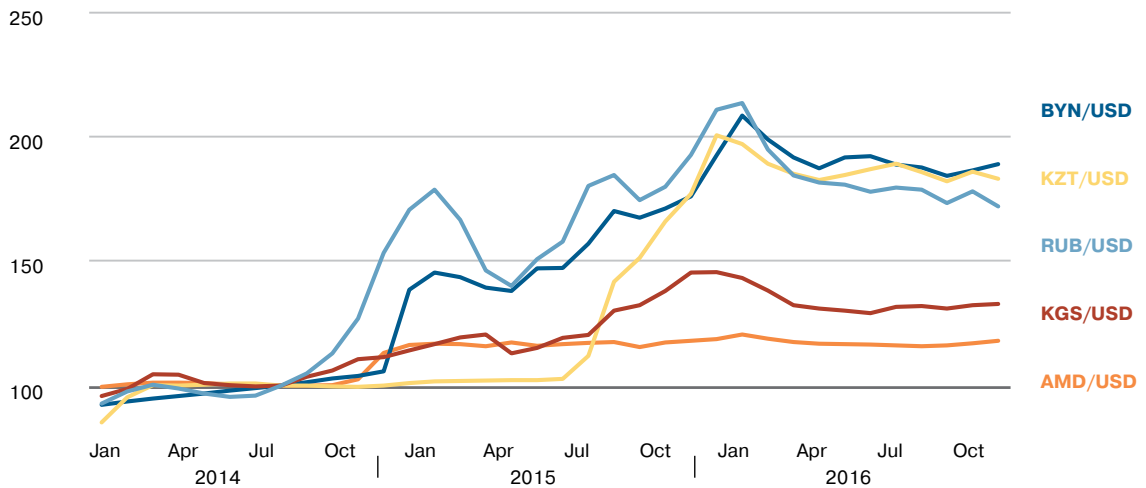
**Figure 2.10** Differences in Short-Term Interbank Credit Rates vis-à-vis Russia, %



Source: Authors' calculations.

As for nominal exchange rates in the EAEU member states, those rates remain generally correlated and move in the same direction. All EAEU member states reacted, albeit to varying degrees, to the massive drop in oil prices in 2014 by spikes in their nominal exchange rates (Figure 2.11). The rates of that adjustment and the times at which it started in various countries were different.

**Figure 2.11** Nominal Exchange Rates of EAEU Member State Currencies vs. US Dollar, normalized index (August 2014 = 100%)



Source: Central (National) Banks, authors' calculations.

Nominal exchange rates display the highest synchronicity in Russia and Belarus. However, even in this pair of countries, Belarus had a somewhat delayed reaction to the oil price shock and the weakening of the Russian ruble. In Kazakhstan, devaluation of the national currency occurred much later than it did in Russia and Belarus, although ultimately its rate was rather impressive. As a result, nominal exchange rates in Russia, Kazakhstan, and Belarus had become comparable by mid-2016, stabilizing at about 185–195% of their August 2014 levels. Kyrgyzstan and especially Armenia also responded to growing oil prices by changes in their national currencies' exchange rates, but those responses were considerably less pronounced.

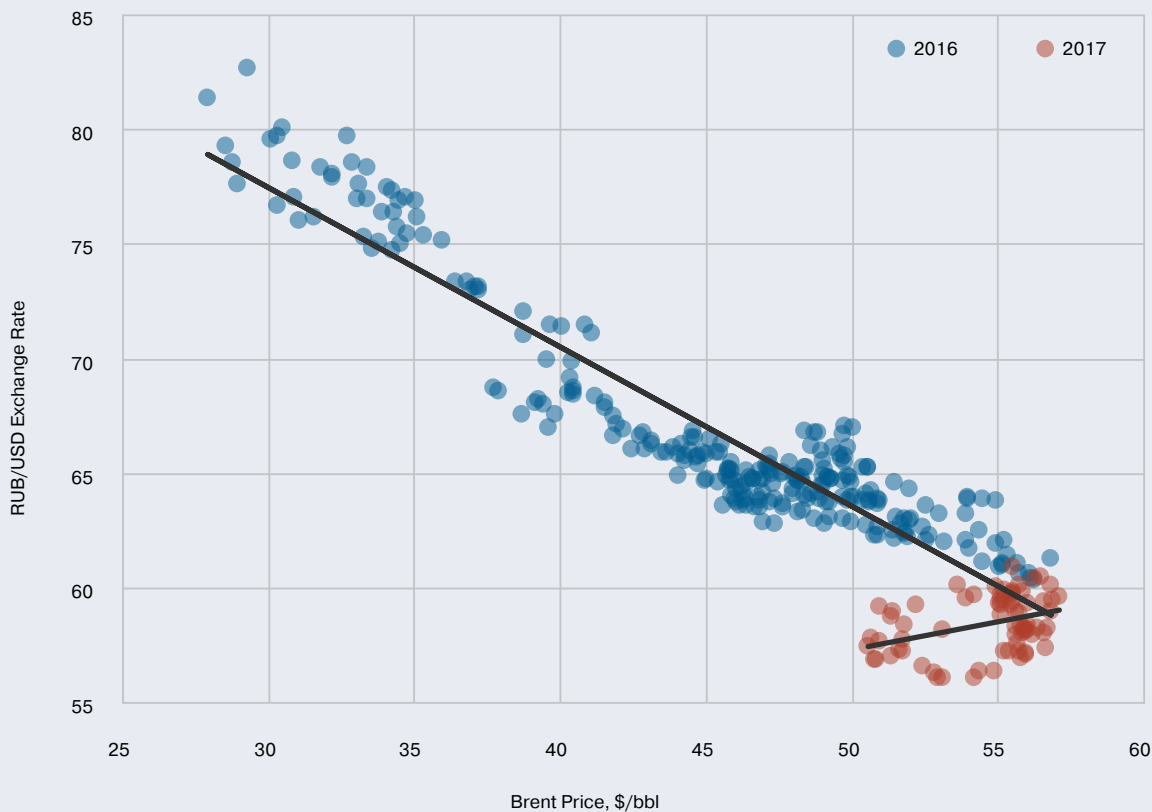


### Box 3. Dependence of Exchange Rates of EAEU Commodity Currencies on Oil Price Changes

Recently, exchange rates of the Russian ruble and the Kazakh tenge vs. US dollar have been increasingly less dependent on oil price

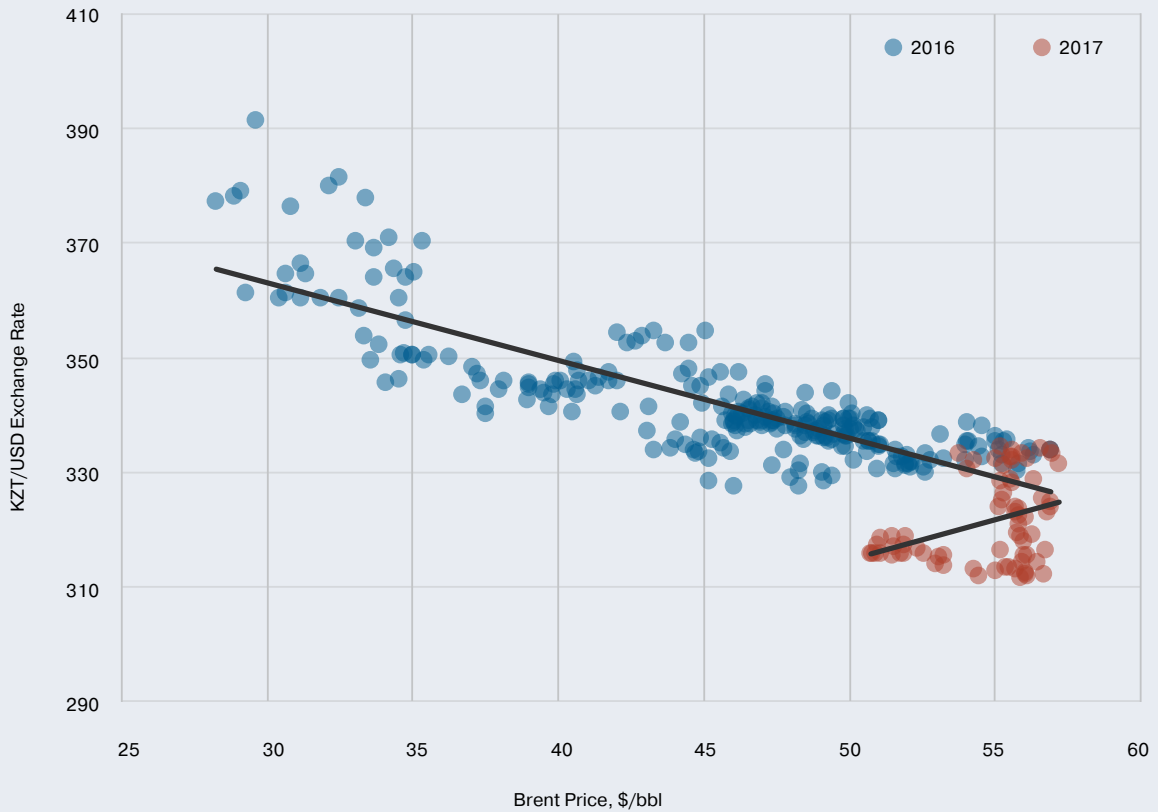
changes. This is well illustrated by the charts below.

Figure 2.12 Dependence of RUB/USD Exchange Rate on Brent Prices



Source: Bloomberg, authors' calculations.

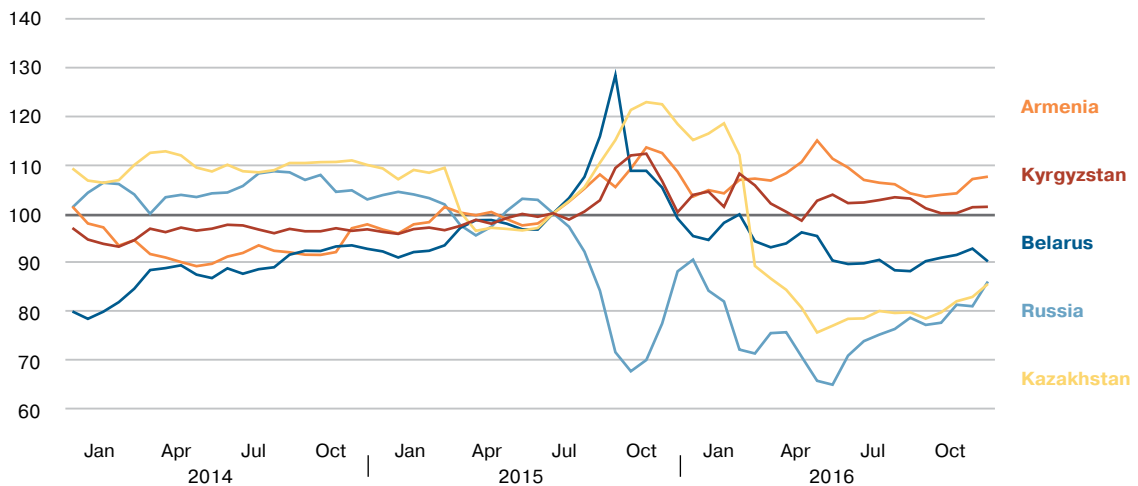
**Figure 2.13** Dependence of KZT/USD Exchange Rate on Brent Prices



Source: Bloomberg, authors' calculations.

Differences in the movement of nominal exchange rates have given rise to misalignments between short-term real exchange rates (Figure 2.14). There was a lack of synchronicity in the movement of real exchange rates in Kazakhstan and Russia. Despite this, exchange rates in both countries had the same reaction to the shock. By the end of 2016, real effective exchange rates of the ruble and the tenge went down by 15% vs. their August 2014 levels. Among the other EAEU member states, differences in the rate of reduction of real exchange rates were more significant.

**Figure 2.14** Real Effective Exchange Rates of EAEU Member State Currencies, index (August 2014 = 100%, positive values indicate strengthening of the currency)



Source: Central (National) Banks, authors' calculations.



## Analytical Outlook.

### Observance by EAEU Member States of Sustainable Economic Development Indicators Stipulated by the EAEU Treaty

The EAEU Treaty provides the following three mandatory indicators: ratio of public debt to GDP, inflation rate, and a budget deficit (Table 2.2).

**Table 2.2** Main Criteria Determining the Extent of Sustainability of Economic Development in EAEU Member States

Quantitative Values of Macroeconomic Indicators		
Annual Central Government Consolidated Budget Deficit $\leq$ 3% of GDP	Central Government Debt $\leq$ 50% of GDP	Annualized inflation rate should not be more than 5 p.p. higher than in the member state where that indicator is the lowest

Source: EAEU Treaty (2014)<sup>5</sup>, Attachment 14.

At this time, however, the EAEU does not have a clearly defined mechanism that could be used to implement those criteria. This task is still waiting for a solution. In its time, the Eurozone faced a similar problem: sustainable sovereign foreign debt and budget deficit criteria were defined but not observed. As a result, due to the absence of strict fiscal policies and due to uncontrollable growth of public expenditures, debt growth became unsustainable. This prompted a review of risk premiums and precipitated sovereign debt crises. The Greek crisis is the most notorious of those.

The EAEU may encounter the same problem. Over the last three years, the situation with the observance of sustainability criteria in the EAEU has been unsatisfactory (Table 2.3, Figures 2.15–2.17). Thus, in 2016, all EAEU member states were in breach of one or more of the sustainable economic development criteria stipulated by the EAEU Treaty. Yet again, this

points to the need to implement a clearly defined “moral suasion” mechanism to encourage the parties to bring their macroeconomic policies in line with the EAEU Treaty. It may also be necessary to review the criteria themselves. For example, the inflation criterion is now linked not to the average value, as in the European Union, but to the minimal value. Armenia was going through a period of deflation when it acceded the EAEU in 2015. As a result, all other EAEU member states automatically found themselves to be in breach of their respective obligations. In 2016, the situation repeated itself. Moreover, by the end of 2016, the Russian inflation rate reached 5.4% while Armenia posted negative inflation at -1.1%. In other words, the deviation of the actual inflation rate from the target rate in Russia was smaller (1.4 p.p.) than in Armenia (5.1 p.p.). Despite this, in 2016, it was Russia that found itself to be in breach of the inflation benchmark set by the EAEU Treaty.

<sup>5</sup> The text of the Treaty is available at the Eurasian Economic Union portal at the following address: <https://docs.eaeunion.org/ru-ru>.

**Table 2.3** Observance of Sustainable Economic Development Indicators by EAEU Member States in 2016

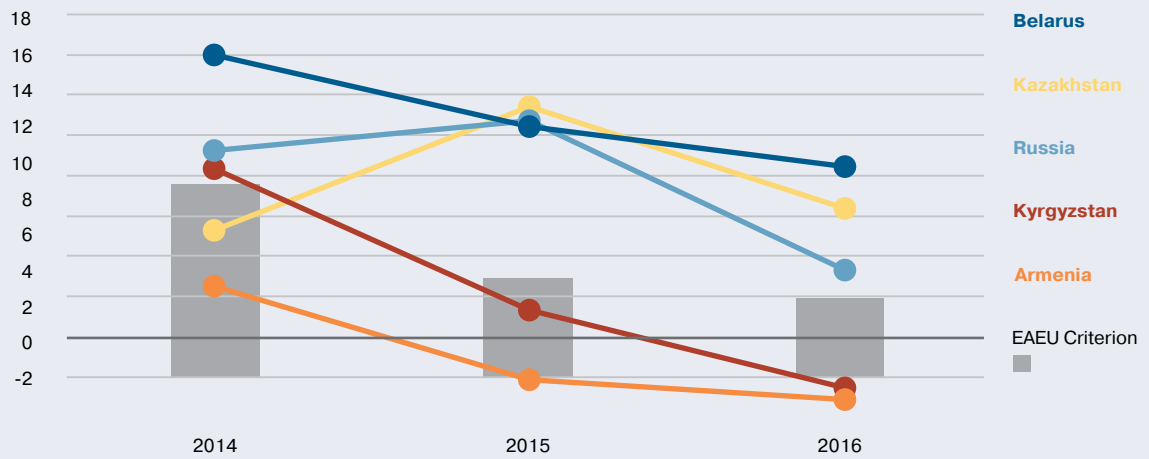
	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia
Inflation, % December-on-December	-1.1	10.6	8.5	-0.5	5.4
Central Government Consolidated Budget Deficit, % of GDP	5.4	-2.1	2.9	4.0	3.0
Central Government Debt, % of GDP	51.5	41.8	19.7	61.8	11.9

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Note: EAEU member states that were in breach of the EAEU sustainable economic development criteria are highlighted in red.

Source: National Statistical Agencies, EEC, authors' calculations.

**Figure 2.15** Inflation in EAEU Member States, % December-on-December



**Figure 2.16** Central Government Consolidated Budget Deficit in EAEU Member States, % of GDP

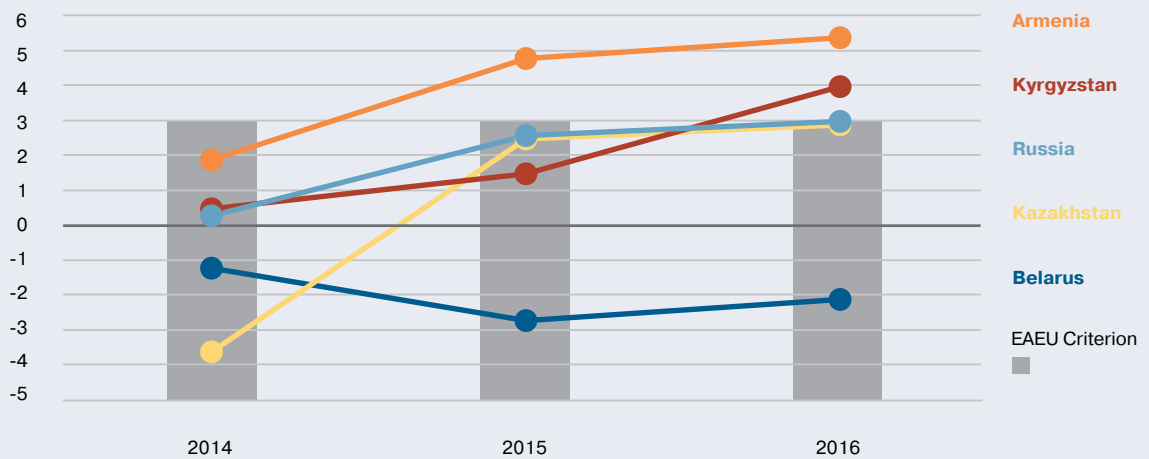
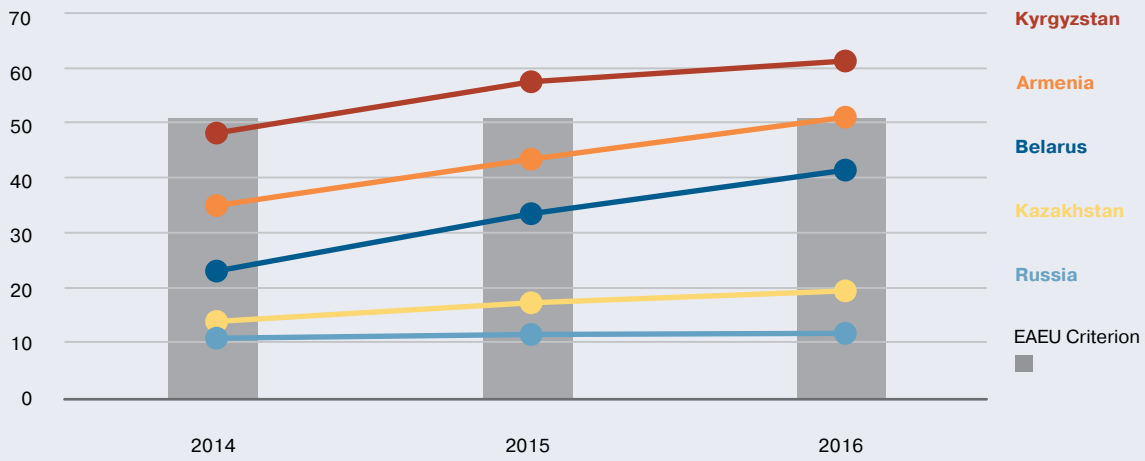


Figure 2.17 Central Government Debt in EAEU Member States, % of GDP



Source: National Statistical Agencies, EEC.



## Common Goods and Services Market

Chapter 3 provides a detailed description of the current state and evolution of mutual trade in the EAEU member states and of the process of creating common goods and services markets.

### Common Trends in Mutual and Foreign Trade

The volume of mutual trade between EAEU member states has been growing throughout 2016 (with the exception of July). In September, it exceeded the relevant 2015 monthly levels, reaching \$42.5 billion by the end of 2016.

Due to a deceleration of the reduction and turnaround in Q4, the overall reduction of mutual trade in value terms<sup>6</sup> amounted to -6.7% compared to -25.5% in 2015 vs. 2014. Generally, the value of intra-Union trade has been decreasing since 2013.

The 2016 year-end value of foreign trade turnover between the EAEU and third countries decreased by 12% year-on-year to \$509.9 billion. Exports accounted for 60.5% of total turnover (\$308.4 billion).

Imports were valued at \$201.3 billion or 39.5% of total turnover. In 2016, imports decreased 8.7 times more slowly than exports. The value of exports to third countries is still much higher than the value of intra-Union trade. At the end of 2016, external exports exceeded total intra-Union trade by a factor of 7.3.

<sup>6</sup> Total value of intra-Union trade is the sum of values of export sales by EAEU member states to other EAEU member states.

**Table 3.1** Intra-Union and Foreign Trade of EAEU Member States (2015–2016)

Indicator	2015, \$ billion	2016, \$ billion	2016 vs. 2015 Change, %
Intra-Union Trade Value	45.6	42.5	-6.7
Foreign Trade Value			
Exports from the EAEU	373.8	308.4	-17.5
Imports into the EAEU	205.5	201.3	-2.0
EAEU Foreign Trade Turnover	579.4	509.8	-12.0

Source: EEC.

## Trade Reduction Causes: External and Internal Factors

### External Factor: Price Environment

Energy resources account for the bulk of trade activities conducted by EAEU member states with 22.8% of the total mutual trade value and 58.9% of the value of exports to third countries. Due to this fact, changes in global oil prices had a critical impact on value indicators, triggering their across-the-board reduction in 2016.

Mutual trade value indicators directly correlate with movements in global oil prices. The average price of oil supplied to the EAEU market in 2016 went down to \$29 per barrel compared to \$34 per barrel in 2015 and \$46 per barrel in 2014.

The price factor had a relatively heavier impact on the general reduction of EAEU foreign trade turnover due to the structural domination of energy goods.

At the same time, the share of energy resources shrank both in mutual and external EAEU trade. The reduction in mutual trade amounted to 7.1 p.p. (from 29.9% in 2015 to 22.8% in 2016). In exports to third countries, the share of energy resources went down by 5.7 p.p. This, however, does not herald an improvement of the commodity structure of exports. The key reason for the reduction in the share of energy resources is the price factor.

In 2016, the price conditions of foreign trade both with third countries and between EAEU member states somewhat improved.

### External Factor: Deceleration of Global Trade and Economic Growth

According to preliminary estimates, the global economy grew by 2.2% in 2016, the lowest growth rate since the 2008–2009 recession.

This trend also affected global trade, which increased by merely 1.2% vs. 2015—one of the lowest growth rates in the last 30 years.

## External Factor: Sanctions

The preservation of the sanctions imposed on Russia—the key EAEU member state in terms of the value of both exports and imports—and the renewal of Russian counter-sanctions continue to constrain the growth of EAEU foreign trade turnover.

However, this factor has a salubrious effect on mutual trade in products covered by counter-sanctions.

## Internal Factor: Changes in GDP and Industrial Production Volume

According to preliminary estimates, GDP in Belarus and Russia decreased in 2016. Because of their relatively insignificant share in the consolidated EAEU GDP, the growth in GDP in Armenia, Kazakhstan, and Kyrgyzstan did not have a substantial positive effect on trade turnover value.

The industrial production volume vs. 2015 went down by 0.4% in Belarus and by 1.1% in Kazakhstan. That negative effect was to some extent set off by the growth in industrial production in Armenia (+6.7%), Kyrgyzstan (+4.9%), and Russia (+1.1%).

Most EAEU member states posted growth in agricultural production and cargo turnover.

## Internal Factor: Currency Devaluation and Structure of Payments

The weakening of national currencies against the US dollar also made an important contribution to the overall reduction in mutual trade turnover.



### **Box 4. Structure of Payments within the EAEU**

The Russian ruble is currently the currency of preference in the structure of payments for goods in mutual trade. In 2016, it was

used in about three-quarters of all payment transactions.

**Table 3.2** Distribution of Payments for Goods in Mutual Trade by Currency (2015—20163Q)

	2015, %				2016, %		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Payments for Goods in EAEU Mutual Trade	100.0	100.0	100.0	100.0	100.0	100.0	100.0
including Payments Denominated in:							
Russian rubles	74.4	67.3	69.5	72.7	74.7	74.5	76.6
US dollars	19.4	26.1	24.2	20.8	19.5	17.7	17.8
Euros	4.8	5.4	5.4	5.7	5.1	6.8	4.8
Other currencies	1.4	1.2	0.9	0.8	0.7	1.0	0.8

Source: EEC.

While value indicators continued to decrease, physical volume indices for export and intra-Union trade resumed their growth.

**Table 3.3** Changes in Key EAEU Intra-Union and Foreign Trade Indices, year-on-year, %

Indicator	2015	2016
<b>Mutual Trade between EAEU Member States</b>		
Value Index	74.7	93.3
Average Price Index	80.8	92.9
Physical Volume Index	92.5	100.4
<b>Foreign Trade with Third Countries</b>		
<b>Exports</b>		
Value Index	67.3	82.5
Average Price Index	66.2	80.1
Physical Volume Index	101.7	102.9
<b>Imports</b>		
Value Index	64.7	98.0
Average Price Index	89.0	97.4
Physical Volume Index	72.7	100.5

Source: EEC, authors' calculations.

In 2016, the physical volume of mutual trade increased by 0.4%. Therefore, the physical volume index exceeded the value index by 7.1 p.p. (100.4% and 93.3%, respectively). The reduction of the price of goods decelerated with the average price index being recorded at 92% vs. 80.8% in 2015. Despite this fact, the price factor caused a reduction in the overall value of mutual trade.

In 2015, exports to third countries went up from the 2014 level and continued to grow in 2016 (+2.9%).

Following a massive drop in 2015 (-27.3%), the physical volume index for imports also posted modest growth (0.5%) by the end of 2016.

Based on current index values, the price environment in a trade with third countries remains unfavorable (price index: 82.2%).

The demand for EAEU goods exceeded the demand for goods originating from third countries by 2.4%.

The foreign trade balance has remained in the positive domain, but it decreased by 36.4%.

## EAEU Foreign Trade

In 2016, all key foreign trade metrics—export and import volumes; foreign trade turnover; foreign trade balance—decreased year-on-year.

By the end of 2016, the EAEU had a positive foreign trade balance with the value of exports exceeding the value of imports.

**Table 3.4** Key EAEU Foreign Trade Indicators

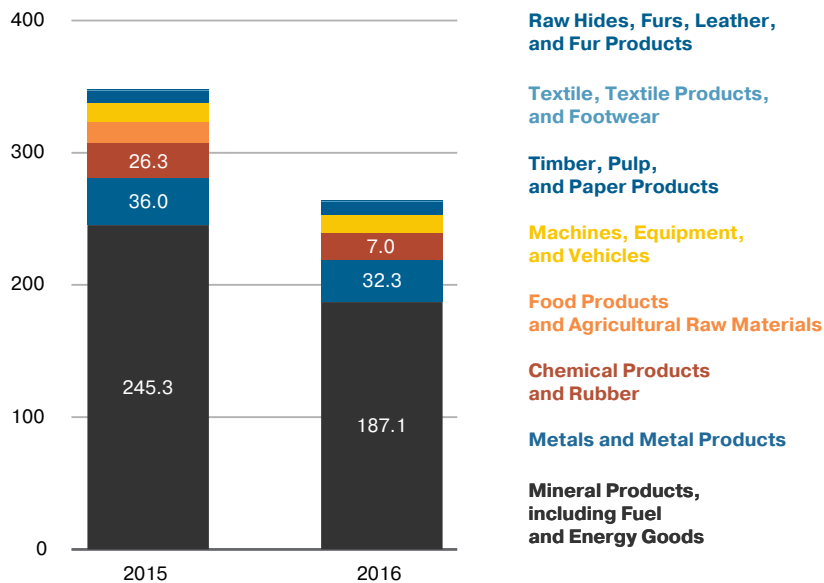
Indicator	Value, \$ billion		2016 Y-o-Y Change, %
	2015	2016	
Exports from the EAEU to Third Countries	373.8	308.4	-17.5
Imports into the EAEU from Third Countries	205.5	201.3	-2.0
EAEU Foreign Trade Turnover	579.4	509.8	-12.0
EAEU Foreign Trade Balance	168.3	107.1	-36.4

Source: Authors' calculations, EEC.

## Commodity Structure of EAEU Exports

At the end of 2016, mineral products remained the largest EAEU export item.

Figure 3.1 Commodity Structure of EAEU Exports, \$ billion



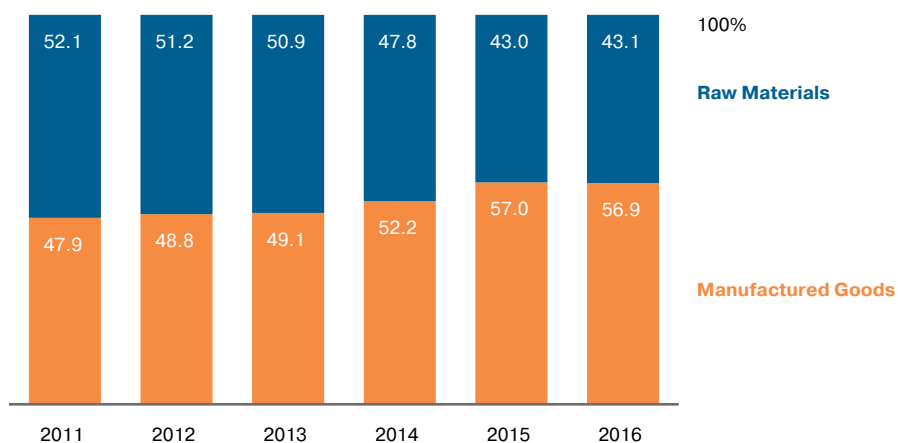
Source: EEC, authors' calculations.

## Added-Value Structure of EAEU Exports

Since 2014, EAEU exports have been structurally dominated by manufactured goods.

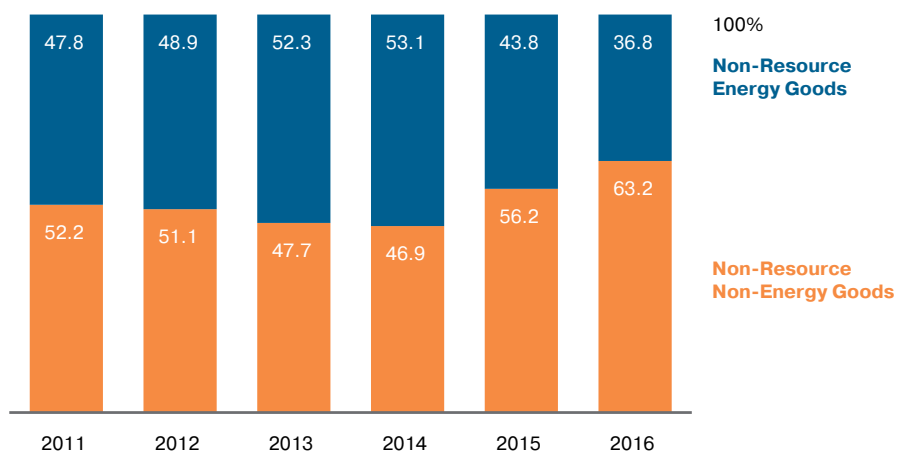
In 2011–2013, raw materials accounted for more than half of all goods exported from the EAEU (in value terms), but in 2014 that ratio was reversed in favor of manufactured goods<sup>7</sup>. Until 2015, the share of manufactured goods of total EAEU exports had been steadily growing; no significant structural changes were noted in 2016 as compared to 2015. At the end of 2016, manufactured goods and raw materials accounted for 56.9% and 43.1%, respectively, of the total value of EAEU exports.

<sup>7</sup> Here and in the following sections, references to raw materials and manufactured goods as structural components of EAEU exports do not include military goods, dual-use goods, or any other goods that at the time of their exportation from the EAEU are classified under “Secret Code” or “Other Goods” (999999 or SSSSSS).

**Figure 3.2** Structure of EAEU Exports: Raw Materials and Manufactured Goods, %

Source: EEC, authors' calculations.

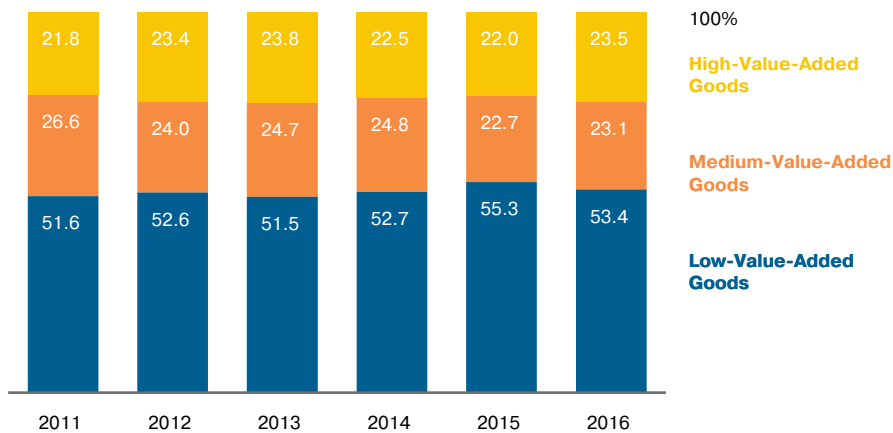
The share of non-energy goods in the structure of non-resource EAEU exports had been declining until 2014; since 2015, it has been steadily increasing. At the end of 2016, the share of non-energy goods of non-resource exports went up to 63.2%, the highest value since 2011.

**Figure 3.3** Structure of Non-Resource EAEU Exports: Energy and Non-Energy Goods, %

Source: EEC, authors' calculations.

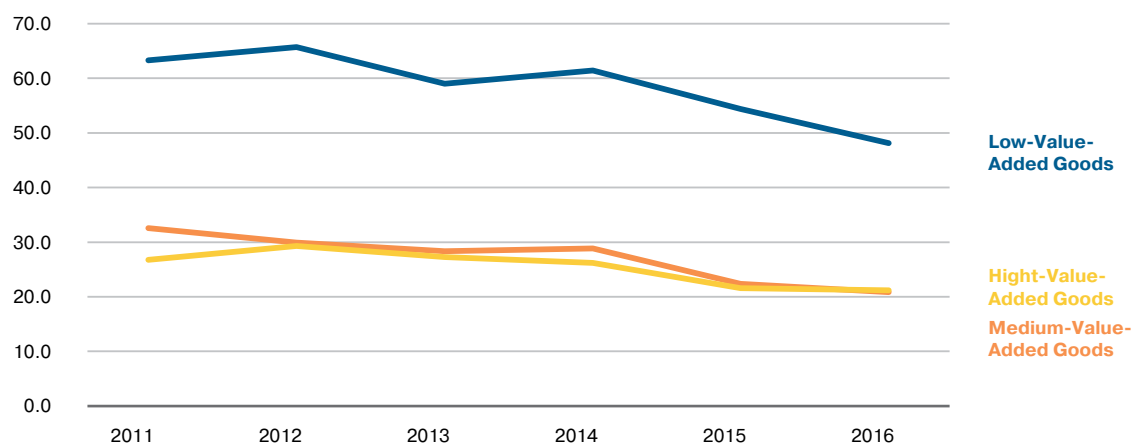
Low-value-added goods traditionally dominate non-resource non-energy EAEU exports, accounting for more than half of their total value. During 2016, medium- and high-value-added goods had approximately equal shares of total non-resource non-energy EAEU exports, with a slight prevalence of medium-value-added goods. However, the share of high-value-added goods (23.5%) of total non-resource non-energy exports exceeded the share of medium-value-added goods (23.1%).

**Figure 3.4** Value-Added Structure of Non-Resource Non-Energy EAEU Exports, %



Source: EEC, authors' calculations.

During 2011–2016, all categories of non-resource non-energy exports tended to decline; the value of low-value-added goods exported from the EAEU decreased by 24.0% (11.6% in 2016 with respect to 2015); the value of medium-value-added goods decreased by 36.0% (6.6% in 2016 with respect to 2015); and the value of high-value-added goods decreased by 20.8% (1.9% in 2016 with respect to 2015).

**Figure 3.5** Changes in Value-Added Structure of Non-Resource Non-Energy EAEU Exports, \$ billion

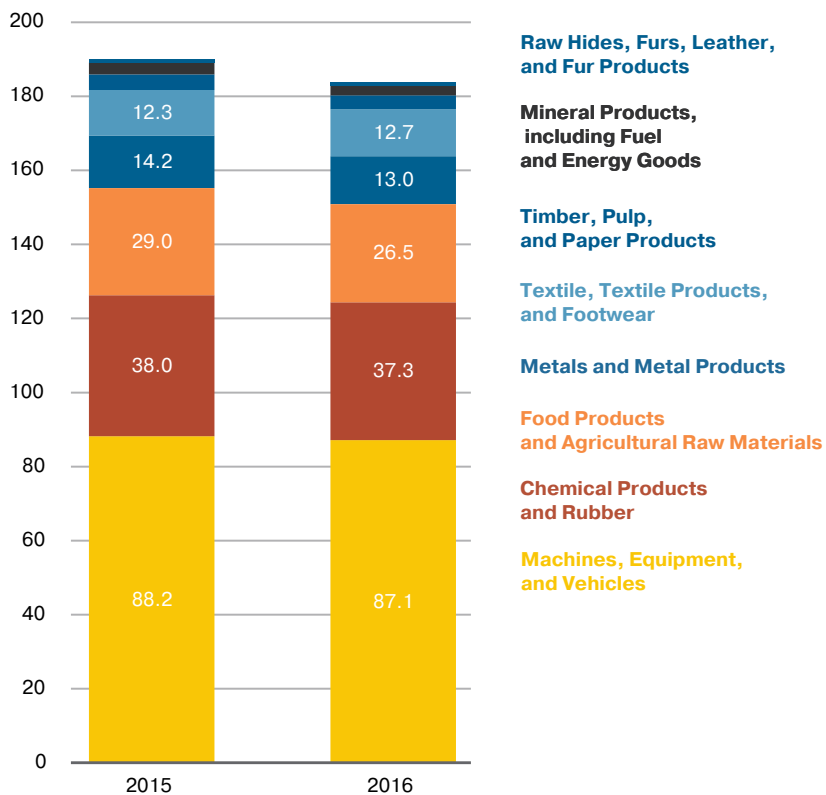
Source: EEC, authors' calculations.

## Commodity Structure of EAEU Imports

Machines, equipment, and vehicles represent the largest item of EAEU imports from third countries, accounting for 43.3% of total imports at the end of 2016. Despite the reduction of these imports in absolute terms by \$1.1 billion in 2016 vs. 2015, its share of total imports increased by 0.4 p.p.

The second-largest group is chemical products (18.5%). The share of food products and agricultural raw materials decreased by 0.9 p.p. to 13.2%.

Figure 3.6 Commodity Structure of EAEU Imports, \$ billion

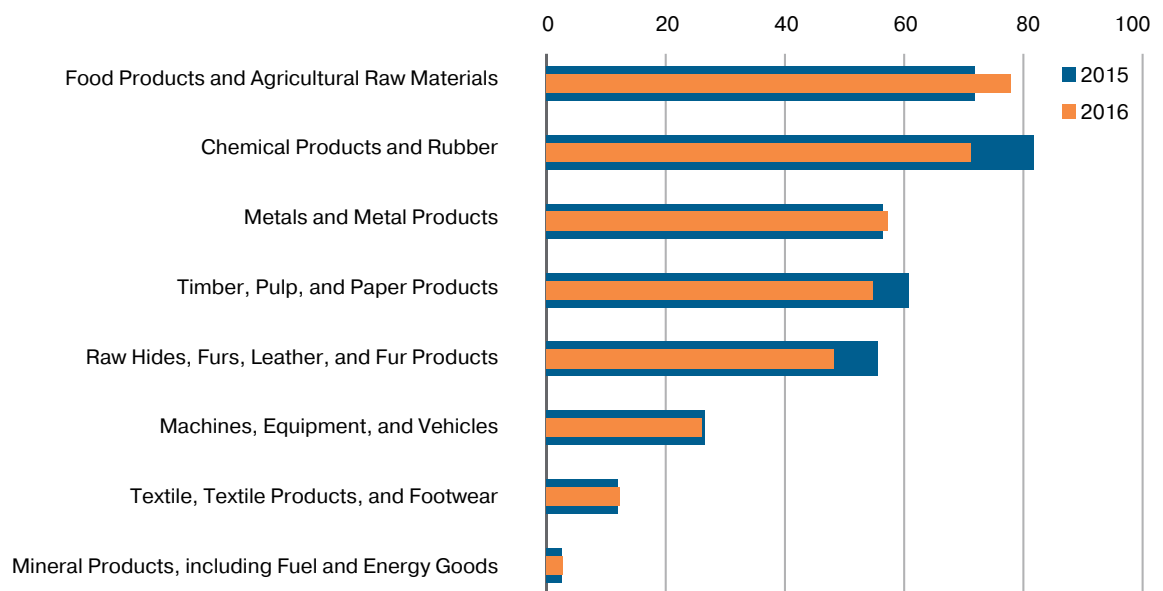


Source: EEC, authors' calculations.

## EAEU Intra-Industry Foreign Trade

EAEU intra-industry foreign trade covers mostly food products and agricultural raw materials. In 2016, intra-industry trade accounted for 13.7%<sup>8</sup> of total EAEU foreign trade, a 0.9 p.p. year-on-year increase. Intra-industry foreign trade is best developed within the group of food products and agricultural raw materials. It was 78% in 2016, a 6.1 p.p. increase year-on-year. In 2015, chemical products accounted for the largest share of intra-industry trade at 81.8%, but by the end of 2016 that group of products saw a significant drop of 10.6 p.p.

<sup>8</sup> The share of intra-industry trade of total EAEU foreign trade was measured by application of the Grubel-Lloyd index based on statistical data on 2016 exports by EAEU member states to third countries and 2016 imports by EAEU member states from third countries (level of granularity: four digits of HCDSCS).

**Figure 3.7** Share of Intra-Industry Trade of Foreign Trade with a Breakdown by Sectors, 2015 and 2016, %

Source: EEC, authors' calculations.

In 2016, most commodities improved their intra-industry foreign trade scores as a result of a massive increase in the share of intra-industry trade of total trade in such commodities compared to 2015. Phenols and phenolic alcohols (HCDCS Code 2907) and hydrocarbon derivatives (HCDCS Code 2904) are two very good examples in this context. Their shares of intra-industry trade increased from 46.0% in 2015 to 96.0% in 2016 and from 4.4% in 2015 to 91.6% in 2016, respectively. At the same time, the share of intra-industry trade in several items of total trade value decreased. The two commodities most affected in this respect are cotton fabrics (HCDCS Code 5212) and margarine (HCDCS Code 1517). Their shares went down from 95.5% in 2015 to 92.0% in 2016 and from 98.6% in 2015 to 91.8% in 2016, respectively.

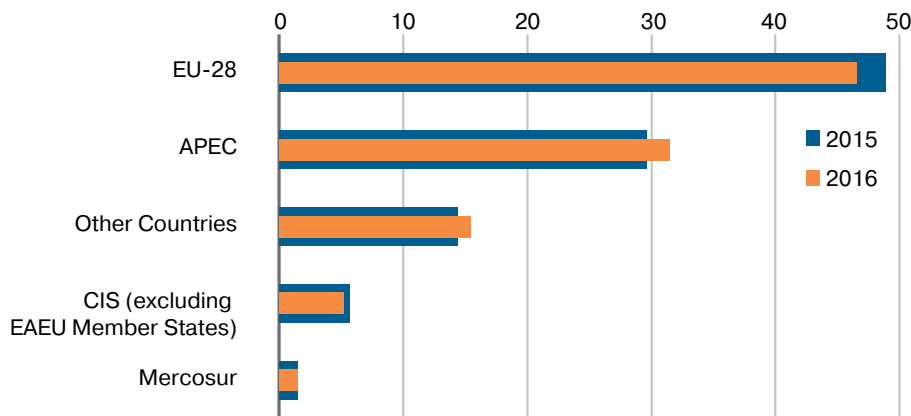
The smallest share of intra-industry trade in total foreign trade is typical for commodities that are either mostly exported or mostly imported.

In EAEU foreign trade, raw materials and low-value-added goods are predominantly exported, while higher-value-added goods are predominantly imported.

## Geographical Structure of EAEU Foreign Trade

In geographical terms, EAEU foreign trade is dominated by EU countries. Their share amounted to 46.5% in 2016. The share of APEC countries is also quite significant with 31.5% of total EAEU foreign trade in 2016. Compared to 2015, the EU countries' share of EAEU foreign trade turnover has decreased by 2.3 p.p., while the share of APEC countries has increased by 1.8 p.p.

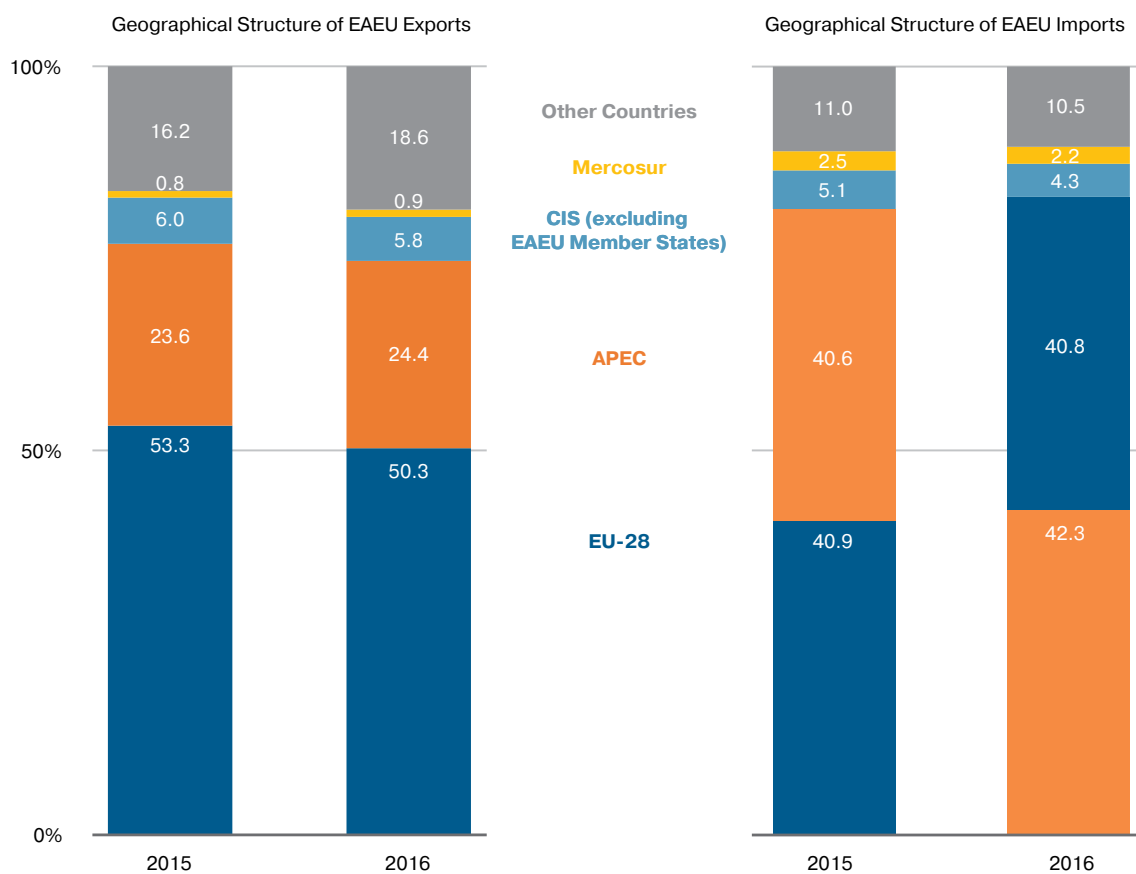
Figure 3.8 Structure of EAEU Foreign Trade Turnover with Third Countries in 2015 and 2016, %



Source: EEC, authors' calculations.

It should be noted that in 2015 EU countries occupied the leading positions in the geographical structure of both EAEU exports and EAEU imports (53.3% and 40.9%, respectively). APEC countries came second (23.6% and 40.6%, respectively). However, in 2016 a shift occurred in the geographical structure of EAEU imports, with APEC countries coming first (42.3%) and EU countries second (40.8%). In terms of export destinations, EU countries were first (50.3%), followed by APEC countries (24.4%).

**Figure 3.9** Geographical Structure of EAEU Exports and Imports in 2015 and 2016, %



Source: EEC, authors' calculations.

At the country level, the largest EAEU trading partner is China. In 2016, it accounted for 15.4% of total EAEU foreign trade turnover (a 1.8 p.p. increase year-on-year). Other notable trade partners include Germany, the Netherlands, Italy, and the USA.

Table 3.5 Major EAEU Trade Partners in 2016

Country	EAEU Trade Turnover in 2016		Share of Total EAEU Foreign Trade Turnover in 2016	
	Value, \$ billion	Change vs. 2015, %	Share, %	Change vs. 2015, p.p.
China	78.6	-0.4	15.4	+1.8
Germany	45.1	-11.7	8.8	0.0
Netherlands	37.0	-26.9	7.3	-1.5
Italy	28.9	-29.3	5.7	-1.4
USA	23.1	-2.4	4.5	+0.4
<b>All Countries</b>	<b>509.8</b>	<b>-12.0</b>	<b>100.0</b>	<b>0.0</b>

Source: EEC, authors' calculations.

Statistically, the chief EAEU export destination is the Netherlands, which accounted for 10.9% of total EAEU exports to third countries in 2016. At the same time, taking into consideration the nature of foreign trade supplies and the fact that the Netherlands is a major transit hub, China is the actual leader for the key export item (energy resources). China is only 0.2% behind the Netherlands, and during 2016 its share increased by 1.3%. Other important EAEU export destinations are Germany, Italy, and Turkey.

Table 3.6 Main EAEU Export Destinations in 2016

Country	Exports from the EAEU to the Country in 2016		Country's Share of Total EAEU Exports in 2016	
	Value, \$ billion	Change vs. 2015, %	Share, %	Change vs. 2015, p.p.
Netherlands	33.5	-28.8	10.9	-1.7
China	32.9	-6.2	10.7	+1.3
Germany	22.6	-16.0	7.3	+0.1
Italy	19.5	-36.2	6.3	-1.9
Turkey	14.7	-29.2	4.8	-0.8
<b>All Countries</b>	<b>308.4</b>	<b>-17.5</b>	<b>100.0</b>	<b>0.0</b>

Source: EEC, authors' calculations.

China is the chief supplier of goods to the EAEU market, and in 2016 its share of total EAEU imports reached 22.7% (a 1.4 p.p. increase year-on-year). Germany is another main supplier with 11.2% of total 2016 EAEU imports (a 0.6 p.p. decrease year-on-year). The USA, France, and Italy also have traditionally significant shares of total imports.

**Table 3.7** Main EAEU Import Destinations in 2016

Country	Imports to the EAEU from the Country in 2016		Country's Share of Total EAEU Imports in 2016	
	Value, \$ billion	Change vs. 2015, %	Share, %	Change vs. 2015, p.p.
China	45.7	4.3	22.7	+1.4
Germany	22.5	-6.8	11.2	-0.6
USA	12.9	-4.8	6.4	-0.2
France	9.5	35.2	4.7	+1.3
Italy	9.4	-8.7	4.7	-0.3
<b>All Countries</b>	<b>201.3</b>	<b>-2.0</b>	<b>100.0</b>	<b>0.0</b>

Source: EEC, authors' calculations.

## EAEU Mutual Trade

### General Description of EAEU Mutual Trade

In 2016, intra-Union trade accounted for 12.1% of total EAEU exports, a 1.2 p.p. increase year-on-year. The growth in the intra-Union trade's share of total exports can be attributed to the fact that the decrease in EAEU exports to third countries in 2016 vs. 2015 (17.5%) was more than the decrease in intra-Union trade (6.7%).

**Table 3.8** Intra-Union Trade's Share of Total Exports by EAEU Member States

Indicator	2015	2016
Intra-Industry Trade (Intra-Union Exports), \$ billion	45.6	42.5
Exports from the EAEU to Third Countries, \$ billion	373.8	308.4
Intra-Union Trade's Share of Total EAEU Exports, %	10.9	12.1

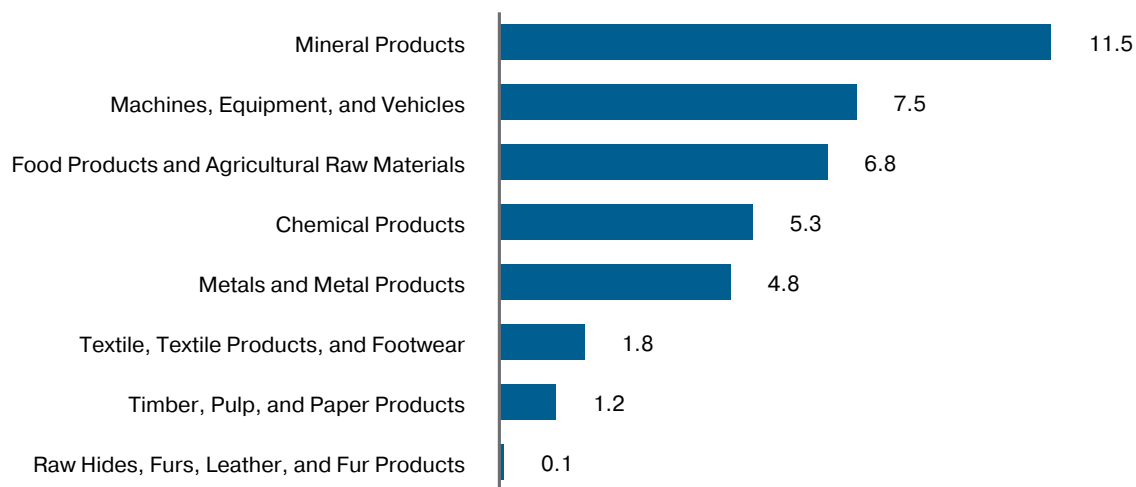
Source: EEC, authors' calculations.

### Commodity Structure of EAEU Mutual Trade

The commodity structure of mutual trade between EAEU member states is measured as aggregate exports by EAEU member states to other EAEU member states. It is dominated by mineral products (27.1%) and is similar to the commodity structure of EAEU exports to third countries. Therefore, mineral products are the basic item exported by EAEU member states both inside and outside the Union.

At the same time, the value of intra-Union exports of commodities in this group in 2016 vs. 2015 has decreased by 24%. This has led to a 6.2 p.p. reduction in their share of total intra-Union exports.

Other items with significant shares of the commodity structure of EAEU intra-Union trade include machines and equipment (17.5%), food products and agricultural raw materials (16.1%), chemical products (12.4%), and metals and metal products (11.3%).

**Figure 3.10** Commodity Structure of Intra-Union Trade in 2016, \$ billion

Source: EEC, authors' calculations.

## EAEU Intra-Industry Mutual Trade

At the end of 2016, Russia had the highest intra-industry trade share of total trade with other EAEU member states. Kyrgyzstan had the lowest share.

**Table 3.9** Intra-Industry Mutual Trade between EAEU Member States

EAEU Member State	Intra-Industry Trade's Share of Total EAEU Mutual Trade in 2016, % <sup>9</sup>
Armenia	9.4
Belarus	27.7
Kazakhstan	20.7
Kyrgyzstan	5.8
Russia	36.7

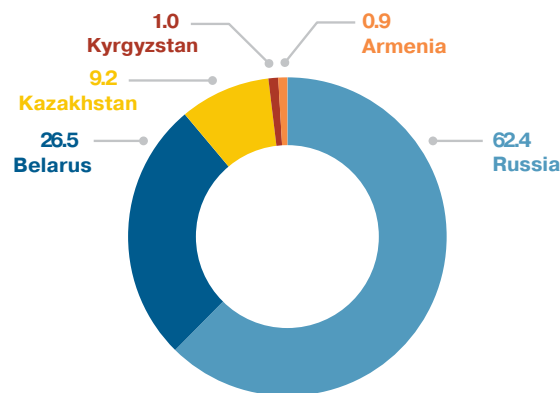
Source: EEC, authors' calculations.

<sup>9</sup> Intra-industry trade's share of EAEU mutual trade was measured by application of the Grubel-Lloyd index based on statistical data on 2016 intra-Union exports by EAEU member states and 2016 intra-Union imports by EAEU member states (level of granularity: four digits of HCDCS).

## Geographical Structure of EAEU Mutual Trade

Russia and Belarus account for almost 90% of total intra-Union exports to EAEU member states (62.4% and 26.5%, respectively). Apparently, trade with EAEU member states is a priority in Belarus (with only 4% of total EAEU GDP, Belarus is responsible for more than a quarter of total intra-Union exports).

Figure 3.11 Geographical Structure of EAEU Intra-Union Exports, %



Source: EEC, authors' calculations.

## Impact of Growth in Foreign Trade of EAEU Member States on Their Rankings in International Ratings

EAEU member states are actively improving foreign trade mechanisms to expand their involvement in the global trade system, and stimulate their economic growth. This, in turn, has a positive effect on the rankings of EAEU member states in international business ratings.

### Doing Business

For example, according to *Doing Business 2016*, the accession of Armenia to the Eurasian Economic Union in 2015 made it possible to reduce the timeframes and costs associated with customs clearance in bilateral trade with Russia. According to *Doing Business 2017*, the accession of Kyrgyzstan to the EAEU made it possible to reduce by 10 hours the time required to perform an export operation and reduce by \$85 the costs associated with export operations.

In *Doing Business 2017*, Kazakhstan and Belarus are listed among the countries with the largest number of business reforms in Central Asia and Europe: in 2015–2016, Kazakhstan implemented seven reforms, and Belarus implemented four reforms. In addition, Kazakhstan improved its foreign trade terms, reducing export costs by eliminating two documents previously required for customs clearance.

According to *Doing Business 2017*, foreign trade terms improved in Kazakhstan, Kyrgyzstan, and Russia and deteriorated in Armenia and Belarus.

**Table 3.10** Foreign Trade Terms: EAEU Member State Rankings in *Doing Business* Rating

EAEU Member State	Foreign Trade Terms Score (max: 100)		Foreign Trade Terms Ranking in <i>Doing Business</i>	
	2016	2017	2016	2017
Armenia	96.23	86.45	29	48
Belarus	94.88	93.71	25	30
Kazakhstan	60.39	63.19	122	119
Kyrgyzstan	72.25	74.91	83	79
Russia	37.39	57.96	170	140

Source: Doing Business 2016, Doing Business 2017.

## WEF Global Competitiveness Index

Changes in the *WEF Global Competitiveness Index 2016–2017* show that EAEU member states are working to enhance their railroad and port infrastructure. Customs-regulation indicators are also improving. At the same time, most EAEU member states demonstrate a general deterioration of infrastructure quality and are becoming increasingly active in the use of non-tariff barriers in foreign trade.

**Table 3.11** *WEF Global Competitiveness Index 2016–2017* Elements Related to Foreign Trade Terms in EAEU Member States: Scores and Rankings<sup>10</sup>

Index Element	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia
Quality of Overall Infrastructure	4.3 (58)	N/A	4.0 (73)	3.0 (117)	4.0 (74)
Quality of Roads	3.8 (81)	N/A	3.0 (108)	2.5 (131)	2.8 (123)
Quality of Railroad Infrastructure	2.7 (66)	N/A	4.3 (26)	2.4 (81)	4.4 (25)
Quality of Port Infrastructure	2.4 (122)	N/A	3.1 (107)	1.5 (135)	4.4 (72)
Quality of Air Transport Infrastructure	4.4 (67)	N/A	4.0 (90)	2.9 (126)	4.4 (65)
Prevalence of Non-Tariff Barriers in Foreign Trade	4.7 (36)	N/A	4.4 (67)	3.9 (107)	3.9 (111)
Trade Tariffs, %	4.6 (64)	N/A	5.8 (75)	5.6 (72)	5.8 (73)
Burden of Customs Procedures	3.6 (95)	N/A	4.3 (59)	3.6 (93)	3.8 (83)
Imports as a Percentage of GDP, %	45.4 (62)	N/A	24.1 (122)	75.5 (21)	21.2 (128)

Source: Global Competitiveness Report 2016–2017.

## Foreign Trade in Services

In 2015, the total global trade value of services amounted to \$9.36 trillion. This comprised \$4.75 trillion of exports and \$4.61 trillion of imports, subject to an applicable margin of error. The bulk of trade in services was represented by transportation and travel services.

In 2015, the value of services exported and imported by EAEU member states was as follows: Russia – \$51.7 billion (exports) and \$88.6 billion (imports); Armenia – \$1.5 billion (exports) and \$1.6 billion (imports); Belarus – \$6.8 billion (exports) and \$4.2 billion (imports); Kazakhstan – \$6.4 billion (exports) and \$11.5 billion (imports); and Kyrgyzstan – \$0.8 billion (exports) and \$1 billion (imports). On aggregate, the value of services exported by the EAEU in 2015 amounted to \$67 billion, and the value of services imported by the EAEU in 2015 amounted to \$107 billion.

The bulk of EAEU services exports in 2015 was represented by transportation services (36%), other business services (20%), and travel services (17%). The bulk of EAEU services imports in 2015 was represented by travel services (35%), other business services (24%), and transportation services (14%).

<sup>10</sup> Table cells show scores assigned to EAEU member states for each of the listed index elements; the figures in parentheses indicate the ranking of the country for the relevant element. Colors indicate how *WEF Global Competitiveness Index 2016–2017* scores have changed relative to *WEF Global Competitiveness Index 2015–2016* scores: blue – the score has improved; red – the score has deteriorated; black – the score has not changed.



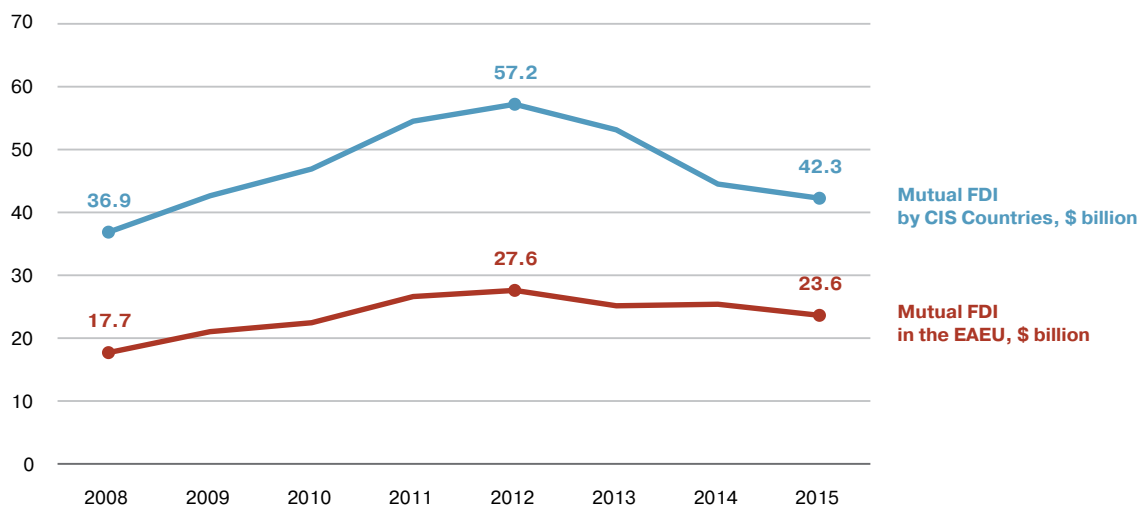
# IV

## Investments in the EAEU

Information about current investment activities in EAEU member states is an important input required to examine and assess the current state of financial systems; identify the prerequisites and estimate the prospects of transboundary interaction between Eurasian countries at the corporate level; and develop recommendations as to how to eliminate obstacles in the way of transboundary cash flows. Since 2011, the EDB Centre for Integration Studies has been implementing an ongoing project called *Monitoring and Analysis of Investments in the CIS and Eurasia*. This has enabled the EDB to produce a picture of investment interaction between EAEU member states in the Eurasian continent. Two databases have been created within the framework of the project. One maintains records of mutual investments in CIS countries and Georgia. The other contains detailed information on FDI stock accumulated by Azerbaijan, Tajikistan, Ukraine, and the EAEU countries in the Eurasian continent and information on reciprocal FDI stock originating from 11 Eurasian countries. A notable advantage of the monitoring project lies in the fact that it makes it possible to identify actual asset locations by tracking FDI channelled into EAEU member states through offshore areas. In many instances, this produces a more reliable picture than that provided, for example, by central banks.

### Mutual FDI in the EAEU

The change in mutual FDI stock, albeit negative, is still considerably better than elsewhere in the CIS region. In 2012–2015, EAEU mutual FDI stock has gone down by 14.3% from the peak 2012 level. Over the same period, CIS FDI stock has decreased by 25.8%. The contribution of mutual FDI by EAEU member states to total mutual direct investments originating from CIS countries and Georgia went up from 47% in 2008 to 56% in 2015 (Figure 4.1).

**Figure 4.1** Movement of Mutual FDI Stock in CIS Countries and EAEU Member States

Source: EDB Centre for Integration Studies<sup>11</sup>.

At the beginning of 2016, total mutual FDI stock in the EAEU amounted to \$23.6 billion (a 6.6% decrease year-on-year). The decrease was statistical in nature. It was largely attributable to the impairment of previously created assets because of devaluation of national currencies, rather than to liquidation/resale of companies. Russian investors accounted for 81.5% of total mutual FDI in EAEU member states. The second place went to Kazakhstan (17.4% of total exported FDI). Belarus, Armenia, and Kyrgyzstan lag far behind the largest EAEU economies (Table 4.1).

**Table 4.1** Mutual Direct Investments by Russia, Kazakhstan, Belarus, Armenia, and Kyrgyzstan at the beginning of 2016

Recipient Country	Investor Countries' FDI Stock, \$ million					
	Russia	Kazakhstan	Belarus	Armenia	Kyrgyzstan	All 5 Countries
Russia	X	3,367	204	3	0	<b>3,574</b>
Kazakhstan	7,095	X	34	0	0	<b>7,129</b>
Belarus	8,297	53	X	10	4	<b>8,364</b>
Armenia	3,056	8	0	X	0	<b>3,064</b>
Kyrgyzstan	811	695	0	0	X	<b>1,506</b>
<b>All 5 Countries</b>	<b>19,259</b>	<b>4,123</b>	<b>238</b>	<b>13</b>	<b>4</b>	<b>23,637</b>

Source: EDB Centre for Integration Studies<sup>12</sup>.

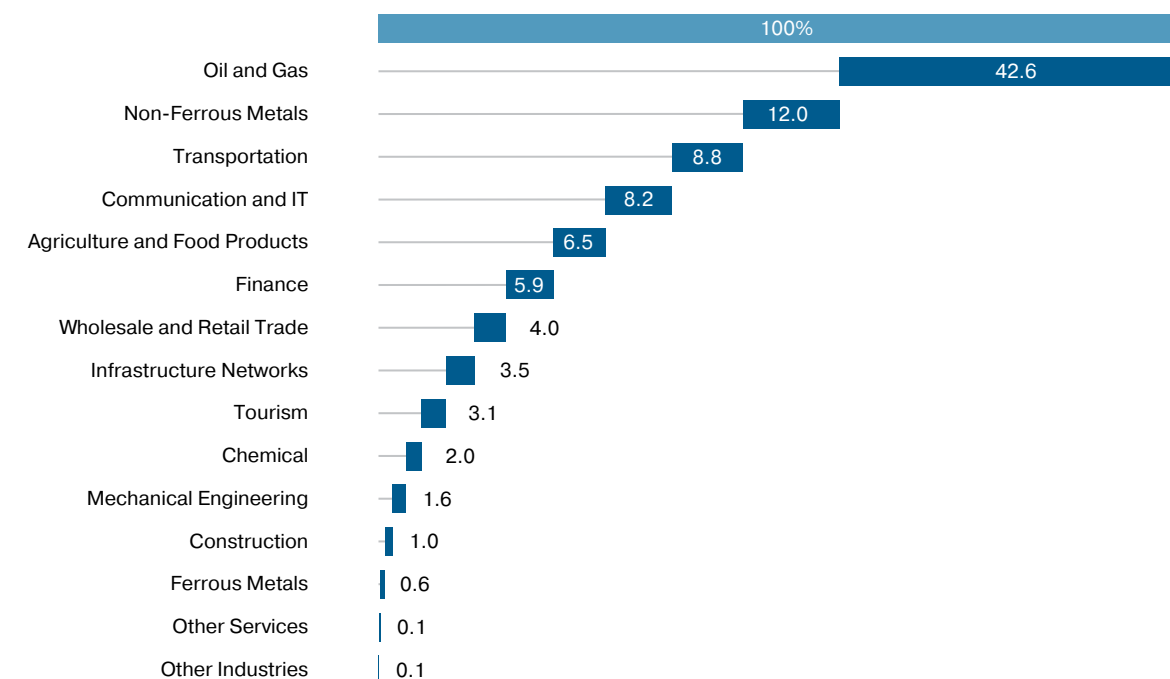
Note: In line with the methodology used by Monitoring of Mutual Investments in CIS Countries (EDB Centre for Integration Studies), only projects with FDI stock in excess of \$3 million are included in the database.

<sup>11, 12</sup> EDB Centre for Integration Studies (2016) *Monitoring of Mutual Investments in CIS Countries – 2016*. Report No. 39. Saint Petersburg: Eurasian Development Bank. Available at: [http://eabr.org/r/research/centre/projectsCII/invest\\_monitoring/](http://eabr.org/r/research/centre/projectsCII/invest_monitoring/).

Devaluation of the national currencies of EAEU member states had a particularly negative impact on Russian investment stock due to the revaluation effect. The largest 2015 year-end impairment was recorded in Kazakhstan (-19%). In Belarus, Russian FDI went down by 2.4%, while Armenia and Kyrgyzstan reported a slight increase.

The leading mutual FDI sectors in the EAEU are Oil and Gas, and Non-Ferrous Metals (Figure 4.2). Other sectors with sizeable FDI include Transportation; Agriculture and Food Products; Communication and IT; Finance; and Gas-Transportation Networks. The leading positions of the Oil and Gas sector are supported by the two largest EAEU projects—Gazprom’s gas-transportation subsidiary in Belarus and LUKOIL’s hydrocarbons-production projects in Kazakhstan.

Figure 4.2 Sectoral Structure of EAEU Mutual FDI Stock at the beginning of 2016, %



Source: EDB Centre for Integration Studies<sup>13</sup>.

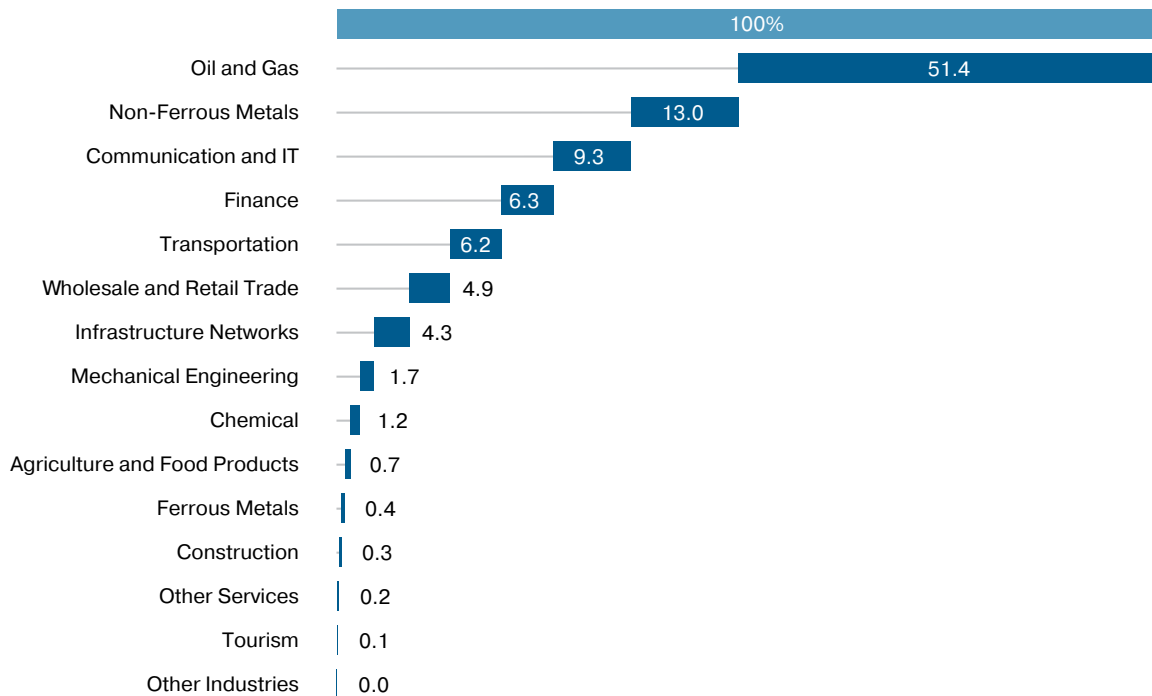
Russia is the only net exporter of mutual FDI originating from EAEU member states. This is largely attributable to the scale of the Russian economy, which produces more than 85% of total EAEU GDP. Besides, Russian TNCs were the first among post-Soviet-area companies to begin large-scale foreign expansion.

Russia’s top figures are produced by a limited number of companies. The largest EAEU projects were implemented by the leading Russian TNCs (Gazprom, LUKOIL, Transneft, Slavneft, MTS, Polymetal, Russian Railways, VimpelCom, RUSAL). FDI by the 25 largest Russian companies investing in EAEU member states account for 72% of total EAEU mutual FDI stock. By the same token, the 25 largest projects implemented by Russian companies account for about 65% of total EAEU mutual FDI stock. This is according to the EDB MIM CIS database, which includes 1,200 projects.

<sup>13</sup> EDB Centre for Integration Studies (2016) *Monitoring of Mutual Investments in CIS Countries – 2016*. Report No. 39. Saint Petersburg: Eurasian Development Bank. Available at: [http://eabr.org/r/research/centre/projectsCII/invest\\_monitoring/](http://eabr.org/r/research/centre/projectsCII/invest_monitoring/).

A hefty 51.4% of Russian FDI stock in EAEU member states is, unsurprisingly, concentrated in Oil and Gas. Non-Ferrous Metals; Communication and IT; Finance; and Transportation account for 13.0%, 9.3%, 6.3%, and 6.2%, respectively. There is also significant FDI in Wholesale and Retail Trade and in Infrastructure Networks (Figure 4.3).

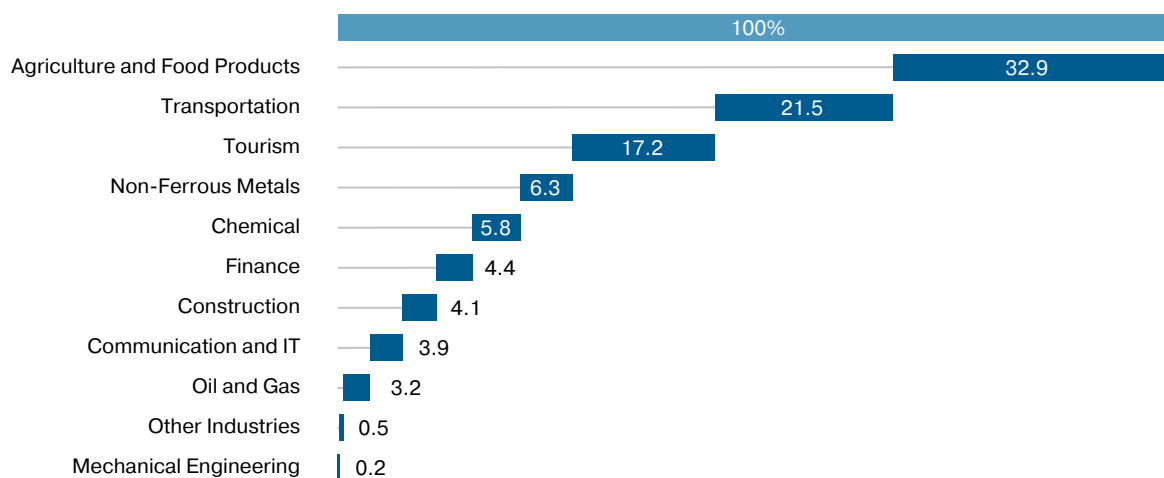
Figure 4.3 Sectoral Structure of Russian FDI Stock in EAEU Member States, %



Source: EDB Centre for Integration Studies.

Russia itself raised \$3.6 billion from the other EAEU member states. Among other things, this may be attributable to the limited capital investment capacity of companies from partner countries. Most investments were made in such sectors as Transportation; Tourism; Agriculture and Food Products; Oil and Gas; Finance; and Construction.

At the beginning of 2016, Kazakh FDI stock in EAEU member states amounted to \$4.1 billion. Unlike Russian direct investments, Kazakh FDI in the EAEU remained almost at the same level. Most Kazakh direct investment projects in the EAEU are concentrated in Russia and Kyrgyzstan. The sectoral structure of Kazakh FDI stock in EAEU member states is noticeably different from that of Russian FDI stock in the region. The bulk of Kazakh capital is invested in Agriculture and Food Products (32.9%), followed by Transportation (21.5%) and Tourism (17.2%). Other notable investment recipients include Non-Ferrous Metals, Finance, and Transportation (Figure 4.4).

**Figure 4.4** Sectoral Structure of Kazakh FDI Stock in EAEU Member States, %

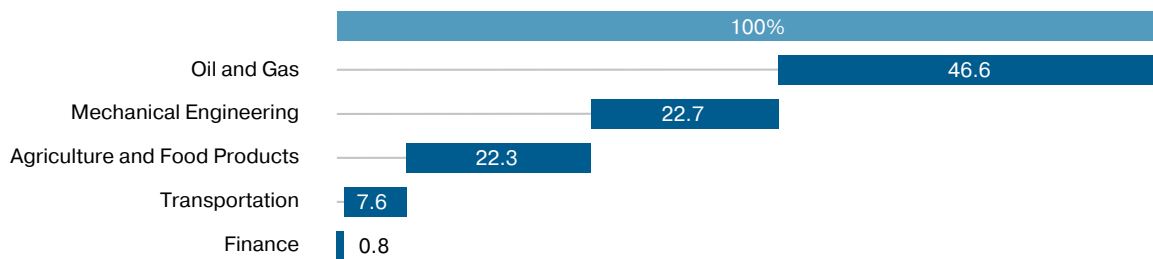
Source: EDB Centre for Integration Studies.

Belarus has attracted the most FDI from EAEU member states (\$8.4 billion). This is attributable primarily to several large-scale deals executed by Russian TNCs. These include: the purchase of Beltransgaz (now known as Gazprom Transgaz Belarus) by Gazprom; the investment by telecom giant MTS into its Belarus subsidiary; the acquisition of trunk pipelines by Transneft; and the acquisition of a stake in Mozyr Refinery by Slavneft.

Belarus itself has invested only \$238 million. Investment cooperation between Belarus and CIS countries has a strongly pronounced “neighborhood effect.” For a long time, Russia has been the main investment destination for Belarus capital with 86% of total Belarus FDI.

Belarus FDI stock is generally less diverse vis-à-vis both Russian and Kazakh FDI stock. Structurally, the bulk of Belarus FDI (46.6%) is represented by Oil and Gas, which is also true for Russian FDI. However, Belarus does not produce either oil or gas in meaningful quantities. Other major recipient sectors include Mechanical Engineering and Agriculture and Food Products, with 2015 year-end Belarus FDI at 22.7% and 22.3%, respectively (Figure 4.5).

Figure 4.5 Sectoral Structure of Belarus FDI Stock in EAEU Member States, %



Source: EDB Centre for Integration Studies.

In Armenia, investment cooperation with its EAEU partners is basically reduced to the inflow of Russian capital. At the beginning of 2016, Russian FDI stock exceeded \$3 billion (Table 4.1). Russian TNCs invest primarily in Communication and IT; Oil and Gas; Non-Ferrous Metals; and Finance. Cooperation between Armenia and the other EAEU member states is currently insignificant. Armenian direct investment projects in the EAEU are concentrated in Agriculture and Food Products.

In Kyrgyzstan, the list of EAEU investors is predictably topped by Russian and Kazakh TNCs. Moreover, over the last two years, Russia overtook Kazakhstan whose top position for FDI in Kyrgyzstan had largely been attributable to the “neighborhood effect.”

As was noted above, almost two-thirds of total mutual FDI stock in the EAEU is supported by large Russian companies. Accordingly, the bulk of FDI is carried out by a limited number of major investors. Mid-sized businesses balk at going beyond national borders. It is expected that in the coming years, the structure of investment flows in the EAEU will undergo a partial transformation. The main driver of that transformation will be the active expansion of reciprocal ties within the EAEU. Deepening integration within the Eurasian Economic Union and the emergence of its single market open new corporate-interaction vistas before “mid-range” investors. Large businesses are less sensitive to transboundary barriers because their ample resources allow them to easily clear such barriers. “Mid-range” investors, on the other hand, have less cash and less lobbying power. A common market offers them broader opportunities for building value-added chains and scaling their business.

Considerable mutual investment potential also exists in those segments where transboundary investment activity levels are currently not impressive. These include Agriculture and Food Products; Retail Trade (alimentary and industrial products); Construction (commercial and residential real estate); Tourism; and Communication and IT.

## Investment Cooperation of the EAEU with Greater Eurasia

In 2015, EAEU member states renewed FDI exports to Eurasia, achieving a year-on-year increase of \$13.5 billion or 16%. Russian companies that closed several large-ticket deals in the European Union became the main driver of investment activity in 2015. Generally, in 2008–2015 aggregate FDI stock owned by EAEU member states in the Eurasian continent increased by a factor of 2.4.

The leading role among EAEU investors in Eurasia is played by Russian companies, which continue to expand their EU footprint. According to monitoring data, Russian FDI stock in the EU has reached \$50.8 billion, accounting for 62% of total direct capital investments in Eurasia. At the same time, the share of Russian corporate investments in Asia has decreased from 31% in 2011 to 26.7% at the end of 2015.

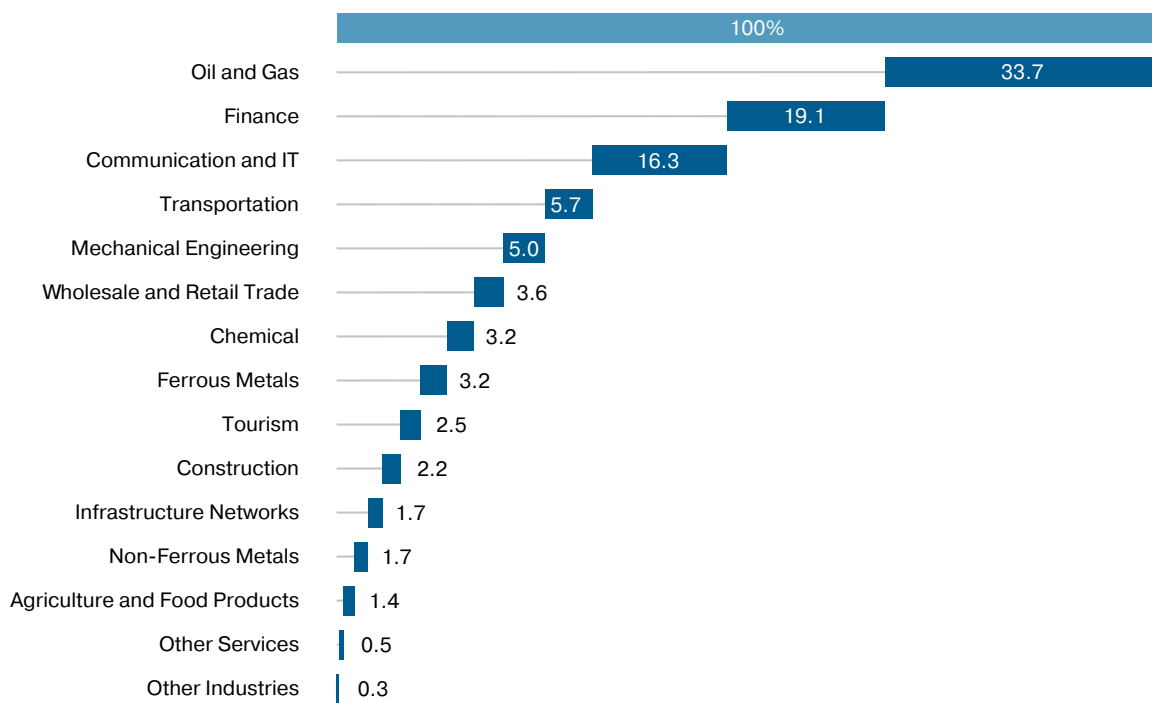
The Oil and Gas sector traditionally accounts for the largest share in the sectoral makeup of Russian FDI exported to Eurasian countries. Its share of Russian FDI stock has increased from 25.8% at the end of 2008 to 33.7% at the end of 2015. The second position is held by the Finance sector, whose share over the last seven years has increased from 13.4% to 19.1%. The Communication and IT sector also stands out, and during the same seven-year period its share has increased from 12.5% to 16.3% (Figure 4.6).

Oil and gas; telecommunication; and financial TNCs are among the leading Russian investors in Eurasia outside the CIS, clearly overshadowing investors from the other post-Soviet countries.

Among EAEU member states, Kazakhstan comes second after Russia in terms of capital exports to Eurasian countries. At the beginning of 2016, Kazakh corporate FDI stock in Eurasian countries outside the CIS reached almost \$6 billion. EU countries remain the main recipient of Kazakh direct capital investments with 90.5% of total Kazakh FDI in Eurasian countries. Oil and Gas remains Kazakhstan's key international specialization sector with a steady 50%-plus share of total FDI. Wholesale and Retail Trade occupies the second position.

Direct investment projects in the countries of the Eurasian continent originating in companies from Armenia, Belarus, and Kyrgyzstan are few and far between, and their total amount is rather modest. This is because those EAEU member states have few, if any, TNCs with a competitive edge that is sufficient to penetrate foreign markets.

Figure 4.6 Sectoral Structure of Russian FDI in Eurasia at the End of 2015, %

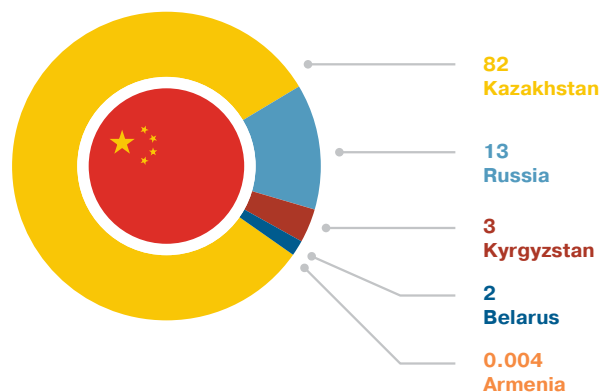


Source: EDB Centre for Integration Studies.

At the same time, direct-investment monitoring shows that Asian investors continue to increase direct capital investments in the EAEU. During the monitoring period, FDI by nine Asian countries (China, Japan, Turkey, India, South Korea, the UAE, Iran, Singapore, and Vietnam) increased from \$30.4 billion in 2008 to \$61.9 billion at the beginning of 2016.

China remains the owner of the largest FDI stock in the EAEU member states among all Asian countries. Since 2008, aggregate FDI stock held by Chinese companies in the five EAEU member states has increased by 138% to reach \$25.7 billion. Belarus and Kyrgyzstan have recorded the largest inbound Chinese direct investments: at the end of the latest observation period, the relevant FDI stock increased by 48% and 19%, respectively. In absolute terms, Kazakhstan traditionally remains the largest recipient of Chinese FDI in the EAEU with an FDI stock of \$21 billion (Figure 4.7). For Chinese investors, Oil and Gas remains the main target sector in Kazakhstan, along with Kazakh oil and gas transportation.

Chinese investors are increasingly interested in the Russian market, but no large-scale Chinese projects have been launched to date. At the beginning of 2016, Chinese FDI stock in Russia remained at \$3.4 billion. The EDB Centre for Integration Studies' experts believe that a considerable number of major transactions executed in 2014 and earlier are still awaiting their final implementation. Besides, in the current anemic economic environment, Chinese investors often bide their time, waiting for their Russian counterparts to come up with more lucrative proposals.

**Figure 4.7** Distribution of Chinese FDI by EAEU Member States at the End of 2015, %

Source: EDB Centre for Integration Studies.

Japan has the largest FDI stock in Russia among Asian countries. In terms of FDI into the Russian economy, Japanese TNCs claim undisputed leadership, with all other Asian countries lagging far behind. Neither the economic slump nor the devaluation of the ruble has had any noticeable effect on Japanese FDI stock in the Russian economy. It amounts to \$14.5 billion, of which 70% has been directed into Oil and Gas.

The crisis in the relations between Russia and Turkey has had a relatively insignificant adverse effect on Turkish FDI stock. Turkey remains one of the largest investors in the EAEU. According to the latest data, total Turkish FDI stock in the EAEU has reached \$7.4 billion, a 1.4% increase year-on-year. The stability of investment flows originating from Turkey is largely attributable to the high country-diversification of Turkish FDI. Projects with Turkish capital participation were registered in all EAEU member states, with the exception of Armenia. Russia accounts for about half of recorded transactions and for almost 66% of Turkish FDI stock in the EAEU. One of the important features of Turkish FDI is its impressive sectoral coverage: capital of Turkish origin is represented in almost all recipient sectors. Turkey is the leader among Asian countries in terms of FDI in sectors not related to the extraction and transportation of hydrocarbons. This is the key aspect in which Turkish capital is different from, for example, Chinese or Japanese capital.

South Korea invests into both Russia and Kazakhstan, with Russia being the primary recipient of South Korean direct investments. According to the latest data, it accounts for more than \$2.1 billion or 88% of total South Korean FDI stock in the EAEU. The leading recipient sectors of investment from South Korea are Mechanical Engineering; Construction; Tourism; and Agriculture and Food Products.

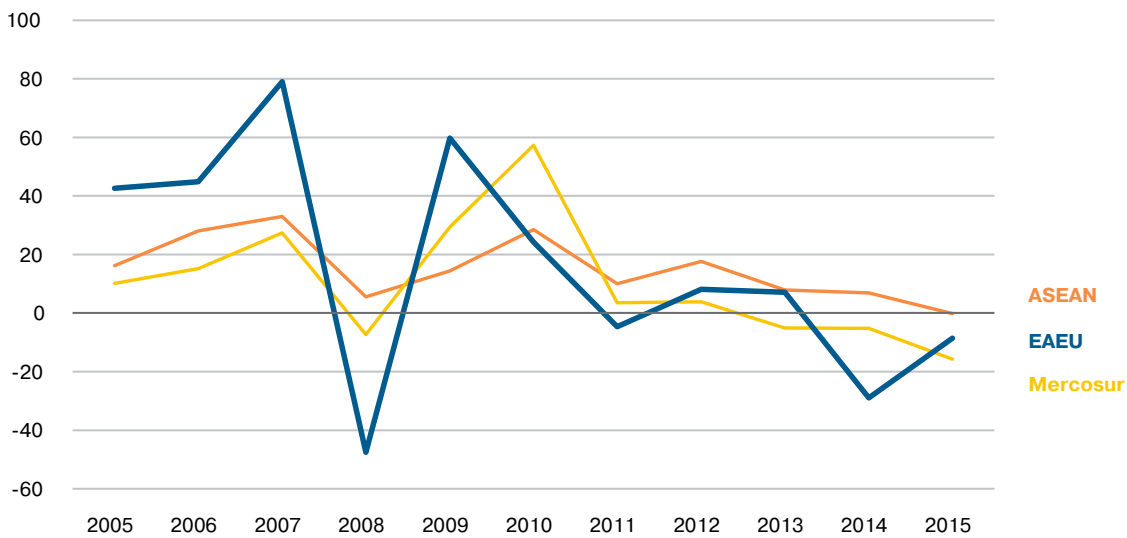
In the opinion of the EDB Centre for Integration Studies' experts, the activity of direct investors from Eurasian countries in the EAEU will be picking up. The Chinese development framework *One Belt, One Road* is likely to become one of the key drivers of FDI inflow. Even today, investors from China are beginning to show interest not only in hydrocarbon production but also in transportation, infrastructure, and power supply. It is expected that the bulk of investment will be made by Chinese companies and financed with the proceeds of loans to be extended by national development institutions. China will face competition from companies domiciled in Japan, South Korea, and certainly other Asian countries.

It is anticipated that investment activity of Asian TNCs in the EAEU will be positively affected by the creation of FTAs between the EAEU and appropriate investor countries (see Chapter 1,

*EAEU International Cooperation: New Agreements and Treaties with Third Parties and Regional Associations).*

Finally, we will compare FDI stock of the rest of the world in the EAEU and other integration associations, such as Mercosur and ASEAN. Mercosur has the integration profile most closely matching that of the EAEU. In 2011–2015, FDI stock in the South American integration association dropped by 21% after a long period of sustained growth. During the same period, FDI stock in the EAEU has decreased by 25%. Unlike the EAEU and Mercosur, ASEAN has been steadily building up foreign direct investments. Despite a certain deceleration of direct investment growth, FDI stock in ASEAN countries increased by 35% in 2011–2015.

**Figure 4.8** Growth Rates of FDI Stock in the EAEU, ASEAN, and Mercosur, %



Source: UNCTAD, authors' calculations.



## Analytical Outlook.

### Why Has Competition between Jurisdictions Failed to Take Off?

When the Customs Union was launched in 2011–2012, there were serious hopes that jurisdictions would be competing with each other. It was expected that thousands of small and medium-sized companies would change their domiciles—from Russia to Kazakhstan for example—to benefit from lower taxes.

Those hopes were not unfounded. Trade policies were unified at once, and technical, san-

itary, and other supervision regulations in the EAEU are being unified little by little. However, financial, tax, and administrative matters continue to be subject to national laws.

A comparison of tax burdens in Russia and Kazakhstan reveals a sizeable difference. In Russia, the average tax burden is much higher. The same goes for the VAT rate, one of the key tax rates from the business perspective.

**Table 4.2** Average Tax Burdens (% of GDP, 2008–2014 Average) and Maximum VAT Rates in EAEU Member States

Country	Average Tax Burden, %	Maximum VAT Rate, %
Russia	34	18
Belarus	28	20
Kazakhstan	14	12
Armenia	22	17
Kyrgyzstan	21	12

Source: Ministries of Finance, authors' calculations.

It is believed that competition between jurisdictions encourages national governments to remove administrative barriers. If they are not removed in one country, business will go to another country. This is the main benefit generated by competition between jurisdictions.

It is also believed that small and medium-sized businesses and international players are among the direct participants in and beneficiaries of competition between jurisdictions. They usually “vote with their feet.” This may lead to loss of budget revenues and to higher business activity and additional budget revenues in the beneficiary country.

However, in the EAEU it has played out differently. Despite the considerable difference in tax burdens in various EAEU member states,

companies are apparently not in a hurry to move.

Why has this not happened over the five-year existence of the Customs Union?

First, in all EAEU member states the public sector accounts for a very high percentage of GDP. This is the main reason. In Russia, in 2005–2015, the public sector has grown from 35% to 70% of GDP (according to FAS estimates). In Kazakhstan, it currently accounts for about 60% of GDP. In Belarus, it stands at 70–75% (according to EBRD). The world average ranges from 30% to 40%. Apparently, state-owned companies cannot change jurisdictions. If we deduct large companies and micro-companies with clear geographical affiliations from the remaining 30% of private

companies, potentially mobile small and medium-sized companies will account for 10% at best.

Second, EAEU member states are protecting their markets with non-tariff barriers. Non-tariff barriers have been the key problem of Eurasian integration from the inception of the Customs Union to this day.

Third, private companies to a considerable extent tend to work with the state and state-

owned companies. The aggregate value of state procurement contracts in EAEU member states is mind-boggling: \$270 billion. In comparison, the total value of the EAEU member states' exports is only \$300 billion per year. Even though a common EAEU state procurement market already exists, it is all but inaccessible for foreign companies, especially small and medium-sized companies. This is borne out by numerous complaints filed by market players.

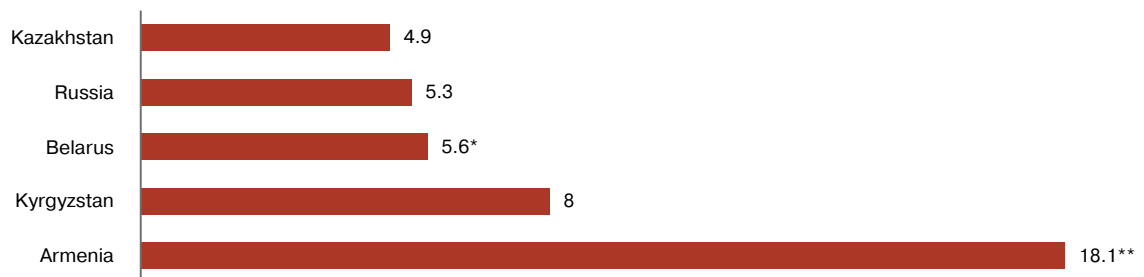


## Common Labor Market

### Unemployment and Wages

According to the EEC, the unemployment rate in the EAEU stood at 5.5% in December 2016, a 0.2 p.p. decrease year-on-year. Unemployment in Russia had the largest impact on that indicator. Traditionally, the highest unemployment rate in the EAEU is registered in Armenia. The actual unemployment rate<sup>14</sup> in Belarus in 2016 was 5.8%, which is considerably higher than the official figure of 1% in December 2016.

**Figure 5.1** Unemployment Rates in the EAEU Member States, %



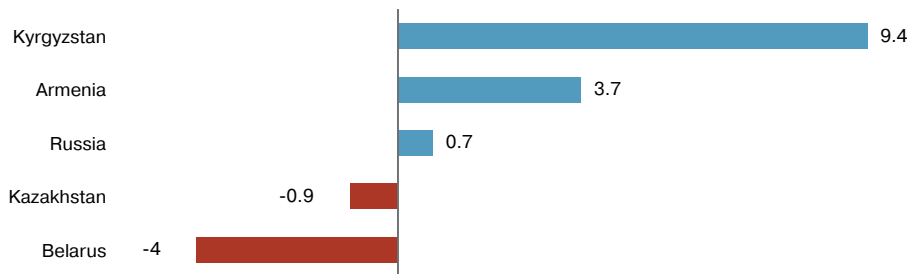
Source: EEC, National Statistical Agencies, Ministries of Labor.

\* Actual unemployment rate.

\*\* The latest data available for Armenia is for September 2016.

<sup>14</sup> Information about the actual unemployment rate was obtained by the National Statistical Committee of the Republic of Belarus during a sample survey of households. The employment survey of household is based on a standard work-force-examination methodology. Actual unemployment data has been made available to the general public for the first time, published on February 27 in an employment/unemployment report by the National Statistical Committee.

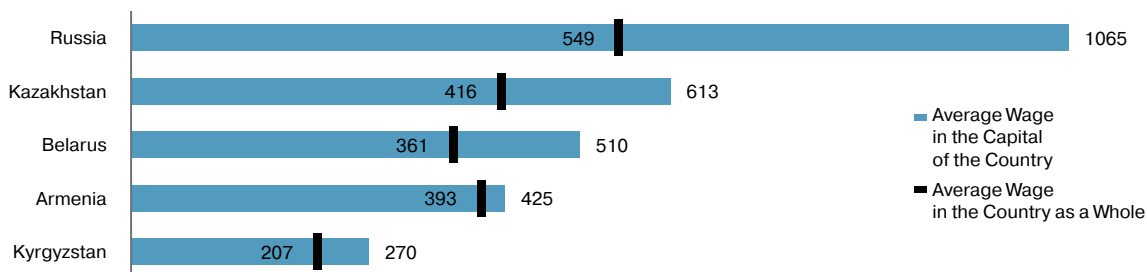
Figure 5.2 Real Wage Growth Rates in the EAEU, %



Source: EEC.

It should be noted that the wages and salaries level in EAEU member states converged as a result of exchange rate adjustments (Figure 5.3). On the other hand, the growth in wages and salaries in real terms was vastly different across countries.

Figure 5.3 Average Monthly Nominal Wages in January–December 2016, \$



Source: EEC.

## Common Labor Market Potential

The common labor market, which has been operating in the EAEU since the beginning of 2015, is probably the most undervalued achievement of Eurasian integration. In reality, there are only two such markets in the world—one in the European Union and one in the Eurasian Union. Other regional associations and sub-regions have also achieved success in this area (the Cooperation Council for the Arab States of the Gulf; Australia – New Zealand), but they are of limited nature.



## Box 5. What Opportunities Does the EAEU Open for the Workers of Its Member States?

According to the EAEU Treaty (Section 26), workers from the member states have the right to be employed in any member state, and they are entitled to basic social guarantees for themselves and their family members. The right to stay in the territory of another member state arises upon execution of a labor contract or civil agreement with the employer. It is not necessary to file any additional documents or complete any of the formalities mandatory for the citizens of non-Union states. Those who wish to find employment in a neighboring member state no longer need to go through a recognition procedure of their education certificates, as such certificates are mutually recognized by all member states. This rule does not apply to pedagogical, legal, medical, and pharmaceutical education certificates.

The EAEU Treaty also imposes certain duties on workers and their family members.

In particular, they must observe the existing legislation of the receiving member state, including the duty to pay income taxes on the same terms and at the same rates as local citizens.

Member states mutually guarantee that workers have the same rights as local citizens regarding access to free medical assistance for workers and their family members (including emergency medical care) and to education for their children, etc. They are provided with mandatory insurance covering temporary disability, maternity, industrial accidents, and occupational diseases and with general mandatory medical insurance. They pay taxes on the same terms and at the same rates as local citizens. Finally, years of service are counted towards determination of the total length of service for the purpose of accrual of social and pension benefits.

According to the findings of *EDB Integration Barometer – 2016*, 70% to 87% of citizens of EAEU member states support freedom of movement, education, employment, and residence within the Union. This is not incidental: the level of labor mobility in the EAEU and neighboring countries is very high. Those matters are important for millions of families. The lack of language barriers and a common historical heritage certainly contribute to the high level of labor mobility.

In 2016, massive numbers of EAEU member state citizens arrived in Russia to find gainful employment, including 362,000 from Kyrgyzstan, 210,000 from Armenia, 98,000 from Belarus, and 72,000 from Kazakhstan. According to the Chief Migration Office of the Ministry of Internal Affairs of the Russian Federation, 2.35 million EAEU member state citizens were registered in Russia as migrants in 2016 (including 927,000 from Kyrgyzstan, 632,000 from Armenia, 546,000 from Kazakhstan, and 346,000 from Belarus).

Labor migration enables individuals leaving their countries in search of work to support their families and households with cash remittances. In some countries, transboundary remittances constitute a significant element of national economies, often being the only income source for hundreds of thousands of people. Due to the high level of international labor flows, remittances constitute a significant part of foreign income in Kyrgyzstan and Armenia. This helps to synchronize those countries' business cycles with Russia's. In 2015, the value of cash remittances sustained a significant decrease in dollar terms due to the devaluation of the Russian currency, in which foreign workers receive their wages. Taking into consideration the fact that remittances play a very impor-

tant role in the Armenian economy, their reduction from 19.7% of GDP in 2013 to 14.1% of GDP in 2015 had an adverse effect on household consumption and economic growth. In Kyrgyzstan—one of the top 10 countries of the world with the highest shares of foreign cash remittances in GDP—this indicator has gone down from 31.1% in 2013 to 25.7% in 2015.

In 2016, the trend was rather ambiguous. According to preliminary data, in Belarus the value of transboundary individual cash remittances in 2016 remained unchanged year-on-year at \$535 million. In Armenia, it decreased from \$1.6 billion in 2015 to \$1.5 billion in 2016, and in Kyrgyzstan it increased from \$1.7 billion in 2015 to almost \$2 billion in 2016.

In fact, the only important matter related to regulation of the common labor market that remains unresolved is the matter of pension benefits or “pension mobility<sup>15</sup>.” In 2016, we noted considerable progress in that area. A draft of the relevant international treaty was approved by the EEC Board in December 2016. When the treaty comes into effect, it will enable member state citizens to create, preserve, and exercise pension entitlements that accrue to them during the term of their employment in EAEU member states. In particular, the treaty stipulates that, after it comes into effect, pension benefits for the period when the worker is employed by a member state may be paid by the employer state. Pursuant to the pension treaty, pensions will accrue and be paid as follows: with respect to the period of service subsequent to the effective date of the treaty, pension benefits will be awarded and paid by the member state in which the worker accrued such service; with respect to the period of service prior to the effective date of the treaty, pension benefits will be awarded and paid in accordance with the existing legislation of member states and in accordance with laws and regulations of the CIS and the Union State of Russia and Belarus.

In addition, as of January 1, 2017, workers from EAEU member states have received access to compulsory medical insurance (CMI) in Russia. The EAEU Treaty says that social security services (with the exception of pension benefits) are to be provided to workers from EAEU member states and their family members on the same terms and in accordance with the same procedures as those that apply to the citizens of the employer state. Social security services include, in particular, compulsory medical insurance. Previously, workers from Armenia, Belarus, Kazakhstan, and Kyrgyzstan seeking temporary employment in Russia could not become members of the CMI program in Russia. Now that Russia has made this decision, dozens of thousands of workers from EAEU member states will receive access to the same social guarantees as Russian citizens.

<sup>15</sup> See also: EDB Centre for Integration Studies (2014) *Pension Mobility within the Eurasian Economic Union and the CIS*. Report No. 24. Saint Petersburg: Eurasian Development Bank. Available at: [http://eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id\\_4=41400&linked\\_block\\_id=0](http://eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id_4=41400&linked_block_id=0).

# VI

## Public Perception of Eurasian Integration

To ensure the sustainability of the Eurasian integration project, it is important to regularly monitor and assess public attitudes towards matters related to integration and international cooperation. To that end, the EDB Centre for Integration Studies and the Eurasian Monitor Consortium have been conducting, since 2012, annual sociological polls among the citizens of EAEU member states and other countries of the CIS region within the framework of a project called *EDB Integration Barometer*. The polls measure the public perception of the relevant country's participation or potential membership in the Eurasian Economic Union, and of economic, political, and sociocultural interaction with various countries of the world.



### Note on Methodology

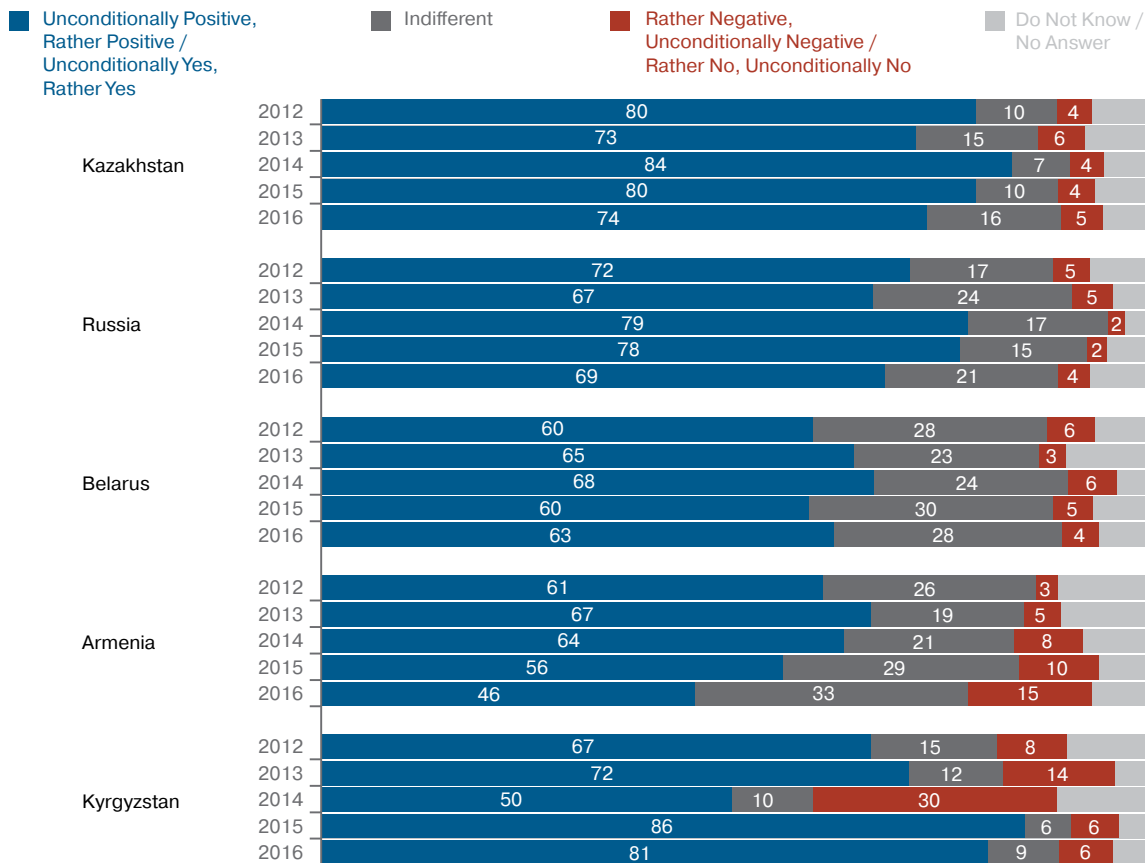
The *EDB Integration Barometer* project envisages annual monitoring of foreign policy, foreign trade, and sociocultural preferences of the citizens of the EAEU member states and other countries of the CIS region. The notion of “preference” is interpreted through a simpler notion of “interest in/attraction to a country.” Specially formulated questions bring out respondent preferences directed either towards the interior of the post-Soviet area (a selection of countries in the CIS region) or outside its boundaries (a selection of coun-

tries of the European Union or the “rest of the world”), and the extent of public gravitation towards an autonomous development of the country (there are no “attractive” countries, or it is difficult to select such country). In 2016, the poll was conducted in seven countries: Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, and Tajikistan. The sample consisted of 8,500 people (at least 1,000 people from each country).

The 2016 poll has shown that, like in previous years, the creation of the EAEU is mostly perceived by the citizens of its member states in a positive way. At the same time, the support for continued EAEU membership is gradually dwindling in all member states, with the exception of Belarus. For example, in Kyrgyzstan the support for EAEU membership has decreased from 86% of total population in 2015 to 81% in 2016; in Kazakhstan from 80% to 74%. The largest decline in the level of support for Eurasian integration was recorded in Russia (from 78% to 69%) and Armenia (from 56% to 46%) (Figure 6.1). In addition, in Armenia we noted a spike in the negative attitude towards the EAEU—it jumped from 10% to 15%. Only in Belarus did we observe a positive trend, with public

support for EAEU membership increasing from 60% to 63%. At the same time, in all EAEU member states there is a growing indifference towards the Union, with the highest scores observed in Armenia (33%), Belarus (28%), and Russia (21%).

Figure 6.1 EAEU Perception by the Citizens of Member States, 2012–2016, %



Note. Question asked: "It is known that Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia have joined to create the Eurasian Economic Union (in essence, a single market of five countries). What is your attitude towards that decision?"

Source: EDB Integration Barometer – 2016<sup>16</sup>.

An analysis of responses with a breakdown by income category leads to the conclusion that wealthier individuals generally tend to have a more positive view of the EAEU than those with less income (Table 6.1). In Kazakhstan and Belarus, Eurasian integration support amounted to 76% and 74% among high-income individuals and 65% and 57% among low-income individuals, respectively. In Russia and Kyrgyzstan, individuals with different economic statuses demonstrated relative unity in 2016 in the approval of their countries' membership in the EAEU—at least 64% in both income groups in Russia and at least 79% in both income groups in Kyrgyzstan.

<sup>16</sup> EDB Centre for Integration Studies (2016) *EDB Integration Barometer – 2016*. Report No. 40. Saint Petersburg: Eurasian Development Bank. Available at: [http://eabr.org/r/research/centre/projectsCII/integration\\_barometer/](http://eabr.org/r/research/centre/projectsCII/integration_barometer/).

**Table 6.1** Attitude of the Citizens of EAEU Member States to Membership in the Union (shares of “Positive,” “Indifferent,” and “Negative” responses grouped by income level, %)

	Armenia		Belarus		Kazakhstan		Kyrgyzstan		Russia	
	Income Status (Higher/Lower)									
	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower
Positive	49	36	74	57	76	65	80	79	69	64
Indifferent	34	38	15	33	14	20	13	3	25	21
Negative	16	19	4	6	6	12	5	12	4	6

Source: EDB Integration Barometer – 2016.

Of the third countries reviewed, Tajikistan continues to display the most interest in possible accession to the EAEU: in 2016, the share of Tajik citizens with a positive perception of possible accession to the EAEU amounted to 68% (2015: 72%). On the other hand, the share of Tajik citizens who are indifferent as to whether their country will accede to the EAEU has increased over the last year from 15% to 20% (Figure 6.2).

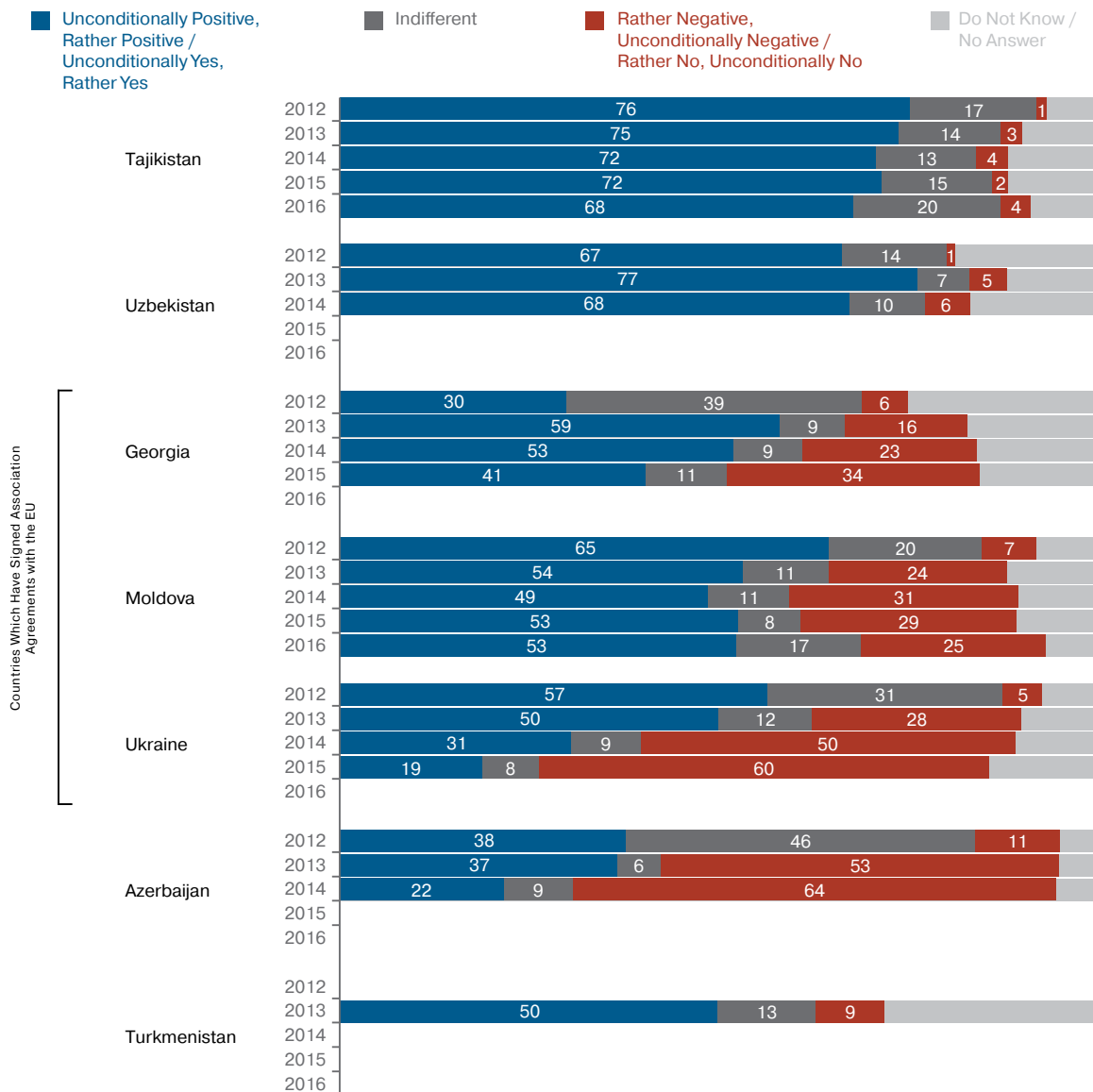
In Moldova, the share of supporters of a potential accession of the country to the EAEU stands at 53% for the second year running, while the share of those opposing such scenario has decreased from 29% to 25% (2012: 7%).

Opinions of the respondents as to whether the countries of the CIS region will be converging or diverging over the next five years are quite different (Figure 6.3). Most “optimists” were found in Kyrgyzstan, Kazakhstan, and Tajikistan. Armenia has the highest share in the EAEU of respondents who believe that nothing will change in relations between CIS countries (48%), or that those countries will be diverging (20%), while the share of those who believe that the countries will be converging has decreased from 26% in 2015 to 14% in 2016. Russia and Belarus occupy the middle ground on this matter.

Regarding their view on friendly countries, the citizens of EAEU member states, Tajikistan, and Moldova give preference to their CIS neighbors, primarily Russia (Figure 6.4). In particular, when selecting specific friendly countries, 89% of respondents from Kyrgyzstan named Russia, while Kazakhstan and Turkey were selected by 37% and 15% of respondents, respectively. In Kazakhstan, 81% of respondents placed the most trust in Russia, 35% chose Belarus, and 28% chose Kyrgyzstan. In Belarus, respondents see their best allies in Russia, Kazakhstan, and Armenia. Russians, in turn, believe the following countries to be the friendliest: Belarus (65%), Kazakhstan (51%), China (41%), and Armenia (35%). Even though Armenian respondents continued to give preference to Russia, their share decreased in 2016 from 86% to 69%. Be that as it may, for the time being public opinion in EAEU demonstrates a rather high level of mutual trust between EAEU member states.

Data on product country-of-origin preferences of the citizens of the EAEU member states is another useful source of information. This question (which ordinary people find easy to understand) enables experts to make informed judgments regarding the level of competitiveness and attractiveness of the given economy. For example, in 2016 the top three most popular countries-of-ori-

Figure 6.2 EAEU Perception by the Citizens of Non-Member States, 2012–2016, %

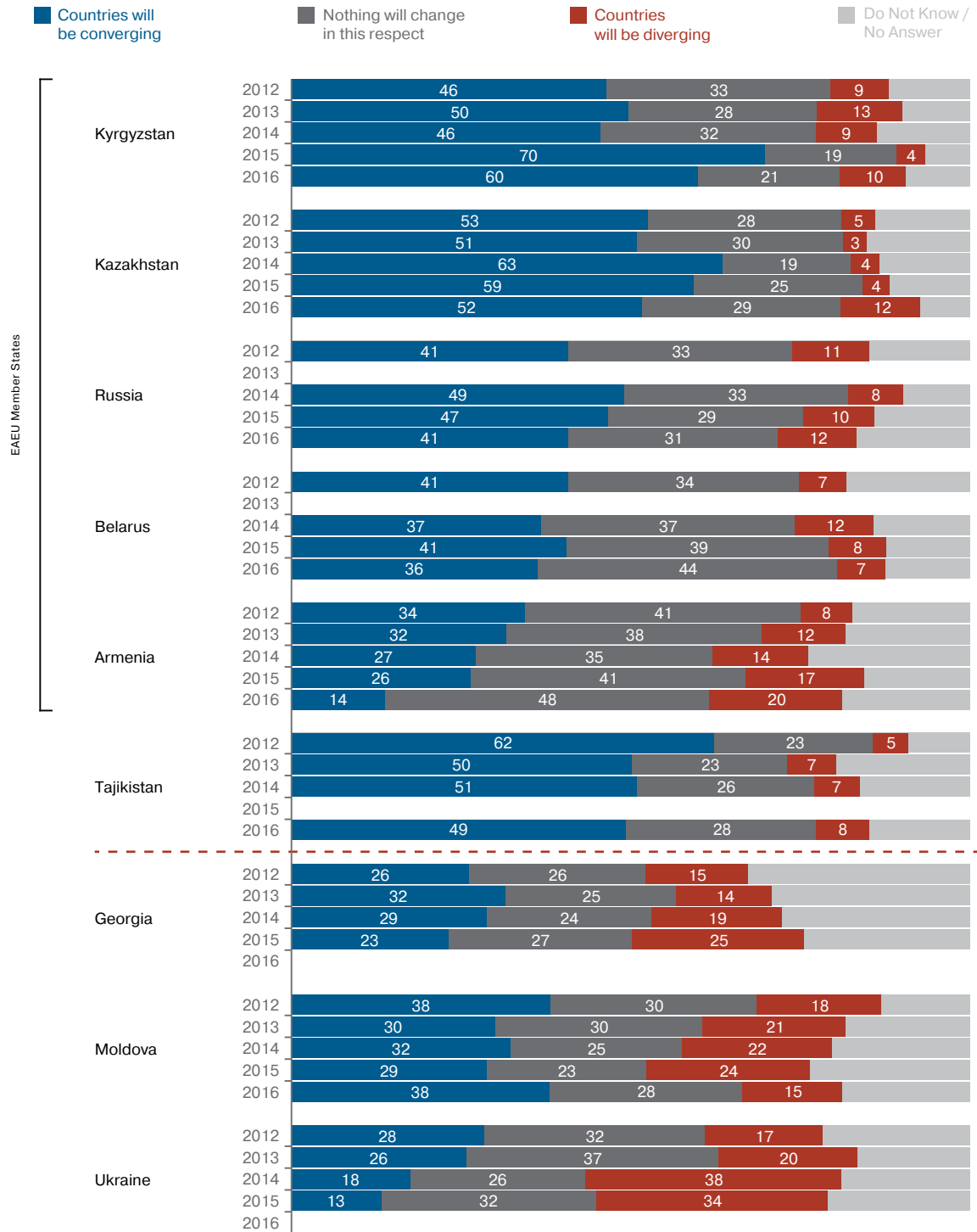


Note. Question asked in non-EAEU member states: “It is known that Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia have joined to create the Eurasian Economic Union (in essence, a single market of five countries). Do you believe that it would be desirable for our country to become a member of that association?”

Source: EDB Integration Barometer – 2016.

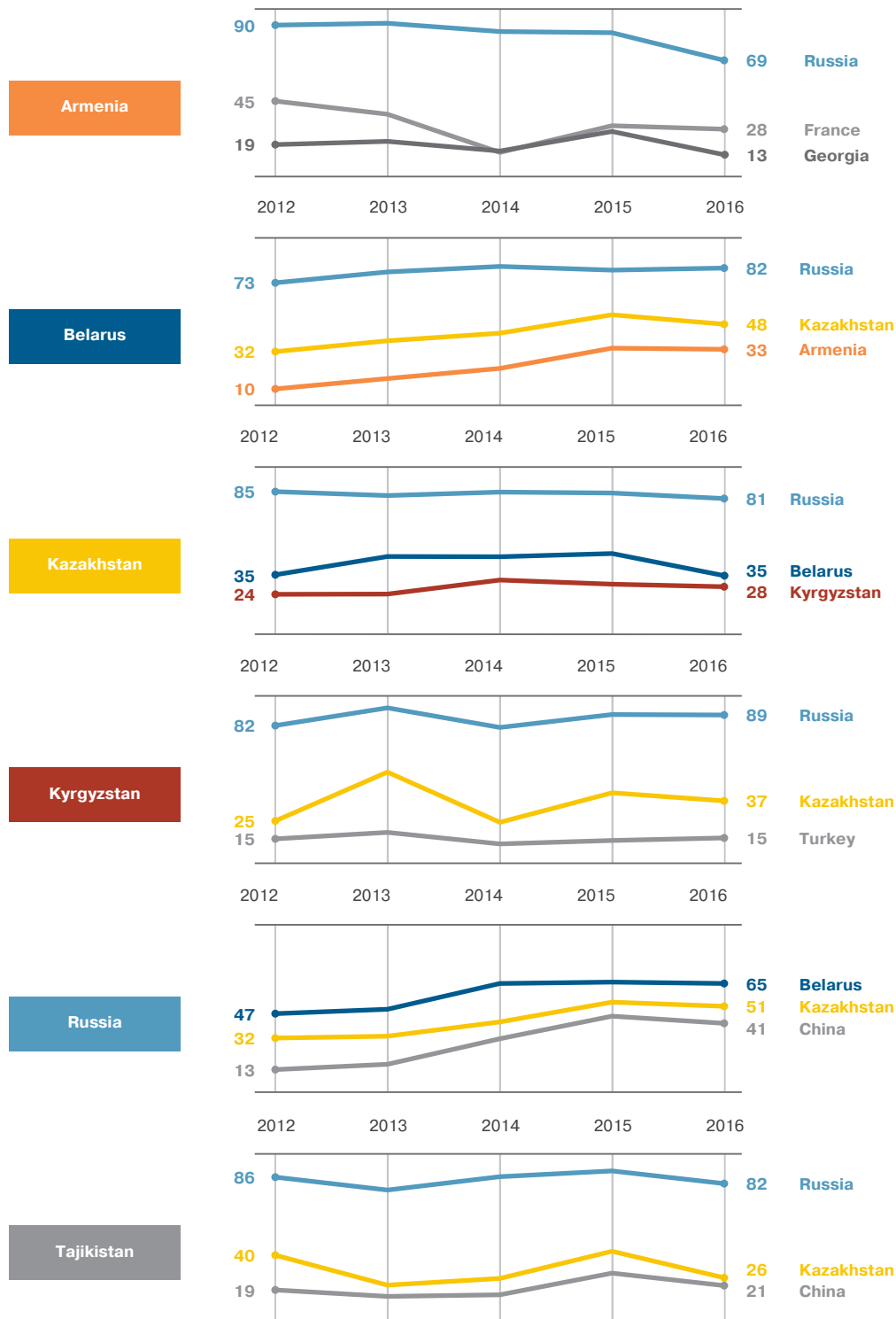
gin of products included Russia, Germany, and Turkey (Figure 6.5). Interestingly, citizens of Russia and Belarus displayed comparable levels of interest in products manufactured both by Germany and by each other: in Belarus 33% of respondents claimed they preferred Russian products, while in Russia 25% of respondents were in favor of Belarus products.

**Figure 6.3** “Do you think that over the next five years CIS countries (ex-USSR countries) will be converging or diverging, or that there will be substantially no changes in this respect?” (distribution of responses in 2012–2016), %



Source: EDB Integration Barometer – 2016.

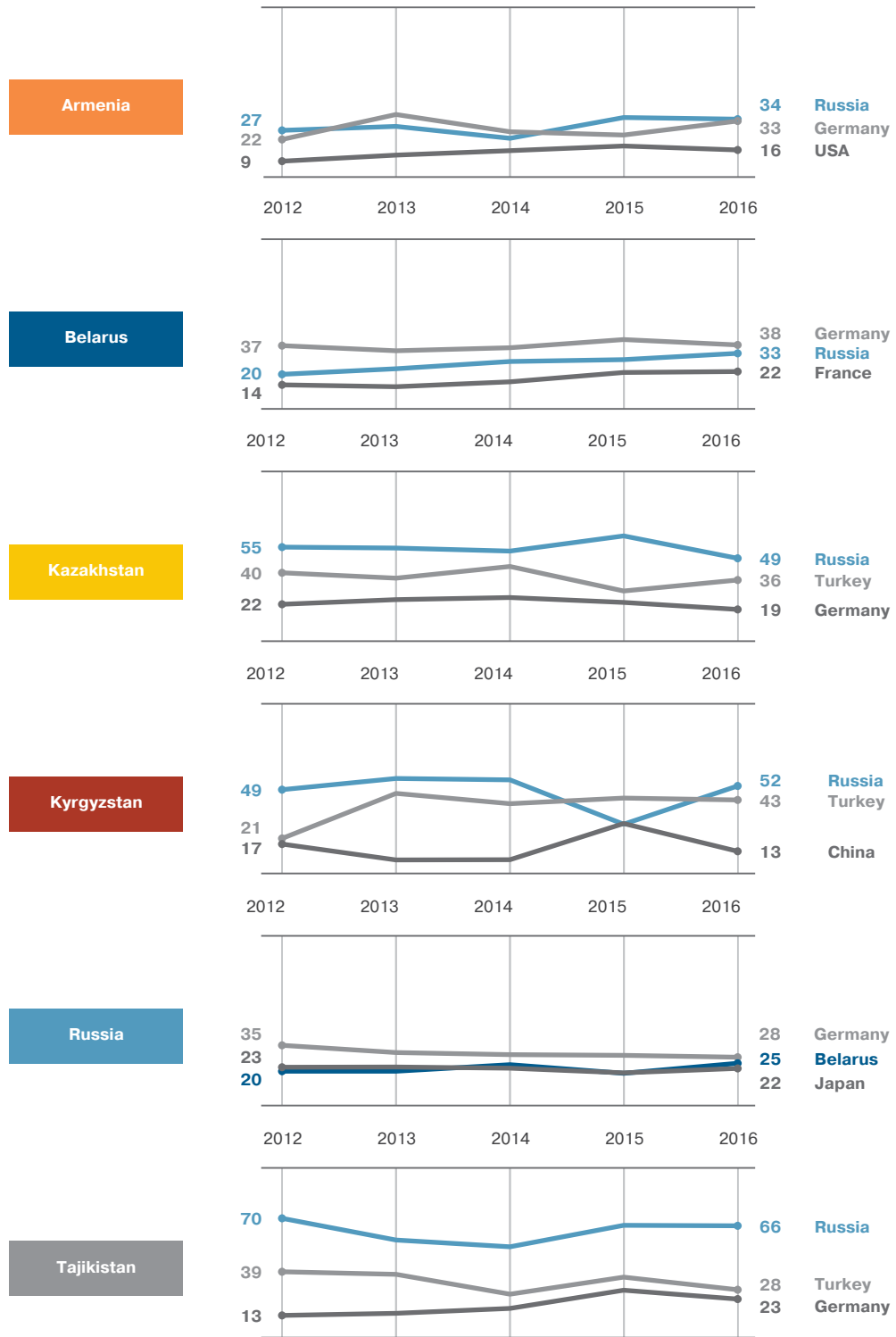
**Figure 6.4** “In your opinion, which of the countries listed below are friendly to our country (are likely to support our country at a difficult time)?” (top 3 in each country, 2014–2016 averages), %



Note. The three most attractive countries are those with the highest average preference scores in 2014–2016 (the three latest waves of the EDB Integration Barometer).

Source: EDB Integration Barometer – 2016.

**Figure 6.5** “Products from which countries do you prefer to purchase or have more trust in?” (top 3 in each country, 2014–2016 averages), %



Source: EDB Integration Barometer – 2016.

EAEU member state citizens prefer to live and work in the EAEU, often in their own countries. In particular, more than 60% of them are not willing to move to a different country. Generally, according to *EDB Integration Barometer* findings, 70% to 87% of EAEU member state citizens support freedom of movement, education, employment, and residence within the Union.

When selecting their priority for target countries for temporary employment, EAEU member state citizens displayed a remarkable variety of opinions. In Russia, 21% of people prefer to work in EU countries, while 69% are not willing to seek employment abroad. A similar situation exists in Belarus, where 25% of people accept the possibility of employment in one of the EU countries, and 58% do not want to work abroad. In Kazakhstan and Armenia, a lack of interest in employment abroad was demonstrated by 48% and 43% of people, respectively.

As for the tolerance to foreign permanent and temporary workers and students, Russian citizens traditionally demonstrate the highest level of isolationism among all EAEU member states (54% in 2016). In the other EAEU member states, more than 30% of the population give preference to students and specialists from Russia, with Germans coming in second.

Real communication between citizens of different countries is yet another important factor fostering convergence and integration. For example, more than 80% of the citizens of Armenia and Kyrgyzstan and about 50% of the citizens of Kazakhstan and Belarus maintain close ties with their relatives, friends, and colleagues in the neighboring countries of the CIS region, primarily in Russia. This is also true for 68% of Tajik citizens and 58% of Moldovan citizens. Incidentally, 62% of Russian citizens do not maintain relations with anyone abroad.

Therefore, in 2016, the Eurasian economic integration generally enjoyed rather impressive popular support, despite some skeptical overtones. The Eurasian integration project and the countries involved in that project remain attractive for certain other post-Soviet countries, primarily Tajikistan and Moldova. Uzbek citizens also displayed considerable interest in Eurasian integration based on data from 2012–2014 polls. At that time, at least 67% of responses had been given in favor of a potential membership in the Customs Union.

On the other hand, the EAEU still needs to work hard to maintain and stimulate public interest. For now, its member states lose in competition with other countries of the world. An example is the level of attractiveness of education services; scientific and technical cooperation; and imported goods and capital. Accordingly, it is critical first to achieve progress in the “failing” areas of inter-governmental cooperation and integration, and second to work with public opinion. The general public must be promptly informed of the latest integration efforts, and an impartial discussion must be conducted on integration strengths and weaknesses as perceived by individual citizens, businesses, regions, and countries. We hope that this report will make its contribution to this process.

2012



**Report 1 (RU / EN)**  
**Comprehensive Assessment of the Macroeconomic Effects of Various Forms of Deep Economic Integration of Ukraine and the Member States of the Customs Union and the Common Economic Space**

The main goal of the project is to assess a macroeconomic effect of the creation of the Customs Union and Single Economic Space of Russia, Belarus and Kazakhstan, and to determine prospects of the development of integration links between Ukraine and the CU.



**Report 2 (RU / EN)**  
**Studies of Regional Integration in the CIS and in Central Asia: A Literature Survey**

This report, published under auspices of the EDB Centre for Integration Studies, summarizes both international studies in the area of regional integration within the former Soviet Union and Russian language materials on this issue.



**Report 3 (RU)**  
**Labour Migration in the CES: Economic Effects and Legal-Institutional Consequences of Labour Migration Agreements**

The project included analysis of two labour agreements that came into force on January 1, 2012 within the SES of Russia, Belarus and Kazakhstan. It analyzes their economic and social impact on labour migration processes, labour market and productivity, strengthening of the regional economic relations.



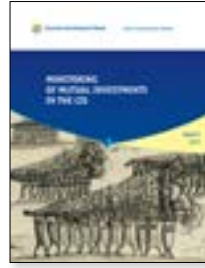
**Report 4 (RU / EN)**  
**EDB Integration Barometer 2012**

The EDB Centre for Integration Studies in cooperation with the Eurasian Monitor International Research Agency examined the approaches of population to regional integration.



**Report 5 (RU)**  
**Threats to Public Finances of the CIS in the Light of the Current Global Instability**

The report deals with the assessment of the risks for the government finances of the CIS countries in the light of current world instability.



**Report 6 (RU / EN)**  
**Monitoring of Mutual Investments in the CIS**

The monitoring of mutual CIS investments provides analytical support for work conducted by state and supranational agencies on developing a suitable strategy for deepening integration processes throughout the post-Soviet space.



**Report 7 (RU)**  
**Customs Union and Cross-Border Cooperation between Kazakhstan and Russia**

Research on the economic effects of the development of industrial relations under the influence of the Customs Union in the border regions of Russia and Kazakhstan.



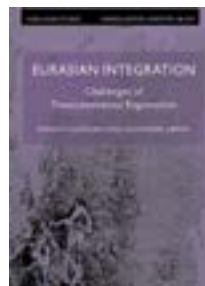
**Report 8 (RU)**  
**Unified Trade Policy and Addressing the Modernization Challenges of the SES**

The report presents an analysis of the key economic risks arising under the agreement by SES participants of a foreign trade policy, formulates proposals on the main thrusts of SES Common Trade Policy, and names measures for its reconciled implementation.



**Report 9 (RU)**  
**SES+ Grain Policy**

Growth in grain production is propelling Kazakhstan, Ukraine and Russia to the leadership ranks of the global grain market. The report systematically analyzes trends in development of the grain sector and actual policies and regulations in SES countries, Ukraine and other participants of the regional grain market.



**Eurasian Integration: Challenges of Transcontinental Regionalism (EN)**

Evgeny Vinokurov, Alexander Libman  
 The book examines the major economic and political transitions currently taking place in the Eurasian continent. The authors provide a detailed account of various aspects of Eurasian integration, looking at both its bright side (trade, investments and joint infrastructure) and dark side (trafficking humans and drugs and the spread of diseases) and linking it to waves of "Eurasian exchanges" in the past.



**Holding-Together Regionalism: Twenty Years of Post-Soviet Integration (EN)**

Alexander Libman, Evgeny Vinokurov  
 An in-depth analysis of one of the most important and complex issues of the post-Soviet era, namely the (re-)integration of this highly interconnected region. The book considers the evolution of "holding-together" groups since the collapse of the Soviet Union in 1991, looking at intergovernmental interaction and informal economic and social ties.



### Eurasian Continental Integration (RU)

Evgeny Vinokurov, Alexander Libman  
This monograph analyses integration processes on the Eurasian continent. It considers prospects for and pre-requisites of a successful Eurasian integration and offers a coherent concept of Eurasian economic integration. The authors contend that Eurasian continental integration could become a key driving force in the integration of trade, energy resources and other commodities, transportation industry, the flows of capital and labour, and the counteraction to cross-boundary threats.



### Report 16 (RU / EN)

#### EDB Integration Barometer – 2013

The EDB Centre for Integration Studies in cooperation with the Eurasian Monitor International Research Agency examined the approaches of population to regional integration.

2013



### Report 10 (RU)

#### Technological Coordination and Improving Competitiveness within the SES

The report presents a number of proposals aimed at improving SES competitiveness within the international division of labour.



### Report 17 (RU)

#### Cross-Border Cooperation between Russia, Belarus and Ukraine

Cooperation between 27 cross-border regions of Belarus, Russia and Ukraine has significant potential; however the existing frontiers and barriers are a significant factor that fragments the region's economic space.



### Report 11 (RU)

#### The Customs Union and Neighbouring Countries: Models and Instruments for Mutually Beneficial Partnership

The report proposes a broad spectrum of approaches to the fostering of deep and pragmatic integrational interaction between the CU/SES and countries throughout the Eurasian continent.



### Report 18 (RU / EN)

#### Customs Union and Ukraine: Economic and Technological Cooperation in Sectors and Industries

The authors of the report study the issue of industrial and inter-industry links between the SES economies and Ukraine and come to a conclusion that cooperation between enterprises has been maintained in practically all segments of the processing industries, while in certain sectors of mechanical engineering this cooperation has no alternatives.



### Report 13 (RU)

#### Labour Migration and Human Capital of Kyrgyzstan: Impact of the Customs Union

The report focuses on the effects of Kyrgyzstan's possible accession to the Customs Union (CU) and Single Economic Space (SES) on the flows of labour resources, the volume of cash remittances, labour market conditions and professional education and training in this country.



### Report 19 (RU / EN)

#### Monitoring of Direct Investments of Belarus, Kazakhstan, Russia, and Ukraine in Eurasia

The Eurasia FDI Monitoring project supplements another research by the EDB Centre for Integration Studies — Monitoring of Mutual Foreign Investment in the CIS countries.



### Report 14 (RU)

#### Economic Impact of Tajikistan's Accession to the Customs Union and Single Economic Space

The report includes a detailed economic analysis of the issue using various economic models and research methods.



### Report 20 (RU / EN)

#### Armenia and the Customs Union: Impact of Economic Integration

This report provides the assessment of the macroeconomic impact of Armenia joining the Customs Union.



### Report 15 (RU / EN)

#### Monitoring of Mutual Investments in the CIS 2013

The report contains new results of the joint research project of the EDB Centre for Integration Studies and the Institute of World Economy and International Relations of the Russian Academy of Sciences. It is aimed at the maintenance and development of the monitoring database of mutual direct investment in the CIS countries and Georgia. A general characteristic of mutual investments in the CIS at the end of 2012 is provided.

2014



### System of Indicators of Eurasian Integration (RU / EN)

The System of Indicators of Eurasian Integration (SIE) is designed to become the monitoring and assessment tool for integration processes within the post-Soviet territory.



### Report 23 (RU / EN)

#### Quantifying Economic Integration of the European Union and the Eurasian Economic Union: Methodological Approaches

The objective of the project is to discuss and analyse economic integration in Eurasia, both on the continental scale "from Lisbon to Shanghai," and in the EU-EEU dimension "from Lisbon to Vladivostok."



### Report 24 (RU)

#### Pension Mobility within the Eurasian Economic Union and the CIS

In the report the experts evaluate the prospects of implementing effective mechanisms in the region to tackle pension problems of migrant workers.



### Report 25 (RU / EN)

#### EDB Integration Barometer – 2014

The results of the third research into preferences of the CIS region population with respect to various aspects of Eurasian integration suggest that the "integration core" of the Eurasian Economic Union (EEU) continues to form and crystallise.



### Report 26 (RU / EN)

#### Monitoring of Mutual Investments in the CIS 2014

This is the fifth report on the results of the long-term research project devoted to monitoring of mutual direct investments in the CIS countries and Georgia. The current report provides detailed information on the scope and structure of mutual investments of CIS countries up to the end of 2013. The report provides information on the most important trends in the first half of 2014, including the situation in Ukraine and its impact on the Russian direct investments in the country.



### Report 27 (RU / EN)

#### EDB Regional Integration Database

This is an applied research project, which represents the creation of a specialized regularly updated database of the most significant regional integration organisations (RIOs) and economic/trade agreements of the world.



### Report 28 (RU / EN)

#### Monitoring of Direct Investments of Russia, Belarus, Kazakhstan, and Ukraine in Eurasia – 2014

The second report presents new results of the permanent annual project dedicated to monitoring of direct investments of Belarus, Kazakhstan, Russia and Ukraine in Eurasia. On the basis of the statistics collected during monitoring, detailed information is provided on the dynamics, actual geographical location and sectoral structure of the investments.

2015



### Report 29 (RU / EN)

#### Estimating the Economic Effects of Reducing Non-Tariff Barriers in the EEU

The EDB Centre for Integration Studies publishes the first comprehensive assessment of the effects of non-tariff barriers on mutual trade in the EEU and provides recommendations as to how to remove them. The report has been prepared by the Centre for Integration Studies based on a poll of 530 Russian, Kazakh and Belarusian exporters.



### Report 30 (RU / EN)

#### Assessing the Impact of Non-Tariff Barriers in the EEU: Results of Enterprise Surveys

A large-scale poll of 530 enterprises in Belarus, Kazakhstan and Russia suggests that non-tariff barriers account 15% to 30% of the value of exports. Belarusian exporters estimate non-tariff barriers in their trade with Russia and Kazakhstan at 15% of the value of their exports, Kazakh exporters at 16% for exports to Russia and 29% for exports to Belarus, and Russian exporters at about 25% for exports to each of the two other countries.



### Report 31 (RU)

#### Labour Migration and Labour-Intensive Industries in Kyrgyzstan and Tajikistan: Possibilities for Human Development in Central Asia

Current research deals with the analysis of migration flow, labour potential in Central Asia (the examples of Kyrgyzstan and Tajikistan are taken). The focus is made on the possibilities of both countries to reorient their economies from export of labour to export of labour-intensive goods and services.



### Report 32 (RU / EN)

#### Monitoring of Mutual Investments in CIS Countries 2015

According to the sixth report of a years-long research project in 2014 the fall in mutual foreign direct investments (FDI) between the CIS countries was \$6.3 billion, or 12% year-on-year. One of the main causes for this drastic decline in all mutual FDI in the CIS was the destabilised economic and political situation in Ukraine. At the same time, while overall investment activity in the CIS has shrunk, the young integration organization – the Eurasian Economic Union (EAEU) – demonstrates stability.



### Report 36 (RU / EN)

#### Liberalization of the Republic of Belarus Financial Market within the EAEU

The development of the EAEU requires a coordinated foreign exchange policy, harmonised regulations governing the financial market, and the establishment of a common financial market to ensure the free movement of capital between the member states.

Belarus will benefit from its movement towards a single financial market in the EAEU. However, this also creates certain challenges.



### Report 33 (RU / EN)

#### EDB Integration Barometer – 2015

The fourth wave of public opinion surveys on integration preferences in the CIS countries suggests that the “integration core” of the Eurasian Economic Union (EAEU) continues to consolidate. In 2015, over 11,000 people from nine CIS region countries — Armenia, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, and Ukraine— took part in the poll.



### Report 37 (RU)

#### Regional Organizations: Typology and Development Paths

The report presents the results of the EDB Centre for Integration Studies' ongoing project “Regional Integration in the World.” One of the aims of this project is comprehensive analysis of regional integration organizations in the world and later application of the findings in facilitating the processes of Eurasian integration.



### Report 34 (RU / EN)

#### EAEU and Eurasia: Monitoring and Analysis of Direct Investments

The report presents new results of the permanent annual project dedicated to monitoring of direct investments in Eurasia. This report focuses on direct investments of Russia, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Tajikistan, and Ukraine in all countries of Eurasia outside the CIS and Georgia as well as reciprocal direct investments of Austria, Netherlands, Turkey, Iran, India, Vietnam, China, the Republic of Korea, and Japan in the seven CIS countries mentioned above.



### Report 38 (RU / EN)

#### European Union and Eurasian Economic Union: Long-Term Dialogue and Perspectives of Agreement

The report presents preliminary results of conceptual analysis of developing EU-EAEU economic relations and search of practical approaches to achieving that goal. This work is processed by the International Institute for Applied Systems Analysis (IIASA, Austria) and the Centre for Integration Studies of Eurasian Development Bank (EDB) within long-term ongoing joint project “Challenges and Opportunities of Economic Integration within a Wider European and Eurasian Space.”

## 2016



### Report 35 (RU / EN)

#### Forecasting System for the Eurasian Economic Union

Joint Report by the Eurasian Economic Commission and the Eurasian Development Bank.

This work builds upon the findings of the joint research undertaken by the Eurasian Development Bank (EDB) and the Eurasian Economic Commission (EEC) to create a system capable of generating economic forecasts for EAEU member states, subject to any applicable country-specific social components. The project has yielded an Integrated System of Models covering five countries.



### Report 39 (RU / EN)

#### Monitoring of Mutual Investments in CIS Countries 2016

The report is the seventh in a series of publications presenting the findings of a permanent research project concerned with the monitoring of mutual investments in CIS countries and Georgia. The analysis is built on a database that has been maintained on the basis of diverse data obtained from publicly available sources.



#### Report 40 (RU / EN)

##### **EDB Integration Barometer – 2016**

The report presents the results of the EDB Centre for Integration Studies' ongoing research project "EDB Integration Barometer". In 2016, 8,500 people from seven CIS countries (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, and Tajikistan) answered about 20 questions concerning the Eurasian integration and various facets of economic, political, and sociocultural cooperation in the CIS region.



#### Report 41 (RU / EN)

##### **EAEU and Eurasia: Monitoring and Analysis of Direct Investments 2016**

The report presents new results of the permanent research project dedicated to monitoring of direct investments in Eurasia. It focuses on investments made by Russia, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Azerbaijan, Tajikistan, and Ukraine in all countries of Eurasia outside the CIS and Georgia as well as reciprocal direct investments made by Austria, the Netherlands, Turkey, the United Arab Emirates, Iran, India, Singapore, Vietnam, China, the Republic of Korea, and Japan in the eight CIS countries listed above.

2017



#### Report 42 (RU)

##### **Monetary Policy of EAEU Member States: Current Status and Coordination Prospects**

Joint Report by the Eurasian Economic Commission and the Eurasian Development Bank. The report considers the following issues: the ongoing foreign exchange and monetary policies; the effectiveness of drivers used by regulators to influence the economy; barriers to the efficient coordination of monetary policies within the union; and possible common objectives and tasks solved by central (national) banks.