IIASA SYNTHESIS REPORT 2016

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



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The “Challenges and Opportunities of Economic Integration within a Wider European and Eurasian Space” project is an ambitious undertaking seeking to scope the complex issues and potentials for economic cooperation between the European Union (EU) and the Eurasian Economic Union (EAEU), as well as with third-party countries of the vast Eurasian landmass. It is based on the intense research going on in over 25 countries, including Member-States of both the EU and the EAEU, the United States, China, Japan, Turkey and Ukraine, and on the results of seven international project workshops held at IIASA from June 2013 to April 2016, which discussed and synthesized these analyses. The project workshops were attended by renowned academics and high-level policymakers, including representatives from the European Commission and the Eurasian Economic Commission. This report presents the synthesis of three years of multi-disciplinary work.

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Synthesis Report

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Executive Summary



To become a realistic proposition, the idea of enhancing economic interaction between the EU and Eurasian Economic Union (EAEU) would depend on major improvements in the geo-political context between the EU and Russia.

Despite associated uncertainties, the policy and research community is challenged to anticipate and analyze prospects, opportunities and challenges related to the development of economic partnerships. Fundamentally, our point of departure is that **all sides involved would benefit from the realization of the "Lisbon-to-Vladivostok" cooperation concept**.

In this context, within this research initiative, **IIASA and its partner institutions take a long view regarding the EU-EAEU cooperation**. It has been of particular importance to bring together officials and experts from both the EU and EAEU to participate in a constructive dialogue, seeking to prepare a mutually agreed foundation for future initiatives, which, as soon as the political context improves sufficiently, would support transition to the implementation of the Lisbon-to-Vladivostok concept. In particular, this would be based on the science-based evidence concerning the rebuilding of damaged economic relations between the EU and Russia. Setting aside the present serious political tensions, we intend to look forward, working with a hypothesis to expect better times when all **conflicting parties work together towards a new set of cooperative approaches**, including trade liberalization and setting up integration processes across the wider Eurasian continent. We believe that this brighter stage of relations should be diligently prepared for in advance.

Arguably, given the necessary conditions, an agreement on deeper economic cooperation cum integration between the EU and the EAEU could become **a reality within the next decade, by the mid-2020s**. However, this would require the resolution of the present political disputes and economic/trade problems between the EU and Russia. Within the next decade, the task for the research community and policymakers should be to prepare the ground to substantiate the negotiations. IIASA aims to explore and design plausible future modalities in order to provide holistic assessment in the next several years.

A prospective EU-EAEU cooperation agreement should be **comprehensive** in nature, given the scope, structure and the intertwining character of the relations between the EU, Russia, and countries of their joint broad neighborhood. Such an agreement might incorporate a large number of different dimensions, ranging from trade in goods and services to the free movement of capital and people, including the

facilitation of issuing visas and residence permits, as well as the development of trans-border and transit infrastructures, institutional relations and structures, regulations of intellectual property rights, government procurement, policies on state-owned companies and other cross-cutting regulatory issues.

Due to the sheer scope of related issues, the discussion on an anticipated agreement, or set of agreements, could be referred to as a **"mega deal"**. As the importance of various aspects is likely to be different for the two sides, the mutual concessions and compromises would be necessarily interconnected. In particular, due to its current prevailing export structure, the EAEU might be interested not merely in a free trade agreement *per se*, but in a comprehensive agreement with the EU, going beyond a pure free trade agreement. It is probable that such a deep cooperation cannot be established in one step, rather it would be built gradually, in several stages.

In this report, we summarize the deliberations of the initial "screening" discussions and **preliminary policy ideas** stemming from the series of IIASA workshops held during 2014–2016. We cover the following domains:

- **Methodology** of assessing the economic impact of an EU-EAEU integration agreement on its parties: We stress that it should necessarily go beyond estimating short-term direct trade effects extending to long-term and indirect effects, especially those related to the non-tariff barriers; proper estimation of the impacts of these will require a combination of contemporary analytical and modeling methods.
- **Trade regimes**: We provide a list of 20 potential domains of the EU-EAEU "mega-deal"—from trade in goods to intellectual property; and make an argument, that in order to become mutually beneficial for all sides, this deal should go beyond a pure, traditional free trade area.
- **Non-tariff barriers**: We emphasize that the economic impacts of non-tariff barriers (technical standards, health and veterinary regulations, customs administration, etc.) can be very substantial, far exceeding the impacts of eliminating the remaining import tariffs.
- **Energy**: We suggest that there is a fundamental reciprocal interest in energy security for the EU and Russia. For the EU, this is supply security (source security, transit security, and fair and predictable prices); for Russia and Kazakhstan, this is demand security (financial and economic security, and fair and predictable prices); for transit countries—stability of revenues and supplies; for all, it is about environmental security and systemic resilience.
- **Transport and infrastructure**: We focus on the need to modernize and further develop the major Eurasian transport corridors (both road and railway) until 2030. As concerns infrastructure, we also stress the huge potentials of the development of common electric power markets, pipeline systems and trans-continental fiber-optic links. Adequate regulatory frameworks, security, and investments are key in both domains.
- **Mobility of people**: We argue for the facilitation of issuing visas and residence permits in order to ensure the mobility of business people, experts, and professionals, and the mutual recognition of qualifications. These steps can eventually lead to visa-free regime, large-scale academic exchanges, and the technical decision for the mobility of trans-border pensions. At the same time, we argue against prematurely raising the issue of the labour migration in the EU-EAEU context.

Another topic concerns the future of trade and economic relations between the EU, the EAEU and Ukraine, Moldova and Georgia, the three states that have already concluded AA deep and comprehensive free trade agreements with the EU. The development of EU-EAEU relations will require the opening of constructive negotiations on a fair trade policy between the three DCFTA signatory states and the EAEU, with the

participation of the EU to ensure the compatibility of the EU-EAEU cooperation deals with the respective DCFTAs.

The IIASA 2014–2016 Project Takes a Long View of Cooperation in Eurasia

Global economic policies during the last few decades have been evolving towards regionalization. Not only has the number of regional integration arrangements increased but, even more strikingly, their scope and depth have expanded remarkably. The systemic development of the EU internally, coupled with its gradual enlargement by countries from Central and Eastern Europe, has been one of the most ambitious integration processes so far. The subsequent establishment of the Customs Union of Russia, Belarus, and Kazakhstan in 2010, and its evolution into the Eurasian Economic Union (EAEU) with five member states in 2015, represent a major example of regional economic integration in northern Eurasia. The potential interaction between the two integration processes on the Eurasian continent creates a number of opportunities for faster economic development in the countries involved; yet it also poses several challenges of ensuring mutual compatibility and fairness in sharing the associated costs and benefits.



To become a realistic proposition, the idea of a constructive interaction between the EU and EAEU would depend on major improvements in the geo-political context between the EU and Russia. This is currently at a low point, as symbolized by the ongoing mutual sanctions. Yet it should not be forgotten that earlier in the post-Soviet period there were positive developments in the EU-Russian relations, including the Partnership and Cooperation Agreement (PCA) negotiated in the 1990s, the four common spaces of the early 2000s, and the attempts (currently suspended) to shape the "New Agreement" intended to succeed the PCA. Moreover, the EU used to view the Lisbon-to-Vladivostok idea positively, at least in principle, and, more recently, the cooperation between the EU and EAEU.

A turning point for the better would require the re-building of trust between the EU and Russia, based on an understanding about the strategic position of Ukraine between the EU on the one hand, and Russia on the other. In the economic area, the present regime of mutual sanctions and distrust should be stopped and reversed. There were some attempts in this respect to find pragmatic solutions to the most pressing issues, as demonstrated by the trilateral diplomacy between the EU, Russia and Ukraine on two crucial topics, gas supplies to, and transit through Ukraine, and the work of ministers in charge of trade on dealing with the possible impacts of the EU-Ukraine DCFTA on Russian economic interests.

However, the latter process ended with failure, leading to the suspension of the Commonwealth of Independent States relations between Russia and Ukraine.

A fundamental change in the present stand-off is not possible without a resolution of the core political differences, but these efforts could be underpinned and facilitated by elaborating concepts and possible practical ways for the development of the economic relationship between the EU and EAEU. In this context, the ongoing work at IIASA has been of particular importance, by bringing together officials and think tank experts from both the EU and EAEU, by seeking to prepare the ground for more constructive initiatives and, as soon as the political context improves sufficiently, to launch initiatives concerning the Lisbon-to-Vladivostok cooperation idea. This would be based on the science-based evidence concerning a rebuilding of the damaged economic relations between the EU and Russia.





In this spirit, the international and interdisciplinary research initiative “Challenges and opportunities of economic integration across a wider European and Eurasian space”, ongoing during 2014–2016 and coordinated by IIASA (Laxenburg, Austria), aims to discuss, analyze and critically evaluate issues related to the economic cooperation between the EU, the EAEU, and their neighbors. The work has also a broader vision, extending, wherever relevant, to the key Asian players, such as China, India, Japan and the Republic of Korea.[1]

[1]See http://www.iiasa.ac.at/web/home/research/eurasian/EconomicIntegration.html.

The current three-year research initiative consists of a series of scoping workshops at which specific aspects of integration are being discussed by scientists and stakeholders representing all interested regions. The deliberations in the IIASA workshops have already laid the foundations for the forthcoming research phase of the project. The six workshops held at IIASA dealt with methodological issues, trade policy regimes, non-tariff barriers, oil and gas, electricity, and transport infrastructure, labor markets and migration.

The work on technical and applied issues is embedded in a broader conceptual framework that often comes under the "Inter-regionalism" or "Regionalism 2.0" headings. The basic question here is how trade blocs (and very large single economies, like the USA and China) can structure their economic relations with each other. The global attempts to further liberalize world trade have basically stalled. The WTO's Doha Round launched in 2001 has so far largely failed to achieve any major breakthroughs. At the same time, most countries have strong interests in advancing their trade linkages or, more ambitiously, economic integration—at least with their preferred trade partners. The result has been a proliferation of preferential trade agreements on a huge scale. Global trade structures are being transformed without any emerging global order.

For trade liberalization and integration several modalities and concepts exist. The first model is that of bilateral free trade between just two economies which can be a relatively simpler affair. The majority of the existing Free Trade Agreements (FTAs) only cover trade in goods, a lower, but still considerable number cover trade in both goods and services, while a small number aims at more ambitious goals such as the liberalization of the movement of all four factors of production, including that of capital and people. There are even fewer examples of creating customs unions.

The second model consists of the formation of regional integration blocs, of which the EU is the most prominent example. In South America the Mercosur group has attempted to achieve something similar through a customs union; however, it is subject to multiple exemptions and has failed to advance. Another promising attempt is the 10-member Association of Southeast Asian Nations group in South-East Asia, which, however, is not a customs union. The North American Free Trade Agreement among Canada, Mexico, and the USA represents another integration initiative, but it is

Box 1. Schedule and Focus of IIASA "Eurasia" Workshops, 2014–2016

Workshop 1
Methodology for Accessing Effects of Regional Economic Integration, 6–7 March 2014

Workshop 2
Trade Policy Regimes, 8–9 July 2014

Workshop 3
Non-Tariff Barriers and Technical Regulation, 20–21 November 2014

Workshop 4
Futures of Energy in Eurasia in the Global Context, 12–13 May 2015

Workshop 5
Development of Transport and Infrastructure in Eurasia, 15–16 September 2015

Workshop 6
Labor markets and Migration, 13–14 April 2016

Workshop 7
EU-EAEU in Greater Eurasia: Long-Term Agenda for Economic Cooperation (Finalizing the Project), 22–24 November 2016

relatively modest in the degree of integration, and again it is not a customs union. The most recent example is the Customs Union of Belarus, Kazakhstan and Russia established in 2010. On January 1, 2012 the three states formed a Single Economic Space to promote further economic integration.[2] It was turned into the EAEU on January 1, 2015 and enlarged by Armenia and Kyrgyzstan. The EAEU aims at a higher degree of economic integration modeled in some respects on the EU experience.

The third model is that of inter-regional integration agreements which can have several versions. The most large=scale ones are the inter-continental initiatives, of which two are currently in progress. The first is the Trans-Pacific Partnership (TPP) which brings together much of East and South-East Asia and the Western coast of the Pacific, albeit with the major exclusion of China. The second is the Trans-Atlantic Trade and Investment Partnership (TTIP) currently being negotiated between the EU and the USA. The TTIP—which recently faces increasing controversies on both sides of the Atlantic—aims at deeper regulatory convergence, thus going far beyond the simple free trade. Another **variety of inter-regionalism is a bloc-to-bloc one**, which in principle entails the most complex negotiating processes. So far there are hardly any precedents for this. The EU is trying to negotiate with the Mercado Común del Sur, but has discovered the problem of its partner's weak internal cohesion. Still, this variety of inter-regionalism is likely to play an increasingly important role, making the global trade and investment system ever more multi-layered and complex. Any potential EU-EAEU deal would fall into this category. Irrespective of the present serious political tensions, the prospective IIASA project intends to look forward, working with the hypothesis to expect better times when all conflicting parties will work together towards a new, cooperative approaches, including trade liberalization and setting up integration structures on the wider Eurasian continent. Anticipating a brighter stage of relations, options for the future EU-EAEU cooperation should be thoroughly analyzed in advance.

The Project's Workshops and Selected Findings



The main goal of this section is to sum up the discussions and preliminary findings of the current IIASA project on economic cooperation challenges in Eurasia. We will do it in seven parts below, starting with methodology and moving to trade, energy and infrastructure, and the mobility of persons.

In addition to representatives of the EU, the EAEU, the Eurasian Development Bank (EDB) and IIASA, the workshops attracted high-level participants from the private sector, the World Bank and other development banks, embassies, and research institutions and think tanks from Austria, Armenia, Azerbaijan, Belarus, Belgium, China, Finland, Germany, Hungary, Italy, Kazakhstan, Kyrgyzstan, the Czech Republic, Poland, Russian Federation, the Republic of Korea, Japan, United States and Ukraine.

[2]Stepanova (2013).

Assessing the Economic Impact of Regional Integration Agreements[3]

This workshop dealt with a multiplicity of models and estimates used to evaluate macroeconomic consequences of inter-country and inter-regional trade policies. The key modeling approaches presented and discussed were:

- Statistics-based indexes,
- Gravity models, and
- Computable general and partial equilibrium models (CGE and CPGE), etc.

The discussion at the workshop concluded that when assessing the effects of (hypothetical) agreements, it is worthwhile to combine various quantitative analytical methods. **General equilibrium models** play a particularly important role in the "universe" of applied methods, but **should be complemented by various econometric and statistics-based approaches**. [4] This enables the researchers to examine the diverse consequences of economic integration and obtain more reliable estimates. It is advisable to use simpler, but still informative analytical methods, particularly in the early stages.

Furthermore, a comprehensive assessment of economic impact should necessarily **go beyond trade effects** by explicitly including the impacts of potential measures that concern, for example, the development of transport infrastructure, common electricity markets, the movement of capital and people, and visa liberalization regimes.

In general, methodologically this research project is carried out in three stages, where the first stage is designed to identify the trade barriers, the second one—based on the results of the first—is the modeling stage, and the third stage is focused on the development of policy recommendations (also in the form of options) for conducting—in some cases asymmetric—negotiations.

The selection of each method is determined by the tasks being addressed at each specific stage of the study, as well as by the availability of data. Qualitative assessment of the policies and their implementation should also be used during the study, because often there is a large gap between the officially announced formal measures and their implementation in practice. When used separately, none of the available analytical tools allows a comprehensive assessment of the impact of a deeper EU-EAEU economic integration. A combination of different methods should therefore be used, based on their strengths, weaknesses, capabilities and limitations (see materials of the 1st IIASA Workshop).

Framing the Prospective Negotiations: Domains and StructureWill the idea of an economic integration agreement between the European Union (EU) and the Eurasian Economic Union (EAEU) ever come to fruition? At this point, even raising the question seems to be a non-starter. Relations between the EU and Russia—the country that accounts for the bulk of EAEU economy (see Appendix Figure 1)—are in a deep crisis. Economic cooperation is hampered by the current mutual sanctions. In fully understanding the gravity of the situation, we are reminded of the origins of the EU soon after the

[3] IIASA Workshop report on EU-EAEU Potential Economic Integration: Methodological Approaches to the Assessment of Economic Impact.

[4] See Pelipas, Tochitskaya, Vinokurov (2014). This report reviews the methodology of quantifying economic integration impacts, including the potential EU-EAEU rapprochement has been prepared for the first IIASA workshop and has been published under two logos, EDB and IIASA.

end of World War II. It was at that time that the foundations of European integration were first laid. In general, the foundations of the new have frequently been laid in times of crisis. Who would have thought, back in 1945, that in just ten short years, tangible European integration would begin?

A prospective EU-EAEU cooperation agreement should be comprehensive in nature, given the scope, structure and the intertwining character of the EU's relations with Russia and other Eurasian countries. Such an agreement might incorporate a large number of different domains, ranging from trade in goods and services to the free movement of capital, labor and visa-free regime, development of trans-border and transit infrastructure, institutional convergence, regulations of intellectual property rights and other regulatory issues.

Due to the sheer scope of the related issues, the discussion of an anticipated agreement—or a set of agreements—could be framed in terms of a **"mega deal"**. The mutual concessions and compromises would be necessarily interconnected. The importance of various domains will be different for both parties. Having weaknesses in one area, the given partner will expect a "trade-off" with respect to another problem. The EU-EAEU mega deal assumes exactly this approach to an inter-regional integration agreement that would bring together the two competing blocs. It is a new idea, which means that it is particularly challenging and complicated. What might be the main characteristics of this prospective agreement?

First, the party to the deal, irrespective of the legal form it might take, would be not be Russia but the Eurasian Economic Union, by virtue of its supranational authority. National representatives (the relevant departments of economic ministries, foreign affairs ministries, etc.), would certainly be present and, at the decisive stages in order to set the course of the negotiations and the substantive points of the final agreements—also high-level political leaders and parliaments. However, the negotiations would formally be led by the European Commission and the Eurasian Economic Commission. This is an important nuance—just as new and unfamiliar to the participants of the Eurasian integration process as it would be to the EU, despite the extensive experience of the latter in conducting trade negotiations.

Second, the EAEU member states would be interested not merely in a free trade agreement *per se* but in a **comprehensive agreement going beyond a pure, traditional FTA**. The motivation is quite simple: a "bare-bones" free-trade zone is not sufficiently advantageous to either Russia or Kazakhstan, which dominate the EAEU's economy and their exports consist primarily of energy and raw materials. Due to their current trade structures, Russia and Kazakhstan would have little interest in a narrowly defined free-trade regime with the EU (this, to a lesser extent, holds true for Armenia, Belarus and Kyrgyzstan as well). This being said, the obvious problems in the realm of trade concessions would have to be offset by gains in other regulatory areas. The main challenge is that a significant progress is needed in other areas of EU-EAEU economic relations do that the idea of cooperation becomes truly viable.

Third, there are various models for such an agreement between the EU and the EAEU, which would encompass a broad swath of relevant issues—from a deep and comprehensive free trade agreement (DCFTA) to a comprehensive economic and trade agreement. Like the one negotiated between Canada and the EU (the Comprehensive Economic and Trade Agreement). The latter, concluded in 2013 (although not signed and ratified as yet), could be, in terms of the legal structure, reasonably viewed as one of the possible instructive prototypes for the EU-EAEU mega-deal. A DCFTA is less suitable because

of the centrality of convergence to EU laws and regulations which in some areas would not be plausible for the EAEU.

Fourth, it should be noted that full-fledged negotiations between the EU and the EAEU will be impossible without the WTO membership of all member states of the Eurasian Economic Union. At this stage in 2016 Belarus is the only EAEU country that is not yet a member of the WTO. Russia lends its full support to Belarus in its Geneva negotiations. Given the right conditions in the Belorussian economy, the EU seems to be ready to take a favourable view of this process.

Fifth, the scope of potential issues that could be addressed in the EU-EAEU context encompasses a large number of items. The following list contains many of these, but it is certainly not exhaustive. Nevertheless, it illustrates the complexity of the potential EU-EAEU agenda:

- Trade in goods (abolishment of import duties with a clearly-defined set of exemptions).
- Elimination/streamlining of non-tariff trade barriers.
- Regulation of cross-border digital trade.
- Trade in services.
- Movement of people.
- Liberalization of access to financial markets.
- Free capital movement.
- Regulatory convergence (norms and standards).
- Intellectual property rules.
- Development of international transport infrastructure (road and rail corridors).
- Establishment of an EU-EAEU common electricity power market.
- Regulation of access to the EU market under the Third Energy package.
- Environmental agenda (as regards various trans-border issues and standards).
- Regulation of partial reciprocal access to public procurements.
- Competition rules.
- Disciplines on state-owned enterprises (SOEs).
- Rules for public procurement.
- Dispute resolution mechanisms.

In addition, there are a number of important issues which, however, are outside the EU and/or EAEU competences. These can be resolved on bilateral and multilateral level in various configurations. So, such additional issues could also fall under the broad “Eurasian” cooperation agenda:

- Reciprocal recognition of degrees and professional certificates.
- Facilitation of issuing visas and residence permits, visa liberalisation regime, including a set of agreements on readmission.
- Special regime for the Kaliningrad Region (investment or trade-and-investment related).
- Special regime for border regions.
- Extended educational exchanges (Erasmus Mundus, and so forth).

Regarding the timeframe, we take the long view. We believe that an agreement on deeper economic cooperation cum integration between the EU and the EAEU could, depending on the political conditions, become a reality **by the mid-2020s**. Within the next decade it will be a challenging task for the research community and policymakers to analyze the available options and procedures. IIASA aims

to explore and design plausible future modalities within the prospective research project in order to prepare a realistic assessment in advance.

Trade policy regimes[5]

The workshop on trade focused on discussing options for trade policy regimes, areas of economic convergence and disagreements among the countries in the region and also among other regions/countries, as well as on further global trade liberalization, and WTO compliance.

Some of these issues were already referred to in the preceding paragraph. In addition, country-specific approaches towards integration with the EU and in wider Eurasia were discussed based on the position of Azerbaijan, Kazakhstan, Russia and Ukraine. After assessing the current trade conditions within northern Eurasia and the potential integration with the EU and other European and Asian partners, the workshop participants studied some other regional trade arrangements and associations, discussing the lessons learned. Furthermore, the discussion covered longer-term trade scenarios in selected sectors, like manufacturing, network services, energy, agriculture, and financial services.

In particular, an overall and sectoral assessment of the economic impact of the EU-Ukraine Association Agreement was extensively discussed. The workshop took place in the situation of escalating tensions between Russia, Ukraine, and the EU. Impacts of these tensions on EU-EAEU trade negotiations were much discussed and some preliminary assessments of economic effects of the conflict both on Russia, Ukraine and the EU were presented, confronting the rather different EU and Russian views and data.[6]

Specific issues, such as the compatibility of the EU and the EAEU trading systems (DCFTA, CIS FTA and Customs Union), including the position of the countries lying in between, such as Ukraine or Serbia, were also highlighted, as well as the potential impacts of the trade agreements on the parties. For example, the results presented by Alexander Knobel suggest that the cumulative effect of a hypothetical EU-EAEU FTA on Russia's GDP would be 0.8% in the short run and up to 2.0 % in the long run.[7] Short-term and long-term impacts on the GDP of Kazakhstan are lower, 0.6% and 1.2 %, respectively. In contrast, the impact on the economy of Belarus is marginal. Deep integration between the EAEU and the EU would be more beneficial for the former side only after sufficient integration inside the EAEU. According to Natalya Volchkova, the winners of the hypothetical EU-EAEU FTA would be Kazakhstan (2.6% GDP), the EU and Russia, and the losers will be Armenia (–3.4% GDP), and Belarus. But these results are very preliminary (see materials of 2nd IIASA Workshop).

The general consensus is that the quantitative analysis of the potential economic impacts should go *much* further than an abridged CGE modeling and should be coupled with detailed qualitative assessments as well. A lot of new data, both qualitative and quantitative, are needed. Some of those may be obtained by extensive business surveys.

Additional analysis of the workshop was devoted to ambitions of the EAEU to enter into preferential trade regimes with partners outside its immediate vicinity, such as with Israel, New Zealand and Vietnam, given that the EU already has a well-developed network of trade agreements with many

[5] IIASA Workshop report on Trade Policy Regimes.
[6] Havlik (2014).
[7] Knobel, Chokaev (2014).

countries and regions worldwide. (Subsequently the talks with New Zealand, similarly to those of Russia with the EFTA countries, have been suspended due to the political crisis around Ukraine.). On the other hand, at the time of the seminar, in July 2014, the majority of the economic sanctions by Western countries, including the EU, and the Russian counter-sanctions were not yet in force, thus these subjects were not as yet part of the discussion.

However, the EU participants expressed strong concerns over the direction of Russia's—and linked to it, the EAEU's—trade policies. They referred to the increasing use of non-tariff measures to restrict imports in general, and in particular from the EU, leading to several WTO dispute settlement cases already in such an early stage of Russia's WTO membership. They expressed the view, that apart from a solution to the political tensions, a major change in these economic-trade policies would be also needed in order to create the conditions for starting serious thinking about the EU-EAEU cooperation, not to mention integration ideas.

Finally, the **impact of the economic crises on the process of regional integration** was discussed too. Crises often stimulate a surge of protectionism in general. According to Alexander Libman, decision-makers meet stronger pressure due to the growing influence of interest groups, beggar-thy-neighbor policies and there is also a decline in public support for liberalization, even on regional basis. However, recent studies have suggested that regional integration might also advance during periods of crises.[8] The reasons behind these contradictory conclusions are the following:

- crises may challenge the limits of states' capacities;
- crises may trigger the need for preserving the existing economic ties, which are particularly important for close-by countries;
- signing of economic integration agreements during periods of crises may serve as political signals to the domestic public.

Of particular analytical importance is the idea **of regional integration as an overarching anti-crisis strategy.** Regional integration not only creates new business opportunities by lowering costs and allowing to achieve economies of scale, but it also strengthens the overall stability of an economic zone.[9] In a variety of forms, regional integration has been already viewed as an independent anti-crisis component in various parts of the globe, in particular in the ASEAN area.

The idea of stable power and trade blocs was built during the Cold War period. In the 21st century the developments of the global system drive the trade integration towards more complicated models. Trade blocks have the following common features:

- reflect the increasing complexity of the global trade system;
- speed of communication that accelerates the pace of change;
- stratification of the production processes and value chains, driving fast changes in the national GDP;
- volatility of global power politics generating a need for more flexible portfolio of trade agreements;
- recent developments have shown that the internal power structures within countries may change rapidly, and the new decision-makers might have different priorities.

[8]Vinokurov, Libman (2014).
[9]Glazyev, Chushkin, Tkachuk (2013).

Non-tariff barriers[10]

This workshop focused on major issues related to the compatibility and costs of technical regulations and standards for industrial products and SPS regulations for agriculture products applied (or to be applied) in the EU, EAEU and neighboring countries. This included also issues of harmonization of various national and regional standards with each other, as well as with international standards, furthermore accreditation and conformity assessments.

The meeting was held at a time when the additional economic sanctions were already entering into effect between the EU and Russia, and significant, although diverse estimates of likely effects on both sides from both European and Russian sources were presented. During the discussion the EU experts again expressed the view that technical regulations and non-tariff barriers (NTBs) were increasingly used by Russia, in addition to the formal sanctions, as tools against imports.

NTBs are conveniently analyzed by dividing them in two groups. The first group (NTB-T) includes measures that might be needed for objective, protective reasons and could hypothetically be harmonized to a certain extent. This group includes sanitary and phytosanitary measures, technical regulations affecting trade, non-automatic licensing, quotas, bans and quantitative control measures other than sanitary and phytosanitary measures and technical barriers. The second group (NTB-P) includes all other barriers: price control measures; tariff rate quotas, financial measures that affect competition such as designating special importers, restricting marketing and public procurement, subsidies, etc. These are costs which can be described as "sand in the wheels." Theoretically, these costs should be eliminated completely. However, in practice this is far more difficult than reducing the first group of barriers.

The **economic impacts of reducing NTBs can be very substantial**, in fact far exceeding the impacts of eliminating the remaining import tariffs. For example, a 5% decrease in NTB-T within the EAEU only (that is, not counting the potential effects of the EU-EAEU economic integration) would give Belarus an overall 2.7% increase in welfare and a 0.9% increase in GDP in the medium term, while an identical 5% decrease in NTB-P ("sand in the wheels") would lead to an increase in welfare in Belarus by 4.2% and GDP — by 1.6%.[11]

In the EU context, the elimination of NTBs has been at the heart of the integration agenda since the 1980s. The 1985 "White Book" prescribed 279 concrete measures aiming at the establishment of the 1992 Common Market.[12] At that time the focus has been more on goods. The decades-long efforts have resulted in a substantive reduction, if not the elimination, of non-tariff barriers of internal trade in physical products. In the last decades, however, with the increasing importance of trade in services, this sector has also moved into the focus of attention but the results in removing even purely protective regulations are still limited.

In the EU-EAEU context, a specific issue discussed at the workshop concerned the development of the standards system of the EAEU, with questions raised about how far this will make use of international (ISO) standards, and over the compatibility with EU standards. The discussion reflected the fact that by this time the negotiations on the EU-Russia "New Agreement"

[10] IIASA Workshop report on Non-Tariff Barriers and Technical Regulations.[11]See Vinokurov et al. (2015) for the EAEU; see Francois et al. (2013) for the comparative EU estimates.

[11]See Vinokurov et al. (2015) for the EAEU; see Francois et al. (2013) for the comparative EU estimates.

[12]Glazyev, Chushkin, Tkachuk (2013).

(the intended successor of the 1994 Partnership and Cooperation Agreement) which had in its focus exactly this kind of regulatory approximation, had been already suspected due to the political crisis. While these questions could not yield to simple and immediate answers, the meeting established an analytical framework and network of personal contacts through which key officials and independent analysts may more closely work in the future.

A related issue of high importance is how far the relevant provisions of the Deep and Comprehensive Free Trade Agreements (DCFTA) between the EU and Ukraine, Georgia and Moldova will impact on trade between these states and the members of the EAEU. It has been noted that there were two trilateral processes between Ukraine, Russia and the European Commission, including one on trade policy effects arising for Russia from the implementation of EU-Ukrainian DCFTA. As mentioned above, these talks, however, ended unsuccessfully in December, 2015 leading to the suspension by Russia of its CIS FTA relations with Ukraine. The issue of what **technical standards** for industrial and agri-food products should prevail as between the EU and EAEU can be discussed under two headings:

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

Concerning the first subject, there seems to be little realistic prospect for simplistic solutions between the EU and EAEU, such as e.g. that the latter would simply adopt all EU standards. Instead there should be a more selective, steady process, taking undoubtedly many years, for a careful selection of products for which there could be different solutions. The problem has to be broken down into manageable packages. A first package would consist of international standards set by the ISO and the UNECE, of which all EU and EAEU member states are members, and here it should be examined how far both parties fully recognise ISO and other international standards (including those set by the UNECE especially for motor vehicles). A second package would relate to the product standards which the EU has placed under its so-called “new approach” policy. The key point here is that the “new approach” is a two-stage process, first with directives setting out the “essential requirements” for safety, and then followed by technically detailed implementing standards. The implementing standards are themselves voluntary, and any supplier can propose its own preferred standard as long as it is in conformity with the “essential requirements.”

It is quite possible that many Russian GOST standards do meet these requirements, in which case this should be established and made known. Conversely, it should be examined how far products carrying the mark of compliance with the EU technical regulations (CE) are acceptable for import into the Russian and EAEU markets. Given the extent of the market presence in Russia (pre-sanctions) of EU suppliers of a huge number of industrial and agri-food products, there are evidently practical solutions, and these need to be analysed so that the remaining policy issues could be dealt with in a pragmatic manner. A third stage would then see the identification of a limited number of important products where there could be targeted negotiation of solutions with a possibility for mutual recognition.[13]

[13]Exploratory analysis was done already more than a decade ago – see RECEP (2002).

As regards the second issue of the three DCFTA states, they now gradually adopt the EU legislation and standards, and repeal conflicting mandatory GOST standards. However, their manufacturers remain free to produce according to GOST standards for supplying EAEU markets, since it is a general practice that exporting countries produce in line with the standards and technical requirements of the importing countries. The additional idea of the Russian experts that there should be also agreements that imports from EAEU states that conform to GOST standards would still be recognised at the markets of the DCFTA countries, raises more questions. This might be an acceptable solution for a limited transition period, but under the DCFTAs the 3 partner countries have undertaken a legal obligation to eventually apply only EU regulations and standards in the sectors covered. Should they fail to do so, their own exports to the EU markets would suffer, as the administrative facilitation which is a major element of the benefits of the DCFTAs, could not be applied. Thus, should at some point the trilateral discussions between the EU, Ukraine and Russia/EAEU resume, this issue will need to be thoroughly discussed in order to see the possibilities for solution.

The Future of Energy in Eurasia[14]



The Eurasian continent which will account for over half of world energy demand in the near future will significantly shape the global energy landscape. What will this future hold: a growing energy cooperation and integration or increasing competition over resources and pipelines?

Will the continent lead a green energy revolution or gridlock the globe in an energy system dependent on dirty fossil fuels? How will natural gas, which is at the center of European energy debates, serve as a bridge to the future? What is the impact of the European Energy Union on the Eurasian developments? These were some of the questions discussed at the workshop.

This workshop also brought new insights into the risks and uncertainties around the energy trade and security in the Eurasian region. Specifically, it focused on discussing the short-term risks and opportunities, in particular those related to the conflict in Ukraine, as well as long-term uncertainties and possible solutions covering perspectives of energy futures for regional players. It also considered how the political economy of energy in the region shapes national plans, strategies and scenarios.

In particular, there is a clear intention to form a common energy market in the Energy Union but there are also major challenges given the diverging interests of individual EU member states and the complex interlinkages among individual energy carriers. Energy savings, regulatory issues, structural effects and political decisions all affect energy policies, the energy supply mix and the energy

[14] IIASA Workshop report on Futures of Energy in Eurasia in a Global Context. [15]The European Commission's "Strategy to a resilient Energy Union", aimed at diversifying the supply of gas to the EU in terms of sources, suppliers and routes.

consumption. Despite frequently diverging interests it is expected that the EU will increasingly speak with one voice also with respect to energy.[15]This will have a major impact on the EAEU where energy carriers represent a major share of the economy and of export revenues. Furthermore, the energy demand is likely to decrease, especially for fossil fuels, not least due to efficiency improvements, the increasing share of green energy and climate change targets. Finally, there will be also some reorientation of EU energy imports due to the conflict in Ukraine.

At the same time, the harmonization and liberalization of the energy market is being planned in the EAEU as well: according to the decrees passed by the Eurasian Economic Commission, a common electricity market will be established within the EAEU by 2019, and a common oil and gas market by 2025. This will result in the liberalization of energy supplies within the EAEU. A perfect substitutability of energy goods between the EAEU member states is expected to take place after 2025. It should be also pointed out that Russia expressed its readiness to supply gas following the rules of the EU's Third Energy Package. This might be an important factor if an agreed solution to the ongoing EU competition case concerning Gazprom is to be found.

The planned EAEU energy market reforms (by 2019 and 2025, respectively) draw on the experience of the EU regulations and are in line with the relevant WTO rules. This increases the compatibility between the European and the Eurasian Economic energy unions. The EU-Eurasian energy cooperation could be enhanced on the basis of the Energy Charter Treaty (1998) mechanism. The Energy Charter mechanism could provide an effective tool for the promotion of political dialogue and cooperation on regulatory issues, as well as to promote further regional/cross-border electricity projects, such as between Armenia and Iran. However, this could have no relevance for Russia which originally signed the ECT, but in 2009 suspended its provisional application, thus at present considers itself not to be bound by this Treaty. Long-term investment in infrastructure projects (e.g. pipelines and joint Arctic energy resources exploration) between the EU and the EAEU would in any case mean more stability for both supply and demand than dependence on spot prices and demand fluctuations for gas and oil in Asia. China as an increasingly important market for EAEU energy exports will play a major role in EU-EAEU energy policies.[16] Both Russia and Kazakhstan intend to develop increasingly close bilateral cooperation in this area in the form of long-term supply agreements, even if there are still open issues especially with respect to prices.

To sum up, the **future of energy in the Eurasian context is all about energy security**. For the EU, this is supply security (source security, transit security, as well as fair and predictable pricing). For Russia, this is demand security (financial and economic security, as well as fair and predictable pricing. For all, it is about environmental security and systemic resilience.

Development of the Transport, Electric power and Telecommunications Infrastructures[17]

[15]The European Commission's "Strategy to a resilient Energy Union", aimed at diversifying the supply of gas to the EU in terms of sources, suppliers and routes.

[16]Paik (2015).

[17] IIASA Workshop report on Development of transport and infrastructure in Eurasia.

This workshop focused on the major aspects related to transport and infrastructure developments in Eurasia, in particular on the prospects for international cooperation in the construction, modernization and further development of major Eurasian transport corridors until 2030, the development of the trans-border transport infrastructure in the EU-EAEU context, the challenges of financing large scale infrastructure projects in the strained geopolitical and economic conditions, opportunities for cooperation, feasibility analysis and searching for win–win solutions in the context of development of large-scale infrastructure projects.

The joint implementation of large transport infrastructure projects could become one of the main directions in EU-EAEU cooperation agenda. Here are but a few of those: Silk Road Economic Belt; Trans-Eurasian Belt "Razvitie" in Eurasia (a geo-economic belt of cooperation on the entire domain between the Atlantic and the Pacific oceans); CAREC corridors; Trans-European networks projects of large infrastructure networks of transport, energy and telecommunications, etc. Economic cooperation in Eurasia requires an efficient land transport network. The integration possibilities of the EAEU in transport and infrastructure determine not only the agenda for cooperation, but also the long-term prospects of the EAEU's development. To achieve development effects, transport corridors are to become also economic corridors. According to some opinions the maximum economic benefit is gained by concentrating economic activity and investment in the regions adjacent to main transport lines. But economic growth in the development corridors should be self-sustaining. This can be a perspective in the EU-EAEU "technology-and-knowledge" exchange.

The discussion on Pan-Eurasian infrastructure is being often confined exclusively to transportation issues—**railways and roads**. Here, the discussions focused on two issues. First, the inadequacy of the existing infrastructure, in particular of border crossing points in relation to the projected needs and opportunities for trade. Second, technical issues that define the speed, volume, and costs of logistics, such as the state of border crossings, the railway gauge problem, and development of marine ports and airports were tackled as well.

Albeit naturally being a starting point for a substantive discussion, the transport infrastructure should be followed (at least) by the electric power grid and telecommunication infrastructures. This "infrastructure troika" (transport, electricity grid and telecoms) is very relevant to both the trans-Eurasian and the EU-EAEU contexts.

The development of **common electric power markets** (CPMs) would allow for greater trade in electric power—a commodity with huge trade potential on its own. It would also engender significant synergies both in price and stability of power supplies. However, due to the energy security concerns, the implementation of these potentially promising possibilities needs the re-establishment of trust undermined by the Ukrainian crisis. Also due to this reason it cannot be expected that a unified and homogenous CPM stretching from Lisbon to Vladivostok (and Shanghai) will become a reality any time soon. Neither do we think that it should be viewed as a top priority. However, opportunities may arise to create a number of regional and sub-regional common electricity markets based on the development of infrastructure to generate and transmit electricity. Any Eurasian CPM would develop gradually within the parameters established in bilateral and multilateral agreements. The EU, China, India, and Iran are all potential key partners for the countries of Northern and Central Eurasia in the creation of Eurasian CPMs.

The development of trans-continental fiber-optic links is another huge opportunity. Currently, the land-based capacities are limited, and most of data from Europe to Asia is transferred by undersea fiber-optic channels. These, however, have at least two drawbacks, namely the length and the time needed for any repairs. Only 6% of Europe–Asia traffic flows through the land-based fiber-optic links. This share can be substantially enlarged. Adequate regulatory frameworks, security, and investments are the key aspects.

Mobility of People: Visa Regimes, Mobility of Pensions, Labour Migration, Educational Exchanges, and Recognition of Diplomas and Certificates



Mobility of People: Visa Regimes, Mobility of Pensions, Labour Migration, Educational Exchanges, and Recognition of Diplomas and Certificates[18]. The workshop covered several specific issues that are linked to the movement of people. The discussion and policy recommendations are summarised in detail in the recent IIASA Working Paper.[19] Namely, the work focused on the economic aspects of the mobility of persons, as well as readmission agreements, the facilitation of entry formalities and visa-free regimes, labour migration, mobility of pensions, large-scale educational exchanges, the recognition of professional diplomas and certificates. Some of the particular aspects looked at during the discussion are set out below:

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

- **Labor migration should be left out of the EU-EAEU agenda**, at least for the medium term. It is a common knowledge that the EU has a well-developed common labour market which comprises 28 states (plus the EFTA countries) with a total population of over 510 million (to what extent this situation will change after the UK's Brexit referendum is unknown as yet.) By contrast, it is still almost unknown that the Eurasian Economic Union also represents a common labour market, effectively uniting five countries with ca. 180 million people. In the EAEU, a citizen of any member state is eligible to work in another member state without being subject to licensing and quota regimes. The labour migrants and their family members enjoy medical protections and access to educational facilities. At the moment, the two common labour markets functions side by side—a well-developed and mature European one and a

[18] IIASA Workshop report on Labor Market and Migration across the Eurasian Continent.
[19] Vinokurov, Pereboyev (2016).

nascent Eurasian one. In our opinion, due to the extreme sensitivity of labour migration, this issue should be left out of the EU-EAEU agenda for several years.

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

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

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

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

One of the main problems to be solved within the EAEU is linked to the negative demographic forecasts. For example, Russia will need a sizeable inward migration of about 5 million people in the coming decade; the labour force is projected to decline by nearly 10 million persons until 2035.[20]The majority of the expected migrants will come from the former Soviet republics and probably will not close the gap in high skilled workers' shortages. According to MiRPAL, the fourth quarter (4 Oct. 2015—12 Jan. 2016) closed with 9.88 million foreigners staying in the Russian Federation. That

[20]According to Alexander Shirov's estimates from materials of the 6th IIASA Workshop.

represents a –6.6 percent quarterly decrease and a –10.9 percent year-on-year drop: 1.05 million foreigners less than by the end of 2014.[21]

Language barriers and cultural factors are the main bottlenecks for the internal labour mobility in Europe.[22] Current migration and labour market problems lead to attempts to restrict the existing EU regulations regarding migration—this factor played a major role also in the recent UK Brexit referendum. On the other hand, the EU moves forward with visa liberalization with some other countries (Turkey, Ukraine, Georgia and Moldova) as part of broader integration agreements.[23]

The discussion in the workshop ended with the conclusion that the EAEU did not face as much migration pressures as the EU, where especially migration from the Middle East and Africa represents a serious challenge. There are no easy solutions to the migration and integration problems. The EU and the EAEU could potentially unite their efforts to counter the associated negative trends, affecting both sides, because most of Eurasia will face similar labour market challenges in terms of skill shortages and migration. Another problem discussed was a drop of remittances within the EAEU. The prospects for improving the situation of labour migrants are not encouraging. The current Russian economic slowdown and rouble depreciation continued to affect the flows of personal remittances. It should be mentioned here that an additional actual problem which could be solved within EU-EAEU cooperation, namely the development and implementation of financial instruments to "transform" remittances into investment is relevant as well.

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



It is assumed that the political relations between the EU and Russia will have got back to a more constructive track, with an end of the mutual sanctions, and also an easing of relations between Ukraine and Russia. This is the hypothetical context in which it becomes relevant to explore the medium- and long-term possibilities for constructive initiatives between the parties.

The first issue concerns the possible establishment of official relations between the EU and EAEU. It is fair to say that for the time being the IIASA Eurasian Integration Challenges project is the main and possibly the only unofficial forum under which there have been contacts among experts from both the European Commission and the Eurasian Economic Commission.

Assuming that the necessary political conditions will have been created, a first step would probably be the launching of an official dialogue process between the two Commissions to **review the possible agenda of topics of mutual interest**. It could be based on the actual or planned activities of the EAEU,

[21]Gutiérrez Chávez, Prokhorova (2016).
[22]Timo Baas, materials of 6th IIASA Workshop.
[23]Peter Balas, materials of the 6th IIASA Workshop.

comparing those with the EU's many agreements with third countries: trade policy, trade-related regulatory policies, infrastructure for transport corridors, etc. These agendas are well established and structured. The open question is always to work out which agenda items can be taken beyond the stage of dialogue, onto the higher level of operational and legally binding commitments. Assuming that the necessary conditions are ensured, the current review of EU Neighborhood Policy could be an opportunity to initiate the EU-EAEU dialogue.

A next step would then be to identify the core items that could give the prospective cooperation project a critical mass. An inevitable candidate would be the preparation of negotiations of a free trade area between the EU and the EAEU. This would raise a number of legal and economic challenges, as well as political considerations (resulting from diverging economic size and development levels, among others—see Appendix Figure 2). From the aspect of international law the main issue is the requirement of the WTO that member states should only make free trade agreements with other WTO member states in order to ensure compliance with the obligations of the Most Favored Nation (MFN) treatment. On this point Kazakhstan's accession to the WTO in December 2015 is an important factor, given that Russia, Armenia and Kyrgyzstan are already WTO members. This only leaves Belarus, which seems to be still far behind. However, recently Belarus has expressed some interest in a more open and modern trade policy framework with the third countries. The EU would surely welcome such a development. It also corresponds to the interests of the large EAEU members (Russia and Kazakhstan) which strive for a network of FTAs with third parties.

As to the fundamental interests in a FTA between the EU and EAEU, this has been the subject of considerable analysis and debate, with some clear conclusions already achieved. For the EU a FTA with the EAEU would be from an economic aspect an attractive proposition, since it would give preferential access to an important export market. However, this would require major progress towards solving the Ukrainian crisis. On the side of the EAEU the picture is more complicated. The Russian experts in particular often refer to the asymmetry of this proposition, considered as favorable to the EU, since Russia's exports to the EU - mainly commodities - are already tariff-free or nearly so. There is the counter-argument that external liberalization would be an essential part of the comprehensive economic restructuring and modernization strategies that are badly needed for both Russia and Kazakhstan in order to regain competitiveness and a growth dynamic. While there is no clear outcome to this important debate, it still invites reflection on what other components of a prospective FTA would bring important benefits to Russia (here the energy domain may be a case in point, see below).

As regards the **energy sector**, the present developments clearly go in the direction of mutual diversification of supplies and markets on the side of both the EU and Russia, away from each other. This is a move away from the simple logic of economic geography, but seems to be an irreversible development, based on geopolitical and security considerations. The EU is surrounded by sources of alternative gas supplies, while Russia aims to exploit the huge potential of the Chinese market. However, there are very different degrees to which this diversification may occur. Moreover, on the whole it may be judged that some reduction of the monopoly-supplier and monopoly- buyer relationship between the EU and Russia would be a healthier political proposition in the long run. This does not exclude, on the other hand, that the EU and Russia will

come to better terms with each other over the conditions for gas supplies. As it was mentioned, the European Commission is currently engaged in a major anti-trust case raised by some EU member states against Gazprom. There is also some opposition to the expansion of the Nord Stream project, and uncertainty regarding the South/Turkish Stream project. Such cases can in principle yield to negotiated solutions. While it is beyond the scope of the work done so far to analyze how these issues may be resolved, the relevant point is that for the future some kind of more cooperative modus vivendi would be definitely desirable. Maybe the resolution of the competition policy case and the geopolitical considerations could be resolved by exploring alternative solutions for a new settlement in the energy security domain.

If the idea of a FTA were to be pursued there are some inevitable actions which should accompany the removal of tariffs, first of all regarding the **non-tariff barriers (NTBs)** in the field of technical standards for industrial products, and sanitary and phytosanitary standards for the agri-food sector. There are also other important subjects, like competition policy, public procurement, the regulations related to state-owned companies, intellectual property rights and the liberalization of service sectors. It has been already mentioned that the positive economic impact of decreasing NTBs can be very substantial, in fact exceeding by far the impacts of lowering remaining import tariffs. These are all complex fields which are nowadays at the heart of all global and inter-regional trade agreements. While negotiations in these fields are often extremely complex, as the current EU-US TTIP negotiations confirm,[24] they are nonetheless amenable to compromise solutions.

Here it is worth taking note of the new Enhanced Partnership and Cooperation Agreement between the EU and Kazakhstan signed at the Summit in Astana on 21 December 2015. The relevant point is that the structure of this agreement has the same classic agenda (for the EU) of economic and political issues that invariably appear in its external association and cooperation agreements. This new agreement between the EU and Kazakhstan is of course nowhere near as deep as the DCFTAs between the EU and Ukraine, Moldova and Georgia, and could not include free trade aspects, given that Kazakhstan is a member of the EAEU. However, it seeks to advance cooperation on a wide agenda, and illustrates the issues that arise for bilateral relations between the EU and any member state of the EAEU. In particular, both the EU and Russia have tried over the years to negotiate a new agreement to replace their 1994-vintage Partnership and Cooperation Agreement, and under the hypothesis of renewed constructive relations between the two parties these negotiations would be probably resumed. In this case the issue of coherence between the two agreements, with Russia bilaterally, as well as with the EAEU multilaterally, would arise. It is here that the EU-Kazakhstan agreement is a relevant first test case.

A next topic of the highest importance concerns the future of trade and economic relations between the EU, the EAEU and Ukraine, Moldova and Georgia, which have concluded Association Agreements, including Deep and Comprehensive Free Trade Areas (AA/DCFTAs) with the EU. Looking forward to more constructive developments as mentioned above, there have been two trilateral processes between Ukraine, Russia and the European Commission, including one on matters of trade policy, proposed by Russia to deal with the presumed negative impacts of the implementation of EU-Ukrainian DCFTA, which, however, ended unsuccessfully in December 2015.

[24] Hamilton and Pelkmans (2015).

The second process on gas supplies and transit from Russia via Ukraine to the EU is still ongoing. It is to be hoped that at some stage the circumstances will permit the opening of constructive negotiations on trade policy between the three DCFTA signatory states and the EAEU, no doubt with the participation also of the European Commission to watch over issues of compatibility between the DCFTAs and the three countries' possible FTAs with the EAEU. A potential broader free trade agreement between the EU and the EAEU could be one of the possible options.[25]

Finally, there are other important issues recently emerging under what could be called a possible **"Greater Eurasia"** agenda which concern not only the EU and the EAEU, but also the future relations of both with the major players in Asia, in particular with China, as direct neighbor of the EAEU.[26] The possible development of the relationship among the 3 large economies of the EU, the EAEU and China, raises more questions than answers, not least since China's inclusion fundamentally alters the economic dimensions in Eurasia (Appendix Figure 3). There are some major developments: China's "One Belt One Road" as a framework idea and the new Asian Infrastructure Investment Bank, the development of railway and road connectivity, and the Russian-Chinese projects for energy supplies, as examples of the possible content. One of the most tangible topics is indeed that of the transport corridors between Europe and Asia, with both Russia and Kazakhstan occupying prominent places on the Eurasian map: from both EU and East Asian perspectives there is interest in diversified transport corridors.

This leads further to the question "what about the rest of Asia?" which other could be included in future Greater Eurasia initiatives? The first discussions at IIASA suggested that while the focus should be on the EU-EAEU and China, the discourse should also embrace relations with, and the possible links to, Japan and the Republic of Korea. Also, concerning South East Asia and India similar questions arise as there are relevant organizations that seek to provide some answers, such as the Shanghai Cooperation Organization and the Asia-Europe Meeting (ASEM). For countries of the Asia-Pacific region the major means of meeting their energy needs will be increasing energy imports. Russia and the Eurasian Economic Union are in the best position to supply oil and gas. The major energy resources can come from Eastern Siberia and Far East. Potentially, they are able to meet the needs of the Republic of Korea and Japan in coal, oil and gas. By the development of railways and maritime routes (the Northern Sea Route, etc.) the transport sectors will support these processes. The EAEU, especially the Russian Far East, would greatly benefit from the transfer of technology from the Republic of Korea and Japan. The trade and investment cooperation with Asia-Pacific countries belong to strategic priorities for Russia and the EAEU. Overall the range of possible topics and their respective plausible geographic contours merit deeper exploration. As a point of departure we state that the involved states share common interests as regards trade flows, investment flows, and the development of trans-border transport and energy infrastructure.

In this context the discussion platform established at IIASA and some preliminary findings we have summed up in this Report play an important role. They also call for a more fundamental long-term research project. The details of such a new and expanded Eurasian Project will be spelt out in a separate document which is under preparation, covering the potential Phase II. The research is

[25]Some of the available options are discussed in Adarov et al. (2015).
[26]Emerson (2013).

expected to focus on two dimensions. The first one is the underlying theory which will address the following research questions: What is the future of regional integration? What are the consequences of rising regionalism? What are the ways to raise efficiency of regional organizations and narrow implementation gaps? What is the impact of integration and disintegration on economic development, industrial and scientific cooperation and welfare? The goal of this component is to carry out systematic theoretical assessment of different options of economic integration, disintegration, and various modes of economic cooperation, primarily at the regional level. The second component is a policy-oriented one. It would aim at a set of possible options for closer cooperation between the EU and the EAEU, expanded to the analysis of the relations both with China and supplement the research findings with draft sectoral road maps and policy recommendations.

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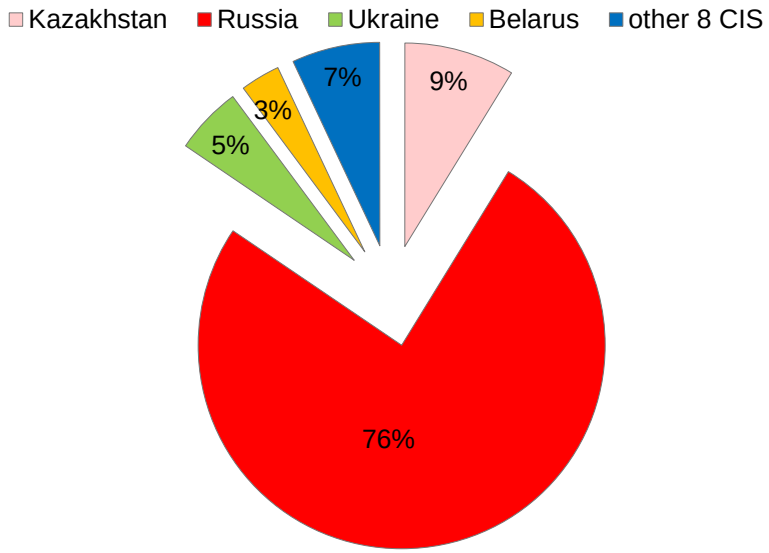
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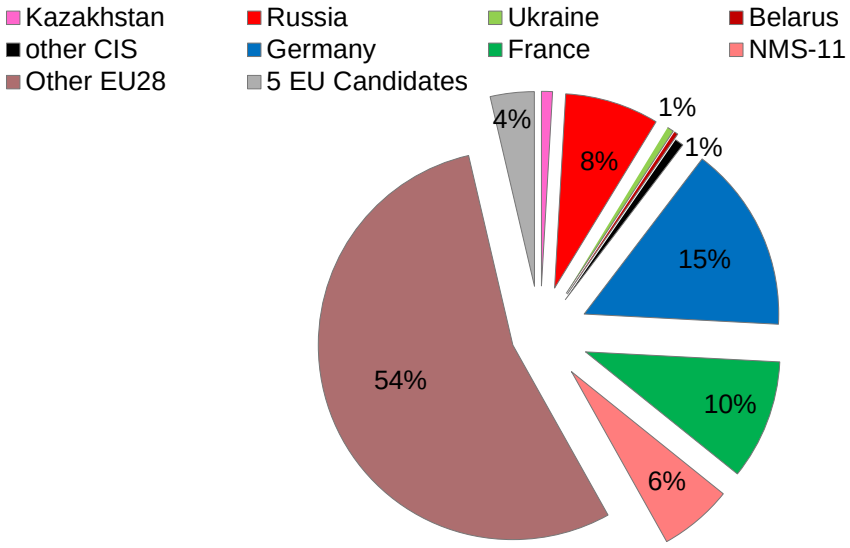
Appendix: GDP and Population Data on Greater Eurasia

FIGURE 1. GDP in the CIS, 2014.



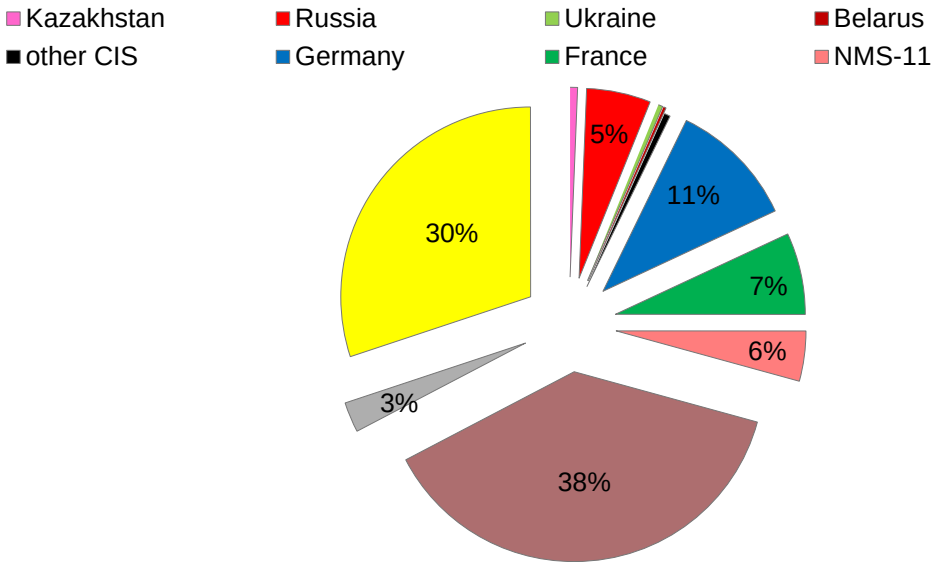
Sources: wiiw Database incorporating national and CISSTAT statistics; authors' estimates.

FIGURE 2. GDP in Eurasia ("Lisbon-Vladivostok"), 2014, %, at exchange rates (EU28 plus CIS/EAEU).



Sources: wiiw Database incorporating national, CISSTAT and Eurostat statistics; authors' estimates.

FIGURE 3. GDP in Wider Eurasia ("Lisbon-Shanghai") 2014, in % of total, at exchange rates (Wider Eurasia = EU28 + CIS/EAEU + China).



Sources: wiiw Database incorporating national, CISSTAT and Eurostat statistics; authors' estimates.

Table 1. GDP (nominal) and population of EU-28, EAEU, and their common neighborhoods.

	2015 GDP, current prices, $ bln	2015 GDP at PPP, $ bln	2015 population, mln
EU-28			
Austria	374.1	404.3	8.6
Belgium	454.7	494.1	11.3
Bulgaria	49.0	136.9	7.2
Croatia	48.9	91.1	4.2
Cyprus	19.3	28.1	0.9
Czech Republic	181.9	332.5	10.5
Denmark	295.0	258.7	5.7
Estonia	22.7	37.5	1.3
Finland	229.7	225.0	5.5
France	2421.6	2646.9	64.3
Germany	3357.6	3840.6	81.9
Greece	195.3	286.0	10.8
Hungary	120.6	258.4	9.9
Ireland	238.0	257.4	4.6
Italy	1815.8	2170.9	60.8
Latvia	27.0	49.1	2.0
Lithuania	41.3	82.4	2.9
Luxembourg	57.4	55.7	0.6
Malta	9.8	15.4	0.4
Netherlands	738.4	832.6	16.9
Poland	474.9	1005.4	38.0
Portugal	199.1	289.8	10.4
Romania	177.3	413.8	19.9
Slovak Republic	86.6	161.0	5.4
Slovenia	42.8	64.0	2.1
Spain	1199.7	1615.1	46.4
Sweden	492.6	473.4	9.9
United Kingdom	2849.3	2679.3	65.1
TOTAL	**16220.4**	**19205.4**	**507.4**
EAEU-5			
Belarus	54.6	167.7	9.5
Russia	1324.7	3717.6	146.3
Kazakhstan	173.2	429.1	17.7
Armenia	10.6	25.3	3.0
Kyrgyzstan	6.7	20.1	6.0
Tajikistan	7.8	23.3	8.5
TOTAL	**1577.6**	**4383.2**	**190.9**
EU-EAEU Common Neighborhood			
Georgia	14.0	35.6	3.7
Azerbaijan	54.0	169.4	9.4
Moldova	6.4	17.8	3.6
Ukraine	90.5	339.5	45.2
TOTAL	**165.0**	**562.3**	**61.8**

Source: IMF, World Economic Outlook Database, authors' calculations.

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NETHERLANDS Netherlands Organization for Scientific Research (NWO)

NORWAY The Research Council of Norway (RCN)

PAKISTAN Pakistan Academy of Sciences

RUSSIA Russian Academy of Sciences (RAS)

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