11TH CONFERENCE OF THE EURASIAN DEVELOPMENT BANK

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PLENARY SESSION, ECONOMIC REFORMS IN EAEU COUNTRIES,
WAYS OF DEVELOPMENT AND CO-ORDINATION

Dr.Sc. (Economics) Ya.D. Lissovolik, A.S. Kuznetsov, A.R. Berdigulova

The annual EDB conferences have become a forum for discussing Eurasian integration issues. Economic integration is not only one of the most promising sources of economic growth for the countries of the region but also an important generator of economic reforms. Are reforms undertaken in the EAEU countries, and how can we improve their quality to achieve economic growth? The answers to these and other questions were given at the plenary session on Economic Reforms in EAEU Countries, Ways of Development and Co-ordination of the 11th Conference of the Eurasian Development Bank, held on November 11, 2016.

REMOVING BARRIERS: UNREALIZED GROWTH AREAS IN EDB COUNTRIES

‘There is a huge potential for economic growth in the Eurasian space that is not being exploited yet’.

T. Sarkisyan

Tigran Sarkisyan, Chairman of the Board of the Eurasian Economic Commission, believes economic integration to be not only one of the most promising sources of economic growth for the region but also an important generator of economic reforms. He sees a serious potential for economic growth in the countries of the Eurasian Union that consists in the removal of barriers, restrictions and exceptions, and in creating favourable conditions for free movement of goods, services, capital, and labour. That is why the removal of the barriers existing among EAEU countries is a priority task of this newly established supranational authority.

Another possible source of growth is the adoption of new standards. After assessing the depth of the gap between economic reforms in individual countries of the Eurasian Economic Union, we can determine points and directions of the structural reforms that can potentially boost economic growth in the region.

Given the limited resources, we should, firstly, identify the priority reform trajectories. Secondly, develop normative documents to regulate how exactly all those changes must occur and what new incentives should be introduced. Thirdly, form new skills by means of active dialogue with the real sector aiming to explain the new rules and by motivating the real sector to change its behaviour amid the new realities. Only in this case shall we fully capitalize on our economic potential.
‘In our forum, we must devise tools that will enable us to bring our positions together, to consider the exporters’ interests and capabilities that exist in our countries.’
T. Sarkisyan

In the case of the Eurasian community, this means economic reforms in its five countries, where the creation of a single legal space and harmonization of the economic rules are still crucial tasks. If the EAEU countries have different inflation levels and different exchange rate regimes, this obviously creates additional obstacles for forming a single economic space and single market. So, co-ordination of economic policies in the Eurasian Union States will benefit continued economic growth in each individual member country.

Building a single digital information space is seen to harbour significant potential for both integration and economic growth. Complementing these tasks is the formation of a single foreign economic policy that makes it possible to bring the five countries’ positions together as they negotiate with other trade partners.

‘It has quite often so happened in history that the international factor became a powerful opportunity to overcome a downturn.’
Dj. Otorbaev

Forming a single foreign economic policy is an especially relevant task with respect to China. Djoomart Otorbaev is convinced that the Eurasian integration process needs to be integrated with the Silk Road project. China’s integration processes follow the clear economic logic of promoting Chinese products into the global markets. Participation in this project potentially opens tremendous opportunities for the EAEU countries.

‘Trade development is a growth driver, for this is an exchange of technologies and modern goods.’
A. Kudrin

Alexey Kudrin, Deputy Chairman of the Economic Council under the President of Russia, stated that the formation of the Eurasian Union was a factor of joint growth for its member countries. EAEU countries have encounter significant headwinds, e.g. after devaluation in Russia and its GDP fall, trade inside the Union decreased by a third, which again shows that instability of some macro indicators may adversely affect the union’s potential growth. Trade development is a growth driver, for this is an exchange of technologies and modern goods. When this exchange decelerates, growth momentum loses its vigour.
‘Efficient functioning of financial institutions based on the best international practice can help bring integrative co-operation to a qualitatively new level.’

V. Nebenzya

According to Vasily Nebenzya, Deputy Minister of Foreign Affairs of Russia, there is demand, mainly the developing economies, for reforming of the international currency and financial system and for bringing it into line with the real balance of power in the world economy. Formation of new financial institutions, such as the New Development Bank or the Asian Infrastructure Development Bank, the operation of the Eurasian Development Bank and the increased efficiency of the International Investment Bank, the Black Sea Trade and Development Bank and other regional financial organizations, are to enhance the role of developing economies in decision-making in the international finance.

In his opinion, the EAEU has been a success as a regional integration arrangement and it is based on the principles of equality, transparency, non-discrimination, mutual respect and consideration of its participants’ interests. The EAEU was established in order to strengthen trade and economic co-operation in the ex-USSR region, but it is open and committed to harmonization with other regional organizations. Negotiations are now under way on the establishment of free trade areas with 15 countries, and 50 countries have expressed their desire to negotiate such arrangements. The first free trade agreement has been concluded with Vietnam, and a trade and economic agreement with China is now being negotiated. There is a great potential for developing EAEU integration with the European Union, but Europe does not seem willing to engage for now, the Deputy Minister said.

MICROECONOMIC TRANSFORMATIONS AN ADDITIONAL GROWTH ENGINE

‘We have not yet fully engaged the microeconomic factors in the Eurasian land space.’

A. Kudrin

Without diminishing the significance of macroeconomic reforms as factors of economic growth, Alexey Kudrin points out that the world economy is now shifting its emphasis to microeconomics. In a successful economy, enterprises not only create new goods, they create a continuous model of an innovative economy. Competitive economies create a model of constant change. It follows that EAEU countries’ enterprises can become much more competitive by using modern governance models.

Most countries are deciding today what is better – to improve their infrastructure, to increase R&D funding or to improve governance, which will solve the key problems at both the public and the corporate level. The latter trend is increasingly important for many states, including Germany, the US, and Great Britain; and the EAEU countries should not lag behind if they are to tap into new economic growth opportunities.
STRUCTURAL REFORM OR SHORT-TERM MACRO POLICY MEASURES

‘It is essential to understand that economic growth is mainly a function of human capital and investment quality rather than quantity’.
M. Oreshkin

In looking for drivers of steady and long-term growth, it is important to understand that fiscal or monetary stimuli for the economy are only efficient in the context of anchored inflation expectations. Otherwise, monetary easing may trigger economic recession. For example, in the 1970s the US was trying to achieve a situation of full employment via monetary policy. As a result, in the early 80s the country faced high inflation and chronic lack of credit. The Reaganomics embarked upon in the 80s included, as a key measure, reduction of inflation, which helped the country achieve stable economic growth already in the early 90s.

Maxim Oreshkin, Deputy Minister of Finance of the Russian Federation, believes that in the Russian context, massive investment in the form of stimulus of the economy from the State budget is ridden with serious limitations. It is essential to understand that economic growth is mainly a function of human capital and investment quality rather than quantity.

ONGOING REFORMS IN EAEU COUNTRIES

‘The most important result is that consensus on the chief goal of maintaining macroeconomic balance has been reached in both society and government.’
D. Krutoy

According to Dmitry Krutoy, Deputy Minister of the Economy of Belarus, the Republic has worked hard to overcome the imbalances in the economy accumulated in the past years. Among other measures, one can note the switch to exchange rate flexibility, structural reform of deposits, reduction of directed lending and State property reform. He also pointed to the active co-operation with international financial organizations – EDB, IMF, EBRD and the World Bank.
The main goal of the 100 Steps programme is to intensify the integrative processes in the organizations that are priority ones for Kazakhstan and among which the single economic space is the indisputable priority.

— N. Korzhova

Natalya Korzhova, Executive Secretary of the Ministry of Finance of Kazakhstan, pointed out that Kazakhstan’s economic policy places an emphasis on improving the country’s investment climate. This is meant not only to obtain financial resources but, first and foremost, to get new technology, training, and experience in reforming the industries. Incentives for bringing new technology are provided via another wave of privatization that is underway in Kazakhstan.

The economic development strategy in Kazakhstan is being developed on a stage-by-stage basis, as the goals set are achieved and the country needs to address the new challenges it faces. Thus, the nation’s new plan ’100 Specific Steps’ sets a more ambitious goal of Kazakhstan becoming one of the world’s Top 30 developed States.

For the group of oil and gas exporting countries the timely decision to create the oil fund made it possible not only to prevent the economy from overheating but also to mitigate the crisis phenomena. As Natalya Korzhova noted, owing to the savings in the National Fund the Government of Kazakhstan can fulfil its obligations and conduct social payments from the budget in crisis periods.

Luckily we still have the Reserve Funds.

— M. Oreshkin

Maxim Oreshkin concurs and states that the existence of sovereign funds enables the Russian Government to pursue a more balanced fiscal policy.

Summing up the conference, we can note that the participants considered the promotion of integration in the Eurasian land space as a factor of economic growth in the countries of the Union. At the macro level, the growth drivers were identified in the removal of the existing barriers between countries, improved co-ordination of macroeconomic policy and harmonization of the economic environment. Priority should be given to structural reforms, while economic stimulus through monetary or fiscal easing should be measured and judicious. Additional stimulus for economic growth can also be found at the micro level, by involving the business community in the creation of a continuous innovative model of the economy and improving corporate governance.