

GLOBAL AND REGIONAL ORDER

STATE OF THE UNION: POSSIBILITIES AND PERSPECTIVES FOR THE EURASIAN ECONOMIC UNION

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The development of Eurasian Economic Union (EAEU) member states and its relationship with the European Union (EU) was largely shaped by global economic crises and (geo-)political and military conflicts in its proximity. Hence, cooperation so far has been limited and mostly been on a technical level. In the future, the EU must get ready for deepened cooperation with the EAEU. This study analyses the state of integration within the EAEU, focussing on its effect on the different member states trade structure before scrutinising and assessing future areas for cooperation between EU and EAEU further.

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THE INTERCONNECTED NATURE OF THE EAEU MEMBER STATES

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The Eurasian Economic Union (EAEU) was established to bolster the economies and capabilities of its member states (Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia) within the framework of global competition, subject to the creation of four freedoms: movement of goods, services, capital and labour. Its inception coincided with both a period of global economic instability and geopolitical changes in Eurasia. This had a substantial impact on the situation within the EAEU. Today, the viability of its member states' economic development in the context of the Eurasian integration project has particular relevance.

THE EAEU'S DEVELOPMENT PRIORITIES UP TO 2025

The main directions of the Eurasian Economic Union's economic development up to 2030 were put forward in Decision No. 28 of the Supreme Eurasian Economic Council, dated 16 October 2015.¹ They include the following:

1. Ensuring macroeconomic stability, taking into account changes in the global economic environment. The priority now is to improve the level of technology and diversify national production and exports, as well as to maintain a sustainable balance of payments and keep external indebtedness at a consistently low level.
2. Creating conditions to boost business activity and improve attractiveness for investment. To this end, restrictions and barriers to the free flow of goods, services, capital and labour will be reduced, competition in the Union's markets will be promoted, and the requisite legal, institutional and financial conditions will be created.
3. Economic modernization with a focus on innovation-based development, which can be achieved through the successful implementation of national plans aimed at creating conditions for structural reforms to boost innovation. Economic agents also need to be encouraged to take an interest in innovative products and boost investment in high-tech industries.
4. Creation of an effective financial market in the Union by means of coordinated regulation of financial markets, concerted foreign exchange policy, stock exchange integration and improved securities market regulation.
5. Tapping into transit potential and infrastructural development will not be limited to the development of transport infrastructure, but will also include measures to facilitate the creation of a single transport space and a common market for transport services, while also improving their quality and customs, border and transport control procedures.
6. Human resource development is expected to be strengthened by legal, institutional and financial means, including coordinated consumer rights protection and labour market policies.
7. Sustainable use of resources and energy efficiency improvements, which entails the development of uniform requirements and standards with regard to both imported and domestically manufactured products, joint research and development in the field of energy-efficient technologies, construction of energy infrastructure facilities with a minimal environmental footprint, as well as the development of low energy-intensive sectors of the economy, as well as renewable and alternative energy sources.
8. Interregional and cross-border cooperation should provide an additional impetus to growth in industrial cooperation.
9. Realizing foreign trade potential, which involves support for both the development of economic sectors and mutually beneficial cooperation with third countries and associations tasked with promoting integration. The most urgent tasks in this regard include enabling manufacturers to tap into new commodity and international markets and increasing the processing industry's share in exports.

¹ Decision No. 28 of the Supreme Eurasian Economic Council (Eurasian Economic Commission 2015a)

Based on the above guidelines and documents adopted under the aegis of the EAEU, several common markets and spaces are to be created by 2025:

- (i) a single energy market to include a common market for electricity, oil, oil products and gas. A common electricity market was supposed to be created by 2019 and a common oil and gas market by 2025;
- (ii) a single transport space and development of Eurasian transport corridors;
- (iii) coordinated agro-industrial policy;
- (iv) removal of existing barriers hampering free movement of goods and labour by 2025 (Interfax 2017). In addition, every effort will be focused on developing the digital economy in Eurasia.

EAEU MEMBER STATE ECONOMIC DEVELOPMENT TRENDS IN 2010–2018

EAEU member state development dynamics during the period in question were largely shaped by the global economic crises, as well as political and economic rivalry between the world's largest players – the United States, Russia, China and the EU – in the Former Soviet Union countries (FSU). Whereas in 2011–2014, national economies were posting gains, in 2015–2016 there was a serious decline in GDP across all countries. This was caused by the crisis brought about by the softening global prices for the major export commodities of these countries and a fall in the consumption of hydrocarbons and metals by importers, as well as negative developments of national currencies against the US dollar and the euro and sanctions imposed on Russia by a number of countries, led by the United States and the EU. This led to a decline in per capita GDP in the worst year of 2015 in comparison with the peak year of 2013: in the EAEU as a whole this amounted to –37.7 per cent. The largest losses were borne by the founding members: Belarus –26.2 per cent, Kazakhstan –24.3 per cent and Russia –39.7 per cent.²

In 2017–2018, the EAEU economies started to stabilize and even showed modest growth.

Overall for the EAEU, the largest part of GDP in 2018 – more than 60 per cent – was related to services, while industry registered 23.9 per cent. Agriculture, forestry and fisheries, on the other hand, accounted for a mere 3.4 per cent.³

Compared with 2010, there was a dip in the share of the processing industry of 0.5 per cent, mainly because of the slackening of this indicator in Belarus (–1 per cent), Kyrgyzstan (–1.7 per cent) and Russia (–0.5 per cent). The processing industry accounts for the largest share of GDP in Belarus, at 21.5 per cent, followed by Kyrgyzstan at more than 15 per cent and the other countries at about 12 per cent.

At the same time, extractive industry in the EAEU as a whole grew by 2.5 per cent during the same period on the back of growth in Russia (+3.5 per cent) and Belarus (+0.5 per cent). Kazakhstan and Russia stand out, as the shares of this sector in GDP are 15.2 per cent and 11.5 per cent, respectively. Moreover, over the past three years they have increased their output. In the remaining countries extractive industry has a minimal share, ranging from 0.8 to 2.3 per cent.

Table 1
CU/EAEU member state GDP dynamics, 2010–2018

	2010	2013	2015	2018
	GDP, in current prices, USD million			
EAEU	1 744 362	2 561 677	1 629 028	1 914 000
Of which:				
Armenia	9 260	10 619	10 529	12 433
Belarus	56 941	65 428	55 317	59 585
Kazakhstan	148 052	208 002	184 387	172 939
Kyrgyzstan	4 795	6 605	6 678	8 093
Russia	1 525 314	2 154 067	1 372 117	1 660 950
	GDP per capita, USD			
EAEU	9 847	14 331	8 931	10 408
Of which:				
Armenia	3 041	3680	3504	4 188
Belarus	6 000	7 898	5 829	6 283
Kazakhstan	9 071	13 891	10 510	9 462
Kyrgyzstan	923	1 342	1 171	1 332
Russia	10 678	15 552	9 372	11 312

Source: Eurasian Economic Commission (2019a,2019b)

² Calculations by the author on the basis of Eurasian Economic Commission (2019a)

³ Calculated by the author based on Eurasian Economic Commission (2019b)

Table 2

GDP structure of the EAEU member states by economic activities in current prices (% of total, only relevant economic activities considered)

	2010	2015	2019 (estimated)
EAEU			
GDP	100	100	100
Agriculture, forestry and fisheries	3.7	4.4	3.4
Extractive industry	8.9	8.8	11.4
Processing industry	13.0	12.4	12.5
Electricity, gas and water production and distribution	3.2	2.6	2.9
Construction	6.0	5.9	5.4
Trade	16.7	14.9	13.00
Transport and communication	7.0	7.0	8.6
Armenia			
GDP	100	100	100
Agriculture, forestry and fisheries	17.0	17.3	13.7
Extractive industry	2.6	2.1	2.3
Processing industry	9.7	9.3	11.3
Electricity, gas and water production and distribution	2.8	4.5	4.2
Construction	17.3	9.5	6.6
Trade	12.9	10.9	11.3
Transport and communication	3.4	2.4	6.4
Belarus			
GDP	100	100	100
Agriculture, forestry and fisheries	8.9	6.3	6.4
Extractive industry	0.3	0.6	0.8
Processing industry	22.5	20.7	21.5
Electricity, gas and water production and distribution	2.6	2.9	3.8
Construction	9.4	10.4	5.4
Trade	11.4	12.2	10.0
Transport and communication	5.2	5.5	11.1
Kazakhstan			
GDP	100	100	100
Agriculture, forestry and fisheries	4.5	4.8	4.3
Extractive industry	19.5	12.7	15.2
Processing industry	11.3	10.1	11.8
Electricity, gas and water production and distribution	1.8	1.7	1.9
Construction	7.7	6.0	5.5
Trade	13.0	17.0	16.1
Transport and communication	8.0	8.6	10.1
Kyrgyzstan			
GDP	100	100	100
Agriculture, forestry and fisheries	17.5	14.0	11.7
Extractive industry	0.6	0.8	1.0
Processing industry	16.9	14.0	15.2
Electricity, gas and water production and distribution	2.9	1.7	2.4
Construction	5.5	8.4	8.8
Trade	15.9	18.8	18.2
Transport and communication	4.9	3.9	7.0
Russia			
GDP	100	100	100
Agriculture, forestry and fisheries	3.1	3.8	3.5
Extractive industry	8.3	8.7	11.5
Processing industry	12.8	12.4	12.3
Electricity, gas and water production and distribution	3.3	2.7	2.8
Construction	5.6	5.7	5.4
Trade	17.3	14.7	12.8
Transport and communication	7.9	7.0	8.3

Source: Eurasian Economic Commission (2019a, 2019b).

By 2019, the share of agriculture had decreased by an insignificant 0.3 per cent compared with 2010. This was supported by the growing share of agricultural output in Russia (+0.4 per cent). In other countries, however, the share of agriculture in GDP underwent a substantial decline. Armenia and Kyrgyzstan have the highest shares of agriculture in GDP, at 13.7 per cent and 11.7 per cent, respectively, while Russia has the lowest (3.5 per cent) (Table 2).

In 2018, the EAEU economy grew mainly on the back of industry, especially extractive industry, together with transport and communication. When it comes to sectoral development in the member states, engineering and high-tech, which have been identified as priority areas for the EAEU, are not the main drivers of economic growth.

This situation has affected the member states' foreign and interstate trade. In 2015–2016, both interstate trade in the EAEU (–24.8 per cent in 2015 and –6.7 per cent in 2016) and foreign trade with third countries (–33.6 per cent and –12 per cent) declined, against the background of growing EAEU exports. At the same time, it is worth noting that the decline in foreign trade in 2015–2016 was much more pronounced than that in interstate trade.

In 2017–2018, as economies stabilized, trade growth picked up as well. Foreign trade grew by 24.5 per cent in 2017 and by 18.8 per cent in 2018, while exports grew at an even faster pace. The geographical distribution of foreign trade is particularly interesting from our standpoint. The top five trading partners include China (16.8 per cent of total foreign trade), Germany (8.7 per cent), the Netherlands (7.4 per cent), Italy (5.5 per cent) and Turkey (3.9 per cent). Only foreign trade turnover with China is distributed evenly, with exports at \$63.0 billion and imports at \$63.3 billion. In trade with other countries, exports prevail over imports. In trade with Germany, for example, exports amounted to \$36.2 billion, imports to \$29.4 billion; with the Netherlands they were \$51.2 billion and \$4.4 billion, respectively, with Italy registering \$28.3 billion and \$13.1 billion, respectively, and Turkey \$22.9 billion and \$6.2 billion, respectively. The main export items are commodities: hydrocarbons take up 67.2 per cent of total exports and metals and metal products 9.6 per cent. Imports are dominated by machinery, equipment and vehicles (44.6 per cent), as well as chemical industry products (11.6 per cent).

The same trends are observed in interstate trade. It grew by 27.2 per cent in 2017 and by 9.1 per cent in 2018. However, the commodity structure of interstate

trade among the EAEU member states is more balanced. Although mineral products have the largest share, at 28.6 per cent, it is much less than their exports to third countries. Machinery and equipment account for 19.0 per cent. This includes not only Russian, but also Belarusian and Kazakh products. Food products and agricultural feedstock account for 14.6 per cent, and metals and metal products for 13.1 per cent.

All the countries involved have their own vested economic interests that prompted them to join the Union. An analysis of their national economic development programmes, however, has shown certain contradictions between the objectives of the Eurasian Union and national economic agendas (Kuzmina 2017). In general, member states consider the common economic space purely from the standpoint of additional export capabilities for national economies, while expecting to meet their domestic demand with domestic import substitution alone (Zavorotnyj and Gotovskij 2013).

At the same time, industrial priorities identified in the national programmes have a high degree of overlap in terms of development methodology, industrial development challenges, long-term goals and objectives, as well as tools and mechanisms for the implementation of state policy in this area. Export goods overlap mainly within the framework of the common economic space and in trade with third countries.

Although the EAEU member states expect to develop a coordinated industrial policy and a common market for engineering products, there have been a number of setbacks related to the low level of mutual investments in the real economy and the low activity level of industrial companies. Integration is found mainly in traditional sectors with waning potential, in particular in the energy sector, chemicals and petrochemicals and metallurgy.

In order to address the identified contradictions and accelerate the coordination of national industrial policies, the Supreme Eurasian Economic Council adopted a resolution 'On the main directions of coordination of national industrial policies' in May 2013. The annex to the document lists priority sectors for industrial cooperation (Eurasian Economic Commission 2013). Out of the 19 identified industrial sectors, 10 relate to engineering.⁴

⁴ Aerospace industry (including production of remote sensing satellites and helicopter building), automotive industry, road-building machinery, machinery and equipment for agriculture and forestry, handling machinery, industrial products for railway transport, electrical appliances, electronic and optical equipment and components, machine tools, power engineering.

The Eurasian Commission has developed conceptual approaches to the establishment of industrial cooperation and a draft Agreement on Industrial Policy, which is currently being discussed with national experts. Within the framework of cooperation provided for by this agreement, it is planned to develop principles of technical retooling of engineering enterprises and to provide assistance in developing and promoting business projects with the use of industrial cooperation tools. Essentially, the agreement announces an intention to create interstate industrial clusters based on the member states' technological and technical strengths. In addition, the Eurasian Economic Commission (EEC), the Republican Association of Industrial Enterprises of Belarus 'BelAPP', the (employers') Association of Machine-Builders of Kazakhstan and the All-Russian Industrial Employers' Association of Machine-Builders of Russia have established a Coordinating Council for the Development of the Engineering Industry. In 2015, seven pilot Eurasian technological platforms were created (Supercomputers, Medicine of the Future, LEDs, Photonics, Light Industry, AIC Food and Processing Industry Technologies and Bioenergy), while Belarus and Russia established a joint engineering company SoyuzStankoEngineering (Eurasian Economic Union, 2015b, 2016a, 2019c).

The lack of focus on creating a common domestic market with due regard for national specializations in certain types of products has become a pressing issue. Member states are not sufficiently involved in cooperative deliveries, which has something to do with a lack of awareness of the needs and production capacities of industrial manufacturers in the EAEU partner countries (Eurasian Economic Union, 2016b).

To address this problem, an action plan for the implementation of the project entitled the »Eurasian Network for Industrial Cooperation, Subcontracting and Technology Transfer« was approved in May 2019. Such a network would make it possible to integrate national import substitution plans and build production chains in the EAEU. Seven such areas of cooperation have been agreed upon. They provide for the transition to an innovative development path (interstate R&D programmes and projects, creation of industry centres of excellence) and the establishment of joint ventures and support for products jointly manufactured in the EAEU (Eurasian Economic Union, 2019d).

The agro-industrial complex also demonstrates a significant share of state support for agriculture, which has a distorting effect on mutual trade. The states have adopted a Concept of Agreed-Upon (Coordinated) Agro-Industrial Policy and an Action Plan for

its implementation, geared towards the balanced development of the production of and markets for agricultural products and foodstuffs (Eurasian Economic Union, 2019e). This will ensure competition among national entities and a level playing field in terms of access to the common agricultural market, as well as protecting the interests of producers in domestic and foreign markets. This should facilitate prompt interaction in the areas of production optimization, mutual supplies, specialization and implementation of coordinated measures to regulate key agricultural markets.

At the same time, cooperation in this sphere has a number of drawbacks:

- (i) a long list of sensitive food products;
- (ii) a lack of quality certificates for the full range of export products from some countries, primarily Kyrgyzstan;
- (iii) occasional refusal of transit for sanctioned products from the EU to Russia, primarily through Belarus. This leads to interstate frictions and disputes between economic operators and a search for grey trading schemes.

Kazakhstan and Belarus are most keenly interested in a coordinated transport policy and, in particular, in solving the issue of single transit taxes. The introduction of beneficial single transport tariffs across the Union would allow member states to make better use of their transit potential, which in turn will expand their opportunities to integrate into the global economy.

The unification of transit tariffs among the CES countries has already begun. Under the EEC decision on their unification, the tariff for carriage of goods by sea will be \$19.44 per 1 tonne/500 km, while the transit tariff will be \$33.76 per 1 tonne/500 km (Atameken 2014). While previously only JSC Russian Railways applied a unified tariff to goods from Kazakhstan transiting through Russia to Russian ports, now JSC NK KTZh will also apply a unified tariff to Russian or Belarusian goods transiting through Kazakhstan to the port of Aktau. In this regard, Kazakhstani freight forwarders stand to save \$14.32 on average for each shipped tonne of goods. Currently, this is being pilot-tested by the EAEU member states.

Development of the transit potential of the EAEU member states should also benefit from cooperation with China in connection with the linkage of China's Silk Road Economic Belt (SREB) initiative with the

EAEU. For example, SREB and Kazakhstan's Nurly Zhol programme are almost identical in terms of the transit of goods from China through the territory of Kazakhstan, as well as the development of transport and logistics infrastructure in the country.

By March 2017, EEC had compiled a list of priority projects within the framework of the EAEU-SREB linkage. Its core consists of 39 transport infrastructure projects: roads, transport and logistics centres, and key transport hubs. In particular, completion of a large-scale project to build new roads within the framework of the Western Europe-Western China ITC. A Moscow–Kazan high-speed railroad and the China–Kyrgyzstan–Uzbekistan and Armenia–Iran railways are to be constructed (Eurasian Economic Commission 2017).

The year 2018 saw the launch of transport «road-maps». Some of the measures in those documents relate to coordination of the development of transport infrastructure, as well as industrial and innovative infrastructure. For example, the EEC Council approved an Action Plan to promote the production and use of electric vehicles in the EAEU member states for 2018–2020. The plan envisages a set of measures to stimulate the production of electric vehicles, their basic components, charging and service infrastructure facilities. The plan also includes a set of measures to promote the use of electric vehicles, including the abolition of transport tax, to be considered at the national level by each of the Union's member states (Eurasian Economic Commission 2018).

The sharpest disagreements between the countries are over the creation of a common market for hydrocarbons by 2025. They mainly concerned the creation of oil markets and oil prices. According to EEC head T. Sarkisyan, schemes for oil, oil products and gas are being developed along the same lines: member state energy companies will be able to get non-discriminatory access to the partners' hydrocarbon infrastructure, purchase oil and oil products without quantitative restrictions in the market price and without export duties. In addition, it is planned to switch to mutual settlement in national currencies (Teknoblog 2016). The single oil and gas market would allow the EAEU member states to move away from rigid pegging to world energy prices and make the market more competitive. It will also allow Russia and Belarus to avoid «gas conflicts».

CONCLUSIONS

Economic cooperation between the EAEU member states has both negative and positive trends. Despite their weak economic performance and small share of mutual trade in 2015–2016, it should be noted that these countries are searching for the most efficient cooperation tools and moving ahead with the development of the planned joint integration elements, a legal framework for unification and cooperation formats in industry, agriculture, transport and other economic sectors that are of vital importance to them.

The EAEU member state national development programmes currently in effect have different execution timeframes; up until 2025, they are expected to retain their main sector priorities and focus on using their membership of the Eurasian Union for the benefit of their further economic development. These documents have a clear export focus and are primarily based on national rather than Union-wide interests. However, the EEC is working purposefully to overcome the disunity of interests within the Union and to move towards the elaboration of a coordinated or common policy in various sectors of the economy.

By 2025, the Eurasian Union will have to solve a number of important issues, if it wants to strengthen its integration ties. Firstly, it needs to overcome the contradictions stemming from its member states' trade policies and the operation of the single customs area, which are related to non-tariff restrictions, strict compliance with the rules governing origin of goods⁵ and reduction of the share of export duties determined by the member states themselves. Secondly, in order to further develop common agricultural markets, work should be done not only on the full phytosanitary and veterinary certification of goods, but also on the establishment of a single veterinary and phytosanitary supervisory body. Thirdly, action needs to be taken to identify countries' areas of specialization in manufacturing so that interstate production associations can be created on its basis. Fourthly, work on creating the Union's common energy markets continues. Fifthly, consistent development of transport infrastructure across the EAEU in coordination with Chinese projects as part of the Silk Road Economic Belt initiative. Agreeing upon transit tariffs and improving the quality of transport and freight logistics will be an important aspect of creating the EAEU's single transport space.

⁵ Goods are considered to be produced in a CIS country or a Customs Union member state if they are sufficiently processed or if the cost of materials of sourced from outside does not exceed 5% of the final price of such goods.

STATE OF CONNECTIVITY WITH THE EU, POSSIBILITIES AND PROSPECTS

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MILESTONES AND SETBACKS IN EAEU–EU COOPERATION

Economic cooperation between the EAEU and the EU has deep historical roots and is extremely important for the former's modernisation.

In a historical retrospective, the countries of the two regions have cooperated with each other both politically and economically, and they both lie at the same intersection of history, politics and diplomacy. Even when the two political systems confronted one another during the Cold War, the USSR and the EU countries maintained some economic ties, although this was complicated by political contradictions and the structure of the Soviet economy. As successors of the USSR, the countries of the Commonwealth of Independent States (CIS) – including the current EAEU members – inherited an interest in developing cooperation at a new level and in a new format.

In the 1990s the EU's initial approach to establishing an institutional foundation for cooperation with its Eastern neighbours was consistent and based on the Partnership and Cooperation Agreement (PCA) format between EU and individual CIS/EAEU countries. This became an important tool of economic diplomacy enabling it to support the transition in the CIS region and define EU priorities for each country. Despite the success of economic reform and economic growth in Russia and some other CIS countries, however, bilateral cooperation was not as smooth as might have been hoped. The EU's main focus has always been the major players (Russia, Belarus, Ukraine and Kazakhstan). More recently, the EU's approach has been more differentiated, in the form of the Eastern Partnership and PCA, with special provisions for Ukraine in a Deep and Comprehensive Free Trade Areas (DCFTA).

Russia is the largest economy in the region, of course, and bilateral cooperation at all stages of development has been complicated by several contradictions, among which the following should be emphasized: military-strategic and economic asymmetry; discrepancies regarding the sources of ethno-political and interstate conflicts, as well as methods for resolving

them; the expansion of the EU and NATO to the East and implementation of the EU's Eastern Partnership project; and conflicts concerning the general issues of Europe's energy security (for example, Russia's negative attitude to the Third EU Energy Package). In the context of Russia's interests, the EU's Eastern Partnership, proposed by individual EU countries in 2008 and designed to give new impetus to the development of integration ties with the six post-Soviet countries, became an obstacle to both mutual and inter-block relations. In fact, Ukraine was offered a choice: to form a deep and comprehensive free trade zone with the EU, or to join the Customs Union of Russia, Belarus and Kazakhstan. At the same time, it is worth mentioning that all these difficulties became a significant issue in Russia–EU bilateral relations, while other EAEU members were less concerned.

CURRENT AREAS OF COOPERATION: A NET GAIN AND SUSTAINABLE APPROACH TO MORE CONNECTIVITY

Mutual cooperation and EU–EAEU industrial and broader economic dialogue are key elements in sustainable development for the Eurasian region, from Lisbon to Vladivostok, and indeed the world. Measuring the gains is quite difficult, however, because numerous problems and obstacles have prevented the realization of some potential projects. For the EAEU the main benefit of cooperation with the EU lies in sustainable industrial integration (GVCs), the experience of advanced economies and expansion of cultural and humanitarian cooperation. This could be achieved, however, only with a clear understanding of integration goals within the EAEU. For the EU the net economic gain is likely to be market expansion and a strengthening of European competitiveness in a large-scale market, with a high and permanently growing demand for goods and services.

As a result of political tensions the EU has imposed a number of trade sanctions on Russia, which introduced a number of its own sanctions in response. The suspension of the New Russia–EU Basic Agree-

ment (NBS), financial and technological restrictions and a proposal to abandon construction of the South Stream gas pipeline have had the most impact. Currently, there are several areas of mutually important cooperation, but even here there are some obstacles, mainly of a political nature.

One such area is energy cooperation, including the functioning of the electricity market and the trading of mineral resources. As regards the electricity market, in June 2019 the EU and the Baltic states signed the Political Roadmap on the synchronization of the electrical network of the Baltic States with the Continental European Network through the territory of Poland. The upshot of this is that previous synchronization with the systems of the CIS countries will be terminated. That could have implications for Russia in terms of risks to the Kaliningrad region and Belarus as a main transit country. The new document complicates the implementation of the existing Roadmap for the development of cooperation between Russia and the EU until 2050, whose strategic goal is to create a pan-European space, an integrated network infrastructure, open, transparent, efficient and competitive energy markets, energy security and achievement of EU and Russian sustainable development goals.

The EAEU is also working on harmonizing the energy market, which should be completed by 2025. At the last summit in 2019 the parties approved a protocol on amendments to the Union Treaty of 2014, which changes the content of the section on the common energy market. The document defines the legal framework and principles for its formation, functioning and development, and establishes the areas that will be regulated. It also empowers the Eurasian Intergovernmental Council and the Commission Council to approve acts regulating the EAEU's common electricity market. The document aims to ensure the functioning of the common electricity market of the Union, its participants and infrastructure organizations, as well as electricity trading. The documents also lay the ground for eliminating the fundamental disagreement related to the separation of competitive and natural monopoly activities on national electricity markets and, which is especially important, regulates how exactly regional and national structures will be incorporated in the common energy market before and after a similar agreement is concluded on a common gas market. The creation of a single market in the future will then be more attractive to all interested players.

The existence of two alliances defines the need for effective cooperation, although at present institutionalization is hardly possible, for political reasons. As

a first step towards future cooperation sectoral dialogue should be established on energy efficiency, energy saving and renewable sources. Reforms of the EAEU energy market (2019 and 2025) have been developed using EU regulatory experience based on the WTO regulatory framework. This increases the level of compatibility of the European and Eurasian energy alliances. Euro-Eurasian energy cooperation can be extended with the help of the instruments of the Energy Charter Treaty (1998), adopted by all members of the EU and the EAEU. The tools provided for in this document can contribute to the development of political dialogue and regulatory cooperation and stimulate the implementation of regional/cross-border energy projects, such as the cooperation project between Armenia and Iran. The best guarantee of stability of demand and supply will be long-term investments in infrastructure projects involving the EU and the EAEU (Vinokurov et al. 2016).

Another potential, hence very contradictory and ambivalent area of energy cooperation is oil and gas supply, mainly transit. The Strategy for a Sustainable Energy Union developed by the European Commission is aimed at diversifying gas suppliers to the EU and use of alternative energy sources. This will have a major impact on the EAEU, mainly on Russia as the main player in the market, whose energy companies occupy a significant place in the economy and thus provide a significant share of export earnings. Besides, the EU insists on continuing gas transit through the territory of Ukraine, regardless of Russian wishes. In reaching agreement on this issue the EU relies on trilateral negotiations on the extension of transit between the EU, Ukraine and Russia and, as stressed by the German government representative, the European side is not going to discuss a »different scenario«. The discussion on transit routes is significantly complicated by the EU approach to the Nordstream 2 project. On one hand, there is a clear understanding that the new pipeline is important in terms of environmental and sustainability issues. During a period of severe political and economic confrontation, however, the project regularly faces serious pressure from EU Member States, the European Commission and from the US.

Cooperation in the automobile sector is one of the best examples of industrial connectivity between the EU and its Eastern partners. Over recent years, an increasing number of European companies, inspired by the growth and development of the promising local and regional car markets, have decided to launch special industrial assembling projects. According to the so-called Automobile Investment Programme No. 1

and WTO commitments foreign producers have obtained the right to a preferential tariff rate (from 0 to 5 per cent instead of an average of 15 per cent) for the importation of parts and components for the industrial assembly of motor vehicles, as well as their components and assemblies, with a special obligations to reduce, over time, the volume of imports of the above parts and components imported at preferential customs rates. They have also benefited from state sales support programmes (recycling, trade-ins, preferential car loans and leasing), and have also received numerous subsidies and some tax breaks (partial or full offsetting of property tax, among other things).

The requirements of the first industrial assembly regime were fairly beneficial to foreigners. The government's goal was to attract numerous assembly sites to Russia. Meanwhile, in 2011, the Ministry of Industry and Trade and the Ministry of Economic Development and Trade tightened the industrial assembly regime and Automobile Investment Programme No. 2 introduced some amendments regarding the establishment and/or modernization of industrial research centres, the installation of engines and/or gearboxes, with domestic production no less than 30 per cent of the motor vehicles produced by manufacturers in Russia, and gradual localization of production in the country. The new conditions did not cancel the existing agreements, but were offered to those producers who were planning to expand production in Russia. In addition, under additional agreements, foreign automakers undertook to create development centres in Russia. Initially, the obstacles seemed formidable, but there was a potential to increase investment.¹ One of the coefficients in the complex localization calculation formula was the rouble component in the total cost of new cars. When the rouble exchange rate fell against the euro and the dollar by half, many producers were not able to meet the localization requirements. The government did not deprive the companies of privileges, but the further deepening of production cycles stopped. At the same time, even with the acknowledged significance of industrial assembly for both the Russian market and partners, it did not pave the way for deeper industrial cooperation in the EAEU region.

POTENTIAL AREAS OF COOPERATION: PLANS AND REALITY

After 2014 the incentives for mutual cooperation between the EAEU and the EU decreased significantly. The uncertainty and conflicts in the Eurasian region,

the difficult position of Armenia, balancing between the EAEU and possible interaction within the Eastern Partnership, as well as the constant problems between Russia and Belarus, seriously complicated the formal negotiations between the two blocks. The political confrontation revealed both problematic and potentially positive areas of cooperation. While the large-scale projects and the institutional framework for bilateral cooperation between the blocks seems unlikely in the near future, there is a clear understanding that some projects and areas of cooperation would contribute to further connectivity and even reduce the structural weakness of the EAEU member states.

Given the geographical location and length of borders both of the EU and the EAEU there is an urgent necessity to create a network of transport and logistic services. There are currently only a few projects in which connectivity could be established: the Silk Road Economic Belt; the corridors of the Organization of Central Asian Regional Economic Cooperation (CAREC); and trans-European network projects (large-scale projects for the construction of transport, energy and telecommunications infrastructure). Economic cooperation in Eurasia requires an efficient land transport network that corresponds with the interests of both the EAEU states, as the recipients of technology and transit revenues, and the EU, in terms of reduction of logistics costs.

The EU could benefit not only from transport networks, but the conjunction of the EAEU and the One Belt-One Road Initiative. The latter could contribute to more intensive cooperation and reduce tensions and rivalry with China. The latter is not confrontational, but there is a historical threat in terms of the distribution of geopolitical power, military and economic privileges in Eurasia.

A lot could be done in respect of technical regulation (Emerson and Kofner, 2018). Research on technical regulations and standards highlights that EAEU members are already implementing many EU standards as the basis for regional technical regulation. The EAEU is also applying many other international standards (ISO, IEC, ITU) that comply with those laid down by European standards organizations (CEN, CENELEC, ETSI). That means that the legal and technical infrastructures for at least some very important and sensitive non-tariff barriers between the two parties are already converging. The convergence of technical standards is extremely important for the elimination of conflicts and disagreements connected with a potential DCFTA with Eastern Euro-

¹ The same approach was used by China, which has established a powerful national auto industry.

pean countries. Another area of mutual cooperation that will enable the expansion of trade and investment is trade facilitation on the base of the WTO.² As emphasized by M. Larionova, vice-president of the Russian Union of Industrialists and Entrepreneurs, trade facilitation issues that are within the exclusive competence of the EAEU and the EU could become the cornerstone of practical interaction between the two. Developing dialogue at supranational level will make it possible to avoid many obstacles in political relations between the two blocks and their members (Larionova, 2018).

EURASIAN FREE-TRADE AREA (FTA): SCIENCE FICTION OR PRAGMATIC PROJECT?

Although it is a familiar topic of discussion, the idea of an FTA between the European Union and the Eurasian Economic Union seems premature in the current circumstances. The relationship between the EU and Russia, the country that looms largest in the EAEU economy, is in deep crisis. Economic cooperation is hampered by mutual sanctions. The coordination of policies between EAEU countries is itself far from optimal. The potential for cooperation between the EU and the EAEU is impressive, but realisation has been hindered so far by the lack of political will among the European partners. As a community, Europe is not yet ready to accept the EAEU as a full partner. The dialogue between European Commission and Eurasian Commission is irregular, sporadic and rather technical than pragmatic.

The achievement of the main goal, an FTA from Lisbon to Vladivostok, is still relevant, but it is obvious that progress will be very gradual. The short-term goal should be reaching an understanding on both sides that further splits in the Eurasian region must be avoided and effective, sustainable and comprehensive economic ties must be established. Effective cooperation could be developed at country level within national competences. As an example on the EAEU side, Armenia, where two integration subjects intersect, can become a platform for creating an atmosphere of trust and a model of cooperation. Furthermore, the EU is the main trading partner and foreign investor for Kazakhstan. The Expanded Partnership and Cooperation Agreement between the EU and Kazakhstan is a good basis for settling regional problems, such as armed extremism or the environment. From the EU the most active participant in the dialogue is Greece, which was confirmed at the EAEU

business forum in 2017. The forum became a platform for the discussion of European and Eurasian integration, initiated at panel sessions of the St Petersburg International Economic Forum and the Eastern Economic Forum in Vladivostok.

The future of EAEU–EU economic and industrial cooperation will be influenced by many factors, hence a well-thought-out approach to further cooperation, which goes beyond merely technical cooperation at the lower administrative levels of the EU, should concentrate on industrial and sectoral interaction and support for contacts between countries in order to develop best practices and apply them at the regional level.

² All EAEU countries except for Belarus are participating in the WTO TFA.

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LIST OF ABBREVIATIONS

EAEU	Eurasian Economic Union
FSU	Former Soviet Union countries
EU	European Union
GDP	Gross Domestic Product
CU	Customs Union
R&D	research and development
EEC	Eurasian Economic Commission
SREB	China's Silk Road Economic Belt
CES countries	Central and Eastern European Countries
JSc NK KTZh	National Company Kazakhstan Temir Zholy, the railway company of Kazakhstan
CIS countries	countries of the Commonwealth of Independent States
PCA	Partnership and cooperation agreement
DCFTA	Deep and Comprehensive Free Trade Areas
NATO	North Atlantic Treaty Organization
NBS	New Russia–EU Basic Agreement
CAREC	Organization of Central Asian Regional Economic Cooperation
ISO	International Organization for Standardization
IEC	International Electrotechnical Commission
ITU	International Telecommunication Union
CEN	European Committee for Standardization
CENELEC	European Committee for Electrotechnical Standardization
ETSI	European Telecommunications Standards Institute
FTA	Free-Trade Area

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SUMMARY

This study examines the development of the Eurasian Economic Union (EAEU) and its relationship with the European Union (EU), a relationship that so far was largely shaped by global economic crises and (geo-)political and military conflicts in its proximity.

The EAEU, while being the most ambitious integration project in the post-soviet space, still faces challenges regarding its prospects. The member states (Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia) economically still largely depend on its extraction industry, with hydrocarbon products being the main export commodity in intra- and interstate trade, although less pronounced

in the latter. Despite ambitions for a coordinated industrial policy, integration is found mainly in the former mentioned sector. Contradictions between the objectives of the EAEU and national economic agendas exist. However, the EAEU is working to overcome these challenges and is moving towards a more coordinated policy in various sectors of the economy, for example the Union's common energy market or a consistent transport infrastructure considering recent developments stemming from the Belt and Road Initiative.

The EU should not underestimate the integration efforts of the EAEU. Sector dialogue can be established

on energy efficiency, energy saving and renewable energy, increasing the level of compatibility of the European and Eurasian energy alliances. In the transport and infrastructure areas, a higher level of connectivity can be achieved and cooperation in the automobile sector is still promising.

The potential for cooperation between the EU and EAEU is impressive. To profit from these possible benefits, an agreement should be reached that avoids further divisions in the Eurasian region. Armenia, where the two integration subjects intersect, can become a platform for creating an atmosphere of trust and a model of cooperation.