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Connectivity in EU's Wider Eastern Neighbourhood

European Union, Eurasian Economic Union and Belt and Road Initiative:

comparative analysis and integration perspectives

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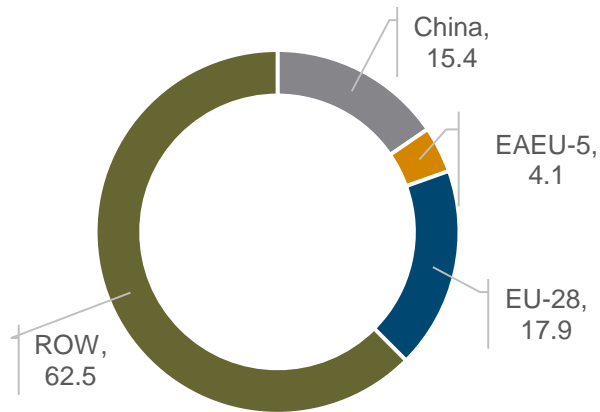
EU, EAEU and BRI in a comparative perspective



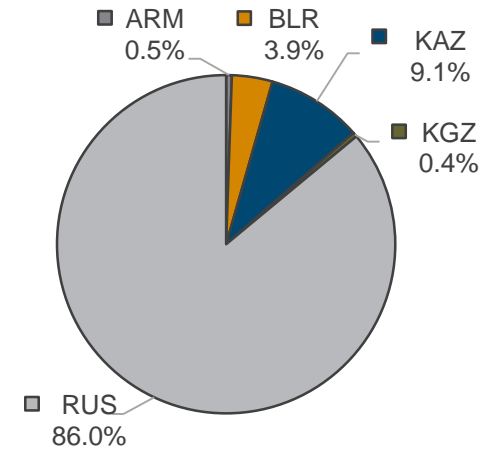
Source: Adarov (2018)

EU, EAEU and BRI in a comparative perspective

World GDP shares at PPP, 2008-2017 avg



GDP shares at PPP within the EAEU, 2008-2017 avg



Source: IMF WEO

EU, EAEU and BRI in a comparative perspective

EAEU (2015): BLR, KAZ, RUS, ARM, KGZ:

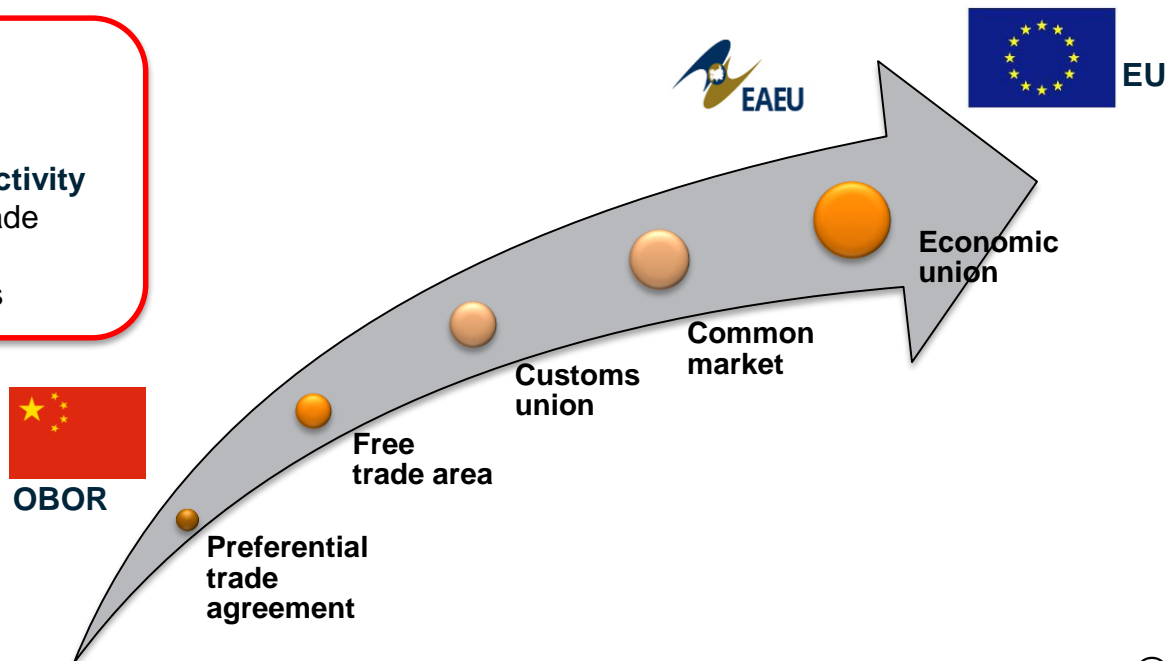
1. Customs union (no internal border controls, common external tariff, harmonization of regulations)
2. 'Four freedoms' (goods, services, capital, labour)
3. Coordination of some economic policies

EU modes of cooperation:

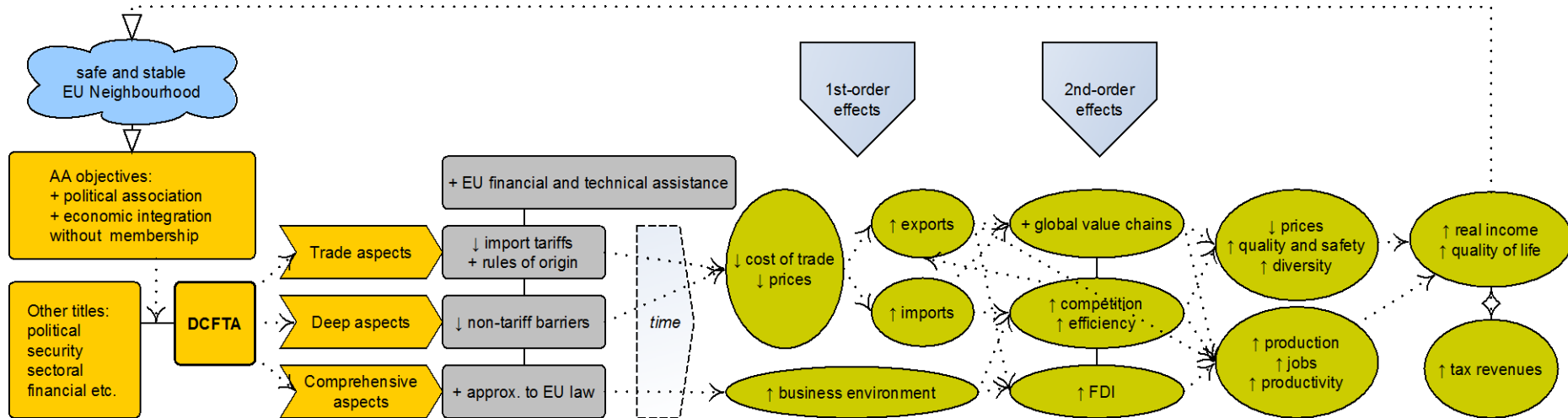
- EU Neighbourhood Policy
- Cooperation/partnership agreements
- AA/DCFTA agreements
- 'EU-Russia Common Spaces'
- No formal framework with the EAEU

BRI: 64-100 countries

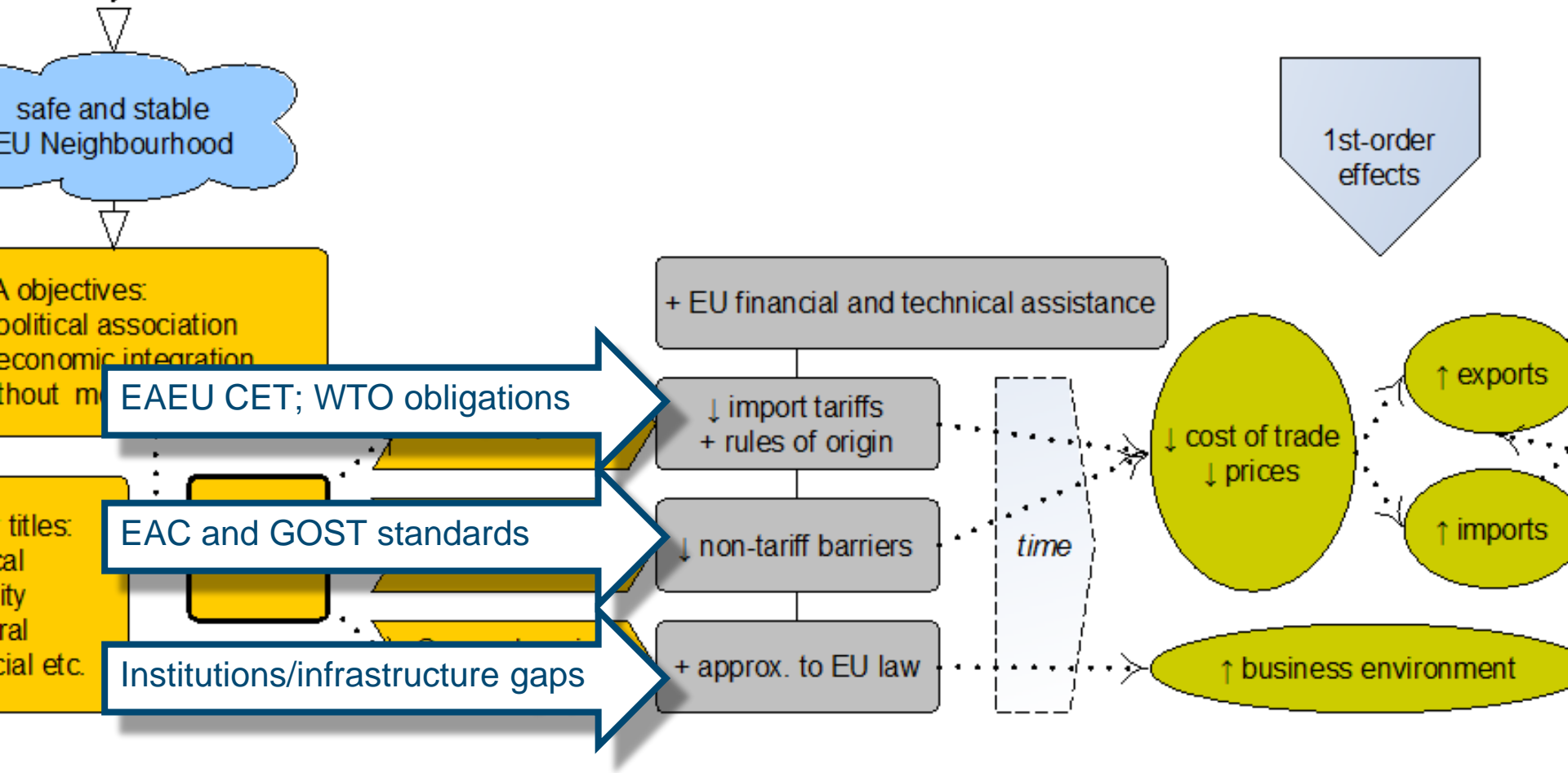
1. Policy coordination
2. **Cross-border connectivity**
3. Unimpeded foreign trade
4. Financial integration
5. People-to-people links



Causal chain of deep economic integration impact (DCFTA example)



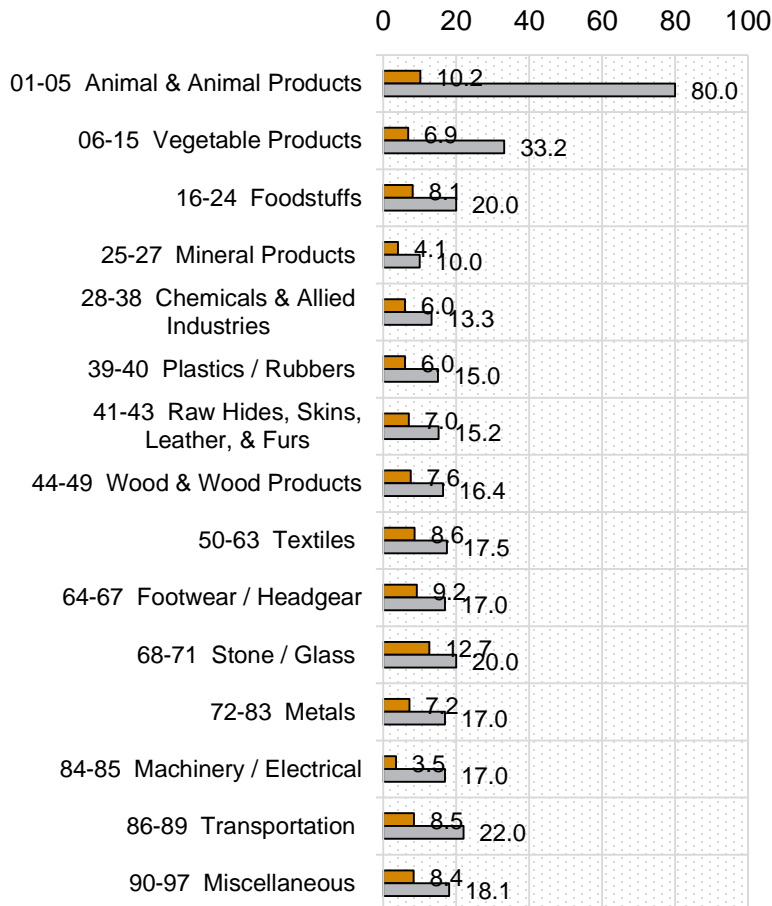
Source: Own elaboration



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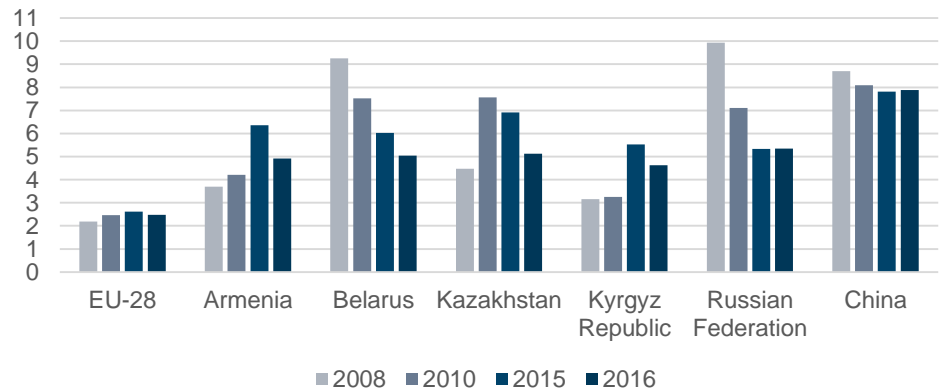
Import tariffs

EAEU CET, avg and max, %

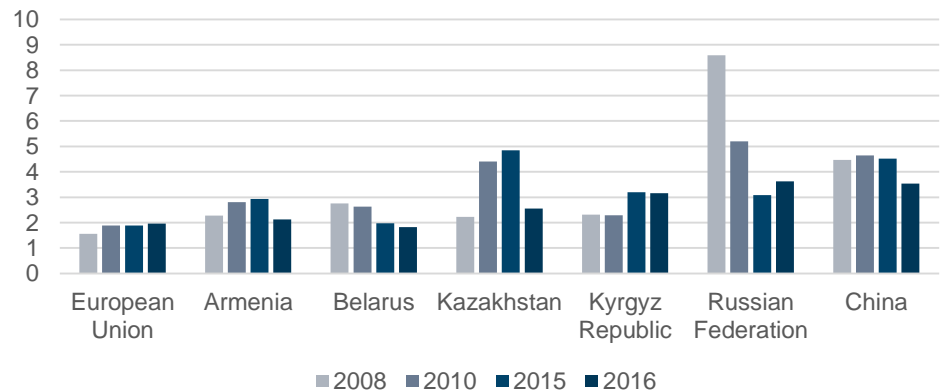


Source: own calculations based on the WTO data for Russia, 2015

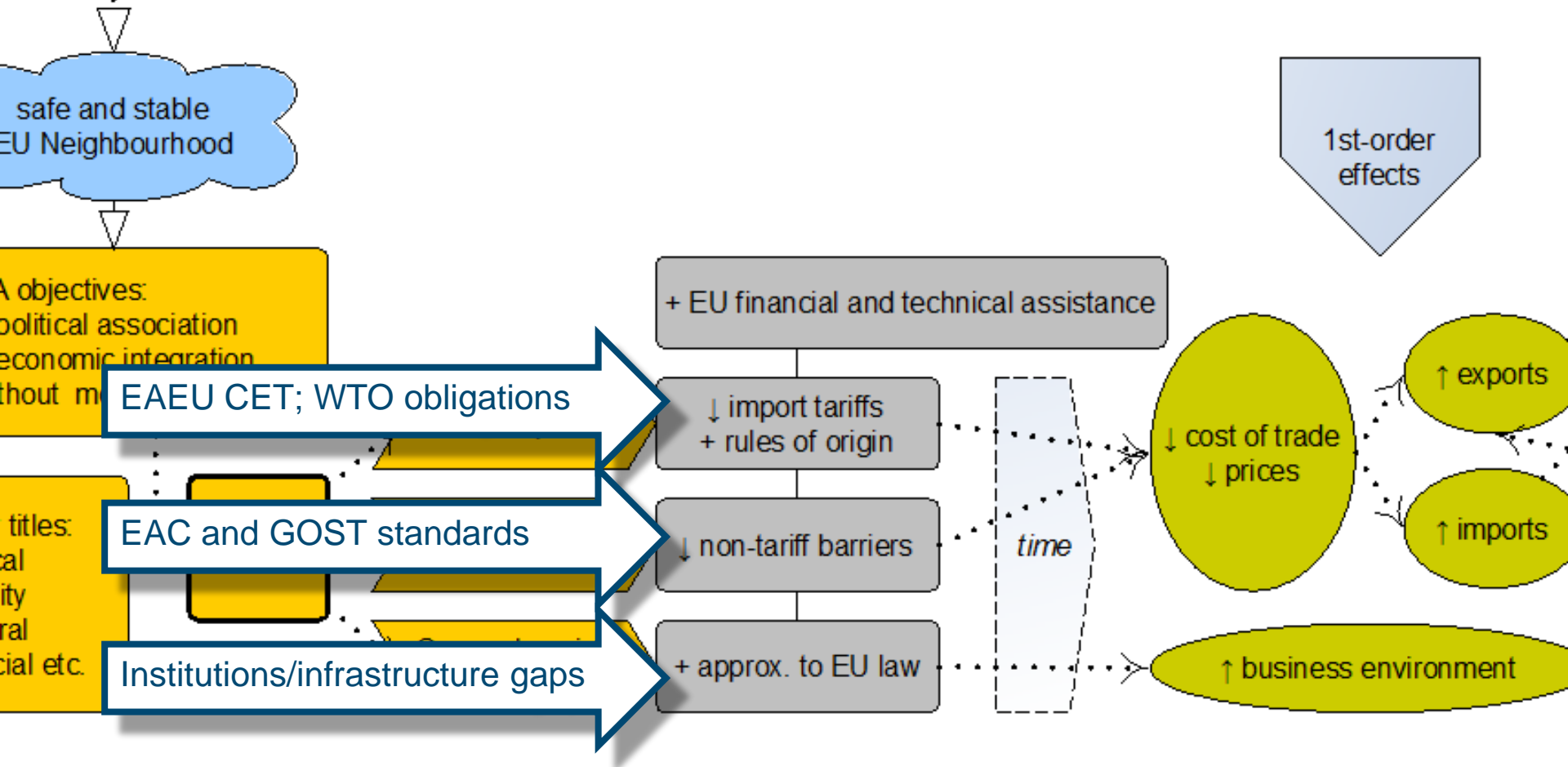
Tariff rate, MFN, simple mean, %



Tariff rate, applied, weighted mean, %



Source: World Bank's WDI



Source: Own elaboration

EAEU and EU: macroeconomic aspects

Trade among the EU, the EAEU and China, USD bn, 2007-2016 average

		Importer			
		EAEU-5	EU-28	China	ROW
Exporter	EAEU-5	51.6	243.1	37.5	188.2
	EU-28	142.3	3494.0	164.2	1686.5
	China	52.4	319.2		1458.4

Source: own calculations using UN Comtrade data

Asymmetric trade composition:

EU -> EAEU: high value-added products (machinery, electronics, etc.)

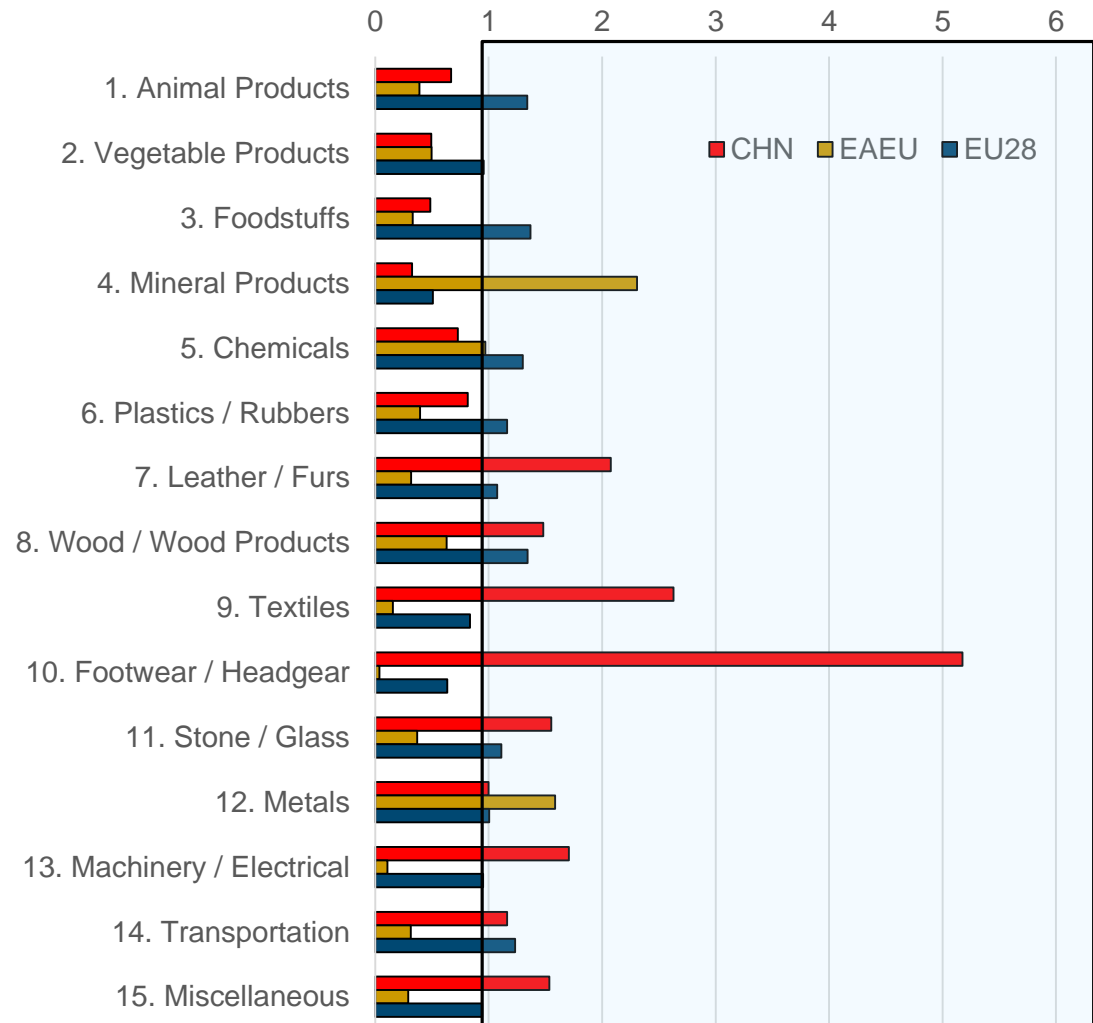
EAEU -> EU: petroleum, metals, and other commodity products

Sectoral competitiveness: EAEU, EU, China

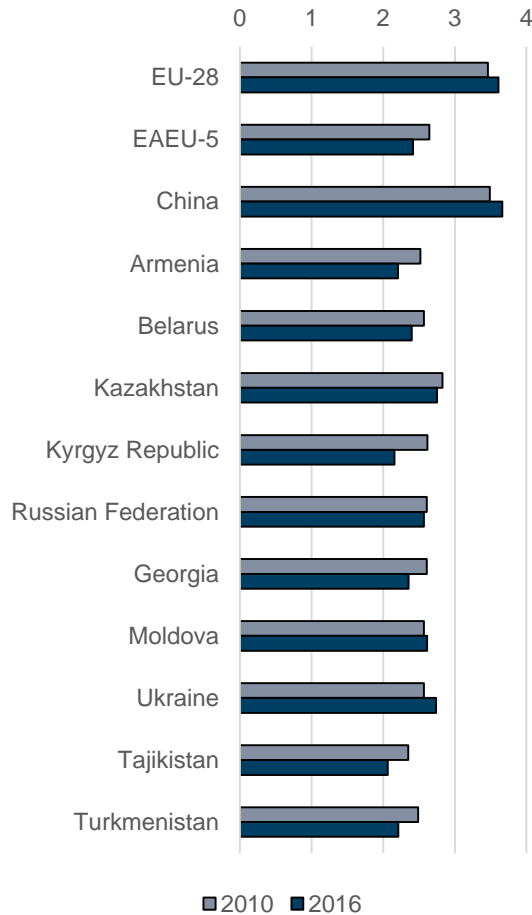
Balassa index (values > 1 indicate global export competitiveness of country *c* in sector *i*):

$$RCA_i = \frac{x(i)_c / X_c}{x(i)_W / X_W}$$

where *x(i)* is the value of exports of industry *i*, *X* is the total value of exports from country *c* or world (*W*).

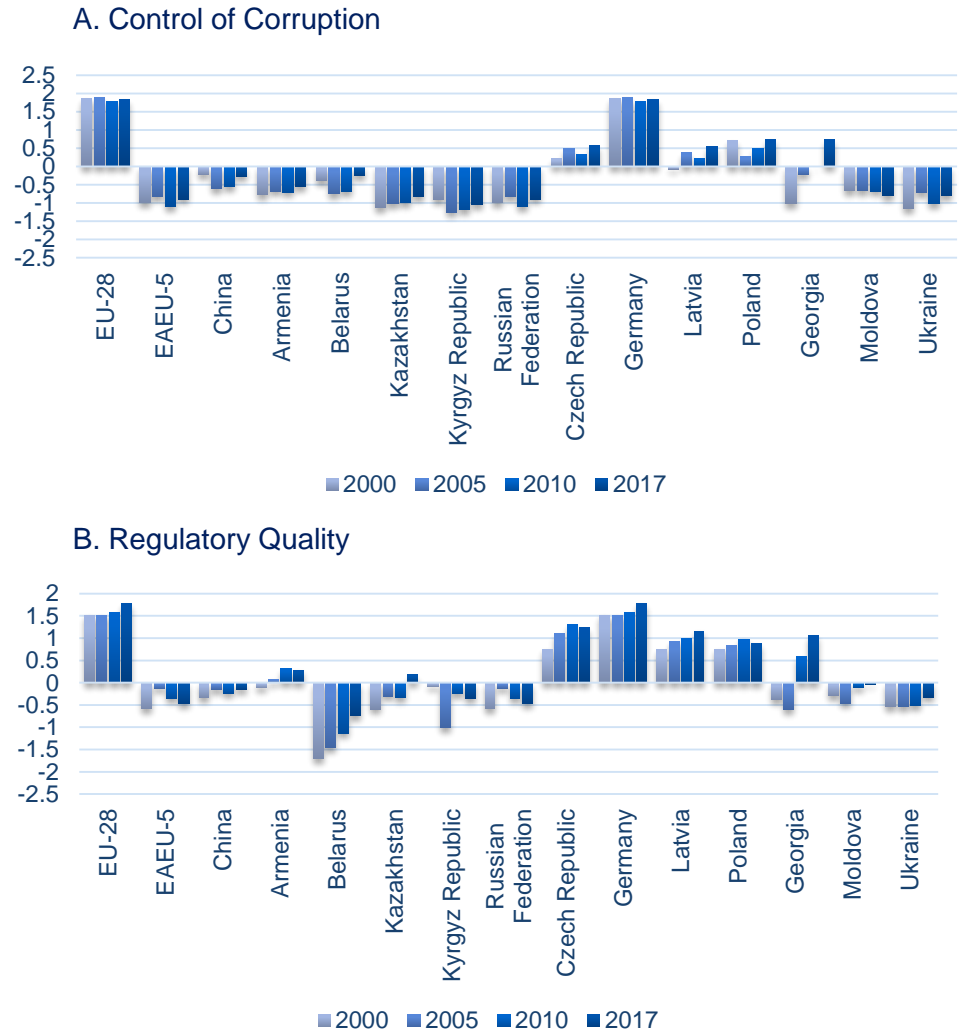


Logistics performance index (1 = low to 5 = high)



Source: World Bank Logistics Performance Index

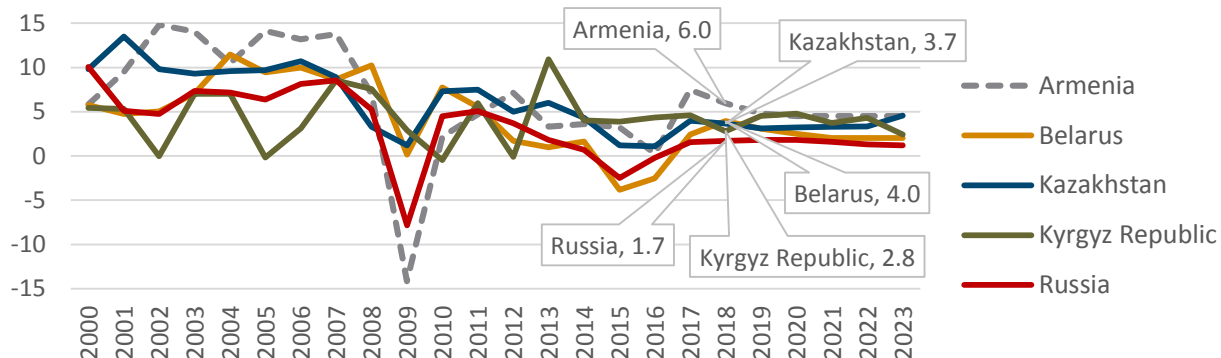
WB WGI Institutional quality (-2.5 = low to 2.5 = high)



Source: World Bank WGI

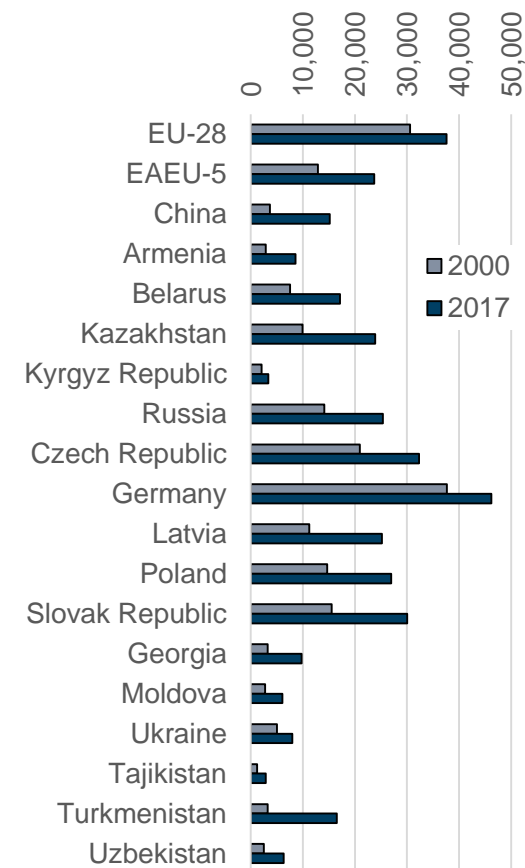
EAEU: macroeconomic aspects

Real GDP growth rates, 2000-2018 (projections: 2019-2023)



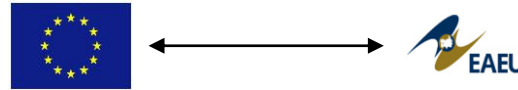
		2005	2010	2017	2018 (e)	2019 (f)
Armenia	Inflation, average consumer prices	0.717	7.274	0.917	3.027	4.446
	Unemployment rate	31.2	19	18.906	18.862	18.561
	Current account balance	-2.528	-13.622	-2.847	-3.798	-3.786
Belarus	Inflation, average consumer prices	10.336	7.743	6.032	5.523	5.511
	Unemployment rate	1.704	0.827	0.768	0.768	0.768
	Current account balance	1.518	-14.471	-1.711	-2.497	-4.236
Kazakhstan	Inflation, average consumer prices	7.541	7.126	7.43	6.411	5.572
	Unemployment rate	8.1	5.783	4.951	4.951	4.951
	Current account balance	-1.814	0.936	-3.358	-0.153	0.176
Kyrgyzstan	Inflation, average consumer prices	4.339	7.968	3.175	2.912	4.643
	Unemployment rate	8.117	8.644	7.12	7.029	7.029
	Current account balance	3.798	-2.186	-4.039	-12.266	-11.833
Russia	Inflation, average consumer prices	12.683	6.854	3.674	2.826	5.088
	Unemployment rate	7.15	7.358	5.2	5.5	5.3
	Current account balance	10.284	4.117	2.246	6.158	5.19

Real GDP per capita, PPP 2011 intern. dollars



Source: IMF WEO, own calculations

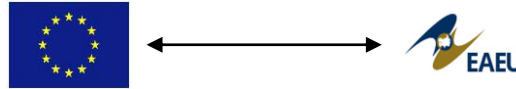
EU-EAEU relations



Challenges:

- Geopolitical tensions and mutual sanctions (Russia-EU)
- Induced import substitution and partial export reorientation in Russia
- Lack of cooperation between the EU and the EAEU regulatory institutions
- Non-tariff barriers to trade: differences in TBT/SPS measures
- General regulatory approximation is challenging
- Intra-EAEU issues related to harmonization of its regulatory framework concerning the 'four freedoms'
- Significant differences in sectoral competitiveness stemming from the issues in infrastructure and institutions
- Limited capacity to implement reforms in the EAEU: macroeconomic challenges, bottlenecks in less developed member states, structural issues

EU-EAEU relations



Way forward?

- Foster pragmatic systematic dialogue: EU-EAEU-BRI
 - Avoid conflict / competition ideology and imposing 'either-or' choices on third countries
 - Focused cooperation at the technical level

- Identify areas of common economic interest:
 - Infrastructure connectivity
 - Facilitate development of lagging regions along the integration route
 - Trade and investment cooperation, especially in the context of regional/global value chains and sectoral priorities
 - Coordinated external financial and technical support for structural reforms
 - Regulatory framework (EU-EAEU-BRI general coherence)

Thank you!

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