

Economic integration in Eastern Europe: EU vs EAEU

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Postsocialist background

- ▶ Since the early 1990s Eastern Europe is going through a process of unprecedented political, economic and social **transformation**
- ▶ **Capitalism** and **democracy** have been introduced in societies without basic institutions (i.e. private property) or relevant experience
- ▶ **Postsocialism** can be seen as a region-wide capitalist revolution, differing from similar revolutions in Western history in one crucial aspect – there were no capitalists or bourgeoisie behind it
- ▶ (Offe, C. (1991) “Capitalism by democratic design? Facing the triple transition in East Central Europe”, *Social Research*, 58(4):865-92)



Integration

- ▶ Across the region integration has been often seen as a viable solution to many of the problems posed by postsocialism
- ▶ Such expectations have been particularly apparent with regard to membership in the European Union, but its Eurasian counterpart has similarly come with a lot of attached enthusiasm
- ▶ How justified it is in both cases can only be verified in the longer term, yet interim economic results help understand popular scepticism that is growing fast in both EAEU and EU



- ▶ For most postsocialist countries INTEGRATION implied abandoning Russia and “(re-)joining” the West (meaning Europe or European Communities)
- ▶ To a large extent this is a reflection of cultural, economic and political influences, as well as of mere geographical realities
- ▶ As the European Communities represented some of the most advanced nations in the world while the Soviet Union/Russia by the late 1980s lagged considerably behind by many economic criteria, turning to the West in that period seemed quite natural
- ▶ Nuances such as substantial differences in political culture and economic development were ignored both in the West, which strove to geopolitical supremacy, and in the East, which was confident in its ability to catch-up



- ▶ As only a few post-communist countries in Eastern Europe were invited to take part in the European integration in the early 1990s, it was logical that some of the remainder decided to develop their own alternative. Hence in the mid-1990s the idea of Eurasian integration was born, and after twenty years of evolution the Eurasian Economic Union (EAEU) came into existence in 2015



- ▶ Both EAEU and EU are projects beyond traditional regionalism, i.e. interstate cooperation – because of their supranational institutional architecture



European Commission

- ▶ Both also aim at solving collective action problem usually manifesting itself through so-called defection and distribution issues
- ▶ Finally, both can be viewed through the prism of traditional institutionalism (sometimes called neo-liberal, which can be confusing for economists) that focuses on states rather than other institutions, including informal



Driving forces

- ▶ **“Demand”** from society, particularly its economic elites, who never stop searching synergies, and **“supply”** from politicians (Mattli 1999, Moravcsik 1998)
- ▶ The EU was ‘set up with the aim of ending the frequent and bloody wars between neighbors, which culminated in the Second World War’ (The history of the European Union. http://europa.eu/about-eu/eu-history/index_en.htm)
- ▶ The EAEU ‘is being created to comprehensively upgrade, raise the competitiveness of and cooperation between the national economies, and to promote stable development in order to raise the living standards of the nations of the Member-States’ (About the Union. <http://www.eaeunion.org/?lang=en#about>)

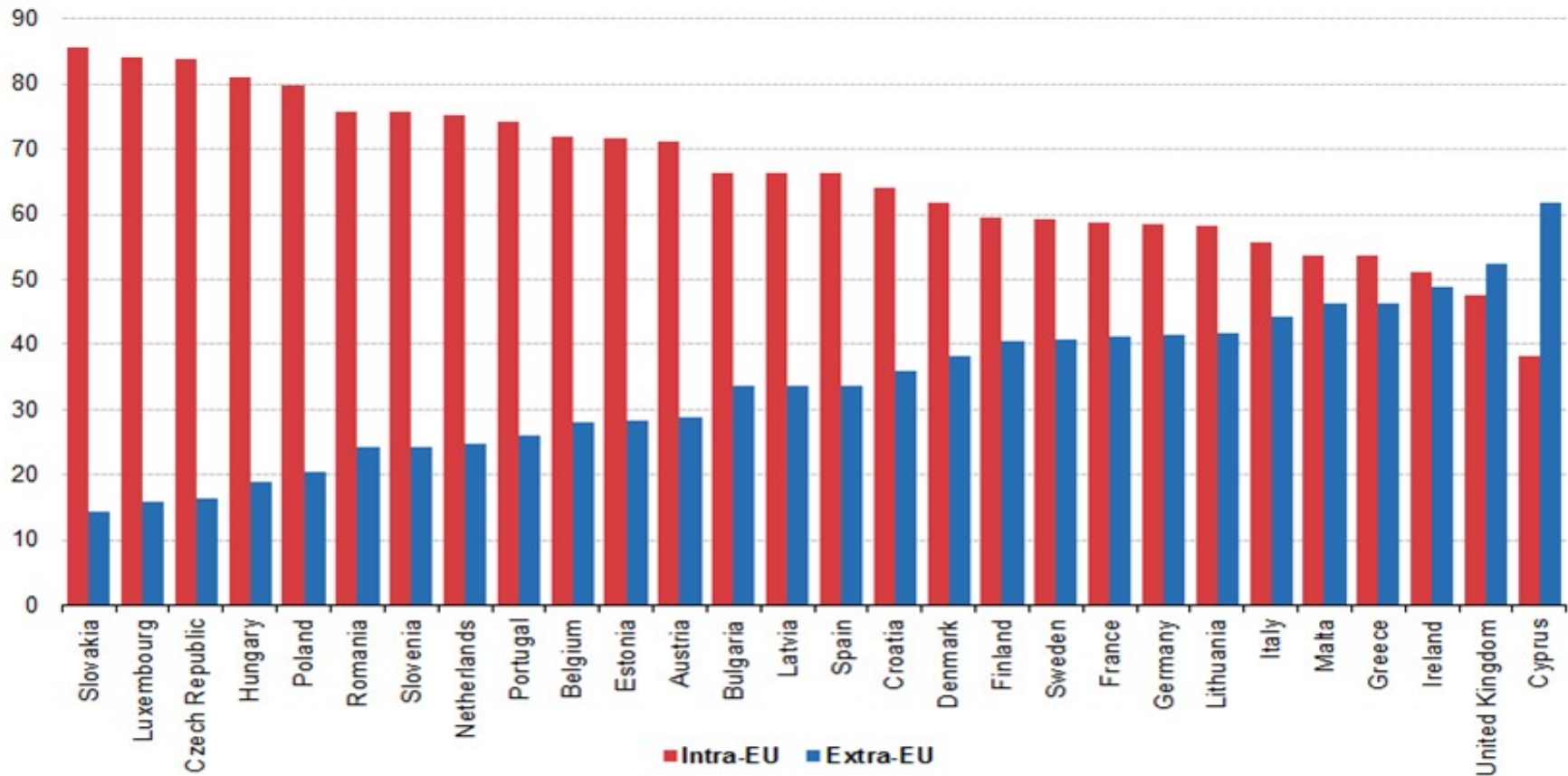


Fundamentals:

Internal trade in EU – 63.9% in 2017

Intra EU exports of goods compared with Extra EU exports of goods by Member State, 2017

(share %)

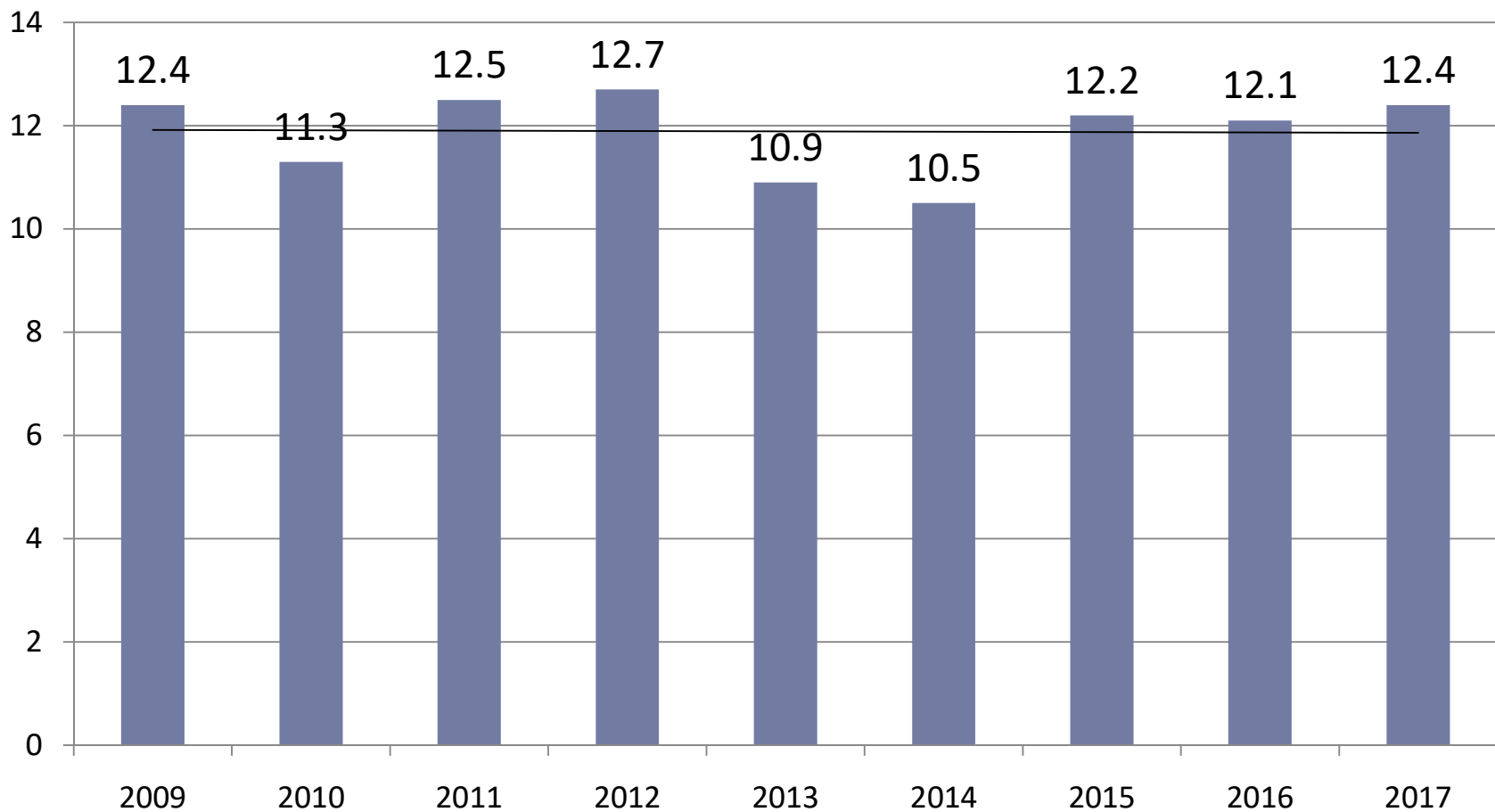


Source: Eurostat, Comext table DS-057009

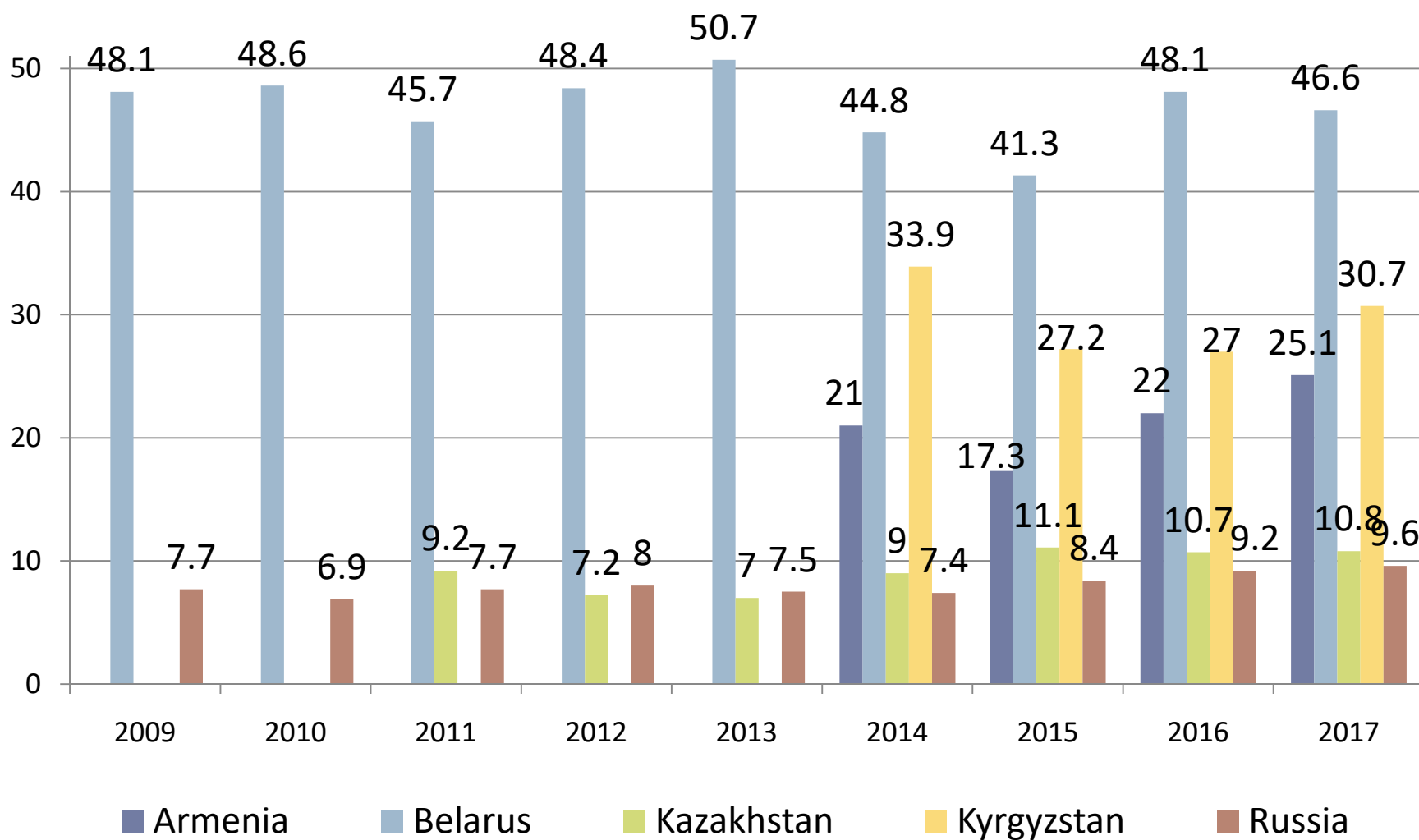
Fundamentals:

Internal trade in EAEU – 12.4% in 2017

(http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/trade_stat/tables/intra/Documents/...)



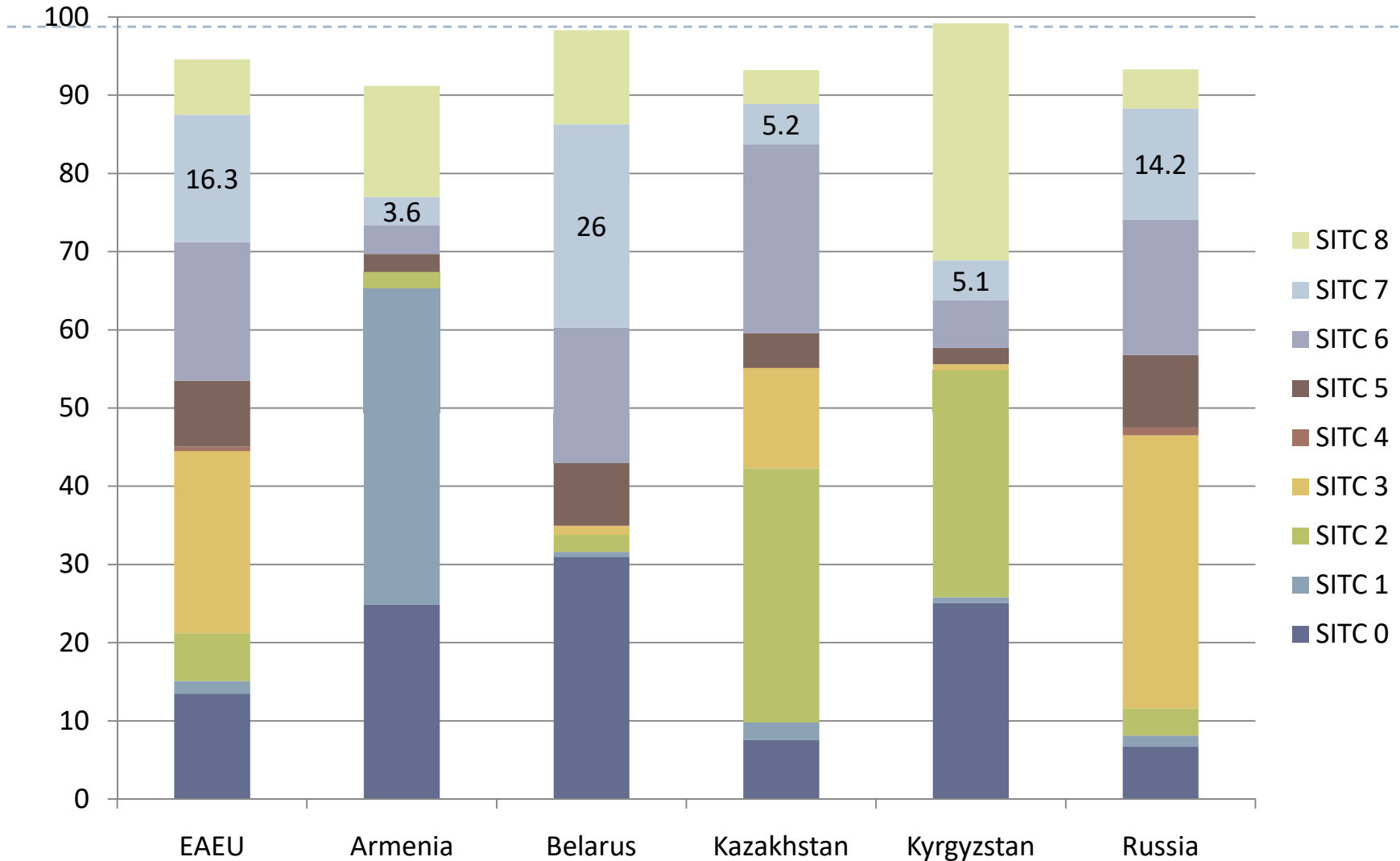
Fundamentals: mutual trade in the EAEU (share of internal exports in total), 2009-2017



Fundamentals (cont.)

- ▶ A more careful look at the structure of mutual trade within the EAEU may be helpful in understanding some of its current challenges
- ▶ Dominated by Russia (63.4% in 2017), it consists mostly of crude oil and natural gas (SITC 33/34, HS27, 60% in 2016), basic commodities that can be sold anywhere (given the necessary infrastructure) **and may not require the level of sophistication in trade negotiations typical for more complex manufactured goods**
- ▶ The latter, registered chiefly in SITC 7 group (machines and transport equipment), accounted for only one seventh of total Russian exports to its EAEU partners in 2016, compared to just 3.5% in exports outside the Union for the same year. At the same time, SITC 7 exports of Belarus within the EAEU stood at as much as 26% of respective total, the highest level among its partners
- ▶ ‘Four fifths of total exports of goods within the EU in 2017 were manufactured products’ [Eurostat]

SITC structure of EAEU members' mutual exports in 2016



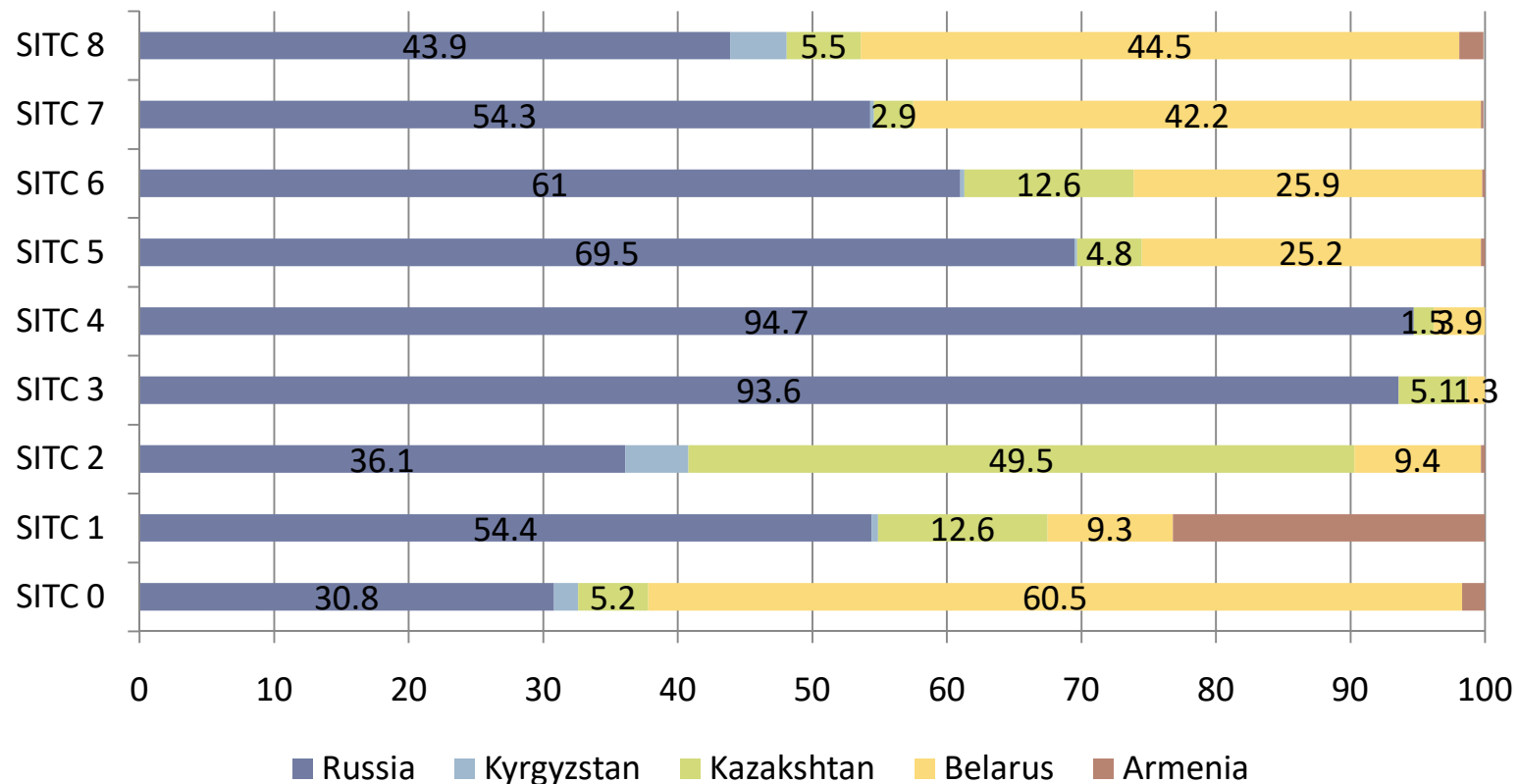
SITC – Standard International Trade Classification

originally adopted by United Nations in 1950, currently in its 4th revision (2006)

- ▶ SITC 0 – food and live animals
 - ▶ SITC 1 – beverages and tobacco
 - ▶ SITC 2 – crude materials, inedible, except fuels
 - ▶ SITC 3 – mineral fuels, lubricants and related materials
 - ▶ SITC 4 – animal and vegetable oils, fats and waxes
 - ▶ SITC 5 – chemicals and related products
 - ▶ SITC 6 – manufactured goods classified chiefly by material
 - ▶ SITC 7 – machinery and transport equipment
 - ▶ SITC 8 – miscellaneous manufactured articles
 - ▶ SITC 9 – others
-



- ▶ To be sure, in absolute terms Russia would outweigh Belarus in SITC7 just as in the majority of other groups, but it is clear that none of its EAEU peers, including Kazakhstan, could even stand close to it in 2016 by SITC 0 – food products



Fundamentals (end)

- ▶ Data above clearly demonstrate a special role of Belarus in the EAEU mutual trade – despite its minor economic proportions compared to those of Russia, this country comes closest to its far bigger eastern neighbor by most SITC categories in intra-EAEU exports.
- ▶ Considering that Belarus' intra-EAEU export shares are highest in manufacturing-related SITC (5, 6, 7, 8), as well as in food production (SITC 0), where it comes second to none with 60% of the EAEU respective total, it is not surprising that Belarusian authorities are most careful and sensitive about trade dimension of the EAEU, i.e. its fundamentals



Fundamentals of Belarus standing in EAEU

- ▶ Belarus is an advocate of Eurasian integration not only because of its current trade benefits – as a net exporter of manufactured goods it needs support from its bigger partners not only with market access, but as a source of investment
 - ▶ The country has inherited an industrial base that is hard to sustain using national capital only, taking into account its rather weak domestic savings profile due to both hyperinflation episode of the early 1990s and a series of sudden devaluations in more recent period (since 2009)
 - ▶ Access to alternative western markets (of both goods and capital) has been restricted for various reasons, political ones being important but apparently secondary to marketing, regulatory and technical ones
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EAEU vs EU

- ▶ There is no rational explanation to why Eurasian and European integration projects should not be compatible, i.e. peacefully co-exist and produce social and economic synergies
- ▶ They are based on ideas which do not conflict each other in principle, and for this reason there is essentially no hard choice between them, at least for the former USSR republics outside the EU
- ▶ Nevertheless, comparing or even discussing the European and Eurasian integration projects in ways free from ideological bias has unfortunately not yet become common



- ▶ On the one hand, the research unit of the Eurasian Development Bank features publications titled “Conflict of Two Integrations”, “Dead-End of Integration Struggle in Europe”...



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Тупик борьбы интеграций в Европе

Т Задача доклада — анализ проекта «Восточного партнерства» Евросоюза, его последствий для экономического сотрудничества и партнерских отношений в Большой Европе. Исследование базируется в том числе на количественных и качественных оценках финансово-экономических издержек текущего кризиса в Украине, расчетах вероятных потерь двух наиболее активных из стран СНГ участников «Восточного партнерства» — Украины и Молдовы — из-за неизбежного снижения уровня их торгово-экономического сотрудничества с Россией и Таможенным союзом (оценки приводятся на основе открытых источников информации по состоянию в основном на май текущего года). Доклад подготовлен при участии директора ЦИИ ЕАБР Евгения Винокурова по заказу Комитета гражданских инициатив.

Текст доклада

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- Интеграционный барометр ЕАБР — 2016
- Мониторинг взаимных инвестиций в странах СНГ — 2016
- Европейский союз и Евразийский экономический союз: долгосрочный диалог и перспективы соглашения

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- ▶ On the other hand we have the following statement by Cambridge University professor David Lane, the author of numerous works on Eastern Europe:



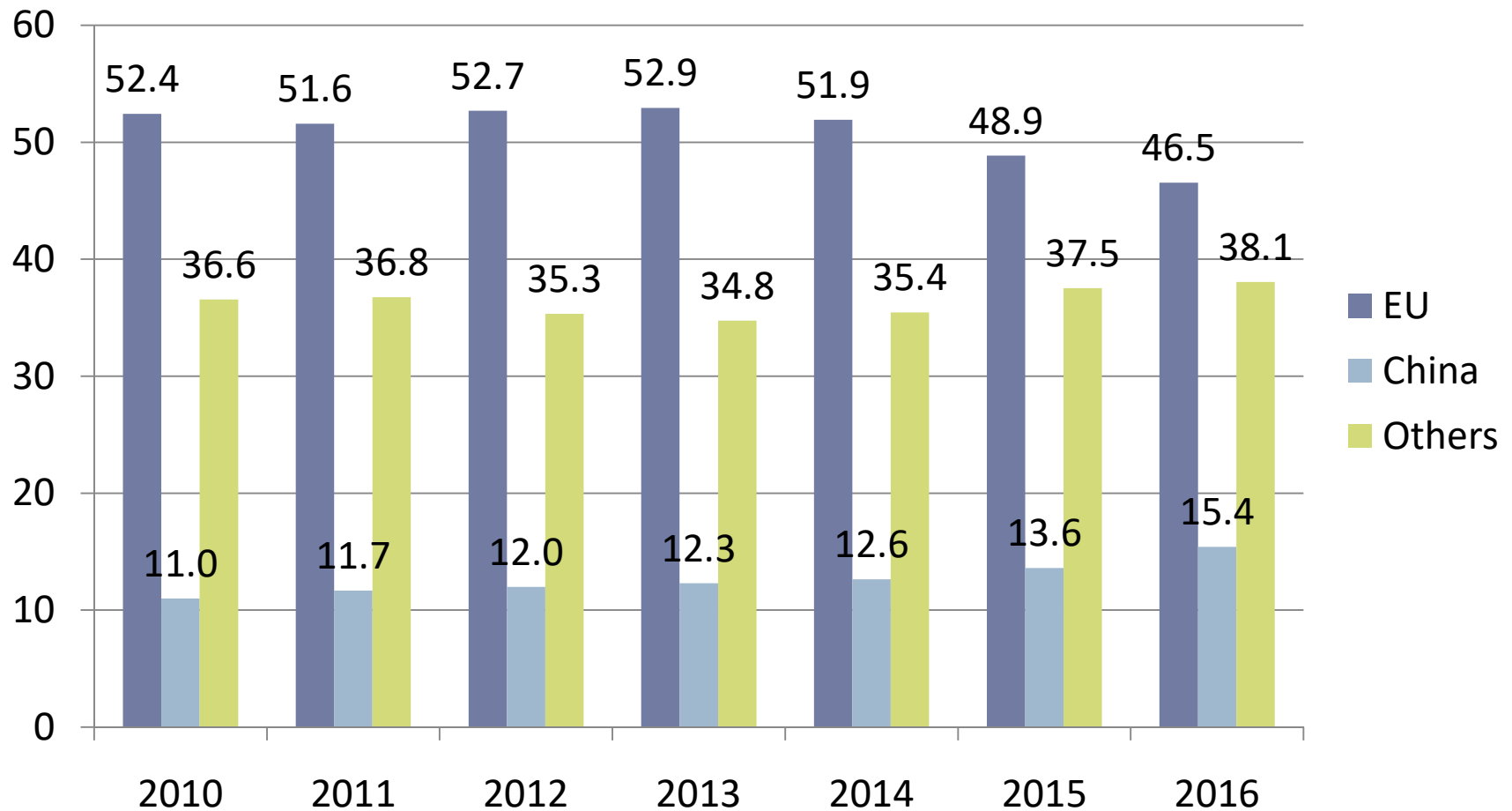
- ▶ *“The decline of the CIS states and degeneration of their societies into chaos have precipitated the ideas of Eurasianism and the proposed Eurasian Union. Post-Soviet political leaders have sought to find the illusive “alternative” to the neo-liberal ideology learned from the West, which to them legitimates the political and economic hegemony of the United States. In this quest they seek forms of association which would bring them into the world economy on more equal and, optimistically, more beneficial terms than they have so far managed to achieve”*

- ▶ <http://blogs.lse.ac.uk/europpblog/2014/04/10/eurasian-integration.../>
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Economic fundamentals for EAEU/EU compatibility – merchandise trade

EU and China shares in EAEU total merchandise trade turnover, %, 2010-2016



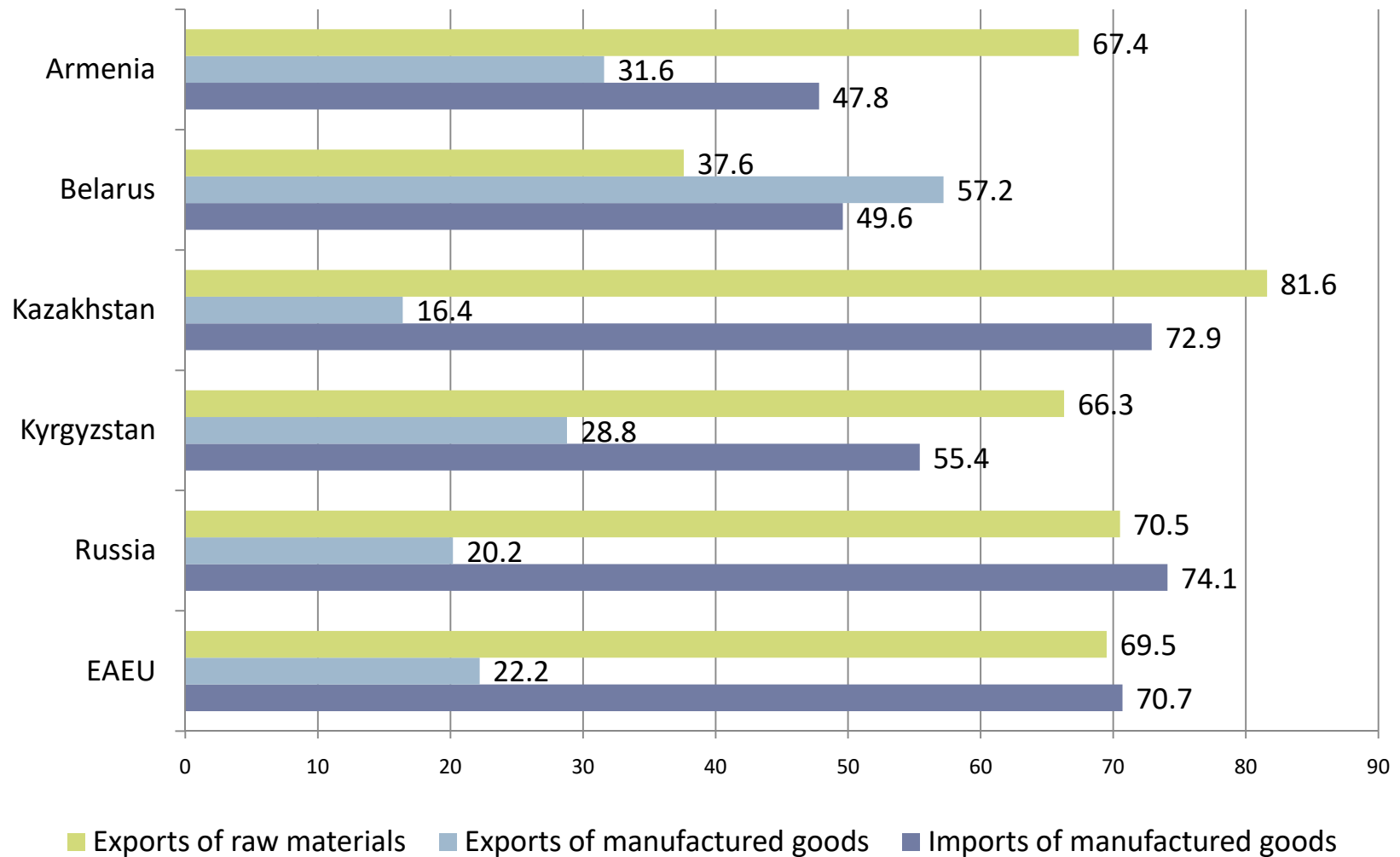
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- ▶ European Union is the destination for slightly over a half of the Eurasian exports and home to slightly less than a half of the corresponding imports. Netherlands, Italy and Germany accounted for more than half of these exports, whereas nearly half of the EU-sourced imports again came from as few as three members, in this case Germany, Italy and France
 - ▶ EAEU/EU has some structural specifics that reflect EAEU status as a major exporter of resources, especially oil and gas, and net importer of manufactured goods, especially machinery
 - ▶ Energy resources account for 60% of EAEU exports to EU, while machinery account for about 50% of corresponding imports



Structural profile of EAEU foreign trade

Average for 1995-2016

http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en



Prospects

- ▶ Arguably, this profile plays an important role in determining fundamentals of EAEU/EU relations, and it is down to EAEU to improve it thus improving its economic standing vs EU
- ▶ Similar to challenges faced by Belarus inside the EAEU (related to its specific trade and investment profile), the more sophisticated EAEU/EU trade becomes, the more constructive its relations get – industrialists will have to lobby for more rational and less ideological approaches currently applied by politicians on both sides of the continent's integration spectrum



Vielen dank!

