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Zhelev, Paskal; Garashchuk, Anna

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Prospects for Free Trade Between the Eurasian Economic Union and the European Union After the Sanctions

PASKAL ZHELEV*

(University of National and World Economy)

ANNA GARASHCHUK**

(University of Malaga)

Abstract

With growing US protectionism and uncertainties in the transatlantic relationship it is time for the EU to consider diversifying its external ties and look for other allies that support the idea of free trade gains and have a common interest in maintaining the international rules-based trading system. The Eurasian Economic Union (EEU) which shares a common neighbourhood and is a crucial supplier of raw materials interested in getting technology transfer represents a natural trading partner of the EU. While there are currently no political (sanctions against Russia) and legal (Belarus is not yet a WTO member) preconditions for starting free trade negotiations, given the high economic significance and positive security implications such a possibility should be considered. This paper undertakes a comprehensive assessment of the potential welfare effects of a possible future EU-EEU FTA based on the Sussex Framework. Such an analysis provides important information on bilateral trade patterns and insights on the economic implications that would be useful once sanctions are removed and bilateral trade relations normalized. The results show that in the long term the aim should be a deep and comprehensive free trade agreement that goes beyond mere removal of trade barriers which could however be a feasible first step.

Keywords: free trade agreements, Eurasian Economic Union, EU, trade indicators, Sussex Framework.

Introduction

Although Europe has been able to rely on the US for the last 70 years nowadays the new Trump administration seems to be drawing back from

* Paskal Zhelev, PhD, is an Associate Professor at the Department of International Economic Relations and Business, University of National and World Economy, Bulgaria (pzhelev@unwe.bg).

** Anna Garashchuk, PhD, is a researcher at Jean Monnet Center of Excellence on European and Global Studies and Research, University of Malaga, Spain (anutka735@gmail.com).

globalization and liberal values making the EU no longer be certain that the US will support the multilateral order. Springford and Odendahl (2017) stress that Trump does not understand international trade, does not like bodies such as the World Trade Organization and, consequently, his administration may undermine the multilateral organizations.¹

On the other hand, the global financial and economic crisis of 2008 and anaemic economic growth after it, Brexit in 2016, failure to control irregular migration from the Middle East and North Africa, the situation in Ukraine and the sanction war with Russia, populist parties that want to destroy the EU project have jointly seriously challenged the EU's economic stability and internal unity. In such situation the EU not only did devalue its position as a strategic partner for third countries but even inside the Union more and more people began questioning whether the process of globalization and economic liberalization were delivering benefits to them.

The EU's Eastern Partnership (the ambitious project of the European Neighbourhood Policy), established in 2008 with a view to "create stability, good governance and economic prosperity for its participants has been a 'near-total failure' "² especially for EU-Russian relations. In this regard, Trenin (2014) argues that it was the EU's Eastern Partnership that was at the origin of the Ukraine crisis.³ DeBardeleben (2011) highlights that this initiative was formulated unilaterally by the EU where Russia was an object of the policy rather than co-author of a joint strategy to stabilize the EU's new eastern frontier.⁴ Moreover, Russia was unhappy about being put in the same category as countries clearly having less power and status in the region. It is worth mentioning that both Russia and China found this initiative against their interests and tried to propose alternative projects to shape the countries around them challenging Western models of economic and political integration. One such project is the Eurasian Economic Union (EEU) led by Russia and established in 2015 that besides Russia encompasses Armenia, Belarus, Kazakhstan and Kyrgyzstan. However, the EEU is economically weak especially due to the hard economic situation in Russia. Another regional project in Eurasia is China's 'Belt and Road Initiative' (BRI) designed to link China to Europe both by land and by sea. The BRI is probably the most

¹ John Springford and Christian Odendahl, "Trump, trade and the EU: Two wrongs don't make a right," CER insight, (February 2017), accessed August 25, 2019, <https://www.cer.eu/insights/trump-trade-and-eu-two-wrongs-dont-make-right>.

² Ian Bond, "The EU, The Eurasian Economic Union and One Belt, One Road: Can they work together," *Centre for European Reform*, (March 2017): 3.

³ Dmitri Trenin, *The Ukraine Crisis and The Resumption of Great-Power Rivalry* (Moscow: Carnegie Moscow Center, 2014): 20.

⁴ Joan DeBardeleben, "Revising the EU's European Neighborhood Policy: The Eastern Partnership and Russia," in *Russian Foreign Policy in the 21st Century*, ed. Roger E. Kanet (London: Palgrave Macmillan, 2011), 247.

ambitious and attractive project which pursues to include many countries and delivers investment and development in the region providing economic benefits for its participants. Russia pursues a strategic partnership with China while working together on the 'New Silk Road' project even though their interests are not identical.⁵

Nowadays with growing US protectionism and uncertainties in the transatlantic relationship it is time for the EU to diversify its external ties and look for other allies that share the idea of free trade gains and have a common interest in maintaining the international rules-based trading system. The current EU's Trade and Investment Strategy published in 2015 implicitly lays out a "Pivot to Asia" and in this context the EU has already concluded (with Singapore, Vietnam, Japan) or is negotiating free trade and investment agreements with a number of Asian countries.⁶ However, a missing geographical link in the relations between the EU and Asia is a closer cooperation with the Eurasian Economic Union.

It should be stressed that regardless of the import-substitution policy that Russia is trying to pursue in order to move away from gas and oil dependence⁷ it has well realized that real economic diversification could only be achieved if supported industries are export-oriented. Thus the EEU is searching for trade partners actively promoting free trade agreements (FTAs). Such FTAs have already been signed with Vietnam and Iran while with Israel, India and Singapore are under negotiation. In this regard, the EU and the EEU may join their efforts for protecting FTAs, globalization and multilateral bodies in order to counterweight the US new administration policy of protectionism. While FTA between the EU and the EEU themselves seems quite unrealistic at the moment due to the EU-Russian tension, it should not be rejected right away. Despite some differences in political systems and values there are shared economic interests for both entities that make finding common approaches worth the effort instead of passively observing as the existing order is replaced by something much more hostile to the EU's values and interests.⁸ The European Commission (2015) also acknowledges that the EU's strategic interest is to achieve closer economic ties with Russia (accordingly the EEU), though that depends on domestic and foreign policy developments which so far give no signs of the necessary changes.⁹

⁵ Bond, *The EU*, 1.

⁶ Cora Jungbluth, "Trump & Brexit - European-Asian Economic Relations under New Conditions", (GED Focus Paper, Bertelsmann Stiftung, September 2017): 6.

⁷ Richard Connolly and Philip Hanson, "Import Substitution and Economic Sovereignty in Russia," The Royal Institute of International Affairs (Chatham house research paper, June 2016): 2.

⁸ Bond, *The EU*, 13.

⁹ European Commission, "Trade for all – towards more responsible trade and investment policy" (Luxembourg: Publications Office of the European Union, October, 2015): 34,

The main obstacle for EU-EEU rapprochement is undoubtedly the situation in Ukraine and the sanctions between the EU and Russia. However, we argue that the step-by-step economic cooperation between the two blocs first can mitigate the political confrontation and second may become the platform for deeper collaboration when the crisis in Ukraine is resolved. Thus, in order to develop a vision of the future bilateral relations it would be useful to understand the potential effects of signing an FTA. The present study does not downgrade political factors but refrains from politicization and focuses on the economic issues of possible EU-EEU cooperation. The main aim is to examine the potential effects on the economic welfare of possible trade liberalization between the EEU and EU.

The first part of the article provides a literature review with a twofold purpose – to describe the EEU as a regional integration bloc and to present the bilateral economic relations of the EEU with the EU. The second part exhibits the methodology of analysis which involves calculation of trade indicators based on the Sussex Framework. Finally, the results of the analysis are discussed outlining the prospects of future economic relations between the EU and the EEU.

Literature Review

The literature review consists of two parts. In the first part the EEU is analysed as a new regional project within the post-Soviet space in order to present a common view of this nascent organization. In the second part EEU's foreign economic activities are studied with a particular focus on obstacles and possibilities for EU-EEU cooperation.

Eurasian Economic Union as a Regional Economic Integration Project

Since the dissolution of the Soviet Union several attempts have been made to implement a project of regional organization in the post-Soviet space. However, speaking of integration in the post-Soviet era, it is worth highlighting that a great many academics¹⁰ have come to the conclusion that although the

accessed August 25, 2019, https://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153846.pdf.

¹⁰ Anastassia Obydenkova, "Multi-Level Governance in Post-Soviet Eurasia: Problems and Promises," in *Handbook on Multi-Level Governance*, eds. Henrik Enderlein, Sonja Wälti and Michael Zürn (January 2010): 292-308; Alexander Libman and Evgeny Vinokurov,

integration existed on paper, in reality it did not possess any political or economic clout. Even perhaps the most famous organization in the post-Soviet space, that being the Commonwealth of Independent States (CIS), has managed merely to ensure a ‘civilized divorce’.¹¹ The failure can be partly explained by the fact that Russia – as well as other nascent post-Soviet states – after being economically destroyed by the collapse of the Soviet Empire, had to focus on solving their own domestic problems rather than to opt for precarious and costly integration projects at that time. Kirkham (2016) argues that stripped of any substantial financial resources these countries saw Western economies as future investors and, therefore, Eurasian integration was not economically prioritised.¹²

Nevertheless, Russia had not totally abandoned the idea of reintegration into post-Soviet space, and as a result, on the basis of previous integration projects, the Eurasian Economic Union was created. The idea of a Eurasian Union with a clear focus on economic matters came from Nursultan Nazarbayev, President of the Republic of Kazakhstan¹³ and, consequently, the project was borrowed by Vladimir Putin, the Russian President, as a “model of a powerful, supranational association capable of becoming one of the poles of the modern world” and a bridge “between Europe and the dynamic Asia-Pacific Region.”¹⁴ In October 2007 the “Troika” (Belarus, Kazakhstan and Russia) — the three countries that represent the kernel of the regional integration — signed the Agreement on the establishment of a customs union (CU). The Common Customs Tariff went into force in 2010.¹⁵ Thus the CU can be considered as the EEU’s predecessor. Subsequently, Armenia and Kyrgyzstan joined the organization in 2015. However, according to Vinokurov (2017), the EEU is still best viewed as a functioning customs union with a rich additional agenda.¹⁶

Holding-Together Regionalism: Twenty Years of Post-Soviet Integration (Basingstoke: Palgrave MacMillan, 2012), accessed August 25, 2019, <http://mpr.ub.uni-muenchen.de/61646/>.

¹¹ The term was applied by Putin at a Conference in 2005 during which he stated that unlike the European countries, which worked together for integration in the format of the EU, the CIS was established with the only purpose of ensuring a ‘civilized divorce’ of the Soviet Union.

¹² Ksenia Kirkham, “The formation of the Eurasian Economic Union: How successful is the Russian regional hegemony?,” *Journal of Eurasian Studies* 7, Issue 2 (July 2016): 116.

¹³ The speech was given in March 1994 at Moscow State University.

¹⁴ Putin’s words cited in Golam Mostafa, “The concept of ‘Eurasia’: Kazakhstan’s Eurasian policy and its implications,” *Journal of Eurasian Studies* 4, Issue 2, (July 2013): 162.

¹⁵ The evolution of Eurasian integration is described in more detail in the following surveys: Libman and Vinokurov, *Holding-Together Regionalism*; Pablo Podadera Rivera and Anna Garashchuk, “The Eurasian Economic Union: prospective regional integration in the post-Soviet space or just geopolitical project?,” *Eastern Journal of European Studies* 7, Issue 2, (December 2016): 91-110.

¹⁶ Evgeny Vinokurov, “Eurasian Economic Union: Current state and preliminary results,” *Russian Journal of Economics* 3, Issue 1 (2017): 69.

The EEU does not seem to have been welcomed by Western countries. For the West the EEU looks like a neo-imperialist project promoted by Russia with a view to reviving its splendour of a Great Empire.¹⁷ Thus, Bond (2017) highlights that the EU has taken a largely negative approach to the EEU which it sees through the prism of Russia's political ambitions.¹⁸ It is worth mentioning that many authors¹⁹ concur in their opinions considering the EEU more as a geopolitical project rather than an economic one. However, Vasileva (2017) highlights that the EEU's institutions lack a political mandate making the EEU a harmless project.²⁰ Kirkham (2016) stresses that Russia has always been treated with suspicion by the West, which proceeded with its institutional development against rather than with Russia and as a result it was excluded de facto from the institutional expansion both from a political-economic (the IMF and the World Bank) and military (NATO's operational activities and border expansion) point of view. In this regard the author strongly believes that Europe left the Russian Federation with no alternative other than a reintegration project with the post-Soviet states.²¹

The EEU nonetheless is the most ambitious²² and the only functioning project with supranational bodies for deep integration in the post-Soviet space.

¹⁷ Lilia Shevtsova, "The Return of Personalized Power," *Journal of Democracy* 20, Issue 2 (April 2009): 61–65; Dmitri Trenin, *Post-Imperium. Carnegie Endowment for International Peace* (Washington, DC, 2011): 1-194; Andrei Tsygankov, *Russia and the West from Alexander to Putin: Honour in international relations* (Cambridge/ New York: Cambridge University Press, 2012); Marcel M. Van Herpen, *Putin's wars: The rise of Russia's new imperialism* (Maryland: Rowman & Littlefield Publishers, February, 2014): 1-296.

¹⁸ Bond, *The EU*, 8.

¹⁹ Paul Kubicek, "The Commonwealth of Independent States: An Example of Failed Regionalism?," *Review of International Studies*, Vol. 35, (February 2009): 237-256; Trenin, *Post-Imperium*; Carol R. Savietz, "The Ties That Bind? Russia's Evolving Relations with Its Neighbors," *Communist and Post-Communist Studies*, no. 45 (2012): 401-412; Andrey Zagorski, "Caught between the Economy and Geopolitics," in *Analyses and Perspectives from Belarus, Kazakhstan, and Russia*, eds. Friedrich Ebert Stiftung Felix Hett and Susanne Szkola, (February 2015): 4-7; Dossym Satpayev, "Kazakhstan: Economic Integration Without Relinquishing Sovereignty," in *The Eurasian Economic Union. Analyses and Perspectives from Belarus, Kazakhstan, and Russia*, eds. Friedrich Ebert Stiftung Felix Hett and Susanne Szkola, (February 2015): 11-14; Arseniy Sivickiy, "Belarus: Muted Integration Euphoria," in *Analyses and Perspectives from Belarus, Kazakhstan, and Russia*, eds. Friedrich Ebert Stiftung Felix Hett and Susanne Szkola, (February 2015): 15-18; Alexandra Vasileva, *Why the European Union Should Talk with the Eurasian Economic Union?* (Friedrich Ebert Stiftung, September 2017): 1-10; Podadera and Garashchuk "The Eurasian Economic Union."

²⁰ Vasileva, *Why the EU Should Talk*, 4.

²¹ Kirkham, "The formation of the Eurasian Economic Union", 121.

²² Christopher Hartwell, "A Eurasian (Or a Soviet) Union? Consequences of Further Economic Integration in the Commonwealth of Independent States," *Business Horizons* 56, Issue 4, (2013): 411-420; Elena Kuzmina, "Expansion and Free Trade," in *The*

However, the formation of a common identity is the cornerstone on which depends the ultimate success of the regional integration project. Taking into consideration that the members of the EEU might not have lost their Soviet character entirely, these old ties should help to re-establish a Eurasian identity. Nonetheless, researchers argue that the former connections will disappear in time, and the leftover states will become part of either Europe or the Islamic world²³ for the simple reason that increased integration with the EU would be more advantageous than joining Russia to form post-Soviet independent states.²⁴ Moreover, Kirkham (2016) emphasizes that some of these inherited Soviet values have a negative impact on the current political systems of the post-Soviet states, resulting in bureaucratic inflexibility, non-market driven ways of doing business, corruption and monopolisation of strategic industries. She also suggests that the EEU authorities should work diligently for the construction of a common identity by launching cultural projects in order to battle Russo-phobia.²⁵

With regard to the methodology, Dragneva and Wolczuk (2013),²⁶ to cite two examples, have attempted to apply a neo-institutional and neo-functional approach to analysing the financial benefits that the EEU would bring to its member-states. Kirkham (2016) has pioneered in applying the neo-Gramscian approach to analysing the potential for the EEU as a Russian counter-hegemonic initiative that presupposes the analysis of four core elements: the institutional design, the capitalist system, geopolitics and cultural leadership, delivering the results via SWOT-analysis. Nevertheless, the lack of empirical evidence, due to the fact that the EEU is an infant project, seems to be the main shortcoming uncovered in recent research.

Eurasian Economic Union Analyses and Perspectives from Belarus, Kazakhstan, and Russia, eds. Friedrich Ebert Stiftung Felix Hett and Susanne Szkola, (February 2015): 8-10; Zagorski, "Caught between the Economy and Geopolitics."

²³ Abbott Gleason, "Eurasia: What Is It?" *Journal of Eurasian Studies* 1, No. 1 (January 2010): 26-32; Aleksey Malashenko, "Zametki o prostranstve, imenuemom postsovetskim, i o tom, chto tam delaet Rossiya," (Notes on the space called post-Soviet and what Russia is doing there). *Druzhba Narodov*, no 9, (2011): 135-152; Andrei Tsygankov, "The Heartland No More: Russia's Weakness and Eurasia's Meltdown," *Journal of Eurasian Studies* 3, Issue 1 (January 2012): 1-9.

²⁴ Veronika Movchan and Ricardo Guicci, *Quantitative Assessment of Ukraine's Regional Integration Options: DCFTA with European Union vs. Customs Union with Russia, Belarus and Kazakhstan* (Mimeo, German Advisory Group, Institute for Economic Research and Policy Consulting, November 2011): 1-13, accessed August 25, 2019, https://www.beratergruppe-ukraine.de/download/Beraterpapiere/2011/PP_05_2011_en.pdf.

²⁵ Kirkham, "The formation of the Eurasian Economic Union," 123.

²⁶ Rilka Dragneva and Kataryna Wolczuk, *Eurasian economic integration: Law, policy and politics* (Cheltenham, UK, and Northampton, MA: Edward Elgar, 2013), 1-225.

Obstacles and Possibilities for EU-EEU cooperation

Despite being an ambitious regional integration project the EEU is too small to become a self-sufficient market. In this regard Vinokurov (2017) highlights that any attempts to erect an “Eurasian fortress” are suicidal.²⁷ The EEU is actively searching for partners via building up a network of free trade areas (FTAs) with large trade partners. Thus, the EEU has already signed FTAs with Vietnam and Iran, while those with Israel, India and Singapore are under negotiation. Karaganov et al. (2015) argue that cooperation with China is crucial for the EEU which will provide powerful impetus to regional development in Central Asia, Siberia, and the Far East.²⁸ In this regard, the EEU and China have signed a Trade and Economic Cooperation Agreement hand in hand with the involvement of each in China’s new strategic concept — the Silk Road Economic Belt. Although the cooperation between the EU and the EEU is currently obstructed by a profound crisis in EU-Russian relationships, according to Vinokurov and Libman (2012) long-term sustainable development of the EEU is only possible if it relies on close cooperation not only with China but with the EU as well.²⁹ In spite of the fact that simultaneous membership in the EEU and an FTA with the EU is technically impossible due to the fact that member-states of both custom unions cannot have bilateral trade relations with other partners Vasileva (2017) argues that economic cooperation between the EU and the EEU is still possible on a union level and can be achieved by lowering trade barriers, harmonizing standards and creating a common free trade area.³⁰

Although there have been no official talks between the EU and the EEU or any engagement above the level of technical standard harmonization Vasileva (2017) thinks that the EU-EEU dialogue could be a first small step towards solving some more complicated political crises in Europe and contribution to establishing a common and indivisible Euro-Atlantic and Eurasian security community stretching from Vancouver to Vladivostok.³¹ Bond (2017) points out that European Commission officials do not want to give the EEU legitimacy by dealing with it formally (as Russia would like), so they limit themselves to informal contacts. But within those limitations, there is still some progress, for instance in harmonising EU and EEU standards.³²

²⁷ Vinokurov, “Eurasian Economic Union,” 66.

²⁸ Sergey Karaganov et al., “Toward the Great Ocean: Creating Central Eurasia. The Silk Road Economic Belt and the priorities of the Eurasian states’ joint development,” (Moscow: Valdai Discussion Club, June 2015): 4-23, accessed August 25, 2019, <http://karaganov.ru/content/images/uploaded/a7a117d7310c6e15bf14bf0f6d2f56ae.pdf>.

²⁹ Evgeny Vinokurov and Alexander Libman, *Eurasian integration: Challenges of transcontinental regionalism* (Basingstoke: Palgrave Macmillan, 2012), 1-230.

³⁰ Vasileva, *Why the EU Should Talk*, 1.

³¹ *Ibid.*, 7.

³² Bond, *The EU*, 8.

Vasileva (2017) argues that the Eurasian Economic Union (and the Eurasian Economic Commission in particular) is a suitable channel for dialogue since it is a multilateral economic organization.³³ According to Bond (2017) the fact that the EEU is institutionally limited to the economic sphere and that the BRI is primarily a project for regional cooperation makes it easier to justify practical collaboration. The author also points out that both the EU and China recognize that they cannot work together effectively along the Silk Road without taking some account of Russia and its historical links in the region.³⁴ Moreover the fact that the sanctions between the EU and Russia have not been escalated to the level of the EEU can become some kind of 'bridge' in improving relationships and contributing to economic rapprochement between the two unions. Vinokurov (2018) proposed a possible 'mega-deal' between the EU and the EEU, involving trade agreements, removal of non-tariff barriers, the creation of integrated electricity markets and visa liberalization.³⁵ Nevertheless Bond (2017) argues that it is better to start with more realistic expectations promoting gradual economic rapprochement. With this regard he opines that the EU should work quietly and incrementally with the Eurasian Economic Commission, relevant Chinese agencies and the countries along the routes of the Silk Road Belt with a view to facilitate trade across the whole region, aiming gradually to reduce tariffs and remove non-tariff barriers, and to promote transparency, good governance and the rule of law, initially at least limited to the commercial sphere.³⁶

It is worth mentioning that EEU member-states show a vivid interest in cooperating with the EU. Thus, Kazakhstan signed the Enhanced Partnership and Co-operation Agreement with the EU in December 2015. Armenia signed the specially designed Comprehensive and Enhanced Partnership Agreement with the EU in November 2017. Moldova is a member of the Deep and Comprehensive Free Trade Area (DCFTA) that recently became an observer to the EEU. Bond (2017) highlights that some EEU member states like Belarus and Kazakhstan prefer bilateral negotiations with the EU. In this regard the author points out that despite all foreseeable difficulties the EU should make the effort to reach out to the members of the EEU and China.³⁷ De Jong (2016) argues that Russia's economic downturn eroded the EEU's attractiveness as a motor for economic integration and growing disillusionment on the part of the individual EEU members about the union should mean that there will be more willingness on their part to pursue a distinctly multi-vector foreign policy that

³³ Vasileva, *Why the EU Should Talk*, 3.

³⁴ Bond, *The EU*, 8.

³⁵ Evgeny Vinokurov, *Introduction to the Eurasian Economic Union* (Basingstoke: Palgrave Macmillan, 2018): 128.

³⁶ Bond, *The EU, the Eurasian Economic Union and One Belt, One Road*, 9.

³⁷ *Ibid.*, 13.

seeks greater cooperation both with the EU and with China.³⁸ However, we argue that the promotion of bilateral relations with individual members of the EEU without considering the interests of Russia can provoke more conflicts and instability both within the union and in the region obliging countries to decide either to cooperate with the EU or with the EEU. In this regard for economic rapprochement with the EU it would be better to use a multilateral platform via the Eurasian Economic Commission.

It is noteworthy that according to Russia's 2016 foreign policy strategy creation of a common economic space between the EU and the EEU is one of the strategic priorities in the relations with the EU while for the EU the cooperation between two unions is conditional on the implementation of the Minsk II agreement. Nevertheless, the sanctions and the situation in Ukraine probably is the main but far from the only obstacle for rapprochement between the EU and the EEU. First of all, at the beginning the EU has taken a negative approach to the EEU which is seen through the prism of Russia's political ambitions, and in this regard, it would be difficult to get rid of these stereotypes. Second, the blocs have different political regimes and values. And finally, it should not be forgotten that substantial economic asymmetries between both parties exist. Thus, the EU's GDP is almost 5 times higher than EEU's GDP (current US \$, PPP) and EU's GDP per capita exceeds 1.6 times those of the EEU (see Figure 1).

Because of these economic asymmetries, closer cooperation might not bring equal gains for every country and the inflow of more competitive goods from Europe to the EEU market will challenge some industries and lead to their restructuring. According to a study commissioned by the Bertelsmann Stiftung the long-term economic benefits of an EU-EEU FTA would outweigh potential negative transitional costs but economic transition should be effectively managed in order to achieve popular political support for the agreement. The author suggests two potentially complementary approaches to smooth the transition. First, trade barriers should be removed to sectors with comparative advantage while for the rest this should happen subsequently and gradually. Second, programmes providing technical and financial support should be implemented by the participating states including some assistance from the EU for the poorest countries.³⁹ In this regard, this contribution aims to estimate the economic possibilities for the cooperation by using the methodology of Sussex Framework which is described in detail under a later heading.

³⁸ Sijbren De Jong, "The Eurasian Economic Union and the European Union Geopolitics, Geo-Economics and Opportunities for Europe," *European Policy Analysis*, no. 11 (September 2016): 9.

³⁹ Christian Bluth, "Free Trade from Lisbon to Vladivostok - A Tool for Peace and Prosperity: The Effects of a Free Trade Area between the EU and the Eurasian Region," Bertelsmann Stiftung, GED Studies, (2016): 13.

Methodology

Various methods are used by economists to analyse effects of Regional Trade Agreements (RTAs) defined as reciprocal trade agreements between two or more partners including FTAs and Customs Unions. Some of them are simple and based on trade indicators while others are more complex and include computable general equilibrium (CGE) or partial equilibrium (PE) market simulation models, and econometric analysis. The latter are very useful but have a number of limitations for policymakers. Simulation models require a high level of expertise and are very demanding in terms of data requirements. Cross-country econometric models have been useful in testing hypotheses about causal relationships, including links to policy changes in the past, but do not provide enough structural detail to support analysis of the impact of, for example, a given RTA.⁴⁰ Therefore, we are going to use trade indicators which are very informative and provide for a preliminary ascertainment of the pros and cons of taking part in an RTA, which can be discussed at the initial negotiations.⁴¹

Since RTAs are a second-best solution to universal trade liberalization as they involve the removal of trade barriers between participating countries but discrimination against non-members, their effects on welfare could be ambiguous. This is traditionally analysed through the concepts of *trade creation* and *trade diversion* put forward by J. Viner (1950).⁴² Trade creation arises when more efficiently produced imported goods from new partner countries replace less efficient domestically produced goods which increases welfare. There is trade diversion when sources of supply shift from more efficient non-partner countries to less efficient partner countries which involves a welfare loss. Whether an RTA is net welfare increasing or decreasing depends on the relative strengths of these two effects and requires empirical analysis to identify the outcome. There are a number of “rules of thumb” that help evaluate this net welfare impact:

- the higher are the initial tariffs between the trading partners, the greater is the likelihood of both trade creation and trade diversion;

⁴⁰ David Evans et al., *Assessing Regional Trade Agreements with Developing Countries: Shallow and Deep Integration, Trade, Productivity, and Economic Performance* (CARIS, University of Sussex, Study for DFID, 2007): 2.

⁴¹ Evgeny Vinokurov et al., “EU-EAEU Potential Economic Integration: Methodological Approaches to the Assessment of Economic Impact”, IIASA project “Challenges and opportunities of economic integration within a wider European and Eurasian space” (International Institute for Applied Systems Analysis, 2016): 5.

⁴² Jacob Viner, *The Customs Union Issue* (New York: Carnegie Endowment, 1950): 1-221.

- the greater the number of RTA partners the more likely it is that there will be overlaps with cost differences, and therefore the greater the likelihood of trade creation;
- the wider the difference in comparative advantages between countries and the higher the initial share of trade between them, the more likely the trade agreement will be welfare improving;
- the more similar is the product mix in the partner countries, the more likely it is that there will be trade creation because there is more scope for specialization;
- the higher the percentage of trade with potential partners, the greater the possibility that the RTA will be welfare increasing.⁴³

The “Sussex Framework” developed at the University of Sussex represents an analytical template to identify the central questions in considering the potential benefits of a proposed RTA. Within the Framework a range of diagnostic indicators (grounded in economic theory and related to the rules of thumb) are used to shed light directly and indirectly on the welfare consequences of a given RTA. These indicators focus mostly on elements of shallow integration (shallow, or negative, integration involves the removal of border barriers to trade, typically tariffs and quotas) but also on deep integration (deep, or positive, integration involves policies and institutions that facilitate trade by reducing or eliminating regulatory and behind-the-border impediments to trade). They reflect the current state of knowledge in economics about facilitating economic integration. The value-added from the Framework arises from putting together existing knowledge in a coherent package, identifying and explaining the relevance of particular statistical indicators.⁴⁴ The steps for analysing are as follows:

- interpretation of tariff barriers;
- analysis of export and import dynamics;
- analysis of geographical distribution of trade;
- analysis of sectoral composition of trade;
- analysis of comparative advantages;
- analysis of export similarity;
- analysis of the possibility for deep integration: intra-industry trade.

The indicators used in the analysis process are provided in Table1 (see Annexes). The Framework, the usefulness of the diagnostic indicators and the rules of thumb have been put to empirical validation against more sophisticated

⁴³ Maryla Maliszewska et. al., *Economic Feasibility, General Economic Impact and Implications of a Free Trade Agreement between the European Union and Georgia*, (Center for Social and Economic Research, Network Reports no. 79, ISBN 978-83-7178-457-6, 2008):31; UNCTAD, “Regional Trading Agreements, Virtual Institute Teaching Material” (NY and Geneva, 2010): 22-23.

⁴⁴ Evans et al., *Assessing Regional Trade Agreements with Developing Countries*, 2.

and resource-intensive analytical methods, notably general equilibrium and partial equilibrium modelling. Overall the Sussex Framework gives very similar predictions of the likely economic effects with the considerable added advantage of working at a much more detailed sectoral and geographical level.⁴⁵

Results

In this contribution the possible welfare impacts of regional trade agreement between the EU and the EEU is analysed. The period is from 2010 (when the Common Customs Tariff went into force between Belarus, Kazakhstan and Russia) till 2017. The analysis is presented under the following headings.

Tariff analysis

As a first step in assessing the possible effects of signing an RTA is looking at the average tariff rates of the parties under analysis. As the first rule of thumb suggests, the higher the initial tariffs, the higher the possible effects on both trade creation and trade diversion after those barriers are removed under the new preferential regime.

Since the Customs Union is at the foundations of the Eurasian economic integration and there is a Common Customs Tariff (CCT) in effect we are going to use data for Russia's MFN applied tariffs as a very close approximation of the tariffs applied by the EEU (they are not yet unified as the CCT does not cover all goods generally due to various obligations of the member states to the WTO).

Russia's accession to the WTO in 2012 has led to several rounds of declining CCT rates.⁴⁶ From Table 2 we can ascertain that by 2018 the MFN tariffs applied by Russia are already low and comparable to the ones applied by the EU. We can therefore infer that a future reduction of tariff barriers under a potential EU-EEU FTA is expected to have limited scope for either trade creation or trade diversion, especially when it comes to non-agricultural products.

It should be added that certain product groups still enjoy high tariff protection within the EEU. Besides agricultural products like meat, beverages and sugars, these are: arms and ammunition (16% equivalent ad valorem tariff), articles of leather (13%), vehicles (12%), furniture (12%) and ceramic products

⁴⁵ UNCTAD, "Regional Trading Agreements," 170.

⁴⁶ Vinokurov, *Introduction to the Eurasian Economic Union*, 68.

(11%).⁴⁷ They are going to experience downsizing effects after trade liberalization and some transitional period should be stipulated, especially in the case of the automotive industry.

Export-Import Dynamics and Geographical Distribution

The analysis of parties' export and import is the first step to explore whether the EU and the EEU are "natural" trading partners. Although it is important to capture export-import structures for a longer time so as to discern the natural evolution of trade, in our case the period is limited by the fact the EEU is a young organization. It should not be forgotten that till 2015 the EEU did not exist, however, there was its predecessor - the Customs Union between Russia, Kazakhstan and Belarus. The evolution of export-import of EEU's export and import with the EU is shown in Figure 2.

From 2010 till 2013 there was a significant growth both in EEU's import and export to the EU. However, after 2013 there was a sharp decline in bilateral trade due to stagnation and further recession of Russian economy in general, sanctions between the EU and Russia and low oil prices (the largest economies of the EEU – Russia and Kazakhstan – are strongly depended on oil prices). It is worth mentioning that as Russia represents 86% of EEU's GDP, the EEU reflects above all the economic situation in Russia. Nevertheless, in 2018 a significant increase both in export and import (especially export) can be observed.

As for the trade balance, the EEU traditionally exports to the EU much more goods than imports from it and constantly registers a merchandise trade surplus. All in all, it should be recognized that despite the crisis in Russian-EU relations the strong trade interdependence between the two unions continues being very significant. The EU depends on raw materials from Russia and Kazakhstan while EEU member-states are depended on investment and consumer goods from the EU. However, both parties try to diminish this interdependency by diversification of their suppliers.

The openness index is indicative of an outwardly oriented economy. The openness index both for the EEU and the EU is shown in Figure 3. It should be noticed that from the beginning when the Common Customs Tariff went into force the Openness Index was not high especially compared with the EU and stood at 55%. In 2014 there was a strong decline of the Openness Index in the EEU due to economic difficulties within the union. In 2017 the Openness Index stood at 37.5% what is more than two times less than the EU's Index.

⁴⁷ According to data from the International Trade Center, accessed August 25, 2019, www.trademap.org.

The analysis of export-import structures by main trading partners is one of the most important steps of the “Sussex Framework”. Forming an RTA with a partner with which the country currently does little trade suggests there may be limited scope for expansion. The EEU’s partners’ distribution is shown in Figure 4.

Observing Figure 4 it can be said that the EU is the main trade partner for the EEU, even though by 2017 its share decreased by 5 p.p. in import and by 6 p.p. in export comparing with 2010 due to economic difficulties in the EEU (especially in Russia), sanctions and low oil prices. On the other hand, China’s share increased by 5 p.p. both in import and export structures. As for Ukraine, despite the crisis with Russia, the country continues being dependent on EEU’s raw materials even though its share declined by 1 p.p. in EEU’s export structure. However, the import from Ukraine declined significantly and while being the third biggest importer in 2010 it is not among the EEU’s main five import partners anymore. Thus, if the EEU and the EU were integrated the countries on the post-Soviet space would not be obliged to choose between the two unions and would not have to incur economic losses due to the reorientation of trade. Surprisingly, in spite of the political crisis between Russia and the West, the USA’s share in the EEU import increased by 1 p.p.

Based on the Sussex Framework, given the important position and still high though declining weight of the EU both as an import and export partner of the EEU, we can expect that there are opportunities for further expansion of exports in both directions if barriers to trade between the two partners are reduced.

Analysis of sectoral composition of trade

Following the Sussex Framework, it is important to consider the sectoral pattern of trade as it can help identify the sectoral distribution of likely trade creation and trade diversion and also those sectors which are of particular importance to the economies concerned. This has both economic significance and is also important from a political economy perspective.⁴⁸

When analysing the commodity trade structure three years’ averages were chosen to better identify trends in trade and get over short term factors such as economic fluctuations, price volatility, change in stock levels, weather conditions, etc.⁴⁹

⁴⁸ UNCTAD, “Regional Trading Agreements,” 147.

⁴⁹ Paskal Zhelev and Zoya Podoa, “Bulgarian-Russian Bilateral trade relations: Current State and Prospects,” *Evolution of International Trading System: Prospects and Challenges*, St. Petersburg: Skifiya-print (2013):154, accessed August 25, 2019, [http://worlddec.ru/content/conference/october%202013/Issue-2013%20\(this%20year\).pdf#page=151](http://worlddec.ru/content/conference/october%202013/Issue-2013%20(this%20year).pdf#page=151)

Table 3 allows us to identify the EEU's main sectors and to see how its export structures towards the EU evolve and to compare it with the pattern with the rest of the world. It is evident that the highest importance for the EEU's exports both to the EU and to the world have primary commodities and in particular fuels. In 2015-17 almost 3/4th of EEU's exports to the EU consisted of fuels while the equivalent share to the world was by 16 p.p. lower. Altogether the EEU exports a higher proportion of manufactured goods to the world than to the EU. Throughout the analysed period there is a positive trend of a declining share of primary goods in EEU's exports but this is mainly due to lower world prices of commodities. Generally, the EEU remains highly dependent on the exports of natural resource-intensive goods.

When it comes to imports a reverse picture is observed. The EEU imports mostly manufactured goods from the EU. In 2015-17 their share was almost 90%, around 12 p.p. higher than the correspondent share of manufactured imports from the world. Trade creation and trade diversion are likely to be concentrated in these product areas but given the already low tariff rates for these products the magnitude of the welfare effects is not going to be high.

Analysis of revealed comparative advantages

Traditional trade theory stipulates that gains from trade arise from specialization in products in which countries possess comparative advantages. According to the Sussex Framework the wider the differences in comparative advantages between partner countries the larger the possible gains from a future RTA as it enables the partners to source the products from the most efficient supplier.

In Tables 6 and 7 we have ranked the products with the highest share of EEU's exports to the EU and the EU's exports to the EEU respectively and we have calculated the RCA index to determine whether both partners are exporting products with a comparative advantage in their bilateral trade. We observe the following:

- the EEU and the EU have specialized in entirely different product groups in their trade relations;
- just the top two EEU's products make up the striking 67% of the exports to the EU, while the EU's exports to the EEU is much more diversified as the top 10 products account for 30%;
- except fertilizers all EEU's top export products are in the group of resource-intensive manufactures (petroleum oils and metals) while all leading products exported from the EU to the EEU are mostly technology-intensive (machinery and transportation equipment and chemicals);

- all of the top 10 products exported from the EEU to the EU exhibit comparative advantage on the world market (in five of the cases it is strongly pronounced – $RCA > 4$);
- except for telecommunications equipment (here we might expect trade diversion after a possible RTA) all other leading EU export items to the EEU have comparative advantage though in most cases it is weak ($RCA < 2$).

Based on the above we might expect a welfare-improving impact of a possible EEU-EU RTA. However, as tariffs are already low these effects have already been to a large scale exhausted.

Analysis of export similarity

According to the Sussex Framework an RTA is welfare improving when the potential partner countries have differing comparative advantages but produce similar mix of goods before integration, and as a result of the process of integration they are then able to source the good from a more efficient partner supplier.

We measure the export similarity based on the F-K index, with values of 0 indicating completely different export structures and values of 1 (or 100 if expressed as %) – identical export specialization. The results show that the export similarity between the EEU and the EU is very low albeit increasing from 21.5% in 2010 to 28.5% in 2017. Here we should take into account that given the higher degree of aggregation (3-digit level) the values of the index tend to be overrated in comparison with calculation at a more disaggregated level. The lowest is the export similarity with the EU of Kazakhstan – just 13.5% in 2017, while the highest resemblance exhibits Belarus – it has over 40% overlap with the export profile of the EU.

The low level of export similarity suggests that it is more likely that an FTA between the EEU and the EU will see relatively more trade diversion than trade creation as there is limited scope for further specialization but opportunities for import sources to be shifted.

Analysis of intra-industry trade

So far, we have mostly analysed the possible effects of shallow integration between the EEU and the EU. A key indicator within the Sussex Framework is the Grubel-Lloyd index that measures the intensity of intra-industry trade currently taking place and based on that the existing and the potential for further deep integration.

Given the low export similarity between the EU and the EEU it is no surprise that the bilateral IIT is also very low. In 2010 it was 6.7% and in 2017 has increased to 10.4%. That means that almost 90% of the bilateral trade between the two unions is of inter-industry type, therefore providing little evidence of deep integration and much scope for it under current trade patterns. However, a potential comprehensive RTA that goes beyond free trade and improves the business environment for FDI may strengthen the intra-industry linkages. Increased FDI have the potential to foster faster technology transfer, productivity growth and economic catch-up.

Conclusion

The structure of trade between the EEU and the EU shows a high degree of complementarity as opposed to similarity as the EEU supplies mostly primary commodities while importing manufactured goods from the EU. Thus, the bilateral trade relations are predominantly of inter-industry type and show very little mutual integration into global supply chains. Having in mind the already low tariffs we can conclude that shallow integration effects of a possible EEU-EU RTA will not be significant and trade diversion is going to be more likely than trade creation. This is because around 62% of the EEU's imports are from non-EU countries and their share has been on the upside suggesting that third countries are increasing their competitiveness and a possible RTA might drive import shifting from them, i.e. trade diversion. At the same time the low similarity of the export profiles and different comparative advantages suggest little possibility for trade creation, i.e. shifting local production to more efficient RTA partners. On the other hand, the small overlap of export structures hints that both parties have different offensive and defensive interests that should make trade negotiations of a free trade agreement easier. Notwithstanding this, there still will be some economic restructuring with the automotive sector being the biggest winner in the EU and the biggest loser in the EEU and an adequate mitigating strategy addressing it should be envisioned.

It should be stressed that the current analysis is static and does not include the dynamic effects of RTAs. However, the dynamic effects could be much more important as they bring technological diffusion, pro-competitive gains from higher import competition, economies of scale and learning by doing efficiency gains, increased FDI, positive externalities arising from institutional changes, etc. Therefore, a potential RTA between the EEU and the EU should try to trigger the dynamic effects of regional economic integration and has to involve more than mere tariff elimination. Going beyond shallow integration such an agreement will have to cover reduction of non-tariff barriers, technical regulation, trade in services, freedom of capital movement, competition rules,

protection of intellectual property rights, dispute settlement mechanism, access to public procurement, trans-border infrastructure and environmental issues.

Being geographical neighbours and natural trading partners that have already engaged in a sizeable amount of trade, both the EEU and the EU have a mutual interest in pursuing greater trade cooperation. The EU is interested in having secure supplies at lower prices of raw materials and other inputs and easy access to markets with high potential and size. The EEU is also interested in having better market access and stable demand for its products and in getting investments, technology and knowledge transfers. Third countries like Ukraine, Georgia, Moldova, Serbia which trade intensively both with the EU and the EEU will also gain from free trade agreement between them as they will not have to sacrifice preferential trade relations with one of the unions in order to get such relations with the other. For the global economy such an RTA could mean a resolute opposition to protectionism and support of a multilateral trade system based on rules.

Annexes



Figure 1. EU vs. EEU

Source: elaborated on the basis of data from the WB Development indicators for 2017 and images taken from China Briefing, Dezan Shira & Associates and Copyright & Disclaimer imagen, accessed August 25, 2019, https://media5.picsearch.com/is?MjfTLrxf3B0zLvLvmsiyK_cXqTM69XMKD89rQCZhfjc&height=272.

Table 1. Main Indicators for the Analysis

Indicator	Formula	Interpretation
Openness	$OPENNESS_j = \frac{M_j + X_j}{GDP_j}$ <p>The subscript j represents the country being analyzed, X are exports, M are imports and GDP is the real GDP.</p>	The openness index measures countries' exposure to international trade. A higher openness index is indicative of an outwardly oriented economy.
Revealed comparative advantage (RCA) index	$RCA_{ij} = \frac{X_{ij} / X_{it}}{X_{wj} / X_{wt}}$ <p>where X_{ij} and X_{wj} are values of country i's and world exports of product j, respectively; X_{it} and X_{wt} are values of country i's total exports and world total exports, respectively.</p>	This index is used for calculating the relative advantage or disadvantage of a certain country in a certain class of products. An RCA greater than 1 will imply that the given country has a comparative advantage.
Finger-Kreinin index of export similarity	$FK_{ij} = 1 - \left[\frac{1}{2} \sum_k (X_{ik} / \sum_k X_{ik}) - (X_{jk} / \sum_k X_{jk}) \right]$ <p>X_{ik} is country i's exports of product k X_{jk} is country j's exports of product k</p>	It tells how similar two partners' export profiles are. It ranges in value from 0 = totally different to 1 = totally similar.
Grubel-Lloyd index	$GL_{ijk} = 1 - \frac{ X_{ijk} - M_{ijk} }{(X_{ijk} + M_{ijk})}$	This index measures the overlap of imports and exports at a given

	X_{ijk} is exports from country i to country j of commodity k , and M corresponds to imports with the same subscript. k is defined at the level of aggregation.	aggregation level. It varies between 0 and 1, and higher values indicate a higher level of intra-industry trade (IIT). If $GI_{ijk} = 0$, there is no IIT, only inter-industry trade. This would mean that the country (group of countries) in consideration either only exports or only imports good k .
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Source: Elaborated on the basis of Sussex Framework.

Table 2. Yearly averages of MFN tariffs applied by the Russian Federation and the EU (%)

		2010	2012	2014	2016	2017	2018
Russia	All products	12.4	12.2	8.9	5.2	4.9	4.8
	<i>Agricultural</i>	32.1	36.3	20.8	15.2	13.2	13.8
	<i>Non-agricultural</i>	11	10.7	8.1	4.5	4.3	4.2
EU	All products	3.2	3.2	3.7	3.4	3.4	3.4
	<i>Agricultural</i>	13.8	14.3	18.1	14	13.2	14.2
	<i>Non-agricultural</i>	2.5	2.4	2.7	2.6	2.6	2.6

Source: ITC Market Access Map data.

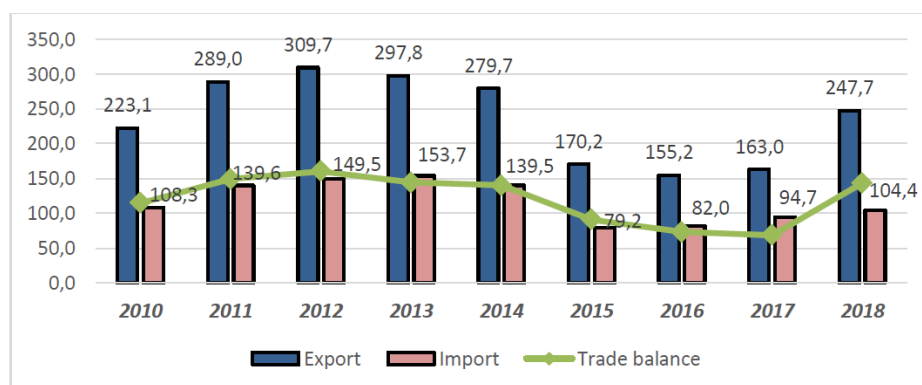


Figure 2. Dynamics of the EEU's (Customs Union's till 2015) export and import with the EU (billion \$)

Source: Elaborated on the basis of ITC Trade Map data.

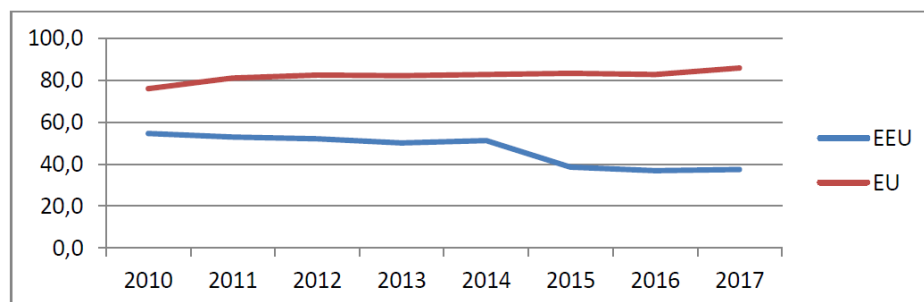


Figure 3. Evolution of EU's and EEU's (Customs Union's till 2015) Openness Index (%)

Source: Calculated on the basis of World Bank Data.

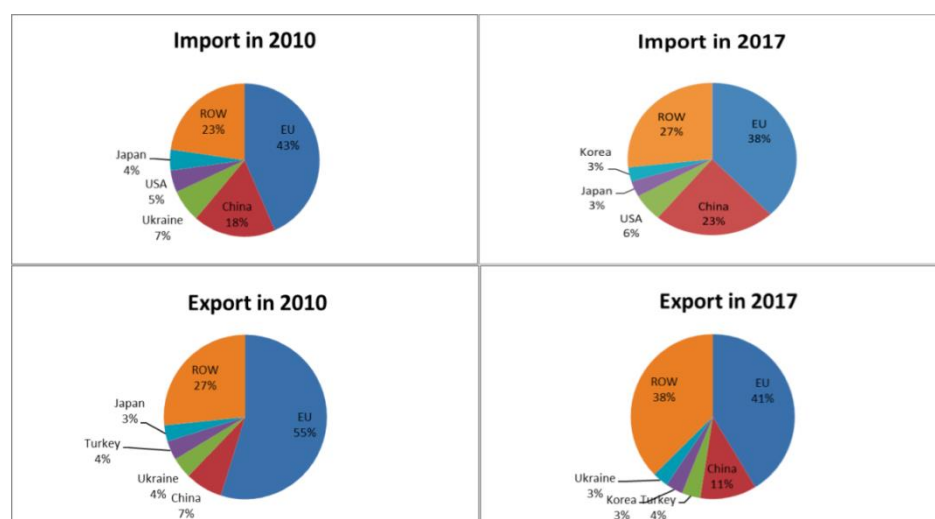


Figure 4. Geographical Distribution of EEU's (Customs Union's till 2015) Export and Import (%)

Source: Calculated on the basis on ITC Trade Map data.

Table 3. Structure of EEU's exports to the EU and the world (2010-2017, %)

Product group / Period	2010-2012 av.		2015-2017 av.	
	EU	world	EU	world
Primary commodities	90.3	83.1	86.7	76.7
<i>All food items</i>	0.7	3.2	1.5	6.7
<i>Agricultural raw materials</i>	1.3	1.8	1.5	2.3
<i>Ores and metals</i>	4.9	6.3	6.9	7.5
<i>Fuels</i>	82.3	70.8	74.6	58.3
Manufactured goods	9.7	16.9	13.3	23.3
<i>Chemical products</i>	3.4	5.4	4.2	6.7
<i>Machinery and transport equipment</i>	1.2	3.6	2.8	5.9
<i>Other manufactured goods</i>	5.1	7.9	6.4	10.6

Source: own calculations based on UNCTAD data.

Table 4. Structure of EEU's imports from the EU and the world (2010-2017, %)

Product group / Period	2010-2012 av.		2015-2017 av.	
	EU	world	EU	World
Primary commodities	12.5	22.8	10.4	21.9
<i>All food items</i>	9.7	12.6	7.6	13.0
<i>Agricultural raw materials</i>	1.0	1.0	1.2	1.0
<i>Ores and metals</i>	0.8	2.2	0.8	2.4
<i>Fuels</i>	1.0	7.0	0.8	5.4
Manufactured goods	87.5	77.2	89.6	78.1
<i>Chemical products</i>	17.9	11.7	22.3	13.7

<i>Machinery and transport equipment</i>	47.2	40.1	43.7	37.0
<i>Other manufactured goods</i>	22.3	25.4	23.6	27.3

Source: own calculations based on UNCTAD data.

Table 5. Similarity of the export profiles of the EEU and its member states with the EU (2010-2017, %)

	2010	2011	2012	2013	2014	2015	2016	2017
EEU	21.5	22.3	26.8	27.3	26.3	27.0	27.4	28.5
Armenia	16.9	25.2	24.4	18.4	16.6	17.8	17.8	18.1
Belarus	37.0	35.1	35.5	39.9	38.6	37.2	41.0	40.3
Kazakhstan	12.0	12.4	14.1	14.4	14.6	13.9	13.8	13.5
Kyrgyzstan	21.8	27.0	29.0	29.8	30.3	26.4	29.5	27.2
Russia	19.1	19.8	24.6	25.7	24.6	25.0	24.5	26.2

Source: own calculations based on UNCTAD 3-digit SITC data

Table 6. Comparative advantages of EEU's products with the highest share in exports to the EU (2015-17 av.)

SITC code	Product description	Share in EEU's exports to the EU (%)	RCA eeu
333	Petroleum oils, oils from bitumin. materials, crude	43.2	5.8
334	Petroleum oils or bituminous minerals > 70 % oil	23.9	4.4
321	Coal, whether or not pulverized, not agglomerated	2.2	2.2
682	Copper	2.1	2.5
667	Pearls, precious & semi-precious stones	1.6	1.3
684	Aluminium	1.3	2.5
562	Fertilizers (other than those of group 272)	1.3	8.0

671	Pig iron & spiegeleisen, sponge iron, powder	1.0	6.7
681	Silver, platinum, other metals of the platinum group	0.9	3.0
672	Ingots, primary forms, of iron or steel; semi-finis.	0.9	9.8

Source: own calculations based on UNCTAD data.

Table 7. Comparative advantages of EU's products with the highest share in imports into the EEU (2015-17 av.)

SITC code	Product description	Share in EEU's imports from the EU (%)	RCA eu
542	Medicaments (incl. veterinary medicaments)	6.1	2.0
781	Motor vehicles for the transport of persons	6.0	1.6
784	Parts & accessories of vehicles of 722, 781, 782, 783	4.1	1.4
764	Telecommunication equipment, n.e.s.; & parts, n.e.s.	2.7	0.5
728	Other machinery for particular industries, n.e.s.	2.5	1.2
741	Heating & cooling equipment & parts thereof, n.e.s.	2.0	1.2
553	Perfumery, cosmetics or toilet prepar. (excl. soaps)	1.8	1.6
723	Civil engineering & contractors' plant & equipment	1.7	1.1
743	Pumps (excl. liquid), gas compressors & fans; centr.	1.6	1.4
772	Apparatus for electrical circuits; board, panels	1.6	1.0

Source: own calculations based on UNCTAD data.

Table 8. Intra-industry trade of the EEU and its member states with the EU (2010-2017, %)

	2010	2011	2012	2013	2014	2015	2016	2017
EEU	6.7	7.1	7.6	6.6	8.0	10.6	9.3	10.4
Armenia	12.6	9.9	10.8	9.1	11.8	14.4	11.5	9.4
Belarus	14.6	11.4	10.0	11.8	12.8	15.6	18.9	16.3
Kazakhstan	1.3	1.5	2.3	1.9	2.1	2.2	2.6	2.0
Kyrgyzstan	5.8	6.0	4.5	5.0	8.4	8.4	9.1	4.9
Russia	6.2	6.2	6.3	6.6	7.8	9.6	8.8	10.7

Source: own calculations based on UNCTAD 3-digit SITC data.