



Sergey Kulik

Institute of Modern Development (INSOR)

Cooperation between Russia and the EU in the CIS economic space. The groundbreaking INSOR initiative: authorized abridged version

Framing a sustainable strategy of economic re-integration is among the priorities of the Russian political agenda for the CIS (Commonwealth of Independent States). For these ends, it is imperative to recognize certain parameters which determine the long-term trajectory of Russia's relationship with the countries in the region. Russia with its significant potential to assist the economic development of its CIS partners will be the main engine and the key player for economic integration in the region. Nevertheless, Russia does not possess enough resources and has not yet reached a level of economic attractiveness which would allow to orientate the basic economic interests of these countries toward her.

The share of Russia as a target country for exports from CIS countries plummeted from 42.3% in 1995 to 16% in 2009, while imports decreased from 24% to 14.6%. When it comes to trade within the CIS, its share in total trade turnover (including Russia), decreased from 27% to 21.5%. At the same time, the share of trade with third partners outside the CIS increased from 59% to 66%. For comparison, the share of internal trade within the EU-27 was 65% in 2008 and 40% within the NAFTA area.

This said, Russia nevertheless remains a key CIS partner for a number of branches (e.g. agriculture) and sectors, including also production of a non-raw material character. The decrease of the Russian share in the general trade turnover is caused by the reduction of the share of energy carriers (from 40% in 1994 to almost 16% in 2009, in physical terms); but in parallel, the share of non-raw-material exports to the CIS partners increased accordingly from 15% to 23% (25% in 2008).

In this situation the alignment of external players who participate in the shaping of the emerging economic configuration in the CIS was determined. Russia is no longer a leading partner and the only option for a common development of the CIS countries. In economic terms, primarily the EU and China are ready to shoulder this role. This means that the CIS "integration project" can pan out under the condition that the place of external partners is defined in a way which is acceptable to the participants.

The growing competition for Russia in the CIS markets from the side of third countries became clearly visible during the past decade and found its quantitative expression in the increased involvement of large trade partners from outside the region. In the first line, this is true for imports and FDI (EU, China, US, Turkey, Iran and others). In this list, the EU is significantly ahead of other participants.

The enlarged EU is the main trading partner for the majority of CIS countries. The share of the EU-27 in foreign trade turnover grew in 2008 almost by 7 points, up from the year 2000. According to WTO data, EU-27 total exports to the CIS (excluding Russia) reached USD 65.18 bln in 2008, up from 10.34 bln in 2000, which is a 6.3 fold increase. The export of machines and equipment grew quickly and its share in the general foreign trade structure reached 50%.

To this day, the EU has practically ignored the existence of the CIS and other regional alliances in the post-Soviet space and avoids contacts with their operative agencies. Nevertheless, the EU attitudes toward the integration processes with the CIS could change in a positive direction.

A constructive cooperation with the EU appears to be an important precondition for the successful realization of the model of a CIS multilateral free trade zone (MFTZ) and the reorganization of economic relations within the Commonwealth. This model is, at the time being, under intense scrutiny. It should be based upon the principle of a smart combination between internal CIS integration and the deepening of economic cooperation, in the first line with the EU. This approach should depart from the possibility to establish a permanent format of cooperation between the CIS and the EU. Within this framework, an effective mechanism for the multilateral coordination of integration processes should be established. The dialogue should encompass all issues within the interest scope of the participating countries.

Such a permanent format for CIS-EU coordination can elevate the pan-European integration processes from the level of conflicts to the level of a search for common grounds and cooperation in the mutual interest. As a result, an appropriate environment for an effective coordination of further development in the CIS-EU area will be created. Specifically, this new dialogue format permits Russia to maintain the perspective of deepening CIS integration and to set the stage to conclude preferential trade agreements.

For the Central Asian countries, it provides the opportunity to ratchet up their cooperation with the EU. For economic, geographical and political reasons they can do this significantly easier together with Russia than alone. The European CIS countries can continue the process of long-term EU integration while preserving the assets provided by continued development and perfection of the free trade regime with Russia. In its turn, the EU is handed the prospect of re-structuring its neighborhood, which would make the region more attractive and transparent for European business.

It appears that a significant strengthening of competitiveness of the economic space between the Atlantic and the Pacific oceans will cater to the interests of Russia, the EU and the CIS. Consequently, the establishment of a common economic space between the CIS and the EU – with two centers of integration, namely the EU and the CIS uniform economic area - is a long-term objective.

At present, work is under way to frame the normative and legal basis for the CIS Uniform Economic Space. It has to be underlined that here the EU *acquis* is taken into consideration. This work package aims at eliminating contradictions with EU legal standards occurring in economic interactions

The normative acts which govern integration building within the CIS have to be as close as possible to the valid EU standards, which, in their turn, are tuned to the generally recognized international norms (WTO and other international organizations). This would create an enabling environment for mutual investment and interregional cooperation on enterprise level.

After this, a mutual adaptation of integration measures taken in the CIS countries and the EU may be realized. As a result, the long-term perspective of elaborating a common format for the principles of free trade from the Atlantic to the Pacific oceans emerges.

Russia has to reflect on proposing to the EU to harmonize the conception of a Eurasian Economic Partnership which should include:

- a cooperation formula for energy including trade regimes, transit, investment into extraction sites, processing and end distribution of energy resources, pipelines, access to services in the energy field, and also issues of energy efficiency;
- the conclusion of preferential trade agreements under the participation of Russia, the CIS and EU countries which project the gradual realization of the four freedoms (free movement of goods, services, capital and labor) and the harmonization of internal legislation;
- multilateral cooperation projects and technical assistance schemes within the "Large Eurasian Space" in such spheres as energy, transport, logistics, investment and environmental protection.

These are the prospects. At this point, the most important condition for the opening of negotiations on free trade between Russia and the EU is Russia's WTO accession.

Simultaneously, it is imperative to finalize an agreement on the establishment of a CIS multilateral free trade zone, in which all fundamental issues of trade policy will be arranged. It is understood that this agreement must be in harmony with the norms and standards of a multilateral trade system in order to give its participants the option to join the WTO and to honor their obligations toward third countries, WTO members and such alliances as the EU.