

Eurasian Economic Integration Challenges

The Vienna Process 2017

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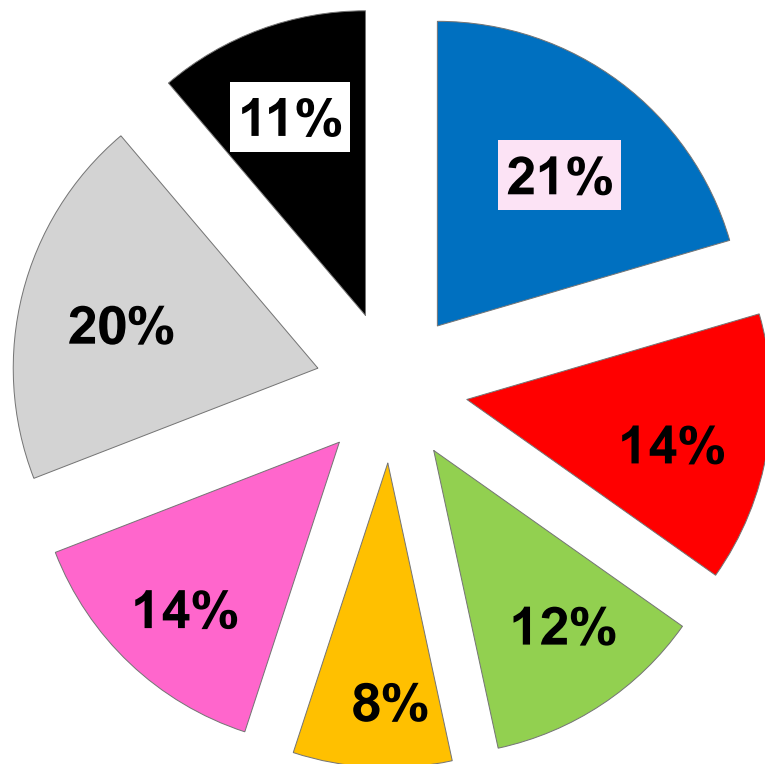
International Institute for Applied Systems Analysis
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EU, EAEU and Greater Eurasia: Integration or Competition of Integrations ?

- Economic Dimensions
- Trade and FDI Asymmetries
- Implications for Greater Eurasia
- Competing Integrations ?
- IIASA Phase II Eurasian Research Agenda

Real GDP in the EU after Brexit, in % of total (at PPP, 2015)

■ Germany
 ■ France
 ■ Italy
 ■ Spain
 ■ NMS-11
 ■ other EU-27
 ■ 5 candidates

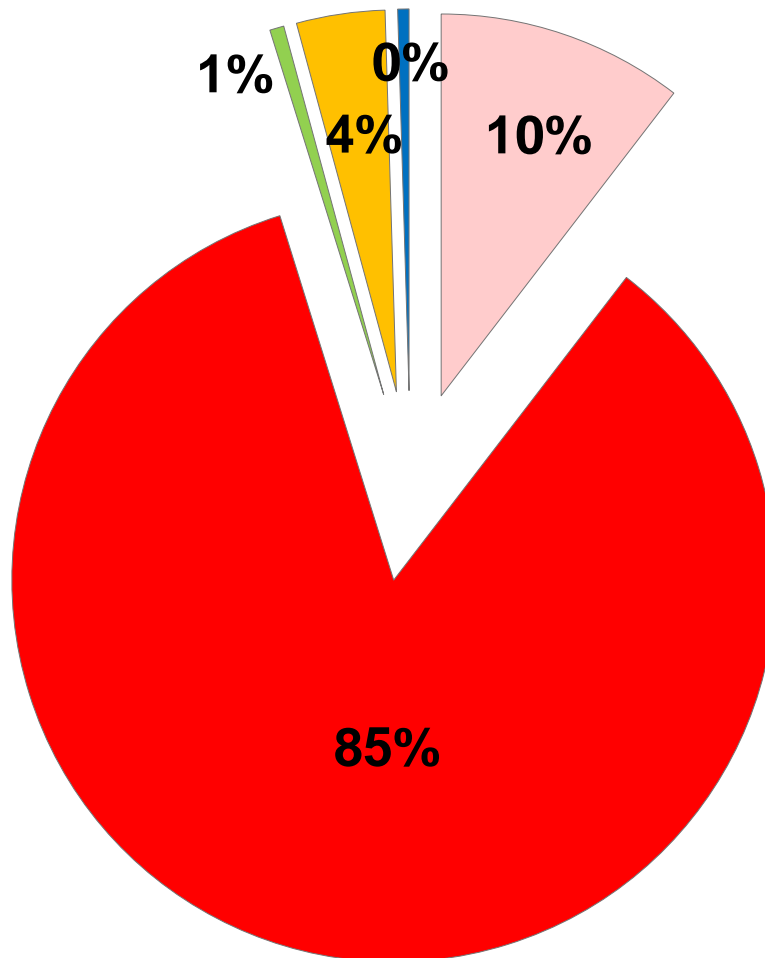


Germany and France account together for 35% of EU-27 economy

11 New Member States account for 14% of EU-27 GDP

GDP in the EAEU, in % of total, 2016

■ Kazakhstan
 ■ Russia
 ■ Armenia
 ■ Belarus
 ■ Kyrgyzstan



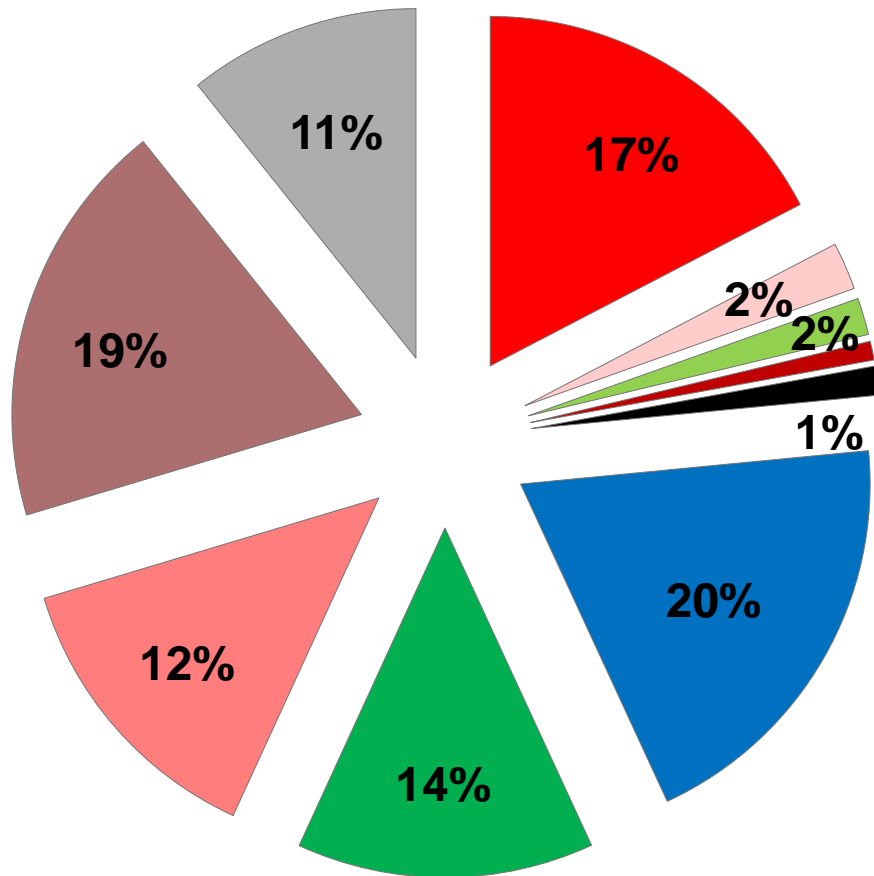
Russia dominates by far the EAEU economy

EAEU economy is shrinking (2015) resp. stagnating (2016)

GDP in Eurasia (Lisbon-Vladivostok), in % of total, at PPP (Eurasia = enlarged EU plus CIS/EAEU); estimate 2015

- Russia
- Kazakhstan
- Ukraine
- Belarus
- other CIS
- Germany
- France
- NMS-11
- other EU27
- 5 EU Candidates

The EAEU represents just a fraction (20%) of the Wider Eurasian economy

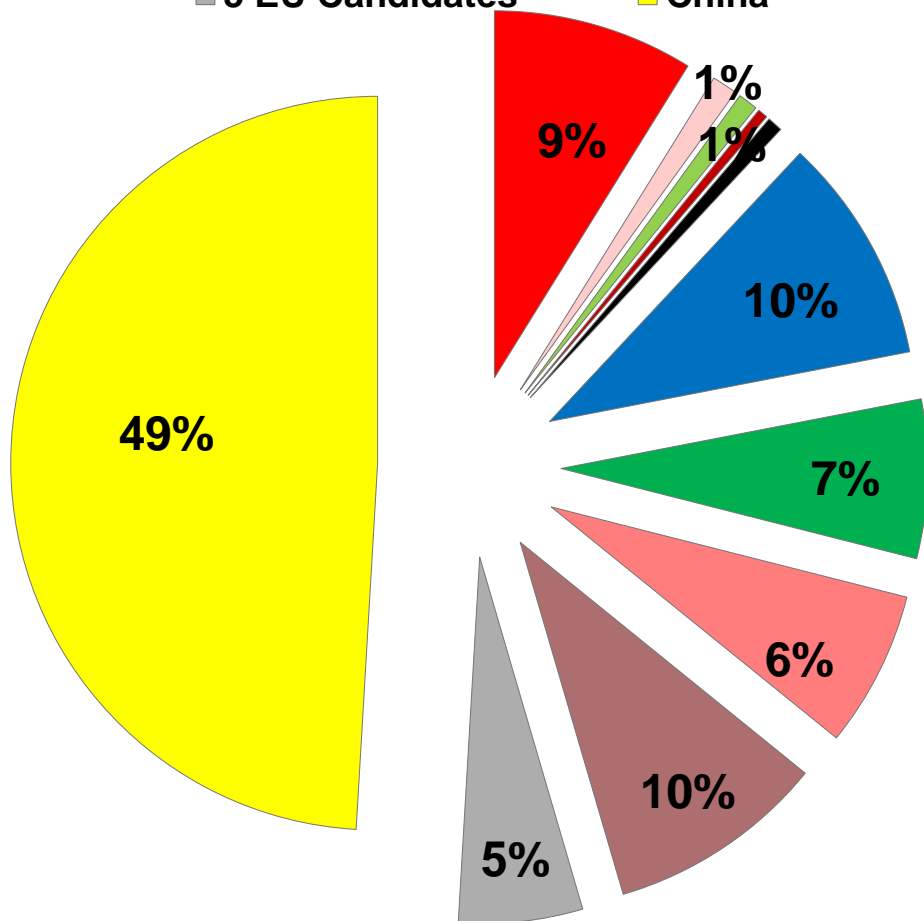


The EU27 is bigger (GDP €14700 bn) and much richer than CIS/EAEU

Average real per capita GDP is €28900 in the EU, compared with €15000 in the CIS (RU: €17700, KZ: €18700, BY: €13700, UA: €5900)

GDP in Greater Eurasia (Lisbon-Vladivostok-Shanghai), in % of total, at PPP; estimate 2015

- Russia
- Kazakhstan
- Ukraine
- Belarus
- other CIS
- Germany
- France
- NMS-11
- Other EU27
- 5 EU Candidates
- China

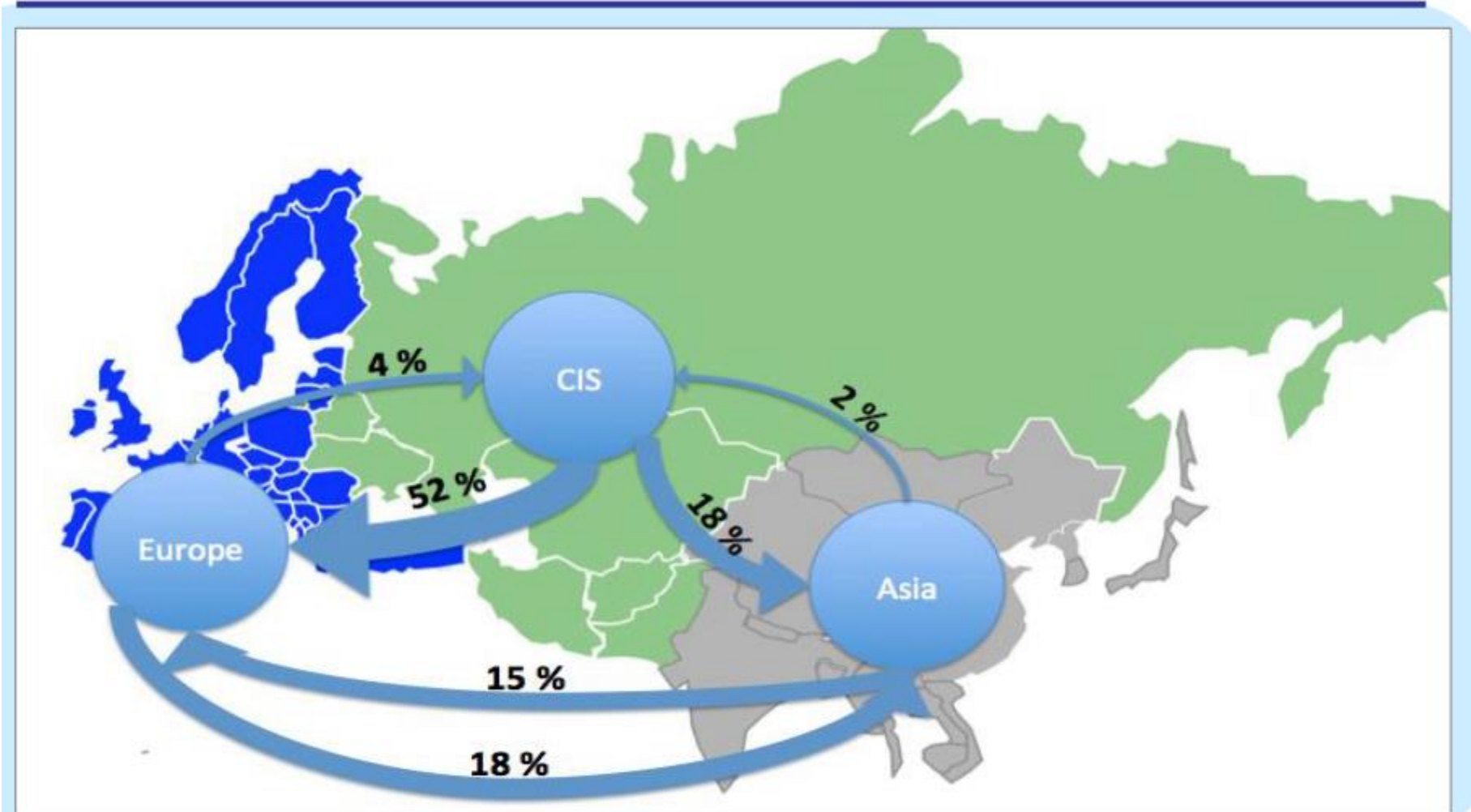


Takeaways from economic imbalances

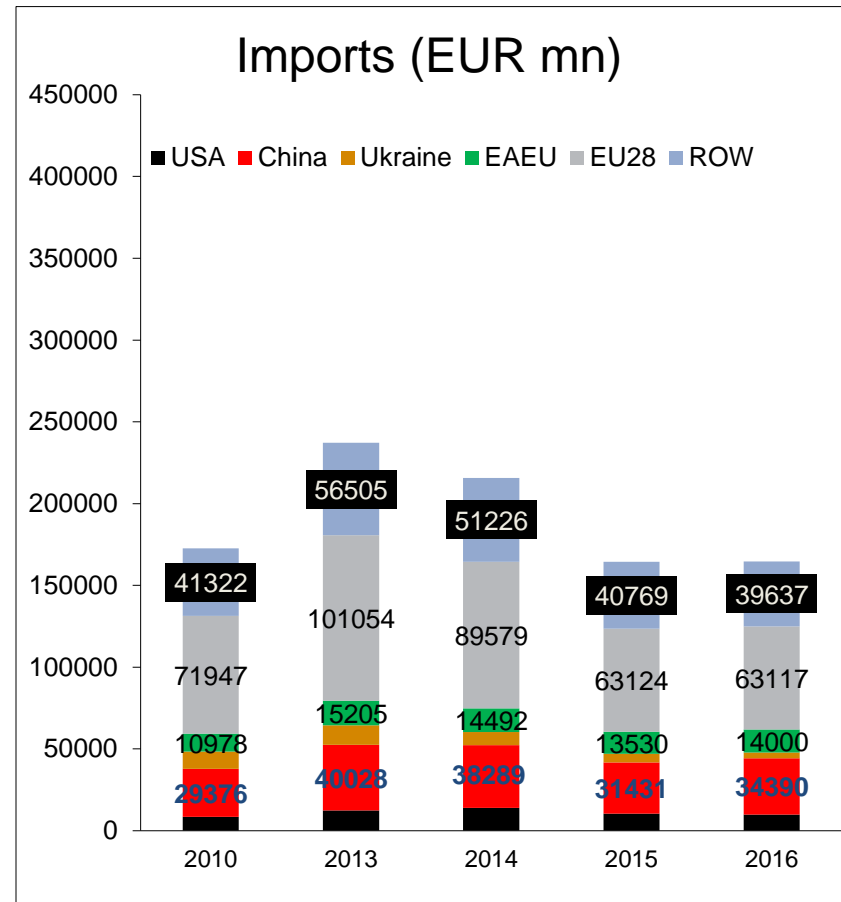
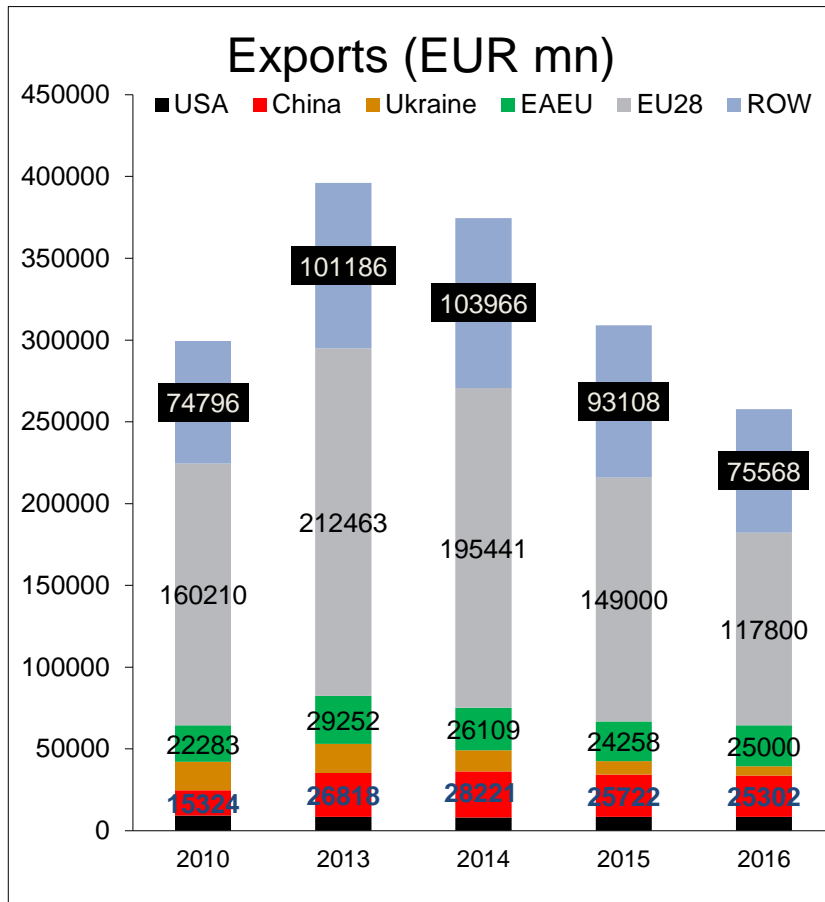
- How these may affect future negotiations ?
- Unlike its power in EAEU, Russian bargaining power in EU-EAEU integration will diminish
- Imbalances shift in Chinese favour if it enters Greater Eurasia integration process
- China, EU27 (Germany), EAEU (Russia), in that order, will hold the keys and probably set the tune
- But smaller players (e.g. Baltics, Kazakhstan) will have a voice as well.

Trade, FDI and Specialisation Patterns in Eurasia

Trade flows between Europe – CIS - Eurasia (export shares in total)



Russian foreign trade by partner: overall surplus (cca EUR 93 bn in 2016) yet a deficit with China (EUR 9 billion) and a sharp drop in trade with the EU (exports: -45%, imports: -38% between 2013 and 2016)



Russian trade with China, 2016

**Exports: oil, gas, metals
and wood (cca EUR 25 bn
9.8% of total exports)**

**Imports: machinery, electrical equipment,
vehicles, plastics, consumer goods
(cca EUR 34 bn, 20.9% of total imports)**

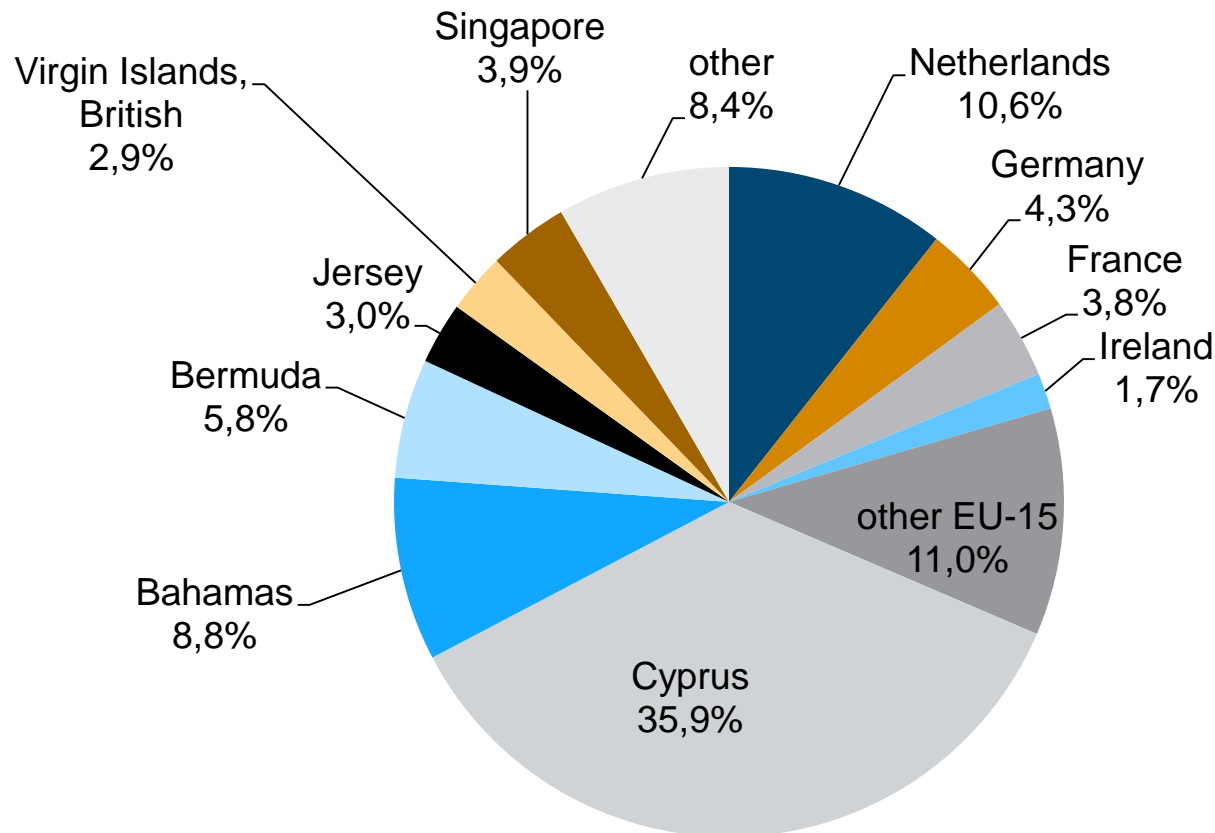
**Regional export shares in total Russian trade
2012, in % of total**



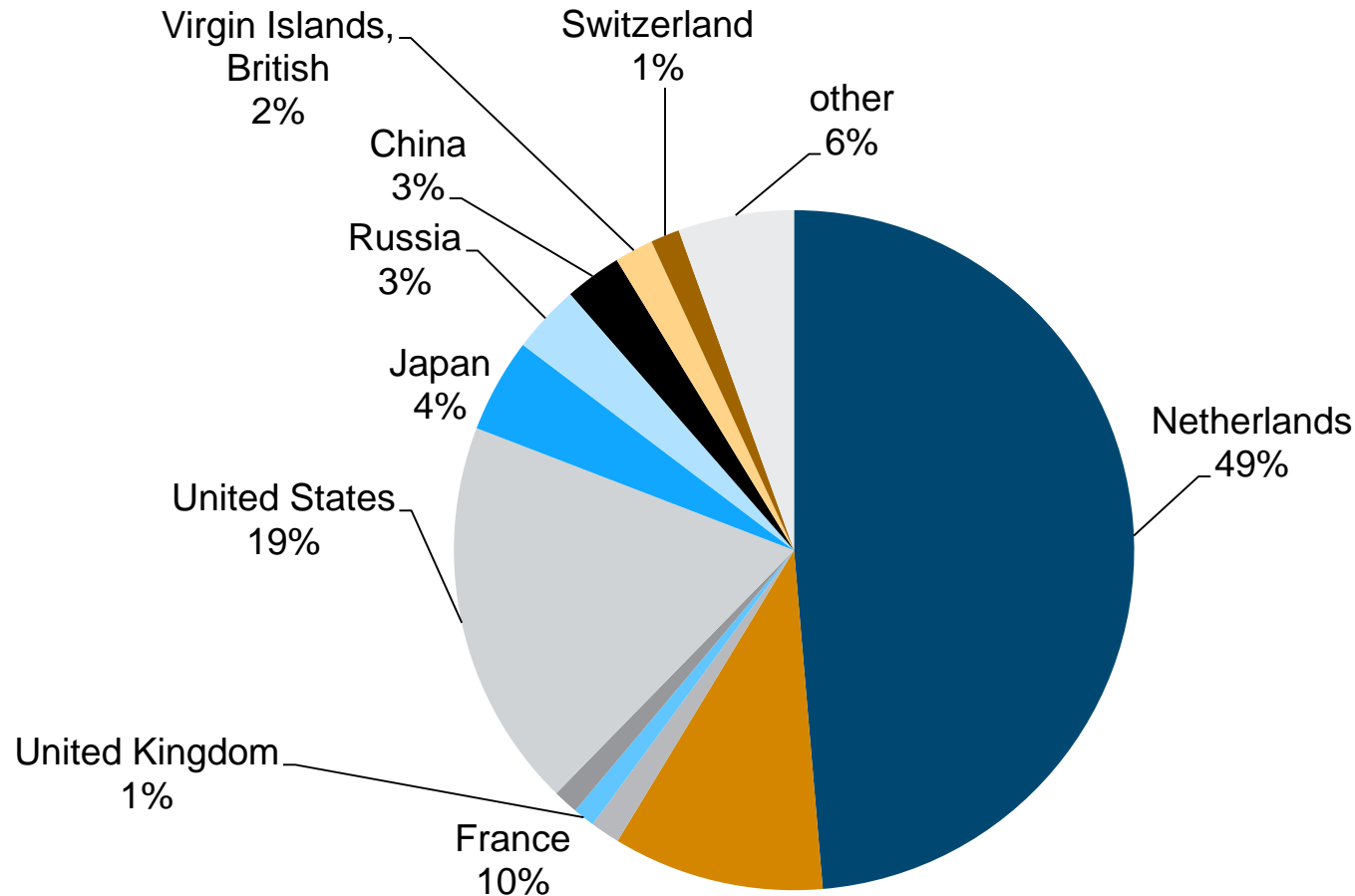
Takeaways from trade imbalances

- Lower EU dependence on EAEU/Russian markets (especially regarding EU exports)
- But for EAEU/Russia, is the EU market crucial !
- Switching the pivot to China not easy for Russia
- China, rather than EAEU, is more important (and growing) trading partner for the EU
- China is the single most important and rising trading partner for EAEU/Russia (in particular for imports).

Russian inward FDI stocks fell by EUR 150 bn between 2012 and 2015, but went up again by EUR 120 bn in 2016 (to EUR 360 billion, end-2016)



Kazakh inward FDI stocks up by EUR 40 bn between 2012 and 2016 (to EUR 124 billion, end-2016)



Greater Eurasia Integration Challenges (I)

- Huge economic asymmetries: EU-EAEU/Russia, EU-China and EAEU/Russia-China;
- Russia/EAEU has been 'stuck in transition' and faces no catching up;
- Russia/EAEU need the EU for modernisation technology imports, investment and export markets;
- Is there a way ahead despite current conflicts ?
- Future „New Deal“: beyond pure FTA with regulatory implications for any EU-EAEU potential DCFTA;
- Would Russia be ready to accept EU „acquis“ (or parts of it)?
- „Competing Integrations“ rather than „Integration of Integrations“ ?
- A closer integration of the EU27, EAEU, other Eastern Partnership countries and China beneficial;
- It could boost trade, investment and economic growth in a Greater Eurasia, from Lisbon to Vladivostok;

Greater Eurasia Integration Challenges (II)

- Yet geopolitics matter: a Greater Eurasian integration – from Lisbon to Vladivostok and, potentially, Shanghai – is currently unrealistic;
- But it would be beneficial, not least by relieving Ukraine and other EaP/DCFTA countries from ‘impossible’ either/or integration choices;
- Armenia, Kazakhstan deal with the EU; Moldova „observer“ in EAEU;
- EU (competing) integration efforts in Eurasia:
 - Eastern Partnership (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine)
 - Association Agreements (DCFTA) with Georgia, Moldova and Ukraine.
- Even without geopolitics and sanctions, technical and institutional obstacles to Greater Eurasia Integration are formidable !

Key features of IIASA Phase II research plan

- Build on IIASA Eurasian Project Phase I results and challenges,
- Regardless political tensions, IIASA offers possibility for both EU and Russian experts to work, talk and meet together,
- Research exploring potentials for cooperation, offering solutions and policy recommendations for both short- and long-term action,
- During first 3 years of Phase I work + 2017 transition year: basic elements of **Lisbon-to-Vladivostok” (L2V)** idea have been in focus – but even here deepening, covering new areas is needed (studies on FDI, TBT, transport),
- Under Phase II expanded Greater Eurasia research, novel **Triangular concept**: L2V regional links (EU - Russia/EAEU, plus EaP and Central Asia), EU - China, Russia/EAEU – China will be explored,
- **But not triangular FTA, rather 3 separate sides of the triangle – overlaps, challenges and differences.**
- IIASA Eurasian Integration Challenges Phase II Project will explore the available medium and long-run technical, economic and institutional options beyond geopolitics (see more at):
www.iiasa.ac.at/web/home/research/eurasian/EconomicIntegration.html

**Thank you for your
attention!**