

**INSTITUTE OF ECONOMY  
RUSSIAN ACADEMY OF SCIENCES**



**"PROBLEMS AND PROSPECTS OF ECONOMIC  
COOPERATION OF THE EAEU COUNTRIES:  
TEST BY CRISIS"**

**Artem G. PYLIN**

Senior Fellow

Candidate of Economic Sciences

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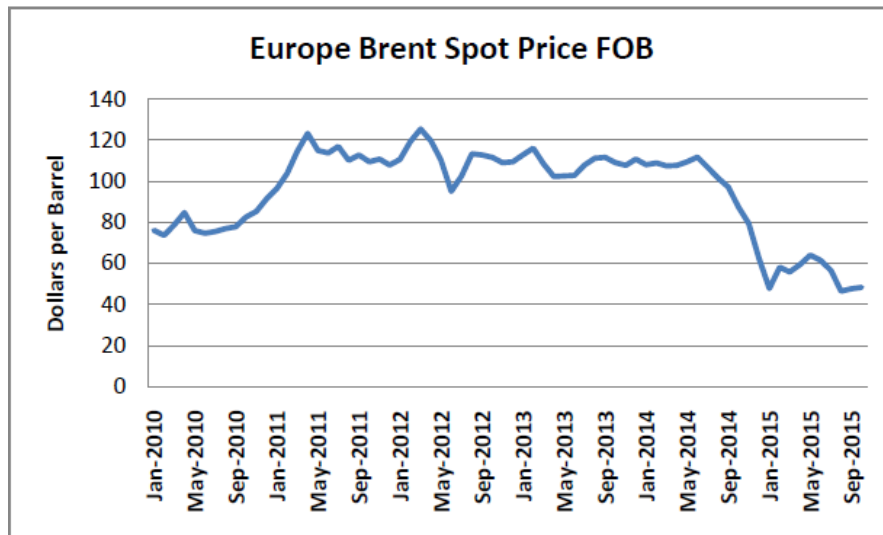
**Guangzhou Baiyun International Convention Center**

# Eurasian Economic Union (EAEU)

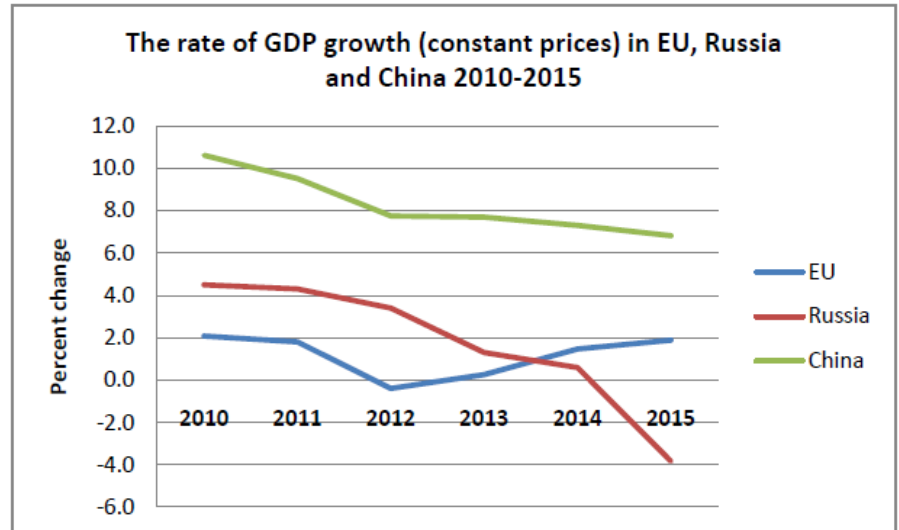
- Since January 1, 2015 a treaty for the establishment of the Eurasian Economic Union (EAEU) came into force.
- At the moment the EAEU includes five states - are Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia.
- The Euroasian economic union has a substantial economic potential:
  - 182 million people
  - aggregate GDP - US\$ 2,2 trillion or 3,87 % of world GDP (PPP)
  - total amount of foreign trade - US\$ 1 trillion

# Starting EAEU amid detrimental external factors: global market uncertainty and the Russian recession

1. **The unfavorable situation on the world fuel and commodity markets amid falling demand and a slowdown in the world economy;**
2. **Sanctions against Russia and the Ukrainian crisis reduces integration potential of the Russian Federation;**
3. **The economic decline in Russia negatively affects on trade and investment linkages with the EAEU countries.**



Source: US Energy Information Administration



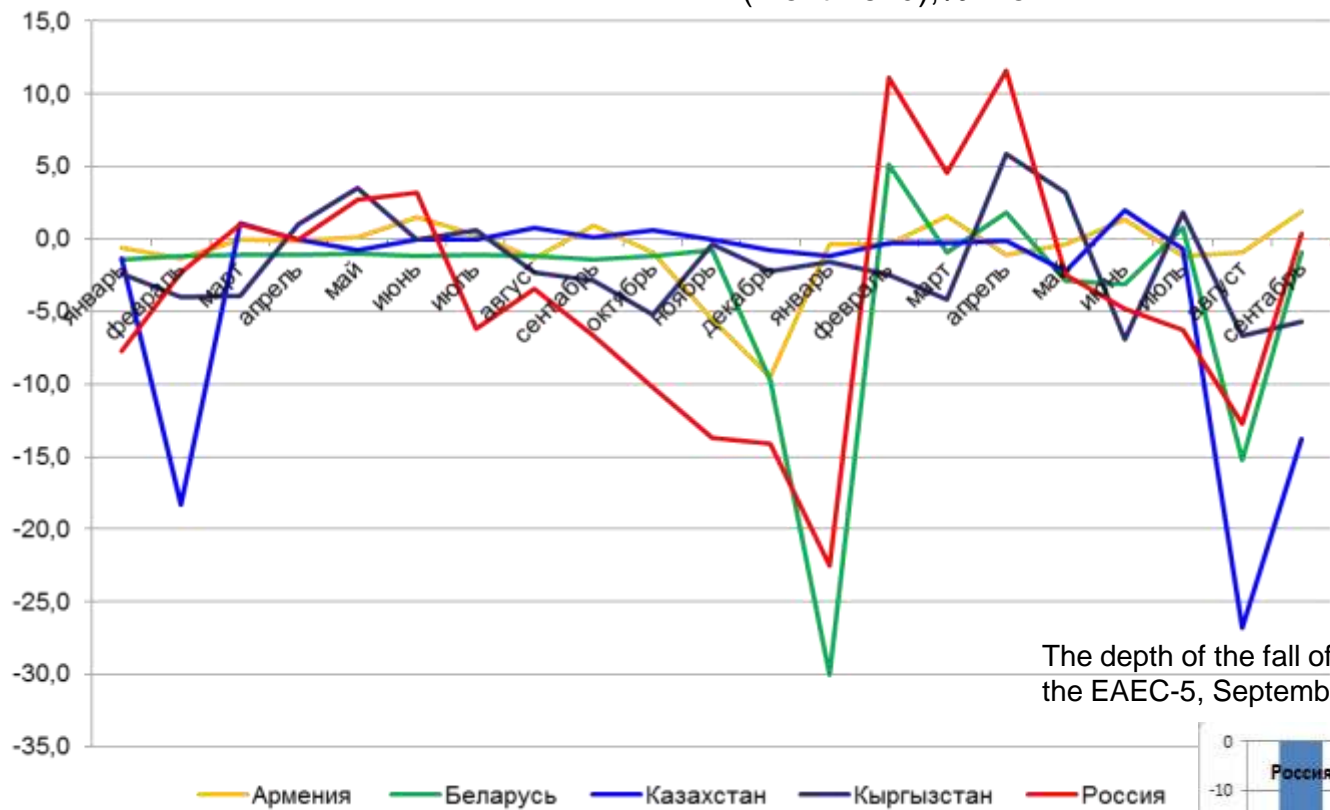
Source: IMF, World Economic Outlook Database, October 2015

## Negative trends of EAEU: preliminary results January-September 2015

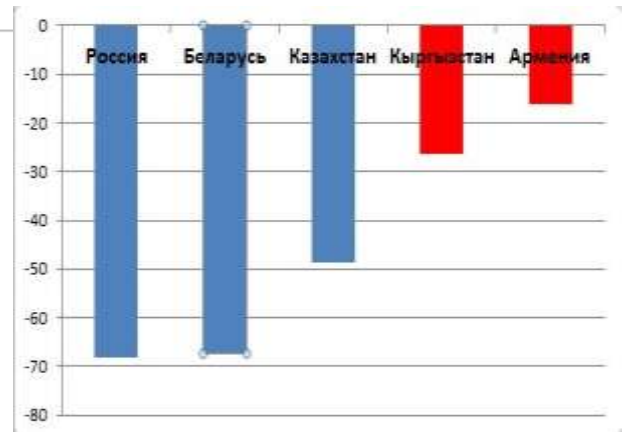
1. **Reduction of mutual trade of the EAEU** by 26.3% mainly due to the decline in the Belarusian-Russian (-28.1%) and Kazakhstan-Russia (-24.8%) trade;
2. Russian exports to the EAEU is reduced significantly less (-24.1%) than a Russian imports from countries in the region (-32.3%); **the terms of trade with the Russia for other EAEU countries is deteriorated**;
3. **Sectoral structure of mutual trade of the EAEU is deteriorated** due to a significant reduction in trade in machinery, equipment and vehicles (38.2%), metals and metal products (31.7%);
4. **Workers' remittances from Russia to CIS countries fell by 44%** including in Armenia – 32.5%, in Kyrgyzstan – 33.4% in the first half of 2015;
5. **Russian foreign direct investment in the EAEU reduced** fell by 16.6% (to US\$ 858 mln) in the first half of 2015 .

# Devaluation of national currencies EAEU as an attempt to adapt to external shocks

The dynamics of the national currencies of the EAEC-5 per 1 US dollar from January 2014 to September 2015 (month-end), % MoM



The depth of the fall of national currencies in the countries of the EAEC-5, September 2015 to September 2014



Источники: расчеты автора по данным национальных банков стран.

# Competitive devaluation of the EAEU countries: sharpening of contradictions

- ***Net Energy Exporters*** (Russia, Kazakhstan and partially Belarus) look to compensate the losses of foreign exchange earnings and improve the competitiveness of its exports due to the depreciation of a currency amid falling demand and prices for commodities.
- ***Net Energy Importers*** (Armenia, Kyrgyzstan) are limited in scale of currency devaluation due to the low level of development of domestic production and high import capacity of the economy (including for imported oil and gas, food).
- **An increase imbalances in mutual trade** between the two groups of this countries.

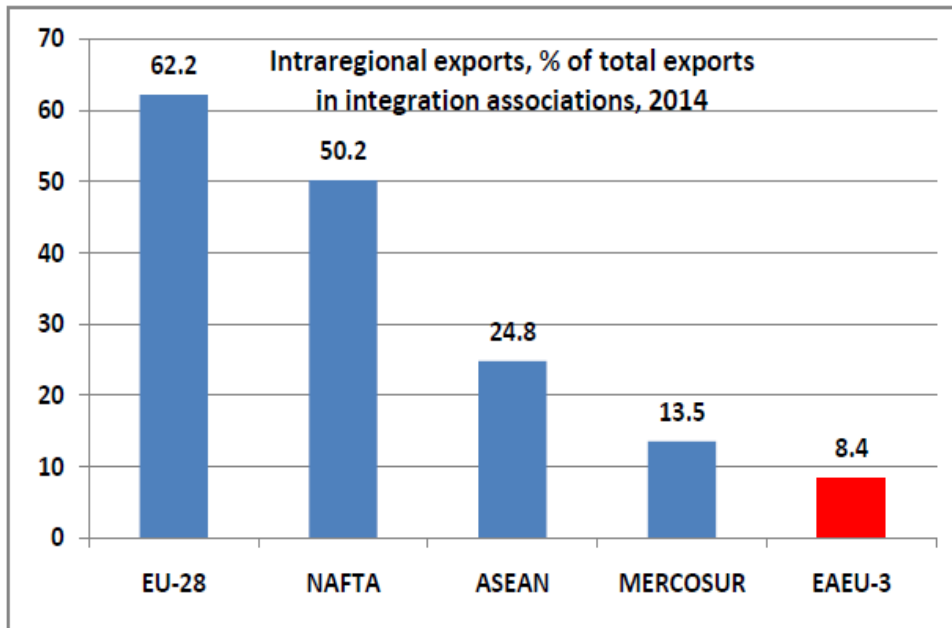
# Economic coherence of the EAEU countries strongly differs

Coefficient of trade and economic coherence (CTEC), 2010-2014, %

| Couples of the countries | 2010  | 2011  | 2012  | 2013  | 2014  |
|--------------------------|-------|-------|-------|-------|-------|
| Belarus - Russia         | 1,774 | 1,991 | 2,089 | 1,828 | 1,910 |
| Kazakhstan - Russia      | ...   | 1,136 | 1,075 | 1,032 | 0,914 |
| Kazakhstan - Kyrgyzstan  | 0,386 | 0,386 | 0,503 | 0,429 | 0,481 |
| Belarus - Kazakhstan     | 0,428 | 0,325 | 0,346 | 0,310 | 0,332 |
| Belarus - Kyrgyzstan     | 0,156 | 0,345 | 0,220 | 0,140 | 0,114 |
| Kyrgyzstan - Russia      | 0,089 | 0,076 | 0,091 | 0,103 | 0,096 |
| Armenia - Russia         | 0,064 | 0,058 | 0,066 | 0,069 | 0,074 |
| Armenia - Belarus        | 0,056 | 0,051 | 0,054 | 0,060 | 0,046 |
| Armenia - Kazakhstan     | 0,010 | 0,015 | 0,006 | 0,003 | 0,003 |
| Armenia - Kyrgyzstan     | 0,003 | 0,002 | 0,002 | 0,006 | 0,002 |

Source: author's calculations according to ITC. Trade Map, October 2015; IMF. World Economic Outlook Database, April 2015

# Low economic coherence of the EAEU amid other integration associations



Source: ITC. Trade Map. November 2015.

- The EAEU has the lowest level of *economic coherence* among the major integration associations of the world.
- The low coherence of the region significantly increases the dependence of countries from external shocks and complicates the implementation of the EAEU project.
- The majority of CIS countries are trended to foreign markets, and the urgent task of the Eurasian integration is the formation of a large domestic market as an important driver of economic growth.



## Foreign trade of the EAEU-3 in 2013-2015, %

| Countries  |          | EU-28 |      |       | EAEU-3 |      |       | China |      |       |
|------------|----------|-------|------|-------|--------|------|-------|-------|------|-------|
|            |          | 2013  | 2014 | 2015* | 2013   | 2014 | 2015* | 2013  | 2014 | 2015* |
| Russia     | export   | 53,7  | 52,0 | 49,4  | 7,2    | 6,8  | 7,5   | 6,8   | 7,5  | 8,2   |
|            | import   | 42,6  | 41,3 | 38,1  | 6,4    | 6,9  | 7,7   | 16,8  | 17,7 | 19,0  |
|            | turnover | 49,5  | 48,1 | 45,6  | 6,9    | 6,9  | 7,6   | 10,5  | 11,3 | 11,8  |
| Belarus    | export   | 28,1  | 29,5 | 32,9  | 47,6   | 44,6 | 40,1  | 1,2   | 1,8  | 3,2   |
|            | import   | 24,4  | 23,1 | 19,1  | 53,4   | 55,4 | 57,6  | 6,6   | 5,8  | 6,5   |
|            | turnover | 26,1  | 26,1 | 25,7  | 50,7   | 50,3 | 49,2  | 4,1   | 3,9  | 4,9   |
| Kazakhstan | export   | 53,9  | 55,9 | 54,1  | 7,0    | 8,1  | 9,5   | 17,0  | 12,3 | 12,0  |
|            | import   | 18,6  | 20,9 | 22,4  | 38,3   | 35,3 | 35,1  | 17,1  | 17,8 | 17,4  |
|            | turnover | 41,0  | 43,9 | 41,6  | 18,4   | 17,4 | 19,6  | 17,0  | 14,2 | 14,1  |

• data for January - September 2015

Source: author's calculations according to the Federal Customs Service of Russia, the National Statistics Committee of Belarus and the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan.

# FDI stock at the end of 2013, %

in EAEU-3

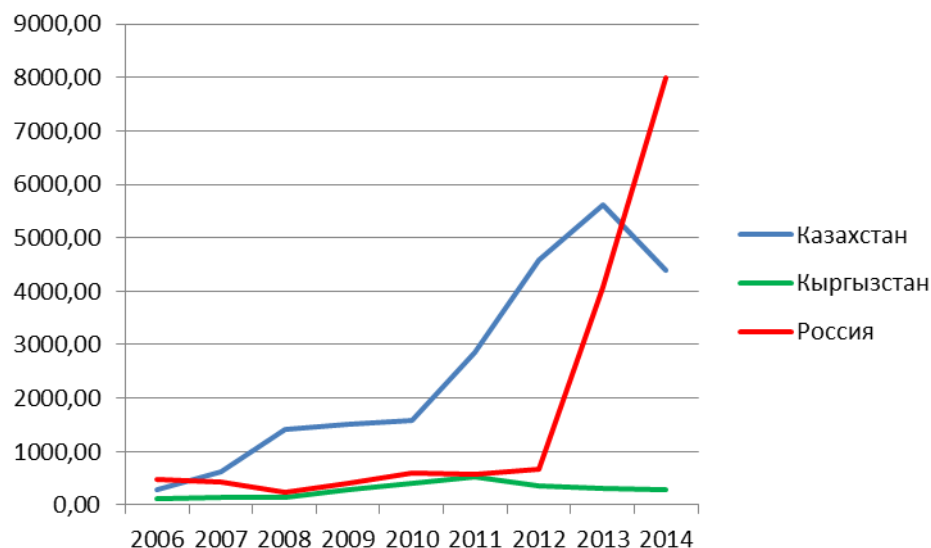
from EAEU-3

| Страны    | ЕС-28 | ЕАЭС-3 | Китай |
|-----------|-------|--------|-------|
| Россия    | 72,7  | 0,3    | 1,0   |
| Беларусь  | 28,4  | 59,0   | 0,7   |
| Казахстан | 59,6  | 1,7    | 4,6   |

| Страны    | ЕС-28 | ЕАЭС-3 | Китай |
|-----------|-------|--------|-------|
| Россия    | 58,0  | 1,8    | 0,0   |
| Беларусь  | 9,1   | 79,3   | 1,4   |
| Казахстан | 78,0  | 3,0    | 0,6   |

Источники: расчеты автора по данным IMF. Coordinated Direct Investment Survey (CDIS) // <http://data.imf.org/>

## FDI inflows from China to some countries in Central Asia and Russia, mln dollars



Источник: Ежегодный статистический бюллетень о прямых зарубежных инвестициях Китая 2015; Данные министерства коммерции Китая.

# External factors of modernization of economies of the EAEU: domination of the EU, growth of China and weakening of Russia

Dynamics of import of machinery, equipment and vehicles of the EAEU countries on the main regions, 2010-2014, %

| Countries  | Regions | 2010 | 2011 | 2012 | 2013 | 2014 |
|------------|---------|------|------|------|------|------|
| Armenia    | EU      | 30,9 | 34,0 | 33,6 | 31,2 | 37,4 |
|            | Russia  | 13,2 | 10,9 | 12,5 | 12,0 | 7,8  |
|            | China   | 20,3 | 20,4 | 19,6 | 18,8 | 21,5 |
| Belarus    | EU      | 41,1 | 37,3 | 40,2 | 41,7 | 51,0 |
|            | Russia  | 20,3 | 18,2 | 25,9 | 23,9 | 31,7 |
|            | China   | 10,0 | 10,4 | 12,1 | 13,6 | 3,9  |
| Kazakhstan | EU      | 38,7 | 24,5 | 20,6 | 24,7 | 25,8 |
|            | Russia  | 8,8  | 30,9 | 25,2 | 22,2 | 24,4 |
|            | China   | 20,9 | 18,4 | 23,5 | 21,9 | 20,7 |
| Kyrgyzstan | EU      | 19,6 | 23,2 | 21,2 | 22,2 | ...  |
|            | Russia  | 8,3  | 6,5  | 6,6  | 7,0  | ...  |
|            | China   | 30,1 | 27,7 | 25,3 | 29,4 | ...  |
| Russia     | EU      | 44,2 | 45,7 | 44,1 | 44,5 | 45,2 |
|            | EAEU-5  | ...  | ...  | 5,5  | 3,7  | 3,3  |
|            | China   | 20,5 | 18,3 | 17,3 | 18,2 | 21,0 |

Источник: составлено и рассчитано автором по данным ITC. Trade Map. October 2015.

# Risks of the Eurasian integration

1. **Stabilization of low oil prices in the global economy** will have a negative impact on economic cooperation in the region through decline in Russian demand for goods from the EAEU countries and reduction of workers' remittances;
2. **Saving of sanctions** (of the USA and the EU) **against Russia will contain its economic growth**, to interfere with modernization and diversification of its economy with use of the western capital and technologies.
3. Taking into account the situation which developed in the region **integration effects** (including for new member countries) **will affect not immediately and will have the implicit, postponed character**.

# Opportunities for EAEU

1. In the conditions of an aggravation of financial problems and contradictions **need of development of the *joint effective compensation mechanism* for maintenance of the weakest economies** (Armenia and Kyrgyzstan) increases in the countries of EAEU;
2. **Development of *cross border value added chains*** and the creation of favorable conditions for mutual direct investment to improve economic coherence of the region;
3. **Realization of the *coordinated economic modernization of member countries***, including due to broader inclusion of the countries in the Russian import substitution programs.

**Thanks for your attention!**

***artem-pylin@yandex.ru***