



Quantifying EU-EEU Economic Integration: Methodological Approaches

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Why do we need a study of a potential impact of EU-EEU deep economic cooperation?

After the establishment of the EEU in 2015 it will turn it into a **large and complex** regional integration organisation (5-6 member states; GDP ca. \$2.5 bln; population ca.180 mln.)

It is feasible that economic integration of two blocs (European and Eurasian ones) will move at the top of agenda when the institution-building of the EEU is complete.

EEU is a subject of negotiations, not Russia.

EU-Russia Summit, January 28th, 2014: President **Putin** offers the idea of an FTA.
February 5th: President **Nazarbayev** voices support.

A truly comprehensive agreement between EU and EEU might become **reality in the 2020s**

Kazakhstani and Belorussian **WTO accession** is a prerequisite. Russia should push for it.

Therefore, comprehensive assessment of the economic impact should be conducted to **establish a proactive agenda** and pave the way to future negotiations.

The scope of the potential agreement:

Potential issues:

Trade in goods

Trade in services (including financial services)

Abolition of non-tariff barriers (segment by segment)

Free movement of capital

Regulatory convergence

Mutual recognition of professional certifications

Economic impact of the **visa-free regime** (including the package of readmission agreements)

Educational and research exchange

Managing common neighborhoods

Kaliningrad issue

Development of **cross-border transport infrastructure** (railway and automobile)

Establishment of the **common electric power market**

(Mutual access to governmental procurement)

(Competition rules)

Mediation mechanisms

Legal framework

Legal framework:

DCFTA (Eastern Neighborhood)

CETA (comprehensive economic and trade agreement) EU-Canada; TTIP EU-US

A set of vertical agreements (EU-Switzerland)

EEU would not want a simple FTA since the EU-EEU trade structure is hugely asymmetric (EU will have an easy ride).

What EEU would need is a deep and comprehensive agreement that covers additional domains, enabling it to reach such objectives as the large-scale transfer of technologies, visa-free regime, development of cross-border physical infrastructure.

We favour a CETA. However, the title matters less than content (it might also be called “EU-EEU Partnership”).

The stages of the study of EU-EEU deeper economic integration

The research project could be implemented in **three stages**

I. Identifying barriers. A study into the existing state of affairs, including trade barriers and NTBs, regulatory discrepancies, border issues, etc. (In essence, a comprehensive assessment of what stays in the way)

II. Quantifying Economic Impact in Various Scenarios. Building on the first stage, this project will involve modeling and quantitative assessment (CGE, IOTs, gravity, surveys, econometrics, etc.)

III. Policy framework for an asymmetric bargaining (chips on the table and how to trade them)

Possible within 2015-2017

Analytical framework: variety of methods

The impact assessment of comprehensive agreement between EU and EEU should be conducted using **various kinds of evaluation methodology**. A single method will not suffice.

Surveys and interviews:

- Business surveys
- Interviews with officials and experts

Economic analysis:

- Trade indicators
- Gravity models
- Computable general equilibrium modeling
- Other methods

Industries and specific issues:

- Specific methods and separate studies to assess sectoral and other specific initiatives (e.g., common electric power market; transport infrastructure; financial services; Kaliningrad)

Economic analysis: trade indicators

(i) Indicators of regional trade interdependence:

- Intraregional trade share
- Intraregional trade intensity
- Regional trade introversion index

(ii) Indicators of comparative advantage, regional orientation, trade complementarity, and export similarity:

- Revealed comparative advantage
- Regional orientation
- Complementarity
- Export similarity

Economic analysis: gravity models

Gravity models are widely used as a tool of ex-post analysis of regional trade agreements (RTA)

To some extent, gravity model allows to "look into the future" and assess what will be an effect of country's possible participation in RTA by extrapolation of the impact of membership in this RTA on trade of its current members

In addition, the gravity model allows to evaluate whether actual trade between non-member country (trade block) and RTA is higher/lower than estimated potential trade

But: various consideration limiting the validity and application of gravity models.

Economic analysis: computable general equilibrium models (I)

CGE modeling provides the comprehensive and formalized framework for addressing the issues associated with an impact of regional economic agreement between EU and EEU. The world's standard 'working horse' in modelling effects of economic integration.

MPSGE/GAMS (*General Algebraic Modeling System*) and GTAP can be used.

Possibility to use the latest available "input-output" tables as a data source for construction of SAM. In current version of GTAP (GTAP 8) the base year for Belarus and Kazakhstan is 2004, and for Russia is 2003.

In its turn GTAP will allow to assess the RoW impact of comprehensive agreement between EU and EEU. The rest of the world countries can be aggregated depending on objectives of the study

Economic analysis: computable general equilibrium models (II)

The following countries aggregation can be used in GTAP for the assessment of a comprehensive EU-EEU agreement(s):

EU27 (Austria, Belgium, Bulgaria, UK, Hungary, Germany, Greece, Denmark, Ireland, Spain, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Finland, France, Czech Republic, Sweden, and Estonia)

EEU-3 (Belarus, Russia, Kazakhstan) and/or EEU-5 (+Kyrgyzstan and Armenia, possibly also Tajikistan)

Ukraine and Turkey (to be singled out due to their importance in the EU-EEU context)

ROW

Assessment of Non-tariff Barriers

The impact of non-tariff barriers on the economies of the integrating countries can be much larger than trade effects per se. Its evaluation is an extremely difficult task. It is advisable to use a set of various interrelated methods:

Direct evaluation of the costs of trade, based on surveys of enterprises in the EEU and the EU. Surveys are carried out for the most important sectors of the economy

Gravity models including variables (e.g. NTBs indices) that are calculated on the basis of survey data

CGE model to assess the short-and long-term effects of reducing NTBs on key macroeconomic indicators and welfare



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Thank you for your attention