Possible Economic Effects of the CU—EU Free Trade Agreement

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Presentation structure

1. Motivation & the main goal of research
2. Customs Union and EU: Trade structure & integration prospect; the main hypothesis of research
3. Economic & industry effects of CU–EU free trade agreement
4. Conclusions and recommendations

Motivation & the main goal of research

Motivation

Motivation & the main goal of research

Motivation

- May, 2005, Russia–EU summit: the parties accepted "road map" on the **Common Economic Space** which main objective declared "creation of the opened and integrated market between Russia and EU".
- November, 2010, "**Süddeutsche Zeitung**" newspaper: Putin declares need of harmonious economic community from Lisbon to Vladivostok in the long run promoting creation of the Euroasian FTA and even of more advanced forms of economic integration. As V. Putin noted, "*acting as equal partners — Russia and EU will have to take place the part of a way to convergence. But such work can't be postponed and it is obvious.*"
- January, 2015, Russia–EU summit, from V. Putin's speech: "*We suggested for European Union leaders to study possibility of* ***free trade area*** *between EU and the Euroasian economic union created by Russia, Belarus and Kazakhstan*"

Motivation & the main goal of research

WTO+ and WTO–X policy areas in PTAs

WTO+ areas	WTO–X areas	
PTA industrial goods	Anti-corruption	Health
PTA agricultural goods	Competition policy	Human rights
Customs administration	Environmental laws	Illegal immigration
Export taxes	IPR	Illicit drugs
SPS measures	Investment measures	Industrial cooperation
State trading enterprises	Labour market regulation	Information society
Technical barriers to trade	Movement of capital	Mining
Countervailing measures	Consumer protection	Money laundering
Anti-dumping	Data protection	Nuclear safety
State aid	Agriculture	Political dialogue
Public procurement	Approximation of legislation	Public administration
TRIMS measures	Audiovisual	Regional cooperation
GATS	Civil protection	Research and technology
TRIPS	Innovation policies	SMEs
	Economic policy dialogue	Statistics
	Energy	Terrorism

Source: (Horn et al., 2010)

Because of the majority of countries are WTO members, almost all preferential trade agreements have to correspond to rules of this organization. Economists mark out two groups of the questions raised in trade agreements.

- ✓ **The first group** of policy areas, called **WTO+** provisions, fall under the current mandate of the WTO and are already subject to some form of commitment in WTO agreements. WTO+ provisions reconfirm existing commitments and provide for additional obligations.
- ✓ **The second group** of policy areas, which they denote as **WTO–X** provisions, refer to obligations that are outside the current mandate of the WTO.

Motivation & the main goal of research

The main goal of research

- The possible agreement has to include a set of aspects, from tariffs in goods trade and decrease in barriers relating to WTO+ group, to separate industrial arrangements.
- Research is devoted to estimation the **economic consequences** of free trade area (FTA) formation meaning mutual duty-free trade in goods between the CU and EU.
  - ✓ First, this is **the first stage of economic integration** therefore it is natural to study its consequences first of all.
  - ✓ Secondly, zeroing of the specific, ad valorem and combined customs duties in mutual trade in goods is the mental experiment which **is directly giving in to quantitative measurement**.
  - ✓ Thirdly, more deep integration between CU and **EU is possible only after sufficient integration** inside CU

Customs Union and EU: Trade structure & integration prospect; the main hypothesis

Forms of cooperation between EU and distant economies

Form of cooperation	Patterns	Comments
1. **Between EU, Norway and Iceland:** European Economic Area (EEA).	Norway, Iceland	Execution of an **overall agreement with account of specific interest** in the fishery as well as in agriculture.
2. **Between EU and Switzerland:** Bilateral Sectoral Agreements (the same approach in the case of cooperation between MERCOSUR and Chile).	Switzerland	Execution of **Bilateral Agreements with account of Switzerland' specific interest** in some areas especially in the banking sector.
3. **Between EU, Eastern Europe countries and South Caucasus countries:** Partnership and Cooperation Agreement, Action Plans under **European Neighborhood Policy, EU project «Eastern Partnership».**	Armenia, Georgia, Moldova, Ukraine	Future establishment of **Deep and Comprehensive Free Trade Areas (DCFTA)** as part of association agreements is under consideration. Some countries have already got into the negotiating process.

Customs Union and EU: Trade structure & integration prospect; the main hypothesis

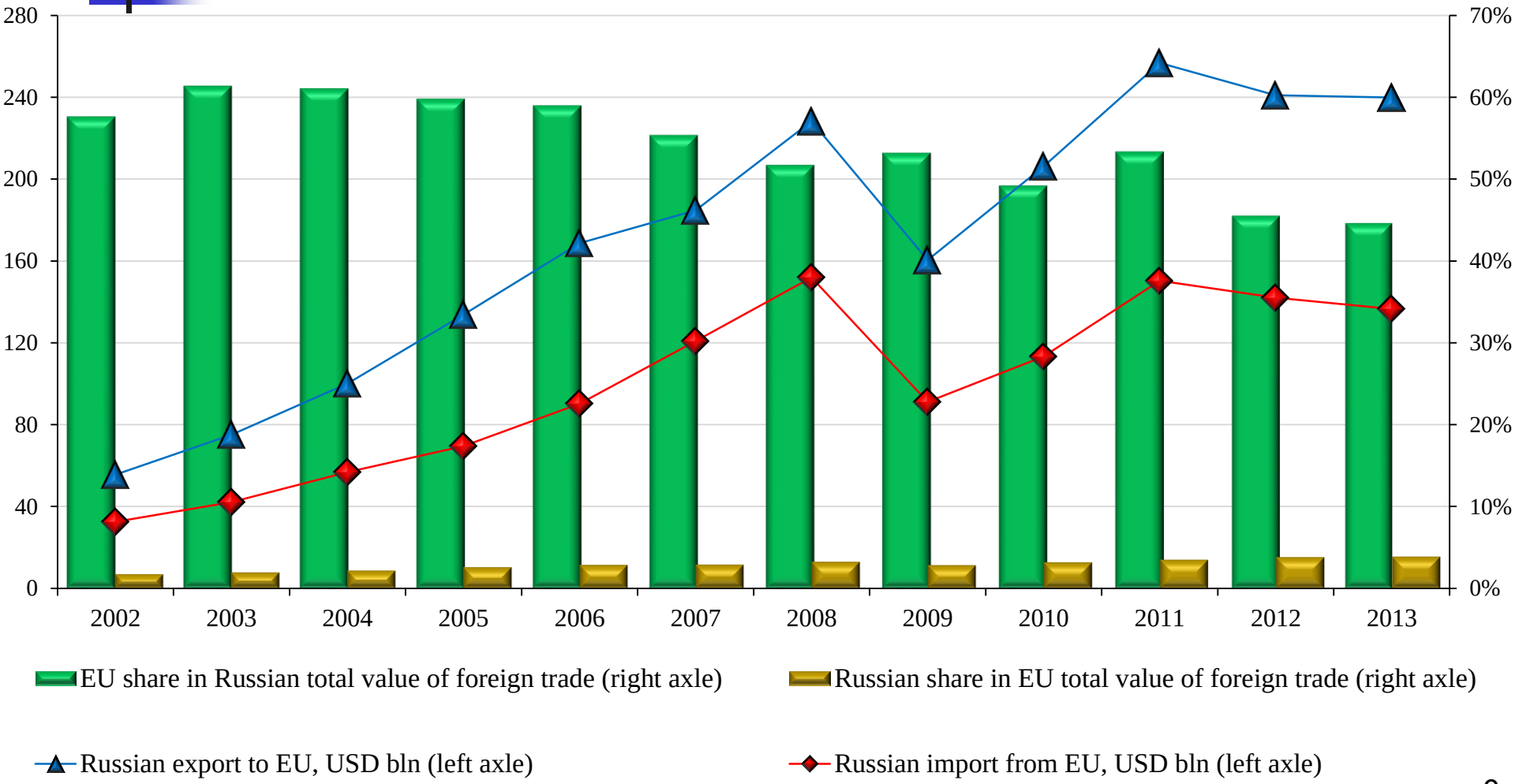
Forms of cooperation between EU and distant economies

Form of cooperation	Patterns	Comments
4. **Between EU and Mediterranean countries:** Euro-Mediterranean Association Agreement, Action Plans under European Neighborhood Policy.	Tunisia, Morocco, Israel	Movement towards the shortest possible integration on both sides: **creation of a Comprehensive Euro-Mediterranean Free Trade Area.**
5. **Between EU and Balkan States:** disequilibrium format towards full accession	Croatia, Bosnia and Herzegovina, Macedonia, Serbia, Montenegro	Disequilibrium state in the long term either continues as cooperation without accession, or **passes into full membership.**

- Problem: Belarus and Kazakhstan are not members of WTO
- Customs Union **is not notified** in WTO

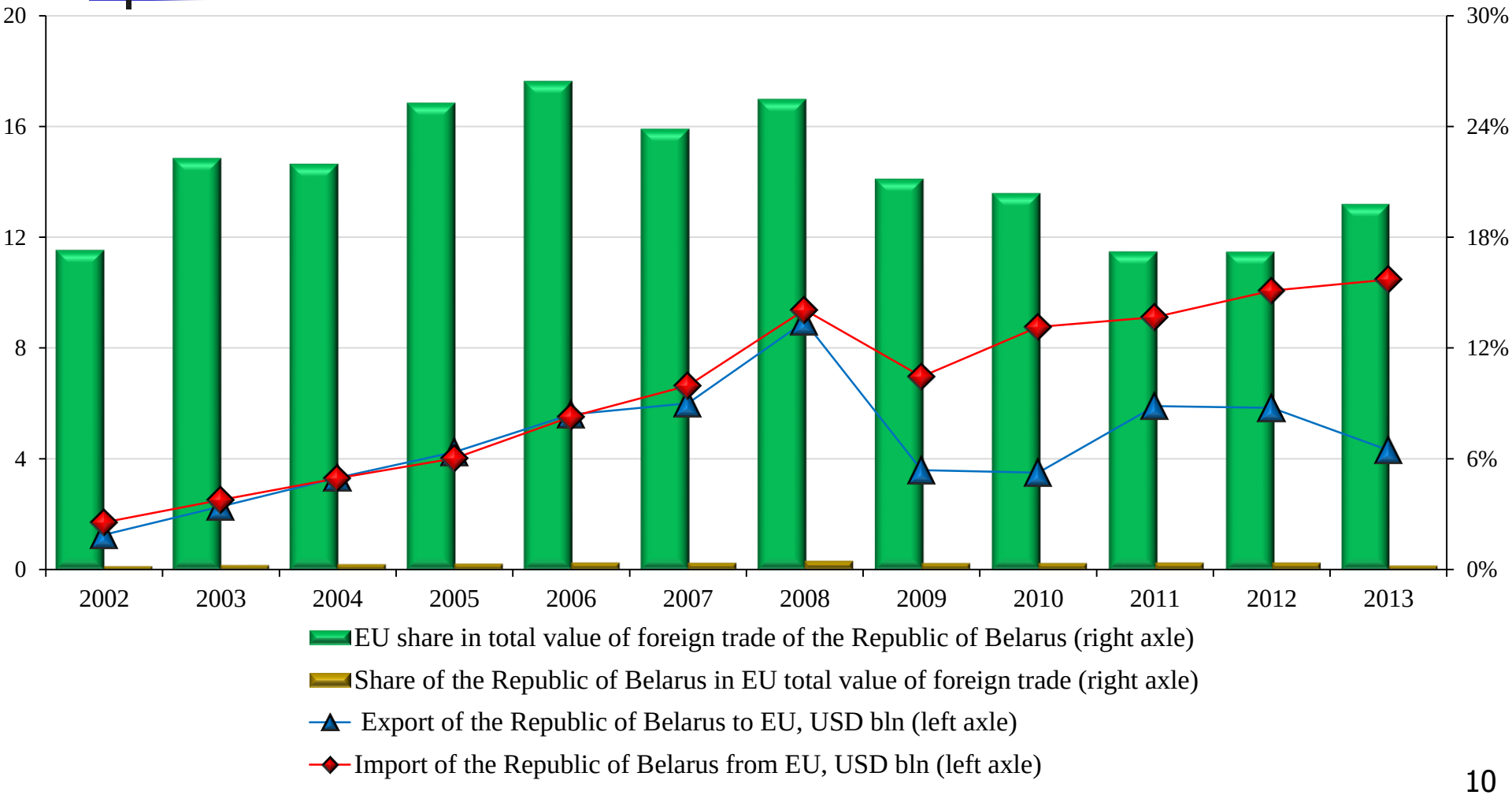
Customs Union and EU: Trade structure & integration prospect; the main hypothesis

Trade dynamics Russia–EU in 2002–2013



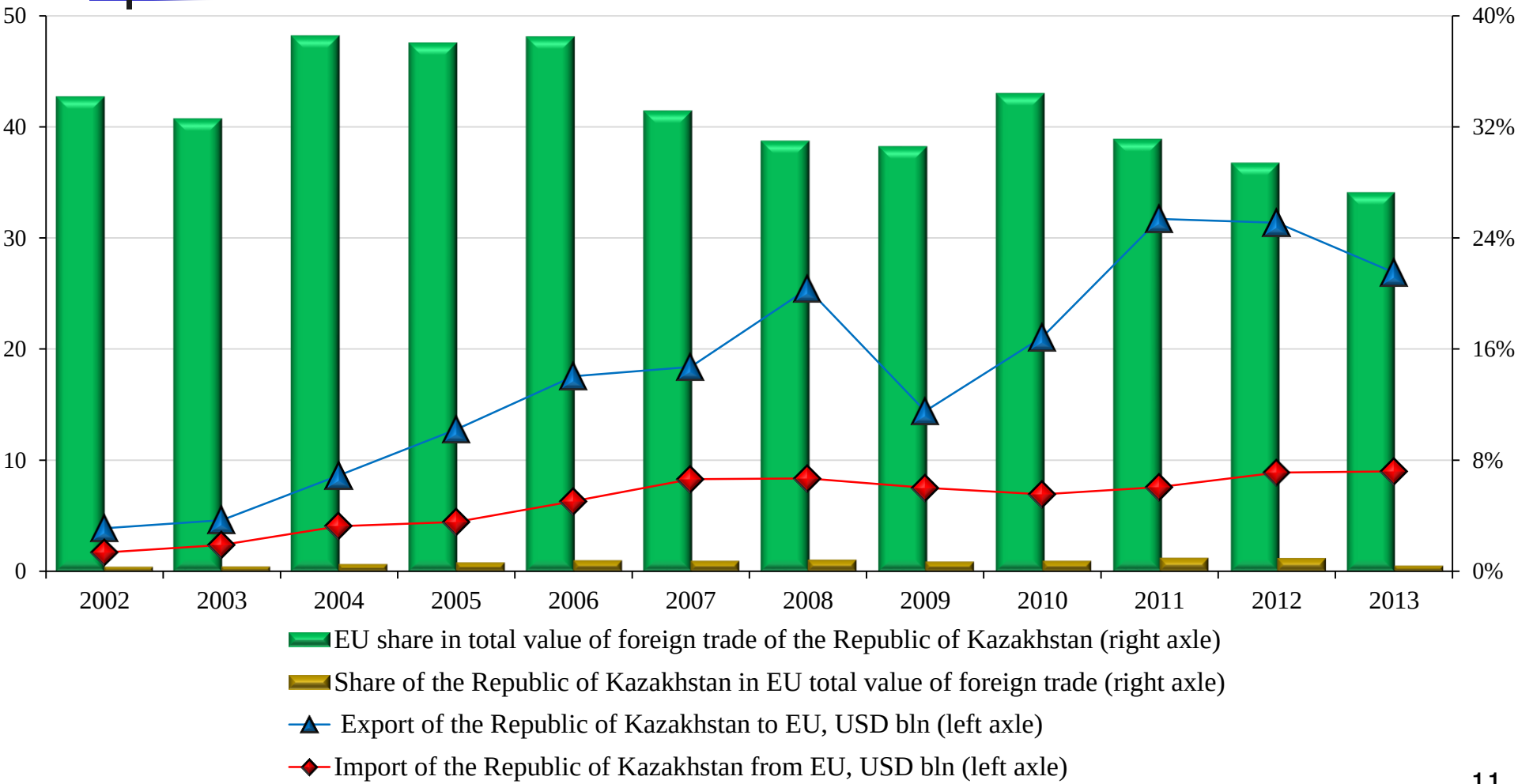
Customs Union and EU: Trade structure & integration prospect; the main hypothesis

Trade dynamics Belarus–EU in 2002–2013



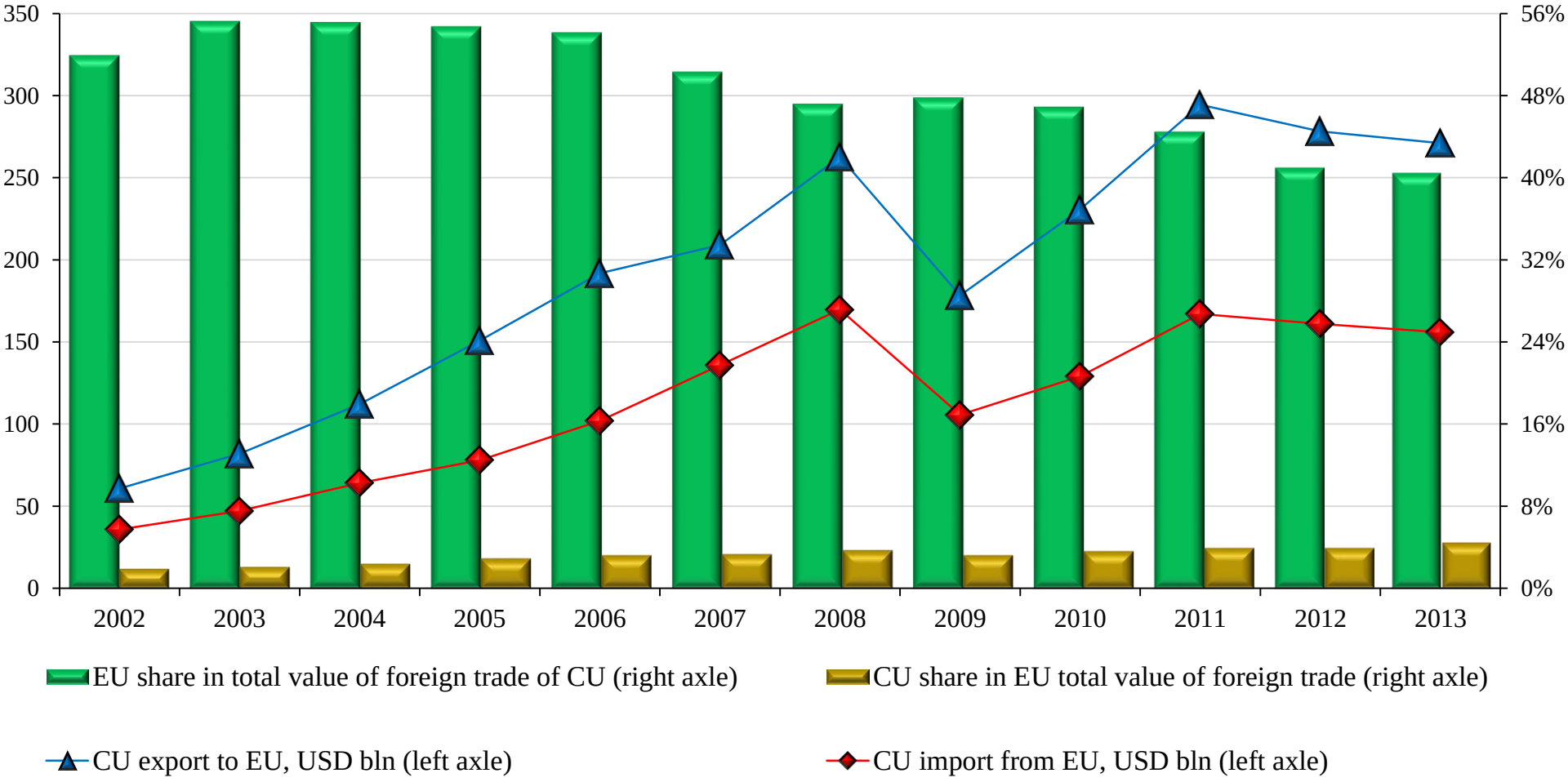
Customs Union and EU: Trade structure & integration prospect; the main hypothesis

Trade dynamics Kazakhstan–EU in 2002–2013



Customs Union and EU: Trade structure & integration prospect; the main hypothesis

Trade dynamics CU–EU in 2002–2012



Customs Union and EU: Trade structure & integration prospect; the main hypothesis

Trade structure Russia–EU

Export structure

Tariff nomenclature	Exports of RF to EU, $billion	Share of the nom. in the Exports of RF to EU	Average import tariffs of the EU, %
27 MINERAL FUELS, OILS, WAXES & BITUMINOUS SUB	197.4	80.46%	0.04%
72 IRON & STEEL	9.1	3.70%	0.19%
71 PEARLS, STONES, PREC. METALS, IMITATION JEWELRY, COINS	6.6	2.69%	0.02%
74 COPPER & ARTICLES THEREOF	4.5	1.81%	0.34%
75 NICKEL & ARTICLES THEREOF	3.8	1.55%	0.13%
28 INORGANIC CHEM, ORG/INORG COMPOUNDS OF PRECIOUS METALS, ISOTOPES	2.4	0.97%	1.24%

Import structure

Tariff nomenclature	Imports of RF from EU, $billion	Share of the nom. in the Imports of RF from EU	Average import tariffs of the RF, %
84 NUCLEAR REACTORS, BOILERS, MACHINERY & MECHANICAL APPLIANCES, COMPUTERS	33.2	21.24%	2.53%
87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING STOCK	24.0	15.39%	9.62%
85 ELECTRICAL MACHINERY & EQUIP. & PARTS, TELECOMMUNICATIONS EQUIP.	14.3	9.15%	6.01%
30 PHARMACEUTICAL PRODUCTS	9.8	6.26%	9.83%
90 OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS &	6.3	4.06%	2.71%
39 PLASTICS & ARTICLES THEREOF	5.6	3.56%	10%

Customs Union and EU: Trade structure & integration prospect; the main hypothesis

Trade structure Belarus–EU

Export structure

Tariff nomenclature	Exports of RB to EU, $billion	Share of the nom. in the Exports of RB to EU	Average import tariffs of the EU, %
27 MINERAL FUELS, OILS, WAXES & BITUMINOUS SUB	3.4	56.37%	0.04%
31 FERTILIZERS	0.6	9.95%	2.32%
72 IRON & STEEL	0.4	6.14%	0.19%
44 WOOD & ARTICLES OF WOOD, WOOD CHARCOAL	0.3	5.42%	0.61%
73 ARTICLES OF IRON OR STEEL	0.2	2.62%	0.37%
87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING STOCK	0.1	2.02%	2.43%

Import structure

Tariff nomenclature	Imports of RB from EU, $billion	Share of the nom. in the Imports of RB from EU	Average import tariffs of the RB, %
84 NUCLEAR REACTORS, BOILERS, MACHINERY & MECHANICAL APPLIANCES, COMPUTERS	2.4	25.68%	2.53%
87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING STOCK	0.9	9.94%	9.62%
39 PLASTICS & ARTICLES THEREOF	0.8	8.11%	10%
85 ELECTRICAL MACHINERY & EQUIP. & PARTS, TELECOMMUNICATIONS EQUIP.	0.7	7.67%	8.34%
30 PHARMACEUTICAL PRODUCTS	0.4	4.18%	9.83%
02 MEAT & EDIBLE MEAT OFFAL	0.4	4.04%	29.06%

Customs Union and EU: Trade structure & integration prospect; the main hypothesis

Trade structure Kazakhstan–EU

Export structure

Tariff nomenclature	Exports of RK to EU, $billion	Share of the nom. in the Exports of RK to EU	Average import tariffs of the EU, %
27 MINERAL FUELS, OILS, WAXES & BITUMINOUS SUB	29.2	92.57%	0.04%
71 PEARLS, STONES, PREC. METALS, IMITATION JEWELRY, COINS	0.4	1.40%	0.02%
28 INORGANIC CHEM, ORG/INORG COMPOUNDS OF PRECIOUS METALS, ISOTOPES	0.4	1.37%	1.24%
74 COPPER & ARTICLES THEREOF	0.2	0.70%	0.34%
12 OIL SEEDS/MISC. GRAINS/MED. PLANTS/STRAW	0.2	0.70%	0.09%
72 IRON & STEEL	0.2	0.68%	0.19%

Import structure

Tariff nomenclature	Imports of RK from EU, $billion	Share of the nom. in the Imports of RK from EU	Average import tariffs of the FK, %
84 NUCLEAR REACTORS, BOILERS, MACHINERY & MECHANICAL APPLIANCES, COMPUTERS	1.8	24.43%	2.53%
85 ELECTRICAL MACHINERY & EQUIP. & PARTS, TELECOMMUNICATIONS EQUIP.	0.8	11.13%	6.01%
30 PHARMACEUTICAL PRODUCTS	0.8	10.79%	9.83%
73 ARTICLES OF IRON OR STEEL	0.5	6.68%	13.43%
87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING STOCK	0.5	6.26%	9.62%
90 OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS &	0.4	5.25%	2.71%

Customs Union and EU: Trade structure & integration prospect; the main hypothesis

Trade structure CU–EU

Export structure

Tariff nomenclature	Exports of CU to EU, $billion	Share of the nom. in the Exports of CU to EU	Average import tariffs of the EU, %
27 MINERAL FUELS, OILS, WAXES & BITUMINOUS SUB	230.0	81.30%	0.04%
72 IRON & STEEL	9.7	3.42%	0.19%
71 PEARLS, STONES, PREC. METALS, IMITATION JEWELRY, COINS	7.0	2.49%	0.02%
74 COPPER & ARTICLES THEREOF	4.7	1.67%	0.34%
75 NICKEL & ARTICLES THEREOF	3.8	1.34%	0.13%
28 INORGANIC CHEM, ORG/INORG COMPOUNDS OF PRECIOUS METALS, ISOTOPES	2.8	1.00%	1.24%

Import structure

Tariff nomenclature	Imports of CU from EU, $billion	Share of the nom. in the Imports of CU from EU	Average import tariffs of the CU, %
84 NUCLEAR REACTORS, BOILERS, MACHINERY & MECHANICAL APPLIANCES, COMPUTERS	37.4	21.61%	2.53%
87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING STOCK	25.4	14.70%	9.62%
85 ELECTRICAL MACHINERY & EQUIP. & PARTS, TELECOMMUNICATIONS EQUIP.	15.8	9.16%	6.01%
30 PHARMACEUTICAL PRODUCTS	11.0	6.34%	9.83%
90 OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS &	7.0	4.03%	2.71%
39 PLASTICS & ARTICLES THEREOF	6.5	3.79%	10%

Customs Union and EU: Trade structure & integration prospect; the main hypothesis

The main hypothesis

1. Benefits and costs from CU–EU FTA **are distributed unevenly among members of Customs Union**. It follows from this that structure of their economy and mutual trade are different. (see Siriwardana, 2007; Pereira et al., 2010; Perali et al., 2012).

2. **Belarus will has loses from CU–EU FTA** . It is connected with that Russia is the main importer of the Belarusian goods, and free trade agreement with EU leads Russian consumers replace part of the Belarusian goods with goods from EU. According to FTA theory, the Russian consumers switch over from more expensive Belarusian goods on cheaper European that illustrates effect of creation of trade (Viner, 1950; Meade, 1955; Lipsey, 1970).

3. **CU–EU FTA** influences economy of the CU countries more considerably, than EU economy, because of the greatest share in its trade turnover is the share of EU (Nijkampb et al., 2005; Németh et al., 2011).

Customs Union and EU: Trade structure & integration prospect; the main hypothesis

The main hypothesis

4. FTA with developed countries including with EU, **positive influence on domestic households consumption is stronger, than on partner households consumption; influence on a domestic production is more, than on production of the partner** (см.: Lipsey, 1970; Wonnacott, Wonnacott, 1981). This thesis is explained by that CU import duties on goods from the developed countries are higher, than developed countries import duties on goods from the CU

5. If in structure of CU import/export with this trade partner production of any industry prevails, influence of this measure on production in it will be strongly negative/positive, and impact on other industries will be weak. Therefore **in the industries which share in import/export CU structure with EU considerably exceeds shares of other industries, FTA influence on production will be strongly negative/positive**. (Lipsey, 1970; Wonnacott, Wonnacott, 1981).

Economic & industry effects of CU–EU free trade agreement

Model and data

Computable General Equilibrium (CGE) model GLOBE v1 (**McDonald, Thierfelder, Robinson, 2007**). Database: GTAP 8.0.

- Structural models reflect the **general balance in all markets** that allows to analyze influence of various external economic changes on national economy

- Unlike econometric models, CGE allows to estimate **consequences of economic policy** and to analyze changes of such macro variables, as gross domestic product, investments, labor, export, import

See (Clausing, 2001; Trefler, 2004; Romalis, 2007; Chang, Winters, 2002; Egger, 2004; Magee, 2008; Carrere, 2006; Baier, Bergstrand, 2004; Harris, 2006; Hertel, 1997; Cheong, Wang, 1999; Brown et al., 2001; McDaniel, Fox, 2001; Choi, Schott, 2001, 2004; Ghosh, Rao, 2005; Francois, McQueen, 2005; Siriwardana, Yang, 2007; Georges, 2008; Teixeira, Raszap-Skorbiansky, 2010; Németh et al., 2011; Perali et al., 2012; Lakatos, Walmsley, 2012).

Economic & industry effects of CU–EU free trade agreement

Model and data

Computable General Equilibrium (CGE) model GLOBE v1 (**McDonald, Thierfelder, Robinson, 2007**). Database: GTAP 8.0.

- It is supposed that **import goods are differentiated**, are divided on national origin and countries have elements of market power which is realized through their tariff rates.

- Goods differentiation in the same industry depending on goods' origin country (including domestic) is modelled by means of function with constant elasticity of substitution (CES). At such composite consumer goods aggregation form **domestic and import goods don't act completely neither substitutes, nor complements**: in any balance one and another **will be consumed in positive quantity**.

See (Clausing, 2001; Trefler, 2004; Romalis, 2007; Chang, Winters, 2002; Egger, 2004; Magee, 2008; Carrere, 2006; Baier, Bergstrand, 2004; Harris, 2006; Hertel, 1997; Cheong, Wang, 1999; Brown et al., 2001; McDaniel, Fox, 2001; Choi, Schott, 2001, 2004; Ghosh, Rao, 2005; Francois, McQueen, 2005; Siriwardana, Yang, 2007; Georges, 2008; Teixeira, Raszap-Skorbiansky, 2010; Németh et al., 2011; Perali et al., 2012; Lakatos, Walmsley, 2012).

Economic & industry effects of CU–EU free trade agreement

The main effects (general)

I. General welfare effects:

Mutual trade liberalization=> decrease in trade restrictions => decrease in deadweight losses => **positive macroeconomic effect on EU and CU**

II. General trade effect:

Mutual trade liberalization => decrease in trade restrictions => **trade growth between CU and EU in all industries**, decrease in trade with the rest of the world

Economic & industry effects of CU–EU free trade agreement

The main effects (industrial)

III. Short run:

1. Decrease in the customs duties on import from EU =>
   - ✓ a) **real income growth** due to prices reduction (both on investment goods, and on final consumption goods)
   - ✓ b) **consumption substitution** from CU goods to EU goods

2. Decrease in a trade barrier for CU export to EU =>

   a) **production growth** due to EU consumers demand growth
   b) **households income growth** as labor and capital owners

3. Decrease in a trade barrier for import from EU =>
   - ✓ a) import from EU growth and **domestic production crowding**

4. Import growth from EU and domestic production crowding =>

   labor and capital redistribution from less effective industries to more effective ones.

IV. Long run:

1. Real income growth => saving growth => investment growth => capital growth => **production** growth
2. Competition growth => efficiency increasing stimulation => **productivity** growth => **production** growth

Economic & industry effects of CU–EU free trade agreement

FTA influence on GDP

State/region	Short run	Long run
Influence in % of GDP		
Russia	0,8%	2,0%
Belarus	–0,6%	–0,04%
Kazakhstan	0,6%	1,2%
EU	0,1%	0,2%
Influence in billions USD		
Russia	$15 bill.	$40 bill.
Belarus	–$0,4 bill.	–$0.03 bill.
Kazakhstan	$1 bill.	$2 bill.
EU	$15 bill.	$30 bill.

Economic & industry effects of CU–EU free trade agreement

FTA influence on trade

Influence on export						
State/region	Total export		Export to EU		Export to non-EU countries	
	Short run	Long run	Short run	Long run	Short run	Long run
Russia	+1,8%	+3,1%	+2,2%	+3,6%	+2,0%	+3,1%
Belarus	+2,4%	+3,1%	+3,6%	+4,3%	+3,0%	+3,4%
Kazakhstan	+0,7%	+1,4%	+1,2%	+1,8%	+1,0%	+1,7%
EU	+0,1%	+0,2%				
Influence on import						
State/region	Total import		Import from EU		Import from non-EU countries	
	Short run	Long run	Short run	Long run	Short run	Long run
Russia	+1,5%	+2,3%	+5,5%	+6,3%	–3,0%	–2,3%
Belarus	+0,7%	+1,5%	+4,3%	+4,7%	–3,7%	–3,4%
Kazakhstan	+0,6%	+1,2%	+4,4%	+4,6%	–1,5%	–1,3%
EU	+0,2%	+0,3%				

Economic & industry effects of CU–EU free trade agreement

FTA influence on export, production, and consumption in Russian industries (in %)

Industry	Export		Production		Consumption	
	Short run	Long run	Short run	Long run	Short run	Long run
Agriculture, foresty, fishing	1,6	2,5	–0,2	1,1	–0,3	1,0
Minerals	1,9	3,3	1,2	2,6	0,6	2,0
Meat	3,8	5,1	–0,5	0,9	–0,3	1,0
Dairy products	1,5	2,6	–0,3	1,0	0,2	1,4
Other foods	1,2	2,3	–0,5	0,9	–0,1	1,2
Textiles	–0,6	0,0	–0,8	0,3	0,3	1,3
Wearing	2,1	2,8	–1,0	0,2	1,2	2,1
Wood, Paper	0,5	1,5	–1,3	–0,0	0,5	1,8
Mineral products	1,9	3,3	0,6	2,1	0,4	1,8
Chemical	2,6	3,8	0,5	2,0	0,8	2,0
Metals	2,6	3,7	0,9	2,3	0,4	1,8
Motor vehicles and parts thereof	–0,4	0,5	–2,2	–0,9	0,9	2,0
Electronic machinery	0,9	1,9	0,0	1,5	0,1	1,3
Other manufacturing	1,6	2,2	–0,1	1,1	0,3	1,6

Economic & industry effects of CU–EU free trade agreement

FTA influence on export, production, and consumption in Belarus industries (in %)

Industry	Export		Production		Consumption	
	Short run	Long run	Short run	Long run	Short run	Long run
Agriculture, foresty, fishing	2,7	3,1	–0,6	–0,1	–0,6	–0,2
Minerals	1,6	1,6	4,0	3,9	1,9	2,8
Meat	0,6	1,2	–0,7	–0,1	–0,7	–0,3
Dairy products	0,2	0,6	–0,6	–0,2	–0,8	–0,3
Other foods	1,6	2,1	–0,4	0,0	–0,7	–0,3
Textiles	4,2	4,9	2,2	2,6	0,6	1,1
Wearing	0,2	0,5	0,0	0,5	0,1	0,6
Wood, Paper	–0,5	0,0	–0,9	–0,5	–0,5	0,0
Mineral products	4,0	4,9	2,9	3,9	0,6	1,3
Chemical	3,2	3,8	2,6	3,1	0,8	1,5
Metals	2,8	3,6	2,4	3,0	0,1	0,7
Motor vehicles and parts thereof	–3,2	–2,5	–2,5	–2,0	–0,8	–0,3
Electronic machinery	1,8	2,5	1,5	2,1	–0,8	–0,2
Other manufacturing	0,0	0,0	–0,5	0,1	–0,5	0,1

Economic & industry effects of CU–EU free trade agreement

FTA influence on export, production, and consumption in Kazakhstan industries (in %)

Industry	Export		Production		Consumption	
	Short run	Long run	Short run	Long run	Short run	Long run
Agriculture, foresty, fishing	1,2	1,9	0,2	0,8	0,0	0,6
Minerals	0,7	1,4	0,5	1,2	0,3	0,9
Meat	0,0	0,0	–0,1	0,5	–0,1	0,5
Dairy products	0,4	1,0	–0,2	0,4	0,0	0,7
Other foods	0,0	0,0	–0,1	0,5	–0,1	0,5
Textiles	0,0	2,3	–0,2	0,5	–0,2	0,4
Wearing	0,6	0,6	–0,5	–0,1	0,7	1,1
Wood, Paper	0,0	0,0	–1,0	–0,5	0,1	0,7
Mineral products	0,8	1,4	0,1	0,7	0,2	0,9
Chemical	–1,4	–1,0	–1,6	–1,0	0,3	0,9
Metals	1,1	2,0	0,5	1,3	0,3	1,0
Motor vehicles and parts thereof	–1,0	–0,7	–2,5	–2,0	0,6	1,1
Electronic machinery	–1,4	0,0	–0,6	0,2	0,1	0,7
Other manufacturing	0,0	0,0	–0,8	–0,3	0,3	0,8

Elasticity of substitution in the CES function

The goal of consumer:

$$PQD \cdot QD + PM \cdot QM \rightarrow \min$$

$$s.t. \quad \alpha \cdot (\delta (QM)^{\rho} + (1-\delta)(QD)^{\rho})^{\frac{1}{\rho}} = QQ \qquad (1)$$

$$FOC: \quad \frac{QM}{QD} = \left(\frac{PM}{PD} \cdot \frac{1-\delta}{\delta}\right)^{\frac{1}{\rho-1}} \qquad (2)$$

$$-\infty < \rho < 1.$$

In the basic version of the model $\rho = 0.5.$

Stability of modeling results

Sensitivity of the model's results (change in GDP of Russia) to the parameter *ρ (in %)*

ρ	–5	–2	–1	–0,5	0,05	**0,5**	0,6	0,8	0,9
Russian GDP change	2,38	2,30	2,25	2,20	2,13	**2,04**	2,01	1,93	1,88
Change over the base model	16,7	12,8	10,1	8,0	4,6	**0,0**	–1,4	–5,2	–8,0

The table shows the sensitivity of Russian GDP change to the elasticity of substitution between imported and domestic goods. It can be concluded that the results of the model are robust to the moderate changes in elasticites of substitution CES and CET functions.

Economic & industry effects of CU–EU free trade agreement

FTA with exceptions

Exceptions in five most protected industries (~25% of total import from EU): meat, dairy products, food, wearing, motor vehicles and parts thereof

State/region	Short run	Long run
Influence in % of GDP		
Russia	0,4%	1,0%
Belarus	–0,3%	–0,02%
Kazakhstan	0,3%	0,7%
EU	0,03%	0,08%
Influence in billions USD		
Russia	$7 млрд.	$20 млрд.
Belarus	–$0,2 млрд.	–$0,01 млрд.
Kazakhstan	$0,5 млрд.	$1 млрд.
EU	$5 млрд.	$15 млрд.

Economic & industry effects of CU–EU free trade agreement

FTA with other developed countries: influence on GDP (in %)

FTA with Israel

State/region	Short run	Long run
Russia	+0.003%	+0.007%
Belarus	–0.004%	–0.007%
Kazakhstan	+0.004%	+0.007%
Israel	+0.027%	+0.037%

FTA with TPP*

State/region	Short run	Long run
Russia	+0.3%	+1.01%
Belarus	–0.7%	–0.34%
Kazakhstan	+0.3%	0.56%
TPP	+0.066%	+0.106%

FTA with EU

State/region	Short run	Long run
Russia	+0,8%	+2,0%
Belarus	–0,6%	–0,04%
Kazakhstan	+0,6%	+1,2%
EU	+0,1%	+0,2%

FTA with New Zealand

State/region	Short run	Long run
Russia	+0.002%	+0.002%
Belarus	–0.006%	–0.005%
Kazakhstan	+0.001%	+0.001%
New Zealand	+0.005%	+0.006%

*TPP — Trans-Pacific Partnership (Brunei, Chile, New Zealand, Singapore, United States, Australia, Peru, Vietnam, Malaysia, Mexico, Canada, Japan)

Conclusions and recommendations

FTA influence in macro level

1. As result of CU–EU FTA, EU, Russian & Kazakhstan GDP grow, but Belarus GDP falls. Thus cumulative effect for CU is strictly positive.
2. Both in relative, and in absolute terms Russia potentially wins from FTA creation, more than EU.
3. Despite obvious benefit for certain participants of CU and the Customs union as a whole, in the absence of mechanisms of **internal redistribution** the first serious step to integration with EU will be very difficult to be made.

Conclusions and recommendations

FTA influence in industry level

4. Production in Russia will grow (in long run) in all industries except two ones: Motor vehicles and parts thereof and Wood/Paper industry.

5. Consumption in Russia and in Kazakhstan will grow for production of all industries .

6. Positive impact on Russian consumption is more, than impact on EU households consumption. Negative influence on domestic production is stronger, than influence on EU production.

Conclusions and recommendations

Obstacles for integration

- Therefore, for Russia and Kazakhstan the first stage of integration with EU — free trade area with duty-free trade in goods is represented favorable from the economic point of view that can't be told about Belarus which is, on an equal basis with the Russian Federation and RK, the full member of the Customs union. Generally, negative influence on Belarus arises because of Belarus export structure on which trade liberalization regime with EU owing to demand shift will strongly affect from Russia from the Belarusian goods the European
- The similar situation took place at discussion of FTA prospects with New Zealand in 2012. The Belarusian party opposed this agreement as it contradicted interests of the dairy industry.
  - ✓ Even earlier the President of Belarus declared: "*If we sold to Russia all our products, it wouldn't suffer any economic damage. Why Russia buys twice more expensively butter in New Zealand? Why doesn't buy ours fresh butter? Solutions of this question aren't present*".

Conclusions and recommendations

Possible actions

- Customs union and Russia **has opportunity to keep "leadership"** on the former Soviet Union — to head movement to the European Union: sooner or later all countries will choose this vector, but Russia/Kazakhstan will act as observers, instead of as leaders of movement to Europe

- **Redistribution mechanism** has to be designed: for example, temporary correction of proportions of distribution of the income from customs duties

- It is necessary to consider oil and gas balance: the prize of Belarus is obvious. Transfer from Russian budget system to Belorussian economy is ~$6–8 billions per year (~10-12% of Belorussian GDP)

Thanks for attention!