

Report 52

**Eurasian
Economic
Integration**

2019

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EURASIAN ECONOMIC INTEGRATION – 2019

Report 52



Center for Integration Studies
Analytical Directorate

Moscow

2019

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The report presents the insights into evolution of Eurasian economic integration as at the end of 2018. It offers information on essential features of trade and economic interactions among EAEU member states and between the EAEU and third countries, and on the most significant aspects of integration processes both within the EAEU and across the world.

**Electronic version of the report is available on the Eurasian Development Bank’s website at:
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LIST OF ABBREVIATIONS

| | |
|------------------------|---|
| ITC | International Trade Center |
| RCA Index | Revealed Comparative Advantage Index |
| ASEAN | Association of Southeast Asian Nations |
| GDP | Gross Domestic Product |
| EDB, Bank | Eurasian Development Bank |
| EAEU, Union | Eurasian Economic Union |
| EU | European Union |
| EAEU CCT | Common Customs Tariff of the Eurasian Economic Union |
| EEC, Commission | Eurasian Economic Commission |
| FTA | Free Trade Area |
| MERCOSUR | Common Market of South American Countries (Mercado Común del Sur) |
| NAFTA | North American Free Trade Agreement |
| VAT | Value - Added Tax |
| OECD | Organization for Economic Cooperation and Development |
| CIS | Commonwealth of Independent States |
| USA | United States of America |
| IMEX CN | Import and Export Commodity Nomenclature of the Eurasian Economic Union |
| FCS | Federal Customs Service of the Russian Federation |
| CBR | Central Bank of the Russian Federation |



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**Andrey
Beliyaninov,**

Chairman
of the Management Board
of the EDB

2018 became a breakthrough year in terms of strengthening the Union's positions in the international arena.

EAEU member states adopted the Declaration of Further Development of Integration Processes within the EAEU; its key objectives are to maximize the efficiency of the common market, stimulate scientific and technical breakthroughs, improve the well-being and living standards of the people, and promote the EAEU as one of the most significant development centres of the modern world.

WELCOME ADDRESS BY THE CHAIRMAN OF THE MANAGEMENT BOARD OF THE EDB ON DEVELOPMENT OF EURASIAN ECONOMIC INTEGRATION IN 2018

With the aggravation of global humanitarian problems, international financial organizations are beginning to play an increasingly important role.

The Eurasian Development Bank (EDB), an institution established in 2006 to facilitate integration in the Eurasian space, furthers closer trade and economic ties among its member states and promotes their economic growth through investment activity. As of now, the share of integration-related projects in the Bank's investment portfolio stands at 64%.

According to our estimates, the portfolio is capable of generating mutual trade flows worth US \$3.6 billion, with gross output produced by its constituent projects in relevant sectors of the host member states as high as US \$6 billion.

According to the approved 2018–2022 Strategy, the Bank will continue to focus on financing projects with strong integration impact, thereby contributing to the strengthening of the Eurasian Economic Union (EAEU) which has, over the five-year period that has elapsed since its inception, proven its effectiveness as a multinational project.

The purpose of the EAEU is to build up the economies and improve the living standards of the people inhabiting its member states. The same purpose underpins all EDB projects, which according to certain estimates, may lead to creation of approximately 30,000 new jobs per year and an average increase of member-state budget revenues by about US \$1 billion per year.

The Bank was founded before the EAEU, and during this period its member states accumulated considerable experience in financial and project interaction. When the EAEU went live in 2015, the Bank became a powerful financial tool of that integration project in the Eurasian space.

This is borne out by the current level of interaction with the Eurasian Economic Commission (EEC), the Union's supranational body. The EDB and the EEC have set up joint working groups on industrial cooperation, transport, and infrastructure, and are implementing a joint action plan. This testifies to the close links among Eurasian integration institutions, the cornerstone of the Union's success in all key areas.

The Bank acts not only as the locomotive of investment activity within the EAEU, but also as a major think tank. By this stage, it has laid the foundation for comprehensive analytical and organizational support of integration processes. The Bank regularly publishes analytical materials, including macroeconomic, integration-related, industry-specific and specialist reviews, and development trend projections covering the countries of the region, making a weighty contribution to promoting the Eurasian integration project.

The authors of this report describe the main areas, events, and decisions that shaped the EAEU integration vector throughout 2018, and analyse macroeconomic and trade patterns, investment collaboration, and industrial cooperation among the Union member states.

Only five years have passed since the signing of the Treaty on the Eurasian Economic Union, but systematic efforts have already produced tangible results. While the early integration years were marked by a consistent build-up of economic and trade potential, 2018 became a breakthrough year in terms of strengthening the Union's positions in the international arena.

In 2018, the EAEU continued to successfully explore and expand both the economic and institutional dimensions of integration.

EAEU member states adopted the Declaration of Further Development of Integration Processes within the EAEU; its key objectives are to maximize the efficiency of the common market, stimulate scientific and technical breakthroughs, improve the well-being and living standards of the people, and promote the EAEU as one of the most significant development centres of the modern world.

The EAEU Customs Code came into effect at the beginning of 2018. It is essentially a breakthrough document in the area of customs regulation, incorporating state-of-the-art solutions consistent with modern international standards.

Last year was marked by continuous growth of both internal and external trade, which bolstered GDP growth and improved certain other economic metrics of EAEU member states. There was a noticeable increase in the volume of mutual exports by EAEU member states of various textiles, food products, agricultural goods, and certain types of equipment. Redistribution of export flows within commodity groups testifies to changes in the structure of the Union's internal demand, improvement of terms of trade, and efficiency of efforts to eliminate trade barriers in the EAEU internal market. All member states posted an increase in the export and import of services.

The fact that in 2018 all EAEU member states rose in the Ease of Doing Business ranking was one of the most significant outcomes of the joint efforts exerted by the EDB, the EFSD, supranational EAEU institutions, national agencies, and the business communities of EAEU member states, with a view to expand cooperative ties among member-state enterprises, improve the business environment in the common economic space, make goods and services produced within the EAEU more competitive, and promote investment cooperation.

Taking into consideration the work already done, one can safely say that over the next several years the Union will remain on a sustainable development path. Realization of the purposes for which the EAEU was originally established will secure its member states' advanced positions in the world arena.

In turn, the EDB – which directly contributed to development of integration processes throughout 2018 – affirms its intention to continue to support Eurasian integration processes both financially and analytically, so as to assure attainment of the objectives facing our countries, organizations, and the entire Union.

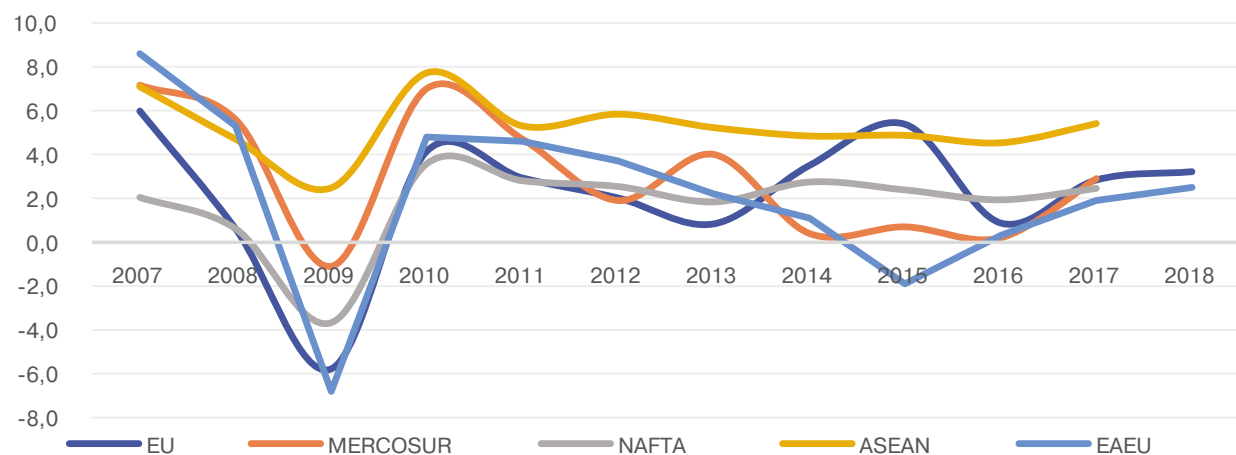
1.

**Review of World
Integration Processes
at the Present Time**

Regional integration group development paths are shaped by global economic trends, which are currently characterized by considerable turbulence and uncertainty, particularly as regards international trade.

In the opinion of a number of economists, the 30-year period of active globalization in economic policy has drawn to an end, to be replaced by fundamental shifts in the international arena. Spreading protectionism, trade wars, politicized economic decisions, and deceleration of the world economy are driving global integration processes and affecting economic growth in the key integration blocs (see Fig. 1). Regional integration groups have been able to renew their growth after the global financial crisis, but there is still no steady positive development.

Figure 1. GDP Growth Rate (% year-on-year)



Source: plotted by the authors using World Bank, Eurostat, and EEC data

European Union

The European Union is considered one of the most developed regional integration blocs in the world. In 2017, the EU marked the 60th anniversary of the signing of the Treaty of Rome.

Systemic and orderly integration construction efforts have yielded positive results, exemplified by the emergence of an economic and political union within the framework of the EU. Successful operation of the customs union and of the EU in its present-day form – despite all its problems – proves the sustainability of the integration process in Europe.

Over the last several years, the EU has encountered many internal and external challenges. These include the global financial crisis, which set off a Eurozone debt crisis, deflation, and a trade deficit in many member states; Greece on the verge of default; the migration crisis; and, last but not least, Brexit.

On the other hand, the EU has scored several notable successes.

Investment activity in EU countries has rallied, in particular, due to the operation of the European Fund for Strategic Investments. The European Union remains the world's leading trade group; it has trade agreements with 70 countries, producing 40% of global GDP at the end of 2018.

Extended negotiations with the UK regarding its withdrawal from the EU have borne fruit. The United Kingdom will always be the EU's close neighbour and partner in terms of politics, economy, and security, but it will no longer have the same common market privileges as before.

In 2018 political differences within the EU came to the centre of attention. During the so-called "Brexit year," asymmetric expectations of the negotiating parties with respect to the future of the United Kingdom and its ability to retain preferential status following withdrawal from the EU remained the key questions. Settlement of certain other issues, such as security, migration, and protection of personal data, also moved up on the Union's agenda. According to Parlemeter, a public opinion probe undertaken by the European Parliament in 2018, about 68% of the total population believed that, despite all the challenges, EU membership was beneficial for their countries.

In 2014, at the beginning of its current mandate, the European Commission announced the creation of an innovative advanced Digital Single Market, a deeper Economic and Currency Union, a Banking Union, a Capital Market Union, a more equitable Single Market, an Energy Union with a forward-looking climate policy, a comprehensive Migration Policy, and a Security Union. Half of these tasks have been approved by the European Parliament and the Council of the European Union; implementation of 20% of those initiatives is under way, and 30% are still being discussed.

The future of the EU will depend on how effectively it will be dealing with its internal issues. Not all EU members are ready for deeper integration, and not all of them are prepared to completely renounce their sovereignty and surrender all powers to supranational bodies.

Accordingly, EU analysts believe that the Union is about to split into two blocs – the core and the periphery. The core countries, such as Germany, France, and Italy, gain more benefits, and are prepared to further advance the integration project towards expansion of the scope of authority vested in supranational bodies. The periphery countries lag behind the core, and are not prepared for accelerated integration. Against that background, a

"multi-speed Europe" scenario was adopted in 2017, envisaging an EU development trajectory whereby each country independently determines the extent of its integration in the community, subject to its national interests. Moreover, the Rome Declaration, as adopted at the anniversary EU summit in Rome, provided the first high-level affirmation of the trend towards flexible integration with variable speed and intensity.

MERCOSUR

MERCOSUR is currently going through a difficult period of instability and forced transformation. The region is suffering from political and economic turbulence, and MERCOSUR has to cope with immense existential challenges, including the economic and political crisis that has spread throughout South America.

With tectonic changes in the international trade landscape and Brazil's efforts to diversify its trading partners, the future of MERCOSUR is hard to predict. The situation is further exacerbated by the fact that the bloc erects trade barriers among its member states and restricts their ability to enter into free trade agreements with external partners. Its main purpose is to provide a framework governing trade relations between the region's two largest economies, Brazil and Argentina. Paraguay and Uruguay play a secondary role, while Venezuela is still suspended from MERCOSUR for failure to comply with some of its trade rules.

Venezuela's suspension occurred amid political and economic upheavals engulfing the entire bloc. Corruption investigations started in Brazil in 2014, implicating hundreds of members of the country's political and business elites. At the same time, sinking primary commodity prices and inefficient economic management plunged the region into recession: According to preliminary estimates, in 2018 the Brazilian economy grew by less than 1.5% following a two-year decline, while Argentina requested a US \$50 billion aid package from the IMF following an extended period of recession. The Venezuelan economy has contracted by a factor of two since 2013.

Despite the efforts exerted over the last 27 years, MERCOSUR still does not have a fully functional customs union or a common market, due to a number of exceptions to free trade regime. The bloc, however, does have some prospects. The change of governments in Argentina and Brazil, and the suspension of Venezuela's membership give MERCOSUR a chance to recommence implementation of its original objectives or to review those objectives.

Despite the economic and political instability in the region, MERCOSUR continues to look for new integration opportunities, including through stronger cooperation with the EAEU: On December 17, 2018, on the sidelines of the MERCOSUR summit in Montevideo (Uruguay), the EEC and MERCOSUR signed a Memorandum on Trade and Economic Cooperation.

NAFTA

In 2018 North American integration processes launched more than 30 years ago entered a new phase of their development. On November 30, 2018, at a G20 summit in Argentina, the USA, Canada, and Mexico signed a new trade agreement replacing NAFTA with the United States–Mexico–Canada Agreement (USMCA).

The USMCA is essentially a revised version of NAFTA. The agreement was modified to incorporate amendments related to car making, labour and environmental standards, protection of intellectual property, and digital trade.

The key changes were made in the following areas:

- Country of origin rules: Automobiles must have 75% of their components manufactured in Mexico, the USA, or Canada in order to qualify for zero tariffs (up from 62.5% under NAFTA);
- Labour provisions: 40% to 45% of automobile parts have to be made by workers who earn at least US \$16 an hour by 2023. Mexico agreed to pass laws giving workers the right to union representation, extending labour protections to migrant workers, and protecting women from discrimination. The countries can sanction one another for labour violations.
- US farmers get more access to the Canadian dairy market: The USA got Canada to open up its dairy market to US farmers.
- Intellectual property and digital trade: The agreement extended the terms of copyright to 70 years beyond the life of the author (up from 50 years). It also extended the period that a pharmaceutical drug can be protected from generic competition, and included new provisions to deal with the digital economy, including prohibitive duties on things like music and e-books, and protections for Internet companies so they are not liable for content their users produce.
- No Section 232 tariff protections: Section 232 of the Trade Expansion Act of 1962 could be used by the USA to impose steel and aluminium tariffs on Canada, Mexico, and the European Union. Under the new agreement, both Canada and Mexico may not only maintain the current volume of zero-tariff exports of passenger automobiles and trucks to the USA, but also increase it, although up to a threshold set by the agreement.

- **Sunset clause:** The terms of the USMCA expire after 16 years. The deal is subject to review every six years, at which point the USA, Mexico, and Canada can decide whether to extend it.

ASEAN

In 2017 ASEAN marked its 50th anniversary. The region's economic prospects remain positive, but certain risks, such as trade tensions, exchange-rate volatility, and tightening of financial terms, may become significant obstacles for economic growth and deeper integration within the framework of ASEAN. Moreover, the increased frequency and destructive power of natural disasters led to massive economic waste and loss of life, imposing additional burdens on limited public-sector funding. With all these problems, regional cooperation plays a vital role, as it both provides a platform for discussion and cooperation and offers a mechanism that can be used to support member states.

In 2018 ASEAN adopted a broad range of new economic initiatives to secure deeper integration of its 10 member states. The year was marked by a significant breakthrough in promotion of mutual trade, with the setting up of a "one-window" system, virtually complete elimination of import customs duties within the bloc, implementation of measures envisaged by the 10th stage of the framework agreement on trade in services, and creation of an architecture designed to facilitate transboundary e-trade. In addition, a lot is being done to harmonize technical standards. Harmonization of standards within ASEAN resulted in development of about 280 consistent international standards and technical regulations in agreed priority sectors.

By 2018, ASEAN member states had eliminated 98.7% of internal tariffs, and work to simplify trade procedures is still under way. The latest achievements include efficient operation of the "one-window" system in Indonesia, Malaysia, Singapore, Thailand, and Vietnam as of January 1, 2018; commencement in December 2017 of preparations for implementation of an experimental Customs Transit System project in Cambodia, the Lao People's Democratic Republic, Myanmar, and Vietnam; and transition to the final stage of implementation of the ASEAN Self-Certification System.

The ASEAN economic community continued to gain strength based on the deepening of market investment and improvement of competition within the region, which resulted in noticeable achievements in customs regulations, standards, and simplification of trade procedures. A new impetus was also given to negotiations on a new ASEAN agreement on trade in services.

At the same time, ASEAN continued to build up its foreign economic ties by taking a consistent stance in negotiations on the Regional Comprehensive Economic Partnership (RCEP) and signing free trade and investment agreements with Hongkong and China. Work is nearing completion on the First Protocol to Amend the Agreement on Comprehensive Economic Partnership among Japan and Member States of the Association of Southeast Asian Nations (AJCEP). According to the protocol, partnership documents will be supplemented with chapters dedicated to services, investments, and individual travel.

To promote integration of markets, in 2018 ASEAN member states stepped up sectoral cooperation in a number of diverse areas. They upgraded the priority status of programmes for the development of micro-, small, and middle-sized enterprises, with special emphasis on inclusive entrepreneurship and rationalization of enterprise registration procedures. Certain progress was also noted in food and energy security, transport, information and communication technologies, and tourism.

However, despite the significant positive outcome of integration efforts over the 50 years of ASEAN's existence, the region still faces a host of problems, whose resolution will require concerted efforts by the entire bloc. For example, progress remains sluggish in such areas as trade liberalization, human trafficking, transboundary haze pollution, excessive fishing, and large-scale human rights violations in ASEAN member states. The link between these issues on the one hand and Chinese economic growth and Sino-American rivalry on the other hand further complicates the situation, due to possible pressure by China and the USA.

African Union

Work to create the African Continental Free Trade Area (AfCFTA) has been going on since 2012. A landmark event occurred on March 21, 2018, when participants of the Extraordinary Summit of Heads of State of the African Union in Kigali (Rwanda) signed the AfCFTA Agreement. If successful, this project will create a free trade area with the world's largest number of participants, bringing together 55 member states of the African Union with a population of more than 1 billion and a total GDP of more than US \$3.4 billion.

The African Continental FTA Agreement has special significance in the context of the African Union's Action Plan for Boosting Intra-African Trade (BIAT) and the long-term Development Programme until 2063, designed to assure economic growth and sustainable development initiatives on the continent.

The initiative has already been supported by 49 states; however, ratification will require considerable time, as many countries intend to first amend their regulations with a view to facilitate a seamless transition to a full-fledged continental customs union and to minimize losses from stronger competition. The work to establish AfCFTA is expected to be completed by 2020.

Thus, there exist several general development trends affecting almost every integration bloc. First and foremost, within each bloc there are two groups – the core and the periphery – which testifies to the inevitability of differences in the level of economic development among the countries taking the integration path. It should be noted, however, that sound integration policies may benefit both groups. Second, no integration bloc is immune to losing member states for a variety of reasons, be it due to a popular vote (United Kingdom) or a decision made by the bloc itself (Venezuela). Third, key decisions in the areas of trade liberalization and convergence of economic policies of member states are made mostly during the first years of existence of integration blocs, while an analysis of the evolution of the oldest blocs reveals that landmark decisions are followed by stagnation in promotion of the integration idea, and that it may be very hard to overcome such stagnation, as the eagerness of member states needs to

be complemented by strong resolve on the part of their leaders. In such situations, a focus on growth of mutual investments and industrial cooperation may prove to be the optimal solution.

2.

EAEU Treaty Implementation Progress in 2018¹

¹ This section is based on public information provided by the Eurasian Economic Commission.

One of the key 2018 events for the EAEU was the adoption of the Declaration on Further Development of Integration Processes within the Framework of the EAEU, signed in December in Saint Petersburg during a meeting of the Supreme Eurasian Economic Council (SEEC).

The heads of state announced their intention to further develop integration processes within the framework of the EAEU in certain key areas, in particular:

- To assure maximum efficiency of the EAEU single market, and to fully realize its potential for the benefit of businesses and consumers;
- To create “innovation territories” and to stimulate scientific and technical breakthroughs;
- To open up integration potential for the people, to improve their well-being and quality of life;
- To make the EAEU one of the most significant development centres of the modern world, ready to engage in mutually beneficial and equal cooperation with external partners and establish new interaction formats.

The Declaration will give a new impetus to economic integration within the EAEU, and strengthen its international position.

EAEU Customs Code

The EAEU Customs Code (CC), approved by a special treaty signed on April 11, 2017, came into force. The new EAEU CC is a comprehensive, codified international treaty whose development involved a review of all previously signed international treaties governing customs relations and all current customs procedures and technologies, as well as an adjustment of the customs IT application paradigm.

The code introduces several major innovations designed to streamline external trade regulations and maintain a balance of interests between government bodies and the business community: electronic customs declarations, automated operations, shorter goods-release periods, authorized economic operators, and a “one-window” system.

Creation of the Common Gas, Oil, and Petroleum-Products Markets in the EAEU

The SEEC approved the Programme for the Creation of Common Oil and Petroleum Products Market and the Programme for the Creation of the Common Gas Market. The Programmes set forth steps that need to be taken to assure compliance with competition and non-discrimination principles in the emerging common markets.

Creation of the common gas, oil, and petroleum-products markets in the EAEU will contribute to further economic development of its member states, and strengthen its energy security.

Creation of the Common Alcohol and Tobacco Market in the EAEU

The work to create a common EAEU alcohol and tobacco market started in 2015. As of now, the member states have approved the indicative excise rate. To enable businesses to adapt to potentially novel requirements, the heads of state resolved to postpone application of the indicative rate from 2022 to 2024.

The EEC Council has adopted the EAEU Technical Regulation On Safety of Alcohol Products, introducing safety requirements which apply to alcohol products and their production, storage, transportation, etc., and which are mandatory for application and compliance in all EAEU member states. This will give member states an opportunity to arrange circulation of alcohol products in their respective territories without the need to comply with any additional requirements, over and above those stipulated by the Technical Regulation, or to conduct any additional compliance assessments.

Creation of the Single Services Market in the EAEU

Following implementation of nine liberalization plans, the SEEC resolved to amend the list of service sectors (subsectors) where the single services market operates within the EAEU, adding 9 new ones to the existing 43. The new service sectors (subsectors) include services related to production and distribution of motion pictures and video films and demonstration of video films; advertising services; services related to owned or leased real properties; rent and lease of leisure boats without operators; tourism services; geology consulting services; and R&D services. As a result, 52 service sectors will be operating in the single market format, with relevant services being provided within the EAEU without any limitations, exceptions, or additional requirements or conditions. In value terms, those sectors represent approximately 55% of the total services provided in EAEU member states. Work is under way to expand those sectors, inter alia, by carrying out liberalization plans, which will further strengthen the Eurasian integration project.

Technical Supervision

In 2018 EAEU bodies adopted new documents setting forth new requirements applicable to member-state products, including the Technical Regulation On Restricting the Use of Hazardous Substances in Electronic and Radio-Electronic Devices. According to the document, such devices are to be designed and manufactured so that none of their components contain any of the hazardous substances listed in the regulation.

The EAEU Technical Regulation On Safety of Amusement Rides sets forth safety requirements applicable to movable and stationary amusement rides.

The EAEU Technical Regulation On Safety of Equipment for Children's Playgrounds deals with equipment and surface materials for children's playgrounds released for use in open spaces and inside buildings for the first time.

The EEC Council adopted the EAEU Technical Regulation On Safety of Flammable Natural Gas Prepared for Transportation and/or Utilization, which defines safety requirements for flammable natural gas. The document will come into force as of January 1, 2022.

The EEC launched a pilot project envisaging creation of an information system to notify interested parties of all products that fail to comply with the requirements stipulated by EAEU technical regulations. The system is to be tested on six technical regulations governing safety of low-voltage equipment, products for children and adolescents, toys, wheeled vehicles, dairy products, and meat products.

The EEC Council approved amendments to the EAEU Treaty enabling offset of advance payments against import customs duties and special protective, anti-dumping, and compensatory duties.

The EEC Council signed the Agreement on EAEU Trademarks, Service Marks and Appellations of Origin, which will simplify and accelerate registration of trademarks, and remove excessive administrative barriers. In addition, the EAEU will create a Uniform Register of EAEU Trademarks and a Uniform Register of EAEU Appellations of Origin.

The EEC Board approved the Uniform Veterinary and Sanitary Requirements Applicable to Facilities Subject to Veterinary Control and Supervision. A common regulatory framework was developed to define rules governing the operations of all entrepreneurs involved in production, processing, and storage of animal-derived products.

On April 18, 2018, the EEC Council adopted Resolution No. 44 approving standard schemes for the assessment of product compliance with EAEU technical regulations, including relevant assessment procedures.

Creation of the Common Medicinal Drugs Market in the EAEU

Good Distribution Practices with Respect to Medicinal Drugs came into force. The document sets the rules governing storage, transportation, and distribution of medicinal drugs to assure their quality, safety, and effectiveness, and to prevent circulation of counterfeit medicinal drugs in the Union market.

The EEC Board adopted Recommendations and approved a number of documents governing the operation of the EAEU medicinal drugs market. For example, the Commission recommended that EAEU member states apply the Guidelines on Quality of Medicinal Drugs for Inhalations and Medicinal Drugs for Nasal Administration.

A list of stages (phases) of production of medicinal drugs was also approved. It covers, among other things, release quality control, medicinal drugs quality testing, and bulk products testing; several stages deal with manufacturing, packaging, and pre-packaging.

The EEC Board approved the Classification of Measurement Units for Dosages and Concentrations of Active Agents in Medicinal Drugs, and the Guidelines for Development of Regulatory Documents Governing Quality Control of Medicinal Drugs.

Creation of the Common Financial Market in the EAEU

The EEC Council signed the Agreement for Harmonization of Financial Market Legislation of EAEU Member States. The agreement stipulates areas and procedures for harmonization of EAEU member-state laws for banking, insurance, and security services in line with applicable international principles and standards.

The Astana International Financial Centre (AMFC) was officially opened in 2018. The EEC and the AMFC signed a Cooperation Memorandum on interaction regarding matters related to development of financial and capital markets, trade and investment interaction, protection of rights and interests of consumers of financial services and of investors, and a number of other areas of mutual interest.

Trade Policy

A meeting of the EEC Board resolved to reduce rates of import customs duties for certain types of watch/clock components from 8–13% to 0–5% of their customs value.

The EEC Council approved Rules for Determination of Origin of Goods from Emerging and Least Developed Countries. Those rules will apply to importation to the EAEU of goods that enjoy tariff preferences. Goods will be deemed to have originated from a country entitled to tariff preferences, if they were fully received from, or manufactured in, such country, or have been subjected to sufficient processing.

A meeting of the EEC Board resolved to reduce import customs duties (EAEU CCT) for down and fur materials and tanned or processed furskins (with the exception of mink fur materials and furskins) from 3% and 5% to 0% of their customs value. Reduced rates will remain in effect up to and including September 30, 2020.

A meeting of the EEC Board set 2019 tariff quotas for certain types of long-grain rice from Vietnam imported into the EAEU at zero customs duties. According to the Agreement, the total tariff quota is set at 10,000 tonnes.

It was resolved to extend the effective period of anti-dumping duties imposed on Indian graphitized electrodes used in furnaces. The current rates of anti-dumping duties were set by resolution of the EEC Board in December 2012, and stand at 16.04% of customs value for electrodes manufactured by HEG Limited, and 32.83% of customs value for electrodes manufactured by Graphite India Limited and other companies.

A meeting of the EEC Council set zero customs duties for certain types of organic chemical compounds used for the production of chemical crop-protection agents. Zero customs duties will apply for a period of two years.

Informatization and Digitization in the EAEU

The Commission has started a research programme to examine the prospects of implementation and mutual recognition of electronic shipping documents within the EAEU, and development of a conceptual framework for the EAEU digital transport corridor ecosystem. It also launched a digital goods traceability project, and is carrying out research focused on development of models for regulation of cross-border data movement. In addition, the EEC commenced work to create an employment support ecosystem for workers from EAEU member states, and to prepare a report on development of digital trade within the EAEU and a package of documents for the industrial digital cooperation project.

A meeting of the EEC Board approved the Regulations for the Maintenance of a Uniform Customs Register of Intellectual Property Items of EAEU Member States. The document holders of trademarks, copyrights, and related rights to file only one application with the Commission at the time of registration of intellectual property items in the Uniform Customs Register.

The EEC and the Mir Interstate Television and Radio Company signed a Cooperation Memorandum. Cooperation with Mir ITRC in the joint development of content for EAEU users will increase the awareness of EAEU residents of the opportunities offered by the Union, and of its common space without any barriers or limitations.

The EEC Digital Initiatives Management Office (Project Office) is currently examining more than 10 proposals received from the business community and governing bodies of EAEU member states. They deal notably with operation and development of the digital traceability system; introduction of electronic shipping documents, and creation of a Eurasian electronic labour exchange.

The first initiative to have been received by the Commission (introduction and mutual recognition within the EAEU of electronic shipping documents) is in the process of being launched. Work has begun on a series of pilot projects related to creation and development of the digital traceability system, to track movement of goods within the EAEU.

A meeting of the EEC Council approved the Action Plan for Development of an Integrated EAEU Information System in 2019–2020. Even now, the system facilitates alignment of the level of development of information technologies in EAEU member states through creation and utilization of uniform technologies and tools for cross-border electronic data exchange.

The EEC has established an integration segment which serves as a platform for the creation of and provision of access to joint EEC information resources. EEC experts have created and are maintaining 48 joint information resources (digital registers, lists, reference manuals, classifications); developed a regulatory and technological basis for the operation within the EAEU of a cross-border environment of trust; and digitized more than 50 common processes used for electronic data exchange within the EAEU.

A conceptual framework has been developed to support creation of conditions conducive to digital transformation of industrial cooperation within the EAEU and digital transformation of industry in EAEU member states. The document suggests mechanisms that can be used to resolve certain systemic problems, such as insufficient involvement in the global innovation system and the international division of labour.

The digital platform will be used to create a comprehensive system covering a broad range of issues, such as cooperation and subcontracting, and transfer of technologies.

It is next to impossible to cover all the events that occurred in 2018 and reflect progress in EAEU Treaty implementation; however, the events listed above clearly demonstrate that EAEU bodies are actively engaged in deepening the integration of EAEU member states in all key areas. The decisions and initiatives described

above are expected to be further advanced in the course of implementation of the Declaration on Further Development of Integration Processes within the Framework of the EAEU, covering, among other things, completely new areas of integration, notably those in the humanitarian sphere.

3.

Economic Integration and Economic Growth in the Eurasian Space

In 2018 economic growth in the EAEU displayed certain positive trends: All EAEU member states reported GDP and industrial production growth, while inflation rates remained within the range stipulated by the EAEU Treaty. Development of trade in goods and services, implementation of investment-capital-raising programmes, and expansion of cooperative ties between member-state enterprises made a significant contribution to economic growth of EAEU member states.

MACROECONOMIC PARAMETERS OF ECONOMIC GROWTH OF EAEU MEMBER STATES²

In 2018 EAEU member states faced a series of challenges to macroeconomic stability in the region. The key risks were related to deceleration of global economic growth, intensification of protectionism in world trade, and increase in volatility in the emerging markets. Conditions in global commodity markets remained highly changeable throughout 2018. During most of the year, oil prices tended to grow due to contraction of production by several leading exporters. As a result, in 2018 average Urals prices went up by 32% year-on-year to US \$70 per barrel.

Against the backdrop of instability of energy prices, exchange rates of EAEU member state national currencies were characterized by high volatility. At the same time, regional economies demonstrated resilience to external impacts. All EAEU member states reported positive economic growth, which enabled them to complete recovery after the 2015–2016 recession. In most EAEU member states, fiscal policies focused on assuring increasingly stable economic development, while their well-balanced credit policies prevented accumulation of economic imbalances and facilitated price stability despite acceleration of devaluation processes.

Armenia

Armenia posted the highest economic growth rate among EAEU member states for the second year running. By the end of 2018, its economy had grown by 5.2% vs. 7.5% the year before. More restrained (relative to 2017) growth of household consumption and decline of consumption in the public sector were the key drivers of economic activity deceleration.

According to EDB projections, GDP growth in Armenia will pick up pace in 2019, boosted by the recovery of investment activity caused by gradual adaptation of the national mining industry to new requirements, recovery of agricultural production, and government efforts to support investments, boost exports, and improve social conditions. Over the medium term, GDP will be increasing at a rate approaching the potential growth rate, which we estimate at about 5% per year.

² This section is based on EDB Macroeconomic Reviews published by the Economic Analysis Department of the EDB Analytical Directorate. Full versions of Macroeconomic Reviews are available at the EDB website.

Throughout 2018, inflation remained below the target level that had been set by the Central Bank of the Republic of Armenia (CB RA) at 4%, and at the end of December 2018 stood at 1.8% year-on-year. Volatility of food prices combined with a poor harvest was the main inflation driver in 2018.

The EDB projects that in 2019 inflation will accelerate to 2.8% due to increasing domestic demand spurred by higher wages and salaries, and expanding credit. By the end of 2021, the inflation rate will approach the CB RA target (4%).

Taking into consideration the existing economic conditions, the CB RA did not change the refinancing rate (6%), retaining a stimulatory credit policy. Interest rates on bank loans and deposits went down over the course of the year. According to the baseline forecast, as inflation gradually accelerates and the inflation rate nears the target level, the CB RA will initiate a series of rate hikes which, in our opinion, will have a neutral impact on economic growth and inflation.

With economic activity growing throughout 2018, the government pursued a restrained fiscal policy, seeking to maintain debt and fiscal stability. This fiscal stance is expected to be preserved over the medium term.

Belarus

In 2018 the Belarusian economy showed impressive recovery growth in the wake of the 2015–2016 recession. Economic growth was supported by higher consumer and investment activity against the background of credit expansion, individual income growth, and an upbeat economic mood in the real sector.

Economic growth gradually decelerated throughout 2018, reflecting dilution of the stimulating impact of monetary conditions and exhaustion of the low base effect. According to EDB projections, in the absence of additional stimuli over the medium term, the Belarusian GDP will be growing at 1.5–2% per year.

In 2018 the Belarusian rouble's exchange rate was characterized by high volatility. The national currency was affected by mounting geopolitical tensions, which provoked fluctuations of the exchange rate of the Russian rouble and of the currencies of other EDB member states. According to EDB estimates, over the medium term the Belarusian rouble will continue to devalue at a moderate rate, while inflation in Belarus will remain higher than in the countries that are its key trade partners.

The 2018 inflation rate remained below the target set by the National Bank of the Republic of Belarus (NB RB), helped by its balanced monetary policy. Nevertheless, after hitting all-time lows in June and July, during the second half of 2018 inflation began to accelerate under the influence of rapidly increasing food and fuel prices, high inflation in Russia, and persistently strong consumer demand. Increasing inflationary pressure forced the NB RB to suspend the refinancing rate-reduction cycle during the second half of 2018.

It is anticipated that in 2019 inflation will temporarily accelerate, and may exceed the 5% target by the end of the year. Consumer price growth-drivers may include acceleration of inflation in Russia, gradual devaluation of the Belarusian rouble, and a persistent inflationary impact of wage and salary growth. This phenomenon is projected to be temporary, and in 2020–2021 inflation rates will remain close to NB RB targets.

In 2018 there was a considerable increase in the national budget surplus caused by several temporary factors, including the rise of commodity prices and a high economic recovery rate. Another factor was the reduced need to refinance government debt. Over the medium term, fiscal policy is expected to favour further improvement of fiscal and debt stability.

Kazakhstan

In 2018 Kazakhstan's GDP growth rate stood at 4.1%. Economic growth was supported by increased oil production and a favourable pricing environment in the global energy market. Robust credit activity encouraged expansion of consumer and investment demand.

Individual sector contributions to the general economic growth changed throughout the year. During the first half of 2018, the key GDP growth drivers were high rates of growth of oil production and processing-industry output. During the second half of 2018, the importance of industry as a GDP growth driver declined, while trade turnover and construction grew at a brisk pace.

At the end of 2018, the inflation rate stood at 5.3% year-on-year, well within the target range set by the National Bank of the Republic of Kazakhstan (NB RK) (5–7%). A significant role in deceleration of inflation was played by reduction of prices for automotive fuel upon completion of modernization of the country's leading refineries, and reduction of prices for electricity and heat paid by the population.

With inflation decelerating throughout 2018, the NB RK repeatedly lowered the base rate, which by the end of the year reached 9.25% vs. 10.25% the year before.

The KZT/USD and KZT/EUR exchange rates decreased by the end of 2018. Changes in the exchange rate of the Kazakhstani currency followed the general pattern displayed by national currencies of countries with emerging economies – the tenge weakened on the back of US Federal Reserve rate hikes and a general increase in economic and political risks worldwide.

In 2018 Kazakhstan reported a consolidated budget surplus for the first time since 2015. The improvement was attributable to higher budget revenues in a relatively favourable external environment, economic growth, and reduction of public expenditures for rehabilitation of the national banking system relative to 2017.

The EDB expects that in 2019 the economic growth rate will decrease to 3.3% due to reduction of oil production caused by scheduled production facility repairs. Subsequent GDP growth is projected at 3.5%. It is anticipated that in 2019–2021, inflation will remain within the NB RK target range (4–6%), gradually sliding down to its lower limit as KZT interbank rates are maintained close to the neutral level that we estimate at 7.5–8%.

Kyrgyzstan

After a two-year economic recovery period, Kyrgyzstan's GDP growth decelerated from 4.7% in 2017 to 3.5% in 2018 due to production cutbacks at the Kumtor gold mine and stabilization of growth rates in the other sectors of the economy at levels close to the potential level. Domestic demand growth throughout 2018 was unstable, reflecting the volatility of the population's real monetary income. That growth was dampened by deceleration of credit activity and reduction of fund transfers by labour migrants in 2018 vs. 2017, and by deferred demand from the public sector.

Deviations of inflation from target values throughout 2018 were attributable to low prices in the global food markets and realization of the high base effect in the vegetable and solid fuel segments.

Increase of the current account deficit occurred against the background of a growing goods/services trade deficit, even though net inflow of current transfers remained virtually the same as in 2017.

The state budget deficit at the end of 2018 stood at 1.1% of GDP, down from 3.1% the year before. Deficit reduction was attributable to reduction of public expenditures and modest growth of revenues. Deceleration of revenue growth resulted from reduction of grants provided by foreign governments and international financial organizations, although tax revenues continued to increase.

Government debt decreased in absolute terms, primarily due to debt relief provided by Russia pursuant to a recently signed agreement between the two countries.

With inflation remaining low, in May 2018 the National Bank of the Kyrgyz Republic reduced the refinancing rate from 5.0% to 4.75%, and repeatedly revised the interest rate corridor throughout the year.

In 2019 economic activity in Kyrgyzstan is projected to pick up, largely due to optimistic gold extraction forecasts and moderate expansion of public sector demand. Over the medium term, the economy is expected to continue to grow at a steady rate close to the potential rate.

Inflation rates will change in line with prices in global food markets. According to our estimates, world food prices will begin to recover in the first half of 2019, to stabilize by the beginning of 2020, which will affect the growth trajectory of the consumer price index in Kyrgyzstan.

Russia

In 2018 the Russian economy posted the highest growth rate since 2012. Improvement of the external trade position became the key driver of economic acceleration. Both consumer and investment activity continued to have a positive impact on economic growth.

The EDB projects that in 2019, Russian GDP growth will temporarily decelerate, given an increased tax burden and the effect of the key rate hike at the end of 2018. Increased budget investment expenditures and gradual normalization of monetary policy in the second half of 2019 will encourage alignment of the economic growth rate with the potential growth rate, estimated at 2% per year over the medium term.

In 2018 the exchange rate of the Russian rouble became more volatile due to growing geopolitical tensions. Increasingly harsh sanctions promulgated by the USA provoked increased capital flight from the Russian economy, prompting faster devaluation of the Russian rouble. In the absence of additional shocks, the EDB expects that in 2019 the Russian currency will, on the average, appreciate relative to the end of 2018, due in part to the efforts to maintain Russian asset yields at a high level.

In 2018 inflation accelerated under the influence of depreciation of the rouble, higher prices for certain food products, and year-end price adjustments in anticipation of a VAT rate increase. Higher inflation rates in the second half of 2018, accompanied by a spike in inflation expectations, forced the Central Bank of the Russian Federation to hike its key rate in September and December by 0.25 p.p. to reach 7.75% by the end of 2018.

The EDB projects that in the first half of 2019, inflation will continue to accelerate, primarily due to the VAT rate increase. Starting with the second half of 2018, inflationary pressure will gradually decrease, prompting inflation to return to the target level in 2020. As inflation decelerates, the key rate is expected to go down in 2020 to the neutral level, which the EDB estimates at 6.5–7.0%.

In 2018 the federal budget was executed with a surplus for the first time since 2011, due to the pricing environment in commodity markets remaining favourable throughout most of 2018. Over the medium term, a budget surplus is expected to persist, provided that oil prices stay above US \$60 per barrel. In the next several years, the budget policy emphasis will be gradually shifting towards increasing the share of investment expenditures, which may, among other things, have a positive impact on the potential rate of economic growth.

TRADE IN GOODS AS A FACTOR OF ECONOMIC GROWTH IN EAEU MEMBER STATES³

In 2018 the volume of mutual and external trade in goods by EAEU member states continued to grow under the influence of internal macroeconomic and external market factors. The commodity and geographical structure of mutual and external trade did not change significantly compared to 2017.

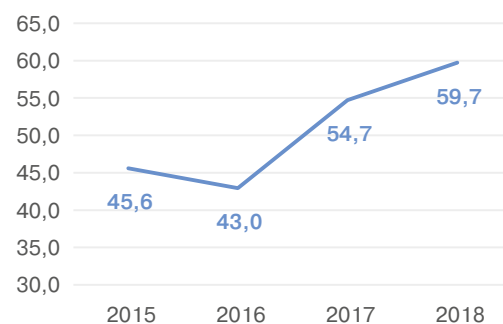
In their trade ties, EAEU member states continue to favour third countries rather than their EAEU partners, but internal trade in the EAEU has a significant growth potential, provided, among other things, that procurement of goods in third countries is replaced with procurement of goods in EAEU partner countries. Other ways to expand intra-Union trade ties include development of industrial cooperation between enterprises operating in member states, active development of intra-industry trade, and, as a consequence, involvement of EAEU member states in creation of intra-Union added value creation chains.

CHANGES IN MUTUAL AND EXTERNAL TRADE IN THE EAEU

MUTUAL TRADE

In 2018 positive trends that had emerged in the previous years continued in the mutual and external trade of the EAEU member states. Following a 2016 reduction attributable to the general economic decline, the volume of EAEU mutual and external trade has been steadily growing in an improving price environment in key commodity sales markets.

Figure 2. Mutual Trade between EAEU Member States, US \$ billion



Source: plotted by the authors using EEC data

³ This section is based on data provided by the EEC and other sources.

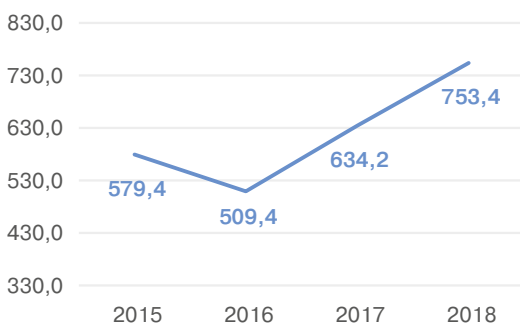
According to the EEC, in 2018 the total value of mutual trade among EAEU member states (measured as the sum total of intra-Union exports) increased by 9.2% year-on-year. However, the mutual trade growth rate in 2018 was lower than in 2017 (+27.4% compared to 2016), which can be explained, for 2017, by the low base effect of 2016.

Generally, over the four years of EAEU operation, the volume of mutual trade among its member states has increased almost by one third. Trade integration of the five countries is expanding at a brisk pace.

EXTERNAL TRADE

EAEU external trade is growing even faster: In 2018 EAEU external trade turnover (exports + imports) with third countries (non-member states) increased by 18.8% year-on-year. Over the four years of EAEU operation, the aggregate volume of external trade of its member states has grown by 30%. Development of external trade of EAEU member states continues despite the turbulence in the world economy and the controversies in relations with certain third countries.

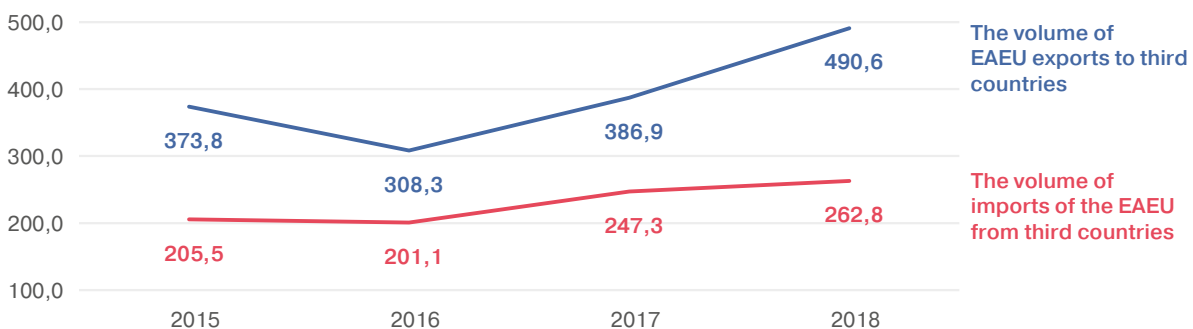
Figure 3. EAEU External Trade Turnover, US \$ billion



Notably, while in 2017 sixty-three percent of the increase in EAEU external trade turnover was attributable to exports growth, in 2018 that share went up to 87%. Exports by EAEU member states to third countries grew faster than imports to EAEU member states.

Source: plotted by the authors using EEC data

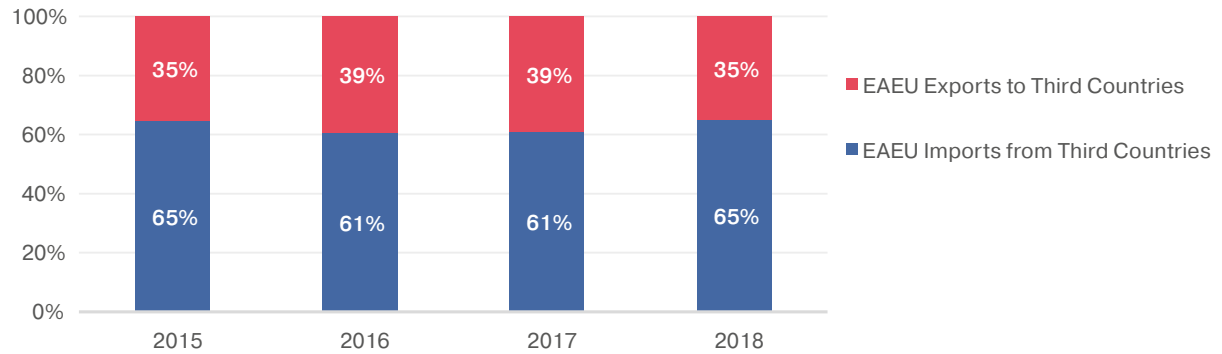
Figure 4. Changes in Exports and Imports in EAEU Trade with Third Countries, US \$ billion



Source: plotted by the authors using EEC data

In 2018 exports by EAEU member states to third countries increased by more than a quarter (26.8%), while imports were up by just 6.3%. By the end of 2018, the ratio of exports to imports in EAEU external trade went back to the level posted at the time of the EAEU’s inception, as exports began to recover following a drop in 2016.

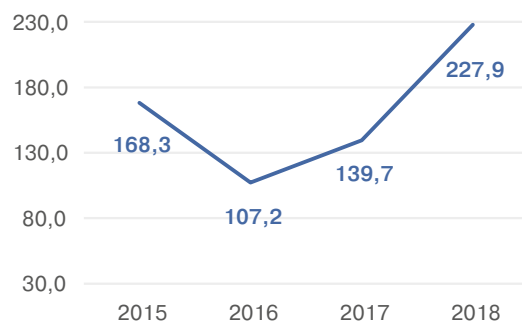
Figure 5. EAEU External Trade with Third Countries, %



Source: plotted by the authors using EEC data

The faster increase in EAEU exports to third countries relative to the increase in EAEU imports from third countries spurred an accelerated growth of the EAEU external trade balance.

Figure 6. Growth of EAEU External Trade Balance, US \$ billion



Source: plotted by the authors using EEC data

To conclude, both external trade and mutual trade have been actively developing in the EAEU since its emergence, despite a short-lived decline.

EAEU MUTUAL AND EXTERNAL TRADE GROWTH DRIVERS IN 2018

Favourable Global Market Environment

Growth of EAEU mutual and external trade in the Fuel and Energy sector was supported by a favourable pricing environment in global energy markets: In 2018 the average annual price per barrel of Brent oil increased by 31%, natural gas by 1%, per tonne of coal 17%, per tonne of aluminium 7%, per tonne of nickel 27%, and per tonne of wheat 13%.

Production Growth in EAEU Member States

In 2018 the volume of industrial production in the EAEU in current prices increased by 13% year-on-year; notably, growth was reported in all sectors: by 25% in Mining, by 10% in the Processing Industry, by 0.3% in Energy, Supply of Gas, Steam, and Air Conditioning. The largest increase in total industrial output was registered in Kazakhstan (15%), the largest increase in the mining industry in Russia (25%), and the largest increase in the processing industry in Belarus (13%).

In 2018 industrial production growth was reported in most EAEU processing-industry sectors (18 out of 20), and in many of those sectors growth accelerated year-on-year. The highest rate of growth was noted in the Automotive Industry (13.7%), the Paper Industry (12.6%), the Printing Industry (12.4%), Wood Processing (11.1%), the Pharmaceuticals Industry (8.0%), and the Furniture Industry (7.5%). Output growth was also reported for textiles, timber, wood products, paper and paper products, coke and petroleum products, rubber and plastic products, non-metal mineral products, food products, beverages, and tobacco products. Output decreased only in three sectors: Other Vehicles and Transport Equipment (-2%), Computers, Electronic, and Optical Products (-1.3%), and Leather and Footwear (-1.2%).

In 2018 several EAEU member states reported an increase in agricultural production, including Kazakhstan (3.4%) and Kyrgyzstan (2.7%).

Construction Growth

In 2018 the volume of completed construction works in the EAEU in current prices increased by 3%. Construction growth was reported by all member states (Armenia by 7%, Belarus by 9%, Kazakhstan by 4%, Russia by 3%), with the exception of Kyrgyzstan (down by 6%).

Reduction of National Currency Exchange Rates

In 2018 the US dollar strengthened against the Belarusian rouble (by 6%), the Russian rouble (by 7%), and the Kazakhstani tenge (by 6%). Exchange rates of the Armenian dram and the Kyrgyz som relative to the US dollar did not change significantly. Goods and services are becoming relatively cheaper as the national currency depreciates.

Growth of the Population's Real Income

In 2018 the real income of the population increased in all EAEU member states: in Armenia by 2%, in Belarus by 12%, in Kazakhstan by 2%, in Kyrgyzstan by 4%, in Russia by 7%. Higher incomes may drive growth of demand for both imported goods and goods manufactured within the EAEU. According to the EEC, strengthening of domestic demand was one of the critical trends that underpinned positive changes in the level of economic activity in EAEU member states in 2018.

Strengthening of Trade, Industrial, and Financial Cooperation among EAEU Member States

Growth of mutual trade among EAEU member states in 2018 was greatly encouraged by measures taken at the national and supranational levels to establish common and single EAEU markets; expand intra-Union trade, industrial, and financial cooperation; pursue uniform policies, among other things, in the implementation of the EAEU Treaty; and develop new standards for technical regulation. The steps listed above increase the transparency of

intra-Union cooperation terms, and shape “rules of the game” that are understood by all market players; at the end of the day, that helps to reduce transaction costs and create additional incentives to establish and expand links among economic agents from various EAEU member states.

Removal of Barriers in EAEU Internal Markets

This factor also plays a significant role in development of intra-Union trade. Removal of barriers in EAEU internal markets is carried out on a systemic basis, in accordance with the pre-approved 2018–2019 Action Plan (“Road Map”) to Eliminate Exemptions and Restrictions in the EAEU Internal Market, which envisages 35 actions with respect to 2 exemptions and 15 restrictions. Thirteen actions were to have been completed by the end of 3Q 2018; 8 actions out of 13 were actually completed as of October 1, 2018. In addition, as of October 2018, online access to the Enterprise Register and the “Road Map” was provided to a broad range of enterprises at the information portal Domestic Markets Operation in the Territory of the Eurasian Economic Union (<https://barriers.eaeunion.org>).

Expansion of External Trade as an Economic Policy Priority of EAEU Member States

Expansion of external trade, including trade with EAEU partners, is one of the key economic development priorities of EAEU member states, as certified by nationally adopted normative documents pursuant to which EAEU member states take specific steps to expand intra-Union trade.

In October 2018, the National Project Datasheet International Cooperation and Export was approved in Russia; according to the project, by 2024 Russia intends to significantly increase the volume of export of non-resource, non-energy goods (to US \$250 billion) and services (by a factor of 1.7), and to increase the GDP share of exports of products of the processing industry and agricultural goods (to 20%). Other important project milestones include creation within the framework of the EAEU of an efficient

division of labour and industrial cooperation system, and an increase of the volume of intra-Union trade and mutual FDI stock by a factor of 1.5 or more.

In 2018 Kazakhstan launched its National Export Strategy to create the conditions required to increase the volume of non-resource Kazakhstani exports by a factor of 1.5 by 2022, and to diversify sales and export markets for goods and services. To attain that objective, it is necessary to perform a number of tasks, e.g., to strengthen institutions that support exporters, to implement financial and non-financial export support measures, to remove barriers impeding growth of exports, and to create conditions for development of service exports.

In October 2018, the National Council for Sustainable Development of the Kyrgyz Republic adopted the National Development Strategy of the Kyrgyz Republic for 2018–2040; one of its objectives is to create a favourable environment for the development of exports using, among other things, the new opportunities opening up before Kyrgyzstan following its accession to the EAEU and its involvement in the Chinese One Belt One Road transport and logistics initiative.

In Armenia, 2018 was marked by active discussion and finalization of the draft Armenian Development Strategy 2030. According to that document, one of the key economic development tasks of Armenia is to stimulate exports, including creation of new export-related jobs.

Belarus continued to implement the National Programme for the Support and Development of Exports in the Republic of Belarus for 2016–2020.

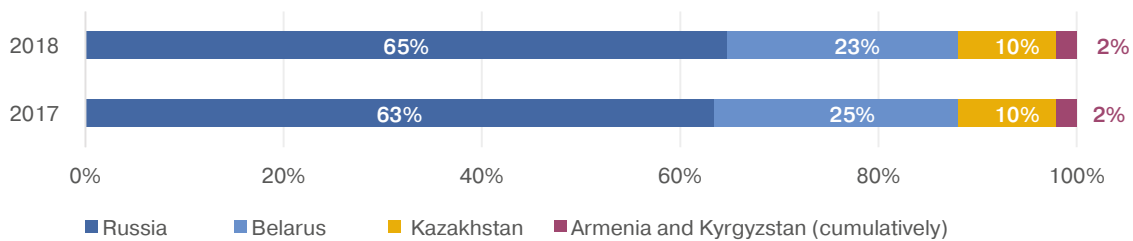
GEOGRAPHICAL STRUCTURE OF EAEU MUTUAL AND EXTERNAL TRADE

EAEU MUTUAL TRADE

Russia accounts for the bulk of intra-Union exports: In 2018 Russia's share in total EAEU internal trade amounted to 65%, a 2 p.p. increase year-on-year. In 2018 there was an insignificant redistribution of Russian and Belarusian shares due to the fact that Russian

exports to the other EAEU member states had been growing considerably faster than Belarusian exports. The share of the other three Union republics in total EAEU mutual trade did not change significantly, year-on-year.

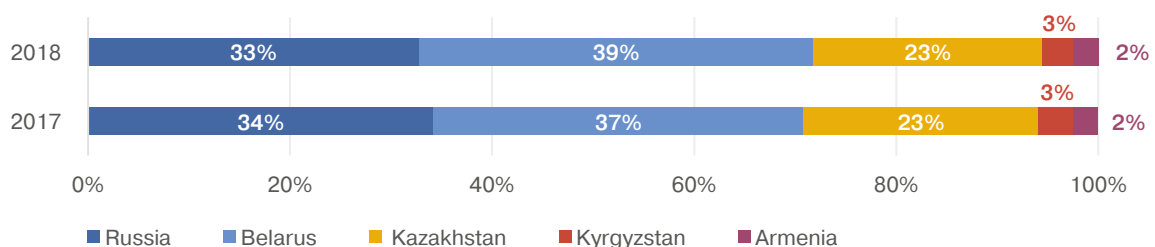
Figure 7. Geographical Structure of Intra-Union Exports by EAEU Member States, %



Source: plotted by the authors using EEC data

Belarus was the chief importer in intra-Union trade: In 2018, it accounted for 39% of total intra-Union imports, a 2 p.p. increase year-on-year. The share of Belarus in intra-Union imports increased in the context of a decrease of the share of Russia, the second large-scale importer. The share of the other EAEU member states in intra-Union imports in 2018 did not sustain any significant year-on-year changes.

Figure 8. Geographical Structure of Intra-Union Imports by EAEU Member States, %



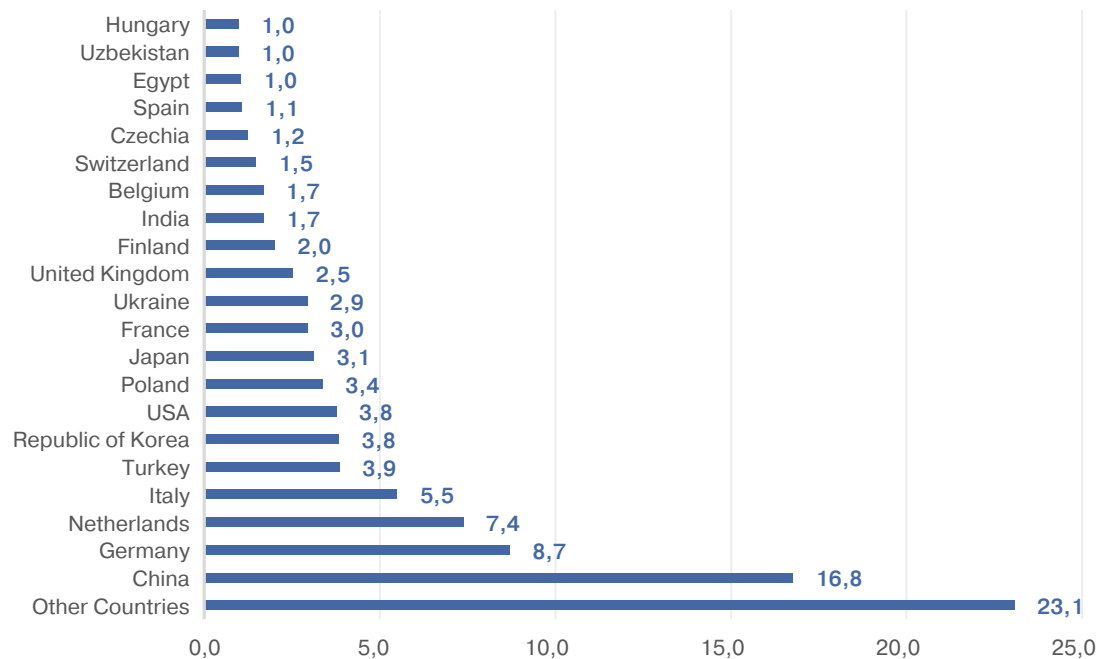
Source: plotted by the authors using EEC data

EAEU EXTERNAL TRADE

In 2018 the geographical structure of EAEU external trade did not change significantly, year-on-year: The largest EAEU trade partner was China (16.8% of total 2018 EAEU external trade turnover), followed by certain EU member states, Turkey, the Republic of Korea, the USA,

Japan, and others. EAEU external trade is generally not well diversified: The top 10 trading-partner countries account for more than half (59.3%) of total EAEU external trade turnover.

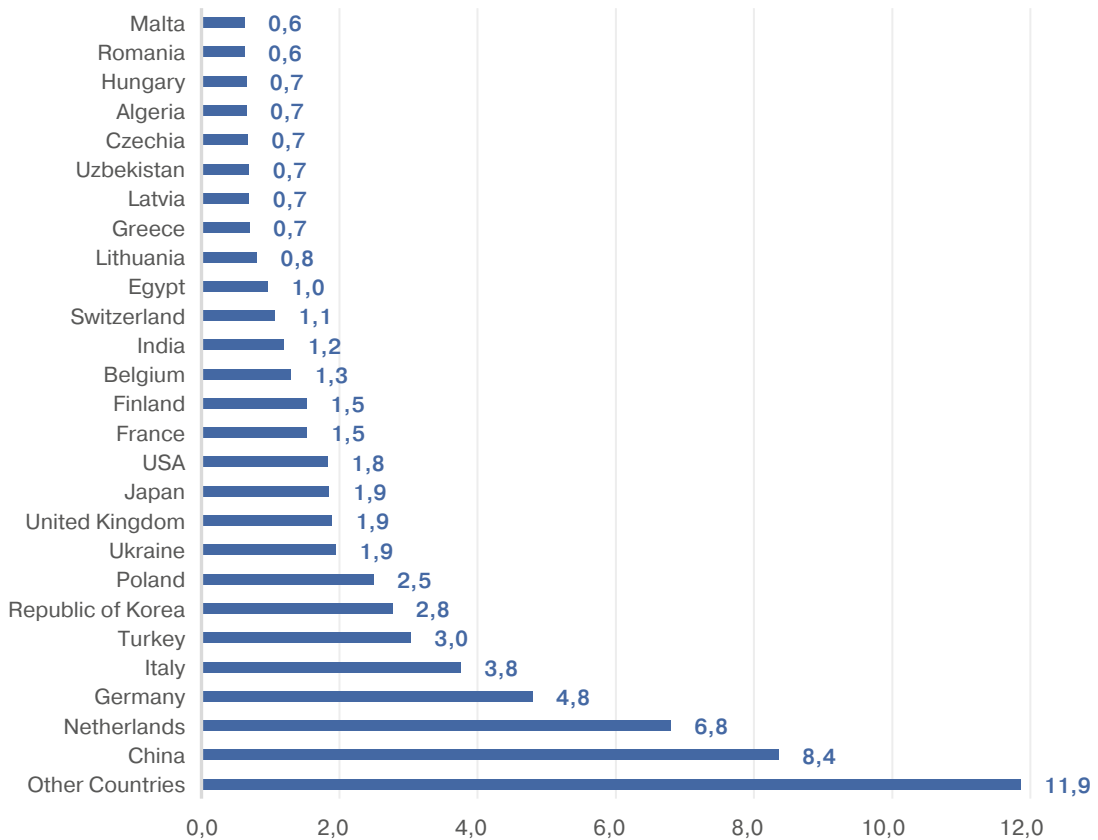
Figure 9. Geographical Structure of EAEU External Trade in 2018, %



Source: plotted by the authors using EEC data

The main export destinations for EAEU member states are China (11.9% of total EAEU exports to third countries), some EU member states, Turkey, and the Republic of Korea. The geographical structure of EAEU exports to third countries is relatively highly diversified: The share of the largest market is below 10%, while the top 10 largest sales markets account together for slightly more than one third of total EAEU exports to third countries.

Figure 10. Geographical Structure of EAEU Exports to Third Countries in 2018, %

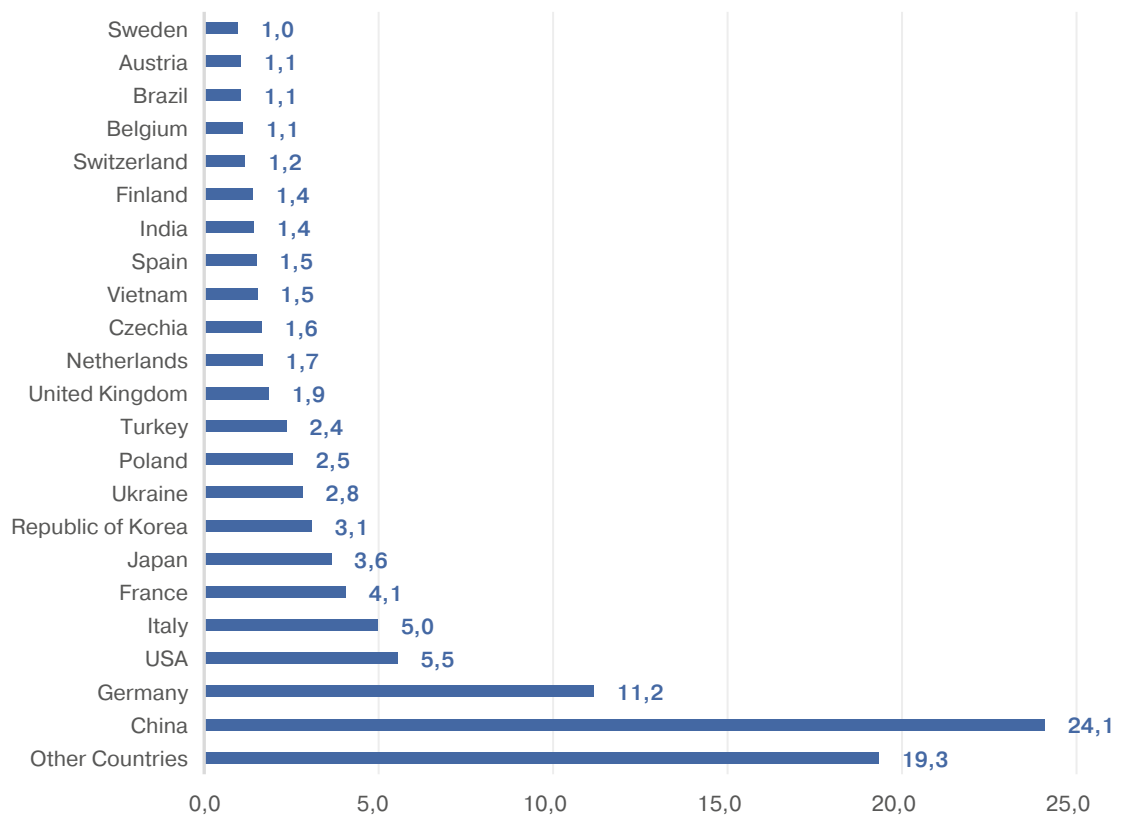


Source: plotted by the authors using EEC data

In 2018 the share of China in total EAEU exports to third countries increased compared to 2017 (from 7.1% to 8.4%); some growth was also reported for the Republic of Korea (from 2.1% to 2.8%). Shares of other export destinations did not change significantly, year-on-year.

The geographical structure of EAEU member-state imports from third countries is considerably less diversified than that of exports: China, the largest exporter of goods to the EAEU, accounts for almost a quarter (24.1%) of total imports to the EAEU from third countries, while the share of the top 10 countries supplying goods to the EAEU stands at almost 2/3. In 2018 the share of China increased from 23.2% to 24.1%, while the shares of the other supplier countries did not undergo any significant changes.

Figure 11. Geographical Structure of EAEU Imports from Third Countries in 2018, %



Source: plotted by the authors using EEC data

The above charts demonstrate that the list of key destinations for EAEU exports to third countries and the list of key third countries supplying goods to the EAEU are almost the same. It should be noted, however, that a comparison of the commodity structure of EAEU external trade and that of the key EAEU trade partners shows⁴ that the overwhelming majority of EAEU trade partners, even those listed as key importers, are more suitable for the EAEU as exporters than as importers. In other words, the commodity structure of EAEU imports matches the commodity structure of exports by those countries more closely than the commodity structure of EAEU exports matches the commodity structure of imports by those countries. Nevertheless, countries that would

be more suitable for the EAEU as importers are present in the list of key partners, although on a limited scale. These include Egypt, Uzbekistan, Greece, Algeria, and Malta; they are already among the key EAEU commodity export destinations. The commodity structures of external trade of two countries (India and Brazil) are almost equally favourable for exports to the EAEU and imports from the EAEU.

4 This comparison is carried out using the trade complementarity index, showing the extent to which the export profile of one country matches the import profile of another country. Index values may range from 0% to 100%, where 0% means that the first country does not import any goods exported by the second country (complete mismatch of external trade profiles of the two countries), and 100% means that the same goods are equally significant as imports by the first country and as exports by the second country (complete match of external trade profiles of the two countries).

Table 1. Match between External Trade Structure of the EAEU and External Trade Structures of Key EAEU Trade Partners, 2018⁵

| EAEU Trade Partner | Match between Structure of EAEU Trade Partner Imports and Structure of EAEU Exports ⁶ | Match between Structure of EAEU Trade Partner Exports and Structure of EAEU Imports |
|--------------------|--|---|
| China | 27% | 55% |
| Germany | 20% | 65% |
| Netherlands | 29% | 56% |
| Italy | 54% | 64% |
| Turkey | 26% | 45% |
| Republic of Korea | 38% | 43% |
| USA | 21% | 53% |
| Poland | 23% | 58% |
| Japan | 31% | 45% |
| France | 22% | 57% |
| Ukraine | 29% | 24% |
| United Kingdom | 19% | 49% |
| Finland | 26% | 38% |
| India | 42% | 41% |
| Belgium | 25% | 51% |
| Switzerland | 12% | 31% |
| Czechia | 17% | 56% |
| Spain | 27% | 56% |
| Egypt | 31% | 19% |
| Uzbekistan | 23% | 9% |
| Hungary | 17% | 54% |
| Lithuania | 29% | 46% |
| Greece | 41% | 33% |
| Latvia | 21% | 43% |
| Algeria | 21% | 2% |
| Romania | 20% | 45% |
| Malta | 30% | 21% |
| Vietnam | 20% | 32% |
| Brazil | 28% | 26% |
| Austria | 19% | 59% |
| Sweden | 24% | 55% |

Source: computed by the authors using EEC and ITC data

⁵ Matches between the external trade structures of the EAEU and key EAEU trade partners are estimated on the basis of complementarity indices.

⁶ Complementarity indices for Ukraine, Uzbekistan, Algeria, and Vietnam, as presented in the table, are calculated on the basis of import statistics of those countries and export statistics of the EAEU for 2017; import statistics of the listed countries for 2018 were not publicly available at the time of calculation.

Germany and Italy are the most suitable exporters for the EAEU: Their export structures match the EAEU import structure by 65% and 64%, respectively. Austrian and Polish export structures are also highly compatible with the EAEU (59% and 58%, respectively). Uzbekistan and Algeria have export structures which are the least suitable for the EAEU (9% and 2%, respectively).

The most suitable sales market for the EAEU is Italy (54%), followed, with a significant lag, by India (42%) and Greece (41%). Switzerland's import structure is the least suitable for the EAEU (12%).

To conclude, EU countries are the most suitable trade partners for the EAEU, both for imports and exports, which reinforces the need to overcome economic and political differences between the EU and the EAEU.

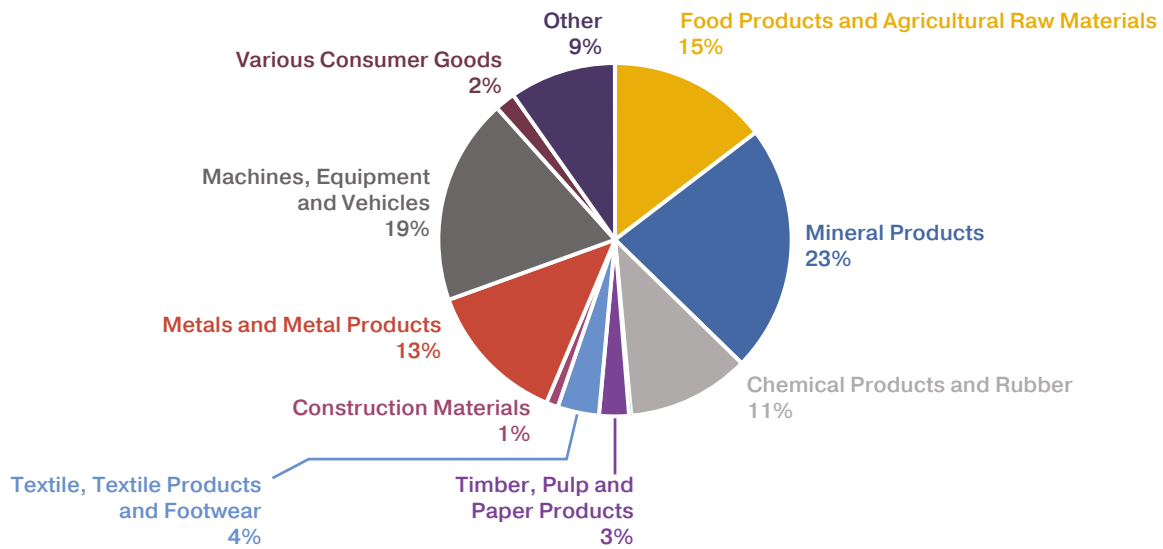
SECTORAL STRUCTURE OF EAEU INTERNAL AND EXTERNAL TRADE IN GOODS

General Description and Special Characteristics of Sectoral Structure of EAEU Mutual and External Trade

EAEU MUTUAL TRADE

The sectoral structure of mutual trade among EAEU member states is topped by Mineral Products, including Fuel and Energy: In 2018 they accounted for 23% of total intra-Union exports, a 2 p.p. increase year-on-year. Other major items include Machines, Equipment, and Vehicles (19%, 1 p.p. increase year-on-year), Food Products and Agricultural Raw Materials (15%, no change year-on-year), and Metals and Metal Products (13%, no change year-on-year). Mutual trade volume increased in all sectors, with the highest increase in Fuel and Energy, with the exception of Construction Materials (down by 1%) and Various Consumer Goods (down by 10%).

Figure 12. Sectoral Structure of EAEU Mutual Trade, 2018



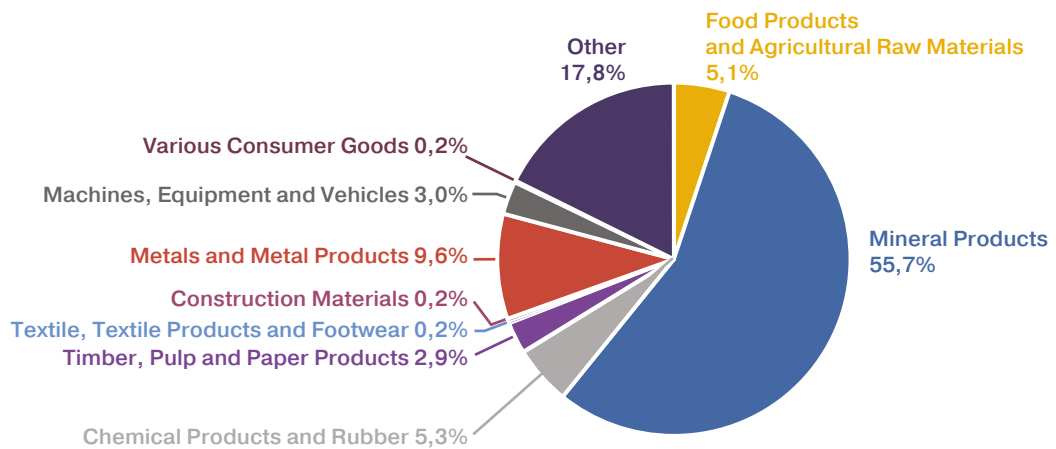
Source: plotted by the authors using EEC data

EAEU EXTERNAL TRADE

The sectoral structure of EAEU exports to third countries is considerably less diversified than the sectoral structure of EAEU intra-Union exports: In 2018 more than half of total EAEU exports to third countries was represented by Fuel and Energy. Metals and Metal Products accounted for 10%, products of other sectors for not more than 5%, while the share of Fuel

and Energy increased considerably due to a sharp rise in the volume of exports of those products. In general, 2018 was marked by EAEU exports to third countries growing in all sectors, with the exception of Raw Hides, Furs, Leather, and Fur Products (down by 20%), and Machines, Equipment, and Vehicles (down by 1%).

Figure 13. Sectoral Structure of EAEU Exports to Third Countries, 2018

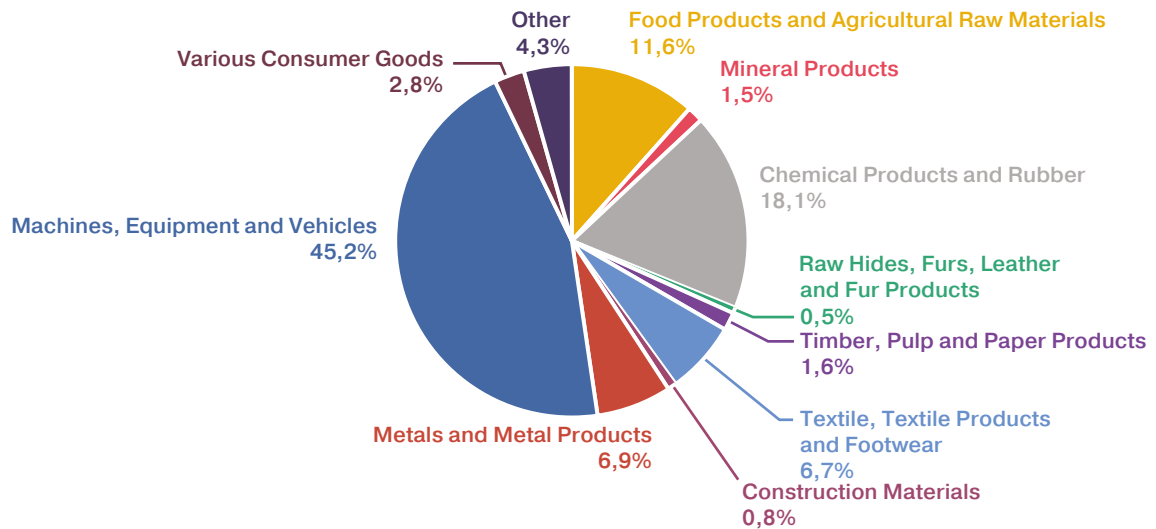


Source: plotted by the authors using EEC data

EAEU imports from third countries are more technological: Almost half were represented by Machines, Equipment and Their Parts (45%), although in 2018 the share of goods from that group decreased year-on-year. Other significant imports include Chemical Products (18%), and

Food Products and Agricultural Raw Materials (12%). The increase in EAEU imports from third countries in 2018 was spread throughout all key sectors.

Figure 14. Sectoral Structure of EAEU Imports from Third Countries, 2018



Source: plotted by the authors using EEC data

The following sections provide an in-depth analysis of the commodity and sectoral structure of EAEU external and mutual trade.

COMMODITY STRUCTURE OF EAEU INTERNAL AND EXTERNAL TRADE BY ADDED VALUE CONTENT

The following categories of goods can be identified in the structure of mutual and external trade:

- Raw Materials
- Energy Goods
- Non-Commodity Non-Energy Goods (Finished Products)
 - Low Added Value Goods
 - Medium Added Value Goods
 - High Added Value Goods

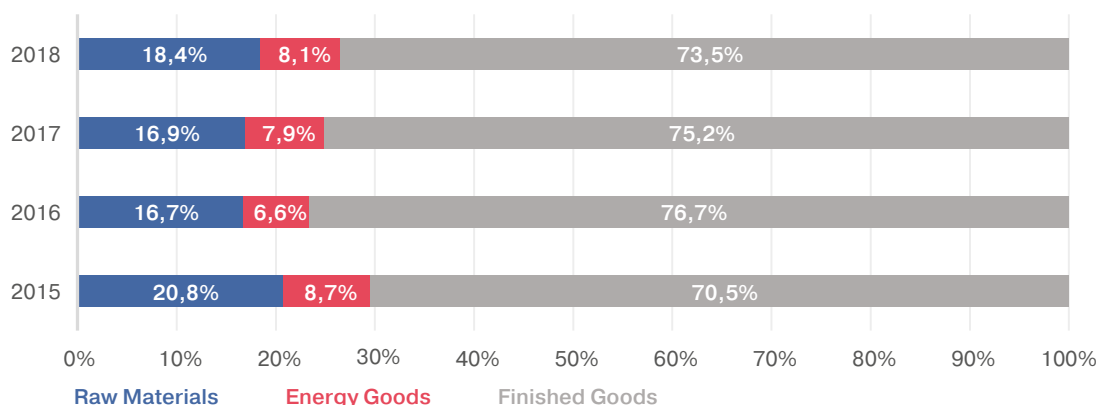
According to EAEU IMEX CN Codes Classification by Added Value Content developed by the Russian Export Centre

COMMODITY STRUCTURE OF EAEU MUTUAL TRADE

Finished Goods with various added value content dominate EAEU mutual trade: Their share has exceeded 70% every year since the inception of the Union. In 2016 the share of Finished Goods increased sharply, mirroring a sharp decline of the share of Raw Materials

and Energy Goods. In 2017 and 2018 the share of Finished Goods gradually decreased, with the share of Raw Materials and Energy Goods smoothly rising.

Figure 15. Commodity Structure of EAEU Mutual Trade by Commodity Segments with Various Added Value Content, %

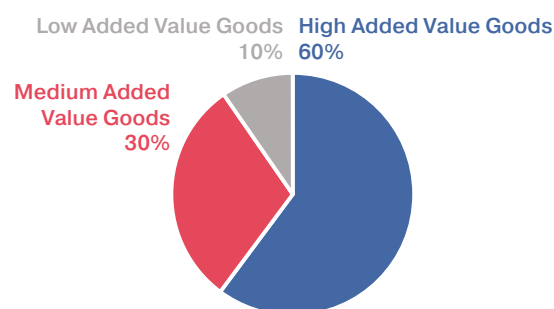


Source: plotted by the authors using ITC data

The increase in the share of Finished Goods in EAEU mutual trade in 2016 and the almost non-existent year-on-year growth of intra-Union exports of products from that group occurred amid a significant decrease in internal exports of Raw Materials and Energy Goods, which, in turn, could be attributed both to reduction of the volume of mutual trade in goods from that group in physical terms, and reduction of prices. Thus, in 2016 the physical volume of intra-Union exports of Energy Goods decreased by 18%, while average annual Brent oil prices dropped by 16%. It should be noted, however, that steady growth of mutual trade in all three commodity segments started in 2017 and continued throughout 2018.

The structure of the commodity segment with the highest share in EAEU mutual trade (Finished Goods) changed little, if at all, from the inception of the EAEU to 2018: High Added Value Goods account for 60% of mutual trade in Finished Goods, Medium Added Value Goods for 30%, and Low Added Value Goods for 10%.

Figure 16. Mutual Trade in Finished Goods by Added Value Content, 2018



Source: plotted by the authors using ITC data

The key high added value item in EAEU mutual trade is Motor Vehicles for Transportation of Cargoes (5%); the volume of mutual trade in that commodity has been invariably growing since the inception of the EAEU. Other important items include Rubber Tyres and Tyre Casings (2%), Cheese and Curd Cheese (4%), Butter (2%), Furniture (2%), and Chocolate (1%).

Table 2. Top 10 Items in the Structure of EAEU Mutual Trade in High Added Value Goods, 2018

| Item | Share in Trade in Finished Goods with High Added Value, % |
|--|---|
| Motor vehicles for transportation of cargoes | 5% |
| Passenger motor vehicles and other motor vehicles for transportation of passengers | 4% |
| Cheese and curd cheese | 4% |
| Parts and accessories of motor vehicles | 2% |
| New pneumatic rubber tyres and tyre casings | 2% |
| Metal structures from ferrous metals and their parts (e.g., bridges and sections of bridges, sluice gates, towers, lattice towers, roof slabs, erection trusses, doors and windows and their frames) | 2% |
| Tractors | 2% |
| Butter and other dairy fats and oils; dairy spreads | 2% |
| Furniture and furniture parts | 2% |
| Insulated wire, cables, and other insulated electrical conductors | 2% |

Source: computed by the authors using ITC data

In 2018 there was a steep increase in internal exports of railway equipment (cars, locomotives), containers, motorcycles, mopeds and motorized bicycles, engines of various types (internal combustion engines, turbojet and turboprop engines, gas turbines), power generation units, various types of industrial

equipment (calenders and other rollers; processing machines for stone, ceramics, concrete, asbestos cement, and other mineral materials; equipment for hide and

leather preparation, tanning, and processing), demonstration equipment, rubberized textile materials, carbon electrodes, vending machines, and other materials and equipment.

On the other hand, there was a sharp decline in internal exports of certain types of machines and equipment (industrial and laboratory equipment; crop-harvesting and threshing machines; machines for extruding, drawing, texturing, and cutting artificial textiles), water vessels (tugboats, pushboats, cruise and

voyage vessels, ferries, cargo vessels, etc.), aircraft (helicopters and airplanes), reservoirs, vessels and cisterns, prefabricated structures, semiconductor devices, certain types of consumer goods (footwear, wristwatches), and other goods.

The commodity structure of EAEU mutual trade in Medium Added Value Goods was dominated by metallurgical and food products, with mutual trade in flat rolled products constantly on the rise.

Table 3. Top 10 Items in the Structure of EAEU Mutual Trade in Medium Added Value Goods, 2018

| Item | Share in Trade in Finished Goods with Medium Added Value, % |
|--|---|
| Flat rolled products from iron or alloy-free steel, with a width of 600 mm or more; hot-rolled, non-plated, non-coated | 7% |
| Flat rolled products from iron or alloy-free steel, with a width of 600 mm or more; plated, coated | 5% |
| Pipes, tubes, and profiles, hollow, seamless, manufactured from ferrous metals | 4% |
| Beef, fresh or chilled | 3% |
| Bars from iron or alloy-free steel, w/o subsequent processing other than forging, hot rolling, hot drawing, or hot extruding | 3% |
| Milk and cream, condensed or with addition of sugar or other sweeteners | 3% |
| Poultry meat and edible by-products, chilled or frozen | 2% |
| Wood-chip board, oriented strand board (OSB), and similar boards from wood or other lignified materials | 2% |
| Flat rolled products from iron or alloy-free steel, with a width of 600 mm or more; cold-rolled (cold-pressed), non-plated, non-coated | 2% |
| Ethylene polymers in primary form | 2% |

Source: computed by the authors using ITC data

In 2018 there was a sharp increase in internal exports of certain types of chemical products (propylene polymers, rosin, heterocyclic compounds, hydrazine, and hydroxylamine), metallurgical products (flat rolled products from alloy-treated steel, nickel flat rolled products, titanium and titanium products), textile products (knitted fabrics, cotton fabrics), and food products (soybean oil and rapeseed oil, fruits and nuts).

This process was accompanied by reduction of internal exports of milk whey, amine functional group compounds, tongue-and-groove structures from ferrous metals, and aldehydes.

The commodity structure of EAEU mutual trade in Low Added Value Goods was dominated by metallurgical and chemical products.

Table 4. Top 10 Items in the Structure of EAEU Mutual Trade in Low Added Value Goods, 2018

| Item | Share in Trade in Finished Goods with Low Added Value, % |
|---|--|
| Synthetic corundum, aluminium oxide, aluminium hydroxide | 9% |
| Non-treated aluminium | 8% |
| Ferrous alloys | 5% |
| Semi-finished products from iron or alloy-free steel | 4% |
| Wheat and meslin | 4% |
| Cement | 3% |
| Carbonates | 3% |
| Rapeseed or colza | 3% |
| Acyclic spirits and their halogenated, sulphonated, nitrated or nitrosated derivatives | 3% |
| Mineral or chemical fertilizers containing two or three nutrients (nitrogen, phosphorus, potassium) | 3% |

Source: computed by the authors using ITC data

In 2018 there was a recovery of trade in certain types of metallurgical products (iron ore direct reduction products, iron and alloy-free steel in primary form, silver), agricultural crops (soybeans, maize, barley, rye), livestock, and other goods.

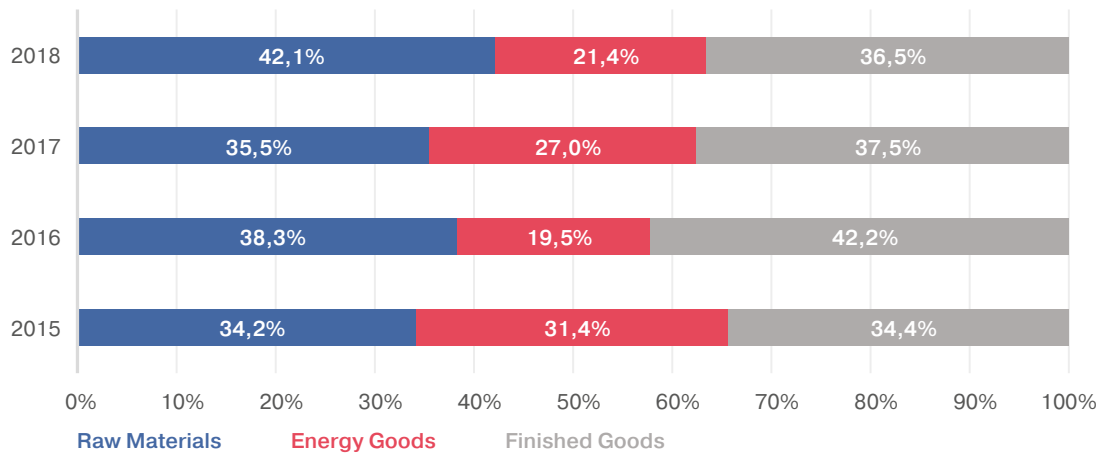
At the same time, EAEU mutual trade in unprocessed zinc, unprocessed gold, etc. slowed down.

COMMODITY STRUCTURE OF EAEU EXTERNAL TRADE

Exports

The commodity structure of EAEU exports to third countries is more diversified and less static than the commodity structure of EAEU intra-Union exports. Thus, while in 2015 all EAEU exports to third countries were distributed almost equally among three commodity segments (Raw Materials, Energy Goods, and Finished Goods) with a slight bias in favour of Raw Materials and Finished Goods, in 2016 the share of Energy Goods sharply declined against amid a sharp reduction (more than twofold) of exports of goods from that commodity segment (caused, as noted above, by unfavourable changes in the world oil market, among other things). In 2016–2017, the commodity structure of EAEU exports to third countries was dominated by Finished Goods, but in 2018 the emphasis shifted back to primary commodities, due to a more dynamic growth of their exports.

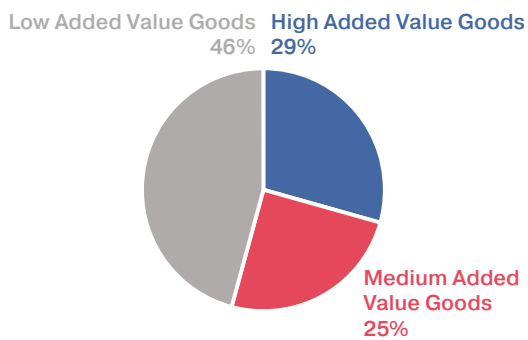
Figure 17. Commodity Structure of EAEU Exports to Third Countries by Commodity Segments with Various Added Value Content, %



Source: plotted by the authors using ITC data

In EAEU exports of Finished Goods, a dominant position is occupied by Low Added Value Goods, followed by High Added Value Goods and Medium Added Value Goods. The share of High Added Value Goods in total Finished Goods exports has been decreasing for the last four years, while the shares of Medium Added Value Goods and Low Added Value Goods have been increasing.

Figure 18. EAEU Finished Goods Exports to Third Countries by Added Value Content, 2018



Source: plotted by the authors using ITC data

Similarly to intra-Union exports, EAEU Finished Goods exports to third countries are dominated by complex technological products and vehicles; chemical products and food products also account for a sizeable share of total exports.

Table 5. Top 10 Items in the Structure of EAEU Exports to Third Countries of High Added Value Goods, 2018

| Item | Share in Trade in Finished Goods with High Added Value, % |
|--|---|
| Turbojet and turboprop engines, gas turbines | 4% |
| Motor vehicles for transportation of cargoes | 3% |
| New pneumatic rubber tyres and casings | 3% |
| Passenger motor vehicles and other motor vehicles for transportation of passengers | 3% |
| Radioactive chemical elements and radioactive isotopes and their compounds; mixtures and residues containing such products | 3% |
| Nuclear reactors; new fuel elements for nuclear reactors; equipment and devices for isotope separation | 2% |
| Parts and accessories of motor vehicles | 2% |
| Cheese and curd cheese | 2% |
| Chocolate and other finished food products containing cocoa | 1% |
| Pre-packaged medicinal substances | 1% |

Source: computed by the authors using ITC data

In 2018 there was a steep increase in EAEU exports to third countries of certain types of engines (gas turbines, internal combustion engines), railway equipment (motorized cars, locomotives), equipment for light industry and other sectors (calenders and other rollers, textile-fibre-preparation machines and textile-manufacturing machines, hide- and leather-preparation equipment, weaving machines), carbon electrodes, varnishes and paints, and motor vehicle chassis.

This process was accompanied by reduction of EAEU exports to third countries of radiolocation and radio navigation devices, trailers and semitrailers, tugboats and push-boats, ferrous metal containers (reservoirs, cisterns, vessels, tanks, etc.), and aluminium fittings for pipes and tubes.

The commodity structure of EAEU exports to third countries of Medium Added Value Goods was dominated by metallurgical and pulp-and-paper products. Rolled metal was one of the key export items: In 2018 flat rolled products accounted for at least 14% of the total exports of Finished Goods with medium added value content, shaped rolled products for at least 7%.

Table 6. Top 10 Items in the Structure of EAEU Exports to Third Countries of Medium Added Value Goods, 2018

| Item | Share in Trade in Finished Goods with Medium Added Value, % |
|---|---|
| Flat rolled products from iron or alloy-free steel with a width of 600 mm or more; hot-rolled, non-coated | 9% |
| Synthetic rubber and oil rubber (factice) | 4% |
| Sunflower oil, safflower oil or cotton oil, their fractions | 4% |
| Wood cellulose, natron cellulose, sulphate cellulose | 3% |
| Plywood, lamwood panel, and similar materials from laminated wood | 3% |

| | |
|--|----|
| Bars from iron or alloy-free steel, w/o subsequent processing other than forging, hot rolling, hot drawing, or hot extruding | 3% |
| Welded or riveted pipes and tubes, with round cross section, external diameter of more than 406.4 mm, manufactured from ferrous metals | 3% |
| Pipes, tubes and profiles, hollow, seamless, manufactured from ferrous metals (excluding cast iron) | 3% |
| Flat rolled products from iron or alloy-free steel with a width of 600 mm or more, coated | 3% |
| Flat rolled products from iron or alloy-free steel with a width of 600 mm or more, cold-rolled, non-coated | 2% |

Source: computed by the authors using ITC data

In 2018 there was a sharp increase in EAEU exports to third countries of certain food products (rapeseed or mustard oil, mutton, fruits and nuts, pork fat), certain chemical products (hydrazine and hydroxylamine, chlorides, hypochlorites, complex ethers of non-metallic inorganic acids, sulphides and polysulphides, artificial graphite), fireproof cement and mortar mixtures, knitted fabrics, and nickel rolled products.

At the same time, there was a significant reduction of EAEU exports to third countries of flour (excluding wheat flour and wheat/rye flour), cotton fabrics, nickel pipes and tubes, certain types of chemical products (ketones and quinones, amine functional group compounds, halides and non-metallic halide oxides, fluorine, chlorine, bromine, iodine, and other products).

The largest EAEU exports to third countries of Finished Products classified under Low Added Value Goods included wheat, ferrous and non-ferrous metal products, chemical products, and pulp-and-paper products. In 2018 wheat and semi-finished products from iron or alloy-free steel accounted, in the aggregate, for 22% of total EAEU exports to third countries classified under Low Added Value Goods, with their shares in total 2018 exports showing a sharp increase (by 45.7% and 31.7%, respectively).

Table 7. Top 10 Items in the Structure of EAEU Exports to Third Countries of Low Added Value Goods, 2018

| Item | Share in Trade in Finished Goods with Low Added Value, % |
|---|--|
| Wheat and meslin | 12% |
| Semi-finished products from iron or alloy-free steel | 10% |
| Refined copper and unprocessed copper alloys | 8% |
| Non-treated aluminium | 7% |
| Timber obtained by length cutting or splitting, surfacing or peeling, processed or not processed by surfacing or polishing, with or without end joints, with a thickness of more than 6 mm | 6% |
| Mineral or chemical fertilizers containing potassium | 6% |
| Mineral or chemical fertilizers containing two or three nutrients (nitrogen, phosphorus, potassium); other fertilizers; fertilizers in tablets or similar forms or packaged, with gross weight of not more than 10 kg | 5% |
| Ferrous alloys | 5% |
| Non-processed, semi-processed or powdered platinum | 5% |

Mineral or chemical fertilizers containing nitrogen | 4%

Source: computed by the authors using ITC data

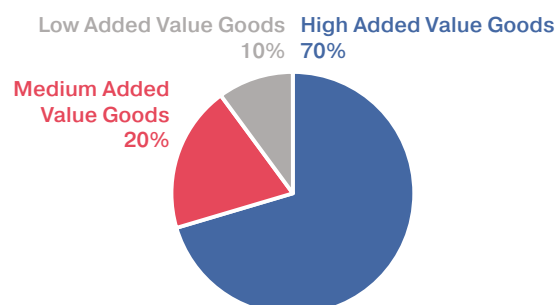
In 2018 there was a steep increase in the volume of exports not only of wheat, but also of other grain crops (rye, oats), beans, livestock (sheep, goats), certain types of mining products (iron ore direct-reduction products, iron and alloy-free steel in ingots, nickel and cobalt matte, non-processed tin), acyclic spirits, and other goods.

At the same time, there was a sharp decline in EAEU exports to third countries of non-processed zinc and tanned leather.

Imports

The structure of EAEU imports from third countries was static: More than 90% of goods imported to the EAEU are Finished Goods, heavily dominated by High Added Value Goods.

Figure 19. EAEU Finished Goods Imports from Third Countries by Added Value Content, 2018



Source: plotted by the authors using ITC data

EAEU member states import a broad range of Finished Goods with high added value content, from fabricated metal products to computers and medicines. The commodity structure of EAEU Finished Goods imports is highly diversified.

Table 8. Top 10 Items in the Structure of EAEU Imports from Third Countries of High Added Value Goods, 2018

| Item | Share in Imports of Finished Goods with High Added Value, % |
|---|---|
| Metalware | 4% |
| Light bulbs and lighting equipment | 4% |
| Forklift trucks and other loaders fitted with hoisting or handling equipment | 3% |
| Transmission shafts and crankshafts, friction bearings for shafts and their casings, gears and gear sets, ball gears or rolling screw gears, gear boxes and other speed variators | 2% |
| Automatic data processing machines and units thereof, magnetic or optical reader units, machines for transfer and processing of data on storage devices | 2% |
| Centrifuges; equipment and devices for filtering or purification of liquids or gases | 2% |
| Pre-packaged medicinal substances | 1% |
| Seat furniture | 1% |
| Mountings and fittings for furniture, doors, stairs, windows, curtains, vehicle interiors, saddlery, suitcases, boxes, cabinets, and similar items | 1% |
| Hoisting, shifting, loading or unloading machines and devices (e.g., elevators, lifts, escalators, conveyors, cableways) | 1% |

Source: computed by the authors using ITC data

In 2018 there was a sharp increase in EAEU imports from third countries of metalware, lighting equipment, floating craft not designed for navigation, microphones, loudspeakers, earphones, heterocyclic compounds, and other goods. There was a sharp decline in the import of orthopaedic devices, textile flooring materials, respiratory equipment, and other goods.

The key Medium Added Value Goods imported to the EAEU from third countries are chemical and metallurgical products.

Table 9. Top 10 Items in the Structure of EAEU Imports from Third Countries of Medium Added Value Goods, 2018

| Item | Share in Imports of Finished Goods with Medium Added Value, % |
|---|---|
| Ethylene polymers in primary state | 7% |
| Pipes, tubes and profiles, hollow, seamless, manufactured from ferrous metals (excluding cast iron) | 7% |
| Boards, sheets, films, stripes, bands, and other items from plastics, non-porous and non-reinforced, non-layered, unsupported and not otherwise joined with other materials | 5% |
| Polyacetals, simple polyethers and epoxide resins in primary form; polycarbonates, alkyd resins, complex polyallyl ethers, and other complex polyethers in primary form | 3% |
| Amine-aldehyde resins, phenol-aldehyde resins, and polyurethanes in primary form | 3% |
| Flat rolled products from iron or alloy-free steel with a width of 600 mm or more; hot-rolled, unclad, uncovered | 3% |
| Paper, cardboard, cellulose cotton and cellulose fibre fabric, with coating, impregnated, laminated, with painted or decorated surface or printed, in rolls or rectangular sheets | 3% |
| Polymers or propylene or other olefins in primary form | 2% |
| Plates, sheets, film, foil, strips, and other flat forms from plastics, self-adhesive | 2% |
| Poultry meat and edible by-products | 2% |

Source: computed by the authors using ITC data

In 2018 there was a steep increase in EAEU imports from third countries of paper and cardboard, fluoride salts, and other goods. Imports of teas with flavour additives declined sharply.

The key Finished Goods with low added value imported to the EAEU are flowers, vegetables, and fruits, with flowers accounting for 25% of total imports in this category.

Table 10. Top 10 Items in the Structure of EAEU Imports from Third Countries of Low Added Value Goods, 2018

| Item | Share in Imports of Finished Goods with Low Added Value, % |
|--|--|
| Cut flowers and buds suitable for making bouquets or for decorative purposes | 25% |
| Frozen fish, excluding fillets | 7% |

| | |
|---|----|
| Citrus fruits | 6% |
| Apricots, cherry, and bird cherry, peaches, plums and sloes, fresh | 4% |
| Sunflower seeds | 4% |
| Ferrous alloys | 3% |
| Other fruits | 2% |
| Vegetables | 2% |
| Apples, pears, and quince, fresh | 2% |
| Polycarboxylic acids, their anhydrides, halogen anhydrides, peroxides and peroxyacids; their halogenated, sulphonated, nitrated or nitrosated derivatives | 2% |

Source: computed by the authors using ITC data

In 2018 there was a sharp increase in EAEU imports from third countries of peanuts, cucumbers, etc. There was a sharp drop of rutabaga imports.

Our analysis of the commodity and sectoral structure of EAEU mutual and external trade leads us to the conclusion that intra-Union exports by EAEU member states are indisputably dominated by Finished Goods with high added value, while EAEU exports to third countries are dominated by primary commodities. EAEU imports from third countries are, conversely, almost completely represented by Finished Goods, mostly High Added Value Goods ranging from automotive components to medicines.

TRADE SPECIALIZATION OF EAEU MEMBER STATES

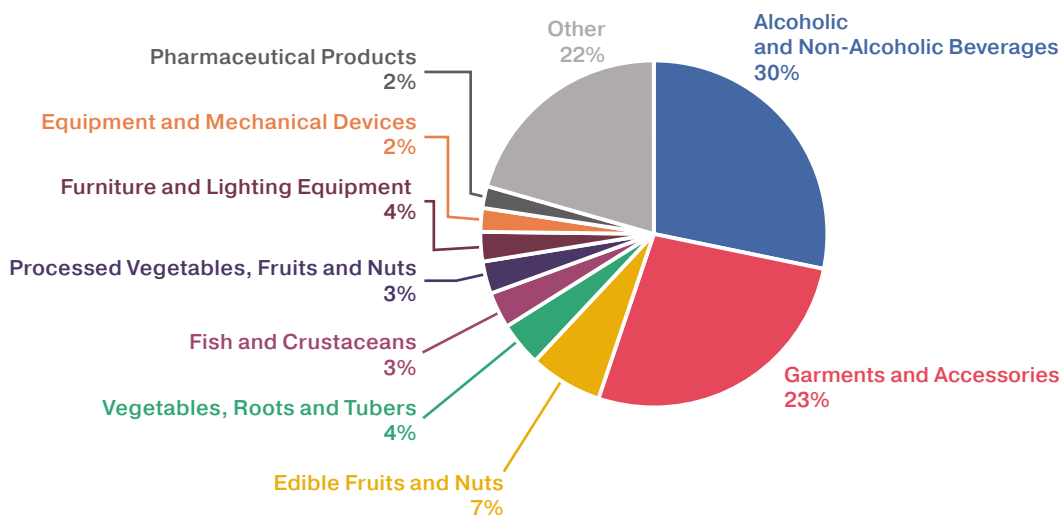
Subject to differences in their economic structures and availability of natural resources, EAEU member states have different opportunities for exportation and importation of various goods, which affects their trade specializations within the Union.

Armenia

The sectoral structure of Armenian exports to EAEU member states is rather weakly diversified: In 2018, twenty-three commodity groups with shares of 1% or more accounted for 94% of total intra-Union exports. Alcoholic and non-alcoholic beverages are the key Armenian

intra-Union export item (30% of total intra-Union exports in 2018). However, the share of that commodity group is tending to decrease, despite continuous growth of exports. Other significant items are clothing, fruit, and nuts; other commodity groups have shares of less than 5%.

Figure 20. Commodity Specialization of Intra-Union Exports by Armenia, 2018



Source: plotted by the authors using EEC data

Over the four years of the EAEU's existence, Armenia has consistently increased its intra-Union exports of beverages, clothing, furniture, equipment, cocoa and cocoa products, leather goods, instruments and devices, tobacco, and footwear. In 2018 there was also a sharp increase in intra-Union exports by Armenia of textile fabrics, chemical fibre, natural and synthetic rubber, cotton, etc. On the other hand, the volume of export of dairy products, eggs and honey went down.

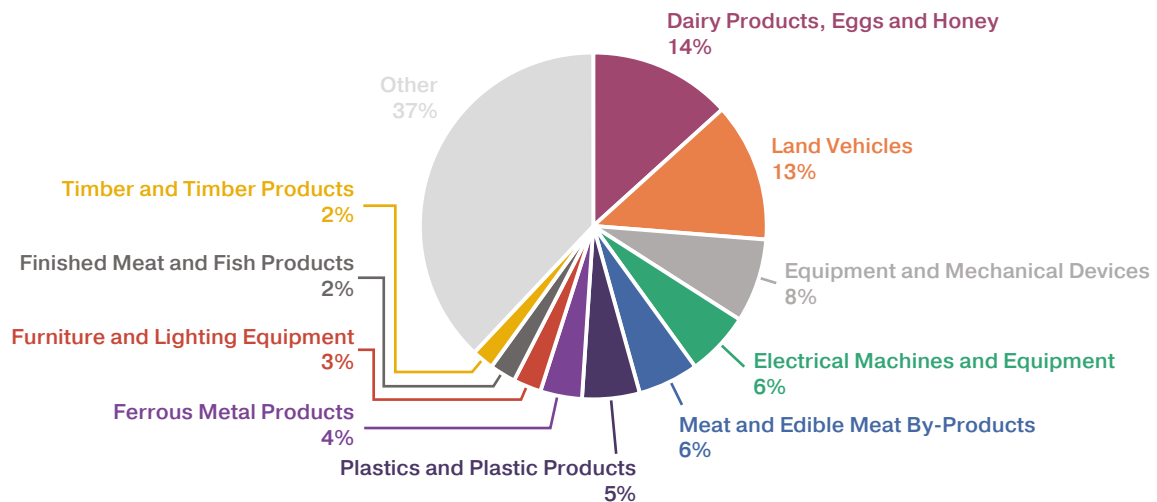
Despite the fact that equipment and mechanical devices represent one of the leading items of Armenian intra-Union exports, that group of commodities is one of the most heavily dependent on imports, and the negative balance of trade in such commodities has been continuously growing over the last four years. The Republic of Armenia is also increasingly dependent on importation of mineral fuel, electrical machines and equipment, ferrous metals and ferrous metal products, fertilizers, dairy products, eggs, honey, and other goods.

Belarus

Dairy products, eggs, and honey are the leading export commodities of another EAEU member state, Belarus: In 2018, that commodity group accounted for 14% of total intra-Union exports by that country. Removal of intra-Union barriers to trade in food products is critical for further expansion of trade between Belarus and other EAEU member states.

Other significant items include land vehicles, equipment and mechanical devices, electrical equipment and meat; the shares of the remaining commodity groups are not more than 5%.

Figure 21. Commodity Specialization of Intra-Union Exports by Belarus, 2018



Source: plotted by the authors using EEC data

In 2015–2018 Belarus consistently increased its intra-Union exports of land vehicles, electrical machines, meat and meat products, ferrous metal products, timber and timber products, pharmaceutical products, clothing, grain and cereal products, paper and cardboard. In 2018 there was also a sharp increase in intra-Union exports by Belarus of food industry residues and waste (prepared animal feeds), fats and oils, oil seeds and fruits, headwear, and other goods. On the other hand, the volume of exports of fruits and nuts and mineral fuel decreased.

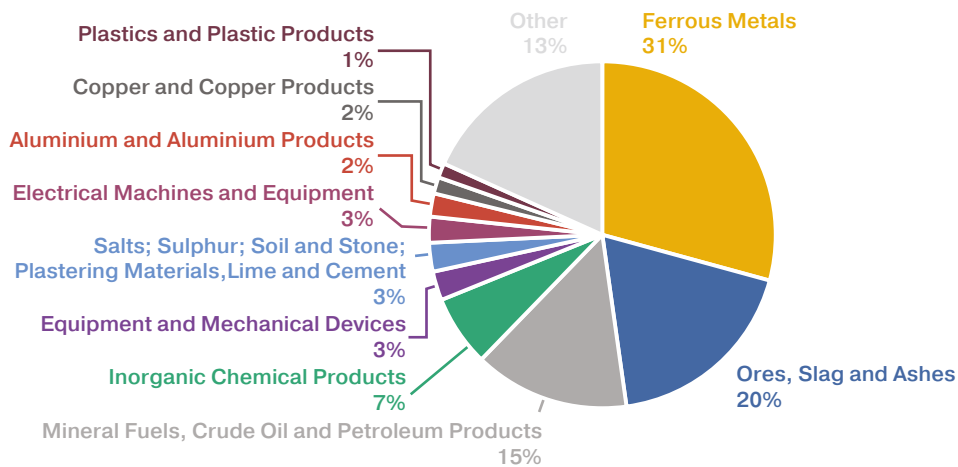
Despite the fact that electrical machines and equipment represent one of the leading items of Belarusian intra-Union exports, that group of commodities is one of the most heavily dependent on imports. Belarus is also increasingly dependent on importation of mineral fuel (it is in this commodity group that dependence on imports is the highest), ferrous

metals, organic chemical compounds, copper and copper products, oil seeds and fruits, aluminium and aluminium products, plastics and plastic products, and other goods.

Kazakhstan

Kazakhstan specializes in exportation of Mining and Fuel and Energy Complex products: In 2018, 31% of intra-Union exports by the Republic of Kazakhstan were represented by ferrous metals and ferrous metal products, 20% by ores, and 16% by mineral fuel. Another significant item is inorganic chemical products; other commodity groups have shares of less than 5%.

Figure 22. Commodity Specialization of Intra-Union Exports by Kazakhstan, 2018



Source: plotted by the authors using EEC data

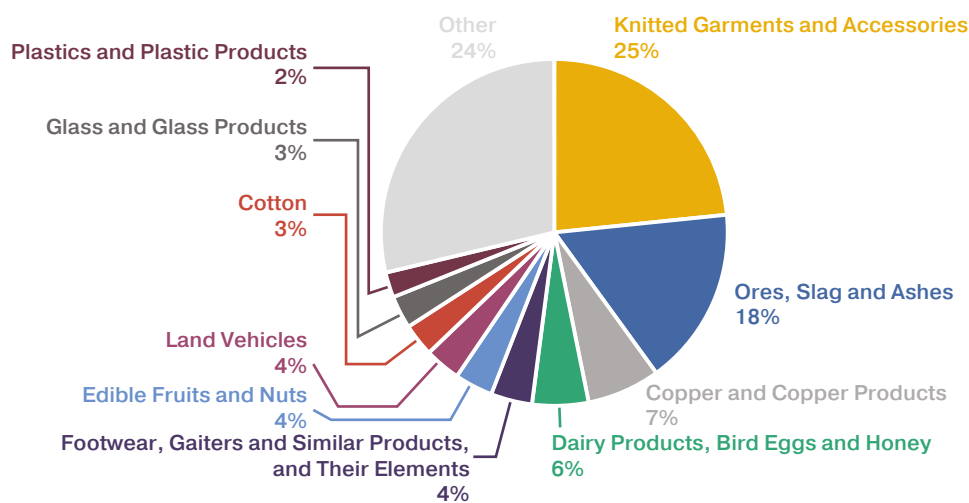
Over the four-year period under review, Kazakhstan has consistently increased its intra-Union exports of ferrous metals and ferrous metal products, equipment and mechanical devices, electric machines and equipment, plastics and plastic products, vegetables, fertilizers, prepared animal feeds, and other goods. In 2018 there was also a sharp increase in intra-Union exports by Kazakhstan of railway locomotives, finished textile products, and meat products. On the other hand, the volume of export of zinc and zinc products, cotton, nickel and nickel products decreased.

Despite the fact that equipment, mechanical devices and electrical machines represent some of the leading items of Kazakhstani intra-Union exports, those group of commodities are the most heavily dependent on imports. Kazakhstan is also dependent on importation of land vehicles and mineral fuels (however, in 2016 the balance of Kazakhstani trade in commodities from the latter group with the other EAEU member states went down to the minimal level since 2016). The country needs increasingly more imported paper and cardboard, essential oils, and finished grain products.

Kyrgyzstan

Kyrgyzstan specializes in exportation of clothing and ores: In 2018 those commodity groups accounted for 25% and 18%, respectively, of total intra-Union exports by the country. Other significant items are copper and copper products, dairy products, eggs and honey; other commodity groups have shares of less than 5%.

Figure 23. Commodity Specialization of Intra-Union Exports by Kyrgyzstan, 2018



Source: plotted by the authors using EEC data

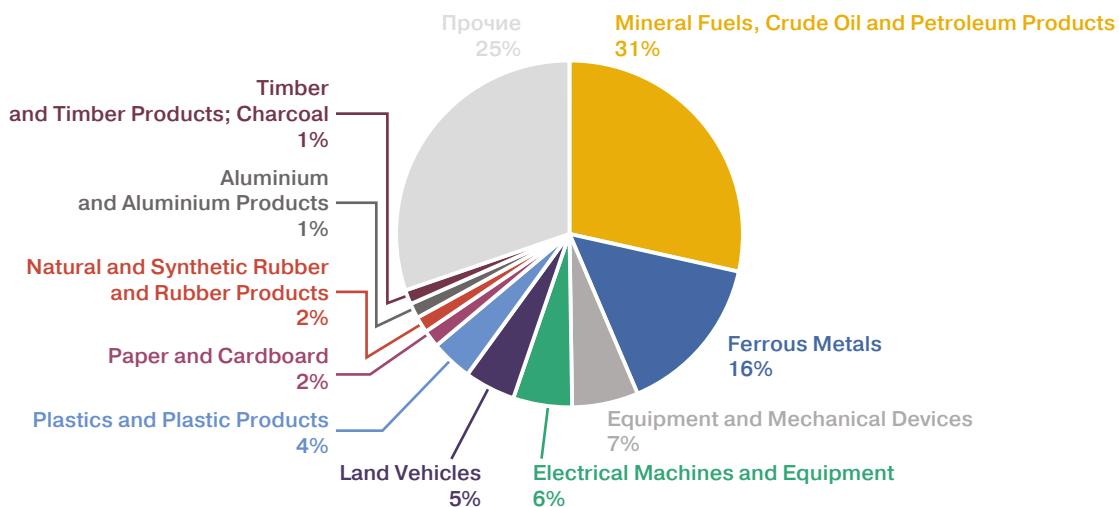
Kyrgyzstan has consistently increased its intra-Union exports of knitwear, grain products and flour, beverages, and aluminium and aluminium products. In 2018 there was also a sharp increase in intra-Union exports by Kyrgyzstan of sugar and confectionery, nickel and nickel products, ceramics, leather goods, and lead and lead products. On the other hand, the volume of export of vegetables, clothing, ferrous metal products, and tobacco decreased.

Despite a certain reduction relative to 2015, Kyrgyzstan continues to heavily rely on importation of mineral fuel, and is increasingly dependent on imports of ferrous metals and ferrous metal products, tobacco, paper and cardboard, plastics and plastic products, furniture, railway locomotives, and other goods.

Russia

Russia specializes in exportation of fuel, energy, and metallurgical products: In 2018, thirty-one percent of intra-Union exports by Russia were represented by mineral fuel, and 16% by ferrous metals and ferrous metal products. Other significant items include equipment, mechanical devices, and electrical machines; the shares of the remaining commodity groups are less than 5%.

Figure 24. Commodity Specialization of Intra-Union Exports by Russia, 2018



Source: plotted by the authors using EEC data

In 2015–2018 Russia has consistently increased its intra-Union exports of electrical machines and equipment, plastics and plastic products, paper and cardboard, rubber and rubber products, aluminium and aluminium products, inorganic chemical products, essential oils, cocoa products, beverages, and other products. In 2018 there was also a sharp increase in intra-Union exports by Russia of grains, textile fabrics, musical instruments, and other products, while the volume of export of ships and boats decreased.

Russia remains significantly dependent on imported dairy products, eggs, honey, meat and meat products, vegetables, leather goods, finished textile products, ores, and other products..

To conclude, the export specialization of Armenia and Belarus gravitates mostly towards light industry and the food industry; the export specialization of Kazakhstan and Russia emphasize fuel, energy and mining products, while the export specialization of Kyrgyzstan partially combines the export specialization areas of the other member states. In 2018 there was a noticeable increase in the volume of mutual exports by EAEU member states of various light industry products, food products, agricultural goods, and certain types of equipment. Redistribution of export flows inside commodity groups testifies to changes in the structure of the Union's internal demand, improvement of terms of trade, and effectiveness of efforts to eliminate trade barriers in the EAEU domestic market.

However, some EAEU member states remain dependent on imports for manufacture of their leading export items.

EAEU INTRA-INDUSTRY TRADE

The fact that member states of an integration association have clear export specializations often implies the existence of imbalances between their mutual export and import flows. The ideal situation is one where countries are equally involved in trade in goods of all sectors in both directions (export and import). In that context, the extent of trade development can be assessed by measuring intra-industry trade.

In 2018 intra-industry trade accounted for 50% of total mutual trade among EAEU member states, a less than 1 p.p. increase year-on-year attributable to the fact that the share of intra-industry trade in total trade turnover between Kazakhstan and Belarus and their EAEU partners increased by 0.7 p.p. and 1.1 p.p., respectively. The share of intra-industry trade among the other EAEU member states and their EAEU partners in 2018 went down.

Intra-industry trade shows which part of external trade within an industry is carried out in both directions: export and import. Intra-industry trade is measured by the Grubel-Lloyd Index on a scale from 0% to 100%, where 0% means that trade is carried out only in one direction (export or import), and 100% means that export and import trade flows are equal.

Figure 25. Share of Intra-Industry Trade in Mutual Trade between EAEU Member States and Their EAEU Partner Countries

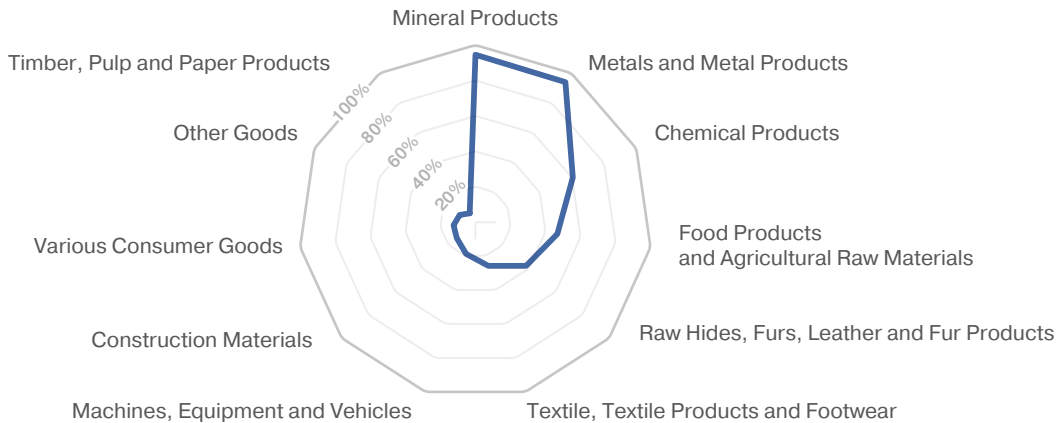


Source: plotted by the authors using EEC data

Kazakhstan

In 2018 Kazakhstan reported the highest share of intra-industry trade in total mutual trade with EAEU partner countries. Kazakhstan's intra-industry trade with EAEU partners was best developed in Mining and Metallurgy: In 2018 the volumes of intra-Union exports by, and intra-Union imports to, Kazakhstan in those sectors were approximately the same, and the Grubel-Lloyd Index for each of those sectors exceeded 90%. Kazakhstani Forestry had the least focus on intra-industry trade with EAEU partners: In 2018 timber and pulp-and-paper imports to Kazakhstan exceeded exports of the same by Kazakhstan by a factor of 33.

Figure 26. Share of Intra-Industry Trade in Mutual Trade between Kazakhstan and Its EAEU Partners, 2018



Source: plotted by the authors using EEC data

Compared to 2017, the share of intra-industry trade between Kazakhstan and its Union partners increased in all sectors with the exception of Metallurgy (-5 p.p.); Raw Hides, Furs, Leather, and Fur Products (-5 p.p.); and Textiles, Textile Products, and Footwear (-1 p.p.) due to a sharp increase of importation of those products. The highest increase in intra-industry trade was registered for the Chemical Industry (+7 p.p.). With Kazakhstan planning to build a number of new production facilities, the share of intra-industry trade may increase in Construction Materials, Textiles, and the Chemical Industry thanks to the growth of domestic production and, consequently, reduction of the trade deficit for these products in trade with Kazakhstan's EAEU partner countries.

Russia

In 2018 Russia ceded intra-industry trade leadership to Kazakhstan, with Russia's share of intra-industry trade in its total trade with EAEU partners going down by 2.6 p.p. In Russia, intra-industry trade with EAEU partners is best developed with respect to Raw Hides, Furs, Leather, and Fur Products; Food Products and Agricultural Raw Materials; Textiles, Textile Products, and Footwear; and Various Consumer Goods. Trade in Mineral Products, conversely, had a heavier one-way (export) bias compared to other sectors.

Figure 27. Share of Intra-Industry Trade in Mutual Trade between Russia and Its EAEU Partners, 2018



Source: plotted by the authors using EEC data

The overall level of intra-industry trade between Russia and its EAEU partners went down in 2018 vs. 2017 due to lower levels of Machines, Equipment, and Vehicles (-7 p.p.); Metallurgy (-7 p.p.); Construction Materials (-3 p.p.); Mineral Products (-3 p.p.); and Timber, Pulp and Paper Products (-1 p.p.). The index decrease was caused by the rise in exports (due, among other things, to favourable price conditions) in all sectors with the exception of Construction Materials, where 2018 was marked by a noticeable drop in imports. In addition, in 2018 there was a significant increase in Russia's intra-industry trade with EAEU partners in Various Consumer Goods (+10 p.p.), but that was not enough to offset the aggregate decrease posted by other sectors.

Belarus

In 2018 Belarus somewhat improved the state of its intra-industry trade compared to 2017. In the structure of Belarusian trade with other EAEU member states, there is one industry where export and import flows are virtually identical (the difference is less than 1%) – Raw Hides, Furs, Leather, and Fur Products. The value of the Grubel-Lloyd Index for that industry reached 100%, an 8 p.p. increase year-on-year. Other sectors with similarly high index values are Forestry; Construction Materials; and Machines, Equipment, and Vehicles. The lowest level of development of intra-industry trade was registered in trade in Mineral Products: In 2018 imports of those products to Belarus from other EAEU member states exceeded the corresponding exports by a factor of 38.

Figure 28. Share of Intra-Industry Trade in Mutual Trade between Belarus and Its EAEU Partners, 2018



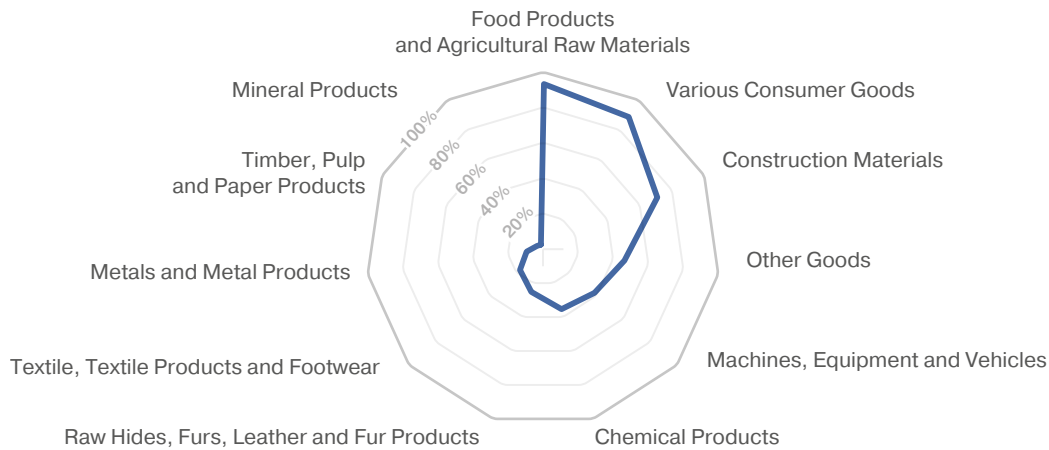
Source: plotted by the authors using EEC data

Beside the Leather Industry, considerable intra-industry trade increase in 2018 vs. 2017 was reported for Construction Materials (+12 p.p.), where exports decreased and became almost equal to imports. Intra-industry trade increased in other sectors as well, with the exception of the Chemical Industry (-5 p.p.), Metallurgy (-4 p.p.), Mineral Products (-3 p.p.), and Textiles (-1 p.p.). Reduction of intra-industry trade in those sectors can be attributed to higher demand for their products – with the exception of Textiles, where growth of exports was reported.

Armenia

In 2018 Armenia reported a very small year-on-year change in the level of intra-industry trade (an increase of less than 1 p.p.). Armenia's intra-industry trade with other EAEU member states is best developed in Food Products and Agricultural Raw Materials, and in Various Consumer Goods. Import and export flows diverge the most in Forestry and Mining.

Figure 29. Share of Intra-Industry Trade in Mutual Trade between Armenia and Its EAEU Partners, 2018



Source: plotted by the authors using EEC data

Despite the relative insignificance of changes recorded at the country level, Armenia’s 2018 intra-industry trade was characterized by considerable structural shifts: There was an increase in intra-industry trade in Various Consumer Goods (+45 p.p.) and Construction Materials (+23 p.p.) stemming from the growth of exports. Notably, that was also the reason for the sharp decrease in intra-industry trade in Textiles (-19 p.p.) and Other Goods (-26 p.p.). Structural shifts in Armenia’s intra-industry trade in 2018 were largely attributable to a sharp increase in exports (the highest among all EAEU member states).

Kyrgyzstan

In 2018 Kyrgyzstan increased the level of its intra-industry trade with EAEU partners. That trade was best developed in Construction Materials (98%), where a steep year-on-year increase (+77 p.p.) was recorded. High levels of intra-industry trade (both in 2017 and 2018) were also reported in production of Construction Materials.

Figure 30. Share of Intra-Industry Trade in Mutual Trade between Kyrgyzstan and Its EAEU Partners, 2018



Source: plotted by the authors using EEC data

In 2018 intra-industry trade increased in Metallurgy (+18 p.p. due to higher exports) and Raw Hides, Furs, Leather, and Fur Products (+15 p.p. due to the trade balance changing from negative to positive). Intra-industry trade in other sectors decreased year-on-year.

To conclude, intra-industry trade within the EAEU improved somewhat in 2018 compared to 2017 through operation of country and sectoral factors. EAEU intra-industry trade is best developed in Raw Hides, Furs, Leather, and Fur Products, and in Food Products and Agricultural Raw Materials. Intra-Union commodity flows are least balanced in Mineral Products and Forestry. Notably, an increase in intra-industry trade in one industry in one country is usually accompanied by a decrease in intra-industry trade in the same industry in another country.

This testifies to the redistribution of export and import flows within the Union as a result of efforts designed to improve the business climate and remove barriers remaining in internal markets.

It appears that the optimal way to increase intra-industry trade within the EAEU is to actively involve member states in intra-Union added-value-creation chains, or in splitting of export specializations of individual countries into narrower commodity groups in situations where several countries have the same export specialization. Potential for further expansion of trade and economic ties among EAEU member states in that area is far from exhausted.

EXTERNAL AND INTERNAL VECTORS OF EAEU TRADE TIES

One of the factors constraining expansion of intra-Union trade and economic ties is the fact that EAEU exports are more focused on external trade than on internal trade: In all sectors, with the exception of Textiles and Various Consumer Goods, the volume of exports to third countries exceeds the volume of intra-Union exports.

Table 11. Focus of Sectors of the EAEU Economy on Exports to Third Countries

| Aggregated Group | Extent by Which Exports to Third Countries Exceed Intra-Union Exports |
|--|---|
| Food Products and Agricultural Raw Materials | 2.9 times |
| Mineral Products | 20.2 times |
| including Fuel and Energy Goods | 23.4 times |
| Chemical Products and Rubber | 3.9 times |
| Raw Hides, Furs, Leather, and Fur Products | by 83% |
| Timber, Pulp and Paper Products | 8.6 times |
| Textiles, Textile Products, and Footwear | intra-Union exports higher by 52% |
| Construction Materials | by 79% |
| Metals and Metal Products | 6.0 times |
| Machines, Equipment, and Vehicles | by 31% |
| Various Consumer Goods | intra-Union exports higher by 34% |

Source: computed by the authors using EEC data

All EAEU sectors, with the exception of the Fuel and Energy Complex, are more focused on imports from third countries than on internal imports.

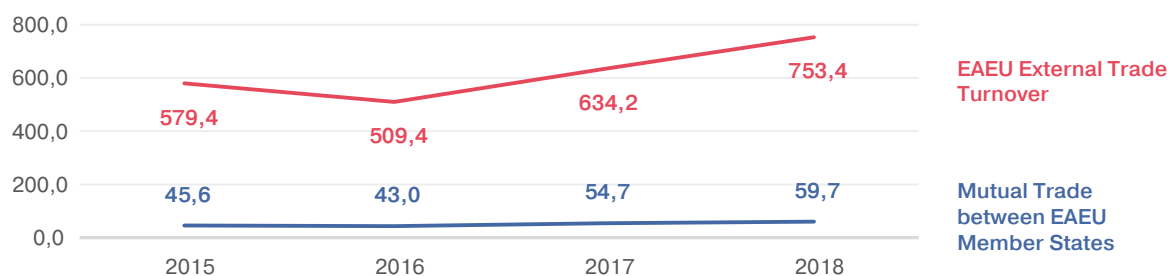
Table 12. Focus of Sectors of the EAEU Economy on Imports from Third Countries

| Aggregated Group | Extent by Which Imports from Third Countries Exceed Intra-Union Imports |
|--|---|
| Food Products and Agricultural Raw Materials | 3.6 times |
| Mineral Products | intra-Union imports higher by 76% |
| including Fuel and Energy Goods | intra-Union imports higher by 85% |
| Chemical Products and Rubber | 7.0 times |
| Raw Hides, Furs, Leather, and Fur Products | 10.7 times |
| Timber, Pulp and Paper Products | 2.8 times |
| Textiles, Textile Products, and Footwear | 8.8 times |
| Construction Materials | 3.2 times |
| Metals and Metal Products | 2.3 times |
| Machines, Equipment, and Vehicles | 10.3 times |
| Various Consumer Goods | 6.7 times |

Source: computed by the authors using EEC data

In 2018 turnover of external trade of EAEU member states with third countries was higher than turnover of mutual trade within the EAEU by a factor of 13, with the gap between external and mutual trade having widened for the last two years. This testifies to a significant potential for expansion of mutual trade.

Figure 31. External Vector of Trade Ties of EAEU Member States, US \$ billion



Source: plotted by the authors using EEC data

POTENTIAL FOR SUBSTITUTION OF EAEU IMPORTS FROM THIRD COUNTRIES WITH INTRA-UNION IMPORTS

Notwithstanding the current situation where required goods are imported by EAEU member states predominantly from suppliers outside the EAEU, the demand for a considerable portion of commodities imported by EAEU member states from third countries could be satisfied with goods manufactured in the EAEU, e.g., by substituting some supplies to third countries with intra-Union exports.⁷ Such commodities play a critical role in the establishment and/or expansion of trade and economic ties within the EAEU, as both demand and supply of those items do exist within the Union, but trade and economic ties between the entities with demand and those with supply are absent or underdeveloped.

Armenia

Statistics show that 77% of average 2015–2018 Armenian imports from third countries in value terms (825 items) can be substituted with exports by other EAEU member states, primarily Russia (the three other EAEU partners of Armenia also have the required capacity with respect to certain commodities).

Table 13. Top 10 Commodities Whose Imports to Armenia Could Be Substituted with Exports by Other EAEU Member States

| Item | Average Value of Imports from Third Countries in 2015–2018, US \$ million | Average Value of Exports by Other EAEU Member States to Third Countries in 2015–2018, US \$ million | EAEU Member States Whose Exports Could Substitute for Imports from Third Countries |
|---|---|---|--|
| Pre-packaged medicinal substances | 112.2 | 325.9 | Russia |
| Diamonds, unmounted or unfastened | 111.9 | 4,577.7 | Russia |
| Telephone sets | 87.5 | 217.9 | Russia |
| Passenger cars and other motor vehicles for transportation of passengers | 61.2 | 583.7 | Russia |
| Gold | 45.8 | 2,039.1 | Russia, Kyrgyzstan |
| Automatic data processing machines and units thereof | 31.3 | 283.9 | Russia |
| Poultry meat and edible by-products | 29.1 | 97.5 | Russia |
| Bulldozers, graders, planers, scrapers, power shovels, excavators, shovel loaders, tamping machines, and road rollers | 28.3 | 120.6 | Russia |

⁷ Commodity groups where imports from third countries may be substituted with imports from EAEU member states are those groups where average 2015–2018 imports from third countries exceed average 2015–2018 imports from EAEU member states, and average 2015–2018 exports by other member states to third countries exceed average 2015–2018 exports to the EAEU. In other words, for each EAEU member state, those are commodity groups where imports are traditionally sourced from third countries, and exports by other EAEU member states are traditionally directed to third countries, and not to the EAEU, despite the existence of demand within the EAEU.

| | | | |
|--|------|-------|--------------------|
| Cane sugar or beet sugar and chemically pure sucrose, in solid state | 27.2 | 107.7 | Russia, Belarus |
| Cigars, cheroots, cigarillos, and cigarettes from tobacco or tobacco substitutes | 26.0 | 343.6 | Russia, Kazakhstan |

Source: computed by the authors using FCS and ITC data

Belarus

Up to 29% of average 2015–2018 Belarusian imports from third countries in value terms (314 commodity items) can be substituted with exports by other EAEU member states, primarily Russia.

Table 14. Top 10 Commodities Whose Imports to Belarus Could Be Substituted with Exports by Other EAEU Member States

| Item | Average Value of Imports from Third Countries in 2015–2018, US \$ million | Average Value of Exports by Other EAEU Member States to Third Countries in 2015–2018, US \$ million | EAEU Member States Whose Exports Could Substitute Imports from Third Countries |
|--|---|---|--|
| Automatic data processing machines and units thereof; magnetic or optical reader units, machines for transfer of data to storage devices, and machines for processing of such data | 164.8 | 278.5 | Russia |
| Machines, industrial or laboratory equipment for processing of materials at varying temperatures | 136.1 | 287.9 | Russia |
| Isolation valves for pipelines, boilers, reservoirs, cisterns, tanks or other similar vessels | 124.7 | 152.9 | Russia |
| Ethylene polymers in primary state | 120.1 | 248.7 | Russia |
| Oil cakes and other solid waste from extraction of vegetable fats or oils | 117.6 | 272.8 | Russia |
| Frozen fish, excluding fillets | 115.3 | 2,069.2 | Russia |
| Liquid pumps, liquid hoists | 114.7 | 195.7 | Russia |
| Oil cakes and other solid waste from extraction of soybean oil | 109.3 | 201.0 | Russia |
| Switchboards, panels, consoles, desks, distribution boards, and supports for electrical equipment | 102.8 | 129.9 | Russia |
| Machines and mechanical devices with individual functions | 96.5 | 132.3 | Russia |

Source: computed by the authors using FCS and ITC data

Kazakhstan

Up to 29% of average 2015–2018 Kazakhstani imports from third countries in value terms (322 commodity items) can be substituted with exports by the other EAEU member states: primarily Russia, with Belarus also being capable of meeting demand for several commodity groups.

Table 15. Top 10 Commodities Whose Imports to Kazakhstan Can Be Substituted with Exports by Other EAEU Member States

| Item | Average Value of Imports from Third Countries in 2015–2018, US \$ million | Average Value of Exports by Other EAEU Member States to Third Countries in 2015–2018, US \$ million | EAEU Member States Whose Exports Can Substitute Imports from Third Countries |
|--|---|---|--|
| Other pipes and tubes (e.g., welded or riveted pipes and tubes), with round cross section, external diameter of more than 406.4 mm, manufactured from ferrous metals | 322.5 | 642.2 | Russia |
| Pipes, tubes and profiles, hollow, seamless, manufactured from ferrous metals (excluding cast iron) | 273.8 | 379.3 | Russia |
| Petroleum gas and other gaseous hydrocarbons | 226.6 | 42,415.6 | Russia, Belarus (partially) |
| Liquid pumps, liquid hoists | 199.2 | 200.5 | Russia |
| Machines, industrial or laboratory equipment for processing of materials at varying temperatures | 197.2 | 289.8 | Russia |
| Insulated wire, cables and other insulated electrical conductors | 169.5 | 184.8 | Russia |
| Turbojet and turboprop engines | 155.8 | 1,837.8 | Russia |
| Motor vehicles for transportation of cargoes | 151.3 | 453.7 | Russia, Belarus |
| Machines and mechanical devices with individual functions | 134.0 | 137.4 | Russia |
| Lead ores and concentrates | 117.3 | 353.2 | Russia |

Source: computed by the authors using FCS and ITC data

Kyrgyzstan

Up to 58% of average 2015–2018 Kyrgyz imports from third countries in value terms (676 commodity items) can be substituted with exports by the other EAEU member states, primarily Russia and Belarus (independently from one another for most commodities, jointly (to fully cover existing demand) for some commodities).

Table 16. Top 10 Commodities Whose Imports to Kyrgyzstan Can Be Substituted with Exports by Other EAEU Member States

| Item | Average Value of Imports from Third Countries in 2015–2018, US \$ million | Average Value of Exports by Other EAEU Member States to Third Countries in 2015–2018, US \$ million | EAEU Member States Whose Exports Can Substitute Imports from Third Countries |
|---|---|---|--|
| Pre-packaged medicinal substances | 116.6 | 330.8 | Russia |
| Telephone sets | 88.6 | 218.7 | Russia |
| Aircraft (helicopters, airplanes); spacecraft and suborbital or booster rockets | 47.0 | 49.0 | Russia |
| Parts and accessories of motor vehicles | 39.4 | 270.2 | Russia, Belarus |
| Equipment for sorting, sifting, separating, rinsing, degrading, grinding, commingling or mixing of soil, rock, ore, or other fossil minerals in solid state | 28.4 | 36.2 | Russia |
| Bulldozers, graders, planers, scrapers, power shovels, excavators, shovel loaders, tamping machines, and road rollers | 25.9 | 117.1 | Russia |
| New pneumatic rubber tyres and casings | 23.9 | 947.1 | Russia, Belarus |
| Hosiery and footwear, without applied soles | 20.9 | 21.4 | Russia and Belarus (jointly) |
| Automatic data processing machines and units thereof | 20.1 | 284.1 | Russia |
| Liquid pumps, liquid hoists | 19.0 | 206.6 | Russia |

Source: computed by the authors using FCS and ITC data

Russia

Up to 1% of average 2015–2018 Russian imports from third countries in value terms (71 items) can be substituted with exports by the other EAEU member states, namely, Kazakhstan, Belarus, and Armenia.

Table 17. Top 10 Commodities Whose Imports to Russia Can Be Substituted with Exports by Other EAEU Member States

| Item | Average Value of Imports from Third Countries in 2015–2018, US \$ million | Average Value of Exports by Other EAEU Member States to Third Countries in 2015–2018, US \$ million | EAEU Member States Whose Exports Can Substitute Imports from Third Countries |
|---|---|---|--|
| Ferrous alloys | 338.5 | 1,789.7 | Kazakhstan |
| Radioactive chemical elements, radioactive isotopes and their compounds; their mixtures and residues | 311.3 | 1,438.2 | Kazakhstan |
| Bars from iron or alloy-free steel, w/o subsequent processing other than forging, hot rolling, hot drawing, or hot extruding | 154.3 | 286.8 | Belarus |
| Cigars, cheroots, cigarillos, and cigarettes from tobacco or tobacco substitutes | 141.2 | 288.0 | Armenia |
| Titanium and titanium products | 80.2 | 109.6 | Kazakhstan |
| Twisted wire, cables, lines, braided ropes, cords, and similar products manufactured from ferrous metals, w/o electrical insulation | 70.7 | 80.4 | Belarus |
| Rods from alloy-treated steel; angles, shaped and special profiles from alloy-treated steel; hollow rods for drilling works | 54.5 | 56.6 | Belarus and Kazakhstan (jointly) |
| Wire from iron or alloy-free steel | 44.1 | 139.9 | Belarus |
| Hydrogen, inert gases, other non-metals | 44.0 | 215.4 | Kazakhstan |
| Polyamides in primary form | 41.4 | 106.6 | Belarus |

Source: computed by the authors using FCS and ITC data

To conclude, Armenia and Kyrgyzstan have the largest potential for substitution of external imports with intra-Union imports. Exports to those countries by the other EAEU member states can be used to expand mutual trade in complex technological goods, electronics, etc., with the share of Finished Goods in the structure of EAEU mutual trade increasing as a result. It also appears expedient to encourage

exportation of products manufactured by joint ventures which bring together technologies, experience, knowledge and cutting-edge R&D contributed by as many enterprises from all EAEU member states as possible. This will produce more pronounced synergies for all participants, and have a positive impact on the international competitiveness of goods manufactured within the EAEU.

COMPETITIVENESS OF KEY EAEU EXPORTS IN WORLD MARKETS

In 2018 the leading exports from the EAEU to third countries were products of the Fuel and Energy Complex and of Ferrous and Non-Ferrous Metallurgy, as well as wheat and fertilizers.

A comparison of commodity structures of EAEU exports to third countries and global exports showed that the EAEU has a comparative advantage in the world market as regards at least 15 major EAEU exports to third countries. The comparison was based on the Revealed Comparative Advantage Index (RCA Index).

The RCA Index is measured as the ratio of the share of a commodity item in total exports by a country to the share of the same commodity item in global exports. If the value of the RCA Index for a certain commodity item is >1, such country is said to enjoy a comparative advantage in such commodity item.

Table 18. International Competitiveness of Key EAEU Exports to Third Countries, 2018

| Item | Share in Exports to the EAEU in 2018 | Share in Global Exports in 2018 | RCA Index |
|---|--------------------------------------|---------------------------------|-----------|
| Crude oil and crude petroleum products | 32.8% | 6.0% | 5.5 |
| Oil and petroleum products extracted from bituminous rock | 16.8% | 4.1% | 4.1 |
| Bituminous coal; briquettes, pellets, and similar types of solid fuel received from bituminous coal | 3.5% | 0.7% | 5.3 |
| Wheat and meslin | 1.9% | 0.2% | 8.8 |
| Semi-finished products from iron or alloy-free steel | 1.7% | 0.1% | 11.3 |
| Refined copper and unprocessed copper alloys | 1.3% | 0.3% | 4.1 |
| Non-treated aluminium | 1.1% | 0.3% | 3.6 |
| Timber obtained by length cutting or splitting, surfacing or peeling | 1.0% | 0.2% | 4.7 |
| Mineral or chemical fertilizers containing potassium | 1.0% | 0.1% | 14.4 |
| Mineral or chemical fertilizers containing two or three nutrients (nitrogen, phosphorus, potassium) | 0.8% | 0.1% | 6.4 |
| Ferrous alloys | 0.7% | 0.2% | 4.2 |
| Oils and other products of high-temperature distillation of coal-tar oil | 0.7% | 0.1% | 4.7 |
| Flat rolled products from iron or alloy-free steel with a width of 600 mm or more; hot-rolled, non-plated, non-coated | 0.7% | 0.3% | 2.4 |

| | | | |
|---|-------|------|-----|
| Mineral or chemical fertilizers containing nitrogen | 0.6% | 0.1% | 5.4 |
| Frozen fish, excluding fillets | 0.5% | 0.1% | 3.9 |
| Other | 35.0% | | |

Source: computed by the authors using EEC data

In addition to its key exports, the EAEU also has a considerable competitive advantage in the world markets for asbestos, heat-polished glass, cast iron, aluminium, nickel and other non-ferrous metals and non-ferrous metal products, barley, rye, buckwheat, flax seed, sunflower oil, rapeseed oil, soybean oil, bran, wheat flour, wheat/rye flour, flaxen fabric, varnishes and paints, synthetic rubber, various chemical compounds, and other items. The list of commodities with respect to which the EAEU has a competitive advantage has very few complex technological devices, with the exception of railway locomotives, railway cars, steam turbines, and special-purpose motor vehicles.

To conclude, the EAEU has a high trade potential in the world market for its key exports. It should be noted, however, that the potential for further expansion of EAEU external trade in that area is far from exhausted: It is necessary to increase competitiveness of technologically sophisticated goods. This can be achieved by combining the efforts of all EAEU member states in cooperation and joint research.

TRADE IN SERVICES AS A FACTOR OF ECONOMIC GROWTH IN EAEU MEMBER STATES

Development of the internal services market within the EAEU is one of the priority areas of integration development, as stipulated by Resolution of the SEEC dated December 23, 2014, No. 110, On Approval of the List of Service Sectors (Subsectors) Where a Single Services Market Operates within the Eurasian Economic Union. The single EAEU services market currently covers 49 sectors (e.g., Construction Works, Accommodation and Catering, Consulting, Computer Services) which, in the aggregate, account for 55% of total services provided within the EAEU.

In 2018 all member states posted an increase in the export and import of services. However, the volume of trade in goods still significantly exceeds the volume of trade in services: in 2018 the aggregate EAEU member states external goods trade turnover (including trade within the EAEU and with third countries) exceeded the aggregate external services trade turnover by a factor of four.

As regards the sectoral structure of trade in services in individual EAEU member states, by 2018 the shares of key sectors had recovered to levels recorded prior to the 2016 recession.

Armenia⁸

According to the EEC, in 2018 both export and import of services by Armenia continued to display continuous growth, which had started in 2015–2016. Armenia's balance of external trade in services remained positive, despite a certain deceleration of export growth.

Figure 32. Changes in Export and Import of Services by Armenia, US \$ million



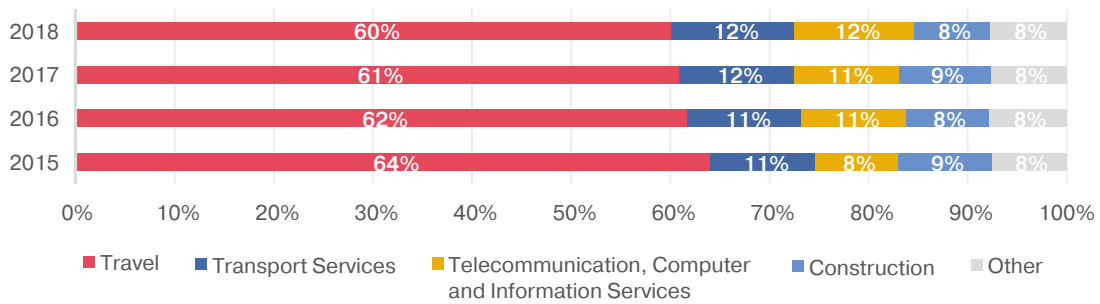
Source: plotted by the authors using EEC data

Export of services is structurally dominated by Travel (primarily Personal Travel); however, the share of that sector has been steadily decreasing since 2015, despite the ongoing growth of exports in absolute terms, due to faster growth of Transport Services (with the exception of Land Freight Transport), and Telecommunications, Computer, and

Information Services. Construction retains a sizeable share, with construction volumes outside the country tending to increase despite a 12% drop in 2018.

8 Due to the absence of full-year data for 2018 in the public domain, the authors used 1Q 2018–3Q 2018 statistics.

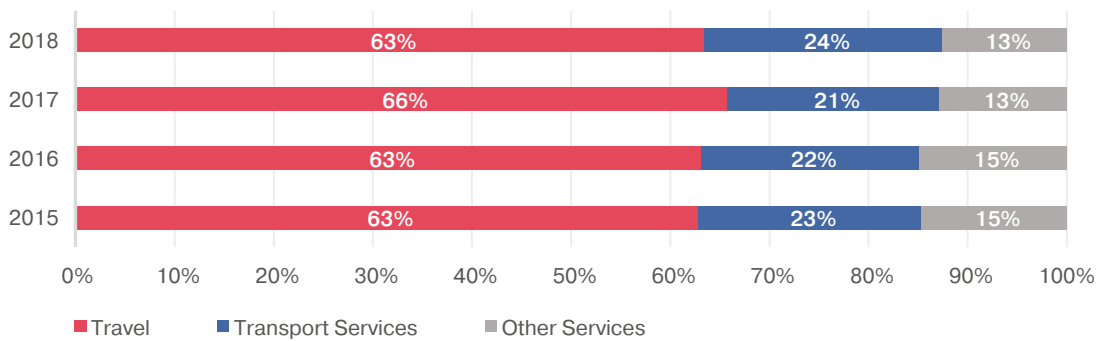
Figure 33. Export of Services by Armenia



Source: plotted by the authors using EEC data

The structure of Armenian service imports is less diversified than that of service exports, with two key sectors accounting for more than 80% of total service imports. Following a spike in 2017, in 2018 the share of the leading service sector (Travel, primarily Personal Travel) returned to the level recorded at the inception of the EAEU.

Figure 34. Import of Services by Armenia



Source: plotted by the authors using EEC data

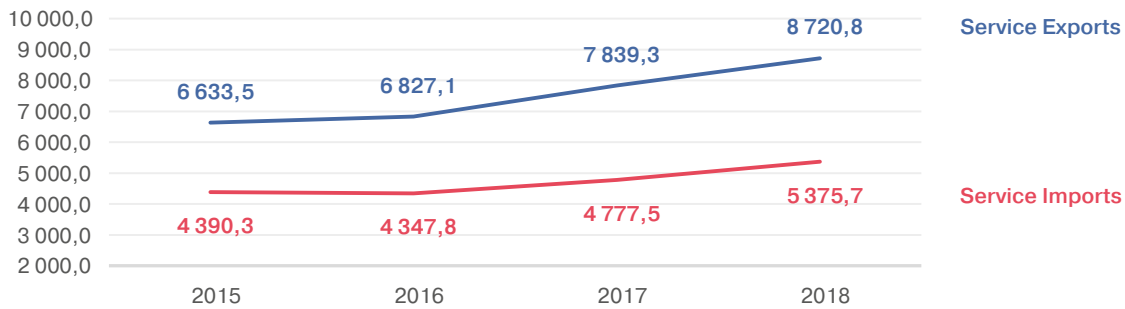
To conclude, during the period elapsed since the inception of the EAEU, the volume of Armenia’s external trade in services has increased by 10% without any material structural changes. Armenia’s external trade in services is concentrated primarily in the Personal Travel sector.

Belarus⁹

The volume of export and import of services by Belarus in 2015–2018 increased at an accelerating rate, with the highest growth recorded in 2018 (when imports and exports increased by 15% each). The positive balance of external trade in services has been steadily increasing since the inception of the EAEU.

9 Due to the absence of full-year data for 2018 in the public domain, the authors used 1Q 2018–3Q 2018 statistics.

Figure 35. Changes in Export and Import of Services by Belarus, US \$ million

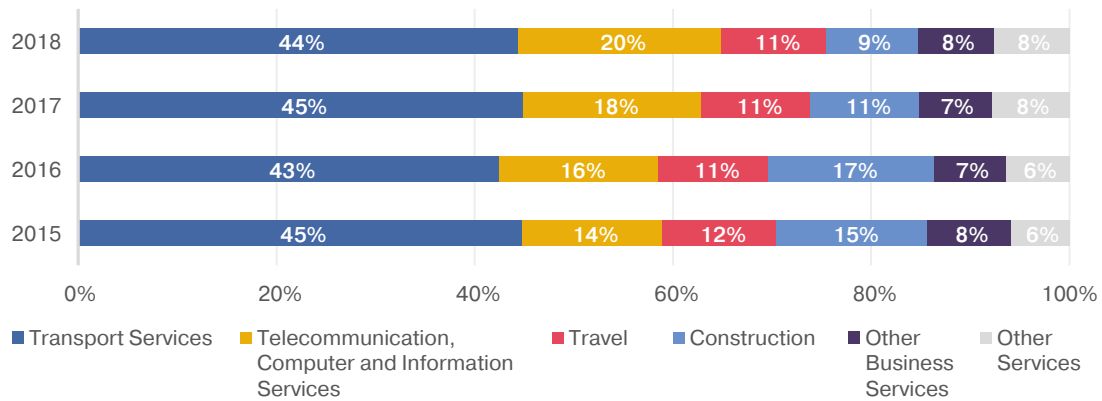


Source: plotted by the authors using data provided by the National Statistical Committee of the Republic of Belarus (Belstat)

In 2018 the share of EAEU member states in export of services by Belarus decreased year-on-year (from 29% to 26%), returning to the average level recorded in 2015–2016. The share of EAEU member states in imports of services to Belarus continued to grow throughout 2018, and by the end of the year exceeded one third (34%) of total service imports to Belarus. In 2018 Russia accounted for 95% of exports by Belarus to the EAEU, and 98% of imports to Belarus from the EAEU.

Almost half of total exports was represented by Transport Services, with the volume of exports in that sector having increased almost continuously since the inception of the EAEU thanks to vibrant growth of road and railway freight transport. On the whole, export of services by Belarus tended to increase in all key sectors, with the exception of Construction: The volume of exports and the share of those services in total exports have been steadily dropping.

Figure 36. Export of Services by Belarus

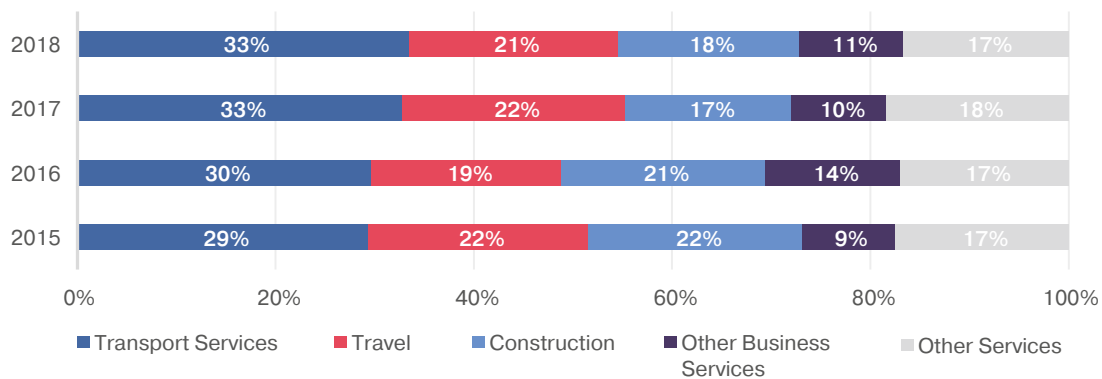


Source: plotted by the authors using EEC data

The structure of imported services to Belarus is more diversified and less static than the structure of exported services. The growth of the volume of imports of Transport Services and, accordingly, of the share of that sector in total imports of services to Belarus, can be attributed to the increasing number and scope

of foreign maritime and road freight transport contracts. In 2018 the volume of imports of Construction Services returned to the 2015 level, following a significant contraction in 2016.

Figure 37. Import of Services by Belarus



Source: plotted by the authors using EEC data

To conclude, Belarusian external trade in services is concentrated in the Transport Services sector, which is partially attributable to the geographic position of Belarus and implementation by the EAEU of measures designed to fully realize the export potential of the Union. Belarus is one of the three EAEU member states traversed by the Chinese transport and logistics initiative One Belt One Road. Recent measures have already produced tangible results: During the period from January 2018 to November 2018, the volume of transit container railway freight transport through Belarus increased by 25% year-on-year.

Kazakhstan¹⁰

Kazakhstan has a steadily negative balance of external trade in services: Service imports consistently exceed service exports, and the share of imports in Kazakhstan's turnover of external trade in services stands at more than 60%. In 2018 exports continued to grow, while imports renewed growth following a two-year decline.

Figure 38. Changes in Export and Import of Services by Kazakhstan, US \$ million



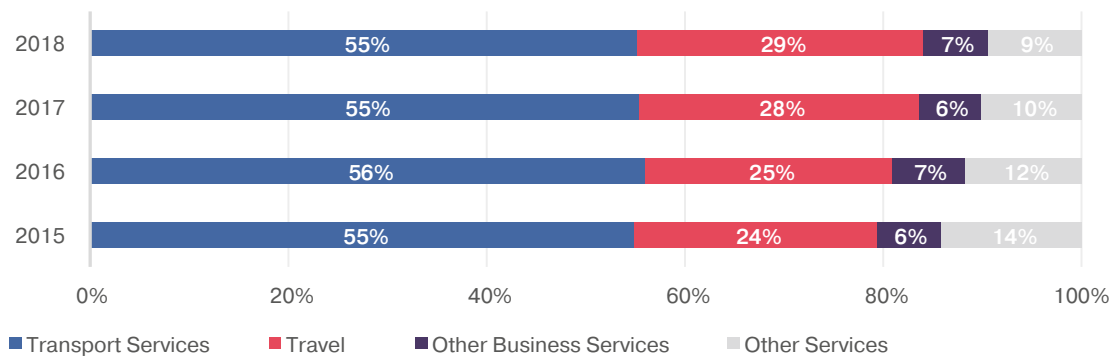
Source: plotted by the authors using EEC data

More than half of the services exported by Kazakhstan are represented by Transport Services, primarily Pipeline Transport. Other large segments are Railway Transport and Road Transport: Kazakhstan is also traversed by the One Belt One Road route; in 2018 the volume of transit cargoes transported through Kazakhstan

increased by 10% year-on-year. In 2018 export of Personal Travel Services became a major factor driving the growth of the share of Travel Services.

¹⁰ Due to the absence in the public domain of full-year data for 2018, the authors used 1Q 2018–3Q 2018 statistics.

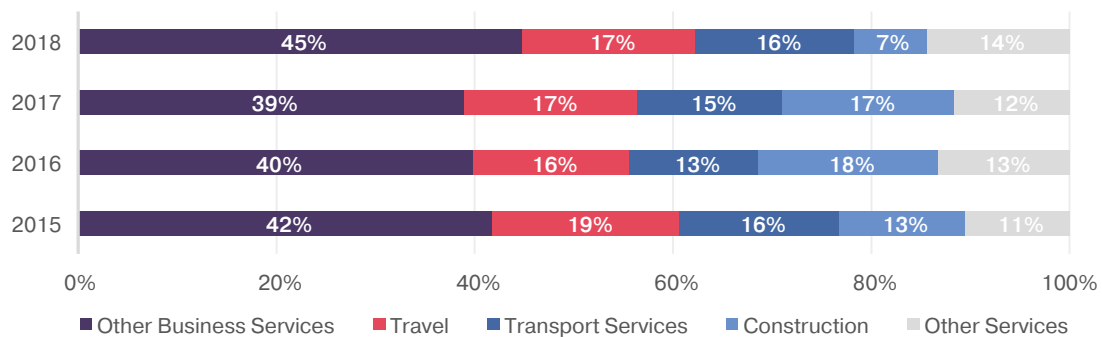
Figure 39. Export of Services by Kazakhstan



Source: plotted by the authors using EEC data

The import of services to Kazakhstan is structurally dominated by various Business Services, primarily Professional Services, Management Consulting Services, Technical Services, and Trade-Related Services. The share of Travel (primarily Personal Travel) was also significant, while the share of Construction Services decreased significantly.

Figure 40. Import of Services by Kazakhstan



Source: plotted by the authors using EEC data

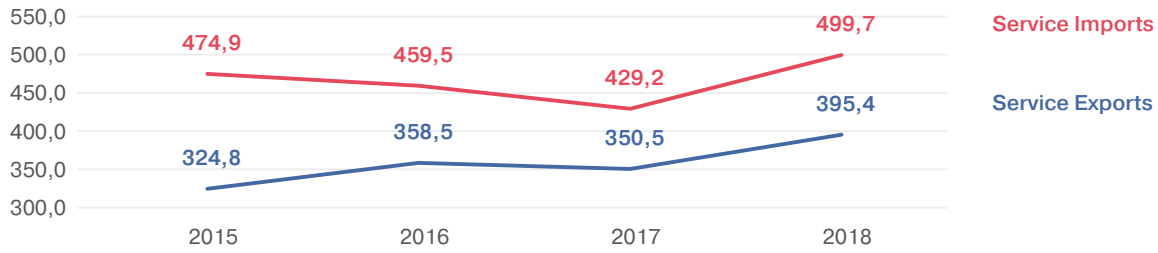
To conclude, in 2018 turnover of Kazakhstani external trade in services increased for the first time since the inception of the EAEU, first and foremost due to active importation of various Business Services.

Kyrgyzstan¹¹

In 2018 the volume of Kyrgyzstan’s external trade in services increased by 15% following a decline that had lasted for several years. Like Kazakhstan, Kyrgyzstan is a net importer of services, though by 2017 the gap between exports and imports became somewhat narrower.

11 Due to the absence in the public domain of full-year data for 2018, the authors used 1H 2018 statistics.

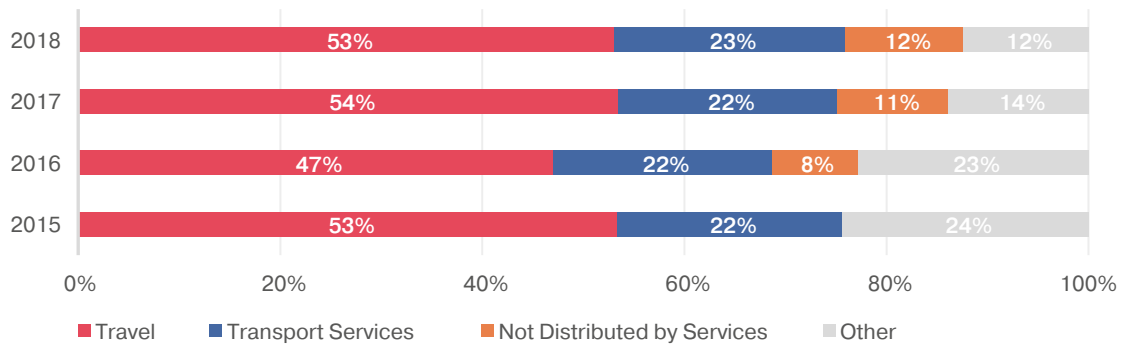
Figure 41. Changes in Export and Import of Services by Kyrgyzstan, US \$ million



Source: plotted by the authors using EEC data

Export of services by Kyrgyzstan is structurally dominated by Travel following a steep increase (by 12%) in export of services of that type in 2018. The share of Transport Services is also significant (and remains steady over time), while the share of services not allocated to specific sectors keeps growth at a steady pace.

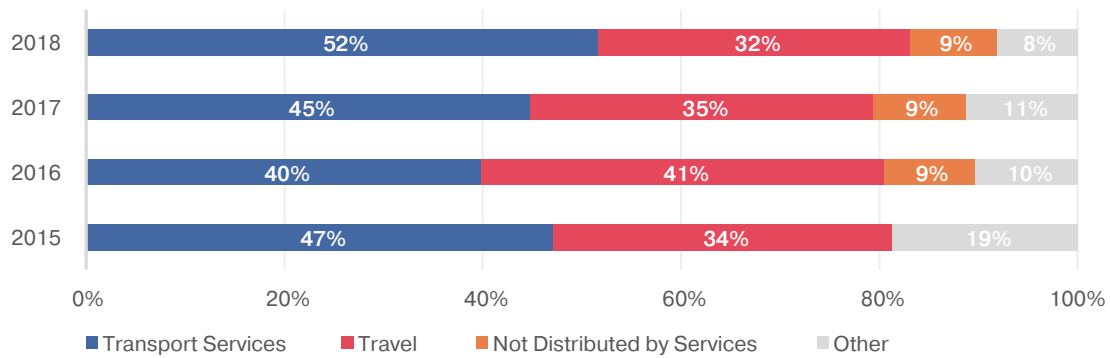
Figure 42. Export of Services by Kyrgyzstan



Source: plotted by the authors using EEC data

In 2018 imports of Transport Services by Kyrgyzstan sharply increased, and as a result the share of that type of services in total imports exceeded 50%. A reduction of the share of Travel Services was also noted.

Figure 43. Import of Services by Kyrgyzstan



Source: plotted by the authors using EEC data

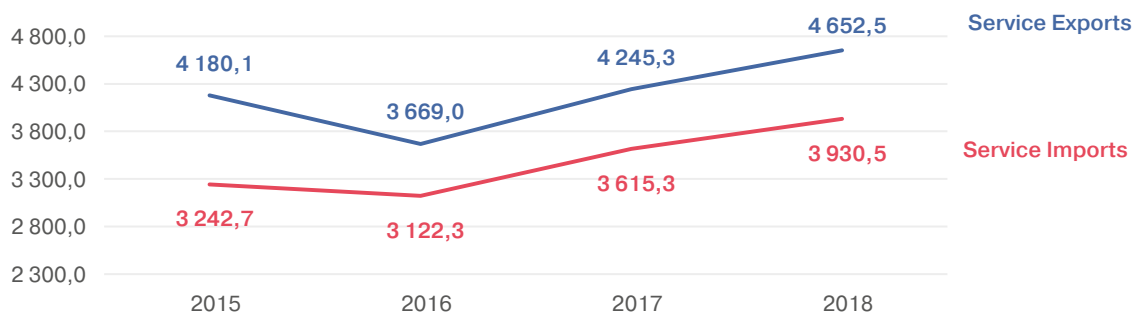
To conclude, in 2018 the volume of Kyrgyzstan’s external trade in services began to recover, mainly due to the growth of exported Travel Services and imported Transport Services.

Russia¹²

In 2018 turnover of Russia’s external trade in services increased by 9%, primarily due to growing exports. The share of EAEU member states in turnover of Russia’s external trade in services has remained steady throughout the life of the EAEU, and amounts to 5% (exports: 7%; imports: 4%).

Changes in mutual trade in services between Russia and the other EAEU member states are similar to those in mutual trade in goods: a decline in 2016, followed by steady growth. In 2018 export of services by Russia to EAEU member states and import of services to Russia from EAEU member states expanded at a steady pace: The year-on-year increase amounted to 10% and 9%, respectively. Russia is a net exporter of services to EAEU member states.

Figure 44. Changes in Mutual Trade in Services between Russia and EAEU Member States, US \$ million



Source: plotted by the authors using CB RF data

12 The authors used 2018 full-year statistics for total volume analysis, and statistics for 1Q 2018–3Q 2018 for sectoral structure analysis.

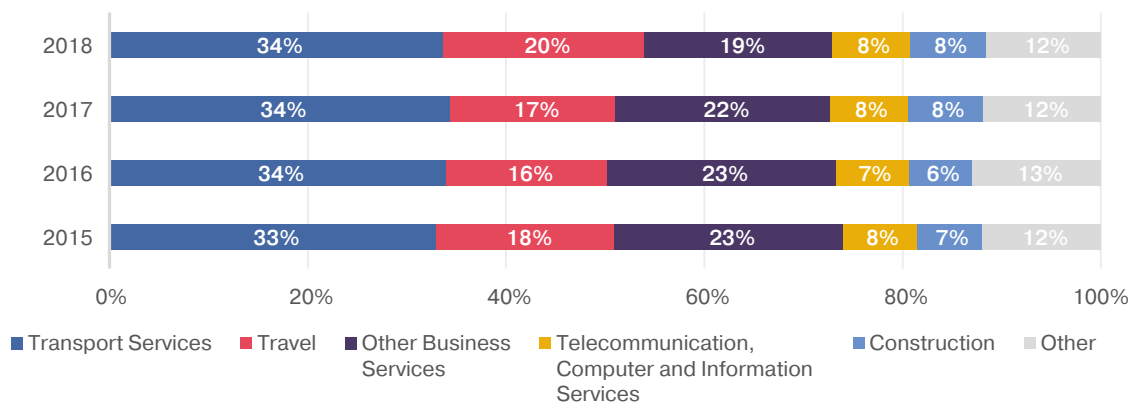
The main EAEU export destination for Russian services is Kazakhstan (2018: 45%), with Belarus a close runner-up (2018: 38%). There has been a significant redistribution of shares held by those two countries since the inception of the EAEU: Kazakhstan's share has decreased (from 60%), while that of Belarus has increased (from 30%). The shares of Armenia and Kyrgyzstan over the last several years have changed very little (2018: 9% for each country).

Belarus is the main supplier of services to Russia among EAEU member states (2018: 57%), and its significance in that respect has considerably increased since the inception of the EAEU (from 52%). Kazakhstan also holds a sizeable share (2018: 28%), but it has

noticeably decreased since the inception of the EAEU (from 36%). The shares of Armenia and Kyrgyzstan over the last several years have changed very little (2018: 9% and 6%, respectively).

One third of total services exported by Russia to all countries is represented by Transport Services, structurally dominated by Passenger Air Transport; notably, the share of Transport Services has not sustained any material changes since the inception of the EAEU. The share of Travel increased, primarily in the Personal Travel segment, while the share of Various Business Services decreased.

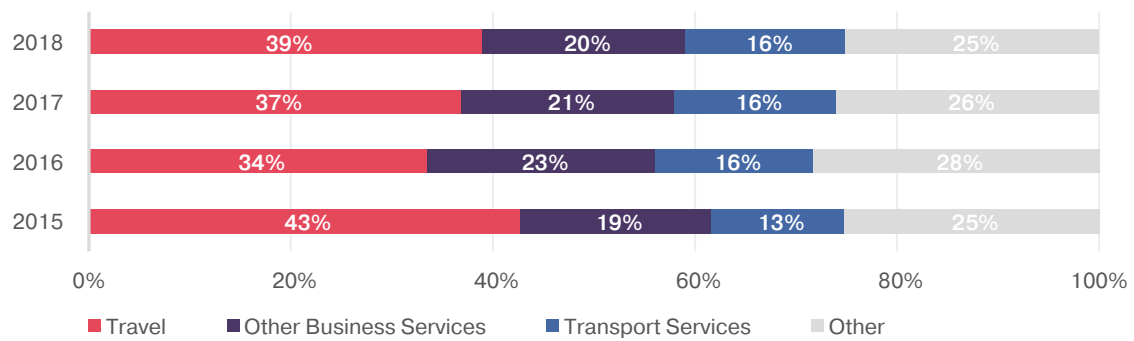
Figure 45. Export of Services by Russia



Source: plotted by the authors using EEC data

More than one third of services imported to Russia are Travel Services, primarily Personal Travel Services; other important segments are Various Business Services (Professional Services, Consulting Services, Technical Services, Trade-Related Services) and Transport Services (primarily Passenger Air Transport Services).

Figure 46. Import of Services by Russia



Source: plotted by the authors using EEC data

To conclude, Travel Services and Transport Services are the leading items of Russia's external trade in services. Trade in Various Business Services (both imports and exports) is burgeoning.

Overall, EAEU member states act mostly as net exporters of services, but imports are also growing at a brisk pace. The high share of Personal Travel in the structure of trade in services testifies to active development of tourism. In turn, the growing volume of trade in Transport Services, particularly in the Freight Transport sector, is linked to active development

of trade in goods: Growth of mutual and external trade in goods stimulates demand for Freight Transport Services and, consequently, boosts freight turnover. Thus, in 2018 freight turnover in the EAEU increased by 3.3% year-on-year.

The Commission is taking steps to further expand the single EAEU services market, including by identifying and removing barriers that hamper further development of that market. Stakeholders are also discussing procedures governing execution of inter-agency agreements to facilitate administrative cooperation between competent bodies.

CHANGES IN EAEU INTERNAL AND EXTERNAL INVESTMENT COOPERATION¹³

One of the key elements of analysis of the state of the financial systems of EAEU member states is assessment of their investment activities. Investment attraction analyses can be used to design solutions for removal of obstacles hampering the movement of cross-border financial flows, while forecasts may underpin an assessment of the prospects of future cross-border interaction among EAEU member states at the interstate and corporate levels.

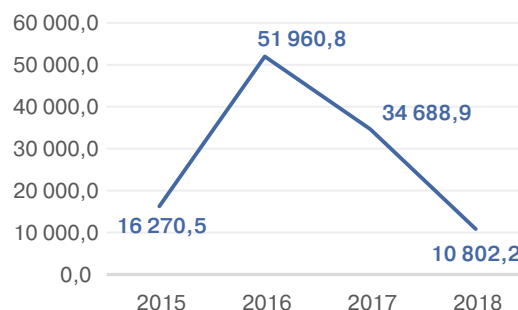
¹³ This section is based on publicly available information with the required level of detail for the period closest to the current period (mostly 2017).

CHANGES IN FOREIGN DIRECT INVESTMENTS IN THE EAEU

In 2018 changes in foreign direct investments (FDI) in EAEU member states remained consistent with the downward trend which had emerged in 2017 following a sharp increase in 2016. Compared to 2017, in 2018 FDI inflow to the EAEU decreased by a factor of three, plunging 34% below the 2015 level.

EAEU FDI changes generally follow global trends, which over the last several years can be described in terms of deceleration of investment activity and reduction of FDI volume. Thus, in 2018 the OECD noted that global FDI had gone down by 27% to reach the lowest level since 1999. The decrease could be attributed, among other things, to the tax reform in the USA, which resulted in US companies repatriating funds they had previously invested in their foreign subsidiaries.

Figure 47. Changes in EAEU FDI, US \$ million (in current prices)



Source: plotted by the authors using EEC data and national balance of payment of EAEU member states¹⁴

GEOGRAPHICAL STRUCTURE OF FDI IN THE EAEU

The shares of intra-Union mutual investments and FDI originating from third countries in total FDI in EAEU member states are not equal, with a heavy bias in favour of third countries: 13% vs. 87% in 2018.¹⁵ In 2016–2017, that ratio was 3% vs. 97%; however, the increase of the EAEU share is attributable to relatively stronger reduction of FDI inflow from third countries rather than to growth of mutual FDI by EAEU

member states. In 2018 mutual FDI by EAEU member states decreased by 5%, while inflow to the EAEU of FDI from third countries shrank by a factor of five.

In 2018 Russia remained the main direct investor in the EAEU (as in 2017), while Belarus became the main recipient of FDI within the EAEU (2017: Kazakhstan).

Table 19. Mutual Direct Investments by EAEU Member States in 2018¹⁶, US \$ million (in current prices)

| Recipient Country | Investor Country | Armenia | Belarus | Kazakhstan | Kyrgyzstan | Russia |
|-------------------|------------------|---------|---------|------------|------------|--------|
| Армения | - | 0 | 0 | 0 | 0 | 57,7 |
| Беларусь | 1,6 | - | 2,0 | -0,4 | 468,0 | |
| Казахстан | 0,1 | -0,7 | - | 1,3 | 466,7 | |
| Кыргызстан | 0 | 0,1 | -26,1 | - | 14,4 | |
| Россия | 15,0 | 8,1 | 73,7 | -14,2 | - | |

Source: EEC

¹⁴ Source data for the chart were obtained by summing up values in the lines “Net Assumed Liabilities” for financial accounts in payment balances of EAEU member states. The value for Kyrgyzstan also incorporates EEC data.

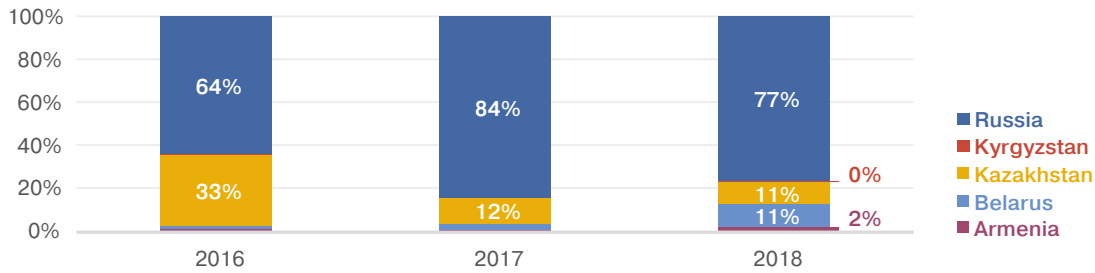
¹⁵ Data for the period from January 2018 up to and including September 2018.

¹⁶ Data for the period from January 2018 up to and including September 2018.

Russia was the largest recipient among EAEU member states of FDI from third countries: In 2018 it accounted for 77% of total incoming FDI in the EAEU. The share of Russia in FDI attracted from third countries is tending to increase (despite the continuous reduction of the FDI

inflow), while the share of Kazakhstan is falling (due to weaker FDI inflow) and the share of Belarus is rising (amid a positive change in the volume of FDI attracted from third countries).

Figure 48. Distribution of FDI Flows in the EAEU among Member States¹⁷

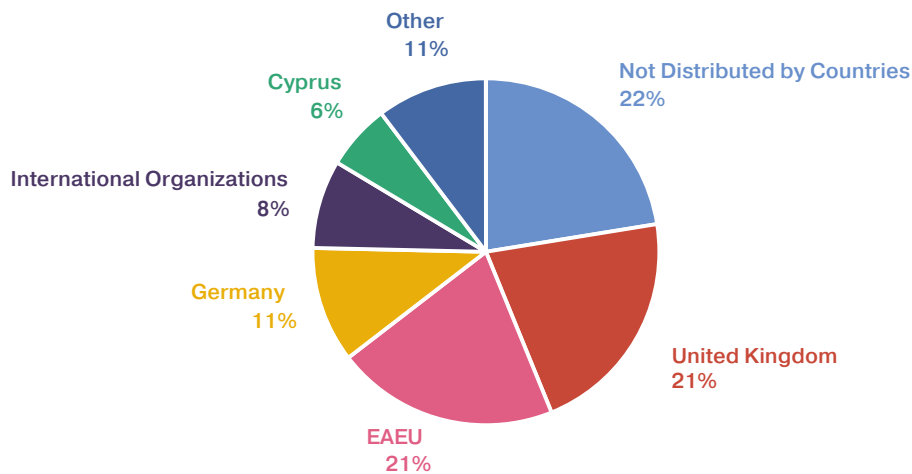


Source: plotted by the authors using EEC data

Armenia

In 2018 the EAEU and the United Kingdom accounted for 21% each of positive FDI inflow to Armenia. Other major direct investors in Armenia are Germany (11%), international organizations (8%), and Cyprus (6%).

Figure 49. Geographical Structure of Positive FDI Inflow to Armenia, 2018¹⁸



Source: plotted by the authors using EEC data

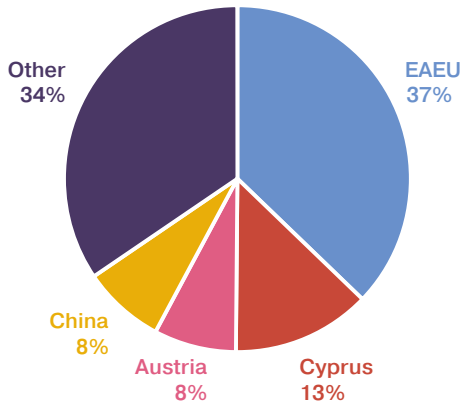
17 Data for 2016–2017 (full years) and for the period from January 2018 up to and including September 2018.

18 Data for the period from January 2018 up to and including September 2018.

Belarus

Thirty-seven percent of FDI inflow to Belarus in 2018 came from its EAEU partners. Other large investors included Cyprus (13%), Austria (8%), and China (8%); the shares of other investors were less than 5%.

Figure 50. Geographical Structure of Positive FDI Inflow to Belarus, 2018¹⁹

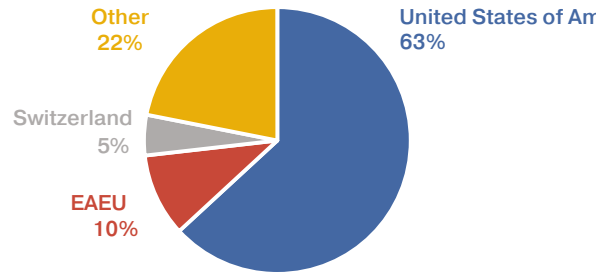


Source: plotted by the authors using EEC data

Kazakhstan

The USA was the largest direct investor in the Kazakhstani economy in 2018 (63% of positive FDI inflow to the country), other significant investors being EAEU member states (10%) and Switzerland (5%). In January 2018 – September 2018, inflow to Kazakhstan of FDI from its EAEU partner countries increased by 31% year-on-year.

Figure 51. Geographical Structure of Positive FDI Inflow to Kazakhstan, 2018²⁰

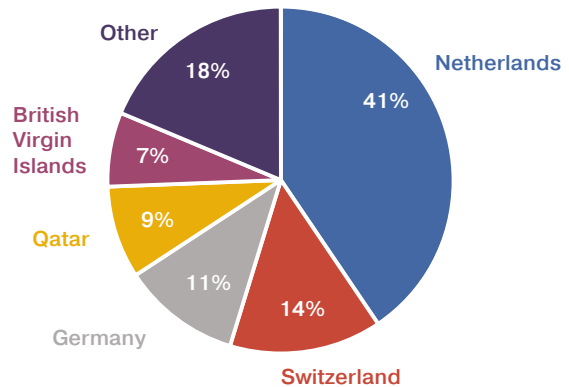


Source: plotted by the authors using EEC data

Kyrgyzstan

Almost half (41%) of FDI inflow to Kyrgyzstan in 2018 originated from the Netherlands. Other significant investors were Switzerland (14%), Germany (11%), Qatar (9%), and the Virgin Islands (7%); the shares of other investors were less than 5%.

Figure 52. Geographical Structure of Positive FDI Inflow to Kyrgyzstan, 2018²¹



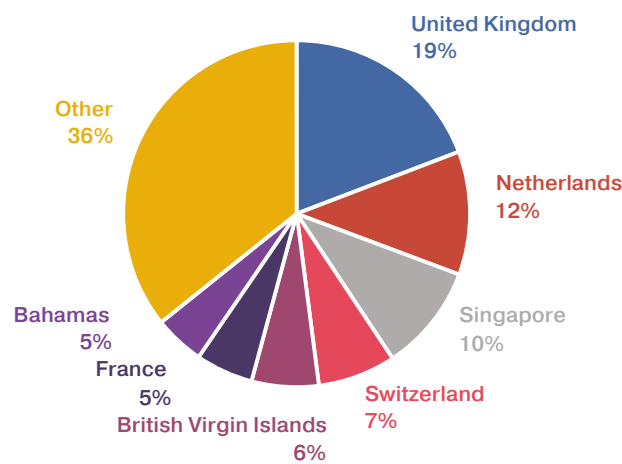
Source: plotted by the authors using EEC data

19 Data for the period from January 2018 up to and including September 2018.
 20 Data for the period from January 2018 up to and including September 2018.
 21 Data for the period from January 2018 up to and including September 2018.

Russia

Russia has the most diversified geographical structure of incoming FDI among all EAEU member states. In 2018 the largest investor in the Russian economy was the United Kingdom (19%); other major investors were the Netherlands (12%), Singapore (10%), Switzerland (7%), the Virgin Islands (6%), France (5%), and the Bahamas (5%). The shares of other investor countries were less than 5%.

Figure 53. Geographical Structure of Positive FDI Inflow to Russia, 2018²²



Source: plotted by the authors using EEC data

High weight of third countries in the geographical structure of FDI inflow to EAEU member states testifies to the insufficiency of intra-Union investment resources. Third countries with favourable tax regimes (including Cyprus and the Netherlands, which were used

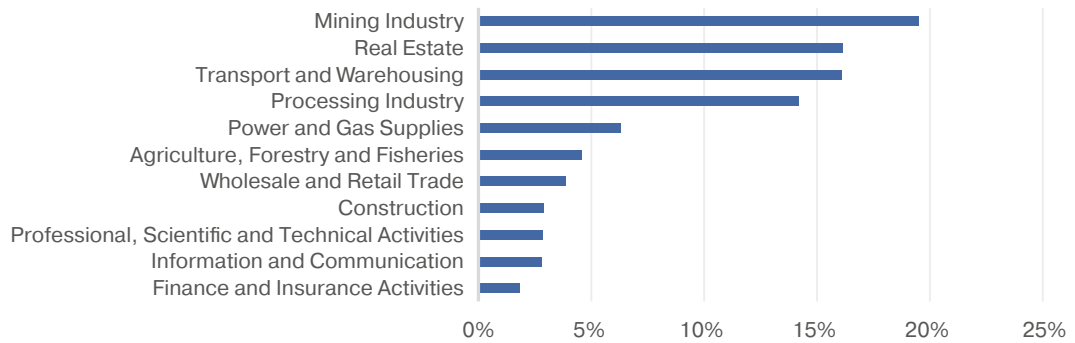
as “trans-shipping bases” for investments) play an important role in the structure of investments not only in the large EAEU economies, but also in those member states that largely focus on intra-Union investment flows.

SECTORAL STRUCTURE OF INVESTMENTS

The main investment targets are Mining (19.5%), Real Estate (16.2%), and the Processing Industry (14.2%). In the services sector, the largest investments were made in Transport (16.1%), Wholesale and Retail Trade (3.9%), Construction (2.9%), Professional Services (2.9%), Information Services (2.8%), and the Financial Sector (1.9%).

²² Data for the period from January 2018 up to and including September 2018.

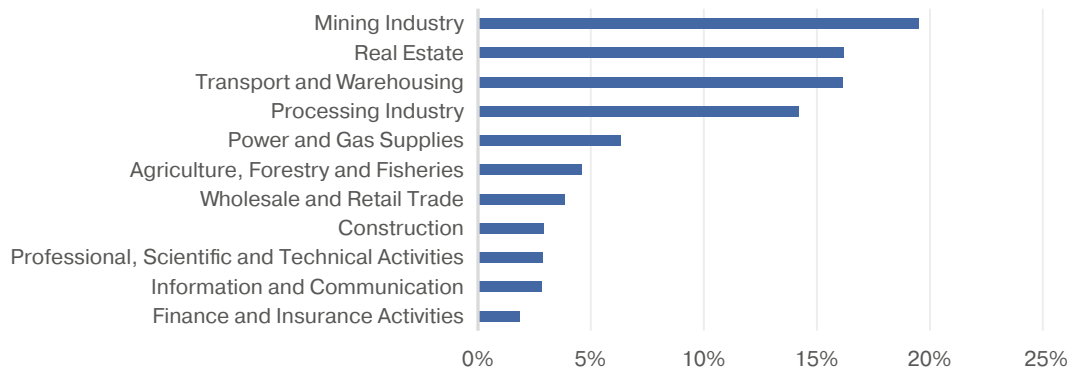
Figure 54. Sectoral Structure of FDI in EAEU Member States at the End of 2017



Source: plotted by the authors using EEC data

Analysis of the sectoral structure of FDI in individual EAEU member states showed that it closely follows the sectoral structure of investments in Russia, as Russia accounts for most mutual FDI within the EAEU.

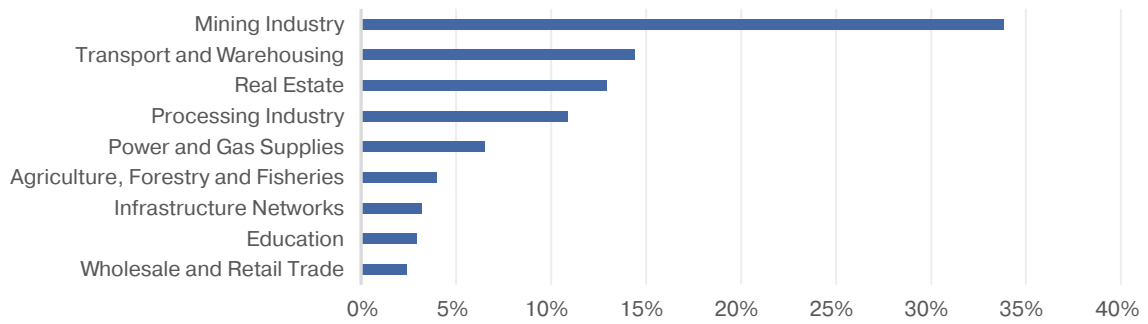
Figure 55. Sectoral Structure of FDI in Russia at the End of 2017



Source: plotted by the authors using EEC data

In Kazakhstan, the sectoral distribution of FDI has a structure generally similar to that in Russia, with the exception of Kazakhstani Mining (33%) which is far ahead of all other sectors. Transport, the second largest FDI recipient, accounts for 14.4%, Real Estate for 12.9%. In the services sector, the largest investments were recorded in Education (2.9%) and Wholesale and Retail Trade (2.4%).

Figure 56. Sectoral Structure of FDI in Kazakhstan at the End of 2017



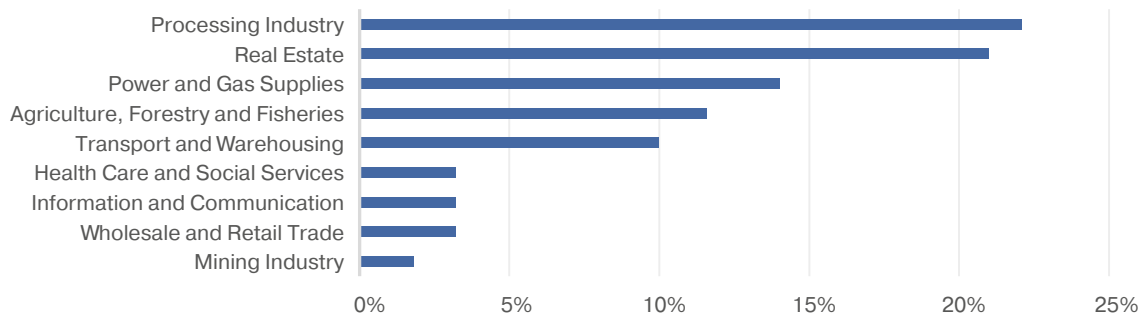
Source: plotted by the authors using EEC data

In January 2018 – September 2018, more than half (52.8%) of FDI inflow to Kazakhstan was represented by investments in extraction of crude oil and natural gas, which increased by 17.1% to US \$9.2 billion. FDI in Kazakhstani Metallurgy (13.4% of gross FDI inflow) decreased by 29.5% and amounted to US \$2.3

billion, while investments in wholesale and retail trade in motor vehicles and motorcycles and their repair (15.2% of gross FDI inflow) increased by 9.4% to reach US \$2.7 billion.

In Belarus, the most attractive investment targets were the Processing Industry (22.1%), Real Estate (21%), and Electricity and Gas Supply (14%).

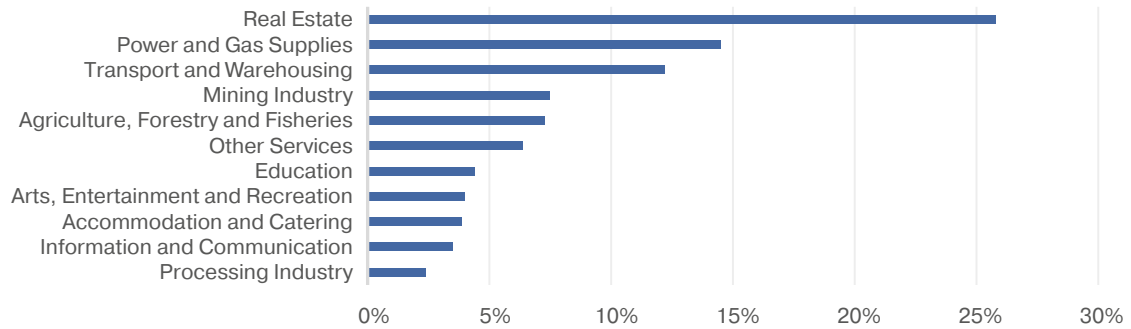
Figure 57. Sectoral Structure of FDI in Belarus at the End of 2017



Source: plotted by the authors using EEC data

In Armenia, FDI was distributed among the following sectors: Real Estate (25.8%), Electricity and Gas Supply (14.5%), Transport (21.2%), and Mining (7.5%). In the services sector, the largest FDI was directed to Other Services (6.4%), Education (4.4%), and Tourism (4%).

Figure 58. Sectoral Structure of FDI in Armenia at the End of 2017

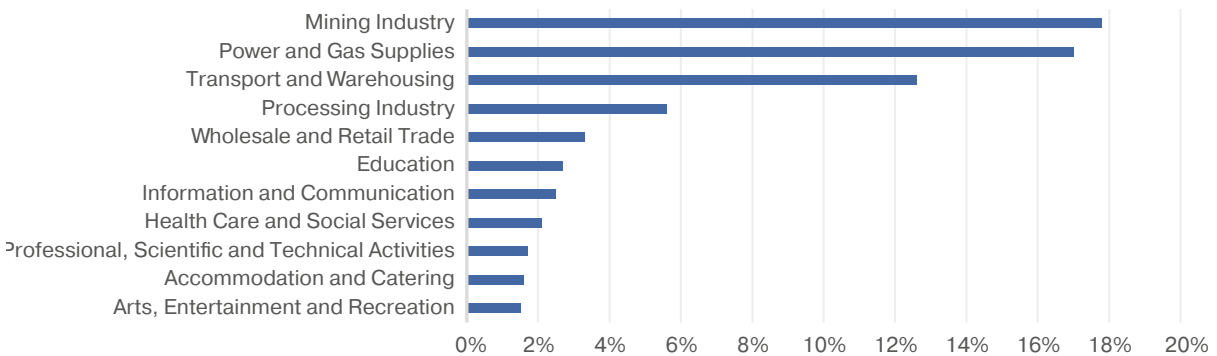


Source: plotted by the authors using EEC data

In January 2018 – September 2018, most FDI in Armenia went into Mining and related sectors, Electricity and Gas, Extraction of Metal Ores, Wholesale Trade (with the exception of motor vehicles), Real Estate, production of beverages, and construction of buildings.

In Kyrgyzstan the most demand for investments was in Mining (17.8%), Electricity and Gas Supply (17%), Transport (12.6%), Wholesale and Retail Trade (3.3%), and Education (2.7%).

Figure 59. Sectoral Structure of FDI in Kyrgyzstan at the End of 2017



Source: plotted by the authors using EEC data

In 2018 most FDI in Kyrgyzstan (88%) went into processing facilities, extraction of mineral deposits, geological exploration, financial intermediation and insurance, and information and communication. Investments in information and communication targets increased by a factor of 2.5, investments in processing

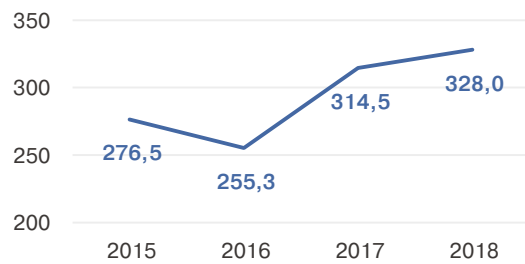
enterprises by a factor of 1.4. On the other hand, investments in geological exploration decreased by a factor of 1.9, investments in financial intermediation and insurance by a factor of 1.5, and investments in mineral deposit extraction facilities by 4.9%.

CAPITAL INVESTMENTS IN THE EAEU

The purpose of capital investments is creation or reproduction of fixed assets, including means of production (plants, various industrial facilities, etc.); accordingly, capital investments work as a driver of real production, and of the economy as a whole.

In 2018 capital investments in the EAEU continued to grow (+4% year-on-year, +19% since the inception of the EAEU).

Figure 60. Changes in Capital Investments in the EAEU, US \$ billion

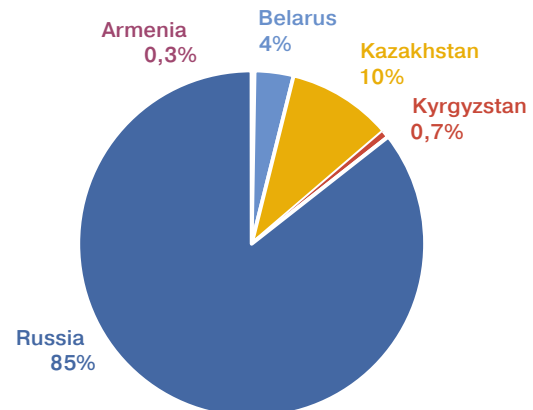


Source: plotted by the authors using data provided by the EEC and the Federal State Statistics Service of the Russian Federation (Rosstat)

Capital investments in Armenia were stable at US \$0.9–1.0 billion per year. Capital investments in other EAEU member states decreased in 2014–2016 in response to external market shocks, higher credit costs, and general economic decline, and then steadily increased throughout 2017–2018.

In terms of distribution of total capital investments in the EAEU by member states, Russia was traditionally far ahead (86%), followed by Kazakhstan (10%) and Belarus (4%), while the shares of Armenia and Kyrgyzstan were less than 1% (0.3% and 0.7%, respectively).

Figure 61. Distribution of Capital Investments in the EAEU by Member States, 2018



Source: plotted by the authors using data provided by the EEC and the Federal State Statistics Service of the Russian Federation (Rosstat)

It is obvious that at this time the largest capital investments in the EAEU tend to favour the largest economies, which is attributable to the sheer size of the industrial sector in those countries, the availability of investments to enterprises of various sizes, and the solvency of investment recipients. However, to secure successful and well-balanced economic growth for the entire Union, it is necessary to ensure that the other economies can partake of investment flows, as well.

As noted above, Russia was the largest recipient of capital investments among EAEU member states. The key capital investment targets in Russia include Extraction of Mineral Resources, Transportation and Storage, Real Estate, and the Processing Industry – in other words, sectors where the key players are enterprises with government equity participation.

Table 20. Sectoral Structure of Capital Investments in Russia, 2018

| Target Industry | Capital Investments, US \$ billion | Share in Total Capital Investments, % |
|---|------------------------------------|---------------------------------------|
| Extraction of Mineral Resources | 51.1 | 18% |
| Transportation and Storage | 47.6 | 17% |
| Real Estate | 41.6 | 15% |
| Processing Industry | 41.2 | 15% |
| Electricity, Gas and Steam Supply; Air Conditioning | 16.7 | 6% |
| Agriculture, Forestry, Hunting, Fishing and Fisheries | 12.4 | 4% |

| | | |
|--|------|----|
| Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles | 11.5 | 4% |
| Construction | 10.2 | 4% |
| Information and Communication | 9.6 | 3% |
| Professional, Scientific, and Technical Activities | 9.4 | 3% |
| Finance and Insurance Activities | 5.7 | 2% |
| State Administration and Defence; Social Security | 4.6 | 2% |
| Education | 4.3 | 2% |
| Other | 14.8 | 5% |

Source: computed by the authors using data provided by the Federal State Statistics Service of the Russian Federation (Rosstat)

More than half (58%) of total capital investments in Russia's Mining sector went to oil- and gas-producing companies, and more than a quarter (27%) to companies specializing in provision of services related to extraction of mineral resources. The main recipients of capital investments in Russia's Processing Industry were producers of chemicals and chemical products (19%), producers of coke and petroleum products (17%), enterprises of the metallurgical complex (12%), and producers of food products (10%).

The Russian government (like the governments of all the other EAEU member states) pays significant attention to boosting the "investment appeal" of the economy and improving the availability of investments. In particular, it developed an action plan which envisages steps to improve the investment climate, reduce business costs, assure comprehensive development of infrastructure and evolution of competitive environment, improve performance of companies with state equity participation, allocate funding to support investment, and increase the volume of government investments. As the financial position of individual sectors improves, it will give the banking sector additional lending incentives.

Notably, products of sectors with the highest investment appeal, including the Fuel and Energy Complex, Metallurgical Complex, Processing Industry (Chemicals and Timber), and the Agroindustrial Complex, have competitive advantages in the world market. This underlines the solid link between the availability of investments and the competitiveness of products.

To further improve the competitiveness of goods manufactured in the EAEU, work is being done to make the terms of investment in industrial facilities more attractive, with a focus on higher volume and preferred status of funding provided by the EDB, primarily to long-term cooperation projects in the industrial sector. Better availability of internal financial resources to EAEU industrial enterprises, including systemically important enterprises, is critical for development of industrial cooperation and continued growth of the EAEU economies.

EXTERNAL VECTOR OF EURASIAN INTEGRATION

One of the most important EEC objectives is to improve the accessibility of foreign markets for EAEU exporters. The most effective and efficient tool that can be used to attain that objective is execution of international treaties and agreements at various levels.

TREATIES AND AGREEMENTS WITH FOREIGN COUNTRIES

Vietnam

On May 29, 2015, the EAEU, its member states, and Vietnam signed a Free Trade Agreement (FTA), which came into effect on October 5, 2016. Following the effective date of the FTA, Vietnam abolished (set zero rates for) import customs duties for more than 59% of the total product mix for suppliers from EAEU member states. For another 30% of the product mix, import customs duties will be reduced to 0% over a transition period that will last from 3 to 10 years, depending on the tariff line. Therefore, abolition of import customs duties by the Vietnamese side fails to cover only 12% of commodities, most of which do not present any export interest for EAEU member states.

Until 2017, trade in goods between the EAEU and Vietnam had been in a state of stagnation, with turnover not exceeding US \$4.2–4.3 billion per year; 2017 became a breakthrough year, as trade turnover rose by 36.5%. The breakthrough occurred due to elimination of import customs duties. In 2018 the trade liberalization process continued.

2017 and 2018 were marked by steady growth of non-resource, non-energy exports by EAEU member states to Vietnam, which testifies to positive changes in mutual trade.

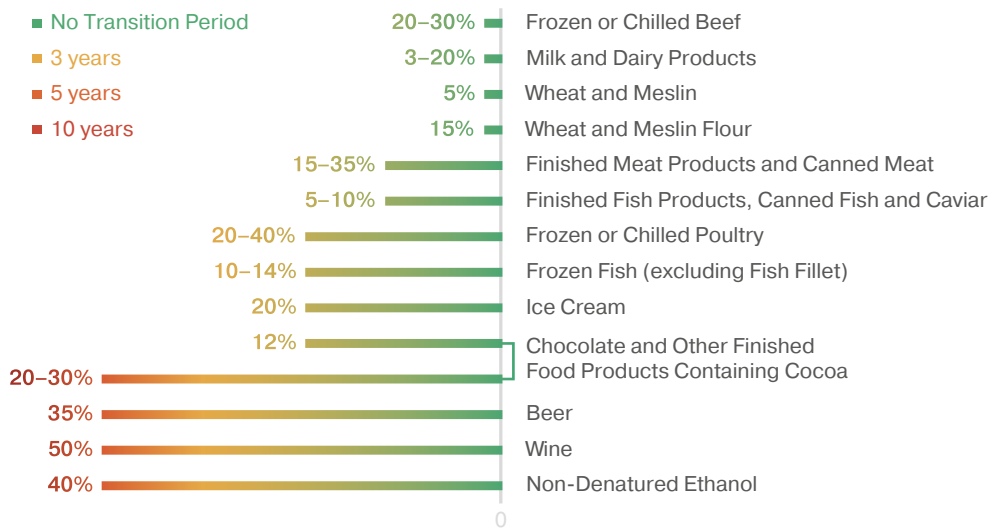
Figure 62. Export of Goods from the EAEU to Vietnam in 2016–2018, US \$ million



Source: plotted by the authors using EEC data

The growth of total exports by the EAEU was attributable to a steep increase in supplies of agricultural products that had previously been purchased by Vietnam from the EAEU on a limited scale. Structurally, exports are dominated by grain, oils and fats, meat and poultry. That trend was also attributable to elimination of import customs duties by Vietnam.

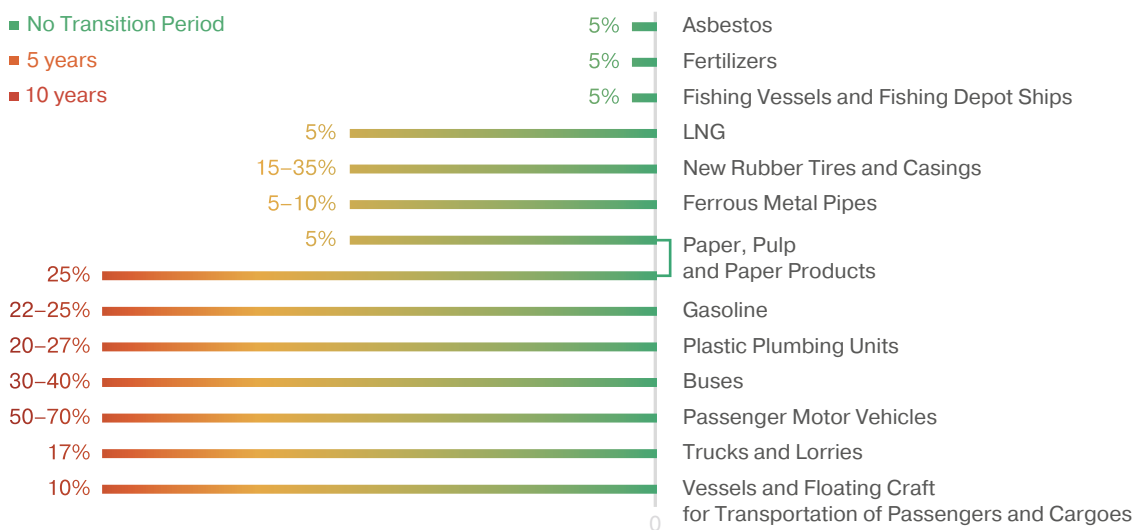
Figure 63. Progressive Elimination by Vietnam of Import Customs Duties for Food Products



Source: Changes and Trends in Regulation of Non-Commodity Exports in Russia and the World (material prepared by the Analytical Center for the Government of the Russian Federation, August 2018)

The EAEU and Vietnam also have serious intentions with respect to expansion of trade in industrial products. Over the last several years, exports in that segment began to grow, primarily with respect to rolled steel and special-purpose vehicles. Thus, exports of special-purpose vehicles have increased by 10.5% since 2016.

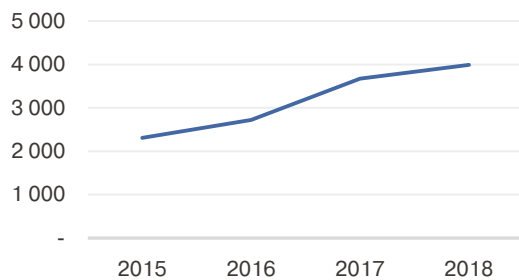
Figure 64. Progressive Elimination by Vietnam of Import Customs Duties for Industrial Products



Source: Changes and Trends in Regulation of Non-Commodity Exports in Russia and the World (material prepared by the Analytical Center for the Government of the Russian Federation, August 2018)

Notably, imports from Vietnam to the EAEU demonstrate an upward trend. In 2018 the key position was electronic equipment (household appliances, communication equipment, printing equipment); Vietnam also supplied to the EAEU food products and textile products, although on a smaller scale.

Figure 65. Import of Goods from Vietnam to the EAEU in 2015–2018, US \$ million



Source: plotted by the authors using EEC dat

The FTA covers all areas of trade and economic cooperation between the EAEU and Vietnam: In addition to the classical reduction of import customs rates, the agreement deals with protection of intellectual property, defines cooperation vectors in the areas of sustainable development, electronic commerce, and government procurement, and sets common principles governing protection from unfair competition.

At the time of execution of the FTA with Vietnam, EAEU producers were concerned that growing exports could potentially squeeze domestic goods from the internal market. However, execution of the agreement was followed with a balanced growth of mutual trade: In 2018 exports from the EAEU to Vietnam increased by 20% (approximately US \$2.7 billion), while imports to the EAEU from Vietnam increased by 9% (up to US \$3.9 billion). In relative terms, the largest increase in EAEU exports to Vietnam in 2018 was recorded in Russia: Over the first three quarters of 2018, Russian exports to Vietnam increased by 19.4% year-on-year to reach US \$1.33 billion. Certain progress in expansion into the Vietnamese market was also made by Kyrgyzstan, Armenia, and Belarus.

China

On May 17, 2018, the EAEU, its member states, and China signed a Trade and Economic Cooperation Agreement. Several EAEU member states have already completed ratification procedures, so the Agreement may come into effect in 2019. The Agreement is non-preferential, and does not envisage abolition of duties in mutual trade.

It will provide the necessary international law framework in the area of simplification of trade (primarily with respect to perishable commodities) and liquidation of non-tariff barriers. To that end, the parties agree to mitigate customs controls, reduce the number of required documents, and enable electronic declaration of goods. The Agreement also creates conditions conducive to interaction of business communities in the EAEU and China through special subcommittees and ad hoc groups. Sector cooperation areas covered by the Agreement include agriculture, energy, transport, industrial cooperation, information and communication infrastructure, technologies and innovations, finance, and the environment.

Due to rapid growth of container freight traffic between the EU and China using EAEU railways, all parties are seeking to reduce transport-related administrative barriers and costs, including time costs. In that connection, China and the EAEU have developed a draft Agreement on Exchange of Information about Goods and International Conveyances Crossing Customs Borders of the EAEU and China; the draft has been circulated among the EAEU member states for completion of mandatory internal procedures prior to signing.

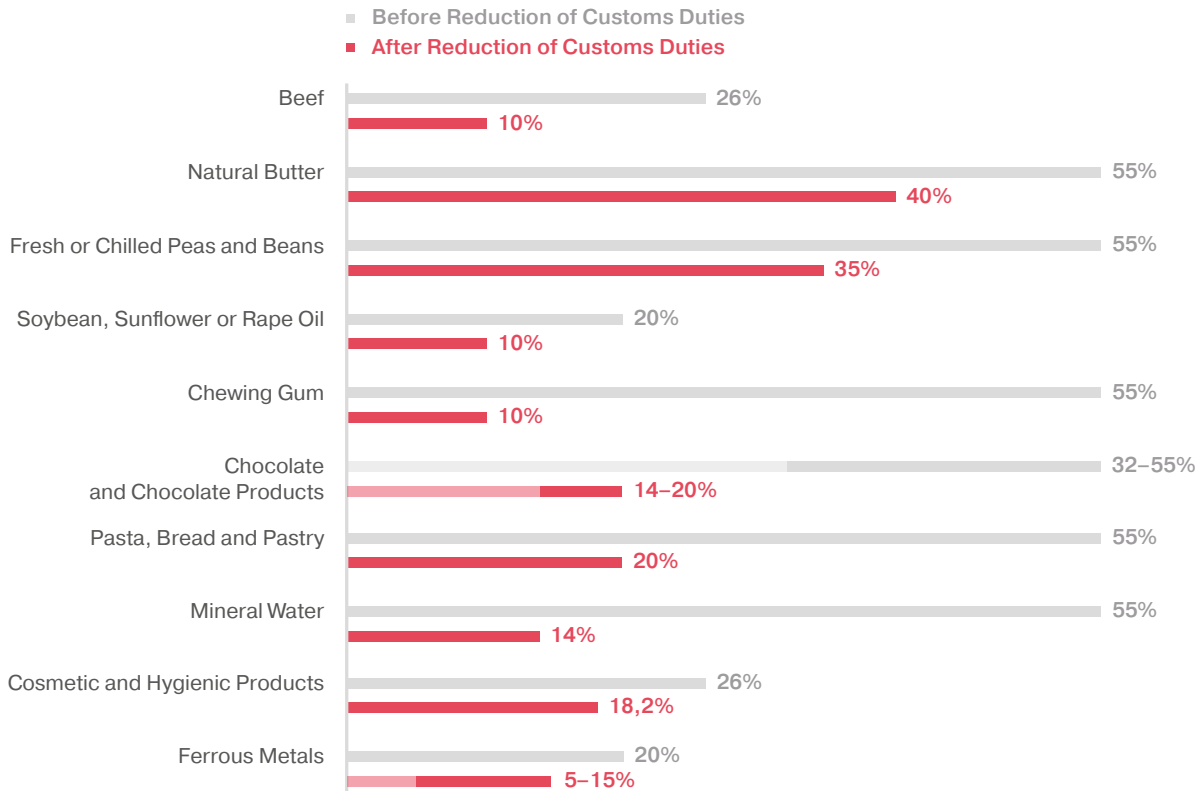
Iran

On May 17, 2018, the EAEU and Iran signed a provisional agreement leading to establishment of an FTA. The parties are currently completing internal procedures in preparation for entry of the agreement into force.

The list of goods most frequently exported from the EAEU to Iran over the last three years includes wheat, maize, sunflower seed oil, and certain industrial goods (rolled steel and telecommunication equipment). Those goods have become subject to negotiations between

the parties on reduction of tariff rates. The agreement envisages reduction of customs duties imposed on a limited number of goods that have high export potential for EAEU member states over the short term.

Figure 66. Scale of Reduction of Iranian Import Duties under the Agreement with the EAEU



Source: Changes and Trends in Regulation of Non-Commodity Exports in Russia and the World (material prepared by the Analytical Center for the Government of the Russian Federation, August 2018)

To ensure free access of goods from the EAEU to the Iranian market, the agreement includes legal guarantees of non-discrimination of goods originating from EAEU member states, and sets forth requirements related to regulatory transparency, technical supervision, and sanitary and phytosanitary measures. Despite the fact that Iran is not a WTO member, the agreement is intended to create terms of mutual trade between EAEU member states and Iran that would comply with WTO principles and rules. In addition, the agreement contains a special article on initiation of a business dialogue. The format of that dialogue will be determined in the nearest future with the participation of EAEU business circles.

CURRENT INTERNATIONAL COOPERATION EXPANSION TRACKS

CIS

According to ITC data, in 2018 trade turnover between EAEU member states and the CIS increased by 16% year-on-year to US \$154 billion. Exports from the EAEU to the CIS over the same period increased by 20%.

The EAEU and CIS member states are consistently working to expand and deepen their economic ties.

In April 2017, the EEC and Moldova signed a Cooperation Memorandum. In May of the same year, Moldova was granted the right to attend meetings of EAEU bodies without the right to participate in decision-making, and to receive non-confidential documents adopted by the Union's official bodies. The joint working group for interaction between the EEC and Moldova, established to ensure proper implementation of the memorandum, held three meetings. Using that format, the Moldovan business community was able to start a direct dialogue with EEC representatives on mutual access to commodity markets, and to obtain reliable information about the EAEU and the opportunities opening up in its markets.

Trade turnover between Tajikistan and EAEU member states increased by almost 25%. From the economic point of view, Tajikistan is interested in attracting investments and obtaining the preferences for labour migrants available in the single labour market. The EAEU is examining the possibility of granting Tajikistan the status of an "observer country," pending removal of numerous disparities between Tajikistani and EAEU laws.

Uzbekistan is engaged in active bilateral cooperation with EAEU member states. In October 2018, Moscow and Tashkent signed a large package of documents dealing with cooperation in the areas of trade, economy, energy, scientific research, culture, humanitarian efforts, education, social affairs, and labour relations. In addition, in 2018 Uzbekistan and Kazakhstan conducted high-

level negotiations on possible construction of an international Cross-Border Cooperation Centre and a transport and logistics centre (dry port) in the Kazakhstan and Uzbekistan frontier areas.

On November 27, 2018, the EEC and the CIS Executive Committee executed a Memorandum on the Deepening of Cooperation.

The document is designed to expand cooperation in a number of areas, including customs regulation, traceability and identification marking of goods, government procurement, protection of consumer rights, the digital economy, tax policy and administration, external trade, competition policy and antimonopoly regulation, sanitary, veterinary, and quarantine phytosanitary measures.

Representatives of EAEU and CIS bodies will be able to attend expert group meetings conducted at EEC and CIS facilities, as well as meetings of consultative bodies operating under the EEC Board and CIS sector cooperation bodies.

Union State

At the end of 2018, Russia initiated an update of provisions of the 1999 Union Treaty with Belarus. After several rounds of negotiations between the presidents of the two countries, bilateral working groups were established to review the most urgent issues related to Belarusian-Russian integration. The Union State is generally regarded as an example of successful integration for the entire Eurasian space. Interaction between the two associations is governed by a Memorandum of Mutual Understanding between the EEC and the Permanent Committee of the Union State signed in 2011. Its purpose is to improve the efficiency of operation of, and cooperation between, the two bodies, to promote integration within the framework of the EAEU and the Union State, and to realize the common economic

interests of the member states. Pursuant to Resolution of the SEEC dated December 6, 2018, No. 19, this area of international activity of the EAEU has priority status.

ASIA-PACIFIC REGION

Singapore

In 2016 the EEC and the Government of the Republic of Singapore signed a Memorandum of Mutual Understanding, which defined industry as one of the priority and promising areas for cooperation. Negotiations on conclusion of a free trade agreement with Singapore are under way, with six rounds having been completed to date. In the course of the negotiations, the parties have had an in-depth discussion of the details to be incorporated into the agreement. In addition to liberalization of trade in goods, they are examining the possibility of switching to preferential terms of trade in services and investments. Negotiations with Singapore with respect to services and investments are the competences of the national governments of the member states, not the EEC. The seventh round of negotiations is scheduled for the first half of 2019.

India

A joint statement on commencement of FTA negotiations with India was signed in June 2017. In January 2018, the parties held consultations to discuss the details of the FTA agreement; the resultant EAEU proposal was sent to the Indian side in June 2018. FTA agreement negotiations are currently under way.

Republic of Korea

A Memorandum of Cooperation between the EEC and the Government Procurement Service of the Republic of Korea was signed in October 2015. The document envisages exchange of experience in the area of government procurement regulation and, in particular, improvement of the electronic government procurement system. In addition, on November 30, 2015, the EEC and the Ministry of Industry, Trade, and Energy of the Republic of Korea signed a Memorandum of Cooperation on a broad range of trade cooperation matters. In September 2016, a joint group comprising

representatives of the research communities of EAEU member states and the Republic of Korea completed its mandate. It had been established to determine the optimal format for the development of trade and economic cooperation between the partners. In 2018 interaction between EAEU member states and the Republic of Korea proceeded mostly on a bilateral basis. On June 22, 2018, Russia and the Republic of Korea signed a joint statement on establishment of a free trade area.

Cambodia

A Memorandum of Mutual Understanding between the EEC and the Government of the Kingdom of Cambodia was signed in May 2016. A joint working group created pursuant to the Memorandum meets on an annual basis, and a business forum attended by representatives of the business communities of the EAEU and Cambodia was held in December 2017. The latest regular meeting of the working group was held in May 2018; its participants focused on special aspects of doing business in the EAEU, operation of the single services market, and investment opportunities offered by Cambodia.

Mongolia

A Memorandum of Cooperation between the EEC and the Government of Mongolia was signed in June 2015 with a view to promote expansion of comprehensive cooperation between EAEU member states and Mongolia, and to implement measures designed to eliminate barriers preventing development of mutual trade. By the end 2018, the working group for interaction between the EEC and the Government of Mongolia had held three meetings.

MIDDLE EAST

Israel

The first meeting of the EAEU and Israeli negotiating teams took place in November 2016. The first full-scale round of negotiations was held in April 2018. The EAEU and Israeli negotiating teams agreed on the terms of reference for the coming negotiations, and on the structure and format of the anticipated agreement. The second round of negotiations was held in October 2018; the third round is scheduled for 1Q 2019.

Jordan

A Memorandum on Cooperation with the Government of the Hashemite Kingdom of Jordan was signed on September 20, 2017; the first meeting of the working group and meetings of representatives of EAEU and Jordanian business communities were scheduled for 2018 to early 2019.

NORTH AFRICA

Egypt

In preparation for negotiations with Egypt, consultations were held in December 2017 to discuss possible details of the proposed agreement and administrative issues related to organization of the negotiations. Throughout 2018, the parties exchanged proposals on the wording of the agreement; a document on the negotiating framework and positions of the parties was signed in November 2018.

EUROPE

Greece

A Joint Declaration on Cooperation between the EEC and the Government of Greece was signed on June 24, 2017. The Declaration envisages interaction on a broad economic agenda subject to EEC scope of competence and the obligations of Greece arising out of legislation of the European Union. A business forum called EAEU–Greece: New Bridge for Cooperation and Development was held in Thessaloniki on September 11, 2017, with active participation of representatives of EAEU and Greek business circles. The next business forum is scheduled for 2020, and its agenda may include cooperation in the areas of transport and infrastructure, energy, agriculture, digitization of the economy, and tourism.

Serbia

Serbia has similar free trade agreements with three EAEU member states: Belarus, Kazakhstan, and Russia; some provisions are country-specific, and are supplemented with protocols of exceptions. The free trade regime does not apply to Armenia and Kyrgyzstan; instead they are given MFN status. In 2018 the EAEU and Serbia continued negotiations in preparation for the execution in 2019 of an omnibus free trade agreement.

LATIN AMERICA

Andean Community

The EAEU continues to expand its cooperation with Latin American regional associations. A Memorandum of Mutual Understanding between the EEC and the General Secretariat of the Andean Community was signed in March 2017. Work is under way on similar memorandums with the Caribbean Community (CARICOM), Association of Caribbean States, Latin American Integration Association (LAIA), and on a suitable format of interaction with the Pacific Alliance.

Chile

The Republic of Chile had expressed interest in Eurasian integration even before the inception of the EAEU. A Memorandum of Mutual Understanding with that country was signed in June 2015. Since then, cooperation with the Chilean partners has been actively

expanding, and the 4th meeting of the joint working group was held in December 2018. Two workshops were conducted at the meeting: one in Moscow on exchange of experience related to FTA execution, and one in Santiago for representatives of the Chilean business community on EAEU technical regulations.

Peru

A Memorandum between the EEC and the Republic of Peru was signed in October 2015. According to the EEC, in 2018 exports by EAEU member states to Peru increased by 29.7% (to US \$353.5 million). The share of non-energy exports in total exports by EAEU member states to Peru stood at 85%. A regular meeting of the joint EAEU-Peru working group was held in 2018.

COOPERATION BETWEEN THE EAEU AND INTERNATIONAL REGIONAL ORGANIZATIONS

MERCOSUR

On December 17, 2018, on the sidelines of the MERCOSUR summit in Montevideo (Uruguay), the EEC and MERCOSUR signed a Memorandum on Trade and Economic Cooperation. The Memorandum listed areas where authorized agencies are to engage in a broad-ranging dialogue, including customs administration, technical supervision and standardization, digitization of the economy, and a number of other issues of mutual interest.

During the signing of the Memorandum with MERCOSUR, the parties agreed to support the organization of practical and result-oriented events designed to expand business ties among entrepreneurs from EAEU and MERCOSUR member states (business missions, workshops).

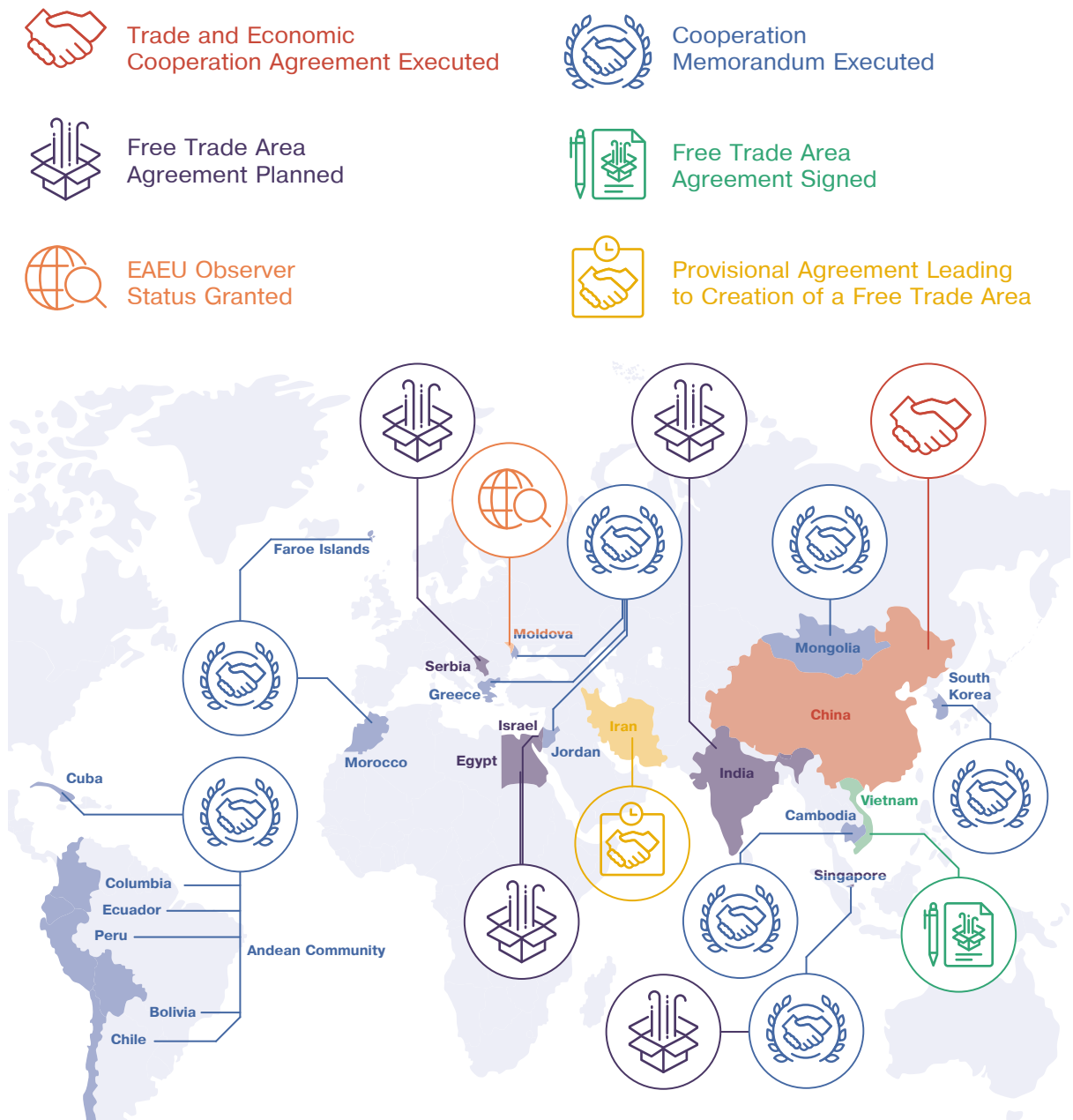
Work is currently under way to send to MERCOSUR a joint business delegation consisting of representatives of EAEU member-state companies (preparation of the agenda, identification of potential participants).

ASEAN

The EEC has been working on establishing cooperative ties with ASEAN since 2014. A Memorandum of Mutual Understanding between the EEC and ASEAN was signed in Singapore on November 14, 2018. In May 2018, an EAEU–ASEAN business lunch was held at the Saint Petersburg International Economic Forum; the lunch was attended by representatives of

official circles and the leading ASEAN and EAEU business associations. Trade turnover between EAEU member states and ASEAN is growing: In 2018 it increased by 11.5% (US \$2.3 billion). It is expected that agriculture, health care, finance, information and computer technologies, and nuclear energy will become the key areas of cooperation.

Figure 67. International Cooperation of the EAEU



Source: Eurasian Economic Union. Figures and Facts (2018)

To conclude, the EAEU is actively expanding not only internal cooperation, but also external cooperation within a wide geographical area. Special attention in EAEU external trade policy is paid to establishment of the Eurasian Continental Partnership, or Greater Eurasian Partnership. That format envisages creation by the Union of a network of trade and economic agreements with key partners on the Eurasian continent, including integration associations, primarily the Shanghai Cooperation Organization and ASEAN, and, over the longer term, the EU. However, the most notable progress has been achieved in cooperation between the EAEU and the countries described above.

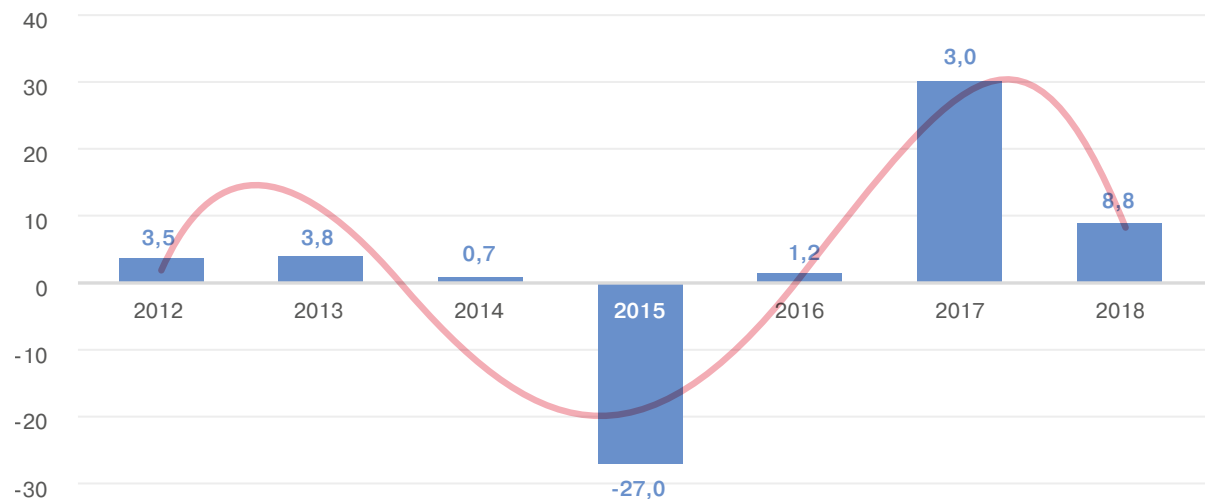
2018 RESULTS IN THE CONTEXT OF EXPANSION OF TRADE AND INDUSTRIAL TIES BETWEEN EAEU MEMBER STATES²³

In the previous sections, we repeatedly emphasized the importance of expanding cooperative ties among EAEU member states for development of industry and trade, and for the general economic growth of the Union. In 2018 expansion of cooperative ties among EAEU member states continued in almost all sectors. Progress was achieved both in implementation of previously launched projects and in development of new projects, including those with EDB participation.

CHANGES IN AND STRUCTURE OF INDUSTRIAL COOPERATION WITHIN THE EAEU IN 2018

According to EEC data, in 2018 the volume of cooperative supplies within the EAEU continued to grow, but at a lower rate compared to 2017 (8.8% vs. 30%). At the same time, with the volume of cooperative supplies having grown for three years in a row, in 2018 it finally exceeded the 2014 (pre-crisis) level. Here and thereafter, cooperative supplies are deliveries under long-term industrial cooperation contracts.

Figure 68. Changes in Mutual Trade in Intermediate Goods between EAEU Member States (% increase year-on-year)



Source: Report by the EEC Industrial Policy Department Development of Industrial Complexes of EAEU Member States in 2018

²³ This section is based on the Eurasian Integration Review for 2018 published by the Centre for Integration Studies of the EDB Analytical Directorate. The full version of the Review is available at the EDB website. When working on this section, the authors also used materials from EEC Reports Development of Industrial Complexes in EAEU Member States in 2018, On Results of Annual Monitoring of Cooperative Interaction and Implementation of Cooperation Projects, and On Operation of Eurasian Technological Platforms.

The importance of expansion of industrial cooperation is underscored by import substitution policies pursued by EAEU member states. Mastering production of import substitutes, first and foremost components for mechanical engineering, is a critical condition for the recovery of EAEU industry. For that reason, it is apparently expedient to embed industrial producers from EAEU member states in mutual cooperative chains.

EEC Report On Results of Annual Monitoring of Cooperative Interaction and Implementation of Cooperation Projects (in Russian, “O rezultatakh ezhegodnogo monitoringa kooperatsionnogo vzaimodejstviya i realizatsii kooperatsionnykh proektov”)

In 2018 cooperative supplies increased in most processing sectors (16 out of 21). The highest growth rates were recorded in the following sectors:

- Coke and Petroleum Products (33.0%)
- Wood Processing and Wood Products (16.2%)
- Machines and Equipment (14.8%)
- Motor Vehicles, Semi-Trailers, and Trailers (14.1%)
- Food Products (11.1%)
- Electrical Equipment (10.2%)

Reduction of cooperative supplies within the EAEU in 2018 was recorded in the following sectors:

- Clothes (-5.0% after robust growth in 2017)
- Leather, Leather Goods, and Footwear (-5.5%)
- Other Non-Metal Mineral Products (-3.0% after robust growth in 2017)
- Computers, Electronics, and Optical Products (-5.7%)
- Furniture (-3.0%).

Notably, sectors to which EAEU member states have assigned priority status, and which have already been involved in practical work by the EEC, have posted the highest cooperative supply growth rates. Cooperative supplies account for almost half of total mutual trade turnover within the EAEU.

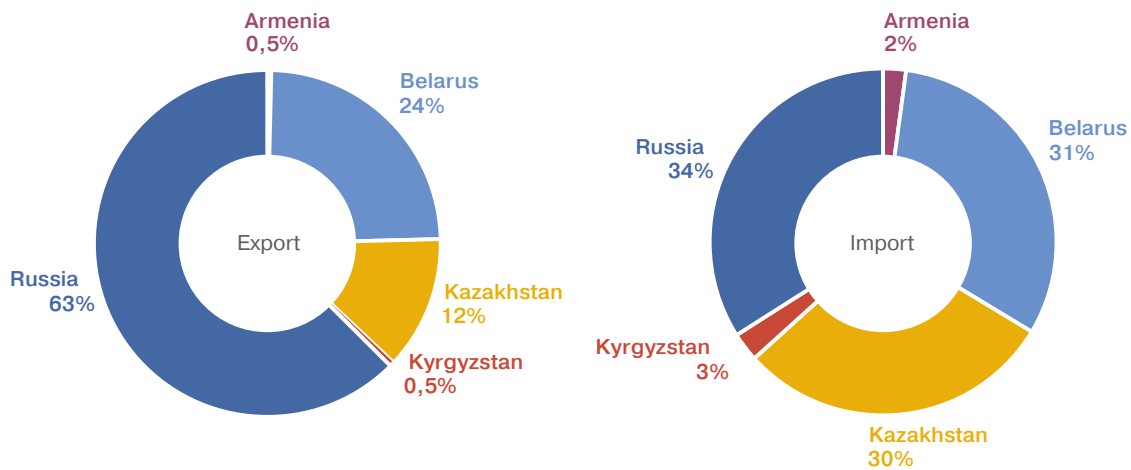
The list of priority types of economic activities for industrial cooperation among EAEU member states is provided in the Strategy Paper Main Areas of Industrial Cooperation. They include agricultural engineering, metallurgy, light industry, electric vehicles, space industry, aircraft building, machine-tool building, the nanotech industry, hoisting and transport equipment, production of construction materials, wood processing, power engineering (electrical engineering), rolling-stock manufacturing, the chemical industry, and the pharmaceutical industry.

EEC Report On Results of Annual Monitoring of Cooperative Interaction and Implementation of Cooperation Projects (in Russian, “O rezultatakh ezhegodnogo monitoringa kooperatsionnogo vzaimodejstviya i realizatsii kooperatsionnykh proektov”)

In 2018 Russia accounted for almost half (48%) of total industrial cooperation within the EAEU. Significant shares were also achieved by Belarus (28%) and Kazakhstan (21%). Russia is also the undisputed exporter under long-term industrial cooperation contracts (63%), followed, with a large gap, by Belarus (24%) and

Kazakhstan (12%); Armenia and Kyrgyzstan both have shares of less than 1%. The structure of intra-cooperative imports is more diversified: Russia, Belarus, and Kazakhstan account for 30–34% each, while the shares of Armenia and Kyrgyzstan stand at 2% and 3%, respectively.

Figure 69. Intra-Cooperative Exports and Imports within the EAEU, 2018



Source: plotted by the authors using EEC data

Notably, Russia is the only net exporter within the framework of industrial cooperation in the EAEU. Belarus and Kazakhstan are net importers, while Armenia and Kyrgyzstan are only beginning to develop their intra-cooperative exports.

In 2018 intra-cooperative imports increased in all EAEU member states, and intra-cooperative exports in all EAEU member states except Armenia. Reduction of Armenian intra-cooperative exports in 2018 is attributable to the high base effect from 2017, when that indicator had gone up by 72%.

According to EEC data, in 2018 the development of industrial cooperation within the EAEU relied on the strengthening position of Kazakhstan, which had significantly increased its share in intra-Union cooperative supplies. The partner at whose expense Kazakhstan increased its intermediate goods exports was Belarus.

As for the sectoral structure of industrial cooperation, the share of Raw Materials and Low Added Value Goods (Oil Processing, Metallurgy, Chemical Industry) tended to increase throughout 2018. At the same time, there was a modest increase of the share of Mechanical Engineering, specifically Car Making (from 4.8% to 5.0%), Machines and

Equipment (from 5.5% to 5.8%), Electric Equipment (from 5.7% to 5.8%), and a decrease of the share of Rubber and Plastic Goods (from 9.1% to 8.8%), Construction Materials (from 4.9% to 4.4%), Electronic and Optical Products (from 1.9% to 1.6%), Textile Products (from 2.6% to 2.5%), and Furniture (from 0.4% to 0.3%).

The data provided above testify to the successful development of industrial cooperation in basic sectors, and emphasize the need to actively expand cooperative interaction among sectors manufacturing products with high added value.

TOOLS FOR EXPANSION OF INDUSTRIAL COOPERATION WITHIN THE EAEU

Establishment and expansion of cooperative ties is a preferential right vested in manufacturers, while the task of the EEC is to create favourable conditions for development of that area of cooperation.

The measures implemented by the EEC to expand industrial cooperation within the EAEU include Board Recommendation No. 24 On Consideration of the Integration Potential of EAEU Member States in Connection with Implementation of Projects for the Production of Substitutes for Materials, Components, and Equipment Produced in Third Countries and Imported into the Territory of the Russian Federation (November 14, 2017), and Instruction No. 10 On Establishment of a High-Level Working Group on Integration Interaction in Cooperation and Import Substitution in Priority Industries (July 27, 2018).

The Eurasian Industrial Cooperation and Subcontracting Network, which is designed to unite disconnected national systems and regional industrial subcontracting programmes into a single entity, should also become an important tool for expansion of cooperative ties within the EAEU. The network is organized so as to operate on the national and supranational levels with links to an umbrella information system (<https://eurasianindustry.org/>) which contains information about EAEU industrial enterprises. As of August 2018, the system

contained records of 5,956 enterprises, including 5,889 Russian enterprises, 63 Kazakhstani enterprises, and 4 Belarusian enterprises. The number of items entered into the system's database by manufacturers reached almost 12,000, while the number of procurement requests exceeded 138,000.

In December 2018, the EEC expert team discussed a draft version of the project Eurasian Network of Industrial Cooperation, Subcontracting, and Technology Transfer, which is intended to combine the Conceptual Framework for Creation of the Eurasian Industrial Cooperation and Subcontracting Network; the Conceptual Framework for the Creation and Operation of the Eurasian Technology Transfer Network; and the Conceptual Framework for the Creation of Conditions for Digital Transformation of Industrial Cooperation within the EAEU and Digital Transformation of Industry in EAEU Member States.

The EEC, jointly with the Ministry of Economic Development and Trade of Russia and the International Congress of Industrialists and Entrepreneurs, has also commenced development of an export compliance system, which will be used to provide support to manufacturers exporting their products, and to improve the image of Eurasian goods in third-country markets. The export compliance

system may initially operate in accordance with the principle of voluntary certification in Russia, to be later expanded to other EAEU member states. The export compliance system will help exporters to mitigate sanctions-related risks when supplying their products to EU countries by using two new tools: (1) certification of exporters and their products for compliance with Russian and foreign legislation, and (2) collection, storage, and exchange of complete (to the extent possible) and confirmed information about the goods and the production process, such information to be furnished to the relevant foreign control body on a non-disclosure basis.

Active work is being done to remove internal barriers with a view to assure further expansion of integration, including industrial integration, of EAEU member states. Twenty-eight barriers were removed in 2016–2018, while another 17 barriers are still in place. A new obstacle in the way of expansion of industrial cooperation within the EAEU, as identified in 2018 by the Ministry for Investments and Development of the Republic of Kazakhstan, is the absence of mutual recognition by EAEU member states of electronic digital signatures, which enable execution of transactions on the basis of

cooperative ties among EAEU enterprises. That has a negative impact on the level of activity of enterprises in the newly established Eurasian Industrial Cooperation and Subcontracting Network. The EEC, jointly with EAEU member states, is continuing its efforts to eliminate identified barriers.

Parallel to development of general horizontal tools for expansion of industrial cooperation within the EAEU, active work is under way to create a legal and regulatory framework to support industrial cooperation at the sectoral level.

Expansion of industrial cooperation among EAEU member states is greatly facilitated by joint efforts to devise new technologies that make EAEU products more competitive in the world markets. Most work in that area is done using Eurasian Technological Platforms (ETPs). In 2018 newly created and approved ETPs progressed from dealing with administrative issues to development and implementation of specific industrial projects.

ETPs are one of the key tools used to coordinate innovative activities in the EAEU space, a locomotive of cooperation in the innovative domain. ETPs bring together best practices implemented by EAEU member states in the most promising and knowledge-intensive industrial sectors.

New approaches and ETP expansion strategies are incorporating new scientific and technological benchmarks employed by EAEU member states in their innovative pursuits, with a view to ensuring a joint breakthrough in creating cutting-edge technologies and products that are of common interest in terms of their promotion in internal and external markets. In line with those approaches and strategies, ETPs acquire the status of “think tanks,” comprising leading national research entities and acting as linchpins that bring together industrial enterprises for deployment of their latest R&D results.

Report by the EEC Industrial Policy Department on the operation of Eurasian technological platforms (in Russian, “Doklad o deyatelnosti evrazijskikh tekhnologicheskikh platform”)

Priority ETPs bring together 417 leading national scientific and industrial enterprises of the EAEU that are ready to implement joint innovative cooperative projects in the most promising sectors.

The list of the key ETPs currently includes the following:

- ETP Space and Geo-Information Technologies – Globally Competitive Products
- Eurasian LED Technological Platform
- Eurasian Super-Computer Technological Platform
- ETP Photonics
- ETP EurasiaBio
- Eurasian Biomedical Technological Platform
- ETP Light Engineering
- ETP Solid Minerals Extraction and Processing Technologies
- ETP Environmental Development Technologies
- ETP Food and Processing Industry Technologies (Agroindustrial Complex) – Healthy Foods
- Eurasian Agricultural Technological Platform
- Industrial Technologies Light Industry
- ETP Metallurgical Technologies and New Materials

Joint work with the leading EAEU member-state industrial and scientific entities has commenced in each breakthrough area to create uniform registers of advanced technologies and products, to provide consultative support in connection with deployment of advanced technologies, to identify the demand in member-state economies for new technologies, to identify and facilitate implementation of priority scientific and technical projects, to support joint initiatives and joint projects within the framework of the EAEU, to popularize scientific and technical achievements, etc.

To conclude, ETP activities embrace all key sectors of the EAEU economy with a focus on making basic sectors more technologically advanced and innovative and to create new high-tech sectors.

TRADE AND INDUSTRY INTERACTION AMONG EAEU MEMBER STATES

The deepening of regional integration offers new opportunities for corporate-level interaction among countries involved in the Eurasian integration project. At the corporate level, economic cooperation within the EAEU is concentrated primarily in Russia, with virtually all EAEU companies engaged in foreign economic activities maintaining active ties with that country. One way or another, 2018 was rich in events affecting the interests of EAEU business communities.

Armenia

Monitoring of cooperative ties between Armenia and EAEU member states in 2018 shows that Russian companies retain their strategic significance for the Armenian economy. More than 30 large enterprises with Russian equity participation operate in Armenia in the following sectors: Gas and Petroleum Products; Mining; Transport; Telecommunications; Energy; Banking, and Insurance.

The Armenian jewellery industry (which had already flourished back in Soviet times) deserves a special mention: In 2018 it was included in a special EAEU project designed to create a “Eurasian brand” – the Eurasian Jewellery Bureau. It is expected that this cooperative jewellery project will be realized in the form of a public-private partnership. The Eurasian Jewellery Bureau will bring together jewellers from all EAEU member states. Its creation implies the implementation of uniform quality standards, creation of a distribution infrastructure, and development of a marketing strategy to promote the brand. According to EEC estimates, the project will make it possible to boost jewellery exports by a factor of eight to US \$1,350 million. One of the key jewellery-industry players is the Armenian ZAO Shoghakn, which has close links to the Russian diamond company AK Alrosa, and for which Russia is the principal market. The two companies have launched a joint project seeking to attain an ambitious objective: They intend to enter third-country markets under a single brand, as was announced at the Eurasian Week 2018 forum in Yerevan.

Other examples of successful Russian-Armenian industrial cooperation are ZAO Rusal-Armenal (manufacturer of aluminium foil), OOO Geopromininggold Armenia and ZAO LV Gold Mining (mining enterprises), and construction of two mining and beneficiation plants by Neva-Rus in Syunik Province.

In 2018 Armenia also actively expanded its cooperation with Belarus. A number of Belarusian companies represented in Armenia (OOO Spetsmash, OOO Galoper, OOO AVA SERVICE, OAO Promtechservice) are engaged in sales and maintenance of Belarusian motor vehicles, tractors, and agricultural equipment.

One of the key corporate developments which had strategic significance for expansion of cooperation with EAEU member states occurred in the Power Engineering sector: the commencement of implementation of a large-scale investment project – construction of the Shnokh Hydro Power Plant. According to available information, the Russian corporate group Tashir revised the project design and developed an improved version, incorporating modern technological solutions. According to the new design, the plant will have an installed capacity of 124 MW (previously 76 MW). Investments in the project over a period of four years are estimated at US \$200 million.

Another power-sector-related event with positive implications for expansion of cooperation was approval by the new Armenian government, for extension of the operating life of the Armenian Nuclear Power Plant. The decision was announced by Nikol Pashinyan, the Armenian Prime Minister, upon completion of a meeting with Vladimir Putin, the Russian President, on September 8, 2018. Armenia expressed its intention to extend the operating life of the second power-generating unit at the existing NPP until 2040, concurrently with construction of a new NPP with assistance from Russia. Possible areas of cooperation have already been discussed with the General Director of Rosatom.

Notable events in the Transport sector include normalization of relations between ZAO South Caucasus Railway (a wholly owned Russian Railways subsidiary) and the new government of Armenia, following a period of tensions caused by statements made by one of the parties. Following the settlement of the situation, Nikol Pashinyan discussed ongoing and future transport infrastructure projects (in particular, the North–South transport corridor project) with the General Director of ZAO South Caucasus Railway, focusing on development and modernization of transport infrastructure, volume of passenger and freight transport, increased accessibility, and improved quality of services.

A joint project with the participation of ZAO Bank VTB (Armenia) and Gazprom Armenia, designed to create a platform for further strengthening of mutual relations with a view to enhancing energy industry performance in Armenia, also had a positive impact on the expansion of cooperation.

The same is true for the statement made by Dmitry Lelikov, Rostech Deputy General Director, announcing the intention to expand the presence of State Corporation Rostech in Armenia, at a Plenary Meeting on Technological Breakthrough and Potential of EAEU Member States, held within the framework of 2018 Eurasian Week in Yerevan. Such cooperation will encourage development of the instrument-making and computer-engineering sectors, where Armenia has considerable capacity.

Cooperative ties between Armenia and other EAEU member states are only beginning to take shape. Their active expansion would be facilitated by efficient logistical solutions capable of offsetting the negative effect of the lack of a common border between Armenia and its EAEU partners.

Belarus

In 2018 relations between Belarus and EDB/EAEU member states were characterized by expansion of cooperative and trade ties on the one hand, and on the other by attempts to resolve difficulties related to supply of Belarusian products to the Russian market and to supply of Russian oil and gas to Belarus. As concerns the sectoral structure of corporate relations between Belarus and EAEU member states, the Chemical Complex, the Fuel Complex, and Information and Computer Technologies continued to dominate throughout 2018.

An agreement was signed in 2018 in Moscow among the Zvezda Research and Production Concern (a joint venture with the participation of PAO Zvezda and the Ural Diesel Motor Plant), BELAZ, and the EDB on their intention to create high-tech facilities for the production of new-generation diesel engines with power ranging from 400 kW to 4,000 kW for use on BELAZ dump trucks with a load-carrying capacity of up to 450 tonnes. The new engines

have no analogues in EAEU member states, and can be used to reach import substitution targets in diesel-engine building in a number of sectors, including ship building, railway transport, quarry and mining equipment, and standalone power generation.

In August 2018, Belaruskali, the largest systemically important Belarusian chemical enterprise operating on the basis of the Starobin Potassium Salt Deposit, announced its development plans, in particular plans for the purchase in 2018–2019 of 350 new mineral hoppers. That area could become a potential niche for manufacturers and investors from other EAEU member states.

Examples of successful Russian-Belarusian cooperation include ZAO SP Bryansksemlash (assembly and sale of forage harvesters), OOO Amkodor-Bryansk (assembly and sale of special road construction and agricultural machinery), a joint venture with the participation of OOO MLM Nevsky Lift, OAO Managing Company of Minsk Motor Plant Holding, and OOO Managing Company Elektroagregat, as well as several joint programmes covering research, technologies, industry, construction, innovations and new technologies, space exploration, and information technologies.

To assure continued implementation of the Russian-Belarusian project for construction of the Nezhin Mining and Processing Plant on the basis of the Starobin Potassium Salt Deposit, project participants intend to invest in the project about EUR 950 million in 2018–2019. In December 2018, A.G. Lukashenko, President of the Republic of Belarus, expressed an interest in involving Belarusian specialists in the creation of the enterprise, with a view to training qualified personnel for the Belarusian economy.

At the beginning of 2018, SZAO Novinka, a member of the Russian-Belarusian FID Group specializing in development of innovative equipment designed to boost the efficiency of hydrocarbon extraction, announced a project to build a facility to manufacture high-tech equipment for extraction of crude hydrocarbons from oil mines. This new Belarusian equipment may prove to be of interest for the leading oil companies of Russia and Kazakhstan.

Belarusian ZAO Alfa-Bank and OAO Development Bank of the Republic of Belarus signed a general agreement on joint financing of small and medium-sized businesses. Under the agreement, Alfa-Bank intends to at least double its Development Bank cooperation investment portfolio compared to 2017 by financing operations of small and medium-sized businesses. That agreement provides another good example of Russian-Belarusian corporate ties.

At the beginning of 2018, Russia imposed restrictions on the supply of certain types of products from Belarus because of violations of EAEU requirements and standards. About 60% of all the identified problems were related to supplies of milk and dairy products. In 3Q 2018, there was a significant easing of restrictions. Thus, in September 2018 the Federal Service for Veterinarian and Phytosanitary Supervision (Rosselkhoz nadzor) lifted restrictions on supply to Russia of cheese, butter, curd cheese, and whole milk products (with the exception of dry milk products and bulk milk products, including those transported in consumer packages with volumes of more than 2.5 litres) manufactured by OAO Slutsk Cheese-Making Plant.

Russia and Belarus are generally quite successful in dealing with mutual restrictions on supply of animal products on the basis of a special roadmap.

To settle the situation with the supply of Belarusian animal products to the Russian market, the parties are trying to integrate their systems for tracing agricultural products – the Belarusian information system AITS-Traceability, and the Russian VetIS, integrated with the Mercury information system. Expanded use of electronic veterinary certificates will enable Belarusian and Russian enterprises to more promptly obtain market entry permits.

Belarus and Kazakhstan continued to implement joint projects within the framework of the programme Social and Economic Cooperation – 2026. In November 2018, the parties announced a joint project for the production of Belarusian drones in Kazakhstan. The parties also expressed an interest in joint utilization of the Khorgos–Eastern Gate Free

Economic Zone (on the Kazakhstan–China border) and the China–Belarus Great Stone Industrial Park, as points of expansion of cooperation between EAEU member states.

Belarus and Kazakhstan are actively expanding their cooperation in mechanical engineering; they have opened 13 facilities to assemble Belarusian machines (quarry and mine equipment, grain harvesters, engines, bailers, elevators, and several types of specialized trailers for use in agricultural production).

Belarus is also expanding its corporate relations with Kyrgyzstan and Tajikistan. Kyrgyzstan has been incorporated into the cooperative value-creation chain for the production of the “union agricultural tractor” announced in November 2018. In addition, Kyrgyzstan supplies to Belarus parts and accessories for motor vehicles (radiators for tractors and other agricultural machines), and equipment for thermal treatment of materials. Belarus and Kyrgyzstan also maintain active cooperation in research and education.

Another noteworthy development is the intention of Belarus to build a river port on the Dnieper, announced in November 2018. The Belarusian side believes that creation of the port may become a new transport corridor for Belarus, which Belarus will be able to use to carry cargoes along the Dnieper to Black Sea, Mediterranean Sea, and Caspian Sea ports. The Turkish company Derin Shipping & Trading Co has expressed its willingness to take part in the project, which could also promote cooperation between Belarus and its EAEU partners. According to the existing plans, cargoes required to support profitable utilization of capacity at the port terminal in the village of Nizhnie Zhary (Brahin District) will be provided by the Mozyr Refinery and the Petrikov Mining and Processing Plant (currently under construction by Belaruskali), both in Gomel Region.

In 2018, the Belarusian corporate sector was also affected by decisions made at the national and supranational levels.

For example, throughout 2018 Belarus sought to harmonize its national agenda in digital transformation of the economy with EAEU programme documents and projects, to secure mutual recognition of electronic digital signatures by EAEU member states, and to create a cross-border environment of trust.

Belarus pays special attention to development of common markets for gas, oil, and petroleum products, including the use of a symmetrical approach to transportation of gas within the EAEU. The main set of issues arising in the context of development of common hydrocarbon markets is related to arrangements between Russia and Belarus. Belarus insists that Russia should put in place a compensation scheme (to the tune of up to US \$310 million in 2019) to offset state aid programmes by the Russian government to support national oil-processing facilities in the wake of the repeal of the tax manoeuvre.

As of the beginning of 4Q 2018, Russia reduced duty-free supplies of petroleum products and liquefied petroleum gas (LPG) to Belarus. It was proposed to introduce an indicative supply balance for those products. The ban on exportation from Russia to Belarus applies to goods for which indicative balances have been agreed; it also covers straight-run gasolines, medium distillates, and heavy petroleum products as of September 1, 2018, and other goods (LPG, bitumen, benzene, etc.) as of October 1, 2018. In addition, as of August 1, 2018, Russia increased the rate of export duty on liquefied petroleum gas (LPG) from US \$0 per tonne to US \$18.1 per tonne. This gives rise to the need for Belarus to apply a similar duty, which may reduce the volume of Belarusian LPG exports.

A decision to establish a joint Russia-Belarus integration working group was prepared and was scheduled to be announced by December 2018. The working group is mandated to facilitate resolution of disputes in Russian-Belarusian relations, and to promote resolution of priority issues stipulated by the Treaty on the Creation of a Union State of Russia and Belarus. Russia insists that provision of additional preferences related to supplies of gas and oil and to certain other areas sensitive for

Belarus should be contingent upon the extent of implementation of previous agreements with respect to integration of the two countries and its further deepening.

Cooperation between Russia and Belarus continues on the regional level, as well. For example, in October 2018, participants of the 5th Forum of Belarusian and Russian Regions signed 76 new agreements on cooperation and contracts for a total of more than US \$500 million.

In addition, in December 2018 the Chambers of Commerce and Industry of Russia and Belarus signed an agreement on establishment of Russian-Belarusian and Belarusian-Russian Business Councils, comprising 27 Belarusian and 44 Russian representatives of the business community. Elimination of existing restrictions and creation of a level playing field will be at the top of the councils' agenda. The parties also see a lot of potential in expansion of cooperative ties, among other things, in import substitution and joint promotion of products in third-country markets.

Kazakhstan

In 2018 relations between Kazakhstan and EAEU member states were generally characterized by steady expansion of cooperation on both a multilateral and bilateral basis. Difficulties arising in trade in goods were promptly resolved and offset by new opportunities and decisions aimed at efficient utilization of EAEU potential, and of bilateral relations among its member states.

Throughout 2018, Kazakhstan made a number of important decisions. For example, in November 2018, the Ministries of Energy of Russia and Kazakhstan amended the inter-governmental agreement on supplies of oil and petroleum products to lift restrictions which had previously rendered Kazakhstan unable to export its light petroleum products. Partial lifting of restrictions will make it possible to regulate at the interdepartmental level matters related to importation of petroleum products from Russia to Kazakhstan and exportation of petroleum products from Kazakhstan to destinations outside the EAEU customs territory.

Kazakhstan's efforts in EAEU digitization deserve special mention. During the SEEC meeting on May 14, 2018, Nursultan Nazarbayev, President of Kazakhstan, suggested that, within the framework of the EAEU Digital Agenda, the Digital Projects and Initiatives Management Office should operate on the basis of the future International Technological Park for IT Start-ups in Astana. Implementation of the EAEU Digital Agenda was assigned the status of a national priority in Kazakhstan.

National satellite operators of Kazakhstan, Belarus, and Russia were involved in creation of an integrated information storage and retrieval system within the multinational programme Integrated System of EAEU Member States for the Production and Provision of Space and Geo-Information Services on the Basis of National Sources of Earth-Remote Sensing Data. In addition, during a May 2018 meeting of the Interstate Working Group tasked with development of the aforementioned multinational programme, the National Space Agency of Kazakhstan decided to organize production of medium-resolution Earth remote-sensing satellites at the Spacecraft Assembly and Testing Complex in Kazakhstan.

It should also be noted that on June 7, 2018, the Central Bank of the Russian Federation and the National Bank of the Republic of Kazakhstan signed an Agreement on Cooperation and Exchange of Information on Financial Market Supervision.

In furtherance of the Instruction of the EEC Council dated September 8, 2018, Kazakhstani and Russian customs bodies conducted, from September 20, 2018 to November 1, 2018, an experiment which involved monitoring of transit truck freight transport with the use of navigation seals. That stage precedes implementation of a cross-border freight transport tracking system using satellite navigation and electronic customs declarations.

Throughout 2018, Kazakhstan worked to adapt national procedures for registration and re-registration of medicinal drugs to EAEU rules, having implemented the latter pursuant to an order issued by the Ministry of Health of the Republic of Kazakhstan.

Apart from positive developments, relations between Kazakhstan and EAEU member states in 2018 were accompanied by mutual import bans, primarily with respect to agricultural goods and hydrocarbons. Still, the Presidents of Kazakhstan and Russia describe relations between the two countries as “flawless,” and seek to find constructive solutions to existing difficulties. The views of Kazakhstan and Russia on most key Eurasian integration issues coincide, as do their priorities in development of national economies and external economic ties.

In 2018 relations between Kazakhstan and Belarus evolved in a constructive way. In November 2018, the Governments of Belarus and Kazakhstan signed a “roadmap” outlining priority areas of cooperation between the two countries, including expansion of trade, supplies of equipment, and cooperation in agriculture, transport, and logistics. The parties also collaborate within the framework of the Plan for Development of Cooperation between the Governments of Belarus and Kazakhstan for 2019–2020, signed in November 2018, and the programme Social and Economic Cooperation – 2026. Other developments worth mentioning are the signing in May 2018 of the Memorandum on Cooperation in the Area of Peaceful Use of Nuclear Energy, and the focus of the parties on increasing trade turnover to US \$1 billion by 2020.

Relations between Kazakhstan and its third-largest EAEU partner, Kyrgyzstan, also evolved in a predominantly positive way, despite the difficulties occasionally arising in bilateral trade. In an attempt to resolve outstanding border issues, in August 2018 Kyrgyzstan signed a law ratifying a state border agreement between the governments of Kyrgyzstan and Kazakhstan, stipulating the rules that govern the maintenance and crossing of the border between the two countries, including passage of people and vehicles and movement of cargoes. In September 2018, the Mazhilis (Lower House) of the Parliament of Kazakhstan adopted, at its plenary session, the Law on Ratification of the Agreement between the Republic of Kazakhstan and the Republic of Kyrgyzstan on Demarcation of Kazakhstani–Kyrgyz State Border.

In December 2018, the Prime Minister of Kazakhstan signed a decree approving a draft Agreement between the Governments of Kazakhstan and Kyrgyzstan on Trade and Economic Cooperation in the Area of Supplies of Oil and Petroleum Products. Pursuant to the agreement, the parties must annually, before December 31 of the current calendar year, achieve a balance of production and internal consumption, and a balance of importation and exportation of goods by Kyrgyzstan, with an indication, among other things, of the volume of supplies of oil and petroleum products from Kazakhstan and Russia to Kyrgyzstan. The goods listed in Group 27 of EAEU IMEX CN supplied by Kazakhstan to Kyrgyzstan, pursuant to the agreement without imposition of export customs duties in Kazakhstan, may not be exported to third countries. In addition, Kazakhstan and Kyrgyzstan expanded their bilateral cooperation pursuant to the relevant “roadmap,” paying special attention to the potential for digital transformation of their economies in line with the EAEU Digital Agenda, and to cooperation in tourism; as with Belarus, the parties intend to boost their trade turnover to US \$1 billion.

Bilateral cooperation between Kazakhstan and Armenia evolved at a more moderate pace, and mostly in the area of trade in goods. In 2018 the parties discussed ways to expand their interaction in trade, investments, entrepreneurial activities, and migration.

The Fuel Complex is the key sector of Kazakhstani economy which attracts business from EAEU member states. Priority segments are production of crude oil and natural gas and, to a lesser extent, coal. Of all the EAEU member states, Kazakhstan retains the closest corporate integration ties with Russia. The number of Russian-Kazakhstani companies with a presence in Kazakhstan exceeds 6,000. There are about 100 ongoing or scheduled joint projects for a total of approximately US \$20 billion, with the participation of such Russian companies as Gazprom, Lukoil, INTER RAO UES, Mechel, Rusal, Rostech, Rosatom, Rostselmash, AvtoVAZ, VympelCom, and EuroChemUdobrenia.

The most significant events at the corporate level include the execution in June 2018 of an agreement between Lukoil and KazMunaiGaz with respect to the Zhenis Block in the Kazakhstani sector of the Caspian Sea, and amicable settlement of the dispute between the Government of the Republic of Kazakhstan and Karachaganak Petroleum Operating Consortium (where Lukoil is one of the shareholders). In December 2018, the Parliament of the Republic of Kazakhstan ratified an agreement envisaging continuation, jointly with Russia, of research for the Kurmangazy Project on the shelf of the Caspian Sea.

In 2018 special attention was paid to further strengthening of transport and logistical ties between Russian and Kazakhstani regions. Construction works were completed at the Russian section of the Kazan–Orenburg–Akbulak–Kazakhstani Border Highway, which became the final link in the international transport corridor between Western Europe and Western China. In addition, in 2018 the parties continued a close dialogue on implementation of the project for construction of the Eurasia high-speed freight/passenger railway corridor (Beijing–Astana–Moscow–Berlin).

As for cooperation with Belarus, TOO KazBelAZ (Karaganda Region), a Kazakhstani-Belarusian heavy truck assembly joint venture launched in 2015, remained the most significant project as at the end of 2018. The commodity distribution network for Belarusian goods in Kazakhstan included about 40 entities created with Belarusian equity participation, and more than 170 dealers. There were eight joint assembly plants (tractors, bailers, grain harvesters, agricultural machinery, MAZ motor vehicles). Significant opportunities may open up in the course of implementation of plans announced during a meeting of the Kazakhstan–Belarus Inter-Governmental Commission in November 2018, to produce Belarusian drones in Kazakhstan, and possible involvement of Kazakhstan in conversion of Gomselmash into a joint stock company, which may facilitate industrial cooperation between the two countries. In addition, Kazakhstan and Belarus have shown an interest, as described above, in joint projects on the basis of the Khorgos–Eastern Gate Free Economic Zone (Kazakhstan–China border) and the China–Belarus Great Stone Industrial Park.

No significant events or projects were noted in Kazakhstani-Armenian relations in 2018; however, Kazakhstan is interested in expanding cooperation with Armenia in the areas of innovation and scientific research.

One of the key projects with integration impact was the official opening in June 2018 of the Astana International Financial Centre and the IFCA Exchange. The financial centre operates on the basis of English law, and opens up wide-ranging opportunities for integration-related interactions among all EAEU member states and other countries, turning Kazakhstan into a full-scale regional financial hub.

The opening of the Astana Hub International Technological Park for IT Start-ups, which had been originally conceived as the nucleus of Kazakhstan's innovation-based ecosystem, became a landmark event in the innovative development of Kazakhstan and its EAEU partners. By 2022, investments in the Astana Hub are expected to reach about KZT 67 billion. The Business Angels Club, the Association of Venture Capitalists, and the Co-Investment Fund were established in the Astana Hub by the end of 2018 to provide financial backing to start-ups ideas; in addition, Technological Park residents were granted full exemption from corporate profit tax, value added tax, individual income tax, and social tax payments for non-resident workers, the right to pay dividend tax and capital gains tax at reduced rates, complete extraterritoriality, and simplified visa and employment regimes. The Technological Park offers great opportunities for inventors, technological entrepreneurs, and investors from all over the world.

It is also necessary to note one more high-promise project with a potential integration effect. In August 2018, Kazakhstan Temir Zholy (Kazakhstani Railways) finished design work for the Kuryk multimodal port. The project (including railway and motor vehicle complexes) is valued at KZT 97.7 billion. Total transport capacity of the multimodal port, assuming all-year operation and 100% infrastructure utilization, will amount to 7 million tonnes of cargoes. It is part of the Trans-Caspian route for delivery of cargoes from China, Central Asian countries, the Urals, and Siberia to Turkey and

Europe and back. Construction at the port is still under way. There are plans to launch a modern ship repair facility and plants for the production of metal structures and caissons.

Over the life of the EAEU, the number of joint projects with the participation of Kazakhstan and its EAEU partners has increased by 67.4%, and exceeded 10,000.

Kyrgyzstan

Economic cooperation between Kyrgyzstan and EAEU member states is focused, first and foremost, on Russia and Kazakhstan. The key cooperation areas are: Gas and Petroleum Products; Mining; Transport; Energy; Banking and Insurance; and the Agriculture and Food Industry.

Water power engineering is an important aspect of Kyrgyz economic development, and the country's main partner in that sector is Russia. In 2018 Russia and Kyrgyzstan continued their cooperation in the installation of engineering equipment at new small hydro power plants and existing large hydro power plants in Kyrgyzstan. The key stakeholders in that process were the Agency for the Protection and Promotion of Investments and the Russian company Ruselprom.

Another important component of the Kyrgyz economy is transport and logistics. Infrastructure enhancement was one of the key conditions for Kyrgyzstan's accession to the EAEU. In 2018 OAO Russian Railways announced its intention to take part in modernization and construction of railways in Kyrgyzstan. The proposed project covered modernization of existing railways and construction of new railways making up the North–South transport corridor. Russia is also considering involvement in the project for construction of the Uzbekistan–Kyrgyzstan–China railway.

In the course of the Kyrgyz–Russian Business Forum held in September 2018, the Russian–Kyrgyz Development Fund and Roseximbank signed a contract to finance acquisition of Russian equipment for the company GP NK Kyrgyz temir zholu. During the same event,

a contract for the supply of raw materials was signed between the Kyrgyz footwear manufacturer OsOO Imperial Group Company and AO Russian Leather.

In 2018 the Russian company GK Ecolos was engaged with OAO Avtoremontny Zavod in the localization of production of wastewater treatment equipment, with a view to subsequently sell such equipment in Kyrgyzstan and export it to Kazakhstan.

OsOO Avtomash-Radiator, a company that will be manufacturing components for the “union agricultural tractor,” and the Russian truck maker Kamaz conducted negotiations for the execution of a cooperation agreement. Avtomash-Radiator is wholly owned by OAO Kyrgyzavtomash, which is, in turn, owned by the Yekaterinburg-based Composite Group Holding.

Cooperation between Kyrgyzstan and Kazakhstan is expanding at a brisk pace: There are 334 Kazakhstani-Kyrgyz joint ventures registered in Kyrgyzstan; they operate in a range of sectors, including Finance, the Food Industry, Trade, Automotive Repairs, Household Appliances and Personal Use Items, Transport and Communications, and Construction.

The investor company OsOO Alliance-Altyn, holder of the license for development of the Dzheruy Gold Deposit in Talas Region, and the Kazakhstani company TOO AAEngineering Group have signed a contract for the construction of a gold recovery plant at the deposit. The contractors have secured guarantees from the Development Bank of Kazakhstan for US \$37.8 million.

In 2018 Kyrgyzstan’s Ministry of Agriculture, Food Industry, and Land Reclamation and the Kazakhstani company Prime Capital Retail and Management, specializing in wholesale trade in agricultural products, signed a Memorandum of Cooperation Intentions. The company is interested in procurement of agricultural products in Kyrgyzstan for subsequent sale in Kazakhstan.

From time to time, there emerge news reports that Kazakhstan or Russia return agricultural or food products produced in Kyrgyzstan, as the latter has failed to comply with EAEU technical regulations. Kyrgyzstan is actively working on creation of the laboratories and certification centres required to prevent recurrence of such situations.

Russia

The Foreign Policy Concept of the Russian Federation defines deepening and expansion of integration within the EAEU as a key policy objective. Development of Eurasian integration is also among the objectives set by Russia’s National Project International Cooperation and Export, launched in October 2018. The National Project is aimed at creation of an efficient division of labour and industrial cooperation system within the EAEU, and an increase in the volume of mutual trade and investments by EAEU member states by a factor of 1.5 or more. Russia has been adhering to these principles throughout its chairmanship of EAEU bodies in 2018.

One of the most important decisions adopted within the EAEU in 2018 that affects the interests of the largest Russian gas companies was approval of the Common EAEU Gas Market Creation Programme by SEEC Resolution No. 16, dated December 6, 2018. The steps envisaged by the Programme include transition to market pricing; development of competition; provision of non-discriminatory access to gas transportation systems, including Russian gas transportation systems; organization of gas auctions; and extension of other benefits to gas market participants.

In September 2018, customs authorities of Russia and Kazakhstan implemented an experimental pilot project which involved monitoring movement of transit truck transport through the territory of EAEU member states using GLONASS navigation seals (intelligent trackers). No delivery failures or customs rules violations were recorded during the experiment, which underscored the relevance of a single system for tracking transit traffic for the EAEU. Expansion of the project to the entire EAEU territory should have a positive impact on the corporate sector, and improve mutual trade terms.

A list of projects included in the multinational programme for development of an Earth remote-sensing (ERS) system was published at the beginning of 2018. The list included notably a project envisaging creation by EAEU member states of a joint orbital satellite fleet, which would include both satellites already launched into space, and new satellites to be designed in the future. In December 2018, the presidents of EAEU member states approved decisions authorizing commencement of joint production. Russia will be responsible for the design and development of spacecraft, Belarus for the production of electronic and optoelectronic components, and Kazakhstan for the final assembly of the satellites.

Russia is involved in numerous cooperative projects with the participation of all EAEU member states, but its most active partners in 2018 were Belarus and Kazakhstan. Cooperation with those countries was characterized both by emergence of problem situations which gradually came to a constructive resolution, and by transition of cooperative ties to a qualitatively new level.

The construction of the Belarusian Nuclear Power Station was the largest joint project that Russia and Belarus worked on in 2018; the first power generation unit is scheduled for launch at the end of 2019.

Russia and Belarus are also among the key participants in the “union agricultural tractor” project. The project is implemented in the form of extending the localization of the existing assembly of tractors from knocked-down kits provided by OAO Minsk Tractor Plant in the workshops of OAO Cherepovets Casting and Mechanical Plant. The Kyrgyz company Avtomash-Radiator is willing to contribute to the project by supplying radiators and air conditioning systems. There is a plan to increase the extent of localization by transferring production of tractor cabs, front axles, half-frames, and engines to Russia.

Russia and Belarus have agreed to build in Russia a new timber-harvesting equipment plant, and to execute an appropriate special investment contract which is scheduled to be signed at the beginning of 2019.

Cooperation between Russian and Belarusian high-tech enterprises is also evolving within the framework of a project for production of LED filament bulbs. It is expected that the project will be implemented in 2018–2019. The plan is to capture at least 25% of the EAEU LED market, which is equivalent to at least 150 million light bulbs per year. This will involve creation of the R&D and production capacity required to design “digital electronics” for household and industrial lighting systems.

In 2018 Russia and Kazakhstan signed a number of important documents to ensure steady expansion of their bilateral cooperation. These include amendments to the inter-governmental agreement on supplies of oil and petroleum products, lifting key restrictions on exportation of light petroleum products by Kazakhstan; the Joint Russia-Kazakhstan Action Plan for 2019–2021; and the Action Plan and List of Long-Range Regional Initiatives for Implementation of the Programme of Interregional and Cross-Border Cooperation between the Government of the Russian Federation and the Government of the Republic of Kazakhstan for 2018–2023.

It should also be noted that on June 7, 2018, the Central Bank of the Russian Federation and the National Bank of the Republic of Kazakhstan signed an Agreement on Cooperation and Exchange of Information in the Area of Financial Market Supervision. Finally, in July 2018 Russia and Kazakhstan agreed to reinstate projects for development of the Bayterek Launch Complex, which will be used to launch new-generation manned transport spacecraft, and for creation at the Baikonur Launch Complex of a special economic zone and a tourism and entertainment zone to promote space tourism. Those initiatives will be implemented in the public-private partnership format.

Cooperation between Russia and Kyrgyzstan also evolved at a steady pace. In April 2018, the parties signed a Programme for Cooperation between the Government of the Russian Federation and the Government of the Kyrgyz Republic for 2018–2021, which is aimed at development of cooperation between the two countries in power engineering, agriculture, the digital economy, interregional cooperation, and interactions between development institutions, among other areas. A special role in development of cooperation between the

two countries is played by the Russian-Kyrgyz Development Fund, which in 2018 provided funding to more than 550 enterprises, including approximately 350 agricultural firms. In addition, at the end of 2018 the Fund resolved to reduce the direct funding threshold from US \$1 million to US \$200,000, with a view to promoting development of small businesses in the Kyrgyz regions.

Russia, Belarus, and Kazakhstan are jointly involved in a large-scale project with high integration impact: construction of a plant for the production of pharmaceuticals and medicines. It is anticipated that Russia and Belarus will contribute to construction of the plant, direct production of pharmaceuticals and medicines, deployment and utilization of relevant technologies, and personnel training. Samruk-Kazyna Farmacia, Kazakhstan's consolidated distributor, will be responsible for selling the products manufactured by the plant.

The Eurasia high-speed cargo-and-passenger transportation railway line remained the largest transport project with the participation of Russia and several other EAEU member states that was under review in 2018. The project envisages construction of a high-speed railway from China to Europe, going through Kazakhstan, Russia, Belarus, Poland, and Germany. The project is valued at about US \$155 billion. Its main participants include the national railways of the participating countries: Russian Railways, Kazakhstan Temir Zholy, Belarusian Railways, and China Railways. The length of the railway will be 9,500 km; the value of the 2,300 km Russian section is estimated at RUB 3.58 trillion. For comparison, the value of the Belarusian section (from Brest to Krasnoe Station) is estimated at RUB 0.85 trillion, and of the Kazakhstani section (from Zolotaya Sopka to Dostyk) at RUB 2.66 trillion. The EDB intends to participate in financing construction of the Eurasia High-Speed Railway section from Moscow to Kazan; work on the feasibility study began in the autumn of 2018.

The opening of a Russian-Kazakhstani Transport and Logistical Hub in Ivanovo was also discussed in 2018. In particular, there are plans to use the hub for exportation of products from Kazakhstan to the Central Federal District of Russia and to the City of Moscow.

Construction was completed on the Russian section of the Kazan–Orenburg–Akbulak–Kazakhstani Border Highway, which became the final link of the international transport corridor between Western Europe and Western China.

The Fuel and Energy Complex remains a key area of economic interaction between Russia and Kazakhstan. Thus, in November 2018 the parties agreed to resume implementation of the Kurmangazy Oil and Gas Project, owned in equal shares by Rosneft and KazMunaiGaz. It was resolved to increase the territory developed by contractors under this North Caspian hydrocarbon project by more than 2,000 metres. The geophysical research budget will amount to about US \$30 million, the drilling budget to about US \$50 million.

In addition, in May 2018 the Russian company EuroChem announced its plans to invest up to US \$500 million in a project for construction in Kazakhstan of a mineral (water-soluble) fertilizer production facility with a capacity of 1 million tonnes on the basis of the Karatau phosphorite basin deposits.

Another notable development was the signing in November 2018 of a memorandum between the Russian accelerator GenerationS, operating under AO Russian Venture Company, and the Kazakhstani innovation and technology company DAR Lab, specializing in creation of logistical and supply chain start-ups. The document will enable Kazakhstani start-ups to implement projects on behalf of international companies in the Russian Federation. Partnership with the Russian company will provide the Kazakhstani side with access to international competencies.

Russian-Armenian cooperation is evolving predominantly in such sectors as Metallurgy, Energy, Jewellery, and Information Technologies. A Memorandum on Development of Cooperation in the EAEU in Production and Utilization of Energy-Efficient Transformers Manufactured from High-Permeability Electrical Steel was signed in December 2018. The list of project participants includes producers from Armenia, Belarus, and Russia.

To conclude, EAEU member states maintain active mutual ties both in multilateral and bilateral formats. The main difficulties in cooperation among EAEU member states in 2018 were observed in trade in primary commodities, including hydrocarbons and agricultural goods. However, integration processes with the participation of EAEU member states, including the Union State of Russia and Belarus, facilitate gradual elimination of restrictions on mutual supplies

of products manufactured by EAEU member states, and harmonization of cooperation in other areas. It should be noted that cooperation among EAEU member states in the Fuel and Energy Complex, certain other sectors, including Mechanical Engineering and Space Exploration, digital transformation of national economies, and a number of other areas is evolving in a generally positive manner, contributing to the build-up of the Union's economic potential.

Work to secure successful joint development and economic growth of the EAEU is being done at all levels: at the level of EAEU supranational bodies, at the level of national governments and agencies, and at the level of individual enterprises. Significant progress was made in 2018 in all development areas, resulting in positive changes in key macroeconomic indicators, volume of trade in goods and services, and expansion of cooperative efforts through numerous joint projects. The constructive approach of member states towards resolution of differences based on their common interest in achieving an overall positive integration impact remains an important factor facilitating their progress along the path of integration.

The background is a solid blue color with a large, stylized number '4' in a darker blue shade on the left side. On the right side, there are several overlapping, curved, abstract shapes in various shades of blue, creating a sense of depth and movement.

4.

**EDB Projects: 2018
Results and Plans for
2019–2022**

The mission of the EDB is to promote development of market economies in its member states, and to assure their steady economic growth and the expansion of their mutual trade and economic ties through investment activity. In all its pursuits, the EDB identifies priorities critical for each

member state, subject to its economic needs and competitive status, always taking into consideration the resources available to the Bank. This approach makes it possible to formulate tasks that are fully relevant for each individual country, and to provide the tools required for their implementation.

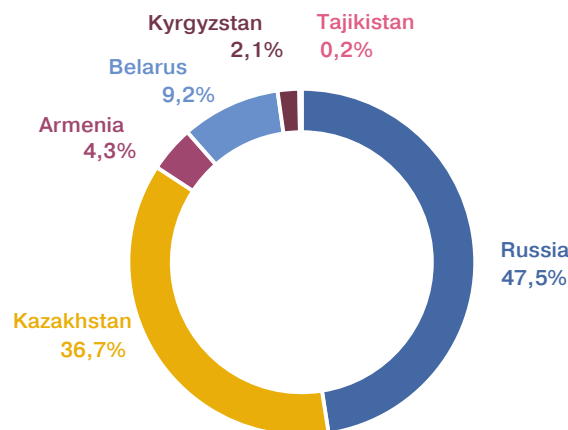
RESULTS OF PROJECT ACTIVITY OF THE BANK IN 2018

In line with the approved Strategy for 2018, the EDB continued to focus on financing projects with a strong integration effect, and on national development projects. By the end of 2018, the Bank's portfolio consisted of 85 projects: 84 projects in the 6 member states of the Bank, and one project for participation in a direct investment fund. In 2018, the Bank's investment portfolio increased by 29 projects with a total value of US \$1,393,590,000, including 17 projects in the real sector of its member

states, and 12 projects in the financial sector. Total investments made by the Bank in 2018 exceeded the 2017 level by a factor of more than 2.5, and the Strategy target by a factor of approximately 1.5.

At the end of 2018, like the year before, projects implemented in the Russian Federation and the Republic of Kazakhstan made up the bulk of the current investment portfolio.

Figure 70. Shares of EDB Member States in the Bank's Investment Portfolio in 2018, %

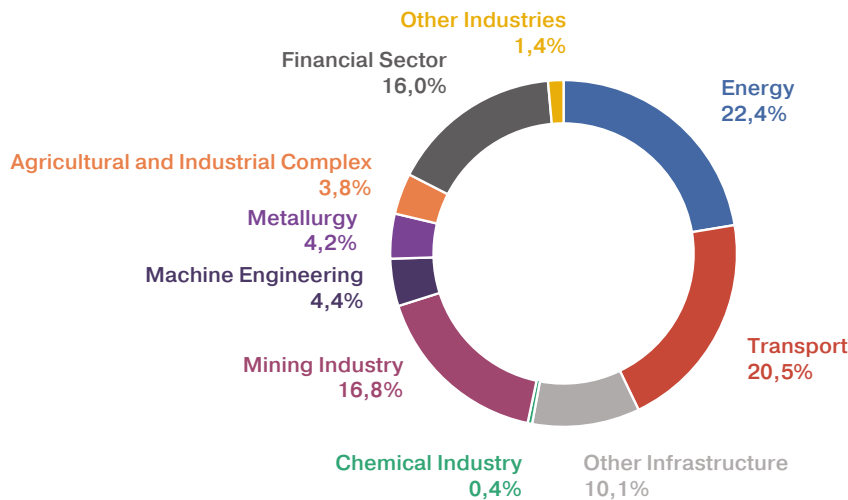


Source: EDB data

Taking into consideration the globally recognized role of infrastructure in stimulating economic growth and development, and the role played by multilateral development banks in mobilization of capital to finance infrastructure projects, in 2018 the EDB paid special attention to projects in the Infrastructure sector. Accordingly, in 2018 the sectoral structure of the current investment portfolio of

the Bank sustained certain changes. There was an increase in the shares of Energy projects (from 18.5% to 22.4%) and Transport projects (from 18.9% to 20.5%). Conversely, there was a decrease in the shares of Finance projects (from 20.6% to 16.0%) and Metallurgy projects (from 6.6% to 4.2%).

Figure 71. Sectoral Structure of the Investment Portfolio of the Bank in 2018, %



Source: EDB data

In 2018 the EDB, acting as a multilateral development bank which operates in alignment with the global agenda, also paid considerable attention to “green” financing projects with positive environmental impact. Such projects were implemented in the Municipal Infrastructure sector (funding for municipal water utility investment programmes) and in the Renewable Energy Sources (RES) sector.

In addition to financing large-scale integration projects, the EDB pays much attention to the development of small and medium-sized enterprises (SMEs). The Bank supports that sector of the economy by opening credit lines to commercial banks operating in its member states. In 2018 the Finance sector accounted for

16% of the total investment portfolio. During the year, the Bank commenced implementation of five projects envisaging extension of funding to commercial banks for on-lending to SMEs: two projects in Armenia (US \$36 million), one project in Kazakhstan (US \$20 million), one project in Kyrgyzstan (US \$10 million), and one project in Russia (RUB 600 million).

As in previous years, the goal of the Bank was to ensure that the share of integration projects in its current investment portfolio exceeds 50%. By the end of 2018, the share of such projects was about 59%. Support of integration projects by the Bank facilitates expansion of trade and economic interactions among EDB member states.

PROJECTS WITH MAXIMUM INTEGRATION IMPACT

Armenia

In 2018 the Bank’s current investment portfolio in Armenia was supplemented with three projects, with two of those embedded in the Finance sector and aimed at development of SMEs and support of microfinancing programmes.

A key project with a significant integration component involved refinancing of current credit obligations and financing of current operational activities of ZAO Armenian Power Grid (EUR 17.1 million).

By supporting operational activities of the company (which has been a part of the Russian Tashir industry and construction group), the EDB project contributes to the strengthening of interaction between Armenia and Russia in the Energy sector, which is strategically important for the Armenian economy. In addition to extending a revolving credit line, the EDB is currently conducting negotiations with international financial development institutions (EBRD, ADB, IFC) to arrange in 2019 a long-term (until 2027) syndicated loan to finance the ZAO Armenian Power Grid investment programme, designed to modernize the company's distribution networks and distribution substations, connect new consumers, replace and install power meters, deploy an Automated Power Metering System (APMS), and implement an automated Management Information System (MIS) and international governance standards (ISO). The project is expected to guarantee uninterrupted transmission and distribution of electric power in the Republic of Armenia. The project will enhance sustainability of economic growth by assuring a stable supply of power to the national economy.

Belarus

In 2018, the Bank's current investment portfolio in Belarus was supplemented with three Finance projects (OAO Belgazprombank, OAO Belinvestbank Belarusian Development and Reconstruction Bank, and OAO Joint Stock Savings Bank Belarusbank). The purpose of the projects is to facilitate development of the Belarusian economy through improvement of financing terms. The projects are not readily classifiable as integration projects, but imply the possibility of credit support of trade operations which may have an integration impact.

Kazakhstan

In 2018 the Bank financed eight projects in the Republic of Kazakhstan. Two of those have a significant integration impact.

- Deployment of in-pit crushing and conveying technology for coal production at the Bogatyr Open-Pit Coal Mine (EUR 196.9 million).

TOO Bogatyr Komir is a major coal company included in the list of Kazakhstani coal companies supplying coal to 12 power stations in Russia. The investment project, which is being implemented with EDB assistance, envisages modernization of production by transition to in-pit crushing and conveying coal-production technology. This will make it possible to boost aggregate coal output to 50 million tonnes, improve the quality of the end product, reduce raw material production costs, and minimize deleterious environmental impact. It is expected that part of the mine's output will be exported from Kazakhstan to Russia.

- Construction of the Nur Zholy motor vehicle crossing point at the Almaty–Khorgos Highway section of the Western Europe–Western China international transit corridor (KZT 32 billion).

The project envisaging construction of the Nur Zholy motor vehicle crossing point at the Almaty–Khorgos Highway section in Kazakhstan is a critical transport infrastructure project with material integration impact. This is the first privately financed project in the Republic of Kazakhstan using the public-private partnership model; it is also the largest such project in Central Asia. K. Bayedilov, Deputy Minister of Finance of the Republic of Kazakhstan, noted that the new crossing point is the main gateway of the Western Europe–Western China corridor, fitted with state-of-the-art technical equipment. Today it is the only cross-border project for transport infrastructure development agreed upon by the governments of Russia and Kazakhstan.

Kyrgyzstan

In 2018 the Bank's current investment portfolio in Kyrgyzstan was supplemented with four projects in the Finance sector. One of those projects has a significant integration impact: extension of a special-purpose revolving credit line to the international organization Russian-Kyrgyz Development Fund to finance purchases of raw materials, accessories, spare parts, and components for investment projects directly financed by the Fund, and for special-purpose programmes of the Fund financed through Kyrgyz commercial banks (US \$50 million).

The funds are earmarked for the financing of investment projects implemented by the Fund in Kyrgyzstan, and of for the financing of the Fund's special-purpose programmes through Kyrgyz commercial banks. Interaction between the two international development institutions will facilitate development and modernization of Kyrgyz economy, and create conditions conducive to the deepening of economic integration of EDB member states.

Russian Federation

In 2018 the Bank's current investment portfolio in Russia was supplemented with 10 new projects, including the following:

- Financing of PAO State Transport Leasing Company, including extension of funding for the construction of a Project RSD59 dry-cargo vessel and 10 Belmax tank barges for subsequent leasing to OOO Pola Rise and OOO Belmax Shipping Company (US \$50.5 million).

Funds provided by the EDB to the State Transport Leasing Company (STLC) will be used to build a Project RSD59 dry-cargo vessel and 10 BELMAX tank barges. Upon completion of construction, the vessels will be handed over under financial leasing agreements to be used for transportation of cargoes and petroleum products along Russian waterways. The project will contribute to attainment of an important objective – upgrading the river fleet used by the Transport industry. The project will also improve transport accessibility of remote Russian territories, and boost Russian exports.

- Financing of the PAO Federal Grid Company UES project, envisaging construction of a wind park with installed capacity of 90.09 MW in Azov District (Rostov Region, Russian Federation) (RUB 9.5 billion).

The investment project envisages construction of the Azovskaya WPP wind park with a capacity of about 300 GWh per year. The facility will be using renewable energy sources (under an RES Capacity Delivery Agreement), thereby ensuring a considerable reduction of carbon dioxide emissions. The wind park will be put in operation in 2020, and all output will be supplied to the wholesale power market. In line with localization standards currently in effect in Russia, 65% of equipment to be installed in the wind park (including assembly works) will be manufactured in the Russian Federation. Localization of WPP components for the project will promote development of high-tech equipment production in Russia; subsequently these technologies may be used to advance the use of RES both in Russia and in other EAEU member states.

- Expansion of the KamAZ truck product range and modernization of production facilities (RUB 9.5 billion).

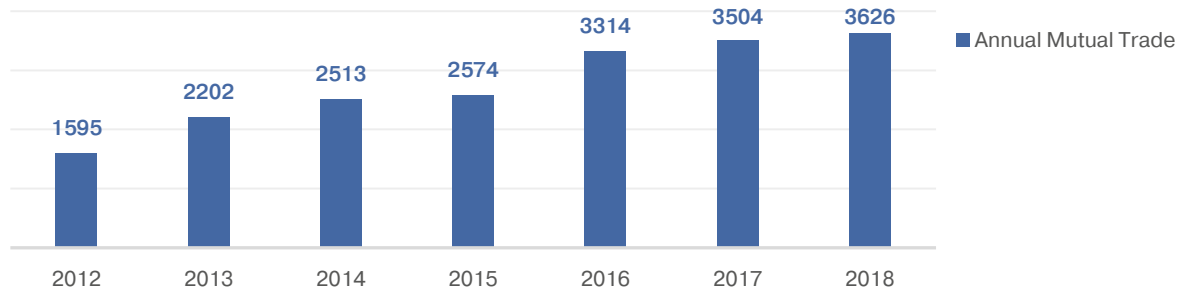
The EDB has provided funds to PAO KAMAZ in the amount of more than RUB 9.5 billion, in particular to finance the company's investment programme. The funds will be used to finance the most important investment project of PAO KAMAZ (expansion of the KamAZ truck product range and modernization of production facilities), envisaging construction of compact high-tech production facilities for the manufacturing of new-generation trucks (K5). Production of new trucks will significantly improve Russia's export potential (including exports to other EAEU member states).

SOCIAL AND ECONOMIC PERFORMANCE

FACILITATION OF INTEGRATION PROCESSES

In 2018 the share of integration-related projects in the current investment portfolio of the Bank remained rather high (despite the significant expansion of the portfolio), and at the end of the year exceeded 58.8%, thus meeting the 50% target met.

Figure 72. Changes in the Volume of Mutual Trade under Projects Financed by the EDB, US \$ million



Source: EDB

Investment projects are continuously assessed for their compliance with the Bank's mission and strategic objectives. Analysis of investment projects is performed to measure their impact on sustainable development, market economy development, and integration of EDB member states. One of the key indicators is the volume

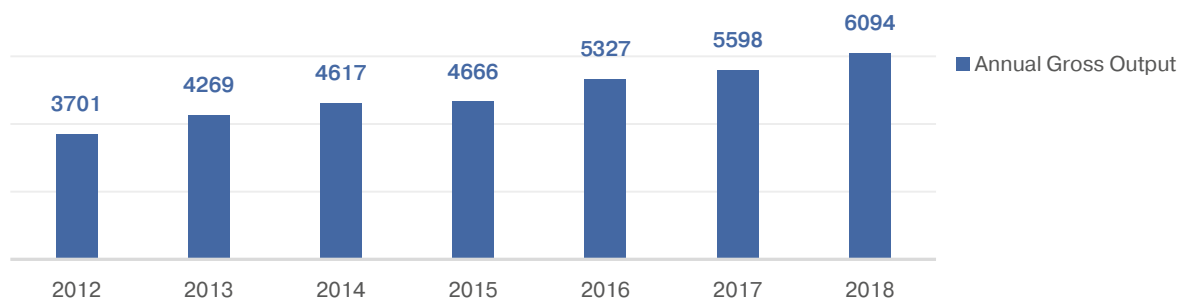
of mutual trade.²⁴ According to the Bank's estimates, as of December 31, 2018, the EDB investment portfolio was capable of generating mutual trade flows at a rate of US \$3,626 million per year. The Bank also conducts strategic monitoring of its projects and related sectoral risks.

CONTRIBUTION TO SUSTAINABLE DEVELOPMENT

The Bank's investment portfolio is characterized by considerable multiplicative effect, stimulating additional output in the neighbouring sectors of the economy. Sustainable economic development impact implies growth of production, employment, and individual incomes, high budget performance, mobilization of investment capital, implementation of innovations, and

improvement of the environment. In that connection, it should be noted that the projects implemented with the Bank's participation have a material social and economic impact, and are capable of generating, on the average, about US \$6.94 million of annual gross output in critical sectors of the economy of the Bank's member states.

Figure 73. Changes in the Volume of Gross Output under Projects Financed by the EDB, US \$ million



Source: EDB

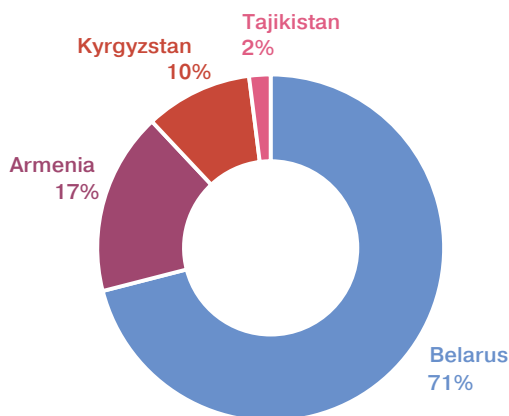
²⁴ Volume of mutual trade is defined as average annual trade turnover between the Bank's member states generated by implementation in member states of projects involving purchase of raw materials, sale of finished products, purchase of equipment, etc.

PROJECTS SPONSORED BY THE EURASIAN FUND FOR STABILIZATION AND DEVELOPMENT

The Eurasian Fund for Stabilization and Development (EFSD, the Fund; previously known as the EurAsEC Anti-Crisis Fund) is a US \$8.513 billion regional funding mechanism which was established in 2009 by Armenia, Belarus, Kazakhstan, Kazakhstan, Russia, and Tajikistan. The EDB acts as the manager of the Fund, and directly coordinates its activities. The purpose of the Fund is to overcome the negative aftermath of the crisis, assure long-term sustainability, and promote integration of the economies of its member states.

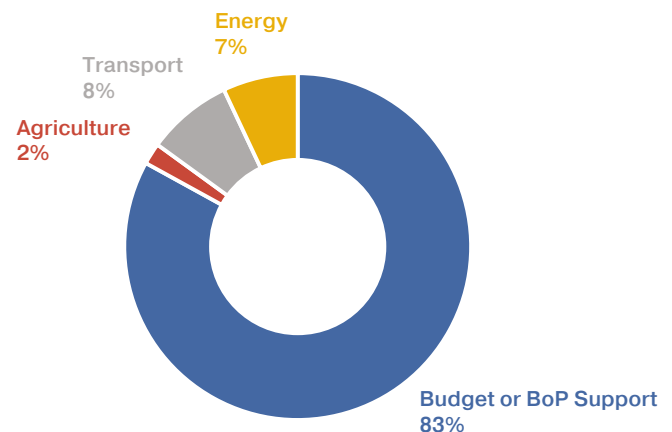
In 2018, the EFSD extended US \$216,923,000 in the form of financial credits and investment loans and grants to support social projects, including financial credit No. 2 to the Republic of Belarus (US \$200 million), an investment loan to finance supplies of agricultural equipment to the Kyrgyz Republic (US \$3 million), an investment loan to finance reconstruction of the Bishkek–Osh Highway (US \$7 million), an investment loan to finance restoration of the Toktogul Hydro Power Plant in the Kyrgyz Republic (US \$5.8 million), an investment loan to finance modernization of irrigation systems in the Republic of Armenia (US \$1 million), and a grant to finance measures to improve prevention and control of non-infectious diseases in the primary health-care system of the Republic of Armenia (US \$150,000).

Figure 74. Country Structure of the Current Portfolio at the End of 2018, %



Source: EDB data

Figure 75. Sectoral Structure of the Current Portfolio at the End of 2018, %



Source: EDB data

At the end of 2018, the EFSD current project portfolio consisted of three financial credits for a total of US \$2,320 million (83%), six investment loans for a total of US \$480 million (17%), and one grant for a total of US \$1 million. The Transport and Energy sectors accounted for the bulk of investment loans (US \$210 million each, or 7.5%).

PLANS OF THE BANK FOR 2019–2022

According to EDB targets, as set by the current Strategy for 2018–2022, by the end of 2022 the current investment portfolio of the Bank will have increased from US \$2.3 billion to US \$3.6 billion, while the total value of new EDB projects to be implemented in 2018–2022 will have reached US \$4.6 billion.

In 2018–2022, the Bank will focus its investment activity on the following sectors:

- Infrastructure (Transport, Utility, Other)
- Power Engineering
- Chemical and Petrochemical Industry
- Mechanical Engineering
- Metals and Mining
- Oil and Gas
- Agroindustrial Complex
- Financial Sector
- IT Services.

The selection of sectors is based on their integration potential, provisions of member-state national development programmes, findings of in-house analyses of member-state competitive advantages (sectors with competitive export potential), and investment appeal. The Bank also took into consideration the current and projected macroeconomic situation in its region of operations. This list includes priority sectors, but is not exhaustive.

In addition to preferential treatment of projects with a strong integration impact and national development projects, in 2019–2022 the Bank will place a special emphasis on “green” financing projects. These include projects that have a positive environmental impact and prevent climate change or mitigate its adverse consequences. Such projects can be implemented in a broad range of economic sectors, including power engineering (primarily based on renewable energy sources), transport

and municipal infrastructure, and various mining and processing sectors. The projects should also improve the quality of life of the general population, increase the competitiveness of the economy, and assure rational utilization of resources. Their inclusion on the list of target projects was influenced by the fact that multilateral development banks are among the world’s most important providers of “green” financing. The EDB also plans to increase its “green” project portfolio to facilitate attainment of the sustainable development objectives of its member states.

The target “optimal” participation of the Bank in projects is assumed to range from US \$20 million to US \$200 million. The Bank will also consider the possibility of involvement in projects with values ranging from US \$10 million to US \$15 million, such projects to be implemented primarily in member states with relatively small economies, specifically Kyrgyzstan, Armenia, and Tajikistan. At the same time, seeking to expand its project portfolio, the Bank may finance projects with values below that threshold.

In 2018 the EDB investment portfolio expanded through addition of new projects from all member states. The Bank’s investment activities were focused on infrastructure development, with a special emphasis on environmental protection and development of small and medium-sized enterprises. These EDB operating areas will retain their priority status in 2019–2022.

5.

Changes in ‘Ease of Doing Business’ Rankings of EAEU Member States as an Indicator of EAEU Economic Development

The fact that in 2018 all EAEU member states rose in the Ease of Doing Business ranking was one of the key outcomes of joint active work carried out by the EDB, the EFSD, supranational EAEU institutions, national agencies, and the business communities of EAEU member states to expand cooperative ties among member-state enterprises, improve the business environment in the common economic space,

make goods and services produced within the EAEU more competitive, and promote investment cooperation. Improved positions in the ranking are indicative of the synergies produced by the joint efforts of all participants in the integration process, providing clear proof that each of them wins as a result of their hard joint work.

The Doing Business project provides objective measures of business regulations and their enforcement across 190 economies and selected cities at the subnational and regional level.

The Doing Business project, launched in 2002, looks at domestic small and medium-size companies and measures the regulations applying to them through their life cycle. The Doing Business research methodology and cost analysis model are the only standard tool used throughout the world to assess the impact of government regulations on corporate performance.

By gathering and analysing comprehensive quantitative data to compare business regulation environments across economies and over time, Doing Business encourages economies to compete towards more efficient regulation; offers measurable benchmarks for reform; and serves as a resource for academics, journalists, private sector researchers, and others interested in the business climate of each economy.

In addition, Doing Business offers detailed subnational reports, which exhaustively cover business regulation and reform in different cities and regions within a nation.

Official Doing Business website
(<http://russian.doingbusiness.org>)

Kazakhstan posted the best score for improvement (up by 8 places) and occupied the highest position among EAEU member states (No. 28), overtaking Russia (No. 31). Kyrgyzstan also recorded a large gain in 2018 (up by 7 places), but still had the lowest ranking among EAEU member states (No. 70).

Table 21. Changes in Ease of Doing Business Rankings of EAEU Member States in 2018

| EAEU Member State | Position in the Ranking | |
|-------------------|-------------------------|----|
| Kazakhstan | 36 | 28 |
| Russia | 35 | 31 |
| Belarus | 38 | 37 |
| Armenia | 47 | 41 |
| Kyrgyzstan | 77 | 70 |

Source: Doing Business 2018, Doing Business 2019

Kazakhstan improved its ranking because it:

- made starting a business easier by reducing the time required for value added tax registration;
- made trading across borders easier by introducing an electronic customs declaration system, as well as reducing customs administrative fees;
- made enforcing contracts easier by improving judicial procedures.

Kyrgyzstan scored a significant increase in its ranking because it:

- strengthened minority investor protections by increasing shareholders' rights and role in major corporate decisions, strengthening the independence of boards of directors, and barring subsidiaries from acquiring shares issued by their parent companies;
- made trading across borders easier by streamlining exports within the Eurasian Economic Union;
- made enforcing contracts easier by introducing a pretrial conference as part of the case management techniques in court and adopting a consolidated law on voluntary mediation;

- made resolving insolvency easier by facilitating the continuation of the debtor's business during insolvency proceedings and granting creditors greater access to information on the debtor's financial situation during the proceedings.

Armenia managed to improve its ranking because it:

- made starting a business easier by allowing voluntary value added tax registration at the time of business incorporation;
- made getting electricity faster by imposing new deadlines for procedures to obtain a new electrical connection;
- strengthened minority investor protections by increasing disclosure of transactions by related enterprises, clarifying ownership and control structures, and requiring greater corporate transparency;
- made paying taxes easier by introducing administrative measures to ease compliance with corporate income tax rules;
- made enforcing contracts easier by introducing a simplified procedure for small claims and time standards for key court events.

Russia went up in the ranking because it:

- made the process of obtaining a building permit faster by reducing the time needed to obtain construction and occupancy permits, and increased quality control during construction by introducing risk-based inspections;
- made getting electricity faster by imposing new deadlines for connection procedures, by upgrading the utility's "single window" as well as its internal processes, and by reducing the costs to obtain a connection to the electricity network;
- made paying taxes less costly by allowing a higher tax depreciation rate for fixed assets;
- made trading across borders easier by prioritizing online customs clearance and introducing shorter time limits for its automated completion.

Belarus made progress in improving conditions for doing business because it:

- made starting a business easier by abolishing the requirement to register the book of Registry of Inspections and allowing its purchase within six months of incorporation;
- made obtaining construction permits easier by streamlining the process at with a "single window."

Setting and achieving new, even more ambitious integration expansion targets will facilitate further successful joint economic development of the EAEU member states.

ABOUT EDB

Eurasian Development Bank (EDB) is an international financial organisation established to promote economic growth in its member states, extend trade and economic ties between them and to support integration in Eurasia by implementing the investment projects.

The Bank was conceived by the Presidents of the Russian Federation and the Republic of Kazakhstan and established in 2006. EDB member states include the Kyrgyz Republic, the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Republic of Tajikistan, and the Russian Federation.

Facilitation of integration in Eurasia as well as information and analytical support thereof are among the most important goals of the Bank.

In 2011, the EDB Centre for Integration Studies was established. The key objectives of the Centre are as follows: organisation of research, preparation of reports and recommendations to the governments of EDB member states on the matters of regional economic integration.

Over the last years, the EDB Centre for Integration Studies has proved itself as a leading analytical think-tank dealing with the issues of Eurasian integration. In partnership with the experts, research centers and institutions, the Centre has published more than 50 reports and prepared more than 60 notes and briefs for Presidential Executive Offices, Ministries of EDB member states, and the Eurasian Economic Commission.

More detailed information about the EDB Centre for Integration Studies, its projects, publications, research fields, as well as electronic versions of its reports is available on the website of the Eurasian Development Bank at:

<https://eabr.org/en/analytics/integration-research/>

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INFORMATION ABOUT PREVIOUS REPORTS:

2012



Report 1 (RU / EN)

Comprehensive Assessment of the Macroeconomic Effects of Various Forms of Deep Economic Integration of Ukraine and the Member States of the Customs Union and the Common Economic Space

The main goal of the project is to assess a macroeconomic effect of the creation of the Customs Union and Single Economic Space of Russia, Belarus and Kazakhstan, and to determine prospects of the development of integration links between Ukraine and the CU.



Report 2 (RU / EN)

Studies of Regional Integration in the CIS and Central Asia: A Literature Survey

This report, published under auspices of the EDB Centre for Integration Studies, summarizes both international studies in the area of regional integration within the former Soviet Union and Russian language materials on this issue.



Report 3 (RU)

Labour Migration in the CES: Economic Effects and Legal-Institutional Consequences of Labour Migration Agreements

The project included analysis of two labour agreements that came into force on January 1, 2012 within the SES of Russia, Belarus and Kazakhstan. It analyzes their economic and social impact on labour migration processes, labour market and productivity, strengthening of the regional economic relations.



Report 4 (RU / EN)

EDB Integration Barometer 2012

The EDB Centre for Integration Studies in cooperation with the Eurasian Monitor International Research Agency examined the approaches of population to regional integration.



Report 5 (RU)

Threats to Public Finances of the CIS in the Light of the Current Global Instability

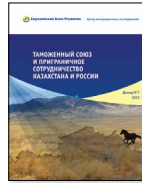
The report deals with the assessment of the risks for the government finances of the CIS countries in the light of current world instability.



Report 6 (RU / EN)

Monitoring of Mutual Investments in the CIS

The monitoring of mutual CIS investments provides analytical support for work conducted by state and supranational agencies on developing a suitable strategy for deepening integration processes throughout the post-Soviet space.



Report 7 (RU)

Customs Union and Cross-Border Cooperation between Kazakhstan and Russia

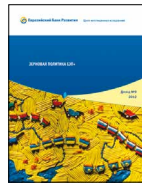
Research on the economic effects of the development of industrial relations under the influence of the Customs Union in the border regions of Russia and Kazakhstan.



Report 8 (RU)

Unified Trade Policy and Addressing the Modernization Challenges of the SES

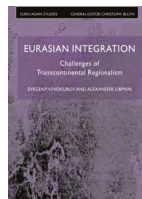
The report presents an analysis of the key economic risks arising under the agreement by SES participants of a foreign trade policy, formulates proposals on the main thrusts of SES Common Trade Policy, and names measures for its reconciled implementation.



Report 9 (RU)

SES+ Grain Policy

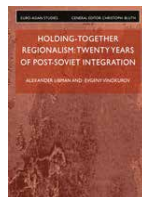
Growth in grain production is propelling Kazakhstan, Ukraine and Russia to the leadership ranks of the global grain market. The report systematically analyzes trends in development of the grain sector and actual policies and regulations in SES countries, Ukraine and other participants of the regional grain market.



Eurasian Integration: Challenges of Transcontinental Regionalism (EN)

Evgeny Vinokurov, Alexander Libman

The book examines the major economic and political transitions currently taking place in the Eurasian continent. The authors provide a detailed account of various aspects of Eurasian integration, looking at both its bright side (trade, investments and joint infrastructure) and dark side (trafficking humans and drugs and the spread of diseases) and linking it to waves of "Eurasian exchanges" in the past.



Holding-Together Regionalism: Twenty Years of Post-Soviet Integration

Alexander Libman, Evgeny Vinokurov

An in-depth analysis of one of the most important and complex issues of the post-Soviet era, namely the (re-) integration of this highly interconnected region. The book considers the evolution of "holding-together" groups since the collapse of the Soviet Union in 1991, looking at intergovernmental interaction and informal economic and social ties.



Eurasian Continental Integration (RU)

Evgeny Vinokurov, Alexander Libman

This monograph analyses integration processes on the Eurasian continent. It considers prospects for and pre-requisites of a successful Eurasian integration and offers a coherent concept of Eurasian economic integration. The authors contend that Eurasian continental integration could become a key driving force in the integration of trade, energy resources and other commodities, transportation industry, the flows of capital and labour, and the counteraction to cross-boundary threats.

2013



Report 10 (RU) Technological Coordination and Improving Competitiveness within the SES

The report presents a number of proposals aimed at improving SES competitiveness within the international division of labour.



Report 11 (RU) The Customs Union and Neighbouring Countries: Models and Instruments for Mutually Beneficial Partnership

The report proposes a broad spectrum of approaches to the fostering of deep and pragmatic integrational interaction between the CU/SES and countries throughout the Eurasian continent.



Report 13 (RU) Labour Migration and Human Capital of Kyrgyzstan: Impact of the Customs Union

The report focuses on the effects of Kyrgyzstan's possible accession to the Customs Union (CU) and Single Economic Space (SES) on the flows of labour resources, the volume of cash remittances, labour market conditions and professional education and training in this country.



Report 14 (RU) Economic Impact of Tajikistan's Accession to the Customs Union and Single Economic Space

The report includes a detailed economic analysis of the issue using various economic models and research methods.



Report 15 (RU / EN) Monitoring of Mutual Investments in the CIS 2013

The report contains new results of the joint research project of the EDB Centre for Integration Studies and the Institute of World Economy and International Relations of the Russian Academy of Sciences. It is aimed at the maintenance and development of the monitoring database of mutual direct investment in the CIS countries and Georgia. A general characteristic of mutual investments in the CIS at the end of 2012 is provided.



Report 16 (RU / EN) EDB Integration Barometer – 2013

The EDB Centre for Integration Studies in cooperation with the Eurasian Monitor International Research Agency examined the approaches of population to regional integration.



Report 17 (RU) Cross-Border Cooperation between Russia, Belarus and Ukraine

Cooperation between 27 cross-border regions of Belarus, Russia and Ukraine has significant potential; however the existing frontiers and barriers are a significant factor that fragments the region's economic space.



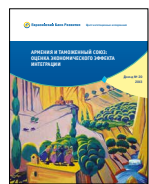
Report 18 (RU / EN) Customs Union and Ukraine: Economic and Technological Cooperation in Sectors and Industries

The authors of the report study the issue of industrial and inter-industry links between the SES economies and Ukraine and come to a conclusion that cooperation between enterprises has been maintained in practically all segments of the processing industries, while in certain sectors of mechanical engineering this cooperation has no alternatives.



Report 19 (RU / EN) Monitoring of Direct Investments of Belarus, Kazakhstan, Russia, and Ukraine in Eurasia

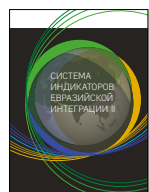
The Eurasia FDI Monitoring project supplements another research by the EDB Centre for Integration Studies – Monitoring of Mutual Foreign Investment in the CIS countries.



Report 20 (RU / EN) Armenia and the Customs Union: Impact of Economic Integration

This report provides the assessment of the macroeconomic impact of Armenia joining the Customs Union.

2014



System of Indicators of Eurasian Integration (RU / EN)

The System of Indicators of Eurasian Integration (SIEI) is designed to become the monitoring and assessment tool for integration processes within the post-Soviet territory.



Report 23 (RU / EN) Quantifying Economic Integration of the European Union and the Eurasian Economic Union: Methodological Approaches

The objective of the project is to discuss and analyse economic integration in Eurasia, both on the continental scale "from Lisbon to Shanghai," and in the EU-EEU dimension "from Lisbon to Vladivostok."



Report 24 (RU) Pension Mobility within the Eurasian Economic Union and the CIS

In the report the experts evaluate the prospects of implementing effective mechanisms in the region to tackle pension problems of migrant workers.



Report 25 (RU / EN) EDB Integration Barometer – 2014

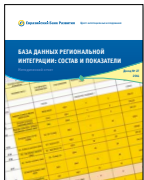
The results of the third research into preferences of the CIS region population with respect to various aspects of Eurasian integration suggest that the "integration core" of the Eurasian Economic Union (EEU) continues to form and crystallise.



Report 26 (RU / EN)

Monitoring of Mutual Investments in the CIS 2014

This is the fifth report on the results of the longterm research project devoted to monitoring of mutual direct investments in the CIS countries and Georgia. The current report provides detailed information on the scope and structure of mutual investments of CIS countries up to the end of 2013. The report provides information on the most important trends in the first half of 2014, including the situation in Ukraine and its impact on the Russian direct investments in the country.



Report 27 (RU / EN)

EDB Regional Integration Database

This is an applied research project, which represents the creation of a specialized regularly updated database of the most significant regional integration organisations (RIOs) and economic/trade agreements of the world.



Report 28 (RU / EN)

Monitoring of Direct Investments of Russia, Belarus, Kazakhstan, and Ukraine in Eurasia – 2014

The second report presents new results of the permanent annual project dedicated to monitoring of direct investments of Belarus, Kazakhstan, Russia and Ukraine in Eurasia. On the basis of the statistics collected during monitoring, detailed information is provided on the dynamics, actual geographical location and sectoral structure of the investments.

2015



Report 29 (RU / EN)

Estimating the Economic Effects of Reducing Non-Tariff Barriers in the EEU

The EDB Centre for Integration Studies publishes the first comprehensive assessment of the effects of non-tariff barriers on mutual trade in the EEU and provides recommendations as to how to remove them. The report has been prepared by the Centre for Integration Studies based on a poll of 530 Russian, Kazakh and Belarusian exporters.



Report 30 (RU / EN)

Assessing the Impact of Non-Tariff Barriers in the EEU: Results of Enterprise Surveys

A large-scale poll of 530 enterprises in Belarus, Kazakhstan and Russia suggests that non-tariff barriers account 15% to 30% of the value of exports. Belarusian exporters estimate non-tariff barriers in their trade with Russia and Kazakhstan at 15% of the value of their exports, Kazakh exporters at 16% for exports to Russia and 29% for exports to Belarus, and Russian exporters at about 25% for exports to each of the two other countries.



Report 31 (RU)

Labour Migration and Labour-Intensive Industries in Kyrgyzstan and Tajikistan: Possibilities for Human Development in Central Asia

Current research deals with the analysis of migration flow, labour potential in Central Asia (the examples of Kyrgyzstan and Tajikistan are taken). The focus is made on the possibilities of both countries to reorient their economies from export of labour to export of labour-intensive goods and services.



Report 32 (RU / EN)

Monitoring of Mutual Investments in CIS Countries 2015

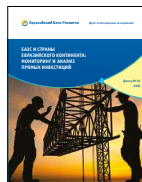
According to the sixth report of a years-long research project in 2014 the fall in mutual foreign direct investments (FDI) between the CIS countries was \$6.3 billion, or 12% year-on-year. One of the main causes for this drastic decline in all mutual FDI in the CIS was the destabilised economic and political situation in Ukraine. At the same time, while overall investment activity in the CIS has shrunk, the young integration organization – the Eurasian Economic Union (EAEU) – demonstrates stability.



Report 33 (RU / EN)

EDB Integration Barometer – 2015

The fourth wave of public opinion surveys on integration preferences in the CIS countries suggests that the "integration core" of the Eurasian Economic Union (EAEU) continues to consolidate. In 2015, over 11,000 people from nine CIS region countries – Armenia, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, and Ukraine – took part in the poll.



Report 34 (RU / EN)

EAEU and Eurasia: Monitoring and Analysis of Direct Investments

The report presents new results of the permanent annual project dedicated to monitoring of direct investments in Eurasia. This report focuses on direct investments of Russia, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Tajikistan, and Ukraine in all countries of Eurasia outside the CIS and Georgia as well as reciprocal direct investments of Austria, Netherlands, Turkey, Iran, India, Vietnam, China, the Republic of Korea, and Japan in the seven CIS countries mentioned above.

2016



Report 35 (RU / EN) Forecasting System for the Eurasian Economic Union

Joint Report by the Eurasian Economic Commission and the Eurasian Development Bank. This work builds upon the findings of the joint research undertaken by the Eurasian Development Bank (EDB) and the Eurasian Economic Commission (EEC) to create a system capable of generating economic forecasts for EAEU member states, subject to any applicable country-specific social components. The project has yielded an Integrated System of Models covering five countries.



Report 36 (RU / EN) Liberalization of the Republic of Belarus Financial Market within the EAEU

The development of the EAEU requires a coordinated foreign exchange policy, harmonised regulations governing the financial market, and the establishment of a common financial market to ensure the free movement of capital between the member states. Belarus will benefit from its movement towards a single financial market in the EAEU. However, this also creates certain challenges.



Report 37 (RU) Regional Organizations: Typology and Development Paths

The report presents the results of the EDB Centre for Integration Studies' ongoing project "Regional Integration in the World." One of the aims of this project is comprehensive analysis of regional integration organizations in the world and later application of the findings in facilitating the processes of Eurasian integration.



Report 38 (RU / EN) European Union and Eurasian Economic Union: Long-Term Dialogue and Perspectives of Agreement

The report presents preliminary results of conceptual analysis of developing EU-EAEU economic relations and search of practical approaches to achieving that goal. This work is processed by the International Institute for Applied Systems Analysis (IIASA, Austria) and the Centre for Integration Studies of Eurasian Development Bank (EDB) within long-term ongoing joint project "Challenges and Opportunities of Economic Integration within a Wider European and Eurasian Space."



Report 39 (RU / EN) Monitoring of Mutual Investments in CIS Countries 2016

The report is the seventh in a series of publications presenting the findings of a permanent research project concerned with the monitoring of mutual investments in CIS countries and Georgia. The analysis is built on a database that has been maintained on the basis of diverse data obtained from publicly available sources.



Report 40 (RU / EN)

EDB Integration Barometer – 2016

The report presents the results of the EDB Centre for Integration Studies' ongoing research project "EDB Integration Barometer". In 2016, 8,500 people from seven CIS countries (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, and Tajikistan) answered about 20 questions concerning the Eurasian integration and various facets of economic, political, and sociocultural cooperation in the CIS region.



Report 41 (RU / EN)

EAEU and Eurasia: Monitoring and Analysis of Direct Investments 2016

The report presents new results of the permanent research project dedicated to monitoring of direct investments in Eurasia. It focuses on investments made by Russia, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Azerbaijan, Tajikistan, and Ukraine in all countries of Eurasia outside the CIS and Georgia as well as reciprocal direct investments made by Austria, the Netherlands, Turkey, the United Arab Emirates, Iran, India, Singapore, Vietnam, China, the Republic of Korea, and Japan in the eight CIS countries listed above.

2017



Report 42 (RU / EN)

Monetary Policy of EAEU Member States: Current Status and Coordination Prospects

Joint Report by the Eurasian Economic Commission and the Eurasian Development Bank. The report considers the following issues: the ongoing foreign exchange and monetary policies; the effectiveness of drivers used by regulators to influence the economy; barriers to the efficient coordination of monetary policies within the union; and possible common objectives and tasks solved by central (national) banks.



Report 43 (RU / EN)

Eurasian Economic Integration – 2017

The report reflects the directions, events, and decisions that determine the current vectors of the integration processes in the Eurasian Economic Union. The authors offer fresh data and analytical insights with respect to macroeconomic development; changes in trade and investment capital flows; the labor market; and progress in non-tariff barriers elimination.



Report 44 (RU)

Exchange Rate Fluctuations within the EAEU in 2014–2015: Analysis and Recommendations

The report analyses the effects of the shock of commodity price drop and monetary policy measures implemented by EAEU member states in 2014–2015 to stabilize their economies. Based on the findings, the authors assess mechanisms and identify monetary policy measures that could be used to reduce volatility of exchange rates in the future.



Report 45 (RU / EN)

Monitoring of Mutual Investments in CIS Countries – 2017

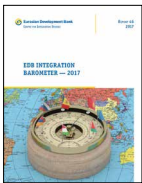
The report contains detailed information on the scope, dynamics, geographical and sectoral structure of mutual investments in CIS countries and Georgia as at the end of 2016. Special attention is paid to a review of mutual direct investments by companies from Eurasian Economic Union member states, with special emphasis on their dual role both as exporters of capital and recipients of direct investments made by companies from other post-Soviet states.



Monograph (RU / EN)

Eurasian Economic Union

The monograph is dedicated to the Eurasian Economic Union (EAEU) – its nature, evolution, organizational structure, issues related to economic integration of EAEU member states, operation of common markets for goods, services, capital, and labor, and foreign economic policies. The authors – employees of the EDB Centre for Integration Studies – discuss the tasks and problems that the Union may, in their opinion, encounter over the next 10 years.



Report 46 (RU / EN)

EDB Integration Barometer – 2017.

The report presents results of national surveys in EAEU member states, Moldova, and Tajikistan. The authors examined public opinion changes in the countries listed above as they apply to integration preferences (various facets of integration appeal projected by different countries of the world), and reviewed the impact that various socio-demographic and information factors had on those preferences.



Report 47 (RU / EN)

EAEU and Eurasia: Monitoring and Analysis of Direct Investments – 2017

The report provides detailed information about the dynamics, actual geographic localization, and sectoral structure of direct investments made by Russia, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Azerbaijan, Tajikistan, and Ukraine in all countries of Eurasia excluding CIS countries and Georgia, but including Egypt. The authors also review reciprocal direct investments in the eight CIS countries listed above originating from a number of key European and Asian economies.

2018



Report 48 (RU / EN)

National Currencies in Mutual Payments within the EAEU: Barriers and Prospects

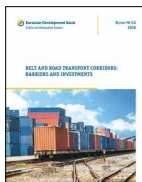
The report deals with problems related to, and prospects of, using national currencies in mutual settlements between EAEU member states. Conclusions are based on the results of special in-depth interviews with respondents representing EAEU businessmen, regulators, and experts. The report provides information about the main barriers preventing a more extensive use of national currencies, and contains recommendations on ways to strengthen the role of national currencies in mutual settlements between EAEU countries.



Report 49 (RU / EN)

Silk Road Transport Corridors: Assessment of Trans-EAEU Freight Traffic Growth Potential

The report presents the results of quantitative assessment of freight traffic growth prospects along the China–EAEU–EU axis. It provides a description of general trends affecting development of, and changes in, freight transport subject to commodity structure and mode of transport, and an assessment of additional freight traffic which may be attracted to transport routes along the China–EAEU–EU axis in the short and long term.



Report 50 (RU / EN)

Belt and Road Transport Corridors: Barriers and Investments

The report presents an analysis of the impact that international freight traffic barriers have on logistics, transit potential, and development of transport corridors traversing EAEU member states. Restrictions discussed in the report include infrastructural (transport and logistical infrastructure), border/customs-related, and administrative/legal barriers. The authors also provide recommendations regarding removal of barriers that hamper international freight traffic along the China–EAEU–EU axis.

2019



Report 51 (RU)

Effects of Integration of Armenia and Kyrgyzstan within the Framework of the EAEU. Preparation of the English language version is under way

The report presents a brief analysis of social and economic effects of participation of Armenia and Kyrgyzstan in the Eurasian Economic Union.

EURASIAN ECONOMIC INTEGRATION – 2019

Report 52

The report presents the insights into evolution of Eurasian economic integration as at the end of 2018. It offers information on essential features of trade and economic interactions among EAEU member states and between the EAEU and third countries, and on the most significant aspects of integration processes both within the EAEU and across the world.

Moscow
2019