

# The free trade agreements of the Eurasian Economic Union

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The Eurasian Economic Union (EAEU), established in 2015, includes five member states – Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia. Its most important element, the customs union, dates back to 2011. The starting point for discussing the EAEU's institutional efforts to expand the network of free trade areas is the following. With its nominal GDP at \$2 trillion (\$4.5 trillion at purchasing power parity), and population of 183 million people, the Eurasian Economic Union is, however sizable, not a self-sufficient market, at least as concerns most higher-value added goods. Any attempt to

build a 'Eurasian fortress' would be economically suicidal in the long term. The EAEU's member states' economies would be forever doomed to play catch up technologically. A distinct disadvantage of such a future is the inability to achieve economies of scale on most high-tech goods. The opportunities to export non-primary goods would be missed. Consumers, effectively cut off from competitive imports, would lose. Domestic producers, protected from competition, would grow overly lax.

A certain level of market protection might be acceptable in order to create a comfortable 'springboard' for national producers. However, in the long term, there is no alternative to integration into world markets and global value chains. A standard strategy to pursue this path while paying attention to the particularities of trade and investment ties is to negotiate free trade agreements (FTAs). In addition to reducing or eliminating trade duties, they govern numerous mutual agreements on investment conditions, capital flows, technical regulation, dispute resolution procedures, rules for determining the country of origin of goods, and other important issues pertaining to market access. The most realistic way for the EAEU to promote its foreign economic interests is to form a network of comprehensive bilateral free-trade agreements between the Eurasian union and its partners. The network of free-trade agreements aims to expand and simplify the access of producers and exporters of goods and services from the EAEU to other countries' markets, help the Union members integrate into regional and global production chains, and attract investments.

The first FTA – the one with Vietnam – has been signed in 2015. Since then, multiple FTAs have been signed, negotiated, or discussed. Apart from Vietnam, EAEU signed the free trade agreements with Singapore, Iran (a limited scale FTA due to the existing sanctions regime), and Serbia (the latter replaced already existing bilateral agreements with the EAEU key economies). Negotiations with India, Egypt, and Israel find themselves at various stages. Besides, there were talks / research groups / memoranda of understanding with South Korea, Cambodia, Mongolia, Peru, Chile, and MERCOSUR.

The progress has been slower than expected. Most importantly, all signed FTAs are with minor trading partners. The same holds for the prospective agreements where the negotiations/formal consultations are ongoing. The EAEU has shelved a potentially important deal with South Korea due to the concerns on the competitiveness of the Russian automotive sector and electronics. In developing its relations with the China,

the EAEU has so far opted for a non-preferential agreement with regulatory elements for transportation, industrial cooperation, and investments. Liberalization of trade with China, i.e. making changes to actual import duties, is not on the table.

An 'elephant in the room' is certainly the EU. In the short and medium-term, under the current political conditions, the EAEU countries are gaining experience and competence by drafting and concluding free trade agreements with small trading partners. In the long term, the Eurasian integration bloc cannot do without a large comprehensive agreement with its main trade and investment partner, the European Union. Likewise, the EU should not ignore the 183-million strong market to the east. When political framework would allow, negotiations should begin on a complex EU-EAEU trade and economic deal. I suggest that, due to the scope of related issues and an asymmetry of underlying interests, the anticipated agreement – or rather a set of multilateral and bilateral agreements – should be framed as a 'mega deal'. Mutual concessions and compromises will be necessarily interconnected. The importance of various domains will be different for both parties. Deferring in one area, the partner will expect a trade-off with respect to another problem.

More on the EAEU's FTAs and their logic: Vinokurov E. (2018) Introduction to the Eurasian Economic Union. London, New York: Palgrave Macmillan. More on the potential EU-EAEU 'Megadeal' and its potential features and domains: Vinokurov, E. (2014) A Mega Deal Amid a Relationship Crisis: Why a European-Eurasian Integration Agreement Should Be Discussed Now. *Russia in Global Affairs*, 5.

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