



Non-tariff barriers and trade integration in the EAEU

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Take-away

- EAEU tariffs are low: simple average 6,5%
 - BUT free movement of goods is threatened by numerous exemption from the common tariff
- EAEU focuses on decreasing NTBs, trade facilitation, liberalization of services (FDI)
 - BUT relative importance of each of this measures differs for EAEU members, making common agenda quite difficult
- EAEU does not have enough economic power to produce sizable gains from liberalization within, spillover effect increases gains substantially
 - Spillover effect is a positive externality of liberalization within the EAEU which tend to decrease external barriers



Russian trade policy overview

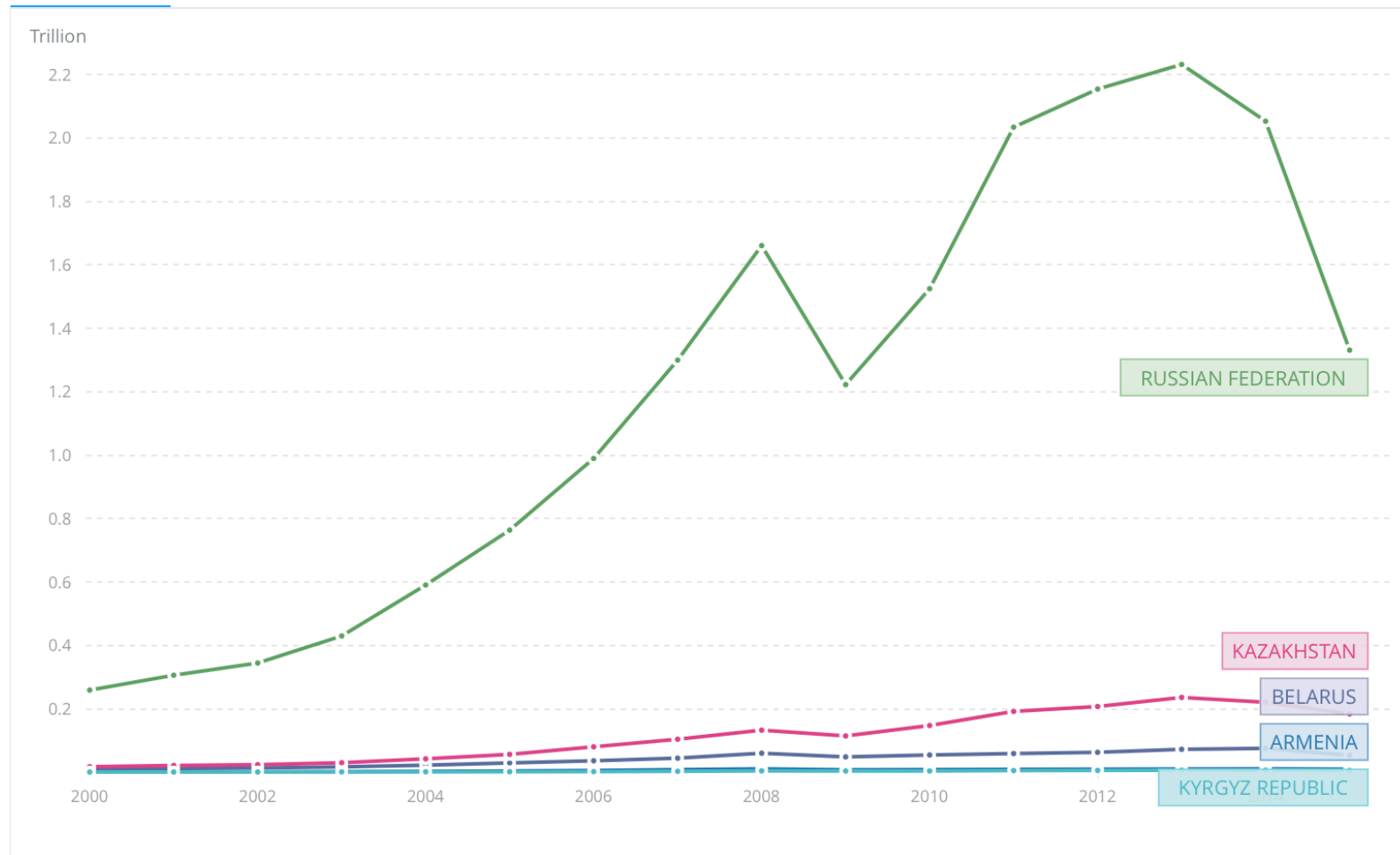
- Accession process to the WTO took 18 years (1994-2012)
- Customs Union between Belarus, Kazakhstan and Russia was created in 2010
- Eurasian Economic Union including Armenia and Kyrgyzstan was created in 2015
- This is the third attempt to build a functional regional integration
 - Commonwealth of Independent States - CIS (1991 – present);
 - Eurasian Economic Community - EurAsEC (2000-2014).
 - David Tarr (2016) “The Eurasian Economic Union among Russia, Belarus, Kazakhstan, Armenia and the Kyrgyz Republic: *Can it succeed where its predecessor failed?*”



The Eurasian Economic Union

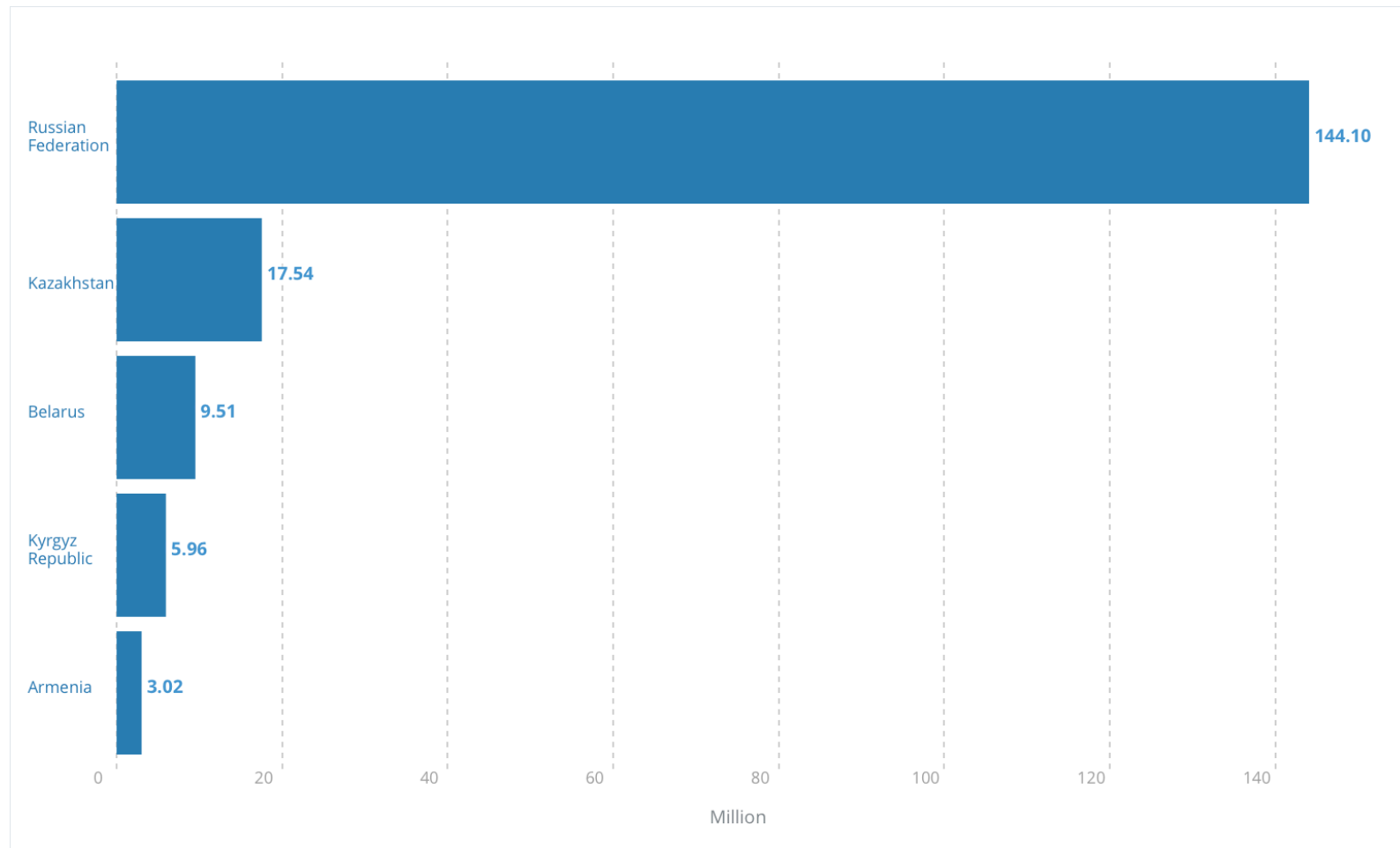


GDP (current US\$): Russia is 84% of the EAEU



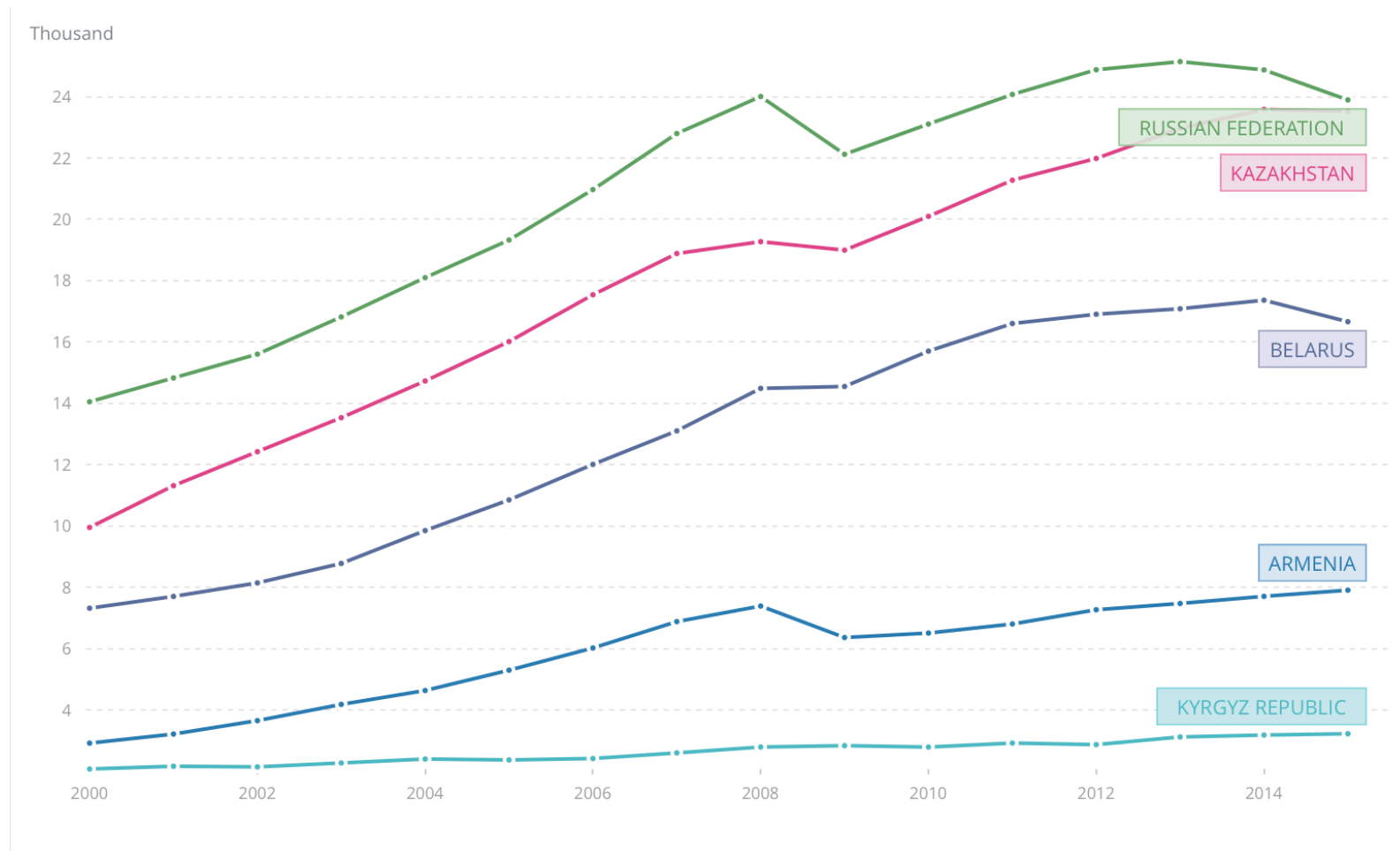
Source: World Bank, data.worldbank.org

Population 2015: Russia constitutes 80% of EAEU's total



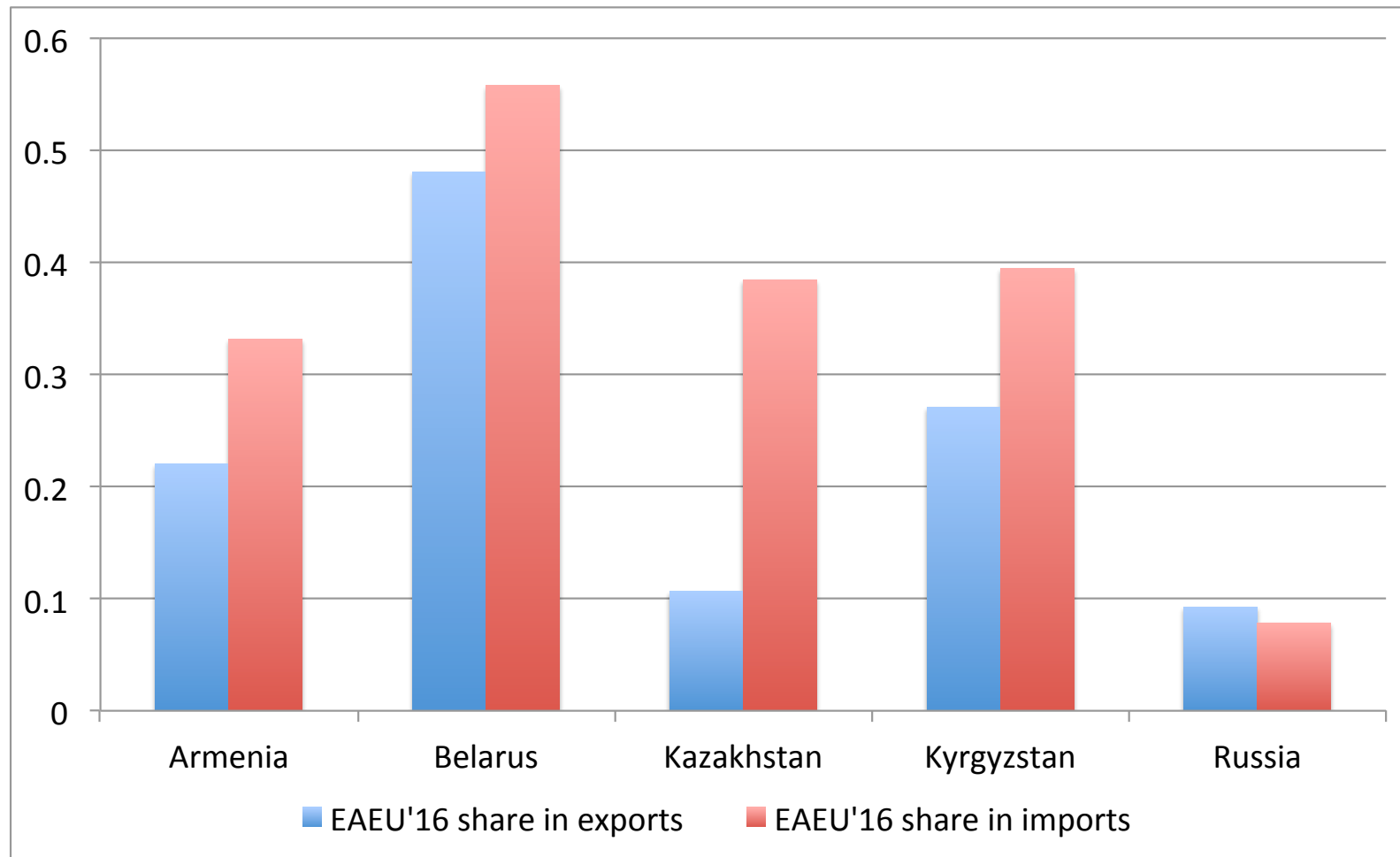
Source: World Bank, data.worldbank.org

GDP per capita, PPP (constant 2011 international \$)



Source: World Bank, data.worldbank.org

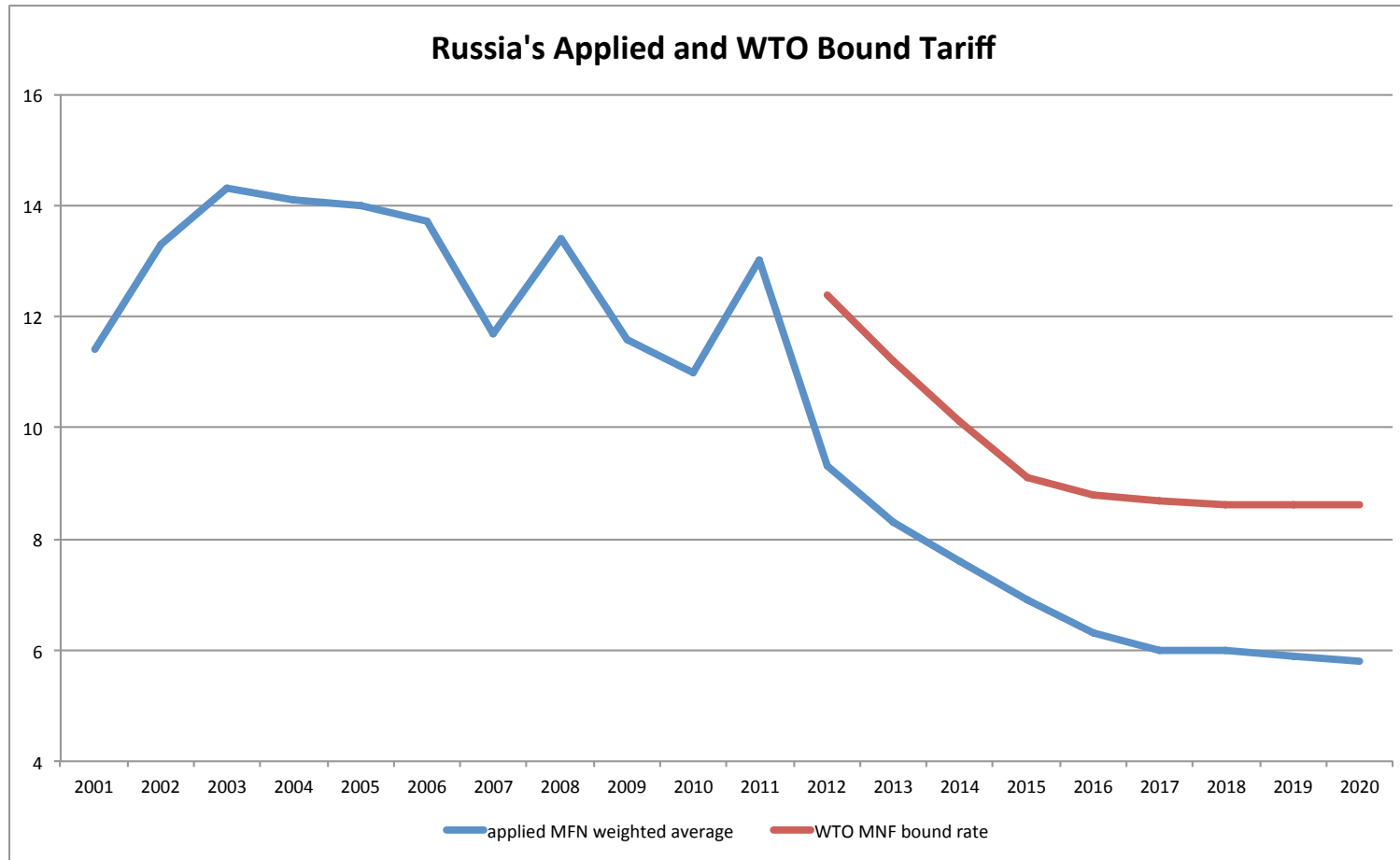
Weak trade ties within the EAEU



Source: Eurasian Economic Commission, www.eurasiancommission.org



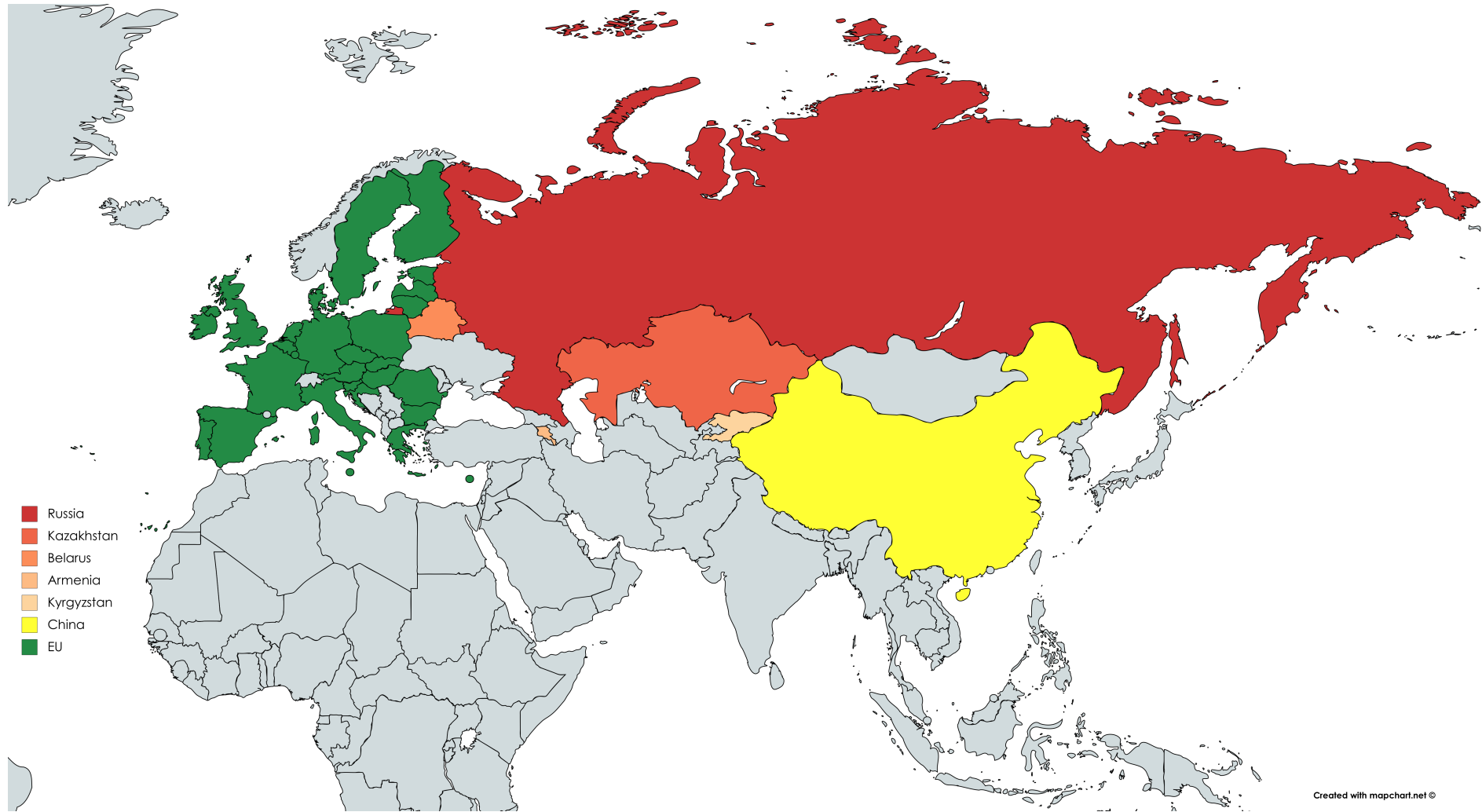
EAEU and WTO



Source: Tarr, Shepotylo (2013)



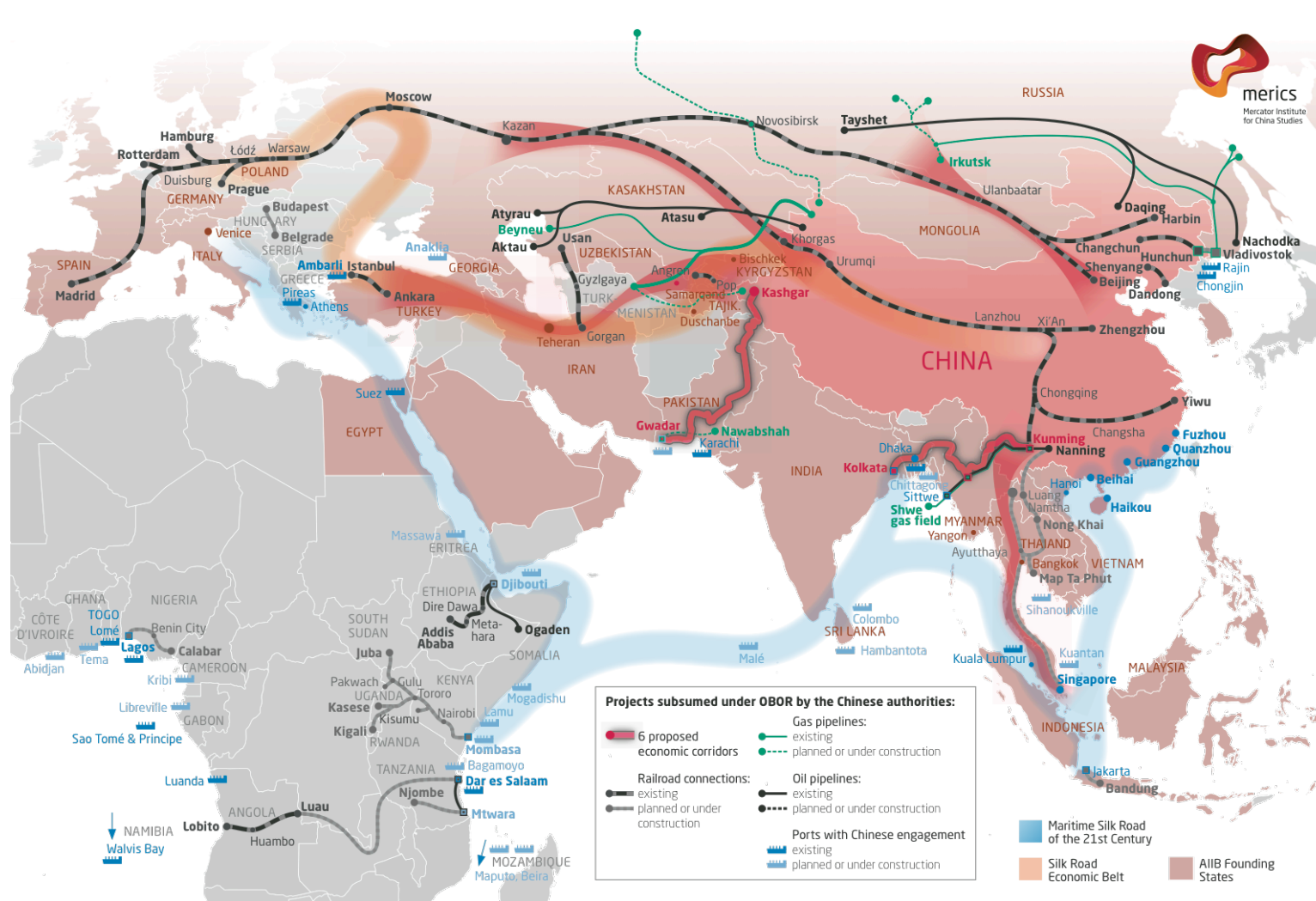
Between the EU and China



Created with mapchart.net ©



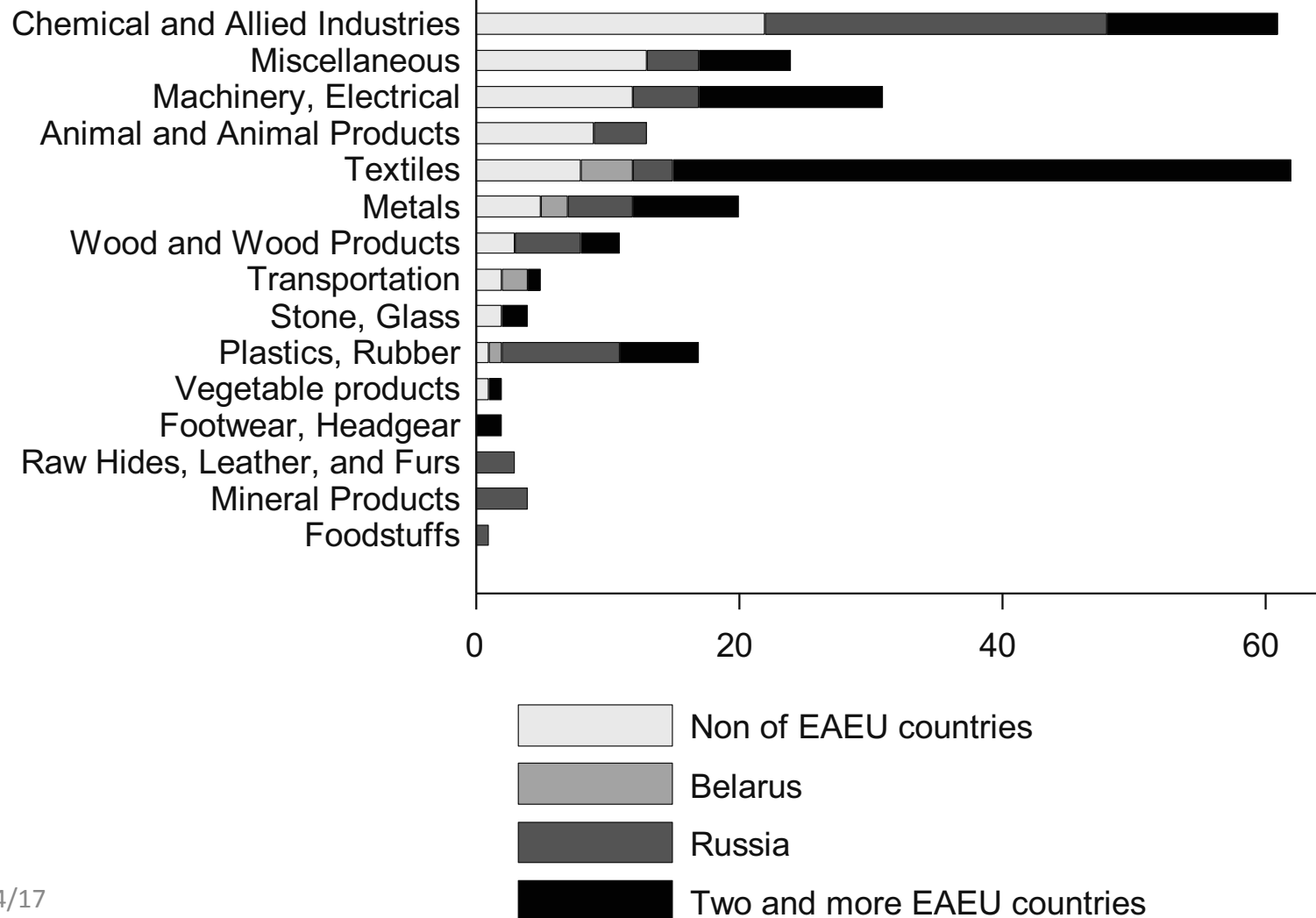
China: One Belt One Road (OBOR)





Is there any hope at all?

Volchkova, Kuznetsova, Turdyeva (2016) : Expected RCA Commodity Groups





Scope of our study

- Estimate gains to the EAEU member states from decrease in different barriers to trade
 - Non-tariff barriers in goods trade
 - Barriers to trade facilitation
 - Barriers to foreign direct investment in business services



Model

- Global GTAP-based Balisteri, Tarr, Yonezawa (2014) model with
 - Increasing returns to scale sectors
 - Business services with FDI
 - Decrease in NTBs are treated as a demand shock (analogous to technology change)



Model

Business Services with FDI	Dixit-Stiglitz Goods and Services	Factors of Production
Transport and communication	Food	Skilled labor
Financial services	Textiles and apparel	Unskilled labor
Business services nec	Leather products	Capital
	Wood products	Natural Resources
CRTS Goods and Services	Paper products and publishing	
Agriculture	Chemical rubber plastic prods	Regions
Forestry	Mineral products nec	Armenia
Fishing	Metals	Belarus
Fishing	Transport equipment	Kazakhstan
Minerals extraction (coal, oil, natural gas)	Electronic equipment and machinery	Russia
Petroleum and coal products	Manufactures nec	USA
Electricity, gas and water distribution	Public administration, recreation and other services	European Union (EU)
Construction		China
Trade		Rest of the World (ROW)



Benchmark distortions: NTBs in trade in goods

- NTB in goods
 - Trade between Belarus, Russia, Kazakhstan: Vinokurov et al (2015)
 - Trade of the EAEU with ROW: WITS data, methodology of Kee, Nicita, Olarreaga (2009)



Benchmark distortions: Barriers to FDI in services

- Barriers to FDI in services
 - Armenia: Modebadze 2010
 - Belarus: Kolesnikova 2014
 - Russia: Idrisov 2010
 - Kazakhstan and ROW: Jafari & Tarr 2014



Benchmark distortions: Barriers to trade facilitation

- Trade facilitation
 - Peter J. Minor's database of Ad Valorem Trade Time Costs
 - GTAP 9.0 trade data

Benchmark distortions: averages

	Average tariff	NTBs	Barriers to trade facilitation		Average barriers to FDI
			in exports	in imports	
Armenia	5.57	32,99	15,69	23,30	11,96
Belarus	5.71	26,95	16,52	26,16	24,53
Kazakhstan	5.33	38,95	79,21	22,46	27,19
Russia	6.46	36,63	22,15	27,07	20,75

Source: Authors' estimates



Results: welfare

Scenario definition	EAEU Central: Trade Facilitation and services liberalization	Trade facilitation (% of total gain)	Services liberalization (% of total gain)	NTB reduction (% of total gain)
Time in Trade Costs: 20% reduction within EAEU countries with 5% spillover effect	✓	✓		
Services Liberalization: 50% reduction of discriminatory barriers within EAEU	✓		✓	
Non-Tariff Barriers: 20% reduction of costs within EAEU countries with 5% spillover	✓			✓

Welfare (EV as % of consumption)

Armenia	1,24	0,27 (21,77%)	0,04 (3,23%)	0,93 (75%)
Belarus	3,62	0,78 (21,61%)	0,58 (16,07%)	2,25 (62,33%)
Kazakhstan	3,82	1,94 (51,05%)	1,62 (42,63%)	0,24 (6,32%)
Russia	1,79	0,45 (25,28%)	0,73 (41,01%)	0,6 (33,71%)



Results: summary

- For the EAEU NTBs, trade facilitation and services liberalization matters
- Efforts devoted to trade liberalization inside EAEU are rewarded very modestly
- Gains are much bigger when trade and FDI with ROW is involved
- Any inconsistencies in trade policy of the EAEU members results in growth of NTBs, which threatens the existence of the trading block