

Integration Effects Studies: Results and Policy Implications

6 March 2014

Peter Havlik

The Vienna Institute for International Economic Studies, wiiw

International Institute for Applied Systems Analysis, IIASA

What is the real content of EU-UA AA/DCFTA?

- DCFTA contains 15 Chapters, 14 Annexes and 3 protocols (altogether 906 pages text, published in November 2012);
- Majority of customs duties (99.1% by Ukraine and 98.1% by the EU) will be removed as soon the Agreement enters into force;
- Transition periods for automotive sector in Ukraine for 15 years and for some agriculture products in the EU for up to 10 years;
- WTO rules will be generally applied to non tariffs barriers;
- Ukraine will progressively adapt its technical regulations and standards to those of the EU (takeover of EU-”acquis” is costly);
- Public procurement exceptions provided for the defence sectors;

What is the real content of EU-UA AA/DCFTA?

- Specific provisions on trade-related energy issues such as
 - rules on pricing,
 - prohibition of dual pricing and transport interruption to third countries,
 - rules on non-discriminatory access to the exploration and production of hydrocarbons;
- DCFTA deals also with rules of origin and defines the “economic nationality” of products needed to determine the duties applicable to traded goods;
- DCFTA “shall not preclude the maintenance or establishment of customs unions, free trade areas or arrangements for frontier traffic except insofar as they conflict trade arrangements provided for in this agreement” (Article 39).

Economic effects of BY–RU–KZ CU/SES

- Estimates differ a lot, depending on authors, methods, data and assumptions (for methodology overview see EDB 2014)
 - Customs Union (CU) may boost participating countries' GDP by about 15% up until 2015 (Dyner, 2010);
 - Glazyev (2011) estimated that the implementation of the CU and the SES should boost the participating countries' GDPs by between 12% and 18% over a ten-year period;
 - Eurasian Development Bank (2012) expected a 2.5% higher GDP in BY-RU-KZ by 2030 with little or even negative effect on the CU with abstaining Ukraine;
 - Cameiro (2013) finds that Russia will be the CU main beneficiary in the short term while other members will gain in the medium and long run.

Economic effects of BY–RU–KZ CU/SES

- Vinhas de Souza (2011) and The World Bank claim the CU is a welfare-reducing arrangement, first of all for Belarus, whose GDP may decline by up to 6%;
- Tochitskaya (2010) found that the main CU positive effect on Belarus would derive from the upward adjustment of customs duties on imported used cars;
- In Kazakhstan, where CU import duties on many investment goods increased in the CU (and those on food products declined), the effect is expected to be largely negative (ATF Bank, 2010, The World Bank, 2013);
- CESD (2013) admitted positive growth effects from CU accession for Azerbaijan but argues against accession due to the loss of independent energy policy.

Economic effects of the BY–RU–KZ CU/SES

- Astrov et al. (wiiw, 2012) estimated negative GDP growth effects for Kazakhstan of up to -2.6% after joining CU; losses being smaller if Ukraine also joins;
- Belarus appears to benefit the most in all integration scenarios, with GDP increase being the highest if Ukraine also joins the CU;
- Economic effects of the CU on Russia are smaller; they do not really depend on Ukraine's trade integration choices;
- Ukraine may be better off outside the CU; AA/DCFTA with the EU yields significant benefits in the longer run due to more FDI, reform pressures and resulting efficiency gains;
- However, AA/DCFTA is not a credible “EU accession anchor” !

Extreme views on Eurasian Union*

- “The Eurasian Union, unlike the European Union, is not based on the principles of the equality and democracy of member states, the rule of law, or human rights.”
- “On the contrary, it is a hierarchical organization, which by its nature seems unlikely to admit any members that are democracies with the rule of law and human rights”
- “Any democracy within the Eurasian Union would pose a threat to Putin’s rule in Russia. Putin wants Ukraine in his Eurasian Union, which means that Ukraine must be authoritarian, which means that the Maidan must be crushed”.

*See Snyder, T., Fascism, Russia, and Ukraine. The New York Review of Books., March 20, 2014.

Economic effects of the CU/AA/DCFTA on Ukraine

- Movchan and Giucci (2011) claimed that Ukraine would experience net losses from entering the CU, both in the short and longer run;
- In contrast, AA/DCFTA with the EU would bring Ukraine net welfare gains by 4.3% in the short run, and by nearly 12% in the longer run (ibid);
- Glazyev (2013) claimed immediate negative effects (USD 5 bn deterioration) on Ukraine' trade balance after signing a “discriminatory” AA/DCFTA due to tariffs cuts on EU imports;
- NAS of Ukraine (2011) has found that DCFTA with the EU would increase Ukrainian exports to the EU by 5% per annum; if Ukraine joins the CU, its exports to Russia are expected to increase by 1-5%;
- European Commission (2013) estimated EUR 900 mn savings for Ukraine's exporters after implementing DCFTA due to reduced EU import tariffs.

Effects of UA-EU DCFTA signature*

Украина – 2014 (*в случае подписания СА с ЕС в Вильнюсе*)



Note: Ukraine's GDP in 2013: USD 176 billion.

*)http://www.kmu.gov.ua/control/ru/publish/article?art_id=246935198&cat_id=246935189
(accessed on 5 March 2014).

Effects of delayed UA-EU DCFTA signature*

Украина – 2014 (*с отложенным подписанием СА с ЕС*)



Резервы НБУ на конец 2014 года – 24 млрд.дол.США

Note: Ukraine's GDP in 2013: USD 176 billion.

*)http://www.kmu.gov.ua/control/ru/publish/article?art_id=246935198&cat_id=246935189

(accessed on 5 March 2014).

Summing up

- There seems to be little economic justification prompting Ukraine either to join the Customs Union or sign AA/DCFTA;
- Economic dominances have serious implications for integration success and sustainability (viz Germany-EU and Russia-SES);
- Estimates of Customs Union, EU accession , EU Single Market , DCFTA effects, EU-USA Free Trade Agreements, etc. differ widely;
- Long-run effects are always bigger than short-run !!!
- Effects of non-tariff barriers are always more important than customs duties reductions !!!
- Estimation methods, data sources and assumptions matter a lot in evaluations/interpretations of integration effects !!!
- See selected references attached for additional reading.

Conclusions and Policy Implications

- Both Russia and the EU should abstain from geopolitical games over the influence in the EaP;
- EU-Russia negotiations should not be about Ukraine or other EaP countries but must involve the latter in the process;
- FTA negotiations should focus less and selective on costly harmonisations ('acquis takeover');
- EU should foster visa liberalisation procedures and other confidence-building measures;
- Closer integration of the enlarged EU, Russia and the Eastern Partnership countries – from 'Lisbon to Vladivostok' – would boost stability, trade and investment in Europe.
- See 'Vilnius Eastern Partnership Summit: A Milestone in EU-Russia Relations – not just for Ukraine' (wiiw Policy Note 11).

Selected references (I)

- Astrov, V., Havlik, P. and Pindyuk, O. (2012) 'Trade Integration in the CIS: Alternate Options, Economic Effects and Policy Implications for Belarus, Kazakhstan, Russia and Ukraine'. wiiw Research Report No. 381, September. Vienna: Vienna Institute for International Economic Studies, wiiw.
- ATF Bank (2010) 'Customs Union: no big inflation shock, but efforts needed to offset impact on non-resources sectors', No. 4, April.
- Boss, H. and P. Havlik (1994), 'Slavic (dis)union: consequences for Russia, Belarus and Ukraine', Economics of Transition, Vol. 2, No. 2, Oxford University Press, pp. 233-254.
- F.G.Cameiro (2013): What Promises Does the Eurasian Customs Union Hold for the Future? Economic Premise, The World Bank, No. 108, February.
- Dabrowski, M. and Taran, S. (2012) 'Is free trade with the EU good for Ukraine?', CASE Network E-Brief No. 6, March.
- Dabrowski, M. (2013): EU's cooperation with non-member neighboring countries: the principle of variable geometry. RANEPa, Moscow and Warsaw, October.
- Dreyer, I. (2012): What economic benefits to expect from DCFTAs?. Visegrad Group and Germany Policy Makers Seminar, Prague, November.
- Dyner, A.M. (2010) 'Customs Union of Russia, Belarus and Kazakhstan', *Bulletin of the Polish Institute of International Affairs*, 102(178), July.
- ECORYS/CASE (2013): Trade Sustainability Impact Assessment in support of negotiations of a DCFTA between the EU and the Republic of Armenia. European Commission, Rotterdam, DG Trade, September.

Selected references (II)

- Efremenko , D.V., (2013): Life after Vilnius. A New Geopolitical Configuration for Ukraine, Russia in Global Affairs, No. 3, pp. 133-146.
- Eurasian Development Bank (2012), 'Ukraine and the Customs Union'. Centre for Integration Studies, Report No. 1, St Petersburg.
- Euroasian Development Bank (2014), 'Quantifying Economic Integration of the European Union and the Eurasian Economic Union: Methodological Approaches'. Centre for Integration Studies, Report No. 23, St Petersburg.
- Francois, J. and Manchin, M. (2009) , '*Economic Impact of a Potential Free Trade Agreement (FTA) between the European Union and the Commonwealth of Independent States*', Institute for International and Development Economics Discussion Paper Nr. 200908-05, August.
- Francois et al. (2013), 'Reducing Trans-Atlantic Barriers to Trade and Investment'. IIDE and CEPR, London, UK
- Š.Füle (2013a): EU-Ukraine: In Yalta about progress towards signing the Association Agreement. 10th Yalta Annual Meeting, in Yalta, Ukraine, 20. September, Speech/13/727.
- Š.Füle (2013b): EU-Ukraine: Dispelling the Myths About the Association Agreement. International Conference "The Way Ahead for the Eastern Partnership", Kyiv, Ukraine, 11. October, Speech/13/808.
- Glazyev, S. (2011) 'Rossiysko-ukrainskoe sotrudnichestvo v kontekste protsessov evraziyskoi ekonomicheskoi integratsii', Paper presented at Rhodos Forum, October.
- Glazyev, S. (2013): Speech at the conference in Kharkov, November (www.gazeta.ru from 1 November 2013).
- Grinberg, R., Havlik, P. and Havrylyshyn, O. (eds) (2008) 'Economic Restructuring and Integration in Eastern Europe. Experiences and Policy Implications.' Baden Baden: Nomos.

Selected references (III)

- Havlik, P., Stöllinger, R., Pindyuk, O., Hunya, G., Dachs, B., Lennon, C., Ribeiro, M.P., Ghosh, J., Urban, W., Astrov, V. and Christie, E. (2009) '*EU and BRICs: Challenges and opportunities for European competitiveness and cooperation*', Industrial Policy and Economic Reform Papers No. 13
- Havlik, P. (2010) '*European Energy Security in View of Russian Economic and Integration Prospects*', wiiw Research Report No. 362. Vienna: Vienna Institute for International Economic Studies, wiiw.
- Havlik, P. et al. (2012) ',European Neighbourhood – Challenges and Opportunities for EU Competitiveness''. wiiw Research Report No. 382, September. Vienna: Vienna Institute for International Economic Studies, wiiw.
- Havlik, P. (2013), 'Vilnius Eastern Partnership Summit: A Milestone in EU-Russia Relations – not just for Ukraine'. *wiiw Policy Note*, No. 11, Vienna, November.
- Havlik, P. (2014), "Some lesser known facts about Ukraine's foreign trade". Wiiw Monthly Report 1/14.
- Institute for Economic Research and Policy Consulting (2011) '*Ukraine's Trade Policy Choice: Pros and cons of different regional integration options.*' Kiev: IERPC.
- Institute of Economics and Forecasting of the National Academy of Sciences of Ukraine (2011), 'Орієнтовна аналітична оцінка економічних наслідків укладення угоди про зону вільної торгівлі з ЄС або входження до Митного союзу Росії, Білорусі та Казахстану' (Approximate analytical estimate of economic consequences of FTA with EU or joining the Customs Union of Russia, Kazakhstan, and Belarus).
- Kolesnikova, I. (2013), 'WTO Accession and Economic Development: Experience of Newly Acceded Countries and Implications for Belarus'. CASE, Warsaw.

Selected references (IV)

- F. Lukyanov, (2013): What Customs Union Can Be Without Ukraine (www.gazeta.ru, 1 November 2013).
- M. Malouche, J.D. Reyes, A. Fouad (2013): Making Trade Policy More Transparent: A New Database of Non-Tariff Measures, The World Bank, Economic Premise, No. 13, November.
- Maliszewska, M., Orlova, I. and Taran, S. (2009) :‘*Deep Integration with the EU and its Likely Impact on Selected ENP Countries and Russia*’, CASE Network report No. 88. Warsaw: CASE.
- Movchan, V. and Giucci, R. (2011) :‘Quantitative Assessment of Ukraine’s Regional Integration Options: DCFTA with European Union vs. Customs Union with Russia, Belarus and Kazakhstan’, IRPC Policy Paper Series (PP/05/2011). Berlin/Kiev: IRPC.
- Tochitskaya, I. (2010) :‘*The Customs Union between Belarus, Kazakhstan and Russia: an overview of economic implications for Belarus*’, CASE Network Studies & Analyses No. 405. Warsaw: CASE.
- Samson, I. (2002) :‘*The Common European Economic Space Between Russia and the EU: An Institutional Anchor for Accelerating Russian Reform*’. Russian Economic Trends, Vol. 11, No. 3.
- Snyder, T. (2014): ‘Fascism, Russia and Ukraine’. The New York Review of Books, March 20.
- Vavilov, A. and O. Vyugin (1993): ‘Trade Patterns After Integration into the World Economy’. In: J. Williamson (ed.), Economic Consequences of Soviet Disintegration, Institute for International Economics, Washington DC.
- Vinhas de Souza, L. (2011) :‘An initial estimation of the economic effects of the creation of the EurAsEC Customs Union on its members’, *PREM Network Economic Premise*, 47, January.
- Williamson, J. (ed.) (1993): ‘Economic Consequences of Soviet Disintegration’, Institute for International Economics, Washington DC.
- The World Bank (2012): ‘Assessment of Costs and Benefits of the Customs Union for Kazakhstan’, Report No. 65977-KZ, November.