

The Eurasian Economic Union among Russia, Belarus, Kazakhstan, Armenia and the Kyrgyz Republic: Can it succeed where its predecessor failed?

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Abstract: In 2010, Russia, Belarus and Kazakhstan formed the Eurasian Customs Union and imposed the Russian tariff as the common external tariff of the Customs Union. In 2015 they formed the Eurasian Economic Union (EAEU) designed to promote the free flow of goods, services, labor and capital, as Armenia and the Kyrgyz Republic joined. Armenia, the Kyrgyz Republic and Kazakhstan all had to approximately double their average external tariff to implement the common external tariff. Russia has benefited from additional exports under the protection of the higher tariffs. Estimates reveal that the tariff changes resulted in substantial transfers from Kazakhstan to Russia (with similar impacts expected for Armenia and the Kyrgyz Republic) as importers in Kazakhstan now purchase lower quality or higher priced Russian imports that are protected under the tariff umbrella of the common external tariff. Transfers from the Central Asian countries to Russia were the reason the predecessor to the EAEU (known as EurAsEC) failed, so this bodes badly for the ultimate success of the EAEU. But Russia's accession to the World Trade Organization will substantially lower the common external tariff and reduce the transfers to Russia. Further, unlike EurAsEC, the EAEU aims to employ "deep integration," e.g., to reduce non-tariff barriers and improve trade facilitation, create a single market, reduce trade distorting agricultural subsidies and harmonize some regulations. Estimates show that if substantial progress could be made in trade facilitation and reducing non-tariff barriers, this could make the Customs Union positive for Kazakhstan and other potential Central Asian members. And the right to work for migrants may dominate these issues for Armenia and the Kyrgyz Republic. The EAEU has taken some steps forward and some steps backward with deep integration and the single market. To effectively implement the objectives of the EAEU, however, Russia will need to take the lead in ceding real authority to the Eurasian Commission and press for reforms, including those that reduce the substantial internal non-tariff barriers.

Keywords: Eurasian Economic Union, trade diversion, non-tariff barriers, deep integration; single market.

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1. Introduction

1.1 What is the Eurasian Economic Union

On January 1, 2010, Russia, Belarus and Kazakhstan launched the Eurasian Customs Union (ECU). This included implementation of the common external tariff (July 6 for Belarus). In January 2012, the three countries agreed to even closer economic ties, by signing the agreement to form a “common economic space.” This led to the creation of The Eurasian Economic Union (EAEU) which was started in January 2015, at which time Armenia became the fourth member. The Kyrgyz Republic joined as the fifth member in May 2015. The EAEU has as its objective the free flow of goods, services, labor and capital among its members, i.e., a single market. Several international observers see the EAEU as an effort by President Putin to cement his legacy by restoring Russia’s influence among the states of the former Soviet Union and create a geopolitical Eurasian Union that allows Russia to lead a block of countries that competes with the European Union for influence in Europe and maybe the world stage.¹

Regarding tariffs, the member countries already had tariff free access to the markets of each other through a network of bilateral and plurilateral free trade agreements, including the Commonwealth of Independent States. The key initial change implemented with the formation of the Eurasian Customs Union was that the members agreed to apply the tariff schedule of the Customs Union as their common external tariff for third countries. With few exceptions, the initial common external tariff schedule was the Russian tariff schedule. In addition, the members agreed to have the Customs Union determine the rules regarding sanitary and phyto-sanitary standards (SPS) and norms on goods and the Customs Union attempted to reduce trade costs by

¹The analysis by Popescu (2014) is especially informative. See also Dreyer and Popescu, (2014) and Aslund, (2013).

eliminating internal customs posts. The Eurasian Economic Union goes beyond the Customs Union with the creation of a common economic space that seeks the “four freedoms:” freedom of goods, services, capital and labor. Although some progress has been observed regarding the free movement of goods, services and labor, capital movement is proving very difficult. In February 2012, the Eurasian Economic Commission began functioning. It is intended to act as the regulatory authority for the Customs Union in a manner similar to the European Commission of the European Union.

1.2 Literature Review and Our Contribution

Several authors have provided descriptive assessments of developments in the EAEU, including Schenkkan (2015), Ioffe (2014) and Bogulavska (2015). Slepnev (2015) has described the legal and institutional framework of the EAEU. Both Aslund (2013) and Popescu (2014) have provided an assessment of the prospects of the EAEU. The Eurasian Development Bank (2015b) provided data on non-tariff barriers in the original three member countries of the EAEU, and computable general equilibrium estimates of the impacts of reducing non-tariff barriers on those three members. Except for the Eurasian Development Bank study, which was limited to non-tariff barriers, these studies neither provided any data on (i) tariffs, (ii) non-tariff barriers, or (iii) trade facilitation; nor did they provide estimates of the impacts of these aspects of the EAEU on the member countries. In this paper, I provide data on tariffs, trade facilitation and non-tariff barriers, and a discussion of the main issues and developments in these areas (which provides context for the data). I provide computable general equilibrium (CGE) model estimates of the relative impact of these measures based on the CGE work of my co-authors and I in four of these countries. Finally, I make bottom line assessments for all five member countries of their tradeoffs for participation in the EAEU, where we take into consideration other aspects of the EAEU, including subsidies, migration and security guarantees.

1.3 Outline of the Paper

Tariff issues are discussed in section 3. In section 4, I examine non-tariff barriers and trade facilitation. In section 5, I provide bottom line assessments and tradeoffs for each of the five countries, including subsidies, loans, foreign direct investment, military support and migration issues in the assessment. Conclusions and a summary are in section 6. Since it

provides important lessons for the current Economic Union, I begin in the next section with a discussion of why EurAsEC, the predecessor to the EAEU, failed.

2. The Experience of the EurAsEC Customs Union

2.1 What can we Learn from the EurAsEC Experience?

There was an earlier effort at a customs union among Belarus, Kazakhstan, the Kyrgyz Republic and the Russian Federation dating to 1996, which became known as the Eurasian Economic Community or EurAsEC in 2000 (at which time Tajikistan was added). This Customs Union collapsed in failure.² The reasons for its collapse are instructive for the Eurasian Customs Union. At its peak, the members of EurAsEC included six countries: Russia, Belarus, Kazakhstan, the Kyrgyz Republic, Tajikistan and Uzbekistan. In EurAsEC, the tariff regime of Russia was imposed on the members of the EurAsEC Customs Union as the common external tariff. The common external tariff tended to raise the external tariff of Kazakhstan, the Kyrgyz Republic and Tajikistan on Russian manufacturing products that were not produced in those countries, improving Russian preferential market access in Central Asia and inducing trade diversion toward Russian manufactures. Automobiles were a notable example. On the other hand, since the Commonwealth of Independent States offered tariff free access to each member, and the common external tariff was the Russian tariff, the Central Asian countries did not obtain any improvement in their preferential market access in Russian markets. The Central Asian countries recognized, at a different pace across the countries, that full application of the common external tariff would result in substantial transfers from the Central Asian member countries to Russia (see Michalopoulos and Tarr, 1997). Consequently, the common external tariff was applied by the Central Asian members on an “a la carte” basis. Typically, it was the low tariffs of the EurAsEC common external tariff, where the trade diversion costs were low or non-existent, that were applied. Estimates were that the member countries applied the common external tariff on only about 50 to 60 percent of the tariff lines. Given that there was little to the EurAsEC

² The agreement on the formation of EurAsEC was signed in 2000 by the Presidents of the four countries mentioned plus Tajikistan. Uzbekistan later joined in 2005, but withdrew in 2008.

Customs Union beyond the ineffectual common external tariff, eventually all parties lost interest and the EurAsEC Customs Union collapsed.

For the Eurasian Economic Union to succeed where the EurAsEC Customs Union failed, it is necessary that its members receive some gain from membership. If Russia is perceived as receiving all the gains, it is unlikely that participation of all members will be sustained.³ Some observers (Aslund, 2013) are pessimistic about the prospects since the Eurasian Economic Union repeats the mistake of the EurAsEC Customs Union. That is, it imposes the Russian tariff structure as the common external tariff with trade diversion costs for the more open economies of Armenia, Kazakhstan and the Kyrgyz Republic.

2.2 The Broader Objectives of the Eurasian Economic Union

But Russian WTO accession will lower the common external tariff of the EAEU and substantially reduce those trade diversion transfers; and the present Customs Union is charged with reducing non-tariff barriers among the member countries and hopes to improve trade facilitation. Further migration benefits may dominate the trade diversion losses for Armenia and the Kyrgyz Republic and there are Russian subsidies to some members. Below we examine how successful the EAEU and Russia have been in delivering on these promises. We begin with the negative for the economies that were more open than Russia, i.e, the tariff changes and their impacts. We then address the various aspects of the EAEU that could turn the EAEU into something positive, at least for some of the members.

3. The Economics and Politics of the Common External Tariff

3.1 Changes in the Tariff—Increases in the External Tariff of Kazakhstan, Armenia and the Kyrgyz Republic

Since the initial common external tariff was the Russian tariff, there was little change in incentives regarding tariffs in Russia. The big change in the Customs Union occurred in Kazakhstan, who had a much lower tariff structure than Russia prior to implementing the Customs Union tariff. Despite the exemptions allowed Kazakhstan on a transition basis,

³ In fact, Grossman and Helpman (1995) argue that the common external tariff of a customs union will tend to be higher than the independent external tariffs of the member countries, since lobbying interests from all member countries will be taken into account.

Kazakhstan almost doubled its tariffs in the first year of the Customs Union. Based on results from Shepoltylo (2011), we show in table 1 that in the first year of the Customs Union, the simple average tariff of Kazakhstan increased from 6.7 percent to 11.1 percent and the trade weighted average tariff increased from 5.3 percent to 9.5 percent. Jandosov and Sabyrova (2011) found similar results. The increase in tariffs on many items not produced in Kazakhstan, but produced in Russia, led to a substantial increase in imports from Russia and displacement of imports from the Rest of the World.⁴ The new members of the EAEU, Armenia and the Kyrgyz Republic are in a similar position as Kazakhstan, and, in fact, start from an even lower average MFN tariff (see table 1). From Russia's perspective, the Customs Union represents an expansion of the market. Many of its manufacturing firms were not competitive in Kazakhstan with the low tariffs of Kazakhstan prior to the Customs Union; but they were able to expand sales to the Kazakhstani market under the tariff umbrella. This represents gains for Russian industry. Given the deeper manufacturing base in Russia compared with most countries of the CIS, and the resulting uneven benefits of the common external tariff in favor of Russia, acceptance of the common external tariff has been a fundamental negotiating position of Russia regarding acceptance of members in the Customs Union.

3.2 Economic Impacts of the Tariff Changes—Gains for Russia and Losses for Kazakhstan, Armenia and the Kyrgyz Republic

Some proponents of the Eurasian Customs Union argue that as a result of the Customs Union, firms in the EAEU will have improved market access through having tariff free access to the markets in all three countries. But prior to 2010, along with other countries in the Commonwealth of Independent States (CIS), the member countries had agreements in place that stipulated free trade in goods among them.⁵ Thus, the Customs Union could not provide

⁴ See Isakova and Plekhanov (2012).

⁵ In the case of Kazakhstan, it had a free trade with Russia and Belarus prior to the customs union; thus, the tariffs on trade among the original three member countries did not change. In our analysis, we assume that Kazakhstan had a regime of free trade with the countries of the Commonwealth of Independent States (CIS) plus Georgia and that this will continue after the formation of the customs union. Kazakhstan had a bilateral free trade agreement with Russia, signed on October 22, 1992; approved by Cabinet of Ministers decree #374 on May 7, 1993; and effective on July 7, 1998. It had a bilateral free trade agreement with Belarus signed on September 23, 1997. In addition, the CIS agreement of 1994 stipulated free trade among the signatories, which included all the CIS states. Finally, the Eurasian

improved market access due to the reduction of tariffs on goods circulating among the member countries.

Some cite the expanded Russian exports in Kazakhstan as evidence of success of the Customs Union. But the displacement of European or Chinese imports in Kazakhstan⁶ (and prospectively in the Kyrgyz Republic and Armenia), under the tariff umbrella of the common external tariff, by higher priced or lower quality imports from Russia represents a substantial transfer of income from the more open economies to Russia, and is an example of what economists call “trade diversion.”

Further, the five countries together constitute too small a market to erect tariff walls against external competition. They would lose the benefits of importing technology from advanced countries,⁷ and would rely on high priced production from within the Customs Union.

In our study done for the World Bank and the Government of Kazakhstan (World Bank, 2012), Jesper Jensen and I employed a computable general equilibrium model of Kazakhstan to assess the impact of the Eurasian Customs Union. We estimated that implementation of the initial tariff changes of the Customs Union led to a loss of real income for Kazakhstan. We also estimated, however, that if the Eurasian Customs Union could be successful in reducing non-tariff barriers and improving trade facilitation that the net impact would be positive. Without knowledge of whether the reforms to reduce non-tariff barriers and improve trade facilitation would be effective, we simulated an optimistic and a pessimistic scenario. In the optimistic case, the gains from effectively reducing non-tariff barriers and improving trade facilitation for Kazakhstan would yield benefits about seven times the losses from the tariff increases. This

Economic Community, under which free trade among the members was agreed, included Belarus, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan (Uzbekistan dropped out).

⁶ See Isakova and Plekhanov (2012) for a statistical assessment of the trade diversion impacts.

⁷ Beginning with the path-breaking work of Coe and Helpman (1995), a rich literature now exists that shows that important mechanisms for the transmission of knowledge and the increase in total factor productivity are the purchase of imported intermediate goods and inward foreign direct investment. The literature shows that for small developing countries, trading with large technologically advanced countries is crucial for TFP growth. See Jensen and Tarr (2012) for an assessment of the welfare impacts on Armenia of forming a preferential trade area with the CIS versus the European Union, where the differential productivity impacts are incorporated.

result is consistent with a growing literature that indicates that trade costs other than tariffs have become the major impediment to international trade.⁸

3.3. Implications of the Accession of Russia to the WTO for the Eurasian Economic Union

The Russian Federation acceded to the WTO in 2012 and has made a large number of commitments to the members of the WTO in a variety of areas. The main agreements that impact the other members of the EAEU are the tariff commitments, limitations on trade-distorting agricultural subsidies and the agreement to adhere to the WTO agreements on sanitary and phyto-sanitary measures (SPS) and technical barriers to trade (TBT).⁹

Regarding tariffs, it has been agreed that the common external tariff of the EAEU will adjust to accommodate the commitments of the Russian Federation to the members of the WTO. Russia has negotiated a transition period for the implementation of all of its tariff commitments, starting in 2012 when it acceded to 2020, when all tariff commitments should be implemented. Shepotylo and Tarr (2013) have assessed the impact of Russia's WTO tariff commitments on the applied MFN tariffs of the Russian Federation. In table 2, we present the results, by year, of the unweighted and trade weighted applied MFN average tariff. Although the trade weighted average tariff will differ by country, the unweighted average tariff of the Russian Federation is the unweighted average tariff of the EAEU. Table 2 shows that the unweighted (weighted) average tariff of the Russian Federation will fall from 11.5 (13) percent in 2011 (the last year in which the tariff rates were not affected by Russia's WTO commitments) to 7.9 (5.8) percent in 2020.

The reduction of the common external tariffs of the EAEU as a result of Russia's WTO commitments will substantially reduce the trade diversion costs of the common external tariff, and will increase incomes from that impact. But it will also lead to preference erosion and a loss

⁸ See, for example, Hummels *et al.*, (2007) and Hummels and Schauer (2013).

⁹ For a summary of the principal commitments of Russia, see Tarr and Volchkova (2013). For an assessment of the impacts of WTO accession on Russia see: Jensen, Rutherford and Tarr (2007) for aggregate income and sector impacts; Rutherford and Tarr (2008) for household and poverty impacts; Rutherford and Tarr (2010) for impacts at the level of the region; and Bohringer, Rutherford, Tarr and Turdyeva (forthcoming) for impacts of WTO accession on the environment.

of income for exporters within the EAEU who will face increased competition from firms outside the EAEU. In the case of Belarus, Balistreri, Olekseyuk and Tarr have developed a computable general equilibrium model to estimate the impacts of a reduction of the EAEU tariffs to implement Russia's WTO commitments (World Bank, forthcoming). They find that it will lead to an annual gain in the welfare (real income) of Belarus by about 1.1 percent of the value of consumption in Belarus. The estimated gains of 1.1 percent of consumption are the net impact of two aspects of the tariff reductions by Customs Union members: (i) a gain of 2.0 percent of consumption from improved resource allocation and productivity impacts in Belarus; and (ii) a loss of 0.9 percent of consumption from erosion of tariff preferences in the markets of Russia and Kazakhstan. These gains as a percent of consumption or GDP should be broadly indicative of what other members of the Customs Union can expect for the first aspect of the tariff reductions mentioned above, but the impact of tariff erosion will be dependent on the export product mix within the Custom Union.

3.4 Possible Conflicts between EAEU and WTO Commitments of Kazakhstan, Armenia and the Kyrgyz Republic—Surmountable Complications

A significant concern for Armenia, the Kyrgyz Republic and Kazakhstan is that implementation of the common external tariff of the EAEU will violate their commitments to the WTO. As we see from table 2, however, the phased implementation of Russia's WTO commitments has already in 2015 reduced the unweighted average common external tariff of the EAEU to 8.4 percent and it will fall to 8.1 percent in 2016. By 2016, the average tariff will be below the WTO bound average tariff of Armenia, so it is not likely to create problems for Armenian commitments to the WTO. In the case of the Kyrgyz Republic, its WTO bound average tariff of 7.5 percent will be below the final EAEU applied tariff of 2020, creating potential problems if WTO trade partners object. Similarly, Kazakhstan joined the WTO in June 2015, with a bound average tariff of 6.1 percent. Thus, Kazakhstan, and to a lesser extent the Kyrgyz Republic, will have to exceed their WTO bound tariff level on many tariff lines if they were to implement the existing EAEU common external tariff. In late 2015, it appears that the EAEU has dealt with the issue by introducing a substantial number of exemptions for Kazakhstan to the common external tariff, leading to consternation among some other members,

especially Belarus.¹⁰ An alternate approach, which has not been utilized to date, is for Kazakhstan to apply the Customs Union tariff and if a WTO member objects to have the Customs Union pay compensation. This may require “compensation” from the EAEU in the form of lowering the common external tariff on some tariff lines to provide offsetting market access. Table 2 shows, however, that there are about 1,500 tariff lines where the applied tariff rate of Russia is below its final WTO bound rate, i.e., there is “water in the tariff.” Consequently, if a WTO member objects, the EAEU should be able to agree to lower the *bound* tariffs of the Customs Union to pay “compensation” to the WTO members for Kazakhstan and the Kyrgyz Republic applying higher tariffs than their WTO commitments, without actually having to lower any *applied* tariffs in the EAEU.

3.5 Political Consequences of a Customs Union—Large Transfers Lead to Tensions and Conflict

Despite the fact that the lowering of the common external tariff will reduce the transfers from Kazakhstan, Armenia and the Kyrgyz Republic, implementation of the EAEU tariff will still result in transfers to Russia from these three countries. Some would argue that there are political benefits of trade to be taken into account. The European Union has shown that despite a long history of wars, the increased interdependence of France and Germany due to increased trade now makes it appear inconceivable that they would engage in hostilities. But when a customs union is inefficient and the benefits and the costs of the customs union are very unequal, the customs union can inflame conflicts. Schiff and Winters (2003, 194-195) have argued that a clear example of how integration can inflame conflict is the civil war of the United States. The United States constituted a customs union among the states. In the 1800s, the North produced manufactures that were sold to the South and the South produced cotton that was exported to Europe. In 1828, Congress passed the “Tariff of Abominations” that resulted in a massive transfer of income from the South to the North. South Carolina threatened to secede and Federal

¹⁰ Vladimir Makei, the Foreign Affairs Minister of Belarus was quoted as saying: “*We have preserved a large number of exceptions and limitations that are not conducive to the early establishment of the single economic space, which is the main goal we have sought to achieve.... I particularly mean Kazakhstan’s accession to the World Trade Organization and its commitments (within the WTO) that reduce the level of customs security within the EEU.*” Quoted in Putz (2015a).

troops were sent to South Carolina; but Congress reduced the tariffs before fighting ensued. In 1860, however, tariffs were raised again and this time Congress did not back down. Adams (1993) concludes that the high tariffs were as important as slavery in driving the South to secede from the Union and initiate the civil war. Another example is the East African Customs Union. Kenya was seen as the country with the relatively advanced base in manufactures that resulted in transfers from Tanzania and Uganda to Kenya. The customs union collapsed in 1978 with the closing of borders among the countries. This led to tensions and contributed to the conflict between Tanzania and Uganda in 1979. On the other hand, the success of the European Union in promoting peace in the region is partly explained by a strategy of avoiding policies that create transfers large enough to trigger conflicts.

These considerations indicate that we need to examine the aspects of the EAEU that might lead to gains for the other members. We begin with an assessment of non-tariff barriers and trade facilitation

4. Non-Tariff Measures and Trade Facilitation

4.1 Non-Tariff Barriers—Very Costly Methods of Regulating Standards Worsened by the Customs Union

International evidence shows that command and control barriers, such as quotas and licenses, have become much less important as instruments of protection in world trade. They have been replaced by sanitary and phyto-sanitary (SPS) conditions on food and agricultural products and technical barriers to trade (TBTs) on goods (see Cadot and Gourdon, 2014). There is both econometric and descriptive evidence that non-tariff barriers are a significant problem in the EAEU. If the Customs Union could make substantial progress on reducing these barriers, it would be a significant accomplishment. Unfortunately, so far the EAEU does not appear to have made any progress on non-tariff barriers.

4.1.1 Econometric Estimates. In table 3, we present the results of the econometric analysis of the Centre for Integration Studies of the Eurasian Development Bank. They conducted a survey of exporters in Belarus, Kazakhstan and Russia; they then econometrically estimated the ad valorem equivalents of the non-tariff barriers faced by exporters in the three countries in the markets of each other (Eurasian Development Bank, Centre for Integration

Studies 2015a; 2015b). They estimate that exporters from Kazakhstan face the highest barriers among the three countries: the non-tariff barriers they face are about 39.8 percent of the value of their exports to Belarus and 14 percent of the value of their exports to Russia. But the ad valorem equivalent of the barriers faced by other exporters are significant, ranging from 6.3 percent by Belarussian exporters in Russia to 16.3 by Belarussian exporters in Kazakhstan. Although we do not have a time series to assess whether the ad valorem equivalents of the barriers have increased or decreased, the barriers are significant, especially for exporters from Kazakhstan.

4.1.2 Non-Unified Application of Counter-Sanctions. Following the annexation of Crimea and the conflict in Eastern Ukraine, Western countries or regions, including the European Union, imposed sanctions on Russian imports. In response, the Russian Federation imposed “counter-sanctions” on a range of agricultural and food products from Western countries. Belarus and Kazakhstan, however, refused to go along with the counter-sanctions. Thus, the ban on imports of the products under counter-sanctions represent a serious breach in the Customs Union, which, in principle, should apply a common external trade policy in all respects to third countries. The breach has been seriously exacerbated by what the Russian government perceives as direct export of Western products to Russia through Belarus. It is alleged that Belarussian exporters import Western products and ostensibly transport them through Russia for sale in Kazakhstan; but, the goods are sold, en route, in Russia. Russian sources accuse Belarus of repackaging meat from the European Union and reselling Norwegian salmon. In response, Russia has found that exports from Belarus of these products are not safe for human consumption, so their import was banned.¹¹

4.1.3 Standards as Important Non-Tariff Measures. In the case of the Eurasian Customs Union and the CIS, SPS conditions and TBTs are even more important than in other regions of the world. There have been standards based trade disputes between Belarus and Russia on several products, including milk, meat, buses, pipes and beer (see Petrovskaya, 2012). There is survey evidence that Kazakhstani exporters complain bitterly regarding the use by the

¹¹ See Ioffe (2014) and section 3.1.3 below for further details.

Russian authorities of SPS and TBTs measures, either to extract payments from them or for protection (see Eurasian Development Bank, Centre for Integration Studies, 2015a).

Further to the discussion above on the trade conflict between Russia and Belarus, in December 2014, Russia declared that Belarusian meat and dairy products contain antibiotics, salmonella and listeria. Russia imposed an import ban on these products. Belarusian authorities failed to confirm these findings, and responded by increasing customs checks on Russian vehicles entering their territory, arguing this is a smuggling prevention action. On February 6, 2015, Russia allowed the import of frozen and chilled beef from seven enterprises from Belarus, but products from some other companies remained banned from exporting to Russia.¹² On February 10, 2015, Russia's Federal Service for Veterinary and Phytosanitary Surveillance (Rosselkhoznadzor) found bacteria in partly salted salmon delivered from Belarus. This product was banned from the Russian market.

Regarding Kazakhstan and Russia, on March 5, 2015, Kazakhstan suspended Russian fuel and gas imports¹³ to protect its domestic market from a "surplus of Russian oil products." The depreciation of the Russian ruble has significantly increased competition from Russian producers in the markets of Kazakhstan; but this is obviously a breach of the single market.

On March 3, 2015, Kazakhstan banned five tons of Russian meat products from its market, saying that Russia was in violation of quality standards. Russia argued that Kazakhstani producers do not fulfill the same quality rules and imposed counter-restrictions.

Although standards were not the exclusive method used, these examples show the importance of standards as a now favored method of non-tariff barriers in the EAEU. SPS regulations and standards on industrial goods, however, have legitimate regulatory functions. For example, in the case of SPS, countries have the right and obligation to protect human, animal and plant life. The World Trade Organization SPS and TBT agreements recognize these legitimate

¹² See Boguslavskaya (2015) for details.

¹³ The products include light distillates and products, medium distillates, motor fuel, kerosene, diesel fuel, gasoil, hydraulic liquids, light oils, oils for gearwheels, electric isolation oils and other oil products, with exceptions for housing furnace fuel, in order to prevent a critical shortage. See Boguslavskaya (2015) for details.

regulatory functions, but call for these regulations to be applied in a manner that does not discriminate against imports or impose excessive costs.¹⁴

Given that standards are often used as non-tariff barriers, but recognizing their legitimate regulatory role, and also the importance of reducing trade costs more broadly, global experts in the field of non-tariff measures, trade facilitation and services (including the World Bank, the International Trade Centre, the Asian Development Bank and the World Economic Forum *et al.*, 2013)¹⁵ recommend establishing an effective regulatory review and improvement mechanism. Crucially, there should be public-private partnerships that involve the active engagement of the business community, economic policy officials and regulators organized around the supply chain as a whole in a sector or area of trade. The process would be overseen by a focal point within government with a mandate to coordinate and oversee all regulation that directly affects supply chain efficiency. To be effective in reducing trade costs requires coherence and coordination across many government agencies and collaboration with industry. The process should generate information on sources of trade costs through regular assessments of regulatory trade barriers and costs, and concrete action agendas and proposals for reforms.

A big problem in reducing standards as a non-tariff barrier in the EAEU is that standards regulation is still based primarily on the Soviet system of standards regulation, known as GOST. There are reportedly about 20,000 standards that apply in the Customs Union.¹⁶ As the Asian Development Bank (2013, p.11) concluded in its comprehensive report on SPS standards in Azerbaijan and the Asian countries of the Commonwealth of Independent States: “The most significant technical barriers to adherence to SPS principles, apart from being a trade barriers itself, is the GOST system.” Lacking a market to control quality in the Soviet era, GOST standards controlled the quality of a product, even when there was no health or safety issue. That is, mandatory technical regulations were employed where market economies allow voluntary standards to apply. Even the process under which the product was produced was controlled in

¹⁴ See: https://www.wto.org/english/tratop_e/sps_e/spsagr_e.htm

¹⁵ See Cadot, Malouche and Saez (2012) for the World Bank and Inklaar (2009) for the International Trade Centre.

¹⁶ Among the original three members 62 percent of the standards are GOST standards; 23 percent are Russian; and 14.5 percent are Belorussian. See Shymulo-Tapiola (2012) and www.minpromtorg.ru/industry/metrology/59.

many cases. This regulatory system makes innovation and adaption to the needs of the market very costly as firms must negotiate with regulators when they want to change a product in response to market conditions or how it is produced in response to technology changes. This overly mandatory regulatory system is a bigger problem than a trade problem as it impacts virtually all producers, regardless of the destination of the product. Black and Kireeva (2014) have found that “GOST based systems of the Russian Federation... impose serious constraints on the competitiveness of production.... Consequently, sanitary and phytosanitary measures [that are] not based on risk assessment and science, may become barriers to trade, as is illustrated by the case studies on the fisheries sector...”¹⁷ Legislation in Russia, Belarus and Kazakhstan calls for conversion to European Union technical regulations and to voluntary standards where no health and safety problem exists; but this is happening very slowly in all three countries, especially regarding SPS regulations.¹⁸ The problem is that the Customs Union has worsened the situation. Technical regulations are now decided at the level of the EAEU; so firms that previously negotiated with their national standards authority, have had to get agreement from a multi-country committee of the EAEU, and this has reportedly caused further delays, impeding innovation and the ability of firms to meet the demands of the market.

A second problem with efforts to reduce the non-tariff barriers is that the predominant method being used by the EAEU to harmonize standards is by producing mandatory technical regulations. The alternative is to use Mutual Recognition Agreements (MRAs). There have been some MRAs agreed, but in only a minority of cases. Experience has shown that no customs union has been able to broadly harmonize standards based on mandatory technical regulations, with the exception of the European Union. And even in the European Union, they had to use MRAs and only harmonized technical regulations after decades of work. Further, even if

¹⁷ The European Union has accused the Russian Federation of applying SPS standards that are not science based. At the WTO SPS Committee in October 2012, Russia disputed EU allegations that Russia’s restrictions on imports of live animals were not supported by evidence or risk analysis. See http://www.wto.org/english/news_e/news12_e/spis_18oct12_e.htm.

¹⁸ See European Commission (2013) and Black and Kireeva (2014) for assessments for in Russia. For Kazakhstan, Vakulchuk and Salmanov (2015) conclude that “despite some progress in harmonization of norms and regulations [in the EAEU], the practical application of phytosanitary norms remains largely unaltered.” See Eurasian Development Bank (2015a; 2015b) for an assessment of non-tariff barriers and the prevalence of SPS barriers in the original three member countries.

standards are mutually agreed, either as technical regulations or MRAs, it does little good if the authorities refuse to recognize the conformity assessment certificates of partner countries. While each member of the Customs Union is expected to create a system of mutual recognition of certificates of conformity, these certificates are not presently recognized in the other countries of the Customs Union. There is little hope for a significant reduction in the role of standards as non-tariff barriers unless the system of mutual recognition agreements is more widely recognized and adopted, and certificates of conformity are mutually accepted.

In summary, non-tariff barriers remain a serious problem within the EAEU, and it is difficult to conclude that the EAEU has led to a reduction of the costs of exporting and importing due to a reduction of the costs of the non-tariff barriers.

4.2 Progress in Trade Facilitation

Customs posts between the member countries were removed in 2011, and this has reduced trade costs for exporters and importers operating in the three countries. But duplication of SPS inspections and trade disputes among the members have reduced the efficiency of trading across borders, and the imposition of delays at customs has also been used when trade wars flare. We begin with statistical evidence and then discuss the main issues.

4.2.1 Data on Efficiency of Trading Across Borders. In table 4 we present data on the efficiency of trading across borders for the five members of the EACU, from 2009-2015. Belarus shows a one day decrease in the days required to import and export in 2010, the first year of the formation of the Customs Union, but no improvement after 2010. Belarus shows a rather dramatic decrease between 2011 and 2014 in the cost of importing or exporting a container. The decrease in the costs of importing and exporting a container into Belarus is so dramatic and sustained (with costs falling to about 20-25 percent of their 2011 values in 2014), that it suggests that domestic reform independent of the Eurasian Customs Union is likely a significant contributor to the cost reduction. Most likely due to the cost of importing and exporting a container, Belarus also shows a significant improvement in the “distance to the frontier” measure between 2011 and 2014.¹⁹

¹⁹ This is a measure that compares the country to the most efficient country in the world.

In the Russian Federation, the time to export or import has fallen by about 10 percent between 2012 and 2015. Although causality is difficult to assess, since Russia joined the WTO in 2012, the reduction in the time to export and import is consistent with compliance with WTO procedures rather than the formation of the Customs Union in 2010. Or possibly other independent actions are the cause, such as the World Bank-Government of the Russian Federation Customs Modernization project, which was devoted specifically to this objective.

Kazakhstan showed some initial improvement in 2010, but has since gone backwards and in terms of the costs of exporting or importing a container, the costs (deflated) have actually increased. Given that Armenia and the Kyrgyz Republic joined only in 2015, the data will not show the impact of joining the EAEU.

4.2.2 Issues in Trade Facilitation within the EAEU. Some commentators have alleged that because of Russia's concern about transshipment of Western goods through Belarus and Chinese goods through the Kyrgyz Republic, it has become more costly to import goods from third countries since the formation of the Customs Union in 2010 (Aslund, 2013). But the Eurasian Customs Union and now the EAEU apply the Commonwealth of Independent States agreement on rules of origin. So, at least formally, there is no difference in the treatment of imported goods from third countries pre and post the formation of the Eurasian Customs Union in 2010. Further, the data in table 4 for Belarus, which show a dramatic drop in the cost of importing a container after the formation of the Customs Union, cast serious doubt on that allegation. Finally, my discussions with trade experts who have worked in the Kyrgyz Republic indicate that exports from the Kyrgyz Republic to Kazakhstan did not face additional barriers as a result of the formation of the Eurasian Customs Union.

One area where there is an increase in transport costs due to the formation of the Customs Union is regarding goods subject to SPS inspection, if the goods must transit through one member country of the EAEU to another. The reason is that the EAEU (and the Customs Union before it) has formal responsibility for SPS controls. Thus, agricultural and food products (and other products under SPS control) are inspected where they first enter the Customs Union, even if destined for another country. If, for example, the goods enter Belarus, but are destined for Russia, they will be inspected in Belarus, before being allowed to proceed through Belarus to Russia. Prior to the formation of the Customs Union, they would not be inspected in Belarus.

The problem is that, despite the inspection in Belarus, the goods will also be inspected in Russia. My interviews have revealed that as a result of these additional delays and costs, for some goods, some Polish trucking firms that are shipping to Russia, are now avoiding the most direct route to Russia through Belarus. In order to avoid the second inspection, they are traveling through Lithuania and Latvia (and sometimes Estonia) to enter Russia directly. Formally, subjecting imported goods to a second inspection that occurs in Russia, when domestic goods in Russia are only required to be inspected once, is a violation of the WTO SPS Agreement.

Further, as mentioned above, in 2015, Belarus increased inspections of Russian trucks entering the territory of Belarus. Given that customs posts between the members of the Eurasian Customs Union were supposed to have been abolished, the action raises questions on the claim that trade costs within the Customs Union have been reduced due to the elimination of internal customs posts. One would presume that the internal customs posts are temporary, pending resolution of the trade dispute between Russia and Belarus.

In summary, the data on trade facilitation are more encouraging than the non-tariff barrier data regarding the possible reduction in trade costs due to the formation of the Customs Union. But problems remain such as duplicate SPS inspections, occasional additional customs checks and disagreement over the implementation of the counter-sanctions has led to problems in transit for exports of goods from Belarus. I conclude that there may have been a reduction in trade costs due to the Customs Union, but it has been small.

5. Subsidies, Loans, Foreign Direct Investment, Military Support and Right to Work for Migrants

Although the reduction of non-tariff barriers and trade costs may not be sufficient to overcome the trade diversion costs of the previously more open economies of Armenia, Kazakhstan and the Kyrgyz Republic, Russia is apparently prepared to expend resources and apply other pressures, i.e., use both carrots and sticks, to hold the EAEU together and expand it. I consider the main issues for the members.

5.1 Belarus

As shown in table 1, on average, Belarus was not a more open economy than Russia prior to the formation of the Eurasian Customs Union in 2010. Thus, its transfers to Russia are considerably smaller than Armenia, the Kyrgyz Republic or Kazakhstan.²⁰

The key issue in the Belarus-Russia trade relationship is that growth in Belarus has been dependent to a significant extent on importing cheap Russian oil and gas, refining the oil and exporting the refined products to the West. This has provided cheap oil and gas to its citizens and hard currency earnings. In effect, this was a Russian subsidy to Belarus. In 2010, Russia imposed tariffs on oil to Belarus on amounts of oil that exceeded Russia's estimate of the domestic use of Belarus. This dramatically reduced the capacity of Belarus to earn hard currency on refined oil. Further, Belarus was supposed to supply refined oil products to Russia. Belarus apparently judged that the price of oil fell so much in 2015 that the subsidy was eliminated.²¹ Notwithstanding an occasional trade war where Belarus will take retaliatory action, the oil and gas subsidies dominate the bilateral trade relations. In general, Belarus defers to Russia on most trade matters in order to preserve the energy subsidies.

5.2 The Kyrgyz Republic

The Kyrgyz Republic relies heavily on remittances from its migrants working in Russia. Remittances from Kyrgyz migrants working in Russia are estimated to be about 31.5 percent of Kyrgyz GDP.²² Although the Central Asian countries enjoy a visa free regime in Russia, they cannot legally work without work permits. As a result, millions of workers, primarily from

²⁰ Even though the unweighted average tariff was about the same in Russia and Belarus in 2009, the structure of the Russian tariff was aligned with higher tariffs on Russian industry than on Belarussian industry. So there have been complaints in Belarus regarding trade diversion costs and transfers to Russia as a result of implementing the Customs Union tariff.

²¹ In 2015, Russia was to supply 23 million tons of oil to Belarus and Belarus was to supply 1.8 million tons of oil products to Russia. But with the oil price falling in 2015 (reducing its subsidy), Belarus refused to supply the petroleum products to Russia.

²² See Schenkkan (2015). He indicates that remittances are estimated to be 50 percent of the GDP of Tajikistan and between 15 and 25 percent of the GDP of Uzbekistan.

Central Asia, work illegally in Russia.²³ Admission to the EAEU, however, will allow the Kyrgyz migrants to work legally in Russia, since the EAEU guarantees the free flow of labor within the EACU. Further, some alleged that Russian negotiators told the Kyrgyz that failure to join the EAEU would result in restrictions on Kyrgyz migrants in Russia.²⁴ Given the size of the remittances as a share of Kyrgyz GDP, this is a dominant issue.

A substantial negative aspect of the decision to join the EAEU for the Kyrgyz Republic is that it will have to raise tariffs on Chinese imports. Over half of Kyrgyz imports come from China. The Kyrgyz Republic has a major textile processing industry, located primarily in Dordoi, Kyrgyzstan that processes Chinese imports and exports the finished products, with Kazakhstan and Russia as the principle destinations.²⁵ Increasing tariffs on Chinese textile inputs into their apparel processing industry is expected to induce a reduction in Kyrgyz competitiveness on their apparel exports.

In addition to the benefits for migrants, the Kyrgyz Republic was reportedly promised foreign direct investment and financial support in a number of areas. As part of its EAEU accession negotiations, Russia pledged \$1.2 billion in transition aid, and Gazprom indicated that it would spend \$0.5 billion to improve the gas infrastructure of the Kyrgyz Republic. In addition, Russia's state owned Inter RAO pledged to build the Kambarata hydropower plant I in exchange for extending Russia's lease on the Kant military base (Schenkkan, 2015, p.5). With the decline in the price of oil and the depreciation of the ruble, the total amount of support may be lower than earlier indicated. In any event, the combination of better access to the Russian labor market and some subsidies and FDI have persuaded the Kyrgyz Republic it is in their interest to join the EAEU.

5.3 Armenia

Like the Kyrgyz Republic, Armenia relies heavily on remittances from migrants working in Russia. Thus, the guarantee of the right to work legally in Russia for Armenian migrants is a

²³ Popescu (2014).

²⁴ Aslund (2013).

²⁵ See Kaminski and Mitra (2012).

significant pull toward the EACU. In the case of Armenia, however, it had to reject the Deep and Comprehensive Free Trade Agreement (DCFTA) it had signed with the European Union; and the European Union has already surpassed Russia as Armenia's most important trade partner. The loss of the opportunity to deeply integrate with the advanced economies of the European Union, with the potential for greater foreign direct investment and technology transfer from European Union economies, is a significant cost. In the cases of Ukraine, Georgia and Moldova, despite Russian pressure to reject the DCFTA they negotiated with the EU and join the EAEU, they rejected the EAEU and stayed with their DCFTA.

What Armenia likely valued as most important, however, is its need to secure its security arrangement with Russia regarding its conflict with Azerbaijan over the Nagorno-Karabakh region. Russia is reported to have threatened to withdraw its support if Armenia did not join the EACU and reject its pact with the European Union. While obtaining Russian support for the security of the Nagorno-Karabakh region was crucial for Armenia, the Nagorno-Karabakh region will not be considered part of the customs territory of the EAEU. Kazakhstan especially wants all EAEU matters to be consistent with international law and be WTO compatible; legally, the Nagorno-Karabakh region is a secessionist part of Azerbaijan.²⁶

5.4 Kazakhstan

With a per capita income almost the equal of the Russian Federation²⁷ and an economy that is also highly dependent on oil and gas, Kazakhstan is receiving neither monetary nor oil and gas subsidies from Russia in return for its participation in the EAEU. Further, unlike the three Central Asian countries mentioned above, Kazakhstan is not dependent on migrant remittances from their work in Russia. As mentioned above, Jensen and I have estimated losses for Kazakhstan from raising its tariffs to implement the common external tariff of the EAEU. What the authorities in Kazakhstan hoped would compensate for these losses is improvement in trade facilitation and reduction of non-tariff barriers. The analysis above indicates that Kazakhstan still

²⁶ Popescu (2014, 23).

²⁷ The purchasing power parity per capita income of Kazakhstan and Russia in 2014 was \$24.2 thousand and \$25.6 thousand, respectively.

faces very high non-tariff barriers in Russia and Belarus, and Kazakhstan has not made any significant progress on trade facilitation.

Reflecting these issues, in October 2013, President Nazarbayev complained that the Eurasian Union imposed more costs than benefits on Kazakhstan. Among the issues, he noted that: Kazakhstan had a significant trade deficit in the Union; there were continuing barriers to exports of meat and meat products from Kazakhstan; and Kazakhstan lacked access to the Russian electricity market or electricity transit.²⁸

Despite these concerns and the emergence an anti-EAEU movement in Kazakhstan, Nazarbayev himself appears to remain committed to an Eurasian economic union. He was the first to enunciate the idea of an Eurasian Union in 1994 and sees the EAEU as an important part of his legacy as the great integrationist (Satpaev, 2015). Nonetheless, Nazarbayev has resisted the extension of the Union into areas he considers political, including border control, security and defense, healthcare and education; and he opposes monetary integration, while Putin supports it. Most importantly, Kazakhstan does not want to be pulled into a geopolitical battle that Russia might have with the West. He just wants an economic union that delivers benefits to its members, and his comments above reflect frustration in his calculus for Kazakhstan.

5.5 Russia

For Russia the calculus is that it will need to provide direct or indirect subsidies to Belarus and the small poor states in the form of cheaper energy, loans or politically motivated investments, and security guarantees to Armenia, in order to persuade them to implement the EAEU rules and regulations. In return, Russia gets a tariff structure that favors Russian industry in the markets of the partner countries and Putin hopes to get a geopolitical Eurasian Union that allows Russia to lead a block of countries that competes with the European Union for influence in Europe and maybe the world stage.²⁹ Ukraine, however, was crucial to Putin's vision. The

²⁸ Transcript of the press conference on the conclusion of the meeting of the High Eurasian Economic

Council, 24 October 2014. Available at: <http://kremlin.ru/transcripts/19485>. Cited in Popescu (2014, p.21).

²⁹ See Popescu (2014) for an elaboration of this argument. One of Putin's advisors on the EAEU, Sergey Glaziev, has publicly espoused the view that the Eurasian Union can grow sufficiently important that it will be able to attract current European Union members to withdraw and join the EAEU (Cyprus and Greece, for example). See Sergey

crisis in Ukraine demonstrates that Russia has considerable power to disrupt, including the power to disrupt the plans of the European Union; but it lacks the power to create a unified regional project. It appears that, for partners, Russia will be left with two medium size states and some small, poor countries.

6. Conclusions

The earlier EurASec Customs Union of Belarus, Russia, Kazakhstan, the Kyrgyz Republic, Tajikistan and briefly Uzbekistan, failed. The earlier Customs Union failed because it imposed large costs on the Central Asian countries, who had to buy either lower quality (including lower tech goods) or higher priced Russian manufactured goods under the common external tariff umbrella that favored Russian industry. The present Customs Union also started with the Russian tariff, which protects Russian industry and suffers from the same problem that led to the failure of the earlier Customs Union. Nonetheless, the present Customs Union could succeed for two overall reasons.

First, due to Russia's accession to the WTO, the tariff of the Customs Union will fall by about 40 to 50 percent. This will make the EAEU a more open Customs Union, very significantly reduce the transfers from Armenia, Kazakhstan and the Kyrgyz Republic to Russia, and thereby reduce the pressures from producers and consumers in these three countries on their government to depart from enforcement of the tariffs of the Customs Union. Given the likelihood that the EAEU will remain a small economic block, it is crucial that it remain an open block.

Second, in their survey of preferential trade agreements, Schiff and Winters (2003) have emphasized that the real benefits of preferential trade agreements arise from "deep integration," not from the preferential tariff commitments. Implementation issues aside, unlike the EurASec Customs Union, the EAEU includes a wide range of deep integration measures and payments to poorer countries, including the following:

- (i) It hopes to achieve the free movement of labor and the free movement of services. Progress on the free movement of labor seems good, which is especially

Glaziev, 'Who Stands to Win?' in *Russia in Global Affairs*, December 2013. Available at: <http://eng.globalaffairs.ru/number/Who-Stands-to-Win-16288>.

important to Armenia and the Kyrgyz Republic; and some steps have been taken on services liberalization³⁰

- (ii) It includes efforts to reduce non-tariff barriers and improve trade facilitation, although progress has been slow on trade facilitation and apparently non-existent on non-tariff barriers. Regarding non-tariff barriers, given the common history of Soviet mandatory standards, Russia will have to take the lead in moving the Customs Union toward a system of voluntary standards where no health and safety issue is involved, and toward a system of mutual recognition agreements and away from commonly negotiated technical regulations. It will also have to push for mutual acceptance of conformity assessment certificates. On trade facilitation, the data show a reduction in the trade costs of Russia and Belarus, which may partially be attributed to the Customs Union. But Russia's conflict with the West is spilling over into a trade war with Belarus and setting back trade facilitation.
- (iii) The EAEU includes limitations on the use of trade-distorting agricultural subsidies. According to the authorities in Belarus, the rules of the Customs Union have led them to cut their trade distorting subsidies almost in half.³¹
- (iv) Russia has been providing monetary subsidies and politically motivated foreign direct investment to the poorer countries, oil and gas subsidies to Belarus and security guarantees to Armenia.
- (v) Finally, it has created a supranational regulatory body, the Eurasian Economic Commission, modeled after the European Commission. However, the trade war of 2015 between Russia and Belarus, where both countries took actions that were delegated to the Eurasian Economic Commission, undermines its authority.

Although progress is mixed at this time, successful implementation of several of these objectives could provide benefits to members who lose from the common external tariff.

³⁰ The members have agreed to mutually recognize education degrees in certain areas. See Boguslavskaya (2015).

³¹ See World Bank (forthcoming).

Deep integration requires cooperation and trust and is dependent to some extent on effective institutions at the national level in the first place. The members have been moving up on the Doing Business rankings in recent years, but still rank rather low on corruption.³²

The EAEU has taken some steps forward and some steps backward with deep integration. Deep integration in the European Union was achieved in stages over decades, reaching the stage of implementing the single market only in 1992. The Eurasian Economic Union is in its infancy, less than one year old, so it would not be fair to pronounce it dead on the basis of early missteps. To effectively implement the objectives of the EAEU, however, Russia will need to take the lead in ceding authority to the Eurasian Commission and lobby for reforms, including of the standards regime as mentioned above.

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³² On the Doing Business measure of economies for 2015, Armenia is 45, Belarus is 57, Russia is 62, Kazakhstan is 77, the Kyrgyz Republic is 102. On the Transparency International Corruption index of 169 countries for 2014, Armenia is 94, Belarus is 119, Kazakhstan is 126 and the Kyrgyz Republic and Russia are tied in the 136th position.

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Table 1: Applied Most-Favored Nation Average Tariffs for Eurasian Economic Union Members, Before and After Joining the EAEU and Tariffs in 2020 after Russia's WTO commitments are implemented

	Average Tariff prior to joining the ECU		Average Tariff After applying the common external tariff of the ECU in 2010		Final WTO Bound Average Tariff	EAEU average common external tariff in 2020
	un-weighted	trade weighted	un-weighted	trade weighted	un-weighted	un-weighted
Country						
	Tariffs in 2009					
Belarus	12.0 ^a	8 ^a	11.1 ^a	NA ^b	NA ^b	7.9 ^c
Russia	11.9	11.6	11.1	11	8.6	7.9 ^c
Kazakhstan	6.7	5.3	11.1	9.5	6.1	7.9 ^c
	Tariffs in 2013					
Armenia	3.5	3.4			8.5	7.9 ^c
Kyrgyzstan	4.6	4.1			7.5	7.9 ^c

a/ The un-weighted and trade weighted average tariff for Belarus in 2009 was 10.1 percent and 7 percent, respectively, based on the World Integrated Trade Solution (WITS) Trade Indicators of the World Bank. From Shepotylo and Tarr (2013), however, we see that WITS underestimates the unweighted (weighted) average tariffs in Russia in 2009 by 1.9 (2.8) percentage points. We assume the downward bias for Belarus is comparable to Russia and we increase the WITS unweighted average tariff values in the table for Belarus for 2009 by 1.9 percentage points. Due to very different import product mixes, we conservatively increase the trade weighted average tariff of WITS by only one percentage point. For 2010, Belarus is reported to have implemented the common external tariff, so its un-weighted average tariff should be close to that of Russia.

b/ NA = not available.

c/Takes the implementation of Russia's WTO commitments into account.

Sources: Data for Russia in 2009, 2010 and 2020 are from Shepotylo and Tarr (2013); for Kazakhstan in 2009 and 2010, estimates are from Shepotylo in World Bank (2012); WTO (2015) for the final bound rate of Kazakhstan. For Armenia and the Kyrgyz Republic, values are from the World Trade Organization interactive website: https://www.wto.org/english/res_e/statis_e/statis_maps_e.htm

Table 2 Applied Most Favored Nation (MFN) tariffs in Russia in 2001-2020, implications of WTO accession, and WTO bound average tariff rate 2012-2020.

Year	Number of product lines	Number of product lines with non-zero specific tariffs	Applied MFN rate				Bound MFN tariff rate	Number of product lines with bound MFN rate above applied MFN rate
			Un-weighted average		Weighted average			
			Mean	Standard deviation	Mean	Standard deviation		
2001	11,076	1,609	11.7	10.8	11.4	9.5		
2002	11,148	1,624	12.2	13.7	13.3	14.9		
2003	11,161	1,774	12.8	18.7	14.3	18		
2004	11,218	1,783	12.4	13.3	14.1	17		
2005	11,365	1,792	12.1	12.7	14	15.2		
2006	10,875	1,920	11.7	11.3	13.7	12.2		
2007	11,001	1,856	11.4	11.3	11.7	11.2		
2008	11,057	1,924	11.3	10.8	13.4	22.7		
2009	11,067	1,891	11.9	13.2	11.6	16.6		
2010	11,051	1,948	11.1	13.5	11	17.6		
2011	11,125	2,020	11.5	14.8	13	20.8		
2012	11,557	1,422	10.9	10.7	9.3	8.1	12.4	2 623
2013	11,557	1,421	10	10.3	8.3	7.8	11.2	2 498
2014	11,557	1,420	9.2	10	7.6	7.6	10.1	2 204
2015	11,557	1,407	8.4	9.9	6.9	7.4	9.1	1 682
2016	11,557	1,401	8.1	9.8	6.3	6.6	8.8	1 551
2017	11,557	1,390	8	9.7	6	6.2	8.7	1 498
2018	11,557	1,372	8	9.7	6	5.9	8.6	1 498
2019	11,557	1,371	8	9.7	5.9	5.7	8.6	1 498
2020	11,557	1,371	7.9	9.4	5.8	5.1	8.6	1 498

Notes: Weighted averages for 2011-2020 are computed based on matched tariff lines only, and adjusted up by 0.3 percentage points due to our estimate of the bias of ignoring the unmatched tariff lines.

Source: Shepotylo and Tarr (2013).

Table 3: Estimates of the Ad Valorem Equivalents of Barriers faced by Exporters from Belarus, Kazakhstan and Russia in each others' markets

Sector	Belarus		Kazakhstan		Russia	
	Kazakhstan	Russia	Belarus	Russia	Belarus	Kazakhstan
Agriculture, forestry and fishing	26.3	7.6	39.2	12.4	11.5	11.8
Manufacture of food products, beverages and tobacco	10.2	8.1	39.7	15.0	14.8	9.2
Textile and clothing manufacture	9.7	2.8	55.1	5.7	12.9	5.3
Manufacture of leather, leather products and footwear	24.0	10.3	72.0	35.0	20.4	17.9
Manufacture of wood and wood products	24.2	3.4	0.0	14.6	5.9	13.7
Pulp and paper production, publishing activities	20.7	5.5	0.0	6.8	13.0	7.9
Chemical production	8.5	3.4	76.1	11.3	20.1	10.7
Manufacturing of pharmaceutical products	14.6	13.9	0.0	38.4	14.7	8.2
Manufacture of rubber and plastic products	14.7	7.6	57.3	15.6	15.9	13.7
Manufacture of other non-metallic mineral products	12.5	3.6	62.0	6.8	11.7	9.9
Metallurgical production, manufacture of fabricated metal	18.1	5.6	21.6	6.8	7.1	8.0
Manufacture of machinery and equipment	12.0	5.8	46.4	9.0	11.8	8.5
Manufacture of electrical and optical equipment	11.7	5.8	62.7	13.6	9.0	9.5
Manufacture of transport equipment	11.2	3.5	26.1	6.9	6.1	10.1
Overall Average	16.3	6.3	39.8	14.0	12.4	10.4

Source: Data are reproduced from Eurasian Development Bank, Centre for Integration Studies (2015b, table 2.9).

Table 4: Efficiency of Trading Across Borders by the EAEU Members

c

Measure	Year*	Armenia		Belarus		Kazakhstan		Kyrgyz Republic		Russia	
		export	import	export	import	export	import	export	import	export	import
Time (days) to Export/Import	2009	20	20	16	31	84	71	63	72	24	23
	2010	16	18	15	30	76	62	63	72	24	23
	2011	16	18	15	30	76	62	63	72	24	23
	2012	16	18	15	30	81	69	63	75	24	23
	2013	16	18	15	30	81	69	63	75	21	20
	2014	16	18	15	30	79	67	63	73	21	19
	2015	16	18	15	30	79	67	63	73	22	20
Cost to export/import in US dollars per container, deflated	2009	2721	3137	7437	8876	4919	5001	3000	5050	3196	3326
	2010	2556	2984	7034	8396	4699	4777	3010	4899	3706	3834
	2011	2577	2974	7716	9163	4094	4303	3210	4683	3179	3292
	2012	2471	2852	3045	4725	5212	5190	4160	5209	2963	3174
	2013	2503	2889	1742	2702	5185	5163	4360	5215	2461	2616
	2014	1885	2175	1460	2265	5285	5265	4760	6000	2401	2595
	2015	1885	1885	1460	2265	5285	5265	4760	6000	2705	2920
Distance to Frontier (on trade)**	2009	56.0		34.6		5.8		12.9		42.1	
	2010	64.0		35.2		11.5		13.9		38.8	
	2011	63.9		35.2		15.1		15.1		45.4	
	2012	64.7		46.1		8.1		12.6		46.6	
	2013	64.5		56.8		8.2		12.7		53.0	
	2014	68.8		59.1		7.9		9.7		50.5	
	2015	64.5		56.8		8.2		12.7		51	
*Data for year t is taken from the Doing Business Survey from year (t+1).											
** A measure of the regulatory regime for trade compared to the best practioners in the world. The scale is 0 to 100, with higher scores being bett											
Source: World Bank Doing Business Survey, various years.											