

# Economics in Brief



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## The Eurasian Customs and Economic Union

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On 1<sup>st</sup> January 2015, the Eurasian Economic Union (EEC) between Russia (RS), Belarus (BY), Kazakhstan (KZ) and Armenia (AM) will come into effect. This deepening of regional economic ties started with the idea of a common economic area in 2003 and has been realized as a customs union between RS, BY and KZ in 2010 in the first instance.

### The Russian economy dominates the envisaged economic area ...

The EEC is dominated by the Russian economy with regard to area, population as well as economic output. Real gross domestic product per capita has developed similarly in all three countries, but Russia still has the highest level of it.

Trade relations are also asymmetric. Russia is the most important trade partner for Armenia, Belarus as well as Kazakhstan (with the exception of Kazakh exports). Vice versa, Belarus and Kazakhstan are important export and import markets for Russia with 7<sup>th</sup> and 10<sup>th</sup> place in the list of the most important trading partners, but they account for only 7% of goods exports and imports

respectively. The Russian trade with Armenia is almost negligible in contrast.

### ... as well as the relation to the WTO

Russia also defines customs tariffs of the Union in accordance with the different economic weights. The far-reaching adoption of Russian custom tariffs in 2010 resulted in an increase of tariffs in external economic relations for Belarus and Kazakhstan in the first instance. With Russia's accession to the WTO in 2012 the tariffs of the Union have been reduced. This is because Russia's arrangements with the WTO are applied for the Union as a whole.

### Trade with Germany is important for the EEC

Germany is the second and third most important import market for the countries of the Customs Union. The most important import goods are machinery and related goods. For this product group a relatively low equivalent ad valorem tariff of 2.2% is applied (Source: ITC). Germany is less important as an import Market for Armenia.

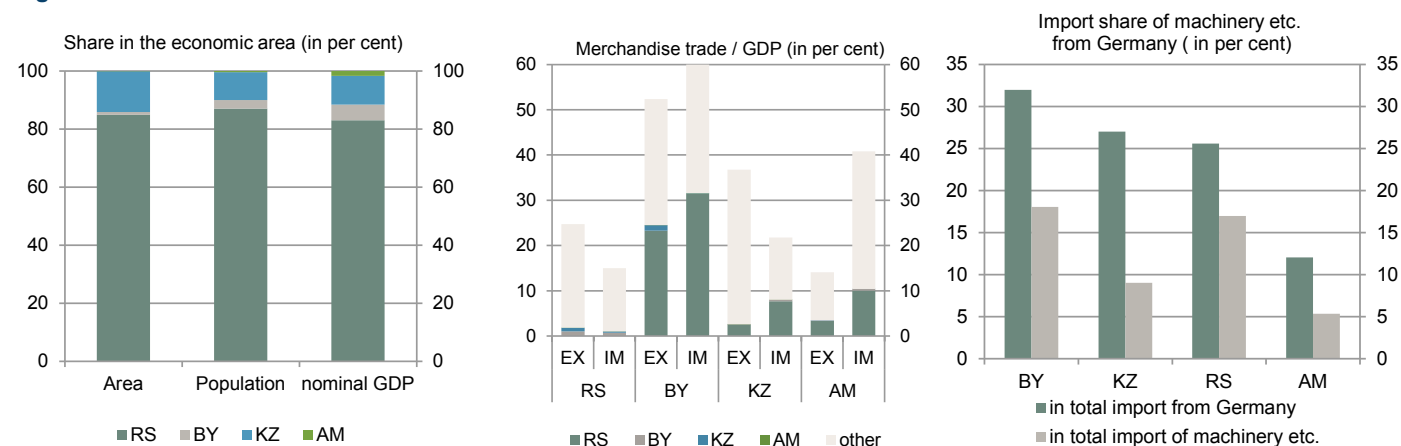
The EEC is the 4<sup>th</sup> most important foreign market for Germany's most important export goods machinery and equipment (with a share of 5.8%). An open question is how much the EU sanctions with regard to dual use goods imposed on Russia because of the Ukraine conflict will affect trade relations.

### Outlook

With the free movement of goods, services, capital and persons starting at 1<sup>st</sup> January the Customs Union will transform into a common economic area. This also requires coordination of major economic policy areas like in the financial and energy sector. In the beginning, the project was even more ambitious and included foreign policy, security and defense. By now, it is limited to economic integration.

The Union is planned to be enlarged. Kyrgyzstan announced to join the Union by the start of the next year. There are also talks with Tajikistan about accession. The enlargement by the two countries may be made difficult by the border conflict between them. But even if these countries join the Union, economic output will only increase by a rather small amount and add to the economic power of the Union which is limited to begin with apart from oil and gas. ■

Figure: Economics data on the Customs Union



Source: Federal Statistical Office Germany, ITC, WDI, own calculations.