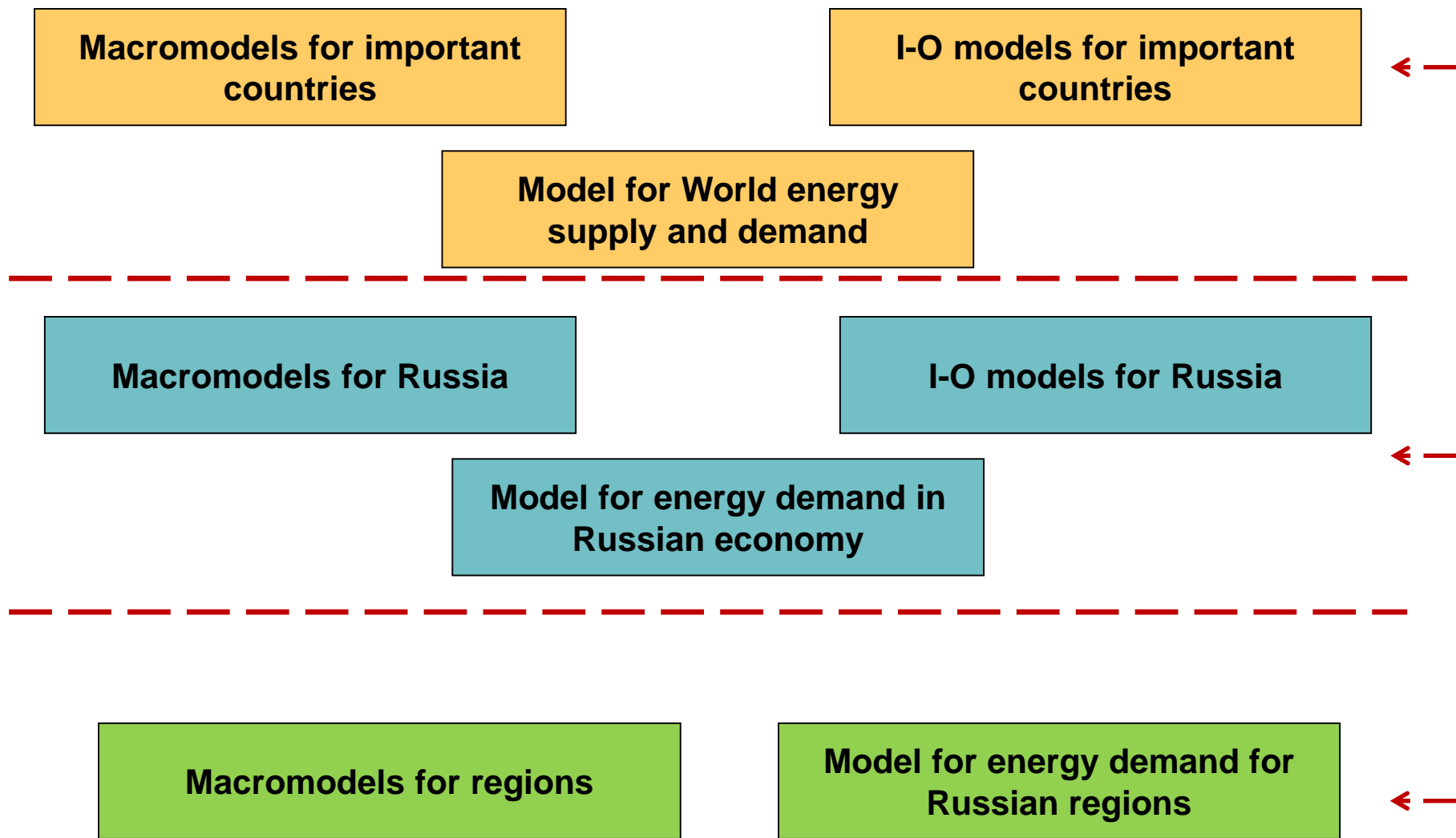


Free Trade Zone for Eurasian Economic Union and European Union: When it may be possible?



**XX INFORUM WORLD
CONFERENCE
ALEXANDRIA September, 2014**

THE GENERAL IDIA of MODEL COMPLEX



- **Could the creation of a free trade area between EU and EAU stimulate economic development in the space between Lisbon and Vladivostok in mid- and long term perspectives?**
- **What criteria should signify the readiness of EU and EAU to create a free trade area?**
- **Is a step-by-step (sectoral) transition to an FTA possible? What is the possible timeframe for creation of FTA?**
- **How does the process of EU- EAU creation get along with other integration processes (US-EU FTA, etc.)?**
- **What would be the most important effects resulting from changes in tariff and non-tariff barriers in trade, workforce and cash flows?**
- **How would the FTA creation process impact on the dynamic and structural characteristics of EU and EAU countries' development?**

The key readiness indicators for FTA

EAU

- 1) Not a significant single-step increase of import levels for internal markets of EAU countries
- 2) Preserving the cumulative rate of economic growth of EAU countries over the transition period

FREE TRADE AREA

- 1) Keeping the competitiveness of EU products on the EAU market
- 2) Preserving or increasing exports from EU countries to EAU countries for several years in comparison to the base scenario

EU

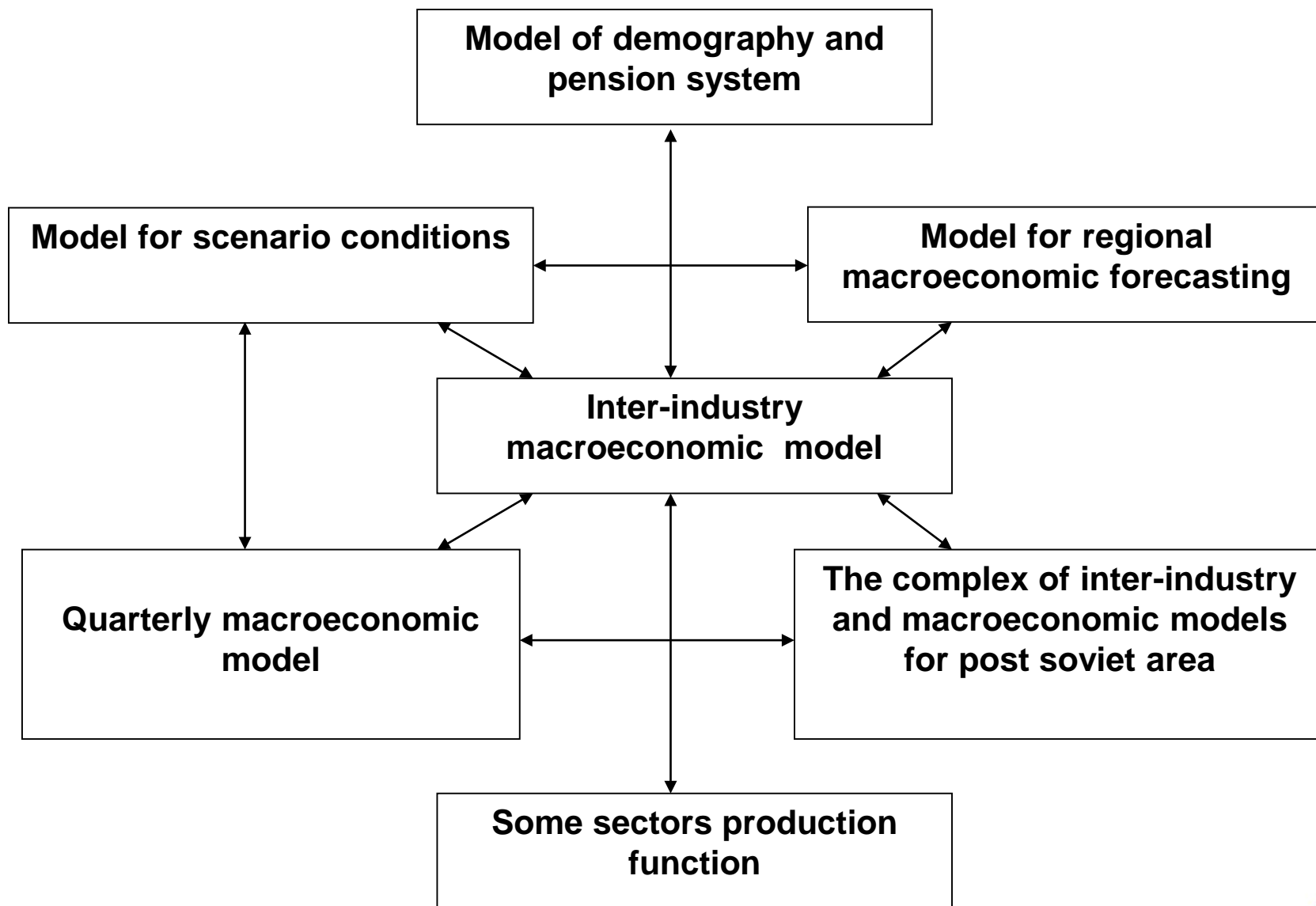
Export/import production balance in the key commodity groups in the Russian economy (2013)

	Internal market capacity, USD bln.	Volumes of domestic production in consumer prices, USD bln.	Export, % of production	Imports, % of apparent consumption	EU countries' share in aggregate imports, %
Total (industry and agriculture)	1525.1	1725.0	30.0	20.8	33.2
Agriculture, hunting and forestry	133.6	127.1	6.0	10.5	26.7
Food (including beverages) and tobacco	191.6	173.4	6.1	15.0	34.5
Textile and garment manufacture	23.2	11.2	8.5	56.0	15.2
Leather, leather goods and footwear	7.6	2.2	18.2	75.9	16.8
Chemicals, except pharmaceuticals	57.9	56.0	41.0	42.9	59.3
Pharmaceuticals	22.8	8.9	6.4	63.4	74.9
Machinery and equipment	94.7	53.3	19.8	54.9	49.1
Electrical, electronic and optical equipment	92.3	51.5	11.8	50.8	33.6
Transport vehicles and equipment	149.2	105.3	9.5	36.1	⁵ 39.7

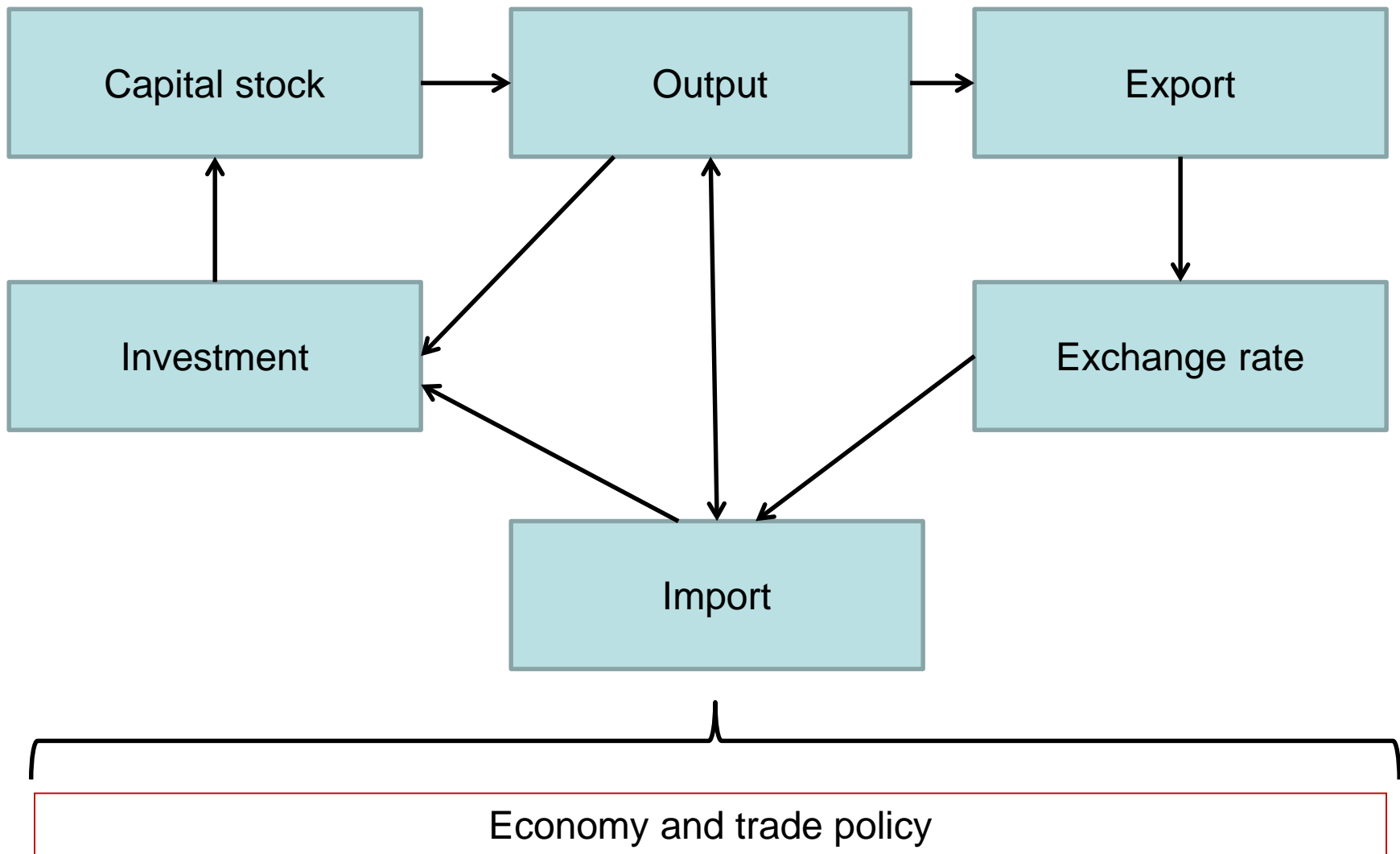
Indicators of production's efficiency in Russia and its trade partners

	Food	Oil products	Chemicals	Machinery and equipment	Electrical, electronic and optical equipment	Transport vehicles and equipment
Efficiency of primary resources use (added value to primary resources cost)						
Russia	0,98	0,79	0,79	1,14	1,13	1,27
Germany	0,87	0,13	1,58	2,48	3,72	1,69
Poland	0,86	0,33	0,75	1,57	1,76	1,13
Bulgaria	0,68	0,15	0,48	0,62	1,07	0,58
Finland	1,10	0,19	0,94	1,69	3,92	1,62
China	0,58	0,26	0,36	0,75	0,76	1,17
Value added share in structure of production, %						
Russia	26,8	30,8	31,8	31,9	34,2	23,0
Germany	22,8	4,3	33,8	36,8	38,3	23,2
Poland	23,5	16,3	26,6	33,5	27,7	20,3
Bulgaria	19,3	7,7	23,2	25,2	27,2	27,2
Finland	25,2	9,1	31,6	27,9	24,0	25,3
China	24,3	17,8	20,6	23,0	16,1	19,5

Model complex of IEF RAS



Scheme of interactions in the model complex



$$Inv_i = ((1-R_i) * ICapex_i * Iout_i / Ipow_i) + R_i * Iout_i + Exinv_i$$

Inv_i – investment in sector i ;

R_i – share of repair in investment of sector i ;

$Iout_i$ – output index in sector i ;

$ICapex_i$ – index of capital intensity in sector i ;

$Ipow_i$ – index of capital capacity in sector i ;

$Exinv_i$ – exogenous value of fixed capital investment;

$$Sim_{i(t)} = Sim_{i(t-1)} / ((ratus_t / ratus_{t-1} / CPI_t)^\alpha * imp_{i(t)} * dincon_{i(t)}^\beta * dinv_{i(t-1)}^\gamma)$$

Sim_i – share of import in internal consumption in sector i ;

$ratus$ – exchange rate;

CPI – consumption prices index;

imp_i – average level of import duties in sector i ;

$dincon_i$ – index of internal consumption in sector i ;

$dinv_i$ – index of fixed capital investment in sector i ;

α, β, γ – elasticity.

Dynamics of import duties

	Average level of import duties in agreement with WTO	
	Initial level	Final level (2017-2020)
All goods	11,850	7,147
Agricultural goods	15,178	11,275
Industry goods	11,256	6,410

Russian economy (base scenario)

	2011-2015	2016-2020	2021-2025	2026-2030	2031-2035
GDP growth rates, %	3.0	4.3	3.7	3.4	2.6
Capital investment growth rates, %	3.9	7.2	5.1	4.9	3.1
	2015	2020	2025	2030	2035
GDP per capita, t. USD (current prices)	15.1	20.7	27.1	37.2	45.3
Labor productivity (2010=1)	1.23	1.52	1.84	2.18	2.53
Energy intensity (2010 = 1)	0.84	0.70	0.60	0.53	0.46
Electric intensity (2010 = 1)	0.93	0.86	0.79	0.73	0.63
USD exchange rate, RUR	35.7	36.9	38.2	39.5	40.9

Price protection by exchange rate (exchange rate to PPP)

(1- with import duties, 2- without import duties)

Year	Germany		France		Italy		Ukraine		Belarus		Kazakhstan		China	
	1	2	1	2	1	2	1	2	1	2	1	2	1	2
Clothing and footwear														
2008	1,05	0,80	0,95	0,72	1,09	0,83	0,68	0,58	0,63	0,53	0,94	0,80	0,80	0,61
2010	1,03	0,76	0,90	0,66	1,03	0,76	0,60	0,51	0,54	0,46	0,98	0,83	0,90	0,67
2013	1,32	0,99	1,34	1,00	1,38	1,03	0,64	0,54	0,46	0,46	1,05	1,05	0,98	0,73
2015	1,39	1,04	1,42	1,06	1,46	1,09	0,75	0,64	0,54	0,54	1,19	1,19	1,03	0,77
2020	1,38	1,03	1,40	1,05	1,44	1,08	0,92	0,79	0,66	0,66	1,37	1,37	1,02	0,76
2025	1,38	1,03	1,40	1,05	1,44	1,07	1,06	0,91	0,76	0,76	1,50	1,50	1,02	0,76
2030	1,34	1,00	1,36	1,02	1,40	1,04	1,13	0,97	0,81	0,81	1,53	1,53	0,99	0,74
2035	1,34	1,00	1,37	1,02	1,41	1,05	1,20	1,02	0,86	0,86	1,58	1,58	0,99	0,74
Furniture, household appliances and electronics														
2008	1,29	1,03	1,45	1,16	1,47	1,18	0,80	0,68	0,76	0,64	0,99	0,84	0,85	0,68
2010	1,26	1,02	1,37	1,10	1,40	1,13	0,71	0,60	0,65	0,55	1,03	0,87	0,96	0,77
2013	1,47	1,19	1,66	1,35	1,60	1,30	0,75	0,64	0,55	0,55	1,10	1,10	1,04	0,84
2015	1,55	1,25	1,75	1,42	1,69	1,37	0,88	0,75	0,65	0,65	1,25	1,25	1,09	0,88
2020	1,53	1,24	1,74	1,41	1,67	1,36	1,08	0,93	0,80	0,80	1,44	1,44	1,08	0,88
2025	1,53	1,24	1,73	1,41	1,67	1,35	1,25	1,07	0,92	0,92	1,57	1,57	1,08	0,87
2030	1,49	1,20	1,68	1,37	1,62	1,31	1,33	1,14	0,98	0,98	1,61	1,61	1,05	0,85
2035	1,49	1,21	1,69	1,37	1,63	1,32	1,41	1,21	1,04	1,04	1,66	1,66	1,05	0,85
Investment machinery														
2008	0,88	0,74	0,96	0,80	0,89	0,75	1,00	0,85	0,83	0,71	0,89	0,75	0,93	0,78
2010	0,83	0,69	0,89	0,75	0,85	0,71	1,03	0,88	0,70	0,60	0,88	0,75	1,02	0,86
2013	0,93	0,80	0,95	0,81	0,95	0,81	1,19	1,02	0,62	0,62	0,88	0,88	1,06	0,90
2015	0,98	0,84	1,01	0,86	1,01	0,86	1,40	1,20	0,73	0,73	1,00	1,00	1,11	0,95
2020	0,97	0,83	1,00	0,85	1,00	0,85	1,72	1,47	0,89	0,89	1,15	1,15	1,10	0,94
2025	0,97	0,83	0,99	0,85	0,99	0,85	1,98	1,69	1,03	1,03	1,26	1,26	1,10	0,94
2030	0,94	0,81	0,97	0,82	0,97	0,82	2,11	1,81	1,10	1,10	1,29	1,29	1,07	0,91

12

Productivity of primary resources use, times (added value to primary resources spent)

	2012	2015	2020	2025	2030	2035	2020 to 2012	2030 to 2012
Agriculture and forestry, hunting and fishing	1,82	1,85	1,97	2,17	2,43	2,46	108%	133%
Mining operations	2,80	2,83	3,22	3,73	4,50	4,78	115%	161%
High-tech secondary industries	1,31	1,37	1,52	1,73	2,04	2,24	116%	155%
High-level medium-tech secondary industries	0,75	0,81	0,95	1,12	1,37	1,48	126%	182%
Low-level medium-tech secondary industries	0,53	0,57	0,68	0,83	1,06	1,16	128%	201%
Low-tech secondary industries	1,04	1,09	1,21	1,38	1,64	1,70	116%	158%
Electrical energy, gas and water production and distribution	0,94	1,25	1,45	1,53	1,46	1,44	155%	155%
Construction	1,30	1,39	1,62	1,98	2,52	2,38	125%	193%
Wholesale and retail trade, repair works	11,44	12,11	14,10	16,94	21,32	24,22	123%	186%
Hotels and restaurants	3,49	3,61	3,80	4,13	4,70	4,38	109%	135%
Transportation and storage	1,96	2,24	2,98	4,00	5,21	6,92	152%	266%
Telecommunications	8,90	8,91	9,83	11,35	14,17	17,85	110%	159%
Other services	3,48	3,56	3,78	4,26	5,17	5,69	109%	149%
Total	1,85	1,99	2,32	2,73	3,35	3,63	125%	182%

Market share of imports (% , 2013 prices)

	2012	2015	2018	2019	2020	2021	2025	2030
Agriculture and forestry, hunting and fishing	4,8	4,8	4,8	4,9	4,9	4,9	4,9	4,8
Mining operations	6,1	6,6	6,7	6,7	6,7	6,7	6,4	6,0
High-tech secondary industries	50,2	49,5	49,1	48,9	48,7	48,7	48,3	47,6
High-level medium-tech secondary industries	34,6	34,3	33,9	33,8	33,6	33,5	32,6	31,7
Low-level medium-tech secondary industries	22,4	23,4	24,2	24,5	24,7	24,7	24,4	24,6
Low-tech secondary industries	29,1	29,6	29,8	29,8	29,6	29,3	28,1	27,0
Electrical energy, gas and water production and distribution	0,6	0,6	0,6	0,6	0,6	0,6	0,6	0,5
Construction	5,2	5,2	5,2	5,2	5,2	5,1	5,1	5,1
Wholesale and retail trade, repair works	3,5	3,5	3,5	3,5	3,4	3,4	3,2	3,1
Hotels and restaurants	1,4	1,4	1,4	1,4	1,3	1,3	1,2	1,2
Transportation and storage	7,8	7,7	7,7	7,7	7,6	7,6	7,2	6,9
Telecommunications	11,0	10,9	10,7	10,7	10,6	10,4	9,9	9,4
Other services	1,7	1,7	1,7	1,8	1,7	1,7	1,6	1,6
Total	13,4	13,9	14,0	14,1	13,9	13,8	13,7	13,6

THANK YOU

FOR YOUR ATTENTION