Integration Effects Studies: Results and Policy Implications

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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”.

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’s 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*

Note: Ukraine’s GDP in 2013: USD 176 billion.
(accessed on 5 March 2014).
Effects of delayed UA-EU DCFTA signature*

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

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).

ATF Bank (2010) ‘Customs Union: no big inflation shock, but efforts needed to offset impact on non-resources sectors’, No. 4, April.


Selected references (II)


- Francois et al. (2013), ‘Reducing Trans-Atlantic Barriers to Trade and Investment’. IIDE and CEPR, London, UK


Selected references (III)


- 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).

Selected references (IV)

- 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.