

International Strategy Toolkit of the EAEU

Options for Third Countries, International Organizations, and Integration Groups

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1 Introduction

Today, one of the primary documents of Eurasian integration is the Treaty on the Eurasian Economic Union (EAEU), which was signed on 29 May 2014. It defines the scope and priorities of all the supranational institutions of the EAEU. However, in terms of relations with external actors, the Treaty leaves the signatories a room for manoeuvre. During the first five years, the EAEU focused on Free trade agreements with third countries. Indeed, FTAs are a practical tool of contemporary international cooperation with separately mandated responsibilities. The EAEU signed its first FTA with Vietnam on 29 May 2015. Today, the EAEU has seven open FTA negotiation tracks. In the last two years, the Eurasian Economic Commission (EEC) started building relations with other partners, including the Association of Southeast Asian Nations (ASEAN), Southern Common Market (MERCOSUR), Latin American and Caribbean Economic System (SELA). It has also revived a dialogue with the international organizations in the Greater Eurasia, including the Shanghai Cooperation Organization (SCO) and the Commonwealth of Independent States (CIS). However, these contacts remain merely diplomatic. Simultaneously, the potential of EAEU's cooperative agenda is much broader, and the institutional design of the EAEU makes it possible to speak of the EAEU as one of the major agenda-setters in establishing a Greater Eurasian community. This study attempts to systematize possible instruments of activation of EAEU's enhanced integration strategy and assess possible instruments for different stakeholders, including 1) third countries (FTA, FTA+, observer status, special target programs etc.), 2) their associations

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(from the memorandums of understanding to the ambitious idea of so-called “integration of integrations”), as well as 4) international organizations (representative offices, cooperation, and agenda harmonization) and development institutions. According to the results, the EAEU is at the beginning of the establishment of a comprehensive and diverse international strategy.

The coronavirus pandemic that hit the world in the spring of 2020 and the *corona crisis* that followed, on the one hand, pushed many topical issues from the international agenda, including protectionism, the promotion of fair trade narratives by individual countries to replace free trade, and several others. On the other hand, the pandemic has drawn the public attention to the response of countries and regional integration associations (RIAs) to the crisis, and the EAEU is no exception in this regard.

We can already observe a fundamentally new context for the development of Eurasian integration. In 2020, the first “five years” period of the EAEU functioning ends. In the same year, the chairmanship of the EEC, one of the critical supranational bodies of the EAEU, was changed. In May 2020, the Strategy for the Development of Integration for the next five years was approved. The number of external challenges is growing, including expanding anti-Russian sanctions, trade wars between the United States and China, and the already mentioned corona crisis. All this makes us take a fresh look at the prospects and the very model of promoting Eurasian economic integration. This chapter focuses on the EAEU’s foreign economic activity, which is due to some reasons.

2 Eurasian Economic Union: Going Outwards

Firstly, during its first five years run, the EAEU has established relations with foreign partners and tested various cooperation formats. During this time, the EAEU has signed a Trade and Economic Agreement with the People’s Republic of China (PRC), an Interim Agreement leading to the formation of an FTA with Iran and full-fledged FTAs with Vietnam, Serbia, and Singapore, held consultations and negotiations with other countries, concluded Memoranda of Understanding with countries and other RIAs.

However, the youth of the association does favours to the EAEU in many ways. Almost any agreement with third countries is perceived as an achievement of Eurasian integration. However, it seems that the EAEU has exhausted this start-up capital. In the coming years, it needs to move from quantitative to qualitative growth, launch, and promote new EAEU-centric formats of foreign economic interaction that go beyond classical FTAs. The latter is especially important given the “integration race” in which the EAEU is still inferior

to MERCOSUR, ASEAN, and the EU, in terms of the content of the agenda of cooperation with foreign partners.

Secondly, there are numerous expert assessments on the crisis of the multilateral trade liberalization system.¹ However, such statements are inconsistent so far. Only in the last twenty odd years, this system has faced severe external shocks and has adequately overcome them. The Asian financial crisis of 1997–1998 is considered one of the main reasons for launching the third wave of regionalism. At the height of the global economic crisis, the year 2009 recorded twenty-one new regional trade agreements.²

Undoubtedly, the growing uncertainty caused by the United States' offensive policy, together with the current pandemic, poses many threats to the world economy. International experience clearly shows that the conclusion of preferential agreements serves as a tool for hedging risks and compensating for the negative consequences of turbulence on world markets. Therefore, there are reasons to believe that the “coronavirus hangover” will not diminish countries' and regional integration associations' desire for further trade liberalization at the multilateral and bilateral levels. The EAEU, in this case, will be no exception.

Finally, a stake on the development of internal institutions of integration without improving external economic mechanisms for adapting to threats can lead to an increase in disagreements between EAEU member states and a slowdown in Eurasian economic integration.³ In this regard, along with the achievement of dynamism in the internal markets of the EAEU through the development of intra-regional value chains, the formation of a flexible network of preferential agreements and other formats of interaction with foreign partners is a necessary tool to reduce vulnerability to the “new protectionism.” This direction meets all integration stakeholders' interests and could give a new impetus to the development of the EAEU. In particular, the works of the EEC, mainly responsible for the foreign track of integration agenda, could gain momentum.

Before directly analyzing specific measures in foreign economic interaction and justifying their effectiveness, one should consider the most common and simultaneously successful formats of multilateral dialogue, based on

1 Richard Pomfret, 'Is regionalism an increasing feature of the world economy?' (2007) 30(6) *World Economy* 923–947.

2 WTO, 'Regional Trade Agreements Database,' <<http://rtais.wto.org/UI/PublicMaintainRTA-Home.aspx>> accessed 1 August 2020.

3 Anastasia Likhacheva, 'The Eurasian Economic Union and the Integration Process in the Asia Pacific' (2018) 10(4) *Asian Politics and Policy* 772–790.

international experience. The presented order corresponds to the level of integration and complexity in the implementation of these formats.

3 Non-preferential Agreements

These agreements do not address eliminating tariff and non-tariff barriers, controversial trade and investment aspects of interaction. However, such agreements provide, for example, the disclosure of information on the regulation of the internal market, which increases the predictability of trading processes for the parties to the agreement, and helps to reduce transaction costs.⁴ An example of such an agreement is the EAEU-PRC Agreement on Trade and Economic Cooperation.

4 Dialogue Partnerships

The format of dialogue partnerships involves the institutionalization of bilateral interaction with third countries and integration associations on a wide range of issues: economy, trade, finance, tourism, digitalization, response to traditional and non-traditional security threats. Depending on the depth of interaction with partners, full-fledged, sectoral dialogue partnerships and development partnerships are distinguished.⁵

This format allows for establishing regular direct communication channels with a foreign partner and adapting the bilateral cooperation agenda to new conditions. The latter is especially relevant given the growth of external economic challenges, such as unilateral sanctions and informal restrictions, trade wars, and the coronacrisis. ASEAN stands as the prominent supporter of this format, which currently enlists 15 dialogue partners, including RIAs and international organizations.

4 Nuno Limão, 'Are preferential trade agreements with non-trade objectives a stumbling block for multilateral liberalization?' (2007) 74(3) *The Review of Economic Studies* 821–855.

5 Hidetoshi Nishimura. 'Snapshots of the ASEAN Story: ASEAN's Strategic Policy Needs and Dialogue Partners' Contributions' in Surin Pitsuwan, Hidetoshi Nishimura, Ponciano Intal Jr., Kavi Chongkiamvorn, and Larry Maramis (eds), *The ASEAN Journey: Reflections of ASEAN Leaders and Officials* (ASEAN@50 vol 1, 2017) 315–348.

5 Interim Agreements Leading to the Formation of FTAs

This agreement does not mean that preferential treatment will be in effect for a limited amount of time. It serves as an intermediate stage between the most-favoured-nation and preferential treatment. Even though the signing of such agreements does not contradict the WTO norms (Article XXIV of the GATT), the practice of concluding such agreements is insufficient among WTO members.

The need for an interim agreement may be due to many reasons. The key ones include the lack of 1) confidence by at least one of the parties in the profitability of this agreement, and/or 2) experience in negotiating with a larger partner. Therefore, due to the limited coverage of the terms of the agreement, the parties can assess the transaction's consequences for further adjustments to their negotiating positions. An example of such an agreement is the current Interim Agreement leading to the formation of an FTA between Iran and the EAEU.

6 Classic FTAs

These agreements aim at deeper liberalization of trade in goods between the participants (a significant reduction in the level of tariff and non-tariff protection). Due to the particular success of the WTO's multilateral liberalization, the magnitude of the benefits obtained from the liberalization of trade in goods is often insufficient for concluding an FTA.⁶ For this reason, at present, we can assume that the classic FTA is an agreement that also provides for the liberalization of trade in services.

7 FTA Plus

The primary purpose of such agreements is to gain access to large markets. These agreements provide not only for the "classical" deep liberalization of trade in goods and services but also for other areas such as investment regulation, government procurement, intellectual property protection, etc. The establishment of more favourable conditions acts as a catalyst for the effectiveness of the "classical" formats of liberalization contributes to the expansion of

⁶ Kyle Bagwell and Robert W Staiger, 'Will preferential agreements undermine the multilateral trading system?' (1998) 108(449) *The Economic Journal* 1162–1182.

production chains.⁷ They aim at creating closer ties between the parties to the agreement (up to the further entry of the partner country into the association).

These agreements are similar in format to the previous ones, but they pursue a strategic goal – the partner economies’ convergence for further joining the integration association. A vital aspect of these agreements is the broad harmonization of laws, regulations, and rules in various industries, which subsequently creates conditions for the partner’s industries to comply with the merger standards. Examples of such agreements are the EU agreements with Ukraine, Georgia, Moldova.

8 “Integration of Integrations”

This format of interaction stands out among others, as it involves negotiations between two integration associations. “Integration of integrations” can take place either gradually, by concluding separate agreements with each of the partner countries (or most of them). In the next phase, there is a transition to a single agreement replacing all previous ones, or by agreeing directly with the association. The first option is the most preferable, since the integration group participants may have various incentives to advance or delay negotiations.

Although each potential EAEU partner has its characteristics, first of all, during negotiations, it is worth focusing on the liberalization of trade in goods and services, as well as harmonization/unification of legislation. The former depends on the negotiating positions of the parties, which is confidential information. At the same time, the latter should not imply significant differences to avoid creating a new “noodle bowl.”⁸

Thus, the advantage of “integration of integrations” is that the presence of an extensive network of FTAs and other formats of multilateral interaction will allow the EAEU to compensate for the losses provoked by restrictive measures in foreign trade with one partner or another and hedge its risks through the qualitative expansion of the network of partners and export commodity nomenclature.

In the future, the EAEU should rely on the following areas and formats of trade and economic cooperation (see Figure 5.1).

⁷ Fukunari Kimura and Lurong Chen, ‘Implications of Mega Free Trade Agreements for Asian Regional Integration and RCEP Negotiation’ (December 2016) Eria Policy Brief no. 2016-03, 1–4.

⁸ Jong Woo Kang, ‘The Noodle Bowl Effect: Stumbling or Building Block?’ (August 2015) ADB Economics Working Paper no 446.

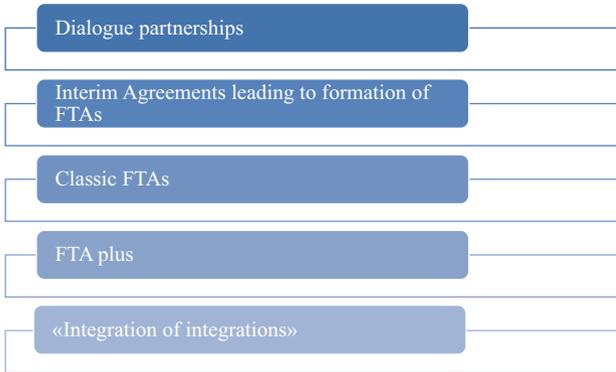


FIGURE 5.1 Proposed formats for cooperation between the EAEU and foreign partners
SOURCE: AUTHORS' ESTIMATIONS

Figure 5.1 indicates that the transformation of the EAEU into a rule-maker in Eurasia will require the consistent implementation of existing and launching new formats of interaction with foreign partners, including dialogue partnerships and several FTA plus agreements.

8.1 *Dialogue Partnerships*

The current stage in the development of world economic and political processes is increasingly accompanied by unilateral actions of individual states, which leads to the degradation of existing multilateral institutions and the global governance system as a whole. The active use of various discriminatory instruments, such as financial sanctions and trade wars, and the exacerbation of the corona crisis, only aggravate the situation. Nevertheless, the growing demand for promoting the multipolarity agenda and combating existing challenges through joint efforts among some countries and associations is observed worldwide. In particular, it is worth noting the Alliance for Multilateralism initiative, launched in September 2019 by France and Germany.⁹ It implies the creation of an informal network of like-minded states which are eager to discuss a wide range of the most topical global issues: respect for international law, climate

9 Ministry of Europe and Foreign Affairs (France), 'Alliance for Multilateralism. France Diplomacy' (www.diplomatie.gouv.fr) <<https://www.diplomatie.gouv.fr/en/french-foreign-policy/united-nations/multilateralism-a-principle-of-action-for-france/alliance-for-multilateralism-63158/#:~:text=The%20Alliance%20for%20Multilateralism%2C%20launched,that%20the%20challenges%20we%20are>> accessed 16 August 2020.

change, gender inequality, conflict prevention in cyberspace. Canada, Chile, Mexico, Singapore, and Ghana have already supported this initiative.¹⁰

Similar initiatives and statements can be heard more and more often on other international platforms, particularly BRICS and ASEAN. Despite the unconditional importance of these issues and existing initiatives, there is currently a shortage of inclusive platforms and formats of interaction, in which the central place would be occupied by the issues of preserving the principles and value of free trade, refusing to use unilateral restrictive measures and seeking to minimize the negative consequences of protectionism and new foreign economic shocks. The issues presented were actively discussed within the WTO. Still, today, the organization faces the most massive crisis of legitimacy in its entire history, and therefore, it can no longer be considered an effective platform for discussing these issues.

In this situation, the Eurasian Economic Commission can already, in the foreseeable future, initiate a high-level dialogue on trade facilitation and the search for optimal formats of multilateral interaction to adapt to the economic crises. Such a format for discussing the most problematic issues of the world economy in the coming years will allow the EEC to increase its awareness and strengthen its business reputation as a responsible partner and increase its influence in shaping the international agenda. This is especially topical in the context of the multilateral trading system crisis, the focus of other regional trade blocks on internal challenges, and the declining confidence of foreign partners in the Chinese Belt and Road Initiative (BRI). This agenda may be in demand among both third countries and other RIAs.

The mechanism for the functioning of this platform can be annual meetings using the EEC's platform with the participation of the Chairman of the EEC Board, the EEC Council, the relevant departments of the EEC and the ministers of economic development, as well as specialized departments of third countries that are not EAEU members states, such as China, India, Iran, Uzbekistan, members of ASEAN, MERCOSUR, or African Union. Thus, by jointly developing a "code of conduct" for the parties in the face of protectionism and external economic shocks, the EEC will gain a foothold not only as of the leading institutional platform for dialogue but also as a critical intellectual engine.

The second direction of strengthening ties with large foreign partners can be the formation of dialogue partnerships. It seems that ASEAN is the most promising partner in the next five years. As mentioned earlier, the ASEAN is currently the foremost intellectual and institutional locomotive of such

¹⁰ *ibid.*

formats. In its foreign economic activity, ASEAN relies precisely on functional expansion, striving to diversify areas of interaction with third countries and regional trade blocks.

Moreover, as the ASEAN experience shows, the formation of dialogue partnerships with individual countries acts as a springboard for the subsequent creation of an FTA network with regional partners. This is evidenced by examples of the ASEAN's interaction with Australia, New Zealand, China, Japan, India, and South Korea.¹¹ By forming a bilateral dialogue within the framework of partnerships, the parties gain the opportunity to create and test institutional mechanisms that they can use in the future when concluding preferential agreements.

The formation of a full-fledged dialogue partnership between the EAEU and ASEAN is impossible since such a format implies a broader agenda beyond the EAEU's supranational bodies' competence. This includes, in particular, the solution of migration problems, the fight against transnational crime, terrorism, and other issues of "high" politics. In this regard, the most appropriate option is the launch of a sectoral partnership. This scenario seems realistic for several reasons.

Firstly, the parties have already established a robust institutional dialogue. In 2018, the EAEU and ASEAN signed a Memorandum of Understanding.¹² Before this, ASEAN adopted a similar document with only one integration association – the EU. Besides, the parties are implementing a cooperation program for 2019–2020. Finally, it is worth noting the presence of a full-fledged strategic partnership between Russia and ASEAN, which is the highest level of cooperation between the Association and an external partner and can become a bargaining chip in the formation of a sectoral partnership between the EAEU and ASEAN.

Secondly, as practice shows, a high level of trade and investment ties is not a necessary criterion for forming dialogue partnerships. As an argument, one can use an example of trade volume between ASEAN and Canada, whose relations have the status of a full-fledged dialogue partnership. At the end of 2019, bilateral trade turnover amounted to only \$ 19.2 billion, which is less than

11 Kaewkamol Pitakdumrongkit, "A Competitive Development Bazaar?": Policies and Their Implications for the Mekong Subregion' (March 2019) NTU RSIS Policy Report.

12 ASEAN, 'ASEAN and the Eurasian Economic Commission sign a Memorandum of Understanding on Economic Cooperation. Eurasian Economic Commission' (*asean.org*, 21 November 2018) <<https://asean.org/asean-eurasian-economic-commission-sign-memorandum-understanding-economic-cooperation/>> accessed 1 September 2020.

the trade indicators between the EAEU and ASEAN.¹³ More significant for the Association is the partner's willingness to participate in joint infrastructure projects, including the digitalization sphere. In this case, the parties' interests overlap entirely, and the EEC can propose specific flagship initiatives for 2021–2025, which will be in demand in the Southeast Asian states.

Thirdly, ASEAN is interested in further functional expansion. This is confirmed by the lifting of the moratorium on the formation of dialogue partnerships with foreign partners, which has been in effect since 1999. In recent years, the Association again began to resort to this form of cooperation actively. In 2015, a sectoral partnership was concluded with Norway, in 2016, with Switzerland, and in 2017 with Turkey. Besides, a development partnership with Germany has been in place since 2016, and a similar partnership with Chile was launched in 2019.¹⁴ Thus, the institutionalization of foreign economic relations in sectoral partnerships/development partners' format in recent years has been among the ASEAN top priorities, which meets the EAEU strategic interests.

Based on the Memorandum of Understanding between the EEC and the ASEAN Secretariat, the current dynamics of the development of world economic processes, and both parties' strategic plans and interests, five main directions of the future sectoral partnership should be formulated:

- Building up mutual investment, trade and economic cooperation (priority is the EAEU non-resource exports),
- Technical regulation,
- Exchange of information and consultations on countering informal restrictions from the US, EU, and PRC, trade wars and post-crisis recovery of national economies,
- Exchange of information and consultations on the creation of special economic regimes, in particular, special economic zones, attracting foreign direct investment on their territory and exporting products to third countries,
- Exchange of information and consultations on cooperation in high technologies, digital agenda promotion, creation, and development of a “smart cities” network.

It has to be stressed that these areas will not convert to instant economic benefits for the EAEU. Still, they will create the basis for a more mature institutional

13 International Trade Center (ITC), 'Trade map' (www.trademap.org) <https://www.trademap.org/Bilateral_TS.aspx> accessed 29 August 2020.

14 ASEAN Secretariat, 'ASEAN External Relations.' <<https://asean.org/asean/external-relations/>> accessed 29 August 2020.

dialogue with ASEAN, transforming into an FTA. Moreover, using the experience and the most successful practices of ASEAN, in the foreseeable future, the EAEU will be able to build its formats of dialogue partnerships with developing countries, regional trade blocs, and intergovernmental organizations – for example, with India, China, Chile, BRICS, and the African Union.

8.2 *Interim Agreement Leading to the Formation of an FTA with the PRC*

The global economic crisis caused by COVID-19 pandemic will lead to various changes in the international trade arena. Among them are the increase in tariff protection to stimulate domestic production, curtailing global value chains due to uneven recovery in demand in developed and developing countries, and other consequences.¹⁵

In this regard, as one of the world's largest producers, China will more “lock-in” itself to make up for the lost foreign demand for its goods with domestic demand. In other words, in the short term, the transition from *Asia for Asia* model to *China for China* model may accelerate due to the accelerated development of the Chinese domestic market.

The situation in the world market and China, in particular, streamlines the need for the EAEU member states to increase export volumes after the end of “pandemic protectionism.” According to various forecasts, the Chinese economy will recover faster than many developed and developing countries, which in 2–3 years may lead to a gradual increase in demand from the PRC for energy, agricultural and industrial products from third countries. In this context, the conclusion of a more advanced trade and economic agreement with the PRC can become an effective way to minimize the negative consequences of the economic crisis and, in general, contribute to the intensification of the EAEU's foreign economic activity.

In the context of the relatively conservative policy of the EAEU member states to create an FTA with third countries and the limited experience of representatives of the EEC and the EAEU countries in negotiating with developed countries, the start of negotiations on concluding a full-fledged preferential agreement in the foreseeable future is unlikely. In this regard, the participants of Eurasian integration should consider the possibility of signing an Interim Agreement leading to the formation of an FTA with China.

Such an agreement is in the strategic interests of the EAEU since it implies trade liberalization for a limited list of goods, which makes it possible to assess

15 OECD, ‘COVID-19 and international trade: Issues and actions’ (www.oecd.org, updated 12 June 2020) <<http://www.oecd.org/coronavirus/policy-responses/covid-19-and-international-trade-issues-and-actions-494dazfa/>> accessed 19 August 2020.

the effectiveness and consequences of the agreement with less risk for the domestic market. Simultaneously, the parties assume obligations to start negotiations on a full-fledged FTA and sign a preferential agreement within a certain period. Therefore, based on the first results of the conclusion of the Interim Agreement, the EEC, if necessary, will be able to change its negotiating position, and China to reduce the level of uncertainty regarding the conclusion of an FTA with the EAEU, the interest in which has often been declared at the official level.

This agreement can be implemented under the international obligations of the parties. For example, within the WTO, Article XXIV of the GATT stipulates the possibility of concluding an interim agreement subject to certain conditions. Moreover, the EAEU already has experience in concluding such agreements: in October 2019, the Interim Agreement entered into force, leading to the formation of an FTA with Iran.

At the initial stage, the Interim Agreement between the EAEU and the PRC can be based on a similar agreement with Iran, since the Union member states are mostly interested in increasing the export of agricultural products (primarily soybeans, wheat, meat, and meat by-products). Besides, the priority areas of liberalization of the Chinese market include chemical products. Along with this, a more effective liberalization of the Chinese market will be facilitated by developing a mechanism for eliminating non-tariff barriers on the part of China for agricultural products, since several restrictions on this commodity nomenclature remain without justified reasons.

At the same time, it is necessary to consider the presence of sensitive industries in the EAEU member states, for example, textile and mechanical engineering. The Interim Agreement format allows excluding these and other industries to maintain their competitiveness from the terms of the deal. Another option is a partial (minimum) reduction in duties on specific categories of goods in sensitive industries, which will make it possible to assess the level of risks from the liberalization of these markets in practice. Based on the experience gained, decisions will be made to cover the sensitive list under the EAEU-PRC FTA.

To avoid the loss of competitiveness by national producers, it makes sense, when discussing the text of the Interim Agreement, to insist on the formation of a list of highly sensitive and sensitive goods for the EAEU, as well as a flexible transition period to reduce import duties, taking the China-ASEAN FTA as a model. At the same time, it is essential to conduct a preliminary assessment of the consequences of such a step for all EAEU member states within the framework of the relevant research activities carried out both at the national and EAEU levels. The already formed institutional framework for cooperation can

contribute to the implementation of this format. First, this is an agreement on trade and economic cooperation between the EAEU and the PRC, signed in 2018. Moreover, back in 2015, a joint statement was adopted by the Russian Federation and the PRC on cooperation in conjugating the EAEU and the BRI. Along with this, in 2017, the EEC formed a list of thirty-nine priority projects that are aimed at implementing the Chinese BRI. The projects imply the construction of new and modernization of existing roads, the creation of transport and logistics centres, the development of transport hubs etc. This experience should be taken into account when promoting the Interim Agreement's format and filling it with valuable content.

8.3 *FTA Plus: Agreements Designed to Gain Access to Markets in South and Southeast Asia*

The countries of South and Southeast Asia are of particular interest in expanding the existing EAEU integration network and diversifying trade directions in the face of an increasing number of external economic challenges. This is primarily due to their markets' capacity, the high level of integration of these countries into subregional, regional, and global value chains, and rich experience in conducting complex negotiations on FTAs, both in a bilateral format and as part of regional trade blocks.¹⁶ In particular, India currently has 16 bilateral FTAs with foreign partners, Malaysia, and Thailand – 13 each, which reflects their interest in promoting the free trade agenda (*see* Table 5.1).

Thus, by developing a direct dialogue with these countries, the EEC can strengthen its negotiating position. In the future, the EEC will be able to use the gained administrative experience when concluding preferential agreements with foreign partners and in new formats, particularly the “integration of integrations” format.

Along with this, one of the incentives for building up cooperation in the FTA format with partners from South and Southeast Asia is positive demographic and socio-economic changes in the countries of these regions. First of all, we are talking about the preservation of high GDP growth rates and the ratio of imports to GDP, positive dynamics of growth in imports (Table 5.1), an increase in the population and the share of the middle class, which is accompanied by a change in the diet of residents of the subregions and an increase in the consumption of agricultural products.

16 The World Bank, 'Regional trade agreements' (www.worldbank.org, 5 April 2018) <<https://www.worldbank.org/en/topic/regional-integration/brief/regional-trade-agreements>> accessed 1 September 2020.

TABLE 5.1 Number of bilateral FTAs with foreign partners and indicators of imports of goods and services

Country	Number of FTAs	The ratio of imports of goods and services to GDP (2018, %)	Dynamics of growth in imports of goods and services (2010–2018, %)
Bangladesh	5	23,4%	7,6%
India	16	23,6%	7,3%
Indonesia	9	22,1%	6,1%
Malaysia	14	61,7%	4,9%
Pakistan	10	19,7%	6%
Thailand	13	56,5%	5,7%

SOURCE: COMPILED BY THE AUTHORS BASED ON WORLD BANK DATABASES

For example, over the past six years, the level of grain consumption in monetary terms (in 2018 prices) in ASEAN countries has more than doubled: from \$ 87.2 billion in 2013 to \$ 180 billion at the end of 2018 years.¹⁷ Similar trends are observed in South Asia, where the growth of the population and the middle class's share leads to a qualitative increase in the demand for animal products. Such changes open up additional opportunities for the EAEU to develop new markets and increase the export of agro-industrial products.

Considering the current trends in the conclusion of RTAs and the duration of potential negotiations, the EAEU should aim to conclude an FTA plus, since, under a classical FTA, the benefits will be significantly lower.

8.4 *Introduction of the Eurasian Economic Area format (Uzbekistan, Moldova, Tajikistan, Turkmenistan) to the EEC Foreign Economic Practice*

A classic FTA is already functioning in the CIS space, which began operations in 2012 (it does not include Turkmenistan, an FTA member since 1994). Thus, a new potential agreement should focus on further deepening integration with

17 Euromonitor International, 'Income and Expenditure' (www.euromonitor.com) <<https://www.euromonitor.com/income-and-expenditure>> accessed 23 August 2020.

partners and harmonizing national legislation with EAEU standards (for example, consumer protection, company regulation, technology transfer, etc.).

Taking into account the difference in the level of trade and economic interaction and integration into Eurasian structures, as well as the most successful world practices, it seems expedient to use the FTA plus format for flexible convergence of the countries participating in the agreement. In the medium term, it is proposed to use the following two directions:

- Agreements aimed at institutional rapprochement of the parties without joining the EAEU (with Moldova, Tajikistan, and Turkmenistan).
- FTA plus, playing the role of a preparatory platform for the further accession of a partner to the EAEU (with Uzbekistan).

All the countries represented are interested in a broader cooperation with the EAEU, but taking into account their specifics. In Tajikistan, the issue of joining the EAEU is currently not among its priorities, although it is actively discussed at the official and expert levels. As for Moldova, it has observer status in the EAEU and is interested in deepening trade and economic cooperation with the EAEU. However, full-fledged entry into the union is complicated in many respects by political reasons associated with the desire of Chisinau to balance between the EAEU and the EU. Finally, Turkmenistan is not considering joining the EAEU, but the conclusion of a preferential agreement may become a compromise option in which both parties are interested.

Even though an agreement within the CIS framework is already in force between the mentioned countries (Moldova, Tajikistan), some restrictions are still in effect. Thus, the EAEU member states can consider the possibility of their final elimination. It is also worth noting that these restrictions relate to too narrow areas of foreign trade and were sensitive about ten years ago. However, they may remain so for the EAEU member states. In this regard, it is necessary to use the practice of a transitional period (most often up to 10 years). In this case, manufacturers from the EAEU member states will gradually adapt to new conditions.

Deepening cooperation with these CIS countries can go along the line of deepening cooperation between the EU and the European Free Trade Association (EFTA) countries. The first area (FTA plus with Moldova, Tajikistan, and Turkmenistan) should be developed based on successful European practice – the EU FTA with Iceland and Liechtenstein, for which membership in the European Union was not initially included in the number of priority areas and which was not on the agenda of the EU itself. In the early 1970s, the EU created classical FTAs with these countries, and already in the 1990s, the European Economic Area was launched.

The European Economic Area, created in 1994, assumed the form of a dynamic and homogeneous legal field that could ensure the free movement of goods, capital, services, and people within the framework of European integration (as follows from the Preamble of the Agreement). Following the EU example, creating an FTA plus between the EAEU and these countries can act as the basis for the further development of EAEU legislation as a legal framework for further cooperation.

Within the framework of the European Economic Area, EU legislation, in addition to the “four freedoms”, extends to competition rules and state aid, as well as the following “horizontal” policies: consumer protection, company law, environment, social policy, and statistics. Also, the Agreement provides for cooperation in several related policies such as research and technological development, education, training, youth policy, employment, tourism, culture, civil protection, entrepreneurship, policy towards small and medium-sized enterprises.

The competence of the EEC does not include such directions as tourism, education, migration, and cultural policy. In this regard, it seems possible to conclude an FTA plus agreement with Moldova, Tajikistan, and Turkmenistan, which, in addition to the classical liberalization of trade in goods, could cover the scope of public procurement and protection of intellectual property rights. Beyond that, cooperation can aim at approximating the legislation of countries in the field of consumer protection to avoid the emergence of new trade barriers, as well as to create and develop a system for the exchange of information on hazardous food and industrial products (“rapid alert systems”), organizing training schemes and the provision of technical assistance.

Thus, the proposed FTA plus with Moldova, Tajikistan, and Turkmenistan may become the first stage in the Eurasian Economic Area creation, the participants of which will aim at closer cooperation with the EAEU without transferring sovereignty and joining the organization. At the same time, the Eurasian Economic Area functioning will be implemented considering the specifics of the internal political and socio-economic development of the signatory countries and the EEC mandate.

The second direction within the Eurasian Economic Area framework provides for the creation of an FTA plus with Uzbekistan. The adoption evidences the country’s readiness to integrate more deeply into the Union’s institutions by Tashkent of several strategic documents. In particular, in the President of the Republic of Uzbekistan’s decree dated 7 October 2019, “The concept of integrated socio-economic development of the Republic of Uzbekistan until 2030,” the following is indicated.

- At the first stage (2019–2021), the country intends to expand foreign trade by signing an FTA with the EAEU;
- At the second stage (2022–2025), there will be a consistent study of the prospects for the country’s accession to the EAEU.¹⁸

Moreover, on 28 April 2020, Uzbekistan’s parliament approved the state’s status as an observer in the EAEU. In this regard, the signing of a preferential agreement with Uzbekistan seems to be a timely step, which will allow the country to integrate profoundly and completely into Eurasian structures with subsequent entry into the EAEU.

When creating an FTA plus with Uzbekistan, it is essential to consider the experience of the EU’s deep and comprehensive free trade areas (DCFTA) with Ukraine, Moldova and Georgia. These “EU – third country” deals are part of broader political “association” agreements (including many political issues, including the control of migration flows and the fight against terrorism).

Overall, the EU’s DCFTA leads to a situation characterized as being close to integration into the EU single market, but with some exceptions:

- limited market access to specific sectors (e.g., agriculture),
- limited access to EU funds,
- lack of voting rights in establishing general rules.

Without a doubt, due to the nature of Eurasian economic integration and the competence of the EEC, the in-depth and comprehensive nature of the FTA with Uzbekistan will not include sensitive political issues, for example, the democratization of political processes within the country through the provision of foreign assistance.

Instead, we can talk about the harmonization of national legislation in consumer protection, intellectual property, and regulation of companies’ activities following the Union’s norms. Besides, based on the experience of preferential agreements between the EU and Georgia, Moldova, and Ukraine, the following may become critical conditions of the EAEU-Uzbekistan agreement:

- transfer of technologies produced on the territory of the EAEU member states,

18 President of Uzbekistan, ‘The concept of integrated socio-economic development of the Republic of Uzbekistan until 2030’ [Концепция комплексного социально-экономического развития Республики Узбекистан до 2030 года] (*regulation.gov.uz*) ID-8839 <https://regulation.gov.uz/ru/document/8839-kontseptsiya_kompleksnogo_sotsialno_ekonomicheskogo_razvitiya_respubliki_uzbekistan_do_2030_goda> accessed 24 August 2020.

- active investment cooperation with the prospect of involving Uzbekistan in joint projects of cross-border cooperation,
- improving the conditions for lending to small and medium-sized enterprises (SMEs) in Uzbekistan by reducing the risk for financial institutions of the EAEU member states when issuing loans to them,
- providing technical, information and consulting support to Uzbekistan on the use of new trade opportunities and compliance with Eurasian food safety standards, raising awareness of Uzbekistan about SMEs' activities on the territory of the EAEU member states.

The implementation of the proposed areas of cooperation in the Eurasian Economic Area format meets the interests of all parties. For Moldova, Tajikistan, and Turkmenistan, this is an opportunity to gain additional economic benefits and integrate into the EAEU structures without the need to delegate sovereignty, but with a direct participant's status in the supranational space. For Uzbekistan – the provision of specific trade, economic, and investment preferences, and the gradual harmonization of national standards to the EAEU regulatory framework, which will further speed up the process of the country's accession to the EAEU.

The importance of such agreements for the EAEU is reflected in quantitative and qualitative dimensions. The first dimension includes the expansion of export supplies to large markets and the ability to participate in the formation of regional value chains. The second is the opportunity to test new institutional mechanisms of foreign economic cooperation. The EAEU has achieved tangible successes during the first “five-year” period in this direction. However, for the EAEU to become the flagship of integration processes in Greater Eurasia, it needs to expand the existing formats of interaction with third countries that would go beyond the classical FTA.

As far as the risks of such agreements are concerned, it is evident that more competitive suppliers (for example, in the service sector or as part of public procurement) will penetrate the EAEU markets, leading to the exclusion of uncompetitive manufacturers/service providers. At the same time, this can lead to a healthier competitive environment in the markets and will contribute to an increase in the efficiency of the remaining more substantial national producers, which, in turn, will create additional opportunities for entering foreign markets. Identification of specific industries at risk, depending on the proposed position of FTA plus (trade in services, public procurement, environmental protection, etc.) requires additional analytical support within the framework of individual research projects involving various stakeholders (representatives of business communities, trade unions, etc.

When considering the issue of harmonizing the laws of partners, the main risk is the use of ambiguous provisions (which leads to different interpretations by the parties) and the use of “soft” rather than legally binding provisions. The consequence of these risks will be the agreement’s low efficiency, leading to disputes/disagreements between them. However, on the whole, the study conducted allows us to assert that there are no critical risks from the liberalization of trade in goods as a result of the conclusion of an FTA plus with the CIS countries (due to the completion of the implementation of the CIS FTA). To make a final decision on the completion of the liberalization of trade in goods up to the 100% level (i.e., for those product lines that are exceptions to the CIS FTA), it is necessary to conduct feasibility studies, which is provided for by the practice of negotiating an FTA.

8.5 *Integration of Integrations*

Finally, the strengthening of cooperation with individual countries of South and Southeast Asia creates new opportunities for the subsequent entry into the format of “integration of integrations” – creating an FTA with integration associations and organizations such as ASEAN, Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), and South Asian Association for Regional Cooperation (SAARC).

A vital resource is the currently formed institutional framework for cooperation between the EAEU and South and Southeast Asia partners. Currently, the EAEU already has two regional trade agreements with the ASEAN member states – with Vietnam in force since 2016 and Singapore signed in 2019, but not ratified yet. Other states, such as Indonesia, the Philippines, and Cambodia, have also shown substantive interest in signing an FTA with the EAEU. Moreover, on the Russia-ASEAN summit on the Sidelines, held on 14 November 2018, in Singapore, the EEC and the ASEAN Secretariat signed a Memorandum of Understanding. Before that, ASEAN signed a Memorandum only with the EU, which underlines the Association’s interest in expanding partnerships.

As for South Asia countries, the level of institutionalization of trade and economic ties with the participation of the EAEU is significantly inferior to the Southeast Asian sub-region. However, in the near future, there is reason to expect an increase in dynamics. In this case, the negotiations’ progress on the FTA with India will serve as a benchmark of progress. In 2017, the parties signed a joint statement on the start of negotiations on the conclusion of an FTA agreement. In January 2018, technical consultations were held to agree on the format of the upcoming negotiations. Nevertheless, at the moment, according to data from the EEC official website, the timing of the first round of

negotiations has not been determined.¹⁹ Finally, the third direction, designed for the long term, provides for the promotion of the formats of “integration of integrations”, the signing of preferential or in-depth non-preferential agreements between the EAEU and the South African Customs Union (SACU) and the Southern African Development Community (SADC), as well as MERCOSUR and the Andean Community. Strengthening ties with the represented trade blocks is dictated by a set of reasons similar to those for South and Southeast Asia countries.

Firstly, positive demographic and socio-economic trends come to the fore, which turns the above regions into promising markets for products manufactured in the EAEU member states. Analysis of the structure of imports of these associations allows us to single out several commodity items, due to which the EAEU, as trade wars escalate and protectionism grows, can strengthen its presence in the markets of these trade blocks. In the case of the South African Customs Union and the Southern African Development Community, these are cereals and fertilizers. In the case of MERCOSUR and the Andean Community – fertilizers and mineral fuels.²⁰ Over the past three years, among the four RIAs, there has been an increase in imports in these categories of goods, including supplies from the EAEU, which may become an additional trump card of the EAEU when concluding a regional trade agreement with these partners.

Secondly, over the past fifteen years, these RIAs have made significant progress in trade liberalization and integration into global value chains, which was facilitated mainly by the conclusion of FTAs with large foreign partners. In particular, the South African Customs Union has had an FTA with EFTA since 2008, and a bilateral FTA with MERCOSUR since 2016.²¹ In 2016, the Southern African Development Community signed an FTA agreement with the EU, which began to function fully in January 2020. Having the largest number of bilateral FTAs with foreign partners among the presented RIAs, MERCOSUR signed a preferential agreement with the EU in 2019 (*see* Table 5.2).

Finally, the EAEU has already formed and is regularly strengthening institutional ties with four RIAs, which can subsequently be converted into a network of trade and economic agreements if there is mutual interest. Thus, in 2017, the EEC signed a Memorandum of Understanding with the Andean Community General Secretariat. It is noteworthy that the Andean Community became

19 Eurasian Economic Commission, ‘Current FTA negotiations’ <http://www.eurasiancommission.org/ru/act/trade/dotp/sogl_torg/Documents/Проводимые%20переговоры%20сст_сайт.pdf> accessed 28 August 2020.

20 ITC (n 13).

21 WTO (n 2).

TABLE 5.2 FTA network involving SADC, SACU, MERCOSUR and the Andean Community

	<i>FTA with a foreign partner (date of commencement of operation)</i>	<i>Current negotiation tracks</i>
South African Customs Union	FTA with the European Free Trade Association (2008)	FTA negotiations with India
	FTA with MERCOSUR (2016)	
Southern African Development Community	FTA with EU (2020)	No
MERCOSUR	FTA with the Andean Community (2004)	FTA negotiations with Canada and the European Free Trade Association
	FTA with India (2009)	
	FTA with Israel (2011)	
	FTZ with the South African Customs Union (2016)	
	FTA with Egypt (2017)	
Andean Community	FTA with MERCOSUR (2004)	No

SOURCE: COMPILED BY THE AUTHORS BASED ON THE WORLD BANK REGIONAL AGREEMENTS DATABASE

the first regional integration association with which the Commission signed a similar document.²² In 2018, the EEC and MERCOSUR signed a Memorandum of Cooperation on trade and economic issues. Finally, in October 2019, the EEC signed a Memorandum of Understanding on Economic Cooperation with the African Union, including all SADC and SACU member states.

Thus, for the EAEU, the conclusion of an FTA or a non-preferential RTA with one of the presented RIAs will become a window for closer integration into regional and global economic processes and a mechanism for testing the format

22 Eurasian Economic Commission, 'The EEC and the Andean Community General Secretariat signed a Memorandum of Understanding,' <

of “integration of integrations”, which meets the long-term strategic interests of the EAEU.

9 Conclusions

The analysis made it possible to come to the following conclusions. During its five-year span, the EAEU has gone from a heterogeneous group of countries to a full-fledged international structure with supranational institutions, internal rules, as well as far-reaching plans in terms of developing a long-term foreign economic strategy. It is worth recognizing that it was the strengthening of external relations with foreign partners in the format of preferential and non-preferential agreements and several MOUs that became one of the flagship directions of Eurasian economic integration in the first years of its existence.

At the same time, it becomes evident that the “low base effect” due to the youth of the EAEU will not be enough to gain a status of a key actor of foreign economic processes in Greater Eurasia. This requires systematic work, which includes improving the legal and institutional framework of the EAEU in foreign trade and expanding the existing formats of foreign economic interaction with third countries and regional trade blocks.

Based on international experience and due to the growing competition in the world arena, to further unleash the EAEU potential, the EAEU needs to move from classical FTAs with limited coverage of trade liberalization instruments to a more advanced and sophisticated format, which is FTA plus agreements.

Leaving aside the coronacrisis, political struggle in the US, and the rise of protectionism and economic nationalism, one can argue that there will be a rollback to the dominance of the free market idea in the foreseeable future, albeit in a new shell. Therefore, the current situation in international markets creates a window of opportunity for the EAEU. To ride the wave of regionalization in the long term, the Union needs to offer its partners an attractive agenda and formats of multilateral cooperation.

Due to institutional and other restrictions, the EAEU is not yet ready to claim the role of a critical operator of external economic dialogue in the Asia-Pacific region. However, the conclusion of an FTA plus with large developing countries, strengthening ties with regional trade blocs in the “integration of integrations” format, and building dialogue partnerships will cement the necessary legal, institutional, expert and analytical base transition towards the EAEU-centered model of multilateral economic interaction in Greater Eurasia and beyond.