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# Proactive vs Reactive: Interim Results of the EAEU's Foreign Economic Policy

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The following working paper presents the results of foreign economic activity of the Eurasian Economic Union (EAEU) following its establishment. The author carefully analyzes free trade zone agreements (FTZs) as a key tool for developing the Union's foreign economic relations. Additionally, the author assesses the effectiveness of existing EAEU FTZ agreements with third countries, as well as the outlook for new agreements. This research aims to formulate possible steps to adjust the Union's foreign trade strategy.

The opinions expressed in this working paper reflect solely the personal views and analytical outlook of the authors and do not necessarily represent the views of the Russian International Affairs Council NP (Non-profit Partnership).

The full text of the working paper is available on RIAC's website. Feel free to download it and post feedback directly at [russiancouncil.ru/paper83](http://russiancouncil.ru/paper83)

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# Introduction

One of the most popular topics in discussions regarding integration associations, especially in times of crises, is the nature of their foreign economic strategies. Particularly, whether they are proactive or reactive. Often at round tables and seminars, experts formulate the problem exactly using this very approach.

Assessments of the thematic activities of the Eurasian Economic Union (EAEU) vary: officials, particularly representatives of the Eurasian Economic Commission (EEC), tend to consider the Union's foreign economic policy to be proactive, while there is a remarkable dissent at the expert level. To a large extent, the interpretation of proactivity or reactivity of the Eurasian integration association depends on the conceptualization of these terms, which are often vague and detached from reality. They also quite often depend on the expert's educational background – economics or political science – i.e., their specialization. Overall, the EAEU has since combined elements of proactivity and reactivity in its foreign economic and foreign trade activities.

The best evidence of proactivity is the sheer number, format and geographical footprint of agreements and other documents signed, especially during the first five years of the Union's existence. These include: a relatively advanced free trade zone (FTZ) with Vietnam, which appeared already in the first year of the EAEU's operation, a limited agreement with EU candidate state Serbia, and a temporary FTZ agreement with Iran. Formal, albeit ceremonial, signs of the EAEU's activity also include the signing of a non-partisan trade and economic agreement with China<sup>1</sup> and the adoption of a Joint Statement on Cooperation between the EAEU and the Silk Road Economic Belt (SREB),<sup>2</sup> as well as the conclusion of several memoranda of understanding with regional integration associations from South-east Asia, Africa, and Latin America. During its first ten years of existence, the Union has indeed managed to make itself known in various parts of the world and gain a foothold in regional markets.

Already during the EAEU's initial stages, it had to develop in an unfavorable external environment, adjusting to the changing foreign economic and political landscape, which predetermined the reactivity of its foreign economic policies. The first large-scale shock was the 2014 anti-Russian sanctions, which limited the range of opportunities for building trade and economic relations between the Union and its external partners. As an example, the suspension of negotiations on an FTZ between New Zealand and the Customs Union of Russia, Kazakhstan and Belarus in 2014, as well as Wellington's subsequent refusal to launch similar negotiations with the EAEU are notable. This also includes the association's limited interaction with the EU, which was mainly confined to customs and technical

<sup>1</sup> Agreement on trade-economic cooperation between the Eurasian Economic Union and its member states, on the one hand, and People's Republic of China, on the other hand // Eurasian Economic Commission. 17.05.2018. URL: [https://eec.eaeunion.org/upload/medialibrary/21b/Tekst-russkiy\\_-EAEU-alternate\\_-final.pdf](https://eec.eaeunion.org/upload/medialibrary/21b/Tekst-russkiy_-EAEU-alternate_-final.pdf)

<sup>2</sup> Joint Statement of the Russian Federation and People's Republic of China on Cooperation between the EAEU and the Silk Road Economic Belt // President of Russia. 08.05.2015. URL: <http://www.kremlin.ru/supplement/4971>

regulation. Thus, the largely reactive nature of the association on external events during the first “five-year period” was manifested in the elaboration of various partnership formats that also accounted for sanctions.

Thus, another distinguishing characteristic in the development of the Eurasian integration association’s foreign economic agenda took shape, namely a high level of politicization. It would be wrong to deny the validity of the existing FTZ negotiation tracks and the economic opportunities they create for the EAEU. At the same time, their political component and associated risks are certainly taken into account in preliminary feasibility assessments of foreign partner negotiations. This became especially obvious in 2022 after the beginning of the military and political crisis in Europe, as well as the formal division of Russia’s foreign partners into “friendly/neutral” and “unfriendly”. Such stratification of Russia’s geopolitical environment creates a direct “spillover effect” for the entire EAEU foreign trade strategy and approach, also foreshadowing its reactivity.

In this respect, several patterns appear.

First, the list of operational and planned FTZ agreements involving the EAEU clearly demonstrates the friendly nature of external partner actions towards the Union (mainly due to cooperation with Russia) and the absence of serious disagreements on political issues that could potentially hinder the negotiation process. Against this background, the only example of backtracking seems to be an FTA with Singapore. The possibility of ratifying a preferential agreement was blocked after Singapore had aligned with the anti-Russian sanctions. This confirmed the politicization of the EAEU’s foreign economic activity, which is probably irreversible after 2022.

Secondly, the possibility of any country eyeing negotiations on an FTZ within the EAEU framework moving into the category of “unfriendly” is minimal or close to zero for Russia. The reasons for maintaining such continuity in policy vary and depend on country specifics. They include a strategic or quasi-union partnership with Russia, joint participation in major associations and development institutions, dependence on the supplies of Russian products (e.g., arms and commodities), willingness to promote multipolarity, and criticism of unilateral actions of the West.

Thirdly, most target countries are facing political, economic and financial pressure from the US and the EU, which increases their vulnerability to the policies of the sanctioning states. Additionally, it changes business behavior with Russia by curtailing business activity on certain initiatives and projects due to the risk of falling under secondary sanctions. Under these circumstances, in order to minimize sanctions-induced restrictions, Moscow uses the neutral supranational jurisdiction of the EAEU and transit opportunities of some member states of the association to set up channels for parallel imports of critical products. In this respect, the EEC’s interest in concluding FTAs with countries that represent major regional hubs is fully in line with Russia’s economic interests.

# Chapter 1. Assessing Existing Free Trade Zones Within the EAEU<sup>3</sup>

All existing FTZ agreements within the EAEU were signed and entered into force under fundamentally different foreign economic and political conditions than currently present. The slowdown in global trade and the disruption of global added value chains as a result of the coronavirus, followed by a new larger and longer-term shock to global markets as a result of heightened geopolitical tensions in early 2022, significantly adjusted the economic effects of the EAEU's preferential agreements with foreign partners and led to noticeable changes in trade flows. Cooperation in the FTZ format failed to become a tool of dampening the consequences of economic crises for the EAEU and especially for the Russian Federation. Nevertheless, during the almost two-year period, since the beginning of the special military operation (SMO), the importance of the Union in Russia's foreign trade policy has markedly increased. There is every reason to believe that this trend will continue in the future.

## EAEU – Vietnam

The FTZ agreement with Vietnam was signed in 2015 – the very year the EAEU itself was founded. The accelerated establishment of the FTZ was facilitated by the experience and results of many years of strenuous efforts to sign the Russia-Vietnam FTZ agreement in 2012.<sup>4</sup> This also explains the fact that only Russia signed an agreement on trade in services and investment cooperation with Hanoi to augment the EAEU-Vietnam FTZ agreement.

From a tactical point of view, signing the FTZ agreement with Vietnam could be seen as a major Eurasian integration achievement for several reasons.

First, the deal was the first preferential agreement for the Union, providing the Eurasian Five with an opportunity to test new institutional and trade regimes interactions with foreign partners.

Second, Vietnam has considerable negotiating experience and is one of the most active participants in integration processes among developing nations. To date, Hanoi is a member of 15 active FTAs<sup>5</sup> with major states and integration associations. These include preferential agreements with Japan, the Republic of Korea,

<sup>3</sup> This section deals only with existing transactions within the Union. For this reason, there is no analysis of the EAEU-Singapore FTZ in this part of the working paper. In 2019, two agreements were signed with Singapore: the Free Trade Agreement between the EAEU and its member states, on the one hand, and the Republic of Singapore, on the other hand, as well as the Framework Agreement on Comprehensive Trade and Economic Cooperation between the EAEU and its member states and the Republic of Singapore. However, the parties have so far failed to ratify these agreements.

<sup>4</sup> Protocol 1 between the Socialist Republic of Viet Nam and the Russian Federation to the Free Trade Agreement between the Socialist Republic of Viet Nam, on the one part, and the Eurasian Economic Union and its Member States, on the other part // WTO Center. 29.05.2015. URL: <https://wtocenter.vn/upload/files/fta/174-ftas-concluded/188-vietnam---eurasian-/241-full-text/VCUFTA%20Protocol%20No.%201.pdf>; Protocol №2 between the Socialist Republic of Viet Nam and the Russian Federation to the Free Trade Agreement between the Socialist Republic of Viet Nam, of the one part, and the Eurasian Economic Union and its Member States, of the other part // WTO Center. 29.05.2015. URL: <https://wtocenter.vn/upload/files/fta/174-ftas-concluded/188-vietnam---eurasian-/241-full-text/VCUFTA%20Protocol%20No.%202.pdf>

<sup>5</sup> This list also includes the FTZ agreements which Vietnam signed with ASEAN partners.

and the EU. The country is a member of two mega regional trade agreements, the Comprehensive Regional Economic Partnership (CREP) and the updated Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Third, Vietnam is integrated into regional and global value chains. The country represents a deep market with a population of about 100 million people and a growing middle class, which makes it a promising destination for EAEU products.

Public officials and experts often argue that for the Union the FTZ agreement with Vietnam is an intermediate stage for the subsequent conclusion of a similar agreement with ASEAN. On the one hand, with the help of Vietnam, the EAEU can indeed test free trade mechanisms and build a negotiating position with the Association. On the other hand, the formalization of an FTZ between the EAEU and Vietnam has not brought the Eurasian Five closer and has not created additional preferential conditions for them in the dialogue with ASEAN. In practice, the probability of crossing these tracks remains low, given that considering an FTZ agreement with the Union is not on the Association's trade agenda.

The FTZ agreement will ensure zero import duties for about 90% of the EAEU commodity nomenclature by 2027. However, the elimination of tariff barriers while maintaining non-tariff restrictions has a limited effect. For example, Russian pork supplies to Vietnam started to grow only in 2020<sup>6</sup> after the completion of an agreement on veterinary certificates and gradual expansion of the list of authorized exporters. As part of the agreement, the parties state their intentions to eliminate "excessive" non-tariff measures, but it is difficult to determine the role of the FTA in this area.

Yet, the FTA with Vietnam can be assessed as the most advanced agreement in the EAEU's arsenal. The coverage of this FTA is broader than even the scope of the EAEU Treaty, as the latter does not sufficiently regulate investment cooperation and protection of intellectual property rights in relations between the member states.<sup>7</sup> At the same time, the adage about the "advanced nature" of the deal applies only to the relations between Russia and Vietnam, since the other member states of the EAEU have limited themselves to the agreement on liberalization of trade in goods at the bilateral level. Formally, they have the opportunity to expand cooperation based on the results of bilateral negotiations, but during the eight years since the deal was signed, there have been no public statements of such intentions.

Nevertheless, it seems possible to quantify the effectiveness of the agreement based on certain parameters by now.<sup>8</sup> Over the 2015-2021 period, trade turnover

<sup>6</sup> Playing pork on Vietnam // Kommersant. 22.06.2020.  
URL: <https://www.kommersant.ru/doc/4389286?ysclid=lor4dddp9286987488>

<sup>7</sup> DESTA (Design of Trade Agreements) Database- a database containing the composition of preferential trade agreements signed since 1945. For more detail see: Design of Trade Agreements (DESTA).  
URL: <https://www.designoftradeagreements.org/>

<sup>8</sup> Here and hereinafter, to analyze the trade turnover between the EAEU and existing or potential FTZ partners, data is used from the following resource: Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC.  
URL: <https://www.trademap.org/Index.aspx>



between the parties involved increased from USD 2.47 billion to USD 6.12 billion before falling to USD 4.1 billion in 2022. During the first seven years of the EAEU-Vietnam FTA implementation, there was a trade deficit – on average, Hanoi generated 60% of the total trade turnover, which indicates that Vietnam benefits more from this partnership.

However, it was in 2022 that structural changes took place in the trade with Vietnam. For the first time during the period of the FTA implementation, exports of the EAEU member states to Vietnam exceeded imports. This happened primarily due to a sharp (almost twofold) collapse of Hanoi's export supplies to Moscow due to transportation, logistics and financial failures in the midst of tougher anti-Russian sanctions. Right now, Russia accounts for 85% of all imports from EAEU to Vietnam.

In the case of exports from the EAEU states to Vietnam, the situation is even less clear-cut, as the implementation of the FTA has not led to country diversification of supplies either. In 2015, Russia accounted for 93% of all exports. The opening of the Vietnamese market after the FTA was signed should have contributed to the increase in supplies from other EAEU member states. Yet the situation remained virtually unchanged and has actually aggravated towards even greater dependence on Russian supplies – in 2022, the Russian Federation provided 96% of the Union's exports to Vietnam.

In terms of types of products, significant changes over 2015-2022 can be seen only in EAEU exports. The main commodities were hard coal (28% of the Union's total supplies to Vietnam), iron and steel (13.8%), amounting to USD 582 million and USD 288 million in monetary terms, respectively (Figure 1). It is noteworthy that in 2015, iron and steel were practically not exported to Vietnam (less than 2%). Another important commodity is pork – its exports grew from zero in 2015-2019 to USD 108 million in 2022 (5% of total shipments).

In the meantime, Hanoi supplied mainly electrical machinery and equipment to the EAEU nations throughout the entire period of the FTA: at the end of 2021, their share and value in total trade turnover amounted to 57% and about USD 2.1 billion, respectively. However, in 2022, the share of those goods dropped to 13%, while the "other goods" category saw a 42% spike (Fig. 2). Such statistics may indicate the reluctance of the Vietnamese authorities and exporters to fall under Western sanctions due to the supply of sanctioned products to the Russian Federation.

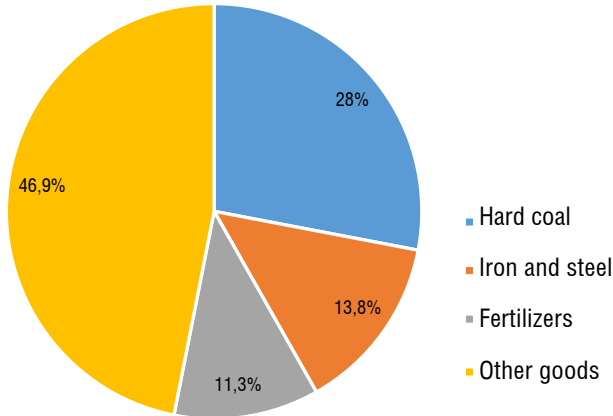
Since the beginning of the Special Military Operation (SMO) in Ukraine, Russia has become keener on increasing wheat exports to Vietnam, which coincides with the latter's interests.<sup>9</sup> Even back in 2018 Russia dominated the country's domestic market, accounting for 57% of total wheat shipments or USD 655 million<sup>10</sup> in monetary terms. However, after Hanoi introduced strict phytosanitary

<sup>9</sup> Trade supplies: what Medvedev offers his Vietnamese colleagues // Izvestiya. 22.05.2023. URL: <https://iz.ru/1516499/nataliia-portiakova/postavka-na-torgovliu-cto-medvedev-predlozhit-kollegam-iz-vetnama>

<sup>10</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

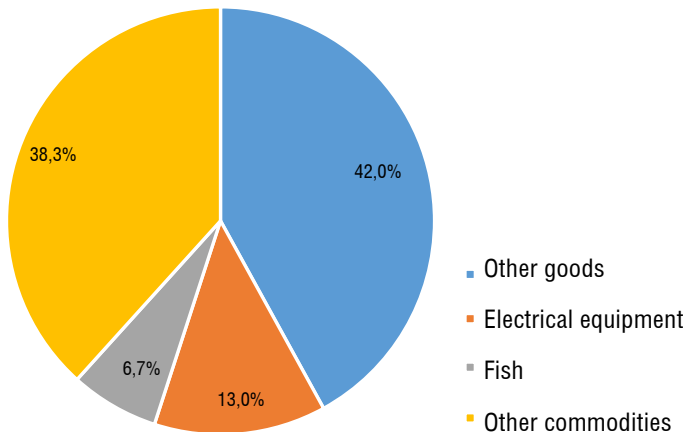
requirements for grain imports (no weed seeds allowed) in October 2018, Russian supplies effectively ceased. At the end of 2022, the share of the Russian Federation in wheat exports to Vietnam dropped to 1.6% or USD 25 million<sup>11</sup> in monetary terms. In this category, Russia is almost two times behind Ukraine and 44 times behind Australia.

**Figure 1. Breakdown of EAEU exports to Vietnam in 2022, %**



Source: compiled by the author using the Trade Map database.<sup>12</sup>

**Figure 2. Breakdown of EAEU imports from Vietnam in 2022, %**



Source: compiled by the author using the Trade Map database.<sup>13</sup>

<sup>11</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

<sup>12</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

<sup>13</sup> Ibid.

In August 2023 Rosselkhoznadzor (the national phytosanitary watchdog) announced the removal of the prickly or creeping (pink) thistle from the list of quarantine objects for Vietnam.<sup>14</sup> Thanks to this measure, Russia can restore its export niche in the Vietnamese market, which will help increase bilateral trade turnover and, consequently, the total volume of trade between the EAEU and Vietnam.

Thus, the EAEU-Vietnam FTZ was an important and timely step in shaping the Union's foreign trade position. Hanoi is a promising partner with a growing market and it is a "friendly" nation in relation to the Russian Federation. However, the significance of the FTZ with Vietnam is often exaggerated in terms of its role in further development of trade relations with ASEAN, as well as its function as a "gateway" for the integration of the Union's member countries into the Asia-Pacific markets and the potential benefits of the agreement, for which it needs to be expanded and deepened in line with modern realities.

### **EAEU – Serbia**

The FTZ agreement with Serbia is the last of the EAEU preferential agreements signed (2019) and in force (2021) as of November 2023. At the time of the Union's formation, Serbia already had three bilateral free trade zones with Russia, Belarus and Kazakhstan. Thus, the purpose of the EAEU-Serbia FTZ agreement was harmonizing the terms of the three existing bilateral agreements and extrapolating them to trade cooperation with the two remaining EAEU members, Armenia and Kyrgyzstan. The fact that the new agreement is also limited to trade in goods is another evidence in favor of this conclusion.

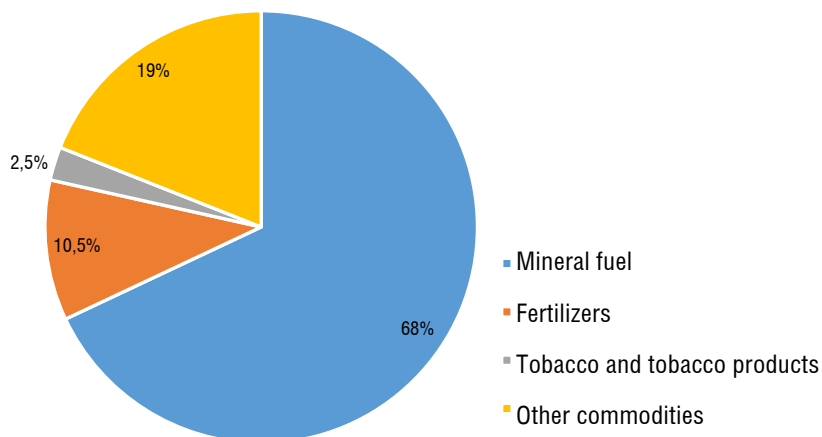
Given Belgrade's intention to join the EU, a few years ago the EAEU-Serbia FTZ could have been seen as a potential instrument for launching an EU-EAEU dialogue. However, under current circumstances, this agreement will be terminated in case of Serbia's European integration, as such a step contradicts the principles of the EU's common trade policy.

Foreign trade statistics between the EAEU and Serbia show that there had been no significant changes in trade flows until 2022, which can be explained largely by a formal nature of the new agreement. A notable shift in bilateral trade occurred after the start of the SMO. In 2022, thanks to the supplies of minerals and fertilizers, EAEU exports to Serbia grew almost 1.5 times and were estimated at USD 3.2 billion. These goods took a dominant position in the export structure and at the end of 2022 they accounted for about 80% of all supplies. In value terms, the volume grew almost twofold reaching USD 2.5 billion (Fig. 3).

Meanwhile, Serbian exports in 2022 also reached the record level of USD 1.35 billion due to products in the "machinery, vehicles and equipment" category (15.5% of the total supply to the EAEU), with shipments surging 1.7 times in 2022. Within this aggregated commodity group, the fastest-growing article of export to the EAEU percentagewise was refrigerators – a 2.8-fold increase in 2022, to USD 77 million. The second key export commodity in the EAEU in absolute terms was fruits and vegetables with a share of 12% (Fig. 4).

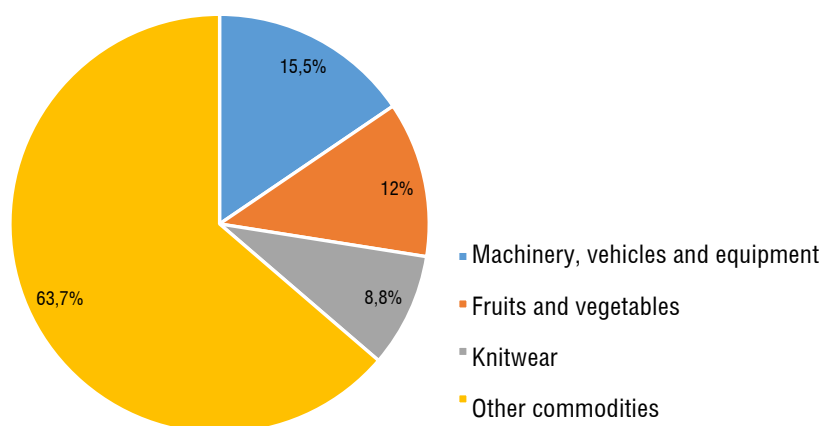
<sup>14</sup> Rosselkhoznadzor reports Russia's potential to ramp up wheat exports to Vietnam significantly // TASS. 22.08.2023.  
URL: <https://tass.ru/ekonomika/18562959>

**Figure 3. Breakdown of EAEU exports to Serbia in 2022, %**



Source: compiled by the author using the Trade Map database.<sup>15</sup>

**Figure 4. Breakdown of EAEU imports from Serbia in 2022, %**



Source: compiled by the author using the Trade Map database.<sup>16</sup>

## EAEU – Iran

The FTZ agreement with Iran is particularly interesting in several respects.

First, in this case, the FTA format is implemented in cooperation with the largest non-WTO country. Thus, the agreement enshrines the use of the fundamental principles of liberal trade policy in the course of interaction, which are not mandatory for states that are none-WTO members.

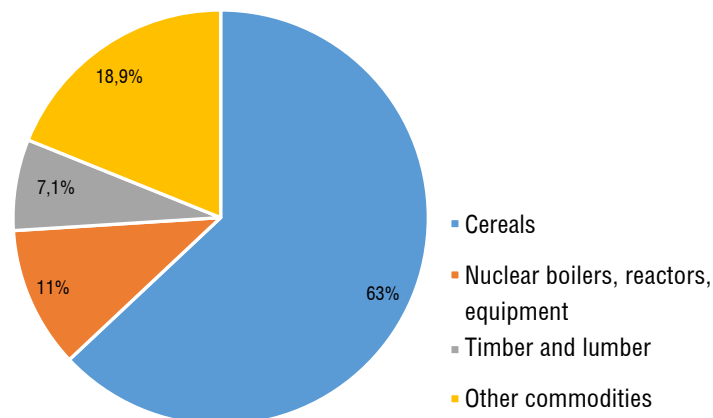
<sup>15</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

<sup>16</sup> Ibid.

Secondly, the FTA with Iran is officially a temporary format of cooperation that precedes the conclusion of a full-fledged agreement. This approach allows the parties to remove barriers to a limited list of products, assess the consequences of partial market opening and conduct further negotiations based on the interim results obtained. With that said, it should be taken into account that the agreement covers only trade in goods.

The temporary agreement entered into force in 2019 and initially envisioned a transition to a full-fledged FTZ within three years. In 2022, the status of the interim agreement was extended,<sup>17</sup> but there have been statements from both sides about the possibility of signing a full-fledged agreement in 2023.<sup>18</sup> EAEU practice shows that such documents are signed at high-level meetings, such as sessions of the Supreme Eurasian Economic Council (SEEC), as was the case with Singapore in 2019. It is likely that the parties will conclude a corresponding agreement already in December 2023 at the next meeting of the SEEC. This, in particular, was stated by the EEC Minister for Trade Andrey Slepnev on December 4, 2023 during his speech at the second international EURASIA EXPO exhibition in Tehran.<sup>19</sup> Taking into consideration the ratification procedure, which took about half a year in the case of the interim agreement, one can expect the a full-fledged FTZ agreement enter into force no earlier than the first half of 2024.

**Figure 5. Breakdown of EAEU exports to Iran in 2022, %**



*Source: compiled by the author using the Trade Map database.<sup>20</sup>*

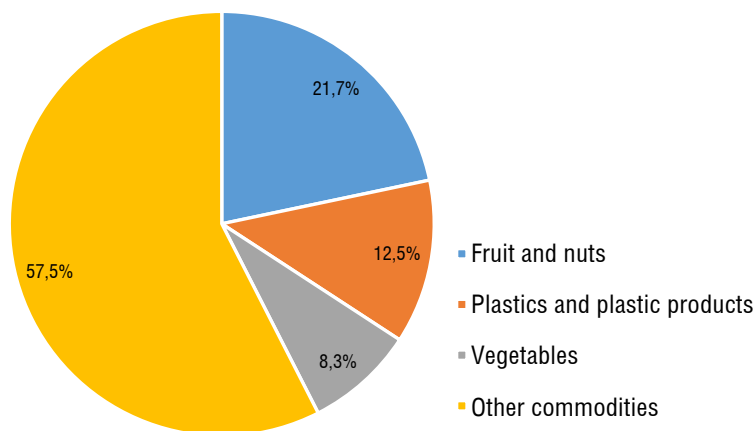
<sup>17</sup> The Islamic Republic of Iran // Eurasian Economic Commission. URL: <https://eec.eaeunion.org/comission/departement/dotp/torgovye-soglasheniya/iran.php>

<sup>18</sup> The Russian authorities stated that an FTZ agreement between the EAEU and Iran is highly anticipated // Izvestiya 24.05.2023. URL: <https://iz.ru/1517535/2023-05-24/v-rf-zaiavili-ob-ozhidanii-podpisaniia-soglasheniia-o-zst-mezhdueaes-i-iranom>; Iran hopes to sign a Free Trade Zone agreement with the EAEU in the nearest months // TASS. 23.06.2023. URL: <https://tass.ru/ekonomika/18096349>

<sup>19</sup> Andrey Slepnev: "EAEU and Iran are on the threshold of transition to a model of full-scale economic integration in a free trade regime and deeper sectoral cooperation" // Eurasian Economic Commission. 04.12.2023. URL: <https://eec.eaeunion.org/news/andrey-slepnev-eaes-i-iran-na-poroge-perekhoda-k-modelipolnoformatnoy-ekonomicheskoy-integratsii-v/>

<sup>20</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

**Figure 6. Breakdown of EAEU imports from Iran in 2022, %**



*Source: compiled by the author using the Trade Map database.<sup>21</sup>*

The structure of foreign trade between the EAEU and Iran also testifies to the need for transition to a full-fledged partnership. Thus, cereals accounted for 63% of Iran’s imports from the EAEU in 2022, while duties on their import are not affected by the temporary FTZ agreement (Fig. 5). Meanwhile, imports of major commodities from Iran were subject to zero duties (e.g., plastic and plastic products – 12.5% of total Iranian exports to the EAEU), or duties were zeroed under the temporary FTA (e.g., on fruits and vegetables – 21.7% of Iranian supplies to the EAEU in 2022) (Figure 6). Thus, in the current configuration, the transition to a full-fledged FTA is more favorable for the Union than for Tehran.

### **EAEU in the CIS Space**

Despite the fact that there are only three preferential agreements within the EAEU, the countries of the Union are also parties to FTAs in the CIS. The first attempt to create a multilateral agreement was made almost immediately after the collapse of the USSR and formation of the CIS, but it was not successful. Nevertheless, the states signed a number of bilateral FTAs. Subsequently, in 2011, eight CIS<sup>22</sup> countries managed to conclude a multilateral agreement, which entered into force in the second half of 2012. Uzbekistan also joined the agreement in 2013.

Thus, there are currently two FTA formats operating in the CIS: a multilateral one between nine countries and a bilateral one based on the agreements of the 1990s. It can be assumed that the parallel functioning of these FTA formats is a consequence of political conflicts, since the EAEU treaty provides for the consolidation of all bilateral agreements at the association level, as was done within the frame-

<sup>21</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

<sup>22</sup> Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Ukraine and Tajikistan.

work of the partnership with Serbia.<sup>23</sup> For example, the new EAEU-Azerbaijan FTZ negotiations are unlikely to receive support from Armenia in the medium term, while Georgia is unlikely to extend the FTA given Tbilisi's interest in joining the EU. However, it should be borne in mind that such "exclusive" FTZ agreements violate the spirit of the economic union.

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<sup>23</sup> Eurasian Economic Union Treaty. Article 102 // Consultant Plus 29.05.2014. URL: [https://www.consultant.ru/document/cons\\_doc\\_LAW\\_163855/5612d6c0484a8192696030fd3f4c32dd293c3bb8/?ysclid=losale7avp906158797](https://www.consultant.ru/document/cons_doc_LAW_163855/5612d6c0484a8192696030fd3f4c32dd293c3bb8/?ysclid=losale7avp906158797)

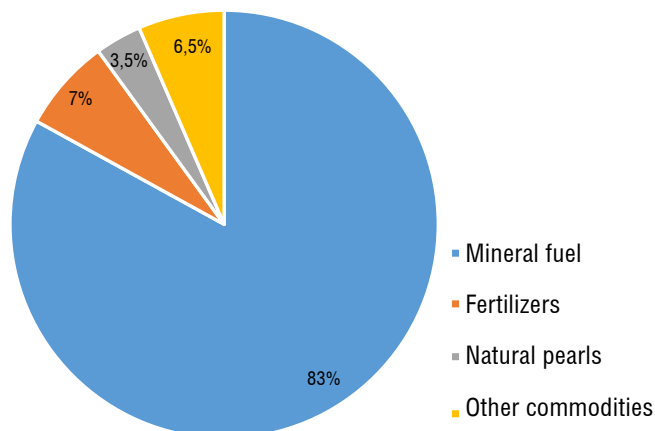
## Chapter 2. Analyzing Potential Free Trade Zones Within the EAEU

The EAEU is currently negotiating FTZ agreements with a number of countries, not all of them being major players in international trade. Nevertheless, agreements with these states can also perform important functions: promoting EAEU products to emerging markets, creating entry points for closer integration of the Union into regional and international transportation and logistics, technological and financial chains, boosting investment cooperation with foreign partners.<sup>24</sup>

### EAEU – India

The FTZ agreement with India is potentially the largest for the EAEU currently. Delhi accounted for 6% of the Union’s exports in 2022, but mineral fuels and fertilizers formed the basis (90% or about USD 37 billion) of this amount (Figure 7). In the meantime, the EAEU accounts for just over 1% of India’s exports in the categories such as “pharmaceutical products” and “electrical machinery and equipment”. They account for 15.3% and 12.7% of total exports, i.e. USD 550 million and USD 447 million, respectively (Fig. 8).

**Figure 7. Breakdown of EAEU exports to India in 2022, %**



*Source: compiled by the author using the Trade Map database.<sup>25</sup>*

Negotiations with India, however, have been stalling. Formally, they were launched in 2016, but not a single round has yet been held.<sup>26</sup> The main reason

<sup>24</sup> This working paper does not consider the EAEU-Mongolia case, as the parties have not held a single round of FTA negotiations by the time of writing and no decision has been made to start the negotiation process. The paper also does not analyze the EAEU-Israel case. In total, the parties have held 6 rounds of talks. However, the negotiations have been frozen since 2020 and there is no information in the public domain about resuming them.

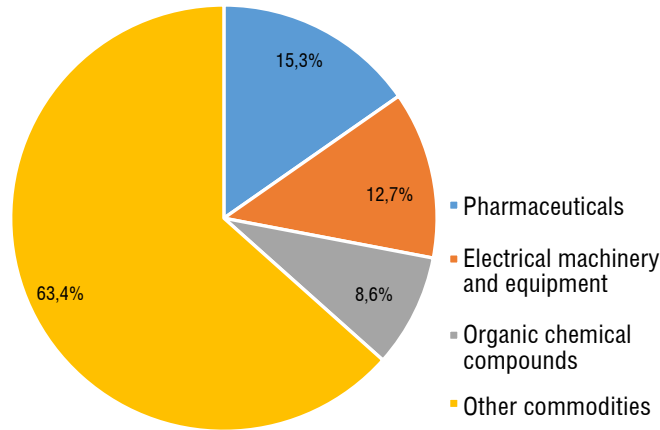
<sup>25</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

<sup>26</sup> In 2021, expert consultations were completed and negotiations were to commence in 2022; however, this did not happen.



for the delay may be New Delhi's desire to include freedom of trade in services, namely the movement of skilled workforce, in the agreement. The lack of progress on this issue had earlier led to the termination of India's participation in the RCEP negotiations.<sup>27</sup>

**Figure 8. Breakdown of EAEU imports from India in 2022, %**



*Source: compiled by the author using the Trade Map database.<sup>28</sup>*

In case of the EAEU, the problem is of even higher magnitude as the EEC has no mandate to negotiate liberalization of trade in services with third countries. For this reason, India needs to conduct separate bilateral negotiations on this issue with each of the EAEU member states, which makes it difficult to link preferences in trade in goods at the association level and trade in services/investment cooperation at the bilateral level. Not all EAEU nations are ready to conduct such negotiations, with the lack of thematic FTZ agreements with EAEU partners being the best evidence.

Another related problem within the framework of negotiations on a preferential agreement with India is the high level of New Delhi's tariff protectionism, which was also the reason for curtailing Indian participation in RCEP promotion. Currently, among all developing markets, the Indian economy is among the leaders in terms of national market protection. According to the WTO's 2023 report, the average coverage of most-favored-product customs duty rates on India's imports stood at 18.1% in 2022, although as recently as in 2017 this figure was 13.8%.<sup>29</sup> For comparison, the average level of tariff protectionism in China was 7.5% at the end of 2022, Indonesia – 8.1%, Vietnam – 9.6%.<sup>30</sup> Thus, the prospects for signing the EAEU-India FTA will directly depend on the readiness of the Indian side to open its markets by reducing import duties on various categories of goods from EAEU member states, primarily from Russia.

<sup>27</sup> Simi Mehta. The RCEP minus India: Reasons and Implications // The SAIS Review of International Affairs. 19.02.2020. URL: <https://saisreview.sais.jhu.edu/the-rcep-minus-india-reasons-and-implications/>

<sup>28</sup> Ibid.

<sup>29</sup> World Tariff Profiles 2023 // WTO. 2023. URL: [https://www.wto.org/english/res\\_e/booksp\\_e/world\\_tariff\\_profiles23\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/world_tariff_profiles23_e.pdf)

<sup>30</sup> World Tariff Profiles 2022 // WTO. 2022 URL: [https://www.wto.org/english/res\\_e/booksp\\_e/world\\_tariff\\_profiles22\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/world_tariff_profiles22_e.pdf)

In addition, the problem of organizing stable supply logistics, less exposed to sanctions risks, remains unresolved, which relates to trade in goods and directly affects the possibility of ramping up the trade turnover between the sides. In this regard, despite numerous talks about the potential of the North-South international transportation corridor, the actual progress of the project has so far been controversial.

## EAEU – Egypt

The media and expert community don't pay enough attention to the prospects of the FTZ agreement as well as trade and economic interaction between Egypt and the EAEU in general, although thematic negotiations kicked off back in 2016. Since then, six rounds have been held, which, however, did not lead to the desired result for the parties. However, cooperation with Cairo and the FTA under discussion could create long-term positive effects for Eurasian integration. Given its trade specialization and market capacity, Russia will be the main beneficiary of this process for several reasons.

First, Egypt's advantage is its participation in the 55-member African Continental Free Trade Area (AfCFTA). Thus, Egypt could become an entry point for Russia and the EAEU as a whole to the growing African markets, which will allow the Union to occupy certain trade niches.

Second, a potential deal with Egypt within the EAEU would mark, albeit nominally, the success of Russian diplomacy to economically involve Cairo in non-Western multilateral initiatives and projects, and would contribute to a more active promotion of the narrative about the growing role of the global South in international affairs. Notably, as early as January 1, 2024, Egypt will officially join the ranks of BRICS<sup>31</sup> – an association that positions itself as a platform countering Western dominance on the world stage.

Third, Egypt's economy has not fully recovered from the COVID-19 pandemic and continues to face serious challenges, including those related to the conflict in Ukraine, the global economic downturn, rising commodity prices, and threats to food security. Cairo is the world's second largest net importer of wheat next to Indonesia.<sup>32</sup> Cereal imports have been steadily growing over the past three decades at a rate higher than the domestic production growth rates.

The geopolitical crisis in Europe had a positive impact on the trade turnover between Russia and Egypt. In 2022, the increase amounted to 30% year-on-year.<sup>33</sup> Given that Russia already provides more than 50% of Egypt's wheat imports,<sup>34</sup> the conclusion and subsequent implementation of the FTA within the

<sup>31</sup> This, in particular, was stated by Egyptian Foreign Minister Sameh Shoukry at the 78th session of the UN General Assembly in New York. See: Egypt is ready to actively participate in the BRICS proceedings // TASS. 23.09.2023. URL: <https://tass.ru/mezhdunarodnaya-panorama/18827759>

<sup>32</sup> Optimizing Egypt's wheat import process // World Grain. 01.10.2022. URL: <https://www.al-monitor.com/originals/2022/07/egypt-diversifies-wheat-suppliers-large-international-purchases-resume#ixzz8leMapRS0>

<sup>33</sup> The trade turnover between Russia and Egypt grew by 30% in 2022. // Izvestiya. 20.03.2023. URL: <https://iz.ru/1485837/2023-03-20/tovarooborot-mezhdu-rossiei-i-egiptom-v-2022-godu-vyros-na-30>

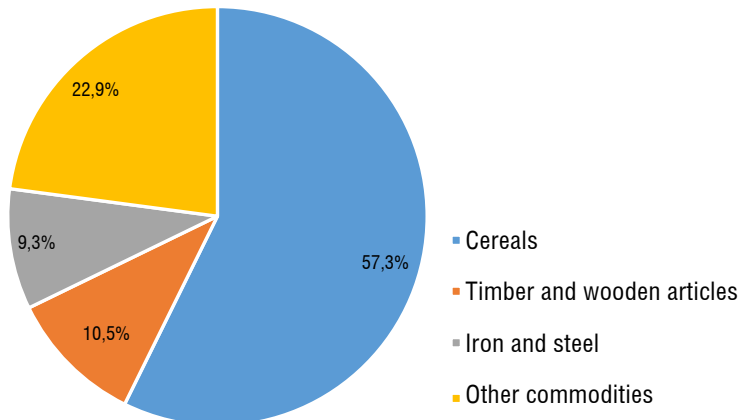
<sup>34</sup> Egypt imports more wheat from Russia in March-May period // World Grain. 16.06.2022. URL: <https://www.world-grain.com/articles/17051-egypt-imports-more-wheat-from-russia-in-march-may-period>

EAEU framework, along with a potential transition to payment for grain supplies in rubles<sup>35</sup> may lead to a further increase in grain imports and will allow Russia to establish itself as a guarantor of the country's food security, at least in one commodity category.

Fourth, the pandemic also had a negative impact on the total trade turnover with the EAEU. In 2021, it contracted by almost 1.5 times compared to 2019. However, now there is a reverse trend: trade between the parties has already returned to the pre-pandemic level of 2019, and by the end of 2022, its aggregate volumes exceeded USD 4.1 billion. While the trade surplus remains substantial, 84% of trade turnover falls to the share of EAEU exports. In addition to wheat, stable and sometimes even explosive growth in exports from the Union's member states has been recorded in respect of sunflower oil (+25%), iron and non-alloy steel (+51.6%) and charred coal (+692%).

Nevertheless, the bilateral trade turnover is still subject to volatility on the world markets. First of all, this includes food, and the portfolio of commodity supplies to Egypt is not diverse by any measure. Three commodity categories (cereals, wood, iron and steel) account for 77% of total exports from the EAEU member states (Fig. 9). Similar trends can be noted with regard to the products imported by the members of the association from Egypt. As of the end of 2022, fruits, vegetables, nuts and essential oils accounted for 87% of all imports from Egypt. (Fig. 10).

**Figure 9. Breakdown of EAEU exports to Egypt in 2022, %**



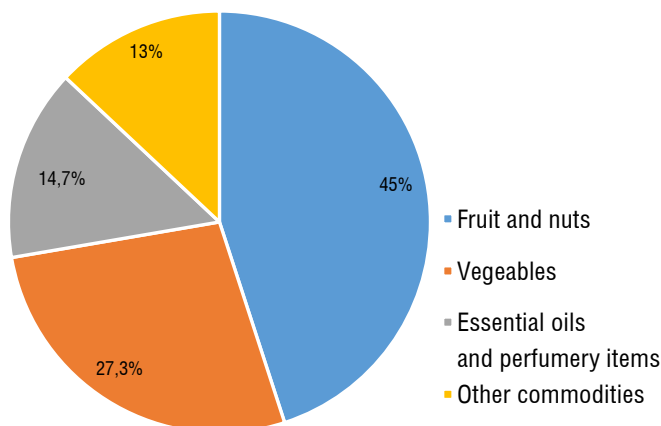
*Source: compiled by the author using the Trade Map database.<sup>36</sup>*

It is not obvious if a potential FTZ agreement with Egypt would be able to significantly adjust this situation and expand the product mix.

<sup>35</sup> Abramchenko: Russia may start selling grain to Egypt for rubles // Vedomosti. 22.01.2023. URL: <https://www.vedomosti.ru/economics/news/2023/01/22/959963-egiptu>

<sup>36</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

**Figure 10. Breakdown of EAEU imports from Egypt in 2022, %**



Source: compiled by the author using the Trade Map database.<sup>37</sup>

## EAEU – Indonesia

FTZ negotiations with Indonesia were launched in December 2022, and as of November 2023, two rounds have been held (in April and July).<sup>38</sup> Official estimates as to the timing for this agreement to be signed vary.<sup>39</sup> Based on publicly available information, the signing will not take place any sooner than in 2024–2025.<sup>40</sup> It is no coincidence that the first round of negotiations took place in 2023, since Russia is chairing the EAEU bodies this year and Indonesia is hosting ASEAN events. From a reputational point of view, both countries want to strengthen their foreign economic assets with an eye-catching media event, but the increased interest in the EAEU-Indonesia FTZ is also contingent on economic considerations.

For the Union and Russia, the willingness to launch a FTZ with Indonesia can be dictated by two main factors.

First, the potential signing and implementation of an FTZ agreement could lead to increased shipments in the three largest yet fastest growing export categories to Indonesia namely, fertilizers, iron and non-alloy steel products, and hard coal. These together account for nearly 90 percent of all Union’s shipments to Indonesia (Figure 11).

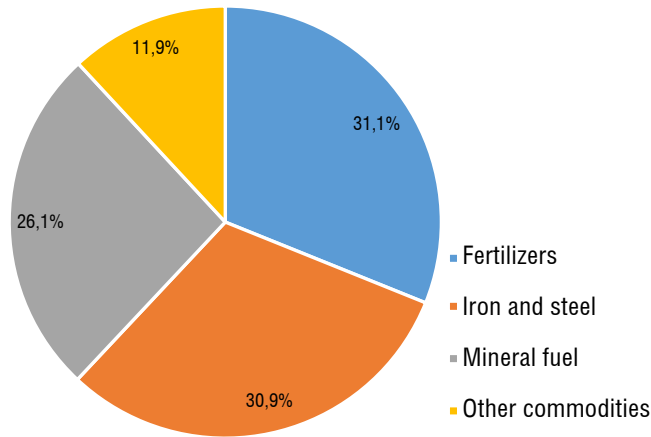
<sup>37</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

<sup>38</sup> EAEU and Indonesia launch negotiations on a free trade zone // Eurasian Economic Commission. 04.04.2023. URL: <https://eec.eaeunion.org/news/eaes-i-indoneziya-nachali-peregovory-po-coglasheniyu-osvobodnoy-torgovle/>; EAEU and Indonesia have held the second round of negotiations on a free trade agreement // Eurasian Economic Commission. 26.07.2023. URL: <https://eec.eaeunion.org/news/eaes-i-indoneziya-provelivtoroy-raund-peregovorov-po-soglasheniyu-osvobodnoy-torgovle/>

<sup>39</sup> No FTZ between EAEU and Indonesia will be established in 2023 // RIA Novosti. 24.05.2023. URL: <https://ria.ru/20230524/zst-1873765556.html>

<sup>40</sup> Assistant Ambassador to Russia: a free trade zone between Indonesia and EAEU will be created by the year’s end // Alta Soft 19.05.2023. URL: [https://www.alta.ru/ts\\_news/100684/?ysclid=losf55fbnp475371479](https://www.alta.ru/ts_news/100684/?ysclid=losf55fbnp475371479)

**Figure 11. Breakdown of EAEU exports to Indonesia in 2022, %**



*Source: compiled by the author using the Trade Map database.<sup>41</sup>*

Standing out in this particular respect are certain member states of the Union that are the main lobbyists of the FTZ agreement. Thus, Russia and Belarus are seeking to increase fertilizer exports to Indonesia by leveraging a preferential agreement. As of the end of 2022, Russia, with a 22% share of Indonesia's total fertilizer imports, ranked second next only to Canada in the list of the largest suppliers of these products. In turn, Belarus is currently one of the ten largest exporters of potash fertilizers to Indonesia, but the sanctions imposed on Minsk have led to a 3.5-fold decrease in Belarusian supplies of this commodity category over the past year.<sup>42</sup>

Besides Russia and Belarus, Kazakhstan is interested in signing an FTZ agreement. This country has been consistently increasing its iron and steel exports to Indonesia since 2018 and, under favorable conditions, it could easily become one of Jakarta's ten largest suppliers of these products.

There is a similar trend in hard coal exports. Russia, with a share of 11.6%<sup>43</sup> in Indonesian imports, is the third largest supplier of this commodity to Indonesia, behind only China and Australia. Interestingly enough, after the start of the SMO, Russian deliveries of hard coal to Indonesia more than doubled and by the end of 2022 exceeded USD 420 million in monetary terms.<sup>44</sup> The example of Kazakhstan, which had not exported coal to Indonesia until 2020 inclusive, is even more compelling, as in 2021 and 2022 its shipments suddenly amounted to USD 69 million and USD 281 million in monetary terms<sup>45</sup> respectively, making Astana the fourth largest exporter of hard coal to Indonesia.

<sup>41</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

<sup>42</sup> Ibid.

<sup>43</sup> Ibid.

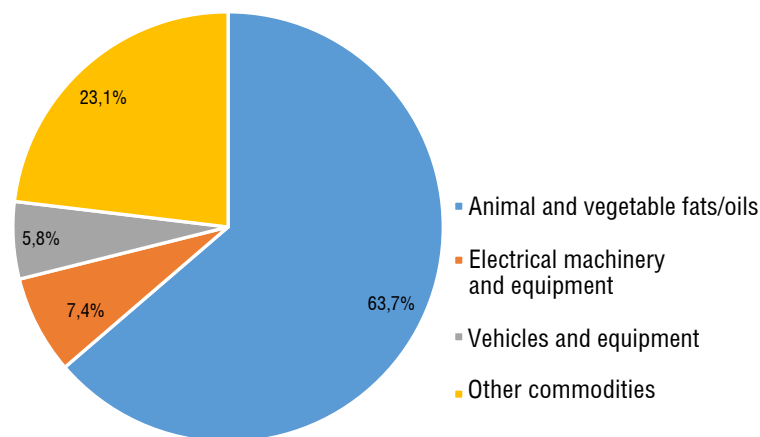
<sup>44</sup> Ibid.

<sup>45</sup> Ibid.

Second, Indonesia can be assigned a role in the EAEU's foreign economic policy that only a major regional hub such as Singapore could potentially have played before anti-Russian sanctions were imposed. Mediation will help the Union to effectively integrate into the transportation and logistics, trade and economic, technological and financial chains in SEA and the Asia-Pacific region as a whole. In this respect, the choice of Indonesia – the largest economy in SEA and the third most populous country in Asia, a member of ASEAN, APEC and the RCEP – as an FTA partner looks reasonable. Nevertheless, as in the cases of Singapore and Vietnam, the promotion of economic cooperation with Indonesia doesn't go along with inflated expectations in the EAEU member states, as bilateral FTZ agreements with Jakarta do not mean automatic access to ASEAN markets.

In turn, Indonesia, as the world's largest producer and exporter of palm oil, considers signing an FTZ agreement with the EAEU as a channel for more convenient sales of its products to the large and rewarding Eurasian market. At the end of 2022, more than 63% (USD 747 million) of all Indonesian exports to the Union fell to the share of palm oil, the supplies of which to the EAEU surged almost 2.5 times<sup>46</sup> compared to 2019 (Figure 12).

**Figure 12. Breakdown of EAEU imports from Indonesia in 2022, %**



*Source: compiled by the author using the Trade Map database.<sup>47</sup>*

Additionally, Indonesia's exports of displays, projectors, and television communication equipment to the Union have multiplied since the start of the SMO. The value of shipments in this category increased from an average of USD 120,000 per year between 2018 and 2021 to USD 83 million per year in 2022.<sup>48</sup> All of these exports went to Kazakhstan, which had not previously made such purchases from Indonesia. A more in-depth analysis of trade patterns shows that for

<sup>46</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

<sup>47</sup> Ibid.

<sup>48</sup> Ibid.

2022, in the aggregated commodity group “electrical machinery and equipment”, it was displays and TV sets that became the fastest growing export category from Kazakhstan to Russia in percentage and absolute terms. It is possible that the products purchased from Indonesia are further re-exported to Russia, which, however, is difficult to verify.

For Indonesia, an additional argument in favor of an FTZ agreement with the EAEU is the desire to overcome existing or potential imbalances and shocks in the domestic market by ramping up the import of critical products, which primarily include fertilizers, lignite and hard coal.

A growing population, low agro-industrial productivity and poor food self-sufficiency increase Jakarta’s dependence on fertilizer purchases. By the end of 2022, Indonesia accounted for about 2.5% of global supplies of these products, which is equivalent to the seventh place in the world rate by this indicator. The EAEU member states generate 24% of imports in the global fertilizer market, with Russia being dominant here.<sup>49</sup>

It is important to note that the Russian press, citing Indonesian sources, began to actively disseminate a statement by Gatoet Gembro Noegroho, Vice President of the Indonesian National Fertilizer Group for Marketing Operations (Pupuk Indonesia), in summer 2023. The statement allegedly claimed that the tightening of sanctions pressure against Russia and the resulting difficulties in organizing supply logistics forced Jakarta to consider refusal to import Russian fertilizers in favor of alternative suppliers to replace domestic demand.<sup>50</sup> Promising partners include countries in North Africa (Morocco, Egypt), the Middle East (Jordan) and Southeast Asia (Laos, Vietnam, Myanmar).

Nevertheless, this statement does not correspond to reality, as it contains incorrect translation, many important phrases are taken out of context, and some passages deliberately mislead the reader. In reality, Gatoet Gembro Noegroho emphasized that in addition to Russia and Belarus, Indonesia considers Vietnam, Laos, Myanmar, Egypt, Jordan and Morocco<sup>51</sup> as promising partners, not as a replacement of or an alternative to Russia and Belarus but as supplementary suppliers. Thus, this does not mean a complete rejection of Russian supplies, rather import diversification. Furthermore, he added that the quality of products supplied from these countries is way lower in comparison with Russian or Ukrainian fertilizers, and the small export volumes would not be able to replace imports from Russia, which only results in higher prices for alternative supplies.<sup>52</sup>

Moreover, the Vice President noted that Pupuk Indonesia Group is considering partial substitution of only potassium chloride (KLC) rather than all types of

<sup>49</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

<sup>50</sup> Indonesia does not rule out refusal to import fertilizers from Russia // Gazeta.ru 03.07.2023. URL: <https://www.gazeta.ru/business/news/2023/07/03/20797604.shtml?updated>

<sup>51</sup> Rusia dan Ukraina Masih Panas, Pupuk Indonesia Cari Bahan Baku dari Negara Lain // kumparanBISNIS. 03.07.2023. URL: <https://kumparan.com/kumparanbisnis/rusia-dan-ukraina-masih-panas-pupuk-indonesia-cari-bahan-baku-darinegara-lain-20ihWaiVaGT>

<sup>52</sup> Ibid.

fertilizers, while Jakarta continues to depend on Russia for imports of complex nitrogen-phosphorus-potassium (NPK) fertilizers.<sup>53</sup> This brings us to the conclusion that despite logistical bottlenecks, difficulties in banking transactions, fears of Indonesian companies to fall under secondary sanctions for their cooperation with Russia, and Indonesia's intention to expand the geography of fertilizer imports,<sup>54</sup> there is no reason to believe that Indonesia would deliberately reduce supplies from Russia on a large scale in the foreseeable future, as has been confirmed by the statements of the country's President Joko Widodo.<sup>55</sup>

Among other areas that are important for Indonesia and may become a significant part of trade negotiations on the FTZ with the EAEU are imports of semi-finished iron items and non-alloy steel products. Jakarta buys almost 20% of these products<sup>56</sup> from Russia and ranks second in the world in terms of imports next only to Oman. Another priority for the country is to obtain more favorable conditions in the procurement of ferroalloys, given that Indonesia ranks fourth in the world by their consumption. Kazakhstan can play a special role in the negotiation process within the EAEU as the most motivated player in further consolidating its position in the Indonesian market. Astana ranks third after China and South Africa in the list of leading exporters of this type of products to Indonesia with a share of 9.5%.<sup>57</sup>

Finally, the potential interest and at the same time positive effect for Indonesia from the FTZ agreement with the EAEU may have to do with the increase in hard coal supplies from the EAEU member states, which directly correlates with the goal of ensuring the country's energy security, specifically assuring the necessary supplies for the domestic market to prevent the shortage of staple and feedstock for electric power generation. In the recent five years alone, Jakarta has quadrupled its imports of hard coal. In monetary terms, the value has increased from USD 899 million in 2018 to USD 3.6 billion in 2022.<sup>58</sup> It is quite remarkable that individual EAEU member states, Russia and Kazakhstan in particular, account for over 19%<sup>59</sup> of total Indonesian import of this product. Characteristically, since 2018, the volume of Russian supplies to Indonesia has more than tripled. In this respect, signing an FTZ agreement may benefit both parties.

In addition to the FTA under review, the most pressing issue has been the transition to mutual settlements in national currencies. Jakarta is trying to distance itself from this proposal, giving preference to trading in third-country currencies,

<sup>53</sup> Bahan Baku Impor dari Rusia, Pasokan Pupuk RI Aman? // detikFinance. 15.07.2022.

URL: <https://finance.detik.com/berita-ekonomi-bisnis/d-6180808/bahan-baku-impor-dari-rusia-pasokan-pupuk-ri-aman>

<sup>54</sup> Rusia dan Ukraina Masih Panas, Pupuk Indonesia Cari Bahan Baku dari Negara Lain // Kumparan. 03.07.2023.

URL: <https://kumparan.com/kumparanbisnis/rusia-dan-ukraina-masih-panas-pupuk-indonesia-cari-bahan-baku-darinegara-lain-20ihWaiVaGT>

<sup>55</sup> Nyatal! Perang Rusia-Ukraina Ancam Stok Pupuk RI, Kenapa? // CNBC Indonesia. 14.03.2023. URL: <https://www.cnbcindonesia.com/news/20230314123155-4-421502/nyatal-perang-rusia-ukraina-ancam-stok-pupuk-ri-kenapa>

<sup>56</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

<sup>57</sup> Ibid.

<sup>58</sup> Ibid.

<sup>59</sup> Ibid.



such as the Chinese yuan. This step seems more liquid from economic perspectives and less risky politically

## **EAEU – UAE**

The first round of FTA negotiations with the UAE took place early in 2023.<sup>60</sup> The second round was held in June, so it would be premature to summarize the preliminary results of the discussion. In many respects, the feasibility of a preferential agreement with the UAE for the EAEU is similar to the FTAs under discussion with Egypt and Indonesia and consists in facilitating the Union's integration into the Middle East's transportation and logistics chains.

However, compared to other negotiation tracks, the significance of the agreement with the UAE goes far beyond the trade or transportation component. Given the EAEU's consistent policy of dedollarization, the EAEU member states look upon the Emirates as a major international financial and investment hub, as well as a valuable partner for the Eurasian Five to build a financial infrastructure alternative to the West. Thus, in addition to trading in goods similar to what is stipulated in the FTA with Singapore, a logical step could be discussing liberalization plans for transport and financial services, which is not within the EEC competence. In particular, it could focus on harmonization of investment regimes and foreign exchange regulation, as well as integration of national payment systems within the framework of bilateral business interaction.

Turning to the analysis of trade and economic ties, it is worth paying attention to a spike in mutual trade turnover (almost 2.5 times) – in 2022 it went up to USD 17.4 billion a year. This dynamic can be attributed to the growth of exports to the UAE and imports to the EAEU member states. They increased 2.1 times to USD 9.4 billion and 2.7 times to USD 8.1 billion<sup>61</sup> respectively.

For many years, exports from the EAEU member states to the UAE were characterized by weak diversification, with precious metals and stones dominating the trade turnover. The UAE is the fourth largest buyer of these products in the world and it depends on import supplies. In turn, Russia ranks second next only to India in the list of leading suppliers of precious stones and metals to the Emirates. From 2018 to 2022, the volume of Russian exports to the UAE surged almost sevenfold to USD 7.1 billion, with this category accounting for 82.5% in the structure of supplies from the EAEU (Figure 13).

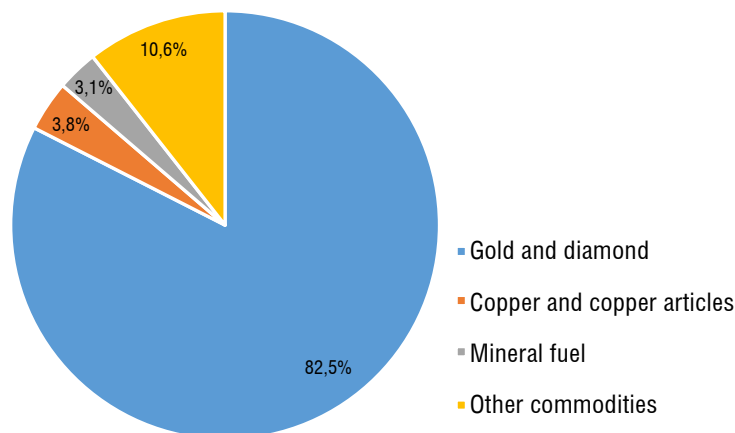
Over the past five years, Armenia has also amped up the supply of products from the Precious Stones and Metals commodity group to the UAE by 24.5 times, from USD 21 million in 2018 to USD 516 million<sup>62</sup> in 2022. In fact, gold, diamonds and silver were the only categories of Armenia's exports to the UAE in 2022. The Emirates is currently the second key destination for total Armenian exports next to Russia.

<sup>60</sup> The Ministry of Economic Development informed that the EAEU and the UAE would start an FTA in the near future // TASS. 18.04.2023. URL: <https://tass.ru/ekonomika/17548217>

<sup>61</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

<sup>62</sup> Ibid.

**Figure 13. Breakdown of EAEU exports to UAE in 2022, %**



*Source: compiled by the author using the Trade Map database.<sup>63</sup>*

Another commodity with high export potential is oil and petroleum products that are derived from bituminous rocks. Over the last five years, supplies of these products to the UAE have increased almost fivefold – from USD 63 million in 2018 to USD 299 million in 2022, with Russia’s share in the export structure amounting to 95%.<sup>64</sup>

The structure of imports from the UAE to the Union member states is significantly more diversified. It is dominated by three consolidated groups: electrical machinery and equipment (mainly cell phones and communication equipment) – 40.8% of total imports, overland transportation facilities (mainly cars) – 18.5% and banknotes – 18% (Figure 14). In 2022, all of these categories showed significant yearly growth.

The extended analysis by six-digit code of the commodity nomenclature of foreign economic activity reveals the following trade patterns between the parties. After the start of the SMO, the UAE increased the supply of smartphones to all EAEU member states. According to official statistics, Russia has become the key importer of these products, which is probably due to the reorientation of markets after an import ban on this product from a number of “unfriendly” countries. As per the results for 2022, the Russian Federation accounted for 50.5% of all equipment imported from the UAE by the EAEU member states.<sup>65</sup>

Additionally, official data on products imported to Kyrgyzstan and Armenia stand out. Thus, Kyrgyzstan has become the second largest purchaser of smartphones in the UAE, having almost doubled its supplies in monetary terms over the year – from USD 477 million in 2021 to USD 908 million in 2022.<sup>66</sup>

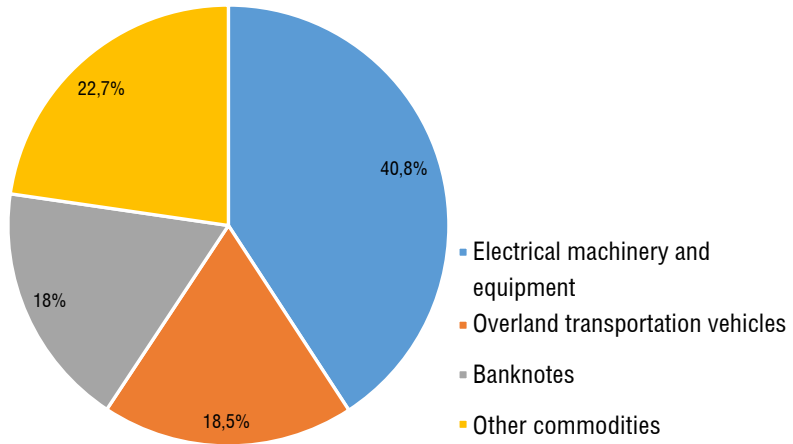
<sup>63</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

<sup>64</sup> Ibid.

<sup>65</sup> Ibid.

<sup>66</sup> Ibid.

**Figure 14. Breakdown of EAEU imports from UAE in 2022, %**



*Source: compiled by the author using the Trade Map database.<sup>67</sup>*

It can be assumed that significant volumes of smartphone shipments from the UAE to Kyrgyzstan and Armenia could be re-exported to Russia, with official statistics providing at least indirect evidence. For example, in 2022, the main item of Armenian exports to Russia was Electrical Machinery and Equipment group, most of which (46%) falls to the share of smartphone shipments to Russia. In 2022, the value of smartphone exports from Armenia to the Russian Federation practically coincided with the value of similar equipment imported by Yerevan from the UAE, amounting to USD 214 million and USD 224 million respectively.<sup>68</sup>

The supply of banknotes, which rose 24 times – from USD 61 million in 2021 to USD 1.45 billion in 2022 – is even a more compelling case for a drastic change in the structure of commodities imported by the Union’s member states from the UAE. In this case, it is also possible that parallel import channels are being established, and that the supranational jurisdiction and the EAEU common customs space (particularly Armenia) are being used for these purposes.<sup>69</sup> Two circumstances may indirectly point to this dependency.

First, Yerevan purchased a record volume of banknotes from the UAE. Armenia accounted for almost the entire volume of this product import to the EAEU in 2022, amounting to USD 1.43 billion, compared to USD 133 million for 2017-2021 in the aggregate.<sup>70</sup> That said, Armenia’s trade statistics do not contain data on the import of banknotes in such quantities.

<sup>67</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

<sup>68</sup> Ibid.

<sup>69</sup> See: Council Regulation (EU) 2022/345 of 1 March 2022 amending Regulation (EU) No 833/2014 concerning restrictive measures in view of Russia's actions destabilizing the situation in Ukraine // EUR-Lex. 02.03.2023. URL: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L\\_.2022.063.01.0001.01.ENG&toc=OJ%3AL%3A2022%3A063%3ATOC](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2022.063.01.0001.01.ENG&toc=OJ%3AL%3A2022%3A063%3ATOC)

<sup>70</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

Second, for many years Armenia has been a key exporter of banknotes to Russia, which is confirmed in the official statistics of the Russian Federation.

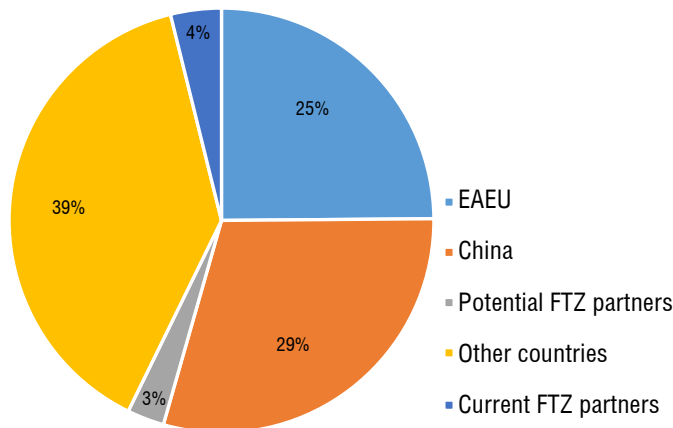
Thus, on the one hand, the current success in the trade and economic interaction between the EAEU and the UAE are largely opportunistic in nature due to a drastic change in trade patterns after the start of the SMO. On the other hand, in the longer term, the EAEU-UAE FTZ agreement can enhance the current benefits for the Union member states both due to higher direct exports to the UAE and transit functions performed by the least economically developed EAEU members: Kyrgyzstan and Armenia.

## Chapter 3. Running in Place or Going as Planned?

As was described earlier, the EAEU currently has FTZ agreements with three countries in place – Vietnam, Serbia and Iran. In the meantime, the CIS FTAs and a number of bilateral agreements are still in force, so Azerbaijan, Tajikistan, Uzbekistan, Turkmenistan, Moldova, Georgia and Ukraine<sup>71</sup> should objectively be added to the above list. In other words, the Union has a heterogeneous network of FTZ agreements. To answer the question, to what extent this network covers the EAEU's foreign trade in goods<sup>72</sup>, it is worth analyzing its state in 2022.<sup>73</sup>

Official statistics show that the share of current EAEU FTA partners is insignificant – in 2022 they accounted for 4% each in imports and exports (Figures 15, 16). According to the data as of the end of 2022, the potential expansion of the network of preferential deals at the expense of the states with which negotiations are underway or under discussion will increase this indicator by about 8 p.p. in exports and by about 3 p.p. in imports.<sup>74</sup>

Figure 15. Shares of country groups in the EAEU imports in 2022, %



Source: compiled by the author using the Trade Map database.<sup>75</sup>

<sup>71</sup> Ukraine and Russia mutually suspended their CIS FTZ agreement in 2016.

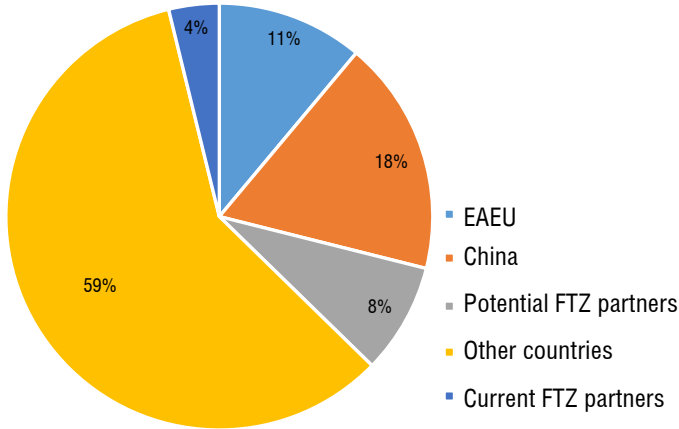
<sup>72</sup> Trading in services and investment cooperation is not considered in the given material, since the enlarged FTZ applies only to the relationship between Russia and Vietnam.

<sup>73</sup> Because international statistical databases still lack indicators on the exports and imports of Russia and Belarus for 2022, "mirror data" was used for the analysis, i.e. the EAEU import indicators were based on the data on the exports of its partners and vice versa. Meanwhile, due to the lack of data on trade between Russia and Belarus, it is impossible to have a complete picture of the volumes of mutual trade within the EAEU, therefore the EDB data on the growth of mutual trade in 2022 to USD 80.6 billion were used in the calculations for the Union.

<sup>74</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

<sup>75</sup> Ibid.

**Figure 16. Shares of country groups in EAEU exports in 2022, %**



*Source: compiled by the author using the Trade Map database.<sup>76</sup>*

Some EAEU member states, primarily Russia and Kazakhstan, export mineral resources, which are often not subject to duties. If to exclude these commodities from the analysis, the share of current FTA partners in the Union's exports would rise to 7%, would not change for potential partners, and would remain at the same level for imports. However, even in this case there would lack significant coverage of the Eurasian Five's foreign trade by FTZ agreements.

Thus, the current network of EAEU FTAs is not an instrument that determines the association's foreign trade policy. At the same time, the role of China is worth mentioning – its share in exports exceeds that of the current and potential FTA partners by 1.5 times (Figure 16), while its imports are 4 times higher (Figure 15).

On the one hand, concluding the first FTAs with non-core partners, i.e. agreements covering a small portion of foreign trade, is a common practice. This is necessary to test the negotiation model and to shape the negotiating position of the participants. Even in case of significant miscalculations, the scale of costs will be insignificant. In the meantime, many current and potential EAEU partners in FTZ agreements are dynamically developing economies, which in the future may lead to the expansion of their markets. However, it should be kept in mind that many of them have also signed FTAs with other major players. For example, Vietnam is a member of more elaborate FTZ agreements with the EU and South Korea, so European and Korean companies are better positioned to benefit from the expansion of the Vietnamese market than Eurasian companies.

On the other hand, during the eight years of the EAEU operation, there has still been no qualitative development of FTAs as an instrument of the association's foreign trade policy. First of all, the Union has not signed a single new FTZ agreement since 2019, which indicates certain slippage in the use of this mechanism.

<sup>76</sup> Trade Map. Trade statistics for international business development. Monthly, quarterly and yearly trade data. Import and export values, volumes, growth rates, market shares, etc. // ITC. URL: <https://www.trademap.org>

One of the main signs of stalling is the reluctance of most EAEU member states to negotiate trade in services. Meanwhile, the sector of services is growing faster and occupies an increasingly significant place in the cross-border trade of developed and developing nations. Thus, the OECD statistical databases show that in the exports of developed countries, such as Germany, the USA and the UK, services account for 51%, 62% and 71% of value added respectively, while in the world's largest developing country, namely the PRC, this indicator is about 38%.<sup>77</sup> Thus, the conservative position on preferential treatment in respect of trade in services not only hinders the EAEU's integration into the global economy, but also incurs alternative costs for economic growth and development.

According to the evidence above, it becomes clear that the current FTZ network of the EAEU is not advanced either in terms of foreign trade coverage or the validity of existing agreements. In this regard, several options for the further development of the Union's foreign trade activities can be envisioned.

First, the EAEU may aim to move to a more advanced trade and economic agreement with leading partners such as China, for example. This move would open up an access for Eurasian goods to one of the world's largest markets and facilitate the integration of the most competitive Eurasian players into global production chains. At the same time, a full-fledged opening of the association's market to China could be a painful and, in some cases, insurmountable shock for national economies, regardless of how long the transition period may last. For this reason, concluding a full-fledged EAEU-China FTZ agreement seems to be an unrealistic scenario, which is likely to encounter low interest on the part of China and opposition from most EAEU member states.

A way out of this situation could be the signing of a temporary or interim agreement similar to the current deal with Iran. Yet this FTZ format implies the possibility of a rapid withdrawal of preferences, if one of the parties is not ready to move to a full-scale agreement. For this reason, the chances for an interim consensus between the PRC and the EAEU as well as negotiations on a preferential agreement in any of the above-stated variations in the years to come are close to zero.

Second, the EAEU member states could switch to a strategy of deepening the existing FTAs. Liberalization of trade in services enhances the positive effect of liberalization of trade in goods, while deeper agreements boost intensive and extensive growth of trade between the parties, ensuring their involvement in global production chains through the buildup of trade in intermediate goods.

For further development of integration, an optimal step in this direction would be the transfer of competences to the EEC to negotiate liberalization of trade in services and investment cooperation. This would allow to overcome or at least weaken the position of the participating nations making a case for the undesirability of such agreements. This initiative fully meets Russia's tactical and strategic interests. Instrumentally, the key objective of this step is preserving the inflow of foreign direct investment as well as the opportunity to increase

<sup>77</sup> OECD-WTO: Statistics on Trade in Value Added // OECD i-library. 20.11.2023.  
URL: [https://stats.oecd.org/BrandedView.aspx?oeecd\\_bv\\_id=tiva-data-en&doi=data-00648-en](https://stats.oecd.org/BrandedView.aspx?oeecd_bv_id=tiva-data-en&doi=data-00648-en)

Russian imports of critical technologies and services. Currently, the conclusion of FTAs between Russia and a number of friendly countries on investments and services outside the EAEU framework is complicated by the fears of secondary sanctions. Potential partners more scrupulously study the possibility of entering into trade negotiations with the Russian Federation, taking into account anti-Russian restrictions and figuring out the risks involved more carefully.

At the same time, the issues of expanding the powers of the Union's supranational bodies have always caused fierce disputes among the EAEU member states due to their unwillingness to partially limit their national sovereignty and, as a result, their desire to retain a monopoly on decision-making in certain areas. The geopolitical crisis of 2022 in Europe and further politicization of internal processes in the EAEU leads to the actual impossibility of implementing this measure or even discussing it. In all likelihood, negotiations on this issue will be blocked at least for several years. In this regard, the most relevant area of activity is holding coordinated bilateral negotiations on trade in services and investment cooperation with existing partners and countries which already discuss the liberalization of trade in goods without rigid bureaucratic obligations and restrictions.

The third potential area could be the conclusion by EAEU member states of single bilateral agreements with external actors in areas outside the EEC mandate. This process was kick-started relatively a long time ago: back in 2017 Armenia and the EU concluded the Comprehensive and Enhanced Partnership Agreement.<sup>78</sup> This document covers, inter alia, trade in services and investment cooperation. Another example is the 2018 statement on the feasibility study of the Eurasian Economic Partnership Agreement between China and the Russian Federation, as well as a pre-pandemic Russian initiative to liberalize trade in services and investment with the Republic of Korea.

In the short term, given the lack of progress in expanding the existing network of FTAs and the aggravation of geopolitical tensions, this measure may seem an adequate solution, as it will contribute to strengthening the integration of the EAEU member states into the global economy. Yet in the long term it will become an obstacle to strengthening integration within the association. The conclusion of numerous bilateral agreements outside the competence of the EEC will not only lead to disparate preferential regimes in the sphere of services and investments, but will also complicate the possibility of their unification for the transfer of competences to the Commission.

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<sup>78</sup> This document came into force in 2021.



## **Conclusion**

In general, during the first eight years of its existence, the EAEU's high activity in foreign trade as well as high volumes and quantity have not yet been converted into quality. The clear evidence is the limited progress in stepping up the trade turnover and, in particular, exports from the EAEU member states, the inability to use the FTA instrument to integrate the partners into Eurasian value chains, or to create joint production facilities and attract major investments.

A common challenge in cooperation with current and future FTA partners is also the lack of real progress in the transition to national currencies in mutual settlements. The issues of dedollarization are not part of the negotiation process for an FTA within the EAEU, but given the mounting sanctions pressure on its participants and geopolitical trends in general, providing alternative payment channels and, more broadly, stable financial mechanisms is a necessary measure to complement the Union's free-trade agenda. Cooperation in this area claims a central place in the Union's foreign trade agenda at the present stage.

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## Notes

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