

Monthly Report

‘Integration of Integrations’: Is there a Way Forward?

Trade Effects of Eurasian Economic Integration to Date

**Regional Trade Integration in Central Asia: Current Status,
Challenges and Prospects**



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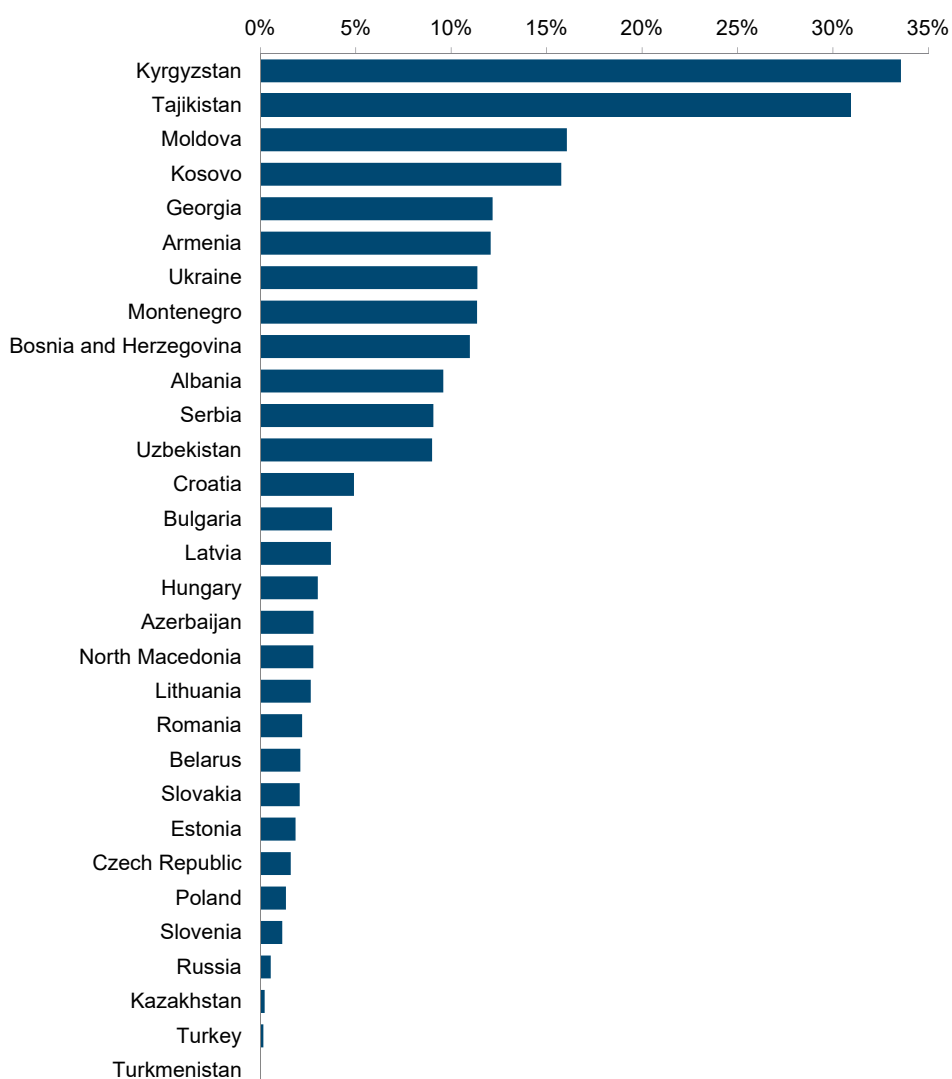
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Chart of the month: Remittances in CESEE countries

BY VASILY ASTROV

Remittances in CESEE countries, as % of GDP in 2018



Source: World Bank, Migration and Development Brief No. 31, April 2019, <https://www.knomad.org/publication/migration-and-development-brief-31>.

Within the Central, East and Southeast Europe (CESEE) region, post-Soviet countries tend to rely particularly heavily on remittance inflows. As the above chart shows, out of the ten CESEE countries with the highest inflows of remittances as a share of GDP, seven are successor states of the former

Soviet Union. However, for many other parts of CESEE, especially the wealthier EU-CEE countries, the former Soviet oil exporters, and Turkey, remittances inflows are much less important.

The main sources of remittances for the CESEE region are Poland, Russia, Spain, and the United States (World Bank, 2019). For countries such as Kyrgyzstan and Armenia, Russia remains by far the most important source of remittances, and free access to the Russian labour market has been a decisive factor in their membership in the Eurasian Economic Union (EAEU), which is dealt with in the present report. The same holds true for Tajikistan, which has also been negotiating EAEU membership, as well as Uzbekistan.

At the same time, the EU has become an increasingly important source of remittances for the post-Soviet countries that have signed Deep and Comprehensive Free Trade Agreements (DCFTA) with the EU: Georgia, Moldova, and Ukraine. Although their citizens do not have automatic access to the EU labour market, the latter has been de facto facilitated by the abolition of the visa requirement over the past few years – as well as by targeted recruitment campaigns, notably in EU-CEE countries. This particularly applies to Ukraine: according to the new (and improved) methodology, with an inflow of USD 14 billion (+19% year on year), the country was the biggest recipient of remittances in the CESEE region in absolute terms last year.

Opinion Corner* : ‘Integration of integrations’: Is there a way forward?

BY VASILY ASTROV

Technically and given the political will, economic integration between the EU and the Russia-led Eurasian Economic Union (EAEU) should not be overly difficult to implement, and there are good reasons to believe that it could be beneficial not only for EAEU countries but also to some extent for the EU. However, realistically this may require a change in the current political elites either in Russia or in the EU (or both).

‘Integration of integrations’, a term coined for a potential free trade arrangement (and possibly even closer integration) between the EU and the Russia-led Eurasian Economic Union (EAEU), may sound like sheer phantasy in the current geopolitical climate. It has now been five years since the eruption of the conflict in Ukraine, the Russian annexation of Crimea, and the mutual imposition of economic sanctions by Russia and the West. Indeed, the dialogue between the EU and Russia is frozen not only at the highest political level. Even expert-level discussions are largely put on hold, and biased reporting on each other in the media is pretty much commonplace on both sides. Similarly, the EU does not officially recognise the EAEU, and contacts between the European Commission and the Eurasian Economic Commission (EAEC) are reduced to technical consultations at the expert level.

In the past, proposals for closer trade integration between Russia and the EU have been put forward on a number of occasions. For instance, the Russia-EU Partnership and Cooperation Agreement signed in 1994 envisaged a mutual free trade regime in the long run, after Russia has joined the WTO. Free trade was also supposed to become a key element of the Russia-EU ‘Four Common Spaces’ proposed in the early 2000s, under the then President of the European Commission Romano Prodi. In subsequent years, Russia on several occasions proposed various forms of economic integration with the EU, including a ‘Common Economic Space from Lisbon to Vladivostok’, a ‘Strategic Partnership’, and a mutual visa-free regime.

COULD THE EU AND EAEU BE COMBINED?

Despite all these efforts and Russia’s eventual accession to the WTO in 2012, trade integration between Russia and the EU has barely advanced in practical terms, and effectively reversed with the imposition of mutual economic sanctions after 2014. Meanwhile, Russia has launched its own integration project: the EAEU, which formally came into existence in 2015 and also includes Armenia, Belarus, Kazakhstan and Kyrgyzstan. It is modelled on the example of the EU, envisaging the establishment of ‘four freedoms’: free movement of goods, services, capital, and labour. This means that any future integration efforts between Russia and the EU would necessarily require negotiations with the EAEU as a whole,

* Disclaimer: The views expressed in the Opinion Corner section of the Monthly Report are exclusively those of the authors and do not necessarily represent the official view of wiiw.

which may complicate matters further. As of now, Russia and Belarus are the only countries on the European continent which do not have a free trade agreement with the EU in one way or another.

At the same time, there are good reasons to believe that such an 'integration of integrations' could be economically beneficial for both sides, although this obviously depends on the concrete terms of such an arrangement.¹ Indeed, various studies suggest that a mere abolition of trade barriers would not necessarily be particularly advantageous for Russia, and could simply reinforce its current specialisation on energy, which is hardly conducive to long-term development prospects (Francois and Manchin, 2009). The most benefits for Russia, but arguably also Belarus and Kazakhstan (let alone the less developed Armenia and Kyrgyzstan), could emanate from a 'deep' and 'comprehensive' integration with the EU. This would go beyond mere trade liberalisation, and include policy harmonisation in a number of areas, facilitating investment flows into the EAEU countries (Felbermayr et al., 2016; Pelipas et al., 2014; Jarocinska et al., 2010).

The EU would likely benefit as well: by gaining better access to the vast market of the EAEU and potentially from solid profits on investments in these countries. However, benefits accrued to the EU would likely be smaller than those to the EAEU, given the much bigger size of the EU economy and the fact that EAEU countries are not very important trading partners for the EU to start with.

Probably most importantly, the 'integration of integrations' could have important political repercussions. For the countries in-between, such as Ukraine and Moldova, it would remove the painful dilemma with respect to their vector of integration (pro-European versus pro-Russian), and would contribute to the badly needed internal cohesion in these countries, which could improve security on the EU borders.

Technically and given the political will, the 'integration of integrations' should not be overly difficult to implement, since many EU norms and regulations have been already unilaterally taken over by the EAEU in its own integration architecture (Emerson and Kofner, 2018). Also, the example of Armenia demonstrates that a country can combine membership in the EAEU and have an agreement with the EU (the Comprehensive and Enhanced Partnership Agreement, or CEPA). On the EU side, the most frequently mentioned technical obstacle is the fact that Belarus is not a member of the WTO: the EU cannot have free trade negotiations with countries which are outside the WTO. Still, it is difficult to imagine that even if Belarus joined the WTO tomorrow, the EU's appetite towards economic integration with the EAEU would become vastly greater than now.

ALL ABOUT POLITICS

The main reasons behind the EU's reluctance to economically integrate with Russia and the EAEU in general are geopolitical. The strained bilateral Russia-EU relations apart, one issue is related to the EAEU itself, as it is often seen by the EU as a Russian-dominated attempt to recreate the Soviet Union (this time without the communist ideology, though). It is true that Russia's motives behind the EAEU project are primarily non-economic: for Russia, Eurasian integration is above all a geopolitical prestige project in the neighbourhood. This does not mean, however, that economic calculations do not play a

¹ Modalities and challenges related to such integration have been investigated in detail, for instance, by an international research team at the Austria-based International Institute for Applied Systems Analysis (IIASA): <http://www.iiasa.ac.at/web/home/research/eurasian/Reports.html>

role for other EAEU members (cheap energy for Belarus, access to the Russian labour market for Kyrgyzstan and Armenia, etc.).

It is obvious that an 'integration of integrations' between the EU and the EAEU – or even minimum steps towards increased cooperation, starting with the abolition of mutual economic sanctions, for that matter – will be impossible without the restoration of mutual trust among the political elites in, above all, the EU and Russia. In this respect, the post-World War II experience of France and Germany, whose elites found a way to overcome the legacy of past hostilities and initiated an ultimately successful European integration project, could serve as a relevant benchmark.

Realistically, this may require a change in the current political elites either in Russia or in the EU (or both). So far, the approach on both sides has been to wait-and-see, in the hope that the opposite side blinks first. Currently, it seems that it is the EU which may blink first: while the Russian political regime still looks reasonably solid, there are certain cracks appearing in the EU political establishment, with non-mainstream forces (often dubbed as 'populist') coming to power in a number of EU countries. The cases in point are Hungary, Austria and Italy. These forces often do not share the deep suspicions of Russia which are rather deeply rooted in the political mainstream, and argue for increased cooperation with this country, not least on economic grounds.

WAITING FOR FRANCE AND GERMANY

So far, the success of non-mainstream political forces in Europe has been confined to a small number of relatively unimportant (from the point of view of EU foreign policy) countries; this even applies to a country as big as Italy. Most likely, it will require a political change in a country like Germany or France to make a real difference in the EU approach towards Russia. Nor have political changes so far always resulted in a more cooperative approach towards Russia. In Poland, for instance, the new PiS government is even more critical of Russia than the former liberal government of Donald Tusk.

My cautious approval of a more cooperative approach in relations with Russia, which has been taken by the non-mainstream political forces in a number of European countries, should not be interpreted as across-the-board justification of *all* their policies – especially not when it comes to the dismantling of democratic institutions in a number of cases. My point is rather that it is high time for the mainstream political elites in the EU to realise that their previous policy of alignment with the US strategy on Russia – to isolate (in the hope to trigger a regime change) rather than to cooperate and integrate – has essentially failed, suggesting a need for a new strategy.² Whether this understanding will come any time soon remains to be seen. The upcoming departure from the EU of the United Kingdom, one of the most hawkish countries on Russia, the growing marginalisation of Poland (another Russia critic) within the EU, as well as the growing alienation between the EU and the United States under President Trump are factors which may effectively push the EU closer to Russia.

² This does not mean, of course, that EU criticisms of Russia have been entirely groundless, e.g. when it comes to the state of democracy and human rights in Russia or the annexation of Crimea. However, these criticisms were often exaggerated and used as a pretext to isolate Russia. The political system in Russia – while far from being a prime example of democracy – is not a dictatorship either, and the alleged fundamental differences between the cases of Crimea and, say, Kosovo are not straightforward.

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Trade effects of Eurasian economic integration to date

BY AMAT ADAROV

Eurasian economic integration was initiated in 2010 with the establishment of the Eurasian Customs Union, and its successor, the Eurasian Economic Union, was formed in 2015. However, there is still little awareness about the economic content of the Eurasian bloc, rather often seen as a 'paper tiger' and a geopolitical project led by Russia. Likewise, empirical analysis of its actual impacts to date is lacking. The article reviews key developments to date and trade-related effects associated with the Eurasian integration. The economic outcomes are mixed, with Belarus being a major beneficiary, Russia generally gaining and mixed performance for Kazakhstan. The positive effects of integration on mutual trade, while initially notable, diminished significantly towards the year 2015.

KEY REGULATORY ASPECTS OF EURASIAN INTEGRATION

The Eurasian Customs Union (EACU), formed in 2010 by Belarus, Kazakhstan and Russia, was the first arrangement in the post-Soviet space that took integration a step further from the simple free trade or preferential trade agreements established between the former Soviet states after the collapse of the USSR. Just two years later, in 2012, the customs union was upgraded to the Eurasian Customs Union – Single Economic Space (EACU-SES) with the objective to facilitate free movement of goods, services, capital and labour for the member states in addition to the customs union framework. Finally, in 2015 it was further transformed to the Eurasian Economic Union (EAEU), and expanded geographically as Armenia and Kyrgyzstan joined the bloc.

The stated ultimate objective of the union is 'to comprehensively upgrade, raise the competitiveness of and cooperation between the national economies, and to promote stable development in order to raise the living standards of the nations of the member states', as stated on the EAEU's official web portal¹. In order to achieve the objective, the regulatory framework outlines the following key pillars constituting its economic integration underpinnings:

- › Customs union arrangement, including the following regulations:
 - shared customs territory with a common external tariff (EACU CET) levied upon imports from non-EAEU trading partners;
 - harmonisation of non-tariff measures and procedures;
 - unified commodity classification and a customs code.

- › 'Four freedoms': free movement of goods, services, labour and capital across the EAEU member states.

¹ <http://www.eaeunion.org/>

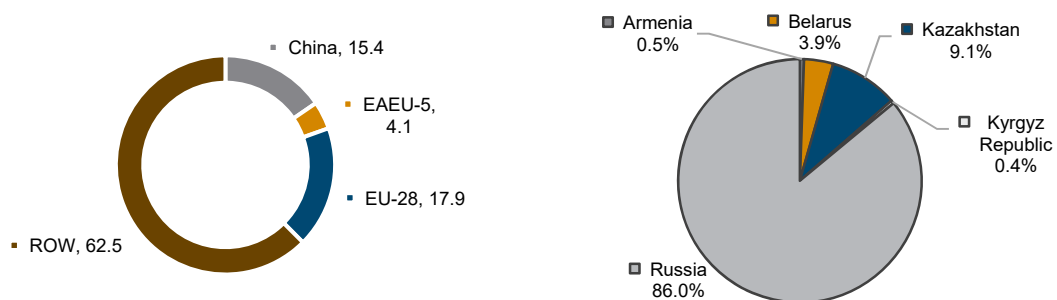
- › Coordination of selected economic policies, including macroeconomic policy, financial markets, taxes, competition and natural monopolies, energy, transport, public procurement, labour migration and other areas.

Elements of the customs union arrangement have been gradually implemented since the inception of the EACU in 2010. The deeper forms of integration related to the ‘four freedoms’ and economic policy coordination have been pursued since 2012, and de facto are still in progress with a number of impediments and exclusions still remaining even with regard to mutual trade in goods. In addition, in order to facilitate and monitor the integration process, in 2012 a system of supranational institutions was established, including the Moscow-based Eurasian Economic Commission, an EAEU version of the European Commission with similar structure and responsibilities organised across multiple departments. In particular, the commission acquired a range of regulatory competencies delegated from the national level in the areas of foreign trade and customs controls, sanitary and phytosanitary regulations, and technical standards.

MARKET SIZE ASYMMETRIES AND THE NATURAL RESOURCE CURSE

The EAEU accounts for about 4% of the world GDP (in PPP-adjusted terms). In comparison with peer regional integration endeavours (the EU or China’s Belt and Road Initiative), however, it represents a much smaller market. At the same time, most of the bloc’s economy is accounted for by Russia (over 80% of aggregate GDP), while other member states are much smaller in size. The new members, Armenia and Kyrgyzstan, jointly comprise less than 1% of the bloc’s aggregate GDP (see Figure 1). This has two important consequences for the bloc. First, it implies that the smaller members of the bloc stand to gain from improved access to the Russian market, and Eurasian integration may facilitate export-led growth and convergence to higher real income levels² (see also Adarov, 2015). Second, the economic size asymmetries imply that the developments in the EAEU are strongly influenced by the macroeconomic conditions in Russia. In this regard, in light of the macroeconomic issues faced by Russia in the recent years, and, in particular, challenges related to lower oil prices, the proliferation of sanctions and lack of growth-inducing structural reforms, the economic future of the EAEU is also clouded.

Figure 1 / GDP size and composition of the EAEU



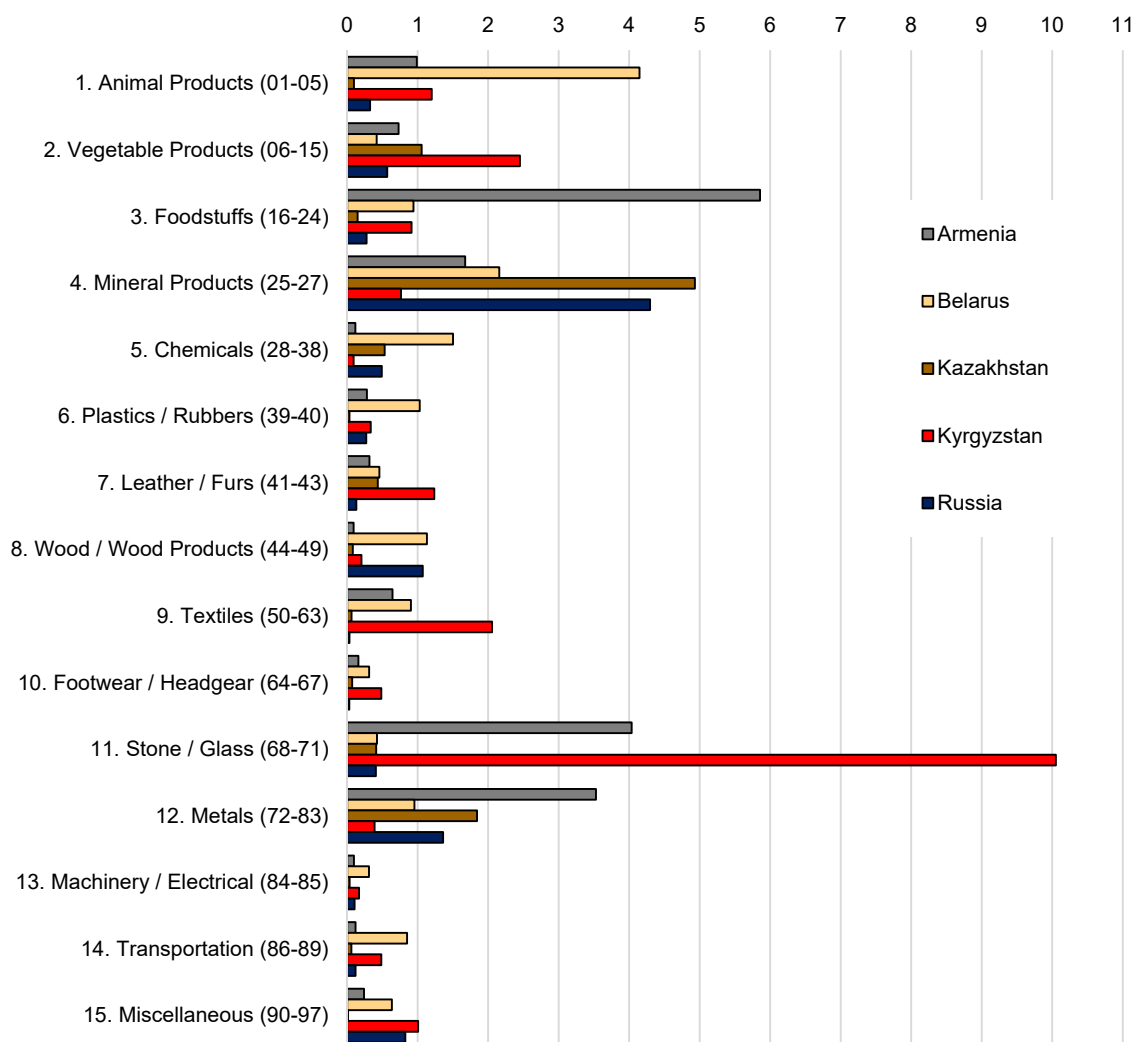
Note: The left panel shows the share of the EAEU in the world GDP (PPP-adjusted), 2008-2017 average; the right panel shows the GDP shares at PPP within the EAEU, 2008-2017 average.

Source: Own calculations based on IMF WEO.

² Armenia and Kyrgyzstan lag behind other EAEU members in terms of real per capita incomes.

These issues are further aggravated by the generally low competitiveness of the private sector in the EAEU countries in the global context. As one can see from Figure 2, the sectoral competitiveness of the member states is concentrated largely in the low value-added sectors: metals, petroleum and agri-food. By contrast, high value-added sectors are mostly not competitive globally, although some account for an important share in mutual trade (particularly, exports of machinery and transportation from Belarus and Kazakhstan to Russia). Escaping the natural resource curse by diversifying and modernising national economies proved to be difficult in the past, and it is not surprising that the sharp collapse of the global oil prices in 2014 took its toll on the economies of the founding members of the bloc, Belarus, Kazakhstan and Russia, all highly dependent on the petroleum sector.

Figure 2 / Sectoral competitiveness of the EAEU countries



Note: The RCA index, based on Balassa (1986), measures comparative advantage of country *c* in industry *i* in year *t*, and is constructed as follows: $RCA_i = \frac{x(i)_c / X_c}{x(i)_w / X_w}$, where *x*(*i*) is the value of exports of industry *i*, *X* is the total value of exports from country *c* or from the world (*W*). A country reveals a comparative advantage in a particular industry *i* if its RCA index in that industry is greater than unity, i.e. the export share of a country in industry is higher than the world average export share for that industry. Based on 2007-2016 average trade, adjusted for intra-bloc trade. HS 2-digit level codes are shown in parentheses.

TARIFF AND NON-TARIFF BARRIERS TO TRADE

As regards the trade-related aspects of the Eurasian bloc, constituting its most important economic dimension, both tariff and non-tariff regulations have been enforced at the supranational level since the year 2010, with the successors of the EACU inheriting and upgrading the common framework. Under the customs union arrangement the member states share a common customs territory with a common external import tariff (EACU CET) applied to non-bloc trading partners (see a simplified EACU CET sectoral structure in Figure 3). The EACU CET was largely based on the structure of the Russian import duties prior to 2010, and has been evolving since then in line with Russia's WTO commitments (Russia joined the WTO in August 2012). However, a range of temporary exclusions was negotiated by other member states for certain 'sensitive' industries and to accommodate their individual WTO commitments: all EAEU countries with the exception of Belarus are WTO members, each bearing quite different obligations, which has been one of the sources of internal disarray in achieving harmonised regulations.

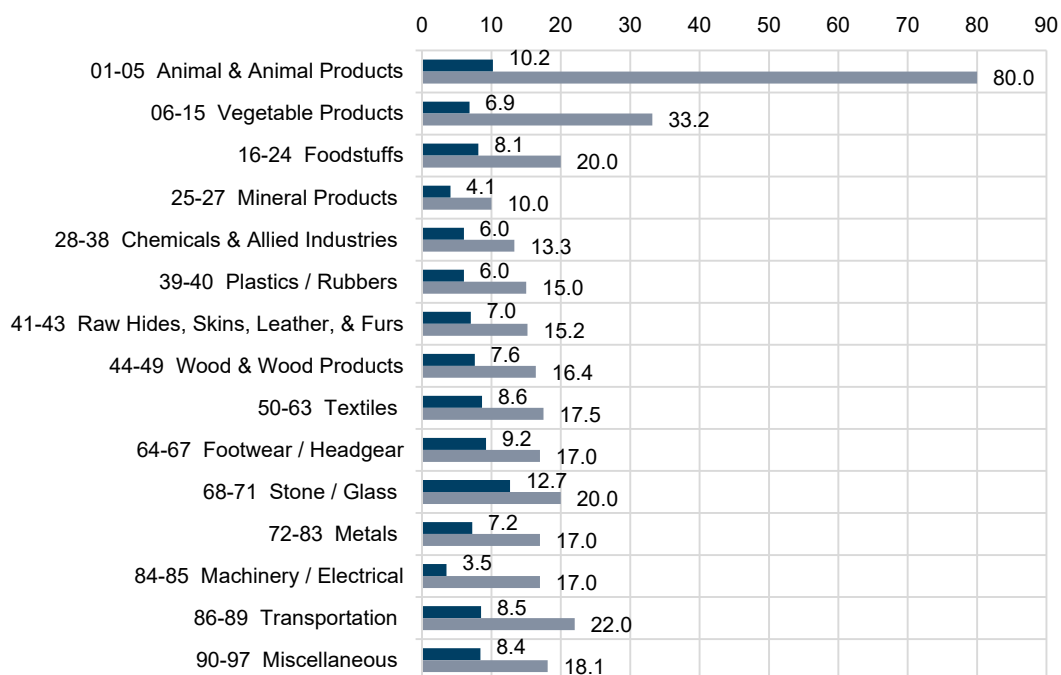
Upon the introduction of the EACU in 2010, the implementation of the common tariff affected the import tariff schedules of the member states rather asymmetrically (see Figure 4). In particular, 82% of tariff lines remained unchanged in the case of Russia (about 14% were adjusted downwards, 4% upwards). Similarly, Belarus retained over 70% of its tariff lines unchanged, while the rest were adjusted mostly downwards. By contrast, Kazakhstan, characterised by a more liberal trade regime, had to increase tariff rates for about 45% of its product lines (45% retained and 10% adjusted downwards), overall notably increasing its average import tariff level and causing trade diversion. It should be noted also that prior to the EACU, its member states enjoyed a free trade arrangement and therefore one should not expect much improvement in mutual trade due to the tariff effect per se (aside from the trade diversion effects). With the reduction of the EACU CET on account of the WTO obligations, its relative importance for extra-EAEU trade has also been diminishing over time (although for some product lines tariff protection is high – see Figure 3).

As for non-tariff barriers to trade, the EAEU develops and enforces its own new harmonised technical standards for industrial production and sanitary and phytosanitary (SPS) measures for agriculture and food production, replacing older national equivalents largely based on GOST standards. The process however proved to be lengthy and difficult, especially for the less developed EAEU member states, Kyrgyzstan and Armenia, generally lacking funding to establish the necessary infrastructure. This means that, while harmonisation and upgrading of technical standards should boost mutual trade for most sectors, the short-run impact on some less efficient producers in less advanced member countries might be negative as a result of significant public and private sector costs and challenges of their implementation.

Exporters to the EAEU also have to ensure their products meet the necessary criteria to obtain the Eurasian Conformity Mark (EAC), which signifies compliance with the bloc's standards. Unlike the older GOST-based standards, the new Eurasian standards are largely consistent with international standards (many are in fact modelled after international standards) and thus potentially may also boost trade with non-bloc members.

A new EAEU Customs Code entered into force in January 2018 replacing the customs code of the 2010 EACU, now offering greater efficiency in the transit of goods, in particular, via electronic customs declarations, shorter clearance time for customs procedures and simplified declaration forms.

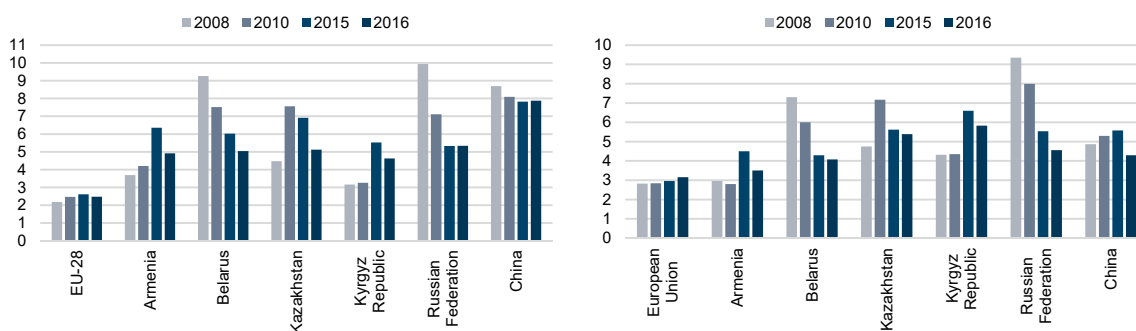
Figure 3 / Common external tariff of the Eurasian Economic Union, %



Note: The figure shows average and maximum most favoured nation import tariff rates by aggregate sectors (HS2-digit codes are listed next to sector names).

Source: Own calculations based on the WTO data for Russia, 2015.

Figure 4 / The dynamics of import tariff rates of the EAEU countries, 2008-2016



Note: The left panel shows the simple average of the most favoured nation rates across sectors (%), the right panel shows the trade-weighted applied import tariff rates (%).

Source: World Bank's World Development Indicators.

As import tariffs between the EACU members were already removed prior to the implementation of the customs union due to mutual free trade arrangements, elimination of internal customs borders and harmonisation of technical and SPS standards were the key factors potentially boosting mutual trade. Nevertheless, even by official account of the Eurasian Economic Commission, as of 2017, there were still 40-48 regulatory barriers to mutual trade in each of the five member states, both due to negotiated exclusions or as a result of lack of harmonisation. The actual implementation of the free flow of goods is frequently inhibited by political disputes over such issues as natural gas pricing, 'dairy wars' and the

'solvents scandal' between Belarus and Russia.³ There have also been accusations of imports of embargoed European products to Russia, and disputes between Kazakhstan and Kyrgyzstan over the quality of dairy and other agri-food sector goods exported by Kyrgyzstan.

EFFECTS OF EURASIAN ECONOMIC INTEGRATION TO DATE

So far the literature on Eurasian economic integration has been rather thin and, in particular, no empirical analysis has been done on its actual effects. Quantification of the impacts is complicated by the fact that Eurasian integration has coincided with business cycle effects – the impact of the late-2000s Great Recession and the crisis triggered by the collapse of the oil prices at the end of 2014. In a recent paper (Adarov, 2018) the effects of Eurasian economic integration were quantified using rigorous econometric methods – the gravity model of trade and synthetic counterfactual methods – to control for these effects, as well as other factors that influence foreign trade, based on a global sample of countries over the period 2000-2015.

The analysis shows that the overall net impact of Eurasian integration varies substantially across the member states, sectors and over time. The early stages of Eurasian integration following the establishment of the EACU (2010) and the EACU-SES (2012) were associated with generally positive average trade creation effects on the member states: the countries de facto traded much higher relative to the levels predicted by macroeconomic fundamentals and relative to the hypothetical no-integration scenario. Figure 5 shows the actual and the counterfactual trade dynamics for the founding members⁴, indicating a notable boost in trade following the implementation of the EACU for all countries with the exception of trade between Russia and Kazakhstan (no statistically significant additional trade is robustly identified over the post-2010 period, while mutual exports in 2010 dropped below the counterfactual). However, in all cases the positive effects largely dissipate towards the year 2015.

Evidence from the sectoral analysis also suggests that, consistent with the aggregate-level results, the impact on exports is overwhelmingly positive for Belarus, generally positive for Russia and mixed for Kazakhstan. Some sectors benefited from integration, while others were affected insignificantly or even negatively. More specifically, most gains, as expected, were related to the exports of commodities (mineral products and metals) and the agri-food sector. However, the machinery and transportation sector also experienced a temporary boost in mutual trade within the bloc, which is particularly noteworthy given the generally low competitiveness of advanced high value-added sectors of the EAEU countries.

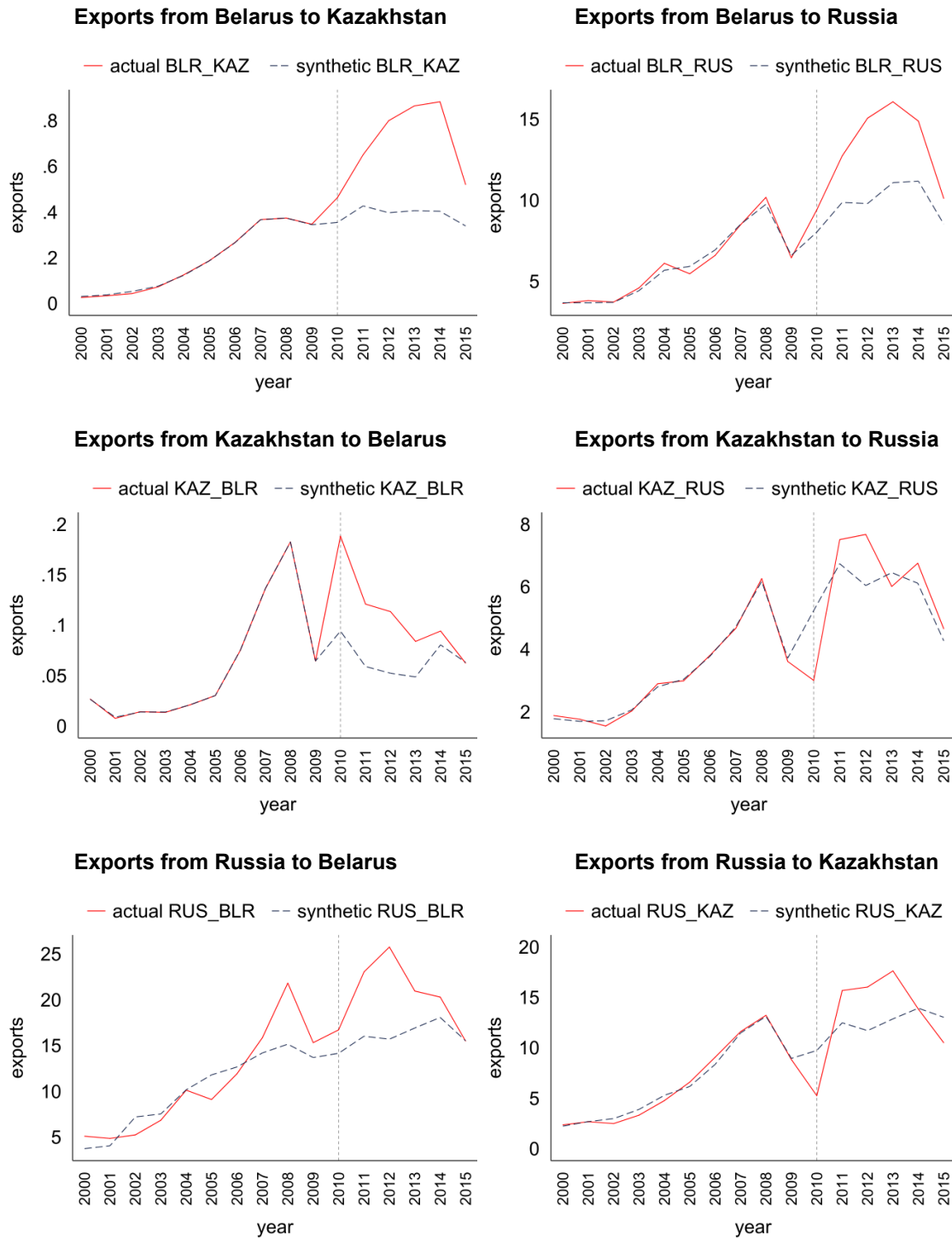
As regards implications for imports from countries outside the bloc, estimation results point to trade diversion effects at least for some of the top trading partners, particularly in the case of Kazakhstan, consistent with the general expectations for trade-diverting customs unions. Trade diversion intensified notably in the 2014-2015 period. At the same time, imports from some non-bloc countries and sectors exhibit, on the contrary, a positive impact induced by Eurasian integration. This could be attributed to the effect of gradual import tariff liberalisation due to the WTO commitments of the EAEU member states, as

³ Belarus exported oil products to the EU disguised as solvents (not classified as oil products under the EACU regulations) to avoid paying export duties to Russia.

⁴ The synthetic control analysis could not be robustly conducted for Armenia and Kyrgyzstan due to the insufficient period elapsed since their membership in the Eurasian bloc.

well as the phasing-in of the upgraded EAEU technical and SPS standards, mostly consistent with international standards.

Figure 5 / Impact of Eurasian integration on trade between Belarus, Kazakhstan and Russia



Note: The figure shows actual and synthetic counterfactual exports in billion USD for a given exporter-importer pair. The vertical line denotes the year of the EAEU implementation.
Source: Own estimates.

CONCLUSIONS

Thus, in summary, the Eurasian bloc has gradually transformed the patterns and composition of foreign trade of its members, both in terms of mutual trade and trade with third countries. Notably, positive impacts were identified not only in commodity trade, but also in advanced sectors, signifying that the arrangement is not an entirely inept geopolitical arrangement as often described in the literature. However, it appears to be a rather slow catalyst of structural changes in the economies of its member states. The initially observed progress as reflected in mutual trade proved to be feeble and unable to withstand the macroeconomic and geopolitical challenges that escalated from 2014. This highlights the importance of further strengthening the role and capacities of its supranational institutions to tackle remaining barriers to trade and, more generally, facilitate the 'four freedoms' requiring a more comprehensive and deep approach to integration and regulatory convergence. This, in turn, may provide at least some impulse to further structural reforms needed to address existing institutional and infrastructural bottlenecks – the issues all EAEU members share – to ensure continued and effective progress in integration, despite the macroeconomic challenges and political tensions its individual members may face currently and in the future.

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Regional trade integration in Central Asia: Current status, challenges and prospects

BY ALEXANDRA BYKOVA AND OLGA PINDYUK

Trade integration in Central Asia remains rather low, only Kyrgyzstan is relatively well integrated with the region. The reasons behind this are (i) a low degree of complementarity and export specialisation in natural resources; (ii) deficient transport networks; (iii) low quality of institutions and diverging trade policies; and (iv) political conflicts regarding border delimitations and resources management. However, the situation seems to have changed recently and interaction among the regional states has intensified considerably.

As the prospect of continental trade linking Europe and Asia across the region is rapidly becoming reality, Central Asia¹ could become a potential transit hub for the expanding trade flows. However, in order to realise these capabilities, Central Asian states need harmonisation of their trade and customs policies which can be achieved through economic cooperation and trade integration. Minimising barriers to trade in the region could turn it into a single market of more than 70 million people, thus increasing its attractiveness to market-seeking foreign investors.

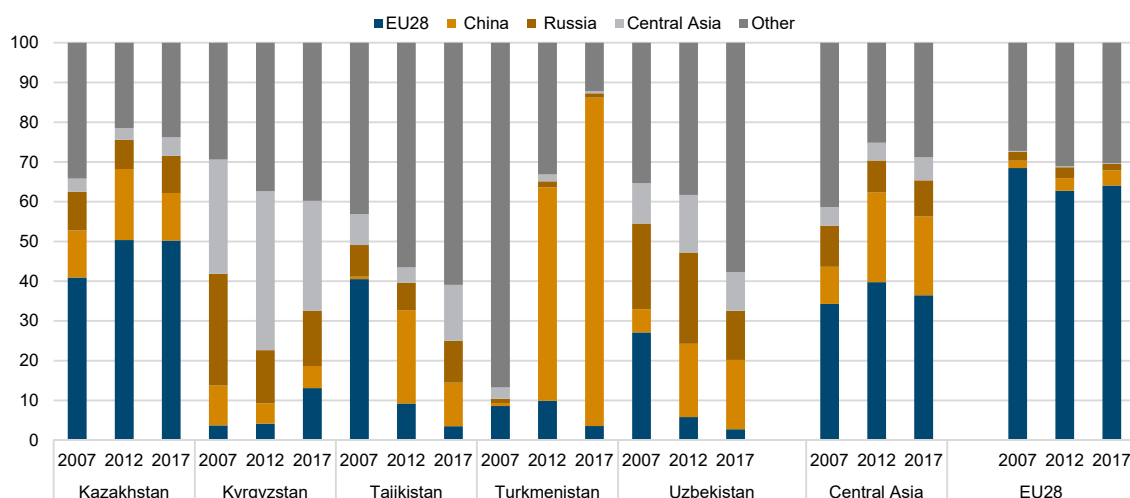
LOW LEVEL OF INTRA-REGIONAL TRADE INTEGRATION

At the moment trade integration of the region measured as a share of intra-regional trade in total foreign trade remains relatively low (see Figure 1). In 2017, the share of intra-regional exports in total exports was 5.8% – only 1.1 p.p. higher than in 2007. Low trade connectivity of the region is particularly striking when compared with the EU28, where intra-regional trade accounted for 64.1% in 2017. Thus, there appears to be big potential for trade integration in Central Asia.

It is worth noting that the region is not homogeneous in this respect – Kyrgyzstan appears to be much more strongly integrated into the regional trade networks than other countries, with intra-regional exports accounting for 27.7% of total exports in 2017. Turkmenistan and Kazakhstan have the lowest shares of intra-regional exports. Tajikistan stands out as the only country that managed to increase the share of intra-regional exports (from 7.8% in 2007 to 14.1% in 2018).

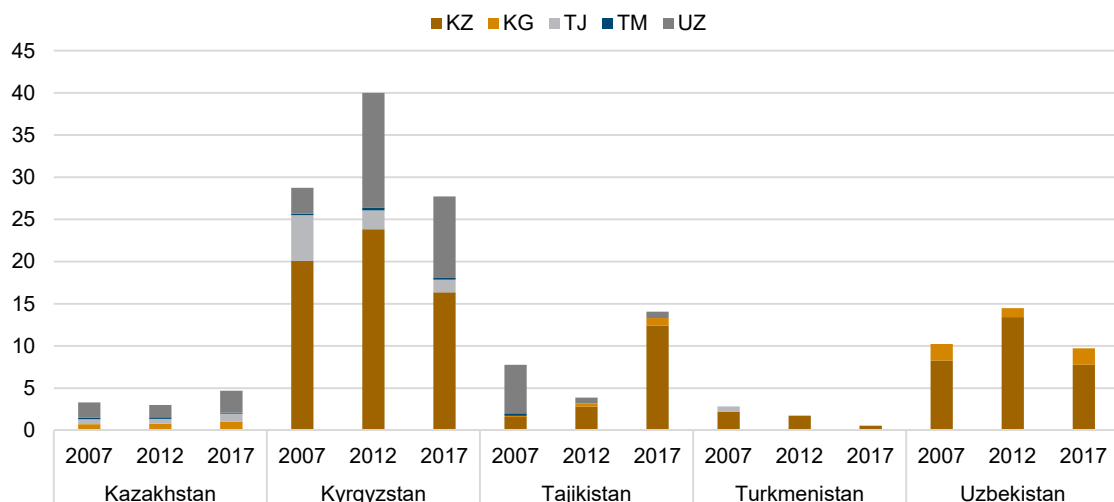
Studying bilateral intra-regional trade patterns in more detail reveals that Kazakhstan – the biggest economy in the region – is the most important destination of Central Asian intra-regional exports (see Figure 2). Uzbekistan accounts for a significant share of exports only in the case of Kyrgyzstan (and Kazakhstan).

¹ We use a narrow geographic definition of Central Asia to include Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

Figure 1 / Share of partner countries/regions in total exports, in %

Note: Intra-regional bilateral trade may be under-reported for some Central Asian countries for which UNCTAD does not report trade flows.

Source: Eurostat, UNCTAD.

Figure 2 / Share of partner countries from the region in total exports of Central Asian countries, in %

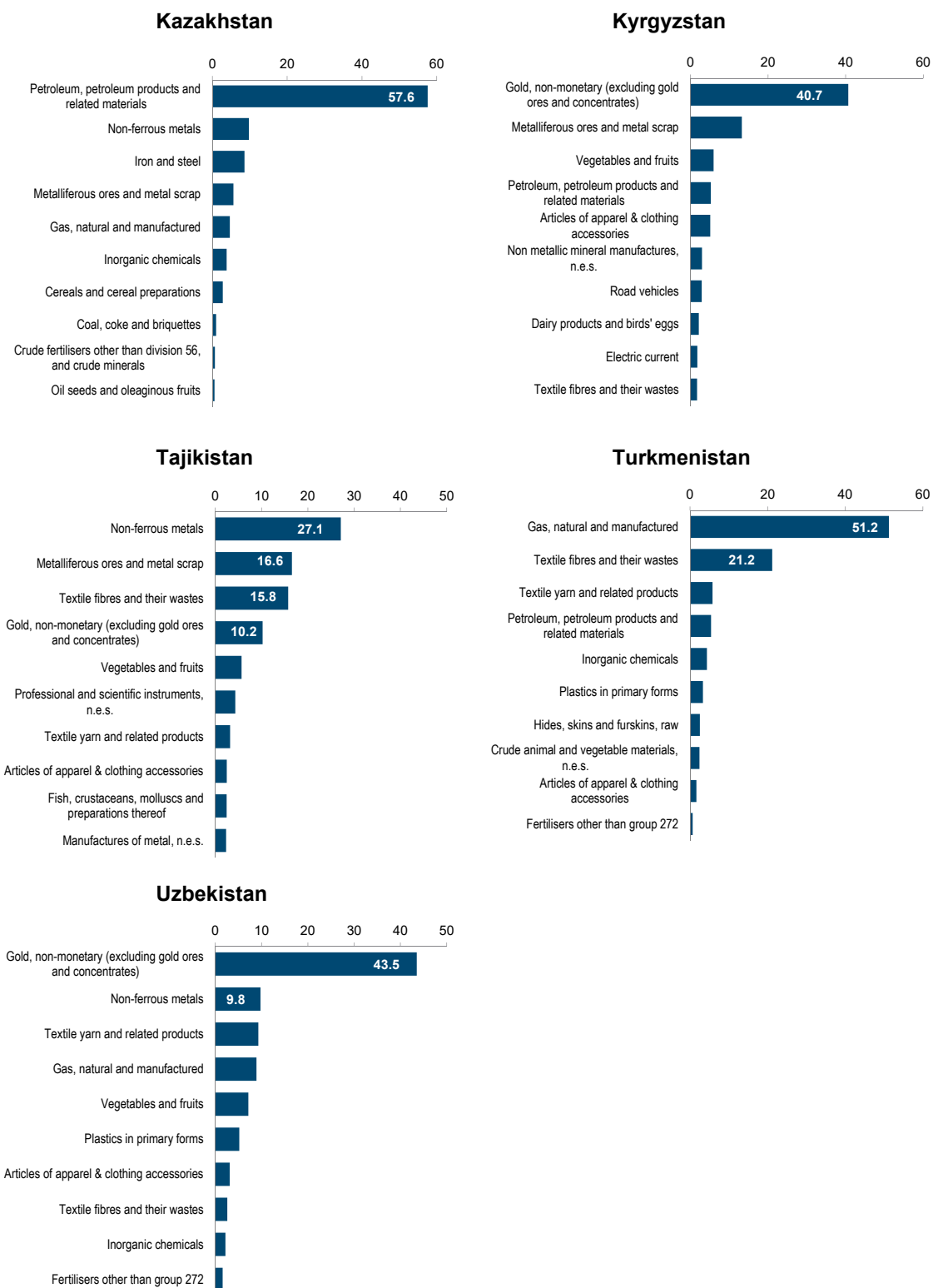
Note: Intra-regional bilateral trade may be under-reported for some Central Asian countries for which UNCTAD does not report trade flows.

Source: UNCTAD.

REASONS BEHIND LOW INTEGRATION

One of the reasons for the low intra-regional trade integration in Central Asia is the countries' export specialisation. As Figure 3 shows, all of them have natural resources as their main export items. Moreover, the countries have a low degree of trade complementarity as they produce and export many of the same items, and therefore need to look for trade partners beyond their immediate neighbours.

Figure 3 / Export specialisation by SITC product groups in 2017, in % of total exports

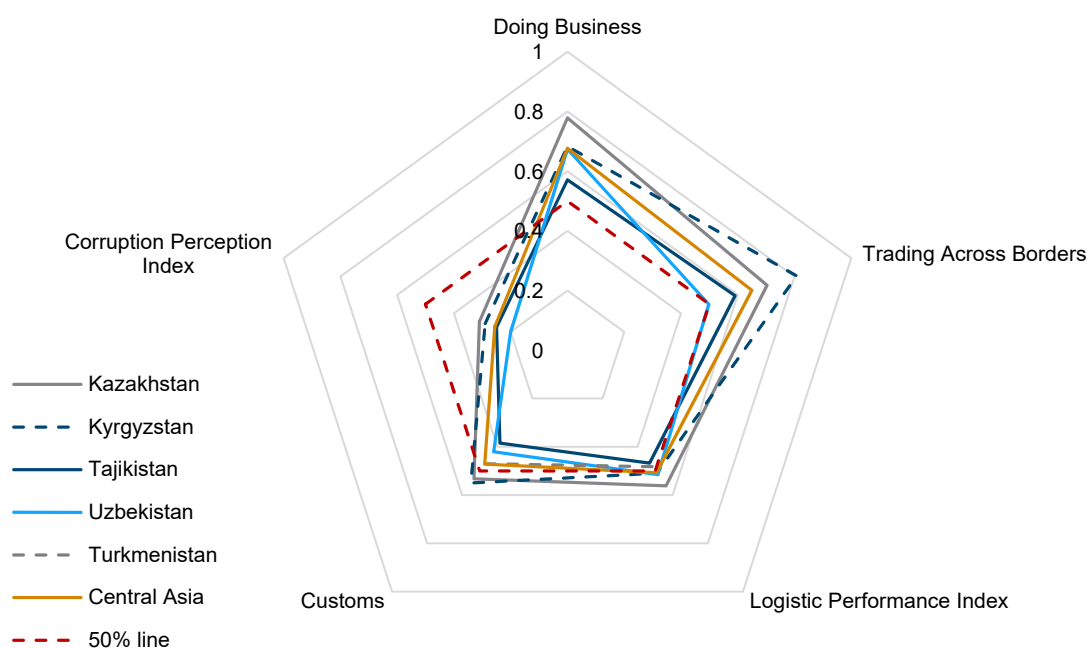


Source: UNCTAD.

Another factor impeding intraregional trade is represented by Central Asia's deficient transport networks which raise costs and hamper transport and logistics services in the region. Closer regional integration in transport networks and logistics services would save time and money at border crossings and shorten transport routes. This would boost trade in the region by reducing transit costs of the Eurasian overland route and increasing the attractiveness of Central Asia as an alternative 'Eurasian traffic bridge' to maritime transport (Paust, 2014).

The low quality of many institutions and diverging trade policies in the region drive up trade costs as well and hinder trade connectivity (see Figure 4). The region performs rather poorly in terms of customs and logistics; only Kazakhstan and Kyrgyzstan perform marginally better than the region on average. Additionally, corruption perception appears to be extremely high in the region. Though some countries have relatively high scores on the doing business index and liberal trade policies (Kazakhstan and Kyrgyzstan), others are quite the opposite, indicating the heterogeneity of trade regimes.

Figure 4 / Indicators of institutions' quality and trade policies



Note: Due to different scales for various indicators, values have been rescaled to the range between 0 and 1 (0 – worst performance, 1 – best performance).

Source: World Bank, Doing Business 2019; Transparency International, Corruption Perception Index 2018; World Bank, Logistics Performance Index; EBRD, Quality of Transitions Indicators 2018.

POLITICAL TENSIONS AND REGIONAL COOPERATION

Economic cooperation in the region has been also hindered by political tensions, in particular regarding border delimitation and the use of the regional energy and water resources. Regional economic cooperation has been on the agenda of the five Central Asian states since the early 1990ies. There were numerous attempts to stimulate economic integration, starting with the creation in December 1991 of the Central Asian Commonwealth (CAC) as a response to the formation of the Commonwealth of

Independent States (CIS). In 1994, CAC was transformed into the Central Asian Economic Community; the next stage of integration was creating the Central Asian Cooperation Organisation (CACO) in 2001. In 2004, Russia became a member of CACO, and soon after this CACO merged with the then Eurasian Economic Community (EAEC) and ceased to exist. This effectively froze the five-lateral regional format of interactions in Central Asia. Later on, two of the Central Asian countries – Kazakhstan and Kyrgyzstan – became members of the Eurasian Economic Union (EAEU) created in 2015, while Tajikistan, Turkmenistan, and Uzbekistan have been staying outside. Tajikistan is considering joining the EAEU, however, no final decision has yet been made.

The situation seems to have changed recently and interaction among the regional states has intensified considerably following the death of the long-standing Uzbek leader Islam Karimov in 2016. In March 2018, four Central Asian presidents and the parliament speaker of Turkmenistan, the most isolated country in the region, met in Kazakhstan for the first regional summit in almost a decade. At the summit controversies over border delimitation and water use were largely resolved. In June 2018, the United Nations General Assembly passed a resolution, submitted by Central Asian states, which supported the strengthening of regional cooperation in the region. Preparations are underway for a second summit of Central Asian leaders in April 2019 to be hosted by Uzbekistan.

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Monthly and quarterly statistics for Central, East and Southeast Europe

The monthly and quarterly statistics cover **22 countries** of the CESEE region. The graphical form of presenting statistical data is intended to facilitate the **analysis of short-term macroeconomic developments**. The set of indicators captures trends in the real and monetary sectors of the economy, in the labour market, as well as in the financial and external sectors.

Baseline data and a variety of other monthly and quarterly statistics, **country-specific** definitions of indicators and **methodological information** on particular time series are **available in the wiiw Monthly Database** under: <https://data.wiiw.ac.at/monthly-database.html>. Users regularly interested in a certain set of indicators may create a personalised query which can then be quickly downloaded for updates each month.

Conventional signs and abbreviations used

%	per cent
ER	exchange rate
GDP	Gross Domestic Product
HICP	Harmonized Index of Consumer Prices (for new EU Member States)
LFS	Labour Force Survey
NPISHs	Non-profit institutions serving households
p.a.	per annum
PPI	Producer Price Index
reg.	registered

The following national currencies are used:

ALL	Albanian lek	HRK	Croatian kuna	RON	Romanian leu
BAM	Bosnian convertible mark	HUF	Hungarian forint	RSD	Serbian dinar
BGN	Bulgarian lev	KZT	Kazakh tenge	RUB	Russian rouble
BYN	Belarusian rouble	MKD	Macedonian denar	TRY	Turkish lira
CZK	Czech koruna	PLN	Polish zloty	UAH	Ukrainian hryvnia
EUR	euro – national currency for Montenegro, Kosovo and for the euro-area countries Estonia (from January 2011, euro-fixed before), Latvia (from January 2014, euro-fixed before), Lithuania (from January 2015, euro-fixed before), Slovakia (from January 2009, euro-fixed before) and Slovenia (from January 2007, euro-fixed before).				

Sources of statistical data: Eurostat, National Statistical Offices, Central Banks and Public Employment Services; wiiw estimates.

Online database access



wiiw Annual Database



wiiw Monthly Database



wiiw FDI Database

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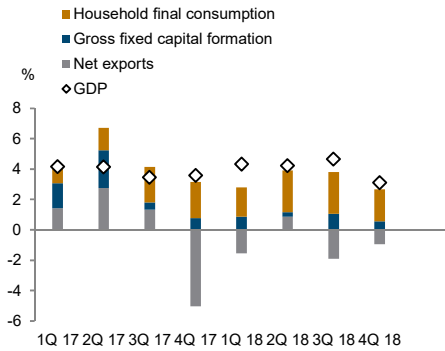
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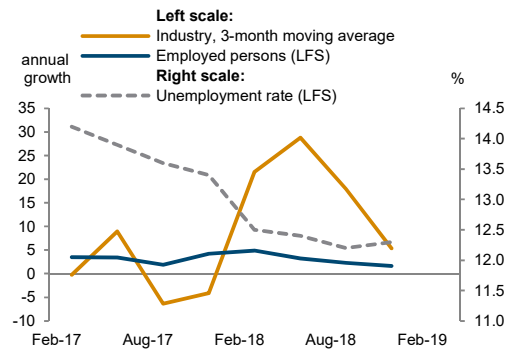
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Albania

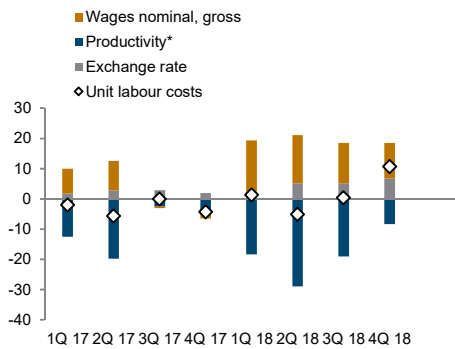
Real GDP growth and contributions
year-on-year



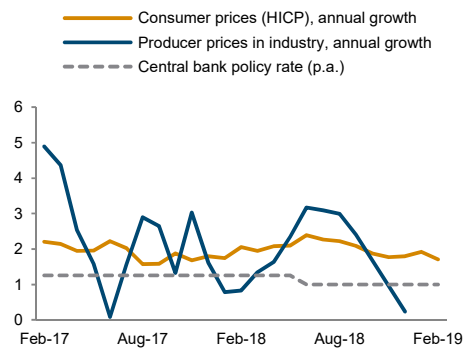
Real sector development
in %



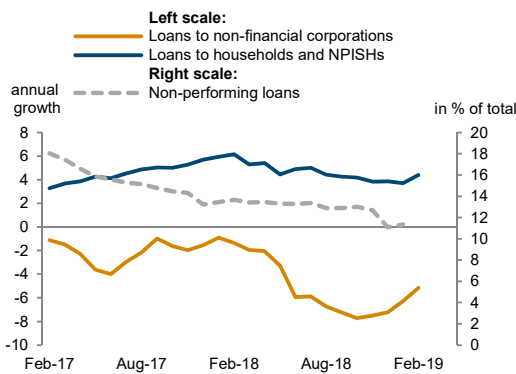
Unit labour costs in industry
annual growth rate in %



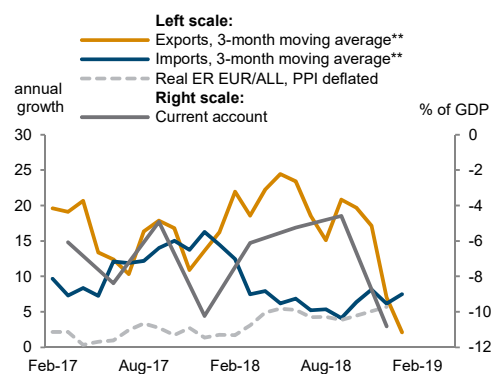
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

**EUR based.

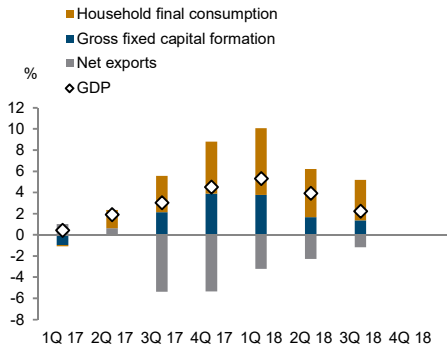
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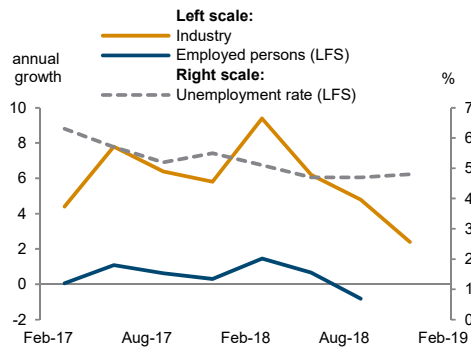
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Belarus

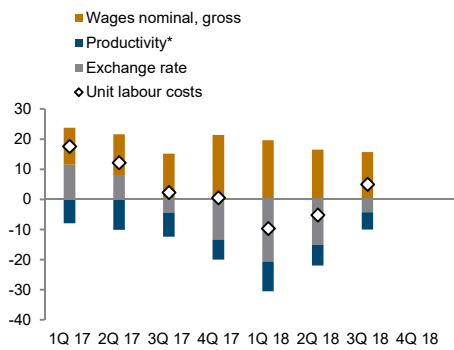
Real GDP growth and contributions
year-on-year



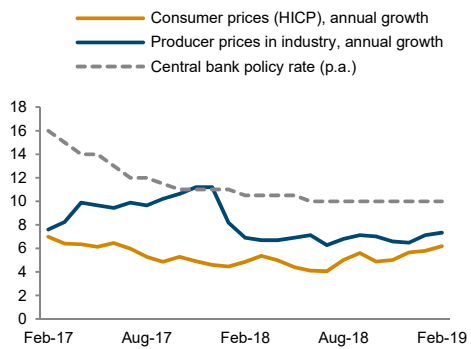
Real sector development
in %



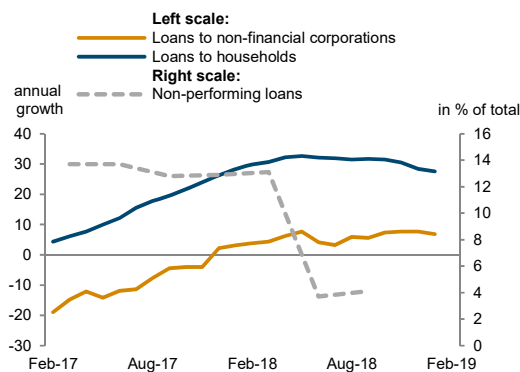
Unit labour costs in industry
annual growth rate in %



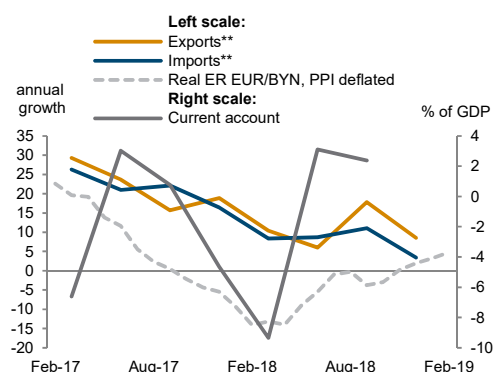
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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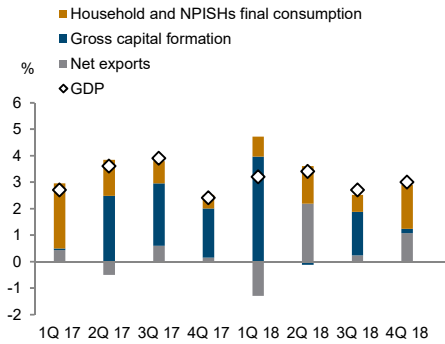
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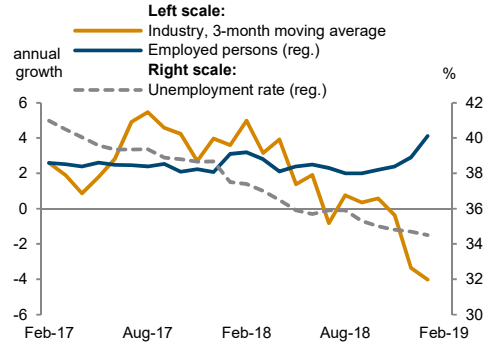
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Bosnia and Herzegovina

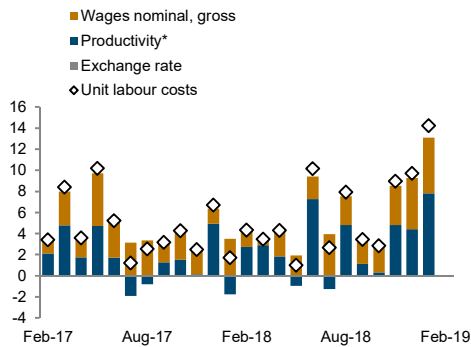
Real GDP growth and contributions
year-on-year



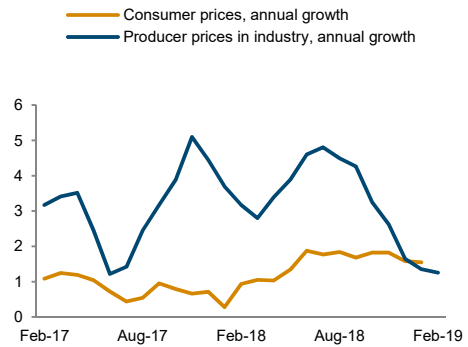
Real sector development
in %



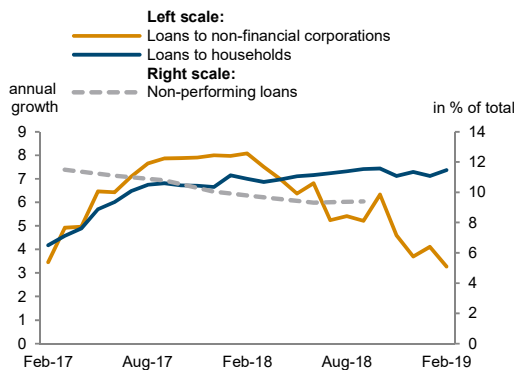
Unit labour costs in industry
annual growth rate in %



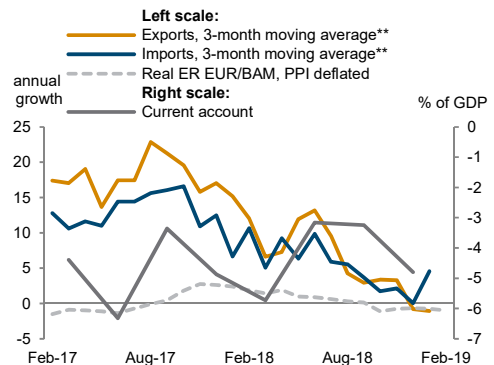
Inflation
in %



Financial indicators
in %



External sector development
in %

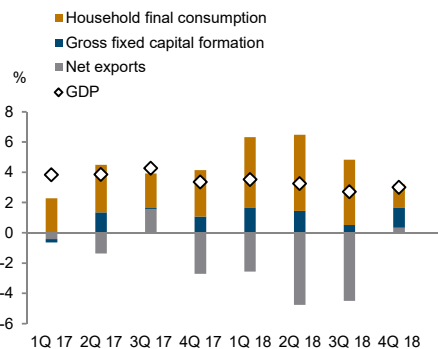


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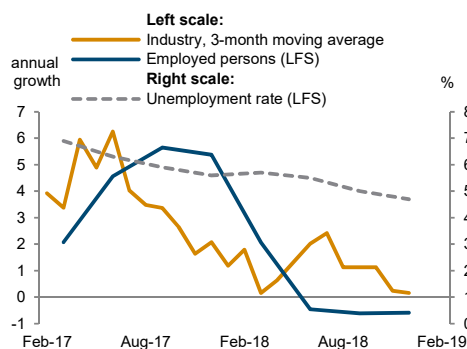
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Bulgaria

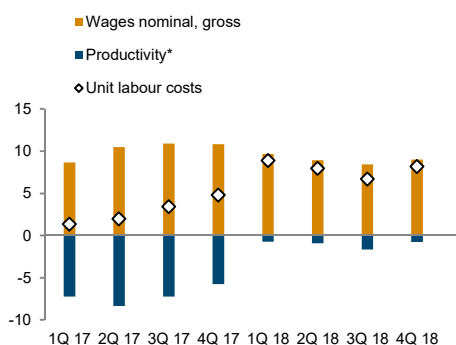
Real GDP growth and contributions
year-on-year



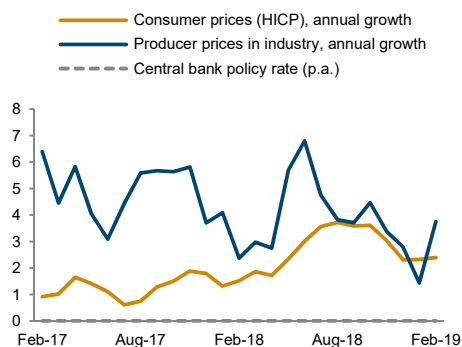
Real sector development
in %



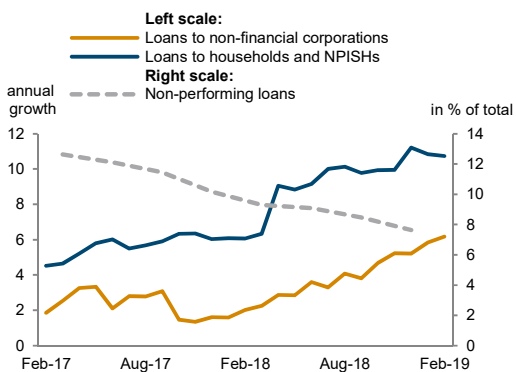
Unit labour costs in industry
annual growth rate in %



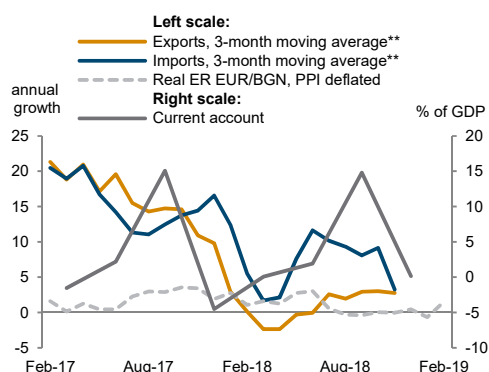
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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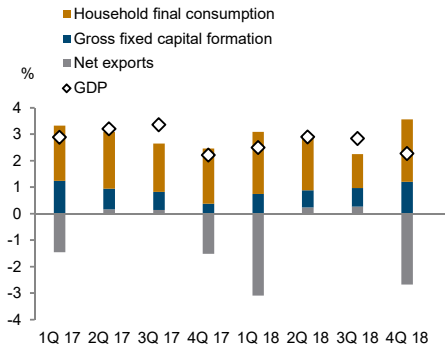
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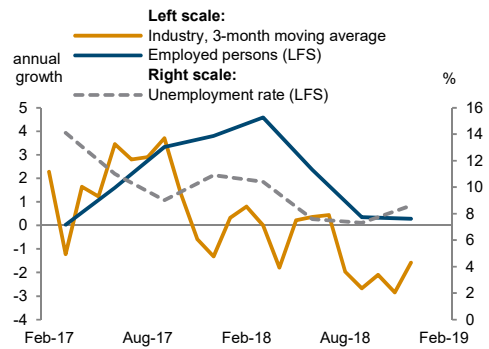
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Croatia

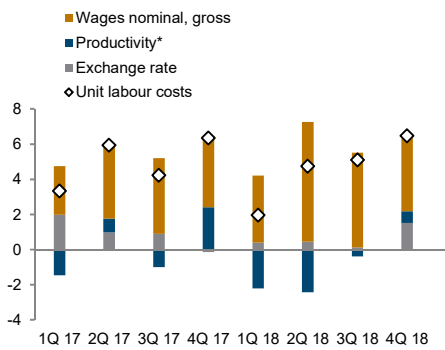
Real GDP growth and contributions
year-on-year



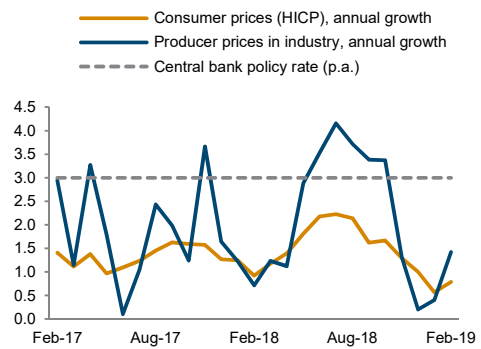
Real sector development
in %



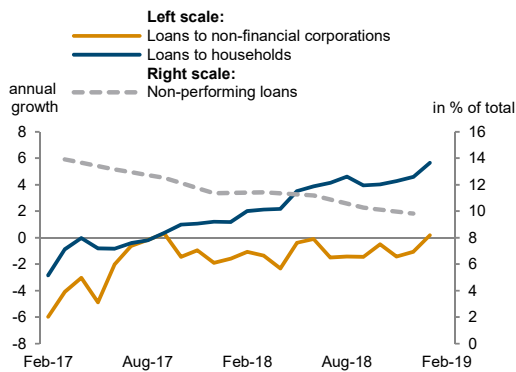
Unit labour costs in industry
annual growth rate in %



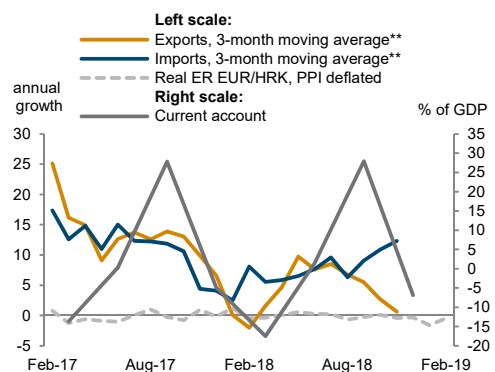
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %

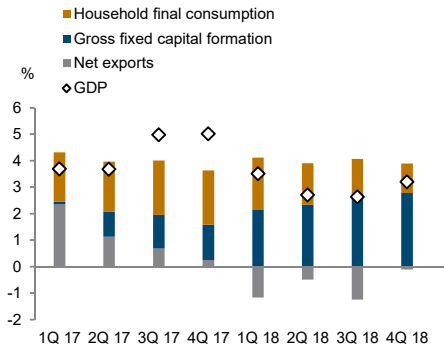


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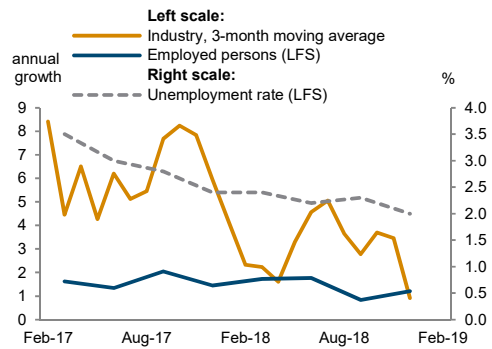
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Czech Republic

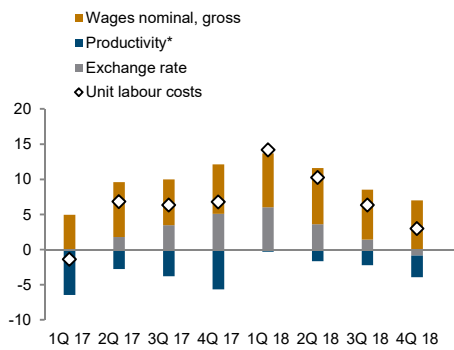
Real GDP growth and contributions
year-on-year



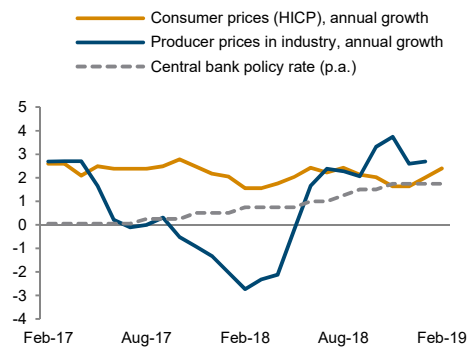
Real sector development
in %



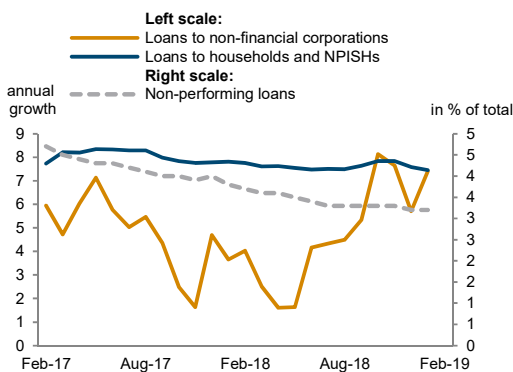
Unit labour costs in industry
annual growth rate in %



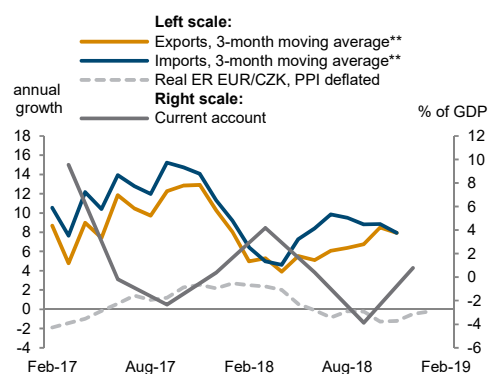
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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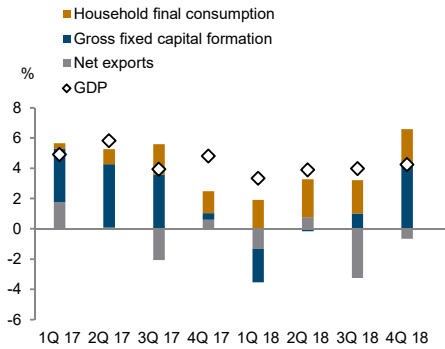
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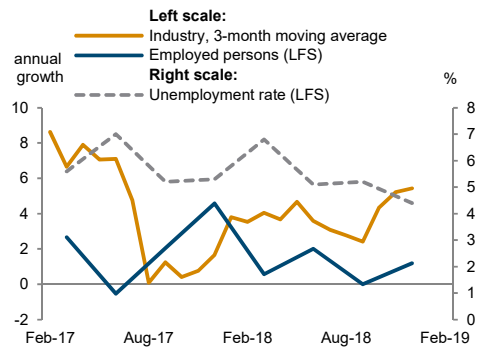
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Estonia

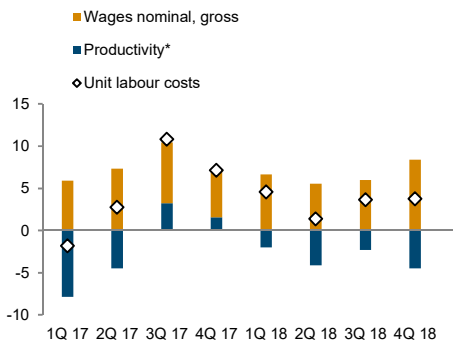
Real GDP growth and contributions
year-on-year



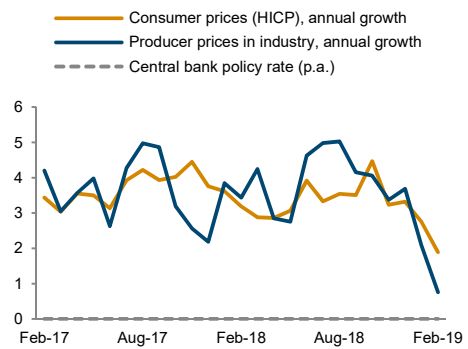
Real sector development
in %



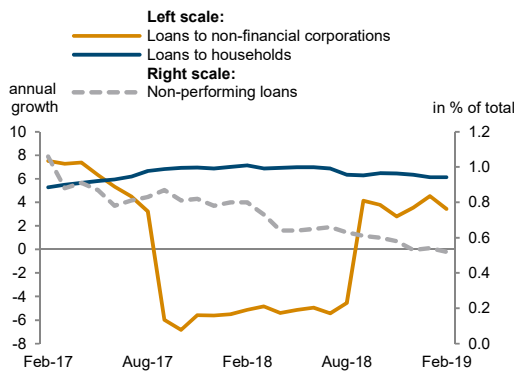
Unit labour costs in industry
annual growth rate in %



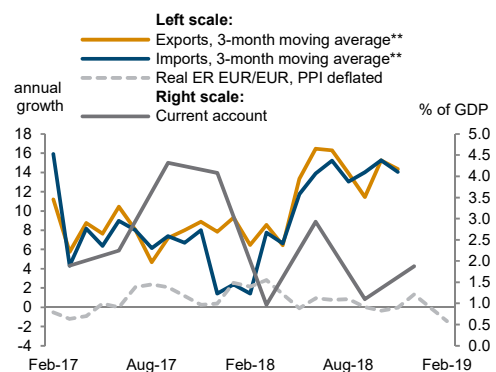
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %

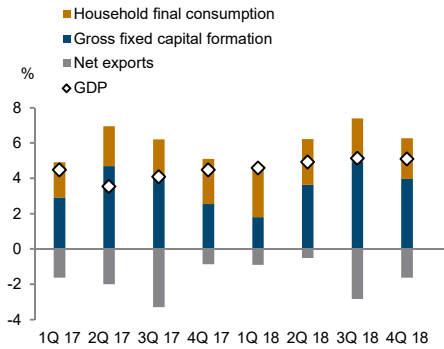


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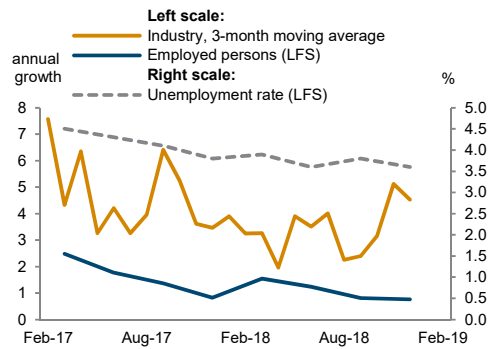
Source: wiiw Monthly Database incorporating Eurostat and national statistics.
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<https://data.wiiw.ac.at/monthly-database.html>

Hungary

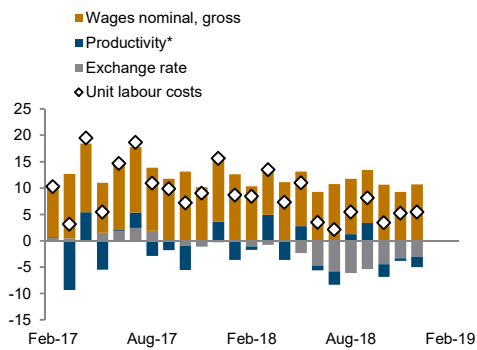
Real GDP growth and contributions
year-on-year



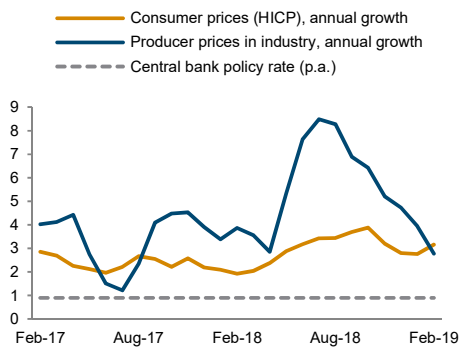
Real sector development
in %



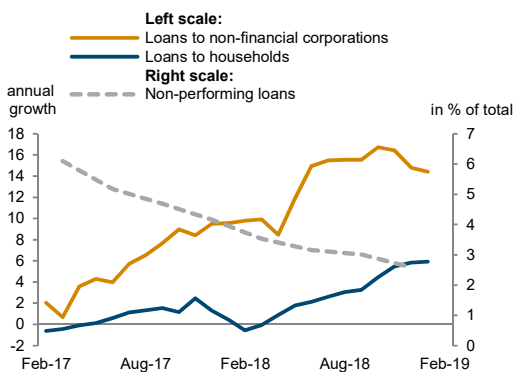
Unit labour costs in industry
annual growth rate in %



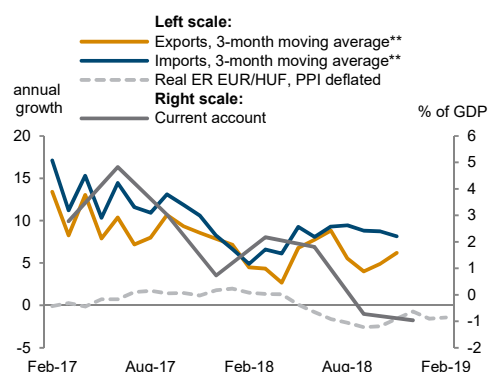
Inflation and policy rate
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External sector development
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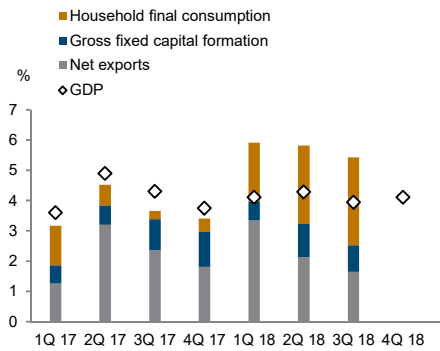
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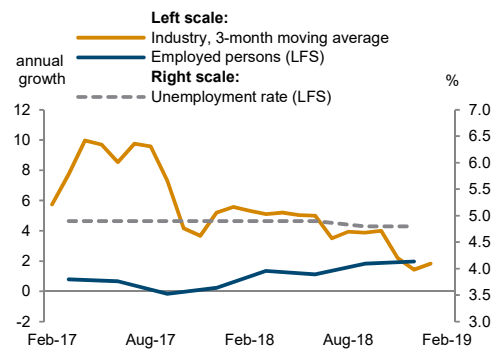
<https://data.wiiw.ac.at/monthly-database.html>

Kazakhstan

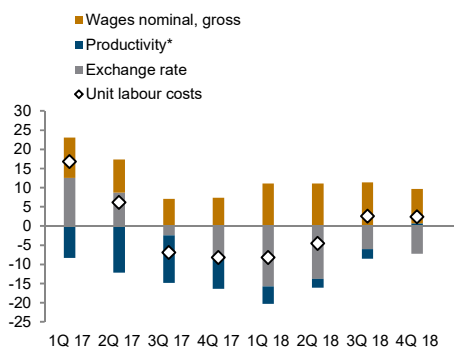
Real GDP growth and contributions
year-on-year



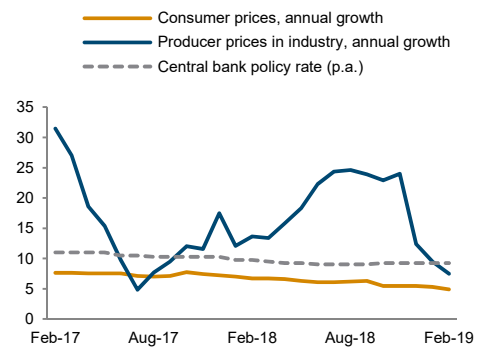
Real sector development
in %



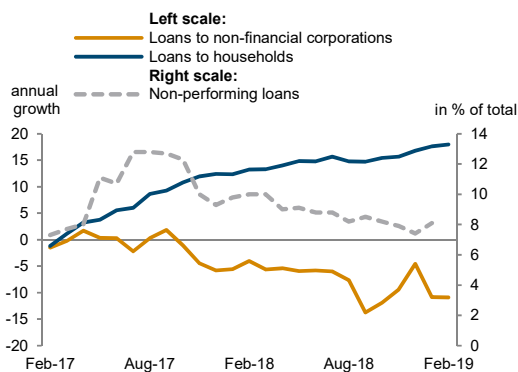
Unit labour costs in industry
annual growth rate in %



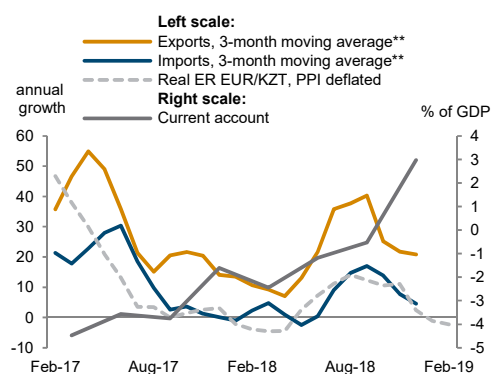
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

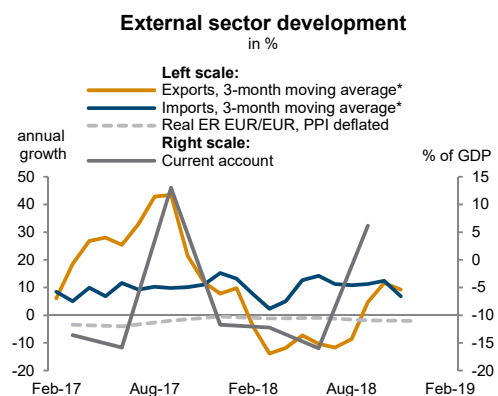
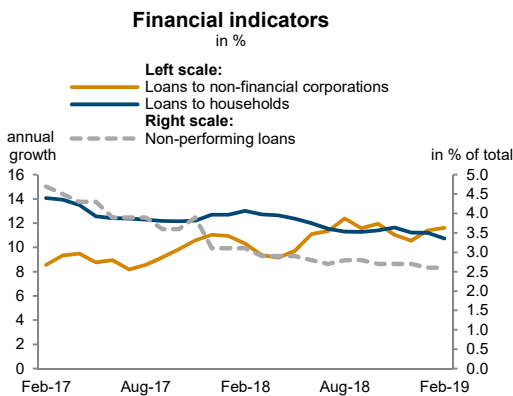
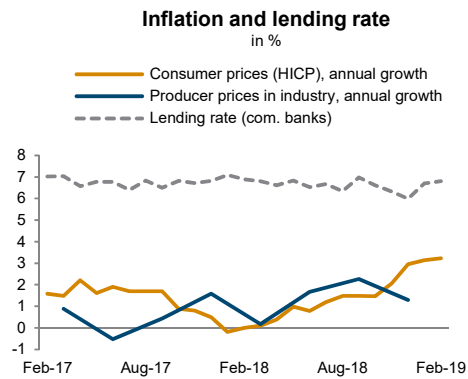
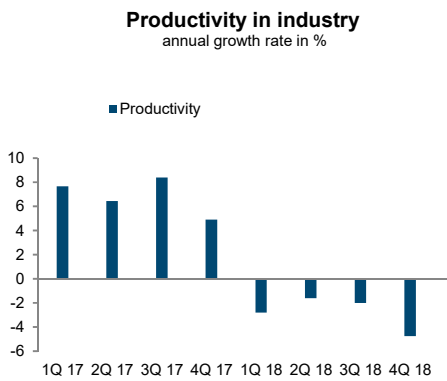
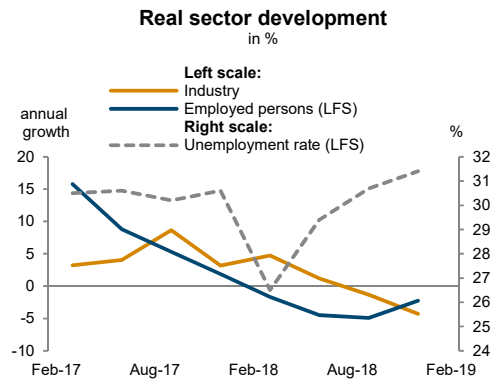
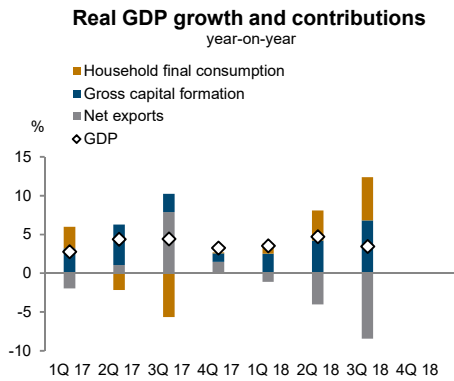
**EUR based.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

<https://data.wiiw.ac.at/monthly-database.html>

Kosovo



*EUR based.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

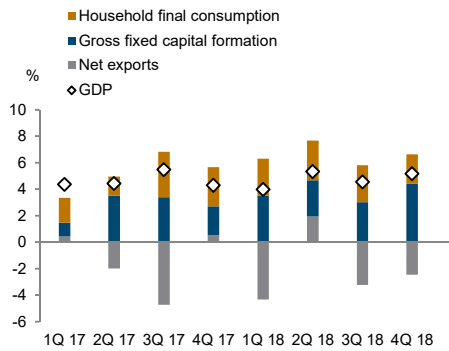
Baseline data, country-specific definitions and methodological breaks in time series are available under:

<https://data.wiiw.ac.at/monthly-database.html>

Latvia

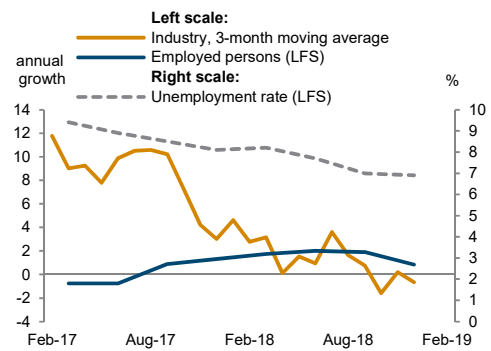
Real GDP growth and contributions

year-on-year



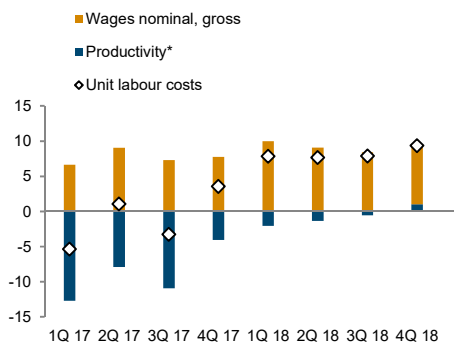
Real sector development

in %



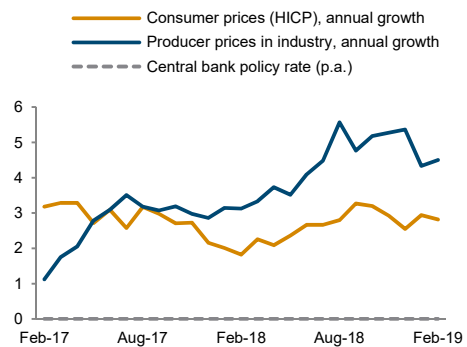
Unit labour costs in industry

annual growth rate in %



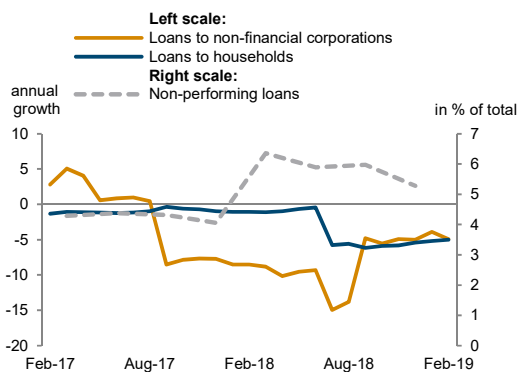
Inflation and policy rate

in %



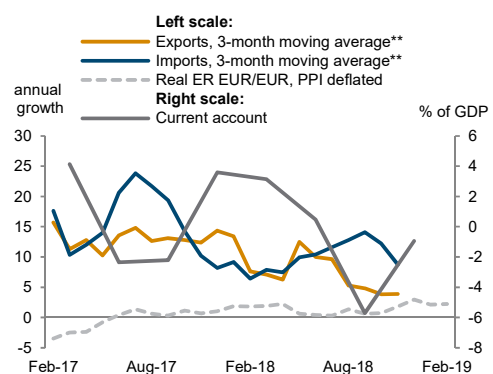
Financial indicators

in %



External sector development

in %



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

**EUR based.

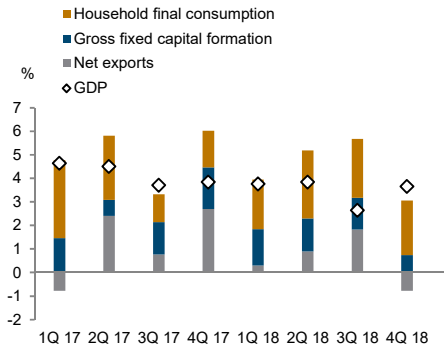
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

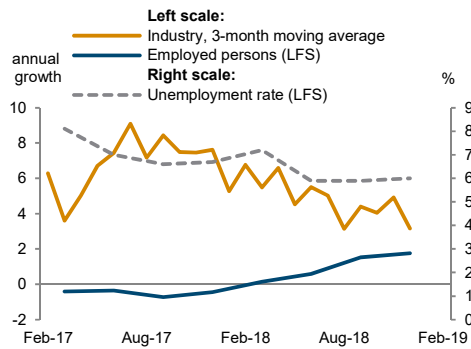
<https://data.wiiw.ac.at/monthly-database.html>

Lithuania

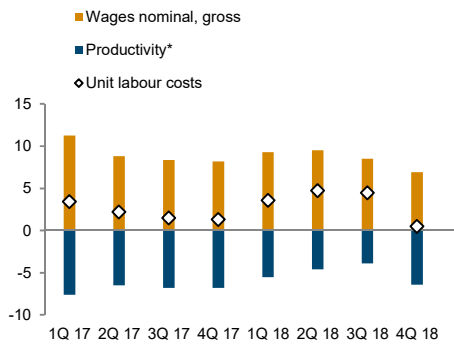
Real GDP growth and contributions
year-on-year



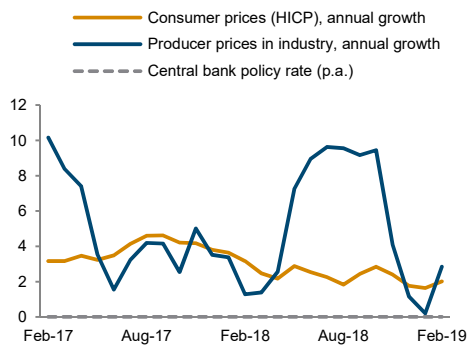
Real sector development
in %



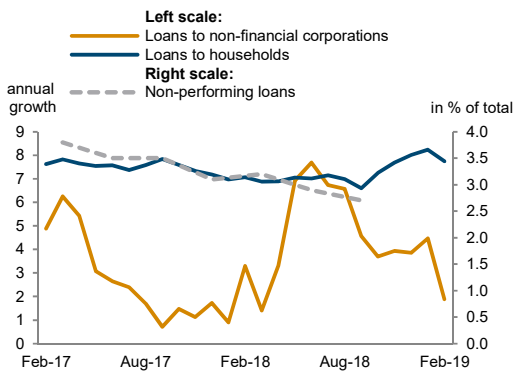
Unit labour costs in industry
annual growth rate in %



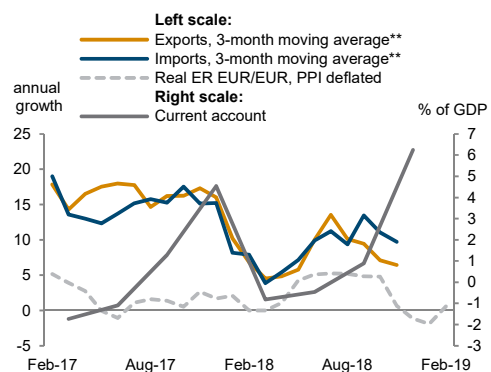
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

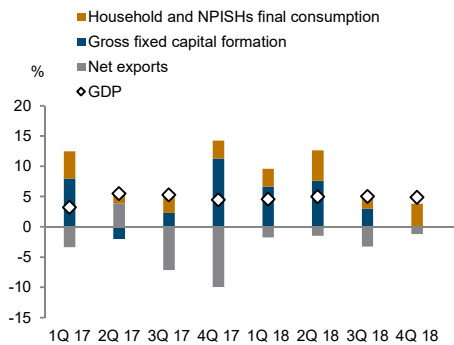
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Baseline data, country-specific definitions and methodological breaks in time series are available under:

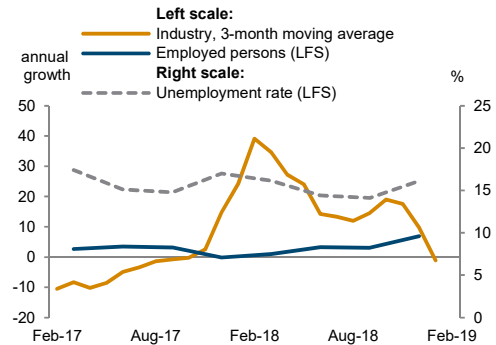
<https://data.wiiw.ac.at/monthly-database.html>

Montenegro

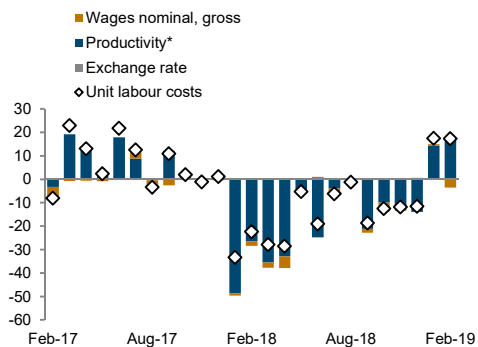
Real GDP growth and contributions
year-on-year



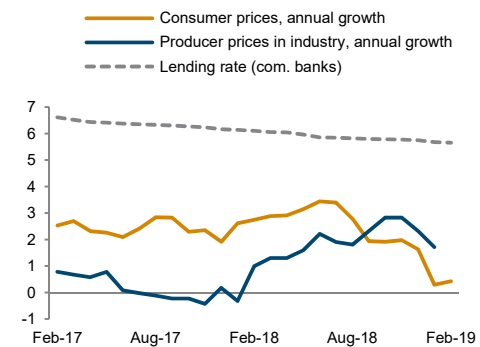
Real sector development
in %



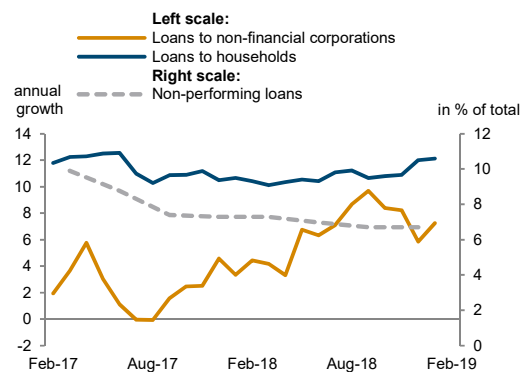
Unit labour costs in industry
annual growth rate in %



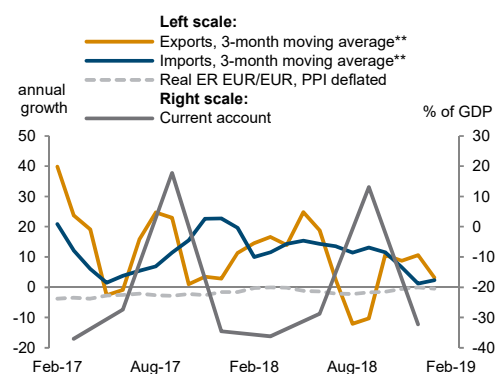
Inflation and lending rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

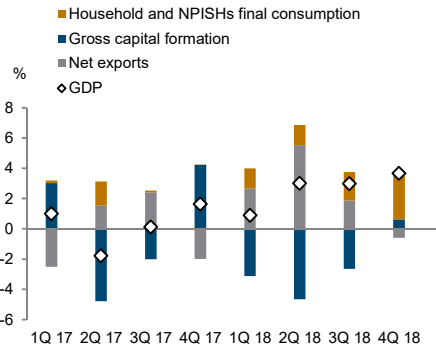
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

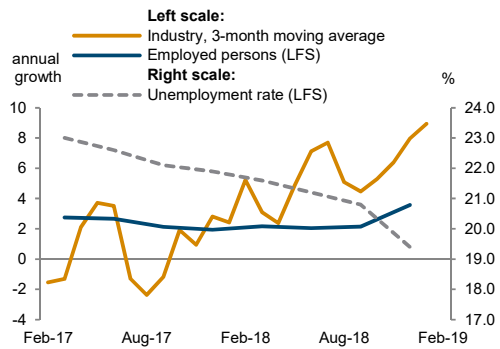
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North Macedonia

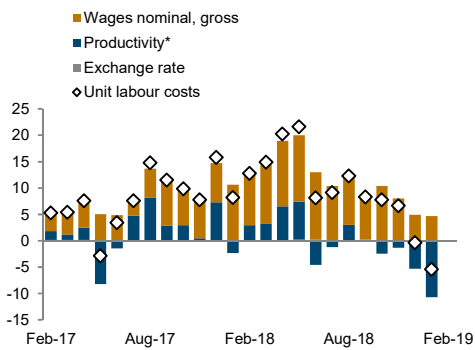
Real GDP growth and contributions
year-on-year



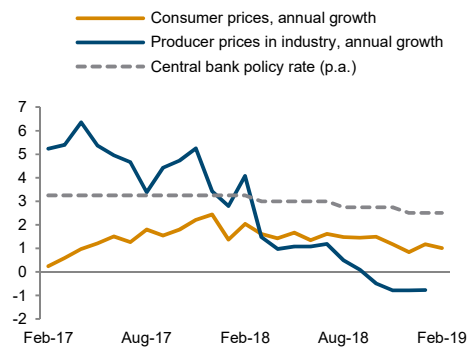
Real sector development
in %



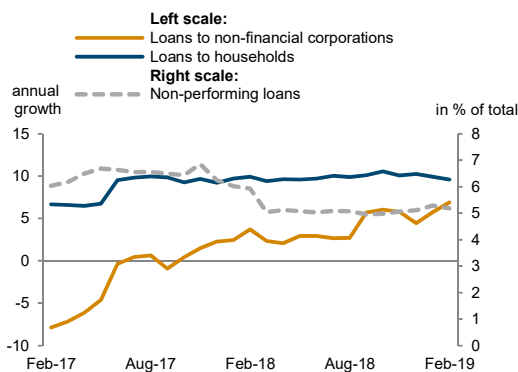
Unit labour costs in industry
annual growth rate in %



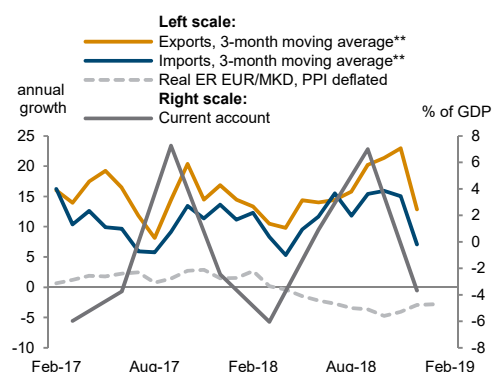
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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 **EUR based.

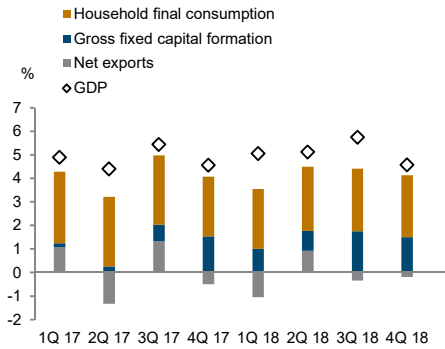
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

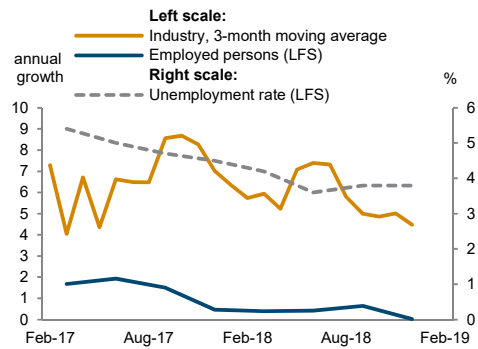
<https://data.wiiw.ac.at/monthly-database.html>

Poland

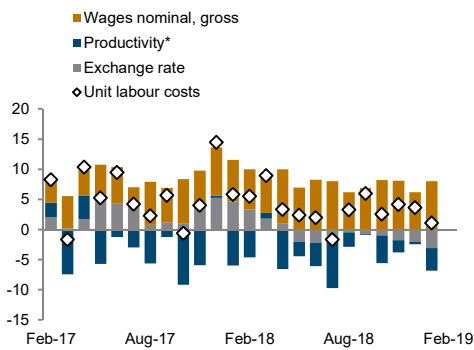
Real GDP growth and contributions
year-on-year



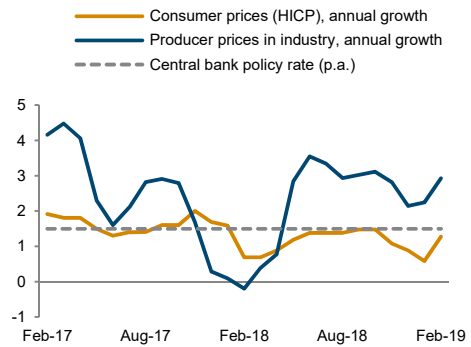
Real sector development
in %



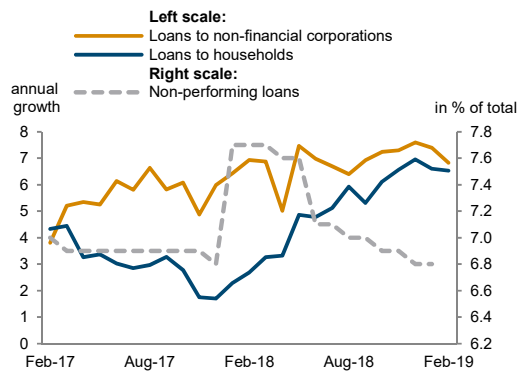
Unit labour costs in industry
annual growth rate in %



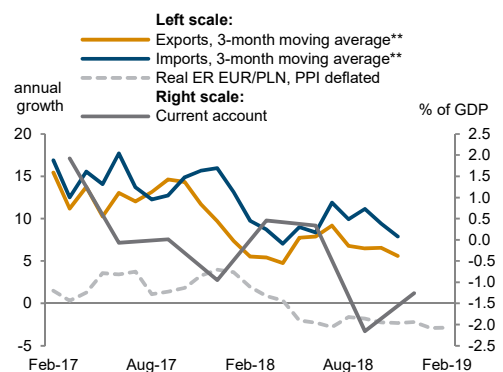
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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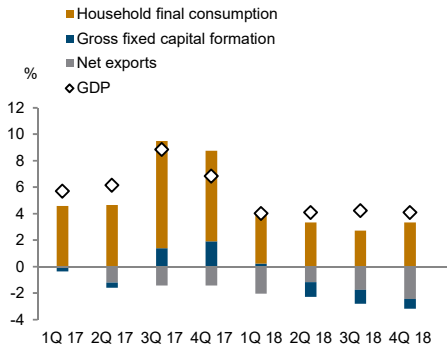
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

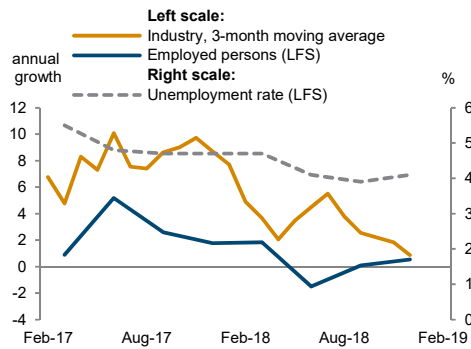
<https://data.wiiw.ac.at/monthly-database.html>

Romania

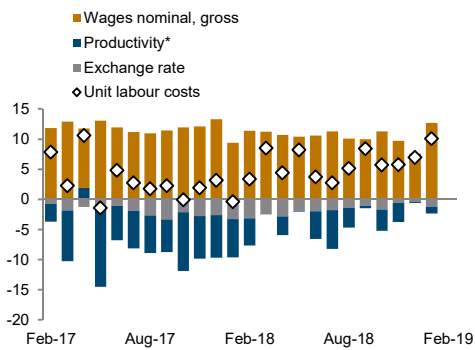
Real GDP growth and contributions
year-on-year



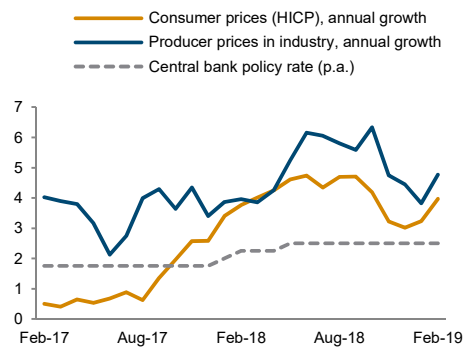
Real sector development
in %



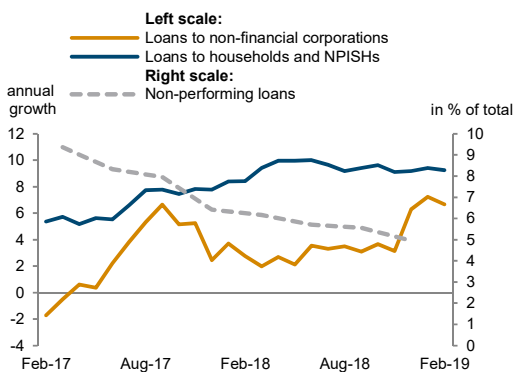
Unit labour costs in industry
annual growth rate in %



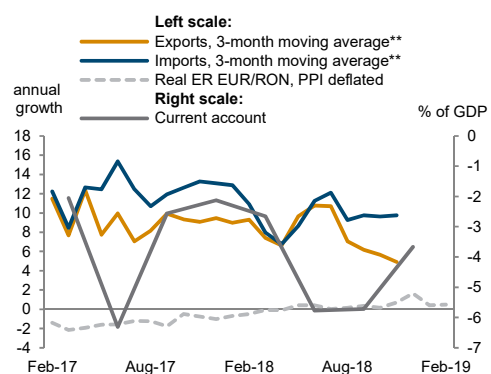
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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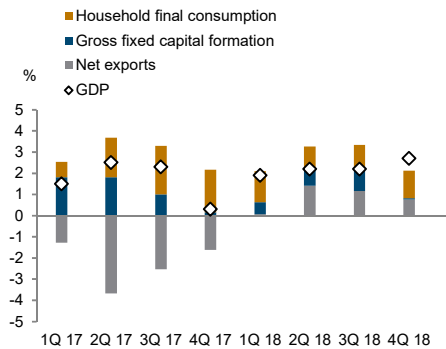
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

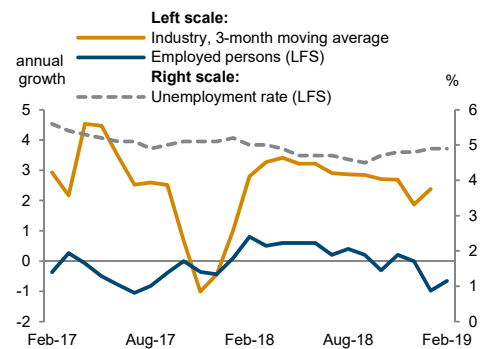
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Russia

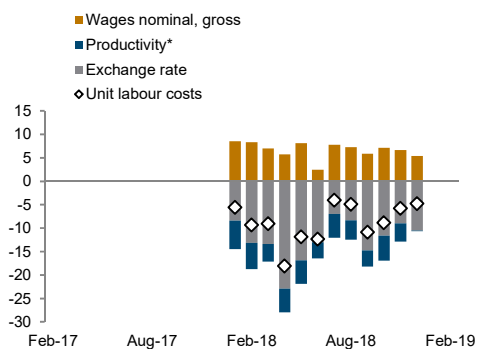
Real GDP growth and contributions
year-on-year



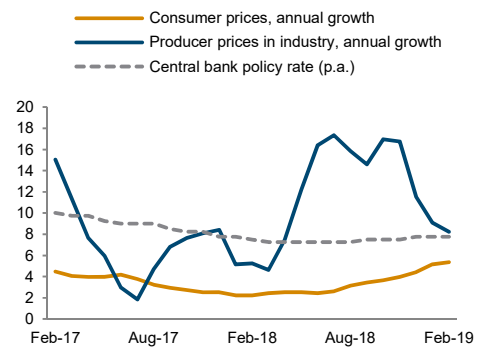
Real sector development
in %



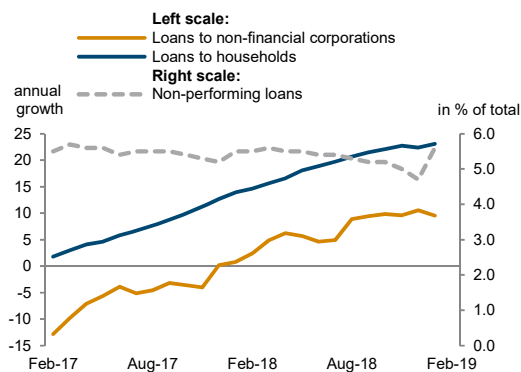
Unit labour costs in industry
annual growth rate in %



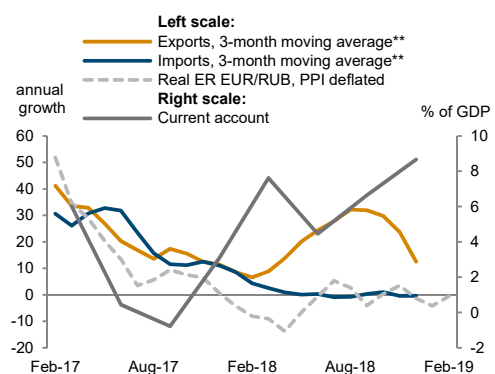
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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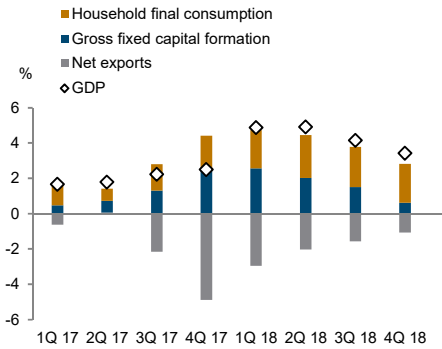
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

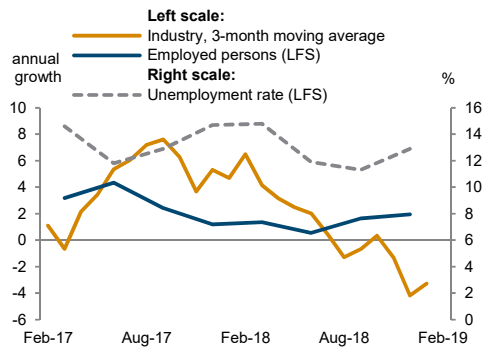
<https://data.wiiw.ac.at/monthly-database.html>

Serbia

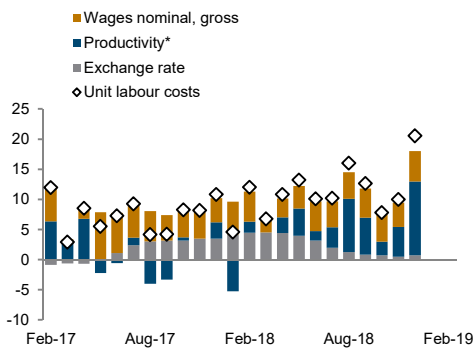
Real GDP growth and contributions
year-on-year



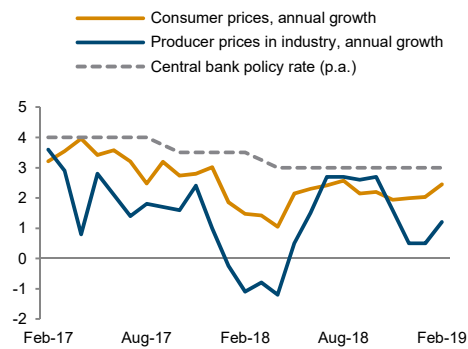
Real sector development
in %



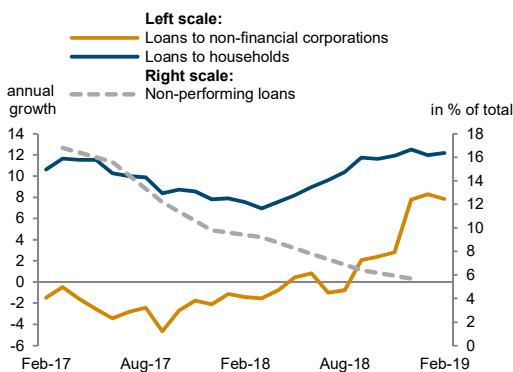
Unit labour costs in industry
annual growth rate in %



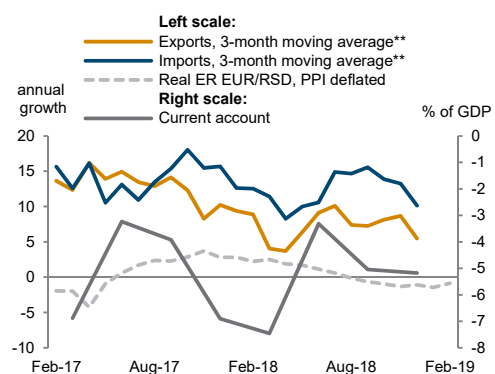
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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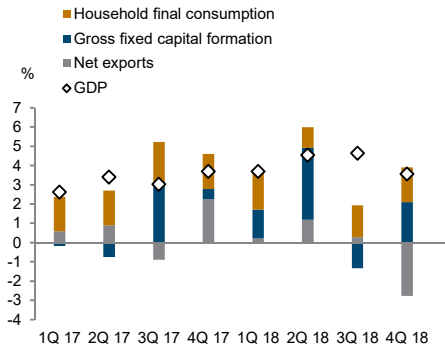
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

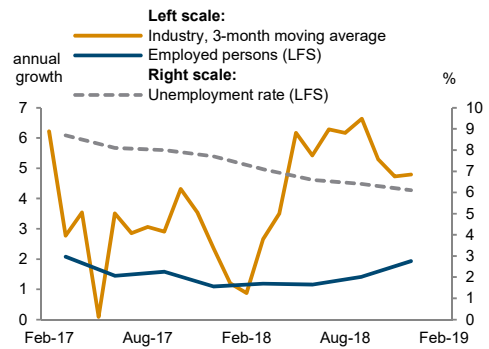
<https://data.wiiw.ac.at/monthly-database.html>

Slovakia

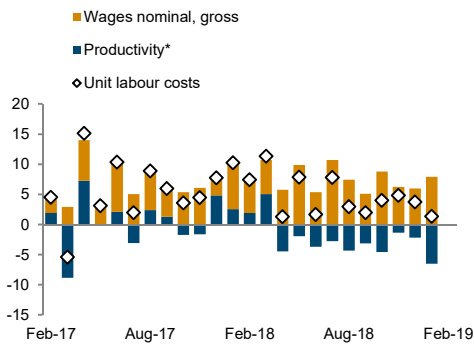
Real GDP growth and contributions
year-on-year



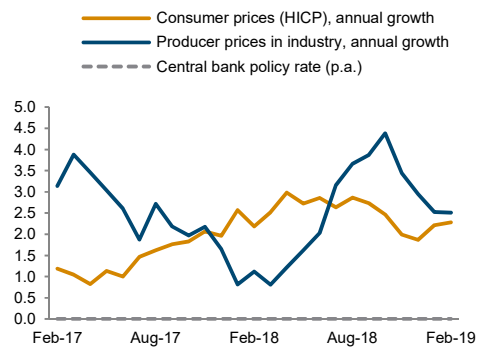
Real sector development
in %



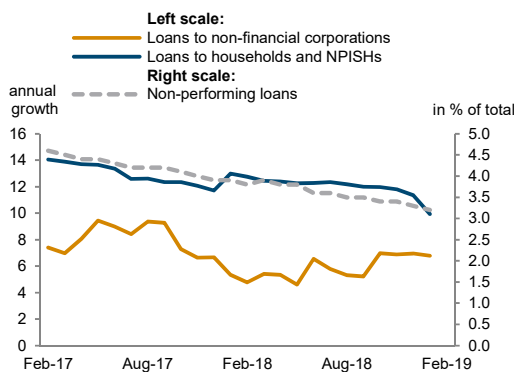
Unit labour costs in industry
annual growth rate in %



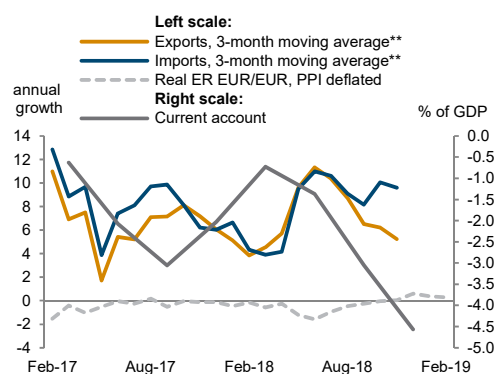
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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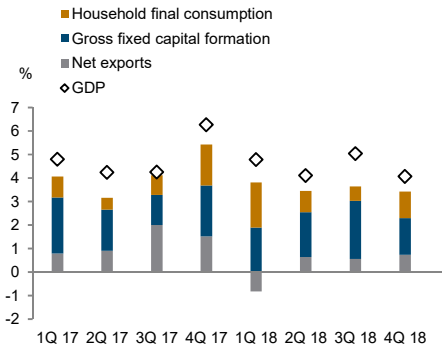
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

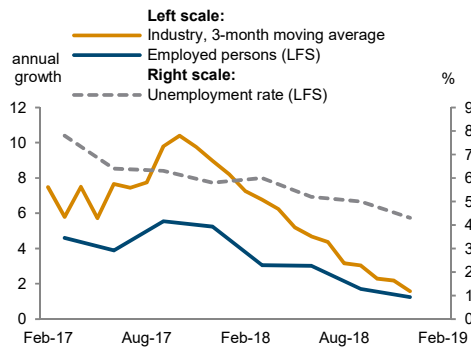
<https://data.wiiw.ac.at/monthly-database.html>

Slovenia

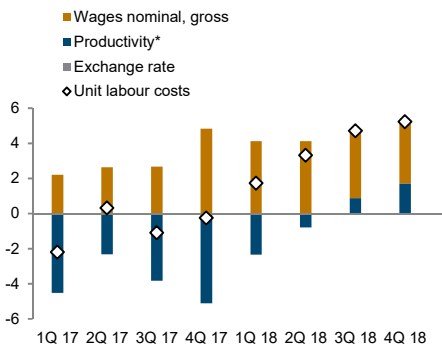
Real GDP growth and contributions
year-on-year



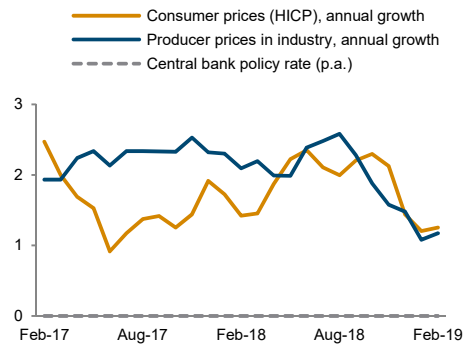
Real sector development
in %



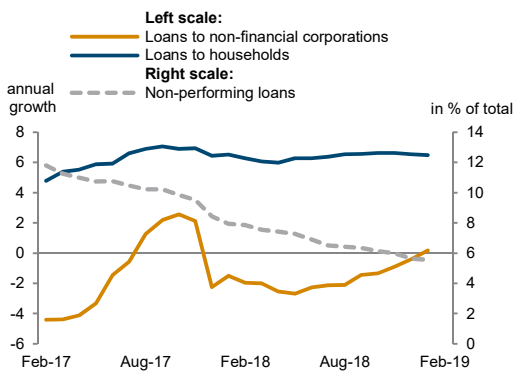
Unit labour costs in industry
annual growth rate in %



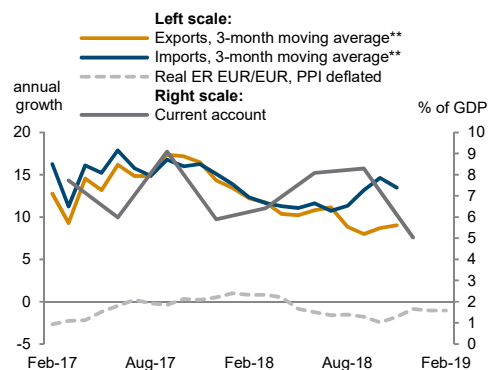
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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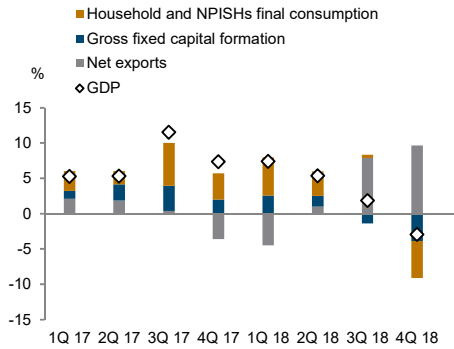
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

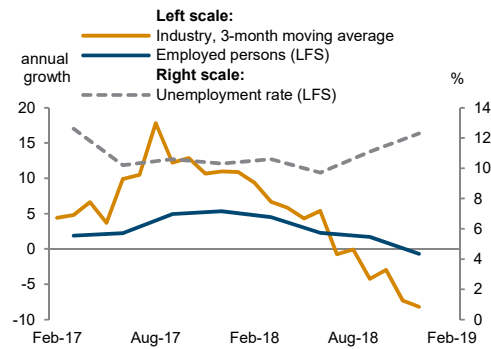
<https://data.wiiw.ac.at/monthly-database.html>

Turkey

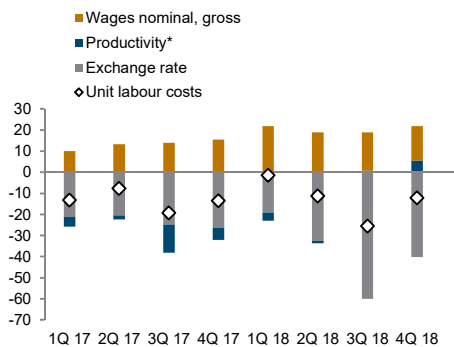
Real GDP growth and contributions
year-on-year



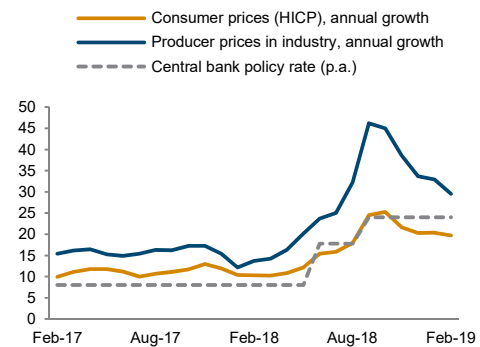
Real sector development
in %



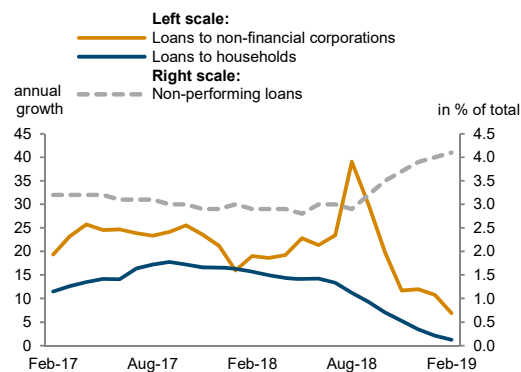
Unit labour costs in industry
annual growth rate in %



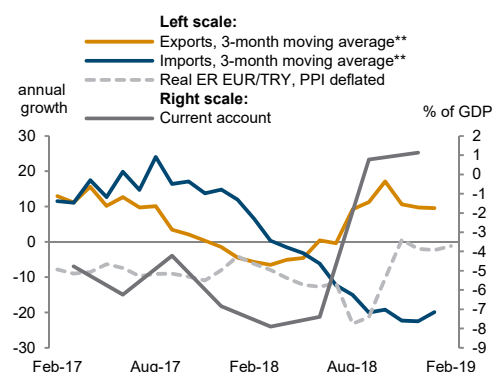
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

**EUR based.

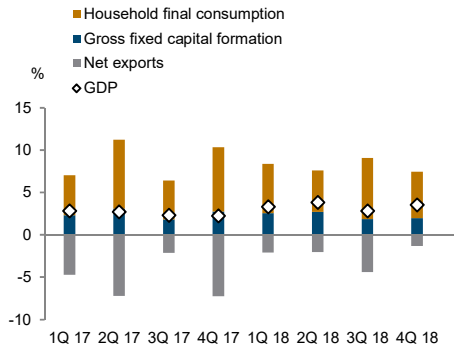
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

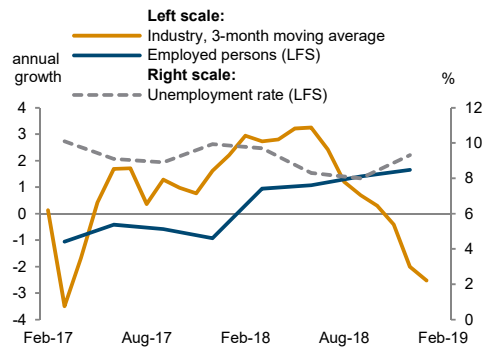
<https://data.wiiw.ac.at/monthly-database.html>

Ukraine

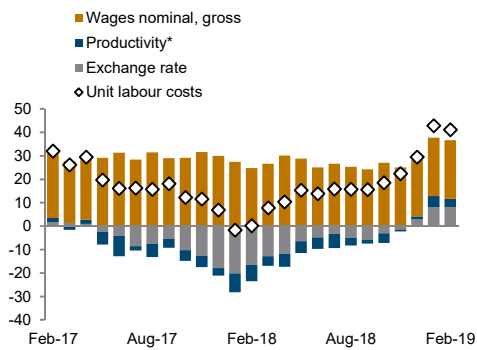
Real GDP growth and contributions
year-on-year



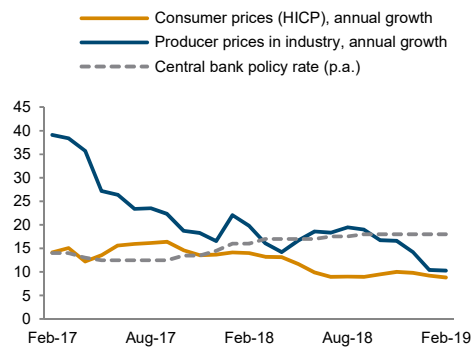
Real sector development
in %



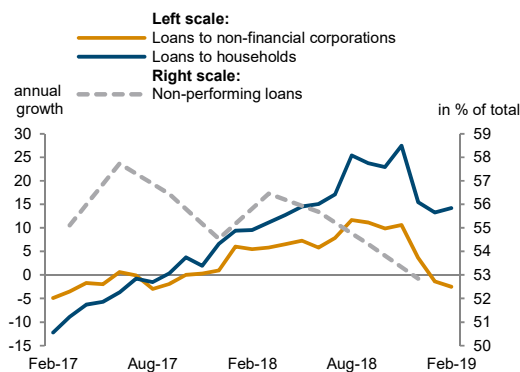
Unit labour costs in industry
annual growth rate in %



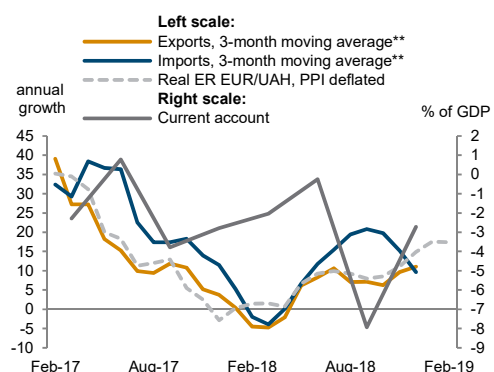
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