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Regional trade integration in the CIS area

Abstract

The article covers main stages of integration processes in the CIS area since its formation. We analyzed the specifics of preferential trade agreements (PTAs) in the CIS. We prepared an exhaustive list of expired and currently effective PTAs in the CIS area, taking into account the initial levels of exemptions and the dynamics of their cancellations. We analyzed qualitatively and quantitatively the economic aspects of PTAs. We discussed further integration agenda of the Russian Federation and a role of PTAs as a tool of international economic integration.

Key words: trade, trade integration, preferential trade agreements, CIS

Electronic copy available at: http://ssrn.com/abstract=2345210

Introduction

First steps towards regional integration, both trade and political, were made following the dissolution of the USSR[1].

On the one hand, post-soviet states were interdependent and integrated since they emerged from planned economy and were influenced by historical ties; on the other hand, republics were deeply reluctant to creation of supranational structures limiting national sovereignty[2]. Aforementioned factors were simultaneously driving and restraining further development of international relations.

Early preferential trade agreements were mainly concluded to legitimize absence of customs administrative infrastructure, lack of controls over cross-border trade and ossification of economic relations that is a characteristic of a planned economy were the most influential conditions leading to conclusion of agreements.

Various subregional trade agreements were hastily concluded in order to solve problems of the time, especially problems of domestic shortages of consumer goods and lack of control over prices on them. Rapid changes in political and economic situation resulted in the fact that decisions regarding trade preferences and exemptions from PTAs as well as legislation on import and export tariffs were based not on in-depth qualitative or quantitative analysis of factors or results but rather followed intuitive assumptions of leaders of countries. Given decisions undoubtedly played an important role from a political point of view, but by and large were secondary taking into account fleeting nature of economic processes of the time.

Trade liberalization of 1992 has created powerful incentives for further development of trade relations between Russia and foreign countries[3]. Significant imbalance between prices on goods within post-soviet states and the ones in the outside countries stimulated external trade, which became the most dynamically

[1] Agreement from 12/08/1991 on creation of CIS between Russia, Belarus and Kazakhstan and subsequently joined by other CIS countries simultaneously was a de jure confirmation of the fact that "USSR as a subject of international law and geopolitical reality ceases to exist".

[2] Development of partnership trade agreements in CIS area// UN, Committee for Trade, Industry and Enterprise, Geneva, May, 2005.

3 Since that starting that moment "…optimum decisions in the field of monetary, trade and industrial policy are no longer given, they are influenced by what is going on in the world". For more details about turn to free trade and change in economic conditions refer to Gaidar Y. «A Long View» // 568 pp., The MIT Press, 2012

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developing sector and the only source of foreign currency inflow in the first years of reforms. In addition, import purchases were helping to meet the domestic demand on consumer goods in the circumstances of deep industrial decline, including food and light industries. Liberalization of import was crucial to creation of competitive environment in extremely monopolistic domestic market as well as compensation of drastic decline in production levels of Russian industry[4].

Oppositely, a large number of Russian enterprises entered the foreign market as a result of export liberalization, most of which did not have any prior experience in foreign trade, leading to increase in competition between them and worsening of conditions of import-export transactions[5].

Russian exporters sought to obtain currency by any means with no regard to material costs or world prices. Breach of parity in contractual and world prices resulted not only in significant decrease in currency income, but also in decrease in world prices on a number of goods undermining credibility of Russia as a trading partner.

A large number of Russian and foreign articles dedicated to drivers of political integration in post-soviet area have already been written. We will focus on qualitative and quantitative economical aspects of the concluded agreements leaving aside the political discussions.

We will specify the key terms used in the paper below.

We determine trade integration as the process of increasing a country's participation in world markets through trade, accomplished by trade liberalization[6].

Preferential trade agreements (PTAs) will be determined as agreements between the parties (countries or blocs) that levy lower (or zero) tariffs against imports from members than outsiders[7].

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[4]An Economy in Transition. Essays on the Economic Policy of Post-communist Russia (1991 - 1997)// Institute for the Economy in Transition, Moscow ,1998, pp. 829

[5] An Economy in Transition. Essays on the Economic Policy of Post-communist Russia (1991 - 1997)// Institute for the Economy in Transition, Moscow ,1998, pp. 829

[6] Deardorff's Glossary of International Economics: www.personal.umich.edu/~alandear/glossary/t.html

[7] Bhagwati J. & Panagariya A. (1996) The Theory of Preferential Trade Agreements: Historical Evolution and Current Trends, The American Economic Review, Vol. 86, No. 2, 1996 (May, 1996), pp. 82-87

In accordance with the provisions of the PTA, the parties are obliged to provide each other more favorable treatment than to third countries[8]. Hence, in contrast to the multilateral terms of cooperation within the framework of the WTO, the conclusion of PTAs assumes discrimination of non-member countries.

Despite the fact that the basic principles of the WTO are reciprocity and non-discrimination, XXIV article GATT / WTO authorizes the conclusion of PTAs under certain conditions[9], provided such agreements favor the real expansion of the boundaries of free trade.

Almost all existing forms of integration in the world, one way or another, are PTAs to the extent which they are aimed at the liberalization of economic relations between the member parties in relation to third countries. One can list among such forms of integration, for example, OECD and APEC, which are not formally classified as PTAs. In what follows, we will focus on the analysis of PTAs in the former Soviet Union: their nature, types and characteristics.

Initiation of trade negotiations in the CIS area

The first attempt to create a multilateral FTA in the CIS area (including Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Ukraine and Uzbekistan, excluding Turkmenistan) was made in April 1994[10]. The agreement was expected to come into force after the signing parties agree on the list of exemptions from it. Parties were not able to reach an agreement despite numerous attempts to update given agreement by adapting it to the national legislation of each of the parties[11], and the development of several documents governing the preparations[12] to the establishment of a free trade zone in the CIS. Hence multilateral PTA did not exist in the CIS area until the end of 2012.

[8] Recent PTAs include provisions on trade in services as well as goods, trade remedy measures, capital and labor movement, dispute settlement, intellectual property, etc

[9] For more information, refer to GATT Art.XXIV on Regional trade agreements: http://www.wto.org/english/docs_e/legal_e/10-24.pdf

[10] CIS Agreement from 15.04.1994 "On the establishment of a free trade area"

[11] Protocol for the amendments to the agreement on the establishment of free trade from 15 April 1994 from 02.04.99

[12] In accordance with several decisions of the Council of CIS Heads of State during 2000-2004

Along with (unsuccessful) attempts to create a multilateral PTA individual countries were negotiating bilaterally, concluding agreements in relatively short time followed by subsequent approval of the list of reciprocal exemptions and simultaneous agreements on terms of their elimination.

One should mention that in addition to list of exemptions from import tariff[13] each of the given agreements included full exemptions from export tariff. Meaning that the countries continued to apply export duties with respect to a listing of goods that were subject to export duties when traded with non-member countries (accordingly, second party had a right to impose additional import duties on the same product group).

In the early - mid 90's the listing of goods subject to export duties in the Russian Federation was relatively wide, which was explained by the necessity of curbing the growth of domestic prices. In the late 1990's and early 2000's the list of products falling under the export tariff legislation has been significantly reduced, mostly down to the fuel and energy resources and metals.

Summary table including information on PTAs effective in 2013 in the CIS area is presented below.

[13] Listing of goods subject to import duties

Table 1 – PTAs in the CIS area

	Arm	Aze	Geo	Kir	Mol	Taj	Uzb	Bel	Kaz	Rus	Tur	Ukr
Arm	X	NO	95-curr: FTA (bl)	94-11: FTA (bl)* 11-curr: FTA CIS*	93-11: FTA (bl) 11-curr: FTA CIS*	11-curr: FTA CIS*	NO	00-11: FTA (bl)* 11-curr: FTA CIS*	01-11: FTA (bl) 11-curr: FTA CIS*	04-11: FTA (bl)* 11-curr: FTA CIS*	96-curr: FTA (bl)	96-11: FTA (bl) 11-curr: FTA CIS*
Aзe	NO	X	96-curr: FTA (bl)	NO	NO	NO	NO	NO	NO	93-curr: FTA (bl)*	NO	96-curr: FTA (bl)
Geo	95-curr: FTA (bl)	96-curr: FTA (bl)	X	NO	NO	NO	NO	NO	97-curr: FTA (bl)*	94-curr: FTA (bl)*	96-curr: FTA (bl)	95-curr: FTA (bl)
Kir	94-11: FTA (bl)* 11-curr: FTA CIS*	NO	NO	X	95-11: FTA (bl) 11-curr: FTA CIS*	99-11: FTA (bl)*[02] 11-curr: FTA CIS*	96-curr: FTA (bl)*	99-11: FTA (bl) 11-curr: FTA CIS*	95-11: FTA (bl) 11-curr: FTA CIS*	92-11: FTA (bl) 11-curr: FTA CIS*	NO	95-11: FTA (bl) 11-curr: FTA CIS*
Mol	93-11: FTA (bl) 11-curr: FTA CIS*	NO	NO	95-11: FTA (bl) 11-curr: FTA CIS*	X	11-curr: FTA CIS*	NO	93-11: FTA (bl) 11-curr: FTA CIS*	11-curr: FTA CIS*	93-11: FTA (bl)* 11-curr: FTA CIS*	NO	11-curr: FTA CIS*
Taj	11-curr: FTA CIS*	NO	NO	99-11: FTA (bl)*[02] 11-curr: FTA CIS*	11-curr: FTA CIS*	X	NO	98-11: FTA (bl) 11-curr: FTA CIS*	95-11: FTA (bl)*[95] 11-curr: FTA CIS*	92-11: FTA (bl)*[95] 11-curr: FTA CIS*	NO	01-11: FTA (bl) 11-curr: FTA CIS*
Uzb	NO	NO	NO	96-curr: FTA (bl)*	NO	NO	X	NO	NO	92-curr: FTA (bl)*	NO	NO
Bel	00-11: FTA (bl)* 11-curr: FTA CIS*	NO	NO	99-11: FTA (bl) 11-curr: FTA CIS*	93-11: FTA (bl) 11-curr: FTA CIS*	98-11: FTA (bl) 11-curr: FTA CIS*	NO	X	97-10: FTA (bl) 10-curr: CU 11-curr: FTA CIS* 12-curr: CES	92-10: FTA (bl)*[95] 10-curr: CU 11-curr: FTA CIS* 12-curr: CES	NO	92-11: FTA (bl)* 11-curr: FTA CIS*
Kaz	01-11: FTA (bl) 11-curr: FTA CIS*	NO	97-curr: FTA (bl)*	95-11: FTA (bl) 11-curr: FTA CIS*	11-curr: FTA CIS*	95-11: FTA (bl)*[95] 11-curr: FTA CIS*	NO	97-10: FTA (bl) 10-curr: CU 11-curr: FTA CIS* 12-curr: CES	X	92-10: FTA (bl)*[95] 10-curr: CU 11-curr: FTA CIS* 12-curr: CES	NO	94-11: FTA (bl) 11-curr: FTA CIS*
Rus	04-11: FTA (bl)* 11-curr: FTA CIS*	93-curr: FTA (bl)*	94-curr: FTA (bl)*	92-11: FTA (bl) 11-curr: FTA CIS*	93-11: FTA (bl)* 11-curr: FTA CIS*	92-11: FTA (bl)*[95] 11-curr: FTA CIS*	92-curr: FTA (bl)*	92-10: FTA (bl)*[95] 10-curr: CU 11-curr: FTA CIS* 12-curr: CES	92-10: FTA (bl)*[95] 10-curr: CU 11-curr: FTA CIS* 12-curr: CES	X	92-curr: FTA (bl)*	93-11: FTA (bl)* 11-curr: FTA CIS*
Tur	96-curr: FTA (bl)	NO	96-curr: FTA (bl)	NO	NO	NO	NO	NO	NO	92-curr: FTA (bl)*	X	95-curr: FTA (bl)
Ukr	96-11: FTA (bl) 11-curr: FTA CIS*	96-curr: FTA (bl)	95-curr: FTA (bl)	95-11: FTA (bl) 11-curr: FTA CIS*	11-curr: FTA CIS*	01-11: FTA (bl) 11-curr: FTA CIS*	NO	92-11: FTA (bl)* 11-curr: FTA CIS*	94-11: FTA (bl) 11-curr: FTA CIS*	93-11: FTA (bl)* 11-curr: FTA CIS*	95-curr: FTA (bl)	X

(bl) – bilateral agreement
[99] year of the signing the protocol on the complete abolition of exemptions from the free trade
*PTA with exemptions
CU – Customs union
CES – Common economic space

In force
Signed, but inactive
No agreement

Source: Listing of bilateral international agreements of the Russian Federation – Ministry of Economic Development of the Russian Federation, Consultant Plus Database, PravoInform Database, World Bank Global PTA Database, APEC FTAs/RTAs Database, WTO PTA Database, UNESCAP PTA Database, ARIC PTA Database

Bilateral FTAs concluded in the CIS area shared the following common features:

- Open and relatively wide range of asymmetric exemptions at the stage of the agreement conclusion, which is included into a separate protocol and is expected to be narrowed within agreed upon timeline[14];
- Agreements were not permanent by nature, they could have been reviewed and corrected substantially, following certain situational political reasons;
- Agreements left a room for imposing trade remedies, antidumping and countervailing duties, and the possibility of the use of quantitative trade restrictions using virtually any justification. This subsequently led to numerous trade wars in the CIS area.

The substantial structure of some of the agreements containing main chapters is presented in Figure 1. Given structure is designed by means of a binary labeling (simply count the number of points within each chapter) of PTAs effective in the CIS area using the structuring based on APEC PTAs database[15].

[14] There were no penalties if deadlines for reaching the agreement were not met
[15] Comparative Toolkit, Study on Identifying Convergences and Divergences in APEC FTAs/RTAs: http://fta.apec.org/search.aspx

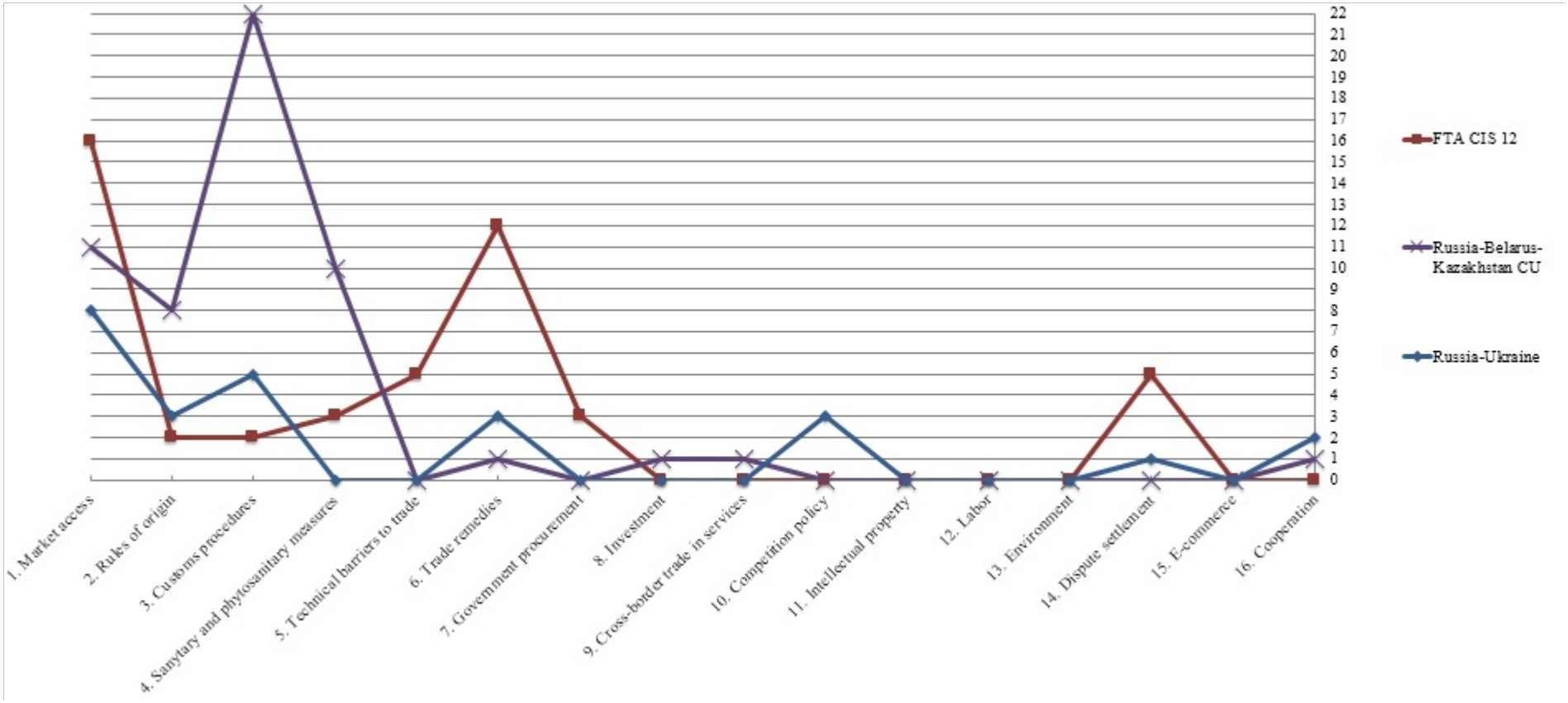

Figure 1 – Substantial structure of PTAs effective in the CIS area

Sources: Listing of bilateral international agreements of the Russian Federation – Ministry of Economic Development of the Russian Federation, Consultant Plus Database, PravoInform Database

Figure 1 indicates differentiation in the PTAs: market access issues are addressed in every agreement, but only few of them include provisions on capital movement, trade in services and the harmonization of legislation. Multilateral agreements within the CIS (i.e. CIS FTA (founded in 2011), the Customs Union of Belarus, Kazakhstan and Russia (signed in 2010), Common economic space (created in 2012)) have a wider coverage of provisions than the bilateral ones.

As mentioned above, initial list of exemptions, regarding both import and export, in nearly every bilateral FTA contained all goods that were subject to national export duties. Circa 71% of total turnover of the Russian Federation in 1993 (73% of trade turnover with CIS countries)[16] were subject to exemptions. Listing of exemptions to export tariff was significantly reduced over time as a result of shortening of number of goods subject to export duties in every country.

Key exemptions from import tariffs were ethyl alcohol, cigars and cigarettes, white sugar and vodka – they were imposed by the countries, which were major producers of given goods in the CIS: Russia, Kazakhstan and Ukraine. Given products fell under excise law in the aforementioned countries. Other countries commonly applied symmetric or asymmetric restrictions on positions sensitive for them[17].

Exemptions have made a significant impact on the trade volumes and final price of goods subject to them[18]. However, we should mention that some countries successfully established full-fledged FTA through bilateral agreements (in written form - more on that below).

For example, by the moment of ratification of the agreement on the Eurasian Economic Community in 2001 (between Russia, Belarus, Kyrgyzstan, Tajikistan and Kazakhstan), free trade regime without exemptions or limitations (both to import and export tariffs) was already established "on paper" through signed

[16] Our assessment is based on the structure of import and export in 1996 (there is no available data on import and export in 1993 broken down by types of products).

[17] The most informative sources of information on restrictions to mutual trade in the CIS countries are the individual decisions of the Economic Council of the CIS, e.g. the decision "On the ongoing work on phased removal of exemptions to free trade between states - members of the Commonwealth of Independent States" from 13 March 2009.

[18] Freinkman L., Polyakov E., Revenco C. Trade Performance and Regional Integration of the CIS Countries // World Bank Working paper №. 38, Washington DC, 2004, p. 18

bilateral protocols on exemptions from the free trade regime (the dates of termination of exemptions - see Table 1 above).

On the way to multilateral integration

In parallel with the liberalization through bilateral FTAs and the attempts to launch a multilateral FTA other integration processes, liberalizing trade distortions were developing.

For example, in 1995 was laid the foundation for the formation of the Customs Union of Russia, Belarus and Kazakhstan (and transformed after the establishment of the EurAsEC in 2001 into EurAsEC Customs Union). EurAsEC initially included 5 countries – Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan[19]. Uzbekistan joined EurAsEC in 2006 but terminated its participation in 2008.

In accordance with the signed agreement, free trade regime without exceptions and limitations neither on the import, nor on export was established within EurAsEC. Member countries came to formation of a deeper level of integration (EurAsEC Customs Union) at different speed due to necessity to carry out a significant amount of preparatory activities (unification customs legislation, harmonization of customs classification of goods, coordination of general rates in relation to third countries, and so on).

In fact, EurAsEC Customs Union took effect only by 2010-2011, when the member countries enforced the Customs Code and the transport and customs control has been moved to the outer borders of the three countries.

Other linked issues concerning mutual economic and trade integration of Russia with neighbor countries are discussed within the framework of existing integration organizations such as the Union State of Russia and Belarus, and the Common Economic Space of EurAsEC. The activities of given forms of integration indirectly affect trade between member countries through regulations of

[19] Agreement on establishment of EurAsEC was signed on 10 October 2000 and came into force on 30 May 2011 after ratification by all member countries.

capital and labor movement, technical regulations and support measures for agriculture.

Thus the basic documents contributing to trade liberalization within the CIS up to 2012 were the bilateral FTAs, and despite their consistent development, member countries in fact were always able to impose restrictive (tariff, non-tariff and quantitative) measures in trade, bypassing the existing rules. "List of restrictive measures in force in the foreign markets for Russian goods[20]" published by the Ministry of Economic Development monthly is an evidence of such restrictions. Certain restrictions caused symmetrical or asymmetrical response in most cases[21].

The Russian Federation also actively imposes various restrictive measures that are treated by partners as violation of FTAs or agreements on creation of common economic space. For example, in the case of Belarus, despite establishment of free trade regime without exemptions and limitations in 1995, discussions regarding justification of imposing export duty on Russian oil supplied to Belarus often arose at the state level over the last decade. Temporary compromise is reached periodically by the parties regarding the issue[22], but one way or another, given question along with the pricing of Russian gas[23], always arises on discussions of trade disputes in the CIS.

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[20] Archive of such statements is incomplete. Examples of restrictions applied in Belarus on Russian goods as at 1 April 2012:

• Lack of national treatment to Russian goods and services with regard to their admission to public procurement in the Republic of Belarus. The measure applies to all products, including agricultural.

• Import into the country of tobacco products is permitted only through special importers defined by the President of the Republic of Belarus.

• Import into the country of alcohol products is permitted only through special importers defined by the President of the Republic of Belarus.

• Restriction of access of medical products and medical devices (Information letter of Ministry of Health of the Republic of Belarus from 29.07.2011 # 12-1-10/833-763).

• Restricted listing of wholesale operators, import volumes and the list of imported goods (Council of Ministers of the Republic of Belarus from 12.05.2011 # 601).

• Other.

[21] In the form of restrictions of trade with regard to a particular product groups.

[22] Specifically calculated export duty on oil exported to Belarus was agreed upon in 2007, starting from 1 January 2010 oil imported for internal consumption is not subject to export duty, the surplus is subject to a standard export duty.

[23] Disputes regarding gas are relatively easier and harder at the same time. In addition to the existing export duties on gas, the presence of the monopoly power of Gazprom results in existence of various discrimination schemes against trading partners. A significant difference in domestic prices for Russian gas in Russia and Belarus on the state level is a result of the Gazprom contract policy rather than the use of gas export duties for Belarus.

Full multilateral FTA in the CIS was formed in 2011 and came into force in the end of 2012 between the countries of Armenia, Belarus, Kazakhstan, Moldova, Russia and Ukraine (Tajikistan and Kyrgyzstan signed but have not ratified the agreement by the end of 2012). Hallmark of given agreement is a high degree of consistency with internationally accepted rules (GATT and WTO). Key features of the agreement are the following:

- abolition of quantitative restrictions except those permitted by Article XI of GATT 1994;
- transit of goods and means of transportation are carried out in accordance with the provisions of Article V of the GATT;
- special remedy measures in mutual trade are imposed only if they comply with the Article XIX of GATT 1994, the WTO Agreement on Safeguards;
- Anti-dumping and countervailing measures in mutual trade must comply with Articles VI, XVI of GATT 1994, the WTO Agreement on Implementation of Article VI of GATT 1994, the WTO Agreement on Subsidies and Countervailing Measures;
- other.

Listing of exemptions in multilateral FTA (2011-present) is presented in the table below.

Table 2 – Exemptions from FTA in the CIS area regarding import

	Armenia	Kyrgyzstan	Belarus	Kazakhstan	Russia	Moldova	Tajikistan	Ukraine
Armenia		24 - Tobacco						
Ukraine	Does not apply		17 - Sugar			12 – Oil seeds; 17 - Sugar	Does not apply	
Belarus	Does not apply							17 - Sugar
Kazakhstan	Does not apply							17 - Sugar; 22 – Beverages and spirits
Moldova	Does not apply							17 - Sugar; 22 - Beverages and spirits
Russia	Does not apply							17 - Sugar
Tajikistan	Does not apply							
Kyrgyzstan	Does not apply							

Source: summary compiled by authors based on the agreement on FTA (signed in Saint-Petersburg 18.10.2011)

Table 3 – Exemptions from FTA in the CIS regarding export (by commodity groups)

	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Moldova	Russia	Tajikistan	Ukraine
Kyrgyzstan	04 47				04 47			
Armenia	Does not apply							
Belarus	12 27 31 41 44			12 27 31 41 44			12 27 31 41 44	
Kazakhstan	12 27 41 51 72 73 74 76 86			12 27 41 51 72 73 74 76 86			12 27 41 51 72 73 74 76 86	
Russia	03 12 16 22 25 26 27 28 29 31 39 41 44 47 48 71 72 73 74 75 76 78 79 80 81 86	Does not apply		03 12 16 22 25 26 27 28 29 31 39 41 44 47 48 71 72 73 74 75 76 78 79 80 81 86			03 12 16 22 25 26 27 28 29 31 39 41 44 47 48 71 72 73 74 75 76 78 79 80 81 86	
Tajikistan	01 02 07 08 13 20 27 41 50 51 52 71 72 74 75 76 78 79 80						Does not pply	01 02 07 08 13 20 27 41 50 51 52 71 72 74 75 76 78 79 80

Source: summary compiled by authors based on the agreement on FTA (signed in Saint-Petersburg 18.10.2011)

Reference data: Listing of commodity groups

1 Live animals
2 Meat and edible meat offal
3 Fish and crustaceans
4 Dairy, eggs, honey
7 Edible vegetables
8 Edible fruits and nuts, peel of citrus/melons
12 Oil Seeds and oleaginous fruits
13 Lac; gums, resins and other vegetable saps and extracts
16 Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates
20 Preparations of vegetables, fruit, nuts or other parts of plants
22 Beverages, spirits and vinegar
25 Salt; sulphur; earths & stone; plastering materials; lime & cement
26 Ores, slag and ash
27 Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes
28 Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes
29 Organic chemicals
31 Fertilisers
39 Plastics and articles thereof
44 Wood and articles of wood; wood charcoal
47 Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) of paper or paperboard
48 Paper and paperboard; articles of paper pulp, of paper or of paperboard
50 Silk
51 Wool, fine or coarse animal hair, horse hair yarn and woven fabric
52 Cotton
71 Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin
72 Iron and steel
73 Articles of iron or steel
74 Copper and articles thereof
75 Nickel and articles thereof
76 Aluminium and articles thereof
78 Lead and articles thereof
79 Zinc and articles thereof
80 Tin and articles thereof
81 Other base metals; cermets articles thereof
86 Railway or tramway locomotives, rolling-stock and parts thereof; rail-way or tramway track fixtures and fittingsand parts thereof; mechanical (including electro-mechanical)traffic signalling equipment of all kinds

Table 4 – Exemptions from FTA in the CIS (2011 – present) regarding import (as a % in total trade turnover between member countries of CIS FTA)

	Armenia	Kyrgyzstan	Belarus	Kazakhstan	Russia	Moldova	Tajikistan	Ukraine
Armenia		0.00	0.00	0.00	0.01	0.00	0.00	0.02
Ukraine	Does not apply		0.02	0.00	0.00	0.00	0.00	
Belarus	Does not apply							0.01
Kazakhstan	Does not apply							0.03
Moldova	Does not apply							0.02
Russia	Does not apply							0.08
Tajikistan	Does not apply							
Kyrgyzstan	Does not apply							

Source: calculations of authors based on the data of trade statistics

Table 5 – Exemptions from FTA in the CIS (2011 – present) regarding export (as a % in total trade turnover between member countries of CIS FTA)

	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Moldova	Russia	Tajikistan	Ukraine
Kyrgyzstan	0.00	0.00	0.00		0.00	0.01	0.00	0.00
Armenia	Does not apply							
Ukraine	Does not apply							
Belarus	0.00			0.00	0.00		0.00	0.20
Kazakhstan	0.00			0.07	0.00	Does not apply	0.00	0.52
Russia	0.12			0.01	0.13		0.00	10.12
Tajikistan	0.00	0.02	0.03	0.00	0.00	0.03		0.01

Source: calculations of authors based on the data of trade statistics

Amount of turnover subject to exemptions was equal to 11.3% of the total turnover between member countries of the CIS FTA (2011), while 10.1% of them relate to exemptions to export tariff imposed by Russia in respect of Ukraine.

Thus, the conclusion of a new multilateral FTA between the countries of the CIS is a significant step forward in comparison with preferential trade relations in the post-Soviet space that were in force last 20 years. Earlier “trade wars” were common between parties to bilateral PTAs[24].

Aforementioned situation is partially explained by the fact that the criteria for the application of remedy measures in the bilateral agreements between the CIS members were not clearly defined and no formal sanctions for breaches of the agreement such as imposing "temporary" remedy measures for 5 or more years existed.

The new FTA is focused on compliance with international law (including Articles VI, XVI, XXIV, XIX of GATT 1994) regarding the implementation by the parties of obligations outlined in this agreement. This is expected to result in reduced risks of opportunistic use of remedy measures by any member of given agreement, thus, in fact reduced trade barriers between countries.

In addition, the volume of exemptions from total trade turnover between member countries of the CIS FTA significantly decreased compared to the limitations imposed by bilateral agreements, and now circa 90% of trade turnover between countries is carried out free of import and export duties with the remaining 10% of trade almost entirely relating to the exemptions to export tariff

[24] For more information on trade wars between Poland, Ukraine, Moldavia and other CIS countries, please refer to

- Russian Economy in 2005. Tendencies and perspectives.// Institute for the Economy in Transition, issue 27, Moscow, 2006, pp. 362 - 379;
- Russian Economy in 2006. Tendencies and perspectives// Institute for the Economy in Transition, issue 28, Moscow, 2007, pp. 404 - 421;
- Russian Economy in 2007. Tendencies and perspectives.// Institute for the Economy in Transition, issue 29, Moscow, 2008, pp. 312 - 334;
- Russian Economy in 2008. Tendencies and perspectives.// Institute for the Economy in Transition, issue 30, Moscow, 2009, pp. 312 - 333;
- Russian Economy in 2009. Tendencies and perspectives.// Institute for the Economy in Transition, issue 31, Moscow, 2010, pp. 350 - 367;
- Russian Economy in 2010. Tendencies and perspectives.// Institute for the Economy in Transition, issue 32, Moscow, 2011, pp. 307 - 328;
- Russian Economy in 2011. Tendencies and perspectives.// Institute for the Economy in Transition, issue 33, Moscow, 2012, pp. 311 – 334.

imposed by Russia against Ukraine. Such a substantial reduction in the amount of exemptions is undoubtedly a significant breakthrough in the field of trade policy of the CIS. However, we should mention that the assessment is carried out after possible changes of the trade patterns under the existing exemptions.

PTAs of the CIS member countries with non-members

Russia and Moldova are the only countries in the CIS FTA (2011), who are parties to PTAs with non-member countries.

The number of such agreements is insignificant, and the coverage of the issues discussed in given PTAs causes serious doubt on the economic motives of their appearance[25], i.e. the motives based on the quantitative analysis of economic impacts of these agreements.

Thus, in substance, Russia concluded only one PTA with non-CIS countries – the PTA with Serbia[26] (initially the agreement was concluded in 2000 with the Federal Republic of Yugoslavia). The agreement is superficial (provisions within the agreement are mainly devoted to trade in goods, rules of origin and trade remedy measures), additionally, list of import exemptions is attached[27].

Moldova is significantly more active in trade negotiations than Russia. Current partners of Moldova through existing bilateral PTA's are: Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia, Montenegro.

Moreover, Moldova joined the Central European Free Trade Agreement (CEFTA) in 2007, the other members of which are the aforementioned partner countries of Moldova in bilateral agreements. In other words, Moldova and the listed countries are integrated through a set of bilateral agreements and one multilateral agreement.

It should be noted that the former members of the CEFTA (Poland, Czech Republic, Hungary, Slovakia, Slovenia, Bulgaria и Romania) joined the European Union after withdrawal from the agreement. The intention of recent member countries of given agreement (e.g. Croatia, which has withdrawn from CEFTA in

[25] Determinants of signing PTAs between countries are addressed in the framework of political economy. For example, refer to Grossman G., Helpman E. The Politics of Free-Trade Agreements// The American Economic Review, September 1995b, v. 85, no. 4, p. 667–690

[26] Some international databases contain information on existence of PTA between Russia and the European Union, e.g. refer to McGill Faculty of Law Preferential and Regional Trade Agreements Database: http://ptas.mcgill.ca/Pages%20ptas/A-Z/R.htm.
In reality, this agreement is only a framework agreement on partnership and cooperation and cannot be regarded as PTA.

[27] Exemptions applicable to the following products:

- Import in Russia from Serbia: meat, sugar, alcohol, tobacco, textile, new pneumatic tyres of rubber, some types of machinery and equipment;
- Import in Serbia from Russia: new pneumatic tyres of rubber, some types of machinery and equipment.

the beginning 2013) to join the European Union in the near future suggests that CEFTA is a definite beachhead. It allows countries to harmonize legislation and institutions with European standards, in order to allow for further integration with the European Union.

The PTA linkages in the CIS are represented schematically in the following figure:

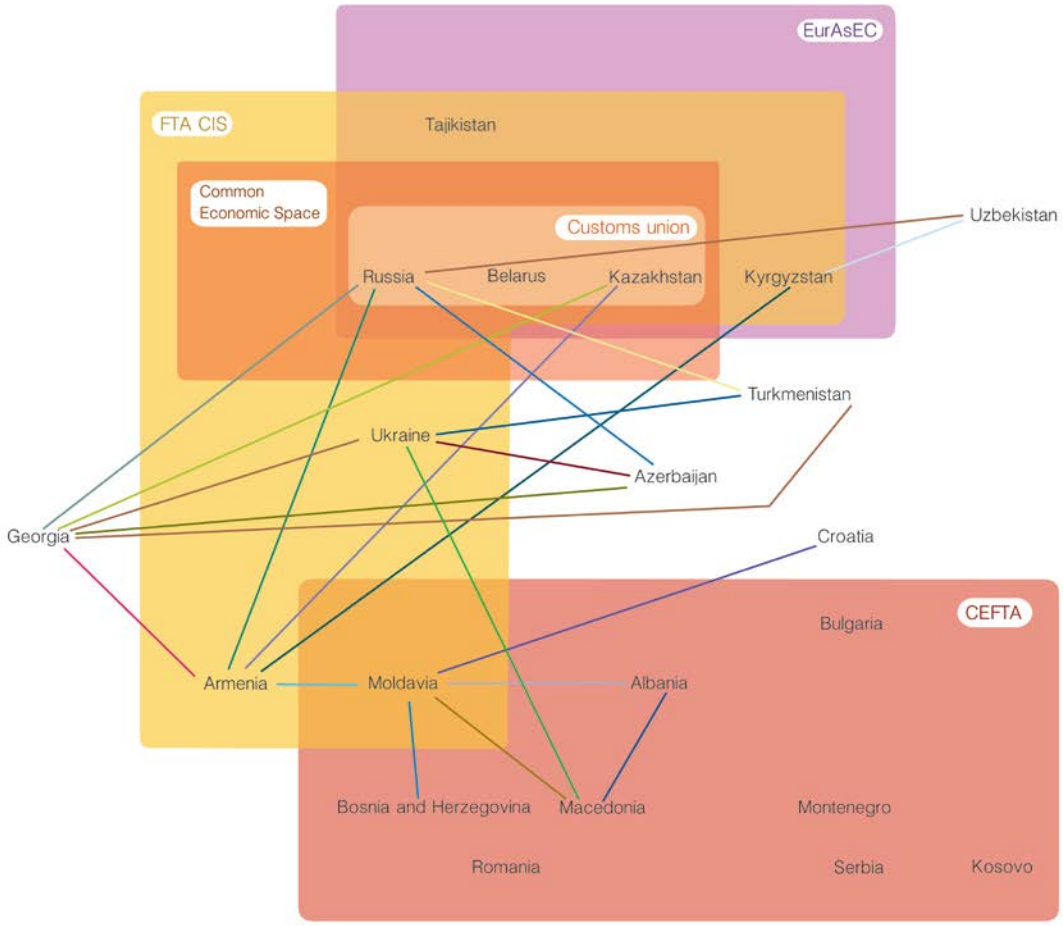

Figure 2 – PTA's of CIS member countries

Sources: Listing of bilateral international agreements of the Russian Federation – Ministry of Economic Development of the Russian Federation, Consultant Plus Database, PravoInform Database, World Bank Global PTA Database, APEC FTAs/RTAs Database, WTO PTA Database, UNESCAP PTA Database, ARIC PTA Database

Is there a future for PTAs?

In the last two decades the number of PTAs has increased more than four-fold and reached 300 active agreements today, besides each WTO member is party to 13 PTAs in average[28].

Russia de facto has only a few agreements that are literally aimed to reduce trade barriers among its members (FTA CIS (2011), EurAsEC Customs Union, Common Economic Space and to a lesser extent PTA with Serbia).

Despite the avalanche growth of number of PTA's in the world in recent years that may be linked to the periodic multilateral trade negotiations difficulties (particularly the Doha Round of WTO negotiations remains uncertain) only 16% of world trade is covered by preferential benefits[29] and larger part of world trade takes place on the basis of MFN[30].

In fact, PTA is not only a tool free trade promotion and addressing the issues of integration and harmonization, but also a mechanism of overcoming the crisis in multilateral trade negotiations. Analysis of the existing agreements in the CIS and the world[31] has shown that the specific contents of PTA, i.e. depth of PTA provisions is more important than presence or absence of PTA. Currently a significant share world PTA are framework agreements by substance.

In this paper we focus on particular features of PTAs rather than on the formal static analysis of the effects of PTA conclusion[32]. As a rule in academic research on the impact of PTAs on trade, conclusion of PTA assumes a reduction

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[28] The WTO and Preferential Trade Agreements: From Co-existence to Coherence// World Trade Report, World Trade Organization, Geneva, 2011, pp. 6, 47.

[29] The WTO and Preferential Trade Agreements: From Co-existence to Coherence// World Trade Report, World Trade Organization, Geneva, 2011, p. 47.

[30] On the assumption of the structure of world trade and participation of most countries in the WTO

[31] The WTO and Preferential Trade Agreements: From Co-existence to Coherence// World Trade Report, World Trade Organization, Geneva, 2011, pp. 128-144

[32] Classic effects of trade creation and trade diversion addressed in Viner J. The Customs Union Issue// Chapter 4 in New York: Carnegie Endowment for International Peace, 1950, pp. 41-56; Lipsey R. The theory of Customs Union: Trade Diversion and Welfare// Economica 24, 1957, pp. 40-46; Mundell R. Tariff Preferences and the Terms of Trade// Manchester School of Economics and Social Studies 32, 1-13; Panagariya A. The Meade Model of Preferential Trading: History, Analytics and Policy Implications// International Trade and Finance: New Frontiers for Research, Essays in honor of Peter B. Kenen, New York: Cambridge University Press, 1997, 57-88; Max Corden W. (1972) Economics of Scale and Customs Union Theory // Journal of Political Economy 80, 465-475.

in barriers to trade with partner countries provided that the barriers against third countries remain unchanged[33]. In reality it does not always happen. Even with the presence of trade creation effect[34] resulting from agreement conclusion, deterioration in aggregate social welfare may occur in respond to changes in terms of trade between the member countries and third countries.

In other words, a package of measures to reduce trade barriers with one country could potentially mean an increase in trade barriers with other countries[35].

Another typical drawback of creating PTAs around the world is the spread of the so-called "spaghetti bowl" effect[36], which can be defined as the process of complication of the world trade rules due to clustering of trading blocs and the establishing separate trade rules within them (an example is shown in Figure 3).

[33] Refer to Bhagwati J., Paganariya A. Preferential Trading Areas and Multilateralism: Strangers, Friends or Foes?// Trading Blocs: Alternative approaches to analyzing preferential trade agreements, MIT, 1999, pp. 33-67

[34] Trade creation's essence is in elimination of customs tariffs on inner border of unifying states, causing further decrease of price of the goods, while there may be a case of new trade flow creation of the goods between the states decided to economically integrate. The issue was firstly brought into discussion in Viner J. The Customs Union Issue// Chapter 4 in New York: Carnegie Endowment for International Peace, 1950, pp. 41-56.

[35] Formal proofs can be found in Bhagwati J., Panagariya A., Krishna P. Trading Blocs: Alternative approaches to analyzing preferential trade agreements// MIT Press, 1999, pp. 70-79

[36] The term «spaghetti bowl» was firstly used in Bhagwati J. U.S. Trade Policy: The Infatuation with Free Trade Agreements// in Bhagwati J., Krueger A. The Dangerous Drift to Preferential Trade Agreements, AEI Press, 1995, p.4

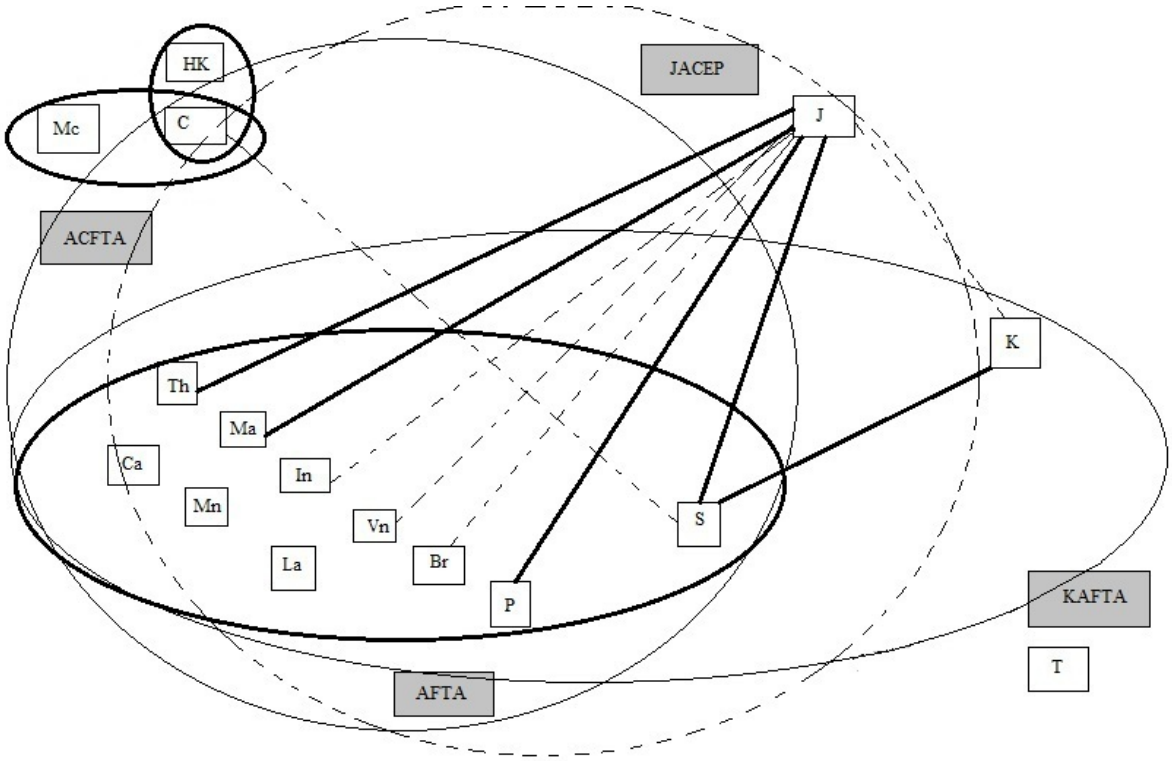

Figure 3 – «Spaghetti Bowl»: PTA linkages within East Asia (by June 2007)

Note: PTA phase development:

---------- Negotiating

——— Partially in force, still negotiating

▬▬▬ In force

Source: Dent C. East Asian Regionalism// Routledge, London, p. 199

Increase in number of PTAs causes increase in costs of overlapping older agreements by more recent ones for the global trading system. If the country is a member of several PTAs, each of the agreements can establish rules of origin[37] that are not harmonized with each other[38].

Furthermore, in case of discriminatory trade liberalization the country involved in several agreements simultaneously can face different duties for the

[37] Rules of origin are aimed to determine whether the good or any of its part produced in the territory of a partner country or from local ingredients, and thus, whether it be a subject for duty-free imports or other preferential treatment

[38] For more details refer to Krueger A. Free trade agreements versus customs unions// Journal of Development Economics, Volume 54, Issue 1, October 1997, Pages 169–187.

same product simultaneously, since the conditions of market access for PTA partners are usually differentiated.

Absence of a large number of PTAs, indicating the absence of encumbrances and liabilities in certain agreements and discriminatory practices is a definite advantage of Russia. It facilitates the integration into the world trading system that exists on the principles of reciprocity and non-discrimination.

Existing integration processes (which result in conclusion of PTAs) largely result from the common past of Russia with partner countries (ethnic affinity, similar cultural characteristics, etc). Importance of direct economic impact from integration of Russia still remains a question.

Underlying reasons for negotiations with Vietnam and New Zealand on the establishment of PTAs can be explained only partially. In particular, the potential conclusion of an agreement between Russia and Vietnam can be seen as a beachhead for entering the markets of ASEAN countries.

Negotiations on FTA with New Zealand are conducted on behalf of the Customs Union of the Eurasian Economic Community. In this case it appears that the purpose of the Customs Union members is a confirmation of international legal personality of the Customs Union and the further development of the integration agenda.

Thus, at the moment Russia is practicing trade negotiations with non-CIS countries, gaining experience and does not aim to a direct material benefit from cooperation in the short run. Moreover, it seems that these potential PTAs have a signaling role of informing other countries that Russia is ready for such forms of integration.

It is obvious that is economically feasible for Russia to negotiate with China, the European Union, Brazil, the U.S., Chile, if the countries agree upon the fact that current depth of integration, achieved for example within the WTO, is not deep enough. On the other hand, elimination of trade barriers with any of the listed countries in the PTA framework can have a large negative impact on specific interest groups in both Russia and potential partner country.

The future of the PTA institution is open primarily for decision makers and specific interest groups who participate in distribution of benefits arising from trade barriers. From the point of view of social welfare there is no such a question: if international trade is a more efficient method of production it should be implemented. Policy on movement towards free trade should take into account the analysis of economic costs and benefits, both short- and long-run.

The WTO, as well as other institutions that promote free trade (including bilateral and multilateral PTAs) is only a set of tools for policy-makers, economists, representatives of industries: each of listed groups to some extent are not ready for a redistribution of wealth in favor of the national, with overall growth of its magnitude.

Conclusion

The majority of observers often get a false impression that trade barriers help the country using them and harm the country in respect of which they are applied. This argument is to some extent true for large economies, which can affect world prices on goods and services through trade policy.

In reality, in case of small economies including Russia[39], trade barriers are equally harmful to both countries, mainly due to a negative effect on the aggregate social welfare[40].

In our opinion, removal or iterative elimination of trade barriers in the medium run is one of the main tasks of Russian trade policy aimed at improving quality of life in Russia.

In this regard, consistent work of Russia in the WTO, though potentially costly, due to, for example, asymmetry of information, as well as the systematic elimination of trade barriers to the access of foreign countries in the Russian market is vitally important for Russia.

Any form of international trade integration should be used to maximize effect. Achievement of optimum balance in integration forms can contribute to the gradual progress of the country towards free trade with the rest of the world, including removal of discriminatory barriers that are applied in respect of Russia, and eventually lead to an increase of aggregate social welfare and living standards of Russian citizens.

[39] Russia may have a very limited influence on world prices of goods and services

[40] For more details refer to Bhagwati J. Protectionism// MIT Press, Cambridge, Massachusetts, 1988, 164 pp.; Krueger A. Are Preferential Trading Arrangements Trade-Liberalizing or Protectionist?// The Journal of Economic Perspective, Vol. 13, No. 4 (Autumn, 1999), pp. 105-124.

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