



ANALYTICAL MEMORANDUM

International Conference

«EAEU Strategies in the Age of New Protectionism»

New Protectionism and systemic crises: what does this mean for the EAEU?

1. **Military background.** The key reason of the rise of protectionism is a shift that happened during the last decade, when the West lost its military preponderance. Western states lose interests in liberal economic system, as they could not dictate the rules. Broader use of economic weapons for political purposes means that Western states cannot use hard power anymore as widely as they used to do. As a result, protectionism is a tool that assists to curve a state`s part of the world`s GDP if it loses a system that gives a possibility to shift enough world GDP in its favour. The pandemic situation exacerbates disintegration of the world economic system, strengthening of nationalism, regionalism, and inequality. The EAEU is a major provider of sovereignty that gives smaller countries of the Union a possibility to stand up for their powerful neighbours and economic protection on the global market. China will try to line up the smaller members of the EAEU around its confrontation with the U.S., while the U.S. will try to weaken the Union. Combined with the tendencies mentioned above, this will challenge Eurasian economic integration.

2. **Initial goals.** The creation of the EAEU is an answer to global challenges: it enables the establishment of a large market, closer economic cooperation. However, the formation of the Union coincided with the turbulent geoeconomic and geopolitical period, even though it is very perspective. A long transition period of the member states to a more balanced and stable domestic political systems contributed to the slowdown of the integration process. Currently, it is necessary to depoliticise economic cooperation; develop interregional structures and institutions. It is also important to develop an efficient judicial mechanism in the Union that could be trusted by all parties.

3. The systemic crisis of **WTO** is partly connected with the U.S. protectionist policy under D. Trump. The U.S. has blocked WTO Dispute Settlement mechanism and Trump`s administration is not searching for solutions. In addition to the U.S. factor, to a certain extent the crisis of WTO is caused by rapid China`s growth, a new world economic map and a relative decline of some old industrial powers. Finally, limited disciplines on subsidies and state-owned enterprises matter more due to the size of China which also dramatically affects the global trade system.

4. **Lessons from peace studies.** Countries that experience civil wars reflect the anarchic international system. Central governments naturally see these territories as political rivals and often use sanctions and trade blockades in an attempt to change their behavior. The literature on transitioning from civil wars to peace teaches us at least three lessons relevant for the current international order: 1. Damaged trust is very difficult to restore. 2. Dialogue is one of the most important instruments in these crisis situations and should be maintained and increased where possible. 3. Institutions can function well without trust, and the best way to function is to have “representation with power” for

even the weaker side – ideally veto power – to ensure the institutions function successfully without trust. On the international stage, this encourages us to think about strengthening existing institutions and providing greater power to more key bodies.

5. **New protectionism** reflects a fundamental dilemma in the new post-cold war world system: on one hand, there is a post-cold war globalisation; acceptance of universal liberal principles. On the other hand, there is a redistribution of economic power which led to regional tensions within the globalised system. Protectionist wars are not a new phenomenon, however, the context is new: some states try to promote exhausted liberal model, while others try to benefit from it without suggesting new models. China is expected to become a giver of sanctions, instead of being a taker. Pandemic will push China towards economic openness and international trade – FTAs with new regions, especially in the south-east Asia are expected.

6. Currently, **sanctions** pose a low risk for integration. Nevertheless, this point could be changed by radicalization of political affairs. Forecasts that sanctions will hinder the EAEU integration seem to be overestimated. Sectoral sanctions imposed on Russian financial institutions and energy companies imply only limited number of measures, they do not block international activities of these sectors, do not affect integration. The EAEU should work on the development of instruments in the financial sector which would guarantee that transactions inside the Union are secured from the external interference in terms of sanctions.

In search of an optimal strategy for the development of the EAEU in the context of the “new normality”

1. **Financial sanctions: diverse effects.** The current crisis will make sanction and counter sanction policies more intense. We will also see more sectoral sanctions imposed in result of the strategic competition and it will be harder to maintain previously used hedging strategies or diversification policies. Sectoral sanctions will push countries for fragmentation of their domestic economies and establishment of sub-systems for dealing with the US, China, and the EU more separately. Still, it could be only a short-term solution. The EAEU has to elaborate a strategy on how to unite the initial goals of the Treaty on the EAEU with economic sub-systems inside every state. Instruments to deal with the rising issue of financial sanctions include patchwork integration, as a way to balance interests of states inside the Union, and the promotion of natural currencies. However, the latter should be used to healthier domestic economies and the Union and not just to hide some operations - sanction control has evolved profoundly since 2014. “Pirate style” of counter-sanctions policies is almost over.

2. **Green protectionism: more questions than answers.** Current state of affairs in the EU reflects profound disputes over most of the pillars of European concept of green protectionism. Domestically in the EU there is a risk of undercutting some European countries that still heavily depend on coal for energy generation. External threats of that protectionism imply that local business risks to lose its competitiveness. The suggested balancing tool is a carbon border tax. However, the EU has not already harmonized carbon taxes. Money from tax could be used either to foster innovation or to change behaviour of the partners. If carbon tax is adapted, it does not actually affect the EAEU directly, but rather the European Energy Community Treaty. The adaptation of a carbon tax in the EAEU varies among the sectors. For example, the aluminium production, in comparison with the oil one, is carbon free. Therefore, the level of barriers for external competitors could be elevated. Thus, the discrimination arises on the carbon neutrality purpose. Another big issue relates to new framework for energy investments and its protection – still an open issue inside the EU itself.

3. Measures for the reformation of the EAEU **legal and institutional framework** to deal with protectionism include the extension of the competence of the Court in the field of external relations. This means creation of a mechanism to control the compatibility of international agreements with the third parties with the EAEU Treaty and permission to member states and the EEC ask the Court for the clarification of a provision of an international treaty concluded with the third parties. The use of the veto mechanism in relation to the decisions adopted by the EEC in the field of antidumping/competition law should be prohibited. The Union should return to the preliminary reference procedure.

4. **Tailored tools for new challenges.** The EAEU should also create special grant program for the industrial joint ventures of member and observant states. It could weaken the burden of the future carbon emission tax as its objective is not to decarbonize economy but enforce new carbon-free technologies and support industries in the EU. So special EAEU grants could be promoted in the EAEU export industries to make them more competitive.

5. **European point of view:** the debates whether a close cooperation between the EU and the EAEU could be reached became more important in the post-corona world. The dialogue between two supranational bodies – European and Eurasian Commissions could be aimed at technical norms

and standards which are important for all companies as it is a non-tariff trade barrier. Gradually, we see a competition between the EU and China and both parties try to use different norms and standards as protectionist instruments, especially in the new sectors (digital, artificial intelligence). In future the EAEU could be engaged in the negotiations between China and the EU on norms and standards in strategic sectors.

Protectionism in the offensive: Prospects for “Four Freedoms” in the EAEU. Young scholars outlook

1. **Research first.** The innovative development of the EAEU is a long-term strategic priority of the Union. From 2014 to 2018, there is a visible tendency of reducing the domestic costs for research and development, as well as technological innovation, which is a negative factor for the EAEU. An important task is the comprehensive development of innovation indices and specific indicators of the innovative development of the Union. To deepen integration, union-wide approaches to innovative development are needed: exchange of information on current research projects, co-financing and joint research groups mechanisms within the EAEU by all member states.

2. **The financial market** remains among the most vulnerable to the new Protectionism. As the EAEU accounts for a relatively small part of world production, the economy of the Union member states is highly dependent on external factors. The implementation of the flagship initiative of Kazakhstan such as Astana International Financial Centre (AIFC) is one of the most promising mechanisms for hedging financial risks which can spread its impact to the Union level.

3. **Trade facilitation.** As 87% of all EAEU trade falls on foreign trade with third countries, and 3/4 of it is made up of raw mineral products and metals, the potential economic development of the EAEU is highly dependent on three external factors: the state of the business cycle of its main foreign trade partners; volumes of international trade; global commodity prices, energy and various metals. Union-wide approaches to hedging external risks are needed, including the liberalization of the foreign trade environment by creating Free Trade Areas with key partners worldwide.

4. **Opportunity hunting.** In the era of new protectionism, the key problem of the EAEU is the lack of mechanisms for forecasting and responding to possible trade wars of third countries. As example, Brazil used the trade war between China and the United States to sharply increase its share of exports to China, while the position of the EAEU did not change fundamentally. Therefore, it is important to use new opportunities for diversifying Union’s export goods and find new economic niche.

5. **To be discussed: education** is a key factor in the long-term development of the EAEU human capital and as a result the competitiveness of Union’s labour market. Moreover, the search for joint approaches is also important here: substantial flows of students sent to only one state of the Union can provoke internal protectionist measures within the EAEU. And at the same time, the problem of the outflow of the talents outside the Union is an urgent problem for all member states. A possible solution should be the intensification of double-degree education programs between the EAEU member states, the programmes of academic mobility in the Eurasian space with parallel alignment of prices for educational services within the Union and ensuring quality and offsetting.

6. **Coordination of production** of the EAEU is necessary element for its future. However, states need to decide whether each of them should have a specialization on certain sectors (as it works in the EU) or it is necessary to strive for self-sufficiency of each of the national economies of the Union. Nevertheless, the further development of the Union will objectively stimulate a demand for a single financial regulator and possible unified payment systems.

7. **Routine acknowledgement.** The EAEU needs to form a more active presence in the daily life of its citizens and ensure the recognition of its symbols. “Eurasian brands” can and should

reduce the negative impact of new protectionism, primarily due to the intensification of internal trade between Union member states, and subsequently, these brands can be also successful in foreign markets. In this regard, it is essential to identify non-primary Eurasian goods and services that have export potential: digital libraries in all national languages of the member states, projects to protect monuments and monuments of Eurasia as a tourism incentive, “Made in the EAEU” brands, etc.

The development of the system of foreign economic relations of the EAEU in the context of new protectionism. Young scholars outlook

1. **Project of a digital transport corridor** worth highlighting when addressing the issue of strengthening the EAEU' foreign economic relations with other countries in the context of financial sanctions, trade wars and the growth of protectionism in the global economy. The importance of the project is that the main routes connecting Europe and Asia pass through the EAEU territory. However, to implement the initiative of digital transport corridors, in particular, the project of satellite tracking of transit traffic, a number of measures still have to be implemented. Such tasks are associated with the transition to electronic document management in the field of transit transportation in the EAEU based on international standards and the organization of information interaction between regulatory authorities and the business community in the field of transportation. The efficiency of the route is expected to be achieved through the use of electronic seals and electronic customs declaration.

2. **BRI:** in the light of the 'conjunction' of Belt and Road Initiative with the EAEU, after five years of cooperation there has been a positive dynamic in the development of bilateral relations, especially in key infrastructure projects and logistics within this project. Among the key advantages of this format of cooperation under the new protectionism is the ability of the EAEU member states to create a transit zone for cargo flows from Europe to Asia, expand their product markets in China and other Asian countries. The coordination of approaches and actions to overcome the recession in the global economy may affect the further cooperation of partners. The trade war between the U.S. and China will prompt the latter to concentrate even more on the Eurasian region. In the new world conditions, Belt and Road Initiative can acquire a fresh sound, and initiative will lead to a closer and more comprehensive cooperation, which in the future will lead to the formation of an even larger - the Greater Eurasian Partnership, one of the mainstays of a multipolar world.

3. **CIS:** In the age of sanctions and trade wars the demand for the strengthening and institutionalizing the contacts between various organizations is increasing rapidly. In this regard, the Eurasian Economic Union and the Commonwealth of Independent States have already developed cooperation and maintain dialogue in a number of promising areas. Within the framework of existing EAEU institutions, it is necessary to continue increasing the level of trust and solidarity between the EAEU member states and the CIS in the most relevant areas, from digitalization to the energy and financial sectors.

4. **EU:** one of the most prominent aims for the development of economic cooperation between the EU and the EAEU is the reduction of non-tariff barriers which is considered as a more important step rather than the decrease in the existing import tariffs. Today the harmonization of standards can be achieved based on International Organization for Standardization or UNECE regulations. But trade liberalization between the EU and the EAEU will be accelerated in case of each party full membership in WTO. Hence, the EAEU is recommended to intensify the facilitation of WTO membership negotiations for Belarus.

5. It is necessary to ensure **mutual recognition** of economic interests between the EU and EAEU, simplified involvement of states in trade and economic cooperation between integrations. In the long-term perspective it is essential to create of free trade areas between various integration associations and initiatives ("regions of the common neighborhood") and begin to find the common

denominator in potential regulatory convergence.

6. **Africa** is the most prominent market in the age of the new protectionism as none of African countries interested in deliberalization of trade. Having 16% of the world population, Africa is expected to generate one third of the world population growth by 2050. In this case EAEU has a potential to expand African market in the field of agricultural products, machines and technologies, geological exploration, export of drugs, medical services and education among others