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TRADE IN GOODS BETWEEN THE EAEU AND TURKEY: PROSPECTS FOR LIBERALIZATION

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I hereby certify
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Introduction

Eurasian Economic Union (EAEU) and Turkey are powerful regional economies with promising trade, infrastructure and investment potential. The economic relationships, cooperation and bilateral institutional environment between countries are developing rapidly.

The possibility of Free Trade Agreement (FTA) between Turkey and EAEU could create beneficial conditions for further developments of trade and economic cooperation. Exploration of possible scope of potential FTA and analysis of sensitivities of specific sectors determine a relevance of the study.

The goal of the study is to evaluate potential effects of free trade agreement on existing trade flows and to construct a systemic analysis of possibilities to establish a FTA between member states of EAEU and Turkey, concentrating on issues of trade liberalization by lowering customs duties.

This study focuses on analysis of possible benefits and drawbacks of potential FTA between Turkey and EAEU.

Based on that, basic aims of the study include:

1. Analyzing economic linkages between Turkey and the EAEU.
2. Identifying possible benefits that Turkey and EAEU would derive from consistent FTA.
3. Assessing areas of cooperation such as energy, construction and technology.
4. Evaluating an impact of liberalisation of tariffs and non-tariff measures on trade in goods.
5. Summarizing bilateral trade and economic relations and foreign economic policies.

The main objectives of the study include:

1. To analyze bilateral economic linkages, macroeconomic situation, and existing relevant policy regimes.

2. To put recent macroeconomic and trade data for all analyzed countries in a broader comparative context.

3. To find feasibility of FTA between Turkey and the EAEU, by estimating gravity model of trade and partial equilibrium model.

The structure of the study will include an overview of some essential features of EAEU Member States economies and Turkish economy, existing institutional framework for economic cooperation, bilateral trade analysis, overview of the EAEU and Turkish tariff regulation and non-tariff measures affecting mutual trade in goods.

The paper also presents an analysis of the main areas of research in post-Soviet and Central Asian regional integration by both Russian and international scientific communities. It should be noted that the critical review focuses on the research of Russian scientists, without claiming to fully take into account the works of scientists from Kazakhstan, Ukraine, Belarus and other CIS countries.

Further, it describes specific product sectors of economic importance to both countries and performance of EAEU Member States and Turkey and their foreign economic policy in terms of implementation of WTO Agreements. Moreover, in order to determine potential gains of bilateral trade between EAEU and Turkey, gravity framework of bilateral trade flows was conducted to quantify trade effect. In addition, we use a combination of dummy variables in a gravity model that allows us to separate trade creation effects from trade diversion effects.

The effects of trade policy changes were also captured by estimating partial-equilibrium model. More precisely, the impacts of full trade liberalization are simulated with SMART Simulation Tools, a methodology developed by World Integrated Trade Solutions (WITS) database.

In this research, FTA is understood as good-only agreement, which covers substantially all goods allowing the countries to take advantage of a considerable complementarity of their economies.

Chapter 1. Regional trade agreements: theories and trends

1.1 Theoretical concepts of integration and economic development. Literature review

The collapse of the USSR could be considered to be a starting point for many projects aimed at creating a new conditions for cooperation between the republics of the former Soviet Union (FSU). Over the past twenty years, a significant number of integration projects in the region have been launched. Among them are the Commonwealth of Independent States (CIS), the Eurasian Economic Community (EurAsEC), the Collective Security Treaty Organization (CSTO), the Union State of Belarus and Russia (USRB) and the currently developing Eurasian Economic Union (EAEU), as well as a number of regional unions in Central Asia. Some of the mentioned projects, primarily the CIS, are in fact not a single structure, but a set of agreements with different participants.¹

In addition, contacts are expanding and developing at the micro level: on the basis of trade, investment, migration and interaction between business groups and households, as well as in the dissemination of ideas and knowledge.

This chapter considers scientific studies devoted to these integration processes, which were carried out by both international academics and Russian-speaking scientific communities. This separation is necessary, because, firstly, the degree of interest in integration in the post-Soviet space and ideas regarding its development are different in the international and Russian academic communities. Secondly, connection between these two communities is very weak.

We will start from the analysis of Russian studies in the field of post-Soviet integration. Major Russian scientific journals publish a large number of materials on this subject (for example, “Issues of Economics”, “World Economy and International Relations”, “Society and Economics”, “Russia in the Modern World”,

¹ Libman, A. (2011) Commonwealth of Independent States and Eurasian Economic Community. Paper prepared for: The Democratization of International Organizations. First International Democracy Report 2011, edited by G. Finizio, L. Levi and N. Vallinoto, Centre for Studies on Federalism.

“Spatial Economics”, “POLIS” and others). Some journals (“Russia and the New Eurasian States” and “Eurasian Economic Integration”, published in Kazakhstan, but in Russian language) are specifically devoted to the topic of post-Soviet integration. A number of research groups and centers engaged in post-Soviet integration exist in other institutes of the Russian Academy of Sciences.

It should be noted, that there are at least four research centers working in the field of post-Soviet integration, which are not part of state universities or academic institutions. One of them is the Institute of the CIS countries, established in 1996 as an autonomous research organization. This structure has rather one-sided political preferences, and therefore, should be described more as an analytical group, serving certain political interests, rather than as an independent research center.

The Eurasia Heritage Foundation, founded in 2004, is currently an important center supporting and implementing projects in the field of studying post-Soviet countries and post-Soviet integration.

The Eurasian Development Bank (EDB), an international organization headquartered in Almaty, main shareholder of which is Russia, has successfully established itself as a serious research center by publishing once in a quarter Russian-language magazine “Eurasian Economic Integration” and an annual English-language anthology “EDB Eurasian Integration Yearbook”.

From a substantive point of view, the contribution of Russian science to the understanding of regional integration processes in the post-Soviet space remains quite modest. The most of works published on this topic are purely descriptive: they just list regional integration agreements and reveal their goals, either considering main integration projects carried out in the region, or citing statements by integration politicians in the post-Soviet space.

The main conclusions of such work can be characterized as follows:

1. Post-Soviet integration is either beneficial for all countries, or at least has a positive effect on Russia's economic development. The most common explanation is “world experience” (it is stated that regional integration is on the

rise throughout the world) or the existence of economic ties between the former republics that have been preserved since the Soviet period and that is why integration is beneficial from the economic point of view.

2. The development of post-Soviet integration should follow the path of copying the European Union and, possibly, following the same development model that the EU followed. In the ideal scenario, post-Soviet space should turn into a specific Eurasian version of the EU with strong supranational bodies, developed customs union and even common currency.

3. The main reason for the failure of this path of integration is the “lack of political will”: it is argued that the governments of the FSU countries do not see their own benefits and therefore do not contribute to regional integration. Lack of political will is interpreted as something introduced from outside, but sometimes it is interpreted in the context of national construction in the new independent states and economic asymmetry between Russia and other countries (although the lack of political will is also attributed to Russian policy).

4. It is sometimes argued that regional pressure is hindered by political pressure from Western countries. Strengthening post-Soviet regionalism is seen as an element of Russian strategy to strengthen its control over the region as opposed to Western influence, which is ultimately beneficial for all FSU countries.

It should be noted that the above-mentioned “typical works” has already been criticized by a number of well-known Russian scientists. For example, Yuri Shishkov, one of the leading Russian researchers in the field of regional economic integration, in a number of articles published over the past twenty years, indicates that any form of post-Soviet regional integration is meaningless due to the low level of economic development of the participating countries and, in particular, due to the limited role of the machine building industries.²

² Shishkov, Yu. (2007) SNG: Poltora Desyatiletiya Tshetnykh Usiliy. Voprosy Ekonomiki (4); Shishkov, Yu. (1996) Sud'ba Britanskogo Sotrudnichestva Naciy: Vospominanie o Budushchem SNG. Obshestvennye Nauki I Sovremennost' (3); Shishkov, Yu. (2008) Kooperirovanue v Mashinostroenii

From the point of view of political science, Dmitry Furman in a number of articles considers post-Soviet integration in the context of the gradual collapse of the Russian Empire, which was suspended for 70 years by the existence of the Soviet Union. Based on this, post-Soviet integration also seems to be a futile project.³ In a recent article, Svyatoslav Kaspe even compares the post-Soviet space with the “barbaric” kingdoms that existed in Europe in the 6th – 9th centuries AD, after the fall of the Roman Empire, which, according to him, were “in search of the empire,” that is, an external center that could become its source.⁴

Despite the dominance of such works in Russian scientific publications, it does not cover all scientific research and discussions in this area. There are three main alternatives to this approach, which can be found both in the studies of economists and political scientists.

The first area is the field of international relations and political science. In this area, post-Soviet integration is seen as one of the aspects of Russia's foreign policy, including foreign economic policy, rather than an independent field of research. The analysis in such literature is also rarely based on a developed theory and is hardly supported by specific empirical studies, and is also strongly influenced by political preferences.

The title of Dmitry Trenin’s book “The End of Eurasia”⁵ is indicative for this approach: the post-Soviet space is seen as a “disappearing reality” in which

Stran SNG. Evraziyskaya Ekonomicheskaya Integraciya (1); Shishkov, Yu. (2001) Rossiya i SNG: Neudavshiysya Brak po Raschyetu. Pro et Contra 6 (1-2).

³ Furman, D. (2005) Ot Rossiyskoi Imperii do Padeniya SNG. Public Lecture at Polit .Ru; Furman, D. (1996) O Budushchem Postsovetskogo Prostranstva. Svobodnaya Mysl (6).

⁴ Kaspe, S . (2008) Sodruzhestvo Varvaskikh Korolevstv: Nezavisimye Gosudarstva v Poiskakh Imperii. Politiya (1) . The importance of the Soviet heritage for the current regional integration projects in the FSU and relations between FSU countries has been pointed out by Fi Filippov, A . (1995) Smysl Imperii: K Sociologii Politicheskogo Prostranstva, in: Chernyshev, S. (ed) Inoe: Hrestomatiya Novogo Rossiiskogo Samosoznaniya. Moscow, and Blyakher, Leonid (2008) Vozmozhnen Li Postimperskiy Proekt: Ot Vsaimnykh Preternsiy k Obsheму Budushemu. Politiya (1).

⁵ Trenin, D. (2002) The End of Eurasia: Russia on the Border Between Geopolitics and Globalization. Wash.: Carnegie Center.

each country, in the long run, goes its own way. Relations with FSU countries, although recognized as important, are considered less significant than relations with Western countries. Geo-economists and stabilizers are not convinced that the post-Soviet space will disappear in the future as a single region. They highlight the need for a coherent Russian strategy with respect to FSU countries: either from the point of view of economic ties (geoeconomists) or from the point of view of security (stabilizers). Proponents of a civilizational approach consider the post-Soviet space (which they associate with the East Slavic states) as a region, united by a common and special civilization, which should protect its uniqueness and historical territory. Expansionists consider the post-Soviet space to be the first step in the process of achieving global power by Russia.

The second group of works departs from the consideration of regional integration from a purely normative point of view and focuses on the study of issues in which post-Soviet countries have actually made at least some progress in regional integration. By this idea the development of regionalization, for example, by expanding the presence of Russian transnational companies or growing international migration is meant. The main question is not connected with description of the prospects of post-Soviet integration, but with a study of dynamics of the development of economic relations in the post-Soviet space. A significant part of this literature considers possibilities associated with regionalization in the post-Soviet space compared to the traditional regionalism strategy, modeled on the European Union. Empirical works focusing more on real interdependence rather than on normative analysis of optimal public policy.

Main contribution to this field of research was made by Boris Kheifets from the Institute of Economics of the Russian Academy of Sciences, who in a number of works analyzes potential of regionalization as the main tool for regional integration in the post-Soviet space.⁶

⁶ Libman, A., and B. Kheifets (2006) *Ecsparnsiya Rossiyskogo Kapitala v Strany SNG*.

Another area that attracts increased attention is the migration of labor in the post-Soviet space, which has also become an urgent topic of internal political discussions in a number of FSU countries.

The third group of work describes the ideas of open regionalism. Unlike “open regionalism” in East Asia, which was aimed at creating trade unions that are non-discriminatory against third countries, in the post-Soviet context, open regionalism is mainly an attempt, firstly, to reduce the ambitions of post-Soviet countries through a focus on more realistic cooperation at the level of specific non-politicized spheres without creating strong supranational bodies.

Secondly, to ensure the possibility of using numerous regional integration structures with different, but overlapping foreign policy, which takes into account the heterogeneity of interests and post-Soviet countries in the region. The already mentioned works of Boris Kheifets, noting the advantages of regional economic integration at the micro level, as well as numerous interesting publications by Lydia Kosikova on the optimal model of post-Soviet regionalism⁷ are especially important in this regard.⁸

Thirdly, article ‘Eurasian Economic Union: the First Successful Russian Regional Trade Agreement?’ written by Vladimir Sherov-Ignatev, associate Professor from St. Petersburg State University, discusses possible reasons for institutional integration of former Soviet republics. It is considered, that CIS countries play a relatively small role in Russian foreign trade compared to the EU and APEC. Although, Russian relations with Ukraine, the second largest economy in the CIS, are rather bad, exports to non-EAEU countries of the CIS (mainly to Ukraine) are still larger than Russian exports to EAEU. Author assumes, that one of the explanations may be dependence of Ukraine from Russian oil and gas exports.

⁷ Kosikova, L. (2010) *Na Vsekh Parusakh . Pryamye Investicii* (2) it is an interesting typology of recent work on post-Soviet regional integration. It explicitly points out the ‘open regionalism’ option.

⁸ Kosikova, L. (2008) *Integracionnye Proekty Rossii na Postsovetskom Prostranstve: Idei i Praktika*. Moscow: IERAS.

Another reason for integration could lie in trade complementarity. Russian economy is relatively highly complementary with those of Belarus and Armenia and to a smaller extent – with Kyrgyzstan. In his article, Vladimir Sherov-Ignatev also provides arguments for the choice of a customs union as a form of RTA in the case of EAEU. As it could be concluded from the article that EAEU has political importance, especially for Russia, as its members cannot sign separate FTAs with other partners. It gives Russia an opportunity to dominate on a substantial part of the former Soviet territory and put limits to Kazakhstan or Kyrgyzstan's rapprochement with China or Belarus' political shift towards the EU. As author states, the choice of the CU as a form of economic integration was mostly politically motivated from Russia's side, and mostly economically motivated from the perspective of other participants.⁹

Another idea of development of the topic is associated with the movement from post-Soviet to Eurasian integration. This idea has already been discussed in various contexts and from different methodological, theoretical and ideological points of view¹⁰. Main argument of these works can be formulated as follows: post-Soviet integration should not be regarded as something isolated from integration projects in neighboring regions. On the contrary, it should be included in the context of numerous integration projects and economic ties arising in Eurasia. In particular, post-Soviet integration should not be considered a "competitor" of European regionalism, it should be built from the very beginning in such a way as to coincide with the vector of European integration, which is followed by many post-Soviet countries.¹¹ At the same time, in Asia it is important

⁹ Eurasian Economic Union: The First Successful Russian Regional Trade Agreement? Sherov-Ignatev, V. G. 31 May 2019, Russian Trade Policy: Achievements, Challenges and Prospects Sutyryn, S., Trofimenko, O. & Koval, A. New York: Taylor & Francis, p. 103-128.

¹⁰ Vinokurov, E. (2010) Ot Postsovetskoi k Evraziyskoy Integracii. Evraziyskaya Ekonomicheskaya Integraciya (3); Bykov, A. (2009) Postsovetskoe Prostranstvo: Strategii Integrcii i Novye Vyzovy Globalizatsii. St. Petersburg: Aleteya.

¹¹ Klotsvog, F., Sukhotin, A., and L. Chernova (2008) Modelirovanie i Prognozirovanie EEP Rossii, Belarusi, Kazakhstana i Ukrainy. Problemy Prognozirovaniya.

to ensure China's inclusion in regional integration projects, as its role in Central Asia is constantly increasing.

Yuri Kofner identifies four schools of thought that are most suitable for understanding modern integration processes in the post-Soviet space: holding-together integration, cooperative hegemony and the liberal intergovernmental as well as, to a certain extent, geo-economic determinism.¹²

Holding-together integration approach was offered by Evgeny Vinokurov. This type of integration is based on regional integration, initiated by a group of countries that until recently were part of a single state or colonial empire and that maintain a high level of economic, political and cultural ties. Holding-together integration can also give impetus to reintegration: deintegration after the collapse of the once united state can be replaced by subsequent reintegration based on new principles, new interstate cooperation, various new mechanisms, and, possibly, a new membership. This may be an integration project caused by the crisis: an economic downturn may encourage new cooperation between countries. In the context of an unfavorable economic situation, it is more likely that economic relations between the newly independent states will deepen than the relations of these states with third countries.¹³

Second approach - cooperative hegemony is a type of regional order in which a power exercises a "soft" form of control through cooperation agreements based on a long-term strategy. This is only one of the four possible strategies of the great powers, and the choice can also be made in favor of one-sided hegemony, building an empire. Cooperative hegemony can be understood as a "deal" between the regional center, i.e. Russia, and the periphery, i.e. other EAEU member states:

¹² Kofner Y. The concept of Greater Eurasia: cultural-geographical and political-economic understanding. 2018. // <http://eurasian-studies.org/archives/8027>.

¹³ Libman A., Vinokurov E. (2012). Holding-Together Regionalism: Twenty Years of Post-Soviet Integration. Palgrave Macmillan..

the former gives certain preferences and follows a policy of certain self-restraint, self-control in exchange for the loyalty of the latter.¹⁴

The liberal intergovernmental approach (hereinafter - LMP) could be used to explain the nature of the EAEU. Having gained independence from a highly centralized and united state - the USSR, the new independent states of the post-Soviet space highly value their sovereignty and their national identity. However, liberal model of preferences constructed in such a way that it ensures that national governments, such as EAEU member states, have a clear idea of their preferences and pursue them in negotiations with other member states. In addition to this, especially the national governments of small member states - in our case, Armenia and Kyrgyzstan see the Eurasian integration process as an additional way with which they can realize social and economic obligations to their population. According to the author, now Eurasian intergovernmental coordination is carried out only at the level of deputy prime ministers, who form the Council of the Eurasian Economic Commission. This is clearly not enough. He assumes, that it should be expanded to the level of ministries and departments of all EAEU countries and the institution of their permanent representatives to the Union should be created, which would devote all its time to intergovernmental coordination. In addition, it is worth strengthening the powers of the existing EAEU bodies - the EEC and the EAEU Court.¹⁵

Another unique feature of Eurasian integration, as noted by the EDB chief economist Yaroslav Lisovolik, is the result of the geography of the region, so called geo-economic determinism approach. There is an unprecedented distance between the internal / central regions of Greater Eurasia, where most of the territory of the EAEU is located. Four of the five EAEU member states are

¹⁴ Pedersen, T. (2002). Cooperative hegemony: Power, ideas and institutions in regional integration. *Review of International Studies*.

¹⁵ Karliuk, M. (2017) *The Eurasian Economic Union: An EU-Inspired Legal Order and Its Limits*. *Review of Central and East European Law*.

landlocked: Kazakhstan is the largest landlocked country in the world. Belarus is the largest landlocked country in Europe. Kyrgyzstan, in addition to the lack of access to the sea, is one of the countries with one of the highest levels of altitude. Armenia is the only country in West Asia that does not have access to significant water area. In this context, the creation of the Eurasian Economic Union can be seen as an answer to this geographical problem, since the EAEU plays a decisive role in improving the access of its members to international markets by reducing customs duties and non-tariff barriers, as well as the promotion of transport “knitting” by forming a common transport space.¹⁶

To summarize, it should be said that despite the dominance of approaches inherent in “typical work on post-Soviet integration,” Russian scientific community has recently formed a number of interesting areas of research that are important for understanding post-Soviet integration. Integration in the region remains an important subject of research in Russian scientific circles.

A completely different picture emerges if we turn to researches conducted in the global scientific community. The attention to post-Soviet regionalism is negligible. To our knowledge, outside the post-Soviet space there are no research groups and organizations that would systematically work on the problems of post-Soviet integration, although there are some researchers who pay significant attention to this topic. Several studies on post-Soviet regionalism can be distinguished, which differ significantly in their research objectives and methodological basis.

Relatively large number of works on economics use gravity models to study an evolution of trade in the post-Soviet space. They try to estimate the speed and scale of economic and political fragmentation in the region. As a rule, these works come to the conclusion that post-Soviet countries are still characterized by higher scales of mutual trade than it would follow from standard regressions¹⁷ which is

¹⁶ Lisovolik, Y.D. (2017). Economic geography of the countries of Eurasia. EDB macro review.

¹⁷ Djankov, S., and C. Freund (2002) Trade Flows in the Former Soviet Union. — Journal of Comparative Economics.

not surprising if to look at the general data on the analysis of trade flows between former colonies and metropolises or between states, which were previously part of one political entity.¹⁸

In addition, there are certain similarities in the foreign trade structure of the FSU countries. Unlike transition economies of Central and Eastern Europe, diversification of the FSU international trade structure is also increasing.¹⁹ Despite the fact, that this literature usually does not contain direct normative statements, many studies indirectly draw rather gloomy conclusions regarding the prospects of post-Soviet regionalism: foreign trade structure of the FSU countries is usually less developed. High stability of trade in the region is explained by the insufficient degree of integration into the world economy and the underdevelopment of political and economic institutions.

The second group of works explores issues of post-Soviet regionalism: even if it is assumed that international cooperation in the post-Soviet space can bring positive economic results, it is necessary to clearly define the boundaries of this space. The work of this group pays considerable attention to the issue of formation of Central Asia as a region.²⁰ There are two options for analyzing the post-Soviet space.

First is focused on the interdependence of FSU countries. This type of research is based on the regional security complex theory. It comes to the conclusion that FSU countries are still characterized by a high degree of interdependence.²¹ Another approach emphasizes the homogeneity of the FSU

¹⁸ Frankel, J. (1997) *Regional Trading Blocs in the World Economic System*. — Petersen Institute for International Economics.

¹⁹ Broadman, H. G. (ed.) (2005) *From Disintegration to Reintegration: Eastern Europe and the Former Soviet Union in International Trade*. — World Bank.

²⁰ Quoraboyev, I. (2010) *Around the Names of Region: The Case of Central Asia*. — UNU-CRIS Working Paper No. 5.

²¹ Buzan, B., and O. Waever (2003) *Regions and Powers: The Structure of International Security*. — Cambridge: Cambridge University Press.

countries in political or economic scene.²² Here it should be noted that the results differ depending on whether researchers focus on the Soviet heritage (ensuring the region is homogeneous) or pay special attention to the heritage of the pre-Soviet period, and therefore conclude that the post-Soviet region consists of very heterogeneous countries.²³ Such studies are carried out within the framework of Area Studies, political science and international relations.

The third group of studies is defensive integration. Main goal of these works is to link the existence of formal and informal ties between FSU countries, including regional integration agreements with the prospects for democratization in the region. The post-Soviet space is considered to be a region in which external non-democratic factors are especially pronounced. From the point of view of representatives of this approach, post-Soviet regionalism gets a completely new interpretation: its main goal is not to promote the development of economic and political cooperation between countries, but rather to ensure "mutual protection" of autocratic regimes in the FSU countries. In particular, regionalism can be used in domestic political games, as is the case in Russia and Belarus²⁴. In addition, post-Soviet non-democratic countries can "exchange" not only symbolic, but also real support. This problem has been studied in detail by Russian²⁵ and international scholars. The latter considered both formal regional integration agreements²⁶ and informal intergovernmental relations²⁷ and a kind of "exchange of experience" between autocratic regimes and societies in the post-Soviet region. Some of the

²² Jones Luong, P. (2002) *Institutional Change and Political Continuity in Central Asia*. — Cambridge: Cambridge University Press.

²³ Gleason, A. (2010) *Eurasia: What Is It? Is It?* — *Journal of Eurasian Studies* – No. 10 P. 26-32.

²⁴ Danilovich, Alex (2006) *Russian-Belarus Integration: Playing Games behind the Kremlin Wall* . — Aldershot: Ash-gate.

²⁵ Фурман Д . (2004) *Россия, СНГ и ЕС* . — *Мир перемен* (3).

²⁶ Allison, R. (2008) *Virtual Regionalism, Regional Structures and Regime Security in Central Asia*. — *Central Asian Survey*.

²⁷ Ambrosio, T. (2009) *Authoritarian Backlash: Russian Resistance to Democratization in the Former Soviet Union*. — Ashgate.

newest works also focus on cross-border economic ties on subregional democratization and the impact of regionalization.²⁸

In essence, the analysis of defensive integration clearly indicates why Russia is more likely to be passive than an active participant in post-Soviet regionalism and why other autocracies such as Belarus may be so interested in maintaining ineffective and ineffective integration partnership. A good example is the short-term membership of Uzbekistan in the EurAsEC, which corresponds to the concept of mutual support of the members of the Authoritarian International (as the community of autocracies is often called in this literature). Finally, these works explain why autocracies in some countries can contribute to the establishment of autocracy in other states in the post-Soviet space. The reason is that the regimes are trying to prevent the spread of alternative information about democratization among the closest "neighbors".

Studies on defensive integration are vital from another point of view: literature on post-Soviet integration institutions reviewed above pays much attention to the causes of the failures of post-Soviet regionalism, but it is not able to explain the continued participation of post-Soviet states in the new rounds of integration partnership, especially when the poor effectiveness in the past is considered. So, the logic of defensive integration could be one of the possible explanations.²⁹

An interesting peculiarity of post-Soviet integration studies is that most of them do not take into account another group of works that are related in scope and analyzes - the collapse of the Soviet Union. The latter topic attracts considerable attention of both international³⁰ and Russian-speaking scientific communities. From the point of view of both options, the reason is simple. For the "Russian"

²⁸ Obydenkova, A., and A. Libman (2011) Rethinking the Nature and Impact of External Factors on Regime Transition: Lessons for the Russian Regions. — Mimeo.

²⁹ Libman, A. (2007) Regionalization and Regionalism in the Post-Soviet Space: Current Status and Implications for Institutional Development. *Europe-Asia Studies* 59 (3).

³⁰ Laitin, D. (2000) Post-Soviet Politics. — *Annual Review of Political Science*.

version, the collapse of the USSR was just a historical mistake that should be corrected through regional integration. This does not necessarily apply to the entire post-Soviet space, but to key countries. For the “Western” point of view, regionalism is an attempt of Russia to regain control over the territory of its lost empire.

However, from a positive point of view, the question is quite controversial. Many provisions that explain, for example, why regionalism in the post-Soviet space can be beneficial do not consider the fact that the same prerequisites existed in the USSR, but this did not help to prevent the collapse of the country.³¹

There are a large number of works explaining why the USSR collapsed and the Russian Federation did not, but there is almost no comparative analysis of relations between the republics of the Soviet Union and relations between the center and regions in the Russian Federation. We consider, that the establishment of direct links between these three groups of scientific works (on the collapse of the USSR, Russian federalism, and post-Soviet regionalism) are among the important research tasks that are still awaiting for solution.

1.2 Methods and models suitable for the analysis of the potential impact of free trade agreement

There are a large number of theoretical and empirical works that are devoted to studying economic effects of FTAs for partner countries and the rest of the world both before (ex-ante) and after (ex-post) entry into the agreement. They address the impact of regional integration on trade flows and economic growth, convergence of economic indicators between member countries, determine the most desirable partner and form of the agreements. In recent years, there has been a trend of gradual deepening of economic integration.

³¹ Libman, A. (2011) Russian Federalism and Post-Soviet Integration: Divergence of Development Paths — Europe-Asia Studies.

This trend includes the transition from simpler forms, involving elimination of trade barriers, to the RTAs, which provide the elimination of non-tariff barriers, as well as the lifting of restrictions to trade in services, movement of capital and labor, harmonization of legal regulation and legislation in the field of environmental protection. As a result, both theoretical and empirical studies pay more attention to the analysis of such effects as trade creation and trade diversion, and not only to assessing whether the creation of the FTA leads to an increase in welfare and whether it causes crowding out effect on the market from outside the integration association.

Empirical studies of static effects impact on the welfare of member countries are based on models of partial equilibrium and econometric gravity models, which are analysed and used in this paper.

Within the framework of the partial equilibrium model, assessments are carried out with the aim of identifying commodity groups which export or import flows can change to the greatest extent under the influence of trade liberalization. A comparison of the generalized results obtained on the basis of partial and general equilibrium models indicates their insignificant differences. The partial equilibrium model allows obtaining more detailed estimates of the effects of trade liberalization at the level of specific product groups, the export or import of which may change. These circumstances determined the choice of this model for our study.³²

Despite their widespread use, partial equilibrium models are subjected to serious criticism, which, in particular, indicates their limitations and the need to approach the results with caution due to the following circumstances.

One of the important limitations of the model is the comparative static approach, which allows to determine the effect of changes in trade policy on endogenous variables. The approach suggests that the initial and final equilibrium are compared, but the costs and benefits of the transition are not taken into account. This leads to an overestimation or underestimation of the consequences of

³² Bacchetta, M., et al. (2012) A Practical guide to trade policy analysis, UN and WTO.

changes in trade policy.³³ In addition, the models do not clearly define how long the transition to a new equilibrium takes place;

Statistics have a different degree of reliability, for example, statistics on trade in goods are more reliable than in the case of trade in services, capital and labor. Information on non-tariff barriers and subsidies is available to a limited extent, and its use in models depends on the choice made by the researcher.

The elasticities used in these models are often taken from other models and completely or partially modified due to the complexity of econometric estimates.³⁴

The partial equilibrium model makes it possible to assess the consequences of lowering import duties on the national economy within individual product markets. In the partial equilibrium model, the welfare effect consists of two parts: consumer surplus and producer surplus. It has the following assumptions: countries accept global market prices; the elasticity of substitution between the same product groups from different countries in the model is imperfect according to Armington, an increase in trade with one country leads to a decrease in trade with third countries.³⁵

In general, it can be concluded that quantitative estimates of the results of changes in economic (trade) policies obtained on the basis of models of partial equilibrium are valuable not from the point of view of specific numbers, but from the point of view of impact of these changes on the economy of a country or a group of countries. This allows us to understand which type of economic (trade) policy is preferable, for example, when considering various options for participation in regional trade agreements.

³³ Piermartini, R., Teh, R. (2005) Demystifying modeling methods for trade policy. WTO Discussion Paper, 10. Geneva: World Trade Organization.

³⁴ Hazledine, (1992). A critique of computable partial equilibrium models for trade policy analysis, Working Paper 92–4. International Agricultural Trade Research Consortium.

³⁵ Kehoe, P., Kehoe, T. (1994) A primer on static applied partial equilibrium models. Federal Reserve Bank of Minneapolis Quarterly Review, 18, vol. 2.

Within the framework of gravity model, it could be said that it is one of the most stable empirical dependencies in economic analysis.³⁶

One of the most important features of the gravity model is its ability to evaluate and predict an impact of free trade agreements on changes in trade flows between individual countries or groups of countries. It should be emphasized that a gravity model allows not only to analyze effects of existing free trade agreements, but also provides estimates of the effects of the proposed agreements, based on retrospective information. Among econometric methods, gravity models are the main tool for modeling trade flows.

A gravity model is based on the Newtonian law of gravity: trade between two countries depends on the size of their economies and distance between countries. At first, gravity model was only a stable empirical dependence describing trade flows, without any theoretical justification, then later it received the corresponding theoretical foundations.³⁷

In applied research, gravity models are used to solve a wide range of problems in the economics of trade, among which economic policy issues related to the creation of various integration associations and currency unions. Such models are used to econometricly assess relationships between foreign trade and economic growth, and to assess the environmental impact of foreign trade.

The suitability of gravity models for solving the above-mentioned problems is determined by a number of circumstances. Firstly, these models are quite accurate in terms of econometrics in explaining mutual trade flows between countries. Secondly, they are a very simple tool for assessing the impact of various factors on the dynamics of international trade. High explanatory ability of standard for the gravity model variables suggests that the statistical significance of the

³⁶ Porojan, A. (2001) Trade flows and spatial effects: the gravity model revisited, *Open Economies Review*, 12, 265–280.

³⁷ Anderson, J. E., van Wincoop, E. (2003) Gravity with gravitas: a solution to the border puzzle, *American Economic Review*, 93, 171–192.

additional variables included in the model, indicates their real significance for the country's foreign trade and its economy as a whole.³⁸

Gravity model can be estimated using spatial (for one year or on average for a number of years for each pair of countries) and panel (for a number of years for each pair of countries) data. Most modern studies, which apply gravity models, use panel data.

The exclusion from the analysis of such an important source of variation as time can lead to inconsistent econometric results.³⁹ Therefore, gravity models based on spatial data can give unstable results.⁴⁰ In addition, the use of panel data makes it possible to take into account relationships between variables over time and individual effects between trading partners.⁴¹

In general, gravity model is an ex-post analyse. It has its advantages and disadvantages. On the one hand, the researcher deals with an empirically stable relationship based on large amounts of statistical data and supported by a good theory. On the other hand, gravity model cannot provide answers to many questions that arise when analyzing possible consequences of regional integration agreements, and also it cannot reflect the effects of changes in key macroeconomic indicators and welfare dynamics.⁴²

It should be noted that gravity model still allows to "look into the future", despite its pronounced ex-post features. Taking into account the effects that have already manifested as a result of various free trade agreements in other countries

³⁸ Bergeijk, P. A. G., Brakman, S. (eds.), *The gravity model in international trade: Advances and Applications*, Cambridge University Press.

³⁹ Matyas, L. (1997) Proper econometric specification of the gravity model, *The World Economy*, 20, 363–368.

⁴⁰ Ghosh, S., Yamarik, S. (2004) Are regional trading arrangements trade creating? an application of extreme bounds analysis, *Journal of International Economics*, 63, 369–395.

⁴¹ Nowak-Lehmann, F., Herzer, D., Martinez-Zarzoso, I., Vollmer, S. (2007) The impact of a customs union between Turkey and the EU on Turkey's exports to the EU, *JCMS: Journal of Common Market Studies*, 45, 719–743.

⁴² Krugman, P. (1993) Regionalism versus multilateralism: Analytical note. In de Melo J. and Panagariya A. (eds.) *New Dimensions in Regional Integration*. Cambridge, Cambridge University Press.

and their blocks, it is possible to extrapolate possible effect and calculate consequences of integration initiatives. In addition, gravity model allows to assess an unused potential due to the lack of membership in one or another integration association.

Gravity model, as any other econometric method of analysis, requires a high quality of statistical data and the ability to adequately reflect variables associated with economic policy in the model. In addition, it is necessary to properly use the econometric methodology when evaluating gravity model, to take into account possible non-stationary nature of main variables and presence of long-term relationships between them. Consideration of fixed and random effects during modeling is of great importance, as well as the problem of exogenous variables included in the model.

Since the gravity model is not suitable for assessing the influence of integration effects on the dynamics of basic macroeconomic indicators and welfare, for this purpose, models of partial equilibrium should be used. That is why both methods of analysis are presented in this study.

1.3 Existing EAEU and Turkey's FTAs practice

The process of developing free trade agreements involves building mutually beneficial relationships with foreign trade partners. Over the past couple of decades, FTAs are increasingly turning into full-fledged trade and economic agreements. In addition to reducing or zeroing trade duties, they regulate mutual agreements on the investment regime, capital flows, technical regulation, dispute resolution procedures, rules for determining the country of origin of goods and other important issues of market access. Such an evolution is natural and justified in terms of promoting the economic interests of the contracting parties.

In the EAEU, on behalf of the Union, the EEC negotiates with third countries. The Commission approaches cooperation with each partner through a thorough comprehensive assessment of all its advantages and risks for all member

states and its compliance with the goals and principles of the Eurasian integration. For example, before starting official negotiations with a country on concluding a free trade agreement, the Commission forms a joint research group with this country, which includes experts from specialized divisions of the EEC and the national state bodies of the participating countries.

On this basis, recommendations are formulated on the appropriateness or inappropriateness of the conclusion of the FTA. After that, by decision of the Supreme Council of the Union, formal negotiations may begin. It should be mentioned that to date, in the framework of negotiations on the creation of FTAs with third countries, the EEC has a mandate only to discuss the block of trade in goods, and the issues of investment and trade in services remain purely in the competence of member states. This often complicates the negotiation process.

About 50 countries and associations have shown interest in establishing cooperation with the EAEU. When choosing a form of interaction with partners, the Union takes into account their involvement in transport corridors and international cooperation networks. Therefore, with each partner, an individual model of agreement is worked out that meets the interests of all the contracting parties. The EAEU is actively pursuing such an approach to foreign economic relations.

In 2015, the Free Trade Agreement between the EAEU and Vietnam was concluded and in October 2016 entered into force. Since the entry into force, the growth rate of trade between Vietnam and the Russian Federation has increased significantly, with an average of 30% per year. Russia accounts for more than 90% of total trade between Vietnam and the EAEU. According to statistics from the Vietnam Customs, in the first 8 months of 2019, bilateral import-export turnover reached \$ 3.11 billion (an increase of 36% compared to the same period in 2018), of which export from Vietnam to the Russian Federation reached \$ 1.68 billion (an increase of 17.81%), and imports - \$ 1.43 billion (an increase of 66.28%).

According to EEC estimates, the average level of the import tariff of the EAEU countries will decrease from 9.7 to 2% by 2025, and in Vietnam from 10 to

1%. Already in 2017, Vietnam zeroed customs duties on 59% of mutual trade positions. By the end of the transition period (less than 10 years) this amount will reach 88% of positions. The abolition of import customs duties by the Vietnamese side does not cover only 12% of the product range, for most of which the EAEU countries have no export interest.⁴³

It is assumed that the EAEU FTA with Vietnam will provide a positive effect in both the agricultural and industrial sectors. For example, a package of documents signed by the parties secures the opportunity for Russian companies to conduct business in Vietnam under the same conditions as local companies. As for the sensitive sectors of the economies of the EAEU countries, such as light industry or agriculture, for them a fairly serious level of protection will remain, despite the entry into force of the agreement. Thus, thanks to this agreement, manufacturers from the EAEU countries receive fundamentally more favorable conditions for the supply of goods to the Vietnamese market, and their goods become more competitive. In addition, the agreement allows manufacturers and suppliers of the Union to gain access to the already established value chains of Vietnam.⁴⁴

At the end of December 2016, the ECE Council found it expedient to begin, after the completion of the work of the joint research group, negotiations to conclude an FTA agreement with Singapore. One of the landmark events of the EAEU summit held in Yerevan on October 1, 2019 was the signing of an agreement with Singapore on the creation of a FTA. The parties worked on such issues of cooperation as technical regulation and application of sanitary, phytosanitary and quarantine measures, issues of mutual investments, formats of cooperation in the energy sector and industry. It should be noted that Singapore imposed almost zero duties on goods exported by the Eurasian Union; therefore,

⁴³ Eurasian Economic Commission (EEC) (2016a) Questions and answers on the Free Trade Agreement between the Eurasian Economic Union and the Socialist Republic of Vietnam.

⁴⁴ Eurasian Economic Commission, 2020 “The results of the first year of the Free Trade Agreement between Vietnam and the EAEU are summed up”.

the positive effect of the FTA agreement can be ensured if the agreement extends to investments and trade in services.⁴⁵

A separate value of the FTA with Singapore lies in its ability to provide more favorable conditions for EAEU countries to the markets of states and associations with which Singapore has preferential agreements.

Also, the risks were taken into account. Products sensitive to the EAEU market, such as beef, cheese, strong alcoholic drinks, baby food, dairy products, cars, airplanes, will be in exempted goods, their duties will not be reduced. In addition, the volume of mutual trade between the EAEU countries and Singapore remains insignificant, which also reduces risks, even if exports begin to prevail over imports.

The negotiation process took place along two tracks: the Commission and the Member States agreed on trade in goods, and the state on trade in services and investments rstva member under the overall coordination of the negotiation process, Russia. Probably, the scheme of “two tracks” will become the main one in the preparation of other FTAs.

In technical terms, another agreement of the EAEU partners as part of the work on the FTA with Singapore and other countries is important, namely, the “project method” of managing negotiation tracks. Firstly, a high-level negotiation team is being created - the EEC and three deputy ministers (economics or foreign affairs, industry and agriculture) from each side. Secondly, it is planning and fixing even intermediate results so that each round gives a meaningful result.

The EAEU has another partner - Iran. In May 2019, the Iranian parliament ratified an interim agreement on the establishment of an FTA with the EAEU. The document entered into force on October 27, 2019.

It was proposed first to create a limited FTA, and then, during a certain transition period, to launch a full-fledged FTA. According to the results of the analysis of the joint research group, if a full-fledged FTA is created, exports of the

⁴⁵ Eurasian Economic Commission (EEC) (2016g) The EEC Council found negotiating an FTA with Singapore feasible on December 23.

EAEU countries to Iran could grow by 73%. At the same time, 83.1% of the total projected increase in the supply volume will fall on such goods as medicines, paper, clothing, steel industry products, various types of mechanical and electrical equipment, and cars.

Tehran hopes that the interim FTA agreement will increase trade as 502 articles of Iranian goods, which will be able to use special preferential conditions.⁴⁶

The problem which could take place, is that Tehran is facing risks of a foreign policy nature. On September 20, 2019 the United States imposed sanctions against the National Bank of Iran, and five companies joined the 25th list. Most likely, the trend will continue due to unresolved issues that have accumulated between Washington and Tehran. Political tension also generates risks for Iran's business partners, who may face the so-called secondary sanctions if they cooperate with blacklisted companies in the United States. This turn of events limits the business cooperation of the Union countries with Iran. On the other hand, infrastructure development projects can increase the volume of trade cooperation. First of all, this concerns the problem of transport and logistics infrastructure on the routes between the EAEU and Iran, which complicates their trade. The solution may be the organization of effective rail transit through Azerbaijan and Armenia.⁴⁷

At a meeting of the Eurasian Intergovernmental Council (EMPS) on October 25, 2019 a Free Trade Agreement was signed between the Eurasian Economic Union (EAEU) and the Republic of Serbia.

The start of negotiations was due to the need to establish a single preferential trade regime between all EAEU countries and Serbia to replace bilateral free trade agreements concluded between Russia (2000), Belarus (2009) and Kazakhstan (2010) in different years, and differing in a number of provisions, the lists falling

⁴⁶ Eurasian Economic Commission (EEC) (2017b) Interim agreement on a free trade zone between the EAEU and Iran will work by the end of the year on June 1.

⁴⁷ Interfax (2017) Minister for Trade of the EEC: negotiations with Iran should be completed in compliance with the win-win principle on June 9.

under FTA goods and exemptions. Armenia and Kyrgyzstan do not have similar agreements with Serbia, bilateral trade between them is carried out on the basis of the most favored nation treatment with the use of customs duty rates established within the framework of their WTO obligations. After the conclusion of a single FTA between the EAEU and Serbia, previously concluded bilateral agreements will be canceled.⁴⁸

Each country of the Union will benefit from new opportunities for increasing export supplies to Serbia. For Armenia, such a potential lies in increasing the export of goods of traditional export interest - strong alcohol and cigarettes, products of the food industry and agriculture. For Kyrgyzstan - in the supply of vegetable and processed agricultural products, for example, beans, nuts and honey. For Belarus, a perspective in the growth of exports of vodka, fruit and bitter tinctures, as well as balsams and liquors. Kazakhstan's companies have the opportunity to increase sales of processed cheeses and strong alcoholic beverages to Serbia, while Russian companies can increase the wide range of goods from shut-off valves to sanitary faucets for the home. It should be noted, that the agreements reached with Serbian partners fix a set of obligations to comply with international standards for the application of licensing procedures, prohibitions and quantitative restrictions, technical regulation and sanitary and phytosanitary measures, fees related to the passage of procedures "at the border", application of anti-dumping, countervailing and special protective measures, protection of intellectual property rights.⁴⁹

According to EEC estimates, within the framework of the FTA being formed, all the countries of the Union thus get the opportunity to agree on a more favorable trade regime with Serbia.

Other potential EAEU partners include India, Egypt, Israel. Negotiations are also ongoing with them on the establishment of an FTA. Israel shows interest in

⁴⁸ Lisovolik I, Cimiris E (2016) Serbia - EAEU: Prospects for Integration within the Free Trade Area Workbook, No 37.

⁴⁹ RIA NEWS "EAEU has signed a free trade agreement with Serbia", 10/25/2019.

cooperation, even though Iran already cooperates with the Union. Political differences with Tehran do not limit Israel's economic policies.

The development and signing of a free trade agreement (FTA) of the EAEU with Turkey would be absolutely justified - moreover, it is a priority in comparison with the vast majority of countries of the Eurasian continent. Turkey is one of the most promising trade and investment partners of the countries of the Eurasian Economic Union. It occupies the sixth place in the ranking of the EAEU trade partner countries in total trade turnover, but the real potential is much greater after overcoming the political crisis in relations with Russia. Russia has significant direct investments in Turkey (energy, petrochemicals, metallurgy, banking). The construction of the Turkish Stream should be taken into account as well. It is important that Turkish investors are extremely active in Russia, Kazakhstan, and more recently in Belarus. Their investments are diversified - construction, industry, agribusiness. Their FDI reached \$ 7.4 billion, this is more than South Korea's investment. Moreover, Turkish direct investment in Russia is greater than Chinese (according to the Center for Integration Studies of the EDB based on an analysis of company reports).⁵⁰

Today, Turkey has FTAs with 22 countries and territories – Albania, Bosnia and Herzegovina, Chile, Egypt, Faroe Islands, Georgia, Israel, Kosovo, Jordan, Lebanon, Macedonia, Malaysia, Mauritius, Moldova, Montenegro, Morocco, Palestine, Serbia, Singapore, South Korea, Sudan and Tunisia.

However, the Customs Union of Turkey and the European Union, which is already 22 years old stands in the way of the FTA. In accordance with it, Turkey is obliged to coordinate all of its FTAs with the European Union. There are no reverse obligations. Therefore, the Minister of Economy of Turkey, Nihat Zeybekçi announced that signing of a customs agreement is only possible without violating the relevant agreement with the EU. Obligations to the European Union, unfortunately, at the current stage will seriously limit the scope and depth of a possible agreement.

⁵⁰ Vinokurov E. "European commitments impede Turkey's deep friendship with the EAEU".

Also, as it was already motioned above, Turkey has a Customs Union with the European Union, created on December 31, 1995 between the European Union (EU) and Turkey, and entered into force by the decision of the Council of the EU-Turkey Association (created by the agreement of 1963), adopted on March 6, 1995. The Union excludes any customs restrictions when goods cross the border of the Republic of Turkey with EU countries. The current Customs Union does not cover such important areas of the economy as agriculture (to which bilateral trade benefits apply), services or public procurement.

In 1996, a free trade zone was created between Turkey and the European Union for products covered by the European Coal and Steel Community. Decision 1/98 of the Association Council governs agricultural trade between countries. In addition to ensuring general customs regulation, the Customs Union provides that Turkey should bring its legislation in several key areas of the economy in line with the EU *Acquis communautaire* legal concept - especially with regard to industry standards.

The main exports of Turkey to the EU and imports from the EU are predominantly industrial products: up to 95% of all imports and exports. Since 1996, Turkey's gross domestic product has quadrupled, making the country one of the fastest growing economies in the world. However, at the same time (between 1995-2008), the deficit of Turkey's foreign trade with the EU countries increased by 2 times - and 6 times, with the rest of the world not entering the EU. The Customs Union is considered an important factor leading to both of these tendencies.

In particular, it should be noted that Turkey, having adopted the protocol of the customs union, gave the EU the right to "manipulate" the state's foreign economic relations. The country also agreed by default to all agreements between the EU and any country outside the EU. That is, with all other countries of the world- 16th and 55th articles of the treaty. Having joined the Customs Union, Turkey agreed not to conclude any agreements with any non-EU country without

the approval of a European organization: otherwise, the EU would have the right to intervene in such agreements and nullify them (Article 56).⁵¹

In addition, Turkey agreed to completely submit to all the laws and decisions of the European Court, in which there was not and not a single Turkish judge.

Turkey has opened its market for European goods. It was extremely difficult for domestic producers of the country, especially at first, to compete with European producers because of the difference in product quality. Another peculiarity is that the European goods themselves entered the country without any customs duty. Since Turkey is in a customs union with the EU, it must adjust its tariffs and duties in accordance with the requirements of European law. However, FTAs signed by the EU itself does not apply to Turkey - therefore, EU's partners on this FTA can export their goods to Turkey without duty, while maintaining the tariffs on Turkish goods at home.

Thus, the conclusion of the FTA between Turkey and the EAEU is complicated, and there are at least three reasons for this: the first is Armenia, an active member of the Union, the second is Turkey's European obligations, and the third is its multi-vector policy.

With regard to the last point, taking in account rather tense relationships between Russian Federation and Ukraine, it should be mentioned, that currently, Turkey and Ukraine are planning to conclude a free trade agreement - such a statement Turkish President Tayyip Erdogan made at a Turkish-Ukrainian business forum during an official visit to Kiev on February 3, 2020. According to Ukrainian ambassador in Turkey, Andriy Sibiga, Ukraine and Turkey have already agreed on more than 95% of the provisions of the future agreement on a free trade zone.⁵²

⁵¹ EU-Turkey Association Agreement.

⁵² Ria Novosti "Kiev and Ankara have almost agreed on an agreement on a free trade zone" 02.02.20.

Chapter 2. ANALYSIS OF BILATERAL TRADE IN GOODS BETWEEN EAEU AND TURKEY

2.1. Overview of EAEU and Turkish Economy and Trade Profile

The EAEU is constantly evolving. The predominant weight of Russia in the economy of the Union (in terms of GDP, population, trade and investment flows) - about 86% of total GDP is produced in Russia, about 10% in Kazakhstan, the remaining 4% in Belarus, Armenia and Kyrgyzstan. The same applies to the population size: 143, 9 million people live in Russia, or 80% of the total population of the EAEU. Kazakhstan ranks second with 18,5 million people (10%). The rest of the participating countries together make up about 10 % of the population of the Union.

Table 1. GDP (USD Billion)

	2016	2017	2018	2019
The Republic of Armenia	10,6	10,5	11,5	12,4
The Republic of Belarus	56,3	47,7	54,7	59,6
The Republic of Kazakhstan	17,7	17,9	18,1	18,5
Kyrgyz Republic	6,0	6,1	6,3	6,4
Russian Federation	1363,7	1282,7	1578,4	1630,7
EAEU	1454,2	1364,9	1669,1	1727,6

Source: «Member States of the Customs Union and Single Economic Space in figures», 2019

Table 2. Population (USD Billion)

	2015	2016	2017	2018
The Republic of Armenia	2,9	2,9	2,9	2,9
The Republic of Belarus	9,5	9,5	9,5	9,5
The Republic of Kazakhstan	17,7	17,9	18,2	18,5
Kyrgyz Republic	6,0	6,1	6,6	6,4
Russian Federation	143,9	143,9	143,9	143,9
EAEU	180,0	180,5	180,9	181,4

Source: «Member States of the Customs Union and Single Economic Space in figures», 2018

The development of mutual trade in goods between member states of the EAEU in 2019 identified a positive trend that emerged in 2016. In 9 months of 2019, the volume of mutual EAEU trade reached \$ 44.2 billion, showing an increase of 11.9% relative to the corresponding period of the previous year.

Table 3. The volume of mutual trade of the EAEU member states (USD Billion)

	2016	2017	2018	2019
The Republic of Armenia	256,2	393,9	570,9	668,9
The Republic of Belarus	11007,8	11384,8	13651,1	13891,2
The Republic of Kazakhstan	5120,3	3930,2	5262,5	5891,9
Kyrgyz Republic	410,2	447,2	541,5	586,4
Russian Federation	28821,2	26804,3	34685,5	38979,9
EAEU	45615,7	42960,3	54711,6	59721,1

Source: Eurasian Economic Commission calculations, based on data provided by the relevant EAEU's statistical agencies, 2019.

An increase in the value of mutual trade of the EAEU member states (by 9.2%) is also due to the increase in average prices for goods (by 2.5%) and the increase in the physical volume of trade (by 6.5%). Price increase determined a 27% increase in the value of the indicator, an increase in the commodity mass - 73%.

Volume of mutual trade in goods between member states of the Eurasian Economic Union from January to December 2019, calculated as the sum of the value of export operations of the EAEU member states in mutual trade, amounted to 59.7 billion dollars, or 109.2% to the level of the year 2018. Volumes of export supplies in the mutual trade of the member states of the EAEU are presented in the table 4.

Table 4. Volumes of export supplies in the mutual trade of the member states of the EAEU

	2018			2019		
	USD, Billions	Specific gravity,%		USD, Billions	Specific gravity,%	
EAEU	54697,9	100,0		59721,1	100,0	
including						
The Republic of Armenia	557,2	1,0	100,0	689,0	1,1	100,0
Belarus	7,0		1,3	11,7		1,7
Kazakhstan	4,9		0,9	9,8		1,4
Kyrgyz Republic	1,8		0,3	1,0		0,1
Russia	543,5		97,5	665,5		96,8
The Republic of Belarus	13651,1	25,0	100,0	13891,8	23,3	100,0

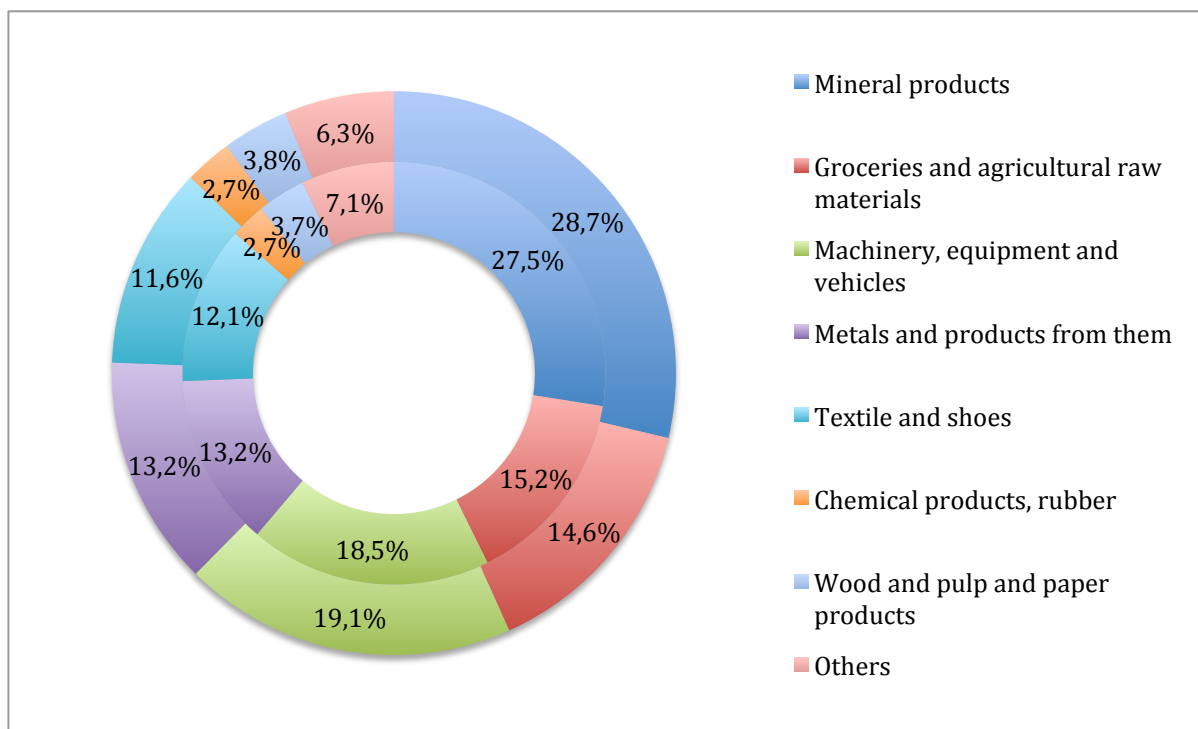
Armenia	34,5		0,3	37,4		0,3
Kazakhstan	592,3		4,3	783,9		5,6
Kyrgyz Republic	123,5		0,9	120,3		0,9
Russia	12900,8		94,5	12950,2		93,2
The Republic of Kazakhstan	5262,6	9,6	100,0	5892,0	9,9	100,0
Armenia	5,6		0,1	7,5		0,1
Belarus	101,2		1,9	87,5		1,5
Kyrgyz Republic	516,7		9,8	634,9		10,8
Russia	4639,1		88,2	5162,1		87,6
Kyrgyz Republic	541,5	1,0	100,0	568,4	0,9	100,0
Armenia	0,1		0,0	0,1		0,0
Belarus	7,1		1,3	7,0		1,2
Kazakhstan	268,6		49,6	247,2		43,5
Russia	265,7		49,1	314,1		55,3
Russian Federation	34685,5	63,4	100,0	38679,9	64,8	100,0
Armenia	1247,0		3,6	1341,4		3,5
Belarus	19537,8		56,4	22779,8		58,9
Kazakhstan	12465,5		36,0	12923,3		33,4
Kyrgyz Republic	1399,3		4,0	1635,4		4,2

Source: Eurasian Economic Commission calculations, based on data provided by the relevant EAEU's statistical agencies, 2019.

Statistics of cost volumes gives only a small share of information about the processes within the Union. From our point of view, the most important are trends in qualitative transformations: how does the structure of mutual trade of countries change and how much mutual trade depends on the economic development of the countries - partners in the Union. Belarus exports to the EAEU member countries are almost entirely determined by domestic consumption in Russia. In 2019, compared with 2018, the proportions of mutual trade changed as follows. In mutual exports, the contribution of the Russian Federation increased from 63,4% to 64,8%, in the Republic of Belarus indicators decreased from 25% to 23,3% and the Kyrgyz Republic's indicators remained almost at the same level and amounted to 1% . In the Republic of Kazakhstan, the indicator increased from 9,6% to 9,9%. The indicator for the Republic of Armenia increased from 1% to 1,1%.

The structure of mutual trade by integrated product groups from 2018 (internal part) and 2019 (external part) as a percentage of the total EAEU is characterized by figure 1.

Figure 1. Mutual trade by integrated product groups (%)



In the commodity structure of mutual trade of the EAEU Member States, mineral products occupy the largest share (28,7% of the volume of mutual trade), of which 85,1% is supplied to the EAEU market by the Russian Federation. Significant supply of machinery, equipment and vehicles, which occupy 19,1% of the volume of mutual trade (60,5% in the Russian Federation and 35,5% in the Republic of Belarus), food products and agricultural raw materials – 14,6% (51,4% falls on the Republic of Belarus and 37,1% - on the Russian Federation). Shares of metals and products made up 13,2% of the volume of mutual trade, of which 63,5% was supplied by the Russian Federation.

Compared to 2018, an increase in exports of the Republic of Armenia to the EAEU market by 20,7% was registered. Sales of food products and agricultural raw materials increased by 9,6% (53% of the total exports of the Republic of Armenia in mutual trade), textiles and footwear - by 2 times (22,2%), machinery, equipment and vehicles - by 37,1 % (5,9%). Exports of goods of the Republic of Belarus grew by 1,8% due to an increase in the supply of food products and agricultural raw materials by 1,6% (32,4% of total exports of the Republic of Belarus in mutual trade), machinery, equipment and vehicles - by 2,3% (29%),

chemical products on average - by 1,6% (11,8%), textiles and footwear - by 7,4% (8,2%), metals and products from them - by 2,8% (7,1%).

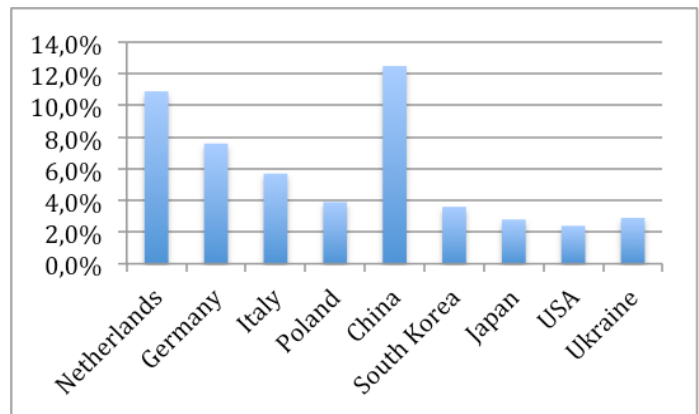
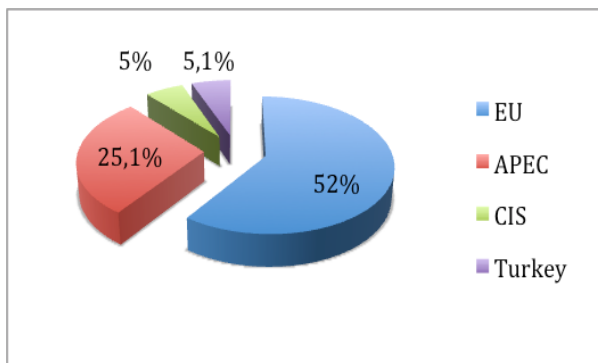
Export volume of the Republic of Kazakhstan to the EAEU market increased by 12% due to an increase in the supply of mineral products by 16,3% (36,6% of the total exports of the Republic of Kazakhstan in mutual trade), chemical products - by 26,1% (15%), food and agricultural raw materials - by 8,1% (9%), machinery, equipment and vehicles - by 35,4% (6,3%).

Compared to 2019, the volume of exports of the Kyrgyz Republic to the EAEU member states increased by 5%. Volumes of textile fabrics and footwear increased by 15,5% (32,9% of the total exports of the Kyrgyz Republic in mutual trade), metals and products of them - by 3,7 times (11,8%). Sales of mineral products decreased by 8,2% (18,4%), food and agricultural raw materials - by 18,6% (18,2%), machinery, equipment and vehicles - by 13,2% (7,2%) .

Export of the Russian Federation to the EAEU market increased by 11,5% due to an increase in the supply of mineral products by 15% (37,7% of the total exports of the Russian Federation in mutual trade), machinery, equipment and vehicles - by 17,7% (17,8%), metals and products from them –for 12,6% (12,9%), chemical products - by 2,4% (11,4%), food and agricultural raw materials - by 10,6% (8,4%).

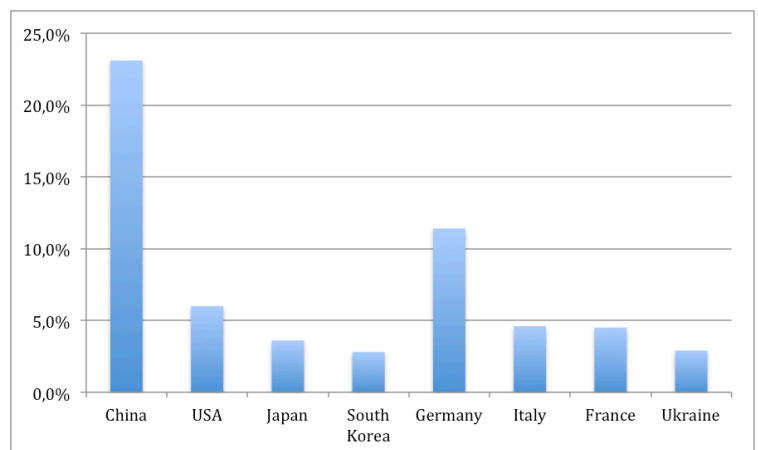
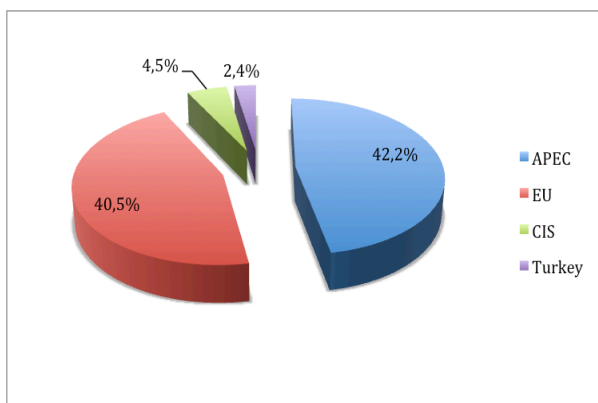
The main customer of goods exported by the EAEU Member States in 2019 is the European Union (52.4% of total exports). The most significant goods volume among the EU countries was imported to the Netherlands (10.9%), Germany (7.6%), Italy (5.7%), Poland (3.9%). 25.1% of the exported goods were sold to the APEC countries including 12.5% — to China, 3.6% — to South Korea, 2.8% — to Japan, 2.4% — to the United States. 5% of exported goods were sold to the CIS states including 2.9% — to Ukraine. Export deliveries to Turkey amounted to 5.1% of the total export volume of the EAEU Member States.

Figure 2. EAEU Major Export Partners



Foreign purchases are focused in APEC countries (42.2% of the total goods imported) and the European Union (40.5%). The largest volumes among the APEC countries account for China (23.1%), the United States (6%), Japan (3.6%) and South Korea (2.8%). The most important countries of the European Union in terms of import are Germany (11.4%), Italy (4.6%), and France (4.5%). CIS countries supplied 4.5% of the imported goods including 2.9% by the Ukraine. The share of Turkey in total imports of the EAEU Member States is 2.4%.

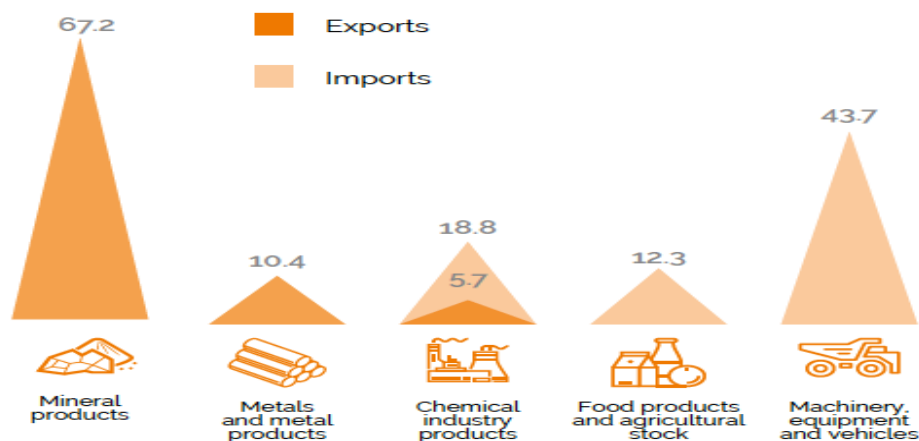
Figure 3. EAEU Major Import



In 2019, the prevailing goods in the export commodity structure of the EAEU Member States to third countries include mineral products (67.2% of the total export volume of the EAEU Member States to third countries), metals and metal products (10.4%), chemical industry products (5.7%). About 80% of these goods are sold by the Russian Federation at foreign markets. The largest share of imports

is machinery, equipment and vehicles (43.7% of total imports), chemical industry products (18.8%), and food products and agricultural stock (12.3%). More than 80% of such goods outside the EAEU are purchased by the Russian Federation.

Figure 4. Foreign trade export and import commodity structure, %



Turkish Economy and Trade Profile

In 2019, Turkey ranked as the 17th largest economy in the World and 16th in Europe. Mean annual growth rate between 2002 and 2019 was 5.85%.

Table 5. Turkey's Macroeconomic Indicators

Major Social and Economic Indicators			
	2017	2018	2019
GDP (US\$ billion) current prices)	862,7	851	766,43
RealGDP Growth Rate (%)	3,2	7,4	2,6
GDP per head (US\$)	10,9	10,6	9,4
Population (million)	79,8	80	80,5

Source: World Bank Indicators, 2019

In 2019, the share of manufactured products in total exports was 93.7%, while agriculture and mining sectors occupied 3.4% and 2.2% share in total exports respectively.

Table 6. Structure of Turkey's export by main product groups

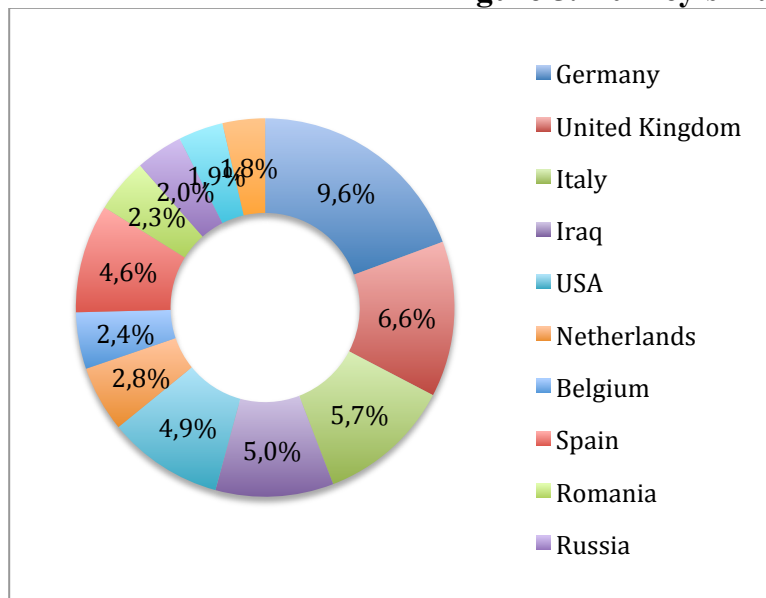
Exports of Turkey by main products	2019 (million US\$)	Share (%)
1. Agriculture and forestry	5,9	3,4
2. Mining/quarrying	3,6	2,2
3. Manufacturing	147,1	93,7
Food products and beverages	10,7	6,8

Textiles	14,2	9,0
Clothing	12,3	7,8
Chemicals and chemical products	7,9	5,0
Rubber and plastics products	6,8	4,3
Basic metals	18,9	12,1
Machinery and equipment	12,8	8,2
Electrical machinery and apparatus	5,3	3,4
Radio, television and communication	1,8	1,2
Furniture	7,1	4,5
Motor vehicles, trailers and semi-trailers	25,5	16,3
Other transport equipment	3,3	2,1
4. Others	1059	0,7
All products	157,1	100,0

Source: Turkish Statistical Institute; ISIC Classification

The OECD countries accounts for 56,3% of Turkey's exports and exports to the EU constituted 47% of the total exports in 2019. Turkey's export markets are highly diversified. Germany continued to be the largest export market with a share of 10% for Turkish products in 2019. Among the above countries, Egypt led in increasing its import purchases from Turkey up in value by 29.4% from 2018 to 2019. In second place was Belgium with a 25.4% improvement, followed by Russia (up 24.4%), the Netherlands (up 23.6%), Romania (up 23.5%) and Spain (up 22.3%). Three top trade partners decreased their imports from Turkey year over year, namely the United Arab Emirates (down -65.8%), Iraq (down -7.8%) and the United States (down -4%).

Figure 5. Turkey's main trade partners in export, 2019



Source:IMF DOTS, 2019

Turkey is one of the largest producers and exporters of agricultural products in Europe and the Middle East. Total exports of agricultural and food industry products (HS: 01-24) have been US \$ 16.9 billion in 2019 and accounted for about 10.7% of Turkey's total export volume in the same period.

Vehicles and auto parts, textiles and clothing, machinery, iron and steel and electronics have been the most dynamic industrial sectors in recent years. In 2019, manufacturing industry exports reached US\$ 147billion with a share of 93.7% in total exports. Today Turkish Automotive Industry has reached a production capacity of almost 1.8 million units per year. Turkey ranks 14th and 5th biggest producer of motor vehicles in the world and in EU respectively.

Exports of the automotive and supplier industries were responsible for the 18% of Turkey's total exports in 2019. In the same year, 1.3 million vehicles were exported out of total production of nearly 1.7 million and exports of the industry increased 20 % compared to 2018 and reached to 28,8 billion USD.

Turkish shipbuilding industry has emerged as an exporting sector with increasing production capacity. Due to the developments in the Turkish shipbuilding industry and world demand, there has been a sharp increase in production volume and product diversity at ship subsidiary industries in Turkey. The sector can produce anchors, chains, bollards, locking equipment, windlasses and equipment, electric cables and hydraulic units. Exports of shipbuilding industry reached to USD 1.3 billion in 2019. Turkey is a growing force within the international maritime sector.

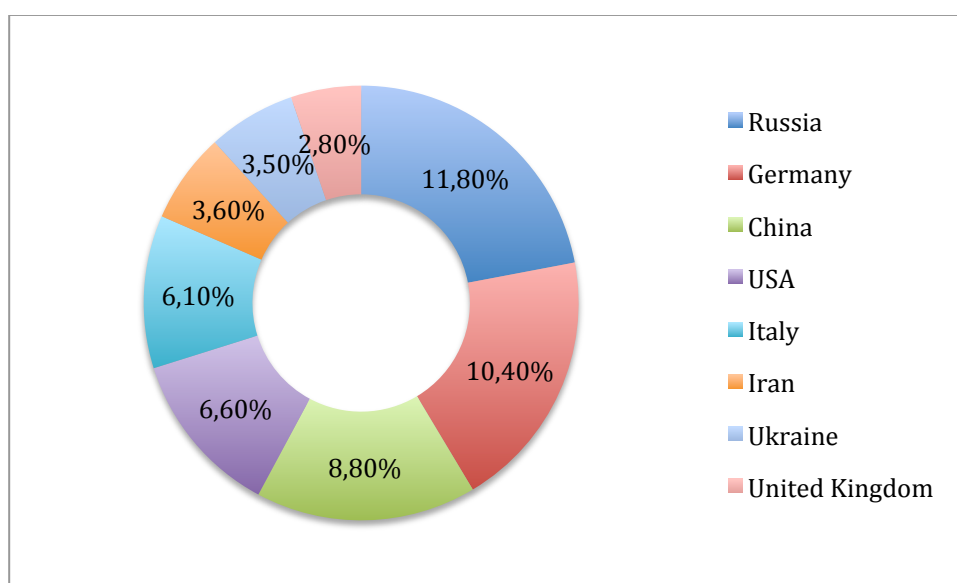
Turkish iron and steel industry has shown great progress, both in terms of quality and capacity. Raw steel production in Turkey rose to 37.5 million tons and Turkey is the eighth largest steel producing country in the world in 2019. Iron and steel exports in 2019 amounted to US\$ 13.8 billion. Turkey as the second largest steel producer in Europe and second largest rebar steel exporter in the world. Turkey's iron and steel exports are mainly composed of rolled bars and profiles for the construction industry. Iron and steel casting products and pipes and tubes are also significant sub-sectors.

In 2019, the exports of mining products were US\$ 4.7billion, which represents about 3% of total exports of Turkey.

Clothing and textiles are among the most important manufacturing sectors in the Turkish economy in terms of GDP, employment and exports. In 2018, the share of clothing and textile industry (including leather and leather products, shoes and carpet) was 19,3 %in total exports. In 2019, the share of this sector dropped to around 18% in total exports of the country.

The main principles of Turkish import policy are reduction of bureaucratic procedures, conformity with GATT'94 and customsunion rules and securing the supply of raw materials and intermediary goods at suitable prices and certain quality standards. In 2019, 50% of total imports originated from the OECD countries. The imports from the EU countries have the largest share (36%) in this group. The People's Republic of China became the primary source for Turkish imports. Share of Russian Federation was 11% in 2019. Germany ranked second as an important source with its 10.4% share. The People Republic of China took a share of 8.8%

Figure 6. Turkey's main trade partners in import, 2019



Source:IMF DOTS, 2019

The following product groups represent the import value exceeds 5 billion US\$ in Turkey's Manufacturing import purchases during 2019. Among the main sectors, manufactured products occupied the largest share of 81.6%in the total

imports. The share of agriculture was 3.8% and the share of mining products was 11.2%.

Table 7. Structure of Turkey's import by main product groups

Imports of Turkey by main products	2019 (million US\$)	Share (%)
1. Agriculture and forestry	8,9	3,8
2. Mining/quarrying	26,1	11,2
3. Manufacturing	190,7	81,6
Food products and beverages	4,9	2,1
Textiles	5,4	2,3
Coke, refined petroleum products	12,5	5,3
Chemicals and chemical products	33,1	14,2
Rubber and plastics products	5,2	2,2
Basic metals	35,9	15,4
Machinery and equipment	20,4	8,7
Electrical machinery and apparatus	8,4	3,6
Radio, television and communication	11,8	5,0
Medical , precision and optical instruments	5,5	2,3
Motor vehicles, trailers and semi-trailers	20,9	8,9
Other transport equipment	6,9	3,0
4. Others	7,9	3,4
All products	233,792	100,0

Source: Turkish Statistical Institute; ISIC Classification

Turkey is one of the largest producers and exporters of agricultural products in Europe and the Middle East. Total exports of agricultural and food industry products (HS: 01-24) have been US \$ 16.9 billion in 2019 and accounted for about 10.7% of Turkey's total export volume in the same period.

2.2. Turkish economic relations with the EAEU countries

Eurasian Economic Union (EAEU) and Turkey are powerful regional economies with promising trade, infrastructure, investment potential and historic links. Although after the Second World War, Turkey pursued a west-sided foreign policy, nowadays political and economic climate between countries has developed.

In order to illustrate linkages between countries the economic relationships of Turkey with each EAEU member state will be analyzed.

Relations between the Republic of Armenia and the Republic of Turkey are complicated by the issue of recognition of the Armenian Genocide, Armenia's

refusal to ratify the Kars Treaty and Turkey's support for Azerbaijan in the Karabakh conflict. The border between the two neighboring states is closed, its length is 311 km.

Although Turkey was one of the first countries, which recognized the independence of Armenia after the collapse of the Soviet Union in 1991, the relations between the two states are characterized as extremely cold. Several factors influence this:

1. Lack of diplomatic representation between the two countries.
2. There is no road and rail connection, because of closed Armenian-Turkish border. The existing cargo flow between the countries passes mainly through the territory of Georgia. Nevertheless, despite tensions between the states, regular flights on the route "Yerevan-Istanbul" are carried out.
3. Turkey continues to deny the fact of the Armenian Genocide in the Ottoman Empire. Turkish citizens who try to raise this issue for discussion are prosecuted under Article 301 of the Turkish Penal Code "Insulting Turkish Identity".⁵³

Several attempts to normalize the relationships between countries were made several years ago. For instance, the process of normalizing relations between the two countries was initiated in 2008. In October 10, 2009, the foreign ministers of Armenia and Turkey signed two documents in Zurich: "On Establishing Diplomatic Relations between the Republic of Armenia and the Republic of Turkey" and "On Developing Relations between the Republic of Armenia and the Republic of Turkey", which were to be ratified by the parliaments of two countries.

⁵³ David S.Yost /Armenian Perceptions of International Security in the South Caucasus /«Research Paper» Academic Research Branch — NATO Defense College, Rome № 32- March 2007.

However, in September 2017, speaking at the UN General Assembly, former President of Armenia Serzh Sargsyan stated that the Turkish government had put forward absurd preconditions for ratification of the Zurich protocols. That is why in March 1, 2018, Sargsyan announced the cancellation of the Zurich protocols at a meeting of the National Security Council of Armenia.⁵⁴

Political and economic climate between Russia and Turkey after November 2015 and July 2016 has currently normalized. Russia is Turkey's largest partner (in the frames of EAEU) in terms of its share in total Turkish outward FDI, which accounts for approximately 45% or \$5.1 billion. An important step was signing by Ministers of Economy of Russia and Turkey – M. S. Oreshkin and Nihat Zeybekci – Medium-term program of trade, economic, scientific, technical and cultural cooperation for 2017-2020.⁵⁵

Establishing closer cooperation with Turkey is fully consistent with Russia's foreign policy and foreign economic interests, and also allows to solve a number of significant problems in ensuring the country's national security. In other words, with the Russian-Turkish rapprochement caused by the economic partnership within the framework of the Eurasian Union, certain compromises can be reached in the energy policy of the Middle East, as well as in matters of security and stability of the region as a whole.

In Syrian issue, both parties have come to a common denominator for the settlement of an emerging military-political crisis in the Syrian Arab Republic on March 5, 2020. Parties involved in the political process fulfilled their immediate obligations.

Construction of The Akkuyu Nuclear Power Plant is another issue in which Russia and Turkey cooperate, this project is important for both Moscow and

⁵⁴ “President Serzh Sargsyan Convenes National Security Council Meeting”, 1999-2020 The Office to the President of the Republic of Armenia, Copyright.

⁵⁵ Daily Sabah Diplomacy:” Political, economic cooperation between Turkey, Russia continue to deepen”, April 2018. URL: <https://www.dailysabah.com/diplomacy/2018/11/23/political-economic-cooperation-between-turkey-russia-continue-to-deepen>.

Ankara and its estimated investments are about \$25 billion. This project will help Russia to improve its technical capabilities and enable Turkey to diversify its energy sources. In addition, Rosatom initiated negotiations with three Turkish companies Cengiz Holding, Kalyon Construction and Kolin Construction - to sell 49% of the shares of the Akkuyu plant.⁵⁶

The successful ongoing implementation in 2017 of many economic and energy projects such as “Turkish Stream”, Nuclear Power Plant “Akkuyu” , as well as Turkey’s recent purchase of the Russian S-400 air defense system, played an important role in economic relationships between Russia and Turkey.

In the evaluation of economic relations between Kazakhstan and Turkey historical and cultural ties should be taken into account.

In 2012, Kazakhstan and Turkey adopted joint economic program “New Synergy” aimed at supporting entrepreneurs, which made a significant contribution to the development of relations between the countries. Within the framework of this program, 23 projects worth \$ 800 million were launched, which allowed creating 3 thousand jobs.

Turkey is one of the main trading partners of Kazakhstan. With the participation of Turkish investors, such significant projects as the production of pharmaceuticals, chromium concentrate, electro-optical devices, soft drinks and confectionery products have been implemented today.

Kazakhstan is interested in increasing the inflow of Turkish investments for the joint production of high value-added products oriented on export to third countries in such sectors as chemistry and petrochemistry, mechanical engineering, construction materials, metallurgy, and textile industry.

A successful example of cooperation in the military-industrial sphere is the joint venture “Kazakhstan ASELSAN Engineering”. An agreement on export of

⁵⁶ Eurasian Economic Integration: Facts And Figures, 2019.

URL: http://www.eurasiancommission.org/en/Documents/broshura26_ENGL_2019.pdf.

this company's products to Turkish market was reached on the Kazakh delegation visit in the IDEF international defense exhibition in Turkey in 2019.

An essential aspect of effective economic cooperation is the development of transport infrastructure. In this regard, in Fifth meeting of the Joint Strategic Planning Group chaired by the heads of the foreign affairs agencies of Kazakhstan and Turkey, parties discuss the prospects of the trans-Caspian route, as well as the development of a logistics hub based on the seaports of Aktau and Kuryk, which could become an important element of the rapidly developing of Eurasian transport infrastructure.⁵⁷

During its chairmanship in EAEU in 2016, Kazakhstan took a possibility to strengthen multi-vector foreign policy with Turkey. According to the recent estimates, about 1600 Turkish companies registered in Kazakhstan and employ about 15000 local people. Furthermore, according to the Turkish Economic Relations Boars, Turkey, Kazakhstan's current bilateral trade volume exceeds \$2billions.

The trade turnover of Belarus and Turkey in 2018 reached \$ 984 million, imports amounted to \$ 801 million, exports increased by more than 36% to \$ 183 million. The bulk of Belarusian exports was formed by compounds containing a functional nitrile group, potash fertilizers, semi-finished steel products, butter, wire unalloyed steel, linen.

But in the first half of 2019, the growth rate of trade and economic cooperation between countries slowed down. Trade amounted to \$ 418 million, exports - \$ 68.2 million, imports - \$ 349.8 million. At the same time, the level of investment from Turkey remained at the level of last year - \$ 23.8 million, of which direct - \$ 22.5 million.

Moreover, 139 business entities with participation of Turkish capital are registered in Belarus. Investment projects in the field of telecommunications,

⁵⁷ “Foreign Ministers of Kazakhstan and Turkey Discuss Prospects for Bilateral Cooperation” URL: <http://www.mfa.kz/en/content-view/glavy-mid-kazahstana-i-turcii-obsudili-perspektivy-dvustoronnego-sotrudnicstva>.

construction, light industry, metal processing and the chemical industry have been implemented in the country.

In Turkey, at the same time, “Petrochemia” Ltd and a representative office “MAZ” PJSC were opened. In April 2019, the assembly production of MTZ tractors in the city of Kırıkkale was launched.⁵⁸

Relations between Turkey and Kirghizstan followed a positive path in strategic partnership. Cooperation in multidimensional spheres such as trade, military, education, transportation, health and culture are maintained through a large number of legal protocols and agreements. Turkish companies are one of the main player in Kyrgyz market. About 300 capital companies from Turkey are engaged in different sectors of Kyrgyz economy such as machinery, textile, electric power industry, pharmaceuticals etc. They contributed \$304 millions capital in the economy of Kyrgyz Republic and created 5000 working places, according to the statistics of the year 2019.

There are also several strategic documents outlining the partnership between countries, among them are Agreement of Perpetual Friendship and Cooperation” signed in 1997 by both the presidents of Turkey and Kirgizstan, the assertion as “Turkey and Kirgizstan: to 21st century together” published in 1997 and “Common Statement about the Foundation of High-Level Strategic Partnership Cooperation” signed in 2011.

2.3. Evolution of bilateral trade between EAEU and Turkey. Main Export and Import Sectors

Bilateral trade between Turkey and EAEU is presented in Table 8. Turkey's total exports to the Member States of EAEU stood at USD 4.9 Billion (2019). Of which, the majority of exports is accounted by Russia (USD3.4 Billion) followed

⁵⁸ “Lukashenko: Belarus and Turkey have to systematize relations and significantly increase trade”, BELTA - News of Belarus, © Copyright BelTA, 1999-2020.

URL:<https://www.belta.by/special/president/view/lukashenko-belarusi-i-turtsii-predstoit-sistemizirovat-otnoshenija-i-suschestvenno-narastit-359882-2019/>.

by Kazakhstan (USD 695 Million), Belarus (USD 439 Million), Kyrgyz Republic (USD 377 Million) and with no export from Armenia. Although total imports from EAEU by Turkey is higher at USD 23 Billion (2019). It also has Russia accounting for the maximum imports (USD 21,9 Billion) followed by Kazakhstan (USD 1,4 Billion), Belarus (USD193 Million), Kyrgyz Republic (USD 47 Million) and Armenia (USD 1,96 Million). From Table 8 it is clear that except Belarus and Kyrgyz Republic, Turkey has trade deficit with the rest of the countries of the EAEU. Of these, Russia accounts for almost the entire trade deficit of Turkey vis-à-vis EAEU amounting to USD 18,6 Billion with Russia, followed by Kazakhstan with USD 7,7 Million and Armenia with USD 1,96 Million. The trade surplus with Belarus and Kyrgyz Republic amounts to a meager USD 246 Million and USD 330 Million, respectively. This shows that the proposed FTA could be really beneficial for Turkey to increase its exports with the help of greater market access achieved through tariff liberalization.

Table 8. Bilateral Trade between Turkey and the EAEU, 2019 (USD Million)

	Armenia	Belarus	Kazakhstan	Kyrgyz Republic	Russia	EAEU Total
Turkish Export	0	439,4	695,3	377,1	3400,14	4911,9
Turkish Import	1,9	193,3	1470,3	47,3	21989,6	23702,6
Trade Deficit	-1,9	246,1	-774,9	329,8	-18589,5	-18790,6

Source: IMF DOTS, 2019

In order to put things in perspective, mutual importance of Turkey and the EAEU as a group is presented in Table 9. Whether it is Turkey's exports to the EAEU as a proportion of Turkey's total exports to world or Turkey's imports from the EAEU as a proportion of Turkey's total imports from world, the EAEU appears to be important for Turkey, as it constitutes about 10,6% of its import and 3% of its export. By the same token Turkey is also important for the EAEU when viewed from the perspective of export or of the EAEU with respect to world.

Table 9. Turkish Bilateral Trade with the EAEU (% Share)

	2017	2018	2019
Turkey's Exports to EAEU as a percentage of Turkey's Exports to World (%)	2,12	2,70	2,92
Turkey's Imports from EAEU as a percentage of Turkey's Imports from World (%)	8,29	9,11	10,63
Turkey's Total Trade with EAEU as a percentage of Turkey's Total Trade with World (%)	5,71	6,54	7,32
EAEU's Exports to Turkey as a percentage of EAEU's Exports to World (%)	4,21	4,33	4,21
EAEU's Imports from Turkey as a percentage of EAEU's Imports from World (%)	1,59	1,80	1,95

Source: IMF DOTS, 2019

The level of trade turnover between the EAEU and Turkey increased from USD 26,3 billion in 2015 to USD 29 billion in 2019. The latter not only shows a record high in trade flows, but also is a clear sign that Turkey is one of the most important trade partners for the Members States of the EAEU in the region. EAEU's total merchandise exports to Turkey increased from USD 20,7 billion in 2015 to USD 22,9 billion in 2019. The average growth rate of exports was 8,6%. EAEU's imports from Turkey increased over the past 5 years. Volume of imports grew from USD 5,6 billion in 2015 to USD 6,2 billion in 2019. The average growth rate of imports was 7%. The share of Turkey in the EAEU global trade turnover stood at 3,11% in 2015 and increased to 4,49% in 2019.

Cart 1. Main Indexes of merchandise trade between the EAEU and Turkey (USDMillion)



Within the EAEU, Russia is the main trade partner of Turkey with 93%% share of total EAEU's exports and with 67% share of total EAEU's imports. Kazakhstan is the second most important trade partner of Turkey with 5,3% share of total EAEU's exports and with 10,3% share of total EAEU's imports. Belarus has relatively high level of imports that accounted for USD 800 million USD (13% of total EAEU imports) and the level of exports accounted for USD 182,9 million (0,8% of total EAEU exports). The level of trade between Turkey and Armenia and Turkey and Kyrgyz Republic is low which is reflected in terms of the index of turnover that doesn't exceed 0,01% of total EAEU's turnover for Armenia and 0,5% for Kyrgyz Republic.

2.4. Overview of the EAEU and Turkish tariff regulation and non-tariff measures affecting mutual trade in goods

EAEU

Today, all member states of the EAEU, with the exception of Belarus, are members of the WTO. Kyrgyz Republic was the first to join the WTO (1998), then Armenia (2003), Russia (2012) and Kazakhstan (2015). Membership in the WTO entails a gradual reduction in customs duties on imports by a member of this organization, which in the case of the EAEU affects a single customs tariff. As was noted, Russia's obligations in the WTO have already been implemented and customs duties in the EAEU have been reduced to a level that meets the conditions assumed by Russia in the WTO. In Tariffs Comitments of Russian Federation all teriff lines are bound. The average final bound rate is 7.1% for non-agricultural products and about 7.8% –11.2% for agricultural products.

For agricultural products bound rates are high with a maximum ad valorem rate of 100% for alcohol. Ad valorem terms for agricultural products constitute 73% of the Russian's tariff bindings and 93% - non-agriculturalproducts. For certain agricultural products, textiles, clothing, fish and fishery products non-ad

valorem tariff bindings exist. Over 44% of agricultural tariff lines and approximately 50% of non-agricultural tariff lines are in 0-5% range.

The situation is different with the terms of membership in the WTO of Kazakhstan — a reduction in its import duties on a number of goods reaches 60%. Thus, accession to the WTO forced Kazakhstan to resort to unilateral tariff adjustment. On the one hand, this contributes to a reduction in the cost of imported goods in Kazakhstan, which can be positively perceived by consumers and importers. For example, for Kazakhstan, the average tariff for agricultural products is 10.2%, while for other EAEU countries it is 17%. On the other hand, Kazakhstan's membership in the EAEU imposes an obligation on it, according to which goods imported from third countries at rates of duty below the minimum level must be consumed strictly in Kazakhstan. When re-exporting these goods to the territory of other EAEU member states, higher duties will be applied in accordance with the Union's common customs tariff.

In accordance with obligations to the WTO, prior to joining the EAEU, Kyrgyz Republic used a very low level of import customs duties, which amounted to about 5.1%. In this regard, a transition period for adaptation to the common customs tariff of the EAEU until 2020 with the ability to apply rates different from the common custom tariff during this time is in effect in the Kyrgyz Republic.

Regarding membership in the WTO of Armenia and adaptation of the relevant obligations to the conditions of membership in the EAEU, the Union law grants the possibility for Armenia to apply a rate different from the common custom tariff of EAEU rate until 2022 on a wide range of goods. However, at the end of the transition period, Armenia will have to increase rates from 50% and above in a number of positions, since, according to the rules of WTO, many goods were imported by this country at zero rates. In general, Kyrgyz Republic and Armenia are currently applying common customs tariff rates, simultaneously negotiating with the WTO to adapt their obligations to the conditions of membership in the EAEU in accordance with the directives participating in this process.

The level of applicable customs duties for MFN for about 40% of tariff lines (both agricultural and non-agricultural products) is below 5%. Over 30% of agricultural tariff lines are in the range of 10-15%. Tariff protection for the agricultural sector is particularly high on livestock products, dairy products, beverages and tobacco. For more than 50% of the tariff lines of agricultural products import customs duties do not exceed 10%.

MFN tariff for agricultural products is relatively low (9.3%). For non-agricultural products the average tariff does not exceed 10-12%. Certain products in industrial sector are particularly sensitive for the EAEU and are protected by higher import tariffs for the following categories of industrial goods: wood and paper — 12.6%, clothing — 22.7%, fish and fish products — 12.3 %.

The EAEU Member States have applied Generalized System of Preferences (GSP) since 2010. The Treaty of EAEU outlines common framework of the GSP. According to the Treaty, EAEU Members may provide developing and least developing countries with preferential treatment. Currently, EAEU grants preferential tariff treatment under GSP system to 103 developing countries, among with there is a Turkey, and 50 least developed countries.

The tariff rate quotas applied only to agricultural products by EAEU. In general meat and milk products are covered by the quotas. The Eurasion Economic Commission is authorised for establishing quotas and determining rules for allocating in-quota volumes.

The Commission is to inform all interested parties in case when country-specific quotas are allocated. The Commission also publishes reports on the global volume of quotas, periods of their implementation and their allocation among exporting countries.

At the present moment trade restricting quotas are applied only for agricultural products, including different kind of meat (HS group 02) and milk products (HS group 04). The current volume of TRQ and its allocations between the EAEU Member States are regularly published on the official website of Commission.

Turkey

In accordance with its customs union agreement with the EU, Turkey exempts from tariffs non-agricultural products imported from the EU and applies the EU common external tariff to third-country non-agricultural imports, including those from the EAEU. Turkey also exempts from tariffs non-agricultural products imported from other trading partners with which it has concluded free trade agreements. Turkey has bound just over half of its tariff lines under the WTO, a relatively low percentage for an economy of its size.

Turkey's average applied tariff rate is 42,7 percent for agricultural products and 5,5 percent for non-agricultural products, while its WTO bound rates are 61 percent and 17 percent, respectively. Turkey continues to maintain high tariff rates on many imported food and agricultural products. Tariffs on fresh fruits range from 19,5 percent to 135,9 percent, and poultry tariffs are 65 percent. On June 27, 2017, the Turkish government reduced the import tariff on wheat, barley, and corn from 130 percent to 45 percent, 35 percent, and 25 percent, respectively. Turkey recently has taken advantage of substantial differences between its applied and WTO bound tariff rates to increase tariffs significantly across multiple sectors. Since mid-2014, Turkey has increased tariffs by an average of 26 percent on products classified in 50 Harmonized System chapters, affecting a wide range of sectors, including furniture, medical equipment, tools, iron, steel, footwear, carpets, and textiles. The Turkish government also levies high tariffs, excise taxes, and other domestic charges on imported alcoholic beverages and tobacco products that increase wholesale prices for these products considerably.

Furthermore, Turkey has the scope to increase tariffs further because 50% of its tariff schedule is unbound (tariffs are bound for 100% of agricultural tariff lines and 34% of industrial tariff lines), and in many cases there is a significant gap between bound and applied rates. Also, there are significant differences in the rates of agricultural versus industrial products, as average rates for agriculture are 49% and only 5.5% for industrial goods. Tariff protection remains particularly high, averaging over 80%, on meat, dairy, sugar and confectionary, and agricultural

products. Turkey has not notified its domestic support or export subsidy programmes to the WTO Committee on Agriculture during the review period, but based on other sources of information Turkey has introduced changes leading to the maintenance of relatively high supports, at least in comparison to other OECD countries, and payments based on agricultural output have increased, thus leading to distortions. Turkey maintains government enterprises or marketing boards for grains, sugar, meat, and alcohol and tobacco products which, depending on the product and board, play a role in Turkey's trade, production, or pricing of these products.⁵⁹

Turkey employs a number of incentives related to exports. Significant subsidies appear to be granted in 16 agricultural or processed agricultural product categories. These subsidies take the form of tax credits and provisions for debt forgiveness, and are paid for by taxes on exports of primary products such as hazelnuts and leather.

Turkey uses the Harmonised Commodity Description and Coding System, which comprises nearly 5,000 commodity groups, each identified by a six digit code, and is utilised by more than 200 countries.

In terms of country coverage, Turkey is also following the reforms to the GSP that the EU has taken, namely to focus preferences on countries most in need by removing high- and upper-middle-income countries and countries that benefit from other privileged arrangements. Thus, Turkey's beneficiaries have been reduced from 177 to 91 at present.²⁷ Turkey deviates slightly from EU country coverage by excluding Armenia: on Armenia's accession to the WTO, Turkey invoked Article XIII of the Marrakesh Agreement on the non-application of multilateral trade agreements.⁶⁰

Turkey does not have any WTO tariff-rate quotas bound in its WTO Schedule of tariff commitments. However, it does have a number of quotas or

⁵⁹ Turkey Trade Policy Review, 2016.

⁶⁰ WTO document WT/L/501, 3 December 2002.

quotas; these can be categorized as autonomous quotas, quotas pursuant to FTAs, and quotas applied to non-WTO Members.

Overview of the EAEU and Turkey Non-tariff measures

EAEU

The Departments of the Commission are in charge of the application of customs procedures. Customs regulation in the EAEU is exercised in accordance with the customs law of the EAEU and, to the extent not covered by such law, by the national legislation of the EAEU Member States until appropriate legal relations are established at the level of the customs law of the EAEU. Regarding the customs legislation of the EAEU goods are released by the customs authority within 1 working day after the date of registration of customs declaration. Goods that are not subject to export duties determined by the Commission and released by the customs authority within 4 hours after registration of customs declaration for such goods.

Since 2010 the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation have been engaged in a process of harmonization of their legal framework in the sphere of sanitary, veterinary-sanitary and phytosanitary quarantine measures with the international legislation. Since 2015 the Republic of Armenia and the Kyrgyz Republic have acceded to this process as well after their accession to the EAEU. Agreed policy is carried out through joint development, adoption and implementation by the Member States of international treaties and acts of the Eurasian Economic Commission

The system of technical regulation of the EAEU aims to coordinate policy in the sphere of technical regulation, harmonize the legislation of the EAEU Member States in this field and introduce common mandatory requirements for commodities in the territory of the EAEU. Currently, the main international treaty forming the system of technical regulation of the EAEU is the Treaty on the EAEU. The essential issues on technical regulation in the EAEU have been outlined in Chapter X and Annexes 9, 10 and 11 to this Treaty.

Import and export licenses are issued by authorized agencies in the Members States of the EAEU in accordance with the procedures determined by the Treaty on the EAEU. The licenses that have been issued by an authorized agency in any Member State of the EAEU, are recognized by the other Members States of the EAEU. Licensing of import and export of goods included in the list of goods subject to import and export restrictions in accordance with the rules provided by the Annex 7 to the Treaty.

The EAEU trade remedies regime is governed by Articles 48, 49, 50 of the Treaty on the EAEU, and the provisions of Annex 8 to the Treaty on the EAEU (Protocol on the Application of Safeguard, Anti-Dumping and Countervailing Measures to Third Countries) which are fully consistent with the relevant WTO Agreements.

Turkey

Customs procedures largely fall under the responsibility of the Ministry of Customs and Trade. According to the Ministry, Turkey requires 13 import documents and the average time to import at the border is 3 days with a cost of border compliance of US\$655.⁶¹ As set out in the Customs Law, economic operators may request advance assessments – Binding Tariff Information (BTI) – for the determination of import and export taxes, the calculation of duty drawback and import-export payments within the context of Turkey's agricultural policy, or for the use of certificates providing tariff or origin information submitted for the purpose of customs clearance. The use of customs brokers is not compulsory, any natural or legal person with a tax number may import goods. Importers/customs brokers are responsible for removing imported merchandise from customs. Certain goods may only be imported through specialized customs offices. The purpose of these customs practices is to make the customs offices more disciplined. For example, motor vehicles, tractors, motorcycles and their spare parts and accessories must be cleared at the Yesilkoy, Gebze, Izmit, Izmir, Mersin, Derince or Giresun customs directorates.

⁶¹ The website of the Ministry may be viewed (in Turkish only) at: <http://www.gtb.gov.tr>.

Imports and exports are subject to a number of border measures in Turkey, including licensing, controls, outright prohibitions and restrictions. Eleven categories of products are subject to import licences and 26 require export licences. Concerning export side, Turkey refers to international agreements for the prohibition or control of strategic goods and has provisions for export quality control checks of certain agricultural products.⁶²

Turkey also applies trade remedies and is one of the WTO's main users of safeguard and anti-dumping measures. Turkey initiated four safeguard investigations and extended safeguard measures eight times since 2012. Turkey ranks among the WTO's top ten users of anti-dumping measures these - since 2012 with 25 investigations initiated and 14 measures imposed.

Key sectors of Turkish economy including mining, oil, gas, manufacturing, agriculture and transport are continuing to be owned by state-owned enterprises. In the review period, there were 36 state-owned companies, but several improvements were made in terms of transparency. For instance, several provisions were adopted requiring to establish internal audit and control system and subject them to independent external audit.

Turkey also continues to harmonize its regulation with EU in terms of improving its technical regulation and SPS measures. Recent developments in the SPS regulatory environment include the regulation on the import and transit of certain live animals; this regulation determines the principles and procedures regarding preparation of the animal health conditions to be implemented in the import and transit of certain live ungulate animals and lists of permitted countries.⁶³

Turkey is not a signatory to the WTO Agreement on Government Procurement (GPA) but has been an observer of the GPA since 1996. Turkish procurement law sometimes requires government contracting agencies to accept

⁶² WTO documents G/LIC/Q/TUR/7, 3 April 2014 and G/LIC/Q/TUR/9, 3 March 2015.

⁶³ Regulation on the Determination of Animal Health Rules for the Importation and Transit of Certain Live Ungulate Animals, Official Gazette No. 29481 of 20 September 2015.

only the lowest-cost bids in response to tenders. Turkish military procurement policy encourages localization commitments by bidding firms, including in the areas of foreign direct investment and technology transfer. In February 2014, the Turkish parliament adopted an Omnibus Bill that gives civilian government ministries authority to impose commercial offset requirements in procurement contracts. Similar to the military offset requirements, this law requires a foreign company that wins a Turkish government procurement contract to produce a certain percentage locally or with a local partner in order to provide its products and services. The government is focusing on implementing offset requirements in the pharmaceutical, medical devices, commercial aircraft, and energy sectors, among others.⁶⁴ Certain sectors or areas such as utilities, prisons, schools, state railways, air transport, and research and development activities are also not covered by government procurement law.

2.5 Institutional Framework for Economic Cooperation

The premier economic and trade links between Turkey and EAEU-member states lies in developing bilateral relationships in multidimensional sectors. Turkey has a number of sector-specific projects, which take forward the economic relationship across a broad front under the trade and economic framework. It provides a government-to-government structure for promoting economic development in key areas including energy and mining, infrastructure development, information and communication technology, services, agriculture and biotechnology.

Russian Federation -Turkey

Energy cooperation. As Russian Federation is interested in export of hydrocarbons, nuclear technologies, diversification of oil and gas transport routs, the cooperation in this sector could be describes through several key points:

1. Trade in energy products, based on the flow of Russian natural gas to Turkey.

⁶⁴ See WTO document WT/TPR/S/259, para. 109.

2. Shipment of Russia's oil and petroleum products through the Turkish Straits, with a similar transit route for natural gas being a possibility.

3. Russian foreign direct investment in Turkish energy industry, including the power generation sector, nuclear energy, energy equipment supplies and maintenance services.

4. The exploration and production of hydrocarbon resources in Russia and third countries.

5. Focus on economic project such as Akkuyu, the construction of the plant was launched on April 3 2018 and the plant's date for the first reactor to be operational has been set for 2023.

Military sector. Despite pressure from United States and NATO, in December 2017, Turkey and Russia negotiated a deal over purchase of the S-400 defense system to fulfill Turkish security needs. Moreover, two countries work together on settling Syrian Crisis, especially on initiation Idlib agreement that also indicates the serious progress in bilateral ties.⁶⁵

Investment. Turkish investments in Russia are mainly in construction, finance, agriculture and food products, ferrous metals, mechanical engineering, wholesale and retail trade, chemicals, and other manufacturing industries. According to Turkey's 2018 balance of payments data, Russia accounted for 6.2% of its total foreign direct investment and for around 1% of outbound external investment.⁶⁶ Examples of projects that have already been completed include the acquisition by Magnitogorsk Metals, the world's largest steelmaker, of a Turkish steel mill in Iskenderun and Russia's Sberbank's purchase of Turkey's Denizbank; Credit Europe, an effectively Turkish bank, operates in Russia's banking market,

⁶⁵ Daily Sabah Diplomacy: "Political, economic cooperation between Turkey, Russia continue to deepen", April 2018. URL: <https://www.dailysabah.com/diplomacy/2018/11/23/political-economic-cooperation-between-turkey-russia-continue-to-deepen>.

⁶⁶ Balance of Payments 1975–2018. Turkey. URL: <http://www.tcmb.gov.tr>.

while developers ENKA and Renaissance Construction are carrying out a number of investment projects in Russia's territory.

Construction sector. The most important project for the Russian side in Turkey is the construction of the country's first nuclear power station, the Akkuyu Nuclear Power Plant. Construction is being carried out as part of the "Agreement Between the Government of the Republic of Turkey and the Government of the Russian Federation on Cooperation in Relation to the Construction and Operation of a Nuclear Power Plant at the Akkuyu Site in the Republic of Turkey" signed in May 2010. Among other projects currently being completed with the participation of Russian companies, the construction of the Kigi Hydroelectric Station, which was finished in late 2017.

Kazakhstan-Turkey and Kyrgyz Republic-Turkey

Major areas for Kazakhstan-Turkey and Kyrgyz Republic-Turkey economic and cultural cooperation include membership in Cooperation Council of Turkic Speaking States. In the 6-th summit, which took place in the Cholpon-Ata city in September 2018. President Nursultan Nazarbayev highlighted the need to use the transit potential of the states and simplify the tariff policy. A great deal of work has been done to prepare a textbook of common Turkic history. The main role in this regard was played by the International Turkic Academy, which, in close connection with other participants from Kyrgyzstan, Azerbaijan and Turkey, carried out a number of practical steps towards strengthening Turkic integration.

During the visit of President of Turkey Recep Tayyip Erdoğan to Kazakhstan on 8-10 September 2017, several protocol and memoranda of understanding were signed, including the Turkey-Kazakhstan Intergovernmental Joint Economic Commission 10th Term Meeting Protocol, the New Synergy-Joint Economic Program, which was established under the auspices of the Turkish and

Kazakh presidencies, and the 2017-2020 Action Plan Protocol.⁶⁷ These agreements are expected to boost the bilateral relations between the two countries.

Military sector. The two states concluded “Agreement on Cooperation in the field of military education” in 1993, “agreement on cooperation in the field of military education, science and technology” in 1994, and “agreement on cooperation in the field of technology and defence industry” in 1996. Turkey also provides technical assistance and trainings to Kazakh security and law enforcement forces.

Investment. Turkey is the 17th biggest investor in Kazakhstan, in terms of capitalization and the 4th biggest country regarding the investments excluding energy.⁶⁸ According to Turkish Minister of Economy Nihat Zeybekçi, the worth of the Turkish business world in Kazakhstan and that of Kazakhstan in Turkey is about \$2 billion and \$1 billion, respectively (the Foreign Economic Relations Board of Turkey (DEİK), 2017). The total trade volume between the two countries is around \$1.7 billion (DEİK, 2017). According to the Turkish Ministry of Foreign Affairs of Turkey, the goal of the two countries is to augment their bilateral trade volume to \$10 billion.

Energy sector. Turkey is a transit country for the Kazakh oil resources given that they are exported to global oil markets via the BTC pipeline. The pipeline is a great domain in the Turkish-Kazakh energy cooperation. In 2006, Baku and Astana signed the deal on the promotion and support of oil transportation from Kazakhstan to international markets through the Caspian Sea and Azerbaijan via the BTC pipeline.⁶⁹

Turkey- Kyrgyz Republic cooperation in economic field is conducted through;

⁶⁷ Daily Sabah. (2017, September 10), “Turkey, Kazakhstan sign investment deals worth \$590 million, pledge stronger economic ties”. URL: <https://www.dailysabah.com/economy/2017/09/10/turkey-kazakhstan-sign-investment-deals-worth-590-million-pledge-stronger-economic-ties>.

⁶⁸ MFA of Turkey. (2016b), Relations between Turkey and Kazakhstan. Retrieved January 16, 2017, from <http://www.mfa.gov.tr/relations-between-turkey-and-kazakhstan.en.mfa>.

⁶⁹ BP. (2017), BP Statistical Review of World Energy (66th, Rep.).

1. Establishment of Kyrgyz-Turkish investment forum in 2012.
2. Kyrgyz-Turkey Business Forum in the framework of the official visit of the President the Turkish Republic to the Kyrgyz Republic in 2018.
3. Turkey-Kyrgyzstan High-Level Strategic Cooperation Council.

In Kyrgyz Republic, total Turkish outward FDI stock amounted to \$306 million, with \$150 million invested in the “Manas” Kyrgyz-Turkish University and the related technological park, and \$120 million in construction. Nevertheless, the degree of diversification of Turkish investments in Kyrgyz Republic is quite impressive, as Turkish capital has established a presence in finance, wholesale and retail trade, transport, and textiles.

Belarus-Turkey

Belarus-Turkey cooperation in recent years has been dynamically developing.

Investment. In 2018, the volume of Turkish investments in the Belarusian economy totaled USD 43.1 million (83.6% to 2017), including direct investments – USD 41.5 million. (96,5%). Examples of successful Turkish investment projects in Belarus are: the acquisition by the Turkish company “Turkcell” of the 80% share of the Belarusian GSM-operator JSC “BeST” in 2008, construction by the “Princess Group” of the “Crowne Plaza Minsk” hotel, the implementation of other projects in the field of real estate, textile industry, production of building materials. 5 companies-residents with Turkish capital successfully implement investments projects in Free economic zones of Belarus. There are two affiliates of Belarusian companies in Turkey – representation of petrochemistry concern Belneftekhim and Minsk Automobile Plant in Istanbul. In April 2019 a factory for production of Belarusian tractors MTZ started operation in Kirikkale. On January 1, 2019 there were registered 143 companies with capital from Turkey in Belarus.⁷⁰

In November 2016, Belarus President Alexander Lukashenko and Turkey President Recep Tayyip Erdogan signed a joint communique, which is aimed on

⁷⁰ Embassy of The Republic Belarus to the Republic of Turkey. URL: <http://turkey.mfa.gov.by/en/economy/cooperation/>.

cooperation in mechanical engineering, machine tool building, agriculture, transport and logistics, woodworking, and textile industry. The communique stresses the need to step up cooperation in science, technology and innovations and bolster ties in culture, art and education, including through the opening of centers of Belarusian and Turkish culture. Another priority area mentioned in the communique is the development of the legal framework of the bilateral relations and interregional ties and more active involvement of honorary consuls in the implementation of regional cooperation programs.

Giant Agreement between the leading companies of Turkey logistic sector, Çağ Lojistik A.Ş. and Belarus State Railway Company, Belinterrtrans developed a project, which will provide a huge contribution to Turkey's economy through the web of two countries railways and intermodal transportation. With the new shipping line and logistics corridor, Belarus will be new alternative route for exportation especially to Russia and Kazakhstan.⁷¹

Belarus is also interested in further expanding of contacts in technology, innovation, education and intends to bolster ties in joint scientific research, academic programs, exchange of university students and professors. The National Academy of Sciences of Belarus (NASB) and the Scientific and Technological Research Council of Turkey (TUBITAK) have signed a roadmap of cooperation for 2019-2021, which in particular, envisages a joint contest of science and technology projects and a protocol of the tenth session of the Belarusian-Turkish Joint Intergovernmental Economic Commission.

With regard to cooperation between Armenia and Turkey, upon the occupation of Azerbaijan's Kelbecer province in 1993 by Armenia, the direct trade from Turkey to Armenia highway/railway and airway connections was interrupted and the border between the two countries was closed. In the absence of any improvement in the Armenian-Azerbaijani relations, any progress to be achieved

⁷¹ Giant Agreement between Belarus and Turkey. URL: <https://soycan.com/en/giant-agreement-between-belarus-and-turkey/>.

within the Turkish-Armenian normalization process alone would remain insufficient and would not be lasting and sustainable.

Turkey and EAEU member states are committed to multilateral and regional economic cooperation processes and work together in various fora. In this regard, a statement by the Kazakhstan Presidential Office on the 6 June 2014 were made, where the Kazakhstan ex-President Nursultan Nazarbayev had extended an invitation to the President of Turkey for his country to join the Eurasian Economic Union. The statement was released the day after the fourth summit of the Cooperation Council of Turkic Speaking Nations on June 4 and 5 in the Turkish port city of Bodrum. However Turkey presently has a customs agreement with the European Union, however excluding the agricultural sector. According to the agreement with the European Union, Turkey cannot sign a free trade agreement with third countries that violates the Treaty on the Customs Union. This also applies in the case of the EAEU. Turkish Economy Minister Nihat Zeybekchi in August 2017 noted that Turkey had an intention to sign an agreement on a free trade zone, without violating the rules of the EU Customs Union. Currently, Ankara and the EAEU are making an attempts to cooperate in signing an agreement on free trade in the agricultural sector and other areas not covered by the Treaty of the Customs Union with the EU.

There are several conclusions, which could be made from the existing institutional mechanisms of economic cooperation between the two sides:

1. The interests are bilateral.
2. Cooperation is across various sectors.
3. Although there are many economic tights between countries, the bilateral institutional framework have remained weak.

Dispite this disadvantage, it is essential to find out ways and means to strengthen Turkey-EAEU economic linkages. It is significant to estimate mechanisms and modalities for a comprehensive economic partnership between the two sides. The institutional framework is important in order to prove each country's commitment to the ongoing development of trade. Besides, it also

strengthens bilateral economic dialogue, and provides the EAEU Member States and Turkey with an opportunity to achieve balanced and comprehensive trade facilitation and liberalization based on high-level bilateral two-way visits, business forums and etc.

Chapter 3. The Potential Impact of Free Trade Agreement between EAEU and Turkey

3.1. Gravity model estimation of bilateral trade

In order to identify effect of FTA it is necessary to separate the effect of regional integration from other changes in the economy. The standard way to estimate these and other effects is to run a gravity model and to see where the estimated regressions change as a consequence of implementing the FTA.⁷² The “standard” gravity model aimed on estimating bilateral trade between countries and explains trade as a function of their GDP, population and distance. Moreover, dummies are included to measure additional effects from FTA.

Basically, the gravity model takes the following log-linearized form:

$$\ln FLOW_{it} = \alpha_i + \gamma_i + \beta_1 \ln GDP_{it} + \beta_2 \ln POP_{it} + \beta_3 \ln Dist_{it} + \epsilon_{it}, \text{ where}$$

$\ln FLOW_{it}$ - total bilateral trade, between countries i and j in particular time t, with $i \neq j$. According to Richard Baldwin and Daria Taglioni correctly averaged value of bilateral trade should be defined by the formula:

$$\ln FLOW_{ijt} = \ln \{ (Import_{ij} \times Import_{ji} \times Export_{ij} \times Export_{ji})^{\frac{1}{4}} \}.$$

$\ln GDP_{it}$ - Gross domestic product of country i at time t.

$\ln POP_{it}$ - population of country i at time t

$\ln Dist_{it}$ - distance between country's i and j capitals.

ϵ_{it} - residual term.

Dependent variable is annual trade of Turkey and partners. The data for this variable is obtained from World Integrated Trade Solution (WITS) database, the period from 2000 to 2018. Gross domestic product of Turkey and partner countries are used as measure of economic size. Data on GDP of the countries are obtained from the database of International Monetary Fund (IMF). Population figures for Turkey and partners are obtained from the annual statistics of the International

⁷² Theoretical foundations of the gravity model are provided by Deardorff (1984), Helpman and Krugman (1985), and Helpman (1987). For a comprehensive overview of the empirical literature see Frankel (1997), and Harrigan (2002).

Monetary Fund (IMF). Distance between capitals is taken from Geodesic distances from Centre d'Etudes Prospectives et d'Informations Internationales (CEPII).

In general, it is expected that trade is positively affected by GDP, as the larger economies are likely to trade more. Moreover, trade flows should be in nominal, not real, terms. The reason is that exports are effectively deflated by the two multilateral resistance terms, as deflating exports using different price indices, such as the CPI or the GDP deflator, would not adequately capture the unobserved multilateral resistance terms, and could produce misleading results.

The signs expected for population coefficient is not as unambiguous, and the literature has not tended to find a consistent sign for it. Distance used as a proxy in order to capture transaction costs of goods between countries and expected to be negative.

Besides the factors mentioned above, there are other facts influencing the trade. From a gravity model literature, Linneman (1996) suggests that model should include a dummy variable equal to unity for countries that share a common culture, like common border. It is considered, that such a factor could exert a significant impact on trade flows, because it may decrease or increase movement of goods internationally. Another dummy which also has an impact on transactions costs and should be taken into account is the geographical location of the country, which could be either landlocked or may have an access to the sea. Following Linneman (1996) we include extra variables to capture these effects:

COMBORD =1 if the countries in pair share a land border, 0 otherwise;

Landlock =1, if the country 2 is landlocked, 0 otherwise.

The database used to estimate gravity model contains data for 22 country pairs, where Turkey is a member of each pair, for the period 2000-2018. These countries are country-members of EAEU, including Armenia, Belarus, Kazakhstan, Kyrgyz Republic, Russian and 18 other countries which are either Turkey's main trade partners or engaged in free trade agreements, regional trade agreements, custom unions or receive preferential treatment from Turkey according to its scheme of generalized system of preferences: Albania, Azerbaijan,

Belgium, Egypt, Iraq, Iran, Israel, Italy, France, Netherlands, Croatia, Germany, Spain, United Kingdom, United States, United Arab Emirates.

We use panel data to take into account the critic of Mátyás (1997). He argues that the traditional cross-section approach is affected by a problem of misspecification. The most natural representation of bilateral trade flows is a three-way specification and eliminating one of the three dimensions (e.g. time) ignores the presence of exporter and importer effects. Egger (2002) adds to this argument that a panel framework the most appropriate methodology is for disentangling time-invariant and country specific effects.

In our model, we create three separate regressions to analyze effect on trade flow, export and import.

$$\begin{aligned} \ln FLOW_{jit} = & \alpha_i + \gamma_i + \beta_1 \ln GDP_{it} + \beta_2 \ln GDP_{turk} + \beta_3 \ln POP_{jit} + \beta_4 \ln Dist_{jit} \\ & + Comboard + Landlock + GSP + \epsilon_{it} \end{aligned}$$

Dhar and Panagariya (1999) argue that using total trade as dependent variable constrains the coefficients for imports and exports to be equal. Instead they propose to estimate separate equations for exports and imports. On the other hand, according to Frankel (1997) aggregating imports and exports influences the results only slightly. Moreover, he argues that it has the advantage to cancel out the effect of a real appreciation or depreciation on exports and imports and thus justifies the omission of a term for the real exchange rate. To check the validity of our estimation results, we compare the estimates of separate equations for imports and exports.

$$\begin{aligned} \ln Import_{jit} = & \alpha_i + \gamma_i + \beta_1 \ln GDP_{it} + \beta_2 \ln GDP_{turk} + \beta_3 \ln POP_{jit} + \beta_4 \ln Dist_{jit} \\ & + Comboard + Landlock + GSP + \epsilon_{it}; \end{aligned}$$

$$\begin{aligned} \ln Export_{jit} = & \alpha_i + \gamma_i + \beta_1 \ln GDP_{it} + \beta_2 \ln GDP_{turk} + \beta_3 \ln POP_{jit} + \beta_4 \ln Dist_{jit} \\ & + Comboard + Landlock + GSP + \epsilon_{it}; \end{aligned}$$

We estimate the model with fixed effects (FE) and with random effects (RE). Whereas the FE model is always consistent in the absence of endogeneity or errors in variables, the RE model is only consistent if the individual effects are uncorrelated with all other explanatory variables. In that case, RE estimators have

the advantage to be more efficient than FE estimators. If these conditions do not hold, only the FE approach is consistent since it cleans out all the time-invariant effects (α). The Hausman (1978) specification test is used to test for correlation between the whole set of explanatory variables and the country-specific effects.

As shown in table 1, the null hypothesis of zero correlation is not rejected in regressions for $\ln FLOW_{it}$ and for $\ln Export_{it}$, which indicates that the RE estimates are appropriate, but for $\ln Import_{it}$ the hypothesis of zero correlation is rejected, so RE model is biased and we have to turn to FE specification.

Table 10. Gravity Model Estimates, using FE and RE (2000-2018)

Variable	Model 1 <i>lnFLOW_{jit}</i>	Model 2 <i>lnImport_{jit}</i>	Model 3 <i>lnExport_{jit}</i>
Constant	-0.028 (0.992)	1.709 (0.639)	3.676* (0.192)
<i>lnGDP_{it}</i>	0.563*** (0.001)	0.125* (0.051)	0.641*** (0.000)
<i>lnGDP_{turk}</i>	0.592*** (0.000)	0.887*** (0.000)	0.552*** (0.000)
<i>lnPOP_{jit}</i>	0.779*** (0.001)	1.256*** (0.000)	0.636*** (0.000)
<i>lnDist_{jit}</i>	-0.001 (0.26)	dropped	-0.001 (0.183)
<i>Comboard</i>	0.586* (0.060)	dropped	0.487*** (0.000)
<i>Landlock</i>	-0.983* (0.090)	dropped	-1.120* (0.088)
Observations	374	371	364
R^2	0.811	0.684	0.752
F-statistic		68.12***	
Hausman test	0.714	0.000	0.779

***Significant at 99% confidence level; **Significant at 95% confidence level; *Significant at 90% confidence level;

As reported in table 10, all coefficients have expected signs and are statistically significant with exception of distance. Since the explanatory variables $\ln Dist_{jit}$, $Comboard$, $Landlock$ are time-invariant, they are dropped by FE estimator. From the table we could tell that trade flows, export and import are positively affected by the log of GDP and negatively by distance, from our model, it is also clear that the size of population produce positive effect on trade, we suppose that this is because population describes a market size of each country and that is why higher population tends to increase international trade. It seems that in case of import partners' GDP has a smaller effect than Turkey's own GDP, and in case of export we could see the opposite situation. This indicates, that although trade rises with size of economy, it increases less then proportionately. So the large diversified economies are less dependent on trade than small developing economies. As for geographical effects, we could see that countries, which share common border trade by 79,6% [$e^{0.586} - 1 \approx 0,796$] better and export by 62,7% [$e^{0.487} - 1 \approx 0,627$] more than otherwise. Furthermore, coefficients for variable $Landlock$ have negative signs, so absence of access to the sea tends to reduce trade. Concerning the group of countries of our interest– EAEU members and Turkey, from the analysis, we could conclude that the access and ability to transfer goods via Black Sea, and presence of common border with one of the members –Armenia increase chances for a positive economic effect from FTA.

According to Bayoumi and Eichengreen (1995), gravity model should include policy variables to indicate the measures of restrictiveness, tariffs applications and membership in different international organization, custom unions or regional trade agreements. The standard gravity model assumes that bilateral trade depends only on economic conditions in the two countries considered. In practice, however, bilateral trade also depends on competitiveness relative to other countries and markets. Following Bayoumi and Eichengreen (1995) we include extra variables to capture these effects:

$WTO_{both} = 1$, if both countries in pair are members of the WTO, 0 otherwise.

$FTA = 1$, if there is an FTA between the countries, 0 otherwise.

$RTA = 1$, if there is an RTA between the countries, 0 otherwise.

CUA (custom union agreement) = 1, if there is a CUA between the countries, 0 otherwise.

$GSP = 1$, if the country 1 in pair gives the country 2 preferences, 0 otherwise.

We obtain the following regressions:

$$\begin{aligned} \ln FLOW_{jit} = & \alpha_i + \gamma_i + \beta_1 \ln GDP_{it} + \beta_2 \ln GDP_{turk} + \beta_3 \ln POP_{jit} + \beta_4 \ln Dist_{jit} \\ & + WTO_{both} + FTA + RTA + CUA + Comboard + Landlock + GSP \\ & + \epsilon_{it}; \end{aligned}$$

$$\begin{aligned} \ln Import_{jit} = & \alpha_i + \gamma_i + \beta_1 \ln GDP_{it} + \beta_2 \ln GDP_{turk} + \beta_3 \ln POP_{jit} + \beta_4 \ln Dist_{jit} \\ & + WTO_{both} + FTA + RTA + CUA + Comboard + Landlock + GSP \\ & + \epsilon_{it}; \end{aligned}$$

$$\begin{aligned} \ln Export_{jit} = & \alpha_i + \gamma_i + \beta_1 \ln GDP_{it} + \beta_2 \ln GDP_{turk} + \beta_3 \ln POP_{jit} + \beta_4 \ln Dist_{jit} \\ & + WTO_{both} + FTA + RTA + CUA + Comboard + Landlock + GSP \\ & + \epsilon_{it}. \end{aligned}$$

We estimate the model with fixed effects (FE) and with random effects (RE). As shown in table 11, the null hypothesis of zero correlation is not rejected in regressions for $\ln FLOW_{it}$ and for $\ln Export_{it}$, which indicates that the RE estimates are appropriate, but for $\ln Import_{it}$ the hypothesis of zero correlation is rejected, so RE model is biased and we have to turn to FE specification.

Table 11. Gravity Model Estimates with Additional Dummies (2000-2018)

Variable	Model 1 $\ln FLOW_{jit}$	Model 2 $\ln Import_{jit}$	Model 3 $\ln Export_{jit}$
Constant	-0.028 (0.992)	1.709 (0.639)	3.676* (0.192)
$\ln GDP_{it}$	0.563*** (0.001)	0.125* (0.051)	0.641*** (0.000)
$\ln GDP_{turk}$	0.592*** (0.000)	0.887*** (0.000)	0.552*** (0.000)
$\ln POP_{jit}$	0.779***	1.256***	0.636***

	(0.001)	(0.000)	(0.000)
<i>lnDist_{jit}</i>	-0.001 (0.26)	dropped	-0.001 (0.183)
<i>Comboard</i>	0.586* (0.060)	dropped	0.487*** (0.000)
<i>Landlock</i>	-0.983* (0.090)	dropped	-1.120* (0.088)
<i>WTO_{both}</i>	0.225* (0.109)	0.304 (0.211)	0.075*** (0.000)
<i>FTA</i>	0.461*** (0.000)	0.533*** (0.006)	0.253* (0.081)
<i>RTA</i>	0.097* (0.138)	0.083** (0.013)	0.097* (0.125)
<i>CUA</i>	0.046 (0.562)	0.281 (0.383)	0.152* (0.119)
<i>GSP</i>	0.129* (0.119)	0.229* (0.084)	0.247* (0.192)
Observations	374	371	364
R^2	0.826	0.696	0.769
F-statistic		141.29***	
Hausman test	0.796	0.000	0.679

***Significant at 99% confidence level; **Significant at 95% confidence level; *Significant at 90% confidence level;

As we can see, the coefficients for dummy FTA are highly significant for trade flows and import and significant at 90% level for export. Countries, which have FTA with Turkey trade by 58,5% [$e^{0.461} - 1 \approx 0,585$] better, import and export by 70,4% [$e^{0.533} - 1 \approx 0,704$] and 28,7% [$e^{0.287} - 1 \approx 0,287$] more respectively than would have been expected by their economic characteristics and the average behavior of countries in the sample. In addition, the coefficients of *WTO_{both}* have also positive signs, although not significant for import. As shown in the table 2, impact for belonging to the same regional trade agreement has a

positive impact, which indicates the tendency for greater intra-bloc trade, though of a smaller magnitude of 10,1% [$e^{0.097} - 1 \approx 0,101$]. Coefficient *CUA*, as expected, has a positive sign, but it is insignificant for trade flow and export. We now focus on the results of the additional dummy *GSP* that we included. As it is seen from the table, it is significant at 90% level and has a positive sign for all three models. In general, trade preference system increases export to Turkey by 13,7% [$e^{0.129} - 1 \approx 0,137$].

Furthermore, our application confirms the common finding from the regional integration literature that free trade agreements have positive trade effects.

3.2 Partial equilibrium model application for the potential EAEU -Turkey FTA effects

WITS-SMART partial equilibrium model was used in order to estimate the impact of liberalization between Turkey and EAEU, assuming full liberalization of imports from Turkey to EAEU.

Partial equilibrium model was chosen to analyse the trade flows, although it bears several limitations. One of the major limitations is that the intersectoral implications (second-round effects) of a trade policy change are not taken into account. It is however still possible within a partial equilibrium model to analyse the trade policy effects on trade creation and diversion, welfare and even on tariff revenues. Moreover, effects are also traceable by countries.⁷³

The SMART model includes three different kinds of elasticities:

i) Supply elasticities, which is infinite (=99). This implies that an increase in demand for a chosen good will always be matched by exporters and producers of that good, without any impact on the price of the good. This assumption is reasonable in case of Turkey and EAEU when the exporter –EAEU is a large industrialised zone.

⁷³ Jammes and Olarreaga, April 2005. “ Explaining SMART and GSIM”. Work in Progress, World Bank.

ii) The rate of substitution between two goods from different origins is recorded by import substitution elasticities. In SMART the Armington assumption is taken into account, meaning that similar goods from different countries are imperfectly substitutable. In SMART, the import substitution elasticity is 1.5 for each good.

iii) The demand response to a shift in import price is measured by import demand elasticity. Another important assumption made by the model is perfect competition, which means that prices paid by customers fully reflects tariff cuts.⁷⁴

The SMART model uses information contained in the UNCTAD managed TRAINS database. For tariffs (applied tariffs) and trade values SMART also uses TRAINS data. For trade values, TRAINS data is based on the data collected in the COMTRADE database.

It should be taken into account, that for some developing countries the data often contains an element of “reflection” of information. This means that in order to reflect the level of exports from developed countries to developing countries - the imports recorded for developing countries are often adjusted.

With regard to tariffs, the SMART model uses applied tariffs as recorded in TRAINS. It should be noted the EAEU countries do not apply tariff to each other's, as they are part of a custom union. They however apply a Common External tariff, which is based on Russia's commitments in the WTO and incorporated in EAEU Common Customs Tariff. We therefore apply a 100% tariff reduction to all products at the HS-2 level.

We more precisely looked at the impact on tariff revenues and trade creation and diversion results. The groups of products with the highest impact were identified as well as how the results vary across countries. Using COMTRADE databases main Turkish exports by product to EAEU countries were identified. The years and classifications available are the same across all the EAEU countries. Table 12 shows the main exports into the EAEU countries.

⁷⁴ Laird and Yeats. 1986. “The UNCTAD trade policy simulation model, a note on methodology, data and uses”. UNCTAD discussion paper 19, UNCTAD.

Table 12
Turkey's main exports by products

Year	Partner	HS code	Trade value (US \$)	Share in total export, %
2018	Russian Federation	8 Edible fruit and nuts; peel of citrus fruit or melons	636,098,917	18,7%
2018	Russian Federation	39 Plastics and articles thereof	147,785,915,	4,34%
2018	Russian Federation	84 Machinery mechanical appliances nuclear reactors boilers; parts thereof	400,876,283	11,78%
2018	Russian Federation	85 Electrical machinery and equipment and parts thereof; sound recorders and reproducers television ...	164,833,365	4,85%
2018	Russian Federation	87 Vehicles other than railway or tramway rolling stock and parts and accessories thereof	335,693,178	9,87%
2018	Russian Federation	TOTAL	3,401,617,084	
2018	Kazakhstan	61 Articles of apparel and clothing accessories knitted or crocheted	51,927,620	7,47%
2018	Kazakhstan	62 Articles of apparel and clothing accessories not knitted or crocheted	41,600,115	5,98%
2018	Kazakhstan	73 Articles of iron or steel	40,145,608	5,77%
2018	Kazakhstan	84 Machinery mechanical appliances nuclear reactors boilers; parts thereof	105,388,323	15,15%
2018	Kazakhstan	85 Electrical machinery and equipment and parts thereof; sound recorders and reproducers television ...	60,790,691	8,74%
2018	Kazakhstan	TOTAL	695,417,116	
2018	Belarus	8 Edible fruit and nuts; peel of citrus fruit or melons	30,494,109	6,94%
2018	Belarus	54 Man-made filaments; strip and the like of man-made textile materials	32,187,605	7,32%
2018	Belarus	55 Man-made staple fibres	30,554,650	6,95%
2018	Belarus	60 Knitted or crocheted fabrics	81,760,972	18,6%
2018	Belarus	84 Machinery mechanical appliances nuclear reactors boilers; parts thereof	31,564,064	7,18%

2018	Belarus	TOTAL	439,593,796	
2018	Kyrgyzstan	60 Knitted or crocheted fabrics	15,330,573	4,06%
2018	Kyrgyzstan	61 Articles of apparel and clothing accessories knitted or crocheted	95,668,841	25,36%
2018	Kyrgyzstan	62 Articles of apparel and clothing accessories not knitted or crocheted	42,977,343	11,39%
2018	Kyrgyzstan	71 Natural or cultured pearls precious or semi-precious stones precious metals metals clad ...	61,921,930	16,42%
2018	Kyrgyzstan	84 Machinery mechanical appliances nuclear reactors boilers; parts thereof	27,007,300	7,16%
2018	Kyrgyzstan	TOTAL	377,195,350	

Source: COMTRADE, 2018

These exports mix machinery products and other sophisticated goods such as nuclear reactors, electrical machinery, articles of iron or steel, vehicles and base materials such as fruit and nuts, clothing accessories and fabrics. As can be seen in the last column, the exports are quite differently distributed among products, with the largest export item – fruit and nuts- reaching 18,7% of the total exports in Russia, machinery mechanical appliances nuclear reactors boilers – 15,1% in Kazakhstan, knitted or crocheted fabrics – 18,6% in Belarus and articles of apparel and clothing accessories knitted or crocheted – 25,3 % in Kyrgyz Republic.

With regard to tariffs, the SMART model uses applied tariffs as recorded in TRAINS. It can be noted the EAEU countries do not apply tariff to each other as they are part of a custom union. But the weighted tariff rate applied by Turkey to each county-membetr of EAEU is shown in table 13 below.

Table 13
Average applied tariff by Turkey weighted by actual trade

County	Year of data for simulation	Trade weighted average tariff (%)
Belarus	2018	5.61
Kazakhstan	2018	4.26
Kyrgyz Republic	2018	7.13
Russian Federation	2018	5.54

Source: TRAINS ECA 2018

We divided the SMAR model results in three parts. The first describes the simulation results on the levels of Turkey's exports to EAEU. A second part analyses the simulation's results on trade creation and trade diversion. The third part shows the results of tariff revenues and welfare in the Turkey.

Firstly, we looked at the potential increase in exports enjoyed by the Turkey under full liberalisation of EAEU.

Table 14
Increase in exports after FTA for individual EAEU countries

Country	Turkey's Export before FTA (US\$)	Increase after FTA (US\$)	Increase after FTA in %
Russian Federation	9,363,795,617	1,641,336,956	17,5%
Belarus	128,819,530	21,996,081	17,07%
Kazakhstan	1,465,924,274	87,987,184	6,00%
Kyrgyz Republic	89,556,285	944,233	1,05%
Total	11,048,095,706	1,752,264,454	15,86%

Source: simulation WITS-SMART

Table 14 shows clearly that the largest gain would be from Russia's liberalization (17,5% of the additional exports, at just about 1,6 billion US\$ of increased exports), followed by Belarus (17% of total export gains), Kazakhstan (6,00%) and Kyrgyz Republic (1,05%). Together, this 4 countries should reap-up 15,86% of the increased exports of Turkey. SMART allows determining trade creation impact of a change in tariff.

Trade creation is traditionally viewed as positive for consumer because it represents an additional quantities that the consumers can afford thanks to the liberalisation. However, some of this increase in consumption may have a negative effect of national producers. Trade creation has an overall positive effect for the country, taking into account both the necessity to maximise the consumer benefits.

Table 15 below shows trade creation by Turkey to each country-member of Eurasian Economic Union. Most trade creation as a share of net trade effect would

take place in Russian Federation. Kazakhstan will experience the highest relative trade creation in comparison with the initial levels of imports (+47,05%).

Table 15

Trade creation by EAEU countries

Partener	Trade value	Trade creation	Trade creation as share of net trade effect	Trade creation as % of initial trade
Russian Federation	1,641,336,956	1,272,452,018	77,52%	13,58%
Kazakhstan	87,987,184	41,406,425	2,80%	47,05%
Belarus	21,996,081	5,900,903	4,58%	26,82%
Kyrgyz Republic	944,233	81,104	8,59%	0,001%
Total	1,752,264,454	1,319,840,450	75,32%	11,95%

Source: simulation WITS-SMART

We also looked at trade creation effects at the products HS-2 level detail.

The table 16 below exhibits the products for which trade creation is largest.

Table 16

Products with highest trade creation effects in EAEU

HS-2 code	Product denomination	Trade Value (US\$)	Trade creation effect (US\$)	Share in total trade creation
08	Edible fruit and nuts; peel of citrus fruit or melons	2,121,635	134,061	6,32%
87	Vehicles other than railway or tramway rolling stock and parts and accessories thereof	29,492,179	2,483,325	8,42%
84	Machinery mechanical appliances nuclear reactors boilers; parts thereof	1,922,881	98,765	5,14%
39	Plastics and articles thereof	9,804,221	393,308	4,01%
54	Man-made filaments; strip and the like of man-made textile materials	298,586	13,646	4,57%
55	Man-made staple fibres	1,311,587	53,997	4,12%
60	Knitted or crocheted fabrics	102,233	26,557	1.76%

94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings	135,870	26,117	1.73%
73	Articles of iron or steel	113,078	23,304	1.54%
57	Carpets and other textile floor coverings	182,405	14,990	0.99%

Source: simulation WITS-SMART

Trade creation is mostly concentrated on particular products rather than evenly spread evenly across tariff lines. As it is seen from the table, products with the largest trade creation include vehicles and parts, fabrics, fruit and nuts and textile.

SMART also allows determining the trade diversion impact. Trade diversion is the quantity of exports from third countries that is being replaced by Turkish products after liberalization. Trade diversion is usually regarded as negative for country's welfare as more efficient producers are replaced by less efficient ones due to the new trade preference. This results in a sub-optimal allocation of factor at the world level. Table 17 defines trade diversion in EAEU in the case of a total liberalisation of imports from Turkey.

SMART model allows to identify which countries are most vulnerable to trade diversion.

Table 17

Trade diversion in EAEU in case of FTA

Partner Name	Trade Diversion Effect in 1000 USD	Intra-regional trade diverted*
Russian Federation	368,884,880	290,003,798
Kazakhstan	46,580,759	31,258,963
Belarus	16,005,178	7,563,287
Kyrgyz Republic	27,258	14,523
Total	431,687,359	328,840,571

*Loss of exports from EAEU countries to other EAEU countries.

Source: simulation WITS-SMART

In total, net trade diversion amounts to US \$ 189,284 millions. The part of this trade diversion that represents forgone exports of EAEU countries to the rest

of the region amounts to US\$ 133,733 millions. This amount is not significantly lower than trade diversion effect from the potential FTA, which may mean that in the case of EAEU, the FTA could have small negative impact on regional integration.

Table 18 shows the analysis of the products for which trade diversion effect is the largest. Some categories of products are shown at the bottom of the table 18 for which the fall in exports is large proportionally to the volumes exported before the FTA. Although, the volumes exported are quite low and account for a small fraction of the overall total export loss. For example cocoa and cocoa preparations would see their exports fall by 10,4%, even through they account for only 0.12% of the overall export loss.

Table 18
Most vulnerable products to trade diversion in case of FTA in EAEU

HS-2 code	Product denomination	Exports before FTA (US \$)	Change in exports (US \$)	Variation in exports in%	Share of each HS chapter in total export loss
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral	3,364,485	-121,635	3,6%	34,41%
99	Commodities not elsewhere specified	1,105,604	-110,476	9,9%	5,52%
76	Aluminium and articles thereof	1,092,528	-98,765	9%	4,11%
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	970,295	-262,542	27%	3,01%
44	Wood and articles of wood; wood charcoal	404,322	-42,871	10%	2,57%
30	Pharmaceutical products	340,574	-53,997	15%	2,29%
21	Miscellaneous edible preparations	238,874	-33,682	14%	1,6%
22	Beverages, spirits and vinegar	233,890	-40,126	17%	0,98%
69	Ceramic products				

		226,703	-23,304	10%	0,30%
18	Cocoa and cocoa preparations	172,485	-17,990	10,4%	0,12%

Source: simulation WITS-SMART

The elimination of tariffs on imports from the Turkey is considered to harm the government revenues in EAEU countries. The extent of revenue losses varies across countries as indicated in table 19. Russia will have to forego up to US\$ 500 million and Kazakhstan US\$298 million. Due to lower levels of imports in Belarus and Kyrgyz Republic, their loss in tariff revenues is logically smaller.

Table 19

Revenue implications of a Turkey-EAEU FTA (US\$)

Country	Revenue loss
Russian Federation	- 958,807,518
Kazakhstan	-169,853,103
Belarus	-49,561,930
Kyrgyz Republic	-12,158,003
Total	- 1,190,380,554

Source: simulation WITS-SMART

It should be noted, that the revenue loss indicated by the simulations relates to imports tariff revenues. However, in real life, the increased imports presented earlier resulting from trade creation are in most countries subject to indirect taxes such as the VAT. It follows that, as long as there is rapid increase in the volume and value of imports into the EAEU countries, and these countries have indirect taxes such as VAT, then the revenue loss in the table above will be decreased.

Consumer surplus is shown in table 20.

Table 20

Welfare (consumer surplus) implications of a Turkey-EAEU FTA (US\$)

Country	Consumer surplus
Russian Federation	224,161,434
Kazakhstan	125,254, 472
Belarus	65,154,064
Kyrgyz Republic	25,254,409
Total	439,824,379

Source: simulation WITS-SMART

The consumers in the EAEU countries will enjoy gains from the FTA, as they will get access to goods at lower prices. In our analysis we made an

assumption that the Turkey as an exporter and the EAEU importers will pass on the benefits of the tariffs reduction to the Eurasian Economic Union consumers. In case, if the benefits for tariff reduction are not passed to the consumers but are captured by the exporter or the importer, it is possible that the increase in consumer welfare will be limited.

To ensure that the welfare is transmitted to consumers, the competition policy should be introduced in order to ensure that there is no collusion from large importers as well as no abuse of potential dominant positions.⁷⁵

However, it should be taken into consideration that the overall economic welfare effects are not clear within a partial equilibrium modelling. The reason is that producer surplus changes have not been captured in this analysis.

Finally, it could be summarized, that our partial equilibrium model show that imports from Turkey to EAEU would increase by approximately 1,75 billion US\$ (15,86%%). Russia and Kazakhstan considered to be the two main partners for Turkey. Trade creation effects represent 11,95% (1,3 billion US\$) of the overall trade effect, largely exceeding trade diversion effects (431,687 US\$). Trade creation is mostly concentrated on particular products rather than evenly spread evenly across tariff lines. The trade diversion effects seem relatively insignificant compared with intra-regional trade diversion, which shows positive effect on regional integration.

⁷⁵ Karingi, Lang, Oulmane, Perez, and Sadni Jallab. December 2005. "Assessment of the impact of the Economic Partnership Agreements between the ECOWAS countries and the European Union". ATPC Work in progress No 29, UNECA.

Conclusion

With a view to assess the feasibility of a Trade Agreement including trade in goods the study initially looked at institutional mechanism in the form of a Free Trade Agreement. It was found that the mechanisms are bilateral, cooperation is spread across various sectors. But despite these mechanisms the bilateral economic relations have remained weak. It is considered that the main reason for this is a lack of comprehensive strategy to economically integrate Turkey and EAEU through trade in goods, along with that fact that Turkey is a part of Custom Union Agreement with EU, which could also contribute to weakening of economic relations of the sides.

The study has analyzed the macroeconomic background and the existing trade linkages at the bilateral level. Turkey and member-countries of EAEU produce complementary and highly competitive goods for export to world markets. Despite the fact, that economic activity of both Sides has grown in bilateral merchandise trade, tariffs and non-tariff barriers are still an obstacle, which constitutes an increase in the cost of imports, imposing extra taxes on businesses and consumers.

In order to determine the potential gains of bilateral trade to the EAEU and Turkey due to the proposed FTA, methodology of Augmented Gravity Model for estimating trade potential was used. It is clear from the model that the potential FTA between EAEU Member States and Turkey is mutually beneficial and feasible. The economic modelling results show a potential for substantial increase in trade flows for both Sides due to a possible FTA.

Partial equilibrium model was adopted to analyze the economic impacts of possible Turkey-EAEU FTA. It is clear from the results, that free trade agreement will improve social welfare, promote the bilateral trade and economic growth of all parties. It should be taken into account, that FTA will have a different impact on the trade of various commodity groups, depending on their initial import tariffs and trade volumes.

As it follows from the research, major export products of EAEU and Turkey will increase. However, possible effect from the FTA could not be limited only to the sectors included in partial equilibrium model.

Considering different industrial structures and tariff rates between Turkey and EAEU members, the research concludes that liberalization of merchandise trade will benefit the development of industries in both sides. But on the other hand, the positive effect from FTA would not be equally distributed among all sectors and a few sectors could be quite sensitive. That is why, the principle of mutual benefit and reciprocity should be respected by both Sides of FTA as well as sensitivities and interests of each party should be taken into account.

It should be noted, that in order to estimate effects, measuring the consequences of FTA data of existing trade activities was taken. Furthermore, some differences between estimates obtained from gravity and partial equilibrium modes can be explained by different level of data aggregation. Nevertheless, both models stated that the overall potential benefit of possible FTA would meet both countries' maximum interests.

Moreover, FTA between Turkey and EAEU would cover substantially all trade in goods allowing to take maximum value of the considerable complementarity between the two economies.

Both the EAEU and Turkey have possibilities to contribute to the competitiveness of industrial sectors in each Member country to the FTA, increasing trade and improving conditions for business cooperation. This will provide impetus to economic welfare and economic activity of each economy.

Besides, analyzes showed that both Sides have relatively high tariffs on agricultural and some industrial goods. But elimination of tariffs by Turkey is currently not possible in the majority of fields except agriculture, as Turkey is bounded by Custom Union Agreement with EU.

Special attention should be paid on non-tariff measures to the goods of the main export interest of both Sides. The successful accomplishment of improvement of market access conditions for the key export products will boost

trade in both agricultural and industrial goods, maximizing the mutual benefits from an FTA. At the same time, specific differences in economic development and other relevant elements of the economies of both Sides should also be taken into account.

Although the possible FTA would bring significant benefits for both the EAEU and Turkey, there are a number of possible challenges, including inter alia the Turkey-Armenia conflict and membership of Turkey in CU.

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