

Feasibility Analysis of Establishing China and Eurasian Economic Union FTA

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ABSTRACT

Feasibility analysis is a prerequisite for starting free trade area negotiations. To promote the coordinated development of the regional economy, alleviate the geopolitical risks of the Eurasian continent and maintain national security and social stability, the study on the feasibility of establishing China and Eurasian Economic Union FTA is mainly based on good geographical advantages, historical accumulation, bilateral and multilateral political relations, which obtains a high degree of strategic coordination and economic benefits and potentials. It's found that the Parties have the practical feasibility of establishing FTA in this article. It is a long-term goal of connection cooperation between the Silk Road Economic Belt and Eurasian Economic Union, which is an important part of the strategic layout of China and Eurasian Economic Union to build a FTA network.

Keywords: China, Eurasian economic union, FTA, feasibility analysis

1. INTRODUCTION

China and Russia signed a Joint Statement on Connection Cooperation between the Silk Road Economic Belt Construction and Eurasian Economic Union on May 8, 2015. They stated that they would study and promote the establishment of China and Eurasian Economic Union Free Trade Area (FTA). On May 17, 2018, China and Eurasian Economic Union and its members formally signed an Agreement on Economic and Trade Cooperation between China and Eurasian Economic Union, which came into effect on October 25, 2019. The important institutional arrangement reached by Eurasian Economic Union for the first time in terms of economy and trade marks a new stage of system-led economic and trade cooperation between China and Eurasian Economic Union and its member states [1-2]. Trade friction between China and USA in 2018 and the global spread of COVID-19 in 2020 have made the reshaping of the global industrial chain and value chain a general trend. It will have influence on the economic and trade relations between China and Eurasian Economic Union countries gradually. The establishment of the China-Eurasian Economic Union FTA meets the needs of economic development and regional economic integration of both parties, helps to alleviate the geopolitical risks of the Eurasian continent, and maintains the national security and social stability of the member states of Eurasian Economic Union. Study on the feasibility of establishment of China and Eurasian Economic Union FTA will help to promote the formation of a new development pattern in which the domestic cycle is the main body and the domestic and international cycles promote each other.

2. FTA HAS GOOD GEOGRAPHICAL ADVANTAGES AND HISTORICAL ACCUMULATION

China and Russia have lived next to each other for generations and have a long history and cultural connection with Central Asia. The ancient Silk Road that emerged more than 2,000 years ago has already brought China, especially the core area of the Silk Road Economic Belt, Xin Jiang closely link with the countries of the Eurasian Economic Union. Geographically, the Silk Road Economic Belt and the Eurasian Economic Union overlap geographically [3]. The classic trade gravity model theory believes that the scale of bilateral trade between the two countries is directly proportional to their gross economic output, and inversely proportional to their geographic distance and cultural differences. Therefore, the closer the geographical distance and the smaller the cultural differences between two or more countries, the easier it is to build a FTA.

3. FTA HAS A HIGH DEGREE OF STRATEGIC COUPLING

China and Eurasian Economic Union have similar goals in the medium and long-term macro development strategy, the same basic concepts and a realistic basis for strategic coordination. This will gradually reduce the obstacles between the two parties in the process of establishing FTA negotiations and continue to increase their compatibility.

3.1. Both China and Eurasian Economic Union Implement the FTA Strategy

In November 2012, the 18th National Congress of the Communist Party of China proposed to accelerate the implementation of the FTA strategy. China has signed 17 free trade agreements involving more than 25 countries and regions, and 13 FTAs are under negotiatio, 8 FTAs under study until September 2020. Since its establishment in 2015, Eurasian Economic Union has made many efforts in foreign economic and trade cooperation, mainly committed to economic and trade cooperation with third countries and related integration organizations, promoted the connection of development initiatives, and stimulated the construction of FTA networks. At present, free trade agreements have been signed with Vietnam, Iran, and Singapore. A non-preferential economic and trade cooperation agreement signed with China came into effect in October 2019.

3.2. The Belt and the Union Connection is an Important Prerequisite for the FTA

The leaders of China and Russia attach great importance to the cooperation between the construction of the Silk Road Economic Belt and the construction of Eurasian Economic Union. China and Russia signed the Belt and the Union connection statement, which put forward the long-term goal of studying and promoting the establishment of a free trade area between China and Eurasian Economic Union on May 8, 2015. The important starting of the Belt and Road is China's border region and neighboring countries. Russia is a starting of the Silk Road Economic Belt [4]. Russian economic development strategies match with and support for the Belt and Road, which is a prerequisite for successful implementation of these strategies. And the realization of infrastructure interconnection with neighboring countries and regional economic integration development is also an important prerequisite for the establishment of FTA between China and Eurasian Economic Union.

3.3. Construction of China-Mongolia-Russia Economic Corridor is a Booster for the FTA

China-Mongolia-Russia Economic Corridor is one of the six major international economic cooperation corridors in the main framework of the the Belt and Road initiative. Similar to China and the member states of Eurasian Economic Union, China, Mongolia and Russia not only have strong complementarities in the existing trade structure, but also have great potential for development in future intra-industry and inter-industry trade cooperation. Therefore, the construction of China-Mongolia-Russia Economic Corridor will provide experience and reference for the establishment of China and Eurasian Economic

Union FTA and further promote its establishment and development.

3.4. Construction of the Trans-Eurasian Corridor is an Infrastructure Guarantee for the FTA

The new Eurasian Continental Bridge Economic Corridor in the framework of the Belt and Road relies on the construction of a modern international logistics system such as China-Europe trains, focuses on the development of economic and trade and production capacity cooperation, expands the space for energy and resource cooperation and builds an efficient regional market. The western passage of the China-Europe Express train runs through the member states of Eurasian Economic Union, provides a good infrastructure and logistics corridor for China and Eurasian Economic Union FTA, promotes infrastructure connectivity, unimpeded trade and financing and builds an efficient regional market.

4. FTA HAS A HUGE ECONOMIC BENEFITS AND POTENTIALS

Economic cooperation is an important link between China and Eurasian Economic Union, and economic benefits and potential are the core considerations that the two sides are most concerned about in the establishment of a FTA. Their gradual expansion of the trade scale and the complementarity of the trade structure lay a realistic foundation.

4.1. The Status of trade Cooperation between China and Eurasian Economic Union

From the perspective of the scale of trade in goods, from 2010 to 2018, as shown in Table 1, the average annual growth rate of the import and export volume of goods trade between China and Eurasian Economic Union reached 8.18%. In 2018, the import and export volume of goods trade between the two sides was US\$134.825 billion, increased by 23.15% [5-6]. The trade balance has turned from a continuous surplus in the past 6 years to a deficit of US\$2.368 billion, a decrease of 119.5% from the 2017 trade surplus of US\$12.135 billion. Specifically, from the perspective of member states, China is Russia's largest export market and largest source of imports, Kazakhstan's second largest export market and largest source of imports, Kyrgyzstan's largest trading partner, and Armenia's second largest trading partner, Belarus's third largest trading partner. The overall trade in goods between China and the Eurasian Economic Union has shown an upward trend, and China is in the position of the largest trading partner of Eurasian Economic Union.

From the perspective of trade structure, in 2019, the commodities exported by Eurasian Economic Union to China were mainly mineral products, base metals and products, and mechanical and electrical products, while the commodities imported from China are mainly mechanical and electrical products, base metals and products, and textiles and raw materials. Eurasian Economic Union and Chinese trade structure are complementary and relatively simple. Most exports to China are mineral products, but

the categories of goods imported from China are relatively broader than those exported to China, especially other items of commodities Kazakhstan imported from China show that the amount of imports of other commodities increased by 51% year-on-year, accounting for 14.8% of total imports from China (see Table 3), reflecting to a certain extent that Eurasian Economic Union has a relatively high degree of trade dependence on China.

Table 1 China and Eurasian Economic Union members import and export volume between 2009 and 2018 (100 million US dollars)

| Country / Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------|--------|---------|---------|---------|---------|--------|--------|---------|---------|
| Russia | 555.33 | 792.74 | 882.11 | 892.59 | 952.70 | 680.16 | 696.16 | 842.21 | 1071.07 |
| Belarus | 12.72 | 13.04 | 15.83 | 14.53 | 18.49 | 17.60 | 15.25 | 14.49 | 17.13 |
| Kazakhstan | 204.49 | 249.61 | 256.82 | 285.96 | 224.52 | 142.90 | 130.98 | 179.43 | 198.78 |
| Kyrgyzstan | 42.00 | 49.76 | 51.62 | 51.38 | 52.98 | 43.41 | 56.77 | 54.24 | 56.11 |
| Armenia | 1.64 | 1.70 | 1.47 | 1.93 | 2.90 | 3.21 | 3.92 | 4.47 | 5.15 |
| Total | 816.17 | 1106.86 | 1207.85 | 1246.38 | 1251.59 | 887.28 | 903.07 | 1094.83 | 1348.25 |

Data source: National data from the Bureau of Statistics of the People's Republic of China

Table 2 The composition of the major export commodities to China of main members of Eurasian Economic Union (million U.S. dollars, %)

| Major export commodities | Russia | | Kazakhstan | |
|---------------------------------|--------|------------|------------|------------|
| | Amount | Percentage | Amount | Percentage |
| Total export value | 39,217 | 100.0 | 7,823 | 100.0 |
| Mineral products | 29,481 | 75.2 | 3,962 | 50.6 |
| Chemical products | 859 | 2.2 | 614 | 7.8 |
| Electronics | 1,606 | 4.1 | 6 | 0.1 |
| Animal products | 1760 | 4.5 | 121 | 1.5 |
| Base metals and products | 1,091 | 2.8 | 2,812 | 36.0 |
| Others | 4420 | 11.3 | 308 | 3.9 |

Table 3 The composition of the major import commodities from China of main members of Eurasian Economic Union (million U.S. dollars, %)

| Major export commodities | Russia | | Kazakhstan | |
|--|--------|------------|------------|------------|
| | Amount | Percentage | Amount | Percentage |
| Total import value | 38,590 | 100.0 | 6,523 | 100.0 |
| Electronics | 18,394 | 47.7 | 2,588 | 39.7 |
| Base metals and products | 3,292 | 8.5 | 747 | 11.5 |
| Textiles and raw materials | 2,994 | 7.8 | 447 | 6.9 |
| Chemical Products | 2,280 | 5.9 | 307 | 4.7 |
| Furniture, miscellaneous products | 2,191 | 5.7 | 362 | 5.6 |
| Transportation Equipment | 2,068 | 5.4 | 374 | 5.7 |
| Light industrial products | 1,529 | 4 | 254 | 3.9 |
| Plastic, rubber | 1,865 | 4.8 | 476 | 7.3 |
| Others | 3977 | 10.3 | 968 | 14.8 |

Data source: According to the data of Country Report <https://countryreport.mofcom.gov.cn/record>

Note: Russian data is from January to September 2019

greatly increase the profitability of Eurasian Economic Union's foreign trade and improve the trade environment.

4.2. Analysis of the economic Effects of the Establishment of China and Eurasian Economic Union FTA

At present, for the analysis of the economic effects of the establishment of China and Eurasian Economic Union FTA, the main empirical research methods are based on the use of social network analysis and point-level centrality indicators to study the trade links and the evolution of trade scale between the two sides, use the explicit comparative advantage index to analyze the international competitiveness of each industry of the two parties, explore the complementarity of bilateral trade, and use the stochastic frontier gravity model to analyze the trade efficiency of the two parties, and then use the partial equilibrium theory and the Global Trade Analysis Project model to analyze the economic effect of the FTA Empirically. The economic effects of establishing the FTA can be reflected in the terms of trade, industrial structure upgrading, economic growth and social welfare.

4.2.1. Improving the terms of trade

Improving the terms of trade is usually used to measure the profitability and trade benefits of a country's imports and exports at a specific stage. China and Eurasian Economic Union FTA eliminates trade barriers, especially non-tariff trade barriers. It will expand the scale of China and Eurasian Economic Union's import and export trade,

4.2.2. Upgrading the industrial structure

The industrial structure is upgraded. China and Eurasian Economic Union are at different stages of industrialization development. The two sides are highly complementary, and there is huge cooperation space and potential. The establishment of China and Eurasian Economic Union free trade area will enable both parties to give full play to their respective comparative advantages. Under free trade conditions, the two parties can gradually achieve the transition from inter-industry trade to intra-industry trade, which is conducive to the development of the manufacturing industry of Eurasian Economic Union. It extends their industrial chain and improves the division of labor in the global value chain. While, for China, it stimulates to further digest the surplus of its production capacity, eliminates its outdated production capacity, adjusts and optimizes its internal industrial structure and promotes industrial transformation and upgrading.

4.2.3. The effect of economic growth

During the establishment of China and Eurasian Economic Union FTA, they gradually reduce or even cancel tariff and non-tariff trade barriers. It is conducive to expand the import and export trade volume between China and Eurasian Economic Union, and increase the output and

employment levels of industries with the comparative advantages of both parties. It achieves rapid economic growth under the influence of economies of scale and multiplier effects.

4.2.4. The social welfare effect

Under the conditions of free trade, the trade creation effect of countries is prominent. Trade within the member states of Eurasian Economic Union, especially the import of industrial products, has been transferred to China in a large amount. With the deepening of trade liberalization, trade transfer effect and trade creation effect become more obvious. It improves the welfare of all parties significantly. Compared with tariff barriers, reducing non-tariff barriers has a greater impact on bilateral welfare, and it greatly improves the welfare of China and Eurasian Economic Union.

5. CONCLUSION

The establishment of a free trade area network isn't only the common strategy of China and Eurasian Economic Union, but also an important direction for the two sides to deepen their economic and trade cooperation. The establishment of the FTA is the strategic interest fitting point of effective connection of the two strategic platforms of China's Silk Road Economic Belt and Russia's Eurasian Economic Union. However, there are also many constraints and disadvantages. In the short term, the establishment of China and Eurasian Economic Union FTA is still full of challenges. It is necessary to further study the measures to establish a free trade area and countermeasures to overcome obstacles. Among them, how to establish a mutually beneficial and win-win cooperation mechanism gradually based on the strengthening of political mutual trust and communication between the two parties and how to dispel the doubts of the alliance members are the key to promoting the establishment of China and Eurasian Economic Union FTA.

ACKNOWLEDGMENT

This work was financially supported by National Social Science Fund Project, Study on the Establishment of China-Eurasian Economic Union FTA under the Vision of the Silk Road Economic Belt (18BJL094) and Harbin University of Commerce Graduate Innovative Research Fund Project (YJSCX2020-620HSD).

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