EURASIAN ECONOMIC UNION AND ASEAN: COMPLEMENTARITY APPRAISAL

YAROSLAV LISSOVOLIK
Eurasian Development Bank, Almaty, 050051, Kazakhstan

Abstract

ASEAN and the Eurasian Economic Union as regional integration blocks may be viewed as two opposite poles in terms of their accessibility to coastal regions. On the one hand, the Eurasian Economic Union is a unique integration arrangement, in which all member countries, apart from the Russian Federation, are landlocked. On the other hand, ASEAN may be termed as one of the most "oceanic" integration blocks in the world as out of its 10 members only Laos is landlocked, while out of the 50 largest container ports in the world eight are located in ASEAN countries, with Singapore being second on the overall world rankings.

Such divergence in terms of geo-economics and accessibility to the seashores between ASEAN and the Eurasian Economic Union should be considered not as a barrier to cooperation, but rather a complementarity factor that may reinforce the potential benefits from economic integration between these two groups. In particular, for ASEAN an alliance with the Eurasian Economic Union opens up a possibility for deeper penetration into a relatively secluded continental region. On the other hand, an alliance with ASEAN enables the countries of the Eurasian Economic Union to overcome continental barriers and use the alliances with ASEAN companies as a platform for integration into the global economy, for gaining access to a fast-growing Asian market and for optimizing transportation costs.

The geographical factor in relations between ASEAN and the Eurasian Economic Union argues in favor of creating a competitive transportation system that serves to intermediate trade flows between Southeast Asia and Europe. As a result, the ASEAN-Eurasian Economic Union alliance may be considered as a "hybrid" oceanic-continental alliance, in which the synergy of integration is derived not solely from trade and investment effects, but also from the transportation/logistical complementarity in the Eurasian geo-economic space. The formation of an alliance between the two very different blocks in terms of their geo-economics – the Eurasian Economic Union as a continental and ASEAN as an oceanic alliance – may provide important synergy for both blocks in terms of realization of their economic potential.

Keywords:

Eurasian Economic Union; ASEAN; geo-economy; integration blocks.

'The "lucratively inclined", as he described it, Britain turned out to be a protector of global freedom. The resulting scheme proved fatal to him: a death battle between Britain – sea – freedom, on the one hand, and Napoleon – mainland – equality.'

Merezhkovskiy, "Napoleon"

Over the last few years, the emergence of transoceanic alliances such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) as well as prospects of losing trade and investment flows due to slow regional integration have

Corresponding author:
Email: lisovolik_yd@eabr.org

made it necessary for Russia to accelerate Eurasian integration processes both with CIS countries and key actors in Asia. During the course of several months following the announcement of TPP agreement, Russia made a series of statements concerning its priorities in establishing trade and economic alliances with foreign countries. In December, Vladimir Putin called for establishing alliances between the Eurasian Economic Union and ASEAN countries as well as the SCO member-states. Shortly before, in November 2015, Igor Shuvalov, First Deputy Prime Minister, announced plans of establishing a free trade area between the EAEU countries and Singapore. In January 2016, Denis Manturov, RF Minister of Industry and Trade, spoke about exploring the possibility of establishing an FTA between the EAEU countries and Indonesia.

The overall orientation of these statements points to the East, primarily the core Southeast Asian countries – ASEAN member-states. Concluding trade and economic agreements with those countries is probably viewed not only as an opportunity to strengthen one's positions in that region and establish stronger alliances and ties with the member-countries of that integration block, but also as a tool for developing collaboration with oceanic mega-blocks. The ASEAN member-states involved in an increasing number of integration projects turn out to be the most important channel for building cooperation with the existing and possible projects such as the Regional Comprehensive Economic Partnership (RCEP), the Trans-Pacific Partnership (TPP), the Asia-Pacific Economic Cooperation (APEC) and other blocks in the Asia-Pacific Region.

Collaboration with these mega-blocks may develop thanks to an increasing number of bilateral alliances with individual ASEAN member-countries. The establishment of an FTA between EAEU and Vietnam may be considered an inception phase of this process. However, along with bilateral alliances, it is extremely important to design a strategy of cooperation with the entire ASEAN, benefits from which for EAEU are to be found not only in trade and investment preferences, but also in accessing the oceanic "operational space" permitting it to overcome the limitations of its continentality.

1

In the world economy, ASEAN and EAEU as integration blocks are antipodes of a kind from the standpoint of their either continentality (EAEU) or access to sea/ocean shores (ASEAN) of their member-countries.

EAEU is a unique integration arrangement, in which all member-countries, apart from the Russian Federation, are landlocked. For millennia, Eurasia's economic development has been connected with its striving to traverse its continental expanses and reach the sea. It was gaining access to coastal areas that strengthened the state of Kievan Rus, largely thanks to its control over the trade route "from the Varangians to the Greeks" that connected the Baltic and the continental areas of Ancient Russia with the Black Sea region. The Volga trade route connected the Baltic with the Caspian Sea. The Silk Road linked East Asia, primarily China, with the Mediterranean. Both Ancient Russia and China profited considerably from access to and control over the said trade routes[1].

As for EAEU, geographic uniqueness of the member-countries of this integration arrangement is not its continentality as such but a unique nature of its continentality/landlockedness:

– Belarus is the largest landlocked country in Europe (with the longest land boundaries).

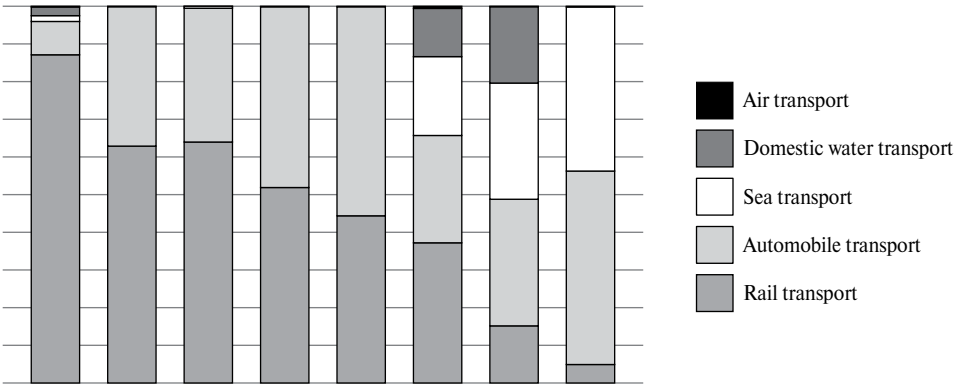
– Kazakhstan is the world's largest landlocked country.

– Kyrgyzstan, along with Tajikistan, ranks 3rd-4th among the world's landlocked countries with the highest average altitude above sea level (the Bhutan-Nepal pair shares the 1st-2nd rankings).

– Armenia is the only country in West Asia (according to the UN definition, this region in-

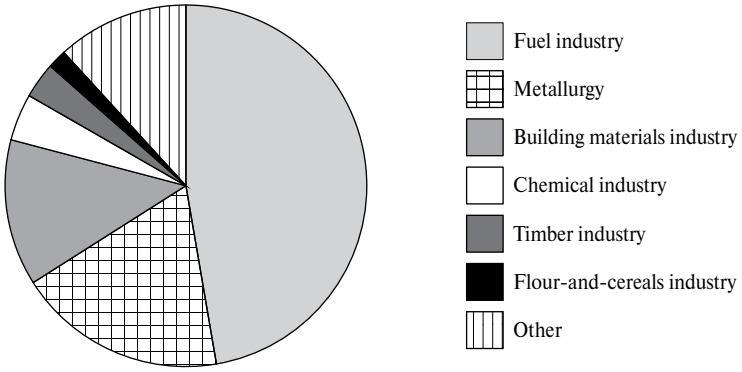
[1] The recent accession of a number of Eurasian countries to the WTO can be compared with overcoming obstacles to trade and gaining access to versatile trade relations. See: Лисоволик Я.Д. [Electronic resource]. URL: http://russ.ru/layout/set/print/pole/Globalizaciya-ot-Velikogo-shelkovogo-puti-do-VTO

Diagram 1
Share of individual kinds of transport in total freight turnover* (%)



* – without pipeline transfer

Diagram 2
Structure of rail transportation in the Russian Federation (% of total)



Source: Federal State Statistics Service of Russia, authors' calculations

cludes mostly the Middle East and Transcaucasian countries) without access to a large water area (Azerbaijan has access to the Caspian Sea).

– Russia is the world's largest country with the longest land boundary and the greatest number of poles of inaccessibility of a planetary scale.

– Kazakhstan and the other former Soviet Central Asian states form one of the world's largest group of landlocked countries (one of the world's largest "areas of inaccessibility" formed by landlocked states). In his works, Pyotr Savitsky made special mention of the combination of a vast territory and remoteness of that region from the seashore, 'The distance between the Valley of Seven Rivers and the coast is unheard-of in the other parts of the world.'[2]

A consequence of such continentality is prevalence of inland haulage over sea shipping making export deliveries from the EAEU countries considerably more expensive. In Russia, the share of rail transportation, minus pipeline transfer, constitutes 87 percent. Domestic transportation, with a share of 60 per-

[2] Savitsky P. Kontenint – okean [Continent – ocean]. Russia and the Global Market. Moscow, 1997.

cent of the total volume of carriage, prevails; export deliveries account for approximately 30 percent; and about 2 percent falls on transit. In this respect, it can be noted that classification of regional alliances or individual countries into "continental" and "marine/oceanic" may be partially based on a relative role of marine and other kinds of transport in their total freight turnover.

Predominance of more expensive transportation as compared to sea shipping may raise the share of transportation costs in the total value of imports in landlocked countries as high as 10-20 percent whereas in industrialized countries and the USA the indicator is 4.7 and 2.2 percent respectively [Arvis 2010]. Higher transportation costs of inland economies reduce their competitiveness by half – the value of imports is higher, and exports become more expensive and less competitive in international markets. According to a World Bank study, these negative geographic factors[3]:

– reduce the trade turnover of inland countries by 30 percent as compared to sea-linked countries;

– reduce growth rates of inland economies by 1.5 per cent as compared to coastal countries.

While EAEU may be described as the most continental of regional blocks in the world economy, ASEAN may be described as one of the most "oceanic" alliances in the world. Of the ten ASEAN member-countries, only Laos is landlocked, but this is partially compensated by a relatively small distance to the shoreline and access to river waterways. Moreover, out of the 50 largest container ports of the world, eight are located in ASEAN countries (represented by six countries – Vietnam, Indonesia, Malaysia, the Philippines, Singapore and Thailand – i.e. the majority of the Association's members), with Singapore being second on the overall world rankings. If the ASEAN countries are viewed together with China (with whom a free trade area has been established), the number of sea ports in the region, ranking among the world's 50 largest ones, will reach 20, i.e. 40 per cent of their total number[4].

Overall, the transportation sector is key to ASEAN countries' economic development considering their strategic location at a crossroads of marine trade routes. For example, in Singapore the share of the transportation sector exceeded 11 percent of its GDP, while in Indonesia the indicator was as high as 15 per cent of the GDP[5]. Empirical estimates of the

Table 1

The world's largest container ports, including those in the ASEAN countries, 2015

Ranking	Port	Freight turnover, 2015 (million TEU)
1	Shanghai, China	36.54
2	Singapore	30.92
3	Shenzhen, China	24.20
4	Port of Ningbo-Zhoushan, China	20.63
5	Hong-Kong, China	20.07
6	Pusan, South Korea	19.45
7	Qingdao, China	17.47
8	Guangzhou, China	17.22
9	Jebel Aki, Dubai, UAE	15.60
10	Tianjin, China	14.11
11	Rotterdam, Netherlands	12.23
12	Port Klang, Malaysia	11.89
22	Laem Chabang, Thailand	6.82
26	Ho Chi Minh, Vietnam	5.31
27	Tanjung Priok, Jakarta, Indonesia	5.20
35	Manila, Philippines	4.23
38	Haiphong, Vietnam	3.87
47	Tanjung Perang, Surabaya, Indonesia	3.12

Source: http://www.worldshipping.org/about-the-industry/global-trade/top-50-world-container-ports

[3] Лисоволик, Кузнецов, Бердигулова. Экономическая география стран Евразии. Январь 2017 года. Макрообзор ЕАБР, стр. 51 [Electronic resource]. URL : http://old.eabr.org/general/upload/special_reports/EKONOMICHESKAYA_GEOGRAFIYA_STRAN_EVRAZII_yanvar_2017.pdf

[4] Worldshipping [Electronic resource]. URL: http://www.worldshipping.org/about-the-industry/global-trade/top-50-world-container-ports

[5] Association of Southeast Asian Nations [Electronic resource]. URL : http://www.asean.org/uploads/archive/PIS-Transport.pdf

Asian Development Bank also testify to substantial economic benefits for the ASEAN economies from reduced transportation costs in trade operations with neighboring regions and key trade partners[6].

2

Such divergence in terms of geo-economics and accessibility to the seashores between ASEAN and the Eurasian Economic Union should be considered not as a barrier to cooperation, but, rather, a complementarity factor that may reinforce the potential benefits from economic integration between these two blocks. For ASEAN, an alliance with the Eurasian Economic Union opens up a possibility for deeper penetration into a relatively secluded continental region. On the other hand, an alliance with ASEAN enables the EAEU countries to overcome continental barriers and use the alliances with ASEAN companies as a platform for integration into the world economy, for gaining access to a fast-growing Asian market and for optimizing transportation costs.

As a consequence, the ASEAN-Eurasian Economic Union alliance may be considered as a "hybrid" oceanic-continental alliance, in which the synergy of integration is derived not solely from trade and investment effects, but also from the transportation/logistical complementarity in the Eurasian geo-economic space. Within the framework of such alliance, China will play an important role as an economic space connecting EAEU and ASEAN and act as both Russia's and ASEAN's key partner. Incidentally, China itself is a combination of elements of both continental and "oceanic" economic environment representing one of the brightest examples of a "hybrid" geo-economic arrangement. On the one hand, in Northwestern China, near the city of Urumchi, there is the continental pole of inaccessibility – a point on the globe farthermost from the seashore. On the other hand, China has considerably strengthened its positions as one of the leading "sea powers" over the last decades. In 2015, seven out of the world's largest sea container ports were situated there (in 2004, there were three of them)[7].

The 'China factor' is acting in favor of rapprochement between EAEU and ASEAN at a time, when Russia and the ASEAN countries are collaborating with China within the framework of the Silk Road Project, links between EAEU and the Silk Road Economic Belt (SREB) Project are being established, and transoceanic projects such as TPP and TTIP are experiencing a crisis. Implementation of the SREB Project may create additional opportunities for the Eurasian Economic Union in the East, including the Asia-Pacific Region (APR), among other things, owing to the conclusion of economic agreements with the ASEAN countries. Such economic alliances with the dynamically developing APR countries are a natural continuation of EAEU involvement in the "One Belt, One Road" initiative. During the 2016 Russia-ASEAN Summit, all of the ASEAN countries endorsed intensification of economic cooperation within the framework of the ASEAN-SCO-EAEU triangle. In turn, this creates a considerable potential for the "One Belt, One Road" initiative in linking integration projects of this triangle due to increasing trade and investment cooperation and infrastructure development.

For the EAEU countries, it is worthwhile considering alternative possibilities for creating links with ASEAN, either within the framework of the EAEU collaboration with the China-ASEAN free trade area or with the Regional Comprehensive Economic Partnership (RCEP). Another platform for linking EAEU with the ASEAN may be China's BRICS+ initiative, whereby ASEAN could collaborate with other regional integration blocks established with the participation of the BRICS countries, such as MERCOSUR or EAEU.

[6] Asian development bank [Electronic resource]. URL : https://www.adb.org/sites/default/files/publication/174393/regional-transport-infrastructure.pdf

[7] Worldshipping [Electronic resource]. URL: http://www.worldshipping.org/about-the-industry/global-trade/top-50-world-container-ports

Considering the experience gained in the conclusion of the agreement between Vietnam and EAEU, subsequent agreements with ASEAN countries should better be aimed at investment cooperation. Such a scenario is possible in the implementation of the EAEU-Singapore agreement, where the investment agenda will prevail over trade liberalization. Therefore, to build further bilateral EAEU alliances with individual ASEAN countries, it is desirable to use the expertise gained within the framework of the Singapore agreement. This agreement may serve as an anchor in aggregating bilateral agreements into one common agreement with ASEAN later.

Eurasian manufacturers should resort more actively and effectively to the establishment of individual Eurasian outposts in the ASEAN countries based on FTAs or investment alliances with a view to involving other ASEAN countries in economic collaboration under the existing free trade regime in the region. In the longer term, transition from bilateral EAEU agreements with individual ASEAN countries to an alliance with the entire block should be rather oriented at investment liberalization, for more flexibility in expanding alliances with ASEAN in the Asia-Pacific Region.

Other priority avenues of collaboration between EAEU and ASEAN in the area of investment could be creating transit transportation from Asia to Europe, establishing ASEAN production facilities in the Russian Federation for further export to Europe, and cooperating in the fuel and energy sector. The geographical factor in relations between ASEAN and the Eurasian Economic Union argues in favor of creating a competitive transportation/logistical system that serves to intermediate trade flows between Southeast Asia (SEA) and Europe. As for the fuel and energy sector, it would be worthwhile creating more opportunities for collaboration with the ASEAN countries and the Republic of Korea to mitigate dependence on Chinese investment. Nonetheless, comprehensive collaboration between EAEU and the ASEAN countries will be possible only on the condition on cooperation with China.

3

Should an EAEU-ASEAN alliance be established, it may be conducive to the emergence of a regional integration block unique in the world economy, within which each of the two regional blocks will strengthen its competitiveness. Factors of competitiveness of regional integration blocks can be rather numerous and heterogeneous, but the following ones can be mentioned as regards standardization of rules and flexibility of regional alliances:

– overburdening of agreements on the establishment of integration blocks by political/social and other conditionalities that could lie outside the economic area;

– coverage of various areas of economic cooperation (trade, investment, labor and environmental standards);

– extent of standardization of the applied economic standards and practices;

– hierarchical patterns of the emerging blocks;

– political sustainability of blocks in the area of both inter-state relations and domestic political support of regional preferences.

Despite the dynamic development and high competitiveness of the Trans-Pacific and Trans-Atlantic alliances, the Eurasian integration block has its own competitive advantages, including flexibility of integration processes, namely:

– sufficiently high extent of flexibility in introducing standards and developing variable-speed integration;

– a large pool of savings and currency reserves;

– rich natural resources;

– high infrastructure development capacity.

The issue of standards and the scope of their unification may become one of the factors that will differentiate the approaches of different mega-blocks in the world economy. US-led mega-alliances will most probably be dominated by unified rules and standards, which will be harmonized with the Trans-Pacific and the Trans-Atlantic partnerships, whereas Eurasia and BRICS integration projects may allow more flexibility and variability of standards in both trade and investment areas. Each of the approaches has its limitations and ad-

vantages. Variability of standards could give more advantages for adaptation in the process of integration of new mega-alliance members, whereas rigid standardization would be conducive to faster integration and unification of the regulatory regime.

Another competitive advantage of the EAEU-SREB continental alliance as compared to TPP-TTIP is the possibility of making a better use of inter-regional and sub-regional economic cooperation potential, including interaction and integration of borderline areas (micro-regional integration). Besides that, continental integration opens up vast opportunities for the development of an inter-country transportation system due to infrastructure development in the economic space. Another competitive advantage of Eurasian integration is potential cooperation in the energy sector, including construction of pipelines linking feedstock sources with key consumer countries in Eurasia. Thus, EAEU-SREB integration will be largely developed based on the above continental integration triplet – sub-regional/regional, transportation and energy-sector integration.

Despite a number of advantages of Eurasian continental integration, there are also substantial challenges and barriers such an integration is facing. Suffice it to mention irregularity of EAEU integration processes and availability of a considerable number of restrictive measures between its member-countries. Factors evidencing Eurasia's lag in competition with trans-oceanic alliances are as follows:

– insufficiently developed financial and transportation infrastructure;

– high extent of dollarization of a number of Eurasian economies;

– insufficient integration impetuses in Eurasia;

– high financial market volatility.

On the other hand, oceanic regional blocks are characterized by a more important role the transportation system plays in serving external trade and domestic turnover as well as higher extent of diversification of trade contacts. As for ASEAN, competitive advantages of this oceanic block are:

– high level of development of transportation infrastructure, including ports;

– flexibility in establishing regional and bilateral alliances, in contrast to EU where individual countries cannot conclude agreements on free trade areas;

– high extent of regional and sectoral diversification of trade relations.

Under such circumstances, comparative advantages of the EAEU-ASEAN alliance will be based on a combination of strong points of both blocks, namely:

– high level of investment potential (high level of reserves and foreign investment);

– openness and flexibility in creating new areas and forms of economic integration;

– transportation/logistical complementarity in developing the Eurasian space and ensuring the operation of the Silk Road Project.

The formation of an alliance between the two very different blocks in terms of their geo-economics – the Eurasian Economic Union as a continental and ASEAN as an oceanic alliance – may provide important synergy for both blocks in terms of realization of their economic potential. In the current realities of global economy and diversity of possible bilateral and regional alliances, the geopolitical prophesies of the previous centuries predicting an allegedly inevitable confrontation of sea and continental powers become increasingly ambiguous and indefinite. On the contrary, under the current conditions it is more profitable and possible to establish an alliance between oceanic and continental regions. In the current context of development of international economic relations, complementarity of different blocks – EAEU and ASEAN – in terms of geo-economics is a potential competitive advantage that can and must be used taking into consideration the current global economic realities.

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