INTESA SANPAOLO БАНК ИНТЕЗА

EAEU Trade and Geopolitics amidst a Slowing Global Economy and the Rearrangement of International Relations

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Contents

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Executive Summary

Five years have passed since the signing of the Treaties that marked the birth of the Eurasian Economic Union. The aim of the Union is to foster the application of market principles, the coordination of macroeconomic policies and the growth of its member state economies, through the promotion of the free trade of goods, services, capital and labour. The EAEU is currently formed by Russia, Kazakhstan, Belarus, Kyrgyzstan and Armenia and is open to new members.

Since its establishment, the EAEU has achieved some important results. A start has been made to the process of harmonising the energy sector, transports and free trade. At the same time, progress has been made in the areas of safeguarding competition, consumer rights protection, cooperation in space projects and in the strategic sectors of security and defence. With regard to the coordination of macroeconomic policies and the process of financial integration (whose general details are still being defined) the Member countries of the EAEU can benefit from the support of the Eurasian Development Bank (EDB), whose function is to promote investment, and the Eurasian Fund for Stabilization and Development (EFSD), whose function is to act as lender of last resort in the face of financial crises of the member states.

With the consolidation of the institutional structure, the attention of the EAEU has been progressively geared to the strengthening of its position on the international stage, through the search for free trade agreements (several already ratified) and economic cooperation agreements with many countries both in Asia and elsewhere. In this area, a particularly important advance was made with the signing of the agreement in Astana (now Nur-Sultan) on 17 May 2018 between the EAEU countries and China. This agreement is part of a much broader project, involving the creation of a Eurasian trade bloc, referred to as the Great Eurasian Partnership, between the members of the EAEU, the ASEAN and the Shanghai Co-operation Organization (SCO). The development of the EAEU relations with the EU, which are of crucial importance for the future balances in the region, is still frozen, instread, greatly affected by the Ukrainian crisis. Despite the existing diplomatic tensions, however, there has been some progress towards a future normalisation of relations between the EU and Russia, both at a technical level, in the cooperation between the two parties on important issues such as security, energy, environmental protection and education, and at a political level, with the recent readmission of Russia into the deliberative body of the Council of Europe.

On a commercial level, the two-year period 2017-2018 marked a recovery in foreign trade for the EAEU. After a three-year period of sharp decline (annual average of -17.1% in nominal terms between 2014 and 2016), the value of the EAEU's trade flows again started to grow in 2017 and 2018 (annual average of +21.1%), with a slight recovery of the regional share of the world total (2.2% in 2018 compared to 1.8% in 2016). In a still sustained phase of the world cycle - with a global GDP average growth rate of 3.7% per year over the two-year period - on the export side, the partial recovery of hydrocarbon prices (Brent average price increase of 26% per year) and, on the import side, the recovery of the region's economy (+2% per year on average) after a recessionary phase, have made a positive contribution. In absolute terms, the value of trade rose from USD 591Bn in 2016 to USD 866Bn in 2018, but still below its peak in 2012 and 2013 when it reached USD 1083Bn and USD 1069Bn, respectively.

However, the data for the first five months of 2019, available for Russia alone (but representing about 80% of the region's foreign trade) has shown a contraction of around 2% compared to the same period in 2018, in parallel with a sharp slowdown in world trade. According to the most recent surveys of the Netherlands Bureau for EPA, in the second quarter of 2019 the rate of change in trade fell in real terms by 0.4% year-on-year bringing the year-on-year change of the first semester almost to zero. This figure puts at risk the most recent expectations of the major forecasting centres, including the IMF and WTO, which in April, and respectively in June, saw the trends in international trade in 2019 slow down to about 2.5% yoy, from 3.4% in 2018 and 4.9% in 2017.

Economic factors are significantly affecting the development of trade, primarily the slowdown in the world economy. The manufacturing production index fell to 1.2% in the first half of 2019, from 3.1% in 2018 and 3.5% in 2017 (CPB Statistics). But geo-political and institutional factors are also taking their toll. The reference is mainly to international trade disputes (between the USA and China in particular, and more recently also between the USA and the EU), restrictive measures on trade and foreign direct investment introduced in various contexts (with the raising of tariff and non-tariff barriers via duties and sanctions), and uncertainties surrounding the future regulatory structures of the global trade system.

In view of the current slowdown in the global economy, the average growth rate of the EAEU's GDP in the two-year period 2019-2020 is expected to be around 1.7%, at lower levels than the average of 2.3% observed in the two-year period 2017-2018, but substantially in line with the growth rate expected in the same period both among advanced economies and among the emerging net hydrocarbon exporting areas (with the same production vocation as the EAEU). The modest growth in the workforce (demographic factor) and the low economic diversification (productivity factor) are holding back the long-term growth of the region. Potential growth is expected to be able to benefit, however, from the infrastructural improvement induced by the on-going development of connectivity between the European region and the Asian region, in which the EAEU is in all respects playing a central role.

In a period of increasing tensions at the geo-political level and intense transformations in the direction of international trade, the EAEU countries have recorded significant changes in the last five years in the geographical distribution of trade, with partial shifting of the flow of goods from the West to the East. The share of EAEU imports from the EU fell from 37% in 2013 to about 33% in 2018 (and from USD 155.4Bn to USD 104.4Bn in absolute terms). On the export side, although the EU recorded a modest change in terms of share of the total (from almost 46% in 2013 to just over 45% in 2018), it saw its weight fall significantly in absolute terms (from USD 298.3Bn to USD 247.7Bn) between the two dates. Conversely, the flow of EAEU exports to China has jumped both in terms of percentage share of the total (from just under 8% to 11.5%) and in terms of absolute value (from USD 50.6Bn to USD 63.0Bn).

Significant changes were observed in parallel in sectorial dynamics. With reference to Russian trade, in the period 2013-2018, among the largest categories of imports, the total amount of machinery purchased in EU countries fell from 43% to 37% of the total (in value terms from USD 44Bn to USD 30Bn). In the same period, Chinese supplies of machinery to Russia rose from 25% to over 34% (from USD 25Bn to USD 28Bn). In relative terms, Russia's share of machinery imported from China in relation to that imported from the EU rose from 57% to 92%. Thus, in the supply of capital goods, over the last five years China has acquired an importance in terms of volumes for Russia comparable to that of the EU.

Concerning exports, the EU remains by far the largest recipient of Russian energy-mineral exports, with a share in percentage terms only slightly down in 2018 compared to 2013 (52.6% vs. 53%) but with a sharp fall in value (from USD 197.3Bn to USD 124.9Bn). At the same time, China's share as recipient of the Russian hydrocarbon flows has progressively increased, both in terms of its share of the total (from 7% to over 17%) and of value (from USD 25.2Bn to USD 41.2Bn).

The growth of trade relations between Russia and China has been accompanied by the signing of numerous investment agreements, partly also included among the projects related to the new Chinese “Belt and Road” initiative. These are mainly investments in sea and land transport infrastructures, in the energy sector and, more recently, in the digital field. The leading investments include the Polar Silk Road (the Arctic passage that would allow China to reach Europe and the Americas across the Bering Strait), the China Mongolia Russia Economic Corridor (CMREC), currently operating between the port of Tianjin in China and the Russian city of Ulan Ude, and the high-speed railway between Moscow and Beijing, currently under construction between Moscow and Kazan. Others worth remembering include major projects such as Power of Siberia, a gas pipeline which will be fully operational by next December and which will supply China with 38 billion cubic metres of gas per year over the next thirty years. Investments in the high tech sectors are playing an increasingly important role in Eurasian cooperation. With the creation of a new industrial park (in Skolkovo, Russia), Russian and Chinese companies will be able to cooperate in various high-tech sectors, ranging from aerospace to telecommunications, defence, aeronautics, nanotechnology, robotics and industrial and digital technologies.

The two-year period 2017-2018 also marked a significant recovery in Italian trade with the EAEU countries. After a three-year period of sharp decline (annual average of -17.7% in nominal terms between 2014 and 2016, in line with the negative dynamics of foreign trade for the EAEU countries), the value of trade between Italy and the EAEU began to grow again in 2017 and 2018, although at a pace (annual average of +11.4%) equal to only half that of the rest of the world. The EAEU's share of Italian trade similarly rose to 2.8% in 2018 compared with 2.6% in 2016. The trend in imports (13.5% on average over the two-year period) was more pronounced than that in exports (+7.7%).

The value of trade was sustained, on the Italian imports side, by the partial recovery of hydrocarbon prices and by the good dynamics (although with a slowdown) of the national economy (the growth rate of Italian GDP in the two-year period 2017-2018 was an average of 1.3% per year) and, on the exports side, by the recovery of the EAEU economy (up by an average of 2% in 2017-2018) following a recessionary phase.

Trade flows with the EAEU rose from EUR 20.1Bn in 2016 (of which EUR 17.3Bn with Russia alone) to EUR 24.9Bn in 2018 (EUR 21.4Bn with Russia), a level far below the peak recorded in 2013 when they reached EUR 36.2Bn (EUR 31Bn with Russia). However, due to the stronger dynamics of imports over exports, the Italian trade balance deteriorated, going from EUR -4.3Bn in 2016 (EUR -4Bn with Russia alone) to EUR -6.5Bn in 2018 (EUR -6.2 with Russia), compared to a peak, however, of EUR -11.9Bn in 2013 (EUR -9.4Bn with Russia).

Contrary to what has been observed in the performance of the EAEU's world trade, as far as Italy is concerned, the figures for the first half of 2019 show an increase of 7.1% (+3.8% in the case of Russia) over the same period of 2018, with trade flows worth EUR 12.9Bn (EUR 10.9Bn with Russia). Imports and exports grew by 7% and 7.2% respectively in the case of the EAEU (+5.5% and +0.4% in the case of Russia), generating flows of EUR 8.4Bn and EUR 4.6Bn respectively (EUR 7.3Bn and EUR 3.6Bn for Russia) with a negative balance of EUR 3.8Bn (EUR 3.7Bn for Russia).

More specifically, the dynamics of Italy’s exports to Russia in the first half (+0.4%) benefited from an increase in sales of mechanical machinery (+14% yoy), transport equipment (+4% yoy), pharmaceutical products (+58.5% yoy), metals (+6.3% yoy) and agricultural and food products (+2.1%), which together covered about 54% of exports, but suffered the effects of the negative performance of electrical machinery (-23.5% yoy) and electronic machinery (-27% yoy), textiles and clothing (-10% yoy) and chemical products (-7% yoy). With reference to imports, growth was sustained by an increase in mineral products (+7% yoy) and in metals (+32% yoy), which together covered almost 90% of imports, while imports of refined petroleum products fell by 37% yoy, which in turned amounted to about 7% of imports in the period.

According to the figures of the Italian Ministry of Economic Development as regards investment relations, the stock of FDIs of Italian businesses in EAEU countries in 2017 was about EUR 13Bn, the majority of which was invested in Russia (EUR 11.5Bn). According to the statistics collected at the same time by the Russian Central Bank, Italy is in 15th place (with a share of the total just over 1%) among the investor countries, a lower ranking than that occupied by Italy in trade (5th place with a share of 3.9% of the total) again with Russia.

With the aim of strengthening business relations between Italy and Russia, in the last year the two countries have signed some important agreements, in compliance with the system of sanctions still in force between the EU and Russia. Last October (23-24), Prime Minister Conte made a state visit to President Putin in Russia. During the visit, agreements were signed for EUR 1.5Bn. Subsequently, in January 2019, SACE, SIMEST and Confindustria Russia signed an agreement to strengthen the strategic cooperation of Italian businesses with Russian partners. The aim is to encourage investment, the opening and development of production facilities, the commercial promotion of Italian products, the participation, also through joint ventures or mergers, of Italian companies in international calls, fairs and events.

Finally, in July 2019, Cassa Depositi e Prestiti and RDIF signed an agreement to promote economic cooperation between the two countries, through joint investments and loans aimed at supporting Italian businesses, in particular SMEs that intend to operate or are already present in Russia. It is estimated that the total amount of investments and loans to be carried out under this agreement may exceed EUR 300M over the next three years.

With a more detailed look at trade performance in the Italian regions, the increase in exports to the EAEU countries seen in the first half of the year, for a total of EUR 308.5M more than the previous year (+7.2%), benefited from the progress made in Kazakhstan (+65.7%, equal to an increase of EUR 267.7M), where the North-West (EUR +33.1M compared to the same period of the previous year) but also, in particular, the Centre (EUR +262.6M) stood out.

These results are attributable to Lombardy and Tuscany: Lombard flows almost exclusively concerned metalworking (EUR +11.3M) and mechanical products (EUR +19.6M), while those of Tuscany are mainly attributable to electrical engineering (EUR +262.9M) and mechanics (EUR +9.7M). The growth in exports to Russia (+0.4%; EUR +14.5M) also benefited in turn from the crucial contribution from the Centre (EUR +86.3M), whose progress, relying on the excellent results achieved by the pharmaceuticals (EUR +41.4M) and aerospace (EUR +44.9M) sectors in Lazio, more than offset the shrinkage suffered by other geographical areas.

Nevertheless, the crossings between sectors/geographical areas highlight a heterogeneous picture, with sectors displaying a general or near-general decline (fashion, furniture, chemicals and electronics) and sectors with a widespread growth (pharmaceuticals and food). In the rest of the sectors, different dynamics were observed in the geographical areas: in the automotive sector, for example, the South and North-East recorded a rise in exports towards EAEU countries, while the North-West suffered a drop in sales. In the Aerospace sector, there were excellent results achieved by the Centre, even though they were almost completely offset by the setbacks suffered by the North-West. The following sectors showed widespread growth and stand out: pharmaceuticals, food, mechanics (particularly in the North-West, but also in the Centre) and electrical engineering. In particular, the Tuscan electrical engineering sector stood out.

It is not surprising that, at district level, export flows fell by 2.6% in 1H19 (EUR -35.7M). In fact, the performance of the districts' exports was affected above all by the reduction in sales of the districts specialised in consumer goods in the fashion (EUR -34M) and furniture (EUR -15.6M) industries, in addition to those of district manufacturers of domestic appliances, metal products and building products and materials. These setbacks were not offset by the growing exports of metalworking, food and beverages and mechanics. Conversely, electrical engineering, an industry that does not fall among those classified as district industries, was one of the sectors that showed the greatest growth.

However, the picture of district trade performance is quite diverse: among the districts that in 2018 exported more than EUR 10M to the EAEU, 37 in the first half of 2019 saw a year-on-year fall in exports and 25 enjoyed an increase. Among the best performing districts many, as already mentioned, are specialised in mechanics and the most significant results were achieved by the precision instrument engineering districts in Milan and Monza and also in Varese. But there are also some districts of the agricultural and food products sector (coffee, confectionery and chocolate in Turin) and the fashion sector (jewellery in Arezzo), even though they refer to specialisations that are generally penalised in exports to the region. The food machinery district of Parma and the footwear district in Fermo are among the districts facing the most difficulties.

1. The geopolitics of the EAEU's relations

1.1 The Eurasian Economic Union today

By: Simone Urbani Grecchi (coordinator), Luca Battaglini and Cristiana D'Agostino

With a population of 180 million and a geographical extension of over 20 million km², today the Eurasian Economic Union is one of the main supranational[1] organisations in a region characterised by the political, economic and commercial interests of Russia, the European Union (EU) and China.

The EAEU, established in 2015 to foster the growth of its member states' economy through the application of market principles, the coordination of macroeconomic policies and the promotion of free trade of goods, services, capital and labour, has reached some important objectives, for example by starting the process of harmonising the energy sector, transportation and free trade[2]. Further progress has also been recently made in terms of safeguarding competition, protecting consumer rights, food safety and industrial cooperation in the space industry[3].

The results it has achieved and an apparently favourable public opinion in its regard[4] are proof of the organisation's current relevance and future potential. Given a significant growth in trade among member states in 2018 (+38%), both intra-EAEU trade (14% of its members' total international trade volumes, compared to 69% for the EU) and the volume of trade from Russia to other EAEU countries (6% of Russia's total global trade) show growth margins. In this context, a particularly important role may be played by the Eurasian Development Bank (EDB), a multilateral institution whose mission is to: (i) promote the market economy within the Member States (ii) ensure their economic growth and (iii) promote their trading activities through investment and financing activities[5].

As evidence of a growing interest in multilateral cooperation (given the difficulties that multilateralism is experiencing in other parts of the world), the Eurasian region is characterised by significant levels of collaboration not only in trade, but also in strategic sectors such as security and defence. In addition to the EAEU, organisations such as the Shanghai Cooperation Organization (SCO), the Collective Security Treaty Organization (CSTO) and the Community of Independent States (CIS) operate in the area [6].

1.2 The EAEU's international relations

Despite the growing weight of trade relations between the EAEU and the Asian world, today the EU is still the main economic partner of the Eurasian economic organisation, being the destination of about 50% of exports and the source of about 40% of imports[7]. The EU's interest in the region

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[1] http://greater-europe.org/archives/6656

[2] https://emerging-europe.com/news/eaeu-signs-harmonisation-treaties-under-armenian-chairmanship/

[3] See the Eurasian Economic Commission website for further reference

[4] See 'Eurasian Economic Union: Current state and preliminary results', Evgeny Vinokurov, Russian Journal of Economics, March 2017, and 'EDB Integration Barometer 2017', Eurasian Development Bank, December 2017

[5] The EDB has an investment portfolio of over USD 8Bn and directly manages the Eurasian Fund for Stabilization and Development, which in turn has funds of USD 8.5Bn

[6] In particular, the SCO is a permanent intergovernmental organisation which aims to (i) improve reciprocal trust between its member countries (China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, India and Pakistan) and (ii) secure peace, security and stability in the region, whereas the CSTO aims to tackle global threats such as terrorism, drug trafficking, transnational crime and illegal immigration. The CIS, which was established primarily to coordinate economic policies between the member states, also has the objective of encouraging cooperation in the military and security fields

[7] Formally, current relations between the EU and the EAEU are affected by the sanctions imposed on Russia and, despite the recent exchange of prisoners between Russia and Ukraine and the cessation of hostilities in

is also demonstrated by initiatives such as the European Neighbourhood Policy (ENP), aimed at sixteen countries (including Armenia and Belarus) to promote their stabilisation, security and prosperity, and financed through over EUR 16bn made available overall by the European Neighbourhood Instrument and other regional programmes[8]. In addition, despite diplomatic tensions, technical cooperation between the EU and Russia remains active on important issues such as security, energy, environmental protection and education[9].

Other geopolitical and economic aspects also confirm the strong links between the EU and the EAEU[10], including, for example:

- the new EU strategy for Central Asia, which is based on the partnership and advanced cooperation agreements already signed with Kazakhstan and being negotiated with Kyrgyzstan and Uzbekistan[11];
- the partnership agreement being finalised between the EU and Azerbaijan[12], which provides for cooperation in the field of energy, institutional reforms and to promote people-to-people contacts;
- the Comprehensive and Enhanced Partnership Agreement between the EU and Armenia, signed in November 2017, which fosters collaboration in various areas (transportation, energy, telecommunications)[13];
- the EU Horizon 2020 programme, an EUR 80Bn investment plan to support international research, which Russia participates in through its scientific community and the formal involvement of its institutions and business representatives[14].

The importance of the region at international level is further confirmed by other important aspects, such as:

- the recent readmission of Russia to the decision-making body of the Council of Europe[15], an international organisation founded in 1949 for the defence of human rights, the promotion of democracy and the rule of law, with the approval of Italy, France, Germany and a large majority (116 to 62)[16];

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eastern Ukraine, the EU stated that the precondition for relaunching cooperation with both Russia and the EAEU should be the full implementation of the Minsk agreements

[8] For example, see the Neighbourhood Wide and Cross Border Cooperation programmes

[9] On this point, see the official EU document European Union External Action - Russia

[10] On the subject, see, among others, Kofner Jurij (2019), "Connecting Eurasia Dialogue", Discussion Paper, International Institute for Applied Systems Analysis

[11] Based on the success of the 2014-2020 programme, which resulted in the delivery of more than EUR 1Bn in regional measures, the new strategy provides aid in several areas (energy, education, inclusion of women in economic activities)

[12] https://eeas.europa.eu/sites/eeas/files/2019_report_on_eu-azerbaijan_relations_in_the_framework_of_the_revised_european_neighbourhood_policy_0.pdf

[13] Armenia is the only member of the EAEU to have reached a Comprehensive and Enhanced Partnership Agreement with the European Union. According to the European Council on Foreign Relations, given also the democratisation process undertaken by the country in 2018 and its stable and friendly relations with Iran, this could lead Yerevan to play a prominent role in EAEU-EU bilateral relations

[14] https://ec.europa.eu/research/participants/data/ref/h2020/other/hi/h2020_localsupp_russia_en.pdf

[15] The Council of Europe consists of 47 member states, including countries in the Eurasian and Central Asian region (Russia, Armenia, Georgia, Moldova, Ukraine and Azerbaijan)

[16] https://www.euractiv.com/section/global-europe/news/council-of-europe-assembly-authorises-russias-return/

- the financing programmes that the European Bank for Reconstruction and Development signed in November 2018 with the People's Bank of China to support the economies of the Eurasian and Central Asian countries[17];
- good bilateral relations between Russia and
  - Germany, Sweden and Finland, via the Nord Stream 2 pipeline[18,19];
  - France, also in consideration of the growing trade over the last two years[20];
  - Italy, which has for some time defined its relations with Moscow "strategic" and "a priority".

The increasing level of cooperation between the EAEU and China is taking on great geopolitical significance. Following the economic agreement reached in May 2018, the EAEU and China recently confirmed their intention to formalise a free trade agreement. One of the first steps in this direction was the signing in May of an agreement for the exchange of customs information on bilateral trade[21].

The apparent alignment between China and Russia in response to diplomatic and trade tensions with the United States could also promote cooperation between the EAEU and China. As they recently declared, Xi Jinping and Putin seem to be ready to counter US measures through (a) the intensification of trade levels; (b) the recognition of their respective currencies in trading;[22] (c) the extension of their cooperation to sectors such as defence and security.

Cooperation between the two blocs could also be encouraged by non-conflicting interests in various sectors, such as (i) regional infrastructure development - where Moscow seems unwilling to compete against Beijing on the Belt and Road Initiative (ii) in the energy sector, with Russia and Kazakhstan playing a prominent role as supplier countries for the entire Asian region - including China; and (iii) in the search for cheap labour from neighbouring countries, more relevant for Moscow than for Beijing.

However, tensions that should not be underestimated could arise with regard to (a) the 'Digital Silk Road', a project at a very advanced stage of implementation in Central Asia and in some EAEU countries for the development of anti-crime surveillance systems based on the use of sensitive data, with potential repercussions in terms of social control[23]; (b) the increased debt exposure of some Central Asian countries (allies of Moscow) to China[24]; (c) the growth in sales of Chinese war material to Euro-Central Asian countries[25]; (d) the exploitation of Arctic regions where, despite

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[17] https://www.ebrd.com/news/2018/ebrd-to-step-up-cooperation-with-china-and-eu-on-central-asia-investment-.html

[18] Work to complete the project is continuing, despite the recent approval by the US Senate of sanctions against the companies involved in the project, and Denmark has apparently postponed authorisation for the transit of the work through its territorial waters to October

[19] On the subject of gas supply sources, also see the development of the Poseidon pipeline included by the EU in the works of common interest

[20] https://francais.rt.com/economie/65099-a-bregancon-poutine-vante-investissements-francais

[21] https://tass.com/economy/1062381

[22] In 2018, the trade volumes between the two countries reached USD 107Bn.

[23] Some large Chinese groups, including Huawei, reached significant agreements at government level to install cameras in Tashkent, Nur-Sultan, Bishkek

[24] According to recent analyses Beijing is exposed for more than USD 100Bn in the EAEU countries to finance 168 projects related to the Belt and Road Initiative

[25] https://thediplomat.com/2019/09/what-drives-chinese-arms-sales-in-central-asia/

recent China-Russian agreements in the liquefied gas sector[26], Moscow seems intent on curbing the growing interests of Beijing, blocking its call to "internationalise" governance[27,28] and limiting the control of the area to the eight territorially competent countries[29].

The United States has no direct relations with the EAEU. However, Central Asia and the Caucasian region also remain areas of interest for the USA, as demonstrated by the collaboration programmes between NATO (including, for example, the Individual Partnership Action Plan and the Partnership for Peace, which promote bilateral collaboration in the field of defence and security) and many countries in the area[30]. Furthermore, US foreign policy also has indirect regional repercussions, through the geopolitical issues that the sanctioning framework decided by Washington poses to the Russian partners within the Eurasian organisation. Indeed, one of the issues recently discussed at EAEU level is the creation of a digital currency that can be used for international transactions, in particular for the energy sector. An idea mooted last December by Alexei Moiseev, Russia's Deputy Minister of Finance, the new currency would be used to counter American sanctions by creating an alternative exchange unit to the US dollar[31,32].

1.3 Future EAEU prospects

Given the internal integration, the most promising fields for collaboration between EAEU members are military and defence. In a region characterised by significant instability and "unconventional security issues"[33], the EAEU is indeed able to provide smaller countries with significant support, which would otherwise be difficult for them to obtain given their limited budgets[34,35]. At the same time, Russia can benefit significantly from a closer strategic collaboration with the Caucasian and Central Asian countries, in view of China's economic-diplomatic efforts in the region.

An area where the need for greater collaboration within the EAEU is being felt[36] is that of trade among member states, through the (i) removal of technical barriers; (ii) definition of common mandatory requirements for the movement of goods; and (iii) improvement of the quality and

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[26] https://worldview.stratfor.com/situation-report/china-russia-deals-reached-more-bilateral-cooperation-arctic-agriculture

[27] According to an official document of the Chinese government published last December, Beijing is working to extend Arctic control also to extra-regional countries

[28] The geopolitical implications of the exploitation of the Arctic region are relevant for the EU, which has declared to be against the participation of international companies in the development of Arctic resources in Russian territory

[29] Norway, Sweden, Finland, Denmark, Iceland, Russia, USA and Canada. Other countries, including India and China, have been granted observer status at the Arctic Council, an intergovernmental forum for the coordination of environmental protection and sustainable development policies

[30] The NATO programmes for the area involve Armenia, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan and Moldova and are part of the framework of the Joint Plan of Action for the Implementation of the United Nations Global Counter-Terrorism Strategy in Central Asia, which also includes the Shanghai Cooperation Organization and the Collective Security Treaty Organization

[31] https://cointelegraph.com/news/russian-finance-ministry-considers-eaeu-digital-currency-inevitable-due-to-us-sanctions

[32] Other international bodies, such as the Intergovernmental Forum of the BRICS, are also assessing similar measures

[33] Against threats such as terrorism, separatism and political-religious extremism

[34] The military expenditures of Armenia, Kazakhstan and Kyrgyzstan total 4% of Russia's military expenditures

[35] http://eec.eaeunion.org/en/nae/news/Pages/13-06-2019-2.aspx

[36] http://www.eurasiancommission.org/en/nae/news/Pages/19-07-2019-1.aspx

competitiveness of products. As many have pointed out[37,38], internal integration processes could be improved and should encourage closer industrial cooperation and the formation of "Eurasian" groups capable of competing in international markets. Of particular interest, from the point of view of coordination at an institutional level between the countries of the EAEU, are the recent decisions of the Eurasian Economic Commission (EEC)[39] (i) in the field of regulatory harmonisation for the energy, pharmaceutical, financial and customs[40] sectors and (ii) for the formation of an advisory board among the representatives of the respective Central Banks to coordinate exchange rate policies[41].

With regard to demographic issues, coordination between Russia and other Member States is also an important opportunity for cooperation. In view of the recent decline in the Russian population and the demographic growth that characterises some of the neighbouring countries (including Kazakhstan and Kyrgyzstan, as well as Turkmenistan and Uzbekistan), the management of migration flows to Moscow could be important in order to face the demands of the labour market[42] and the gradually ageing population[43].

With regard to the international relations, the EAEU is open to new members. Current candidates include Tajikistan[44], traditionally a Russian military ally, which is also interested in developing a single labour market and Uzbekistan, that (i) recently implemented policies that promote foreign investment and (ii) is working to harmonise import tariffs.

In 2016, the Union concluded a trade agreement with Vietnam, while other negotiations are underway for similar agreements with Singapore[45], India[46], Egypt[47], Israel[48] and Serbia[49]. Greece, the Czech Republic, Cambodia, Bangladesh, Mongolia and Chile are other countries with which the EAEU has started initiatives to develop economic cooperation relations[50]. Finally, the EAEU's development prospects also extend to Africa. As Putin himself and senior representatives of the EEC recently stated[51], cooperation with the African Union shows considerable scope for development and could be the subject of a memorandum of understanding in the coming months.

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37 https://eng.belta.by/economics/view/call-to-eliminate-barriers-in-eaeu-market-as-soon-as-possible-122781-2019/

38 https://eurasianet.org/kyrgyzstan-kazakhstan-trade-hiccups-force-questions-on-eaeu

39 The EAEU's executive body, to a certain extent comparable with the EU's European Commission

40 http://www.eurasiancommission.org/en/nae/news/Pages/03-09-2019-1.aspx

41 From an institutional stand point, the guidelines for integration for the next five years will be discussed by the end of 2019 between the member countries and the Eurasian Economic Commission

42 In this regard, the Member States are working towards an agreement to facilitate the recognition of social security contributions for migrant workers in Russia and the harmonisation of pension systems

43 On the subject, see the analysis of the Center for Security Studies

44 In December 2018, Tajikistan abolished customs duties on goods from the EAEU and some CIS countries

45 The commitment to reaching an agreement as soon as possible was confirmed at the bilateral summit in July between Armenian Prime Minister Pashinyan and Singaporean President Halimah Yacob

46 In light of their mutual interest in promoting trade, Tigran Sargsyan (chairman of the EEC Board) and Bala Venkatesh Varma (Indian ambassador to Moscow) declared to be interested in reaching a free trade agreement without delay

47 According to statements made at the bilateral summit in April the parties could reach an agreement to finalise a free trade area by 2020

48 In March, Israel and the EAEU held the third round of negotiations to reach an agreement

49 In March, Belgrade and the EAEU removed the last few obstacles to signing a free trade agreement, scheduled for the end of 2019

50 See the Eurasian Economic Commission website for further reference.

51 https://eng.belta.by/economics/view/eaeu-eager-to-step-up-cooperation-with-african-union-121553-2019/

Major EU and US sanctions and Russian counter-sanctions currently in force

Sanctions against the Russian Federation and retaliation

EU Sanctions

Diplomatic measures (March 2014 - sine die):

- A series of individuals and entities charged with misappropriation of Ukrainian state funds and human rights violations had their assets frozen and restrictions were placed on their travel – in two tranches: the first expiring on 06.03.2020 (Decision 2014/119 and Regulation 208/2014) and the second on 15.09.2019 (Decision 2014/145 and Regulation 269/2014).

- Restrictions were placed on the economic relations with Crimea and Sevastopol, following the illegal annexation by Russia. These expire on 23.06.2020 (Decision 2014/386 and Regulation 692/2014).

- Measures concerning economic cooperation (July 2014 – sine die): the EIB and EBRD were asked to suspend the conclusion of new loans in Russia and the implementation of some bilateral and regional cooperation programmes with the EU was blocked.

- Economic sanctions concerning trade with Russia are in place in specific sectors. These are renewed every six months - the next expiration date is 31.01.2020 (Decision 2014/512 and Regulation 833/2014). They comprise:

- restrictions on the access to primary and secondary EU capital markets by five major Russian state financial entities (SberBank – VTB Bank – GazPromBank – VneshEconomBank / VEB and RosselKhozBank), three large companies operating in the energy sector (RosNeft – TransNeft and GazPromNeft), three large companies operating in the defence sector (OPK OboronProm – United Aircraft Corporation and Uralvagonzavod) and their wholly-owned subsidiaries located outside the EU;

- prohibitions on exporting and importing arms and dual-use goods for military purposes or for disposal to final military users in Russia;

- limitations on Russia's access to specific services and technologies that can be used for oil production and prospecting.

In March 2015, EU leaders decided to connect the current sanctions regime to the full implementation of the Minsk agreements, not being complied with by both sides yet. It is therefore possible that at the upcoming expiration dates, the measures will be unanimously renewed, despite being, as usual, preceded by declarations of disagreements from various EU member states.

Russian retaliation:

- public entities are prohibited from purchasing vehicles and means of transportation, textiles, clothing, furs and leather goods produced abroad;

- a ban on importing food and agricultural products from the EU, Australia, Canada, Norway and the USA;

- a "black list" has been issued containing the names of 89 European political and military officials who are barred from entering Russia;

- approval of a law that bans many westerns NGOs as undesirable entities;

- a presidential decree ordering the destruction of illegally imported foodstuffs.

US Sanctions

- In 2012, the US Congress approved the "Magnitsky Act", which bans certain prominent Russian individuals from entering the United States, while freezing their assets and investments held in US financial institutions.

- Subsequently, in 2014 the Obama Administration issued three executive orders (13660, 13661 and 13662), which provided for further asset freezes and a measure (13685) introducing the following prohibitions applicable to US persons (including all natural persons with green cards):

- involvement in transactions related to new debt exceeding 14 days (New Debt) or new investments in risk capital (New Equity) with a series of financial institutions (SberBank – VTB Bank – GazPromBank – VneshEconomBank / VEB – Bank of Moscow and RosselKhozBank);

- involvement in transactions connected to new debt exceeding 60 days with RosNeft – TransNeft – Novatek and GazPromNeft and/or more than 30 days with Rostec;

- export of products and services that are instrumental to Russia's oil sector with Open Joint-Stock Company RosNeft Oil Company – GazPromNeft – LukOil OAO – OAO GazProm and SurgutNeftGas.

- Additional restrictions were implemented with the "Countering Russian Influence in Europe and Eurasia Act of 2017", many of which against non-US persons as well. These restrictions involved: illegal IT activities, sea and rail transports, energy, financial services, corruption of the public administration, incorrect disposal of public assets, transactions with entities/individuals that have violated sanctions or which/who are guilty of serious human rights violations, intelligence and defence.

- The so-called "Skripal sanctions" provide (August 2018) for the interruption of the sale of US arms to Russia and exports to Russia of goods and technologies considered sensitive for US national security; (August 2019) the opposition by the USA to the extension of any loan or financial or technical assistance to Russia by international financial institutions.

Since March 2015, US sanctions have also been linked to implementing the Minsk agreements.

Russian retaliation:

- various US officials involved in violating the human rights of detainees are banned from entering Russia;

- Russian children cannot be adopted by US citizens.

2. Trade and FDIs of EAEU countries

2.1 Foreign trade of the Eurasian Economic Union's countries

Wilma Vergi

In the period 2013-2018, according to ITC Comtrade data, trade of EAEU countries showed an alternating dynamic. The development of commodity prices, energy in particular, and the performance of the economic cycle in Russia (on the import side) and among the major trading partners (on the export side), were the main factors to influence trade performance. Since 2014, these have been compounded by the (negative) effects of the sanctions and counter-sanctions between Western countries and Russia.

From the high of 2013, when trade recorded a peak of almost USD 1070Bn (equal to a 2.8% share of the world), trade fell in the following years until 2016, when it reached a minimum of USD 591Bn (and the region's share of world trade fell to 1.8%).

Trade has recovered significantly since 2017, when it totalled around USD 741Bn, up more than 25% on 2016. 2018 was also characterised by further growth to over USD 866Bn (+16.9% yoy). Last year's trend was mainly determined by the increase in exports (+24.3% yoy), supported by revenues from commodities, while imports grew by just over 6% yoy.

Figures for the first five months of 2019, available for Russian trade only, show a decrease in trade, with flows in the period totalling USD 266Bn, down 2.0% yoy on the same period of the previous year. Exports (USD 172.9Bn), recorded a decrease, equal to 2.0% over the same period of 2018, while imports (USD 93.1Bn) dropped by 2.2%.

The net balance of trade is historically positive for the region: in 2018 it was around USD 229Bn, recovering from 2017, when it was about USD 140Bn. The peak was reached in 2014 with approximately USD 248Bn, while the lowest level was recorded in 2016 at just under USD 107Bn.

EAEU's trade performance and share of global total trade

USD Bn	2008	2013	2014	2015	2016	2017	2018	Jan-May 2018[1]	Jan-May 2019[1]
Import (cif)	352.4	417.0	378.3	251.0	242.1	300.2	318.5	95.2	93.1
Export (fob)	574.4	652.4	616.7	419.4	349.0	440.7	547.8	176.3	172.9
Balance	222.0	235.4	238.4	168.5	106.9	140.5	229.3	81.2	79.7
Trade	**926.8**	**1069.4**	**995.1**	**670.4**	**591.1**	**740.8**	**866.3**	**271.5**	**266.0**
Chg. % Import	32.2	0.1	-9.3	-33.7	-3.5	24.0	6.1	16.7	-2.2
Chg. % Export	34.7	-2.1	-5.5	-32.0	-16.8	26.3	24.3	27.4	-2.0
Chg. % Trade	33.7	-1.3	-7.0	-32.6	-11.8	25.3	16.9	23.4	-2.0
% on global Import	2.2	2.2	2.0	1.5	1.5	1.7	1.6	---	---
% on global Export	3.6	3.5	3.3	2.5	2.2	2.5	2.8	---	---
% on global Trade	2.9	2.8	2.6	2.0	1.8	2.1	2.2	---	---
Chg % World	15.9	2.4	0.1	-12.7	-2.9	10.7	8.8	---	---
RUB/USD	24.6	31.8	37.3	60.7	67.1	58.3	62.8	59.5	65.2
Chg % y/y RUB/USD2	-4.0	2.2	17.3	62.7	10.5	-13.1	7.7	2.6	9.6

1) Russia only; provisional figures 2) exchange rate variation/average price for the period (positive exchange rate = depreciation)
Source: ITC Comtrade

Within the Eurasian Economic Union, Russia's contribution to total trade in 2018 was around 79%. The next largest is Kazakhstan (10.8%), then Belarus (8.3%), Kyrgyzstan (0.8%) and lastly Armenia (0.8%).

Breakdown of EAEU trade by geographical area							
USD Bn	2008	2013	2014	2015	2016	2017	2018
Russia							
Import (cif)	267.1	314.9	286.6	182.8	182.3	228.2	238.2
Export (fob)	468.0	527.3	497.8	343.9	285.5	359.2	449.3
Balance	200.9	212.3	211.2	161.1	103.2	130.9	211.2
Trade	735.0	842.2	784.5	526.7	467.8	587.4	687.5
% on EAEU total	79.3	78.8	78.8	78.6	79.1	79.3	79.4
Chg % y/y import	33.7	-0.4	-9.0	-36.2	-0.3	25.2	4.4
Chg % y/y export	32.9	0.5	-5.6	-30.9	-17.0	25.8	25.1
Kazakhstan							
Import (cif)	37.8	48.8	41.3	30.6	25.2	29.3	32.5
Export (fob)	71.2	84.7	79.5	46.0	36.8	48.3	61.0
Balance	33.4	35.9	38.2	15.4	11.6	19.0	28.4
Trade	109.0	133.5	120.8	76.5	62.0	77.7	93.5
% on EAEU total	11.8	12.5	12.1	11.4	10.5	10.5	10.8
Chg % y/y import	15.7	9.6	-15.4	-26.0	-17.6	16.6	10.9
Chg % y/y export	49.1	-8.2	-6.2	-42.2	-20.0	31.5	26.1
Belarus							
Import (cif)	39.4	43.0	40.5	30.3	27.6	34.2	38.2
Export (fob)	32.6	37.2	36.1	26.7	23.5	29.2	33.5
Balance	-6.8	-5.8	-4.4	-3.6	-4.1	-5.0	-4.7
Trade	72.0	80.2	76.6	57.0	51.1	63.5	71.7
% on EAEU total	7.8	7.5	7.7	8.5	8.7	8.6	8.3
Chg % y/y import	37.2	-7.3	-5.9	-25.2	-8.9	24.0	11.6
Chg % y/y export	34.2	-19.2	-3.0	-26.1	-11.7	24.2	14.4
Armenia							
Import (cif)	4.1	4.3	4.2	3.3	3.2	3.9	4.8
Export (fob)	1.1	1.5	1.5	1.5	1.8	2.1	2.4
Balance	-3.0	-2.8	-2.7	-1.8	-1.4	-1.7	-2.4
Trade	5.2	5.7	5.6	4.7	5.0	6.0	7.2
% on EAEU total	0.6	0.5	0.6	0.7	0.9	0.8	0.8
Chg % y/y import	34.4	-0.3	-2.3	-21.7	-1.2	21.0	23.2
Chg % y/y export	-5.9	2.8	1.5	-0.5	21.9	18.7	11.0
Kyrgyzstan							
Import (cif)	4.1	6.0	5.7	4.1	3.8	4.5	4.8
Export (fob)	1.6	1.8	1.9	1.4	1.4	1.8	1.7
Balance	-2.5	-4.2	-3.9	-2.6	-2.4	-2.7	-3.1
Trade	5.7	7.8	7.6	5.5	5.3	6.3	6.5
% on EAEU total	0.6	0.7	0.8	0.8	0.9	0.8	0.8
Chg % y/y import	68.5	11.3	-4.2	-29.1	-5.5	16.6	7.8
Chg % y/y export	42.6	5.3	6.2	-23.5	-1.3	25.8	-5.6

Source: ITC Comtrade

Import – Breakdown by trade category (% shares and yoy % change 2018/13)

	% of total			Contrib. of total Chg. % in pp. yr.av.	
	2013	2016	2018	2016/13	2018/16
Rubber and plastic	5.2	5.7	5.7	-0.6	0.9
Wood, paper and printing	2.2	2.0	1.8	-0.3	0.2
Machinery	28.5	30.2	29.9	-3.7	4.6
Electrical machinery	9.7	10.1	10.9	-1.3	2.1
Mechanical machinery	16.3	17.4	16.4	-2.1	2.1
Optical, photo, medical machinery	2.5	2.5	2.4	-0.3	0.4
Miscellaneous goods	1.4	4.4	3.7	0.4	0.3
Metals	8.8	7.9	8.7	-1.4	1.7
Transport equipment	14.9	9.1	10.1	-3.2	2.1
Minerals	6.8	5.8	6.3	-1.1	1.3
Mineral fuels	5.7	4.7	5.1	-1.0	1.0
Ores, slag, ash, earths and stone	1.0	1.1	1.2	-0.1	0.2
Furniture	1.4	1.1	1.2	-0.2	0.2
Stones, glass and ceramics	2.2	2.0	2.2	-0.4	0.5
Agricultural products, food and tobacco	12.9	13.7	12.2	-1.6	1.2
Chemical products	10.1	11.9	11.6	-1.0	1.7
Textiles, clothing, footwear and leather	5.8	6.3	6.6	-0.7	1.2
Total in USD Bn and Chg %	417.0	242.1	318.5	-14.0	15.8

Source: Comtrade

Export – Breakdown by trade category (% shares and yoy % change 2018/13)

	% of total			Contrib. of total Chg. % in pp. yr.av.	
	2013	2016	2018	2016/13	2018/16
Rubber and plastic	1.3	1.8	1.5	-0.1	0.3
Wood, paper and printing	1.8	3.2	2.9	0.0	0.7
Machinery	2.7	3.9	3.2	-0.2	0.6
Electrical machinery	0.8	1.3	1.0	0.0	0.1
Mechanical machinery	1.6	2.2	1.9	-0.1	0.4
Optical, photo, medical machinery	0.2	0.4	0.3	0.0	0.0
Miscellaneous goods	0.9	13.4	12.0	2.1	2.7
Metals	8.0	10.8	10.1	-0.8	2.5
Transport equipment	2.8	1.8	1.5	-0.6	0.3
Minerals	70.2	47.9	54.3	-14.8	18.7
Mineral fuels	68.8	46.4	52.8	-14.7	18.2
Ores, slag, ash, earths and stone	1.4	1.5	1.6	-0.2	0.5
Furniture	0.1	0.1	0.1	0.0	0.0
Stones, glass and ceramics	3.0	3.7	2.7	-0.3	0.3
Agricultural products, food and tobacco	3.9	6.9	6.2	-0.1	1.4
Chemical products	4.8	5.6	4.8	-0.6	1.0
Textiles, clothing, footwear and leather	0.6	0.8	0.7	0.0	0.1
Total in USD Bn and Chg %	652.4	349.1	547.9	-15.5	28.5

Source: Comtrade

The Eurasian Economic Union's exports in 2018 were represented primarily by minerals (about 54% of the total, or approximately USD 297.5Bn) followed by miscellaneous goods (12%, for around USD 66Bn), metals (10%, for USD 55Bn, in particular iron and steel, aluminium, copper, nickel), agricultural and food products (6.2% or USD 34Bn) and chemical products (approximately 5%, equal to around USD 26.5Bn). Imports primarily consist of mechanical and electrical machinery (for a total of around 30%, equal to over USD 95Bn), followed by agricultural and food products (12.2%, or USD 39Bn, including meat, fruit, vegetables and beverages), chemical products (approximately 12%, or USD 37Bn, particularly pharmaceutical products, detergents and organic chemical products), transport equipment (10.1%, or USD 32Bn) and metals (8.7%, or USD 28Bn).

Compared to the situation in 2013 (all-time high) and that in 2016 (all-time low), the percentage shares over the total and the amounts in absolute figures underwent changes both on the imports side and exports side as regards some important sectors. Despite a decline from USD 119Bn in 2013 to about USD 73Bn in 2016, one of the main areas that showed an increase in its percentage share over the total is imported machinery, which moved from 28.5% to over 30.2%. Among exports, minerals, affected by the comparison of the prices between the two dates, fell from USD 458Bn in 2013 to USD 167Bn in 2016. Their share of total exports also decreased from over 70% to just below 48%.

In the period 2018/2016 the greatest contribution to the growth of imports (+15.8% on an annual average basis) came from the machinery and transport equipment sectors, respectively for 4.6 percentage points, after a negative three-year period (on average equal to -3.7pp per year from 2013 to 2016) and 2.1pp (-3.2pp in the 2013/2016 period), while among exports, the recovery of energy prices allowed minerals to drive growth (+28.5% on an annual average basis) with a contribution of 18.7pp, after a negative three-year period (on average equal to -14.8pp a year from 2013 to 2016).

Geographical distribution of trade of EAEU countries

In the last five years, the countries of the Eurasian Union have seen significant changes in the distribution of trade on a geographical level, with a partial shift in the movement of goods from the West to the East.

While the share of imports from European Union countries decreased from 37% in 2013 to around 33% in 2018 (from USD 155.4Bn to USD 104.4Bn), imports from China rose from about 16% in 2013 to 20% last year. On the other hand, the share of imports from the USA, which in the last five years has been around 5%, has hardly changed. The share of imports from ASEAN5 countries remained lively, though still limited, at around 2% of the total in 2013 and over 3% in 2018. NIES countries remained at around 3%. Africa has also seen its importance grow as a supplier to EAEU countries, though remaining at low levels: while in 2013 it was equal to 0.8% of EAEU imports, in 2018 its weight exceeded 1%.

On the export side, exports to the European Union, which has remained the main trading partner of the EAEU countries, have settled down. The EU share fell from almost 46% in 2013 to just over 45% in 2018 (from USD 298.3Bn to USD 247.7Bn). The percentage of exports to Asia grew considerably from 24% in 2013 to over 30% in 2018. In particular, exports to China jumped from just under 8% to 11.5% in the period considered (from USD 50.6Bn to USD 63Bn). The weight of the USA remained essentially unaltered, from almost 2% in 2013 to 2.5% in 2018. Africa has absorbed more than 3% of the total exported by the EAEU, almost tripling its importance compared to 2013, when it had absorbed just over 1% of exports. Among the African regions, the particularly positive trend of the Sub-Saharan area should be noted. In 2013, it was the destination market for just under 1% of EAEU exports while in 2018 its share was close to 3%.

Imports by EAEU countries – Breakdown by geographical area 2018/2013 – % Shares and USD Bn

	2013		2018	
	USD Bn	%	USD Bn	%
Europe[1]	251.4	60.3	174.3	54.7
EU28	155.4	37.3	104.4	32.8
Italy	16.9	4.1	13.1	4.1
CIS	90.2	21.6	68.5	21.5
Asia	127.2	30.5	115.4	36.2
China	66.2	15.9	63.2	19.8
India	3.7	0.9	3.7	1.2
Asean 5	9.3	2.2	10.2	3.2
NIES	13.0	3.1	9.5	3.0
Americas	33.7	8.1	24.7	7.8
USA	19.8	4.7	14.7	4.6
Brazil	4.0	1.0	2.7	0.8
Africa	3.2	0.8	3.4	1.1
North Africa	1.1	0.3	1.2	0.4
Sub Sahara	1.3	0.3	1.4	0.4
Others	1.4	0.3	0.7	0.2

[1] Europe includes CIS Source: Comtrade

Exports by EAEU countries – Breakdown by geographical area 2018/2013 – % Shares and USD Bn

	2013		2018	
	USD Bn	%	USD Bn	%
Europe[1]	394.8	60.5	338.4	61.8
EU28	298.3	45.7	247.7	45.2
Italy	46.6	7.1	28.3	5.2
CIS	94.9	14.6	83.9	15.3
Asia	157.9	24.2	166.4	30.4
China	50.6	7.8	63.0	11.5
India	7.5	1.1	9.0	1.6
Asean 5	7.0	1.1	7.2	1.3
NIES	20.1	3.1	25.2	4.6
Americas	24.0	3.7	23.7	4.3
USA	11.8	1.8	13.8	2.5
Brazil	2.5	0.4	3.2	0.6
Africa	7.5	1.2	18.2	3.3
North Africa	1.5	0.2	3.6	0.7
Sub Sahara	5.7	0.9	14.3	2.6
Others	68.2	10.5	1.2	0.2

[1] Europe includes CIS Source: Comtrade

2.2 Trade of the EAEU with the USA, China and the European Union

Trade of the EAEU with the USA

In 2018, EAEU countries' trade with the USA amounted to USD 28.5Bn, up 13.8% yoy compared to the previous year. Imports amounted to USD 14.7Bn (+1.4% yoy), whereas exports reached almost USD 14Bn (+30.8% yoy), the peak of the last five-year period. The highest level of imports was recorded in 2014 at almost USD 21Bn. In 2013, imports equalled USD 19.8Bn and exports equalled USD 11.8Bn.

The balance is historically negative for EAEU countries: the deficit was almost USD 1Bn last year, compared to almost USD 4Bn in 2017. The highest level in absolute terms was USD -10.7Bn in 2014.

The US share of total imports of EAEU countries was 4.6% in 2018, while the US share was 2.5% of total exports. Overall, trade with the USA represents approximately 3.3% of the total (with a maximum of 3.9% recorded in 2016 and a minimum of 2.9% in 2013).

The data for the first five months of 2019, referring to Russia only, shows an increase in trade of 21.9% yoy, which reached USD 11.2Bn. Imports, up almost 13% yoy, stand at USD 5.9Bn, while exports, equalling USD 5.3Bn rose by almost 34% yoy.

EAEU - USA trade performance

	2008	2013	2014	2015	2016	2017	2018	Jan-May 2019[1]
Import	16.5	19.8	20.9	13.6	13.0	14.5	14.7	5.9
Export	14.5	11.8	10.2	9.0	10.2	10.6	13.8	5.3
Balance	-2.0	-8.0	-10.7	-4.6	-2.7	-3.9	-0.9	-0.6
Trade	31.0	31.5	31.1	22.6	23.2	25.0	28.5	11.2
Chg % y/y import	41.9	6.7	5.5	-34.9	-4.7	11.8	1.4	12.8
Chg % y/y export	78.6	-13.7	-13.4	-11.5	13.4	3.4	30.8	33.8
Chg % y/y trade	56.9	-1.9	-1.5	-27.2	2.5	8.1	13.8	21.9
% USA of tot import	4.4	4.7	5.5	5.4	5.4	4.8	4.6	6.3
% USA of tot export	1.9	1.8	1.6	2.1	2.9	2.4	2.5	3.1
% USA on tot trade	2.9	2.9	3.1	3.4	3.9	3.4	3.3	4.2
Chg % y/y RUB/USD	-4.0	2.2	17.3	62.7	10.5	-13.1	7.7	9.6

1 Russia only Source: ITC Comtrade

Imports from the USA mainly consist of machinery, with a share in 2018 of over 31%, primarily mechanical ones, followed by miscellaneous goods (24%), chemical products and transport equipment (both with about 14%), and metals (5%). Exports comprise minerals (40.2%), mainly energy minerals, followed by metals[52] (24.2%), chemical products (9.7%), stones, glass and ceramics (8.8%) and miscellaneous goods (7.9%).

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[52] Metals include steel and aluminium, on which the US has increased global import duties to 25% and 10% respectively since March 2018 (with some exceptions).

Breakdown of EAEU – USA imports by trade category

	% of total			Contrib. of total Chg. % in pp. yr.av.	
	2013	2016	2018	2016-13	2018-16
Rubber and plastic	3.8	3.6	4.1	-0.5	0.5
Wood, paper and printing	0.6	0.7	0.8	-0.1	0.1
Machinery	34.5	33.1	31.1	-4.3	1.1
Electrical machinery	6.2	6.8	5.9	-0.6	0.0
Mechanical machinery	19.7	18.8	17.3	-2.5	0.4
Optical, photo, medical machinery	8.6	7.5	7.9	-1.2	0.7
Miscellaneous goods	0.4	23.4	23.8	5.0	1.8
Metals	4.8	5.2	4.7	-0.4	0.0
Transport equipment	29.6	12.3	14.3	-7.2	1.9
Minerals	1.0	0.4	0.5	-0.2	0.1
Mineral fuels	0.8	0.3	0.3	-0.2	0.0
Ores, slag, ash, earths and stone	0.1	0.1	0.1	0.0	0.0
Furniture	0.5	1.1	0.5	0.1	-0.3
Stones, glass and ceramics	0.5	0.6	0.7	0.0	0.1
Agricultural products, food and tobacco	10.1	4.8	4.3	-2.3	0.0
Chemical products	12.9	13.6	14.4	-1.3	1.4
Textiles, clothing, footwear and leather	1.3	1.2	0.9	-0.2	-0.1
Total in USD Bn and Chg %	19.8	13.0	14.7	-11.5	6.7

Source: ITC Comtrade

Breakdown of EAEU – USA exports by trade category

	% of total			Contrib. of total Chg. % in pp. yr.av.	
	2013	2016	2018	2016-13	2018-16
Rubber and plastic	2.0	1.4	1.8	-0.2	0.5
Wood, paper and printing	1.4	3.7	1.8	0.6	-0.6
Machinery	3.0	4.2	4.2	0.2	0.7
Electrical machinery	0.5	0.8	0.8	0.1	0.1
Mechanical machinery	2.0	3.0	2.9	0.2	0.5
Optical, photo, medical machinery	0.4	0.5	0.5	0.0	0.1
Miscellaneous goods	1.2	12.6	7.9	3.2	-0.9
Metals	28.1	28.4	24.2	-1.1	2.1
Transport equipment	1.5	1.2	0.5	-0.2	-0.2
Minerals	35.4	33.3	40.2	-2.1	10.5
Mineral fuels	35.2	33.2	39.7	-2.1	10.3
Ores, slag, ash, earths and stone	0.1	0.1	0.4	0.0	0.2
Furniture	0.1	0.1	0.1	0.0	0.0
Stones, glass and ceramics	5.5	6.1	8.8	-0.1	2.9
Agricultural products, food and tobacco	0.6	0.8	0.6	0.0	0.0
Chemical products	20.8	7.8	9.7	-4.7	2.7
Textiles, clothing, footwear and leather	0.2	0.3	0.1	0.0	-0.1
Total in USD Bn and Chg %	11.8	10.2	13.8	-4.4	17.6

Source: ITC Comtrade

In the 2016-2018 period the greatest contribution to the year-on-year increase in imports (+6.7%) came from transport equipment, with 1.9% of the total, attributable to a purchase in the item "aircraft and components" in 2017 for about USD 3.5Bn, to which the contribution of 1.8% from miscellaneous goods was added. Among exports (up 17.6%), the positive contribution of minerals (+10.5%) was expanded by the positive contribution of stones, glass and ceramics (2.9%), chemical products (2.7%) and metals (2.1%).

In detail, in the January-May 2019 period, referring to Russia only, exports were driven by the items relating to minerals (+160% yoy) going from USD 1.05Bn in 2018 to USD 2.7Bn in 2019, followed by iron and steel products (+100% yoy, from USD 71M to USD 142M) and pearls, precious stones and precious metals (+27.5% yoy from USD 354M to USD 452M). On the other hand, there was a decline in the items relating to iron and steel (-31% yoy from USD 734M to USD 504M) and aluminium and its derivative products (-38.5% yoy from USD 416M to USD 256M), an item on which duties were applied in the spring of 2018.

Trade of the EAEU with China

The Eurasian Union countries' trade with China exceeded USD 126Bn, up 24% yoy on the previous year. Imports amounted to USD 63.2Bn (+9.5% yoy) and exports reached USD 62.9Bn (+43.5% yoy).

The balance is historically negative for EAEU countries, but almost broke-even in 2018 with a limited negative balance of USD 300M. The highest deficit amounted to approximately USD 16Bn in 2013.

The Chinese share of total imports of EAEU countries was 19.8% in 2018, while the Chinese share was 11.5% of total exports. Overall trade with China accounts for 14.6% of the total, the maximum level of the last decade.

EAEU - China trade performance	2008	2013	2014	2015	2016	2017	2018	Jan-May 2019[1]
Import	41.9	66.2	60.7	44.0	45.7	57.7	63.2	20.1
Export	29.5	50.6	48.1	34.8	32.8	43.9	62.9	21.5
Balance	-12.4	-15.6	-12.6	-9.2	-12.9	-13.9	-0.3	1.3
Trade	71.3	116.7	108.7	78.7	78.5	101.6	126.2	41.6
Chg % y/y import	43.0	4.7	-8.3	-27.6	4.0	26.3	9.5	2.5
Chg % y/y export	38.1	-4.2	-5.0	-27.6	-5.7	33.7	43.5	1.3
Chg % y/y trade	40.9	0.7	-6.9	-27.6	-0.3	29.4	24.2	1.9
% China of tot import	11.0	15.9	16.0	17.5	18.9	19.2	19.8	21.6
% China of tot export	5.0	7.8	7.8	8.3	9.4	10.0	11.5	12.4
% China on tot trade	7.3	10.9	10.9	11.7	13.3	13.7	14.6	15.6

[1] Russia only Source: ITC Comtrade

Imports mainly consist of machinery, with a share in 2018 of over 50%, especially electrical and electronic machinery (25%), mechanical machinery (23%) and optical, photo and medical machinery (2%). These are followed by textile and clothing products (13.4%), metals (9%), chemical products (6%) and rubber and plastics (5.6%). Exports comprise minerals (73%), mainly energy ones (68.6%), wood, paper and printing (approx. 8%), metals (6%) and agricultural and food products (4.5%).

Breakdown of EAEU – China imports by trade category	% of total			Contrib. of total Chg. % in pp. yr.av.	
	2013	2016	2018	2016-13	2018-16
Rubber and plastic	5.0	4.7	4.8	-0.6	1.0
Wood, paper and printing	1.4	1.1	1.0	-0.2	0.2
Machinery	45.2	52.1	50.2	-3.1	8.7
Electrical machinery	21.3	21.9	25.2	-2.1	6.5
Mechanical machinery	22.0	28.0	22.9	-0.9	1.8
Optical, photo, medical machinery	1.8	2.0	2.0	-0.1	0.4
Miscellaneous goods	3.7	3.6	3.8	-0.4	0.8
Metals	10.3	8.4	8.9	-1.5	2.0
Transport equipment	5.6	3.9	4.5	-1.0	1.2
Minerals	0.4	0.3	0.4	-0.1	0.2
Mineral fuels	0.2	0.1	0.3	-0.1	0.1
Ores, slag, ash, earths and stone	0.2	0.1	0.1	0.0	0.0
Furniture	2.2	1.6	1.7	-0.4	0.4
Stones, glass and ceramics	2.8	2.0	2.2	-0.5	0.5
Agricultural products, food and tobacco	3.1	4.1	3.5	-0.1	0.3
Chemical products	3.7	5.1	5.6	-0.1	1.3
Textiles, clothing, footwear and leather	16.6	13.2	13.4	-2.5	2.7
Total in USD Bn and Chg %	66.2	45.7	63.2	-10.3	19.2

Source: ITC Comtrade

Breakdown of EAEU – China exports by trade category	% of total			Contrib. of total Chg. % in pp. yr.av.	
	2013	2016	2018	2016-13	2018-16
Rubber and plastic	1.2	1.2	0.8	-0.1	0.2
Wood, paper and printing	5.9	10.4	7.7	0.3	2.2
Machinery	2.7	5.1	2.9	0.2	0.2
Electrical machinery	0.3	0.6	0.2	0.1	-0.2
Mechanical machinery	2.3	3.7	2.4	0.0	0.4
Optical, photo, medical machinery	0.1	0.7	0.3	0.1	-0.1
Miscellaneous goods	0.0	2.0	2.0	0.4	0.9
Metals	5.9	5.8	5.9	-0.7	2.8
Transport equipment	1.2	1.0	0.1	-0.2	-0.4
Minerals	74.0	62.0	72.7	-11.2	38.7
Mineral fuels	67.4	57.5	68.6	-10.0	37.0
Ores, slag, ash, earths and stone	6.5	4.4	4.1	-1.2	1.7
Furniture	0.0	0.0	0.0	0.0	0.0
Stones, glass and ceramics	0.1	0.3	0.1	0.0	-0.1
Agricultural products, food and tobacco	2.4	5.4	4.5	0.4	1.6
Chemical products	6.5	6.5	3.1	-0.7	-0.3
Textiles, clothing, footwear and leather	0.2	0.2	0.2	0.0	0.1
Total in USD Bn and Chg %	50.6	32.8	62.9	-11.7	45.9

Source: ITC Comtrade

The sectors that most drove imports in the 2016-2018 period are machinery, with a contribution of 8.7 pp, textiles and clothing (2.7 pp), metals (2.0 pp), chemical products (1.3 pp) and transport equipment (1.2 pp). Regarding exports, the recovery of minerals was decisive and contributed to the overall dynamics with 38.7 pp (in the 2013-2016 period the average annual contribution was negative by more than 11% pp), along with metals (2.8 pp), wood, paper and printing (2.2 pp) and agricultural and food products (1.6 pp).

The first five months of 2019, with data available for Russia only, were characterised by further growth in trade (+1.9% yoy), which reached USD 41.6Bn. Imports increased to USD 20.1Bn (+2.5% yoy) and exports rose to USD 21.5Bn (+1.3% yoy). The balance is positive for Russia, by USD 1.3Bn. The Chinese share of Russian trade amounted to 15.6%. In detail, in the first part of this year, among imports, the settlement of the items relating to machinery (mechanical, as well as electrical and electronic) is worth noting (respectively -3.0% yoy to USD 4.8Bn and -0.9% yoy to just under USD 5Bn), while imports of vehicles and iron and steel products increased (+10.5% yoy to USD 0.9Bn and +30.7% yoy to USD 0.7Bn). Among exports, sales of energy minerals (-0.9% yoy to USD 15.6Bn) consolidated, while those of fish and shellfish (+34.7% yoy to USD 0.8Bn), mechanical machinery (+27.9% yoy to USD 0.5Bn), non-energy minerals (+10% yoy to USD 469M) and fertilisers (+52% yoy to USD 354M) were up. Direct exports to China of wood and wood products (-3% yoy to USD 1.4Bn) and copper and copper products (-7.5% yoy to USD 526M) were down.

Trade of the EAEU with the European Union

In 2018, trade between the Eurasian Union countries and the European Union was equal to over USD 352Bn, up by almost 37% yoy compared to the previous year. Imports amounted to about USD 104Bn (+10% yoy), whereas exports reached almost USD 248Bn (+52% yoy). The peak of imports was recorded in 2013, when imports exceeded USD 155Bn. The all-time high in terms of exports was recorded in 2008 at USD 313Bn.

The balance is historically positive for the EAEU: the surplus was over USD 143Bn last year, compared to almost USD 178Bn in 2013 and USD 73Bn in 2016. In the January-May 2019 period, Russia recorded a surplus of almost USD 47.5Bn.

The European Union's share of total imports of EAEU countries was almost 33% in 2018, while the EU share was 45% of total exports. Overall, trade with the EU accounts for about 41% of the total, up from the previous three years but still far from the peak recorded in 2008 at almost 44%.

EAEU - EU trade performance

	2008	2013	2014	2015	2016	2017	2018	Jan-May 2019[1]
Import	135.4	155.4	141.2	79.2	82.0	94.7	104.4	32.9
Export	313.0	298.3	280.2	170.2	155.2	163.0	247.7	80.4
Balance	177.6	143.0	138.9	91.0	73.2	68.4	143.3	47.5
Trade	448.5	453.7	421.4	249.3	237.2	257.7	352.1	113.3
Chg % y/y import	31.8	2.9	-9.1	-44.0	3.6	15.4	10.3	-9.6
Chg % y/y export	56.9	-3.9	-6.1	-39.3	-8.8	5.1	51.9	-4.0
Chg % y/y trade	48.4	-1.7	-7.1	-40.8	-4.8	8.6	36.6	-5.7
% EU of tot import	38.5	37.3	37.3	31.5	33.9	31.5	32.8	35.3
% EU of tot export	46.8	45.7	45.4	40.6	44.5	37.0	45.2	46.5
% EU on tot trade	43.6	42.4	42.4	37.2	40.1	34.8	40.6	42.6

1 Russia only, provisional figures Source: ITC Comtrade

Imports mainly consist of machinery, with a share in 2018 of over 32%, especially mechanical (22%), electrical and electronic (7.5%) and optical, photo and medical machinery (3%). These are followed by chemical products (19.1%), transport equipment (12.2%), agricultural and food products (8.4%) and metals (7.6%). Exports comprise minerals (64.9%), mainly energy ones (64.3%), miscellaneous goods (16.5%), metals (6.7%), chemical products and stones, glass and ceramics (both about 3%).

In the 2016-2018 period, the increase in imports from the EU (13.6% on an annual average basis) was determined by the positive contribution of machinery (4.5 pp), transport equipment (2.5 pp), chemical products (2.0 pp) and agricultural and food products (1.0 pp). In the case of exports, the contribution to total growth (+29.8% on an annual average basis) provided by minerals, equal to about 21 pp, was expanded by the contribution of miscellaneous goods for 4.8 pp. Metals (1.6 pp) and chemical products (0.9 pp) also fuelled the overall growth.

Breakdown of EAEU – EU imports by trade category

	% of total			Contrib. of total Chg. % in pp. yr.av.	
	2013	2016	2018	2016-13	2018-16
Rubber and plastic	5.7	6.9	6.8	-0.7	0.9
Wood, paper and printing	2.9	3.0	2.7	-0.5	0.2
Machinery	30.9	31.9	32.2	-4.7	4.5
Electrical machinery	7.9	8.0	7.5	-1.2	0.7
Mechanical machinery	20.3	20.8	21.7	-3.1	3.4
Optical, photo, medical machinery	2.7	3.1	3.0	-0.4	0.4
Miscellaneous goods	0.9	4.3	3.7	0.5	0.2
Metals	7.4	7.5	7.6	-1.2	1.1
Transport equipment	17.7	10.6	12.2	-4.0	2.5
Minerals	1.1	1.0	1.0	-0.2	0.2
Mineral fuels	0.9	0.8	0.8	-0.2	0.1
Ores, slag, ash, earths and stone	0.2	0.2	0.2	0.0	0.0
Furniture	1.4	1.1	1.3	-0.3	0.2
Stones, glass and ceramics	1.6	1.6	1.7	-0.2	0.3
Agricultural products, food and tobacco	11.1	8.7	8.4	-2.2	1.0
Chemical products	16.9	20.3	19.1	-2.1	2.0
Textiles, clothing, footwear and leather	2.5	3.2	3.4	-0.3	0.6
Total in USD Bn and Chg %	155.4	82.0	104.4	-15.7	13.6

Source: ITC Comtrade

Breakdown of EAEU – EU exports by trade category

	% of total			Contrib. of total Chg. % in pp. yr.av.	
	2013	2016	2018	2016-13	2018-16
Rubber and plastic	0.8	1.0	0.8	-0.1	0.2
Wood, paper and printing	1.0	1.8	1.7	0.0	0.4
Machinery	1.0	1.6	1.1	-0.1	0.1
Electrical machinery	0.2	0.3	0.2	0.0	0.0
Mechanical machinery	0.6	1.0	0.7	0.0	0.0
Optical, photo, medical machinery	0.1	0.2	0.1	0.0	0.0
Miscellaneous goods	0.1	16.6	16.5	2.9	4.8
Metals	6.7	7.5	6.7	-0.9	1.6
Transport equipment	0.8	0.5	0.6	-0.2	0.2
Minerals	83.7	61.9	64.9	-17.2	20.8
Mineral fuels	83.2	61.3	64.3	-17.1	20.7
Ores, slag, ash, earths and stone	0.4	0.7	0.6	0.0	0.2
Furniture	0.0	0.1	0.1	0.0	0.0
Stones, glass and ceramics	1.6	3.7	2.8	0.1	0.4
Agricultural products, food and tobacco	0.9	1.5	1.3	-0.1	0.3
Chemical products	3.1	3.3	3.2	-0.5	0.9
Textiles, clothing, footwear and leather	0.3	0.4	0.3	0.0	0.0
Total in USD Bn and Chg %	298.4	155.2	247.7	-16.0	29.8

Source: ITC Comtrade

In the first five months of 2019, trade (figures available for Russia only) was just over USD 113Bn (-5.7% yoy): imports were close to USD 33Bn (-9.6% yoy), while exports were about USD 80Bn (-4.0% yoy). Exports were penalised by energy minerals (-6.8% yoy to USD 47.4Bn from the previous USD 50.9Bn), iron and steel (-6.4% yoy from USD 2.7Bn to USD 2.5Bn), not offset by increases in miscellaneous goods (+0.7% yoy from USD 16.4Bn to USD 16.5Bn), pearls, stones and precious metals (+2% yoy to around USD 2.3Bn) and aluminium and aluminium products (+65% yoy from USD 0.7Bn to USD 1.1Bn). Imports from EU countries were damaged by the drop in mechanical machinery purchases (-12.5% yoy to USD 7.0Bn from USD 8.0Bn in the first period of 2018) and electrical and electronic machinery (-13.3% yoy to USD 2.3Bn from USD 2.6Bn in the January-May 2018 period).

Comparative performance of major Russian trade items with the USA, China and the EU

In the last five years, there have been important shifts in the shares held by Russia in foreign supply and target markets with the main trade items (imports of machinery and vehicles and exports of minerals), mainly in favour of Asian markets, especially China, and at the expense of those of the European Union.

Among the largest categories of imports, total machinery purchased in EU countries fell from 43% of the total in 2013 to 37% in 2018 (in value terms from USD 44Bn to USD 30Bn), while Chinese supplies increased at the same time from 25% to over 34% (in value terms from USD 25Bn to USD 28Bn). Even the ex-China Asiatic supplies have undergone an increase in terms of share, going from almost 16% to over 17% (in terms of value from USD 16Bn to USD 14Bn), while US ones dropped from almost 6% to 5% (in terms of value from USD 6Bn to USD 4Bn).

Among the machinery, mechanical machinery purchased in EU countries fell from 50% of the total in 2013 to 47% in 2018 (from USD 28.5Bn to USD 20.5Bn), while Chinese supplies rose at the same time from 20% to almost 28% (from USD 11.4Bn to USD 12.1Bn). Asia, with the exception of China, provided about 14% of the category total, confirming the percentage for 2013. Electrical machinery purchased from the EU also reduced its share, falling from 32% to just over 22% (from USD 11.4Bn to USD 6.6Bn), while imports from Asia excluding China grew from 18.5% to 22% (while remaining around USD 6.5Bn). On the other hand, in 2018 China supplied more than 48% of imports of electrical machinery, compared to 35.5% in 2013 (from USD 12.6Bn to USD 14.4Bn). As regards optical, photo, medical equipment and precision equipment, the European decline was more limited than for the other categories of machinery (from just under 42% to 41%), to the advantage once again of China (from 11% to over 16%) and the other Asian economies (from 14% to 17%). The USA lost ground, albeit to a limited extent, from 16% to 15%.

Again regarding imports, vehicles imported by Russia from the EU fell from almost 49% in 2013 to 43% in 2018 (from USD 19.5Bn to USD 10.2Bn), as did vehicles imported from the Asian economies excluding China (from 32% to 31%, i.e. from USD 12.9Bn to USD 7.3Bn). However, among the various Asian economies, China gained ground as its supplies rose from 6% to 8% of the 2018 total, even though their value fell from USD 2.4Bn to USD 1.9Bn. The importance of the United States declined from 8% in 2013 to 7% (from USD 3.2Bn to USD 1.7Bn).

Concerning exports, energy minerals remain mainly directed towards EU countries, even though their share is slightly lower than in 2013, from 53% to 52.6% (from USD 197.3Bn to USD 124.9Bn). China's importance is clearly growing: last year it acquired more than 17% of Russia's total exports compared to 7% in 2013 (with an increase in absolute terms from USD 25.2Bn to USD 41.2Bn), while the rest of Asia went from 15% to 19.5% in 2018 (from USD 54.4Bn to USD 46.3Bn).

Among metals, exports of iron and steel to the EU fell sharply from 37% to 28.5% (from USD 7.4Bn to USD 6.6Bn). On the other hand, exports to the USA (from 5% to 8%, from USD 4.1Bn to USD 4.9Bn) and the rest of the world (from 16% to 22%, from USD 3.2Bn to USD 5.1Bn) are on the increase, substantially consolidating in Asia excluding China, at around 41.5%, while China has marginal shares. As far as iron and steel products are concerned, Russian exports have seen a sharp increase in EU countries (from 8% to about 25%, going from USD 0.3Bn to USD 1Bn), while both the Asian market excluding China, which absorbed just over 46% in 2018 compared to almost 66% in 2013 (from USD 2.3Bn to USD 1.9Bn), and the US market (from 6.5% to 5%) have fallen. Aluminium exports saw a drop in EU shares (from 34% to 29%, falling from USD 2.4Bn to USD 1.9Bn), offset by the increase in the markets of the rest of the world (from 8% to almost 30%, from USD 0.6Bn to USD 1.9Bn). There was a clear decrease of exports to the USA, which fell from 23% to less than 10% in 2018, from USD 1.7Bn to USD 0.6Bn, following the increase in duties imposed by the US Administration.

Breakdown by geographical region of % shares of Import/Export trade category - Russia	EU			USA			Asia ex China			China			Rest of the World		
IMPORT	2013	2016	2018	2013	2016	2018	2013	2016	2018	2013	2016	2018	2013	2016	2018
Machinery	43.0	38.4	37.3	5.7	5.8	4.7	15.6	17.1	17.2	24.7	34.6	34.3	11.0	4.1	6.5
84 - Mechanical machinery	50.1	44.1	47.0	5.8	5.4	4.6	14.0	14.6	14.1	20.0	32.5	27.7	10.2	3.4	6.6
85 - Electrical machinery	32.0	28.1	22.2	2.9	3.7	2.6	18.5	21.8	21.8	35.5	43.0	48.1	11.1	3.5	5.3
90 - Optical, photographic, medical machinery	41.9	43.4	41.2	16.1	16.7	15.2	14.2	14.9	16.6	11.4	14.3	16.3	16.3	10.8	10.7
87 - Vehicles	48.6	44.1	43.4	8.0	7.8	7.3	32.0	31.3	31.0	5.9	7.4	7.9	5.5	9.4	10.4
EXPORT															
27 - Mineral fuels, mineral oils and products of their distillation	53.0	56.7	52.6	1.1	2.5	2.1	14.6	19.8	19.5	6.8	13.3	17.4	24.5	7.7	8.5
72 - Iron and steel	37.0	28.7	28.5	4.7	5.8	7.9	41.5	44.6	41.7	0.7	0.2	0.1	16.1	20.7	21.8
73 - Articles of iron or steel	7.7	19.5	24.6	4.8	2.6	6.5	65.9	51.6	46.3	1.8	4.8	0.6	19.8	21.5	22.1
76 -Aluminium and articles thereof	34.4	23.3	28.9	23.2	28.0	9.7	33.1	37.6	30.3	1.3	0.6	1.4	8.0	10.6	29.7

Source: Intesa Sanpaolo processing based on ITC Comtrade figures

Amounts in USD Bn of breakdown by geographical region of Import/Export trade category - Russia	EU			USA			Asia ex China			China			Rest of the World		
IMPORT	2013	2016	2018	2013	2016	2018	2013	2016	2018	2013	2016	2018	2013	2016	2018
Machinery	43.7	23.2	29.9	5.8	3.5	3.8	15.8	10.4	13.8	25.0	20.9	27.6	11.2	2.5	5.2
84 - Mechanical machinery	28.5	15.1	20.5	3.3	1.8	2.0	8.0	5.0	6.2	11.4	11.1	12.1	5.8	1.2	2.9
85 - Electrical machinery	11.4	5.9	6.6	1.0	0.8	0.8	6.6	4.6	6.5	12.6	9.1	14.4	3.9	0.7	1.6
90 - Optical, photographic, medical machinery	3.8	2.2	2.8	1.4	0.9	1.0	1.3	0.8	1.1	1.0	0.7	1.1	1.5	0.6	0.7
87 - Vehicles	19.5	6.9	10.2	3.2	1.2	1.7	12.9	4.9	7.3	2.4	1.2	1.9	2.2	1.5	2.5
EXPORT															
27 - Mineral fuels, mineral oils and products of their distillation	197.3	76.4	124.9	4.1	3.4	4.9	54.4	26.7	46.3	25.2	17.9	41.2	91.0	10.4	20.3
72 - Iron and steel	7.4	4.1	6.6	0.9	0.8	1.9	8.3	6.3	9.7	0.1	0.0	0.0	3.2	2.9	5.1
73 - Articles of iron or steel	0.3	0.4	1.0	0.2	0.1	0.3	2.3	1.2	1.9	0.1	0.1	0.0	0.7	0.5	0.9
76 -Aluminium and articles thereof	2.4	1.4	1.9	1.7	1.7	0.6	2.4	2.2	2.0	0.1	0.0	0.1	0.6	0.6	1.9

Source: Intesa Sanpaolo processing based on ITC Comtrade figures

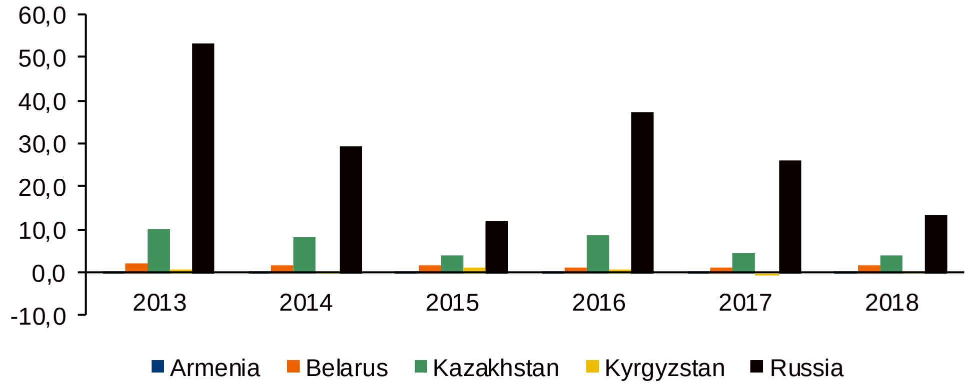
2.3 Foreign Direct Investments

Inward and outward foreign direct investments of EAEU countries

The inward stock of foreign direct investments (FDI) in the Eurasian Economic Union countries amounted to about USD 586.8Bn at the end of 2018 (UNCTAD figures), equal to approximately 1.8% of the global total. The figure is higher than in 2016 (USD 565.3Bn), but lower than in 2017, when USD 616.1Bn were recorded. Russia is the country which receives the majority of FDI among EAEU countries: in 2018 investments stood at USD 407.4Bn. Kazakhstan comes next with USD 149.3Bn of FDI.

Compared to the situation in the previous year, in 2018 FDI flows to EAEU countries decreased from USD 32.0Bn in 2017 to USD 18.9Bn in 2018 (in particular due to the drop in FDI to Russia from USD 26.0Bn to USD 13.3Bn).

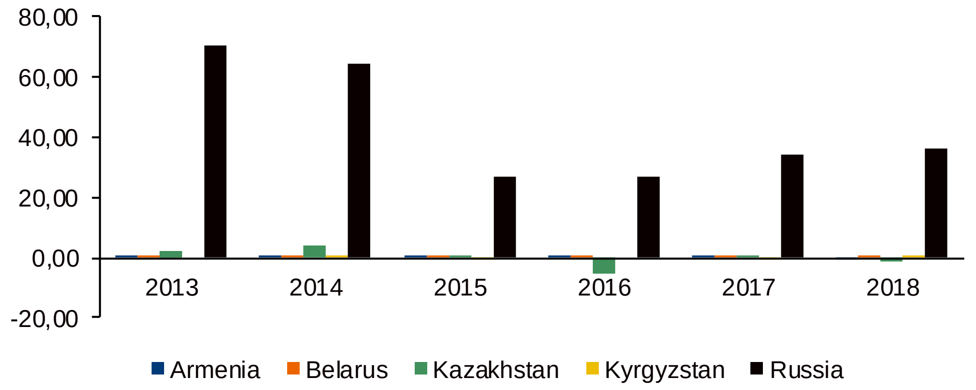
Inward FDI flows (USD Bn)



Source: UNCTAD

Investments made by EAEU countries in the rest of the world (outward FDI stock) stood at USD 362.3Bn in 2018, about 1.2% of the global total. The major role is played by Russia in the outward side as well, with USD 344.1Bn invested abroad (1.1% of the world total). The stock of outward FDI in 2018 is lower than in 2017 (USD 402Bn) and 2013 (USD 409.7Bn), but is higher if compared with the value of 2016 (USD 359.1Bn).

Outward FDI flows (USD Bn)



Source: UNCTAD

Inward FDI stock (USD Bn)

	2013	2016	2018
Armenia	5.5	4.6	5.5
Belarus	16.7	18.6	20.8
Kazakhstan	125.2	142.8	149.3
Kyrgyzstan	3.3	5.2	3.9
Russia	471.5	393.9	407.4
CIS	672.0	638.4	670.4
EAEU	622.2	565.3	586.8
World	24670.6	25243.0	32272.0

Source: UNCTAD

Outward FDI stock (USD Bn)

	2013	2016	2018
Armenia	0.3	0.6	0.6
Belarus	0.7	0.8	0.9
Kazakhstan	23.4	23.4	16.7
Kyrgyzstan	0.001	0.001	0.007
Russia	385.3	334.3	344.1
CIS	418.9	378.6	386.2
EAEU	409.7	359.1	362.3
World	24831.6	27620.6	30974.9

Source: UNCTAD

Inward FDI stock/global total ratio	2013	2016	2018
Armenia	0.022	0.016	0.017
Belarus	0.068	0.066	0.064
Kazakhstan	0.508	0.506	0.462
Kyrgyzstan	0.013	0.019	0.012
Russia	1.911	1.395	1.262
CIS	2.724	2.260	2.077
EAEU	2.522	2.239	1.818
World	100.0	100.0	100.0

Source: UNCTAD

Outward FDI stock/global total ratio	2013	2016	2018
Armenia	0.001	0.002	0.002
Belarus	0.003	0.003	0.003
Kazakhstan	0.094	0.085	0.054
Kyrgyzstan	0.000	0.000	0.000
Russia	1.552	1.210	1.111
CIS	1.687	1.371	1.247
EAEU	1.650	1.300	1.170
World	100.0	100.0	100.0

Source: UNCTAD

Inward FDI flows (USD Bn)	2013	2016	2018
Armenia	0.3	0.3	0.3
Belarus	2.2	1.2	1.5
Kazakhstan	10.3	8.5	3.8
Kyrgyzstan	0.6	0.6	0.05
Russia	53.4	37.2	13.3
CIS	73.5	55.2	23.3
EAEU	66.9	47.9	18.9
World	1431.2	1918.7	1297.2

Source: UNCTAD

Outward FDI flows (USD Bn)	2013	2016	2018
Armenia	0.03	0.07	-0.01
Belarus	0.2	0.1	0.04
Kazakhstan	2.3	-5.2	-1.1
Kyrgyzstan	0.0	0.0	0.0
Russia	70.7	27.0	36.4
CIS	74.8	24.5	37.2
EAEU	73.2	21.9	35.4
World	1376.6	1550.1	1014.2

Source: UNCTAD

Inward FDI stock/GDP ratio	2013	2016	2018
Armenia	49.4	44.0	43.7
Belarus	22.1	39.0	35.0
Kazakhstan	52.9	104.1	89.4
Kyrgyzstan	45.3	77.0	49.3
Russia	20.5	30.7	25.0
CIS	23.9	38.9	33.1
World	32.0	37.3	37.9

Source: UNCTAD

Share of Inward FDI stock per capita	2013	2016	2018
Armenia	1898	1585	1878
Belarus	1759	1964	2196
Kazakhstan	7277	7941	8110
Kyrgyzstan	584	881	638
Russia	3283	2736	2830
CIS	2849	2661	2768
World	3432	3796	4243

Source: UNCTAD

Russia's inward and outward foreign direct investments

The FDI stock in Russia at the end of 2018 was USD 407.4Bn, according to UNCTAD. Russia's share of the world total fell to around 1.3%, from 1.9% in 2013. Compared to the other BRIC countries, Russia is preceded by China and Brazil, respectively with shares of 5.0% and 2.1%.

In 2018, inward FDI flows into Russia amounted to USD 13.3Bn according to UNCTAD, a decline from the previous year, when USD 26.0Bn flowed into the Russian economy (more than USD 53Bn in 2013 and USD 37Bn in 2016).

The largest investments in Russia come from European countries, according to data provided by the Russian Central Bank. Among them, Cyprus stands out with a share of more than 30% of the stock at the end of 2018, followed by the Netherlands (9.8%), the Bahamas (9.6%), Bermuda (7.4%) and Luxembourg (4.8%). Italy ranks 15th with 1.1%. If we consider the sum of inward FDI flows from 2010 to 2018, the main investors are: the Netherlands with a share of 11.1%, Cyprus with 9.3%, the United Kingdom with 9.0%, the Virgin Islands with 8.4% and the Bahamas with 8.3%. Italy ranked 22nd (0.5%).

% share of main Inward FDI countries – Stock at 31.12.2018

Country	% Shares
Cyprus	30.6
Netherland	9.8
Bahamas	9.6
Bermuda	7.4
Luxembourg	4.8
France	4.2
Germany	4.0
United Kingdom	3.7
Switzerland	2.8
Italy (15°)	1.1

Source: Russian Central Bank
Positions by Instrument and Partner Country (Directional Principle)

% share of main Outward FDI countries – Stock at 31.12.2018

Country	% Shares
Cyprus	50.1
Netherland	11.7
Austria	7.8
Switzerland	5.2
Virgin Isl	2.9
Bahamas	2.6
Turkey	2.4
Germany	2.4
United Kingdom	2.2
Italy (19°)	0.8

Source: Russian Central Bank
Positions by Instrument and Partner Country (Directional Principle)

The main inward FDI target sectors, again based on the data from the Russian Central Bank on the flows from 2010 to 2018 are mining (22.7%), finance (22.2%), trade (19.3%) and manufacturing (19.3%); the refined energy products and coke sector (6.6%) stands out within it. Stock data at the end of 2018 show that mining prevailed with more than a quarter of the FDI entering the Russian economy (25.3%), followed by manufacturing (20.2%), trade (16.4%) and finance (12.2%).

With reference to Russian FDI abroad, in 2018 they amounted, according to UNCTAD, to about USD 344.0Bn, a decrease compared to 2013 when USD 385.3Bn were invested. According to the Russian Central Bank's stock data at the end of 2018, the main Russian investment countries are Cyprus (more than 50% of the total), followed by the Netherlands (11.7%), Austria (7.8%), Switzerland (5.2%) and the British Virgin Islands (2.9%). Italy ranks 19th with a 0.8% share.

Foreign direct investment linked to the Belt and Road Initiative: Russian agreements with China and other Asian countries

Chinese investment in Russia[53] has grown in recent years thanks to numerous bilateral agreements, as well as projects included in the "Belt and Road" initiative. Russia is present in this initiative launched in 2013 by Xi Jinping with numerous projects, both in terms of land development with new road and railway links, and maritime links, in addition to the so-called Arctic passage[54] (Polar Silk Road). This route would allow both China and Russia's distances and transits to Europe and the Americas through the Bering Strait to be significantly shortened, (to reach Europe about 9,000 Km would be saved compared to the current transit through the Strait of Malacca and the Suez canal), in addition to the exploitation of the huge subsoil resources available there. At the second BRI conference held last April in Beijing, Russia and China signed an agreement for scientific cooperation in the Arctic, establishing the China-Russia Arctic Research Centre as an integral part of the Polar Silk Road[55]. In May 2019, the fifth international conference entitled "Russia and China: Cooperation in a New Era", was held. On that occasion, both sides reaffirmed their interest in increasing cooperation between the two countries, in the economic and political, military, social and cultural fields[56].

The construction of the CMREC (China Mongolia Russia Economic Corridor)[57] aims to promote the development above all of infrastructure, trade and investment between the countries involved,

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[53] http://russiancouncil.ru/en/analytics-and-comments/analytics/china-and-russia-explore-bilateral-investment-/
[54] http://www.asianews.it/news-en/Research-and-development:-China-and-Russia-on-the-Arctic-Silk-Road-47054.html
[55] https://geopoliticalfutures.com/polar-silk-road-china-comes-greenland/
[56] https://russiancouncil.ru/en/news/moscow-hosts-russia-and-china-cooperation-in-a-new-era-conference/
[57] http://www.china.org.cn/english/china_key_words/2017-04/19/content_40651835.htm

Russia in particular[58]. The link between the port of Tianjin in China and the Russian city of Ulan Ude is currently in operation, but a number of additional rail and road sections are in the process of being built, while others are still at the planning stage.

CMREC – China Mongolia Russia Economic Corridor

https://beltandroad.ventures/beltandroadblog/china-mongolia-russia-economic-corridor

The main railway links include the high-speed railway between Moscow and Beijing, currently under construction between Moscow and Kazan, for which the Chinese government has allocated an investment of about USD 6Bn (the cost of the entire work is estimated at around USD 22Bn[59]) and will be completed by 2022[60]. The consortium that will carry out the work comprises OJSC Mosgiprotrans, OJSC Nizhegorodmetroproekt and China Railway Eryuan Engineering Group Co. This section of the railway line should allow about 10.5 million people to be transported initially. This figure is expected to increase to 20 million in 2035 and 25 in 2050, in addition to an impressive freight movement by cargo. The completion of the work requires the construction of numerous bridges, viaducts, road and railway overpasses, as well as canals. 80% of the materials used in the development of this project will be produced in Russia, both for the work itself and for the rolling stock[61], while the technology will be Chinese[62].

Regarding the energy field, several gas pipelines and oil pipelines are under construction to connect the Siberian fields to China, as well as to exploit important gas and oil fields[63]: worth remembering among the major projects are Power of Siberia (a gas pipeline which will be fully operational by next December[64] and which will supply China with 38 billion cubic metres of gas

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[58] https://beltandroad.ventures/beltandroadblog/china-mongolia-russia-economic-corridor
[59] http://www.xinhuanet.com/english/2017-08/17/c_136531729.htm; http://tass.com/economy/950596
[60]https://www.railwaypro.com/wp/moscow-kazan-high-speed-rail-construction-launched-2018/;
https://www.russia-briefing.com/news/will-moscow-kazan-high-speed-train-route-connect-beijing.html/
[61] http://eng.rzd.ru/newse/public/en?STRUCTURE_ID=15&layer_id=4839&refererLayerId=5074&id=106704
[62] https://www.railway-technology.com/features/moscow-kazan-high-speed-rail/
[63] http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1475872.shtml;
http://en.kremlin.ru/events/president/news/54979
[64] https://www.gazprom.com/projects/power-of-siberia/

over the next thirty years), the use of the field and the construction of the gas condensation plant at Yamal (Chinese investment accounting for 29.9%) and the construction of the Tianwan nuclear power plant.

In 2017, CEFC China Energy and Beijing Enterprise purchased shares in Rosneft for approximately 14% of the capital, for an amount of approximately USD 9Bn, to which a further investment in a Rosneft Group company (20%) is added for over USD 1Bn[65]. Russia has invested about USD 3.4Bn in China in a plant for the production of aluminium sheets (Vitay Mashitskyi)[66].

The high-tech industry[67] is playing an increasingly important role in the cooperation between Russia and China, with the creation, among other initiatives, of a new dedicated industrial park (in Skolkovo in Russia[68]), in which companies from both nations will collaborate. The hi-tech sectors that will benefit from Russia/China collaborations range from aerospace to telecommunications, from defence to aeronautics, from industrial technologies to software, from the Internet to digital multimedia, from e-commerce to semiconductors, from nanotechnology to robotics. In March 2018, an agreement was signed between Roscosmos State Corporation and the Chinese National Space Administration in order to cooperate in joint projects for lunar and space exploration, creating a data centre on lunar projects. In January of this year, the Chinese scientific probe Chang'e-4 landed on the dark side of the moon, a probe whose energy components are made in Russia[69].

In July of this year, the ASEAN-Russia Ministerial Meeting was held, which followed a similar meeting in November 2018 between government representatives from Russia and the ASEAN countries (the third ASEAN-Russia[70]Summit). These talks included, among other things, increasing trade and investment integration between the two parties, infrastructure and transport, scientific and technological collaboration, supported by the 2016-2025 ASEAN-Russia Federation for Science, Technology and Innovation Action Plan[71], e-commerce and ICTs, financial services and industry, as well as exploitation of mineral and energy resources. With regard to energy in particular, the importance of greater mutual participation in energy efficiency and its accessibility, as well as the implementation of the 2016-2020 ASEAN-Russia Energy Cooperation Work Plan[72], was highlighted.

Foreign direct investments linked to the Belt and Road Initiative: other EAEU countries' agreements with China and other Asian regions

The Chinese Belt and Road Initiative also involves other countries of Central Asia and the EAEU, including Kazakhstan and Kyrgyzstan with the aim of implementing the energy, infrastructural (especially rail, road and port) and logistical connection network.

Part of the investment relates to the transit of oil and natural gas from Xinjiang to western China and then through Central Asia to Iran, Turkey and the Arabian Peninsula. The China-Central Asia gas pipeline is the longest in the world. Construction work began in 2008 and consists of three lines (A, B and C), the third of which came into operation in 2014[73]. The gas pipeline originates

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[65] https://www.ice.it/it/news/notizie-dal-mondo/99512; http://www.askanews.it/esteri/2017/10/19/cefc-cina-ingresso-in-rosneft-per-garantirci-approvvigionamenti-pn_20171019_00082/

[66] https://rdk-invest.com/warum-investieren-in-china/

[67] http://www.chinadaily.com.cn/a/201712/08/WS5a2a87d8a310eefe3e99ef6f.html

[68] https://sk.ru/news/m/wiki/17057/download.aspx

[69] http://www.xinhuanet.com/english/2019-01/05/c_137720421.htm

[70] http://en.kremlin.ru/supplement/5360

[71] http://ditjenppi.kemendag.go.id/assets/files/publikasi/doc_20180515_post-2017-asean-russia-trade-investment-work-programme.pdf

[72] https://asean.org/storage/2018/11/ASEAN-Russia-Joint-Statement.pdf

[73] For more details on the China-Central Asia gas pipelines, see China National Petroleum Company (CNPC) at

in Gedaim, on the border with Turkmenistan and Uzbekistan, crosses central Uzbekistan and southern Kazakhstan, and reaches Khorgos in Xinjiang. From here, it will be connected to the second West-East gas pipeline in China, currently under construction. In September 2013, China signed intergovernmental agreements with Uzbekistan, Tajikistan and Kyrgyzstan on the construction of an additional line (Line D)[74]. The first three lines have become operational, while the fourth is encountering numerous obstacles, and the construction of the sections of the pipeline in Uzbekistan and Kyrgyzstan has been suspended for technical and financing reasons[75].

In addition to the expansion of the energy network, support will also be provided for the completion and connection of a number of important railway infrastructures connecting Central Asia, and in particular Kazakhstan with Iran, Turkey and Russia, in cooperation with the national railway infrastructure plans. The Astana-Almaty high-speed rail link, for which work began in 2011 with Chinese participation, is already operational. Another project links Russia to Kazakhstan[76]. 60% of the total cost of the project, just over USD 28Bn, will be financed by the Russian Railways, while the remaining 40% will come from foreign investment. A Russian-Chinese consortium won the first USD 360M contract for the planning, design and surveying work on the project between 2015 and 2016[77].

Kazakhstan's geographical position, at the crossroads of Europe and Asia and its enormous wealth of oil and mineral resources, make the country strategically important for the BRI Initiative, in which the country is involved in projects that span more than one corridor. Kazakh authorities have already launched several programmes, including the "2050 Strategy" and the "100 concrete steps" of the *Nurly Zhol* or Path to the Future, which envisage Chinese investments and objectives aligned with those of the BRI. The *Nurly Zhol* [78]programme aims to invest USD 9Bn by the end of this year in developing transport and logistics, industrial and energy infrastructure, improving public water and heating networks and housing and social infrastructure, and supporting small and medium-sized enterprises[79]. A major project funded with China's contribution concerns the Khorgos Inland Contained Depot (ICD, or dry port) and Special Economic Zone (SEZ) infrastructure, located on the Kazakhstan-China border, which is expected to become one of the largest cargo handling hubs of the entire Silk Road Economic Belt. The project was announced in 2014 by President Nazarbayev[80]. Construction and logistics services are provided by DP World, a logistics company in the United Arab Emirates. Khorgos' current handling capacity of 200,000 containers per year is expected to reach 500,000 by 2020. China has been the main backer and the Jiangsu Province has invested over USD 600M to develop the surrounding infrastructure over five years[81]. Again with the involvement of DP World, the development of the port of Aktau is planned, the largest cargo terminal in Kazakhstan on the Caspian Sea, already a special economic zone, which

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http://www.cnpc.com.cn/en/FlowofnaturalgasfromCentralAsia/FlowofnaturalgasfromCentralAsia2.shtml

[74] Idem

[75] Casey Michel: "Line D of the Central Asia-China Gas Pipeline Delayed", 31 May 2016, The Diplomat.

[76] Russian Railways, 30 April 2016, "Russian-Chinese working group discusses prospects for construction of Moscow-Kazan High Speed Main Line":

http://eng.rzd.ru/newse/public/en?STRUCTURE_ID=15&layer_id=4839&refererLayerId=5074&id=106849

[77] Eva Gray: "Connecting Eurasia: mapping the myriad of high-speed rail routes", 9 July 2015: http://www.railway-technology.com/features/featureconnecting-eurasia-mapping-the-myriad-of-high-speed-rail-routes-4593227/; "Chinese company wins $390mn contract to develop Russian high-speed railway" 13 May 2015: https://www.rt.com/business/258241-china-russia-railway-construction/

[78] http://mfa.gov.kz/en/tashkent/content-view/nurly-zol

[79] Marlen Belgibayev and Zhang Xiaotong: "The OBOR and the 'Nurly Zhol - Path to the Future': Complementarity and Challenges", Wuhan University Center for Economic Diplomacy, 4 March 2016.

[80] http://akipress.com/news:544066/

[81] Dmitriy Frolovskiy: "Kazakhstan's China Choice", The Diplomat, July 6, 2016 and Jack Farchy "China seeking to revive the Silk Road", Financial Times, 9 May 2016.

connects Khorgos with a railway[82], according to a project presented by President Nazarbayev in 2015. The project is combined with a USD 2.7Bn Kazakh plan to modernise locomotives, freight wagons and passenger carriages, as well as repair 450 miles of railroad[83].

Again within the ASEAN-Russia Ministerial Meeting[84], the question of collaboration between EAEU and ASEAN countries was discussed, both in the economic and general fields, through the ratification of a MoU on the launch of practical cooperation between the two parties, thus creating opportunities for dialogue in many fields (from agriculture to energy, from transport to technological innovation).

2.4 Trade infrastructures and Business Climate

The LPI Index of Trade Infrastructures

According to the LPI Index, which summarises the relative global positioning of 160 countries in terms of dedicated trade infrastructure, in 2018 the EAEU countries were in an intermediate position. Kazakhstan was in 71st place while Russia was in 75th place in the global rankings. Armenia (92nd), Belarus (103rd) and Kyrgyzstan (108th) were in a more disadvantaged position. Even looking at the breakdown of the individual components that make up the index, Russia and Kazakhstan always rank in the middle. The opinions on Russia's infrastructure and logistics compared with other CIS countries are slightly more favourable.

LPI Index 2018 (Logistics Performance Index) – Comparison with BRIC and CIS countries

	Rank (among 160 countries)	LPI	Customers and customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
Brazil	56	2.99	2.41	2.93	2.88	3.09	3.11	3.51
China	26	3.61	3.29	3.75	3.54	3.59	3.65	3.84
India	44	3.18	2.96	2.91	3.21	3.13	3.32	3.50
Russia	**75**	**2.76**	**2.42**	**2.78**	**2.64**	**2.75**	**2.65**	**3.31**
Armenia	**92**	**2.61**	**2.57**	**2.48**	**2.65**	**2.50**	**2.51**	**2.90**
Azerbaijan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Belarus	**103**	**2.57**	**2.35**	**2.44**	**2.31**	**2.64**	**2.54**	**3.18**
Georgia	119	2.44	2.42	2.38	2.38	2.26	2.26	2.95
Kazakhstan	**71**	**2.81**	**2.66**	**2.55**	**2.73**	**2.58**	**2.78**	**3.53**
Kyrgyzstan	**108**	**2.55**	**2.75**	**2.38**	**2.22**	**2.36**	**2.64**	**2.94**
Moldova	116	2.46	2.25	2.02	2.69	2.30	2.21	3.17
Tajikistan	134	2.34	1.92	2.17	2.31	2.33	2.33	2.95
Turkmenistan	126	2.41	2.35	2.23	2.29	2.31	2.56	2.72
Ukraine	66	2.83	2.49	2.22	2.83	2.84	3.11	3.42
Uzbekistan	99	2.58	2.10	2.57	2.42	2.59	2.71	3.09
Memorandum item Italy	19	3.74	3.47	3.85	3.51	3.66	3.85	4.13

Notes: The LPI ranges from 1 to 5. The higher the figures, the better the performance.
- Customers: Effectiveness and efficiency of customers and customs procedures.
- Infrastructure: Quality of transport and technology infrastructure for logistics.
- International shipments: Ease and reliability of transport.
- Logistics: Competence of local logistics industry
- Tracking & tracing: Traceability of shipping
- Timeliness: Timeliness of deliveries

Source: World Bank

[82] https://www.railfreight.com/specials/2019/04/30/khorgos-east-gate-from-steppes-to-high-tech-facility/?gdpr=accept
[83] John C. K. Daly: "China and Kazakhstan to Construct a Trans-Kazakhstan Railway Line from Khorgos to Aktau", The Jamestown Foundation, Eurasia Daily Monitor Volume: 12 Issue: 94, 20 May 2015.
[84] https://asean.org/storage/2018/11/ASEAN-Russia-Joint-Statement.pdf

Russia, thanks to its 2019-21[85] rail investment programme (Strategy for Developing Rail Transport) approved by the Government in November 2018, estimates investments of about RUB 2.3Tn (about USD 36Bn) over the three years which will cover not only the upgrading of the two main lines, the Trans-Siberian and the Baikal Amur[86], but also the development of the Mezhdurechensk-Taishet section[87], the line connecting the Black Sea basin ports to Azov and the Morozovskaya-Volgodonskaya section. Particular attention is paid to the hubs and the integrated centres of interconnection with sea and road transport, in both the central region and the eastern and north-western region. The programme envisages the reconstruction and resumption 17,000 km of railway lines, while launching modernisation and automation programmes, updating power supply devices, as well as improving access to rail transport.

Kazakhstan[88] plans to electrify more than one thousand kilometres of the two main railway lines by 2025 (Moyynty - Aktogay of 522 kilometres in the northwest of the country and Tobol - Nikeltau of 510 kilometres in the eastern region), as well as improve the transit speed of trains and reduce costs, optimising the efficiency of rail transport. The 2021-25 government programme Nurly Zhol[89], which estimates investments totalling USD 9Bn in infrastructure over the three-year period considered, includes, among other things, the strengthening of rail links, also thanks to the collaboration of foreign operators (last July Alstom signed an agreement for the supply of trains, locomotives, equipment, digital technology[90]), whose investments were stimulated above all in the last two years by targeted government interventions, aimed at simplifying the legislative and bureaucratic system for foreign operators[91].

The motorway network will also be expanded, with the construction of more than 650 km of new sections, as well as the renovation of 1,600 km of existing roads.

The Doing Business Index

The 2019 business climate, measured through the World Bank's Doing Business index, ranks Russia 31st in the global rankings, which include 190 countries, marking an improvement of four places from the previous year. The evaluations of Kazakhstan place it in 28th place, followed by Belarus in 37th place, Armenia in 41st place and finally Kyrgyzstan in 70th place.

Concerning Russia, within the different components making up the overall index, extremely positive opinions are noted as regards property registration (12th) and contractual protection (18th), confirming the place of the previous year. The opinion on obtaining building licences and permits improved, progressing sixty seven places and taking Russia to 48th place. The country has also improved its ranking with regard to end users obtaining credit (seven positions) and foreign

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[85] http://eng.rzd.ru/newse/public/en?STRUCTURE_ID=15&layer_id=4839&refererLayerId=3920&id=107396; http://eurasiatx.com/programma-di-investimenti-e-piano-finanziario-2019-2021-delle-ferrovie-russe/?lang=it; http://eng.rzd.ru/statice/public/en?STRUCTURE_ID=7
[86] http://eng.rzd.ru/statice/public/en?STRUCTURE_ID=88
[87] http://krskinvest.ru/en/information/947341?language=en&orig=/information/947341
[88] https://www.railtech.com/infrastructure/2019/08/30/kazakhstan-will-electrify-over-1000-kilometres-of-tracks/?gdpr=accept
[89] https://kazakh-tv.kz/en/view/plan-of-nation/page_201739_state-program-nurly-zhol-to-be-extended-until-2025
[90] https://astanatimes.com/2019/08/kazakhstan-france-expand-partnership-in-railways-development/
[91] https://astanatimes.com/2019/04/kazakhstan-unveils-new-measure-to-attract-foreign-investment/; https://www.oecd.org/daf/inv/investment-policy/kazakhstan-signs-oecd-agreement-to-strengthen-investment-climate.htm

trade, even though it remains around 100th place. Opinions on investor protection (57th) and on starting up a business (32nd) were down.

Doing Business Index - Russia							
Easy of (*)	2019	2018	Chg.		2019	2018	Chg.
Doing business	**31**	**35**	**-4**	Protecting investors	57	51	6
Starting a business	32	28	4	Paying taxes	53	52	1
Dealing with construction permits	48	115	-67	Trading across borders	99	100	-1
Registering property	12	12	0	Enforcing contracts	18	18	0
Getting credit	22	29	-7	Resolving insolvency	55	54	1

Note: (*) ranking out of 190 countries. The lower the number, the greater the efficiency. Source: World Bank

Doing Business Index - Comparison with BRIC and CIS countries		
	2019	2018
Brazil	109	125
China	46	78
India	77	100
Russia	**31**	**35**
Armenia	**41**	**47**
Azerbaijan	25	57
Belarus	**37**	**38**
Georgia	6	9
Kazakhstan	**28**	**36**
Kyrgyzstan	**70**	**77**
Moldova	47	44
Tajikistan	126	123
Turkmenistan	n.a.	n.a.
Ukraine	71	76
Uzbekistan	76	74

Note: ranking out of 190 countries. The lower the number, the greater the efficiency. Source: World Bank

3. Italy's Trade and FDIs with the EAEU[92]

3.1 Italy's trade with the EAEU countries

Wilma Vergi

Italy's trade with the countries of the Eurasian Economic Union amounted to approximately EUR 25Bn in 2018, up by about 9% compared to 2017. In 2013, trade amounted to EUR 36.2Bn, the highest level of the last decade, while in 2016 it reached EUR 20.1Bn, the lowest amount of the range considered. In 2018, imports were EUR 15.7Bn and recorded a recovery of 13.7% yoy, while exports (EUR 9.2Bn yoy) were up by 1.6% yoy. The recovery in energy prices was the main driver of this growth. In 2013, imports were EUR 24Bn and exports reached EUR 12.2Bn. These are the maximum values in both directions over the last decade.

The Eurasian Economic Union countries account for a significant portion of Italy's trade. Based on Istat figures, in 2018 approximately 3.7% of total imports by Italy were from countries of the Eurasian Economic Union and almost 2% of Italian exports were to these countries. In 2013, the shares were higher: 6.7% of total imports came from the EAEU countries and 3.1% of exports were destined to them, while in 2016 only 3.3% of imports came from the EAEU countries and the share of exports was 1.9%.

From the point of view of the EAEU, Italy represented a share of 4.8% in 2018, down from 2013 when it had accounted for 5.9%[93] and 2016 (4.9%).

Italy's trade with the Eurasian Economic Union countries

	2008	2013	2014	2015	2016	2017	2018	1H2019[1]
Import	18.9	24.0	19.9	16.9	12.2	13.8	15.7	8.4
Export	11.7	12.2	10.9	8.4	7.9	9.1	9.2	4.6
Balance	-7.2	-11.9	-9.0	-8.5	-4.3	-4.7	-6.5	-3.8
Trade	30.6	36.2	30.7	25.3	20.1	22.9	24.9	12.9
Chg. % y/y import	11.8	3.7	-17.3	-15.1	-27.7	13.2	13.7	7.0
Chg. % y/y export	10.9	6.9	-10.7	-22.8	-5.4	14.7	1.6	7.2
Chg. % y/y trade	11.5	4.7	-15.1	-17.9	-20.3	13.8	8.9	7.1
% of import with Italy	4.9	6.7	5.6	4.6	3.3	3.4	3.7	3.9
% of export with Italy	3.2	3.1	2.7	2.0	1.9	2.0	2.0	1.9
% of trade with Italy	4.1	4.8	4.1	3.2	2.6	2.7	2.8	2.9
Euro/USD	1.47	1.33	1.33	1.11	1.11	1.13	1.18	1.13
Chg % y/y Euro/USD	7.3	-9.7	0.0	-16.5	-0.3	2.1	4.6	-6.7

[1] Provisional figures January-June 2019. Source: Istat

In 1H19, imports grew by 7.0% yoy and exports by 7.2% yoy. Among the EAEU countries, imports from Russia, the predominant country in the Italian trade with the entire EAEU, increased (+5.5% yoy) while exports increased by 0.4% yoy. Both imports and exports with Kazakhstan grew strongly: exports increased by 65.7% yoy (attributable to the item "electric motors, generators and transformers", which recorded +575.6% yoy, going from EUR 45.9M to EUR 309.9M), while imports showed an increase of almost 20% yoy. Increases were also recorded with the other EAEU countries, even though the amounts involved were lower.

In 1H19 the weight of imports from EAEU countries with respect to Italy's total rose to 3.9%, while exports decreased slightly to 1.9%. The share of trade rose to 2.9% of the total, slightly recovering from 1H18 (2.7%, but 2.8% for the full year). This percentage had peaked in 2013, reaching 4.8%.

[92] This paragraph analyses the Italian side with Istat data expressed in euro.
[93] ITC Comtrade figures in USD.

Breakdown of Italy's trade with the EAEU countries 2018 – 1H19[1]

	2018		Chg % y/y	Chg % y/y	1H2019*		Chg % y/y	Chg % y/y
Euro M	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp
Russia	13829.7	7595.6	12.0	-4.5	7337.2	3596.9	5.5	0.4
Kazakhstan	1749.4	1088.1	30.2	72.8	974.7	674.9	19.7	65.7
Belarus	83.8	388.4	10.0	6.3	43.0	204.4	4.0	7.2
Armenia	42.6	139.8	28.2	19.2	23.6	79.3	21.7	20.4
Kyrgyzstan	1.4	22.6	-89.6	2.1	1.4	9.3	232.3	-9.4
EAEU	15706.8	9234.5	13.7	1.6	8379.9	4564.8	7.0	7.3
% of world	3.7	2.0			3.9	1.9		

[1] Provisional figures. Source: Istat

Italy's trade with the EAEU countries - Annual changes in EUR million – 2018 and 1H19[1]

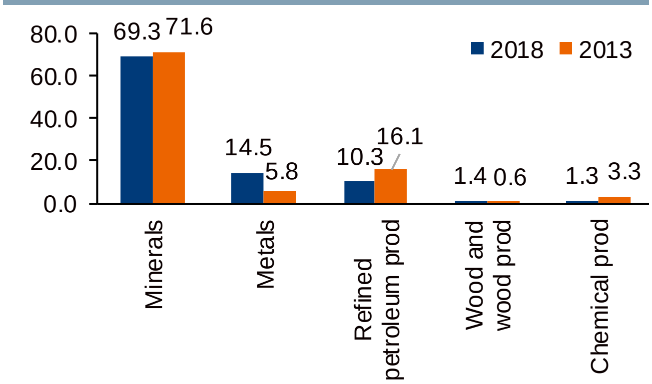
	2018				1H2019[1]			
	Imp	Exp	Trade	Balance	Imp	Exp	Trade	Balance
Russia	1481.1	-359.4	1121.7	-1840.4	383.0	14.5	397.4	-368.5
Kazakhstan	405.5	458.3	863.8	52.8	160.5	267.7	428.2	107.3
Belarus	7.6	22.9	30.5	15.3	1.6	13.8	98.2	12.1
Armenia	9.4	22.5	31.8	13.1	4.2	13.5	17.7	9.2
Kyrgyzstan	-12.3	0.5	-11.9	12.8	1.0	-1.0	0.0	-1.9
EAEU	1891.2	144.8	2036.0	-1746.4	550.2	308.5	941.4	-241.8

[1] Provisional figures. Source: Istat

Italian imports in 2018 were again mostly represented by mineral products and especially energy products (69% of the total), followed by metals (14.5%), refined petroleum products (10%), wood and wood products (1.4%) and chemical products (1.3%). Exports consisted of machinery (about 39% overall), particularly mechanical machinery (28.5%), textiles and clothing products (18%), electrical equipment (9%), metals (8%) and chemical products (7%).

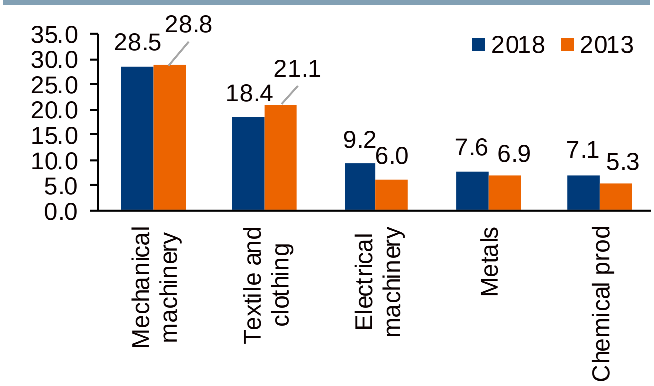
Among the various categories of traded goods, it is worth highlighting the relative importance of the EAEU countries for the supply of minerals, in particular energy mineral products and petroleum products: Italy imports about 23% of total minerals from the EAEU countries, whereas this percentage exceeds 16% as regards refined petroleum products. The EAEU countries also provide 5% of total imports of metals and metal products to Italy. As an outlet market, the Eurasian Economic Union countries purchase 3.2% of mechanical machinery exported from Italy, 3.2% of the total "Fashion" segment, 3.5% of electrical equipment, 2.2% of miscellaneous products (primarily consisting of furniture, furnishing products and jewelry), and 2.1% of chemical products.

Breakdown of imports by trade category: EAEU Italy - 2018 vs. 2013



Source: Istat

Breakdown of exports by trade category: EAEU Italy - 2018 vs. 2013



Source: Istat

Among the major import sectors, in the 2016/18 period the most significant positive changes were recorded in the sectors of minerals (+17.4% on an annual average basis, going from EUR 8.1Bn in 2016 to EUR 10.9Bn in 2018, against an average annual decrease of 17.7% in the 2013/16 period, from EUR 17.2Bn in 2013), refined petroleum products (+5.9% on an annual average basis in the last two years, from EUR 1.4Bn to EUR 1.6Bn, against an average annual decline of about 21% in the 2013/16 period, dropping from EUR 3.9Bn in 2013) and metals (+14% on an annual average basis in 2018/16, from EUR 1.8Bn in 2016 to EUR 2.3Bn in 2018, +9.5% on an annual average basis in 2013/16 from EUR 1.4Bn in 2013). On the other hand, in the years 2016/18, imports of some minor sectors fell, such as textiles and clothing and transport equipment.

Among exports, the electrical equipment sector has recovered with an average annual increase of 46% over the period 2016/18 (from EUR 439.6M in 2016 to EUR 846.0M in 2018), after an average annual decrease in 2013/16 of about 13% (from EUR 724.2M in 2013). Exports of mechanical machinery saw a recovery in the growth rate in the 2016/18 period (+9.9% on an annual average basis, from EUR 2.2Bn to EUR 2.6Bn), against an average annual weakening of 12.4% in 2013/16 (from EUR 3.5Bn in 2013). Similarly, exports of electronic equipment grew by an average of 22% per year in the 2016/18 period, compared to an average annual decrease of 12.6% in 2013/16. Food products recorded an increase of about 20% on average in 2016/18, reaching EUR 583M over the past year, from EUR 417.5M in 2016, after having fallen by 12% on an annual average basis in the 2013/16 period (EUR 653.7M in 2013). The same trend is seen for transport equipment, which improved their performance compared to the past, with an increase of 21.5% on an annual average basis in 2016/18, (-21.4% on an annual average basis previously), and textiles and clothing, with an increase of 4.5% on an annual average basis, reaching EUR 1.7Bn in 2018 from EUR 1.55Bn in 2016, after an annual average decrease of more than 13% in the 2013/16 period ("Fashion" sector exports equalled EUR 2.6Bn in 2013). On the other hand, the metals sector continued to lose ground (-4.0% on an annual average basis), falling to EUR 703M in 2018 from EUR 763M in 2016, after an average annual decline of 3% in the 2013/16 period (EUR 838M in 2013). In both periods considered, a decrease was also recorded for the miscellaneous products (-1% on an annual average basis, -13% on an annual average basis), to EUR 590M in 2018 from EUR 989M in 2013; rubber and plastic (-1.4% on an annual average basis, -9% on an annual average basis); wood and wood products (-9% on an annual average basis, -11% on an annual average basis).

In terms of contributions, in the 2016/18 period the most significant contributions to the growth of imports (+14.3% on an annual average basis) came from mining products (+11.5 pp) and metals (+2.0 pp), while transport equipment made a negative contribution (-0.6 pp). Among exports (up 8.3% on an annual average basis), positive contributors included: mechanical machinery (2.7 pp), electrical equipment (2.6 pp), food products (1.0 pp), textiles and clothing (0.9 pp) and transport equipment (0.8 pp), while metals made a negative contribution (-0.4 pp).

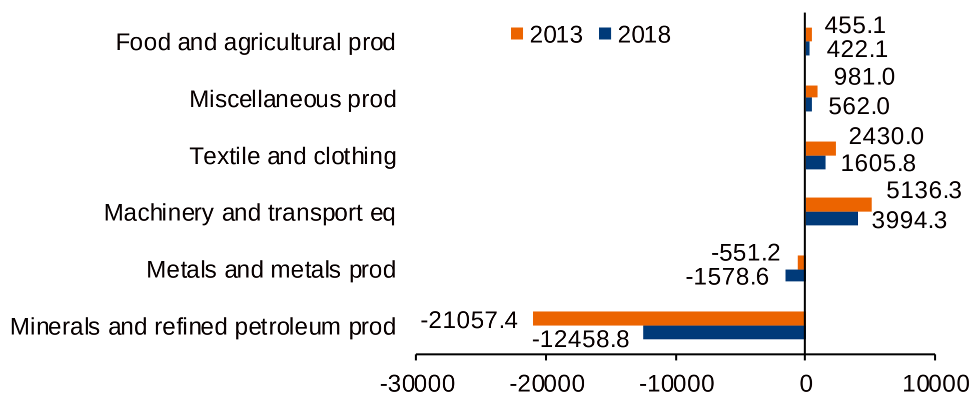
Breakdown by trade category: EAEU - 2018

Euro M	Import 2018	Export 2018	Chg % y/y Import 2016-13 m.y.	Chg % y/y Import 2018-16 m.y.	Chg % y/y Export 2016-13 m.y.	Chg % y/y Export 2018-16 m.y.
Agricultural products	148.2	49.4	4.2	6.4	-19.0	5.3
Mining products	10884.2	6.2	-17.7	17.4	-16.6	11.8
Food products	62.1	583.0	-23.5	6.8	-12.0	19.8
Textiles and clothing	89.8	1695.7	-7.7	-6.4	-13.1	4.5
Wood, paper and printing	213.4	128.0	6.6	12.8	-10.7	-8.9
Refined petroleum products	1615.7	34.9	-20.9	5.9	-2.8	17.3
Chemical products	205.5	657.8	-27.3	21.0	-1.4	3.4
Pharmaceutical products	3.5	284.9	-20.4	65.5	3.0	8.4
Rubber and plastic	66.4	413.7	54.9	0.9	-8.6	-1.4
Base metals and metal products	2281.5	702.9	9.5	13.9	-3.0	-4.0
Computers, electronic and optical equip	9.9	159.6	-10.1	30.5	-12.6	22.0
Electrical equipment	31.0	846.0	10.5	2.4	-13.1	46.2
Mechanical machinery	28.2	2628.0	9.1	10.1	-12.4	9.9
Transport equipment	11.9	441.6	29.3	-46.1	-21.4	21.5
Miscellaneous goods	27.8	589.9	12.6	70.1	-13.1	-0.9
Other manufacturing activities	27.8	13.0	-2.5	40.6	-16.6	-11.8
Total	15706.8	9234.5	-16.4	14.3	-11.6	8.3

Source: Istat

Sectoral balances show a reduction in the deficit generated by minerals and refined petroleum products in 2018 compared to 2013: from over EUR 21Bn to about EUR 12.5Bn last year, while metals almost tripled their negative balance, going from EUR 0.55Bn to EUR 1.6Bn in 2018. The surplus generated by the "Fashion" segment is decreasing, falling to EUR 1.6Bn from EUR 2.4Bn in 2013, as is that of machinery and transport equipment (from EUR 5.1Bn to EUR 4.0Bn).

Trade balances of the main product categories – 2013 and 2018 (EUR million)



Source: Istat

An upturn in the imports of metals (+21.7% yoy) was recorded in 1H19, while the recovery in the import of mineral products (+11.0% yoy) was smaller. Among the main import sectors, there was a decline in the segment of refined petroleum products, with a decrease of almost 37% yoy, followed by the chemical sector, with a decrease of about 4% yoy. Among the smaller sectors there were significant increases in imports of food products (+78% yoy), as well as those of rubber and plastics (+24% yoy) and electrical equipment (+80% yoy).

Almost all sectors of exports highlighted a positive performance, with the main category improvements coming from electrical machinery (+52% yoy) and mechanical machinery (+13% yoy). Conversely, electronic machinery was down (-21%). Positive dynamics were also recorded for metals (+7% yoy), transport equipment (+9% yoy), pharmaceutical products (+57% yoy) and, to a lesser extent, food products (+2%). Exports of textile and clothing products fell by 10% yoy, while exports of chemical products fell by 6% yoy.

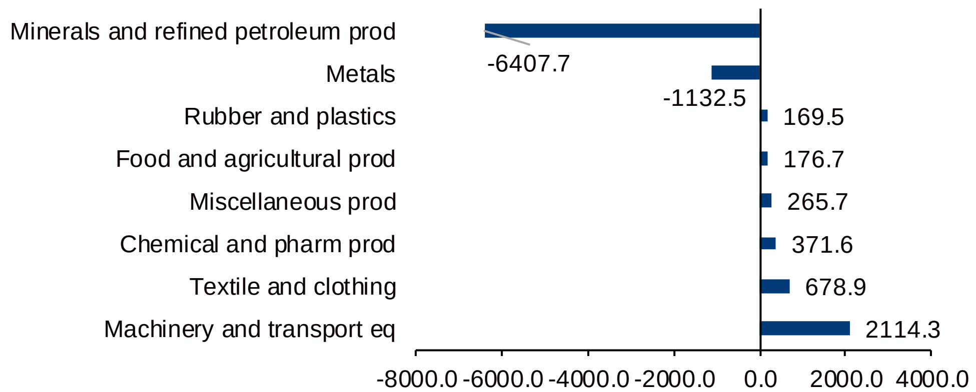
Breakdown by trade category: EAEU - 1H19[1]

Euro M	Imp 2019	Exp 2019	Chg y/y imp	Chg y/y exp
Agricultural products	72.6	36.9	-21.5	21.6
Mining products	5909.2	4.7	11.0	51.6
Food products	40.1	252.6	78.0	1.9
Textiles and clothing	40.4	719.3	-12.7	-9.6
Wood, paper and printing	107.8	61.6	3.9	-8.8
Refined petroleum products	514.7	11.4	-36.9	-50.5
Chemical products	112.6	302.2	-3.9	-6.4
Pharmaceutical products	2.1	184.2	30.9	56.9
Rubber and plastic	36.2	205.7	23.6	-2.4
Base metals and metal products	1472.5	340.0	21.7	7.0
Computers, electronic and optical equip	5.5	60.8	-7.5	-21.0
Electrical equipment	23.4	537.5	79.6	51.6
Mechanical machinery	13.2	1348.2	-10.6	12.9
Transport equipment	10.0	220.0	48.9	8.8
Miscellaneous goods	8.4	274.2	-47.9	-3.9
Other manufacturing activities	11.2	5.6	-10.5	-22.7
Total	8379.9	4564.8	7.0	7.2

[1] Provisional figures. Source: Istat

In the first part of 2019, the deficit relating to mineral products and refined petroleum products amounted to approximately EUR 6.4Bn, while that for metals amounted to EUR 1.1Bn. The net positive balance for machinery and transport equipment amounted to EUR 2.1Bn.

Trade balances of the main product categories - 1H19 (EUR million)1



1 Provisional figures. Source: Istat

Italy's trade with Russia

In 2018, Italy's trade with Russia showed a further expansion, following the lively performance of 2017, reaching EUR 21.4Bn. Imports (+12% yoy) reached EUR 13.8Bn, driven by the recovery in energy prices, while exports recorded a decrease of 4.5% yoy to EUR 7.6Bn. The value of trade with Russia is still far from the record highs of 2013 when trade stood at EUR 31Bn. Figures for 1H19 show trade of EUR 10.9Bn, with an increase of 3.8% yoy. Whereas imports amounted to EUR 7.3Bn (+5.5% yoy), exports increased by 0.4% yoy to EUR 3.6Bn.

The Italian balance in 2018 was EUR -6.2Bn, compared to EUR -4.4Bn in the previous year. The amount, considered in absolute values, has fallen sharply over the last decade: the highest level was posted in 2013 when the net balance had reached EUR -9.4Bn. In the first part of 2019, the deficit amounted to EUR 3.7Bn.

The share of trade with Russia over the Italian total was 2.4% both in 2018 and in the first part of 2019, up compared to the minimum level recorded in 2016 (2.2%), but down from the highest levels of the last decade (4.1% in 2013).

Italy's trade with Russia								
Euro Bn	2008	2013	2014	2015	2016	2017	2018	1H19[1]
Import	16.1	20.2	17.3	14.4	10.6	12.3	13.8	7.3
Export	10.5	10.8	9.5	7.1	6.7	8.0	7.6	3.6
Balance	-5.6	-9.4	-7.8	-7.3	-4.0	-4.4	-6.2	-3.7
Trade	26.6	31.0	26.8	21.5	17.3	20.3	21.4	10.9
Chg. % Import	10.1	10.2	-14.5	-16.6	-26.1	16.0	12.0	5.5
Chg.% export	9.5	7.9	-11.8	-25.4	-5.7	18.9	-4.5	0.4
Chg. % trade	9.9	9.4	-13.5	-19.7	-19.4	17.1	5.5	3.8
% of import with Italy	4.2	5.6	4.8	3.9	2.9	3.1	3.3	3.4
% of export with Italy	2.8	2.8	2.4	1.7	1.6	1.8	1.6	1.5
% of trade with Italy	3.5	4.1	3.5	2.7	2.2	2.4	2.4	2.4

[1] Provisional figures. Source: Istat

Details in the performance of the first six months of this year show that the acceleration of exports took place mostly in the April-June period (+2.3% yoy), after a first quarter in which Italian exports to Russia had recorded a decline of 1.6% yoy. On the other hand, imports in the second quarter only slowed down (+5.2% yoy), after recording an increase of 5.8% yoy in the January-March period.

In 2018, Italy mainly imported minerals, with a share of 69.0% (especially energy minerals, including natural gas, crude oil and anthracite), metals (14.2% including precious metals and finished products, aluminium and copper), refined petroleum products (11.5%), wood and wood products (1.5% including paper and cardboard, veneer sheets and wood-based panels) and chemical products (1.3% and in particular fertilizers and nitrogen compounds, plastic materials in primary forms).

Exports consist of 27.0% of mechanical machinery (in particular general and special purpose machines, machinery to process metals, for mines, quarries and worksites, pumps and compressors), 19.8% of textiles and clothing products (outerwear, footwear, miscellaneous clothing and accessories, and underwear), 7.8% of chemical products (toiletries: perfumes, cosmetics, soaps and the like, paints, varnishes and enamels, printing inks and synthetic adhesives, miscellaneous chemical products), 7.1% of miscellaneous goods (furniture, instruments and equipment for dentists) and 6.9% of food products (wine, tea, coffee and chocolate).

Breakdown by trade category (volumes, changes and balances) - 2018						
Euro M	Volume		Chg % y/y		Balance	
	Import	Export	Import	Export	2018	2017
Agricultural products	75.2	39.1	-10.7	-5.9	-36.2	-42.8
Mining products	9543.7	5.1	10.5	-8.4	-9538.6	-8632.3
Food products	59.2	521.9	46.3	8.5	462.7	440.4
Textiles and clothing	41.8	1506.9	-20.6	-3.7	1465.1	1512.7
Wood, paper and printing	203.3	112.2	13.0	-7.3	-91.1	-58.9
Refined petroleum products	1593.6	29.7	33.2	85.5	-1563.9	-1180.8
Chemical products	175.2	588.8	12.6	-2.0	413.5	445.2
Pharmaceutical products	3.5	274.0	34.9	-7.0	270.6	292.1
Rubber and plastic	64.5	378.8	17.9	-3.0	314.3	336.0
Base metals and metal products	1957.1	487.9	9.9	-4.1	-1469.1	-1272.8
Computers, electronic and optical equip	8.5	136.0	53.9	12.4	127.5	115.5
Electrical equipment	27.5	493.7	-2.2	-8.9	466.2	513.6
Mechanical machinery	23.4	2047.9	15.4	-11.5	2024.5	2294.1
Transport equipment	11.0	419.9	-86.3	9.8	408.9	301.9
Miscellaneous goods	17.5	541.3	113.5	-1.8	523.8	542.8
Other manufacturing activities	24.6	12.3	25.2	-35.9	-12.4	-0.5
Total	13829.7	7595.6	12.0	-4.5	-6234.1	-4393.7

Source: Istat

The breakdown of the net balances by category shows a deficit for Italy in 2018 with regard to agricultural products (EUR 36M), mineral products (EUR 9.5Bn), wood, paper and printing (EUR 91M), refined petroleum products (EUR 1.6Bn), metals and metal products (EUR 1.5Bn). A surplus is recorded for food products (approximately EUR 463M), textiles and clothing (EUR 1.5Bn), chemical products (EUR 413.5M) and pharmaceutical products (EUR 271M), rubber and plastics (EUR 314M), computers and electronic equipment (EUR 127.5M), electrical appliances (EUR 466M), mechanical machinery (EUR 2.0Bn), transport equipment (EUR 409M) and miscellaneous goods (EUR 524M).

In 1H19, there was a substantial consolidation in the value of exports to Russia (+0.4% yoy), thanks mainly to an increase in exports of mechanical machinery (+14% yoy), transport equipment (+4% yoy), pharmaceutical products (+58.5% yoy) and metals (+6.3% yoy), as opposed to the negative trend of electrical machinery (-23.5% yoy) and electronic machinery (-27% yoy), textiles and clothing (-10% yoy) and chemical products (-7% yoy). Sales of miscellaneous goods to Russia fell by almost 5% yoy in the first half of this year, due to a drop in furniture exports, which was not offset by the increase in the jewelry and medical supplies sectors.

Among imports, worth mentioning is an increase in minerals (+7% yoy), as well as in metals (+32% yoy), while imports of refined petroleum products fell (-37% yoy).

Breakdown by trade category (volumes, changes and balances) – 1H19[1]						
Euro M	Volume		Chg % y/y		Balance	
	Import	Export	Import	Export	2019[1]	2018
Agricultural products	42.7	29.5	-8.9	14.6	-13.3	-21.2
Mining products	5103.2	3.1	7.1	25.3	-5100.1	-4764.2
Food products	37.7	223.1	75.2	0.4	185.5	200.8
Textiles and clothing	17.0	633.1	-26.5	-10.2	616.0	681.9
Wood, paper and printing	100.9	53.7	2.0	-10.1	-47.3	-39.3
Refined petroleum products	513.8	8.2	-36.6	-60.8	-505.6	-789.4
Chemical products	98.7	267.9	-2.7	-6.9	169.2	186.2
Pharmaceutical products	2.1	178.7	30.5	58.5	176.7	111.2
Rubber and plastic	35.0	188.1	22.7	-2.4	153.1	164.2
Base metals and metal products	1322.5	248.7	32.3	6.3	-1073.7	-765.6
Computers, electronic and optical equip	4.7	50.4	-11.4	-27.3	45.7	64.0
Electrical equipment	23.1	206.5	111.1	-23.5	183.4	259.1
Mechanical machinery	12.6	1054.0	17.2	14.4	1041.4	910.2
Transport equipment	9.9	196.2	57.4	3.6	186.2	183.0
Miscellaneous goods	4.9	250.4	-57.5	-4.6	245.5	250.9
Other manufacturing activities	8.3	5.3	-22.1	-25.3	-3.1	-3.6
Total	7337.2	3596.9	5.5	0.4	-3740.3	-3371.8

[1] Provisional figures. Source: Istat

3.2 Italian FDIs in the EAEU countries

According to the latest figures of the Italian Ministry of Economic Development, the stock of Italian FDI in the Eurasian Economic Union countries in 2017 was about EUR 13Bn, the majority of which was invested in Russia (EUR 11.5Bn).

Italian FDI in the Eurasian Economic Union – 2011-2017 flows and 2017 stock								
Euro M	2011	2012	2013	2014	2015	2016	2017	Stock 2017
Belarus	-6	-24	110	228	692	-10	-84	969
Kazakhstan	76	155	-24	77	267	51	-30	796
Armenia	30	76	-77	20	38	-44	-27	107.5
Kyrgyzstan	0	0	0.2	-0.1	-0.2	-0.1	1.6	0.2
Russia	1198	2322	-409	998	894	2499	647	11460
EAEU	1298	2529	-400	1323	1891	2496	508	13333

Source: Italian Ministry of Economic Development

There are several Italian companies operating in the EAEU. Based on figures from the Italian Ministry of Foreign Affairs, these amount to approximately 850 companies, operating mainly in the energy, agriculture and food, fashion, telecommunications and car industries. Among these, 12 are located in Belarus, 740 in Russia, 87 in Kazakhstan and 6 in Armenia.

Leading Italian companies include:

- ENI, ENEL, Prysmian and Saipem for energy;
- Finmeccanica, Telespazio, Agusta Westland and Alenia Aermacchi for the aeronautical industry;
- Ariston, Indesit, Merloni, Candy, Natuzzi and De Longhi for furniture and domestic appliances;
- Pirelli and Technimont for the rubber and plastic sectors;
- Astaldi and Salini Impregilo for the infrastructure sector;
- Campari, Colussi, Ferrero, Parmalat, Perfetti, Marr, De Cecco and Cremonini for the food sector;
- Camozzi, Danieli, Reggiani, Techint and Gruppo Marcegaglia for mechanical engineering and metalworking;
- Fiat and Iveco for transport equipment;
- Italcementi, Mapei, Marazzi and Buzzi Unicem in construction materials;
- Menarini and Esaote for the chemical and pharmaceutical industries;

- Telecom for communications;
- Corneliani, Luxottica and Motivi for the fashion sector:
- The banks include UBI Banca, Intesa Sanpaolo, MPS, ICCREA, BPI and UBAE[94].

Last year, important agreements were signed between Italy and Russia, during meetings between the major governmental authorities of the two countries. In October 2018 (23-24), Prime Minister Conte made a state visit to President Putin in Russia. During the visit, agreements were signed for EUR 1.5Bn[95].

In detail:

- Enel has extended the agreement, set to expire in 2023, for the supply of electricity to Russian Railways (RZhD), for a value of about EUR 1Bn[96];
- Barilla and the Moscow Regional Authority signed a Memorandum of Understanding (MoU) to purchase land to build a production plant, complete with mill and warehouse, as well as a railway connection for logistics connections, for a total investment of EUR 200M[97];
- Pietro Fiorentini and Rosneft ratified an industrial cooperation agreement to build plants used in the energy industry;
- Techint and the Government of the Kaluga Region signed a MoU to build a hospital;
- Pirelli Tyre Russia and Rostec committed to doubling the Voronezh plant, for an investment of EUR 100M over three years[98];
- Ferretti signed an agreement with the Russian Direct Investment Fund (RDIF) for the establishment of a production joint venture in the civil shipbuilding industry, in particular the construction of vessels specialised in search and rescue operations, patrolling, epidemiological health inspections, and fighting crime and terrorism;
- Adler and the Italian Strategic Fund signed an agreement with RDIF to build a plant for motor vehicle components in Russia;
- Fornovo and the Russian company Kamaz will collaborate in the production of special compressors for lorries commissioned by Gazprom;
- the Italian company Bio.On, which deals with biotechnology, will collaborate on the construction of a plant for the production of biodegradable plastics with the Russian company Taif JSC[99] in the Republic of Tatarstan. Bio.On will also transfer to Taif JSC the licence to use the technology for the production of PHA bioplastics. Bio.On's investment amounts to a total of EUR 17.6M (EUR 12M for the plant and EUR 5.6M for the license), while Taif JSC will invest EUR 90M. The plant is expected to become operational within the next year;
- Coparm, a leading Italian company in the design and construction of plants for the treatment and disposal of waste, will supply Chisty Gorod with equipment to recycle, process and dispose of waste;

[94] Figures http://www.infomercatiesteri.it/paesi.php as at 29 July 2019

[95] http://www.parlamento.it/application/xmanager/projects/parlamento/file/repository/affariinternazionali/osservatorio/approfondimenti/PI0144_App.pdf

[96] https://www.enel.com/media/press/d/2018/10/enel-ceo-signs-agreement-with-russian-railways-on-strategic-cooperation

[97] https://www.ice.it/it/news/notizie-dal-mondo/117875

[98] http://rusautonews.com/2018/10/29/rostec-and-pirelli-tyre-russia-will-invest-e100-million-in-the-expansion/

[99] http://www.bio-on.it/immagini/comunicati-finanziari/CS_66_bio-on_taif_ITA.pdf

- Confindustria signed a partnership agreement with Opora Russia, an association of local businesses;
- Mikro Kapital, the fund management company for loans to small businesses, and the Russian SME Association undertook to set up a joint fund to finance Russian SME projects;
- the Italian Ministry for the Environment, Land and Sea and the Russian Ministry for Natural Resources and Ecology signed a MoU for environmental protection and sustainable development.

Subsequently, in January 2019, SACE SIMEST (Cassa Depositi e Prestiti Group) and Confindustria Russia signed an agreement[100] to strengthen the strategic cooperation of Italian businesses with Russian partners. The aim is to encourage investment, open and develop production facilities, the commercial promotion of Italian products and the participation, including through joint ventures or consortia, of Italian companies in international calls for tenders, fairs and events.

Finally, in July 2019, Cassa Depositi e Prestiti and RDIF[101] signed an agreement to promote economic cooperation between the two countries, through joint investments and loans aimed at supporting businesses that intend to operate or are already present in Russia, in particular in favour of SMEs. It is estimated that the total amount of investments and loans to be carried out under this agreement may exceed EUR 300M over the next three years.

[100] https://www.unindustriacalabria.it/wp-content/uploads/2019/01/Comunicato-stampa-CR-Sace-4.pdf
[101] https://www.cdp.it/resources/cms/documents/Comunicato%20n.46%20del%2004%2007%202019_MOU%20CDp%20RDIF.pdf;
https://www.cdp.it/sitointernet/page/it/cdp_e_rdif_siglano_unintesa_per_promuovere_la_cooperazione_economica_tra_italia_e_russia?contentId=CSA24560

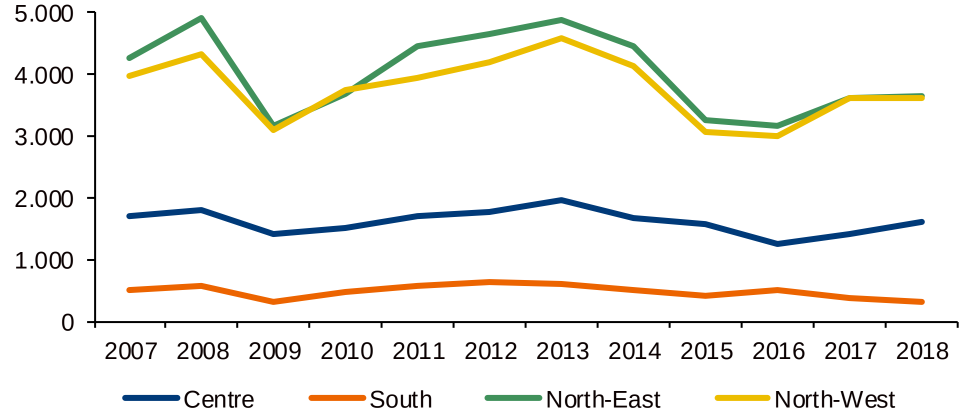
4. Exports from Italian regions and districts towards the EAEU

4.1 Export trends in recent years

Giovanni Foresti

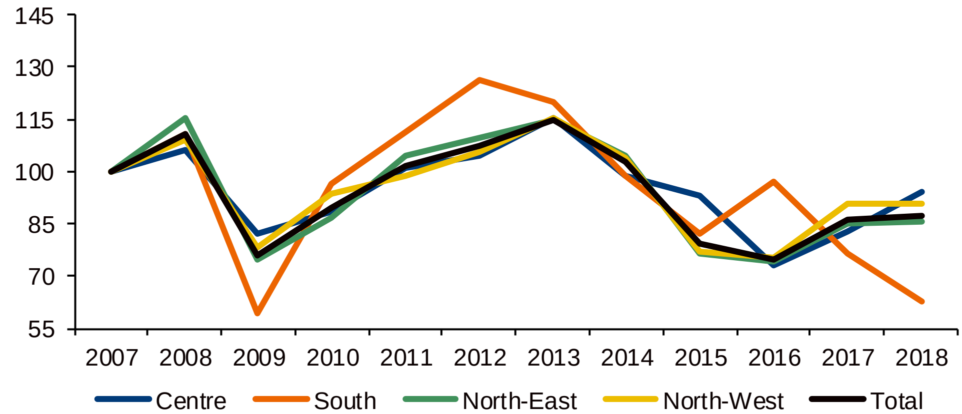
After the collapse in 2009, Italian exports towards the Eurasian Economic Union strengthened in the following years, reaching a new all-time peak in the South in 2012 and for all other geographical areas in 2013, with the exception of the North-East (which nevertheless came close to 2008 levels).

Trend of Italian exports towards EAEU countries, broken down by geographic areas (EUR million)



Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

Trend of Italian exports towards EAEU countries, broken down by geographic areas (2007=100)



Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

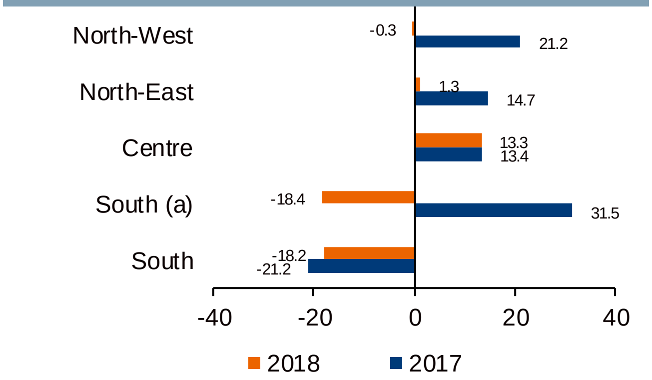
Subsequently, the flows towards the EAEU, and especially towards Russia, collapsed between 2013 and 2015, driven by the sharp fall in energy commodity prices, the depreciation of the rouble and weak domestic demand. These factors were compounded by the economic repercussions of the Russia-Ukraine crisis. With the exception of the South, exports shrank further in 2016. However, unlike the results in previous years, the losses this time were not widespread, affecting only specific sectors such as mechanical engineering, home and housing products, electronics and electrical engineering. The other sectors, conversely, showed signs of a turnaround across a wide range of geographical areas: agricultural and food products, clothing, textiles, chemicals, metalworking, rubber and plastics, paper products and the automotive industry.

Over the four-year period ranging from 2013 to 2016, the track record was decidedly unfavourable in three out of the four geographical areas: between 2013 and 2016, exports to the EAEU fell by 36.7% in Central Italy, by 35.6% in the North-East and by 34.8% in the North-West.

A more modest decline was felt in Southern Italy (-19%) as a result of the positive results achieved in 2016. However, excluding the exceptional flow of pipes, hollow profiles, cables and related fittings made of steel towards Kazakhstan, even this area exports experienced a significant reduction, equal to 51%.

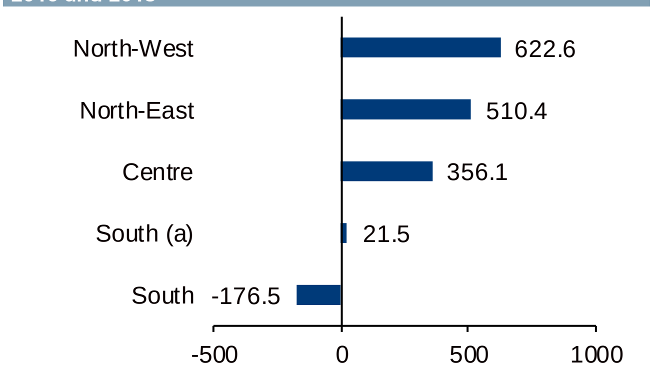
A reversal in the trend of flows headed towards EAEU countries was observed in the two-year period of 2017-18: Italian exports rose by 14.7%, to then slow down to +1.6% in 2018. In the period of observation, three out of the four geographical areas recorded a significant increase in the export flows, with peaks of 28.5% in the Centre (steadily growing in both 2017 and 2018) and improvements of 20.8% in the North-West and 16.2% in the North-East respectively, achieved exclusively with the boost in sales in 2017. Only Southern Italy endured a fall in export flows to the Eurasian Economic Union, following the disappearance of the exceptional items that between 2015 and 2016 boosted exports to Kazakhstan: pipes, hollow profiles, cables and related fittings made of steel from Molise and Abruzzo. Excluding this item, also Southern Italy saw an increase in sales to the Union (+7.3%), albeit to a lower extent.

Italian exports towards the Eurasian Economic Union, broken down by geographical area: % change in 2017 and 2018



Note (a): metalworking is not included in the exports from the South of Italy. Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

Italian exports towards the Eurasian Economic Union, broken down by geographical area: change in EUR million between 2016 and 2018



Note (a): metalworking is not included in the exports from the South of Italy. Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

The cross-referencing of figures across geographical areas, together with those of the various sectors, shows a fairly widespread improvement. Particularly noteworthy is the intensity of the increase in exports of mechanical, electrical engineering and aerospace products, growing in all four geographical areas. As regards electrical engineering, the Centre recorded very good results thanks to the performance achieved by Tuscany. Other sectors also recorded an increase in export values in all areas: these include food, electronics, chemical products and beverages. A positive performance was also achieved in clothing, pharmaceuticals, household appliances, jewellery and automotive: in these sectors only the South of Italy experienced a decrease in the values exported to the Union.

In the other sectors, the trend was less homogeneous among the various territorial divisions: the North-West recorded an increase in exports of metal products, tobacco, leather, rubber and plastic and metalworking; in the latter three sectors, the North-East also stood out, while the Centre also stood out for cosmetics. Among the sectors that closed with an overall reduction in sales there are the shipbuilding industry in the North-East (suffering from the completion of a job order in 2016), furniture in the North and in the Centre, construction products and materials and wood products especially in the North-East (and in Veneto in particular), textiles and paper products in the North-West.

Southern Italy is the only geographical area to show good results in a limited number of sectors: among these, mechanics, food and beverages, electronics, electrical engineering and metal products experienced a good increase in exports, but not enough to offset the reduction in pharmaceutical sales and the easing of extraordinary metallurgy flows in the two-year period 2015-16.

Evolution of exports to the EAEU: difference in EUR million between 2016 and 2018

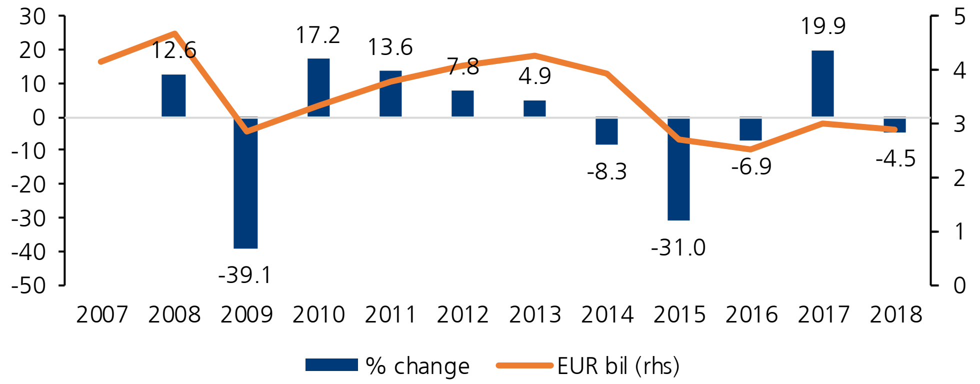
	North-West	North-East	Centre	South
Total, of which:	622.6	510.4	356.1	-176.5
Mechanical engineering	161.2	243.8	9.6	17.8
Electrical equipment	25.0	99.9	238.7	4.6
Aerospace	84.0	0.7	60.2	1.9
Wearing apparel	64.3	69.9	16.1	-3.8
Food products	28.9	29.6	8.8	5.6
Metal products	56.9	-0.2	0.7	4.6
Tobacco	56.4	0.0	-0.2	0.0
Electronic products	16.4	19.5	6.6	6.6
Pharmaceutical products	8.1	23.7	27.5	-17.7
Chemicals	26.8	6.4	4.9	0.9
Beverages	21.4	10.5	1.6	2.6
Domestic appliances	3.6	30.9	2.1	-0.5
Jewellery	20.6	3.3	8.5	-0.1
Automotive	32.2	8.1	0.3	-12.9
Leather goods	24.6	9.0	-10.7	-1.2
Rubber and plastic products	9.7	13.9	-3.3	-0.3
Cosmetics	-11.9	4.5	11.4	-0.1
Paper products	-11.8	-0.6	3.0	-0.1
Products of wood	-6.8	-10.3	-0.3	-1.1
Textiles	-18.5	-1.6	-5.0	0.3
Constr. products and materials	-2.1	-26.9	-3.0	-0.9
Furniture	-10.9	-14.3	-11.6	1.2
Shipbuilding	-2.0	-35.3	0.3	0.0
Basic metals	63.5	11.5	0.1	-198.0

Note: only areas where the change in exports in at least one of the geographical areas was higher/lower than EUR +9.5/-9.5M are displayed. Green denotes the sectors with an increase in exports exceeding EUR 10M; orange denotes the sectors with a reduction in exports exceeding EUR -10M.

Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

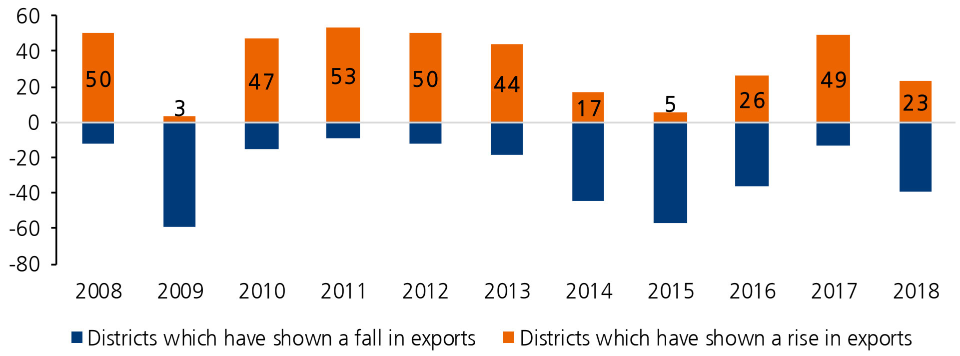
The signs of recovery that have emerged at national level also affected the districts in 2017 (+19.9% export to the EAEU), but not in 2018 when district exports fell by 4.5%. Overall, exports in the 157 districts monitored by Intesa Sanpaolo grew by 14.4% over the two-year period. The slowdown emerging in 2018 is clear also when looking at the number of districts (among those that in 2018 exported products worth more than EUR 10M to the Union) that ended the year with a growth in exports, dropping to 23 from 49 in 2017.

Trend in district exports to the Eurasian Economic Union (% change at current prices)



Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

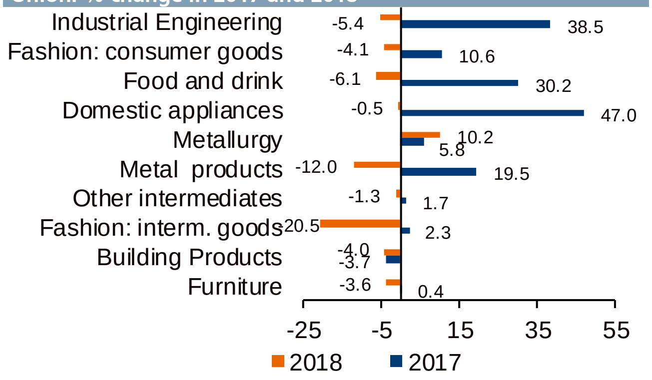
Number of districts showing growth in exports towards the Eurasian Economic Union



Note: only the 62 districts that exported more than EUR 10M to EAEU countries in 2018 were considered. Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

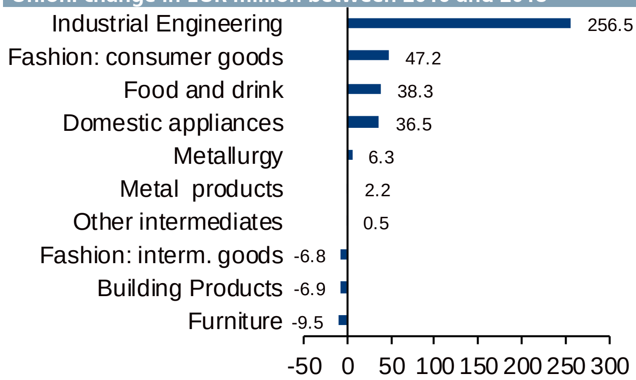
The 2018 fall back affected most of the district supply chains, with the sole exception of metalworking. Overall, the two-year period ended brilliantly for the districts specialising in mechanics, which recorded a growth of 31% in exports, equal to an increase of EUR 256.5M, compared to 2016. Export flows of food and beverages (+22%) and household appliances (+46%) were also particularly brilliant. There was also good growth in the value of district exports of fashion-related consumer goods (increase of EUR 47.2M, equal to +6%). On the contrary, as in the case of Italy overall, the manufacturers of consumer goods in the fashion industry, construction products and materials and furniture experienced sales reductions.

Exports from Italian districts towards the Eurasian Economic Union: % change in 2017 and 2018



Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

Exports from Italian districts towards the Eurasian Economic Union: change in EUR million between 2016 and 2018



Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

4.2 Export trend in the first semester of 2019

2019 began with a new increase in Italian exports to the countries in the Eurasian Economic Union, up 7.2% in the first half of the year compared with the same period of the previous year, equal to an increase of EUR 308.5M. Particularly noteworthy was the progress made in Kazakhstan (+65.7%, equal to an increase of EUR 267.7M), where the North-West (EUR +33.1M compared to the same period of the previous year) and, in particular, the Centre (EUR +262.6M) stood out. These results are attributable to Lombardy and Tuscany: Lombard flows almost exclusively concerned metalworking (EUR +11.3M) and mechanical products (EUR +19.6M), while those of Tuscany are mainly attributable to electrical engineering (EUR +262.9M) and mechanics (EUR +9.7M). Exports to the Russian Federation also returned to slightly positive territory (+0.4%; EUR +14.5M), thanks to the crucial contribution from the Centre (EUR +86.3M), whose progress, relying on the excellent results achieved by the pharmaceuticals (EUR +41.4M) and aerospace (EUR +44.9M) sectors in Lazio, more than offset the shrinkage suffered by other geographical areas.

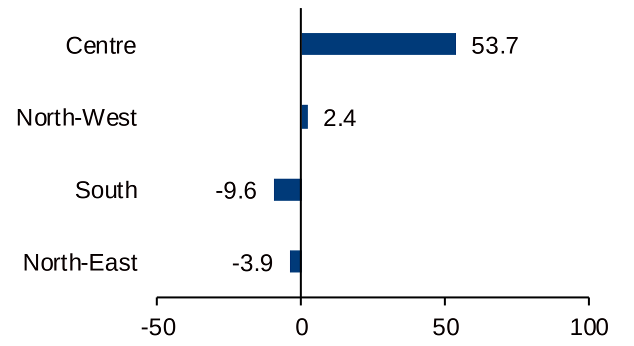
Trend of exports towards the EAEU broken down by geographical area: difference in EUR million between 1H18 and 1H19, unless stated otherwise

	Armenia	Belarus	Russian Federation	Kazakhstan	Kyrgyzstan	Total	% change on annual basis
North-East	9.8	-17.1	-36.2	-23.9	-0.3	-67.7	-3.9
South	0.3	-4.7	-7.5	-4.1	0.2	-15.8	-9.6
North-West	1.9	36.0	-31.6	33.1	0.2	39.6	2.4
Centre	1.3	-0.3	86.3	262.6	-1.1	348.7	53.7
Total	13.5	13.8	14.5	267.7	-1.0	308.5	7.2
Total: % change on annual basis	20.4	7.2	0.4	65.7	-9.4	7.2	

Note: the crossings in green/orange are those where there was an increase/decrease. Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

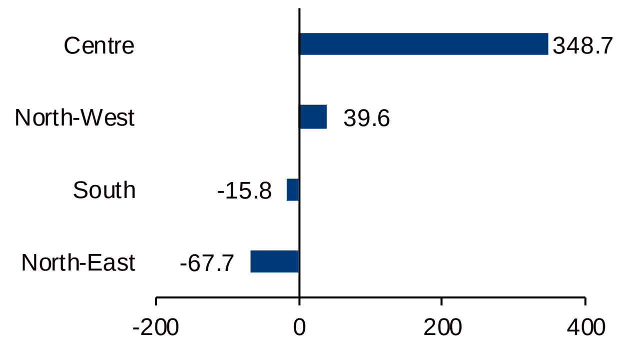
Overall, only two out of four geographical areas made progress in 1H19: the good results achieved by the Centre and North-West were in fact partly offset by the reductions recorded by the South and North-East.

Italian exports towards the Eurasian Economic Union, broken down by geographical area: % change in 1H19 on an annual basis



Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

Italian exports to the Eurasian Economic Union, broken down by geographical area: change in EUR million between 1H18 and 1H19



Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

The crossings between sectors/geographical areas highlight a very heterogeneous picture, with sectors displaying a general or near-general decline (fashion, furniture, chemicals and electronics) and sectors with a widespread growth (pharmaceuticals and food).

In the rest of the sectors, different dynamics were observed in the geographical areas: in the automotive sector, for example, the South and North-East recorded a rise in exports towards EAEU countries, while the North-West suffered a drop in sales. In the Aerospace sector, the excellent results achieved by the Centre stand out, even though they were almost completely offset by the setbacks suffered by the North-West. The following sectors showed widespread growth and stand out: pharmaceuticals, food, mechanics (particularly in the North-West, but also in the Centre) and electrical engineering. In particular, the Tuscan electrical engineering sector stood out.

Trend in exports towards EAEU countries in 1H19: difference in EUR million compared to the corresponding period in 2018

	North-East	South	North-West	Centre
Total, of which:	-67.7	-15.8	39.6	348.7
Leather goods	-12.3	-2.1	-4.1	-23.3
Wearing apparel	-10.1	0.5	-8.0	-6.8
Chemicals	2.7	-3.8	-13.4	-5.5
Furniture	-8.1	-0.5	-2.0	-6.9
Electronic products	-9.5	-5.2	-4.9	3.4
Tobacco	10.1	0.0	-22.5	0.1
Refined petroleum products	-0.2	-12.6	0.4	0.8
Textiles	0.5	-0.3	-6.8	-2.0
Paper products	0.3	-0.2	-4.1	-3.0
Constr. products and materials	-4.9	0.5	-2.0	0.5
Domestic appliances	-8.8	0.2	3.9	4.6
Rubber and plastic products	3.1	0.4	-4.9	1.7
Automotive	16.7	4.2	-20.1	0.6
Medical devices/Glasses	4.6	-0.4	1.2	-0.4
Metal products	5.5	0.0	2.0	-2.3
Jewellery	4.0	0.1	-5.1	6.5
Shipbuilding	6.9	0.0	-0.4	-0.1
Beverages	3.2	-1.5	6.3	-0.4
Aerospace	-1.0	-0.6	-34.8	45.0
Food products	-1.5	2.9	5.4	2.5
Basic metals	-5.6	0.2	23.7	-1.7
Pharmaceutical products	4.4	6.4	7.7	48.1
Mechanical engineering	-9.3	-5.1	139.2	25.3
Electrical equipment	-64.3	1.3	-15.3	261.6

Note: only areas where the overall change in exports in at least one of the geographical areas was higher/lower than EUR +5/-5M are displayed. Green denotes the sectors with an increase in exports exceeding EUR 8M; orange denotes the sectors with a reduction in exports exceeding EUR -8M.

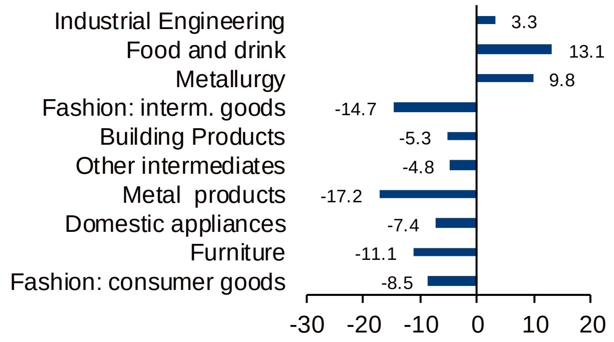
Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

It is not surprising that, at district level, export flows fell by 2.6% in 1H19 (EUR -35.7M). Among the sectors that have also suffered sales reductions at Italian level, district specialisations such as fashion and furniture stand out, while among those that have grown most there is electrical engineering, an industry in which are not specialized the 157 districts monitored by Intesa Sanpaolo.

In fact, the overall performance of the districts' exports was affected above all by the reduction in sales of the districts specialised in consumer goods in the fashion (EUR -34M) and furniture (EUR -15.6M) industries. District manufacturers of household appliances, metal products, other intermediate products, construction products and materials and consumer goods in the fashion industry also closed the first six months in negative territory. These setbacks were not offset by the growing exports of metalworking, food and beverages and mechanics.

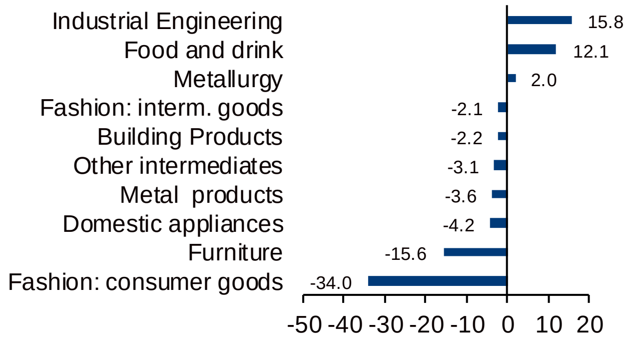
The context is also heterogeneous within the industrial sectors: during the first six months of 2019 and among the districts that in 2018 exported more than EUR 10M to the EAEU, 37 districts recorded a downward trend in exports on an annual basis and 25 districts recorded an increase. Among the best performing districts in terms of increase in the value of exports, many are specialised in mechanics: above all, the precision instrument engineering districts in Milan and Monza and in Varese stand out, as well as some agricultural and food products districts (coffee, confectionery and chocolate from the Turin area) and fashion industry districts (the jewellery sector in Arezzo). The Food machinery district of Parma and the Footwear district in Fermo instead are among the districts facing the most difficulties in the EAEU markets.

Exports from Italian districts towards the Eurasian Economic Union: % change on an annual basis in 1H19



Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

Exports from Italian districts towards the Eurasian Economic Union: change in EUR million between 1H18 and 1H19



Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

District exports to the Eurasian Economic Union: 15 districts with the highest increase in the value of exports in 1H 2019

	EUR M 1H 19	1H 2019: change vs 1H18 %	1H 2019: change vs 1H18 EUR M
Milan and Monza instrument engineering	109.7	15.4	14.6
Varese instrument engineering	19.8	88.4	9.3
Turin coffee, confectionery and chocolate	28.2	45.1	8.8
Bologna Packaging machinery	59.1	12.3	6.5
Arezzo Jewellery	10.5	135.9	6.1
Piacenza machine tools	7.5	417.0	6.0
Turin machine tools and industrial robots	11.7	102.5	5.9
Cusio-Valsesia taps and valves	17.9	46.4	5.7
Lucca machinery for paperboard production	11.4	98.4	5.7
Bergamo instrumental engineering	24.3	26.6	5.1
Reggio Emilia mechatronics	45.3	10.6	4.3
Fabriano hoods and domestic appliances	23.0	22.5	4.2
Vicenza Jewellery	7.0	134.8	4.0
Brescia industrial engineering	12.8	37.3	3.5
Rimini machinery for wood products	7.1	57.6	2.6

Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

District exports to the Eurasian Economic Union: 15 districts with the greatest fall in the value of exports in 1H 2019

	EUR M 1H19	1H19: change vs 1H18 %	1H19: change vs 1H18 EUR M
Schio-Thiene-Valdagno textiles and apparel	22.5	-12.3	-3.2
Brianza wood and furniture	44.0	-7.7	-3.7
Valenza Jewellery	11.4	-25.6	-3.9
San Mauro Pascoli shoes	15.4	-20.7	-4.0
Pesaro kitchen furniture	9.6	-30.5	-4.2
Tolentino leather goods	5.7	-44.2	-4.5
Rimini clothing	37.2	-10.9	-4.5
Padua thermomechanical sector	11.9	-28.5	-4.7
Lumezzane taps, valves and pans	37.6	-12.4	-5.3
Manzano chairs and tables	5.5	-50.4	-5.6
Trento mechatronics	12.2	-41.0	-8.5
Inox Valley domestic appliances	31.3	-21.7	-8.6
Basso mantovano industrial engineering	17.5	-33.4	-8.8
Fermo shoes	55.2	-21.6	-15.2
Parma food machinery	7.5	-72.9	-20.1

Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

5. The economy of the EAEU

5.1 Growth profile and financial position of the region

Giancarlo Frigoli

The Eurasian Economic Union (EAEU), which currently includes Russia, Kazakhstan, Belarus, Armenia and Kyrgyzstan, is a very extensive economic area (more than 20 million Km^2, equal to 13% of the Earth's land above sea level) in a strategic geographical position due to the connection between the markets of Europe and those of Asia. The EAEU countries have 2.4% of the world population and a weight in the global economy equal to 3.66% (considering the Gross Domestic Product at Purchasing Power Parity).

Eurasian Economic Union: some benchmark statistics

	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia	EAEU
GDP (USD bn.)2018	12.4	59.6	170.5	8.1	1,631	1,881.3
GDP (share world at PPP) 2018	0.02	0.14	0.38	0.02	3.1	3.66
Population (M)	3.0	9.5	18.5	6.4	144	181
GDP (per capita at PPP USD) 2018	10,176	20,003	27,550	3,884	29,267	Ns
Land area (M sq. Km)	30	208	2,717	200	17,098	20,253

Note: Ns=Not significant Source: EIU, National Statistics

The two largest economies of the Union, Kazakhstan and Russia, are rich in commodities (mainly hydrocarbons but also metals), have a modest public and foreign debt in relation to GDP and own substantial currency reserves and resources set aside in Sovereign Funds. These strengths have allowed the two countries to overcome adverse circumstances in recent years, linked, as far as Russia is concerned, to the sanctions introduced by the Western countries for the Ukraine issue; as regards Kazakhstan, to the banking real estate crisis in the second half of the 2000 – 2010 period; for both countries, to the unfavourable phases of the commodity cycle.

Eurasian Economic Union: financial position

	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia
State balance/GDP 2016-18	-4.1	0.1	-4.1	-3.1	-0.8
Budget debt/GDP 2016 -18	48.0	52.5	20.4	58.0	15.2
Current balance/GD 2016-18	-5.0	-1.8	-3.2	-8.8	3.7
Foreign debt/GDP 2016-18	91.2	72.4	105	92.0	34.0
FX reserve/External funding 2019F	0.5	0.3	1.9	0.9	23.9
Reserve cover ratio (months) 2018	4.1	2.1	8.2	4.7	16.4
Rating (Fitch)	B+/P	B/S	BBB-	B2(*)	BBB

Notes: (*) Fitch, (**) Moody's, F (Forecast); Source: IMF, EIU, Thomson Reuters

Armenia, Belarus and Kyrgyzstan, which have a modest economic weight in the Union, are strongly influenced by factors over which the government authorities have limited control, given the high weight of the agricultural sector and the dependence of their economies on external developments, in particular the commodity cycle and the conditions of the Russian economy. In these three countries, great importance is given to the remittances from migrant workers in Russia, the supply of hydrocarbons at subsidised prices, the financial transfers in the form of donations and loans they receive mostly from Russia and the trend of exports to Russia. Belarus, Armenia and Kyrgyzstan have vulnerable fiscal and external positions in common, due to the high level of public and foreign debt in relation to GDP and a limited domestic financing capacity. In some circumstances, this has resulted in pressure on the exchange rate and crisis in the balance of payments, which were faced through both monetary and fiscal restrictive measures and thanks to the support of the Eurasian Fund for Stabilisation and Development. For these reasons, the performance of these economies appears to be characterised by high volatility. However, the impact on the EAEU is modest, given their low weight.

The EAEU countries occupy intermediate positions in the rankings of business conditions and competitiveness in comparison with the advanced economies and the emerging economies as a whole; however, they record a lower growth rate overall.

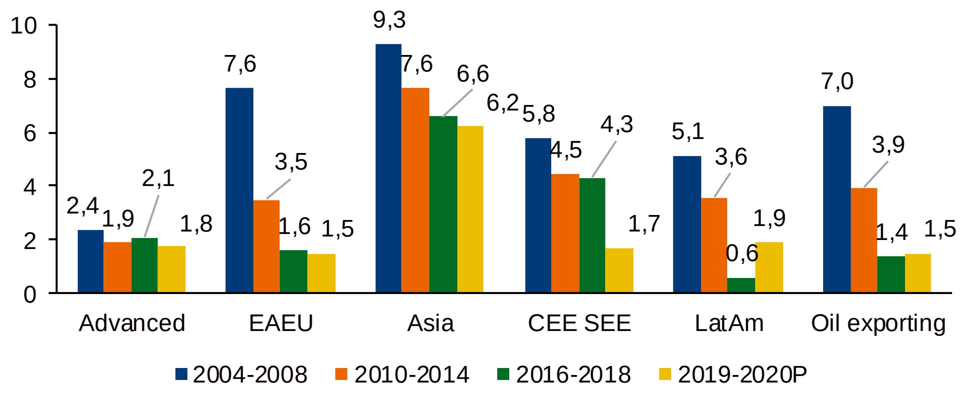
Conditions for business, competitiveness and infrastructure

	Doing Business*	GCI**	LPI***
Russia	31	65.6	2.78
Kazakhstan	28	61.8	2.55
Belarus	37	Nd	2.44
Armenia	41	59.9	2.48
Kyrgyzstan	70	53	2.38

Notes. (*) World Bank's 2019 Doing Business ranking. (**) 2018 Competitive conditions scale from 0 to 100. (***) Quality of trade and transport infrastructure (roads, railways, ports, airports and information technology) according to 2018 WB logistics performance survey; Na=Not available. Source: World Bank and WEF.

However, the growth rate of the EAEU economies, which is heavily influenced by the characteristics of the Russian economy, compares favourably with the subset of emerging hydrocarbon-exporting countries. In the years of the bullish commodity cycle, between 2004 and 2008, the average growth rate of the EAEU countries, equal to 7.6% (against the average 7% of the oil countries), was lower only than that of the (manufacturing) countries of Asia. In the subsequent decade, the economies of the EAEU countries saw their performance slow down. In particular, in the 2010-2014 five-year period, the adjustment measures needed to deal with the less favourable dynamics of commodity prices caused the average GDP growth rate of EAEU countries to halve to 3.5%, only slightly below the 3.9% of the set of oil-exporting countries. In the 2016-2018 three-year period, following the fall in GDP recorded in 2015 (-2.1%) as a consequence of the sharp drop in oil prices at the end of 2014 and the geo-political tensions that had particularly affected Russia, the economies of the EAEU countries slowed down further (+1.6% on average over the three-year period), albeit at a slightly higher pace than that recorded by the emerging hydrocarbon-exporting countries at the same time (+1.4%).

GDP trends in the main geographical areas of the global economy (% change)



Source: IMF

Looking ahead, economic factors (oil cycle, evolution of the reform and production diversification process) and geo-political factors *(first and foremost*, the development of relations with Western countries) will continue to represent the main drivers of growth in the economies of the EAEU countries, both in economic and structural terms. The average GDP growth rate for the 2019-2020 two-year period is still expected to be low, at 1.5%, in line, however, as in recent years, with the expected growth rate among emerging hydrocarbon-exporting countries.

EAEU Real GDP growth (% change)						
	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia	EAEU
2014	3.6	1.7	4.2	4	0.7	1.1
2015	3.3	-3.8	1.2	3.9	-2.5	-2.1
2016	0.3	-2.5	1.1	4.3	0.3	0.3
2017	7.5	2.5	4.1	4.6	1.6	2
2018	5.2	3	4.1	3.5	2.3	2.6
2019F	4.6	1.8	3.8	4.5	1	1.4
2020F	4.5	2.2	3.2	3.5	1.5	1.7
2021F	4.5	2.1	3.3	3.8	1.7	1.9

Source: IMF, National Statistics Offices

From a structural point of view, in the case of EAEU countries and Russia, which covers the prevailing share of regional GDP, the low growth rate is related to two sets of main factors: 1) the low birth rate, which affects the dynamics of the labour supply, and the low productivity trend, in turn conditioned by an insufficient infrastructure, especially transport infrastructure, and, above all, by the low diversification of the economy due to the high weight of the primary sector (agriculture and mining) and 2) the concentration of manufacturing on processing activities of the primary sector, both agricultural and mineral products, while production with a high technological content has a relatively lower weight. These factors - which are common to countries that export hydrocarbons and, more generally, commodities - affect productivity and, through it, the potential growth rate, limiting its prospects, as can be seen from a simple comparison between the major countries with a diversified manufacturing economy in Asia, which in the last decade have shown total productivity growth of around 4% per year on average, and the other commodity-driven countries of the BRICS Group (including Russia), which have seen a negative trend in total productivity in the 2009-2018 period.

Growth of production factors and potential economic growth (2009-2018 average figure)				
	Labour force growth	Real capital growth	Total productivity growth	Growth potential
Brazil	**1.2**	**3.2**	**-0.4**	**1.5**
China	0.2	11.3	3.9	8.0
India	1.1	9.0	3.9	7.8
Russia	**0.1**	**3.7**	**-0.1**	**1.2**
South Africa	**1.8**	**3.9**	**-0.7**	**1.9**

Note: Commodity-exporters are in bold. Source: EIU

From a financial point of view, while Armenia, Belarus and Kyrgyzstan are characterised by a largely negative international net financial position (NFP) in relation to GDP due to low domestic savings and the resulting need for the external financing of the public deficit, Russia benefits from a positive international net financial position. Kazakhstan's NFP is also negative, but this condition has a different connotation as it mainly reflects the flows from abroad for direct investments aimed at exploiting natural resources.

International Net Financial Position/GDP					
	Russia	Kazakhstan	Belarus	Armenia	Kyrgyzstan
2014	15.1	-18.0	-53.1	-66.4	-78.2
2015	24.3	-20.3	-72.8	-74.7	-101.3
2016	16.5	-33.1	-85.6	-78.8	-101.7
2017	17.2	-34.6	-75.9	-75.9	-93.7
2018	22.7	-36.0	-68.1	-75.6	-91.9

Source: IMF

The major rating agencies consider the sovereign debt of Russia and Kazakhstan as a non-speculative investment. Other countries' debt is still considered to be a highly speculative investment instead, at the bottom of the rating scale.

Since February (with Moody's raising its rating from Ba1 to Baa3), Russia's foreign currency sovereign debt has regained investment grade status among all three major agencies. It had lost this rating between 2015 and 2016. The agencies (including Fitch, which at the beginning of August had upgraded it from BBB- to BBB) and markets rewarded the improved fiscal and external position, the reconstruction of the currency reserves, the management of the monetary policy (focusing on encouraging the easing of the inflationary pressures) and the movement towards a regime of currency flexibility, which increased the level of freedom of the economic policy. These positive developments, combined with the recovering oil price, encouraged the progressive stabilisation of the domestic financial framework. Kazakhstan’s rating is in turn supported by a low deficit and public debt in relation to GDP, while currency reserves, though having halved compared to the level they had at the end of 2014, and the foreign assets of the Sovereign Funds largely cover the external financing requirements.

5.2 Future Developments of the EAEU's countries

Russia

Growth prospects

Over the last decade, Russia's economy managed to overcome significant external shocks. After decreasing considerably in 2009, commodity prices recovered but were characterised by high volatility, which continues to this day. The sanctions of Western countries and the counter-sanctions of Russia have introduced a further obstacle to the long-term performance of the economy as they place constraints on the development of trade and investments with the rest of the world, reducing the push for competitiveness, access to technologies and foreign capital inflows. With the initial aim of reducing the economy's dependence on external developments, subsequently strengthened by the need to face the constraints due to the introduction of the sanctions from Western countries, the Russian government actually launched an ambitious programme to replace imports, starting to look east with renewed interest (especially to China) with regard to both developing trade and investing in infrastructure, making efforts to reduce its foreign funding requirements. The companies involved in the mentioned replacement programme were offered exemptions from the profit tax and the guaranteed purchase of 30% of their products. The programme involves 19 production sectors and has reached significant results in the pharmaceutical industry (where almost 90% of medicinal products deemed essential are not manufactured in the country), the mechanical sector and the heavy industry (where the share of imports dropped below 40%), in the production of power generation infrastructures, equipment to process and exploit hydrocarbons and in the production of agricultural machinery.

After last year's rebound (GDP +2.3%, from +1.6% in 2017), mainly thanks to the extraordinary contribution from the construction sector (+5.9%), the economy slowed down significantly in the first half of 2019 (+0.7% yoy). A partial recovery is expected in the second half of the year, with GDP growth expected to pick up to around 1% in 2019 and 1.5% in 2020.

GDP - supply (yoy % change)*	Q22019	Q12019	Q12018	2018
Agriculture	1.1	1.1	2.0	0.4
Mining	3.1	4.7	7.2	3.9
Manufacturing	2.4	1.3	0.9	2.8
Utilities	0.1	0.2	5.9	5.9
Construction	1.8	-1.5	1.2	1.4
Retail sales	1.5	1.8	2.7	2.6
GDP	**0.9**	**0.5**	**2.7**	**2.3**

Note: (*) The figures concern the average year-on-year change in the monthly indices in the quarter. The review of the national accounting statistics recently made by Rosstat has made it impossible to compare the national accounting data.
Source: Rosstat

GDP - demand (yoy % change)	2020F	2019F	2018	2017
Private consumption	2.6	2.1	2.3	3.3
State consumption	0.4	0.2	0.3	2.5
Gross fixed investments	1.8	1.5	6.8	3.4
Exports	3.7	3.9	5.6	5.0
Imports	5.5	3.8	3.2	18.0
GDP	**1.5**	**1.0**	**2.3**	**1.6**
Inflation average	**4.2**	**4.9**	**2.9**	**3.7**

Source: Thomson Reuters-Datastream

Over the medium term, GDP is expected to reach around 2%. Looking ahead, economic growth is expected to benefit from the investments envisaged in the multiannual plan for the 2019-2024 period for USD 304Bn called the *Russian National Projects Investment Program*. The Plan identifies 12 areas of intervention and indicates as a priority investment in infrastructure, public services, housing, health and social services. China is expected to play an important role, especially for the progress of infrastructure in Siberia and Asia, in line with the objectives of the Chinese *Belt & Road Initiative*. In this context, with a second line of the *Eastern Siberia-Pacific Ocean* oil pipeline starting operation in January 2018, Russia has become the main supplier of oil to China. Moreover, the construction of a gas pipeline called *Power of Siberia* was started (with completion scheduled in 2020) from Russia to China, with a capacity of 38 billion cubic metres. About half of the resources of the mentioned investment programme is intended to develop the road network (with the aim of improving the quality of the regional roads and those in the metropolitan areas), railway (modernisation of the Trans-Siberian and the Baikal-Amur connection) of the regional airports (particularly those of 13 cities with more than a million inhabitants) and the connections with the ports. About USD 20Bn will be invested in the data transmission networks. The completion of the Plan is highly affected by availability of funds (depending in turn on the performance of oil prices, which influences the flows of revenues from exports), bureaucratic obstacles and access to foreign technology against domestic alternatives that are missing or too expensive. The start of the Plan has been postponed due to funding reasons and the Russian Government is thus considering using the resources set aside in the Sovereign Fund.

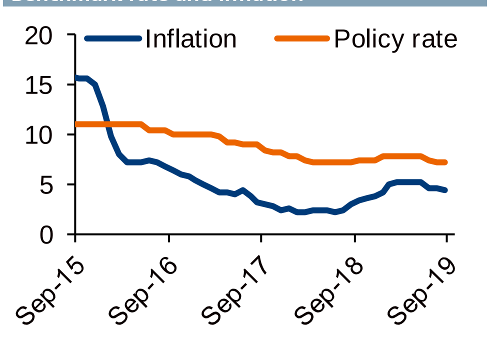
Interest rates, exchange rate and financial position

The authorities have succeeded in limiting the impact of these external shocks through effective macroeconomic policies, in particular the adoption of an inflation target in the management of monetary policy, measures to contain public debt and the strengthening of the external position through the replenishment of the currency reserves and a reduction in the foreign debt to GDP ratio.

From 2015 onwards, the central bank has pursued an inflation target. Since then, the year-on-year inflation rate (from 17%) has fallen significantly to 2.5% in the middle of 2018. Subsequently, the VAT rate increase led to a moderate acceleration in inflation (although the effects missed expectations), which the Central Bank promptly tackled with a precautionary rate hike last autumn. From the 5.3% peak reached in February 2019, the annual inflation rate slowed down to 4.2% in August. The Central Bank expects inflation to be between 4.2% and 4.7% at the end of 2019 and the target to be 4% at the beginning of 2020.

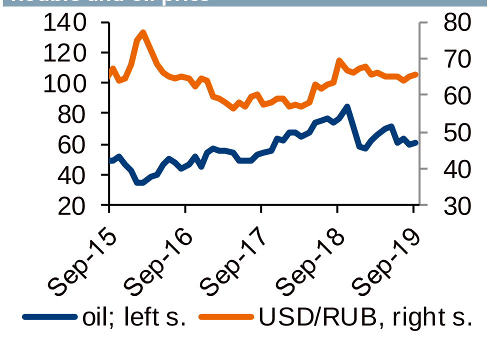
The lower-than-expected price dynamics and the relative strength of the exchange rate led the Central Bank to return to a easing cycle this year ahead of schedule, also considering the economic slowdown. Thus the benchmark rate was cut on three occasions starting from last June for a total of 75 bps, falling to 7% in September. At the same time, the Monetary Authority admitted the possibility of a new easing in the upcoming meetings, with policy rates expected to reach neutrality by the mid-2020.

Benchmark rate and inflation



Source: Thomson Reuters - Datastream

Rouble and oil price



Source: Thomson Reuters – Datastream

In the first part of this year, the rise in oil prices, the phase of easing on the international capital markets (due in large part to a reduction in expectations regarding interest rate increases in advanced countries and a resulting revaluation of the currency carry trade that high domestic rates made convenient), the widening of the current surplus and the increase in currency reserves, have encouraged a re-appreciation of the rouble which, with the RUB/USD exchange rate reaching a low of 62.6 in mid-July, gaining 11% compared to the quotation at the end of 2018. In the following weeks, the Russian currency was subject to a decrease, with the RUB/USD exchange rate at around 66 at the beginning of September. The rebound in oil prices in the middle of the month following the attacks on oil wells in Saudi Arabia led to a re-appreciation of the rouble. Looking forward, the solidity of the country's financial position is seen as offering support to the currency and this could translate into a more or less broad appreciation based on oil price developments

The measures taken by the Government to ease the effects on the public accounts of the drop in oil revenues recorded in 2018, after four years, have led the Budget to record a surplus of 2.8% of GDP, compared with a deficit to GDP ratio of 1.5% in 2017. New measures were planned in the 2019 Budget, the most significant of which, on the revenue side, are the VAT rate rise and higher taxes on companies operating in the hydrocarbon sector and, on the expenditure side, the increase in the retirement age. The State budget is expected to record a surplus of 1.7% of GDP also this year, on the basis of an average Ural-quality oil price of USD 63.4 per barrel (USD 65.8 the average price for Ural-quality oil from January to August 2019) and an average RUB/USD exchange rate of 65.1 (65 the average exchange rate in the first eight months of 2019). Russia's public debt to GDP ratio is modest (14% in 2018 from 15.5% in 2017). Last April, only a third of the country's public debt was owned by foreign investors.

The current balance of payments surplus of 7% of GDP in 2018 has returned to the levels of ten years prior, the peak of commodities' bullish phase. This result was determined by the trade component, which benefited from the further rise in the prices of exported commodities and the weakness of imports. Nevertheless, the Central Bank expects the current surplus to fall to USD 98Bn (6.1% of GDP) this year and USD 50Bn (3% of GDP) in 2020, based on an average oil price (Ural quality) of USD 65 this year and USD 60 next year, down from USD 71.5 in 2018.

In June 2019, currency reserves totalled USD 407.6Bn, up from USD 368.7Bn in June 2018. A portion of the reserves covers the foreign currency deposits held by the Sovereign Fund, which, at the end of April 2019, had a capitalisation of USD 82Bn (5.1% of GDP). In its three-year 2019-2020 budget, the Government set the objective of increasing the capitalisation of the Sovereign Fund to 12% of GDP by 2021.

Foreign debt at the end of 2018 amounted to USD 455Bn (27.8% of GDP); it increased to USD 482Bn in June 2019, but dropped to USD 729Bn (31.8% of GDP) at the end of 2013. In recent years, also due to the sanctions, a notable substantial reduction was recorded in the amount of foreign debt, in particular in the banking and private sector. This reduction initially (2014) led to a drain on currency reserves. Subsequently, the surplus of the current account of the balance of payments balanced outflows of a financial nature, and reserves began to rise again. In December 2018, Russia recorded a positive international net financial position of USD 370Bn (22.7% of GDP) from USD 132Bn (5.8% of GDP) at the end of 2013.

Since February (with Moody's raising its rating from Ba1 to Baa3), Russia's foreign currency sovereign debt has regained investment grade status among all three major agencies. It had lost this rating between 2015 and 2016. In addition, Fitch further increased its rating from BBB- to BBB in early August 2019. The agencies rewarded the improved fiscal and external position, the reconstruction of the currency reserves, the management of the monetary policy (focusing on encouraging the easing of the inflationary pressures) and the movement towards a regime of currency flexibility, which increased the level of freedom of the economic policy. These positive developments, combined with the recovering oil price, encouraged the progressive stabilisation of the domestic financial framework.

Balance of payments			
USD billions	1H19	1H18	2018
Current balance	45.8	47.7	113.8
Trade balance	86.5	89.5	194.5
Services balance	-13.4	-14.3	-29.9
Income balance	-22.8	-23.3	-41.4
Transfer balance	-4.5	-4.2	-9.3
Financial balance	-10.9	-22.1	-77
FDI	-0.4	-8.8	-24.3
Portfolio	15.6	-2.4	-8.5
Other items	-26.1	-10.9	-44.2
Errors	0.3	5.0	2.6
Fx reserve chg. (*)	-35.2	-30.6	-38.2
Private capital flow (**)	27.1	11.1	63.3

Note: (*) The (-) sign indicates an increase in reserves. (**) The (+) sign indicates capital outflows. Source: Central Bank.

External position		
USD billions	Assets	Liabilities
FDI	433	497
Portfolio	69	208
Derivatives	6	5
Other items	364	260
FX reserves including gold	468	
Total	1340	970
NFP Dec 2018	370	
NFP/GDP % Dec. 2018	22.7	
FX reserves June 2019		407.6
Foreign financing 2019F		17
Current surplus 2019F		98
Debt maturing 2019F		115
Foreign debt (Dec 2018)		455
Foreign debt/GDP		27.8

Note: F (Forecast). Source: Central Bank, EIU

Kazakhstan

Growth prospects

Kazakhstan is an oil economy. The proceeds from the sale of hydrocarbons have made it possible to finance the development of services, and the country is the one with the best infrastructure network among CIS countries. Moreover, Kazakhstan ranks high in terms of business conditions (28th place in the World Bank's *Doing Business survey*). In recent years, Kazakhstan has made significant progress with regard to customs procedures, contracts and the start of new businesses.

The performance of the country's GDP, both in the decade 1999-2008, which was characterised by a long bullish commodity cycle, and in the following decade, in which the prices of many commodities experienced a phase of volatility, was well above the average growth figure of the CIS group. In the decade 2009-18, Kazakhstan's GDP grew on average by 4.1%, more than double the average CIS figure (1.6%).

In 2018, GDP growth, equal to 4.1%, was in line with the average for the decade. The more modest performance of the hydrocarbons sector (+4.7% from +7.4% in 2017) was offset by the acceleration of the pace of the non-hydrocarbons sector of the economy (+3.8% from +3.1%), mainly due to sales services. In the first half of 2019, GDP increased by 4.1% in real terms, mainly driven by construction and services, while the hydrocarbon sector slowed down due to the closure of some wells (Kashagan) for maintenance.

GDP - Supply

	2018	1H19	2018	2017
	weight	% change yoy		
Agriculture	43	3.8	3.4	3.2
Mining	15.2	NA	4.6	9.5
Manufacturing	11.8	3.1	4.0	6.1
Utilities	0.3	NA	-1.0	2
Construction	1.6	NA	2.4	5.4
Trade	5.5	11.1	4.1	2.8
Transport	54.4	Nd	4.2	2.3
Communication	16.1	7.5	7.6	3.2
Financials	8.2	5.4	4.6	4.7
Hotels	1.9	NA	2.6	3.2
Real estate	3.5	NA	0.8	0.6
Public	1.1	NA	-5.2	3.5
Professional	7.5	NA	2.7	2
GDP	12.8	NA	3.1	1.9
GDP oil	4.2	NA	3.0	-3.1
GDP	**100**	**4.1**	**4.1**	**4.1**
GDP oil	**21.3**	**-1.3**	**4.7**	**7.4**
GDP non-oil	**78.7**	**5.5**	**3.8**	**3.1**

Note: NA = Not available. Source: Office of Statistics

GDP - Demand

	2020F	2019F	2018	2017
	% change yoy			
Private consumption	2.9	5.0	2.0	1.2
State consumption	1.0	0.9	-28.8	0.4
Gross fixed investments	4.0	3.7	3.9	4.0
Exports	3.4	4.0	20.3	6.4
Imports	4.2	5.1	3.6	-1.2
GDP	**3.4**	**3.9**	**4.1**	**4.1**
Inflation average	**5.0**	**5.5**	**6.0**	**7.4**

Note: F (Forecast). Source: EIU, IMF

In the second half of the year, oil extraction activities will be affected by the production containment measures decided by the producing countries. The non-hydrocarbon sector is expected to remain on a sustained path of expansion, with consumption benefiting from government support for consumer credit, low-income tax cuts and rising minimum wages. Instead, a boost to investments is expected from the completion of the 2015-19 Five-Year Plan, called *Nurly Zhol* (Bright Path), which involves investments of USD 21Bn in road, rail and river communication infrastructure. The Plan, which will be refinanced for another USD 9Bn in 2020, is part of the opening of commercial routes from and to China, known as *Belt and Road Initiative* (BRI) project. Specifically, a railway network is now in operation from Europe to Vietnam, crossing Kazakhstan. Along the way, intermodal transport centres are being upgraded in the country. On the energy infrastructure side, major investments are planned to integrate Kazakhstan's hydrocarbon transport network with Azerbaijan's. The recent launch of the Astana International Financial Centre and the custody and settlement services for Kazakhstan's securities transactions provided by Clearstream International since July 2018 are boosting growth in the financial markets. Since 2016, more than 400 companies have been privatised, but the most attractive ones, i.e. energy, transport and communication services companies, have remained under state control. Clearstream services make it easier for foreign capital to access the domestic financial market. GDP growth is expected to remain around 4% in 2019.

Interest rates, exchange rate and financial position

The authorities have responded to the pressures exerted by the decrease in oil prices at the end of 2014-beginning of 2015 by switching to a flexible exchange rate regime and adopting an inflation objective to manage the monetary policy.

The year-on-year inflation rate, from a peak close to 20% at the beginning of 2016 as a result of the pressures due to the depreciation of the exchange rate, has slowed rapidly and, at the end of 2016, was already at one digit. In 2019, inflation reached 4.8% in the first quarter, below the central value of the 4%-6% target range, allowing the Central Bank to cut the benchmark rate last April (-25 bps to 9%). The subsequent moderate acceleration in price dynamics (annual rate of 5.5% last August) led the monetary authority to retrace its steps and raise the rate by 25 bps in September, taking it back to 9.25%.

After the decline recorded in the final months of 2018, mainly due to the falling oil prices, from January to August 2019 the Kazakh currency, the Tenge, showed some stability, remaining around KZT 385: 1 USD. The exchange rate benefited from the strengthening of the rouble, the relative resilience of the oil price and the reduced risk premium on the international capital market, while depreciation was driven by foreign portfolio divestments due to uncertainty about the domestic political environment. In the medium- to long-term, the expected narrowing of the interest rate differential with the developed countries and the lower receipts from hydrocarbon exports are expected to cause a gradual decline in the exchange rate.

The increase in revenues, both those depending on hydrocarbons and other revenues (such as VAT revenues), and the lower expenditure for transfers to state-owned enterprises, in 2018 took the State's budget back to a surplus after two years, estimated at 0.5% of GDP. The 2019 Budget shows a target deficit of 2.1% of GDP, based on real GDP growth of 3.9% and an oil price of USD 60 a barrel. This year the weight of oil revenues is estimated to be 35.5% of the total. The public debt to GDP ratio is modest (21.9% in 2018).

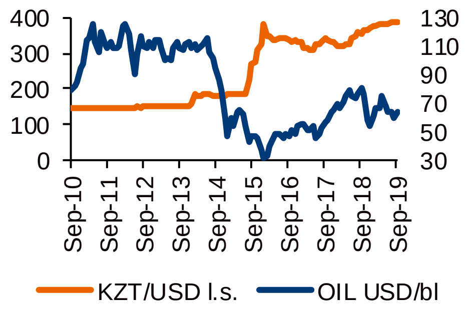
In 2018, the current account deficit of the balance of payments was brought down to almost zero (USD 52M, 0% of GDP), from a deficit of USD 5.1Bn (3.1% of GDP) in 2017. This result follows the widening of the trade surplus (to USD 26.4Bn from USD 16.7Bn) caused by the increase in exported values, only partially offset by the greater deficit in the income account (which reflects the return on foreign capital invested in the country, especially direct investments), which rose to USD 22.1Bn from USD 18.1Bn in 2017. In 1H19, the decline in the trade surplus due to the growth in imports led to a further widening of the current account deficit compared to the same period in 2018.

Currency reserves, totalling USD 9.6Bn in July 2019, were reduced last year. However, in order to meet its foreign financial commitments, Kazakhstan also has investments in foreign assets from the Sovereign Funds which, according to IIF estimates, amounted to USD 58Bn at the end of 2018. The sum of the foreign reserves and assets of the Sovereign Funds exceeds foreign funding requirements, estimated at USD 35.3Bn in 2019 (an adjusted reserve cover ratio of 1.9).

Foreign debt in December 2018 stood at USD 158.7Bn (93.1% of GDP), down from USD 167.2Bn in 2017. More than 60% of this debt concerned loans from foreign companies to subsidiaries operating almost entirely in the mining sector, just over 7% to public debt and less than 4% to banks. The international net financial position was negative (36% of GDP) at the end of last year due entirely to FDI.

Sovereign debt in Kazakhstan's currency is considered a non-speculative investment by the three major rating agencies (BBB by Fitch and Baa3 by Moody's). At the end of August, Moody's added a positive outlook to its rating, underlining the solidity of the country's fiscal position.

Exchange rate and the price of oil



Source: Thomson Reuters-Datastream

Balance of payments and external position

USD billions	1H19	1H18	2018
Current balance	-2.0	-1.4	-0.1
Trade balance	11.3	12.6	26.4
Services balance	-2.2	-1.9	-4.6
Income balance	-11.2	-12.0	-22.1
Transfer balance	0.1	0.0	0.3
Financial balance	-4.0	-1.2	-2.4
FDI	3.2	4.3	4.9
Portfolio	-4.2	-2.0	-2.6
Other items	-3.1	-3.5	-4.6
Errors	0.6	1.6	0.9
FX reserves chg.*	5.4	1.0	1.5
FX reserves Jul 2019			9.6
Foreign financing 2019F			35.3
Current deficit 2019F			1.8
Debt maturing			33.5
Reserve cover ratio**			1.9
NFP2018			61.4
NFP/GDP			36.0
Foreign debt 2018			158.7
Foreign debt/GDP 2018			93.1

Note: (*) The (-) sign indicates an increase in reserves; (**) The reserve cover ratio is calculated taking into account the foreign investments of the sovereign wealth fund; F (Forecast)
Source: Central Bank.

Belarus

Growth prospects

Belarus has a large manufacturing base (almost a quarter of GDP) focused on the production of energy products, food processing, chemistry, vehicles (tractors and trucks) and industrial machinery. It is, however, weighed down by a lack of investments in technological development and greater energy efficiency. Manufacturing production strongly depends on energy supplies at special rates from Russia and on privileged access to the Russian market. In addition, almost all investments (in the form of aid) and remittances from migrant workers come from Russia. The presence of the State in the economy is widespread (enterprises controlled directly or indirectly by the State contribute to more than half of the added value). The succession of financial crises caused by the problems of financing the external imbalance and the resulting measures taken to contain them have had an impact on income and, therefore, on domestic demand. The trend in GDP over the last decade (1.7% the average growth rate) has thus been among the lowest in the CIS Group.

In 2018, Belarus' economy continued along the path of recovery started in 2017 after the recession that had characterised the 2015-2016 two-year period. Further increases in hydrocarbon prices and robust foreign demand supported exports, while domestic demand, especially for consumer goods, benefited from double-digit wage increases. GDP increased by 3% in real terms in 2018, from 2.5% in 2017.

GDP - Supply

	2015	Jan-Jul 2019	2018	2017
	weight	% change yoy		
Agriculture	2.7	5.2	-4.0	3.8
Mining	0.8	1.4	5.2	3.4
Manufacturing	22.1	0.6	3.4	6.9
Utilities	4.3	-0.8	5.2	2.8
Construction	5.2	2.9	4.2	-4.6
Trade	9.9	1.5	5.7	3.8
Transport	6.1	-0.7	3.8	6.3
Communication	4.9	NA	10.5	7.3
Financials	4.1	NA	1.9	-4.3
Real estate	5.7	NA	-1.2	-2.1
Hotels	0.8	NA	8.3	5.3
Government	3.5	NA	-4.1	-3.6
Healthcare	3.5	NA	1.7	1.3
Education	4.1	NA	-1.0	-0.8
Others	18.8	NA	NA	-2.3
GDP	100	1.3	3.0	2.5

Note: NA=Not available. Source: Office of Statistics

GDP - Demand

	2020F	2019F	2018	2017
	% chnage yoy			
Private consumption	2.2	2.1	5.4	4.5
State consumption	0.5	-1.2	4.0	-1.3
Gross fixed investments	2.8	2.0	4.1	5.0
Exports	4.9	5.1	0.4	5.6
Imports	4.6	4.8	2.3	4.8
GDP	2.2	1.3	3.0	2.5
Inflation average	5.0	5.0	4.9	6.0

Note: F (Forecast). Source: Central Bank, EIU

The economy slowed down significantly in the first few months of 2019 (+1.3% is the preliminary estimate of real GDP growth from January to July 2019) in line with what is happening in the region. In addition, the economy was affected by some low-quality oil supplies from Russia, which disrupted refining activities in the first few months of this year. Finally, the implicit subsidies on oil supplies from Russia, which fell from USD 4.3Bn in 2011 to USD 2.4Bn in 2018, could be reduced to zero as a result of the new taxation mechanism for hydrocarbons introduced by Russia, which envisages the gradual elimination (expected to be completed by 2024) of the tax on oil exports (currently equal to 30%, from which Belarus is exempt), given the increase in the extraction tax, which implies a rise in the cost of crude oil purchased by Belarus. The two countries are negotiating some compensation, in the form of an increase in the fees for the transit of Russian oil through Belarus. In 2019, Russia's budget package mentioned above will result in a drop in tax revenues of USD 300M for Belarus.

The uncertain outlook for the refining sector, combined with the weak economic situation in Russia, is expected to lead to a slowdown in GDP in Belarus this year (GDP +1.3%) followed by a rebound in 2020 (GDP +2.2%), assuming a positive solution to the open issues, in particular the cost of supplies of hydrocarbons from Russia.

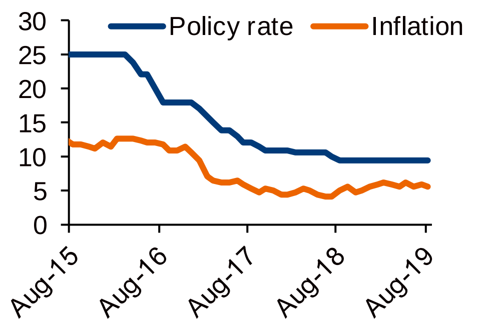
Interest rates, exchange rate and financial position

At the beginning of 2015, Belarus suffered the third currency crisis in six years, triggered by the fall of the Russian rouble which, like the previous ones, found fertile ground in an overvalued exchange rate, in a high current account deficit and in a low level of currency reserves. The resulting significant exchange rate depreciation brought the annual inflation rate close to 20%. Subsequent stabilisation measures and more favourable exchange rate trends, in the wake of a stronger Russian rouble, led to significantly lower inflation, which fell below the 5% target in mid-2018. Subsequently, the volatile components fuelled new, albeit limited, upward pressures, with a year-on-year rate of 5.7% in August 2019. The Central Bank considers this excess over the target value as temporary. With the benchmark rate at 9.5% and, as a result, broadly positive real interest rates, it stated that it deems the monetary policy to be appropriate.

Since 2015, the Belarusian rouble has been following a controlled-fluctuation regime with regard to a mixed basket, calculated as the geometric mean of the bilateral exchange rates to the Russian rouble (with a weight of 50%), to the US dollar (with a weight of 30%) and to the euro (with a weight of 20%). In the period between January and August 2019, the Belarusian rouble appreciated by 3.5% compared to the basket, following its strengthening against the US dollar and euro, in the wake of the Russian rouble. With reference to June 2018, the IMF had recorded an overvaluation of the real effective exchange rate of 10%. The real effective exchange rate has not changed in the last year as the acceleration of inflation has been balanced by the depreciation of the Belarusian rouble against the Russian rouble, which is the currency of Belarus' main trading partner.

Primarily as a result of the higher revenues from the distribution of tariffs applicable to exports between the members of the Eurasian Union, in 2018 the budget recorded a surplus of 2.3% of GDP, compared with a deficit of 0.3% in 2017. In 2019, the partial loss of the subsidy on hydrocarbon imports is likely to lead to a deficit of 2% of GDP. The public debt/GDP ratio, at 47.8% in 2018, is low compared to countries with the same rating but has more than doubled in the last ten years due to the high share of foreign currency debt (90% of the total).

Inflation and benchmark interest rate



Source: Central Bank

Balance of payments and external position

USD billions	1Q2019	1Q2018	2018	2017
Current balance	-1.06	-1.26	-0.3	-1.0
Trade balance	-0.52	-0.51	-2.6	-3.0
Services balance			3.3	3.0
Income balance			-2.4	-2.0
Transfer balance	0.3	0.4	1.4	1.0
Financial balance	0.68	1.36	-0.0	1.8
FDI			1.4	1.2
Portfolio			-0.6	1.3
Other items			-0.8	-0.7
Errors	0.31	0.29	0.2	0.6
FX reserves chg. (*)	0.08	-0.4	0.1	-1.4
FX reserves Jun 2019				5.6
Foreign funding 2019				18.4
Current balance 2019F				2.4
Debt maturing 2019				16
Reserve cover ratio				0.3
NFP 2018				-41
NFP/GDP 2018				68
Foreign debt 2018				39
Foreign debt/GDP				65.5

Note: (*) The (-) sign indicates a decrease; F (Forecast)
Source: Central Bank

In 2018, the current account deficit of the balance of payments in relation to GDP decreased further, to 0.4% from 1.7% in 2017. This result reflects the narrowing of the trade deficit, which followed the increase in the prices of exported hydrocarbons, and the greater transfers (remittances and tariff redistributed among EU countries). The current account deficit is expected to increase this year as a result of the aforementioned decline in subsidies on imported hydrocarbons. According to IMF estimates, in the absence of compensation, the current deficit to GDP ratio could rise by 3 percentage points if Belarus were to pay for imported oil without concessions.

The sovereign debt in foreign currency is considered a highly speculative investment by the three main rating agencies (B for Fitch and B3 for Moody's). The external position is highly vulnerable. The level of currency reserves (equal to USD 5.6Bn in June 2019) is low compared to the external financing requirements (reserve cover ratio: 0.3) and the foreign debt to GDP ratio (though decreasing in 2018 to 65.5% thanks to the rise in nominal GDP and the limited increase in the exchange rate) remains high. 45% of this debt is attributable to the State. The international NFP is largely negative (68% of GDP at the end of 2018)

Armenia

Growth prospects

The various governments that have followed one another since independence in 1991 have pursued a policy of economic reform aimed at promoting the market economy through the privatisation of major industries, the liberalisation of markets and the adoption of laws supporting foreign direct investments. These measures contributed to the promotion of new production initiatives such as the processing of precious metals, development of services (especially telecommunications) and the transformation of the agricultural sector towards production aimed at domestic consumption and food processing. Nevertheless, Armenia's economy remains heavily dependent on climatic factors (given the weight of agriculture) and external developments, specifically regional trends (especially those affecting Russia) and the trend of metal prices, in particular that of copper, which accounts for a significant portion of the country's exports.

After the difficulties encountered in the 2014-2016 period, caused by Russia's economic slowdown and the fall in the price of copper, which fuelled bearish pressures on the exchange rate that were hindered by the Armenian authorities with highly restrictive monetary and fiscal policies, economic activity has resumed a pace of sustained growth. In 2018, GDP increased by 5.2% in real terms compared to +7.5% in 2017 (the year when it had benefited from a favourable effect of comparison). Last year, growth was driven by domestic demand, including the process of replenishing the inventory, while external trade subtracted 2.8pp from GDP as a result of double-digit import growth. On the production side, the steady performance of the manufacturing and services sectors more than offset the decline in agricultural and mining production.

GDP - Supply

	2018	1H2019	2018	2017
	weight %	% change yoy		
Agriculture	14.5	-5.3	-7.2	-5.1
Mining	3.1	Nd	-14.2	25.7
Manufacturing	12.0	6.9*	11.1	11.8
Utilities	4.4	Nd	7.6	4.0
Construction	7.0	4.7	0.8	2.8
Trade	12.0	8.9	9.5	20.5
Transport	3.4	Nd	11.4	14.2
Communication	3.4	Nd	4.5	4.8
Financial	5.6	Nd	17.8	18.5
Real estate	8.4	Nd	3.5	-0.1
Others	26.3	15.3**	-2.6	4.4
GDP	100.0	7.1	5.2	7.5

Source: Statistical office. (*) This figure refers to industrial production; (**) This figure refers to services net of sales

GDP - Demand and inflation

	2020F	2019F	2018	2017
	% change yoy			
Private consumption	4.8	6.0	5.2	8.9
State consumption	4.6	8.4	-6.4	13.1
Gross fixed investments	5.0	7.0	5.0	7.7
Exports	4.6	4.8	5.2	18.2
Imports	4.9	6.0	10.9	24.8
GDP	4.5	4.6	5.2	7.5
Inflation average	3.0	2.1	2.5	0.9

Note: F (Forecast). Source: EIU, IMF

In the first half of 2019, the economy maintained a steady pace of expansion (+6.5% yoy, the indicator of economic activity considered to be a good proxy of GDP), driven – on the demand side – by households' consumption, which benefited from the slowdown in inflation and wage increases. After the steady growth seen in 2018, investments are declining, with depressive effects on imports. With regard to supply, the further decline in agricultural output (-5.3%) was more than offset by double-digit growth in services and steady growth in industrial production. In the second half of the year, Armenia's economy was affected by the weak economic situation in Russia, which had a negative impact on exports and remittances into the country. GDP growth is expected to be around 4.5% in both 2019 and 2020.

Interest rates, exchange rate and financial position

Armenia's financial position is weak. The trade deficit and the current account deficit are large, public debt and foreign debt as a ratio of GDP are considerable and the economy has a high degree of dollarisation. To finance itself, Armenia has to rely on remittances (the weight of remittances was on average equal to 16% of GDP in the last five years), aid from the diaspora and loans from friendly countries and international organisations, while the flow of private foreign direct investment is modest.

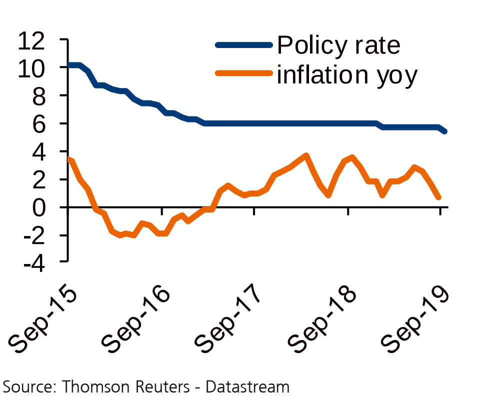
From the beginning of 2016, once the price effects of the depreciation of the exchange rate (see below) had been absorbed, inflation remained at the low end (or below the lower limit) of the target range (4% +/-1.5%). In August 2019, the annual inflation rate stood at 0.7%.

The slowdown in inflation led the Central Bank to cut the benchmark rate of 25 bps last January, taking it from 6% (where it had been since February 2017) to 5.75%. An additional 25 bps cut was decided in September (policy rate down to 5.50%).

Following the devaluation suffered in the final weeks of 2014, which saw the dram (Armenia's currency) lose 20% against the US dollar, the AMD/USD exchange rate remained stable at around 480. The banking system's high degree of dollarisation led the authorities to limit the currency's exchange rate fluctuations. However, this policy has resulted in an appreciation of the effective real exchange rate, which since the beginning of 2019 has been above its long-term average, and a consequent loss of competitiveness. In its ART IV Report of June 2019, the IMF highlighted an overvaluation of the real effective exchange rate of 6%-8%.

In 2018, the public deficit/GDP ratio, equalling 1.8%, was below the target of 2.7%, due to delays in the implementation of some planned expenditure of both a current and investment nature. The 2019 Budget indicates a target deficit of 2.2% of GDP that, in the final analysis, could be higher as a result of implementing of measures initially planned in 2018. The public debt to GDP ratio, equal to 48.5% in 2018, showed little change.

Benchmark rate and inflation



Source: Thomson Reuters - Datastream

Balance of payments and external position

USD billions	Q1 19	Q2 18	2018	2017
Current balance	-0.28	-0.23	-1.17	-0.34
Trade balance	-0.37	-0.34	-1.79	-1.38
Services balance	0.00	0.01	-0.16	-0.04
Income balance	-0.05	-0.05	0.16	0.41
Transfer balance	0.14	0.16	0.62	0.66
Capital account	0.01	0.02	0.12	0.05
Financial balance	0.14	0.13	0.65	0.58
FDI	0.03	0.12	0.25	0.22
Portfolio	-0.04	-0.00	-0.03	-0.09
Other items	0.16	0.02	0.43	0.44
Errors	0.03	-0.03	0.36	-0.23
FX reserves chg.*	0.10	0.10	0.04	-0.05
FX reserves Jan 2019				2.0
Foreign financing 2019F				3.7
Current deficit 2019F				*0.9*
Debt maturing				*2.8*
Reserve cover ratio 2019F				0.54
NFP 2018				9.4
NFP/GDP 2018				75.6
Foreign debt 2018				10.9

Note: (*) The (-) sign indicates an increase in reserves; F (Forecast).
Source: Central Bank

The current account deficit of the balance of payments, which had dropped below 3% of GDP in the 2015-2017 three-year period following the adjustment policies implemented after the regional shock in 2014, rebounded in 2018 to 9.7% of GDP. This substantial increase reflects the growth in imports driven by domestic demand, the negative impact on exports of the closure of some mines for environmental reasons and, finally, the extraordinary repatriation of profits by foreign entities and the drop in remittances. The disappearance of some of the aforementioned transitional factors will lead to a decrease in the current account deficit in 2019, which is expected to be around 4.6% of GDP. In January 2019, currency reserves totalled USD 2.05Bn, down from USD 2.3Bn at the end of December 2017. Reserves are lower than the 2019 foreign funding requirements (USD 3.7Bn, for a 0.54 reserve cover ratio). The current account deficits of the past, combined with the modest growth of nominal GDP, led to considerable foreign debt, which in 2018 equalled 87.9% of GDP, in any case down from the 91.2% in 2017. The international financial position is strongly negative (75.6% of GDP at the end of 2018). The rating agencies consider sovereign debt in Armenian currency to be a highly speculative investment (B+ rating by Fitch and Ba3 rating by Moody’s). At the end of August, Moody's raised its rating from B1 to Ba3, highlighting the diversification of growth factors and stabilisation policies that increased resilience to external shocks.

Last May, Armenia obtained a 36-month stand-by loan of USD 248.2M. This loan is considered by the country's Authorities to be of a precautionary nature, to be used in the event of a possible balance of payments crisis.

Kyrgyzstan

Growth prospects

The economy of Kyrgyzstan depends on agriculture, mining (especially gold) and the remittances of migrant workers. Agriculture and livestock farming employ almost 50% of the workforce and in 2017 contributed to almost 16% of GDP. The main products are cotton, tobacco and wool (for export), and meat for domestic consumption. Half of the manufacturing output (19.2% of GDP in 2017) consists of gold mining and gold processing. Among the other manufacturing productions, food processing, rubber and plastic and textiles for clothing have a certain importance. In 2018, migrant workers' remittances equalled 29% of GDP. Almost all of these remittances come from workers employed in Russia. The significant weight of agriculture and mining implies a highly volatile GDP growth rate.

In the decade 2009-2018, the average growth in GDP of 4% was among the highest in the CIS area. In 2018, GDP growth slowed down to 3.5% from 4.7% in 2017. The slowdown mainly reflects the 5% drop in gold-related activities (mining and processing).

In 1H19, GDP growth accelerated to 6.4%. The main thrust came from the gold mining and processing activity at the important Kumtor mine, which contributes about 10% of GDP. Mainly thanks to Kumtor, industrial production increased by 19.7% during the first six months of the 2019. In the same period, agricultural production increased by 1.7%, while construction and sales activities rose by 5.0% and 4.7% respectively. Investments in infrastructure, mainly roads and hydroelectric plants, financed primarily by China and the Asian Development Bank, will continue to make a significant contribution to GDP. Kyrgyzstan is an important junction in the trade between China and Europe.

The picture is not as rosy for other areas of the economy. Considering that remittances account for 40% of consumer spending, the slowdown in Russia's economy negatively affects household consumption. In addition, uncertainty about the domestic political situation due to divisions in the main government coalition party creates a negative climate for foreign investment.

The pace of growth recorded in the first half of this year will unlikely be maintained. GDP growth is expected to be equal to 4.5% in 2019 and 3.5% in 2020, when a lower contribution from gold is expected.

GDP - Supply	2017	1H2019	2018	2017
	Weight	% change yoy		
Agriculture	15.7	1.7	2.7	2.2
Mining	1.3	Nd	0.5	29.2
Manufacturing	19.2	19.7	5.6	23.5
Construction	11.9	5.0	14.5	8.4
Sales	22.3	4.7	12.7	1.1
Transport	4.9	NA	9.5	17.0
Communication	3.5	NA	-8.2	-1.4
Others	21.2	NA	NA	NA
GDP	100	6.4	3.5	4.6
GDP ex Kumtor	90	2.1	4.5	5.1

Note: NA = Not available. Source: EIU

GDP - Demand	2020F	2019F	2018	2017
	% change yoy			
Private consumption	3.8	3.6	4.4	2.5
State consumption	5.3	6.9	-6.3	1.5
Gross fixed investments	3.8	3.6	4.4	4.5
Exports	1.8	2.3	2.0	2.1
Imports	2.7	2.2	0.9	0.5
GDP	3.5	4.5	3.5	4.6
GDP ex Kumtor	3.8	2.2	4.5	5.1
Inflation average	4.9	2.2	1.5	3.2

Note: F (Forecast). Source: EIU, IMF

Interest rates, exchange rate and financial position

The high level of remittances, the composition of public debt (4/5 in foreign currency) and the large current account deficit in the balance of payments result in a high vulnerability of the economy to external shocks.

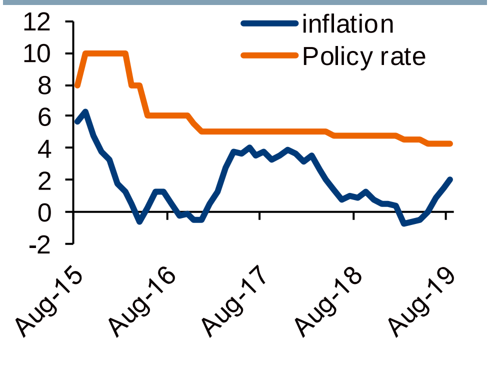
The modest inflationary pressures (the cumulative annual rate was equal to 2% in August 2019) allowed the Central Bank to continue the accommodating monetary policy started in 2018. In the first half of 2019, the benchmark rate was cut by 50 bps to 4.25%.

The high level of dependence of the economy on the US dollar leads the Monetary Authorities to keep the local currency (the som) stable towards the dollar through a transparent policy of interventions aimed at curbing the volatility of the exchange rate. Since 2016, the exchange rate has fluctuated around KGS 69 : 1 USD. Last year the stability of the som and the depreciation of the rouble against the US dollar led to an appreciation of 4% of the effective real exchange rate. This appreciation was mostly reabsorbed in 1H19, following the appreciation of the rouble against the US dollar. In its ART IV Report of June 2019, the IMF highlighted in any case an overvaluation of the real effective exchange rate of around 20%.

In 2018, the public deficit/GDP ratio of 1.3% was significantly below the 3.4% target, mainly due to lower spending on investments than planned. The 2019 budget indicates a target deficit of 2.5% of GDP, which the IMF expects will rise to 3.3% considering a donation of USD 30M from Russia for further investments and, at the same time, lower tax revenues.

The public debt to GDP ratio dropped to 56% in 2018 from 58.8% in 2017 and is low when compared to the average figure of the countries with the same rating. The largest share of the debt (48% of GDP last year) is in foreign currency.

Rates and inflation



Source: Thomson Reuters - Datastream

Balance of payments and external position

USD billions	2018	2017
Current balance	-0,700	-0,524
Trade balance	-2,739	-2,410
Capital balance	0,335	0,131
Financial balance	0,243	0,349
Errors & omissions	-0,037	0,087
FX reserves chg.*	0,159	-0,042
FX reserves (Jun 2019)		1,52
Foreign funding 2019F		1,7
Current deficit 2019F		0,8
Debt maturing		0,9
Reserve cover ratio 2019F		0,9
NFP/GDP 2018 (%)		92
Foreign debt 2018		8,09

Note: (*) The (-) sign indicates an increase in reserves; F (Forecast)
Source: Central Bank

The external position deteriorated during 2018, even though the level of reserves remains adequate and covers external financing requirements. The current account deficit of the balance of payments increased to 8.7% of GDP from 6.2% of the previous year. This outcome reflects the larger trade deficit resulting from the 4.7% drop in export volumes and the 1.2% increase in imported volumes. Remittances also fell consequently to the depreciation of the Russian rouble against the US dollar. In June 2019, reserves amounted to USD 1.52Bn, down from USD 1.65Bn of the previous year, and were slightly lower than the entire funding requirements for 2019 (reserve cover ratio: 0.9). Foreign debt dropped to USD 8.09Bn at the end of 2018 from USD 8.15Bn in 2017 but remains high as a percentage of GDP (85%). The international net financial position is largely negative at USD 7.4Bn (92% of GDP) at the end of 2018.

Tables of macroeconomic data

Russia

Real economy	2016	2017	2018	2019F	2020F
Population (million)	144.0	144.0	144.0	143.9	143.8
Per capita GDP (dollar PPP)	27,002	27,964	29,267	30,284	31,468
Real GDP (% change) %)^	0.3	1.6	2.3	1.0	1.5
Inflation (average) (%) ^	7.1	3.7	2.9	4.9	4.2
Government budget balance/GDP (%)	-3.7	-1.5	2.8	1.7	0.8
Government debt/GDP	16.1	15.5	14.0	13.8	13.9
3-month MosPrime rate (%) ^	11.2	9.4	7.7	7.9	7.1
Exchange rate local currency/USD (average)^	67.1	58.3	62.7	65.7	66.2
Exchange rate local currency/EUR (average)^	74.4	65.8	73.9	74.2	77.0

External vulnerability	2016	2017	2018	2019F	2020F
Current balance (USD Bn)	24.4	33.3	113.8	98	50
Current balance/GDP (%)	1.9	2.2	7.0	6.1	3.0
Foreign debt/GDP (%)	40.0	33.9	27.8	24.2	21.9
FX reserves (months of imports)	17.0	15.9	16.4	19.4	18.8

Outlook and risks	Last	Previous
Political Risk (1= max; 10=r min.)	6,0	5.1
Spread (CDS 5ya, bps)	86 (23 Sept. 2018)	161 (24 Sept 2018)
Fitch*	BBB/S (Aug. 2019)	BBB-/P
Moody's*	Baa3/S (Feb. 2019)	Ba1/P

Note: (^) Forecast: Intesa Sanpaolo – Research Department; F (Forecast)
(*) Rating of long-term foreign currency sovereign debt.
Sources: EIU, Thomson Reuters-Datastream, Moody's, JP Morgan, IIF, IMF, World Bank, EBRD, ISI, EC, ICE, Transparency International, Heritage Foundation

Kazakhstan

Real economy	2016	2017	2018	2019F	2020F
Population (million)	17.9	18.2	18.5	18.7	19.0
Per capita GDP (dollar PPP)	25,128	26,265	27,550	28,515	29,604
Real GDP (% change) %)^	1.1	4.1	4.1	3.8	3.2
Inflation (average) (%) ^	14.6	7.4	6.0	5.5	5.0
Government budget balance/GDP (%)	-5.3	-4.4	0.5	-2.1	1.6
Government debt/GDP	19.7	20.3	21.9	20.9	20.0
3-month rate (%)	14.4	10.7	9.5	9.1	9.0
Exchange rate local currency/USD (average)	342.7	326.2	345	380	390
Exchange rate local currency/EUR (average)	379	369	407	429	456

External vulnerability	2016	2017	2018	2019F	2020F
Current balance (USD Bn)	-8.9	-5.1	-0.1	-1.8	1.0
Current balance/GDP (%)	-6.5	-3.1	0.0	1.1	0.6
Foreign debt/GDP (%)	119.0	102.7	93.1	97.9	93.4
FX reserves (months of imports)	9.9	9.1	8.2	7.8	7.8

Outlook and risks	Last	Previous
Political Risk (1= max; 10= min)	6	6
Spreads (CDS 5y bps)	Na	Na
Fitch*	BBB/S (Apr. 2016)	BBB+/N
Moody's*	Baa3/S (Apr. 2016)	Baa2/N

Note: (*) rating of long-term sovereign debt in foreign currency; F (Forecast); NA = Not available
Sources: EIU, Thomson Reuters - Datastream, Moody's, JP Morgan, IIF, IMF, World Bank, EBRD, ISI, EC, ICE, Transparency International, Heritage Foundation

Belarus

Real economy	2016	2017	2018	2019F	2020F
Population (million)	9.5	9.5	9.5	9.4	9.4
Per capita GDP (dollar PPP)	18,095	18,891	20,003	20,820	21,841
Real GDP (% change) %)^	-2.5	2.5	3.0	1.8	2.2
Inflation (average) (%) ^	11.8	4.9	6.0	5.3	5.0
Government budget balance/GDP (%)	-1.7	-0.3	2.3	-2.0	-1.7
Government debt/GDP	53.5	53.2	47.8	51.1	51.9
3-month rate (%)	21.2	13.4	10.1	9.7	10.0
Exchange rate local currency/USD (average)	1.99	1.93	2.0	2.1	2.2
Exchange rate local currency/EUR (average)	2.21	2.18	2.36	2.37	2.57

External vulnerability	2016	2017	2018	2019F	2020F
Current balance (USD Bn)	-1.6	-0.9	-0.3	-2.4	-1.5
Current balance/GDP (%)	-3.4	-1.7	-0.4	-4.0	-2.3
Foreign debt/GDP (%)	78.6	73.0	65.5	67	69
FX reserves (months of imports)	2.0	2.4	2.1	2.0	2.0

Outlook and risks	Last	Previous
Political Risk (1= max; 10= min)	NA	NA
Spreads (CDS 5y)	NA	NA
Fitch*	B/S (Jan. 2018)	B-/S
Moody's*	B3/S (Mar. 2018)	Caa1/N

Note: (*) rating of long-term sovereign debt in foreign currency; F (Forecast); NA = Not available
Sources: EIU, Thomson Reuters - Datastream, Moody's, JP Morgan, IIF, IMF, World Bank, EBRD, ISI, EC, ICE, Transparency International, Heritage Foundation

Armenia

Real economy	2016	2017	2018	2019F	2020F
Population (million)	3.0	3.0	3.0	3.0	3.0
Per capita GDP (dollar PPP)	8,653	9,476	10,176	10,828	11,551
Real GDP (% change) %)^	0.3	7.5	5.2	4.6	4.5
Inflation (average) (%) ^	-1.4	0.9	2.5	2.1	3.0
Government budget balance/GDP (%)	-5.6	-4.8	-1.8	-2.5	-2.0
Government debt/GDP	47.0	48.3	48.5	48.0	48.2
3-month rate (%)	10.4	6.0	5.75	5.75	6.0
Exchange rate local currency/USD (average)	480	482	480	490	495
Exchange rate local currency/EUR (average)	532	543	566	554	579

External vulnerability	2016	2017	2018	2019F	2020F
Current balance (USD Bn)	-0.3	-0.3	-1.2	-0.9	-1.0
Current balance/GDP (%)	-2.3	-2.9	-9.7	-4.6	-4.3
Foreign debt/GDP (%)	94.4	91.2	87.9	82.9	83.6
FX reserves (months of imports)	5.9	4.9	4.1	4.1	4.0

Outlook and risks	Last	Previous
Political Risk (1= max; 10= min)	NA	NA
Spreads (CDS 5y)	NA	NA
Fitch*	B+/P (Dec. 2017)	B+/S
Moody's*	Ba3/S (Mar. 2018)	B1/P

Note: (*) rating of long-term sovereign debt in foreign currency; F (Forecast); NA = Not available

Source: EIU, Thomson Reuters - Datastream, Moody's, JP Morgan, IIF, IMF, World Bank, EBRD, ISI, EC, ICE, Transparency International, Heritage Foundation

Kyrgyzstan

Real economy	2016	2017	2018	2019F	2020F
Population (million)	6.1	6.3	6.4	6.5	6.5
Per capita GDP (dollar PPP)	3,538	3,706	3,844	3,979	4,122
Real GDP (% change) %)^	4.3	4.6	3.5	4.5	3.5
Inflation (average) (%) ^	0.4	3.2	1.5	2.2	4.9
Government budget balance/GDP (%)	-6.4	-4.6	-1.3	-3.3	-3.0
Government debt/GDP	59.1	58.8	56.0	56.1	55.5
3-month rate (%)	7.0	5.0	4.8	4.8	4.8
Exchange rate local currency/USD (average)	69.9	68.9	68.8	69.8	70.8
Exchange rate local currency/EUR (average)	77.3	77.2	81	79	83

External vulnerability	2016	2017	2018	2019F	2020F
Current balance (USD Bn)	-0.8	-0.5	-0.7	-0.8	-0.7
Current balance/GDP (%)	-11.6	-6.2	-8.7	-9.6	-7.7
Foreign debt/GDP (%)	99.7	91.0	85.0	84.7	82.3
FX reserves (months of imports)	5.0	5.1	4.7	4.6	4.4

Outlook and risks	Last	Previous
Political Risk (1= max; 10= min)	NA	NA
Spreads (CDS 5y)	NA	NA
Fitch*	NA	NA
Moody's*	B2	NA

Note: (*) rating of long-term sovereign debt in foreign currency; F (Forecast); NA = Not available

Source: EIU, Thomson Reuters - Datastream, Moody's, JP Morgan, IIF, IMF, World Bank, EBRD, ISI, EC, ICE, Transparency International, Heritage Foundation

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