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**JUNE 20–22, 2013**

**Russia's New Horizons**  
**REGIONAL ECONOMIC COMMUNITIES: INTEGRATION TO COMPETE AND**  
**PATHWAY TO INCLUSIVE GLOBALIZATION**  
**Roundtable**

**JUNE 20, 2013**  
**11:45–13:00, Pavilion 5, Conference Hall 5.2**

**St. Petersburg, Russia**  
**2013**

**Moderator:**

**Viktor Khristenko**, Chairman of the Board, Eurasian Economic Commission

**Panellists:**

**Peter Balas**, Deputy Director General for Trade, European Commission

**Erik Berglof**, Chief Economist, Special Adviser to the President, European Bank for Reconstruction and Development

**Angel Gurría**, Secretary-General, OECD

**Kairat Kelimbetov**, Deputy Prime Minister, Government of the Republic of Kazakhstan

**Pascal Lamy**, Director General, WTO

**Philippe Le Houérou**, Vice President for the Europe and Central Asia Region, The World Bank

**Alexei Likhachev**, Deputy Minister of Economic Development of the Russian Federation

**Igor Maksimtsev**, Rector, St. Petersburg State University of Economics

**Valery Muntiyán**, Government Plenipotentiary for Cooperation with the Russian Federation, States-Participants of CIS, EurAsEC and other Regional Groupings

**Igor Petrishenko**, Ambassador Extraordinary and Plenipotentiary of the Republic of Belarus to the Russian Federation, Special Representative of the Republic of Belarus for matters of integration co-operation within the scope of the Union State, Customs Union and Common Economic Space, the Commonwealth of Independent States, the Collective Treaty Security Organization and the Eurasian Economic Community

**Alexander Rahr**, Senior Advisor, Wintershall Holding; Research Director, German-Russian Forum

**Vladimir Salamatov**, General Director, World Trade Center Moscow; Chairman, Committee on Economic Integration of the SCO and CIS, RF CCI

**Igor Shuvalov**, First Deputy Prime Minister of the Russian Federation

**Andrei Spartak**, Director, All-Russian Market Research Institute OJSC

**Tatiana Valovaya**, Member of the Board, Minister on Principal Areas of Integration and Macroeconomics, Eurasian Economic Commission

## **V. Khristenko:**

I welcome the participants of our round table 'Regional Economic Communities: Integration to Compete and Pathway to Inclusive Globalization.'

The title itself contains two key concepts, with two key matters to focus on: globalization and regionalization. This is no accident, of course, because these two processes, globalization and regionalization, have largely determined the shape of the changing world in recent decades. There have been times when these processes have run in parallel, without really affecting one another. There have also been times when they have come into sharp conflict. Either way, it is these processes that were responsible for forming a world which in 2008 found itself in a global financial crisis, which, in turn, was a significant catalyst for regionalization and integration all over the world. In this sense, what we see today in all areas of the world – the rapid development of integration processes – certainly cannot be seen as national or regional protectionism, but it is rather an attempt to find answers to the challenges that have arisen due to globalization.

In my opinion, when people talk these days about the second wave of the financial crisis, it would perhaps be more accurate to describe it as a crisis of globalization. To some extent, this means that the objectives and processes that were once launched or managed have now changed. The major global players have changed, but the management systems remain the same, and they are no longer able to ensure sustainable development. And in this respect, in my opinion, the world's future course will be determined by the discourse between the integration structures, and it will depend on the effectiveness of these same integration structures, and the effectiveness of the discourse between them. That is the formula: national governments, integration structures, and the discourse between them – that the changing world will take shape over the next 50–70 years. Let that statement serve as our starting point.

I would now like to move on to our presenters, the speakers on the panel. And first of all I would like to give the floor to Jose Angel Gurría Trevino, Secretary General of the Organization for Economic Cooperation and Development (OECD). This is an

organization that went through a regional stage during its development. It was created as a regional organization, but after a while it became a global institution that united developed countries. In fact, it is those countries that have claimed responsibility for the processes of globalization, those countries that have declared a mission associated with achieving openness, transparency, and peace, and on that basis, reducing the gap between rich countries and poor countries, reducing conflict, and ensuring sustainability in development.

I would just like to ask Mr. Gurría: to what extent has this mission been fulfilled to date? What is the opinion of the OECD on how we can get out of the current crisis, and what is the time frame? And, for that matter, what must be done in order to be able to progress towards a sustainably developing world?

Thank you.

**A. Gurría:**

Thank you. Let me start by saying that today we have a very mediocre economic situation; really a mosaic of economic situations around the world. We clearly have one region which is performing better, and that is the United States. Notwithstanding the fact of the automatic cuts in their budget for legal reasons, because they could not reach political agreement, their economy is still growing robustly, I would say. They have 1 – 1.5% growth on the table and they are still growing, which means there is really something underlying that is moving things along. The US economy is also improving with about 38 months of continuous job creation. Although they do not create jobs at the speed that we would like, they have recovered about 3 million of the jobs lost before. Japan is doing better because they are applying not only monetary stimulus, but also fiscal stimulus, which is a very unique combination. Before they had a very typical formula: a loose monetary policy and a tight fiscal policy. Japan is practicing a loose monetary policy and a loose fiscal policy, at least in the short term, and now they are applying structural measures, the third arrow in their type of economic package. So that, again, looks good. Matters are not so good in Europe. The economic spectrum is practically flat and negative in many cases

and not looking good for the rest of 2013, although it may pick up towards the end of this year, going into 2014. Then, of course, in the case of the large emerging economies, China is moving a little south of eight per cent, but may be moving north of eight per cent by next year. They are having a problem with the credit crunch as we speak. In the case of India, they have had a slowdown in their growth. So, there are many speeds of economic development and recovery, and economies do not have a single common focus in terms of how to get there, but that brings us to our panel for today: regional economic communities and regional integration – can they help? And the answer is, absolutely, yes. There are a lot of things going on in this sphere, and I have to say that this is great, because trade has always been a great driver. Doha did not get very far. We did not close the Doha Round because we are going into trade facilitation negotiations at the end of the year. Basically, we tend to overlook that there is a lot of activity. I was in Loch Erne two days ago with the G8, and the leaders there announced, of course, the launch of negotiations between the EU and the United States. I think this is very exciting and offers great potential. It could mean an injection of growth, jobs and trust, because trust is something we are also missing. The Trans-Pacific Partnership is also very exciting and offers very interesting possibilities. It can get the rest of the world involved. Of course, the Eurasian Economic Community is, again, a very exciting possibility, and something which can obviously help. They would provide what we are missing. We are short of growth. We are short of jobs. As you know, unemployment in the Euro area is at 12%. Youth unemployment is at 26%. In some cases, it is as high as 50%. We need to build trust in the institutions that we have created over the last 100 years, and trust in governments, trust in ministers, prime ministers, presidents and the banking system, as well as trust in the political parties. Now there is a lot of cynicism and people are already doubting whether they should continue to trust these institutions, because they are not delivering. So what is happening now in terms of regional economic communities is very exciting and, I would say, provides a very interesting alternative to our traditional view of economic recovery and growth. This can really be a big catapult, a big start, a big lever for these regional economic communities.

Another thing that is extremely important is that they cover very large swaths of ground. The transatlantic alone comprises 50% of the world's GDP, 30% of the world's trade and 20% of the world's investment. Usually, when a bilateral agreement is made, it makes up 0.5% or 0.05%, so this is huge, this is enormous, and therefore their work can have a very important impact. Now the benefits we have calculated reach about 250 billion, to be spread mostly across the US on one side, with the Europeans on the other, but the rest of the world will also benefit because of global value chains and because of the way imports and exports work today. There would be a very large impact in terms of an overall boost of GDP. Then we have the Eurasian Customs Unions, ECU. The name is a little strange, because once ECU signified the European Currency Unit, but that means that it is probably integrating in that direction, which is good. The Eurasian Customs Union, again, is something very important and represents a striking departure from what we have seen in the last 20 years. This is a Russian-led initiative in the region. It is ambitious. It is more ambitious, certainly, than previous initiatives have turned out to be. In the past, it did not go very far. Clearly, here we are talking here about a truly vivid, global, multilateral system, and this proliferation of regional agreements typically implies that they risk the success of the whole. If we have more bilateral or regional agreements, this will make it even more difficult to make multilateral agreements. I agree with the fact that ideally we should go for multilateral agreements, but this has eluded us. The question is, should we shrug our shoulders and say, "Okay, so be it", and do nothing? No. The answer is, we go for what is possible. But, as we were discussing a moment ago in another panel, we must make sure that the architecture of these regional economic communities, these regional economic integrations, are consistent and that they could eventually add up to a type of multilateral organization. This non-discriminatory approach could provide for additional members to join, and from the regulatory point of view there would be no exclusions. Let me finally say that these agreements would tend to have some degree of overlap. Do we have a choice? I do not think so. I think we should go for it. Does the degree of overlap provide unbearable obstacles that we

cannot overcome? The answer is no. Regional economic communities come naturally. They happen because they were probably meant to happen and because they are easier to put together, and because they have many more things in common than any discussion on a worldwide scale. However, let me end on a more multilateral note. We are going to have worldwide discussions about one particular subject towards the end of the year, which is trade facilitation. I can say that for every 1% that we reduce the costs of global trade, we will accrue 40 billion in benefits. About two thirds of that will go to developing countries. The potential we have to reduce costs throughout the world goes anywhere from 10 to 14, or 16%, depending on the country. So you can multiply that by the benefits. Even if you are very modest in your ambitions, you can see the enormous spill over that this could have. So, let us go for regional economic communities. Absolutely, yes. But let us not lose sight of the bigger target, which is a more multilateral trading system. Thank you.

**V. Khristenko:**

Thank you, Mr. Gurría.

Mr. Gurría spoke about the various models and various formats that are emerging today. The Transatlantic Partnership, 50% of global GDP, the Trans-Pacific Partnership, and so on. This once again highlights the fact that we are all currently involved in a challenging search for the right solutions, and shows how difficult it can be to reconcile this. Even within this room it has proved impossible to reconcile the electricity. The microphones have stopped working, so we are using portable microphones. In other words, nothing is straightforward in this world.

And now I would like to give the floor to Tatiana Valovaya, someone who is very well known in integration processes in many different areas, in order to try to shed some light on the most important thing that is currently taking place within the context of the Eurasian Economic Union project – both internally and from the point of view of the external environment, taking into account, amongst other things, the views expressed by Mr. Gurría.



**T. Valovaya:**

Thank you.

I would like to expand on the topic that Mr. Gurría has already begun to discuss: to what extent regional projects are compatible with a multilateral global project.

And I would like to say that, in my opinion, when we talk about the first global crisis that we have been experiencing at the beginning of the 21st century, and even when we talk about the crisis of globalization, it would be more accurate to talk about a crisis of the global economy, in the absence, or shortage, of genuine global management. In other words, what we now have is a global economy at the micro level. Businesses, banks, and financial systems are truly global in nature, and what is happening right now in Tokyo will have a knock-on effect in London in 30 seconds. But, unfortunately, we have not been able to come up with a global system for managing these processes.

Moreover, in the second half of the 20th century, there were two parallel processes. At the micro level, there has indeed been full internationalization of economic processes. But at the institutional level, on the contrary, there has been a fragmentation of the global map. Because if we take a look at that map, we will see that there were about sixty countries in the League of Nations, the United Nations was formed by about fifty countries, but it now consists of about two hundred countries. Indeed, in the second half of the 20th century, the number of independent sovereign states playing a part in the global economy rose dramatically. And, of course, it has become practically impossible to form relationships within the old global structures. The world has indeed become fragmented.

And so, in my opinion, integration does not mean a fragmentation of the globe, but is instead a route towards unification, a route towards the creation of major players who can overcome the fragmented map of today's world by virtue of the fact that major economic associations are appearing, which, as has already been discussed, foster economic relationships, and even have some overlap between one another. In this regard, of course, Mr. Gurría quite rightly said that all of this would be

possible if economic associations were compatible and existed in accordance with distinct, and to some extent shared, principles.

It is no accident that when we begin to work on the creation of the Eurasian Economic Community, the Customs Union, and the Single Economic Space, we have to look very carefully at the experience of the European Union, and at its history, which showed that it was possible to create supranational regional economic integration – for the first time in the world. Another such association is our Customs Union, which also decided to establish supranational structures.

That is why when we talk about the development of integration within the Eurasian Economic Union, on the one hand we look at its position in the global context, and on the other hand we assess what further steps should be taken. There is always a dilemma in development: you can develop in an intensive way, deepening integration; or you can develop in an extensive way, expanding your geographic coverage. And at some point it becomes clear that the path of intensive development is largely more effective than extensive development on its own. Although, of course, any integration association, if it is to develop successfully, begins to ‘hoover things up’, because its active development begins to draw its neighbours into this orbit of integration. This process is entirely normal, but is taking place with the proviso that this integration association itself is continuing to deepen. We are therefore specifically setting ourselves the goal, now, of developing integration. We already have a clear agenda to work towards for 2015. First and foremost: we need to create the Eurasian Economic Union, within which there will be the fully formed Single Economic Space, ensuring all four freedoms. And, as was decided at the last Organization for Security and Co-operation in Europe (OSCE) Summit in Astana, the Single Economic Space should be operating by 2015 without any exceptions or limitations.

This is a very grand and complex task. Suffice to say that the European Union has been working on this problem for 18 years. In other words, their ‘Customs Union’ emerged in 1968, and their equivalent ‘Common Economic Area’ was only formed in the mid-80s. We will try to solve this problem quickly, because we have already

removed these barriers to a much greater extent. The statistics have already confirmed this. If we take the data for 2012, we can confidently state that there has been a definite integration effect.

In the past two years, the growth rate in our bilateral trade has increased rapidly, but was lower than the growth rate in our foreign trade. But in 2012, amidst an increase in foreign trade of only around 3.5%, our mutual trade increased by 9%. Interestingly, at the same time, our share of trade in manufacturing is starting to see substantial growth. The share of trade in machinery and manufacturing equipment during the period in which the Customs Union has been operating has increased from around 18% to 23%. This is a fairly significant increase in three years, and we believe that this is evidence of the fact that integration is moving in the right direction.

Now our task is to prepare a kind of 'White Paper', in order to ascertain what should be removed from the Single Economic Space, so that, by studying them, we can formulate a path towards removing these exceptions and make an effort to succeed by 2015. The functioning of the Eurasian Economic Union from January 1, 2015 should mean the full functioning of the Single Economic Space.

This raises the question: where, globally, are we positioning this Eurasian Economic Union? In our opinion, it is a natural partner for the European Union, the Trans-Pacific Partnership and Transatlantic partnership associations. This is precisely the realm of overlapping regional integration associations that will enable a global system of management to be developed. Because if all of these organizations are based on clear common principles, then it will be much easier for a few major players to negotiate than it will for two hundred countries that have quite different national agendas.

In my view, the development of Eurasian integration is not fragmentation, and it is not isolation from global processes of any kind. On the contrary, this should be a successful project of Eurasian integration into the newly emerging global economy.

Thank you.

**V. Khristenko:**

Thank you, Tatiana.

I remember that some time ago, the European Bank for Reconstruction and Development published its analytical report on areas of integration in the former Soviet Union. And the project that Ms. Valovaya was talking about was the most successful integration project in the former Soviet Union.

In this regard, I would like to ask Erik Berglof a question. From your perspective, as an expert who has deep knowledge of the subject matter and follows this topic, on the one hand, what are the most significant risks, and on the other – what opportunities exist today in the Eurasian project?

**E. Berglof:**

Good morning. I agree very much with what Angel Gurría said and I think it was also implicit, and sometimes explicit, in what Mrs. Valovaya said. Regionalism is here to stay, globally; regionalism will be something that we have to learn to live with. Of course, the way we should try to view it is as a stepping stone to something more ambitious at the international level. I have the same thinking about the Eurasian economic space and the integration process in this part of the world. Early on, we were dismissing this as something more for promoting WTO negotiations from the Russian side. I think that is a big mistake. There are very real economic and political consequences. There are very important resources being devoted to this initiative both in terms of work to improve institutions and the devotion of very qualified human capital to this project, and we should take it seriously. We have tried to do so, as Mr. Khristenko said. We have looked at this. It is still very early to assess this, but I think it is important to look at what the consequences are. It may affect how we look at the process going forward. Of course, with any trade arrangement like this you want to look at the positive side: at trade creation, increased mobility of factors of production, global capital of labour and, very importantly also, what the impacts are on the institutions of countries that participate. On the negative side, of course, we could have trade diversion, making trade less efficient in countries. We could

also have inequality. One of the objections to this in the beginning was that it includes Russia, a very large country, and then you have these smaller economies that might not benefit to the same extent. There is also a strong natural resource dependency, which is not the best basis for this type of integration. When we look at all these factors, it is clear that there have been gains from trade. It is also clear that there has been trade diversion. When you look at the net results, trade creation dominates, but the benefits have not been distributed equally. Clearly Russia has benefited more from this to date. I think that this is something everyone needs to take into account going forward, finding ways of re-allocating assets, as has been done in other arrangements, to support those that may not have benefited as much in the beginning. But also, very importantly, the real benefits are for the global community, if we can reduce non-tariff barriers and facilitate trade, and we need to have more emphasis on that. When we look at investments, investments have not occurred very much. Mostly, there have been investments in Belarus by Russian companies. For the rest, there is enormous potential for investments across these different countries. Finally, looking at institutions, you see these kinds of reactions. When you look at the institutions that we care about for promoting economic activity, a good business climate and so on, there is not much difference between countries and there may be many similar weaknesses in other countries. The real potential here comes from improving these institutions at the federal level of the Eurasian economic space, and that is what happened in the case the European Union. So, just to summarize: we should take this experiment very seriously. We should have more focus on getting rid of non-trade barriers, more focus on the mobility of factors of production, and facilitating the mobility of investments, and the mobility of labour. We should work a lot to try and learn from other experiences. We need to find what the best practices are for building institutions in the economic space and try to use that vehicle to promote institution improvement in individual countries. Let me end with a word of caution. We see what happened in the European Union. If you accelerate this process too fast and do not think about the differential impact across the different countries that are part of this arrangement, it may backfire. So what I

would argue is that we should proceed with caution, focus on how we can rebuild and promote institutions at the national level and think about the differential impact across different countries. Thank you very much.

**V. Khristenko:**

Thank you very much, Erik.

I think that the risks and opportunities that have just been described were to some extent embedded in the foundations of the Eurasian project 20 years ago. About 20 years ago, this idea was put forward by the President of Kazakhstan, Nursultan Nazarbayev, and its implementation proceeded quite slowly until recently. The last few years have been a period of significant activation and the launching of new formats and achievements: the Customs Union, the removal of barriers, the removal of boundaries, and the beginning of the formation of the Single Economic Space. And the period of time available in order to achieve systemic results in respect of this, to make new legislation, and to develop a new legal framework based on the best international and national practices is, of course, very limited for us. And the presidents have established the goal of completing the legal work in the main by 2015. Of course, there is no need to expect an immediate effect from the implementation of these measures here and now. It is a grand, lengthy, systemic project. Nevertheless, this effect is expected of us. Today we heard about mutual trade, but mutual trade is a small part of the economy, especially when it comes to trade in goods, keeping in mind what the service market is and what kind of share it has. There is much more to be done, of course.

This is not taking place in the most favourable global environment. Of course, it has an impact on the development of the Customs Union and the Single Economic Space, and the economies of the three countries that are part of them, and this also creates unnecessary risks and unnecessary pressure. This is perhaps pushing us, however, towards modernization and structural changes to a greater degree. This is a complicated set of circumstances.

Tension is also being created within society. I think it is extremely important to try to maintain mutual relations globally and regionally, whilst also keeping in mind the substantial importance of maintaining them on a national level, as Mr. Berglof has just said.

In respect of this issue I would like to offer Kairat Kelimbetov the opportunity to say a few words. Thank you.

**K. Kelimbetov:**

Thank you very much.

I too would like to enter the 'globalization versus regionalization' debate. Tatiana Valovaya quite rightly noted that any regionalization is probably an attempt by certain groups of countries or clusters of countries to become integrated in the process of globalization.

Prior to 2007, globalization was something that was only positive. There was economic growth throughout the world, and a credit boom, which ultimately led to the events of 2008 and 2009. For the first time, post-Soviet countries were faced with the threat of the global financial crisis. Regional integration in Eurasia is, without question, a systemic response – a kind of attempt to jointly meet all the challenges of the age that exist today.

Globalization itself is was a positive trend. We saw world trade increasing over these years, and the geographic specializations of many countries being clearly allocated. Of course, our countries specialize mainly in the export of raw materials and mineral resources, but we would also like to diversify.

An approach whereby people in the Eurasian space actively participate in globalization, rather than denying it (such as the process of Russia's accession to the WTO, the process of completing negotiations on Kazakhstan's accession to the WTO, and the dialogue with the OECD, which the Russian Federation commenced earlier than Kazakhstan, and is still continuing) represents an understanding of, and a desire to meet, the best international standards, both in the corporate sphere and in the sphere of state regulation. Working with multilateral institutions such as the

World Bank and the OECD is an integral part of the work that will be done within the Single Economic Space and the future Eurasian Economic Union. When people ask what the Eurasian Economic Union is, I would once again like to reiterate that first and foremost it is about following the best international practices, and compiling our own best practices and spreading them within our three countries.

Furthermore, I would like to say that the nature of regionalization is primarily the desire to maintain a certain national economic identity. Because if you take globalization to absurd lengths, it is clear that there are some places with very well-developed areas, with infrastructure and manpower, so that the rest of the world is not required to deal with such things, which many countries probably do not agree with. In this regard, we are now actively studying the experiences of the European Union. I think that this fifty-year integration period presents an unlimited opportunity for study. But even more interesting is the fact that before our very eyes the whole organism is being reorganized, and the thoroughness with which Europeans are diagnosing its positive and negative trends, and the solutions they are proposing. We see that there are some countries that are very successful, but there are also countries that are not as successful. What should be done about them?

In this regard, of course, the issue of the extensive expansion of the Eurasian economic space is currently on the agenda. There was recently a meeting in Astana, at the level of Heads of State, and applications were accepted from Kyrgyzstan and Ukraine to be observers. On the one hand, this is pleasing, because the Single Economic Space is becoming a kind of centre of gravity for interests and investors, and various governments. But on the other hand we recognize that there should be very strict adherence to all the principles upon which our organization was established. Tatiana is quite right in saying that we are engaged in an intensive process right now, when the law of the Single Economic Space itself will be interpreted as a law which, as a rule, has no exceptions, rather than one which, as a rule, is subject to exceptions. We are actively working on this. I think that by May 2014 we will have the first results in this area.



But I would still like to return to the question that Mr. Gurría raised: what is the nature and structure of the association we are creating? What should we strive for? On the one hand, these are issues involving regulation and the creation of some kind of supranational regulators, which would enable many processes to be moderated more effectively and flexibly. But, on the other hand, it is also about acquiring new competencies, without question. If we recognize that there is a certain lagging behind on the technological front, then that is something we must overcome. There are many ways to overcome this. We are seeing cross-border clusters being created all over the world, people joining forces in the fields of science, technology, and education, and, most importantly, which markets are being targeted. For Russia, Kazakhstan and, to a lesser extent, Belarus, the European Union is the number one trade partner. And, of course, especially in terms of attracting investment and the transfer of technology, we would be very grateful if we could continue this work even during this difficult time.

On the other hand, the centre of gravity in the global economy has now shifted to Asia. We know that by 2050 China and India will be in the world's top three economies. Accordingly, we cannot turn a blind eye to this, and we are utilizing opportunities for cooperation. Russia and Kazakhstan are members of the process of economic integration as part of the Shanghai Cooperation Organization. This represents an opportunity, too.

In other words, there is now integration at all levels. We are also seeing a dialogue within the G20, and a dialogue within BRICS – in other words, where there is not even a geographical link. And our efforts to be part of these processes, complying with the best regulatory practices in the OECD, represent our systemic response to the threats posed by globalization, in relation to loss of national economic identity, which exist today. I think that by joining forces we can overcome them more quickly and more confidently.

**V. Khristenko:**

Thank you, Kairat.

I would like to make one small correction. Here with us today is the Deputy Prime Minister of Kyrgyzstan, Mr. Otorbaev, who signed a memorandum on behalf of the president, which stipulates that Kyrgyzstan's target is to achieve full membership of the Eurasian Economic Union. It is Ukraine that has the goal of obtaining observer status.

Kairat spoke about the European Union and relations with the European Union. I would now like to give the floor to Mr. Rahr, an internationally renowned expert and someone who has done a lot to promote cooperation between Russia and Europe. He once specialized in mutual relations between Russia and Germany, and used these as an engine for promoting the idea of integration.

But my question is not about what things were like in the past, but about the situation now. For example, there was a time when the project of developing the Common European Economic Space was relevant for Russia and the European Union, which was wider and more liberal in scope than the Free Trade Zone Agreement. Unfortunately, in the first half of the last decade, it ceased to develop. Mr. Rahr, don't you think that the project for a Single European Economic Space could once again become relevant, but as a project for the Eurasian and European Unions?

**A. Rahr:**

Thank you, Viktor. I will try to give you an answer to that. But first, I would like to put the question bluntly: why is the European Union currently cautious about developing closer ties with the Eurasian Union? The answer is very simple. The West believes that the Eurasian Union has different values. We have not touched on the issue of values, but it is never far away. So I would prefer to phrase the theme of this session differently: Regional economic communities: integration to compete and/or a pathway to inclusive globalization – to highlight this difference.

After all, the question can be posed as follows: is there a future in various forms of regional integration, or is the future in globalization, which is rapidly unifying the global economy? There are two trends in political schools of thought. Will we have a

unipolar world or a multipolar world? Will we have cultural and political diversity or will we see a supremacy of universal values, which more and more people are discussing in the political domain, and now in terms of the economy? Will there be competition between the regional entities, and between different currencies? Or will the world seek to try to create global rules, with a global government under the G8 or the G20 and the dollar dominating as the main global currency? Will our world continue to have state sovereignty, with economic decisions made by national governments and international law, in the traditional sense, prevailing? Or are we entering another world, where concepts such as the role of states, borders, and the supremacy of lofty moral principles will be blurred; and not only in terms of human rights, but also some sort of universal rules that the world will create and control, including international sanctions, military intervention, or by means of international courts, against those who do not abide by these rules? I think this is a very deep topic, and there will be a lot of debate about it over the next few years. The world is changing.

Who represents these different parties? It seems to me that, roughly speaking, Russia and the other BRICS countries want to act in accordance with the traditional format, and the Western countries, and the Transatlantic community – in accordance with the globalist scheme.

Many people are asking themselves how this can be reconciled. I find it very interesting that when you look at what is happening in Europe, it would appear that the key to solving the issue of the new world order, politically and economically, can be found here.

It seems to me (and I would like to raise this issue at our Forum) that there are two competing ideas and competing models. A few months ago, the Americans proposed to the European Union the establishment of a free trade zone between the EU and the US. Negotiations went on for 15 years, and the Europeans' response was lukewarm. But there is a great deal of enthusiasm now, at least in Germany and the northern countries of the European Union. Talks have now begun, and in July and August of this year, they will enter their decisive stage. This means that the

ideas with which Russia flirted in respect of the European Union, in regard to creating a free economic and trade zone between the EU and Russia, are being not so much postponed as put on the back-burner. Many say that it will not be possible for the European Union to create both of these zones. The general feeling is that we are more likely to see a Western zone than an Eastern one. However, it would be the United States, rather than the European Union, that would benefit from such a union. It seems to me that if you look at the economic data, if the European Union establishes a free trade zone with Russia, the European Union will benefit in the short term. Russia would be suited to this.

Why are the Europeans not choosing to go down this route? It is an interesting question. I think it is all to do with politics, but political issues ought to be solved together. Indeed, the idea of a single economic area, 'European Union–Eurasian Union,' in which all of these values would be discussed, is extremely important. This is a very important political project that we can really concentrate on. It would not run counter to the first project that the European Union is now developing in respect of the United States of America. It would be a win-win situation, because it makes sense – an exchange of technologies for energy in the initial stage, and then the deepening of cooperation, plus a huge market for European goods. I think there is a need to convince Ms. Merkel, who will arrive here tomorrow, to examine it more closely as well.

Thank you.

**V. Khristenko:**

Thank you, Alexander.

Perhaps Peter Balas would like to give us an immediate response to that? Just three to five minutes on the issues raised by Mr. Rahr. All the more so given that this is not the first time you have participated in such panels. Are there any changes taking place in this regard?

**P. Balas:**

Thank you, Mr. President. First of all, this is an issue of globalization as much as regionalization. It is a very lively question also within the EU. It is very clear that if conditions were given for a successful completion of multilateral negotiations this year, that would be the best scenario. But, as we have heard, unfortunately, this is not the case. The best should not be the enemy of the good, therefore we are working now towards more regional approaches. The US Free Trade Agreement has been mentioned, but let us focus now on the East, which is not at all neglected by the EU. After all, Russia is our second or third biggest trading partner and for Russia, and for the other two members of the Customs Union, the EU is their number one trading partner. We follow with much interest the development of integration and welcome the establishment of another integration on the Eurasian continent. From the EU side, we are ready to work in a positive and cooperative manner with this new integration. We, however, look for certain criteria. One criteria is whether this new integration will bring liberalization of conditions for business and trade compared to earlier situations. There is a mixed picture. On one hand, Russia's accession to the WTO means that the common tariffs have been greatly reduced, but at the cost that Kazakhstan's tariffs have increased a lot. This is an issue that we will have to sort out in Kazakhstan's upcoming accession to the WTO, which from the EU side we very much support. We also look at the trade measures and practices of this new integration. These are mostly positive. There are major openings in many areas, but it was also proven in a number of areas and organizations where the Customs Union is responsible that there were steps backwards. Tariff openings were not fully implemented. There were problems in technical and health areas. These are issues on which we are working with our partners. Who can be our partners? At this stage it can only be the WTO member, Russia, who represents the Customs Union in the World Trade Organization. We are trying to work in a positive manner to find solutions until all three members of the Customs Union can join the World Trade Organization. That would be the basis for speaking about an EU–Customs Union relationship, but that is still some time away. But in the interim, we would not like to stop regional cooperation. We want to

offer certain bridges for the establishment of close integration relations with some of the ex-Soviet countries, like Ukraine and Moldova, though signing of comprehensive written agreements with these countries. This would keep open the possibility of maintaining and even developing relationships with the Customs Union and the members of the Customs Union. We promote open, multifaceted, regional cooperation as a contribution to global liberalization. Thank you.

**V. Khristenko:**

Thank you, Mr. Balas. The only thing I would like to stress is that the Customs Union that has been created and is operating bases all its practices and laws on the rules and regulations of the WTO, especially in the area of trade. And this is a uniform rule for all three of the countries of the Customs Union. In this sense, Kazakhstan and Belarus de facto abide by the WTO rules not only in respect of tariffs, but also in respect of procedures and regulations. In fact, it is the sort of forward-looking adherence to all the rules that of course not only makes dialogue easier, but also makes it easier to secure investors' understanding. I hope that those in charge of our key partners also take this fact into account, especially since decision-making in these areas falls under supranational jurisdiction, and this will have to be considered.

I would now like to give the floor to Igor Shuvalov, representing the Russian Federation, and pose one important question. Russia is represented in almost all of the existing organizations. The G8, the G20, and various Pacific associations. Russia is building a long-term dialogue with the European Union, and so on and so forth. And alongside all of this, there is also the Eurasian project to think about. It is probably not easy to combine all of this, but on the other hand, it is something that must be done.

Igor, how do you think we can use Russia's global position, on the one hand, and this project, on the other, in order to move forward on all this together?

**I. Shuvalov:**

Viktor, I will address your question. But I am keen first of all to respond to what Alexander Rahr and Peter Balas said. The question of values was raised, and of political attitudes to the possible integration processes within the Eurasian Union, and getting other players involved in these processes. We are seeing a cooling off on the part of the European Union – in terms of actions, rather than rhetoric – with regard to the construction of a shared economic space with Russia. And we must, of course, admit that politics is more relevant than economics in all of these processes. The first thing I want to say is that those of us working in the configuration of Belarus–Kazakhstan–Russia, are not fostering any political integration. Everyone is treating the association that is currently the Customs Union, the Single Economic Space, and which will later become, if our hopes come to fruition, the Eurasian Economic Union, as a growing economic power, which may lead to the establishment of certain new political institutions. But at the level of national leaders, when we see presidents meeting one another, and at our level, working in the government, and at the level of experts, no one ever addresses matters of political integration in general. I want you to know about this, and I can honestly say that it is something of a taboo. Nobody wants to send the signal that we – for the time being as part of the ‘troika’ (the three), and then with the new members of the Eurasian Union – are ready to form some kind of supranational political institutions. Today, it is not a priority at all, and it is not even a secondary issue on our agenda. We simply do not have these issues on our agenda.

In each country – Belarus, Kazakhstan, and Russia – there are people who would very much like to see these institutions emerge, so that such a political superstructure could be created. Because they remember a time when there was a country called the Soviet Union. But at present, this issue is not on the agenda of any of the government bodies, nor is it on the agenda of our most senior body. And I can tell you that even within bilateral meetings, this issue is discussed in such a way that we are building and focusing exclusively on the economic order and on issues involving the creation of institutions that will contribute to economic growth.

And people fear the Eurasian Economic Union, because it will be a very powerful economic player. To date, the potential of Russia, Kazakhstan, and Belarus has not yet been realized. But it will be a truly unified market, unified in the area of grain policy, mineral resources, and much more. Things will not be the same here as they are in the European Union, where new members feel more or less unprotected. We would certainly like it if, as an economic unit, we could be a powerful global player: only then would we be able to claim the role we deserve in global integration.

The second thing that we are not creating – we are not creating any isolated associations. I would like to see the discussion of this subject come to an end, as well. We are not creating anything new that does not already exist; we are taking and creating what we want within this entity, based on some unconscionable rules that we invent for ourselves, and insulating our economies from the outside world. That is complete nonsense.

You need to know (Viktor said this, and it is true) that we are building a Eurasian Economic Union that operates on the same principles as the World Trade Organization. Moreover, even in the normal course of business within the context of the Eurasian Economic Commission, when we attend Council assemblies, what Kairat, our Belarusian counterpart Sergei Rumas and I have in mind, is the Russian agenda for accession to the OECD. And the agreement that we are going to prepare, and are already preparing, should include not only the operating principles of the World Trade Organization, but also the best legislative practices and operating principles of the OECD.

This is a very difficult task, and here, too, Russia is taking the lead. We are working on this agenda. This association, which should create a certain degree of economic strength, is open for integration into other formats. And of course, it is not trying to create some kind of uncivilized conduct, but rather uses only the best practices of the OECD and the World Trade Organization. And perhaps at this stage it will offer something new in terms of civilized principles that we are ready to discuss, both in the area of international trade and in the area of investment policy, with our partners from the European Union, APEC, and so on.



So the first thing I wanted to say was this: we are not creating, and will not create, anything that our other partners ought to be afraid of. At least, even within our governments I have never heard conversations of that nature. But there are people who want us to create this. Yes, you should be aware that in every country there are those who would like to see this. I am talking about the older generation, who grew up in the Soviet Union, and can remember those days. And when they heard that we were creating a Customs Union, they were particularly pleased, and they thought that this could be a precursor. But we must not deceive anyone, and must recognize that no one is planning to flirt with this idea: it is all about economic objectives – the objectives of our economic might.

Now let us turn to the values we share within the Eurasian Economic Union that is being developed. Of course, if you visit one of the countries of the European Union, and turn on the TV or look at local Internet sites (something you can do right now without leaving Russia, of course), you could be forgiven for thinking that we lived somewhere on the moon, and that Russian leadership values are completely alien to values held elsewhere around the world. But these are just stereotypes that are imposed by means of a well-oiled system of propaganda. After all, those experts who are well versed in what is going on in Russia, Kazakhstan, and Belarus understand that the value system operating in Russia is one that is entirely civilized. Back when I worked as a sherpa for the G8, and this year, when we are chairing the G20, we always reiterate that for all the disputes that exist between us, Russia is founded on universal basic principles and values. We advocate common principles. It is simply that the disputes that arise, in respect to many key issues, can be so complex, and since Russia cannot be defeated in these disputes, it is better to say that Russia advocates other values, which is not true. We do not advocate other values. We simply sometimes have our own point of view and do not agree that a point of view with which we cannot agree should be imposed on us – neither on our leadership, nor on the Russian people. That is all there is to it. So there is no need to invent anything here and accuse us of something that does not exist.

And whilst we are on the subject of values. There are some values that are inherent to the whole of society in each of our three countries – and there are other values that are shared by only a few groups within those societies. If, within the European Union, there is a small group of people advocating certain values, they are considered to have been completely accepted, and they cannot even be discussed from a negative point of view. Things are different in Russia. The majority of our population (I think you know what I mean) is not ready to support these kinds of values, and does not believe that they are values. And in general, it is very doubtful whether such values should be introduced everywhere as the basic principles for society's existence. The views that people hold can vary to an extreme degree. Therefore, if we take basic human rights, if we look at how a political system ought to survive and develop, how the freedom of the individual, the individual entrepreneur, or the citizen should be developed, I believe that we have only shared values.

As for particular institutions or particular issues, then perhaps we have a different attitude towards these values. But that is what makes us different countries. Because today's Russia is not the same as the Russia of 1993. The new Russia is just 20 years old. And today's Germany – is not the same as the Germany of 30 or 50 years ago. And it is impossible to expect that we will be able to skip straight from one condition to the other. This is a process of evolutionary cooperation, and the development of the machinery of integration. For that reason, the more the European Union and other countries or associations hold back on this integration path, the more it will seem to everyone as though Russia has different values. We do not have different values.

We have shared values and no political ambitions in creating the Eurasian Union. New members trying to gain admittance to the Eurasian Union will have to share not only the rules and regulations governing behaviour, but also, of course, common approaches to how we are going to develop in the future.

Now for the other formats that Viktor asked about. You know, we have found room for each of the formats with which we work. Russia does not have a format that we

are developing at the expense of another. Now we are currently conducting all integration tracks, in such a way that none of them cause any harm to the others. We certainly believe that the most important unit for us, in order to be an equal partner in global integration, is the Customs Union and the Eurasian Economic Union. Because by operating as a trio we can be much more powerful. We will then be on level terms, and comparable in terms of economic might, with the European Union and our major Asian neighbours. So this is not a case of one thing at the expense of another. Simply in order to be integrated into a single economic space within the European Union, and to build serious economic relations with China and the other countries that are part of APEC, we need to be in a sufficiently powerful position, and sufficiently civilized, ourselves. We are therefore integrating with the East, West, and South, and there is a certain logic and a clearly defined plan in all of this. We stated that there was a need to integrate with the East not because we want to minimize trade and investment relations with the European Union. We want to develop trade with the European Union. But in order for the Russian economy and the economies of all the countries in the Eurasian Union to be more balanced, we need the volume of foreign trade with the countries in the Asia-Pacific region to be at least twice as great as it is now. But this does not mean that we want less trade with the European Union, for example. We want more! But simply in order to grow by 5% a year or more, we require a completely different rate of growth in our exports.

In general, this will not cause harm to any format. But the core of this integration is still coming from the Customs Union towards the Eurasian Union. And having already formed a powerful association, we will need to progress towards having a common economic space with the European Union. It is our closest neighbour, and of course it would be good to exchange the cool relations that have developed over the last few years for a completely different mood and a different attitude. Russia deserves to be regarded as a key player.

**V. Khristenko:**

Thank you, Igor.

Our panel contains someone who, in my opinion, has some outstanding experience, experience that is associated with the most eventful and important periods in the life of the European Union.

At the time, Pascal Lamy was working as part of the team led by Jacques Delors, when he was Commissioner of the European Union. Many of the key underlying elements that are in place today were created at that time. It was a honeymoon period for relations between the European Union and the Russian Federation, by the way. In those days, it was not just the topic of a single economic space that was being addressed, but the discussion of a single energy space – not common, but single. Of course, this dream no longer exists. I do not know who is to blame for this, Pascal.

On the other hand, Mr. Lamy heads the World Trade Organization – the one institution that is identified more than any other with globalization. There is a huge amount of work to do each day in order to support the rules regulating trade.

It must be said that there are problems in both areas. And the unfinished Doha Round, and TAFTA (Transatlantic Free Trade Area), which is currently being discussed – what is this, an attempt made over the heads of the major players, bypassing the lack of proper regulation of some issues in order to create one's own vector of development? I think there are more questions here than can be possibly elaborated on. But it seems to me that there is a malfunction somewhere within the management system.

Pascal, what is your opinion?

**P. Lamy:**

Let me give you my frank answer to the basic question of the interaction, compatibility, and tensions between regional integration and global integration. My definitive view on this is that regional integration is and will remain a major conductor to harnessing globalization. The fundamental reason for this is that there remains a premium to proximity in economic integration. Not for the reasons of the

past, when there was always a premium to proximity in trade that was linked to the cost of distance in trade. This old reason for the premium to proximity is now disappearing, and the cost of distance is shrinking formidably under the impact of technology. We are living in a world where the cost of distance is disappearing. Why proximity matters still in market integration today involves areas that are culturally charged. What Igor just mentioned with regard to value is fundamental in market integration today and tomorrow. The obstacles to market integration today are not tariffs any more. They are non-tariff measures and regulatory standards: they are about food safety, lighter safety, toy safety. They are about precaution. They are about risk management. They are not about protecting the producer anymore. They are about protecting the consumer. And, when you are in the business of evaluating precaution and risk management, you work with a scale of risk in mind, which is value-tainted. Addressing a risk is locating your system somewhere between what is at risk of being bad and what could be better. This has to do with values, and values are easier to coalesce, to conglomerate, with proximity because you are dealing with people who have a similar sense of history and sometimes the same language, the same historical experience. That is the fundamental reason why there will remain a big premium to regional proximity integration. The big question is and remains whether this leads to a global convergence or whether this leads to a fragmentation, and this is all the more important now that we are talking about regulatory issues. Are we moving towards a global regulatory system that handles this sort of consumer risk management precaution system, or are we moving, because of different scales of risk perception, to something that would be fragmented? So far, so good. Regional integration for the last 50 or so years has not de-synergized with global integration. Whether you look at regional integration processes that have momentum, like the Eurasian space, what is happening in East Africa, or what is happening in Central America, which are regional integration processes which are doing well and have political momentum; whether you look at other regional integration processes which are obviously struggling, like Mercosur, like what is happening or not happening in the Andean region of Latin America,

what is happening or not happening in Western and Central Africa, or what is not happening in the Gulf region; whether they work or not, whether there is speed or not, whether there is energy or not; so far there is convergence. But let us remember that it was mostly about addressing classical obstacles to trade. The question which remains open is what will happen in the future, and on this I think the jury is still out, because what we are seeing today is another form of regional integration. It is less based on proximity, and is based on sort of mega virtual forums, some of which are clearly pluri-continental: the Trans Pacific partnership, the US and EU Transatlantic Agreement, ASEAN+6, the regional forum between China, Korea, and Japan, and the EU-Japan negotiations. These big deals are another animal in regional integration. They suggest you need to go regional, pluri-continental, before you move global. Now, whether these virtual agreements will or will not converge to a global regulatory standard is, again, an open question. If I talk about this in Brussels they tell me all this will converge because they will make it converge. When I talk about this in Washington, I am told there will be convergence because we will make it converge. When I talk about this in Tokyo, they say, "Of course it will converge. We will make it converge." Now whether each of these ambitions will reach convergence their way when other countries aim to converge the way they want, is open to question. So I would be cautious and not just rely on the fact that so far it has synergized. I am not sure if in the future it will. That leads me to operational recommendations, which I think I can make without endangering my institutional position in the WTO until the 31st of August at midnight. The first recommendation is in regards to where Russia is in this game. If you look at the five or six mega deals which I just mentioned, they encompass roughly 80% of the world's economy. Outside of these mega deals, you find Africa, Russia, Brazil, Argentina, and the Gulf. This is a question which I think Russia needs to look at. If you assume this all convergences, the only option for you would be to join without sitting at the table. Assuming that it does not converge, we would be faced with a fragmented regulatory system. In both cases, this is a problem for you. So, if I may, I would suggest that you need to be part of that game, and the most obvious and

easy way to be part of that game is probably to reenergize a deep EU-Russia integration system. I doubt that you can make that happen in the US for various reasons, and I am not sure if you would think about doing this with China, for various reasons. That, I think, is your strategic option. My second operational recommendation goes beyond what we are operating with for the moment. The reality is that there is no serious global forum for standard convergence. What we have is the Codex Alimentarius for food safety, the International Standardization Organization, the International Organization for Animal Health, and the International Organization for Plant Health, but we do not have anything like a forum, the mission of which would be to organize, oversee, and monitor the convergence these standards. Many people put this under the roof of the WTO because they do not know exactly what the WTO is doing or not doing. But the WTO, so far, is not doing sectoral regulation. Sectoral global regulation is done elsewhere. Take banking and insurance, for example, which is something that is starting to happen. There is a finance organization, which is the Financial Stability Board in Basel. This is not done by the WTO itself and I am not pretending that the WTO should enter into the business of negotiating under the WTO roof all of these food, lighter safety, car emissions, banking or insurance regulations. What I am saying is that there needs to be a system that oversees that all of this converges, and this, in my view, has to do with a sort of global convening power, like the WTO. We have in our view to find something in the future which will ensure that, including for countries like Russia, if you are mindful of regulatory convergence, you will have enough of a guarantee that moving in this direction will not harm your own economic and social interests.

**V. Khristenko:**

Thank you, Mr. Lamy.

I would like to emphasize two extremely important points. First, integration – even regional integration – does not always coincide with the concept of simple territorial integration. Of course, the reasons for integration can be incredibly diverse. We can see this in the world today. And the second thing that seems important to all of us:

in the current situation, as we accede, for example, to the WTO, there is a need to discuss not only the consequences for particular industries (factories, etc.) that arise when we accede, but about how to behave in this organization, in order to transform it, or to achieve a maximum effect in the process of renewing it. Involvement in these processes is probably one of these extremely important issues.

We have run out of time. It seems we have overrun into the next discussion. So I want to ask our two panellists one quick question and, if possible, get some concise answers to them.

Mr. Le Houérou, at the World Bank, you manage a sector that is associated with the affairs of the post-Soviet countries, as they say in the CIS, or the countries that were part of the broader Soviet system of the Council for Mutual Economic Assistance. And you are conducting structural reforms there in some shape or form. Please tell us: do the changes that take place in these countries as part of integration processes contribute to structural change, and the diversification of economies, or not?

**P. Le Houérou:**

Thank you, Chair, and good afternoon everybody. There are a lot of things that have been said already by previous speakers, so I am going to try and zoom in on a few key points. First of all, to deal with principal issues, the World Bank does support, very strongly, the openness of trade, because it has been the most powerful engine of development and poverty alleviation over the last 50 years. That is very clear to us. We are a bit less clear on regional integration. We believe it could be good or less good, but it all depends on what the external tariffs are. That is what Erik was saying with regard to trade diversion versus trade creation, and the same goes for standards. It could end up being good or less good, it all depends, and it is a very practical and empirical question. What I would like to talk about is diversification. After all, the reason why we are talking about all of this is, at the end of the day, to improve the lives of people, well-being, and poverty alleviation. When you look at the experience of the CIS (Commonwealth of Independent States) since 1995, the



picture is quite interesting. First of all, the trend of the CIS went down, but at the same time there was a concentration on exports of natural resources. But what has been the outcome of this? In the last 10 years, the income per capita in CIS countries has been multiplied by six. 100 million people have been lifted out of poverty. These are simple but very powerful figures. The first lesson is that openness has worked. Our comparative advantage, which is natural resources, has worked, and we believe that because risk management has been quite good in the CIS, with good macroeconomic policies and a stabilization fund, most resource-rich countries have avoided the famous Dutch disease so far. There is a danger, but so far there has been very good management on the macro side, and stabilization funds have been well designed and well implemented. It is very fashionable to talk about the resource curse, but we believe there is no such thing. Resources are a blessing and good thing. The problem is what you do with it, and the answer is diversification. A lot of countries make diversification part of their national plan, to reduce risk. The danger with that is in how you diversify. This is the area we are studying and writing a paper on with Igor, who is here from the Eurasian Development Bank, called "Diversified Development". What we found was very interesting. We looked around the world for different experiences, from California to Australia, Canada, Norway, Brazil, and many others. What we found was that industrial policy can be a double-edged sword. You have to be very careful. Rather than focusing on diversifying products for exports or production, we learned it is better to focus on the balance of facets, or your endowments. That means infrastructure. There is still a lag in the CIS compared with OECD countries, but even compared to Central Europe. That includes transport, but it really means all kinds of infrastructure. I think the CIS has to pay a lot of attention to this and to do it efficiently, which means good and efficient public spending. Another item is good human capital. This is not static; it moves. There is a big need for investment in education. Here, the CIS countries differ vastly. We are seeing some countries like Kazakhstan and Azerbaijan which are lagging behind in the PISA test, for example. So investment in education and health, we believe, is a priority to change the

dynamic of endowments that will result in the diversification of products later on. Finally, and maybe most importantly, is structural reforms and the build-up of institutions. We believe that physical human capital and strengthening institutions are the keys for a prosperous future of the CIS and the Eurasian area. Again, “institution” is a big word that is very convenient because we mean a lot of things by it. But fundamentally there are good policies. We are talking a lot about doing business, creating regulatory frameworks to facilitate private sector development, but it is not just laws and regulations that help harness these things. It is also the capacity of the public administration to design and implement good policies and the capacity of the courts and the judicial system to follow up and help implement them. So, again, I could discuss this for a long time, but I should just summarize by saying that we do believe that going back to the essentials is very important and there has been a lot of progress made. That is why I quoted those sizable numbers at the beginning, but we believe there is still a long way to go in these three elements of endowment: physical capital, human capital and institutional capital. These things, we believe, are the best possible industrial policies, because the second derivative of these will in fact be the diversification of products and services for production and export. Thank you, Chair.

**V. Khristenko:**

Thank you, Mr. Le Houérou.

We now have the final panellist. Perhaps we should just ask one question of Mr. Muntiyan at the end of our discussion. You are Ukraine's Commissioner for CIS Affairs. The president of Ukraine recently declared the country's intention to become an observer in the Eurasian Economic Union that is being created. This, like all activity in this area, has already caused heated controversy. You have now attended, taken part in, and listened to a panel on global and regional issues. What do you think?

**V. Muntiyan:**

Thank you.

Viktor, time is short, and I have a lot to say, but I will be brief. The problems that we are considering today are not just topical, but vital. The world today is in conflict – not just humanity's conflict with itself, but also with the environment as a whole – and the world is on the verge of chaos. And in order to prevent a Brownian motion, three heads of state have made a very good choice: they have highlighted the main vector. And the Eurasian Economic Union is the future.

Ukraine sees itself in the Eurasian Economic Union. Why? Because, firstly, according to all scientific calculations, mathematical and economic modelling, expert assessments, and even on the basis of the 'golden ratio' formula, if you take mainland Eurasia (53.8 million square kilometres) and add the territory of Ukraine – you get the 'golden ratio'. Based on all criteria, Ukraine represents the minimum in terms of scale and depth that should be in the Eurasian Economic Union. That is the first thing.

Secondly, we need to take a look at this problem in far greater depth. I listened to what Mr. Rahr had to say. He talks about the Europeans, and may God bless them and let things turn out well for them. The European Union has had seven years of recession, rather than two quarters. They are ranked 191st in terms of rate of growth. They are creating a free trade zone with the Americans. It is their national right, let them do so. But I want to warn you that even the calculations show that they will only gain 400 thousand jobs in total. This is in the European Union, in which there 287 million people in employment out of a population of 500 million. The ideal effect is an increase of 0.25%.

So that is what I want to say. The Eurasian Economic Union has great potential, because today the vital space located in the countries of the Customs Union does not exist in the world anymore. Their spiritual capital is depleted – we still have it. And for me, the construction of the Eurasian Economic Union is like 'the building of Noah's Ark.' The whole world is watching us. And an invitation for Ukraine to enter into a free trade zone with the European Union under such conditions, without participation in the Customs Union and the Single Economic Space, is, in my

opinion, 'an invitation to board the Titanic'. Therefore, while there is still time, I invite you all to participate in 'the building of Noah's Ark.'

Thank you.

**V. Khristenko:**

Thank you, Mr. Muntiyan.

Alexander even dropped his tablet after what you said about an invitation to board the Titanic.

Dear colleagues, I would like to express our gratitude to all the panellists who took part in today's discussion, and I must apologize to those who were unable to speak due to a lack of time, and to those who are waiting for us to finish.

I suppose I will not summarize our discussion, because this discussion is not yet closed – it has begun and it must continue. Specifically it must – not can, but must – continue. Because it is within this dialogue that we will find the answer to the challenges facing us.