IS A RUSSIA-ASEAN FREE TRADE AREA OF ANY USE?

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Discussion of the need to diversify Russia's foreign trade by switching its trade flows from the West to the East has intensified in the country lately. Eurocentrism of Russia's foreign trade policy has long been impeding a turn to Asia with all the opportunities this country has there to tap its commercial potential. While Russia's dependence on its two-way trade with Europe and its investments there was growing, its cooperation with the European Union ran into problems now caused by EU's enlargement to the East, now by clashes over fuel and energy. Only limited headway, at best, has been made toward a free trade area with the European Union, a visa-free travel in both directions, or in terms of the EU's mediation to help Russia join the WTO.

The global economic crisis brought forth fresh arguments in favor of a switchover in trade to Asia. The first wave of the crisis hit the U.S., in the first place, while the second wave rolled over the EU countries, revealing their unreasonably high budget deficits and government debt. EU countries' economic growth is slowing down and demand for imports is declining. Growth is Asia's hallmark now. The slump in the world economy regardless, ASEAN countries increased their aggregate GDP by 1.5% in 2009. This year, their GDP is predicted to rise by over 5%. Small wonder then that, in the view of the Russian Federation's Ministry for Economic Development, more trade is to be done with developing Asian countries showing high growth rates. In this sense, all is fairly well with China. With ASEAN, there is some movement, too, but it's much too slow. Apparently, new steps, not taken so far, are needed to bring these relations to a new level. For example, steps leading to the establishment of a Russia-ASEAN free trade area (FTA) in the foreseeable future.

For ASEAN this is a kind of standard practice. The Association has entered into FTA agreements with China, Japan, South Korea, and India, and has a tripartite agreement with Australia and New Zealand. Entry of the China-ASEAN agreement into force in the opening days of 2010 was a major event in East Asia and the rest of the world. It is a trend followed by an overwhelming majority of the region's economic players – except Russia, for now. Will it follow suit or what? Catching up with the frontrunners and doing what they have done fast is hardly what it really wants. Leaving all as it is? This option is no good just as the previous one. The real question is where and with whom to start setting up Russia's first FTAs in East Asia. How fast are we to go, and through what major stages?

A long list of various reasons – economic, political, cultural and historical – points to ASEAN as a suitable partner. The high growth rates registered by the Association's countries help maintain their demand for imports. Even though the elites in a majority of these countries have vague, or occasionally wrong, ideas about Russia, they don't have an age-long suspicion of Russia that the Cold War strengthened rather than ignited in the West and that prevents Russia from coming to Western markets in strength. Lastly, the new members that joined ASEAN in the late 1990s share with Russia the positive experience of partnership from the days of the U.S.S.R.

Expanding cooperation with Russia is identified with greater access for ASEAN countries to high technologies, chemical products, fuel, and energy. The high capacity of the Russian internal market that compares with the market capacity of ASEAN as a whole is another important consideration. Russia could become a stepping stone for ASEAN countries to a broader trade with CIS countries (provided that real integration, particularly within the framework of the new born Customs Union, is set off among Russia's closest neighbors). In yet another key area, Russia and ASEAN could cooperate by attracting investments to develop Russian infrastructure and undertake joint high-tech projects in ASEAN.

There are certainly considerable resources for trade to be boosted between Russia and ASEAN. Computations made on the basis of a gravity model (in which intensity of trade flows depends on the distance between the trading countries and their GDPs) yield convincing evidence that Russia's trade with Indonesia and Malaysia is well below its long-term potential. An FTA, if and when it comes about, could help raise trade to the desired level by liberalizing the flows of goods and investments.

Assessing prospects for an FTA with ASEAN countries one must consider the *level of their trade restrictions*. The higher an import tariff in a given country, the larger the preferential margin is to a country that sets up an FTA with it. The *extent of complementariness of trade* with a potential trading partner is another key criterion used to set up an FTA. The larger it is the lower the costs of competition between producers in the two countries. Relationships between FTA criteria are given in *Table 1*. Examples of ratings of likely signatories to bilateral trade agreements are provided in *Table 2*. The tables were built on the assumption that the complementariness factor of foreign trade structure is bigger than the import restriction factor.

Table 1. Relationship between Sectoral Trade Structure and Trade Restrictions within the Framework of Bilateral Integration Strategy

Complementariness	Import tariffs: High	Import tariffs: Low
H	FTA	Preferably FTA
L	Preferably other forms of cooperation/ liberalization of trade and investments	Other forms of cooperation/liberalization of trade and investments

The average import tariff of ASEAN countries reduced from 6.2% in 2000-2004 to 4.5% in 2005-2006 is significantly lower than it is in Mercosur countries (8.2%) and close to that of regional groups of developed countries (6.2% in NAFTA and 3.9% in the EU). The relatively low trade restrictions in many Southeast Asian countries could bring down the payoff of an FTA established with them (even though the import tariff is still fairly high in several ASEAN countries).

Judging by the general fact that Russia exports mostly products of its fuel and energy industries and that ASEAN countries export mostly manufactured goods and farming produce, complementariness of Russia's trade with these countries could hold much promise. A detailed analysis shows, however, that the complementariness of the structure of its foreign trade with Indonesia or Malaysia is not evident enough. As a result, the relationship between the criteria of an FTA set up by Russia and ASEAN is favorable, with reservations.

Most likely, it is preferred at this stage to have trading alliances with the Association's individual members and involve the remaining members gradually in them. Perhaps it is best to start with an alliance with Vietnam whose economy is growing at a high rate and foreign trade restrictions are higher than in many Southeast Asian countries. Not forgetting, though, that success or failure of the first experiment of this sort will largely impact the future of economic cooperation between Russia and the other countries in the region.

Table 2. Countries Rated According to the Criteria of Bilateral Trade Agreements Made

Import tariff	Trade complementariness	
	High	Low
H	Mercosur	South Africa, Turkey
L	ASEAN, U.S.A.	Australia, Canada

For all the possible benefits to be gained from setting up an FTA, liberalizing trade with ASEAN countries will not be an easy matter for Russia. Comprehensive assessment has to be made of near- and long-term effects of an FTA for Russia and its Southeast Asian partners. This task could be handled by a working group of experts in the government and sectoral ministries, the Academy of Sciences, independent think tanks, and the business community segment that is maintaining strong ties with ASEAN countries already. Understandably, dialogues between Russian experts and their counterparts in the Association countries could be quite appropriate. Meetings of experts could be arranged, for example, by the ASEAN Centre launched recently at Moscow State Institute (University) of International Relations (MGIMO-U) of Foreign Ministry of Russia.

Most probably, the economy's sensitive sectors – the ones to be left initially outside the scope of the free trade agreement – will be identified, too.

Not a member of the WTO, Russia's current status could be a snag in FTA talks in the short run. As long as it remains outside the WTO, its potential partners are tempted to expect unilateral trade liberalization from Russia as payment for entry into the WTO.

All these problems regardless, it is a realistic and necessary option to work for establishing an FTA with ASEAN countries. A broader network of foreign trade alliances will help to develop Russia's productive potential, raise its weight in the world economy, and switch its trade flows over to the region with the most dynamic growth. ■