

# COMMODITY TRADE WITHIN EAEU AMID THE GLOBAL ECONOMIC CRISIS AND PROSPECTS OF EURASIAN INTEGRATION

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## ABSTRACT

*The global economic crisis has had a negative effect on the international trade and international economic integration. The growing instability of global economic integration exacerbates the uncertainty in global commerce, which, in turn, causes a further worsening of the crisis. National and international statistics services report a decrease in commodity trade in general and in leading economies' foreign trade in particular. International economic agents, who have built a stable international integration pattern around themselves, are in a more favorable position. Stable external relationships enable states, who are members of integration unions, to protect unified markets against foreign competitors. The empirical basis of the research has been data from the Eurasian Economic Union statistics agencies. The goal of the study is determining the type of mutual commodity trade within EAEU, strength of integration between member states and the prospects of further integration within EAEU amid the global economic slump.*

**Keywords:** Export, Import, Foreign Trade, International Integration, EAEU.

## INTRODUCTION

Today's world economy, notwithstanding the changes in its structure, still relies on commodity trade. Production of material goods, high commodity capital turnover and, consequently, commodity-related profits, are still number-one reasons why transnational corporations continue their business work. Inevitably, global capitalist production is about the shortening of the production-consumption cycle and reduction of the unit cost per unit of time. Driven by this quite so essential stimulus, the business capital stimulates the appearance of a brand-new and more advanced infrastructure and commerce-and-sale institutions. For instance, traditional pre-industrial fair markets have given way to malls and stock markets, and these, in turn, are gradually being substituted by electronic commerce. Logistics and transportation are becoming technically advanced. Caravans and horse-driven carts have given way to trains and, later, motor vehicles and international multimodal transport/logistics hubs, which provide for quick loading and sorting of goods. Over the past thirty years, the location of major global commodity production and trade centers has changed dramatically. The biggest part of the process is the formation of new global growth areas, which have moved to Northeast and Southeast Asia. Given the rapid economic growth observed in countries located in these regions, other regions of the world, such as the Middle East, Central and Latin America, Africa, the CIS are going through stagnation. According to the World Trade Statistical Review 2018, the biggest share of global commerce, like in previous years,

accounts for the USA and China. However, the increase in global commodity export accounts for Asian states, and the highest export growth ratio from 2008 through 2018 has been observed in Vietnam (14.4%) and Bangladesh (9.8%). Manufactured goods make up the biggest share of the global commerce. Given the unstable world trade, fuel and mineral trade has decreased substantially over the last ten years (from 2008 through 2018). It is the only sphere that has not recovered from the 2008 global economic crisis yet, and it is still in the negative zone. Despite the unstable dynamics, the global export of agricultural and manufactured products has overcome the recession and is now on an upward trajectory (World Trade Statistical Review, 2019). Lately, economic integration processes are largely discussed within scientific communities. The discussion has partly contributed to the disintegration processes, which are now observed in the European Union. They provide a new glimpse into the future of the post-Soviet economic area. Evidently, integrating nations should, above all, develop a kind of relationship that should make the unification of economic systems and processes a vital factor for further development. An increase in mutual trade between parties is the starting point and a very important criterion of successful economic integration. Therefore, the research relies on the statistical analysis of mutual trade between the member states of the EAEU.

## LITERATURE REVIEW & METHODOLOGY

Matters relating to economic integration have been discussed in numerous works written by foreign experts (Albornoz et al., 2014; Aw, 2013; Gauselmann & Marek 2012; Gilmartin et al., 2013; Tiwari, 2014). Russian scientists, who focus on Eurasian integration, include Aganbegyan (2017); Vardomsky (2019); Vartanova (2018); Osadchaya (2019); Gibadullin et al., (2014); Nurieva et al. (2018) etc. However, there are still a lot of unstudied issues concerning the integration between the region's states. Over the twenty nine years following the breakup of the Soviet Union, each of the independent states - former Soviet Republics, has come its own way toward reaching its current national identity. Relations between these are different and not always easy. However, although they do face problems in building bilateral relationships, most former Soviet Republics continue to exert effort to improve economic, scientific, technological and military cooperation (Zayed, 2015; Zayed & Zahan, 2017; Zayed et al., 2018; Zayed et al., 2020; Zayed et al., 2021). A major role in the preservation of integrative tendencies has been played by Nazarbaev, N. A. – the first President of the Republic of Kazakhstan, who was consistent in the strengthening of economic ties between Kazakhstan, Russia and other members of the Commonwealth. The Republic of Kazakhstan is the co-founder and participant of nearly all integration projects being run by the former Soviet Republics (Amerkhanova et al., 2021; Goncharenko et al., 2021; Hosain et al., 2019; Iqbal et al., 2020). On November 18, 2011, the Presidents of three states (Belarus, Kazakhstan and the Russian Federation) signed a Declaration on Eurasian Economic Integration, in which they announced an intention to build a unified economic area. The parties had worked hard to build an institutional basis for the integration and, on May 29, 2014, signed a treaty and created a new integration association – the Eurasian Economic Union (EAEU). The goal of creating EAEU is declared in the treaty's first article, and that is ensuring easy transfer of goods, services, capital and workforce, running a concerted, systematic and unified policy in different spheres of economy (Treaty on the Eurasian Economic Union, 2021).

## RESULTS & DISCUSSION

Since the EAEU's inception, mutual trade between state members has grown by 32%. However, as follows from Table 1, the first year was not very successful for the association. Mutual trade fell by nearly 7%. It was during the second year of the union's existence that things got better, and positive dynamics was observed.

	2015	2016	2017	2018
<b>Export</b>				
EAEU	100	934	1209	132
The Republic of Armenia	100	1537	2228	2687
The Republic of Belarus	100	1034	1240	1266
The Republic of Kazakhstan	100	767	1027	1180
The Republic of Kyrgyzstan	100	1110	1354	1602
The Russian Federation	100	930	1203	1351
<b>Import</b>				
The Republic of Armenia	100	1075	1329	1457
The Republic of Belarus	100	893	727	819
The Republic of Kazakhstan	100	879	1116	1257
The Republic of Kyrgyzstan	100	808	926	1075
The Russian Federation	100	1022	1227	1361

Source: Mutual Commodity Trade, (2017- 2019).

It should be noted that the member states' activity is asymmetric. The mutual export/import lead/lag indexes reflected in Table 2 show that the Republic of Armenia takes a more active part in integration processes (export lead index=2.03, import lead index=1.56). The Republic of Kyrgyzstan is active in export (export lead=1.56). Other members are somewhat passive in building integration with partner states, which weakens integrative tendencies within the EAEU.

	2015	2016	2017	2018
<b>Export lead/lag index</b>				
EAEU	1	1	1	1
The Republic of Armenia	-	1.6	1.84	2.03
The Republic of Belarus	-	1.1	1.02	0.95
The Republic of Kazakhstan	-	0.82	0.84	0.89
The Republic of Kyrgyzstan	-	1.18	1.12	1.21
The Russian Federation	-	1.0	0.99	1.02
<b>Import lead/lag index</b>				
The Republic of Armenia	1	1.15	1.42	1.56
The Republic of Belarus	-	0.95	0.6	0.62
The Republic of Kazakhstan	-	0.72	0.92	1.04
The Republic of Kyrgyzstan	-	0.67	0.76	0.89
The Russian Federation	-	1.09	1.01	1.03

Source: Mutual Commodity Trade (2017-2019).

Poor integration cooperation between the EAEU member states is the union's weak point, and the union's cooperative potential is still underused. The biggest part of the EAEU's inter cooperation is between the Republic of Belarus and the Russian Federation (59%) and between the Republic of Kazakhstan and the Russian Federation (31%). The percentage of mutual trade between the Republic of Armenia and the Republic of Kazakhstan (\$10,500,000) is near zero. Armenia and

Kyrgyzstan show a similar picture. Mutual trade between Belarus and Kazakhstan is a bit higher (\$693,500,000), which is slightly above 1% of the general turnover. Although the Eurasian Economic Union boasts an exceptionally favorable geographic position between two major global economy points – the European Union and rapidly growing Asian regions, the EAEU member states' share in the global trade is tiny. The union is underusing its competitive advantage, as only a limited number of states bordering on the EAEU are involved in the process. As Vardomsky (2019) remarked, “*the EAEU model is actually a balance between the objective need for integration and objective factors limiting it.*” The EAEU demonstrates the following tendencies in its cooperation with foreign partners. Its main trade channel is directed to the European Union, mostly Germany (8.7% of the foreign trade turnover), the Netherlands (7.4%), Italy (5.5%), Poland (3.4%), France (3.0%), and Finland (2.0%). Ukraine's share is the turnover is decreasing continuously and totals 3.0%. On the Asian scene, China's share is dominant, as it accounts for 16.8% of the whole EAEU's turnover. An important role is played by Turkey (3.9%), the Republic of Korea (3.8%), and Japan (3.1%). The USA's share is 3.8% (Vartanova, 2018). Thus, the EAEU's external trade is limited, as it is confined to Europe and a few Asian countries. The biggest share of external commerce within the EAEU belongs to Russia (\$633.9 billion or 84.1% of the foreign trade turnover). The Republic of Kazakhstan is far behind (\$74.3 billion) and \$35.4 billion accounts for the Republic of Belarus. All three states have a foreign trade surplus. Vice versa, Armenia and Kyrgyzstan are countries, where import prevails over export. The Republic of Kazakhstan works harder than other states in building economic ties with non-EAEU countries. The EAEU's long-established commodity composition of export reflects the member states' resource-based specialization. The percentage of raw materials in the EAEU gross export reaches 67%. The share of process industries is extremely small: metal industry accounts for 9.6%, mechanic engineering – 3.0%, chemical industry – 5.6%, agricultural products – 5.1%. The unstable global raw materials market, on which the countries of the Eurasian Economic Union are still very dependent, puts the union on the back foot (Connecting Pathways, 2021).

## CONCLUSION

Based on the study, the following conclusion can be made: Integration processes in Eurasia within the bounds of the EAEU are weak, and commodity trade between the member states is not significant. Integration processes within EAEU are centered on the Russian Federation. Weak partnership relations between the EAEU member states are preventing the organization from reducing the impact of the global economic crisis on any of the member states.

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