

# EURASIAN ECONOMIC INTERGATION: PROBLEMS AND PROSPECTS

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## ABSTRACT

*The article deals with the formation of the Eurasian Economic Union (EAEU) based on the integration process that involves comprehensive modernization, cooperation, increasing competitiveness of national economies and the creation of conditions contributing to the stable socio-economic development of the EAEU in order to raise living standards of the population. The authors elaborated recommendations to improve the efficiency of Eurasian economic integration built upon achieving synergetic effect of uniting the potentials of member countries. In the course of the study it was revealed that the cooperation in the EAEU will ensure each member country the financial result that exceeding the one achieved by each country separately. It was also determined that to represent the level of economic development of the EAEU objectively it is advisable to implement an indicator of gross domestic product per capita at purchasing power parity. As was found out that extensive and intensive development is characteristic of the member countries of the EAEU. In the course of the study the ways of integration depending on socio-economic development of the EAEU countries were defined. To strengthen the macroeconomic potential of the EAEU the methodology of forming the trajectory of extensive development is proposed basing on the further expansion of the EAEU on the territory of the post-Soviet space assuming the entry of new members-the republics of the former Soviet Union.*

**Keywords:** Eurasian Economic Commission, Integration, Level of Economic Development, Post-Soviet Space.

## INTRODUCTION

The creation of the Belarus-Kazakhstan-Russia Customs Union on 1<sup>st</sup> January 2010 was the beginning of forming the Eurasian Economic Union of the republics of the former Soviet Union (Agreement on the customs code of the customs union) to strengthen economic ties the Eurasian Economic Commission (EEC) was created on 19<sup>th</sup> November 2011 (Commission of the customs union). The economic integration of Belarus, Kazakhstan and Russia was contributed by the ratification of the basic package including 17 agreements regulating the work of the United Economic Space (UES) on 1<sup>st</sup> January 2012 (Official site of the Eurasian economic community).

The treaty on the creation of the Eurasian Economic Union was signed by the presidents of these countries on 29<sup>th</sup> May 2014 in the capital of Kazakhstan, Astana; on 1<sup>st</sup> January 2015 this union started functioning in Russia, Belarus and Kazakhstan, on 2<sup>nd</sup> January 2015 Armenia became the member of the EAEU and on 12<sup>th</sup> August 2015 Kirghizia joined it as well.

The creation of the Eurasian Economic Union involves comprehensive modernization, cooperation, increasing competitiveness of national economies and the creation of conditions contributing to the stable socio-economic development of the EAEU in order to raise living standards of the population (The legal basis of the common economic space fully takes into account the national interests of Kazakhstan).

## METHODOLOGY

The methodological basis of the study was the dialectical approach to cognition of phenomena and patterns of socio-economic relations of the countries of the post-Soviet space in their interconnection and interdependence while creating the Eurasian Economic Union. The research is also based on the theories and methodologies presented in the fundamental works on the problems of economic integration of Russian and foreign scientists.

Classical works in this field include works by Leontyev (1990); Marx (2007); Porter (2005); Fukuyama (2004); Helpman (1981); Schumpeter (1982). Researches by Soros (2004); Stiglitz (2003); Huntington (2005) serve an important stage in the development of the international integration theory in view of the establishment of global economy. Scientific concepts on integration by Abalkin (2000); Arbatov (2002) were formed in the Soviet period, however, in the USSR international relations in general and integration processes in particular were studied as a part of ideology agenda that restricted the development of theoretical approaches towards the analysis of international economic integration. The collapse of the USSR stimulated the development of research in this field in post-Soviet countries. A significant theoretical contribution to the formation of teachings on the patterns of international economic integration in post-Soviet space was made by Glazyev (2014) and Kochetov (2012).

In our opinion that do not contradict the concept developed by the economists of the Eurasian Economic Commission (EEC), the main point of the Eurasian economic integration is to achieve synergetic effect of uniting the potentials of member countries. This implies that the cooperation in the EAEU will provide each country with the financial result exceeding the one achieved by each country separately (Kovaleva, 2015).

The use of theoretic approaches and the concept of economic integration combined with the principles of social and cause-and-effect approaches enabled to investigate the problem of economic integration in the process of creating and developing of the EAEU at a sufficiently high scientific level.

In the work the methods of systematic analysis were implemented that included a complex of general scientific methods (system, complexity, dialectics, induction and deduction, analysis and synthesis), methods of morphological analysis (management by objectives), logical modelling. The methodological unity of the consistency and complexity of economic analysis is manifested in the unity of political and economic, economic and social, economic-social-ecological approaches; in the unity of the whole and its parts; in the development of a united, universal system of indicators; in the use of all kinds of economic information.

A thorough and comprehensive political economy analysis of productive forces and relations in early capitalism in all manifestations and interrelations was carried out by Marx (2007). The methodology of such an analysis as the dialectal approach towards investigating

economic phenomena, processes and categories served as a basis of the study of integration processes in the EAEU. The consistency involves the consideration of each object-participant country as a part of a more complex system, EAEU. The complexity (from Lat. *Complexus-connection*) consists in completeness, consistency and interrelation of analysing, planning and managing integration processes of the EAEU countries. Induction is a logical means that consists in original cognition of particular integration sides and properties, on the basis of which diverse generalizations are made. Identifying quantitative and qualitative aspects characterizing the potential of the EAEU countries enables to make an objective conclusion about the integration process in the EAEU (uniting participant countries potential).

Through deduction (logical reasoning from general to particular) general patterns of the EAEU integration processes are comprehended. After that, gradually dividing them into certain groups and individual structures, they are assessed (defined) scientifically. The research process is carried out in reverse order characteristic of the inductive method, the cognition of integration processes starts with investigating general features and system-wide structure. We study an indicator of GDP (PPP)-gross domestic product per capita at purchasing power parity. Analysis as a means of scientific thinking enables to identify the EAEU and integration processes structure singling out constituent elements and establishing interrelation specifics. Synthesis is used to generalize data obtained in the course of the analysis of various features and signs of the EAEU integration processes. The morphological analysis is based on complete and strict object, phenomena, features and parameters classifications, that is, on identifying the structure of the research object, forecasting and assessing possible values of its elements with further selection of these values combinations in the EAEU integration processes. Logical modelling involves the creation of the research object image, that is, the EAEU integration processes with presenting its characteristics in a logical sequence.

## RESULTS AND DISCUSSION

The practical recommendations to contribute to strengthening the macroeconomic potential of the EAEU are suggested.

Thus, in the process of the research the main principle of economic integration that is based on the synergetic effect of uniting the potentials of member countries was determined.

In order to agree on the trajectories of the development of the EAEU and the countries of the post-Soviet space willing to join the EAEU, the qualitative and quantitative aspects characterizing the process of integration are presented.

To objectively represent the level of economic development of the EAEU we implement an indicator of GDP (PPP) which is gross domestic product per capita at purchasing power parity. Indicators of GDP (PPP) of each country of the Eurasian Economic Union are manifested in a single currency (United States Federal Reserve dollar) to ensure comparability. Recalculations from national currencies, as is customary in international economic comparisons, are performed not at market exchange rates but at purchasing power parities (Raizberg, 2014).

As a result of studying the calculations of the Eurasian Economic Commission (EEC) on the inter-sectoral balance, the forecast value of the cumulative integration effect until 2025 was defined which provides from 17% to 20% additional GDP growth for each of the EEA member countries. The value of the integration effect in the amount of 700 billion US dollars is predicted (Official site of the Eurasian economic commission).

Extensive and intensive development is characteristic of the EAEU countries. The analysis of the EEC data showed that through the elimination of internal barriers and trade

restrictions the potential for extensive development of integration within the Eurasian Economic Union on the scale of the three initiating countries-Belarus, Kazakhstan and Russia-has already exhausted itself in 2015. In comparison with the previous year there was an insignificant increase in turnover inside the EAEU by only 1.1% (excluding fuel-energy products) (Official site of the Eurasian economic commission).

The objective reasons that influenced the decrease in world-wide business activity cannot justify the current situation in the EAEU, as it does not correspond to the benefits that the member countries received in the first years after the creation of the Customs Union as the previous stage of the integration. In this connection, it is necessary to further strengthen the macroeconomic potential of the EAEU that can be implemented with the use of one of the two methods or by their combination (Kovaleva, 2015).

The first method includes the choice of extensive direction of the development by the Eurasian Economic Union that is based on the further expansion of the EAEU that is possible through consideration of the admission of new members (Filatov, 2012). The former Soviet republics can be the candidates.

The second method is based on the realization of the strategy of intra-union modernization by the Eurasian Economic Union-intensive direction of the development (Extensive and intensive economic growth, 2018).

Forming the trajectory of extensive development can be based on the further expansion of the EAEU on the territory of the post-Soviet space assuming the entry of new members-the republics of the former Soviet Union.

The given international organization of regional economic integration united only five post-Soviet countries: Russia, Kazakhstan, Belarus, Armenia and Kyrgyzstan. Out of fifteen post-Soviet countries emerging as a result of the collapse of the USSR the rest ten former Soviet republics remained outside the EAEU under the influence of socio-economic and political factors.

In the European part of the post-Soviet space to the west of the Caspian Sea the EAEU is faced with the growing influence of the European integration project. Lithuania, Latvia and Estonia joined the European Union as fully fledged state parties, establishing their entry to the Euro-Atlantic space and NATO membership. Other countries, Ukraine, Moldova and Georgia, concluded an association agreement with the European Union. The authorities of Ukraine and Georgia are determined to strengthen their political and economic ties with the European integration space in order to gain the status of candidate countries for EU accession. Moldova's status as an observer country in the EAEU does not contradict the provisions of the Association Agreement with the EU, but provides the country with a platform to conduct discussions with other partners, a huge market, thus, being of economic interest. In this regard, we believe that Moldova can be considered as a candidate for joining the EAEU.

While the European part of the post-Soviet space is a crossroads of the European and Eurasian integration projects, in the Central Asia the European Union is not a factor to determine the relations between this region's countries and the EAEU. The Central Asia republics do not set the task of integration into the European Union. Azerbaijan withdrew from the negotiation process for the association with the EU, but does not intend to join the EAEU either.

For the assessment of the mechanisms of relations established between the Eurasian integration project participants and external partners in the post-Soviet space the understanding of cooperation forms between Russia and The Central Asia countries acquires particular relevance. This is due to the fact that during the decade of XXI century the type of relations that

are different from other sub-regions of the post-Soviet space was established and reproduced. The partnership character of interaction was reinforced by common grounds to solve a number of regional issues and by acknowledging Russia's significant role in supporting regional stability. Presently Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan and Tajikistan are members of the Collective Security Treaty Organization (CSTO), an international organization of regional importance. Despite Uzbekistan's withdrawal from the CSTO, its relations with Russia are being established bilaterally. In this regard, we considered the Central Asia countries (Tajikistan and Uzbekistan) as candidates for joining the EAEU.

The most probable candidate for joining the EAEU is the Republic of Tajikistan. In this connection, already in 2015 under the Ministry of Economic Development and Trade of the Republic of Tajikistan a working group was set up to study the possibility of Tajikistan joining the EAEU and assessing the likely consequences associated with this (In Tajikistan they declare about the need for an early accession to the unified energy system, 2015). In the course of the study the main factors that indicate the limited usefulness from Tajikistan's joining the Eurasian Economic Union were identified. In 2016 the population of the Republic of Tajikistan was 4.5% of the total population of the EAEU and the share of GDP in GDP of the EAEU was only 0.4%. This country is one of the poorest in the post-Soviet space. In 2016 gross domestic product of the Republic of Tajikistan per capita was 721.55 US dollars which is 21.6 times smaller than in the EAEU-15,580 US dollars (List of countries by GDP per capita, 2016).

Another potential candidate to the EAEU members is Uzbekistan. Despite the lack of initiative on the part of the government of Uzbekistan to join the EAEU, the results of a survey conducted by the International Research Agency "*Eurasian Monitor*" in August 2015 showed that 68% of the population of the country supported the republic's entry into the Eurasian Economic Union. It is obvious that due to the addition of 28.9 million Uzbek citizens there will be a significant expansion of the market of the EAEU but with a low GDP of this country at PPP which is 1966.92 US dollars; its share in the GDP of the EAEU would be only 2.7% (The Eurasian monitor).

Moldova's joining the EAEU is also possible, in spite of the fact that this country is a member of the Eastern Partnership and in November 2014 signed an association agreement with the European Union at the Vilnius summit. The newly elected president of Moldavia Igor Dodon, the leader of the "*Socialist Party*" in the interview to "*Izvestia*" expressed the necessity to cancel the agreement on Moldova's association with the European Union and hold a referendum on joining the Eurasian Economic Union. The President noted the absence of positive trends in the country's economy after accession to the EU and, in general, over the last years of the administration of pro-European politicians (More than half of Moldovan citizens spoke in favour of joining the EAEC-poll). The President was supported by Moldovan citizens who favoured the entry into the EAEU. This is evidenced by the results of a survey of public opinion submitted by the Association of Sociologists and Demographers, according to which 39.4% of respondents favoured joining the EAEU. Only 35.7% spoke in favour of the European Union. The survey was conducted during the period from 1 to 10 April, 1889 people from 75 settlements took part in it. The error was 3%. In 2017 51% of Moldovan citizens voted for joining the Eurasian Economic Union and 49% favoured joining the European Union. This is reported by the media with reference to the results of a public opinion poll conducted by the IMAS (System for monitoring and analysing information) commissioned by the Democratic Party of the Republic. The poll was held from 22 June to 9 July, 1111 respondents from 76 Moldovan settlements participated in it.

The error was 3% (More than half of Moldovan citizens spoke in favour of joining the EAEU-poll).

One of the most important decisions of the meeting of the Supreme Eurasian Economic Council held on May 14, 2018 was the Provision on the Status of a Non-member Observer State within the EAEU and granting this status to the Republic of Moldova. This decision is significant both for the development of Eurasian integration in general and for internal and external policies of Moldova itself. In this regard, Moldova's possible joining the EAEU should be considered from political rather than economic standpoint, since Moldova is an agrarian-industrial country whose main export is food commodities and textile. For the EAEU in general and for Russia and Kazakhstan in particular Moldova's joining the EAEU will contribute to partial replenishment of imports lost due to a geopolitical conflict involving Ukraine and resulting in its economy's contraction. Nevertheless, it should be taken into account that Moldova's economy is not comparable to the EAEU economy; this fact is supported by the value of Gross Domestic Product (GDP), which is a generalized indicator of country's economic activity. In 2017 Moldova's GDP was 6.41 billion US dollars that is significantly lower than the EAEU GDP, 1810.79 billion US dollars (282.5 times higher).

Thus, it is evident that Moldova will become a beneficiary of joining the EAEU but not the EAEU countries that will provide their markets for Moldova. According to the data of the EEC, in 2017 the trade turnover between the EAEU countries and Moldova increased by 4.4% and amounted to 1485 US dollars. In the first quarter of 2018 in comparison with the analogous period of 2017 the trade turnover between the EAEU countries and Moldova increased by 28.6% exceeding the trade turnover between the EAEU countries and third countries in foreign trade that increased by 23.8%.

In our opinion, in 2014 Ukraine was the most desirable candidate besides the three initiators of the Eurasian Economic Union creation, Belarus, Kazakhstan and Russia, which would contribute to the expansion of the EAEU. In 2014 the population of this country was 44.3 million of people or almost 25% of the population of the former USSR (Official site of the state statistics service of Ukraine).

The default state of the Ukrainian economy caused by a coup d'état, a break in foreign economic relations with Russia and the civil war led to the fact that this country is not an attractive partner for the EAEU. In 2013-2016 in Ukraine there was a sharp decline in the GDP per capita at PPP (4.17 times) which in 2016 amounted to 1655.81 US dollars (Raizberg, 2014).

The prospects of other post-Soviet republics joining the EAEU are quite unlikely that can be accounted for by different reasons. For instance, in Azerbaijan 64% of the population do not favour the idea of joining the EAEU.

With the potential entry of all four countries into the EAEU, its population would grow by 84.9 million people, up to 263.8 million people in total, which would represent 88% of the necessary domestic market of 300 million people, which would simplify the achievement of global competitiveness (Table 1).

**Table 1**  
**ECONOMIC INDICATORS OF THE POTENTIAL MEMBERS OF THE EAEU**

Potential Members of the EAEU	Population		GDP		GDP Per Capita (at PPP)
	Million People	% in the EAEU	Billion US Dollars	% in the EAEU	
Moldova	3.6	2.0	6.08	0.3	1712.22
Ukraine	44.3	24.8	83.55	5.7	1965.81
Uzbekistan	28.9	16.2	61.65	2.7	1966.92
Tajikistan	8.1	4.5	6.25	0.4	721.55

Source: Calculations made by the authors on the basis of data of the international monetary fund (10.01.2017)

## CONCLUSION

In the course of the study it was determined that the further expansion of the EAEU by means of the accession of new members is limited in two aspects: quantitatively and qualitatively. The quantitative aspect is characterized by the fact that in the near future there is a probability of only Tajikistan's entry into the EAEU. The qualitative aspect of this country's entry into the EAEU reflects a small economic benefit for strengthening the position of the Eurasian Economic Union in the global economy.

The three-year experience in the formation and development of the Eurasian Economic Union is a convincing proof that, its creation is a promising project contributing to the integration processes in the post-Soviet space, the growth of the economic potential, the stable socio-economic development of the EAEU countries in interests of raising the standard of living of the population.

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