

EURASIAN ECONOMIC UNION: CHALLENGES AND PROSPECTS

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Abstract

The article deals with the modern integration processes. The countries of the post-Soviet space are the center of attention. The main motivations and obstacles to integration are analyzed. As the main example of integration, the activities carried out within the framework of the Eurasian Economic Union are described. It is asserted that along with the positive features of the organization's activities, the clash of the national interests of the participating countries is one of the main problems on the way to completing the integration process.

Keywords: *integration, stages, post-soviet, rivalry, EAEU, freedom, movement, barriers, competition, customs, trade, Eurasia*

Integration, as the process of uniting into a whole, has been and remains the main trend of the modern international relations. Nevertheless, this process, which calls for the unification of countries based on the development of deep interrelations and division of labor between national economies, as well as the implementation of an agreed interstate economic policy, causes many disagreements. The point is that, despite the fact that international economic integration is aimed at forming an effective structure of national economies, gradual rapprochement and leveling of their economic development, potential participants, first of all, are afraid of limiting their sovereignty. After all, it is generally known that integration goes through certain stages, which, in fact, form a single economic space from isolated economic spaces. This, in turn, leads to the fact that economic entities of these spaces are forced to interact, namely, to compete.

For example, the first stage of integration, which is called a free trade area, assumes that the countries participating in the zone abolish customs barriers and quantitative restrictions in mutual trade. A conflict-free, at first glance, process causes dissatisfaction among local market participants in the event of their non-competitiveness. For example, in 2006, thousands of winemakers took part in demonstrations in the southern cities of France. In protest they poured wine onto the streets and demanded state support because of the loss of part of the market because of increased competition with the winemakers of Chile and Australia [4]. As we see, the search for alternative routes and the possible adaptation to the changed conditions do not seem attractive, and local economic entities require the government to review the terms of the integration project, namely, to protect them from more competitive participants. State's set of methods of protection, in fact, is not so great. Protection (read protectionism) provides for tariff and non-tariff methods. The most common instrument of protectionist policy is the tariff, or duty, - the state tax applied at import (import duty), export (export duty) or transportation of goods through the country. Non-tariff barriers include restricting international trade through quotas, a licensing system, voluntary export restrictions, subsidies and countervailing duties, standards, etc. An example is the introduction in the United States of quotas on the import of cars from Japan in the 1980s. Then US automobile industry was experiencing great difficulties

under the influence of imports from Japan. The introduced quotas limited the number of imported goods and, consequently, created more opportunities for the local producer, artificially increasing the consumer demand for it.

The next stage of integration is the customs union, which along with the free movement of goods within the grouping is complemented by a single customs tariff and a single foreign trade policy towards third countries. The formation of such a policy requires the creation of a supranational regulatory body and the partial transfer of authority on foreign trade regulation from national governments. The third stage of integration, called the common market (single market), eliminates barriers between countries not only in mutual trade, but also in the movement of labor, capital and services. At this stage, the policy is designed for the development of industries and sectors of the economy common to all integrating countries. The stage called the economic and monetary union supposes, on top of all the above, the existence of supranational bodies of governance and the conduct of a single macroeconomic policy. To date, as an example of an organization that has gone through all the stages can only be called the European Union. But even it, despite the long journey since 1957, is going through a crisis due to the process of Britain's withdrawal from the integration group.

Nevertheless, despite the above-mentioned contradictions and disagreements, the creation of multilateral integration groups is the main trend of both the world economic and political process. Post-Soviet space is no exception. Integration in the CIS relies on such objective factors as the division of labor that formed in the past, technological interdependence, elements of a common cultural and civilizational space. In the post-Soviet space, a certain number of economic, political and humanitarian alliances have emerged between individual CIS member countries whose goal is to develop intra-regional cooperation, the forms of which are sometimes referred to as integrations of "different speeds".

Thus, Y.Kosov and A.Toropygin in 2012 singled out several models and, correspondingly, several speeds of integration in the post-Soviet space: the Commonwealth of Independent States ("low speed") is an "international organization of a politico-consultative type with certain military and political obligations within the framework of collective security" and the Eurasian Economic Community ("the second speed ") - economic integration within a narrower group and, finally, the Customs Union of Eurasian Economic Community and the Union State of Russia and Belarus ("maximum speed"). It is no coincidence that the first supranational body in the post-Soviet space (the Commission of the Customs Union) emerged precisely within the framework of the "maximum speed" of integration [6, 47].

It should be noted that the Eurasian Economic Community was created to effectively promote the process of forming the Customs Union and the Common Economic Space. The organization was abolished due to the creation of the Eurasian Economic Union, in which the above-mentioned Customs Union and the Common Economic Space were continued. Thus, using the terminology of Russian scientists Kosov and Toropygin, one can say that today integration in the post-Soviet space is at the maximum stage of development as represented by the Eurasian Economic Union. In fact the history of Eurasian integration is actually an attempt to build something similar to the EU according to Tatiana Valovaya, minister of the Eurasian Economic Commission [14, 42].

The Eurasian Economic Union, established in 2015 by Russia, Kazakhstan, Kyrgyzstan, Belarus and Armenia, claims to be the first successful initiative in the post-So-

viet space designed to remove trade barriers and ensure the integration of a fragmented, economically backward region. Supporters of the union insist that it can become a mechanism for dialogue with the European Union (EU) and other international partners. Critics see it as a destabilizing project that strengthens Russia's dominance in the region and limits the ties of its other participants to the West. The EU believes that because of the project, the EU's eastern neighbors will find it more difficult to maintain their sovereignty in decision-making. The positions became tougher after Armenia refused in 2013 to sign an association agreement with the EU and an in-depth and comprehensive free trade zone, as well as after the events in Eastern Ukraine. In this regard, it is necessary to recall the opinion of a number of scientists who believe that regional cooperation projects should not be mutually exclusive, but complementary. This principle is very important to apply to integration in the post-Soviet space [15, 8].

So, the Eurasian Economic Union was created on the basis of the Customs Union of Russia, Kazakhstan and Belarus and the Common Economic Space as an international organization of regional economic integration, which has international legal personality. Within the framework of the Union, the freedom of movement of goods, services, capital and labor is ensured, and a coordinated or unified policy in key sectors of the economy. The idea of creating the EAEU was laid down in the Declaration on Eurasian Economic Integration adopted by the Presidents of Russia, Belarus and Kazakhstan on November 18, 2011. It fixed the goals of Eurasian economic integration for the future, including the creation of the Eurasian Economic Union by January 1, 2015. The agreement on the Eurasian Economic Union (EAEU) was signed on May 29, 2014 in Astana (Kazakhstan) by the presidents of Russia, Belarus and Kazakhstan. Entered into force on January 1, 2015. The highest body of the EAEU is the Supreme Eurasian Economic Council (SEEC), which includes the heads of the Member States. SEEC considers the principal issues of the Union's activities, determines the strategy, directions and prospects for the development of integration and makes decisions aimed at realizing the goals of the Union. The Eurasian Economic Commission (EEC) is a permanent supranational regulatory body of the Union headquartered in Moscow. The main tasks of the Commission are to ensure the conditions for the functioning and development of the Union, as well as the development of proposals for economic integration within the Union. The main objectives of the Union are: to create conditions for the stable development of the economies of member states in order to improve the living standards of their populations; to form a single market for goods, services, capital and labor resources within the Union.

As we see, the creation of the EAEU, which involves the free movement of not only goods, but also labor, services and capital, means a transition to the next stage of integration after the Customs Union, namely the third stage of integration - the Single Market.

For example, in the Treaty on the Eurasian Economic Union, a separate section deals with the labor migration. According to the document, the member states agree on the policy in the field of labor migration regulation within the framework of the union and provide assistance to the organized recruitment and involvement of the workers of the member states. Employers of a member state may involve in the work activities of workers of the member states without taking into account restrictions on the protection of the national labor market. It is also important that the workers of the member states are not required to obtain a permit to work in the state of employment. For employment

within the EAEU, education certificates are recognized without the special procedures for recognizing education certificates. True, teachers, medical workers and pharmacists must go through the procedure of recognition of education certificates. Thus, the territory of employment has expanded significantly.

In international relations the Union signed two significant documents: the interim agreement with Iran leading to the creation of a free trade zone and the agreement on trade and economic cooperation with China. Negotiations are underway on preferential trade agreements with Singapore, Israel, Serbia, Egypt and India. Moldova became the first observer state in the EAEU.

According to the researchers from International Crisis Group developments in certain key areas will decide whether the EAEU becomes a successful regional body [12, 22]. Areas such as openness to the outside world and an emphasis on social welfare and migration, as we can observe in abovementioned examples are developing. Another EAEU's strong point is its redistribution mechanisms, e.g. "regarding customs duties, the EAEU has introduced the allocation to each country of a fixed proportion of the overall revenue from customs duties, irrespective of how large each country's imports actually were" [8, 1043].

Nevertheless, despite the presence of optimism regarding Eurasian integration, the so-called "Eurasian skepticism" is worth mentioning. For comparison, the origins of European integration were six states, three of which - West Germany, Italy and France - had a comparable economic, territorial, resource and demographic potential. For example, their share in the aggregate GDP of the future European Coal and Steel Community in 1950 was 31.7, 23.9 and 29.6%, respectively, and Russia's share in the aggregate GDP of the three countries participating in the Eurasian Economic Community's Customs Union in 2010 was 88.2%, that is, it exceeded the share of the three countries of the "core of European integration" combined. Kazakhstan accounted for 8.5, and Belarus accounted for 3.3% [13, 33]. This apparent economic dominance makes the rest of the partners dependent on Moscow's willingness or unwillingness to make political and economic concessions. In addition, in structural terms, the deeper the integration, the more dependent on the quality of the Russian economy (including its raw materials) the economies of other countries participating in the Eurasian integration become. Some scholars also agree with the above-mentioned by going further and saying that "Russia's main benefits from the EAEU are political rather than economic. The EAEU accounts for only 5 per cent of Russia's trade - the bulk of the country's exports go to the rest of the world. Russia's original plan for integration was essentially political rather than merely economic. At the outset of the EAEU, the Kremlin aimed to establish a comprehensive union, encompassing monetary union and political and defence integration. However, this far-reaching agenda was rejected by other states, particularly Kazakhstan, which succeeded in its efforts to limit the EAEU to economic integration [1, 7]." Also one of the main obstacles to further integration is the national egoism of the participating countries.

Considering the abovementioned, and the words of Alexei Kudrin [7], the head of the Center for Strategic Research that it is necessary to remove all numerous exemptions from the general rules of trade within the Union and remove non-tariff barriers, it is worth noting that the Eurasian Union is nevertheless trying to escape from the image of a political project and becomes economically profitable. Thus, the accumulated volume of foreign direct investment (FDI) increased by 61% - to \$ 6 billion. [2] Commodity

turnover in the EAEU is also recovering, inflation is decreasing in all member countries of the Union, and other macroeconomic indicators are improving. Since the beginning of 2017, there has been a recovery in economic activity in the CIS countries. In particular, the volume of mutual trade grew by 25% and reached \$ 75 billion. President of the Russian Federation Vladimir Putin at an expanded meeting of the CIS heads of state noted that in order to ensure further stable growth of commodity exchange, it is necessary to further improve the free trade regime in the commonwealth, consistently remove barriers to the movement of goods and services, simplify customs procedures including through interaction with the Eurasian Economic Commission [11].

In the first half of 2018 the volume of intra-union trade increased by 12 percent, reaching 44 billion dollars [10]. By the end of 2018 mutual trade has increased by 11 percent and amounted to 49 billion dollars. At the same time, the share of mutual trade in the total trade volume was 8%, showing an increase of 0.6% [5]. During 2018, drafts of important decisions were prepared: on the creation of common markets for oil, petroleum products, and gas. In September 2018, representatives of central banks signed an agreement on the harmonization of legislation in the financial market. This is a big step towards the formation of a common financial space. Also in 2018, the customs code came into force. In the future, it is planned to create common markets for electricity, oil and petroleum products, gas and transport services, as well as a common financial market on the territory of EAEU [3, 89].

However there are still several potential risk areas for the further development. Firstly, for all EAEU member countries, the main export goods are natural resources or products of their primary processing. Some scholars believe this suggests that for the states the market of third countries is more interesting due to the identity of this type of goods and the demand for natural resources in the EU countries and China. Also the small number of common production projects, as well as the lack of a detailed program for the development of production capacity, leads to inhibition of mutual trade within the EAEU. The lack of specialization of countries in the manufacturing sector also does not contribute to the growth of trade due to the presence of identical goods in the common market. A significant problem is increasing competition, not complementarity. The sharp drop in world oil prices at the end of 2014 and foreign exchange earnings from energy exports reduced the ability to import finished industrial products from third countries. This reinforced the need to meet the needs of the EAEU member states with their own industrial products. Import substitution of products from third countries is becoming a priority area of cooperation within the Union. But an assessment of the national industrial development programs of the EAEU member states revealed that countries consider a single economic space only from the standpoint of additional export opportunities for national economies. At the same time, their domestic markets are supposed to be saturated only with their own products through the import substitution. The sectorial development priorities of the industrial complexes of the EAEU countries have a high degree of coincidence, as well as the nomenclature of export industrial goods, which leads, as it was mentioned above, to their competitiveness, and not complementarity. A serious problem for the development of the Union is the insufficient development of transport and other types of infrastructure, an insufficient level of logistics. Although the development of transport infrastructure in all countries today is proceeding at a rapid pace, the integration of national transport systems into a single transport and logistics space is still a fairly distant prospect.

However some scholars strongly believe that today, one of the key integration dividends for all EAEU member countries is precisely the reduction of spatial and inter-country barriers to reduce costs from the continental isolation of countries and access to world markets through access to seaports [9, 16].

Thus, decisive importance for further integration will be the ability of statesmen of the EAEU member states to display political will to overcome obstacles to the creation of a single economic space built on the basis of the principle of reciprocity and equality.

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