

**Czech University of Life Sciences Prague**  
**Faculty of Economics and Management**  
**Department of Economics**



**Bachelor Thesis**  
**Economic analysis of Eurasian Union**  
**Kairat Chekirov**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

## BACHELOR THESIS ASSIGNMENT

Kairat Chekirov

Business Administration

Thesis title

**Economic analysis of Eurasian Union**

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### **Objectives of thesis**

This bachelor thesis deals with new Eurasian Economic Union. The aim of the thesis is to evaluate the integration potential of the Union and its economic implications. The first section of the thesis summarizes the issue of regional integration, The Optimum Currency Area and includes a theoretic outline of the Eurasian Economic Union. In the second section of the thesis, the synchronization of business cycles of the member states is depicted. Furthermore, this section compares the economics of the aforementioned states, focusing on the trade and industry aspects. Based on this knowledge, the assessment of the economics of the Union member states is compared to a similar assessment of the European Union.

### **Methodology**

Theoretical section makes use of methods of extraction, induction, deduction, and synthesis. Practical section uses basic statistical methods, also graphical representation methods and regression method.

**The proposed extent of the thesis**


40 pages

**Keywords**

Eurasian economic union, integration, integration of post-soviet states, economic costs and benefits

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**Recommended information sources**

- Balassa, B. (1961). The theory of economic integration. Homewood, Ill.: R.D. Irwin.  
MacDonald, F. and Dearden, S. (1992). European economic integration. London: Longman.  
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**Declaration**

I declare that I have worked on my bachelor thesis titled "Economic analysis of Eurasian Union" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on \_\_\_\_\_

Kairat Chekirov \_\_\_\_\_

**Aknowledgement:**

In that way I would like to thanks.Ing. Petr Prochazka, Ph.D.for his lectures which were given to us with a perfect explanation of Economical aspects and it was certainly the motivation for me to wright about corruption which is one of the main aspect.

# **Economic analysis of Eurasian Union**

## **Summary:**

The main trends in the development of integration processes between countries by the participants of the EAEC have been analyzed. The analysis of mutual trade is made on the basis of studying the dynamics of growth rates of exports and imports, foreign trade turnover and commodity structure of export-import transactions between the EAEC countries. The article identifies the most promising and priority areas of integration, the main pros and cons

The dependence of the member countries on foreign trade is also considered.

**Key words:** import, export, EAEC, international trade, dynamic of international trade, Kyrgyzstan, Russia, Belarus, Kazakhstan, Armenia

## **Ekonomická analýza Euroasijské Unie**

### **Souhrn**

V práci jsou analyzovány základní tendence rozvoje integračních procesů mezi členskými státy EAEU. Byla provedena analýza vzájemného obchodu na základě studia dynamiky tempa nárůstu exportu a importu, zahraničně obchodního obrátu a tržní struktury exportně-importních operací mezi státy EAEU. V článku jsou stanoveny nejperspektivnější a prioritní oblasti integrace, základní plusy a mínusy spolupráce. Také je prozkoumána nazávislost členských států na zahraničním obchodu.

**Klíčová slova:** import, export, Eurasijský ekonomický svaz, zahraniční obchod, dynamika zahraničního obchodu, Kyrgyzstán, Rusko, Bělorusko, Kazachstán, Arménie

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## 1. Introduction

After the crisis of 2008, to many politicians and also economists have come to realize that, a globalization must go thru regional integration and the future shape of the world will be formulated with groups of international regions, based on various standards. Not especially according to territorial aspects, like European Economical Union but also as an example of „BRICS“.

Effectiveness of a new global architecture will depend on the inner effectiveness of those groups and their communication. Global redistribution of economic growth increases a significance of asian partnerships for EU, creating even more partnerships from Pacific-Asia and countries of Latin-America.

We should admit also an economic cooperation among the EEA and the European common market, also integration processes and initiatives such as the economic belt of the Silk Road should complement each other.

The article aims to acquaint a wide range of readers together with basic principles and approaches of how EAEC functions and develops economy aspects.

Auditing companies must study market situations in their countries such as, legislation, good and services, the state of industries, taxes and ext. It essentially will increase their demand on behalf of governmental and commercial enterprises, it will open new business opportunities up for their own profit.

From 1th of Janurary 2015, an agreement came into effect about Eurasian Economic Union (EAEC), signed by Russia, Belorussia and Kazakhstan. 2td of Janurary, Armnia also signed that agreement and also Kyrgyzstan entered 9th of May. The headquarter will be located in Moscow and finicial department is in Almaty although the court will be located in Minsk. Belorussia also recieved the right to take part in that economy union in 2015.<sup>1</sup>

The relevance of the research topic is determined by the dynamics of the development of a complex system of integration relations in the Eurasian space. In this system, it is possible to distinguish two levels: bilateral cooperation between states and multilateral integration projects.

In this regard, in a fast-track integration of the countries forming the Common Economic Space within the EAEC, becomes particularly relevant study on economic cooperation between

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<sup>1</sup>EAEC for Kyrgyzstan: a difficult choice, 2016.

these countries on the micro level, the so-called "consolidation of economic space", as well as consideration of the relationships between two levels of integration interactions.

Generally speaking, Kyrgyz Republic's accession to the EAEC helps her to ensure the sustainable development of the economy in the long-run that will lead to an increase in GDP growth by half or even one and a half times. But at this stage of entry into the republic, the volume of exports of clothing and agricultural products, as well as imports of cars, medicines and equipment have been decreased.

The study of the project of the Eurasian Economic Union was dedicated to the works of KP Borishpolets, E.Yu. Vinokurov, SPGlinkina, T.Mansurov, RAMedvedev, E.G. Moiseev, IVPelipas, I.Tochitskaya, M.O.Turaeva, etc. In their works, the authors investigated the possible impact of the creation of the EAES on various areas of operation of the participating States of this project, evaluated the readiness of the participants for the transition to a more complex format of integration interaction within the framework of the economic union, identified possible problems and risks in the way of the process increased in Eurasian regional integration. Theoretical analysis of the impact of global transnational processes on the formation of new spatio-temporal outlines of the post-Soviet space is devoted to the works of NA Vasilieva and ML Lagutina. (Lebedeva L.F, 2012)

It should be noted that the creation of the EAEC accelerated integration processes, but dynamic geopolitical measurements in the world community generate new problems and challenges for Eurasian integration. This circumstance requires constant monitoring and research of the latest changes and trends in the course of Eurasian integration.

## **2. Objectives and Methodology**

The subject of the study:

It is the process of formation and development of economic integration in the Eurasian region and external economic cooperation of the member states of the EAEC.

It is the integration potential, the development trends of the economies of the EAGE countries.

The work consists of two chapters, introduction, conclusion and list of used literature.

### **3. Literary research**

#### **3.1 Integration of the EEA countries: creation and prospects of development**

##### **3.1.1 Eurasian Economic Community: history, significance, structure**

The Eurasian Economic Community (EurAsEC) (2001-2014) is an international economic organization of several former Soviet republics. It was created to effectively promote its participants in the process of forming the Customs Union and the Common Economic Space, as well as implementing other goals and objectives related to deepening integration in the economic and humanitarian fields. Abolished regarding the creation of the Eurasian Economic Union.

##### Composition:

Belarus (2001-2014)

Kazakhstan (2001-2014)

Kyrgyzstan (2001-2014)

Russia (2001-2014)

Tajikistan (2001-2014)

Uzbekistan (2006-2008, suspended membership).

##### **Observer States**

In accordance with the EurAsEC Charter, observer status can be granted to the state or interstate (intergovernmental) organization at their request. The observer has the right to attend public meetings of EurAsEC bodies, speak at these meetings with the consent of the presiding judge, to receive, if necessary, open documents and decisions taken by EurAsEC bodies. The status of the observer does not give the right to vote when making decisions at meetings of EurAsEC bodies and the right to sign documents of EurAsEC bodies. (Mansurov T.A, 2015)

##### Observer states were:

Moldova (2002-2014)

Ukraine (2002-2014)

Armenia (2003-2014).

The unification of the borders of the Russian Federation, the Republic of Belarus and the Republic of Kazakhstan became the basis for the emergence of a single customs space. So the territory of the Customs Union was formed. In addition, it includes separate territories or objects under the jurisdiction of the parties to the agreement.

In 2017, the Customs Union consists of the following members of the Unified Energy System:

- Republic of Armenia (since 2015);
- The Republic of Belarus (since 2010);
- The Republic of Kazakhstan (since 2010);
- The Kyrgyz Republic (since 2015);
- Russian Federation (since 2010).

The desire to become a participant of this agreement was announced by Syria and Tunisia. In addition to that, it is known about the proposal to include Turkey in the agreement of the CU. However, up-to-date, no specific procedures have been adopted for the accession of these states to the Union. (Martinez D., 2004)

It can be clearly seen that the functioning of the Customs Union is a good help for strengthening the economic relations of countries located in the territory of former Soviet countries. It can also be said that the approach established in the agreement by the participating countries indicates the restoration of lost ties in the conditions of the present.

Customs duties are distributed using a single mechanism of share distribution.

**Table 1:** A single mechanism of share distribution.

<b>Russia</b>	<b>Kazakhstan</b>	<b>Belarus</b>	<b>Kyrgystan</b>	<b>Armenia</b>
85,33%	7,11 %	4,55 %	1,9%	1,11 %

Source: Own Table, 2017.

Considering that information, it can be stated that custom union which is known today, serves as a serious tool for the economic unification of the countries that are part of the EEA.

Significance:

- A Completion of registration in full free trade regime, the formation of a common customs tariff and a unified system of measures without tariff regulations.
- Provision of free capital movements.
- Formation of a general financial markets.

- Harmonization of the principles and conditions for the transition to a single currency within the Eurasian Economic Community.
- Establishment of general rules for trade in goods and services and their access to domestic markets.
- Development and implementation of interstate target programs.
- Formation of a common transport services market and a single transport system.
- Formation of the common energy market.
- Harmonization of social policy with the aim of forming a community of social states that provides for a common labor market, a unified educational space, coordinated approaches in addressing health issues, labor migration, etc.
- Ensuring an interaction of legal systems of EurAsEC member states with the aim of creating a common legal space within the community.
- Interaction with OON.
- Creation history and common levels of development.
- In 1994, the President of Kazakhstan, Nursultan Nazarbayev, proposed a project of the Eurasian Union of States.
- In 1995-2000 years, there was a search going on for finding optimal ways of partnerships.
- 10<sup>th</sup> of October, 2000. In Astana (capital of Kazakhstan Republic) the head of states (Belarus, Russia, Tadjikistan, Kyrgystan and Kazakhstan) signed up a treaty which laid the concept of close and effective trade and economic cooperation to achieve the goals and objectives defined by the Treaty on the Customs Union and the Common Economic Space.

In April 2003, the Statute of the EurAsEC Court was approved. In March 2004, an Agreement was signed between the Eurasian Economic Community and the CIS on the fulfillment by the Economic Court of the Commonwealth of Independent States of the functions of the Court of the Eurasian Economic Community. In December 2003, EurAsEC was granted observer status at the UN General Assembly.<sup>2</sup>

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<sup>2</sup>Agreement between the Eurasian Economic Community and the Commonwealth of Independent States on the fulfillment by the Economic Court of the Commonwealth of Independent States of the functions of the Court of the Eurasian Economic Community of 03.03.2004.

In september 2005, prime ministers of EurAsEc countries signed up a contract which states a formation of the fuel and energy balance of the states of the community, a project's agreement about regulations of grain supply to the community markets. On September 7<sup>th</sup>, 2005, in St. Petersburg, at the summit of the Central Asian Cooperation Organization, a decision was made to merge the Organization "Central Asian Cooperation" with the Eurasian Economic Community. In November 2005, the EurAsEC Council on Financial and Economic Policy started its work. Co-chairman of the Council, the head of the Ministry of Economic Development and Trade German Gref said that the main task of this body is to develop a strategy and tactics for the development of the community and its member states in the sphere of economic and financial policy. On January 24, 2006, at an extraordinary meeting of the EurAsEC Interstate Council in St. Petersburg, a protocol was signed on Uzbekistan's accession to the Eurasian Economic Community. In June 2006, at the Minsk summit of the EurAsEC countries, it was decided that further work on the formation of the Customs Union will be held on the basis of the EurAsEC, taking into account the developments in the Single Economic Space (EEA) project. The organizational structures for the formation of the SES now operate on the site of the EurAsEC Secretariat. The expediency of this decision is dictated by the fact that the goals and objectives of the EurAsEC and the EEA are identical: the creation of a common market and a single economic space. In August 2006, the EurAsEC Interstate Council adopted a principled decision on the creation of the Customs Union consisting of only three states ready for this - Belarus, Russia and Kazakhstan. November 2<sup>th</sup>, in 2006, the Kazakh parliament ratified the protocol to an agreement between the governments of Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan on mutual visa-free travel of citizens. Under the terms of the protocol, while maintaining a visa-free regime between the EurAsEC member states introduced a single list of documents for the movement of citizens of these states on the territory of the Community. On October 6, 2007, the EurAsEC summit was held in Dushanbe, where the concept of the Customs Union of Russia, Kazakhstan and Belarus was adopted. The Action Plan for the formation of the Customs Union was designed for three years. It was also decided to form a commission of the Customs Union - supranational body. Russia received in it 57% of the vote, and Kazakhstan and Belarus - 21.5% each.

In October 2008, Uzbekistan announced that suspends membership in the Eurasian Economic Community due to doubts about the effectiveness and efficiency of this interstate association. On November 12, 2008, EurAsEC officially confirmed the fact of Uzbekistan's suspension of membership in this organization. On December 12, 2008, a meeting of the EurAsEC Interstate Council was held in Moscow. At the meeting, it was decided to suspend the

membership of Uzbekistan in the Eurasian Economic Community at the request of the President of this country, Islam Karimov. In addition, following the meeting, the heads of government concluded agreements on the promotion and mutual protection of investments, an agreement on the harmonization of technical regulations, adopted a concept for the formation of a common energy market for the EurAsEC member states. In 2009 the supranational body of the Customs Union - the Customs Union Commission - was established, the EurAsEC Anti-Crisis Fund was established, the EurAsEC High-Tech Center was established, as well as a package of documents forming the legal framework of the Customs Union of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation, including the Treaty on the Customs Code of the Customs Union, the Community court was endowed with the functions of the body for resolving disputes within the Customs Union, the Action Plan was approved for the formation of the Single Economic space of the (Republic of Belarus, Kazakhstan and the Russian Federation) have been approved by the EurAsEC food security concept and the creation of the Eurasian innovation system. (Mitrany D., 1975)

After a formation of the Customs Union in December 2010, at the EurAsEC summit in Moscow, agreements were reached on the establishment of the Eurasian Economic Union on the basis of the Common Economic Space of Belarus, Kazakhstan and Russia. In October 2011, an agreement was signed to create a free trade zone within the CIS. During the EurAsEC summit, Vladimir Putin announced the launch of plans to create the Eurasian Economic Union because of the future of the Single Economic Space. In December 2012, an agreement was reached on reorganizing the Eurasian Economic Community with the transfer of some of the functions in the Eurasian Economic Commission. The Eurasian Economic Community has retained the tasks of the humanitarian sphere, transport, energy and the implementation of 15 interstate programs.

In October 24, 2013, the President of Kazakhstan, Nursultan Nazarbayev, proposed to dissolve the Eurasian Economic Community (EurAsEC) at the meeting of the Supreme Eurasian Economic Council, since EurAsEC as an organization largely duplicating its functions will not be needed with the creation of the Eurasian Economic Union of Russia, Belarus and Kazakhstan. At the same time, entering into the EurAsEC, but not planning to join the EEMP, Kyrgyzstan and Tajikistan, according to Nazarbayev, could join the Customs Union as observer countries, and Armenia can become a member of the Customs Union.<sup>3</sup>

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<sup>3</sup>Medvedev R.A., Nursultan Nazarbayev, *“Kazakhstan breakthrough and the Eurasian project.”* Moscow, 2008. P. 382.



In October 10, 2014, the heads of Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan signed documents on liquidation of the Eurasian Economic Community (EurAsEC) in connection with the beginning of the functioning of the Eurasian Economic Union on January 1, 2015.

### **3.1.2 Interstate Council**

The Interstate Council was the supreme body of the Eurasian Economic Community, which included heads of state and government of the community. The Interstate Council considered the principal issues of the Community related to the common interests of the participating States, defined the strategy, directions and prospects for development of integration and made decisions aimed at implementation of the goals and objectives of the EurAsEC. The Interstate Council met at a level of heads of state at least once a year, at a level of heads of government - at least twice a year. Decisions were taken by consensus. The decisions taken were binding for implementation in all the Member States of the Community. Execution of decisions took place through an adoption of necessary national regulatory legal acts in accordance with national legislation.

### **3.1.3 Integration Committee**

The Integration Committee was a permanent body of the Eurasian Economic Community, which included deputy heads of government of the EurAsEC states. Among main tasks of the Integration Committee were ensuring an interaction of EurAsEC bodies, preparing proposals on an agenda of meetings of the Interstate Council, as well as projects decisions and documents, monitoring an implementation of decisions adopted by the Interstate Council. Meetings of the Integration Committee were held at least four times a year. Decisions were made by a two-thirds majority. A number of votes in the decision-making in the Integration Committee was consistent with a contribution of each party to the Community budget. (Moiseev E.G., 2014)

- Russia - 40 votes
- Belarus - 15 votes
- Kazakhstan - 15 votes
- Kyrgyzstan - 7.5 votes

- Armenia - 7.5 votes

### **3.1.4 Secretariate**

The Secretariat performed a function of organizing and providing information and technical support for a work of the Interstate Council and the Integration Committee. The Secretariat was headed by the Secretary General of the Eurasian Economic Community - the highest administrative official of the community, appointed by the Interstate Council. On October 6, 2007, Tair Mansurov was appointed Secretary General of the Community in Dushanbe during a meeting of the EurAsEC Interstate Council. The Secretariat was located in the cities of Alma-Ata (Kazakhstan) and Moscow (Russia).

#### **Interparliamentary Assembly:**

The Interparliamentary Assembly is a body of parliamentary cooperation within a framework of the Eurasian Economic Community, which considered issues of harmonization (approximation, unification) of national legislation and bringing it in line with agreements concluded within the framework of the EurAsEC, with a view to realize Community's tasks. The Assembly was formed from parliamentarians, delegated by parliaments of the Community countries.

#### It included:

- Russia - 42 parliamentarians
- Belarus - 16 parliamentarians
- Kazakhstan - 16 parliamentarians
- Kyrgyzstan - 8 parliamentarians
- Armenia - 8 parliamentarians.

The Secretariat of the Inter-Parliamentary Assembly was located in St. Petersburg (Russia) Eurasian.

#### **Development Bank:**

Main article: Eurasian Development Bank

The Eurasian Development Bank is an international organization established by the Russian Federation and the Republic of Kazakhstan in 2006. The EDB mission is to contribute to a development of a market economy of the member states of the bank, their economic growth

and an expansion of trade and economic relations between them through implementation of investment activities.

The EurAsEC Anti-Crisis Fund was established in 2009 by Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan to assist participating countries in overcoming consequences of the global crisis, ensuring long-term sustainability of their economies and promoting integration processes in the region. The total amount of the Fund was 8.513 billion US dollars. The Fund provided financial loans to support the budget, balance of payments and the national currency exchange rate, as well as investment loans to finance interstate projects that promote integration processes among the participating countries.<sup>4</sup>

### **Community Court:**

The Community Court ensured uniform application by the contracting parties of the Treaty on the establishment of the Eurasian Economic Community and other agreements in force within a framework of the Community and decisions taken by EurAsEC bodies. The Community Court also considered disputes of an economic nature arising between the members of the Eurasian Economic Community on the implementation of decisions of EurAsEC bodies and provisions of treaties operating within a framework of the Community. The EurAsEC Court started its work on January 1, 2012 in Minsk.

### So, the strengths of the EAEC:

- 1) the new union has the largest geographical territory with access to all four directions;
- 2) a single consumer market (over 170 million consumers);
- 3) huge natural resources (a significant part of the world mineral reserve is concentrated on the territory of the Union);
- 4) after the collapse of the USSR, the member states of the EEA inherited infrastructure, industrial giants and skilled personnel, agriculture, the military-industrial complex, educated human capital, etc. It remains only to restore partially broken economic, trade, humanitarian ties;
- 5) the union is located on a very important, geostrategic region: between the West and the East, in the middle of the EU, China, India, Central Asia and the Middle East.

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<sup>4</sup>Customs Code of the Customs Union (annex to the Agreement on the Customs Code of the Customs Union, adopted by the Decision of the Interstate Council of the Eurasian Economic Community) of November 27, 2009 No. 17.

But, there are also the weakness sides of it:

- 1) The absence of a union identity. In the post-Soviet space stereotypes and fears of the totalitarian union past were preserved. During independence, each country fought for itself, defending its own national interests. Therefore, in the conditions of the EAEC, each member state, out of habit, pulls the blanket upon itself, at this stage of its development the integration union resembles the fable of A.I. Krylov about swan, cancer and pike. To overcome disunity and form a new union consciousness will take time.
- 2) The EAEC lags behind its developed competitors in terms of development level of science, innovation, technology and technology. The economy of the EAPS is dominated by the raw material orientation, the real sector of the economy is weakly developed, science-intensive production, small and medium business, tourism is in its infancy.
- 3) The level of corruption, bureaucracy, clannishness remain high in the EEA countries.
- 4) The interstate structures have not been fully coordinated and the legislation of the member states of the EAEC is not harmonized, which in turn contribute to the inhibition of integration.
- 5) The economy of the EAEC is highly dependent on external factors such as the economic sanctions of Western countries in relation to Russia, world prices for energy resources and natural resources, the US dollar and euro exchange rate, etc.

### **Opportunities of EAEC:**

The opportunities of the union are very great in a rational use of them. The EAGE can not only meet its needs, but also become a global supplier of raw materials, goods and services. The EAEC has every opportunity to expand, new allied members can join it. Transit possibilities of the EAEC are also very high, especially with the launch of the transit transport corridor "Western Europe-Western China", the Silk Road may revive in a new format. In the foreseeable future, the EAEC can become a global financial center, with a developed economic zone and a favorable investment climate. The possibilities of the EAEC can be listed for a long time. (Musataev S.SH., 2017)

### **Threats of the EAEC:**

- 1) The threats of terrorism, extremism and separatism are inherent in all member states of the integration union

2) A certain economic threat comes from an excessive dollarization of the national economy of individual members of the EAES. The people live in fear of possible devaluation.

3) The member states of the EAEC are dependent on a price conjuncture for raw materials and energy resources in the world market. This is largely because the basis of the economy of the EAPS are sales of hydrocarbons and iron-ore.

4) Different levels of economic development of the allies may cause some socio-economic problems. For example, the Russian economy is considered the most industrially developed in comparison with the rest of the EEA countries. Therefore, Russian goods have a low cost, can be sold at dumping prices. The goods of the producers of the union countries are experiencing not equal competition, which can provoke a reduction in jobs, an increase in the level of unemployment, social tension in society, etc.

As the complex analysis showed, it is extremely difficult to give an unambiguous assessment of the EAES at this stage. The Eurasian Integration Union has just started functioning but first steps of the EAEC have already shown both the strengths and weaknesses of the integration processes. It remains only to learn from the shortcomings of the interaction and timely eliminate problems of cooperation together.

### **3.1.5 The main economic motives of the participants in the integration of the countries of the Unified Energy System**

Motives for economic integration in the EurAsEC in a current position of EAE in the world economy is characterized by the fact that the world share of the association is still small - from 2.4% to 4%. Armenia's accession to the Eurasian Economic Community slightly increases its share in the world - by 0.023%. The GDP of EurAsEC (without Armenia) in 2013 at the exchange rate reached 2.4 trillion dollars and amounted to almost 3% of the world. According to the latest data of the Intensive Monetary Fund (IMF), the aggregate GDP reached 4 trillion dollars, it is 4% of the \$ 101 trillion in the world. Meanwhile, in 1994 the aggregate GDP of Kazakhstan, Belarus, Russia (at that time) was only 1.6% of the world, ie, over the past 20 years, the share of the countries of the future EEA has doubled. The energy potential of the EAA is enormous: oil production, including gas condensate is 14.6% of the world production, gas

production is 20.7%, electricity production is 9%. The significant territory of the EAPS is 15.4% of the world, where all of them were studied.<sup>5</sup>

Each member of EurAsEC had their own motives of integration. For Russia, the creation of custom union in 2010, and its transformation in EurAsEC , not only economic issues but also a geopolitical project which is designed to consolidate a role of a regional power behind it, reduce the influence of the European Union on Belarus, Turkey and Kazakhstan, and on both countries of the future world leader - China.

In 2012 V.V. Putin in the State Duma of Russia formulated the Russian interests in the following way: "... strengthening of Russia's position in the world and, first of all, through new integrations in the Eurasian space". It should be expected that with a strengthening of the position of the Chinese yuan on a role of a second world currency (approximately by 2025), Russia will lobby for an introduction into the Unified Energy System of a single currency and a single issuing Central Bank. The statement of some Russian leaders that the common currency under the name of "Altyn" will be introduced in 5 years, seems to us premature. (Pelipas I.V., 2014)

Belarus' economic motives were, to reduce the cost of Russian energy carriers (the slogan "equal competitive conditions for business entities") and to increase the role of the country as a transit country.

Kazakhstan's motives were to strengthen its leadership in the Central Asian region, build competitive conditions to a growing influence of China in regions, and anticipate possible problems with the Russian diaspora, in the regions bordering Russia (one-third of the population).

The motives of Armenia are primarily political (security), and only in second place economic such as, the price of gas. Armenia retained low import tariffs for 4-5 years, and therefore there should be no sharp increase in the supplies of the EEA countries to Armenia, besides, its market is excessively small. It is important that Armenia, like Belarus and Kazakhstan, stands for wide economic relations with the EU.

**Table 2:**Economic relations with the EU.

№	Contry	Motives
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<sup>5</sup>The Constitution of the Republic of Belarus of 24th November 1994 and 17th October 2004, 1994.

1.	Russia	Geopolitical projects which are designed to assign to it the role of a regional power.
2.	Kazakhstan	Maintain its leadership in the Central Asian and be competitive with Chinese market.
3.	Belorussia	Decrease in costs of Russian energy resources and increase the role of the country as a transit country.
4.	Kyrgystan	Access to the sale market of the EAEC.
5.	Armenia	Political(safety), economic – prices for gasoline.

Source: Own Table, 2017.

For Russia, the creation of this integration project is primarily because of a geopolitical importance, and secondly - a single economic space with a participation of loyal states for the realization of its products, which is not very specific on the world markets. For example, exports to Kazakhstan in 2014, the share of machinery, equipment and vehicles was 32%, while in the Russian export to third countries this segment of the economy occupied 2.9%. For Belarus and Kazakhstan, the determining motive for participation in the EurAsEC is the economy. At the same time, the fundamental condition for Kazakhstan is the preservation of sovereignty and national identity, and for Belarus - the preservation of the sovereignty and regime of the current government, which runs against the Kremlin's long-term policy.

There are two economic reasons for the participation of countries in integration associations. The first is constructive: barriers in international trade generate inefficiency in a use and reproduction of resources. The mutual removal of barriers frees up (creates) resources that were not produced before, they are distributed among the members of the association, increasing its competitiveness. The second is a redistribution motive. One or several participants of the integration association, interested (perhaps for non-economic reasons) in its expansion, attract new members by transferring some of the resources to them. The other participants have economic interests.

The problem is in the EAEC's creation is very slow (removal of non-tariff barriers for the movement of goods, services and capital). Countries are reluctant to make concessions and seek to preserve instruments of trade protectionism. So, it is not planned to create a supranational body of sanitary, veterinary and phytosanitary control, as well as mutual recognition of sanitary and veterinary certificates. And this is the strongest non-tariff barrier, it leads to the emergence of trade wars like the December prohibitions on the supply of products of the Belarusian food industry. At the same time, the redistribution of resources within the EAEC is presented widely and so far, it is the main motivation of the parties to an agreement: the redistribution motive

dominates a constructive one. There is a redistribution due to the use of a specific instrument - export duties on energy resources.

Before entering the EurAsEC, the state pursued two main and key points.

The first and main task was to provide local entrepreneurs with access to traditional sales markets. It's no secret that after the Customs Union was established and when it began to function, Kyrgyzstan experienced changes that have occurred in economic regulation and in particular in the regulation of trade. On the borders between Kyrgyzstan and then the Customs Union, tariff barriers began to arise - it was necessary to clear the goods that came from the republic to the countries of the Customs Union, except those that were produced in the country. And the most difficult was that technical barriers began to arise. There was a need to go through complex procedures to confirm the safety of goods, which effectively blocked access to a large market, which was always very important for Kyrgyzstan, because, based on geographic location and established economic ties, the country does not have access to this market. Therefore, one of the motives of the state was a struggle for access to the market through accession to this economic association. (Platonova I.N., 2012)

The second very important point was that many Kyrgyz citizens worked in the Russian Federation and in Kazakhstan. And as it happens all over the world, after the integration association began functioning, its members began to defend their internal labor markets. Restrictions have been introduced, which entailed a reduction in the employment opportunities and legal earnings for citizens from third countries. Kyrgyz migrants felt all the difficulties of not joining the republic into the Union. The notorious blacklists began to appear when citizens of Kyrgyzstan were not allowed to enter the EAEC countries for an administrative offense related to the violation of migration rules. Also, additional permitting procedures were introduced: (it was necessary to obtain a work permit, a patent, and also take exams for knowledge of the host country). All these procedures complicated the possibility of legal employment and many citizens of Kyrgyzstan were forced to go to the informal sector where rights were often violated, wages were not paid in the amount that should have been, and there were no social guarantees

Joining the Eurasian Economic Union allowed Kyrgyzstan to become a participant in the single labor market and today the citizens of the country have the same set of rights and duties as citizens of the countries of the Eurasian Union. Conversely, their citizens have the right to apply for jobs in our country and enjoy the same rights as Kyrgyz citizens. In simple words, now there is no need to obtain additional permits, patents and other permits. Most importantly, citizens of Kyrgyzstan have the opportunity of social insurance. In case emergency medical care is required,



they can apply to medical institutions and diplomas of education, which, with the exception of unlisted exceptions issued by our educational institutions, are recognized in the EEA countries.

The expectation of the state from entering the EurAsEC in the form of reformatting trade flows should have been an incentive for the Kyrgyz economy to begin to reorganize from re-export to industrial. In other words, joining the EAEC should have been an incentive for investors to come to the republic from both third countries and the Eurasian Union. This should also help to reorient the policies of domestic investors so that they begin to consider the need to invest their finances and resources in manufacturing enterprises in order to compete in the EEA market. (ShiskovYu.V., 1979)

It is useful to note that this process cannot be immediate. As planned, by 2017 Kyrgyzstan will feel the first results of joining the EurAsEC. But, nevertheless, even now the government can state that investors from China, Turkey and the EAPP countries are already showing considerable interest in the local market and the first swallows already exist. As representatives of the government noted, the effect was obtained, but it turned out to be somewhat blurred due to the fact that several simultaneous events occurred on the economy of Kyrgyzstan felt a positive effect of joining the EAEC, some negative ones were also sensitive.

Crisis phenomena began to appear not only in the Central Asian region, but also in the world. The prices of energy, oil and gold have fallen. In addition, the volatility of the currencies of Kyrgyzstan's main trading partners is observed. For example, in Russia and Kazakhstan purchasing power declined and, in accordance with the laws of the market, this affected us as well, Kyrgyzstan also felt some negative effects in trade because some sectors were focused on exporting products to these countries (Kazakhstan, Russia).

It is noteworthy that these impacts were smoothed to a large extent, and they were mitigated because of the actions were taken to join the EEPS.

*"If Kyrgyzstan were in a crisis situation and was not yet a member of the EAE, then the country would experience a fall in these sectors more strongly, and the losses for the economy would be noticeable."* O.Pankratov said at a press conference.

Due-to the right decisions and validity, Kyrgyzstan have completed all the macroeconomy parameters, in fact some of them were even better off than it was planned.

## **4. Economic analysis of the EURASEC member countries**

### **4.1 Macroeconomic policy of the member countries of the Eurasian Economic Union**

Before analyzing the macroeconomic policies of countries, we will analyze the economic situation of the EURASEC member countries. An important aspect of the union is the similarity of the economic model. Thus, all three countries in the international classification refer to countries with economies in transition, with world average values of GDP per capita, as well as high investment risk, two of which are major energy suppliers and one of the states is an importer and transit country of the same energy carriers. According to the UN international classification all participants of the Customs Union belong to the category of countries with transitional economies. In the period from 2000 to 2012, the average GDP growth rate for them was 5.8%, while in Russia it was 5.1%, in Belarus - 6.7%, and in Kazakhstan - 8.1%. Such a high rate of economic growth in the first decade allowed to double the GDP of Kazakhstan and Belarus, here it grew by 221 and 202%, respectively in Russia, for the same period, the economy grew by 1.5 times - by 159%. If the current GDP growth rates continue until 2020, the next doubling of the economy will occur in Kazakhstan, and in Russia and Belarus the growth will be 150%. In the GDP structure, special attention should be paid to a high share of industry. In the Belarusian economy, it accounts for 46% of GDP, and the basis of industrial production are engineering and chemistry. In Russia and Kazakhstan, industry accounts for 37% of GDP, its basis are fuel and energy and manufacturing industries. The fuel and energy complex are the most important branches of the economy of these countries in Customs Union. In terms of oil production in 2012, Russia took the first place - 12.7% of the world production, Kazakhstan is located on the 16th place, accounting for 1.9%. However, at present, Russia has practically exhausted reserves for further growth, while its main competitors - the United States (12.2%) and Saudi Arabia (11.9%) continue to increase oil production. If this trend continues, in 2013 Russia will move to the third position. In the gas industry, Russia occupies a leading position, it accounts for 19% of the production, approximately the same amount is extracted by the United States. But unlike the United States, Russia is a major exporter of this type of fuel. In addition, Russia is the world leader in natural gas reserves, accounting for about a quarter of the explored reserves.<sup>6</sup>

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<sup>6</sup>The Future of the EAEC: A Complex Search for Equilibrium and Growth Macroeconomic analysis of the starting situation in the EEMP. 2015 - Access mode: <<http://elib.bsu.by/bitstream>>

In terms of electricity generation, Russia is one of the world leaders, currently it is on the third place, having overtaken Japan in this indicator, which soon decided to abandon the use of nuclear energy. When analyzing a structure of the generated electricity, it was revealed that in Russia, the greater part of it - 67.7% is produced by thermal power stations, 15.1% is generated by hydroelectric power stations and 17.2% by nuclear plants. In Kazakhstan, the structure of electricity generation is more homogeneous: 88.2% is generated by thermal power plants, and hydroelectric power stations account for 11.8%. In the Republic of Belarus, almost all electricity is generated by thermal power stations - 99.7%.

The mining industry is an equally important part of the economy of the countries of the Customs Union. The countries' positions in the mining sector are the strongest. Russia is the world leader in the production of nickel and palladium, and Kazakhstan is the leader in uranium mining. Over the past decade, the mining industry of the Customs Union countries has been one of the main drivers of economic growth and has demonstrated an increase in production volumes, in some cases very significant. A clear example is the growth in uranium ore mining in Kazakhstan. In the period 2002-2012, uranium production increased 6-fold, the annual increase was 500-1000 tons, sometimes 4000-5000 tons. At such rates of uranium production increase in 2009, Kazakhstan came on top, outrunning the former leader-Canada. According to further ambitious plans in the next decade, annual production will reach 26,000 tons.

A very significant contribution to the development of the economies of countries are made by agriculture and farming. So, in the structure of the economy of the Republic of Belarus, 9.2% of GDP falls on agriculture, in the employment system this figure is even higher - about 10% of the workforce. In the Republic of Kazakhstan, agriculture accounts for 5.2% of GDP and employs almost a quarter of the economically active population. In Russia, agriculture accounts for 3.9% of GDP and 7.9% of the labor force. For comparison: in Western Europe, this indicator for GDP and employment is 5%, while in Chinese structure of GDP, agriculture accounts for 10% and employs 35% of the economically active population.<sup>7</sup>

Out of the most important directions of crop productions for the countries of the Customs Union can be identified a production of cereals. Russia accounts for 3.5% of the world gross

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<sup>7</sup>Statement of the President of the Republic of Belarus A.G. Lukashenko, President of the Republic of Kazakhstan Nazarbayev, President of the Kyrgyz Republic Akaev and the President of the Russian Federation BN. Yeltsin from 29.03.1999.

margin, Kazakhstan - about 1%, and in Belarus, this figure is 0.3%. Another important area is potato growing. Russia in 2010 collected 7.8% of the harvest, which is the third indicator in the world, after China and India. Potato growing is a great importance for Belarus, about 3% of the world collection is produced here. In Kazakhstan, for the next 10 years there are ambitious plans for the development of this direction, at present the gross yield is more than 1% of the whole world production.

Among other crops, sugar beet production can stand out. Russia accounts for about 18% of world production, this indicator is the world leader.

There is a structural unit in the Eurasian Economic Commission - the Department of Macroeconomic Policy. It provides activities to improve a coordination of policies of the countries participating in the Common Economic Space (Belarus, Kazakhstan, Russia, Kyrgyzstan and Armenia) in the sphere of social and economic development.

The authorized strength of the Department consists of 31 people. The main document that defines the tasks and main activities of the Department is the Agreement on the Agreed Macroeconomic Policy of December 9, 2010 (since 2015 - the Treaty on the Eurasian Economic Union).

Main tasks of this department are:

- 1) coordination of ensuring macroeconomic stability and economic development of the SES member states;
- 2) promoting a development of a coherent macroeconomic policy based on common principles;
- 3) ensuring an effective cooperation between the SES member states in the field of macroeconomic policy;
- 4) implementation of regulatory functions of the Commission in the field of macroeconomic policy;
- 5) interaction with international organizations and bodies for ensuring international activities of the Commission on macroeconomic Policy.

The harmonization of macroeconomic policies is based on the following principles:

- Ensuring sustainable economic growth.
- Observance of balanced macroeconomic indicators.

Such principles are aimed at creating favorable conditions for enhancing an internal stability of the economy of the parties and a resistance to external influences, as well as

deepening integration within the Single Economic Space. One of the key components of a work of the Eurasian Economic Commission (the governing body of the Eurasian Economic Union) is currently the unification of the macroeconomic policies of the member countries.

Considering the differences in the economies of the EAEC countries, this is not an easy task. But no, if not completely identical, but similar in control mechanisms and rates of overall macroeconomic policy union members cannot do. Moreover, if in the long term the Union intends to form a single currency space. The implementation of the set of ECE proposals jointly with the governments, central (national) banks of the EEA member states is designed for the medium and long term. This will help to increase the manageability of inflation expectations, de-dollarization of economies and the growth of confidence in national currencies, the stabilization of macroeconomic indicators of the EEA member states, as well as to improve the business climate and increase the standard of living of the population, "the ECE said.

The following tasks are set in order to reach them:

- ensuring macroeconomic stability;
- Implementation of achieving measures of an economic growth through the use of an integration potential and competitive advantages of Member States (development of cooperation in the real sector in order to improve its competitiveness, improvement of terms of mutual trade and development of foreign trade relations, development of transport infrastructure and implementation of transit potential of the Single Economic Space, development and protection of competition and improvement of a business climate);
- Development of financial systems;
- An implementation of a main macroeconomic policy benchmarks by the member states for 2013 - 2014 was primarily aimed at maintaining macroeconomic stability. All Member States have taken action to comply with macroeconomic indicators that characterize a sustainability of economic development.

A slowdown of economic growth in a number of Member States in 2013 and the forward-looking assessments of the prospects for the development of the economies of member states for 2014 indicate a need to intensify efforts in areas that make use of the integration potential and competitive advantages of Member States to achieve goals of increasing their economic growth in the short and medium term. Within a framework of interaction in a real sector of economies, the principles and approaches to industrial, agro-industrial and energy policy have been formulated by member states and the Eurasian Economic Commission, the goals, objectives,

principles and mechanisms for coordinating national industrial policies and instruments for industrial cooperation have been defined. The main directions of the coordinated (coordinated) agro-industrial policy, as well as the necessary mechanisms of interstate interaction, have been developed and now are being implemented. The principles have been agreed upon and the development of a project concept for the formation of a common market for electric power and capacity, by member states have been started. (Vinokurov E.YU., 2013)

Within a framework of the implementation of the basic macroeconomic policy guidelines, important steps have been taken by the member states and the Eurasian Economic Commission to develop foreign trade relations and improve terms of mutual trade. Actions have been taken in order to remove technical barriers to trade with member states of the Commonwealth of Independent States, which creates conditions for a further increase in trade with these countries. An agreement was signed on the establishment of the United Transport and Logistics Company in order to integrate transport and logistics systems of the Single Economic Space. Work continues on the creation and development of Eurasian transport corridors of the Single Economic Space, which will increase the capacity, increase the transport accessibility and transit potential of Member States and improve the quality and quantity of transport.

#### **4.2 Review of trade of the member states of the Eurasian Economic Union - internal and external**

According to operational data, the volume of foreign trade in goods of the member states of the Eurasian Economic Union with third countries for January-December 2015 amounted to 579.5 billion US dollars, including exports - 374.1 billion dollars, imports - 205.4 billion, dollars. Compared to the same period in 2014, the volume of foreign trade decreased by 33.6%, or by \$ 293.6 billion. The volume of exports of goods decreased by 32.7%, or by 181.5 billion dollars, imports decreased by 35.3%, or by 112.1 billion dollars. The balance of foreign trade in goods was positive at \$ 168.7 billion. In January-December 2014, its value was \$ 238.1 billion.<sup>8</sup>

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<sup>8</sup>Eurasian Economic Union: [agreement: signed in Astana on May 29, 2014] [Electronic resource] // Official site of the Eurasian Economic Commission.

**Table 3:**The balance of foreign trade in goods.

		2015		January-December	
				2014	
				Export	Import
<b>EAEC</b>	<b>374 107,0</b>	<b>205 386,7</b>	<b>168 720,3</b>	<b>67,3</b>	<b>64,7</b>
<b>Armenia</b>	<b>1 253,4</b>	<b>2 218,9</b>	<b>-965,5</b>	<b>102,8</b>	<b>67,5</b>
<b>Belarus</b>	<b>15 688,6</b>	<b>13 105,6</b>	<b>2 583,0</b>	<b>78,8</b>	<b>72,0</b>
<b>Kazakhstan</b>	<b>40 838,8</b>	<b>19 292,7</b>	<b>21 546,1</b>	<b>56,5</b>	<b>73,3</b>
<b>Kyrgystan</b>	<b>1 136,7</b>	<b>2 063,2</b>	<b>-926,5</b>	<b>91,2</b>	<b>66,8</b>
<b>Russia</b>	<b>315 189,5</b>	<b>168 706,3</b>	<b>146 483,2</b>	<b>68,4</b>	<b>63,3</b>

Source :Eurasiancommission.org,2018.

The volume of mutual trade in goods for January-December 2015 amounted to 45.4 billion dollars, or 74.2% to the level of the corresponding period of 2014. The total reduction in mutual trade in January-December 2015 compared to the corresponding period of the previous year amounted to \$ 15,803.6 million, or 25.8%. For mineral products, the indicator decreased by \$ 5,224.3 million (by 25.7%), machinery, equipment and vehicles - by \$ 4 080.5 million (by 35.4%), metals and products made from them - by 2 284.8 million dollars (by 32.1%).

**Table 4:**Volumes of mutual trade in goods of the member states of the Eurasian Economic Union for January - December 2015.

	Million USD		
<b>EAEC</b>	<b>45 379,8</b>	<b>74,2</b>	<b>100,00</b>
<b>Armenia to Belarus</b>	<b>33,3</b>	<b>86,9</b>	<b>0,07</b>
<b>Armenia to Kazakhstan</b>	<b>5,6</b>	<b>75,8</b>	<b>0,01</b>
<b>Armenia to Kyrgystan</b>	<b>0,5</b>	<b>108,1</b>	<b>0,00</b>
<b>Armenia to Russia</b>	<b>1 274,2</b>	<b>91,2</b>	<b>2,82</b>
<b>Belarus to Kazakhstan</b>	<b>572,4</b>	<b>60,8</b>	<b>1,26</b>
<b>Belarus to Kyrgystan</b>	<b>69,0</b>	<b>72,4</b>	<b>0,15</b>
<b>Belarus to Russia</b>	<b>25 928,2</b>	<b>73,8</b>	<b>57,14</b>
<b>Kazakhstan to Kyrgystan</b>	<b>863,6</b>	<b>71,2</b>	<b>1,90</b>
<b>Kazakhstan to Russia</b>	<b>15 178,6</b>	<b>74,0</b>	<b>33,45</b>
<b>Kyrgystan to Russia</b>	<b>1 454,4</b>	<b>78,3</b>	<b>3,20</b>

Source:Eurasiancommission.org, 2018.

Free movement of goods and services in the frame of EASC gives chances to countries, which leads to a weak national currency and as a consequence leads to currency wars. In turn, within the framework of protectionist measures, trade restrictions become a reaction to devaluation. In the spring of 2015, Kazakhstan imposed an embargo on Russian oil products, candy, butter and meat, whose cheapness jeopardizes the business of local producers. Under restrictions were juices, eggs, flavor and paste products. At the same time, bans are imposed on certain Russian products, which allegedly violate the norms adopted in Kazakhstan. Their products were removed from the sale and taken from the warehouses of suppliers. Representatives of local businesses required to introduce those restrictions because of difficulties of competing with Russian producers, whose production immediately went down in price because of devaluation of ruble.

Those actions provoked a response from “Rosпотребнадзор”, which found violations in Kazakh melons, kefir and milk. At the same time, official authorities emphasize that each time the cause of a trade conflict is not the relationship between the two countries - Russia and Kazakhstan, and the activities of individual companies.

The EAEC ignores a need to harmonize monetary policy. To date, there has been a violation of provisions of the basic documents of the Unified Energy System in the inflationary sphere. Thus, the agreement on the EAEC determines that inflation in the EAPC countries should not exceed 5 percentage points of the minimum inflation in the member countries of the association. However, in Armenia this indicator is 3.7%, in Russia it is 12.9%, in Kazakhstan - 13.5%, in Kyrgyzstan - 3.4%, in Belarus - 12%.

**Table 5:** Consumer Price Index in the EEA countries,% YY (maximum and minimum indicators).

Country	2012	2013	2014	2015
Russia	6.58	6.45	11.36	12.9
Belorussia	21.8	16.5	16.2	12
Kazakhstan	6.06	4.9	7.54	13.53
Kyrgyzstan	2.8	4.0	10.5	3.4
Armenia	2.6	5.8	3	3.7
Difference	19.2	12.5	13.2	10.13

Source: Own resource



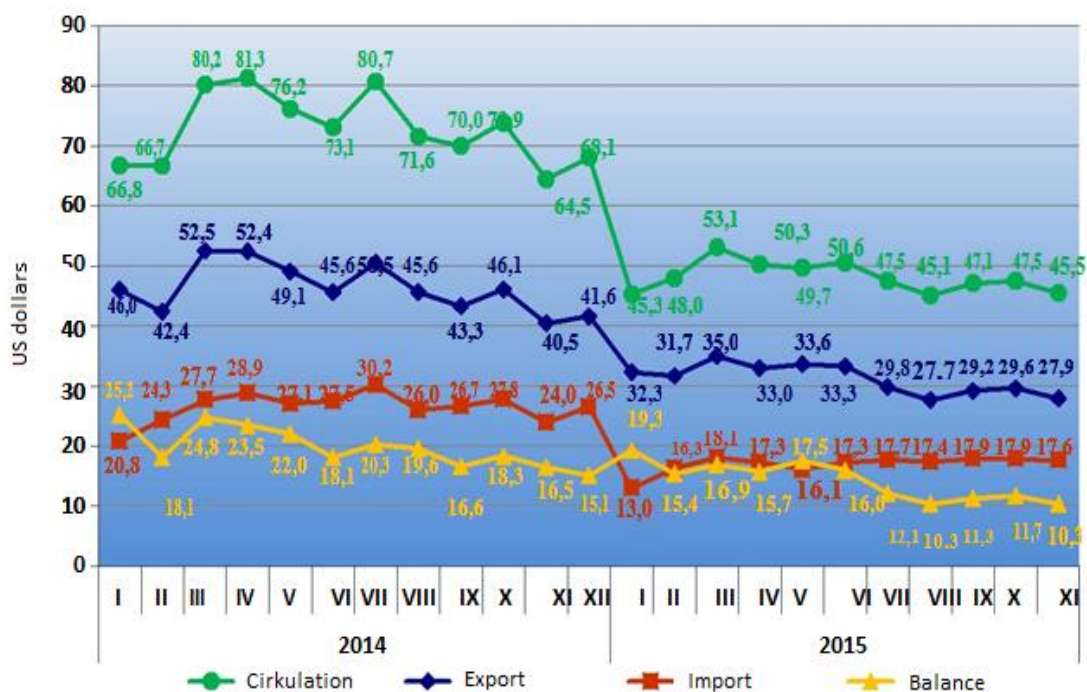
As follows from the table, over the past 4 years, the members of the EAEC have never met the standard of maximum deviation in inflation indicators. In 2012, the delta between the maximum and minimum rates were not lower than 10.13%, or more than 2 times higher than the limit parameter of 5%. Thus, it is necessary to state that the countries of the EAEC with the existing structure of the economy and macroeconomic indicators cannot act within the framework of the unified parameters of monetary policy. Formation of uniform achievable standards in this case is an impossible task.

The total volume of foreign trade in goods of the member states of the Eurasian Economic Union (hereinafter - EEA) with third countries for January-November 2015 amounted to 529.7 billion US dollars, including exports of goods - 343.1 billion dollars, imports - 186.6 billion dollars. In comparison with January-November 2014, the volume of foreign trade turnover decreased by 34.2%, or by 275.3 billion dollars, exports - by 33.2% (by 170.9 billion dollars, dollars), imports - by 35.9% (by 104.4 billion dollars). The surplus of foreign trade amounted to \$ 156.5 billion against \$ 223 billion in January-November 2014.<sup>9</sup>

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<sup>9</sup>Borishpolets K. P., “*Eurasian integration as a trend of international political practice / K.P. Borishpolets // Yearbook of the Institute of International Studies of the Moscow State Institute of International Relations (University) of the Ministry of Foreign Affairs of the Russian Federation.*”, 2014. No. 3-4 (9). Pp. 47-57

**Graph 1:** Dynamics of foreign trade of the EAEC with third countries from January 2014 to November 2015. (in billions of US dollars).

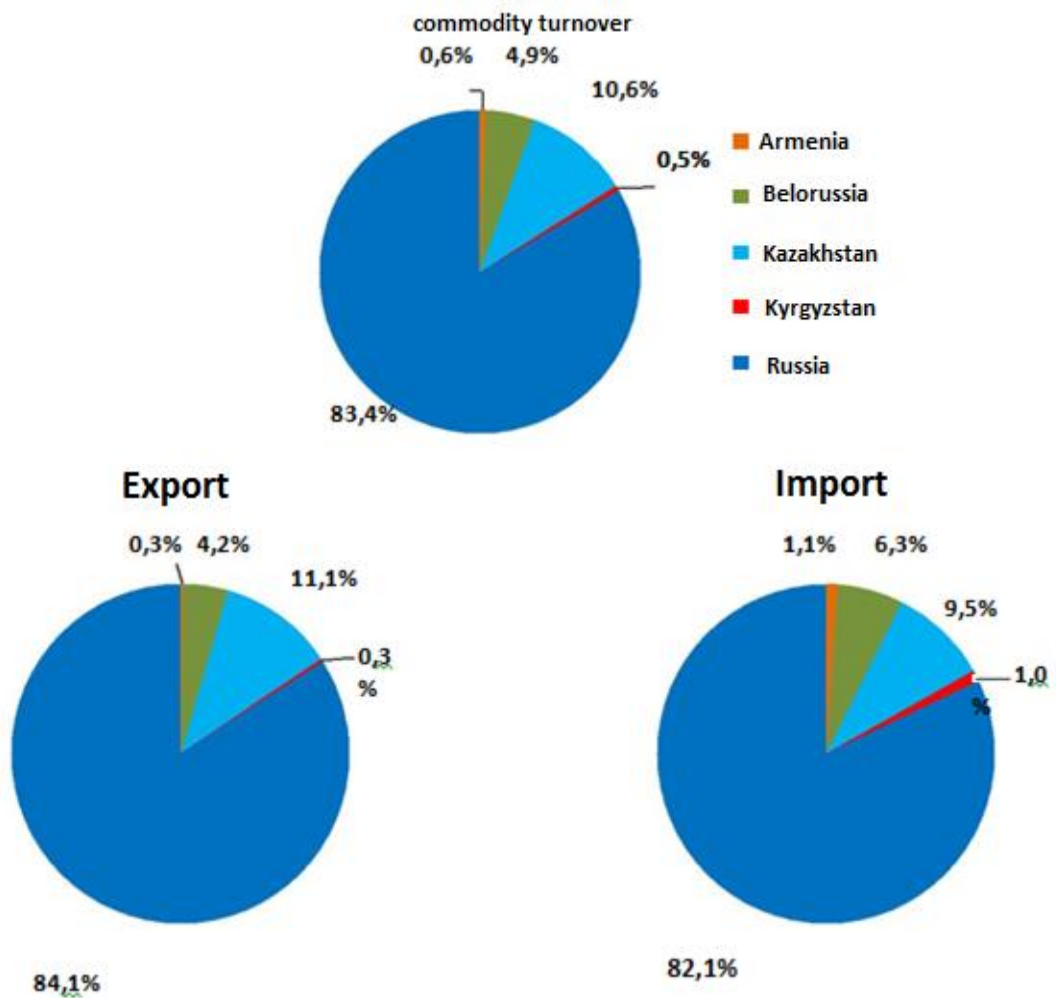


Source:www.eaes.com

#### Commodity structure of exports and imports.

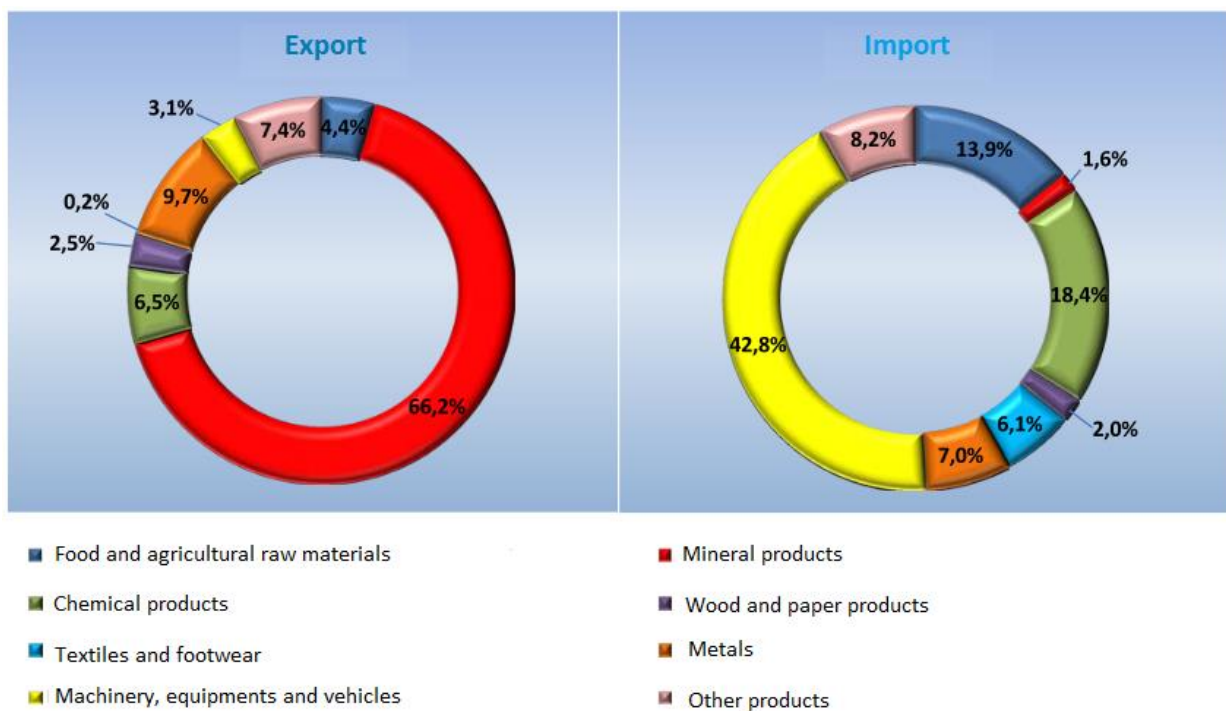
Mineral products (66.2% of the total exports of the EEA member states to third countries), metals and articles from them (9.7%), products of the chemical industry (6.5%) are dominant in the commodity structure of exports of the EEA member states to third countries. More than 80% of these goods are sold on the foreign market by the Russian Federation. The largest share in imports is occupied by machinery, equipment and vehicles (42.8% of total imports), chemical products (18.4%), food products and agricultural raw materials (13.9%). About 80% of the volume of purchases of these goods outside the EEA is provided by the Russian Federation.

**Graph 2:** Contributions of the EEA member states to the aggregate foreign trade indicators (as a percentage of the total for the EEA).



Source: Own resource

**Graph 3:** The structure of exports and imports of goods in foreign trade for January-November 2015 (as a percentage of the total).



Source: [www.statistisc.ru](http://www.statistisc.ru)

The volume of exports of the Republic of Armenia to third countries increased by 2.2% to the level of January-November 2014. Mineral products sales increased by 21.3% (37.1% of the total volume of Armenia's exports to third countries), food products and agricultural raw materials - by 23.1% (17.4%), textiles, textiles and footwear - by 9.7% (4.5%), while for metals and products, a decrease of 23.8% (18.4%) was recorded. Export of the Republic of Belarus in comparison with January-November of 2014 decreased by 22% due to reduction of the cost volume of supplies of mineral products by 33.8% (46.9% of the total volume of exports of the Republic of Belarus in one third of the country), metals and articles thereof – 12, 7% (6.8%), machinery, equipment and vehicles - by 26.2% (5.7%). At the same time, exports of chemical products increased by 1.3% (26.8%). The volume of exports of the agriculture amounted to 56.5% to the level in January-November 2014. The main reason is a reduction in the value of exports of mineral products by 2.1 times (73.5% of the total volume of sales of the Republic of Kazakhstan to third countries), while for foodstuffs and agricultural raw materials, the growth was 10.8% (5.5% %). The sales of goods of the Kyrgyz Republic to the foreign market decreased by 5% against the level of January-November 2014. Against the backdrop of the growth in supplies of precious metals, there was a reduction in sales of food products and agricultural raw materials by 18.3% (8.1% of the total exports of the Kyrgyz Republic to third countries), machinery and vehicles - by 14.2% (8%), mineral products - by 44.1% (5.7%).) In comparison

with January-November of 2014, the volume of exports of the Russian Federation decreased by 32.3%. The supplies of mineral products decreased by 38.6% (66.6% of the total exports of the Russian Federation to third countries), metals and metal products - by 16.7% (9.5%), chemical products - by 14.4% (6.2%). The volume of imports of the Republic of Armenia was 65.9% against the level of January-November 2014. The purchases of machinery, equipment and vehicles were reduced by 36.7% (26.3% of the total volume of imports of the Republic of Armenia from third countries), food products and agricultural raw materials - by 31.3% (18.9%), chemical products - by 21.6% (16.9%).<sup>1011</sup>

The volume of imports of the Republic of Belarus to the corresponding period of 2014 decreased by 28.6%. Purchases of machinery, equipment and vehicles decreased by 36% (33.4% of the total volume of imports of the Republic of Belarus from third countries), chemical products - by 33.7% (18.7%), metals and articles made from them - by 35%, 1% (7.3%).

The volume of imports of the Republic of Kazakhstan amounted to 74.7% against the level of the corresponding period of 2014. The dynamics of the indicator was determined by 20.6% (15.1%), food products and agricultural raw materials - by 21.5% (9.8%). At the same time purchases of metals and products from them increased by 8.2%, (13.1%).

Imports of the Kyrgyz Republic decreased by 29.7% as compared with January-November 2014, due to a reduction in the cost of supplies of machinery, equipment and vehicles by 43.8% (32.4% of the total volume of Kyrgyz Republic imports from third countries), products chemical industry - by 28.4% (17.8%), food products and agricultural raw materials - by 30.6% (10.4%). The volume of imports of the Russian Federation decreased by 37.5%. The dynamics of the indicator was determined by the reduction in the supply of machinery, equipment and vehicles, whose value decreased by 40.6% (43.5% of the total volume of imports of the Russian Federation from third countries), chemical products - by 28.8% (18.8%), food products and agricultural raw materials - by 37% (13.4%). Compared to January-November of 2014, the value of the surplus increased in the Republic of Belarus from 2.1 to 2.7 billion dollars. According to the Russian Federation, the indicator was reduced from 180.6 to 135.2 billion dollars, in the Republic of Kazakhstan - from 43.9 to 20.4 billion dollars. In the Republic of Armenia, the value

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<sup>10</sup>Pelipas I.V., Tochitskaya I.E., Shimanovich G.I., Anisimov A.M., "Assessment of the impact of non-tariff barriers on mutual trade in the SES based on a survey of exporting enterprises // Eurasian Economic Integration." 2014. No. 4 (25). Pp. 5-30.

<sup>11</sup>The total value of the export operations of the member states of the Eurasian Economic Union in mutual, 2016 - Access mode: <[trade.www.eurasiancommission.com](http://trade.www.eurasiancommission.com)>

of the negative balance of foreign trade with third countries decreased from 1.9 to 0.9 billion dollars, for the Kyrgyz Republic - from 1.7 to 0.9 billion .USD.

### **4.3. Geographical distribution of foreign trade**

The main buyer of goods exported by the member states of the EEA is the European Union (53.7% of total exports). Among the countries of the European Union, the most significant supplies of goods to the Netherlands (12.6%), Italy (8.3%), Germany (7.3%), United Kingdom (3.1%), Poland (3%). APEC countries sold 23.4% of exported goods, out of which China - 9.3%, Japan - 4.1%, South Korea - 3.8%. Export deliveries to Turkey accounted for 5.8% of the total exports of the EEA member states. The CIS countries sold 6% of exported goods, out of which Ukraine - 3.5%. Import purchases are concentrated in APEC countries and the European Union (40.7% of total imports of goods). Among the APEC countries, shipments of goods from China (21.3%), the United States (6.7%), Japan (3.7%) and South Korea (2.7%) are significant. Among the European countries, the largest volumes of imports fall on Germany (11.7%), Italy (5%), France (3.4%), Poland (2.7%). In the CIS countries, 5.1% of goods were purchased, of which in Ukraine - 3.8%. Turkey accounts for 2.8% of the total imports of the EEA member states.<sup>12</sup>

The volume of mutual trade in goods for January-November 2015, calculated as the sum of the value volumes of the export operations of the member states of the Eurasian Economic Union (hereinafter referred to as "the EAEC") in mutual trade, amounted to 41.6 billion US dollars, or 73.7% January - November 2014. Volumes of mutual trade in the directions characterize the data given in Table 5.

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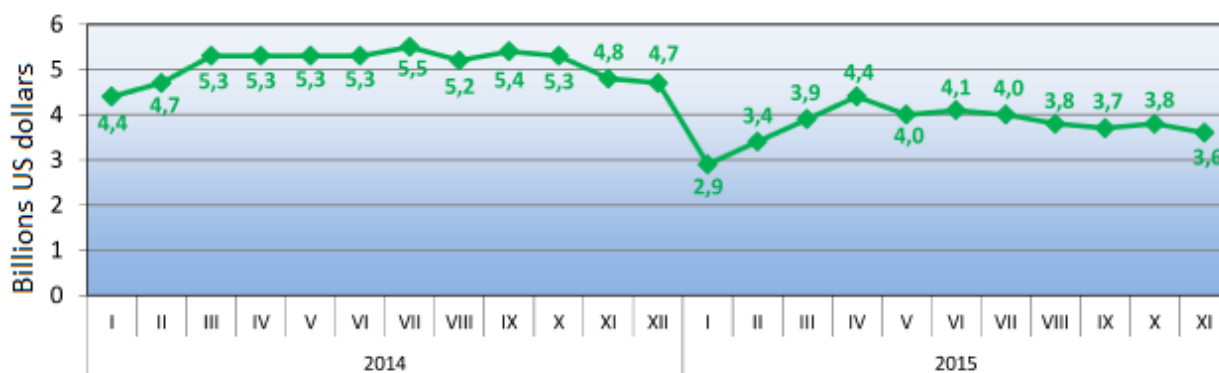
<sup>12</sup>The total value of the export operations of the member states of the Eurasian Economic Union in mutual, 2016 - Access mode: <[trade.www.eurasiancommission.com](http://trade.www.eurasiancommission.com)>

**Table 6:** The volume of mutual trade in goods.

	January- November	January - November		
				Specificweight
EAEC	56 491,9	41 627,6	73,7	100,00
Including :				
Armenia – Belarus	35,1	31,3	89,1	0,08
Armenia – Kazakhstan	6,8	5,1	75,7	0,01
Armenia – Kyrgyzstan	0,4	0,4	104,0	0,00
Armenia - Russia	1 267,6	1 142,2	90,1	2,74
Belarus - Kazakhstan	826,0	546,5	66,2	1,31
Belarus - Kyrgyzstan	90,1	61,9	68,7	0,15
Belarus - Russia	32 834,5	23 864,1	72,7	57,33
Kazakhstan - Kyrgyzstan	996,2	681,7	68,4	1,64
Kazakhstan - Russia	18 813,8	13 979,6	74,3	33,58
Kyrgystan - Russia	1 621,4	1 314,8	81,1	3,16

Source: Own Table, 2018.

**Graph 4:** The dynamics of the changes in the volumes of mutual trade between the member states of the EAEC from January 2014 to November 2015.



Source: www.statistics.ru

The main directions of development and expansion of cooperation of the countries of the Unified Energy System.

As its already known the goal of economic development of the custom union in a long-run expects to have qualitative relationships between countries and the development of this unit in general. Member States will increase their share in the world economy through the production and marketing of competitive products in the domestic market and third countries market, diversify exports and increase non-oil and gas exports, reduce dependence on imported goods and services from third countries, provide the effect of creating trade, saving from the effect of scale, technological effect, to improve the quality and standard of living of the population in the implementation of the following scenario.



#### **4.4 Ensure macroeconomic stability**

Ensuring macroeconomic stability are both a short-term and long-term goals. Measures, tools and mechanisms to solve this problem must be adaptive to changing conditions. On the other hand, they should become a condition for long-term development, not contradict strategic tasks. Achieving macroeconomic stability will ensure the stability of macroeconomic indicators that determine the sustainability of the economic development of member states, predictability of the economic policy pursued, it will give an idea of the availability of sufficient resources and tools for Member States to timely respond to imbalances that arise. Realization of this direction by means of compliance with macroeconomic indicators provided by the Treaty of Union, a warning of macroeconomic imbalances, improving the status of the macroeconomic analysis and forecasting, assessment of the effects of mutual influence can be complemented by the development of coordinated and countercyclical stimulus measures. The cooperation of Member States in implementing this direction should particularly promote the development and enhancement of the technological level and diversification of national production and exports, maintaining a sustainable balance of payments and an adequate level of savings in the economies of Member States, reducing and maintaining at a consistently low level of external debt Member States.

#### **5.1 Creating conditions for growth of business activity and investment attractiveness**

The current trends in the world economy, characterized by the persistence of risks and uncertainties in global development, the high volatility of major commodity markets, the further intensification of international competition and market access restrictions, make it vital for Member States to stimulate domestic business activity and demand for products from member states.

The formation of a single economic space that is attractive for investment and business development can be ensured in a case where, by implementing integration measures and actions with a view to create an enabling environment for interaction among economic entities of member states, facilitating the participation of economic entities in investment forums and fairs, Reduction of excessive regulation of entrepreneurial activity, creating additional costs of economic entities for the organization and conducting entrepreneurial activities in the territories of member states, increasing efficiency and reducing costs when the authorized bodies of the

Member States carry out public functions and provide public services, improve the level of information provision for economic entities and potential investors (including from third countries). Integration tools are the provision of information interaction within the framework of the national "single window" mechanisms in the foreign economic activities of the member states and the implementation of a coordinated development policy for these mechanisms, which will contribute to the improvement of government procedures and business processes related to foreign economic activity. The implementation of this direction will be accompanied by a reduction in seizures, restrictions and barriers to the free movement of goods, services, capital and labor, the development of competition in the cross-border markets of the Union, the creation of other necessary legal, institutional and financial conditions.<sup>13</sup>

## **5.2 Innovative development and modernization of the economy**

Nowadays, conditions for economy growth and development of a country is ensured by the level of scientific and technological potentials and achievements of knowledge-intensive industries. The change in the key indicators of the innovative development of member states demonstrates a positive trend, but the growth rate is insufficient in order to strengthen the Union's position in the world economy in the long term. Member States have a low share of high-tech exports in gross domestic product and yet have a competitive scientific and production potential in many industries.

The cooperation of the member states in the implementation of this direction should help accelerate the implementation of national plans (programs, strategies, concepts) in terms of creating conditions for innovative structural changes (including the modernization of the economies of member states, commercialization of scientific developments), the growth of production and export of innovative products and technologies that outstrips the increase in labor productivity, an increase in the interest of economic entities in innovative products including in Member States, an increase in investments in high-technology sectors of the economy and a scale of return on investment. In the implementation of this direction, through a creation of the necessary legal, institutional, financial conditions for innovative development and modernization

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<sup>13</sup>Glinka S.P., Turaeva M.O., "On the expansion of Eurasian integration in the conditions of geopolitical regional rivalry / SP Glinkina, M.O. Turaeva // *Bulletin of the University.*", 2014. No. 2 (45). Pp. 54-62

of economies, it is necessary to take into account world practice, which shows that integration measures and actions can promote active participation of member states in the development of a new technological order, introduction of innovations on a joint basis, transfer of technologies from developed countries for joint use within the integration with the economy of budgetary funds and a use of scientific and technological potentials of the Member States for a mutually beneficial basis.<sup>14</sup>

### **5.3 Ensuring the availability of financial resources and the formation of an effective financial market of the Union**

In a long-run perspective of a world economy, a system will toughen the regulation rules of financial organizations with the aim to minimize risk systems and assure financial stability based on international standards and the best world practice. In those conditions, risks will occur on reduction of financial market participatns and complexity of an access to finance sources for investors. Cooperation of the Member States in the monetary and financial sphere, carried out through coordinated regulation in the financial markets, implementation of an agreed monetary policy, the formation of an integrated exchange space, including the mutual admission of participants in the financial market (ensuring direct access of investors and professional participants to financial markets of member states), improving the regulation of the securities market infrastructure ( with regard to the rights securities), the calculations in the financial market of the Member States is crucial. One of a cooperation tool between member states can be the creation of an integrated market of exchange commodities, designed to ensure equal and competitive access of participants to commodity markets. This cooperation will stimulate the freedom of movement for goods, services and capital, it will also increase an attractiveness for foreign investors and decrease risks system and show the whole transparency of the member states.

In order to pursue a coordinated monetary policy, member states take measures to coordinate the exchange rate policy of national currencies in order to ensure the expansion of national currency use of the member states in mutual settlements, including mutual consultations

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<sup>14</sup>Spartak A.N., “Development and international legal regulation of the processes of regional economic integration: new trends and phenomena at the beginning of the XXI century // Russian Foreign Economic Journal”, 2010.

with the aim of developing and coordinating exchange rate activities. An financial resources of financial resources, especially credit, is a prerequisite for the development of the real sector and the service sector and it involves the adoption of mutual measures for development of exports (in particular insurance and export credit, international leasing), taking into account provisions of the Treaty on the Union and international treaties within the Union.

#### **5.4 Infrastructural development and realization of transit potential**

In order to form a common market of the Union, infrastructure has key meanings. A free movement of goods, services, capital and labor are dependent on the level of infrastructure development.

The cooperation of the member states in the implementation of this direction will contribute to a creation and development of infrastructure facilities in interests of the member states, it will strengthen their strategic transit potential through the development of the infrastructure of rail, road, air and water transport, develop an agreed position on international platforms in order to advance common interests in realization of the Unit transit potential, harmonizing the legislation of Member States in a field of transport, taking into account principles of international law enshrined in multilateral agreements and conventions on transport and customs, in order to integrate the transport systems of the Member States into the world transport system and expand a participation of Member States in major international transport projects. The implementation of transit potential is not limited to the development of transport infrastructure. A key role plays a stimulation of created transport space and common transport services, improving a quality of transport services, improving customs, border procedures and transport control procedures considering a functionality of transport modes. A formation of transport corridors on potentially demanded routes with a possible creation and development of transport and logistics centers in the future will increase the competitiveness of products of the Member States, including reduction costs of transport (financial and temporary), application of tariffs agreed by the carriers of the Member States routes, passing through the territories of two or more Member States, and allowing an attraction of new, previously unavailable transports. A sufficient result will be also in a profit wise, which will go to the member states. In order to simplify an implementation of customs operations, build optimal logistics chains, fulfill contracts

for importation into the territory of a Member State and export from such a territory of goods, it is important to ensure a reduction in financial costs of participants in foreign economic activity.<sup>15</sup>

## **5.5 Human resource development**

Human capital is one of the main factors of economic growth in the innovation economy, a transition to which is assigned as a priority in the strategic documents of all member states.

The urgency of implementing this direction in the Member States and in the world as a whole is linked to the projected deficit of highly skilled manpower, the need to create a reserve of human capital, the development of high-tech sectors that require an interdisciplinary approach and continuous updating of knowledge, and a need to create conditions for development and comfortable living of population of the Member States and a creative potential of people. These factors are important components for a consistent increase in a labor productivity.

Realization of this direction will be provided by forming the necessary legal, institutional, financial conditions, including the coordination of policies on consumer protection, cooperation in the field of accounting workers from Member States and monitoring a movement of labor, a cooperation to ensure effective labor market in order to timely response to changing trends in the world and internal labor markets, in the structure of the economies of member countries.

## **5.6 Resource Saving and Energy Efficiency Improvement**

A perspective direction to improve a competitiveness of economy is not only an increase in energy efficiency, which with a given natural and climatic conditions and structure of economies, have a limitation on energy-intensive economies of the member states, but also resource-saving, which is understood as the rational and economical use of natural and material resources.

A relevance of this direction is also determined by the fact that in these conditions of severe competition in a domestic market and market of third countries, requirements to products are toughened. Increasing consumer awareness and a development of electronic trading

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<sup>15</sup> Preparation of proposals for the development of international cooperation with third countries and international organizations, 2015.

platforms lead to an increase in competition of cross-border markets. This means that small differences in products produced, demanded by consumers, can give significant competitive advantages. One of the factors that provide that prevailing position in the domestic market and the market of third countries under these conditions is the reduction of costs through resource saving and energy efficiency (energy intensity reduction) throughout the product life cycle.

Besides that, Member States face a challenge of meeting specific needs of their economies and the population in energy carriers through effective use while reducing a burden(emission) on the environment. A solution of this problem is possible, among other things, by developing renewable energy sources. Realization of a given direction also includes a creation of common rules and standards on energy-efficiency and saving of this energy, formation of a common scientific platform for a development and commercialization of energy-efficient technologies in order to increase the depth of processing energy resources, for a construction of energy infrastructure facilities with minimal adverse effects on the environment, production (imports from third countries) of energy-saving production technologies, stimulation of energy use and resource-saving technologies, including the best and available technologies, improvement of a waste processing system and increased use of secondary raw materials, as well as the development of low-energy-intensive sectors of the economy, renewable and alternative energy sources, including an expansion of participants of Member States, implementation of projects in a field of nuclear energy, considering international standards.

## **5.7 Regional development (interregional and cross-border cooperation)**

An implementation of main directions, including a real sector and a service sector, will require a phased involvement of administrative-territorial entities (units) of the Member States, including administrative-territorial entities (units) that have a common border with administrative-territorial entities (units) of other states Members, that play a significant role in national economies and largely determine a level of integration interaction. Although the administrative-territorial entities (units) account a significant part of mutual trade and they also form exchange of services and a significant share of the aggregate gross domestic product. Nowadays, regional cooperation between member states is being implemented on a bilateral basis, which ensures the development of mutual trade, meanwhile, a cooperation in the field of industrial cooperation and production cooperation can receive an additional stimulus for development, with a support of regional cooperation initiatives on a multilateral basis within the

Union, including creation of conditions for interaction and exchange of experience, which will contribute to the growth of the mutual importance of the markets for goods, services, capital and labor of Member States, the formation of new production links, an enhancement of labor market efficiency and creation of new jobs (in particular, small and medium business).<sup>16</sup>

## **5.8 Realization of foreign trade potential**

An economic development of member states in the context of globalization presupposes an implementation of modernization of the economies on an ongoing basis, including through intensification of production of products, competitive on a domestic market and the market of third countries, and the geographical diversification of commodity flows, as well as the support of partnership relations with third countries and integration associations, providing favorable conditions for attracting investments to the economy and reducing transaction costs, including in external trade. Imbalances in the economy, along with constraints of domestic and external demand, they have led to a slowdown in growth rates of external and mutual trade of member states. Imbalances in the economy, along with the constraints of domestic and external demand, have led to a slowdown in the growth rates of external and mutual trade of member states. In conditions of preserving a need to modernize economies of the Member States, a price competitiveness of products of the Member States cannot be regarded as the only component of the guarantee of its sale. Increasing competition for world sales markets makes an export of manufactured products as a separate task of the economic policies of member states with specific approaches and tools for solving it. An implementation of the Union's foreign trade potential includes, a support of economic sectors development and also a development of mutually beneficial cooperation with third countries and their integration associations, as well as international organizations. At the same time, an important direction of the Union's foreign trade policy is to recognize an institutional, organizational and information-analytical support for promotion of the Union's goods. The most relevant tasks for implementations of the Union's foreign trade potential are development by the producers of member states of new commodity and geographical markets, as well as a systematic increase in a share of manufacturing products

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<sup>16</sup>Treaty on Cooperation in the Protection of External Borders of the Member States of the Eurasian Economic Community of 21.02.2003.

(including high-tech goods) in exports. In this connection, the development of international cooperation of the Union with third countries also acquires great importance.

International cooperation of member states and the Union with third countries and their integration associations are expected to be implemented in a form of an interactive dialogue, as well as a conclusion of non-preferential and preferential agreements on trade and economic cooperation. The cooperation of the Member States and the Union with international organizations that form rules of international trade should be aimed at, ensuring interests of member states, their business community and consumers.

It should also ensure an effective implementation of trade policy elements, which presuppose regulation of foreign economic activities within the competence of the Union. Activities are aimed at implementing the Union's foreign trade potential, which will help to expand the market for the products of the member states and increase its share in the world market, establish cooperative ties and increase the volume of mutual trade with new prospective partners, increase a trust level in the Union from foreign trading partners and potential investors, development of scientific and technical cooperation, a use of advanced technologies and know-how, information exchange on key issues interstate interaction, as well as increase the competitiveness of member's products at the expense of non-price factors. Thus, the Eurasian integration processes are directly included in a global development and are subjects to influence not only regional, but also global factors. This influence has both positive and negative affects. It should be taken into account while developing new integration processes and also with those ones which were launched already. Nevertheless, an accomplishment of real benefits seemed to be unreliable so far, because Member States face with the same structural problems of national economy (insufficient level of modernization and diversification), besides that, they are always opened to full mutually beneficial cooperations, competing only in foreign markets.<sup>17</sup>

Those obstacles have become very noticeable in current crisis and since integration is still at an early stage, the question which is increasingly being asked: Should we move further along this path? We shouldn't forget about the fact that every integrational department faces these types of problems, no matter at which stage of development they are, either successful or

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<sup>17</sup>Pelipas I.V., Tochitskaya I.E., Shimanovich G.I., Anisimov A.M., "Assessment of the impact of non-tariff barriers on mutual trade in the SES based on a survey of exporting enterprises // *Eurasian Economic Integration.*" 2014. No. 4 (25). Pp. 5-30.



not. Therefore, it seems that the prospects for Eurasian integration depend only on how much Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia are ready for real cooperation.

## 6. Conclusion

By creating the Customs Union, the countries proclaimed that, the main goal is socio-economic progress. In the long term, this implies an increase in turnover and services that are produced by economic entities.

An increase in sales initially was assumed within the Custom Union borders, due to the following conditions:

1. An abolition of custom procedures within the Union, which supposed to make products more attractive due to cancellation of duties.
2. An increase in turnover with a help of a custom control cancellation within the borders.
3. Acceptance of common rules and requirements and integration of safety standards.

All above shows that nowadays, the presence of the Custom Union is more of a political union rather than an economic one. An existence of political freedom at this stage is the main driving factor for building a full-fledged economic union in the future. In this regard, it is difficult to predict in what period the transformation of the Customs Union will turn into a more cohesive political and economic organization. Now, besides Belarus, Kazakhstan and Russia, the other countries also consider joining the Custom Union. Having collected the available information on the origin and activities of the Customs Union, it can be concluded that results of increasing turnover of goods and services are published much less frequently than let's say news about signing of new agreements, i.e. its declarative part. But still, analyzing declared goals while creating a Custom Union and also monitor their implementations, we should say that they have succeeded a simplification of turnover, betterment of competitive conditions in agricultural fields of Custom members.

Custom union is on the way of achieving its goals, in addition to time, there are requirements of mutual interest of both the states themselves and economic elements within the Union. The customs union consists of countries that have one economic past, but today these states are very different from each other. Of course, even in the Soviet era, the republics differed in their specializations, but after independence, there were still a lot of changes affecting the world market and divisions of labor.

Nevertheless, there are also common interests. For example, many member countries have remained dependent on the Russian market. This tendency is economic and geopolitical. Throughout the time, leading positions in a process of integration and stabilization of the EAEC

and the Customs Union was played by the Russian Federation. This was possible due to its stable economic growth until 2014, when commodity prices remained high, this helped in financing processes, launched by agreements.

Although such a policy did not predict a rapid growth of the economy, it nevertheless implied strengthening of Russia's positions in the world arena.

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