

First step of the eurasian integration

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Suggested Citation:

Mekebaeva, M., Mussatayev, S., Nassimova, G., Omargazy, Y. (2016). First step of the Eurasian integration, *Global Journal on Humanities & Social Sciences*. [Online]. 04, pp 218-225. Available from: <http://sproc.org/ojs/index.php/pntsbs>

Received June 16, 2015; revised August 05, 2015; accepted September 11, 2015.

Selection and peer review under responsibility of Prof. Dr. Andreea Iluzia IACOB

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Abstract

In article the author analyzed the history of emergence and development of the Eurasian economic union, there are considered the problems of its functioning in the conditions of accession to the World Trade Organization. It should be noted that the Eurasian integration approached to important point in its history. At the beginning of the first year of functioning of the Union optimists and supporters of unconditional integration without any questions were prevailed. However, recently, many questions and problems have been accumulated. The most part of questions is connected with the results of the first year of functioning of Eurasian economic union, and also, how economic model of this union is equitable to national and economic interests of each country separately. Therefore the author having investigated integration processes within EEU, feature of competitive fight in EEU, the reason of contradictions, and also, consequences to which devaluation of ruble and tenge have led, the dumping prices in Russia which negatively influence the competitiveness of economies of Kazakhstan and Belarus, has tried to answer a question whether there is a prospect at the Eurasian economic union. Complex research of a present state and problems of functioning of EEU was carried out with an application of comparative and system analyses, the content analysis, event-analysis, SWOT analysis, etc. methods of the political science analysis. Article is written on the basis of reliable factual materials.

Key words: Eurasian economic union, Eurasian integration, political issue, competitiveness, economic security.

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Also more often researchers do not write the political aspect of the integration processes taking place in the Eurasian space. Though it is obvious, that exactly the political motivation is the most important argument for many supporters of economic integration.

During the existence of Custom Union were raised a more questions, most of them related to the complexity outcomes of trade relations between these countries, as well as the fact whether there are prospects for a Eurasian economic integration. At the same time, we deliberately evaded the issue of the political aspect of what is happening. Yet, it is evident that the political motivation was the most important argument for numerous supporters of economic integration.

Entirely is a natural desire of the leaders and member of the public, try to change the situation, to get away from dependence on raw materials by restoring economic ties that existed before the collapse of the Soviet Union than, to try individually to create a new economic model. Precisely this subtext of integration, caused the enthusiasm of the public in Russia, Kazakhstan and Belarus.

In this the economy of these countries must have the competitive stability when exposed to external factors, provides improved its competitiveness [Abramov V.L. (2015)].

It was a natural tendency of the elites and the general public to try to alter the situation, to get rid of dependence on raw materials. Such subtext of integration aroused the public enthusiasm in Russia, Kazakhstan and Belarus. That is actually the integration based on the idea of a "industrial revenge" and an attempt to work jointly to improve the economic value of the former Soviet Union in the global economy.

In addition, before integration begun, they said that it would result an increased trade between the countries. The economic dominance of Russia in the Union is quite logical. (Kazakh businessmen promised enormous Russian market for sales of goods with low taxes, more comfortable environment for investment) Due to the low taxes and better investment environment, investors would be able to start big scale production for export to Russia. The use of the RF internal cargo transportation tariffs, when goods are transported through Russia, was mentioned among another advantages for Kazakhstan.

On its part, Belarus expected to receive a duty-free access to the Russian oil and by the reselling of refined products to Europe, get so much-needed currency. In addition, Minsk believed that introduction of protective duties would increase the export of its goods to the Kazakhstani and the Russian markets. Otherwise, unreformed Belorussian economy was unable to exist in the old format. It needed markets and foreign exchange earnings.

Russia's interests were linked to the trade expansion within the CU. On the one hand, it provides benefits to the Russian exports to neighboring markets, since high import duties in the Customs Union supposed to be a kind of protective umbrella, which provided for an advantage to Russian producers. On the other - it is possible to ease pressure from uncontrolled merchandise imports, particularly from China, as tighter controls on the external borders of the CU would mean reduced uncontrolled imports through Kyrgyzstan. At the same time Kazakhstan, as a member state of the CU was also to reduce imports from China and the subsequent informal re-export to Russia. Kazakhstan also was to establish order on the border of China and Kyrgyzstan.

Another important aspect of the Russian Federation economic interests was linked to acquisition of the important assets in the neighboring countries by the Russian companies. This policy was implemented in Ukraine; Armenia, as it is part of Moscow's claims in relation to Belarus in exchange for preferential treatment in trade with oil and gas.

Armenia officially entered EAEU on January 2, 2015. The contract on accession of the Republic of Armenia to "The contract on the Euroasian economic union from on May 29, 2014" was signed in Minsk on October 10, 2014. The government of Armenia lays hopes on EEU because it will allow

increasing considerably the market for the Armenian goods at once. Within the program of EEU the budget of the country will receive millions of US dollars in the form of grants, grants and the credits.

At the time of the entry of the Republic of Armenia into EEU the level of influence of the Russian capital and the Russian management in national economy was incredibly high.

Current situation also does not promise anything good to those Armenian producers whose the main market of export is Russia.

Judging by data of Customs service, Russia is the main market for the following Armenian export goods: alcoholic beverages (generally cognac and wine), fish (generally a trout and a sterlet, crayfish), vegetables, fruit, dried fruits, fruit juice, mineral water, carbonated drinks, beer, dairy products (generally cheese), diamonds, precious and semiprecious stones, jewelry, coal, ore (in a small amount). Except Russia, there are no other sales markets of production exporters [СМИ Армении (2015)].

Nevertheless, current crisis of the Russian economy will effect on Armenia. With considerable deficiency of the Armenian budget in 10% of GDP any reduction of the income will be very painful. Russia imports the fifth part of the Armenian export. Besides it, 80% of money transfers from Russia come to Armenia which are the citizens who left Armenia for earnings. Dependence of the Armenian economy on the Russian market is very great therefore the situation that affects the Russian ruble will also concern Armenian dram. Currently, the monetary transfers from the Russian Federation to Armenia has already considerably reduced. The volume of direct investments during the similar period of last year made 69,6 billion dram, thus, reduction of volumes of direct investments in the first quarter of the current year in an annual section made 34,3 billion dram. And in a dollar ratio the volume of foreign investments was reduced almost by 70% [Экономические будни Армении (2015)].

Kyrgyzstan has signed the contract on the accession to EAEU on May 8, 2015. The entry of Kyrgyzstan in the Customs union has been postponed for several times. The reason of difficulties of the entry of Kyrgyzstan into EAEU is rooted, first of all, in big dependence of economy of the republic on re-export of goods, first of all to Chinese, to a lesser extent – Turkish ones. During the independence years Kyrgyzstan spontaneously has come to model of an economic survival of the transit country. It was promoted by the liberal legislation, weakness of law-enforcement system and high corruption. The most part of the income of the Kyrgyz budget is formed due to payments which are levied from importing and exporting production. Low customs rates provide low cost of import production. As a result Kyrgyzstan began to position itself as the regional transport and trade knot focused, first of all, on the Chinese goods. All this is complicatedly combined with the basic ideas of the Customs union of EAEU. Requirements of EAEU assume an increase of customs duties rates on import almost twice. It is fraught with decrease in commodity turnover of the republic with foreign countries and sensitive increasing of consumer prices of many types of goods. Besides, after the accession to EAEU it would be difficult for Kyrgyz enterprises to compete with large business of member countries. The countries of EAEU recognize the re-export problem. At negotiations on accession of Kyrgyzstan to the union it was elaborated the "road map" which is urged to soften consequences of reduction of re-export of the Chinese production for republic economy. It was highlighted the range of goods for which there would be given the preferences. For compensation of economic expenses from the accession to EAEU it is supposed granting a soft loan to Kyrgyzstan at the rate to 1 billion US dollars, and also, Russia expressed readiness to write off a debt of Kyrgyzstan for total amount to 0,5 billion dollars. However refusal of economic model of the transit state remains a difficult choice for Kyrgyzstan. However such choice in exchange gives the chance of receiving duty-free access of the Kyrgyz production to the markets of EEU; reduction of cost of the raw material resources delivered from the EEU countries; growth of investments from the states of EEU; legalization of labor migration from Kyrgyzstan to the EEU countries.

Thus, it is necessary to consider that for allies the entry of Kyrgyzstan into EAEU is interfaced with certain geopolitical risks for partners in the union. Kyrgyzstan has extended border with China and

Tajikistan which crosses the mountain district and is almost not controlled. After the entry of Kyrgyzstan into EAEU it became the general border of the union, and it means that the stream of illicit goods will be able freely to come to Russia. Tajikistan in turn has the border with Afghanistan. If unprotected border with Tajikistan became external border of EAEU, this will threaten the increasing of a drug traffic from Afghanistan through Tajikistan. At the same time the part of border between Kyrgyzstan and Tajikistan is not coordinated that leads to continuous border incidents.

It is clear that the Customs Union, which was to unify the requirements to the economy and transfer some powers to a supranational body, in general, contributed to the creation of favorable conditions for the interests of the Russian business and its government.

In general, each country had its own expectations from integration, since they sought to solve its economic issues, which is quite natural. It is clear that the classical reaching of agreements includes an assessment of potential losses and possible acquisitions. But it is also evidently that each country would still seek a balance and as a minimum not lose more than purchase. And, of course, the CU member states expected the merger of economies would produce a certain multiplier effect, which compensates for their loss.

There was one more critical issue. Kazakhstan is located in the center of the continent and one of the so-called land-locked countries. Accordingly, it is critical for us to access the world export and import markets. The most transport routes pass through the Russia's territory. Therefore, we depend on access to these transportation routes and the prices. This issue wasn't actively discussed, but everyone understands its importance, at least for the bilateral Kazakh-Russian relations.

It should be noted that over the twenty years after the collapse of the Soviet Union and commencement of the CU's operation, substantial differences have accumulated between the economies of certain countries.

As we move from East to West on the way of the new integration association the role of the state becomes more significant. For example, Kazakhstan has the lowest taxes including those for oil export; less state presence in the economy; a lot of foreign companies operate in the mining sector. In Kazakhstan, the pension reform was implemented at the time, the retirement age was increased and privileges were abolished. This can be treated differently, for obvious reasons the public's attitude to this is negative.

In Russia, taxes are higher, specifically on export of raw materials. The economy is dominated by the state-owned companies-giants, foreigners in the oil production have almost gone. Therefore, Russia can withdraw major part of revenues in the form of taxes from oil companies. In this regard, the Russian budget revenues are larger than the same in Kazakhstan.

The advantage of Russia is the dominance of large enterprises in the market as a whole. For example, the Sberbank and other state-owned banks are larger and more powerful than the relevant banks in Kazakhstan. This is true for many businesses, both industrial and market-oriented services. In agriculture, Russia is dominated by large commodity companies. While in Kazakhstan, there is mainly rural small-scale production.

So generally, not only the Russian economy was larger than Kazakhstani one, but the presence of the state was noticeably stronger there. Due to the state's greater role in the economy Russia had an institutional advantage over Kazakhstan, despite the fact that Kazakhstan had made great strides with regard to liberal economic reforms. Kazakhstan had fewer problems than Russia (in particular, on pensioners issues; taxes; unreformed enterprises; and the availability of the petty-bourgeois environment in agriculture), but also the lower level of government management.

The economies of Kazakhstan and Russia, with all the differences have long been integrated into the world economy, and in that they are analogous with each other. Therefore, they can be part of the WTO. But the same cannot be said about the third party of the Eurasian integration – Belarus.

Traditionally, we have the intellectual community in Kazakhstan which is very positively disposed to the Belorussian model. It is believed that in contrast to Kazakhstan and Russia this country had kept the production of the Soviet era and it sets apart Belarus from those economies that went to the market. With consideration for the nostalgia for the Soviet industrial might and regret on the raw material orientation of the economies of Russia and Kazakhstan, the Belorussian model in the imagining of the Russian and Kazakh public seemed as a more successful option to develop.

The Belorussian products are in demand mainly in the CU. Here it has a competitive advantage ensured by financial policy. Companies receive direct support from the government in Belorussian rubles. This currency always depreciates, because the government actually performs the unsecured money emission. In this situation, any sale of goods for hard currency (for example, in rubles or tenge) provides the Belorussian enterprise with an opportunity to pay off debts eventually.

Not only the economic interests are of key importance for the Russian Federation. Political aspects to reduce the EU influence on Belarus; by Turkey on the Republic of Kazakhstan; by China on both of them; as well as the union of the post-Soviet countries in the region to balance the EU' influence and the growing expansion of the U.S.A., are critical too. The economic interests of the Republic of Belarus focused on strengthening the national competitive advantages as a transit state and on the possibilities to have the Russian and the Kazakh energy at a lower price compared to international ones, so much needed for the development of the national economy.

Economic and political interests of the Republic of Kazakhstan consists in an effort to strengthen its leadership in the Central Asia, and to balance the China's growing influence. Such a list of diverse interests can be specified and detailed, but it would be appropriate to pay much more attention to the third reason, which is to adopt certain decisions under integration of member states of the EAEC, a priori focusing on the EU' integration model, using it as a theoretical and methodological bases for Eurasian integration. At the same time, it is not considered that the existing methodological approaches to assess the integration effectiveness and the competitiveness of national economies neglect under the neo-liberal paradigm, at least two key features of the modern world: the unipolarity and the nature of current global competition. An outstanding feature of the latter is a current increased aggression and its transition to "hybrid warfares"; direct military and coercive intervention; violation of the sovereignty of states which don't support the policy of a unipolar global world. Therefore, methods to assess the competitiveness of national economies and the integration associations should be supplemented along with efficiency by the criterion of the national and, above all, economic security including all components such as technological; financial; food; pharmaceutical; and etc [Abramov V.L. (2015), 90].

For the effectiveness of integration must be considered:

firstly, holding a regional integration of protectionism to ensure the protection of domestic markets, as a counterbalance to the policy of "neoprotectionism" held the leading countries of the world;

Secondly, the use of economies of scale for domestic firms (companies) from increased market integration association, creating opportunities for them to ensure the "four freedoms": freedom of movement of goods, services, labor and capital;

In third, ensuring a deep specialization and co-operations of national producers in the markets integration association, embedding them in the value chain.

In our opinion, the criterion of efficiency criteria should be supplemented by national and economic security. Competitive advantages generated by the transition to an innovation economy, allows to obtain technological and intellectual rent, provide leadership in the global economy. It is necessary to develop strategic competitive advantages that will determine the positioning of national economies and the integration associations in a hyper degree in the global economy, the direction and trajectory

of their development, as well as the possibility of converting the resource and operational benefits through the implementation of a sustainable coordinated strategy to obtain synergetic effects.

It is necessary to clarify the geopolitical interests for the formation of foreign economic doctrine of integration unions on the basis of this doctrine will define strategic goals of integration association will make adjustments to the structural and macro-economic policies of the participating countries of the integration association.

A central part of the structural, economic and the competition policy is the industrial policy the basic provisions of which each country agrees with its partners at the international level.

The core of the structural, industrial and innovation policy is a set of high-tech industries, providing the dynamics of the defense capabilities of the participating countries and the social and economic development in general.

Some results of the integration

In the early years of the CU's operation the objective assessment of the situation was complicated. On the one hand, it is since the state propaganda in all the countries was naturally focused on the support of such an ambitious project. On the other hand, because the project enjoyed a very genuine popular support, especially in Kazakhstan. This prevented an objective analysis.

However the project of the Big Euroasian union generates some questions. First, integration of the former Soviet Union means presence of the undisputed economic and military-political leader as which Russia acts here. Besides, such integration allows Russia to resolve not so much economic problems, how many to create "a safety belt" around from the friendly states which don't enter the menacing military-political blocks. The prospect of entry into the Euroasian union of such giants as China and India, completely changes a deal in association.

Secondly, the relations between some alleged participants of the Big Euroasian union are intense or even frankly confrontational. It is enough to mention the relations between China and Vietnam, especially between India and Pakistan, Armenia and Turkey. It is difficult to present these countries within one integration project. In our opinion, you shouldn't perceive agreements on free trade between EEU and the states outside the Post-Soviet world as a prolog of creation of deeply integrated association. Signing such contracts, Russia seeks to compensate expenses from sanctions of the West in a new foreign policy situation. Thus the idea of *raznourovnevy* integration is adopted. In further regional integration priority for Russia and its partners in EEU is a former Soviet Union as on a game costs not only economic well being, but also safety of the countries.

Summing up it is possible to claim, despite different contradictions in views and positions, both the present participating countries of the union, and future members of integration association, expansion of EEU is obviously important a condition of strengthening of positions of this integration association on the world scene. At the same time, expansion of EEU faces problems which are caused by the crisis phenomena in economies of the states of the union, sanctions concerning Russia, fear of the young Post-Soviet states to lose part of the sovereignty and the competition of the Euroasian project with the project of the European integration. One of these problems have a temporality, others represent a long-term obstacle.

Potential of partners in the Euroasian economic union is enormous. Four countries – Russia, Kazakhstan, Belarus and Armenia together win first place in the world on oil and gas production, the second place – on production of mineral fertilizers, the third place on electricity generation, cast iron smelting, collecting wheat and potatoes. For this reason by EEU no sanctions should frighten. In new circumstances a problem of Russia is the belief of potential participants of EEU that integration corresponds to their national interests. In the circumstances in further expansion of EEU the key place is allocated for the states of Central Asia. Integration with them is beyond exclusively economic

feasibility and pursues also the aim of ensuring stability and safety at the southern boundaries of the State Parties of the Euroasian integration.

Russia considers Kazakhstan as a sales market for Russian finished products. Therefore, there is only an informal way to discourage Kazakhstani supplies to Russia.

The strengths of the EEU are following:

The Union is located on the very important geostrategic region between the East and the West, in the middle of the EU, China; India; Central Asia; and the Middle East.

The EEU Weaknesses are - first, the lack of Union identity. In the post-Soviet countries the stereotypes and fears of a totalitarian Federal past have yet remained. Since independence, each country fought for itself, protecting its own national interests.

Secondly, the EEU lags behind the developed competitors in the areas of development of science; innovation; technique; and technology. In the EEU economy the raw orientation prevails, the actual sector of economy is poorly developed, the knowledge-intensive production; small and medium business; and tourism are in embryo.

Thirdly, in the EEU countries there are high indexes of corruption; bureaucracy; and clannishness.

Fourthly, interstate structures are not completely coordinated and the national legislations of the EEU members are not harmonized which in turn promote integration braking.

Fifthly, there is the strong dependence of the EEU economy from external factors such as economic sanctions of the western countries on the relation of Russia; the world prices for energy carriers and natural resources; the US dollar and EURO exchange rates; and etc.)

Regarding *the EEU Opportunities*, it is possible to claim safely that possibilities of the Union are simply great if to use them rationally. The EEU has actual opportunities to become the world financial center, a developed economic zone with the favorable investment climate. The EEU opportunities can make a long list.

There are *the EEU Threats*. But the most important from them:

- particular threat of economic character proceeds from excessive dollarization of national economy of certain EEU members. The people live in fear for devaluation;

- larger social and economic problems can arise due to different economic development of allies. For example, the Russian economy is considered the most industrially developed compared to other EEU countries. Therefore, the Russian goods have low prime cost, can be on sale at the dumping prices. Unequal competition creates problems for producers of the allied countries. This might result in threats of workplaces downsize; unemployment increase; social tension; and etc [Mussatayev, S., Kaidarova, A, Mekebaeva, M. (2015), 664].

The major issues of Eurasian integration are caused by the fact that our countries together are not very competitive in the global system of labor division. The idea of the CU is based mainly on protection of the domestic market from foreign competition and the growth of commodity-circulation within the Union. Both of these ideas by and large don't work, since Russia is a WTO member, which means that foreign trade liberalization is inevitable. While Kazakhstan is going to become a WTO member. Accordingly, the current barriers to imports from outside the CU are temporary. The growth of trade turnover within the CU didn't happen as well. Kazakhstan faced the increasing imports from Russia that resulted in the displacement of local producers. Now it is the turn of services imports, since the further development of integration implies the admission of the CU' companies to internal public procurement.

The main problems of the EEU are following:

- Participating countries of the Eurasian Union together is not very competitive in the global division of labor

- the idea of EEU based primarily on protecting the domestic market from foreign competition and growth of commodity turnover within the Union. Both of these ideas by and large do not work, because Russia is a WTO member, it means that trade liberalization is inevitable. Accordingly, the current barriers to imports from outside the EEU are temporary. There has been also the growth of trade within the Customs Union;

- Kazakhstan faced with increasing imports from Russia, including that led to the ousting of local producers. Now turn imports of services, because the further development of integration implies the admission of companies from the CU to inland public procurement.

What we all are to do next will depend on many factors. Among them, the oil prices which fall will create significant challenges for our economies. There is also the issue of unfair competition in the CU that sooner or later compels Kazakhstan to use the symmetrical response to the Russian restrictions. The last devaluation in Kazakhstan is also a response to the accumulated trade imbalances between the two countries. We are already engaged in "currency wars", which are typical of many economies. This is when the country fights for the weak currency in order to support domestic producers in its competition with imports. The most typical example would be China which is continuously fighting with the United States over the yuan rate. The Chinese want the yuan to be weak while the Americans call for its strengthening.

If we join the WTO, the future of the Eurasian Economic Union will have a strange configuration. The two countries will be living by the laws of a great economic league, and one country will be in limbo. As a result, the whole structure will not be very stable with consideration of how much controversies are there now.

In total, the integration is essentially political process. The integration process should ensure that the national and especially the economic security of all its components - the technological, financial, food, pharmaceutical, etc. The competitiveness of the national economies should be assessed through country's economic security criteria. Determines the steps and procedure of the development of sustainable competitive advantages of national economies and their implications for the development of the state competitive strategy.

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