

# *Organisational Studies and Innovation Review*

*Vol. 2, no.1, 2016*

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## **Eurasian union prospects**

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**Abstract:** The purpose of this paper is to examine several directions of development that can affect the future process of creating the Eurasian Economic Union (EEU). The article provides comparative analysis of integration experience and the creation of EEU. This paper focuses in particular on the specifics of macroeconomic indicators as well as examines an activity of supranational institutions of the EEU. The EU is supposed to be a useful example for post-soviet leaders to promote the initiative for the further development of Eurasian integration. EEU has already achieved significant results in the implementation of the common market liberties and seeks further strengthening of economic integration. The integration in Eurasia is developing with remarkable speed. However, due to a plenty of obstacles under which Eurasian economic integration is going on, it is not correct to copy European model of integration. Comparative analysis of economical aspects of member-states and the EEU shows that the policy and decision-making systems are becoming very weak under present economical and financial crisis. Methods of the research include general scientific methods, dialectical method and method of system analysis, and specific scientific methods, such as technical-legal, comparative legal, method of generalization of legislation and practice of its application.

**Keywords:** *Eurasian economic union, European*

### **Introduction**

This article intends to enrich the understanding of processes in Eurasian space by explaining why countries engage in integration project. The paper highlights the critical connections between external and internal drivers of integration. Based upon an analysis of the macro economical indicators of member-countries in EEU the article shows Kazakhstan's commitments to Eurasian integration. It develops a more nuanced approach to Eurasian space, whereby partner countries are not only objects but also subjects of policies implemented by external actors. This paper is dedicated to developments related to integration processes mostly between Kazakhstan, Russia, and Belarus.

The author concludes that, despite the fact that EEU face nowadays a lot of problems in social and economic areas the integration goes with its pace. The unbalances between member-countries in macro economical point of view are huge. The goal of the paper is to investigate in which way economic integration and economic relations affect mean reverting properties of real exchange rates.

It was also revealed that there was no common legal space for real common market in the EEU, which made it difficult to establish effective trade between countries. There were a lot of facts when tons of goods and commodities have been waiting for a long time to go through custom control. This difficulty arose due to multiple bilateral and multilateral treaties between different member states, often contradictory, and also due to different priorities, which made the development of mutual trade in the region irregular as well as the development of a common economic space. Another important part of the research is the dilemma between monetary sovereignty and monetary integrations. Paper is involved in discussion on pros and cons of monetary sovereignty and monetary integrations.

It was proven that the adverse effects of economic integration can be eliminated by means of standardized program regulations established at the international level. In accordance with supranational bodies' higher activity, freedom of choice, pure legislation should be provided along with the ability to quick response to the needs of national business. Some attention in the final part, in the context of the subject, is also given to the fiscal policies and its possible positive effects on solving the crisis.

### **Literature Review**

In the vast literature on economic integration that has developed last three decades (e.g., Fawcett and Hurrell 1995; Mattli 1999; Hettne, Inotai, and Sunkel 1999; van Langenhove 2011), the post-Soviet space has remained largely unexplored, with only a few exceptions (Libman 2007; Malfliet et al. 2007; Libman and Vinokurov 2012; Wirminghaus 2012). Abdel Jaber in 1971 argues integration viability in the article *The relevance of traditional integration theory to less developed countries*. According to Balasaa (1962) there are four different stages of economic integration. In 1982 Golitsyn submitted a manuscript to the CIA about Soviet disinformation strategies. With the permission of the CIA, he published his manuscript in book form in *New Lies for Old* in 1984. With a deep understanding of strategic long-range Soviet deception, he foresaw the coming so-called collapse of communism. Ariel Cohen in his book *Russian Imperialism: Development and Crisis* illustrates how far the development of Eurasian integration goes (Westport, CT: Praeger, 1998). Lack of leadership, absence of effective institutions, competing interests of countries involved is key problem of Eurasian union (Delcour 2011; Wirminghaus 2012). Regionalism has thus been ephemeral in the former Soviet Union (Wirminghaus 2012, 25).

### **EEU states macroeconomic overview**

Member states of the Eurasian Economic Union should pursue a coordinated macroeconomic policy. The Eurasian Economic Union represents the opening of new economic opportunities without sacrificing political independence. Kazakhstan has been one of the main initiators of Eurasian integration. President Nursultan Nazarbayev instigated the idea of the EEU in 1994, and has been a long-standing enthusiast for Eurasian integration. The EEU builds on the Customs Union (CU) and Common Economic Space (CES) to establish a market for more than 180 million people. The EEU currently includes five states: Belarus, Russia, Armenia, Kyrgyzstan and Kazakhstan with a combined GDP of \$2.7 trillion. The objective of the union is to form a legal framework for a united economic zone, establish a common energy market, and enable the free movement of people within the community.

Figure 1 describes the positive trends in GDP growth within 2007-2014 years. The most progressive is Kazakhstan. Its GDP went up by 3 times in nominal dimension from 2007 to 2014. The crisis of 2009 year shows that GDP of Russia is still on slow pace. Nominal GDP of Belarus from 2007 to 2014 increased by 7 times. In 2014, the GDP of the Kyrgyz Republic was USD 7.4 billion, with 35% increase in real terms (44% increase in USD terms) compared to 2008. The industrial production affects to a great extent both the level and behaviour of the national GDP, as it amounts to 15.6% of the total GDP. In 2014, the GDP of Armenia was USD 11.6 billion, with 35.9% increase in real terms (35.7% increases in USD terms) compared to 2008. In 2014, the industrial output in the Republic was USD 3.1 billion. The goods export, the most of which are the industrial products, was USD 1.5 billion, while the negative balance of trade was USD 2.9 billion.

*Fig 1: Plot of GDP volatility growth 2007-2014 year in percentage*

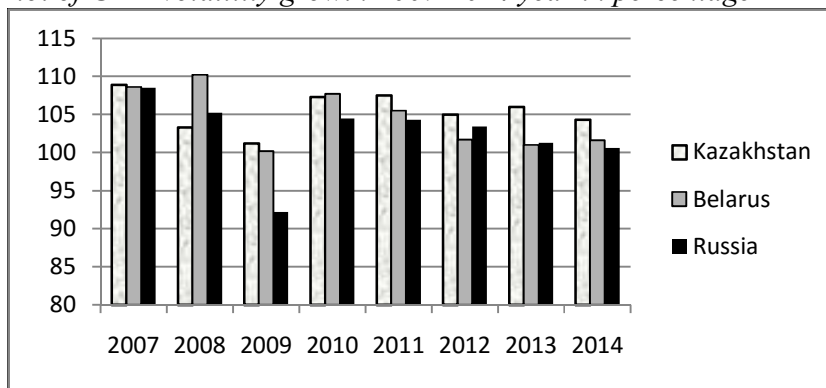
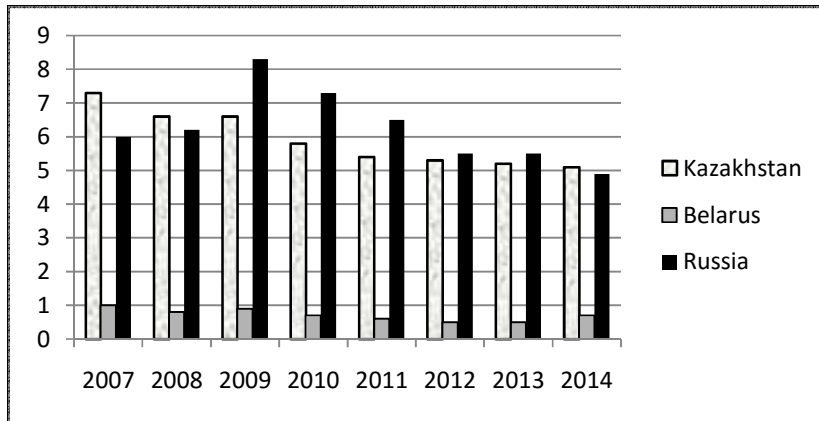


Figure 2 shows the rate of unemployment in EEU states. The population of Russia exceeds by 4 times other EEU states all together. The quantity of economically active population has 80.1% from total EEU population. Moreover there is huge migration flow from small EEU states to Russia, center of growth. According to Federal migration service of Russia 544 956 citizens of Kyrgyzstan officially registered on Jan 20, 2015. 16% of them are children under 17 years. Labor migration is becoming huge problem in future.

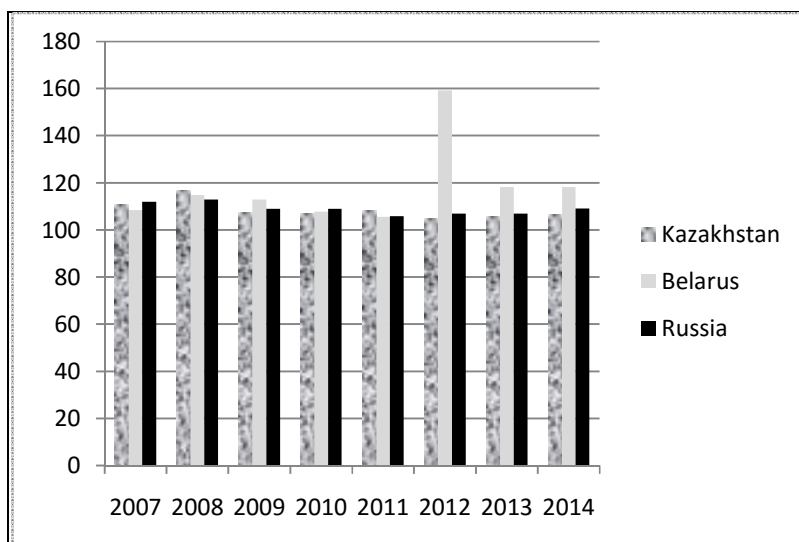
*Fig 2: Plot of unemployment rate in Kazakhstan, Belarus and Russia 2007-2014 year in percentage*



Concerning unemployment there is one point. Belarus has no more than 1% of unemployment rate last 5 years. This is the lowest indicator in the world. Moreover it becomes less than 1% to 0.5% annually despite recent financial and economic crisis. This statistic shows the unemployment rate in Russia from 2007 to 2014. In 2014, the unemployment rate in Russia ranged at approximately 5.2%. The peak year was 2009 with rate of 8.3%. Ministry of Economy predicts a rise in unemployment in Russia to 6% by the end of 2016. Unemployment Rate in Kazakhstan averaged 5.95% from 2003 until 2015, reaching an all time high of 9.7% in March of 2003 and a record low of 4.4 % in December of 2011.

However, the labor productivity index in EEU member-states in industry by value added cost is low and reached 36 200 USD for one employee in 2014, that equivalent to 55% of the labor productivity index in EU. Inflation Rate in Kazakhstan averaged 59.86 percent from 1992 until 2015, reaching an all time high of 2960.80 percent in December of 1992 and a record low of 1.90 percent in December of 1998. Inflation Rate in Russia averaged 137.87 percent from 1991 until 2015, reaching an all time high of 2333.30 percent in December of 1992 and a record low of 3.60 percent in April of 2012. Inflation Rate in Russia is reported by the Federal State Statistics Service. Inflation Rate in Belarus averaged 272.11 percent from 1992 until 2015, reaching an all time high of 2795.63 percent in August of 1994 and a record low of 5.85 percent in February of 2010. The level of inflation in year 2014 was the following: Russia – 11.4 %, Belarus – 16.2 %, Kazakhstan – 7%.

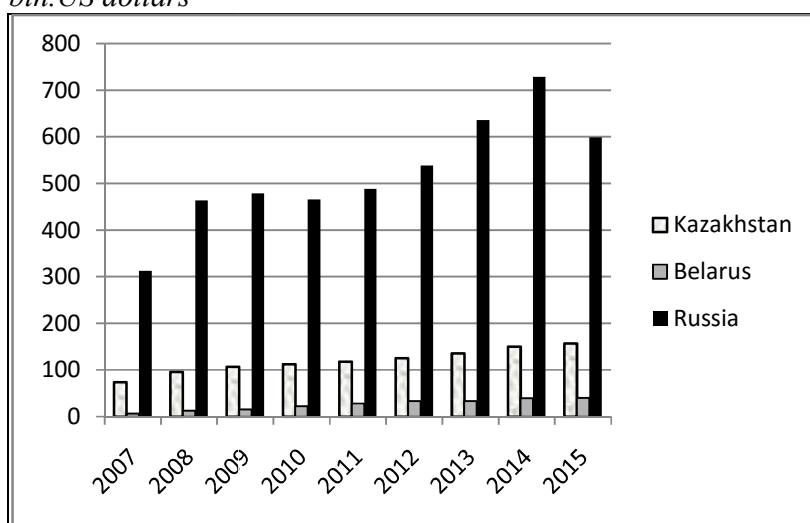
*Fig 3: Plot of inflation rate in Kazakhstan, Belarus and Russia 2007-2014 year in percentage*



Taking into consideration plans to pursue a coordinated macroeconomic policy there is an obstacle of different inflation rates in EEU member-countries. Belarus considers a high inflation rate, sometimes it is unpredictable, for example, it was 59.2% in year 2012. EEU countries decided to implement common policy of controlling natural monopoly companies in order to restrain prices rise.

External gross national debt in all member-states grows during 2007-2014 years according to Figure 4. It increased in Belarus by 3 times and by 54.7% and 57.1% in Kazakhstan and Russia respectively. The data of the National Bank of Belarus show that the gross external debt of the Republic of Belarus rose by USD 1,166.6 million in Q2 2013 and amounted to USD 35,214.9 million as of 1 July 2013. The level of debt to GDP in Kazakhstan decreased from 92.4% to 64.6%. External Debt in Russia averaged 624.81 USD Billion from 2011 until 2015, reaching an all time high of 732.80 USD Billion in the second quarter of 2014 and a record low of 515.30 USD Billion in the fourth quarter of 2015.

Fig 4: Plot of external gross national debt in Kazakhstan, Belarus and Russia 2007-2014 year in bln. US dollars



The Internal debt of Russia for the 2014 year has decreased on 9 % and has made about 40 % of gross national product. In 2014 Russia public debt was 331,363 million dollars, has increased 39,710 million since 2013. This amount means that the debt in 2014 reached 17.82% of Russia GDP, a 3.79% point rise from 2013, when it was 14.03% of GDP. If we check the tables we can see the evolution of Russia debt. It has risen since 2004 in global debt terms, when it was 131,992 million dollars although it has fallen as a percentage of GDP, when it amounted to 22.32%.

*Table 1: Gross national debt in Kazakhstan, Belarus and Russia 2007-2015 year in bln. US dollars*

	01.01.07	01.01.08	01.01.09	01.01.10	01.01.11	01.01.12	01.01.13	01.01.14	01.01.15
<b>Kazakhstan</b>	74	96	107	112,8	118,2	125,3	136	150	157
<b>Belarus</b>	6,8	12,4	15,2	22,2	28,4	33,7	33,7	39,6	40
<b>Russia</b>	313	464	479	466	488,5	538,9	636,4	728,8	599

According to the last data point published, Russia per capita debt in 2014 was 2,266 USD per inhabitant. In 2013 it was 2,030 USD, afterwards rising by 236 dollars, and if we again check 2004 we can see that then the debt per person was 917 USD. The position of Russia, as compared with the rest of the world, has worsened in 2014 in terms of GDP percentage. Currently it is country number 20 in the list of debt to GDP and 94 in debt per capita, out of the 183 we publish.

External Debt in Russia decreased to 515.30 USD Billion in the fourth quarter of 2015 from 521.60 USD Billion in the third quarter of 2015. External Debt in Russia averaged 624.81 USD Billion from 2011 until 2015, reaching an all time high of 732.80 USD Billion in the second quarter of 2014 and a record low of 515.30 USD Billion in the fourth quarter of 2015. External Debt in Russia is reported by the Central Bank of Russia.

### **Eurasian economic union tomorrow**

The Eurasian Union is based on two major documents: the Customs Code and the Codified Agreement on the Customs Union and Common Economic Space, which spell out the legal rules and norms for the functioning of a common market. This is a major break with past integration efforts, which generated hundreds of vague, fragmented agreements that largely remained unimplemented. The key institution is the Eurasian Commission, which was launched in July 2012. Similar to the Commission of the European Union, its main responsibility is to ensure smooth operation of the common market by enforcing rules and regulations and to carry out initiatives for further integration.

In theory, the EEU is a promising supranational organisation, with the potential for significantly enhancing economic cooperation within the region. Given its vast population and natural resources, the union has the capacity to become a powerful economic force, with considerable clout in the international arena. The principle of regional integration is compelling, as it is for the EU, yet with a greater historical significance to the amalgamation. Despite ardent cultural and linguistic links, the union

faces a multiplicity of challenges, particularly if regulations are not enforced. With no concrete plans for common financial regulation, and regulatory harmonisation still in progress even after the creation of the Single Economic Space in 2011, the formation of the EEU will not by itself have significant near-term impact on its members.

In addition, each member state faces its own financial hurdles, and so banding together at this time may not result in the economic prosperity that advocates propose. The viability of the EEU is now under question. As a result of Western sanctions and a drastic drop in oil prices, the rouble has fallen drastically against the euro and the dollar, losing over 50 percent of its value last year. Negative effects are determined by the fact that the member states of EEU unsuccessfully devaluated their national currencies according to this situation and dropped immediately national wealth beneath other world. All these circumstances lead to the weakening of a speed of EEU building. Sanctions have also caused economic damage to a number of EU countries, with the total losses estimated at €100 billion. With sharp increases to interest rates and inflation, the current economic climate in Russia echoes that which induced the crisis in 1999. As a result, interest in joining the EEU has waned, for both prospective members and even current members. Another detrimental product of tension with Ukraine has resulted in Russia losing a significant trade partner and prospective member state. The idea of Eurasian integration now faces a stumbling block, thus presenting an ideological misstep in the project.

## **Methodology**

Research was accomplished by a variety of techniques which include the collection of empirical data, while focusing on the macroeconomic highlights of Russia, Kazakhstan, Kyrgyzstan, Armenia and Belarus. Methods of the research include general scientific methods, dialectical method and method of system analysis, and specific scientific methods, such as technical-legal, comparative legal, method of generalization of legislation and practice of its application. A key concept relevant to a discussion of research methodology is that of validity, and it was statistical method. Also an observational research revealed several potential problems in EEU building.

## **Results and Discussion**

It is crucial that the EEU is rooted in coordinated action in key institutional areas such as: macroeconomics, ensuring competition, technical regulations, agricultural subsidies, transport, and natural monopolies tariffs. Of course, Russia benefits economically from the union and by creating a trade bloc around it that enhances cross-border trade with its neighbours.

Russia's dispute with neighbouring Belarus shows no signs of subsiding yet, bringing to question its obligation to the union's rules; an imperative factor for the long term success of the project. With indications of a readiness to default on regulations and a lack of obligation to the principles of the union from the outset, the signs of an ineffective partnership loom, making the organisation seemingly more symbolic than tangible at this present time. The annexation of Crimea and tension with Ukraine fuelled such concerns over the last year, both within and outside of the region. This discord raises the question of whether membership will continue if a new regime is elected in the future; thereby

presenting another channel of scepticism for the future of the EEU in the event of an exit by its second largest economy. The financial crisis opened many old questions but offering new answers because of the changed international economy.

The bureaucratisation of integrating the five countries may also delay economic development for each country; as could the enlargement of the union, with less developed economies drawing resources from stronger member states. The aspect of power sharing between authoritarian leaders also raises doubts about a conducive climate for cooperation, with different objectives and outlooks for each member state potentially inducing tension in the future. The most disheartening factor regarding the viability of the project is the ongoing trade disputes currently in play within the EEU.

## **Conclusion**

The Eurasian Union can be seen as a soft power primarily economic project. Russia hopes to translate its relatively large population, power, wealth, and size into greater influence around its periphery. With 600 years of empire building behind them, the Russian leaders are well aware that they must back up this influence with a hard power component. The first of these difficulties centres on economic relations. The second is the fear that Kazakhstan and Belarus have concerns about a potential loss of sovereignty, including a reduction in their capability to manage their internal and external affairs independently. The third set of problems relates to the smaller countries' desire to avoid dependence on one state, Russia, a situation which would lead to a rise in Russia's geopolitical role in the world.

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