

# EAEU Cross-border Capital Flow Spatial Analysis

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**Abstract**—The paper deals with topical issues of capital cross-border movement within the common economic space of the Eurasian Economic Union. The key development factors of interregional financial and economic cooperation in the EAEU are identified. In the course of the study, the role of the widespread introduction of digital technologies in the integration economic association development was evaluated. The structural and dynamic analysis of personal remittances in the EAEU countries, which characterizes changes in the quality of the macroeconomic environment and interregional financial flows of the common economic space, was studied.

**Keywords**—economy; cross-border financial flows; Eurasian Economic Union; international capital movement; common economic space; international economic integration

## I. INTRODUCTION

Economy globalization and integration of territories with the world economy leads to the establishment of stable cooperative relations of local companies with corporations and organizations from other regions and countries. Cross-border financial flows are of particular importance in this process.

The regional economic space integration is one of the main local priorities of modern social development, providing fundamental conditions for the refraction of emerging negative macroeconomic trends and sustainable progress in the financial, economic and social spheres. Drawing attention to the significant positive result achievement in the integration economic association formation, it should be noted that the key strategic goal of the Eurasian Economic Union (hereinafter – the EAEU) is currently to increase the efficiency of the common economic space [1], [2], including the use of advanced, promising forms of world economic relation development and interaction mechanisms.

The determining factor in the development of cross-border financial and economic cooperation in the EAEU is the presence of existing production and cooperation ties, innovation and technological, credit, financial and transport

and logistics systems at all levels of economic aggregation, preserved and used by the Union countries as a legacy of the USSR.

At the same time, in addition to the general socio-economic, cultural, historical, ecological, geographical and civilizational features shared by the EAEU countries, the most important prerequisite for the activation of the integration process is the high level of approval by their participation population in the common economic space formation [3], [4], [5].

As the main result of integration cooperation in 2015, Russia, Kazakhstan, Belarus, Armenia and Kyrgyzstan created a very capacious and promising regional market of more than 185 million people, including an economically active population of 93 million people or about 3% of the world population [4]. The Eurasian Economic Union accounts for more than 2.1% of world GDP (at current prices) and about 90% of CIS GDP, 2.5% of world exports and 1.6% of world imports [6]. However, it should be noted that the Eurasian Economic Union is seriously inferior to the European Union and NAFTA in terms of the share of participation in world trade, however, showing a fairly high level of export orientation, especially for commodity groups, mainly hydrocarbons, and sectors of the economy.

Due to the format of the EAEU Single Economic space, the integrating countries have a promising opportunity to join the existing global value chains through the creation of higher-level redistribution in order to engage the international capital market, attract foreign financial resources, including through the opening opportunities for the development of international economic cooperation, and advanced technologies in conditions of toughening global competition.

## II. DYNAMICS OF PERSONAL REMITTANCES IN THE EEC COUNTRIES

A key factor in the need to strengthen financial and economic integration in the EAEU in modern conditions,

including in the field of cross-border financial flows, is the low level of mutual cooperation in the field of investment and its predominant focus on the commodity sectors of the economy [6]. The current model of investment cooperation in the EAEU is characterized by the prevailing share of Russia and Kazakhstan, the share of which is more than 50% of the total volume of mutual accumulated FDI of the EAEU member States.

Structural changes in the quality of the institutional environment of the common economic space of the EAEU are largely due to integration processes, which are reflected in a number of estimates of cross-border capital flows.

Since the economic situation in the EAEU member states largely depends on the Russian economic state, the strong devaluation of the Russian ruble in 2014 led to a weakening

of the national currencies of other countries against the US dollar, especially the Belarusian ruble and Kazakhstan tenge. The result was a decrease in the dollar volume of exports and imports, as well as a significant reduction in household spending and GDP. For example, the growth rate of the Belarusian economy was negative in 2015-2016. (-3.9% and -2.6% respectively), industrial production in 2016 decreased by 0.4%, wholesale trade decreased by 10.4%, retail — by 4.1%, and investment in fixed assets — by 17.9%.

Thanks to the policy of Central banks, the Kyrgyz som and the Armenian dram devalued against the us dollar significantly less (by 20-30%) in mid-2016 compared to mid-2014, and the exchange rates of the Russian and Belarusian rubles, Kazakh tenge for the same period weakened almost twice.

TABLE I. DYNAMICS OF PERSONAL REMITTANCES IN THE EAEU COUNTRIES

EAEU country	Year										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Russia	0,4	0,3	0,4	0,3	0,3	0,3	0,3	0,4	0,5	0,5	0,5
Kazakhstan	0,1	0,1	0,2	0,2	0,1	0,1	0,1	0,1	0,1	0,2	0,2
Belarus	0,6	1,0	1,0	1,0	1,4	1,6	1,6	1,6	1,6	2,0	2,2
Armenia	17,9	16,3	16,6	18,0	17,7	18,0	19,7	17,9	14,1	13,1	13,3
Kyrgyzstan	18,5	23,8	20,9	26,4	27,6	30,8	31,1	30,0	25,3	29,3	32,9

<sup>a</sup> Unit: % of GDP [7]

The policy of the Central banks of Armenia and Kyrgyzstan is aimed at maintaining the stability of the national currencies' exchange rate largely because the personal remittances of migrants play an important role in the economies of the countries (see "Table I", "Fig. 1"). They are the source of funds for personal consumption and investment within countries.

### III. CROSS-BORDER MONEY TRANSFERS OF INDIVIDUALS IN THE EEC COUNTRIES

In Kyrgyzstan, personal transfers are numerically comparable to national savings. An important factor in the relative stability of the dram is private remittances, which increase the demand for the national currency. However, current transfers have suffered due to the significant devaluation of the Russian ruble against both the dram and the US dollar. However, the amount of accumulated savings in the national currency in both countries has largely maintained their dollar value [8].

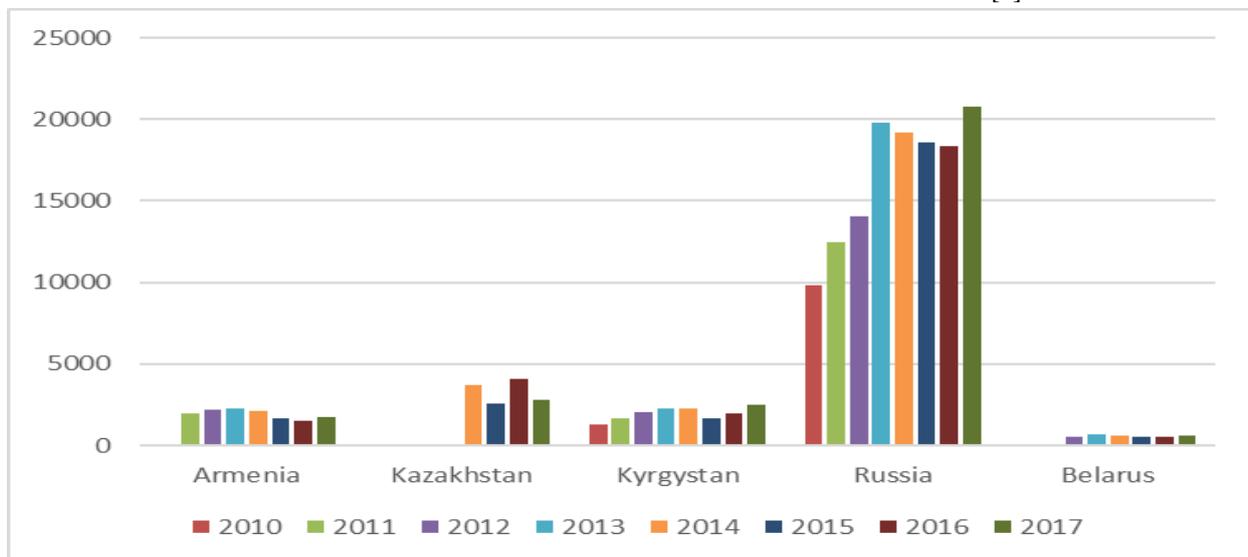


Fig. 1. Cross-border remittances of individuals in the EAEU countries, million dollars. USA [9], [10].

The analysis of the data reflected in the table forms the following picture of the personal remittances dynamics in the EAEU countries as a percentage of GDP. In 2017, personal remittances to Kyrgyzstan accounted for 32.9% of GDP (more than 90% of which came from Russia). The share of personal transfers in GDP in Kyrgyzstan among the EAEU countries is the maximum. The current situation is largely related to the simplification of migration policy and the increase in the volume of pendulum migration. During the economic recession in Russia, the ratio of personal transfers to GDP in Armenia decreased slightly (from 19.7% in 2013 to 13.1% in 2016), but in 2017, increased to 13.3%. The ratio of personal remittances to GDP in Russia, Belarus and Kazakhstan tends to remain fairly low [10].

To a large extent, the large volume of personal remittances in the Eurasian Economic Union contributes to strengthening the influence of the Russian ruble as a regional currency. Thus, in general, for the period from 2008 to 2016, the share of the Russian ruble in the total volume of cross-border remittances of individuals in the EAEU countries increased from 46 to 72%, while the share of the US dollar decreased from 53 to 25% [11].

#### IV. CONCLUSION

According to the results of the analysis, it should be concluded that the international capital movement in the form of cross-border personal remittances is the leading investment form between Russia and the EAEU countries. For example, remittances are many times greater than the flow of direct and portfolio investments, as well as the amount of credit resources provided to borrowers from the countries of the Eurasian Union [11], [12]. Thus, cross-border remittances in modern economic conditions represent one of the key forms of economic integration of the countries of the Eurasian Economic Union, ensuring the achievement of individual countries' competitive advantages, forming a solid basis for the redistribution of both financial and labor resources in the region [10]. The prospects for further development of the integration economic association will be determined, in our opinion, by the following key factors: the growth rate of the Russian economy, which has a direct impact on the economic dynamics of the EAEU member states, the measures of the state monetary and monetary policy, as well as the implementation of the foreign economic potential of each member of the Union in the markets of the EAEU.

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