

Assessment of leadership and integration effects of the economy of the Eurasian Economic Union

Nazar Grechkin

Russian Presidential Academy of National Economy and Public Administration
84 Vernadsky Prospekt, 119571 Moscow
Russian Federation
e-mail: nazargrechkin@yandex.ru

Valery Abramov

Institute for International Studies economic relations
Financial University under the Government of the Russian Federation
49 Leningradsky prospect, 125993 Moscow
Russian Federation
e-mail: valabr@yandex.ru

Victoria Perskaya

Institute for International Studies economic relations
Financial University under the Government of the Russian Federation
49 Leningradsky prospect, 125993 Moscow
Russian Federation,
e-mail: vprofessor7970@gmail.com

Abstract This paper analyses the formation of a new integration association in the post-Soviet space - the Eurasian Economic Union (EAEU or EEU). The authors assessed the leadership on the basis of integration effects of national economies of the EAEU using indicators of volume and share of mutual trade in the total volume of their foreign trade, global competitiveness indices. The study identified positive aspects, as well as factors constraining the integration effects. These factors include the structural and macroeconomic imbalances of national economies, their weak diversification, the high share of mineral and other raw materials in mutual trade, and, as a result, a large dependence on the global economic situation, high volatility of exchange rates. Despite the fact that national economies demonstrate positive dynamics in the promotion of global competitiveness ratings, they are very different in terms of their international competitiveness. In order to increase the integration effects, the formation of high international competitiveness of the national economies of the EAEU needs to apply tools and interaction mechanisms in three main areas: realizing the potential of integrated markets for goods, services, capital and labour resources; deepening industrial cooperation; development of scientific and technical cooperation. Integration interaction in these areas will enhance the competitiveness of both national economies and integration association in general.

1 Introduction

The relevance of the topic is due to the need to study a new integration association in the post-Soviet area - the Eurasian Economic Union (EAEU). It currently brings together five Member States, which differ significantly in their level of socio-economic development. The article assesses the leadership and integration effects of the national economies of the EAEU. Many scientists are studying this topic and it is widely represented in the scientific literature with regard to the integration associations in other parts of the world, but at the same time integration processes are not sufficiently investigated in the EAEU. Assessment of integration effects is an important direction in the study of regional economic integration (REI). The classical approach is contained in the theory of Balassa (1965, 1969), which reflects the country's comparative advantages. Economist Liesner also proposed the calculation of the index of comparative advantage (Liesner 1968). Scientists use it to assess the dynamics of changes in foreign trade relations in regional associations.

Anderson (1991), Norheim (1993) and other researchers developed this indicator in their works. In modern works, Loberdier and Langenhoven (2006) suggest using primarily indicators of economic growth, mutual trade, migration, level of human development and capital flows to assess the effects of REI. Hufbauer and Schott (1994) use essentially similar indicators, developing the approach of Balassa (1965) about the stages of REI (free trade zone, customs union, common market, economic and monetary union).

The article purpose to assess leadership on the basis of the integration effects of the national economies of the Eurasian Economic Union. To achieve this goal, the following tasks are set:

- assess the integration effects of the EAEU based on the indicator of the volume of mutual trade;
- evaluate integration effects based on the share of mutual trade in the total foreign trade of the EAEU countries;
- justify the possibility of using for the evaluation of the integration effects of the global competitiveness ratings;
- identify the main factors constraining the integration processes in the EAEU;
- formulate proposals and recommendations for improving the efficiency of integration cooperation and the international competitiveness of the national economies of the EAEU within the framework of an integration union.

Indicators of foreign and mutual trade are important indicators of successful interaction of the member states of integration associations, characterizing their international competitiveness as a comprehensive, systematic indicator of the degree of their leadership in global markets. Based on a literature review and analysis of a large body of information, the authors evaluated the integration effects of national economies of the EAEU based on indicators of the volume and proportion of mutual trade in the total volume of their foreign trade, global competitiveness indices. The main task of the study is to identify the factors that hinder integration effects, as well as to formulate proposals and recommendations for improving the efficiency of integration cooperation and the international competitiveness of national economies within the framework of an integration union.

2 Materials and methods

As a research methodology, the authors used general scientific and economic research methods, including analysis and synthesis, systems approach methods, economic and mathematical methods, statistical analysis, synthesis, comparison, systematization.

In conducting this study, we used the works of Russian and foreign authors, materials of the Eurasian Economic Commission (2015), national statistics EAEC countries, international databases.

3 Results and discussions

Let's look at the dynamics of the mutual trade of the national economies of the new integration association in the post-Soviet area - the Eurasian Economic Union (EAEU). The largest volume of mutual trade between the participating countries showed in 2012, then it amounted to \$ 67.8 billion, then the volume of mutual trade fell to a record low in 2016, but by the end of 2017, there was an increase to 54.2 billion dollars. USA (table 1.).

Table 1. Estimation of integration effects on the basis of the indicator of the volumes of mutual trade of states – EAEC members in the 2012-2017

Bln. dollars	Year						
	2012	2013	2014	2015	2016	2017	2018
USA	67,8	64,1	57,4	45,4	42,5	54,2	59,7

Source: Own results

It should be noted that over the period from 2013 to 2017, the share of mutual trade in the total volume of foreign trade of the EAEU increased slightly: from 12.1% in 2013 to 14.5% in 2017 (table 2). An indicator of efficient and sustainable functioning of an integration association in terms of effective impact on the economies of the participating countries is to ensure mutual trade at a level of at least 25% (EEC 2015).

The leader in terms of the volume of mutual trade is the Republic of Belarus, which has a median value of about half of the volume of foreign trade. We can note the positive dynamics of the share of mutual trade in the total volume of foreign trade for the Republic of Kazakhstan and the Republic of Kyrgyzstan. The share of mutual trade of the Republic of Armenia increased from 26.5% in 2015 to 29% in 2017. The share of Russian mutual trade in the total volume of foreign trade shows the lowest involvement within the EAEU, but at the same time, the share of mutual trade also increased from 7.5% to 8.9% in 2017.

Table 2. Estimation of integration effects on the basis of the indicator of the specific weight of mutual trade in the total volume of foreign trade of states – members of the (in %)

Country	Year				
	2013	2014	2015	2016	2017
Republic of Armenia	-	-	26,5	29,2	29
Republic of Belarus	50,7	50,3	49,5	52,2	52,5
Republic of Kazakhstan	18,4	16,5	21,3	21,9	22,4
Republic of Kyrgyzstan a	-	-	43,5	35,9	38,6
Russian Federation	7,5	7,2	8,2	8,7	8,9
EAEU	12,1	11,7	13,6	14,2	14,5

Note: The Republic of Armenia and the Republic of Kyrgyzstan have joined the EEU since the beginning of 2015.

Source: Own results

The short period of functioning of the EAEU and the macroeconomic situation as a whole are the reason for the low share of mutual trade in the total foreign trade of national economies (Abramov et al. 2019). A number of external and internal factors causes them. In particular, the weak growth of the world economy and trade had an impact as a negative factor. The United Nations Department of Economic and Social Affairs reported that the global economy grew by only 2.2% in 2016. The volume of world trade increased by only 1.2% compared with 2015 (Abramov et al. 2017). Reduced prices for energy and other commodity prices in the global markets most affected by the reduction of trade turnover of national economies EAEU. The situation is not the best in the economic development of national economies.

Thus, the volume of GDP and industrial production decline in the manufacturing sectors of national economies and investment activity increases against the background of the growth of agricultural production and an increase in freight turnover (Alekseev and Abramov). It is not necessary to talk about the imminent termination of the use of economic sanctions against Russia as an instrument of political and economic pressure on a sovereign state. Such effects as attempts to restrict access to international financial markets and advanced technologies, political pressure on partner countries only once again underline the need for the Eurasian Economic Union to look for new non-standard approaches, to interact more actively within the association.

Table 3. Evaluation of integration effects on the basis of the position of states – EAEU members in the rating of the global competitiveness index in 2010 – 2018

Country	Year								
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of countries	139	142	144	148	144	140	138	137	139
Republic of Armenia	98	92	82	79	85	82	79	73	70
Republic of Belarus	-	-	-	-	-	-	-	-	-
Republic of Kazakhstan	72	72	51	50	50	42	53	57	59
Republic of Kyrgyzstan	121	126	127	121	108	102	111	102	97
Russian Federation	63	66	67	64	53	45	43	38	43
EAEU	64	67	66	63	53	45	44	40	45

Note: There are no reliable data for the Republic of Belarus.

Source: Own results

There is a positive trend in the increase in foreign trade both with third countries and in the mutual trade of the member states of the Eurasian Economic Union since 2016. Despite the identified problems, the Eurasian Economic Union has demonstrated its resilience, which is reflected in the growing international competitiveness of national economies as a comprehensive systemic indicator of the leadership in global markets.

The Global Competitiveness Index of the World Economic Forum (2018) for 2015-2018 years allows assessing the economic situation within the integration group and clarifying the competitive opportunities of the EAEU Member States (GCR 2017-2018). All countries have positive dynamics of competitiveness growth. The economies of Armenia, Kazakhstan and Kyrgyzstan have had the most dynamic growth among the EEU countries over the past five years. This growth was due to the implementation of stabilizing economic policies and the lesser influence of unfavorable external conditions (Abramov 2017).

According to the data for 2017-2018, the leader in competitiveness is the Russian economy which in the analyzed period rose to 38th place with 68 positions in the 2012 -2013 year. The Republic of Kazakhstan is the second in leadership ranked 57th place, rising to 6 positions. The Republic of Armenia was on the 73rd place, rising by 9 positions in the ranking. The Republic of Kyrgyzstan is the leader at the lowest position, occupying 102nd place, but at the same time in the period under review, it significantly improved its competitive rank by 25 positions (GCR 2017-2018) (see Table 3 above).

The difference in the competitive positions of the national economies of the leading country and the outsider is very significant and amounts to more than 60 units. Based on the Global Competitiveness Index it is possible to identify the degree of leadership of national economies in global markets, to assess their strengths and weaknesses in the integration Union, as well as to identify the necessary measures to reduce these gaps and raise them to a higher level of international competitiveness.

4 Conclusions

Summing up the above analysis, one can conclude that the greatest effects of the mutual trade within the Union to the greatest extent are obtained by the national economies of the Republic of Belarus, the Republic of Kazakhstan, and the Republic of Kyrgyzstan.

The achieved integration effects are largely due to the fact that at present the single commodity market is the most developed and successful measurement of integration within the EAEU. Questions of customs tariff regulation are currently being implemented largely on a supranational basis. According to its economic content, the freedom of movement of goods within any integration association is the first integration stage, which allows for a higher level of integration processes and their efficiency.

Reduction in foreign trade in 2014–2015 associated with changes in foreign economic conditions on world markets, as well as in connection with the introduction of sanctions against Russia.

The analysis shows that along with the factors contributing to the development of a single market for goods of national economies within the framework of an integration Union, there are significant constraints: the barriers remaining, exemptions and restrictions.

The economic factors hindering the development of a single commodity market of the Union include structural and macroeconomic imbalances of national economies, their weak diversification, a high proportion of mineral and other raw materials in mutual trade, and, consequently, a large dependence on the global economic environment, high volatility of exchange rates. National economies are very different in terms of their international competitiveness as a comprehensive, systemic indicator of their degree of leadership in global markets, although they show positive dynamics of progress in the rankings of global competitiveness. To increase the integration effects, the formation of high international competitiveness of the national economies of the EAEU, it is necessary to use tools and interaction mechanisms in three main areas: realizing the potential of integrated markets for goods, services, capital and labour; deepening industrial cooperation; development of scientific and technical cooperation. Integration cooperation in these areas will enhance their leadership in international relations and ensure the growth of international competitiveness of both national economies and the integration association as a whole.

References

Abramov V (2017) The economic sustainability of national economies of the EAEU Member States as a factor in the formation of competitive advantages: theory and practice. *Modern science: current problems of theory and practice* 10:3-8

Abramov V, Balyuk I, Fedyunin A (2019) Impact of Risk Supply Chain Management and International Debt Market Indicators on GDP. *International Journal of Supply Chain Management* 8(1):895–906

- Abramov V, Zvonova E, Sokolova E (2017) Formation and Development of Foreign Economic Management Tools in the Enterprise. *International Journal of Applied Business and Economic Research* 15(11):51–61
- Alekseev P, Abramov V (2017) Formation of sustainable competitive advantages of the EAEU member states in the investment sphere. *Finance: Theory and Practice* 4:116–125
- Anderson K, Norheim H (1993) From imperial to regional trade preferences: Its effect on Europe's intra-and extra-regional trade. *Review of World Economics* 129(1):78-102. doi: 10.1007/BF02707488
- Anderson V, *Alternative economic indicators*, 1st edn. (Routledge: London, 1991), 106 p.
- Balassa B (1965) Trade Liberalization and Revealed Comparative Advantage. *The Manchester School of Economic and Social Studies* 33(2):99–123. doi: 10.1111/j.1467-9957.1965.tb00050.x
- Balassa B, *The Theory of Economic Integration*, 1st edn. (George Allen: London, 1969), 324 p.
- De Lombaerde P, Van Langenhove L, *Indicators of Regional Integration: Conceptual and Methodological Aspects*, in: De Lombaerde P. (ed), *Assessment and Measurement of Regional Integration*, 1st edn. (London: Routledge, 2006). doi: 10.2139/ssrn.739711
- Eurasian Economic Commission (2015) http://eurasiancommission.org/en/act/integr_i_makroec/dep_stat/tradestat/analytics/Documents/express/June2015.pdf. Accessed 22 July 2019
- Hufbauer G, Schott J (1994) *Western hemisphere economic integration*. Institute for International Economics, Washington, D.C 73(6):160. doi: 10.2307/20046948
- Liesner H (1968) The European Common Market and British Industry. *Economic Journal* 68(270):302-316. doi: 10.2307/2227597
- World Economic Forum (2018) *The Global Competitiveness Report* <http://reports.weforum.org/global-competitiveness-index> Accessed on 23 July 2019