

# Assessment of Integration Effects in Mutual Trade of the EAEU Countries

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**Abstract**—The article is devoted to the assessment of integration effects in mutual trade of the EAEU member States. The analysis and assessment of volumes of mutual trade in goods of the EAEU member states in 2012-2018. The factors of growth of mutual trade between the EAEU countries, the barriers, exceptions and limitations. The authors formulated conclusions, suggestions and recommendations to remove existing obstacles and increase mutual trade in the EAEU countries.

**Keywords**—EAEU; member States; Customs Union; integration effects; common market of goods; volumes of mutual trade; share; barriers; exemptions; restrictions

## I. INTRODUCTION

Since the start of the Eurasian integration project, a significant part of the tasks contained in the Treaty on the Establishment of the EAEU has been solved [4]. Allied countries and supranational bodies have done a great deal of work thanks to joint efforts. They have achieved significant success: a customs union and a single customs tariff are in force; countries form a common labor market and a common services market, adopt new technical regulations. The countries of the EAEU (Union) continue to make efforts to implement the Basic directions of the economic development of the Union [7].

## II. INDICATORS OF THE EFFECTIVENESS OF REGIONAL ECONOMIC INTEGRATION (REI)

Among the most important indicators characterizing the effectiveness of regional economic integration (REI) are indicators of foreign trade in goods.

Since 2013, negative indicators have characterized mutual trade between the EAEU countries. “The most difficult situation was recorded at the end of 2016, when the volume of mutual trade decreased to 42.5 billion dollars.” [5]. In 2017, the decline in mutual trade was replaced by growth due to:

- price factors and factors of gross demand, including changes in world prices for oil and other raw materials, which largely determines the dynamics of prices for goods on the Union markets and the nature of the development of mutual trade between them;
- stabilization of the macroeconomic situation in countries;

- increasing the stability of national currencies (including the gradual increase in the share of national currencies in mutual trade settlements);
- a gradual change in the commodity structure of the mutual trade and an increase in the share of non-commodity exports, which was recognized as one of the main guidelines for the macroeconomic policy of the EAEU countries for 2017–2018;
- reduce trade in goods from third countries and increase the intensity of mutual trade.

“At present, the volume of mutual trade in goods of the Union countries is characterized by positive dynamics, having increased from \$ 45.6 billion in 2015 to \$ 59.7 billion in 2018” [5]. However, these indicators are below the level achieved in 2012–2014, including due to a slowdown in global economic growth, as well as tensions in international trade relations.

“The most important indicator that allows us to evaluate the effectiveness of integration processes in the Union is the share of mutual trade, which in 2018 amounted to 13.5% [5].

“The indicator is lower than the levels recorded in previous years (14.6% in 2017, 14.4% in 2016), however, if we count from 2012, there is a positive dynamic, although very insignificant (12.3% in 2014, 12.1% in 2013, 12.1% in 2012)” [1.7]. Mutual trade “makes up 25% in ASEAN, 40% in NAFTA, 65% in the EU, and to ensure long-term sustainability of regional economic integration (REI), the share of mutual trade in total foreign trade should be at least 25%” [1].

## III. EAEU CUSTOMS CODE AGREEMENT

The signing by the member states of the Treaty on the EAEU Customs Code in Moscow on April 11, 2017, created a solid legal basis for unified customs regulation in the EAEU, which opens up new opportunities for the development of the common Union goods market [12].

The next step in the development of REI is to eliminate the measures of non-tariff regulation, which represent a set of restrictions on the movement of only certain types of goods. It is necessary to notice that the non-tariff regulation mechanism in the countries of the Union requires improvement and adaptation to the norms and standards regulated by the WTO, as well as to processes (REI) in the current crisis situation of the world economy [13].

The Russian Federation and other EAEU member countries use non-tariff regulation measures with the help of an impressive number of national laws, international agreements

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and other regulatory legal acts that governments issued, approved and promulgated in the period 2001-2015. Persons making the laws had a different level of international qualification in legal literacy and economic competence. Because of this, the terminology used in these documents turned out to be heterogeneous and practically not corresponding to the vocabulary of the WTO [14].

To date, the Union is actively implementing a set of non-tariff regulation measures, including sanitary and phytosanitary measures, non-tariff barriers to trade, directly related to the Russian Federation's accession to the WTO, as well as quantitative restrictions, countervailing measures, special protective measures, tariff quotas and export subsidies [3].

Removing barriers and restrictions in foreign economic activity related to different conditions and terms of accession of Armenia, Kyrgyzstan, Kazakhstan to the WTO is of great importance at the current stage of REI. "Currently, there are 71 obstacles, including 19 barriers, 143 - exceptions, 38 - restrictions. The existing obstacles are distributed among the Member States as follows: Armenia -46, Belarus - 47, Kazakhstan - 51, Kyrgyzstan - 46, Russia - 55 obstacles" [6, 7]. "The Union adopted 46 technical regulations (TR), of which 40 are in force, 85% of products included in a single list" [8], covered by a single TR.

#### IV. MEASURES TO OVERCOME EXISTING OBSTACLES

To overcome the existing obstacles, it is necessary to improve the mechanism for working with obstacles, including the following set of measures:

- elaboration of the issue of holding a member state accountable when the barrier is re-established;
- approval of the Roadmaps, which will reflect the willingness of Member States to minimize existing exemptions and restrictions, establish activities and determine the time frame for achieving the goals;
- the formation of programs for the development of interstate standards for the technical regulations of the Union, with the definition of a mechanism for the overall coordination of planning and financing the development of interstate standards [6].

In this context, it is very important to assess how existing obstacles and barriers restrict participants in foreign economic activity (FEA) in accessing the markets of other countries. The survey of the EAEU backbone industrial enterprises showed the high availability of the common market, as well as the absence of barrages barriers, although there are obstacles at the supranational level. More than 70% of enterprises consider fully accessible or accessible with minor restrictions the markets of Armenia and Kyrgyzstan, more than 80% of enterprises rated these countries - members of the EAEU, Belarus and Kazakhstan, more than 90% of the Russian market [3]. At the same time, significant non-tariff barriers consisting in TR, financial regulation, and competition restrictions related to quasi-barriers to the common EAEU market do not represent an insurmountable obstacle for foreign economic activity.

The increase in mutual trade is constrained by a shortage of financial resources in countries and a weak resource base for financing joint cooperation projects. As a result, joint cooperation projects are carried out mainly by individual,

primarily Russian, companies (PJSC Gazprom, Lukoil, Uralkali, RU-SAL, Sberbank, etc.), without sufficient targeted financial support from Eurasian Development Bank (EDB) and large private investors. The main share in the EDB investment portfolio falls on infrastructure projects (only 53%), while the share of investments in industry totals 31%; its possibilities for the development of industrial cooperation are very limited. In this regard, there is a need to build an effective regional system of management and financing of joint projects of the Union countries in the field of industrial cooperation and technological development. To realize these important strategic tasks, it is necessary to attract large-scale resources. In this regard, it seems relevant to establish, with the participation of the EAEU member states, the EDB, large companies, and other interested investors, the target specialized financial institution - the Eurasian Industrial Development Fund. The Eurasian Industrial Development Fund can be based on the successful experience of the Russian Industrial Development Fund, which has been operating under the Ministry of Industry and Trade of the Russian Federation since 2014. The creation of the Eurasian Industrial Development Fund will significantly expand the financial opportunities and tools for investment support of industrial cooperation, will contribute to the development of the common market of goods of the Union countries, diversification and increase their volume of mutual trade, increase the competitiveness of the industry effects of REI.

An important resource for boosting mutual trade is the use of accessible instruments to support export in national currencies through investment, lending, insurance of export loans in order to reduce the commercial and political risks arising from exports. The governments of the EAEU countries create national institutions for export promotion through its lending and insurance (Export Insurance Agency of Armenia, Beleximgarant, KazakhExport, Russian Export Center, etc.). Their goal is to provide national exporters with access to export credit and insurance, as an important means of increasing their competitiveness along with price, quality and services. In this way, national export opportunities are stimulated; the activities of commercial institutions involved in export investment, lending, and insurance are supplemented and encouraged. However, the problem of financial support for national exports and risk insurance in foreign trade of countries is difficult to solve only at the national level. In this regard, it is advisable to develop cooperation between exporters of countries with multilateral institutions that support exporters and importers.

#### V. IMPLEMENTATION MECHANISM

The mechanism for implementing this proposal is as follows:

a) Export support through investment, lending, insurance of export loans in order to reduce the commercial and political risks arising from exports. The greatest prospects for expanding trade in national currencies in the EAEU are associated with the development of short-term trade financing instruments in national currencies and programs for supporting national exports (primarily in Russian rubles, which, in turn, will affect the volume of Russian exports).

b) The creation of a single pool of national currencies to provide targeted export loans on a preferential basis, in addition to export financing instruments that are provided in

each country by existing export-import agencies in their national currencies. Agencies can provide such loans to exporters of products manufactured in the countries of the Union, as well as loans to buyers - foreign companies. The pool, as a "liquidity cushion", can be created on the basis of one of the existing international financial organizations (Interstate Bank, Eurasian Development Bank) or by establishing a separate legal entity with the participation of export-import agencies of the EAEU countries, which signed the Memorandum on 2017 cooperation (Export Insurance Agency of Armenia, Beleximgarant, KazakhExport, REC Group).

c) Development of joint projects of mutual support export EAEC countries and exports to third countries. The Eurasian Development Bank, which concluded an agreement with the Russian-Kyrgyz Development Fund, has experience in lending to mutual projects in trade; Sberbank provides loans under EXIAR insurance coverage.

d) To diversify the forms of mutual settlements in national currencies. This proposal is due to the appropriateness of taking into account world experience in the application of various forms of mutual settlements. The expansion of the forms and methods of cross-border settlements on mutual trade will simultaneously stimulate participants in foreign economic activity to develop mutual relations and increase the volume of trade in goods and services. The use of world experience in various forms of mutual settlements is noteworthy. A positive example for the countries of the Union can be the activities of CLS Bank, which is essentially a multicurrency settlement system that guarantees security of transactions to conversion operations with various currency pairs. CLS Bank is designed to reduce the risk of losses during settlements and conversion operations. Its regulatory bodies are the central banks of several countries of the world.

## VI. CONCLUSION

The analysis shows that the integration effects in the EAEU are not impressive, even taking into account time factors. A significant part of the mutual trade of the Union countries consists of undifferentiated commodities whose world prices are denominated in US dollars. The authors evaluate mutual trade as underdeveloped and poorly balanced at present. In this assessment, the authors take into account external and internal factors: the state of the world economy (slowdown in global economic growth and the tension of international trade relations); the shortcomings of the development of the real sector of the economy of the Union countries: low competitiveness of the industry, weak structural compatibility and complementarity of national economies, insufficient level of development industrial cooperation. Currently, there is considerable potential for increasing mutual trade in goods of the EAEU countries, as well as diversifying its structure, primarily due to the development of their industrial cooperation and building up investment potential.

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