

Integration of the Eurasian Economic Union in Comparison to European Union Integration

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Abstract

The aim of the article is to show the specificity of the integration of the Eurasian Economic Union (EEU) on the example of the integration of the European Union (EU). The EEU is a relatively young grouping that was established in 2015 by Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic and the Russian Federation. Its creators try to give the Eurasian integration process a different direction in contrast to the structures that were created in the post-Soviet space. The EU was founded in 1993, but the beginning of the foundation falls on 1957, in which the treaties establishing the European Economic Community were signed by six founding countries: France, Germany, Italy, Belgium, the Netherlands and Luxembourg. The article presents the functioning of the EEU, its objectives, assumptions and forecasts for the further process of merging national economies.

Keywords: Eurasian Economic Union, Europe Union, integration

JEL Classification: F15, F45, F02

1. Introduction

The international integration processes main goal is a sustainable development of the states, elicitation of investment cooperation and joint projects (Pollack, 2001). The emergence of a new international organization, companies, as well as general import and export have a great impact on the economies of the participating countries. Foreign direct investment (FDI) can significantly affect the economic growth of developing countries through technology, knowledge and skills transfer (Deichmann et al., 2003).

The Eurasian Economic Union is an international organization of regional economic integration, within which the free movement of goods, services, capital, and labour is ensured. The Treaty on the Eurasian Economic Union was signed on 29 May 2014 in Astana. From 1 January 2015, a new stage in the development of Eurasian economic integration began. The introduction of the state of full functioning of the EEU allows not only for the consolidation of a de facto deeper level of economic integration in the Eurasian space but also confirms the legitimacy of the strategy for the further development of integration. The EEU's internal market comprises an economic area in which the free movement of goods, persons, services, and capital is ensured.

At present, the customs boundaries between members have been abolished in the EEU. Unified norms of the Customs Code, customs tariff, foreign trade system, customs regulations and technical regulations have been introduced (*Eurasian Economic Union (2018) access: 27/01/2018*). Integration within the scope introduced by the EEU eliminated the existing

barriers between economies, which allows the expansion of enterprises in new markets. In connection with the above activities, trade turnover and capital flows between enterprises are expected to increase. One of the effects of the formation of an integration group is to strengthen the internationalization of enterprises that take advantage of the opportunities to expand into new markets due to the elimination of existing barriers between economies. We can, therefore, expect an increase in trade turnover and capital flows (Daszkiewicz, 2016).

1.1 The Basic Principles of the EEU and EU

The Eurasian Economic Union is established for the significant improvement of modernization, cooperation, for national economies competitiveness but also for the creation of conditions to raising the population living standards. The integration of production, labour, financial resources and science.

EEU is an international organization of regional economic integration that ensures freedom of movement of goods, services, capital, and labour, as well as coordinated and unified policy in economic sectors. The member states of the Eurasian Economic Union are the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic and the Russian Federation. The creation of the Eurasian Economic Union was aimed at creating a bloc that would also be a partner and rival to the European Union and China (Michalik, 2015). It is worth noting, that the initiator of the creation of the Eurasian Union in 1994 was the President of Kazakhstan, N. Nazarbayev, who asked Russia to take over leadership in the economic union. It was only W. Putin. he became an appropriate partner for N. Nazarbayev to implement the integration project of the region (Gostomski and Michałowski, 2015)

The main objectives of the EEU are:

- creating conditions for the stable development of members economies in order to improve the living standards of their inhabitants;
- striving to create a single market for goods, services, capital and labour resources in the Union;
- comprehensive modernization, cooperation and increasing the competitiveness of national economies in the global economy.

The process of integration of European nations begun at the beginning of 20th century. In 1951, European countries began economic cooperation, the need arose to form a new grouping, a new common Europe. The EU was founded in 1957 by six countries: Belgium, France, Germany, Italy, Luxembourg and the Netherlands. In 2004 the EU took additional steps and the process of globalization has gained the new stage of development. Currently, the EU consists of 28 Member States. At the moment, the United Kingdom is still a member of the Union. There are several main goals that the EU pursued in the integration process:

- peacekeeping: EU values and the well-being of EU citizens, guaranteeing freedom, security and justice in an area without internal borders;
- economic integration :point of economic integration is the internal single market, established by the participating countries in order to create a unified economic territory that is not divided either by customs or trade barriers. At the heart of the single market are four such principles - free movement of goods, labour, services and capital. It is worth noting four important factors that are leading to these states: ensuring security, independence, welfare of society and the prestige of states. establishment of an economic and monetary union whose currency is the euro;
- promoting sustainable development based on sustainable economic growth and price stability, on a highly competitive market economy enabling full employment and social progress, and on environmental protection;



- political alliance: increasing economic, social and territorial cohesion and solidarity between Member States protection of rich cultural and linguistic diversity;
- social stability: combating social exclusion and discrimination, supporting scientific and technical progress.

2. Similarities and Differences of EEU and EU Integration Process

Comparison of integration processes leads to a comparison of the EU region and the region of the Eurasian Economic Union, taking into account historical time, the political and psychological context, approaches and models of integration in the context of the international environment. Integration processes reflect real economic and political trends in these unique regions of the world and create interaction between them. EU and EEU as continental international political institutions and the governing bodies of the EU and the EEU have their own powers as stipulated in the treaties and participate in the decision-making process and determine the main objectives of the Unions. It is worth noting that a political society and historical context is one of the most important roles in the integration process.

In 1994, the leader of the Republic of Kazakhstan, Nursultan Nazarbayev, proposed creating a truly working union of states in the Eurasian space, united by economic interrelations (Roberts and Moshes, 2016). In early 1995, the Republic of Kazakhstan, the Republic of Belarus and the Russian Federation signed the Agreement on the Customs Union aimed at removing obstacles to free economic interaction between economic entities of the parties, ensuring free trade and fair competition. In 1996, the leaders of the troika countries, together with the head of the Kyrgyz Republic, signed the Treaty on the deepening of integration in the economic and humanitarian spheres. On November 18, 2011, the Presidents of Russia, Kazakhstan, and Belarus signed the Declaration on Eurasian Economic Integration. By January 1, 2012, the legal framework of the Eurasian Economic Space (EES) - the market with 170 million consumers, free movement of goods, services, capital, and labour was formed (Tarr, 2016). The EES is based on concerted actions in key areas of economic regulation: macroeconomics, competition, industrial and agricultural subsidies, transport, energy, and natural monopoly tariffs. For the population and the business community, the gain from the EES was obvious. Entrepreneurs received equal access to the common market of countries, the ability to freely choose where to register their companies and do business, without undue restrictions, sell goods in any of the member states, and gain access to transport infrastructure. The creation and stage-by-stage debugging of the mechanisms of the work of the single market have become an important element of the plans of the countries participating in the Customs Union (CU) and the EES on the transition from the raw material economy to the innovative one. 2013 was one of the most significant periods in the improvement and development of Eurasian integration processes.

Integration of the European Union began in 1952, the European Union emerged as the European Coal and Steel Community (ECNU). It consisted of six founding countries: France, Germany, Italy, Belgium, the Netherlands and Luxembourg. The same countries were formed in 1958 by the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM). But the European Community, as the association of the three communities calls itself since the 1960s, has always been calculated for the whole of Europe.

There are four stages in the expansion of the EU: expansion to the west in 1973 - accession by Great Britain, Ireland and Denmark, expansion to the south in 1981 and 1986 of accession - Greece, Spain and Portugal, expansion to the north in 1995 - accession by Sweden, Finland and Austria, extension to the east in 2004-2007 - the accession of Estonia, Latvia, Lithuania,



Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Malta, Cyprus, as well as Bulgaria and Romania.

The Eurasian Economic Union began functioning on January 1, 2015. From October 2, Armenia became a full member, and on August 12, Kyrgyzstan joined. In October 2015, the presidents of the five Union countries approved the main directions of the economic development of the EEU until 2030 - an important document that determines the further coordination of national policies and ways to improve the competitiveness of the economies of the states of the Union. The effect of participation in the EEU by 2030 for member states is estimated to be up to 13% of additional GDP growth (Akhmetzaki and Mukhamediyev, 2017).

The EU is based on the principle of solidarity: the more economically developed member states help in the economic development of developing member states so that they are able to compete in the single European market (Jachtenfuchs, 2001). The EU has completed the process of monetary union and political union. Language factor: the method of translating accepted acts and all necessary documents into all languages of member states, but the process is not effective because it takes a very long period and a lot of financial resources for translations. There is an inter-parliamentary structure that represents the citizens of the EU. The main political institutions influencing the European integration process are NATO, the OSCE, the Council of Europe and transnational corporations. It is characterized by an independent common foreign policy and policy in the field of defence and security.

EEU uses a multi-rate integration method, counts on the economic readiness of member states for further integration. Like the EU, I have fulfilled all the necessary integration phases: a free trade area, a customs union, a common domestic market, an economic union. It has a high degree of dynamism because it takes into account the experience of the EU and other regional associations. Authors Mishalchenko and AV Izotov (Мишальченко and Изотов, 2014) believe that the role of a certain institutional "launching pad" for the start of important integration projects in Russia, Belarus and Kazakhstan was played mainly by international organizations: the CIS, EurAsEC, the Union State of Russia and Belarus (Anonymous, 2016). S.Yu. Glazyev notes that the Eurasian integration is based on the principle of treating the partner as an equal, respecting the voluntariness and mutual respect for the spiritual values and cultural identity of the united states with equal rights in making supranational decisions (Глазьев, 2014). There is a process of strengthening the sovereignty of the national member states on the basis of equality to the partner as an equal, the observance of voluntariness and mutual respect for the spiritual values and cultural identity of the unifying states with equal rights in making supranational decisions. The language factor is a common Russian language for all, which creates an effective bridge in the post-Soviet space, economic interaction, and is an important geopolitical factor. Decision-making procedure: implemented in each governing body on the basis of consensus, unlike the EU (Kirkham, 2016). "The Eurasian Economic Union represents a model of a supranational association that can become one of the poles of the modern world and at the same time play the role of an effective liaison between the Asia-Pacific Region and Europe".

Accordingly, to the integration process of EEU it shows a promising effect on economies of individual union members (Barakhvostov and Rusakovich, 2017). In comparison with January 2016 – February 2018 the economic characteristics have changed (Pridachuk and Tolstel, 2016). The GDP has increased from 4% to 15% (Table 1). The most significant increase of GDP was achieved by Russia 15.24% followed by Kyrgyzstan 14.28%, Kazakhstan 10.17%, Armenia 7.89% and Belarus 4.57%. Standard of people living also increased, what can be observed on the example GDP – per capita, which was 17.72% - Russia, 8.82% - Kyrgyzstan, 8.33% - Armenia, 5.66% -Kazakhstan and 4.49% - Belarus. In case of inflation rate, a



significant decrease was observed up to 72.72% in Russia and 66.07% in Armenia, next 53.08% and 46.66% in Kyrgyzstan and Belarus, respectively. Only in the case of Kazakhstan, the inflation rate increased by 35.84% due to the increasing prices of goods and services. The number of economically active people also increased, which results in the drop of the number of an unemployed rate in Belarus 28.57%, Kyrgyzstan 10% and Kazakhstan 3.92%. Slight increase was observed in Armenia 1.12% and a significant increase in Russia as much as 13.64%.

Table 1: Characteristics of the EEU Member Countries (at 25.02.2018)

| Country | Population, mln | GDP, billion US dollars | GDP - per capita, thousands US dollars | Inflation rate, % | Unemployment rate, % |
|-------------------|-----------------|-------------------------|--|-------------------|----------------------|
| Russia | 146.9 | 4000 | 27.9 | 4.2 | 5 |
| Belarus | 9.5 | 175.9 | 18.6 | 8 | 0.5 |
| Kazakhstan | 18.2 | 474.3 | 26.1 | 7.2 | 4.9 |
| Kyrgyzstan | 6.2 | 22.64 | 3.7 | 3.8 | 7.2 |
| Armenia | 3.0 | 27.21 | 9.1 | 1.9 | 18 |

Source: CIA World Factbook (2018)

Comparison of characteristic economic indicators of the EEU Members to founding Members Countries of Europe Union they show significant differences in the wealth of these countries (Table 1). In case of GDP only Russia can compare with EU member countries, where the rest EEU Members have several times lower to EU Member countries. Also, the GDP – per capita and inflation rate are quite significant differences. However, the unemployment rate is lower for EEU than UE, which can be caused by several factors; immigration, the crisis in the euro area or leaving the Union by Great Britain (Scharpf, 2010). Moreover, should be taken into account that EEU is still very young Union which is created by countries which were historically dependent on Russia.

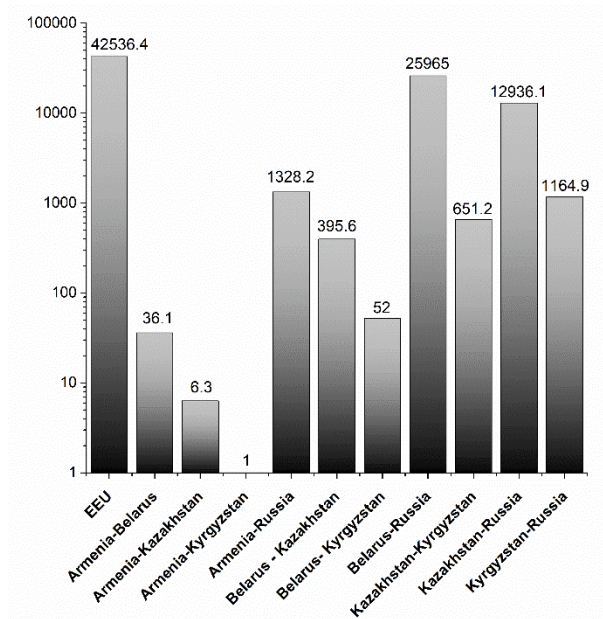
Table 2: Characteristic of the EU Founding Members Countries (at 25.0.2.2018)

| Country | Population, mln | GDP, trillion US dollars | GDP - per capita, thousands US dollars | Inflation rate, % | Unemployment rate, % |
|--------------------|-----------------|--------------------------|--|-------------------|----------------------|
| Belgium | 11.5 | 0.53 | 46.3 | 2.2 | 7.3 |
| France | 67.1 | 2.8 | 43.6 | 1.2 | 9.5 |
| Germany | 80.6 | 4.2 | 50.2 | 1.6 | 3.8 |
| Italy | 62.1 | 2.3 | 38 | 1.4 | 11.4 |
| Luxembourg | 0.6 | 0.06 | 109.1 | 1.2 | 17.4 |
| Netherlands | 17 | 0.9 | 53.6 | 1.3 | 5.1 |

Source: CIA World Factbook (2018)



Figure 5: Represent the Total Value of Export Operations of the EEU Member States in Mutual Turnover for 2016 in mln USD



Source: Own elaboration based on: Евразийскаяэкономическаякомиссия (2017)

According to the Eurasian Economic Commission, the volume of EEU transactions in 2016 compared to 2015 increased from 13.6 to 14.2%, which is a very positive phenomenon (Figure 1). The turnover in the EUG is USD 42,536.40 mln. Table 1 shows the volume of trade between countries, members of the EEU. The mutual turnover is as follows: Armenia - Belarus - 36.1 mln USD, Armenia - Kazakhstan - 6.3 mln USD, Armenia-Kyrgyzstan - 1 mln USD, Armenia - Russia - 1 328,20 mln USD, Belarus - Kazakhstan - 395 , USD 6 mln, Belarus - Kyrgyzstan - USD 52 mln, Belarus - Russia - USD 25,965 million, Kazakhstan - Kyrgyzstan - USD 651.2 mln, Kazakhstan Russia - USD 12 936.10 mln, Kyrgyzstan - Russia - PLN 14,890 mln USD.

3. Conclusion

The European and Eurasian region is truly unique in terms of historical experience and specifics. The EU has achieved the highest degree of integration development, its experience is a measure of the effectiveness of integration and also an example on which the EEU should rely. The legal base of the EAPS implies reaching a high level of integration of this Union. To achieve a high level of integration, the EEU also presupposes the level of the "energy union". Also the transport network and infrastructure are the main elements for deepening integration. The Eurasian integration process presupposes the possibility to go beyond the post-Soviet space. Mutual understanding is necessary for EU and EUG integration projects. The EU should perceive the Eurasian integration process as an integration process of independent states without advancing the idea of Russian imperialism.

Vladimir Putin's many announcements about Eurasian integration have become part of the actual policy of states and are the most advanced integration structure that was created after 1991. Its creators try to give the Eurasian integration process a different direction in contrast to the structures that were created in the post-Soviet space. Russia's vast advantage makes it

difficult to guarantee the interests of other entities forming a new grouping, although the first years of the EEU operation confirmed that it was not possible to find a balance on economic and political issues because Russia was the beneficiary of integration. Another problem is the rapid construction of Eurasian institutions: within five years (up to 2015). They intend to achieve a result for which the EU has worked for several decades.

To some extent, the EEU is a project referring to the Soviet past, although it benefits from the experience of other integration groups. The EEU is a challenge for the enlargement processes that have been ongoing for over twenty years on the European continent, so far they have not been allowed.

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