Abstract: In this article the authors examine the impact of integration processes on the competitiveness of national economies of the participating countries of the Eurasian Economic Union (EAEC). Any integration, including integration within the EAEC affects the economy of participants in two ways: on the one hand it favorably promotes multilateral mutually beneficial business contacts, and on the other hand, it feels the strength, competing with each other, the individual national economies. The authors comprehensively investigated the current situation and problems of the EAEC with the use of different methods of political analysis (comparative and system analysis, content analysis, event analysis, SWOT-analysis, and others.). In a sufficiently sharp polemical form, based on credible evidence materials, the article shows not only the integration of interaction, but also features of competition within the EAEC, the causes of conflict, as well as the consequences that resulted in the devaluation of ruble and dumping prices in Russia, which in turn all have a negative impact on competitiveness of the economies of Kazakhstan and Belarus.

Key words: integration, union, regional economic integration, national economy, Customs Union.
**Introduction**

The Eurasian Economic Union (hereinafter the EEU) is an international organization for regional economic integration. Its member states are: Kazakhstan, Russia, Belarus, and Armenia. According to the Article 1 of the “Treaty on the Eurasian Economic Union” of May 29, 2014 (signed in Astana, Kazakhstan), the EEU is “an international organization for regional economic integration, shall possess international legal personality, introduce the free movement of goods, capital, services and workforce, a coordinated, coherent and unified policy in the fields of economy defined in this Treaty and international agreements within the Union”\(^1\).

The idea of integration in Eurasian was announced by Nursultan Nazarbayev at Lomonosov Moscow State University in 1994. The initiative of the President of Kazakhstan was implemented in phases: in 2000, Treaty on the Establishment of the Eurasian Economic Union (EEUC) was signed; since 2010 the Customs Union (CU) has been operating; and from 2012, Kazakhstan, Russia, and Belarus have moved to the third stage of the integration construction – the Single Economic Space (SES) was established. In 2014, the aforementioned Treaty for the establishment of the EEU was signed, and came into force on 1 January, 2015.

The EEU is gradually expanding. Kyrgyzstan was to be a full member of the Eurasian Union on 29 May, 2015. The Government of Tajikistan expressed interest to join the EEU and stated that it reviews the possible consequences for the country’s economy if the decision is made. Prospects and possibilities of the EEU extension are not limited to these countries. As it known, on October 24, 2013, at a meeting of the Supreme Eurasian Economic Council in Minsk (Belarus,) the President of Kazakhstan, Nursultan Nazarbayev, said that Abdullah Gul, President of Turkey, had requested him to join

---

\(^1\) “Договор о Евразийском экономическом союзе” от 29.05.2014, https://docs.eaeunion.org/sites/storage0/Lists/Documents/a089f4c6-02da-4461-b033-3f5d122e0020/e57db9f2-9589-4b26-be1e-b1a43862c6ed_635375701449140007.pdf, 2.10.2015.
the Customs Union (the intermediate stage of the EEU). “Turkish President contacted me to ask whether Turkey could be a part of the Customs Union,” – said Nazarbayev. “Turkey is a large country, we have a common border. Wherever I go to the West I get asked whether we are creating another Soviet Union or something to be governed by Russia. And I had to explain that we do nothing of the kind. So if we admit Turkey maybe such questions stop,” – Nazarbayev proposed it to the Presidents of Russia and Belarus.2

The allies responded positively on this proposal. In turn, Russian President Vladimir Putin said that India also took the initiative of signing the agreement on free trade zone with the Customs Union’ countries: “Our big friend – the Prime Minister of India has just visited us. He asked me to raise this issue in our meeting today that India would like to consider the possibility to sign an agreement on free trade zone with the Customs Union, – Russian President was quoted by RIA Novosti. – I think that referring to the Indian market size, the prospects for the development of Asia as a whole, we need to take this suggestion seriously”.

If Turkey and India become the EEU Member States, then the organization will play a key role in world’s politics and economics. The ultimate goal of the EEU is not an expansion, but full integration, modernization, cooperation, and competitiveness of national economies, and the creation of conditions for sustainable development to improve the living standards of the Member States.

However, the realities of integration within the EEU are not so promising. According to the experience of the European Union (EU), the economic gap between new and old members of the EU becomes more and more obvious. The GDP per capita of many EU member states have not reached even half the average index of the previous organization structure. Germany and France are considered to be the EU flagships, while the share of other members of the Union

in the overall economy lags behind, and some countries still face a severe economic crisis. Economic indicators of European countries and some of the “young” EU member states are very different – the proportion is one in four. To bridge this gap is hardly possible, and this imbalance creates additional problems for the EU development. Such countries like Greece generally want to secede from the EU, blaming stringent requirements of the European Parliament and the European Commission’s budget savings of their problems. The endless financial and economic crisis, which has shaken the Eurozone for a decade, has become the problem number one in the entire EU as a whole, not only for individual member states. The shortsighted policy of the European Commission, which focused only on solving financial problems resulted in an aggravation of social problems that come from the local level to the supranational one and has taken threatening features. In such circumstances, the accession of new member countries into the European Union can easily result in conflicts related to the funds reallocation. On the one hand, developed countries have resisted additional contributions to general funds. On the other hand, some countries (Spain, Ireland, and Portugal), want to continue to receive these funds.

Similar economic problems and imbalances are observed within the EEU. To understand the current situation there is a need for the comparative political analysis of geographic, economic, and socio-political indicators of the EEU member countries.

The EEU member states, as in the EU, also vary significantly from each other in terms of economy, territory and population, natural resources, the level of scientific, technological and industrial base, infrastructure, etc. For example, the area of Russia is 17,125,407 square kilometers, ranking first worldwide, with the population of 146,267,288 people, the 9th place in the world. The GDP nominal level – 2,097 trillion dollars, GDP per capita – 14,591 USD. On the territory of the Russian Federation there are enormous reserves of raw materials and energy resources. In particular, there are

large deposits of oil, gas, coal, potash salts, nickel, tin, aluminum raw materials, tungsten, gold, platinum, asbestos, graphite, mica, and other minerals. Russia discovered more than 20,000 mineral deposits, all kinds of natural resources, almost the whole periodic table. According to the results of the 2011 geological surveys, the hydrocarbon reserves in Russia increased. According to preliminary data, oil reserves increased by 600 million tons, and gas at 900 billion cubic meters (CBM). Under the annual “Statistical Review of World Energy” by the BP (British Petroleum) oil company, by the end of 2013 Russia ranked the first in the world in natural gas reserves (44.8 trillion cubic meters), and in oil it was on the 8th place – 93030000000 barrels, being overtaken by a number of the Gulf countries and Venezuela. At the same time Russia is the leader in oil production, the second in gas production, after only the United States\(^5\). That is, the Russia’s main exports are oil and gas. Among the EEU members, the Russian Federation has the most powerful industrial potential, with thousands of factories of mechanical engineering, instrumentation, light industry, chemical, and food industries. It has an access to the seas. The navy and military-industrial complex of Russia is among the strongest worldwide.

The next EEU member is the Republic of Kazakhstan with the territory of 2 724 902 km\(^2\). It ranks the 9th place in the world, but yet the population number is small – only 17 439 271 (it is the 63rd place in the world). The population density is 6.4 persons per 1 square kilometer (the 184th place in the world.) The GDP is 224,415 billion US dollars (12 456 dollars per capita). Kazakhstan, as well as Russia, is also rich with minerals. According to the “Statistical review of world power” (Statistical Review of World Energy) prepared by the BP, Kazakhstan takes the 12th place in the world on volumes of proved recoverable oil reserves and the 20th place on gas reserves. More than 80 fields are under development. For years of independence, oil production has increased in Kazakhstan more than 3 times, having reached 80 million tons, and on gas – more than

5 times – to 40 billion cubic meters. The BP estimated oil reserves in Kazakhstan at 30 billion barrels, or 3.9 billion tons that makes 1.8% of world reserves, and gas reserves of 1.3 trillion CBM (0.7% of world reserves.) In the industry structure, a raw sector dominates. On the initiative of the President the State, the program on strength of industrial-innovative development of the country is under implementation but the results are not yet available. The Kazakhstani industry lags behind both from the Russian and the Belorussian ones. Because of this, its exports focuses on raw materials. In the structure of its exports the main share is occupied by oil and oil products (35%). Other important commodity groups are non-ferrous metals (17%), ferrous metals (16%), ores (12%). The specific part of exports is grain crops (9%). The statistical data specify that the main exports goods of the country is the commodity group “Fuel and Energy Goods”. The group called “Metals and their products” takes the 2nd place. In this regard, the Kazakhstan’s and the Russia’s exports are very similar. What is more, it would be possible to call them “raw competitors” though they are the EEU allies. Due to this fact, the negative balance between export and import is observed in Kazakhstan. In 2014, total exports of Kazakhstan amounted to 78 237.8 billion dollars, import – 41 212.8 billion dollars, and the negative balance amounted to 37 025 billion dollars. In 2014, according to the Statistics Committee under the RoK Ministry of National Economy, the ratio of Kazakhstan’s export-import within the EEU was as follow: export to Russia – 5178.1 million dollars, and import from Russia – 13 730.3 million dollars. The negative balance amounted to 8552.2 million dollars. Export of Kazakhstan to Belarus amounted to 29.2 million dollars, and import from Belarus – 727.6 million dollars. The negative balance amounted to 698.4 million dollars.

8 Внешняя и взаимная торговля. Основные показатели за 2012–2014
Belarus is the next EEU member. Its territory is 207,600 km² (the 84th place in the world) with 9,466,000 residents. The GDP in 2014 amounted to 166,786 billion US dollars, with 17,620 per capita. Belarus is famous for water resources, woods, and rich flora and fauna. However, natural minerals are limited, in the Gomel region several dozen small oil fields are known, which annually produce just over 1.5 million tons of oil and a minor amount of natural gas. In the Pripyat valley deposits of brown coal and oil shale are known. Throughout the Republic’s territory there are rich peat deposits – about 7 thousand peatlands. There are two large but deep deposits of iron ore and a few small deposits (occurrences) of native copper, copper pyrites of rare earth metals, beryllium and uranium ores. A number of deposits of raw materials for production of building materials and sources of fresh water and mineral water are under development⁹. Belarus has developed energy, engineering, agriculture, chemicals and forestry, construction, construction materials and mining. The main exports are oil products, potash fertilizers, machinery, chemical and food industries. However, after the accession to the Customs Union, its foreign trade balance became negative. For example, by the end of 2013, imports over exports amounted to 5,820 billion dollars, and in 2014 – 4,396 billion dollars¹⁰. Furthermore, the main share of imports was Russian goods.

⁹ А.К. Карабанов, Проблемы освоения минерально-сырьевых ресурсов Беларуси, в: Географические науки в обеспечении стратегии устойчивого развития в условиях глобализации (к 100-летию со дня рождения профессора Н.Т. Романовского) Geographical sciences in realization of sustainable development strategy in globalizing world (to the 100th anniversary of Professor N.T. Romanovskij): материалы Междунар. науч.-практ. конф., под ред. И.И. Пирожник и др., Минск 2012.

¹⁰ Основные показатели внешней торговли (данные Национального статистического комитета Республики Беларусь), http://belstat.gov.by/ofitsialnaya-statistika/otrasli-statistiki/torgovlya/vneshnyaya-torgovlya_2/osnovnye-
As for Armenia, the place and the role of this member state of the EEU part is still insignificant: its territory is 29,743 km² (the 138th in the world); the population – 3,017,1 thousand people (135th place); the GDP is 9,951 billion dollars (3351.63 per capita). Armenia, what is very important, has no common borders with other EEU member states. At this stage, the membership of Armenia in the EEU has rather the geopolitical value than the economic one. Armenia is also largely joined the EEU for the preferential energy supply and, moreover, it has become a sort of “substitute of Ukraine” as the place of the fourth member of the organization was originally designed Ukraine. But the future role and importance of Armenia in the EEU integration processes may increase: first, it is located in the geostrategic region; secondly, a subsoil of Armenia is quite rich with ore minerals. Third, Armenia has rich natural and recreational resources, water resources, historical places, huge potential for development of international tourism. What is more, on the territory of this highland there are about 9,480 small and larger rivers and over 100 lakes.

Armenia is the industrial and agrarian country with considerable reserves of copper and molybdenic and complex ores, bauxites, structural stone, mineral waters, fields of precious metals, and semiprecious and ornamental stones. It develops the production of synthetic rubber, textile, food industry, and mechanical engineering. The structure of GDP, estimates by the CIA in 2010, was at follow: services sector – 31.4%; industry – 46.6%; and agriculture – 22%.

In 2013, Armenia’s foreign trade turnover increased by 5.6% compared to 2012 and amounted to 5,956,800,000 dollars. At the same time, exports amounted to 1,480,00 dollars, having increased by 7.2%, and imports – 4,476,800,000 dollars, increased by 5.1%.

---


Its negative balance was 2,996,800,000 dollars. The export leader of Armenia was Russia (22.6%), Bulgaria (10.3%), and Belgium (8.9%). By the end of 2013, the main importers of Armenia were Russia (24.8%), China (8.6%), and Germany (6.3%). The analysis of the commodity structure of Armenia’s exports shows that the main commodity groups were: food (415.4 million dollars – increased by 28.8% if compare to 2012), mineral products – 407.2 million dollars (1.2%), non-noble metals and products from them – 308.8 million dollars (decreasing by 10.0%), precious and semiprecious stones, precious metals and products from them – 188.0 million dollars (increasing by 8.6%), textiles, tanning products and footwear – 45.4 million dollars (increasing by 80.0%)\(^\text{13}\).

To sum up, the above comparative analysis it is possible to draw some conclusions. First of all, the most powerful and the biggest economy within the EEU is Russia (3/4 GDP of the Eurasian Union.) Respectively, the economic dominance of Russia in the Union is quite logical. From the very beginning of the Eurasian integration processes, in almost all areas of cooperation Russian interests have dominated. However, the Union members fear the fact, that the Russian economic hegemony would not develop into a political one. The most important problem for the EEU member states would be to prevent Russia’s political domination. Russia wants to correct the EEU Treaty with different political provisions on common citizenship, general qualification system in education and professional competencies, creation a single parliament, introduction of a common currency, etc. However, Kazakhstan has actively resisted Russian attempts to give political dimensions to the economic union, and Belarus has greatly supported these efforts of Kazakhstan. Many analysts are unanimous that the excessive desire of Russia to have a political dominance in the post-Soviet space is a major cause of the Ukrainian crisis, and in this regard, they see the EEU future as a union of four Republics only in the field of energy trade.

Secondly, due to the economic superiority of Russia in the EEU, the organization began to experience some difficulties with regard to ensuring the national interests, especially threatening the economic security. For example, a sharp increase in Russian imports has created a big problem for Kazakhstani businesses. There are too many Russian products in the shops. Moreover, Russian companies started to dominate in the sphere of logistics, equipment supplies, automobile market, and food market. Kazakhstani producers (especially in small and medium businesses) are noncompetitive generally because of high taxes and bad working conditions. In theory, Kazakhstan would benefit from integration, but in practice the situation is different. The EEU is like a one-way road: Russia imports its products do Kazakhstan, whereas products “Made in Kazakhstan” met huge impediments in Russia, including different licensing procedures in the form of sanitary and epidemiological standards, technical regulations, licensing, etc.). Thirdly, in the mutual trade between the EEU member states there is the imbalance, and the tendency of trade deficit. For example, in Kazakhstan, after establishing of the Customs Union, the Russian import grew three times, and the export to Russia from Kazakhstan remained at the previous level. The situation with Belarus is even more indicative. For example, in quantitative terms, the import of Belorussian goods in Kazakhstan is not so significant, but it is seven times higher than Kazakhstan’s exports to Belarus. The similar situation is in the export-import between Belarus and Russia. The share of Armenia in the mutual trade between the EEU countries is still low. The ruble devaluation resulted in tremendous benefits for the Russian producers. On the one hand, this enhanced the “Made in Russia” brand, on the other hand, it strengthened its Russian partners.

In the structure of exports of the EEU natural raw materials prevail: oil, gas, coal, iron oxides, and other minerals. The fuel and raw specialization of a number of economies of the EEU countries, created some rivalry between partners. For example, such conflicts of interests were observed between Russia and Kazakhstan. On April 28, 2014, at Lomonosov Moscow State University, the President Nazarbayev emphasized that the Eurasian Union “is possible only on
the principles of voluntariness; equal rights; the mutual benefit; and
consideration of pragmatical interests of each member country”\textsuperscript{14}.

There are still different institutional differences between the
EEU countries, which adversely affect the integration process. For
example, there are a lot of complains on different approaches of
standardization, certification, goods registration, bureaucratic bar-
rriers, and corruption, queues on border check points and customs
terminals.

In the conclusions only the most acute issues of the EEU were
specified while there are a lot of challenges and integration issues.
We are positive that over time, in process of the EEU development
and deepening of mutually beneficial cooperation, these contradic-
tions will be solved considering the national interests of all the EEU
members.

In order to determine the prospects of the regional economic
organization it is necessary to apply the SWOT-analysis method.
The SWOT-analysis is a research method to identify internal and
external environment factors of the organization and its division into
four categories: strengths, weaknesses, opportunities and threats.

So, the EEU strengths are:

1. The new Union covers the largest geographical area with
access to all four corners of the earth;
2. A single consumer market (over 170 million consumers);
3. The vast natural resources (at the territory of the union,
a significant part of the world’s supply of minerals is con-
centrated);
4. The EEU members inherited from the Soviet Union to great
extend: infrastructure, industrial mega-cities and qualified
personnel, agricultural farms, military-industrial complex,

\textsuperscript{14} «От идеи Евразийского союза – к новым перспективам евразийской инте-
грации» Выступление Президента Республики Казахстан Н.А. Назарбаева
в Московском государственном университете имени М.В. Ломоносова 28.04.2014,
http://akorda.kz/ru/page/page_216601_vystuplenie-prezidenta-res publik-
kazakhstan-n-a-nazarbaeva-v-moskovskom-gosudarstvennom -universit?print,
2.10.2015.
qualified human capital, etc. We can only recover partially broken economic, commercial and humanitarian relations;

5. The Union is located in a very important geostrategic region between the East and the West, in the middle of the EU, China, India, Central Asia, and the Middle East.

The EEU weaknesses are:

1. The lack of Union identity. In the post-Soviet countries, the stereotypes and fears of a totalitarian past have yet remained. The independent now countries want to protect their own national interests;

2. The EEU lags behind the developed competitors in the areas of development of science, innovation, technique, and technology. In the EEU economy the raw orientation prevails, the actual sector of economy is poorly developed. The knowledge-intensive production, small and medium business, and tourism are in embryo;

3. In the EEU countries, there are high indexes of corruption, bureaucracy, and clannishness;

4. The interstate structures are not completely coordinated and the national legislations of the EEU members are not harmonized;

5. There is a strong dependence on the EEU economy from external factors such as economic sanctions of the Western countries on Russia; the world prices of energy carriers and natural resources, the American dollar and euro exchange rates, etc.)

Regarding the EEU opportunities, it is possible to claim that possibilities of the Union, used properly and rationally, are simply great. The EEU can become the world`s supplier of raw materials, goods and services. In addition, the EEU will perhaps expand to include new members. The EEU may become a transit transport corridor “Western Europe-Western China”. In addition, the EEU has actual opportunities to become the world financial center, a developed economic zone with the favorable investment climate.

And, of course, there are the EEU threats. But the most important are:
• threats of terrorism, extremism and separatism;
• particular economic threats caused by excessive dollarization of national economy of certain EEU members. The people live in fear of devaluation;
• as the basis of the EEU economy is exports of hydrocarbons and iron oxide on the world market, the Union is strongly dependent on the price on raw material and energy resources;
• larger social and economic problems can also arise because of different national economic developments. For example, the Russian economy is considered the most industrially developed compared to other EEU countries. Therefore, the Russian goods have low prime cost and they can have dumping prices. The unequal competition creates many problems for producers of the EEU countries. This might result in threats of workplaces downsize, unemployment, social tension, etc.

To sum up, it is extremely difficult to give an unambiguous assessment of the EEU at this stage since the integration of the Eurasian Union only began to function. Nevertheless, the first steps of the EEU demonstrate strengths and weaknesses of the integration processes. We can only learn from the shortcomings of interaction and resolve emerging problems of cooperation jointly.

References

Problemy i perspektywy Eurazjatyckiej Unii Gospodarczej: analiza SWOT

Streszczenie: W niniejszym artykule autorzy badają wpływ procesów integracyjnych na konkurencyjność gospodarek narodowych krajów uczestniczących w Eurazjatyckiej Unii Gospodarczej (EAEU). Jakiekol-
wiek procesy integracyjne, w tym integracja w ramach EAEA, oddziałują na gospodarki uczestniczących w niej państw na dwa sposoby: z jednej strony promują korzyści wynikające z multilateralnych kontaktów biznesowych, a z drugiej wzmacniają znaczenie konkurujących ze sobą poszczególnych gospodarek narodowych. Autorzy dokonują wyczerpującej analizy obecnej sytuacji i problemów EAEU, korzystając z różnych metod analizy politycznej (analizy porównawczej i systemowej analizy treści, analizy zdarzeń, analizy SWOT i innych). W dość ostrej polemice, opartej na wiarygodnych materiałach źródłowych, artykuł pokazuje nie tylko integrację współzależności, ale również konkurencję wewnątrz EAEU, przyczyny konfliktu, a także konsekwencje, które doprowadziły do devaluacji rubla oraz spadku poziomu cen w Rosji, co z kolei ma negatywny wpływ na konkurencyjność gospodarek Kazachstanu i Białorusi.

Słowa kluczowe: integracja, unia, regionalna integracja gospodarcza, gospodarka narodowa, unia celna.