New Mechanisms for International Cooperation: Opportunities and Challenges

Eurasian Economic Union: Opportunities and Barriers to Regional and Global Leadership[1]

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The Eurasian Economic Union (EEU) has recently emerged in the post-Soviet space and is generating heightened interest due to its potential to become a new regional and global economic actor. This article analyzes the effectiveness of the Eurasian integration process and proposes a number of recommendations to strengthen economic relations among the EEU members by identifying and building upon their common economic interests.

This article notes the significant geo-economic potential of the EEU. However, benefits of the EEU are unevenly distributed among its participants. Russia, acting as an integrative hub, accounts for 80–87% of this potential. Moreover, these benefits lack consistency and a long-term orientation, which may ultimately pose a threat to the existence of the EEU if markets and international economic relations change.

This article analyzes the interdependency of the national economies within the EEU through an examination of intra-EEU investment cooperation and mutual trade in goods and services. It concludes that the current level of economic integration does not point to a strengthening of Eurasian integration. The volume of trade among customs union members has not increased since its establishment in 2010 despite the huge benefits of this union. The structure of manufacturing has remained unchanged, as has the level of cooperation. To strengthen the EEU, the article suggests developing and implementing a common industrial and agricultural policy. It also proposes an approach to estimate the results of this policy.

Key words: Eurasian Economic Union (EEU); economic effectiveness; integration; intra-regional trade; investment cooperation; common industrial policy; common agricultural policy

Introduction

The 21st century is characterized by increased interrelatedness and interdependency among national economies. However, despite expectations, no single, coherent and conflict-free global economy has emerged. On the contrary, the changing growth models of some countries have contributed to the formation of a new multipolar world order based on the growing economic

[1] The article was submitted to the editors in February 2016.

power of the BRICS grouping of Brazil, Russia, India, China and South Africa, among other countries. These processes have intensified competition for limited resources and markets.

Integration has become one mechanism through which states seek to realize their national interests. However, for Russia, the results have been rather poor. The Commonwealth of Independent States (CIS), which has existed for more than 20 years, has not yet become a full-fledged free trade zone. The most advanced integration grouping in the post-Soviet space is the Eurasian Economic Union (EEU), established in January 2015 to replace the Eurasian Economic Community (EurAsEc).

A sustainable EEU capable of effectively representing the interests of its members on the international stage could become a centre of attraction for neighbouring countries, particularly for countries in the post-Soviet space. Whether it is able to do so depends on a number of factors: its effect on the economic development of its members, the influence of Eurasian integration processes when dealing with economic problems internal to member states and the strength of economic ties within the EEU.

The Potential of the EEU

The EEU is potentially a very powerful economic, geo-political and ideological project.

The EEU has five members: Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia. It has 182.7 million people. It covers 14% of the world's land mass, holding one fifth of global natural gas reserves and 15% of oil reserves; almost all chemical elements of Mendeleev's periodic table can be found within its territory.

The EEU is a global leader: it is the world's largest producer of crude oil; second largest in natural gas production, fertilizer manufacturing and iron making; third largest in potato, wheat and milk production; fourth largest in electricity generation and meat production; fifth largest in grain and pulse crops and steelmaking; and sixth largest in coal mining. Overall, the EEU holds the sixth place in the world by industrial output.[2] The members' combined gross domestic product (GDP) amounts about $2.2 billion and accounts for about 85% of the combined GDP of CIS countries. Between 80–87% of the total economic potential of the EEU can be attributed to Russia [Medvedeva, 2016].

Due to its advantageous geo-strategic position between Europe and Asia, the EEU is a potentially important transportation hub. In terms of transportation infrastructure, the EEU's railway network is second in the world and its total road network is fifth [Bystrjakov, 2012].

The most important advantage enjoyed by the EEU, atypical of other integration groupings, is the common history of its members and their experience with joint economic management. In the early 1990s, shared industrial, transportation and energy complexes drove a constructive dialogue among the newly independent states in the post-Soviet space, marking a transition from mutual reproach and accusation to economic cooperation. A shared language, common history and mutual understanding of national cultures are the main factors and driving forces of the Eurasian integration process [Butorina and Zaharov, 2015].

Unified by common history and economic ties, this new integration grouping possesses a unique potential. The issue now is how members will use this potential to strengthen the EEU in order to make it a regional and global leader.

International experience suggests that the stability of an integration grouping is directly related to its ability to create economic benefits for its members.

[2] See the website of the Eurasian Economic Commission at http://www.eurasiancommission.org/en/Pages/ses.aspx (accessed September 2016).

The Economic Effects of Eurasian Integration on EEU Members

The benefits of EEU membership are unevenly distributed. Experts note that the EEU project provides more economic benefits to Russia's partners than to Russia. For example, the cost to Russia when Belarus signed the EEU treaty was $6.5 billion, in the form of a $2.5 billion credit and $3.5–$4 billion in losses resulting from the non-payment of export duties on oil products manufactured from Russian oil.

Additionally, as illustrated in Table 1, the redistribution of customs duties after the enlargement of the EEU operates to the advantage of Russia's partners.

Table 1. Distribution of Customs Duties in the EEU

Country	Initial distribution of customs duties, %	Distribution of customs duties after Armenia's and Kyrgyzstan's entrance, %	Redistribution of customs duties, %
Russia	85.9	85.32	−2.65
Belarus	4.7	4.56	−0.14
Kazakhstan	7.33	7.11	−0.22
Armenia		1.11	
Kyrgyzstan		1.9	

Source: Based on the Treaty on the Eurasian Economic Union.

It is also the case that the redirection of export flows within the EEU has greatly benefited members at Russia's expense. For example, due to the relative ease of customs clearance and inexpensive motor carrier services in Kazakhstan, transportation routes connecting China and Europe through Kazakhstan began to replace established routes through the Russian Far East. In last five years, the volume of goods moving from China to the European Union along these new routes has grown 17 fold [Regnum, 2015]. Kazakhstan enjoyed a fourfold increase in transit revenues and freight flows in the first two quarters of 2015 alone. To capitalize on this growth, Kazakhstan set a strategic target to create a transportation and logistics hub and established a consortium on 28 November 2015 with Turkey, China, Azerbaijan and Georgia to transport goods from China to Europe, bypassing Russia. Transport of the first several thousand containers from China to Turkey and Europe via Georgia has been scheduled for 2016. The shipment of goods to Northern and Eastern Europe via Ukraine has also been scheduled for the same year. In this way, Kazakhstan has become an important regional transit hub, with high volumes of re-export trade flows passing mainly through the Dordoi and Karasuu markets, the largest in Central Asia. These developments produced huge losses for Russian logistics companies and carriers, prompting in an open letter by Russian foreign trade participants to the president, prime minister and the Federal Customs Service of the Russian Federation.

Russia's partners also receive good dividends from the increased volumes of smuggled goods due to the difficulties with determining the country of origin of low-tech goods (agricultural, textile and other products). The estimation of smuggling in the Customs Union is highly complicated. However, some experts provide such estimations: the major supplier of smuggled goods is China, accounting for 34% of illegal traffic, at the second place is Germany with 7.3%, at the third place – Italy with 5.7% [Proved, 2013].

Russia's EEU partners have also benefited from certain economic sanctions. According to expert estimates, only the last year was marked by the growth of the Belarusian food exports up to \$2.3 billion. From January to September 2015, Belarusian exports grew by the following numbers: fruit and nuts – 463.0 thousand tons (up 2.4 times), vegetables – 172.4 thousand tons (up by 72.4%), dairy products – 80.5 thousand tons (up by 11.4%), meat and meat products – 7 thousand tons (up by 3.7%), fish and seafood – 5.8 thousand tons (up by 49.1%), live animals – 962 tons (up 4 times) (Russian Ministry of Economic Development, 2016a). It is obvious that such an increase could not occur only due to the expansion of the own manufacturing capacity of Belarus. Starting 1 January 2016, Russia imposed a food embargo on Ukraine. After the release of this news the authorities of Belarus declared their willingness to fill this niche in the Russian market. Domestic manufacturing of Belarus is apparently not enough for this.

Also significant is that unrestricted capital flows between EEU countries, in combination with differences in their respective business environments, encouraged a shift of manufacturing and business activities to Kazakhstan from central Russia and Siberia (see Table 2). From 2010 to the beginning of 2011, more than 400 small- and medium-sized Russian companies relocated to Kazakhstan.

Table 2. Maximum Tax Rates in Belarus, Kazakhstan and Russia, %

Country	Profit tax	Value-added tax	Personal income tax	Insurance fees
Belarus	18	20	12	29
Kazakhstan	15	12	10	11
Russia	20	18	13	30
Armenia	5 (2% for exporters)	16.67	13	5
Kyrgyzstan	10	12	17	–

Source: Based on data obtained from the tax authorities of Belarus, Kazakhstan, Russia, Kyrgyzstan and Armenia.

lthough the EEU treaty obliges members to harmonize excise duties on certain key products (alcohol and tobacco), it imposes no obligations with respect to tax rates. These continue to be determined at the national level. To the extent that current differences in taxation may soon provoke a relocation of Russian businesses to Armenia, this issue demands attention.

Kazakhstan and Belarus have become Chinese manufacturing facilities for the Russian market as a result of the common market business environment and investment strategies aimed at raising foreign direct investment (FDI) through the creation of free trade areas. The considerable difference among EEU members with respect to the ease of doing business is also a significant factor (see Table 3).

In November 2011, the president of Kazakhstan signed a decree to establish the Khorgos-Eastern Gate special economic zone (SEZ) in order to develop and deepen relations with China. The 528-hectare SEZ straddles the China-Kazakhstan border, with 185 hectares in Kazakhstan and 343 hectares in China. Once completed, the SEZ will contain a network of trade and exhibition centres, a building for negotiations, a dry port with a transportation and logistics centre, an industrial zone with manufacturing facilities, a residential zone, and on-site auxiliary infrastructure. Visa-free stays in the zone will be permitted for citizens of China, Kazakhstan and other countries. According to the plan, 80% of goods produced in Khorgos will be exported to Russia and European countries.

Similarly, on 5 June 2012 the president of Belarus signed decree N°253 on the establishment of a Chinese-Belarusian industrial park 15 kilometres from Minsk. Like Khorgos, the

Table 3. Ease of Doing Business in EEU Countries

	Russia	Belarus	Kazakhstan	Armenia	Kyrgyzstan
Overall rating	51	44	41	35	67
Enforcing contracts	5	29	9	28	137
Registering property	8	7	21	14	6
Getting credit	42	109	70	42	28
Protecting investors	66	57	25	49	36
Resolving insolvency	51	69	47	71	126
Paying taxes	47	63	18	41	138
Starting a business	41	12	21	5	35
Trading across borders	170	25	122	29	83
Dealing with construction permits	119	34	92	62	20
Getting electricity	29	89	71	99	160

Source: Based on World Bank [2016, № 3265].

jointly managed industrial park is a special economic zone with a preferential taxation regime to support high-tech manufacturing for export. It occupies 8,048 hectares and offers transportation and engineering infrastructure. Investors may rent or purchase land for the period of 99 years on very attractive terms. Russian interests are able to invest in the zone, but it is clearly dominated China. The distribution of the ownership is quite indicative: 30% of the shares are owned by the Minsk Regional Executive Committee, 10% by the Horizont holding and 60% by the China CAMC Engineering Corporation. China CAMC specializes in attracting investors to international engineering, procurement and construction projects and is owned by the China National Machinery Industry Corporation (SINOMACH). SINOMACH is a holding company with 28 companies and is listed among the top 500 largest corporations of the world. Furthermore, the first residents of the park are Chinese companies: ZTE, China's largest telecommunication equipment and mobile phones manufacturer, and the Zhejiang Geely Holding Group, the largest Chinese automaker with plans to expand into the Russian market.

Because there was no customs control mechanism among Belarus, Kazakhstan and Russia in the customs union, Russia had little power to prevent capital flight as Russian companies made fictitious purchases of goods from Kazakh and Belarusian companies through companies from other countries. According to the data from the Central Bank of Russia, in 2012 the volume of capital outflow from Russia through fictitious import schemes involving Belarusian companies amounted to $15 billion, while similar schemes involving Kazakh companies contributed to capital flight amounting to $10 billion. Notably, the scale of these fictitious imports is comparable to the official volumes of imports from Kazakhstan and Belarus to Russia.

Continuing capital flight from Russia may be accelerated by other impending developments. On 5 November 2015, Kazakhstan adopted a constitutional law to establish the Astana International Financial Center (AIFC) by 2018. The AIFC will be the first of its kind in the post-Soviet space. AIFC participants will be exempt from taxes for 50 years; they will also be provided with rent-free office space for two years and citizens of specific countries will be able to enter Kazakhstan without visas. The AIFC will be regulated by a special legal regime based on principles of English common law and will use the English language in its documentation. Significantly, its tax regime will be reminiscent of an offshore financial centre. In light of the unrestricted flow of capital within the EEU, the AIFC will likely quickly become a new conduit for capital flight from Russia.

Given the costs borne by Russia compared to benefits it receives, today the Eurasian Economic Union is most fundamentally a geo-political project. At present, the economic benefits gained by Russia's partners as a result of EEU membership are non-sustainable, superficial and short term – according to expert estimates, the real economies of Kazakhstan and Russia are integrated by less than 15%, while the real economies of Kazakhstan and Belarus are even less integrated. At the same time, the integration of Kazakhstan with European and Chinese capital is considerably deeper at about 70–80%[Glaz'ev, 2014]. These numbers do not indicate a trend towards strong Eurasian integration. Furthermore, the economic slowdown and financial squeeze experienced by Russia is expected to deepen and may change the foreign policy directions of EEU members.

Therefore, it is necessary to transfer the EEU project to the economic sphere and to strengthen ties among the economies. The main challenges are to eliminate conflicts of interest and to find the drivers that will strengthen and deepen mutually beneficial cooperation. This is especially the case in the industrial and agricultural sectors, both of which are vitally important to EEU members. Without progress in these industries, given the absence of strong cooperative ties or Eurasian production chains, the creation of a customs union and a common market among the EEU members will mainly serve the third countries.

The Economic Effectiveness of the EEU

The development of intra-regional trade is one of the main indicators of increasing economic integration. When signing free trade zone agreements, countries expect that the changes in the trading regime will influence their social and economic progress. In developed integration groupings such as the EU, the share of mutual trade is steadily growing and now accounts for about 65%. In the North American Free Trade Agreement, mutual trade accounts for about 49%.

This expectation was reflected in the Treaty on the Eurasian Economic Union, which specified that the Eurasian Economic Commission (EEC) was to use the following as indicators of integration:

1. the share of each member country in the total exports of member countries (percentage);
2. the share of each member country in the total imports of member countries (percentage);
3. the share of each member country in the total foreign trade turnover of member countries (percentage);
4. the volume of the national investment directed into the economies of member countries by each member country, including direct investment (in US dollars); and
5. the volume of investment received by the national economies of member countries from each member country, including direct investment (in US dollars) [Russian Ministry of Economic Development, 2014].

The economic effectiveness of EEU integration can be estimated using these indicators.

Although the EEU only recently started to function, three of its members – Russia, Belarus and Kazakhstan – have been working within the framework of the customs union for five years. However, sthe share of the EEU countries in their mutual trade turnover has decreased.

The share of the EEU countries in Russia's trade flow amounted 7.1% in 2014. It also accounted for 18.4% in the trade flow of Kazakhstan and 23.8% in the trade flow of Armenia.

In Belarus, EEU countries now account for about half of all overseas trade at 50.6%. In 2000, these figures were higher: EEU countries accounted for 7.7% of trade flows in Russia, 20.8% in Kazakhstan and 58.6% in Belarus. Thus, there has been a clear decrease of the share of trade flows within the EEU. In fact, from January to July 2015 mutual trade flows decreased by 26.1%, mainly because of the drop in trade between Belarus and Russia (−28.1%) and between Kazakhstan and Russia (−23.7%).[3]

Although Russian trade with Kazakhstan is currently quite high, it is steadily decreasing. In 2000, Russia's share of Kazakh exports amounted 9.8% compared to only 7.0% in 2014 while the EU's share in the same year was 53.1% and China's was 17.3%. This may be explained by the fact that Russia and Kazakhstan are competitors in international markets. Their major export products are the same – oil and oil products, accounting for about 90% of Kazakh exports and more than 70% of Russia's. Furthermore, 32% of Belarusian exports also comprises hydrocarbons.

Trade volumes between Kazakhstan and Belarus are negligible. Kazakhstan's share in Belarusian exports in 2014 was 0.85% and 0.082% of imports. Kazakhstan had similarly low shares in Armenian exports and imports, at 0.54% and 0.91% respectively. The share of Belarus in the trade flow of Kazakhstan was 0.06% and 0.3% of Armenia's.

The structure of mutual trade among the EEU countries is worsening because of the severe declines in machinery, equipment and vehicle trade volumes (by 40%), as well as in metals and metal products trade volumes (by 30.7%).

However, Russia remains the main destination for exports of finished products manufactured in the EEU countries. Russia accounts for 62% of Kazakh machinery and equipment exports; even though this represents only 1.4% of total Kazakh exports, it as a very important link between the two countries. Kazakhstan supplies Russia with equipment and mechanical devices for nuclear reactors; electrical machinery and equipment and their components; sound recorders and reproducers, television image and sound recorders and reproducers and their parts and components. Kazakhstan also supplies railway and tram locomotives, rolling stock and parts thereof; railway or tramway track fixtures and fittings and their parts; mechanical (and electromechanical) traffic signalling equipment of all kinds and vehicles (excluding railway and tramway rolling-stock, i.e., high conversion products). Exports from Belarus supply only 0.15% of these goods. Kazakhstan itself imports more than 60% of all demanded machinery and equipment while Russia accounts for slightly more than 20% of these imports. Belarus accounts for about 15%.

Russia purchases 78% of all motor vehicles for the transportation of goods manufactured for export in Belarus (Kazakhstan purchases 3.6% of all motor vehicles for the transportation of goods manufactured for export in Belarus), 93.8% of truck tractors and 52.7% of tractors (Kazakhstan – 7.5%), 85.8% of metal working equipment, 75% of all agricultural equipment (Kazakhstan – 11.5%), 65% of parts and components for automobiles and tractors (Kazakhstan – 2%), 66% of refrigerators (Kazakhstan – 6%), 77.6% of furniture (Kazakhstan – 10%), 93.5% of footwear, 75.4% of internal combustion engines, 88.2% of milk and cream; and 97% of curdled milk and cream and meat [Russian Ministry of Economic Development, 2016b].

Although the share of EU countries in Belarusian trade turnover is approaching that of Russia, most of this turnover (87%) comprises crude oil and oil products, followed by solvents, diluters, oil lubricants and liquid gas. However, Belarus imports 96.3% of its crude oil and gas condensates, 98.2% of its oil products and 100% of its natural gas from Russia. Thus, almost one third of these imports from Russia is then re-exported by Belarus to EU countries.

[3] Authors' calculations on the Eurasian Economic Union data.

Russia consumes 87% of exported Armenian alcohol, 96% of its milk and dairy exports, 94% of its fish exports, 85% of its nut exports, and 90% of its exported live trees, shrubs, bulbs and other plants.

In turn, Russia supplies Armenia with 83% of its total demand for imported cereals and with 71% of the demanded mineral fuel [National Statistical Service of the Republic of Armenia, 2014].

Data show that the Russian market is the main user of high-conversion products and value-added goods among the EEU countries. However, despite development programmes adopted by all members, the share of these products in the national exports and volumes of manufacturing is stagnating or declining.

Only Russia maintains a high level of participation in the trade flow of other EEU countries. The development of bilateral trade in goods between EEU countries (Kazakhstan/Armenia, Kazakhstan/Belarus, Belarus/Armenia) does not contribute to the development of the EEU as a whole. Urgent action is required to expand product portfolios and diversify economies. Attention must also be paid to the potential threat posed to the EEU by the changing terms of trade brought about by Kazakhstan's admission, and Belarus's possible admission, to the World Trade Organization (WTO). When Kazakhstan entered the WTO, it was required to decrease the weighted average tariff for goods to 6.5%, down from the EEU's common customs tariff of 10.4%; for agricultural products the average tariff will be 10.2% (compared to 17% under the EEU common customs tariff), while for industrial products the tariff will fall to 5.6% (compared to 8.7% under the EEU common customs tariff). Kazakhstan will enjoy exceptions to the EEU common tariff for 3,512 commodity items including automobiles, food products, wood, jewellery, wires, cables and beverages and thus will benefit from the lower tariffs on these items (National Statistical Service of the Republic of Armenia, 2014 [Andronova and Gusakov, 2014c].

The development of trade in services is another important component of the mutual trade among EEU members. The share of services in the economies of the EEU countries accounts for more than half of the region's GDP – specifically, 44.8% in Belarus, 54.2% in Kazakhstan, in 59.7% in Russia, 64% in Armenia and 61% in Kyrgyzstan.

As members of the Single Economic Space, Russia, Belarus and Kazakhstan adopted the Trade in Services and Investment Agreement on 9 December, 2010. According to this agreement, countries commit to the application of most favoured nation and national treatment principles to service providers from EEU countries. However, the agreement provided for some exceptions to this requirement and their duration was not fixed. Furthermore, some of these exceptions were discriminatory and impeded the development of the mutual trade in services.

On 1 January 2015, Annex 16 to the EEU's treaty "On trade in services, incorporation, activities and investment" came into force, establishing the basis for a common market for services.

The Treaty on the Eurasian Economic Union provides the following definition of the common market for services: it is a market for the services of a certain sector of the economy, whereby each member state provides foreign persons a number of rights:

– to supply services without additional incorporation of a legal entity;
– to supply services on the basis of permission granted in his own member state;
– to have professional qualifications recognized.

According to the treaty, members should aim to create and maintain a common market for services in the maximum number of sectors.

The creation of the common market for services was gradual. On 1 January 2015, 43 service sectors were included within the common market. In these sectors, entrepreneurs from

EurAsEC countries enjoyed the highest level of freedom to supply and purchase services; according to the terms of the treaty, they did not need to establish new entities in order to supply services and were able to mutually recognize licenses, permissions and qualifications.

However, for Russia, Belarus and Kazakhstan free trade principles apply only in 22 sectors out of 43 (services in agriculture and forest management, automobile rental and rental of equipment without operators, taxation services, consulting in management, software and data processing services, translation, etc.). Moreover, in 15 sectors, such as construction services, engineering services, warehouses services, and equipment repair and maintenance for motor vehicles, the free trade principle works only between Russia and Belarus. Until 1 January 2016, the free trade regime was applied in only six sectors (retail and wholesale services, franchising, hotel and restaurant services, etc.).

The new EEU members, Armenia and Kyrgyzstan, are now negotiating terms to join the annex on trade in services.

Thus, it is too early to evaluate the results of the new free trade regime for services. It is possible to conclude that the share of intra-regional trade in services in the EEU is significantly lower than that of the EU. In part this is because many of the key articles of trade in services among the EEU members (transportation services, construction services, journeys and financial services) were excluded from Annex 16 due to their importance to the national economies.

The liberalization of the transportation services market began at the EurAsEC level in 2001 with the creation of the Transport Policy Council under the EurAsEC Integration Committee and its four auxiliary bodies. The Concept of Establishment of the Common Transport Space of the Eurasian Economic Community was adopted in 2008. This provided for the establishment of a common market for transportation services, the creation of a common transportation system and the development of a system of logistics centres in the Eurasian Economic Community. A strategy to create and develop logistics centres was also adopted in 2008.

Together these documents formed the basis for coordinated policy in the transportation sector as envisaged by the EEU treaty. However, despite a solid legislative foundation, there have been no important achievements towards developing a common transportation area during the last 15 years, with the exception of the establishment of the United Transport and Logistics Company in 2013. Moreover, China has emerged as a strong competitor to Russia in this market, with its ambitious Silk Road project and the special economic zones with Kazakhstan and Belarus already discussed.

Liberalization of financial services is even more complicated than the liberalization of the market for transportation services. The EEU treaty (in Section XVI "Regulation of Financial Markets" and Annex 17) provides for the harmonization of the control and supervision of financial markets, the delivery of financial services within the EEU without any additional incorporation of legal entities, administrative cooperation and exchange of information between the authorized authorities of the members, mutual recognition of licences in banking and insurance industries and in the securities sector provided that these licences were issued by the authorized authorities of one of the members. EEU countries will harmonize their legislation on financial markets, decide on the regulatory powers and functions of the supranational authority for the financial market and establish this authority with a seat in Almaty by 2025.

These developments suggest that there is great potential to develop mutual trade in services within the EEU. It remains to be seen how members will make use of these opportunities.

As to investment cooperation, according to the Trade in Services and Investment Agreement adopted in 2010, one of the main challenges of a common economic area is to maintain the free flow of investment. Although the official statistics demonstrate growth in mutual direct investment, it comprises only a small portion of gross inflow. The EU accounts for 40–45%

of the total inflow of direct investment to Kazakhstan as compared to 10.2% from the United States, 9.4% from China, 5.6% from Russia, 0.7% from Belarus, and 0% from Armenia and Kyrgyzstan.

Russia's contribution to gross direct investment in Belarus is high, accounting for 52.47% in 2013. Russia's share of the gross increase of the total investment is also high at 48.6%. However, investment cooperation between Belarus and Kazakhstan is almost non-existent. The EU is the second largest investor by share.

Russia has also made significant investments in Armenia. Russia's share in the cumulative investment there is 49.44%; in FDI Russia's share is 55.79%. The share of the EU in the cumulative FDI in Armenia does not exceed 14%, while China's share is 0.09% and Kazakhstan and Belarus have made no investments at all.

Quality indicators are no less important in the analysis of the direct investment inflow than quantity indicators (Kushlin, 2010). Thus, despite the relatively low level of FDI from China compared to the EU into Kazakhstan, China's influence is strong. This is related to the fact that Chinese investment has largely been directed towards Kazakhstan's important oil industry.

It may still be too soon to draw conclusions about the economic results of the Eurasian integration project. However, a supportive legal environment has been established. Therefore, again, the present challenge is to strengthen the economic ties among the EEU members by creating and identifying common economic interests, especially across the all-important industrial and agricultural sectors. The adoption and implementation of a common agricultural policy are most important.

Strengthening the EEU and Increasing Its Economic Effectiveness

EEU members have very similar goals and challenges as confirmed by an analysis of the major official documents establishing the development goals for the EEU.

According to the EEU treaty, members continue to independently develop, structure and implement their national industrial policies while adopting a coordinated industrial policy within the framework of the EEU. However, with respect to industrial development, the programme documents do not include deadlines, stages of modernization, the proposed structure of the economy or investment sources. Thus, the documents are declarative rather than programmatic.

Moreover, the modernization and industrial policies of EEU countries continue to be driven by FDI or technology transfer by companies of non-member states. This constitutes a catch-up development model rather than a model of innovation-driven growth. The aim of the common industrial policy, as well as of the common agricultural policy, is to create an environment for the accelerated growth of innovative breakthrough industries so that EEU countries are able to enter the sixth technological paradigm. In the current global economic context, this is a matter of necessity in the pursuit of economic development, security and international status.

Therefore it is important to establish joint research centres to share the costs of expensive and unique equipment and to create joint and multinational companies with a strategic aim to join the global top-500 corporations [Andronova and Gusakov, 2014a].

Although this is a difficult task, there are examples of strategically created transnational corporations (TNCs) and large corporations that successfully internationalized industries and helped to solve many internal economic problems. Notable examples, such as the European Coal and Steel Community and Airbus, were established at the beginning of the European integration process.

It is especially important to create multinational corporations in industries with competitive advantages or high potential. Potential breakthrough sectors for the EEU include heavy engineering, aircraft and helicopter engineering, railway machinery and power engineering, the aerospace industry, ferrous and non-ferrous metal industries, the coke chemistry industry, fertilizers and pharmaceuticals. Careful examination of the industrial potential of the three countries is required in order to identify such industries.

In order to do this work, a coordinating body for the supranational regulation and planning of common industrial policy – the Department of Industry of the EEU – must be established. This will support the development, implementation and coordination of a common industrial policy and will coordinate the placement of new manufacturing facilities according to their economic effectiveness while taking into account development plans and the need to avoid structural distortions that could affect competition within the EEU. This new department will also act to identify the necessary measures to develop these companies, determine funding requirements and set the share of each participant in the case of a joint fund.

Agriculture is also a strategic resource, like oil and gas. Production in this sector is limited by climate and by the availability of land suitable for agricultural use. Competition for this strategic resource is no less intense than for energy resources.

The world market for agricultural products is one of the most complicated and controversial markets. Rules are set by TNCs. According to expert estimates, transnational companies control up to 90% of products such as wheat, corn and coffee, about 80% of the tea market, and 75% of the banana market. Just one company (Tyson Foods) controls almost one fifth of the world's broiler meat volume and four corporations (Cargill, Continental Grain, Louis Dreyfus, Bunge) control almost 90% of the global wholesale cereals trade [Andronova and Gusakov, 2014b].

International experience demonstrates that only large companies are capable of both advancing agricultural and processing technologies and engaging in agricultural purchases and sales in international markets. These large companies are necessary to the development of agriculture as an industry – the United States, Australia, New Zealand, the EU and Canada are international market leaders in food exports because of their strong agricultural TNCs.

None of EEU members has a national company that can match the scale of operations of western TNCs. However, the EEU member countries have high potential in the agricultural sphere.

For example, Russia and Kazakhstan are among the world's the top-10 grain exporters. Russia's share of the global wheat market is 12%, while in the global barley market it is 14%. Numbers for Kazakhstan are lower, but the volumes of grain manufacturing in this country are well above national demand. More than 80% of cultivated land is sown with grains and per capita grain production is twice as high as Russia's. Belarus's grain industry has less potential, but it holds the first place among the EEU countries by the average grain yield.

Directed by the Eurasian Economic Commission, EEU members implement a coordinated but not a common agricultural policy. An important task of a common agricultural policy will be the creation of large multinational agricultural holdings and large traders able to sell manufactured agricultural products with maximum benefits for the initial producers.

The results of a common industrial and agricultural policy should be estimated on a regular basis. As a performance indicator, an analysis of gross union product, which measures the development of joint manufacturing, would provide detailed information on the progress of economic integration within the EEU.

To estimate levels of manufacturing cooperation within the EEU, a suitable indicator should take into account the exchange of components, parts and resources as a measure of intra-industrial trade. On such indicator was introduced in 2011 by the WTO as the "share of parts and components in exports," but this must be the subject of deeper analysis. Currently, intermediate goods make up the largest percentage of mutual trade among EEU countries, accounting for about 70% exported goods inside the EEU, but fuel and oil lubricants make up a significant portion of this trade. Given that, it is still too early to think of meaningful industrial cooperation.

These suggested measures are aimed at strengthening and increasing the sustainability of the EEU. If the EEU implements these recommendations, it will be able to aspire not only to regional, but also to global leadership.

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