Creating a Common EAEU Financial Market: Opportunities and Limitations From the Perspective of Russia's National Interests

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Abstract

This article offers a comprehensive analysis of various aspects of the financial integration of the Eurasian Economic Union (EAEU) at its present stage of development. Opportunities and prospects, risks, and limitations were analyzed from the point of view of Russia's national interests, taking into account the country's EAEU presidency in 2018. Financial integration should be deepened; it could have a powerful systemic effect and help accomplish several interrelated goals, such as giving a new impetus to Eurasian integration and overcoming the relative stagnation caused by the exhaustion of the natural integrational effects of the EAEU's "start-up stage." At the same time, the authors assume that (in the absolute majority of cases) EAEU countries have common interests in the financial aspect of integration. A successful Eurasian project could lead to the adoption of a multilateral approach with an emphasis on concerted actions, which would make financial integration beneficial to all members of the EAEU, individually and collectively alike.

The article presents an in-depth analysis of the Eurasian Economic Commission's (EEC) regulatory documents and compares the EAEU's financial integration with that of other integration associations (such as the European Union and the Association of Southeast Asian Nations). The analysis identifies the most promising areas of financial integration in the medium term, taking into account members' obligations. The list of priority measures to step up integrational cooperation aimed at creating a single financial market is presented at the supranational (for the EAEU) and national (for Russia) levels.

Key words: Russian Federation; EEC; EAEU; integration associations; Eurasian integration; financial market; optimum currency areas; de-dollarization; financial security

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Introduction

According to the Eurasian Economic Union (EAEU) Treaty, the members are obliged to harmonize their financial markets legislation by 2025, with the subsequent creation of a supranational body to regulate them [EAEU, 2018].

Economic integration theories traditionally view a common financial market as one of the final stages of interstate cooperation, preceding full economic and political union. Deep convergence of the three main markets (banking, insurance and securities) which ensure functioning of the financial sector implies implementing a common macroeconomic policy based on concerted actions and compliance with common criteria.

The EAEU, which was created in 2015, is currently embarking on a revised, more sustainable development path, which requires deeper financial integration. In 2018, under Russia's presidency of the EAEU, systemic liberalization of the financial market took place, combined with streamlining the regulatory and legal environment and strengthening the regulatory role of the Eurasian Economic Commission (EEC).

Coordination of actions to create a common, highly secure financial market remained one of the Russian presidency's priorities. In his address to the heads of the EAEU members the president of the Russian Federation (RF) emphasized the importance of continuing the course toward convergence of the members' monetary and financial policies to establish a common financial market in the future. The head of state also paid particular attention to increasing trust in the banking system and protecting the public and the countries from actions related to money laundering and financing of terrorism [President of Russia, 2018a].

Integration of financial markets can provide a number of key advantages for all EAEU countries such as increasing the effectiveness of monetary policies, the economies' resilience to external shocks, and the financial markets' overall efficiency and competitiveness. According to expert assessments, Russia, as the largest EAEU economy, benefits from the implementation of closer integration scenarios in the three main sectors of the financial services market: banking, insurance and exchange. In general, their development will lead to increased mutual investments in the EAEU, which is fully consistent with the national economic development goals set by the president, including the goal of "increasing the accumulated mutual investments in the EAEU one and a half times" [President of Russia, 2018b]. This target is based on EAEU members' statistics and the results of summarizing studies conducted over the past two years. Economic indicators show that the EAEU is more stable and dynamic than the whole Commonwealth of Independent States (CIS) region, and in 2016–17 mutual direct investments within the Union grew twice as fast as those in the CIS [Kuznetsov, 2017]. Successful integration of the Union's financial markets will also contribute to achieving the goals of the Russian economy set in national-level strategic planning documents, that is, increasing Russian exports of financial and insurance services in the scope of the major national "International Cooperation and Export" project.

Integration processes in the EAEU are unbalanced and, due to objective economic reasons, have an obvious leader [Butorina, 2016]. Russia accounts for almost 85% of the Union's gross domestic product (GDP). Under these circumstances a "natural" integration strategy may look tempting, which would allow Russia, as the most powerful EAEU economic actor, to adjust the processes to suit itself, focusing exclusively on implementing the priority national economy goals. However, such a straightforward approach would threaten to destroy the rather fragile balance of national interests and obligations in the Union. Rather, a longer-term approach with an emphasis on multilateral actions could contribute to the success of the Eurasian project, which would provide benefits from integration, including in the financial area, to all EAEU members, individually and collectively alike.

Legal and Regulatory Architecture

The financial sector is an economic area with a high integration potential. According to the Supreme Eurasian Economic Council (SEEC) these are "spheres where integration measures and actions will contribute to implementation and/or increase of their economic potential, and/or create significant positive multiplier effects for other spheres of the member states' economies" [EEC, 2015].

The EAEU Treaty (the RF's Ministry of Economic Development played an important role in the preparation of its functional part) is aimed at deepening integration by creating common and single markets, in particular, financial markets. Article 103 of the Treaty provides that by 2025 the members will harmonize their financial market legislation. The Treaty also defines the concept of a "common financial market" (Appendix No. 17: Financial Services Protocol), based on criteria such as harmonized requirements for regulation and supervision of financial markets; mutual recognition of licenses; provision of financial services throughout the EAEU without the need to establish additional legal entities; and administrative cooperation of relevant regulatory bodies, including information sharing [EAEU, 2018a].

Importantly, the EAEU Treaty takes into account a number of significant and objective characteristics of the Eurasian integration processes, namely the fact that they unfold asynchronously and on multiple levels. Depending on the members' readiness for a specific level of economic integration, they pursue three types of policies: common policy (deep level of integration), harmonized policy (less deep), or coordinated policy (the lowest level of integration). Analysis of the legal framework and the completed work indicates that integration of the Union's financial markets is at the stage of transition from coordinated to harmonized policy.

Taking into account the difference in EAEU members' economic potentials and the specifics of national legislation, harmonization is implemented in a "soft" mode which allows financial markets to adapt to a supranational regulatory regime at different rates. Over the past three years, certain steps have been taken to put in place a unified regulatory and legal architecture. In 2016, the EEC Council approved a draft agreement on coordinated approaches to regulating foreign exchange rules and implementing liberalization measures, aimed at eliminating restrictions on foreign exchange transactions carried out by residents, harmonizing legislation on foreign exchange regulation, creating conditions for making payments and settling accounts in a smooth and simple way, and allowing for free movement of capital in the Union's common customs territory. One of the key documents ensuring progress in this area is the Concept of Creating a Common EAEU Financial Market [EAEU, 2019]. In December 2016, heads of the Union member states instructed their governments and central/national banks to develop, jointly with the EEC, a draft concept. This fundamental document defines the goals, objectives and key areas of creating a common financial market, specifying the stages of, and measures for, their implementation, the legal basis for its operations, procedures for information exchanges and administrative cooperation of financial market regulators, and the rights and responsibilities of the supranational regulatory body for the common EAEU financial market. In 2017, two years after the EAEU Treaty was signed, the parties confirmed their commitment to create a common financial market in the banking and insurance sectors and the securities segment by 2025. In October 2019, the Concept was approved by the Supreme Eurasian Economic Council.

September 2018 can be considered as the starting point of the next stage in the integration of financial markets, when heads of the national banks of EAEU members signed the Agreement on Harmonizing Financial Legislation. The document aimed at promoting progress in creating a common financial market, mutual recognition of licenses to operate in all finan-

cial services sectors, and non-discriminatory mutual access to the member countries' financial markets. The Agreement sets directions and defines procedures for harmonizing the EAEU states' legislation in the banking, insurance and securities sectors in line with international principles, standards, and best cross-boundary practices. Not only was the experience of the European Union (EU) and the Association of Southeast Asian Nations (ASEAN) taken into account when the Agreement was prepared, but also the relevant standards of leading international organizations, primarily the Organisation for Economic Co-operation and Development (OECD) and the United Nations (UN). The document provides for preparing a plan to harmonize the member states' legislation, which in effect will serve as a roadmap for converging national norms and requirements in the financial sphere. It should be noted that the signing of the Agreement creates preconditions for establishing a supranational regulatory body by 2025.

During Russia's EAEU presidency, the EEC departments jointly with national regulators and experts continued to work on a number of international agreements on creating a common financial market in the legal framework of the Union. For instance, work is under way on a draft agreement on cooperation to share credit history information that would ensure that residents of member states have access to credit products throughout the Union and reduce credit risks for banks.

The Declaration on Further Development of Integration Processes in the Eurasian Economic Union adopted in December 2018 names a common financial market as an important tool for maximizing efficiency of the EAEU single market and fully implementing its potential for businesses and consumers [EAEU, 2018b]. Summing up the results of the meeting, the Russian president and SEEC chair, Vladimir Putin, named closer coordination of monetary and financial policies among the most important integration objectives [President of Russia, 2018c].

The main EAEU regulatory and legal acts governing the financial sector, and their legal status are presented in Table 1.

Table 1. EAEU Regulatory and Legal Acts Governing Financial Markets

Legal Act	Main Provisions	Status
Concept of Creating a Common EAEU Financial Market	Sets goals, objectives and key directions for creating a common financial market, specifying the stages and steps to be taken, the legal basis for its operations, procedures for sharing information and administrative cooperation of financial market regulators, and the rights and responsibilities of the supranational body regulating the EAEU common financial market	Valid
Agreement on Harmonizing Member States' Financial Legislation	Sets the areas and procedures for harmonizing EAEU member states' legislation on the banking, insurance, and securities sectors in line with international principles and standards or best international financial market regulation practices	Valid
Agreement on Sharing Financial Information, Including Confidential One, to Facilitate Free Movement of Capital in Financial Markets	Aimed at facilitating international exchanges of confidential information. Sets information sharing procedures for financial market regulators and for use of this information to strengthen financial markets' integration.	Valid
Plan to Harmonize the EAEU Member States' Financial Legislation	A "roadmap" to harmonize the EAEU member states' financial market legislation	Valid

Legal Act	Main Provisions	Status
Agreement to Develop Coordinated Approaches to Regulating Foreign Exchange Rules and Implementing Liberalization Measures	Specifies currency operations for which EAEU countries do not apply currency restrictions and violations for which the parties to the agreement will apply administrative and criminal liability. Allows opening of accounts (make deposits) in foreign and national currencies without restrictions	Being agreed
Agreement on Admitting Brokers and Dealers of One EAEU Member State to Exchanges (Trading Sites) of Other Member States	Regulates brokers' and dealers' access to the EAEU member states' national exchanges without additional registration (licensing)	Being agreed
Agreement on Sharing Information to Prevent Legalization (Laundering) of Proceeds of Criminal Activities and Financing of Terrorism When Moving Cash and/or Other Means of Payment Across the EAEU Customs Border	Sets procedures for the member states' information sharing to prevent movement of cash across EAEU borders to finance terrorism and/or launder proceeds of criminal activities.	Being developed
Agreement to Develop a Unified Information Disclosure System on Securities Issuers and Intermediaries Operating in the Common EAEU Financial Market	Provides for creation of a platform to facilitate development of the common financial market infrastructure, including technology platforms	Being developed
Project to Create a Payment System and Facilitate Making Mutual Payments on the EAEU Territory	Creates a common payment environment, promotes mutual lending and financing in national currencies	Being developed
Agreement on Mutual Recognition of Securities and Other Financial Instruments in the EAEU Member States	Aims to facilitate the creation of a common organized securities market on EAEU territory	Being developed
Agreement on the EAEU Member States' Cooperation to Share Credit History Information	Provides for setting up a mechanism for member states' interaction which will ensure their residents' access to credit facilities and resources throughout the EAEU, to promote cross-boundary lending and more effective risk management when banks lend to borrowers from member states.	Being developed
Agreement on Conducting Audits on the EAEU Territory	Sets legal parameters for a single auditing services market in the EAEU	Being developed

De-Dollarization Prospects

Increasing the share of settlements in mutual currencies within the EAEU and de-dollarization of the EAEU economy is an important goal for Russia in the context of sanctions-related restrictions. The Russian government's updated strategic approaches view reducing dependence on the dollar not as an instrument for isolating the country but as an attempt to build a multipolar global financial market architecture. In fact, the intention is to leave the framework of the

pro-American financial system which has emerged in the last quarter of the previous century and which now limits trade and the economic sovereignty of most countries in the world.

De-dollarization is closely related to another important aspect of Russia's economic interests, that is, reducing dependence on the SWIFT interbank financial telecommunications system and on the rankings by foreign rating agencies. Also, close integration of EAEU financial markets based on national currencies strengthens the "external contour" of financial and economic security and increases control over speculative transactions in financial markets. If the situation develops favourably, the so-called "externalities' effect" emerges, increasing availability of credit and investment resources, including to small and medium businesses. The Russian president also spoke about the need for a more active involvement of small- and medium-sized businesses in integration initiatives [President of Russia, 2018a].

A certain degree of success can be noted in this area. According to the EEC, the share of settlements in dollars made within the EAEU in 2017 amounted to 18%. Moreover, some experts state (perhaps prematurely) that the objective of abandoning the dollar in mutual settlements within the EAEU has effectively been accomplished [Bimanov, 2018].

Infrastructure platforms play an important role in these processes, whose architecture is developed by the Eurasian Development Bank (EDB), an international financial institution with a 43% share of Russian capital in its investment portfolio. According to Andrei Belyaninov, chair of the bank's board, "we have conducted a thorough analysis to design a settlement and clearing system in line with our strategy. Currently the EDB is connected to the EAEU national systems. The Bank has accounts in all of the Union countries' central banks, owns a technology for clearing in national currencies, became a "market maker" in these countries, and is actively present in their exchanges. An important feature of the EDB's currency clearing system is the ability to use it for settlements in national currencies, bypassing SWIFT and without the need to convert into dollars."[1]

He adds that promoting settlements in national currencies requires setting up a Eurasian financial telecommunication system, using the EDB's potential as a so-called "regulatory sandbox" [EDB, 2018]. This concept refers to a legal environment for experimentation and modelling, where a provisional regulatory framework can be created. This makes it possible to share experience and best practices, strengthen cooperation between regulators and innovators, and reduce the risks associated with pilot projects.

The EDB plans also include developing tools for hedging currency risks, attracting liquidity in local currencies to fund project activities, contributing to increased volume and liquidity of local currency transactions on the exchanges in the Bank's member countries, and developing lending programmes for financial institutions in local currencies [EDB, n. d.].

It should be noted that individual EAEU countries are also taking active steps to overcome dollar dependence at the national level. The financial and economic departments of the Russian government are discussing incentives and mechanisms to encourage companies to use national currencies for their foreign trade operations. In early 2019, the National Bank of Belarus presented new measures to de-dollarize the economy which required changes in the civil and banking codes. At the same time, cooperation in the financial and banking sphere is strengthening. Several leading Russian banks are present in Kazakhstan. By the end of 2018, almost 70% of Russian-Kazakh foreign trade and other financial transactions were carried out in national currencies [Embassy of the Russian Federation to the Republic of Kazakhstan, 2018].

[1] See: https://np-srv.ru/stati/vystuplenie-andreya-belyaninova-predsedatelya-pravleniya-evraziyskogo-banka-razvitiya-na-xiii-egegodnoy-megdunarodnoy-konferencii-evraziyskaya-ekonomicheskaya-integraciya/

Common Currency Dilemmas

The experience of various international integration associations indicates that full monetary union is the final stage of integration, which is quite difficult to achieve. The tools and mechanisms for finding a common supranational monetary policy denominator are diverse.

The theory of optimum currency areas, developed in the early 1960s by the Canadian economist Robert Mundell [1961], is well known in economic science. It describes the benefits countries as members of integration associations receive from introducing a common currency. The generally accepted necessary prerequisites include deep economic integration; a high level of business cycles' synchronization; a high degree of financial markets integration; highly developed financial sectors; highly mobile production factors; similar inflation rates; and low volatility of actual exchange rates. At the current level of integration in the EAEU most of these indicators have not yet been achieved, and the prospect of introducing a common currency does not seem to be realistic, at the very least in the medium term. As the experience of European and Pan-Asian integration shows, a common currency makes no economic sense without a developed system of monetary and financial guarantees, adequately developed stock markets, increased mutual trade, and generally harmonized monetary policies.

Experts note that creating a currency union deprives countries of the possibility to adjust the exchange rate as a tool for alleviating negative consequences of asymmetric shocks. At the time representatives of the neo-Keynesian school criticized Mundell's theory exactly for this.

A prerequisite for creating a currency union should be having certain properties that would make it possible at the very least to receive some compensation for the loss of this tool, which in classical political economy is associated with national sovereignty. So far, this uneasy dilemma has been resolved only in the framework of European integration. However, during the deep public debt crisis of 2012–13, the European monetary system encountered serious trials, the consequences of which persist.

It must be borne in mind that EAEU members' fears regarding the creation of a currency union were caused, inter alia, by external economic reasons, namely the above-mentioned monetary architecture crisis in the eurozone. The Union countries' elites also have political concerns. As Timur Suleimenov, the Kazakh minister of national economy, said: "I believe the national currency is a symbol of our sovereignty, almost the same as the anthem, flag, and emblem. We must protect, nurture, and preserve it in every possible way. Any other quasi- or proxy-currencies and suchlike should not be allowed" [Rhythm of Eurasia, 2018]. Such rhetoric partially explains the rather categorical statements on this topic coming from the supranational level – the EEC executives [Sputnik Armenia, 2018].

Calculations show that at this stage Russia would benefit from the potential introduction of a common currency, but to a lesser extent than other countries [Vinokurov, Demidenko, Korshunov, 2017]. Therefore, at the current phase of integration it would make more sense to pursue a strategy aimed at obtaining various benefits from coordinating monetary policies. For instance, reducing business costs would produce a positive effect on prosperity and an overall systemic effect increasing the EAEU's stability.

Choosing the most suitable of them, taking into account the international economic situation and the interests of partners in Eurasian integration, is Russia's main objective for the near future. At the same time the Russian rouble has the highest potential among EAEU currencies to become the common regional unit of account, an object of investments, and used for accumulating gold and foreign exchange reserves, compared with the Belarusian rouble and the Kazakh tenge. However, the rouble's prospects to become the common currency or unit of account for the Union countries remain limited. This is primarily due to the volatility of

the rouble exchange rate, the international oil prices, and the economic growth in the issuing country [Zharikov, 2018].

Important Specifics: Differentiation of Financial Market Segments

It is important to consider the current situation in the sectors of EAEU countries' financial markets and highlight some of their specific features. First, the high differentiation of development levels and growth rates of various financial market segments should be noted (Tables 1, 2 and 3). The gap is growing between Kazakhstan and Russia on the one hand, and the remaining countries on the other.

There is a significant differentiation between development levels of EAEU economies and their financial market segments (banking, insurance and stocks), such as the differences in the banking sector as reflected in Table 1 which shows the dynamics of lending to individuals and legal entities. In EAEU countries the highest growth of lending to individuals is noted in Armenia and Russia, while in Kazakhstan, Belarus and Kyrgyzstan it is less significant. The amount of loans to legal entities grows at the highest rates in Belarus, Russia and Armenia, and less quickly in Kyrgyzstan and Kazakhstan (Table 2).

Table 2. Growth of Loans to Individuals and Legal Entities in 2016–18, $ Millions and Share of GDP, %

Country	2016		2017		2018	
	$ Millions	% of GDP	$ Millions	% of GDP	$ Millions	% of GDP
Loans to Individuals						
Armenia	2,120.9	20.1	2,344.2	20.3	2,973.7	23.9
Belarus	1,748.4	3.7	3,258.6	6	4,223.3	7.1
Kazakhstan	6,489	4.7	9,987.4	6.1	12,663.2	7.4
Kyrgyzstan	168.9	2.5	208.8	2.8	263.3	3.3
Russia	107,784.6	8.4	158,291.9	10	199,164.2	12
Loans to Legal Entities						
Armenia	3,416.7	32.4	3,774	32.7	3,996.6	32.2
Belarus	22,551.9	47.5	29,478.5	53.9	33,966.6	57
Kazakhstan	22,257.8	16.2	23,199.8	14.2	26,789.9	15.7
Kyrgyzstan	1,203.4	17.7	1,330.1	17.6	1,388.6	17.2
Russia	531,870.5	41.4	659,199.5	41.8	719,377.7	43.3

Source: [EEC, 2019a].

Significant differentiation also remains in the insurance market. This is revealed by the following indicators: number of insurance organizations, amount of insurance premiums and amount of insurance payments (Table 3). By the beginning of 2019, a total of 268 insurance organizations operated in the EAEU, 199 of them in Russia. Indeed, the Russian insurance market significantly exceeds those of the other EAEU countries, individually and combined. The amount of insurance premiums paid in Russia was 13 times higher than the combined amount for the rest of the EAEU, while the amount of insurance payments was 15 times higher. In 2019,

in Armenia and Belarus the amount of insurance payments made by insurers accounted for about a half of the amount of insurance premiums, while in Russia it was about a third, and in Kazakhstan and Kyrgyzstan about 18% and 8%, respectively. To compare, in developed countries this indicator's value is approximately 70–80%.

Table 3. Number of Insurance Organizations, Amount of Insurance Premiums and Payments

Country	Number of Insurance Organizations			Insurance Premiums ($ Millions)			Insurance Payments ($ Millions)		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Armenia	7	7	7	69	73	86	30	37	47
Belarus	23	22	16	494	554	590	269	277	304
Kazakhstan	32	32	29	944	1,018	1,116	242	224	205
Kyrgyzstan	19	19	17	10	10	5[1]	1	1	0,4[1]
Russia	256	226	199	17,671	21,923	23,656	7,561	8,738	8,354

[1] As of 1 July 2017.

Source: [EEC, 2019a].

Differences between EAEU countries are also evident in the stock market: there is significant variation in the key indicator values such as liquidity, issuers, attraction of new capital, and so on. The highest liquidity (trading volume) in the stock market was noted in Russia and Kazakhstan with 267.9% and 51.3% of GDP, respectively. In recent years, with the adoption of amendments to protect investors under British law, a significant growth of the Kazakh stock market was noted, from 91.3% of GDP in 2016 to 267.9% in 2018 – much higher than in the rest of the EAEU. Even Russia, whose volume of exchange trading is almost twice as much as the Kazakh value in terms of the share of GDP, shows values five times lower (the capitalization of the Russian market is 45% of GDP).

Accordingly, a widening gap between these countries can be noted. This imbalance can be levelled by creating a common stock market infrastructure for EAEU states. Their regulatory documents state that a common financial market is planned by 2025 with a supranational regulatory body established in Almaty [EAEU, 2018c, Art. 103, Para. 2]. Such a significant aspect of financial integration as the harmonization of national financial market legislation (in line with British law, as in Kazakhstan) makes it possible to avoid numerous obstacles that arise in the process of capital movements and the creation of common financial markets. This would open access to each other's markets without the need to obtain national licenses, create suitable conditions for circulation of financial instruments, eliminate currency restrictions (to overcome the shortage of financial resources in the EAEU countries by promoting capital turnover between them), and deal with many other problems. There are successful examples, but they are rare. For instance, the Freedom Finance brokerage company actively operates in EAEU markets and allows individuals in these countries to take part in initial public offerings (IPOs) in the U.S. market.

How can this situation be improved? Creating a single exchange environment through unification of national stock exchanges does not seem to make sense, but creating a unified electronic trading system and a unified marketplace (as a first step) with the ability to remotely access a variety of financial instruments (such as deposits, bonds and shares) for individuals and

attract capital from companies (peer-to-peer, person-to-business, crowdfunding platforms, underwriting of bonds and shares) seems to be very realistic. Taking steps to improve the quantitative and qualitative development parameters of the financial sector by increasing the number of participants in stock exchange transactions and the volume of financial instruments' circulation is important. Also, issuer companies' accounting and audit systems should be standardized to ensure availability and transparency of these innovative regulation and control systems.

Table 4. Growth of Stock Exchange Trading in 2016–18

Country	2016		2017		2018	
	$ Millions	% of GDP	$ Millions	% of GDP	$ Millions	% of GDP
Armenia	114	1.1	165	1.4	169	1.8
Belarus	4,814	10.1	4,103	7.5	6,372	12.9
Kazakhstan	125,369	91.3	236,840	145.3	362,128	267.9
Kyrgyzstan	143	2.1	67	0.9	58	0.9
Russia	357,164	27.7	607,092	38.5	650,300	51.3

Sources: [Blokhina, 2019; EAEU, 2019b].

Risks and Limitations

Harmonization of national legislation on regulating financial markets is affected by a multitude of factors, both endogenous and exogenous. The former includes the degree of transparency national legislation, the volatility of national financial markets, the degree of dollarization of the economy, and highly diverse investment and financial opportunities. The level of innovation in financial policy becomes particularly important, including the availability of personnel and the technical capability required to apply financial technologies. Internal economic instability can bring the emerging growth of mutual investments to a halt. Researchers emphasize the EAEU countries' inherent desire to increase their domestic investment potential, mainly through national savings. However, the domestic long-term lending system does not promote development of entrepreneurship and perpetuates the inertial development trend established in the mid-1990s [Perskaya, Eskindarov, 2016, pp. 277–8].

Among the external factors, worthy of note are level of integration with foreign partners (specific countries, organizations, financial institutions), financial and commodity market growth rates (particularly important for Russia and Kazakhstan), steadily declining growth of developed economies (the OECD countries and the leading Asia-Pacific states), potential transformation of global economic influence centres, and the uncertain direction of the global economy's overall development. Also, persisting regional geopolitical tensions (the Ukrainian crisis) remain external strategic risk factors.

Along with the risks of a strategic nature, there are certain tactical-level issues and "grey areas" hindering integration in the financial sector. One of the remaining barriers is the limited access of the citizens of the EAEU to financial and credit facilities in the country of temporary residence. To solve these problems, the EEC is working on granting EAEU workers who have long-term (over a year) employment contracts the right to temporary or permanent residence in the country of employment. The work on this issue is under way at the level of relevant departments and in the EEC Advisory Committee on Migration Policy.

A number of appreciable restrictions remain in the banking sector (for more on this topic, see E.B. Stardubtseva and O.M. Markova [2017]). The principle of recognizing the national banking licenses of EAEU states throughout the Union has not been adopted. This hinders full-fledged banking operations, in particular expanding the range of services. Also, EAEU countries still have banking licensing systems that are not valid in the supranational legal environment, while the requirements for the minimum authorized capital significantly differ. There is no system (either statistical or legal) for early detection of problem banks and toxic assets long before a crisis manifests itself in the relevant financial parameters and negative financial market dynamics. This is closely related to the general level of the financial system's security, which was one of the priorities of Russia's EAEU presidency. The level of current risks also depends on the possibilities for, and limits of, adapting credit institutions to new requirements of regulators and to external challenges. Experts also emphasize the difference in approaches to defining credit institution types. In particular, legislation varies across countries regarding the concepts of "banks," "credit organizations" (Russia), and "second-tier banks" (Kazakhstan). In Armenia, Belarus and Kazakhstan banks are not classified as credit organizations. In Armenia, credit organizations are "non-bank financial organizations," while Belarus uses the concept of "non-bank financial and credit organizations," and Kazakhstan does not use the concept of "credit organization" at all. In Russia banks are credit organizations, while in Kyrgyzstan they are "financial and credit institutions" [Ibid.].

Risks and restrictions associated with EAEU financial integration are interrelated. An assessment of the prospects and limitations of the de-dollarization process provides a good indication. A recent study by the Eurasian Development Bank is of interest. It identified, through opinion polls and expert interviews, the main risk factors of using national EAEU currencies for mutual settlements. In particular, respondents in five countries of the Union named the following five main risks: high currency risks (58% of the respondents), current business practices (51%), lack of economic incentives (44.5%), countries' fear of losing currency sovereignty (42%), and the western countries' anti-Russian sanctions (39.5%). Experts also name the following factors that hinder the use of national currencies for international settlements: low capacity of financial markets; low liquidity, large spreads (difference in prices for various assets in the exchange); lack of segments transaction costs that could be reduced; market volatility; domination of the Russian financial market in the EAEU; and structural imbalances in the financial sector [Danilov et al., 2018].

A powerful geo-economic trend in recent years deserves a special note: the growth of Chinese exports into EAEU countries. To maintain its positions in Eurasia, Russia needs deeper integration at the level of mutual trade relations and use of the rouble for mutual settlements within the region (which can contribute to the currency's internationalization on a larger scale and improve its international standing) [Zharikov, 2018, p. 62]. If this strategy fails, the EAEU may face "yuanization:" the threat of the de facto dominance of the Chinese currency in the region. An additional risk factor is that China is actively establishing bilateral credit lines with EAEU members, creating a monetary and financial framework for the One Belt, One Road global economic initiative. Swap agreements[2] are in place between the People's Bank of China and EAEU central banks (except Armenia). Therefore, to strengthen the rouble's position in the EAEU, similar rouble-based agreements must be concluded between the Union members' central banks, combined with improving the supranational macroeconomic policy on targeting inflation. As the Russian researcher M.V. Zharikov rightly notes, further depreciation of

[2] These are international agreements typically covering national banks' operations. They are implemented on the basis of a system of bilateral government guarantees for provision of the required foreign exchange funds (with an obligation to pay back) to carry out interventions in order to adjust national currencies' exchange rates.

the rouble will accelerate the penetration of the Chinese yuan into the markets of the EAEU member states, while the absence of diversified domestic production in Russia will strengthen China's (and therefore the yuan's) positions in these markets. According to Zharikov, in the current situation Russia should urgently abandon its import substitution strategy and shift the focus to exports [Zharikov, 2018, p. 70].

It can be concluded that trying to balance supranational regulation and national interests in the area of banking integration turns out to be a rather difficult task. On the one hand, analysis of problems and the actual experience of reconciling various interests show that reaching a compromise without setting up a supranational financial mega regulator body would be impossible. On the other hand, such a structure cannot be created without closely coordinating financial policies. This is one reason why the active role of the EEC, its working groups, and the Advisory Council on Financial Markets in integrating the financial sector on a number of issues does not have the support of national authorities. The optimal mechanism for making and implementing relevant decisions has not yet been designed.

Prospects and Effects of Integration

The above-mentioned risks and limitations associated with creating a supranational financial environment should not be overestimated. Further convergence in this area is almost inevitable, but its rate and intensity will depend on the commitment of political elites and major institutional players. Plus, the objective factor of Russian leadership can smooth over the most acute phases in the conflicts of interest, as has repeatedly happened earlier in most integration areas. To borrow a phrase from Andrew Moravcsik, professor at Princeton University, successful integration is always "a sequence of rational choices made by national leaders." This statement, which was meant to describe European integration, is fully applicable to Eurasian integration processes as well.

Free movement of capital in a single economic environment has a multiplier effect on the development of three other integration freedoms (people, goods and services). Deepening financial integration can have a powerful systemic effect and help achieve several interrelated goals: provide a new impetus to Eurasian integration, overcome the relative stagnation caused by the exhaustion of the natural integration effects of the EAEU's "start-up stage" (2015–17), improve the quality of the common internal market, promote domestic economic growth (inter alia due to increased mutual investments), and strengthen the Union's role in the global economy.

Also, further integration in this area would allow EAEU countries to reduce some of the external risks and dependence on the global financial situation, which is subject to negative distortions due to speculative and unilateral actions. An important factor of maintaining economic growth amid the anti-Russian sanctions is enhanced effects of investments in a common market, that is, lower costs of borrowing. The latter is particularly important for the Union's smaller economies and for the development of small- and medium-sized businesses generally.

The expected effects of harmonizing the legislation and practices in the financial sector include emergence of a competitive and transparent monetary environment, leading to increased overall financial security. It should be emphasized that the prospect of creating a common financial market will contribute to the fight against illegal export of capital and de-offshorization of all of the "integration five" economies.

Another positive effect can be created by a closer integration of the exchange environment. Involving a large number of participants in national currency trading at the Moscow Exchange (one of the major segments of the financial market) and promoting trading in currency pairs

will make the market more dynamic and promote demand. According to some researchers, a common foreign exchange market covering all EAEU countries and, more broadly, the CIS could have a macro regional economic stabilization effect on the adjacent integration environments [Shuvalov et al., 2017, pp. 270–2].

Efforts to create a common financial market will be effective only if a single marketplace is put in place, along with a step-by-step creation of a single electronic exchange system covering all EAEU countries. As a result, the city of Almaty will be able to increase its trade turnover as a regional financial centre and become more attractive to foreign investors, especially from Asian. Unlike national financial centres, a regional centre should be oriented toward foreign players and be more open, so over time Almaty can merge the national stock exchanges. Foreign capital will play the main role in the development of such a centre, so special attention should be paid to designing more advanced international regulation systems, especially in areas such as monetary policy, and creating favourable conditions for operations and development of the financial centre's participants.

Finally, successful integration of financial markets will improve the position of Russia and its Eurasian integration partners in a number of international rankings important for external investors (such as the Global Competitiveness Report, Doing Business, Economic Freedom of the World and the Index of Economic Freedom) that measure the ease of doing business, investment attractiveness, predictability of economic environment and, ultimately, countries' financial well-being.

Taken together, the above factors contribute to increased predictability and stability of the EAEU's supranational economic environment and strengthen its international competitiveness. The success of the integration association as a global player will be shared by all five countries, bringing economic and political dividends to its participants.

Recommendations for the EAEU and Russia

This analysis makes it possible to identify the following recommendations for the EAEU and the Russian Federation on strengthening integration cooperation to create a common financial market. As has been already noted, in the vast majority of cases their interests objectively coincide. Nevertheless, a list of priority measures can be presented at the supranational (for the EAEU) and national (for Russia) levels.

For the EAEU, it would be advisable to approve two key macroeconomic policy measures. All members should adopt inflation targeting practices in order to achieve similar inflation targets (no more than 4%). The gradual convergence of national economies noted in recent years speaks in favour of such a programme. Regarding harmonization of monetary policies, all EAEU states are recommended to make the transition to a floating exchange rate regime. Also, the Union's central (national) banks should coordinate the dynamics of operations in the foreign exchange market to prevent countries from pursuing separate financial policies as happened in 2014–15.

Regarding institutional innovations, there is a need to establish a supranational EAEU financial market regulator in Almaty, with the power not only to supervise compliance with relevant national legislation but also to issue and revoke licenses for operating in financial services markets. Making sure that this process remains transparent and objective is fundamentally important.

The issue of putting in place a unified regional payment system for the EAEU requires an in-depth study (concept - roadmap - agreement). This could also lead to reduced banking commissions and adoption of the "national treatment" regime for transferring funds between Union countries.

At the supranational level, it is important to start developing a common anti-offshore strategy to prevent the flight of financial capital to low-tax jurisdictions. Russia and Kazakhstan provide good examples in this area, actively participating in the OECD-developed and Group of 20 (G20)-endorsed BEPS plan (Base Erosion and Profit Shifting) aimed at combating tax base erosion. Russia and Kazakhstan can become "conductors" of best OECD anti-offshore practices into the Union's supranational legal environment. In addition, Russia, as a G20 member (where monitoring offshore activities of financial capital is seen as an important objective), could represent EAEU interests at the highest levels of global regulation. These proposals closely match the priorities of Russia's approaches to the financial integration of the Union – stepping up the fight against financial pyramids, money laundering, financing extremism and strengthening the financial market's overall security. However, effective cooperation in this area requires adopting a common definition of unfair financial practices, since certain discrepancies remain [Viperson, 2017].

The persistently unfavourable external situation, and the aggravation of confrontation increases the urgency of setting up a Eurasian ranking agency to provide impartial (including politically unmotivated) assessments of the advances and risks of Eurasian economic integration.

Continuing the expert-based feasibility study of introducing a monetary accounting unit for regional settlements at the level of the five EAEU countries (the so-called "Eurasian ECU"), similar to the European Economic Community,[3] seems to be a promising area. In this regard, in economic integration theories the concept of "monetary union" remains controversial and is interpreted in different ways. Researchers of post-Soviet integration processes recently have been paying attention to "soft formats" of currency interaction. In order to improve the conditions for integration of financial markets, analyzing the possibility of introducing a regional currency unit for mutual settlements (the Eurasian ECU), as the European Economic Community did in 1979–98, seems to be a worthy objective. The EAEU accounting unit, partially backed by national gold and foreign exchange reserves, can be an effective means of economic stabilization, contribute to development of cross-border settlement systems, and provide clear information about the relative competitiveness of the Union's exports. At the same time, the threats to the member countries' economic sovereignty will be significantly reduced, since the Eurasian ECU can be used in parallel with national currencies in a non-competitive mode. Methodologically, when the project is designed not only the ECU experience should be considered but also the use of the "convertible rouble" in the Council for Mutual Economic Assistance (CMEA) in 1964–90, and the "clearing rouble" used in settlements between the USSR and Finland in the 1970s. Also, the precedent of introducing the Asian currency unit (ACU) by the ASEAN+3 countries (the ASEAN members, Japan, Korea, and China) should be thoroughly considered in comparative studies of integration associations. The ACU is a common currency basket calculated as a weighted average of the exchange rates of thirteen Asian currencies against the dollar and the euro. According to the project authors (experts at the Asian Development Bank and the Japanese Hitotsubashi University), it can be used not only as an accounting unit but also in regional trade and financial transactions.

The expert assessment of the feasibility of setting up the Eurasian System of Central Banks (ESCB) instead of a single supranational regulator, which should be created by 2025 according to the EAEU Treaty, is worthy of consideration. It might comprise six financial institutions: five national central banks and the Eurasian Central Bank. Such an approach, previously applied in the European Economic Community, could reduce disagreements in the EAEU which are likely to arise at the decisive stage of financial integration in the mid-2020s. When this project's

[3] This idea was originally proposed by the EDB analysts. For more on this topic see M. Demidenko et al. [2017].

feasibility is evaluated, not only the European, but also Asian experience should be taken into account, in particular the well-known Chiang Mai Initiative (CMI) in the scope of which ASEAN countries agreed to exchange information on short-term capital movements to enable early detection of crisis symptoms. In 2007, this system became multilateral. The Russian researcher A. Baikov points out that it provided opportunities for pooling funds allocated by each country in the framework of 16 bilateral agreements signed in the ASEAN+3 format into a single foundation, from which countries could borrow currency in the event of destabilization of financial markets. In practice, it looked like the prototype of the Asian monetary fund proposed by Japan in 1998. The CMI's ultimate goal was to create a multilateral monetary and financial coordination and regulation system based on a central reserve fund [Baykov, 2012, p. 139]. Initiatives of this kind are especially relevant in the context of the previously mentioned EAEU banking security issue and the need to develop a "toxic assets" insurance system for financial institutions.

Developing digital economy-related initiatives may constitute a separate area of work, in particular distributed ledger technologies (blockchain). Their relevance is rapidly growing, along with investors' interest. Today experts are increasingly focusing on blockchain's potential benefits, which range from mitigating capital management risks to effectively combating money laundering, in particular illegally moving funds to low-tax jurisdictions. It is fundamentally important to understand that blockchain can be potentially integrated with promising technologies expected to emerge in the near future, collectively referred to by experts as Industry 4.0. In particular, they include proliferation of new business models based on digital platform technologies, crowdfunding, sharing economy, computer modelling, the Internet of Things, and biomedical technologies. Expert analysis of the prospects for application blockchain and "smart contracts" in the context of financial integration also must be stepped up. Regarding labour migrants' money transfers to their home countries, developing payment systems (self-supporting networks for depositing and withdrawing funds) that can operate without integrating with banks seems to have good prospects. In 2018 the EEC prepared and presented a glossary of blockchain economy terms (mainly based on the Belarusian experience and the National Decree No. 8 "On Digital Economy Development") and outlined the approaches to coordinating Union countries' relevant policies. However, the rate of cooperation in this area, especially in the external contour, is not yet very high. Cooperation of the EEC experts with international organizations, primarily the OECD which develops advanced regulations in this area, is in order. The prospects for using blockchain to share tax information and access banking services, especially in the field of cashless payments (clearing) and currency regulation in general, should be assessed as soon as possible.

As for the prospects of creating a supranational cryptocurrency market, the contours of a supranational regulation system aimed at optimizing the benefits/risks balance should be outlined straight away. Obviously, in the event that the national regulators relax their requirements, the market will grow explosively. This will lead to increased cross-border crypto asset turnover and significantly complicate assessment of financial interdependence factors, which may have implications for the Union's financial stability. To reduce the risks and eliminate side effects in this financial integration segment, the EEC needs to cooperate with international organizations that have developed best regulatory practices in this area: the IMF, the World Bank, the OECD, and the G20 Financial Stability Council.

The EEC's information policy requires improvement: it would undoubtedly benefit from setting up an internet portal affiliated with its official website to allow legal entities and individuals in the EAEU to obtain easily comprehensible information about the conditions, specific features and opportunities for working in the financial markets of the five countries.

For Russia, it is important to continue the course toward reducing dollarization of the national economy and to take further steps to promote mutual settlements in EAEU national

currencies. Given the growing importance of the security factor, control over illegal financial transactions should be tightened by adopting relevant legislation at the EAEU level and expanding the powers of the Commission. Also, there is a need to step up cooperation with CIS and EAEU financial institutions such as the Interstate Bank, the Economic Development Board, and the Eurasian Fund for Stabilization and Development. Creating a single financial marketplace (initially possibly only for the Russian Federation, with the other EAEU countries joining it subsequently) also seems to be important.

Regarding application of blockchain technologies, Russia should take into account the successful experience of Belarus, which is currently the competency centre in this area. Russia's efforts should be increased in two spheres: developing a Masterchain blockchain platform (in the scope of this project the Russian Central Bank has joined forces with other EAEU banks), and improving the legislation: completing the development and passing of the draft law "On Digital Financial Assets" and not limiting Russian companies' access to the global crypto-capital market in the meantime [Kommersant, 2018]. It is also important to assess the existing risks and use blockchain technologies in the most secure formats to increase the Russian public's trust in the banking system as a whole.

Also important is to assess the opportunities to cancel/reduce commissions for money transfers between EAEU states, an initiative that should come from Russia. Though at first glance such a proposal seems to be of an image-improvement nature and would result in certain losses for the Russian budget, it can provide a powerful integration impetus at the final stage of creating the Union-wide labour market.

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