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Can the EAEU Deliver External Integration to Business?

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Abstract:

Purpose: The research aims to analyze the EAEU's abilities to develop business connections as part of external-integration relations. It is to check whether or not free trade agreements and economic cooperation agreements translate into business and economic effects. As the EAEU has its ambition to become a bridge connecting Asia with Europe, the agreements concluded with third countries seem to be part of its strategy to achieve this goal. Due to the above, the research attempts to answer the question about key advantages enabling the creation of such a bridge. It takes into account a vantage the EAEU countries have resulting from their geographical location as well as evaluates skills and possibilities of developing logistics corridors in transcontinental relations, creating appropriate transport infrastructure, logistics centers and comprehensive development of logistics competences.

Design/Methodology/Approach: The research was carried out with a multi-criteria method using critical literature analysis, logical construct method as well as statistical research.

Findings: The research identifies and assesses main business and logistics areas of the EAEU's impact on external-integration in Eurasia.

Practical Implications: The areas studied in the article may constitute significant comparative advantages of the EAEU and affect business relations in Eurasia.

Originality/Value: The research concerns a new dimension of external integration of the EAEU. The researched agreements as well as their business and logistic effects can have significant consequences for the whole of Eurasia.

Keywords: Eurasian Economic Union, the EAEU, logistics corridors, external integration.

JEL codes: F02, F14, F21, F23, L91, R42.

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1. Introduction

The research was aimed at analyzing the possibilities that the EAEU has had in supporting and developing business connections of its member-states within the framework of external-integration relations. This sought to check whether or not the concluded agreements translate into business and economic effects.

The Eurasian Economic Union began its operations on January 1, 2015. Currently, it has integrated five countries: Armenia, Belarus, Kazakhstan, Kyrgyzstan and the Russian Federation. Ultimately, it is to bring its member-states to the stage of an Economic Union (*Dogovor o Jevrazijskom ekonomicheskom sojuzie 2014*, Vinokurov, 2018). The EAEU's ability and competence to create external relations distinguishes it from other integration groups in the post-Soviet area. The integration concept of the EAEU itself does not only concern internal aspects, but can take the form of an external strategy (Czerewacz-Filipowicz, 2016; Czerewacz-Filipowicz and Konopelko, 2017). One could venture to say that an international strategy for the member states has been built into the EAEU concept. The EAEU aims to help its member states in their economic development by strengthening business relations with countries within the grouping as well as with third countries.

Business relations with third countries can be dynamized due to trade, investments, capital and production relations. In the case of the EAEU, a significant role of the carrier of business connections may be attributed to the transcontinental logistic corridors running through the territory of the grouping and logistic centers located on their route. For this reason, to assess the possibilities of the EAEU in developing business connections with third countries the research focused on analyzing trade links between the EAEU countries and selected third countries, and logistic conditions expressed in LPI (Logistics Performance Index). The EAEU was established merely five years ago, the free trade agreements and cooperation agreements it has signed are even shorter. Therefore, at this stage of developing mutual business contacts, it is difficult to diagnose the effects of signed contracts as far as the level of investment, capital or production cooperation are concerned. The research was therefore based on the assessment of the EAEU's trade relations with third countries and the EAEU's logistics conditioning.

The research was divided into three areas. The trade effects that the EAEU countries have achieved in connection with the conclusion of free trade agreements and cooperation agreements by the Eurasian Economic Union were examined first. The second factor considered in the research were the transport corridors developed by the EAEU and the ability to improve the Logistics Performance Index (LPI). This aspect of the research was taken into account due to the fact that the EAEU is to become a bridge connecting Asia with Europe. Therefore, attempts were made to identify and assess the advantages of the EAEU countries resulting from their geographical location and their skills and possibilities of developing logistic corridors in transcontinental relations. This aspect of cooperation requires the

creation of appropriate transport infrastructure, logistics centers and comprehensive development of logistics competences, and it was also assessed in the research process.

The time span the research covers is 2011-2018. Therefore, it was a moment of taking first steps activating the mechanisms of the EAEU impact; particularly noteworthy is the fact that the customs union began its operation. Individual trade and logistic indicators as well as bilateral trade relations were examined separately for each of the EAEU countries: Russia, Kazakhstan, Belarus, Armenia and Kyrgyzstan. Such a procedure was mainly driven by huge disparities in size and economic potential of the Eurasian Economic Union countries. This made it possible to investigate whether or not similar phenomena occur in each member state of the EAEU and whether their scope is similar.

This and no other choice of directions for external-integration was driven by a degree of advancement of individual agreements. It includes the most advanced free trade agreements and economic cooperation agreements signed by the EAEU. The free trade agreements that have been researched concern the following countries: Vietnam (on 29 May 2015), Iran (on 17 May 2018), Singapore (on 1 October 2019) and a non-preferential Agreement on Economic and Trade cooperation with China signed on 17 May 2018. In addition, the authors take into account those countries which are different in size, economic structure and level of economic development, and many other factors. As a result, it was possible to assess how universal the EAEU impact channels are on external-integration relations.

2. Literature Review

When studying regionalism, one can identify elements that can both combine and divide the modern global economy (Bhagwati and Panagariya, 1996). Certainly, however, individual integration initiatives strongly interact with each other, determine development directions, and often overlap with each other. Not all integration initiatives end in success. When researching the weaknesses of regionalism, it has been pointed out that developing countries might have a problem with the integrity of their own territory, not to mention international integration (Myrdal, 1969). Apart from that, the addressees of international economic integration are in the first place not developing countries, but industrial ones.

An important element is a degree of integration of countries into the world economy. If it is slight, then tightening integration cooperation will bring about further economic backwardness rather than development (Kreinin and Plummer, 2003). International economic integration of economically backward countries may lead to the consolidation of their economic problems, which is why an important factor is openness to the outside - all the more so as liberalization and international competition affect technical progress, which, apart from labor, capital and access to foreign resources, have been considered to be one of the most important driving

factors of growth in the economy. As for the post-Soviet states, integration initiatives are sometimes referred to as ‘holding-together’ regionalism to emphasize that agreements concluded in this area are often aimed at maintaining and using many economic links from the USSR period, and not generating new quality (Libman and Vinokurov, 2012). In addition, regionalism, especially in the form of customs unions, may lead to negative trade shift effects not only affecting individual entities but generally diminishing the welfare of the state (Czerewacz-Filipowicz, 2016; Konopelko, 2018; Suranovic 1998; Viner 1950). In the case of the EAEU, the negative effects of the customs union manifested as the sum of various factors as the devaluation of the rouble, a decrease in energy prices, and an embargo on relations between the EU and Russia (Khitakhunov *et al.*, 2016).

Regionalism and its effects in the post-Soviet area since its first manifestations, in the form of the Commonwealth of Independent States, have raised many doubts about the goals and effects of this integration. Trenin (2002; 2011) regards all manifestations of regional integration in the post-Soviet area as political concepts without a future. In turn, Khitakhunov, Mukhamediyev and Pomfret (2016) point out that even if Russia perceives the Eurasian Economic Union as a symbol of its role and dominance in the region, the EAEU itself is an integration project open to the outside, due to the participation of most member states in the WTO. The issue of the possibilities offered by the EAEU in formulating the external relations of the entire grouping is also raised in the research presented by Blockmans, Konstanyan and Vorobiov (2012), who note that the Eurasian Economic Commission has obtained a mandate for international negotiations somewhat above the heads of the Member States.

Tsygankov (2016, p. 65), in the chapter *Uses of Eurasia the Kremlin, the Eurasian Union, and the Izborsky Club*, reviewed the research and forecasts for the Eurasian Economic Union and indicates that many “*global-thinking*” researchers perceive the EAEU as “the bridge connecting Europe and Asia” and an initiative that can produce both “*regional and international*” effects. The author quotes a number of opinions that the success of the EAEU will depend on whether Russia will manage to maintain multi-vector relations with all important European and Asian countries (Tsygankov, 2016).

Vinokurov (2018) also presents the view that after years of “*integration false starts*” in the 1990s-2000s, the EAEU is a long-awaited success and an instrument enabling the shaping of international relations. Kolomeytseva and Maksakova (2019), in turn, add that the EAEU adapts the void between other leading integration groups, such as “*the EU, NAFTA [and] MERCOSUR, for which cooperation in the energy sector is one of the main directions of integration strategies*”. Since the origins of the EAEU took place during a period of tense political relations with Western countries, the verification of the possibility of the new organization’s impact had to come in relations with individual Asian countries and in confrontation with the most powerful contemporary international initiative, the Belt and Road Initiative. The

BRI is a win-win concept offering participating countries fruitful development cooperation thanks to the Chinese patient capital located in the BRI countries (Lin and Wang, 2017; Ejdys, 2017).

The EAEU possesses instruments to increase the attractiveness of its member states within the BRI. These include the lack of customs barriers inside the grouping, significant facilitations in the transit of goods between China and the EU (Czerewacz-Filipowicz, 2019). The question remains about the increased business attractiveness of the EAEU countries in relations with third countries.

3. Institutional Framework for the EAEU Business Extra-Regional Integration

A basic legal document of the EAEU, the Treaty on the Eurasian Economic Union (TEAEU) (United Nations [UN], 2014), outlines the general framework for the EAEU international cooperation with other countries and international organizations on the basis of mutual benefits and equality. The Treaty on the Eurasian Economic Union in Section “Transport” clearly provides a creation of a common transport space to enable the integration of national transport systems into the global transport system and efficient use of transit capacities of the EAEU member states. Such a transport policy is implemented by the establishment and development of Eurasian transport corridors and transport infrastructure including logistics centers (Art. 86 TEAEU).

The Eurasian Economic Commission’s (EEC) Decision of 2015 on “*The main directions of the EAEU’s economic development until 2030*” confirms a strategic transit potential of the EAEU countries and its role in their economic development and the integration of the organization with the global transport system (Eurasian Economic Commission, 2015a). A decision of the Supreme Eurasian Economic “*On the Main Directions and Stages of the Implementation of the Coordinated (Agreed) Transport Policy of the EAEU Member States*”, adopted in 2016, proposed under the development of Eurasian international transport corridors and integration of the EAEU countries’ transport systems into global transport system, the establishment and development of common transport and infrastructure projects with international transport initiatives, such as the Silk Road Economic Belt (Eurasian Economic Commission, 2016).

A high-speed multimodal transport route “*Eurasian Transcontinental Corridor*” would be a part of the revived Silk Road between Western Europe and Western China. A road/rail corridor would supposed to be managed by the United Transport and Logistics Company (Eurasian Economic Commission, 2015b).

The Eurasian Economic Commission, in its 2018 Declaration on further development of integration processes within the Eurasian Economic Union (Eurasian Economic Union [EAEU], 2018a), defines “*new cooperation formats*” as

the basis for economic relations with the external partners. Such instruments of the EAEU external strategy as granting Observer State status at the EAEU, carrying out inter-regional cooperation with ASEAN, the EU, MERCOSUR, the OECD, the SCO and interacting with the UN and the WTO, are to include the organization in the global economy, diversify export partners, attract foreign investors, develop transport and logistics infrastructure and expand the EAEU's presence in international institutions (Eurasian Economic Union, 2018a).

The EAEU signed free trade agreements with Vietnam on May 29, 2015 (Eurasian Economic Union, 2015), Iran on May 17, 2018 (Eurasian Economic Union, 2018b), Singapore on October 1, 2019 (Eurasian Economic Union, 2019a) and with Serbia on October 25, 2019 (Eurasian Economic Union, 2019b). In turn, China concluded a non-preferential Agreement on Economic and Trade cooperation with the EAEU on May 17, 2018 (Eurasian Economic Union, 2018c).

The above agreements on free trade areas concentrate on economic integration by means of the reduction or elimination of tariff and non-tariff barriers, the simplification of customs formalities and the scheduling of these commitments. The EAEU and China Agreement on Economic and Trade Cooperation is not a typical agreement on a free trade area. The main objective is to “*establish a basis for further development of economic relations between the Parties*” ... and “*facilitate trade in goods between the Parties by preventing and eliminating unnecessary (technical) barriers to trade*”; however, it does not directly provide for the abolition of tariffs and other non-tariff trade barriers.

The EAEU and China Agreement outlines priority areas of mutual cooperation among which transport and communication infrastructure were indicated. In the agreement both sides declared the development of transport corridors, establishment and modernization of transport infrastructure and the improvement of transport links. Furthermore, both sides confirmed they will aim for stronger cooperation between the EAEU and the BRI initiative (Eurasian Economic Union, 2018c).

Emil Kaikiyev, Minister in charge of Energy and Infrastructure of the Eurasian Economic Commission, emphasized that the agreement on trade and economic cooperation between the EAEU and China “*opened new opportunities for effective cooperation, including the field of transport and infrastructure*”. The Eurasian Economic Commission launched a high-level working group with the participation of the Eurasian Development Bank to develop “*end-to-end logistics*” between China, the Eurasian Economic Union and the European Union (Eurasian Economic Commission, 2018). Likewise, Veronika Nikishina, the EEC Minister, stated that China was the “*natural partner*” of the EAEU countries within the Greater Eurasian Partnership and its Belt and Road Initiative could be a “*pilot project*” for a whole idea.

4. Trade and Logistics Effects of External Integration of the EAEU

The degree of regionalism does not always mirror regionalization of particular countries within the Eurasian Economic Union. In the case of the Russian Federation, the scope of trade integration is smallest due to the size and economic potential of this country in relation to others. However, for structural reasons, the markets of the countries of the Eurasian Economic Union perform important functions in the structure of Russian trade turnover because they are recipients of highly processed Russian goods (Turovets and Vishnevskiy, 2019). On the other hand, they supplement Russian raw material resources, thanks to which Russia does not have to reach for some of its hard-to-access resources or those requiring significant financial resources. Among the countries with the highest degree of regionalism, Belarus and Kyrgyzstan have the highest degree of regionalization. Both of these countries have the highest rate of trade integration within the EAEU. This is also reflected in extra-regional trade integration.

However, while researching the trade relations of the EAEU countries over the years 2011-2018, certain regularities arising from free trade agreements and economic cooperation agreements signed by the EAEU may be noticed. Russia has recorded an increase in exports to Singapore over a period of three years, and to China over two years. However, the increase in Russian exports to Vietnam is most visible. For all four countries whose business relations with the EAEU were researched, i.e. Vietnam, Singapore, Iran and China, exports to the Russian market have also been increasing. In the case of Kazakhstan, in 2016-2018, a spectacular increase in exports to Vietnam took place. A similar situation was experienced by Singapore in 2018. Since 2015, Belarus has recorded an increase in exports to Singapore. From the Belorussian perspective, the share of Chinese products and capital in the country's market is steadily increasing. The two smallest countries of the EAEU are also reporting an increase in economic links with countries with which the EAEU has signed free trade agreements and economic cooperation agreements. Kyrgyzstan significantly increased its exports to Iran in 2016-2018. In turn, China has been a major supplier of goods to Kyrgyzstan for many years. Armenia was receiving an increasing amount of goods from Vietnam and Iran for four years (data based on the International Monetary Fund [IMF], 2019).

Many transcontinental transport corridors run through the territory of the EAEU (Nazarko *et al.*, 2017). This is due to its location. On the other hand, logistics and transport solutions that the EAEU integration group are able to create can promote the development of transcontinental routes through its territory. Thanks to the Eurasian Economic Union, or rather part thereof in the form of a customs union, goods transported by land between China and the European Union only cross two customs borders: between China and the EAEU (customs union) and between the EAEU (customs union) and the European Union. The benefits of the transcontinental transport corridors, being improved by the EAEU, are important for many Eurasian countries. For example, from China's perspective, this is an important driving factor

for the development of the western provinces of this country (He and Duchin 2009). The transcontinental transport corridors are a comparative advantage in building the EAEU's relationship with countries such as China, Iran and Vietnam.

This creates a number of interesting opportunities for the development of services and trade as well as transport and logistics infrastructure. This viewpoint has been adopted by researchers implementing the project "*Challenges and Opportunities of Economic Integration within a Wider European and Eurasian Space*" at the International Institute for Applied Systems Analysis. In the opinion of the researchers, due to the implementation of the "*Lisbon-to Vladivostok*" cooperation concept, measurable benefits can be gained by all entities participating in sectors such as trade, non-tariff barriers, energy, transport and infrastructure, and the mobility of people and others (Vinokurov *et al.*, 2016).

The strategy and framework of the Belt and Road Initiative issued by the National Development and Reform Commission (NDRC) in March 2015 indicates six major corridors between China and the EU and other European and Asian countries. The following economic corridors were proposed: China-Mongolia-Russia (CMREC), China-Central Asia-West Asia (CCAWAEC), the New Eurasia Land Bridge (NELBEC), China-Pakistan (CPEC), China-Indochina Peninsula (CIPEC) and Bangladesh-China-India-Myanmar (BCIMEC) (National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, 2015). Analyzing the course of these specific routes, it is clear that three important transcontinental routes go through the Eurasian Economic Union territory, whereas Kazakhstan has the world's largest logistics hub – the "*Khorgos Free Economic Zone*" – that supports not only transactions between China and the Eurasian Economic Union, but also between China and Middle Eastern countries as well as the Middle East countries (including Iran) and the EAEU countries.

The expansion of the scope of cooperation within the Khorgos logistics center by the "*Khorgos Free Economic Zone (FEZ)*" project was decided in 2014. The implementation of the project has had a significant impact not only on relations between Kazakhstan, China, Central Asia and Europe but also on economic relations and trade among other Eurasian countries. It is considered a necessary strategic element in the creation of a logistics center that connects China, Central Asia and the Middle East (Khorgos-Eastern Gate, 2019). As regards the Belt and Road Initiative, the investment was necessary to improve the efficiency of the main corridors leading to Central Asia, Russia and Europe through Kazakhstan (Baizakova *et al.*, 2017). It is part of the Eurasian transit bridge between the Chinese port of Shanghai and a significant point for the construction of rail connections between China and Europe (Kazakh Invest National Company, 2016). The China-Central Asia, East Asia transport corridor that connects China with the Arabian Peninsula (Barisitz and Radzyner, 2017) also runs through the Eurasian Economic Union. It begins in Xinjiang and, through Central Asia, reaches the Persian Gulf, the Mediterranean and

the Arabian Peninsula. Its route passes through two EAEU countries: Kazakhstan and Kyrgyzstan, and 17 countries and regions of Central Asia. It is of great importance for China due to the possibility of transporting oil and natural gas from the Arabian Peninsula, Turkey and Iran to Xinjiang (Barisitz and Radzyner, 2017).

As part of the Eurasian Economic Union, a number of steps have been taken in the last three years to improve the logistics efficiency of transport corridors running through its territory. Currently, despite the fact that the track width between the EU and China and the EAEU countries is different, according to experts, technical activities related to container transshipment (Kuźmicz and Persch, 2017) or boogie exchange do not take more than two to six hours for individual trains (Lobyrev *et al.*, 2018). The quality of railway infrastructure, i.e., tracks, electrification, control systems and other elements, differs significantly in particular regions of the EAEU, similarly to logistics infrastructure. It should be noted, however, that a number of rail and logistics investments are being implemented in Russia, Kazakhstan, Belarus and Kyrgyzstan to improve the functioning of individual routes. Many of them are being financed from the resources of the Asian Infrastructure Investment Bank, and others by the Eurasian Development Bank.

The customs union operating in the EAEU area has introduced a number of improvements in international relations. In the report “Belt and Road Transport Corridors: Barriers and Investment”, researchers studying the main barriers to the development of the BRI in the EAEU state that “border/customs formalities in the EAEU member states currently do not represent a serious barrier to international transit and trade” (Lobyrev *et al.*, 2018). In addition, they indicate that the Customs Code of the Eurasian Economic Union, which came into effect on January 1, 2018, introduced a number of electronic improvements and solutions (EEC, 2018), according to which the time required for completion of border/customs formalities is on average two hours (Lobyrev *et al.*, 2018). The mentioned document ‘sets a limit of four hours on the time that the customs authority may spend on completion of customs formalities’ (Lobyrev *et al.*, 2018).

In the case of trade and logistics relations between China and the EAEU countries, the Chinese BRI strategy is significant. The number of trains servicing the BRI rail branch running through the EAEU is growing rapidly. Since 2011, a total of 6637 warehouses in both directions (China-EU) have been launched, of which as many as 3673 were recorded in 2017. Such dynamics are largely possible thanks to subsidies provided by the Chinese authorities, which even in 2016 amounted to USD 88 million, which is about USD 2,500 per FEU (Vinokurov, 2018). This means that after 2020, when there will be another reduction in subsidies granted by the Chinese government, this may weaken the dynamics of the development of rail connections within the BRI. It may also reduce the dynamics of logistics infrastructure development in the EAEU countries.

On the logistics level, the Eurasian Economic Union has taken a number of steps related to the electrification, modernization and revitalization of rail routes as well as the construction and development of road routes (e.g. the M6 motorway). Actions taken as part of the modernization of the Trans-Siberian railways and the entire New Eurasian Land Bridge Economic Corridor as well as investments in Khorgos and customs clearance improvement have significantly contributed to the improvement of the Logistics Performance Index of the Eurasian Economic Union. Russia's position in the years 2010-2018 improved in terms of the LPI rank (from 94 to 75), while the infrastructure rating in this period increased from 2.38 to 2.78. In the case of Kazakhstan, there was a spectacular improvement even before the EAEU had begun operations. In 2007, Kazakhstan was 133rd in the LPI rank with an LPI score of 2.12, while in 2018 it was in 71st position with an LPI score of 2.81. Other countries have not improved their position in recent years (data based on the World Bank [WB] 2019). However, if Belarus intends to implement the planned infrastructure investments related to solving the bottleneck problem on the border with Poland (Czerewacz-Filipowicz, 2019), it will undoubtedly be able to count on an improvement in its ranking when it comes to infrastructure (Kostecka-Tomaszewska and Czerewacz-Filipowicz, 2019). Undoubtedly, the improvement of logistics conditions has the greatest impact on relations with China. This also translates into relations with Iran and Vietnam.

5. Conclusions

The Eurasian Economic Union was created so that its member countries could integrate more closely. Since the establishment of the EAEU has also had the competence to shape external relations with third countries. Initially, it seemed that the EAEU competencies would be used mainly to create a platform for cooperation with the EU and/or China and the EU as part of the Belt and Road Initiative. However, due to the fact that the conflict with Ukraine caused an embargo on Russia-the EU relations, the prospect of establishing closer cooperation with the EU has become distant. Anyway, this did not change the fact that the EAEU has a number of advantages positioning it as an attractive business partner. These include: geographical location, no customs borders within the EAEU, a common customs code, significant facilitation in transcontinental transport (Czerewacz-Filipowicz 2019), logistics centers such as Khorgos.

Developing business relations with third countries from Eurasia can be a good strategy and a driving factor for the economic development of the EAEU countries. An analysis of free trade agreements and cooperation agreements indicates that the EAEU can deliver external integration to business. However, the question arises about the channels of this integration. The EAEU is still too young, and its agreements are even younger, which is why it is impossible to formulate radical conclusions. However, one can try to indicate the most likely areas that will deliver external integration to business.

The EAEU countries, in trade relations with third countries, mainly act as suppliers of raw materials. Some Eurasian countries are also interested in importing energy from the EAEU. The development of trade with third countries could therefore have a positive impact on the EAEU's business relations with them, but it is difficult to say whether or not its development may be large enough to initiate spill-over effects. However, the effectiveness of logistics processes being conducted in the EAEU seems to be very important. The grouping has its ambition to become a bridge between Europe and Asian countries. This means that transcontinental corridors and logistics centers offered by the EAEU are to become an important element of cooperation with third countries.

As the research shows, the largest assets of the EAEU, from the perspective of third countries, are the possibilities associated with creating transcontinental transport corridors. The EAEU countries seem to recognize this advantage. During the 4th Eastern Economic Forum Emil Kaikiyev, Minister in charge of Energy and Infrastructure of the Eurasian Economic Commission underlined that *“effective functioning of the Eurasian Economic Union (EAEU) is impossible without the development of transport, infrastructure and logistics”* (Eurasian Economic Commission, 2018). The observable improvement of LPI in all countries of the EAEU proves that logistics and transport will occupy a key place in creating strategies for shaping relations with third countries. In the era of the Belt and Road Initiative, building transport infrastructure and logistics centers is an opportunity for the EAEU, even if the covid-19 pandemic is bringing the global economy to an economic crisis.

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