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Trade and Economic Relations between the Eurasian Economic Union and the European Union States: Current State and Development Prospects

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Abstract: The effectiveness of economic integration associations such as the Eurasian Economic Union (EEU) is determined not only by benefits for the economies of member states, but also by successful cooperation with third countries and economic blocs. In this case, of particular importance is the development of multilateral cooperation with such a powerful regional economic organization as the European Union (EU). This article presents the analysis of the development of integration cooperation within the framework of the foreign trade turnover of the EEU and the EU as well as recommends and studies the priority areas of cooperation between the EEU and the EU in the long term.

Keywords: integration, regionalization, integration cooperation, foreign trade, exports, imports.

In the last few decades, regionalization has become one of the key trends in global economic policy. There is not only a growing number of regional integration agreements and the establishment of new regional integration associations on this basis, but also a significant expansion and deepening of the scope of their application through cooperation between regional integration associations.

For example, for over 10 years, these regional trade agreements have existed in the world's largest economies such as the EU, which has concluded 35 agreements at the moment, the United States - 14 agreements, China - 14, Australia - 11 (Kushnirenko and Kabanov, 2016). These countries have a diversified export structure and are interested in reducing tariffs, eliminating non-tariff barriers and increasing their presence in world markets.

The analysis of the current situation in the field of creating and developing regional trade groupings and cooperation between them in general should start with a brief excursion into the history of their development, which will help to partly grasp the current trends. The development of trade and economic relations, including those within the framework of regional trade integration, can be divided into several stages (Kushnirenko and Kabanov, 2016).

The first stage (1947 – mid-1990s) was largely marked by the confrontation between the two superpowers, the "cold war", the collapse of the colonial system and, accordingly, a significant influence of the military-political interests on trade and economic relations. This kind of interests became the basis for the creation of multilateral regional groupings in each region of the world. During this period, the General Agreement on Tariffs and Trade was signed, which actually performed the function of an international organization. There was also created the United Nations Conference on Trade and Development (UNCTAD) as well as a number of multilateral trade groupings: EU, ASEAN, MERCOSUR, the Caribbean Community and others, which set the task of integration of different levels.

The second stage (mid-1990s – 2008-2010 world crisis) was characterized by the reorientation of foreign policy into political economy, which was the basis for the conclusion of numerous bilateral agreements in a staggered order.

The third stage (2010 – present) is held in the context of a bipolar world (China and the United States) and the creation of a new post-crisis economic architecture, including through the development of multilateral inter-regional trade agreements.

As can be seen, the international community, the existing regions and countries' regional associations are dynamic in general and may be changed under the influence of external and internal factors and phenomena of global economic and political processes.

To date, the systemic internal development of the EU and its gradual expansion at the expense of Central and Eastern European countries can be considered the most ambitious integration process. At the same time, the Customs Union of Russia, Belarus and Kazakhstan, created in 2010, with its subsequent transformation into the Eurasian Economic Union in 2015 is an important example of regional economic integration in Northern Eurasia.

Since 2015, the EEU consists of five countries: Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan. The EEU has created a single market of 170 million consumers. In 2013, the EEU GDP was 2.39 trillion USD, which makes it the seventh largest economy in the world (Kushnirenko and Kabanov, 2016). The EEU promises to be the largest and most effective common market in Eurasia, therefore, we can assume that it will also be profitable to cooperate with such an association for other giants of the world order, including such as the European Union.

It should be noted that in 2010 and 2011 there was a significant increase in Kazakhstan's trade turnover with the then Customs Union partners, which is associated with the first effect of abolishing customs control and excluding administrative barriers at the border. In the ensuing years, since 2012, the volume of trade turnover kept an annual growth of 3%. It was only in 2014 that its volume began to decline in view of the global crisis. In this regard, currently, it seems necessary for the EEU to intensify the negotiation process with the European area and neighboring states. Furthermore, 70% of accumulated foreign direct investment in the EEU is from Europe, and 65% of the EEU investment is directed to the EU. This means that the European Union accounts for 50% of the total trade turnover of the Eurasian Economic Union. As noted by the President of the Republic of Kazakhstan N.A. Nazarbayev,

> "What appears important in this regard is allying the Eurasian Economic Union with the initiative for the construction of the Economic belt along the Silk Road, and deepening cooperation with the Shanghai Cooperation Organization and the European Union. In this regard […], I suggest that we declare 2016 "the year of deepening economic relations of the Union with third countries and key integration associations" (Message from Nursultan Nazarbayev..., 2016).

In this context, potential cooperation between the two integration associations, the EU and the EEU, emerged on the Eurasian continent, is considered to be necessary and important. This cooperation opens up wide possibilities for accelerating the economic development of their member countries.

In terms of cooperation between the EU and the EEU in general, of particular relevance is the development of cooperation in the sphere of trade as the main indicator of the successful development of regional economic integration. The expansion of trade and economic relations with the European area countries is very important to the Eurasian Union, because, firstly, the EU is the largest trading partner of Russia and Kazakhstan and accounts for more than half of Russia's turnover (Russia, in turn, is the third largest trading partner of the European Union). Secondly, the EU could play an important role in solving the problem of modernization of the EEU countries. Thirdly, the emerging Eurasian Union is currently initiating a series of free trade agreements with smaller partners, including the EFTA and Vietnam, hence the EU should be seen as a major long-term partner in this context. In addition, the problem of Ukraine can ultimately be resolved only within the framework of deep economic cooperation between the EU and the EEU, which further leads to the importance of such cooperation. However, the EEU is interested not just in a free trade agreement, but in a deep comprehensive agreement with the European Union.

Prototypes of potential integration between the EU and the EEU are diverse – from the Deep and Comprehensive Free Trade Area (DCFTA) to the Comprehensive Economic and Trade Agreement (CETA). The latter acts as the legal form of the agreement in principle reached in 2013 between the EU and Canada. The proposed Transatlantic Trade and Investment Partnership (TTIP) is also a deep economic and trade agreement covering many domains along with the liberalization of trade in goods and services.

Even according to the official statistics of the two countries, Kazakhstan and Russia, the EU is the main partner, occupying the largest share of their foreign trade turnover. In Kazakhstan, the EU states accounted for 38% in 2015, while the EEU partners – for 20.8%, and in Russia, respectively – 43.8% and 8.5% (The Committee on Statistics…). As can be seen, for Russia, in contrast to Kazakhstan, trade with the EEU is of less importance than with the EU.

In this context, trade and economic cooperation between the EEU and the EU is important and essential for all the countries. It will help overcome the consequences of the global crisis and return an annual turnover growth by strengthening essential advantages for the development of competition. For the EU, cooperation with the EEU as a major regional player in the post-Soviet countries, which acts as the third largest trading partner of the EU after the US and China, plays an important role in ensuring regional security and provides the European market with "Eurasian" energy and mineral raw materials, is also of fundamental importance.

Assuming that the EU and the EEU proceed to economic convergence, a very large integration zone may appear in Eurasia. At the end of 2015, the total population of the EU countries amounted to 507.4 million people, and of the EEU – 190.9 million. If we add another 61.8 million people living in neighboring countries (Ukraine is the largest here), there will be 760 million people. The total GDP looks also impressive – nearly 18 trillion USD in current prices, and in terms of purchasing power parity – more than 24 trillion USD (The Committee on Statistics…).

Analyzing the export commodity structure of the EEU member states, one can say that the structure of exports to third countries is dominated by mineral products and energy sources (65.6% of total exports), metals and metal products (9.7%), chemical products (6.5%) and agricultural products (6.2%). According to another evaluation system of commodity trade with third countries, the bulk of the EEU exports (88%) is accounted for intermediate goods, of which energy products occupy 64.2%, and other intermediate goods – 23.8%. At the same time 23.6% of exported goods are sold to the countries of Asia-Pacific Economic Cooperation (APEC), including to China - 9.4%, Japan - 4.1%, South Korea - 3.8%. Exports to Turkey amounted to 5.6% of total exports of the EEU member states. The CIS countries received 6.1% of exported goods (Foreign trade in goods…, 2016).

The European Union is the main export market for the EEU goods accounting for 53.2% of total exports. Among the EU member states, the most significant supply of goods comes to the Netherlands (12.6%), Italy (8.2%), Germany (7.2%), the United Kingdom and Poland (3%) (Foreign trade in goods…, 2016).

The structure of imports of the EEU member states is dominated by intermediate goods (41.9% of total imports) and consumer products (33.3%). The share of investment goods is 22.3%. Import purchases are concentrated in the EU and APEC countries (40.9% and 40.5% of total imports respectively). Among APEC countries, of particular significance is the supply of goods from China (21.3%), the United States (6.6%), Japan (3.7%), South Korea (2.6%). Among European countries, the largest volume of imports comes from Germany (11.7%), Italy (5%) and France (3.4%). In the CIS countries, 5.1% of goods were bought, including in Ukraine – 3.7%. Turkey accounts for 2.7% of total imports of the EEU member states (Foreign trade in goods…, 2016).

The present analysis of the structure of foreign trade in goods of the EEU member states suggests that free trade agreements that take into account, in particular, the requirements of Article XXIV of GATT 1994 for the greatest possible liberalization of trade between the contracting parties may be less attractive for the EEU member states. This is due to the fact that the EEU has a fairly narrow range of exports of goods – the most exported are mineral products, and it is hard enough for the industries manufacturing products with high added value to win the competition with foreign manufacturers. In addition, the low level of exports of services should also be taken into account. For these reasons, during the negotiation on a free trade agreement, the EEU will be in a defensive position quite often.

In view of this, we can assume that of greatest interest are investment-oriented agreements, which will help to attract foreign capital and advanced technology to producing operations of the EEU member states, giving in return access to the EEU market.

The volume of foreign trade between the EU and the EEU for 2014-2015 is shown in Table 1.

The establishment of a free trade area acts as a long-term goal of interaction between the EEU and the EU, which should be the basis of a common economic space from the Atlantic to the Pacific Ocean. For this it is advisable first to establish working contacts at the level of experts of the Eurasian Economic

Table 1
Foreign trade between the EU and the EEU for 2014-2015, billion USD, %

Name	*2014*				*2015*				*Growth rates, 2015 in % to 2014*		
	Turnover	*Exports*	*Imports*	*Turnover share in %*	*Turnover*	*Exports*	*Imports*	*Turnover share in %*	*Turnover*	*Exports*	*Imports*
Entire world	873,1	555,6	317,5	100,0	579,5	374,1	205,4	100,0	66,4	67,3	64,7
EC 28	453,4	314,9	138,4	51,9	283,1	199,1	83,9	48,85	62,4	63,2	60,7
Austria	7,7	3,6	4,1	0,89	4,0	1,6	2,4	0,69	51,8	44,1	58,7
Belgium	13,9	9,7	4,2	1,6	9,2	6,7	2,5	1,59	66,1	68,7	60,1
Bulgaria	2,4	1,6	0,8	0,28	2,7	2,1	0,5	0,47	111,6	130,5	72,4
Hungary	8,3	5,3	3,1	0,96	5,0	3,1	1,9	0,88	60,5	58,8	63,5
Germany	77,5	39,3	38,1	8,88	51,0	26,9	24,1	8,81	65,8	68,4	63,2
Greece	6,2	5,6	0,6	0,71	4,1	3,8	0,3	0,71	65,9	67,6	49,9
Denmark	4,8	2,9	1,8	0,55	3,0	1,9	1,0	0,52	63,2	67,0	57,1
Ireland	1,9	0,4	1,5	0,22	1,3	0,3	1,0	0,23	70,1	76,0	68,7
Spain	12,1	6,9	5,2	1,39	7,2	3,9	3,3	1,25	59,7	56,5	63,9
Italy	67,9	52,8	15,1	7,78	40,9	30,6	10,3	7,06	60,2	59,7	68,1
Cyprus	0,6	0,6	0,06	0,08	0,3	0,2	0,06	0,05	45,6	40,0	100,5
Latvia	14,5	13,6	0,9	1,66	8,2	7,7	0,5	1,43	57,1	57,0	57,2
Lithuania	7,9	6,1	1,8	0,91	4,9	4,0	0,9	0,86	63,0	66,1	52,9
Luxembourg	0,2	0,04	0,2	0,03	0,1	0,05	0,2	0,03	72,4	11,7	62,9
Malta	3,1	3,1	0,04	0,36	3,1	3,1	0,03	0,54	100,6	101,3	56,3
Netherlands	84,7	78,5	6,2	9,71	50,6	47,0	3,7	8,75	59,8	59,9	58,8
Poland	26,5	17,4	9,1	3,04	16,8	11,2	5,6	2,90	63,4	64,6	61,1
Portugal	1,7	1,1	0,6	0,20	1,4	0,9	0,4	0,24	80,4	87,4	68,7
Romania	7,1	4,7	2,4	0,82	4,5	3,1	1,4	0,79	64,2	66,4	59,9
Slovakia	8,4	5,3	3,6	0,97	5,6	3,7	1,9	0,96	66,1	69,4	60,5
Slovenia	1,9	0,4	1,6	0,22	1,2	0,1	1,0	0,20	59,7	35,4	66,0
United Kingdom	23,8	15,0	8,8	2,73	15,6	11,2	4,3	2,70	65,6	75,0	49,5
Finland	17,3	12,3	4,9	1,98	10,4	7,4	2,9	1,79	59,8	60,2	59,0
France	24,6	12,4	12,2	2,82	15,5	8,5	7,0	2,67	62,8	68,4	57,1
Croatia	2,2	1,8	0,4	0,25	1,4	1,1	0,3	0,24	63,4	64,0	61,0
Czech Republic	11,1	5,4	5,6	1,27	6,8	3,4	3,3	1,17	61,4	64,5	58,4
Sweden	8,5	4,9	3,6	0,98	4,7	2,7	2,1	0,82	55,5	54,0	57,6
Estonia	5,5	3,8	1,7	0,64	2,8	2,3	0,5	0,49	51,2	59,5	33,0
APEC	244,4	121,7	122,7	27,99	171,7	88,4	83,3	29,63	70,3	72,7	67,9
CIS (without EEU countries)	53,8	36,2	17,6	6,16	33,0	22,6	10,4	5,7	61,4	62,6	58,9
Other countries	109,4	77,9	31,5	12,53	83,4	60,7	22,6	14,4	76,2	78,0	71,9

Note: Compiled based on data from (The Committee on Statistics…); (Foreign trade in goods…, 2016); ("Member States of the Customs Union.., 2014).

Commission and the European Commission, which would facilitate the settlement of current trade and economic issues and contribute to understanding the concerns related to association agreements in the framework of the EU "Eastern Partnership", including with Ukraine. Cooperation between the Eurasian Economic Commission and the European Commission, including in the field of converging technical regulation systems and reducing non-tariff barriers, would create favorable conditions for a possible initiation of negotiations on a free trade area of the EEU and the EU.

However, currently, there are significant difficulties in establishing cooperation between the EU and the EEU in terms of compatibility and compliance with the principle of fairness in the allocation of costs and revenues between the two regional associations.

In this regard, for constructive cooperation between the EU and the EEU it is necessary to overcome the current political crisis in relations between the parties. The turning point in the restoration of trust between the EU and Russia should be the achievement of mutual understanding on the strategic position of Ukraine. In the sphere of economic relations, it is necessary to stop the onward mutual escalation of sanctions and growing distrust and to turn this process around. To date, a number of attempts have been made to find pragmatic solutions to the most pressing problems in this field, as confirmed by the tripartite diplomatic efforts of States to ensure the transit of gas through Ukraine and its supply to the country. Trade ministries are also working to reduce the expected negative impact on the economic interests of Russia in the implementation of the EU-Ukraine Deep and Comprehensive Free Trade Area agreement (Vinokurov, 2016).

An important task in the framework of convergence of the two unions is to analyze possible differences between the EU and the EEU on building relationships with partners who do not belong to one of these associations. In structuring a possible agreement on partnership between the EU and the EEU, the parties need to study the issue of influence of their trading systems and agreements in general on such partner countries as Ukraine and Serbia (Martynyuk, 2016).

In the context of the prospects for cooperation between the two unions, it is also important to take into account the desire of the EEU to receive trade preferences outside its immediate area of influence with regard to the EU well-developed system of trade agreements with these and many other countries and regions around the world. The parties should strive to ensure that their general partnerships and common neighborhoods serve the interests of the member countries of the two unions and their partners and not become a point of contention between them.

As part of potential negotiations between the EU and the EEU, particular attention should be given to technical regulations and standards for industrial products as well as sanitary and phytosanitary norms of agricultural production in the EU, the EEU and neighboring countries. The economic consequences of the weakening of non-tariff barriers can be significant and more essential than the abolition of the remaining import duties (Yelemesov, 2016).

With regard to the prospects for deepening cooperation between the EU and the EEU, one should take into account the prospects for international cooperation in the construction, modernization and further development of Eurasian transport corridors for the period up to 2030. This is closely linked with solving the issues of development of the cross-border transport infrastructure and financing of large-scale infrastructure projects under the conditions of the geopolitical and economic tension as well as with analyzing and searching for mutually acceptable solutions in the context of realization of large-scale infrastructure projects. The joint implementation of large-scale transport infrastructure projects may become one of the main directions of cooperation in the EU-EEU line. The examples of such projects include the Silk Road Economic Belt, the corridors of Central Asian states, and trans-European network projects on construction of objects of the transport, energy and telecommunications infrastructure.

The development of transcontinental fiber-optic communication lines also opens up enormous possibilities. Currently, the ground potential is limited, and most data are transmitted from Europe to Asia by underwater fiber-optic communication channels. Unfortunately, their operation involves at least two difficulties: the length of the lines and the duration of repairs. Only 6% of traffic between the EU and East Asia is transmitted via terrestrial fiber-optic communication lines [6]. This figure can be significantly improved. A key role in the successful resolution of this problem is played by the issues of regulatory maintenance, security and investment.

In addition, there are problems of migration and integration of the population. The EU and the EEU could combine their efforts to overcome the negative trends, since all Eurasian countries will eventually be faced with the deteriorating situation in the labor market as a result of a lack of skilled labor and increasing migration.

A relevant issue today is a decline in remittances to the EEU. The world economic growth reduction, the weakening of the national currency in relation to the world's reserve currencies continue to affect this financial direction. The prospects for improving the situation of migrant workers do not inspire optimism. Now it comes to the development and implementation of financial instruments to convert remittances into investments.

It should be mentioned that Kazakhstan and the EU have already signed an agreement on expanded partnership and cooperation (Agreement on expanded partnership.., 2015). It was concluded at the summit in Astana on December 21, 2015. It is important to note that the structure of this agreement presents a classic, from the EU point of view, list of economic and political issues raised during the conclusion of external agreements on association and collaboration. Naturally, the study of such issues in the new agreement between the EU and Kazakhstan is not as deep as in the agreements on the deep and comprehensive free trade area between the EU and Ukraine, Moldova, Georgia. Moreover, the agreement does not regulate the establishment of a free trade area, since this issue falls within the competence of the EEU. However, it is aimed at enhancing cooperation in many fields, and raises questions that may arise in bilateral relations between the EU and any state - a member of the EEU.

In the transport and infrastructure matters, there is an obvious need for modernization and further development of the main Eurasian transport corridors, road and rail, until 2030. There are many technical options for combining rail systems. In addition, there is a huge potential for development of the common electricity market and transcontinental fiber-optic communication lines. A key role in both cases is played by the issues of regulatory control, security and investment. In the long term, the ultimate goal is the introduction of a visa-free regime between the EU and the EEU. Furthermore, there may be large-scale academic exchanges, and the problem of mobility of cross-border pension flows may be solved.

Thus, the priority areas for the development of cooperation between the EU and the EEU are as follows (The European Union and the Eurasian Economic Union.., 2016):

- Trade regime: to be beneficial for all the contracting parties, this agreement should not be confined to the creation of the free trade area itself (zeroing or reduction of import duties). The logic is as follows: the “classical” free trade area is advantageous to neither Russia nor Kazakhstan - in fact, both countries export mainly raw materials. Due to the structure of trade flows, Russia and Kazakhstan are not interested in a free trade regime with the EU in the narrow sense (the same is true with regard to Armenia, Belarus and Kyrgyzstan, although to a lesser degree). Concessions in the sphere of trade in goods should be compensated by counter concessions and progress in other spheres. Particular attention should be paid to non-tariff barriers: the consequences of the withdrawal of non-tariff barriers could be much more significant than those of the reduction of import duties.
- Energy: the issue of energy security is fundamental. In the case of the EU it is about the stability of supply (security of energy sources and transit infrastructure, fair and predictable prices), in the case of Russia and Kazakhstan – the stability of demand (financial and economic security, fair and predictable prices), in the case of transit countries – the stability of revenues and shipments. In addition, all the parties are interested in ensuring the environmental security and the sustainability of energy systems.
- Transport and infrastructure: there is an obvious need for modernization and further development of the main Eurasian transport corridors (road and rail) until 2030. There are many technical options for combining 1,520 mm and 1,435 mm gauge railways. In addition, there is a huge potential for development of the common electricity market and transcontinental fiber-optic communication lines. A key role in both cases is played by the issues of regulatory control, security and investment.
- Mobility of the population: in the long term, the ultimate goal is the introduction of a visa-free regime. Furthermore, there may be large-scale academic exchanges, and the problem of mobility of cross-border pension flows may be solved. At the same time, the issue of labor migration in the context of EU-EEU relations at this stage needs to be raised beforehand.

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