

REGIONAL ECONOMIES

EURASIAN ECONOMIC COMMUNITY
IN NEW INTEGRATION CONDITIONS

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The Eurasian Economic Community (EurAsEC) is regarded as the most successful and promising integration project in the post-Soviet space.

This community came into being as the result of an unsuccessful attempt to integrate the newly independent states established after the breakup of the U.S.S.R. within the Commonwealth of Independent States. In effect, this was a manifestation of the partner countries' adequate response to the challenges of our day, and also of their desire to find their own place in a globalizing world and make effective use of their untapped potential in their common interests.

The creation of an international regional economic organization consisting of Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan was a logical completion of the process of gradual change in the nature of the association between these five CIS countries, which had taken the road of real economic integration.

The first step on this road was the signing in 1995 of a Customs Union Agreement between Russia and Belarus, subsequently joined by Kazakhstan and Kyrgyzstan and later by Tajikistan. A major stage in the development of cooperation between these states was the conclusion in 1996 of a Treaty on Deepening Integration in the Economic and Humanitarian Fields, which provided for the creation of a "community of integrated states."

The desire to make more efficient use of their production, scientific and technological ties and their economic complementarity for a recovery from the 1998 financial crisis brought the countries of the "Customs Five" to the need for additional measures to accelerate integration. With this aim in view, in February 1999 the five states signed a Treaty on a Customs Union and a Common Economic Space, which set the goals and stages of their advance to an integration community.

Guided by the experience of the European Union and other integration groupings, the alliance members set the following objectives: to complete the creation of a full-scale free trade area without tariff or quota restrictions; to form a Customs Union based on a single customs territory, a common customs tariff and unification of economic and trade regulation mechanisms; and at the final stage to go over to the creation of a common (single) economic space implying the pursuit of a common economic polity, a common market of goods, capital, labor and services, approximation of national laws, and a concerted social, scientific and technological policy.

However, multilateral cooperation practice showed that without a clear-cut organizational and legal structure designed to ensure, first and foremost, the implementation of joint agreements and decisions, the achievement of these objectives was problematic. For this purpose, in October 2000 the partner countries signed a Treaty Establishing the Eurasian Economic Community, designed to switch their interaction to the road of real integration.

The distinctive features of the new alliance consist in its system of governing bodies, decision-making and control mechanisms, budget principles, and allocation of voting rights with due regard for the economic weight of its member states.

Among the Community's main documents are the Priority Areas for the Development of the EurAsEC for 2003-2006 and Subsequent Years.¹ The practical implementation of the set tasks is

¹ See: *Panorama Sodrzhestva*, Moscow, No. 1, 2004, pp. 21-25.

meant to accelerate the creation of a common economic space with the use of effective forms and mechanisms of interaction. The document focuses on joint efforts to realize the partners' common advantages and national interests, to develop a common market by integrating their national markets, and to ensure joint protection against possible economic damage "from outside." The Priority Areas provide for efforts to enhance the potential for countering common economic threats associated, in particular, with intensifying international competition against the background of globalization processes in the world economy, and to create favorable conditions for the free movement of goods, services, capital and labor.

The greatest attention is paid to interaction in the real sector of the economy. In order to realize the transit potential of the Community countries, it is planned to set up a transport union, coordinate tariff policies and simplify customs procedures. In the energy sector, there are plans to develop Central Asia's hydropower resources, improve electricity supplies, address the problems of rational use of water, and move toward a single energy balance. The Community states plan to pursue a concerted agricultural policy, create a common food market, and take steps to reduce the costs of transportation, storage and sale of agricultural products.

In the field of labor migration, it is planned to devise measures for the social protection of migrants, to create an effective system for regulating and controlling labor migration processes, to combat migration-related crime, and to address problems relating to payment of taxes by migrants and their employers.

Five Years in Review

Since its creation, the Community has shown itself as a viable and developing regional association. Despite the difficulties of its rise and development as an economic community, the partners have achieved significant positive results.

After 2000, the EurAsEC countries entered a new phase in their development characterized by a favorable economic situation, steady growth of their gross domestic product (GDP) and production in the key sectors of the economy, and growing foreign trade.

Table 1

Main Indicators of Socioeconomic Development in the EurAsEC Countries²
(2005 as % of 2000, in constant prices)

	Gross domestic product	Industrial production	Gross agricultural production	Fixed capital investment	Exports	Imports
Belarus	143	152	126	185	218	199
Kazakhstan	163	158	131	283	320	347
Kyrgyzstan	120	101	114	71	134	197
Russia	135	130	116	156	236	292
Tajikistan	159	171			116	197

In the past five years, the economies of Kazakhstan and Tajikistan developed most dynamically, with annual GDP growth of 10.3% and 9.7%, respectively. Relatively high annual GDP growth rates were recorded in Belarus and Russia (7.4% and 6.2%). In Kyrgyzstan, annual GDP growth rates were lowest (3.75%), due to a drop in industrial production in 2002 (by 11%) and in 2005 (by 12%). As a result, the increase in industrial production in the past five years (compared to 2000) was only 1%.

Production growth during these five years was insufficient to compensate for the economic regress of the early and mid-1990s.

In 2005, the GDP level of pre-reform 1991 was exceeded by Belarus and Kazakhstan. Considerable differences remain between the EurAsEC countries in economic development levels, the degree of maturity of the market and its infrastructure, and the financial and banking system.

During the past five years, the partners achieved high rates of GDP growth per capita, with increases of 1.7-3.0 times.

Table 2

Gross Domestic Product Per Capita (in U.S. dollars)³

	2000	2005	2005 as % of 2000
Belarus	1,141	3,023	265
Kazakhstan	1,229	3,703	301
Kyrgyzstan	280	479	171
Russia	1,772	5,333	301
Tajikistan	158	340	215

² See: *Statistika SNG*, Moscow, No. 2, 2006, pp. 166-171.

³ See: CIS Interstate Statistical Committee, *Strany Yevraziiskogo ekonomicheskogo soobshchestva*, Statistical Handbook, Moscow, 2006, p. 48.

Nevertheless, during the period under review the EurAsEC countries were unable to even out their economic development levels. Kazakhstan alone managed to maintain its 1.4-fold lag behind Russia's GDP per capita, whereas for the other Community countries this gap even widened. Thus, per capita GDP in Belarus in 2000 was 1.5 times lower than in Russia, and in 2005 it was already 1.8 times lower; the figures for Kyrgyzstan were 6.3 and 11.1 times, respectively, and for Tajikistan, 11.2 and 15.7 times.

In most member countries, financial and foreign exchange markets stabilized, and national capitals and monetary circulation were consolidated. In the absence of sharp fluctuations in exchange rates, national currencies gradually strengthened against the U.S. dollar, the euro and the ruble.

In some countries, the external public debt remained significant: in 2005, the figure for Kyrgyzstan was 77% of GDP, and for Tajikistan, 39%. In Belarus, this indicator was 8.4%, in Kazakhstan, 3.3%, and in Russia, 14.8%. The overall external debt of individual countries has been growing due to corporate borrowing. A very large external debt increases the vulnerability of these economies to serious crises abroad.

It should be noted that during the last five years inflationary pressure on the economy of most EurAsEC countries gradually decreased. In this period, the largest increase in consumer prices was recorded in Belarus (3.5 times), Tajikistan (1.9 times) and Russia (1.8 times). Inflation in some member countries remains high, preventing faster economic growth and a rise in living standards.

In these five years, fixed capital formation grew faster than GDP. At the same time, it is still insufficient for a significant replacement of fixed assets, whose "wear and tear" in the Community countries continues to increase.

The generally favorable economic situation in the EurAsEC countries and measures to develop cooperation have promoted intraregional trade.

The overall volume of mutual trade in the five countries in 2005 amounted to \$54.1 billion, up 85.5% from 2000. As in previous years, the share of trade with EurAsEC members in the total trade turnover was 55.6% in Belarus, 22.7% in Kazakhstan, 47.2% in Kyrgyzstan, 7.8% in Russia, and 25.3% in Tajikistan.

In the Community countries (except Russia), exports in value terms are still lower than imports, which results in a negative trade balance with the alliance partners. In 2005, the trade deficit with EurAsEC countries was \$4.2 billion in Belarus, \$3.6 billion in Kazakhstan, \$287.6 million in Kyrgyzstan, and \$352.3 million in Tajikistan (while Russia's surplus in trade with these countries exceeded \$8 billion). The increase in mutual trade between the Community countries was caused not only by the increase in the physical volume of export and import operations, but also by price changes (especially for fuel, energy and primary commodities).

For all its EurAsEC partners Russia remains the principal trading partner and the main supplier of energy resources. In Russia's foreign trade with the Community countries, Belarus and Kazakhstan accounted for about 97% of its total trade with members of the alliance.

On the Road to a Customs Union

The creation of a free trade area (FTA) in the Eurasian Economic Community has in the main been completed. There is no single EurAsEC agreement on a free trade area: the member countries are guided by the principles formulated in the FTA agreement between the CIS states, and also by bilateral agreements. Today they are working to create a full-scale Customs Union. With this aim in view, they are implementing an Agreement on Common Non-Tariff Regulatory Measures and have adopted

a number of international legal acts designed to ensure the pursuit of an agreed customs policy and to create a single customs territory.

However, the efforts to build a Customs Union are complicated by the fact that they are closely connected with the process of the EurAsEC countries' accession to the WTO. Both organizations address the same tasks: establishment of customs tariffs and regulation of trade and economic relations with third countries.

Within the framework of the emerging Customs Union, work is underway to unify customs tariffs and trade relations with third countries, and this work has to be matched with similar activities carried on by each individual Community state in the course of its negotiations on WTO accession. From the very beginning, the Eurasian partners were faced with an alternative: either they form a Customs Union and then join the WTO as a single regional grouping or each member of the alliance conducts its own negotiations with the WTO and coordinates its position with the other Community states. The alliance chose the second, most difficult way, although it was known, in principle, that it was easier to protect one's interests by negotiating with the WTO from a common position (in the name of the Customs Union). Naturally, a group of countries has a better chance of joining the WTO on more favorable terms than individual countries negotiating on their own.

The possible undesirable consequences of uncoordinated action by individual Community states in the WTO accession process are well illustrated by Kyrgyzstan. Without coordinating its positions with its EurAsEC partners, Kyrgyzstan joined the WTO and reduced its import duties to zero. This made a "breach" in the Community's external border, and this breach was "sealed" in different ways. Uzbekistan, which was not a member of the EurAsEC at that time, closed its borders with Kyrgyzstan altogether and introduced a visa regime. Kazakhstan tightened customs control of goods produced outside Kyrgyzstan. Russia did not take any special measures, because imports from Kyrgyzstan were insignificant and did not have a decisive effect on the economic situation, although the danger of cheap Chinese imports flowing in through that country still exists. In order to prevent this, Kazakhstan is building a protective barrier.

The EurAsEC countries are faced with a specific problem: to prevent significant distinctions between the parties' positions in tariff setting within the Customs Unions and their positions in the WTO accession process. Differences are possible only within certain limits, because wider differences would create insurmountable obstacles to the formation of the Customs Union. That is why the partners are drafting proposals for the establishment of a common customs tariff with due regard for the WTO accession talks. Given the multisectoral structure of the Russian economy, the EurAsEC members (except Kyrgyzstan, which has been a WTO member since January 1998) have agreed to take into account in the negotiation process the terms of Russia's accession to the WTO. No state will seek to hinder any other state in its efforts to join the WTO; Kazakhstan and Russia are already completing their negotiations on entry into that organization.

Another problem is that since 2003 parallel work has been underway to set up a regional integration organization consisting of Belarus, Kazakhstan, Russia and Ukraine. The main objectives of these four countries include the creation of a common economic space (CES), the pursuit of a concerted economic policy, harmonization of legislation, and the establishment of an independent interstate commission on trade and tariffs.

The idea behind the creation of a CES community with exactly the same goals and purposes as those of the EurAsEC was a perfectly sensible one: in the view of its organizers, four states with roughly equal economic development levels would find it easier to create a Customs Union and then a common economic space than countries with widely differing economic development levels.

At this juncture, over 90 agreements have been drafted within the CES framework. The first package of documents, which should provide a legal basis for the formation of a Customs Union within the CES framework, is to be signed in 2006.

Considering Ukraine's "Eurointegration ambitions," its reluctance to advance beyond a free trade area within the CES framework, and its unpreparedness to sign some of the CES documents, the treaty on the creation of a common economic space provides for multi-level and multi-speed integration. Without waiting until Ukraine is ready to accede to the CES documents, Belarus, Kazakhstan and Russia have agreed to move toward a Customs Union. In other words, these three states constitute the core of this grouping, with the understanding that other EurAsEC countries will unite around this core.

As practice shows, the creation of a Customs Union has proved to be a long and difficult process. When five states and then the Eurasian Economic Community started "constructing" a Customs Union, they assumed that the Community members, building on their common production base and former economic ties inherited from the Soviet Union, would be able to create such a union relatively quickly: it was believed that they would only have to adopt the necessary legal documents.

However, the period of "construction" of the Customs Union (1995-2000) was marked by a disruption of former economic ties and a sharp divergence of national legislations and import tariffs in the partner countries, which undermined the basis for the formation of the Union. Whereas in 1995 the level of unified customs duties inherited from the Soviet Union exceeded 90% of these countries' foreign trade commodity nomenclature, by the time of the establishment of the EurAsEC (2000) it was down to 56%. By 2006, the EurAsEC states had managed to raise the level of tariff harmonization to 62%. Today they are aiming to unify their tariff rates and so to lay the groundwork for the creation of a common external customs border.

Another problem is the formation of a supranational executive body which is to be vested with the functions of regulating the external customs border regime, since the main reason for the decline in the degree of harmonization, apart from the partners' differing economic interests, is that all decisions on changes in customs tariffs are now taken by national agencies in the member countries instead of a supranational body. The states will have to take a major political and economic step, to "give up" part of their sovereignty and transfer some of their powers to the international institution they are trying to create.

EurAsEC Enlargement

The most notable event in the life of the Eurasian Economic Community was the accession of Uzbekistan (January 2006). For that country, this meant a sharp turn not only in its foreign, but also in its domestic policy. In his comments on the entry of his republic into the EurAsEC, President Islam Karimov explained that his decision had been influenced by "Uzbekistan's long-term interests in deepening integration processes not only with the states of the region, but also with Russia" and by "the rapidly changing situation in the region and at the global level."⁴

Of course, another weighty argument in favor of integration with Russia was the fact that after the Andijan events Moscow had expressed full support for the actions of the Uzbek authorities.

In joining the Community, Uzbekistan undertakes the commitment to accede to all the agreements in effect within the EurAsEC, and this means significant changes in its foreign economic activity and domestic economic policy.

Uzbekistan will have to abolish the visa regime in its relations with Kyrgyzstan and Tajikistan. It will also have to open its borders to the free movement of goods produced in the EurAsEC coun-

⁴ *Gazeta*, No. 11, 26 January, 2006.

tries. This is necessary to ensure a free trade regime without exception or limitation at the EurAsEC's internal borders. Uzbekistan will also have to make a decision regarding the EurAsEC's common approaches in relations with third countries.

The appearance of a new member has led to changes in budget formulation and in the allocation of voting rights within the Community: Russia has retained 40% of the votes; Belarus, Kazakhstan and Uzbekistan now have 15% each, and Tajikistan and Kyrgyzstan, 7.5% each.

Uzbekistan's entry into the EurAsEC was coupled with another significant event in the post-Soviet space: a merger between two international groupings, the Central Asian Cooperation Organization (CACO) and the Eurasian Economic Community. The main point here is that two organizations which used to duplicate each other have merged into a single system. Whereas in the past their member countries had to divide their time between two international groupings, which led to a waste of efforts and resources, today they have pooled their potentials and expanded their opportunities to address common economic development challenges.

This enables the grouping to find effective solutions to the major problems that faced the two organizations. In particular, they can launch large-scale projects (transportation, humanitarian, water and energy) affecting the interests of all EurAsEC member states.

Uzbekistan's accession to the decision to create a common energy market in the Community will facilitate the solution of many problems. This applies, for example, to the transit of Tajik electricity through Uzbekistan, and also to the use of the Amu Darya and Syr Darya basins. Cooperation in the gas sector will expand as Russia's Gazprom comes to play an active role in the geological exploration and development of gas fields in Uzbekistan, in the renovation of the Central Asia-Center gas transportation network and other projects.

The entry of Uzbekistan with its sizeable mineral resources and its substantial industrial and agricultural potential will give a new impetus to integration processes in the EurAsEC. Uzbekistan is a big Central Asian country in terms of population, and its accession to the EurAsEC will make it possible to create a large market of about 206 million people. All of this will help to enhance the competitiveness of the EurAsEC countries, to resolve energy, water and transportation problems, and to regulate migration flows. Of considerable importance is also the opportunity to deal with matters of ensuring peace and security in the Central Asian region in view of Uzbekistan's "resumption" of its participation in the activities of the Collective Security Treaty Organization.

While noting the positive aspects of EurAsEC enlargement, one should bear in mind that this process at the same time creates a number of problems relating to integration within the framework of the Community.

Uzbekistan, Kyrgyzstan and especially Tajikistan are agricultural countries, while Belarus, Kazakhstan and Russia are industrial ones. Consequently, these two groups of countries differing in economic development levels can complement each other mostly at the intersectoral level, which is bound to present difficulties in the development of mutual trade and the creation of a competitive environment and a single customs territory.⁵ In terms of GDP per capita, Uzbekistan, Kyrgyzstan and Tajikistan rank among the developing countries. They are characterized by high ethnic and political tensions; poverty, unemployment and economic recessions can destabilize the situation both in one country and in the region as a whole.

The Community will have to devise and implement measures to assist Kyrgyzstan, Tajikistan and Uzbekistan in "evening out" economic development levels in order to prevent the differences between the EurAsEC countries from widening still further. This will pave the way for active involvement of these states in the integration process within the Community.

⁵ See: L.B. Vardomskiy, Ye.M. Kuzmina, A.V. Shurubovich, "Yevraziiskoie ekonomicheskoe soobshchestvo: obobnostni i problemy razvitiya," *Problemy prognozirovaniya*, Moscow, RAS, No. 6, 2005, p. 118.

It is important that the appearance of a new member in the EurAsEC should not mean a mere “quantitative enlargement” of the grouping, but should promote its qualitative advance along the road of integration.

As world practice shows, the expansion of an organization without the achievement and consolidation of concrete results is fraught with loss of efficiency. The EurAsEC should find ways of realizing its enlarged potential, but here the Eurasian partners have come up against certain problems.

Integration Difficulties

Despite seven years of cooperation (in February 1999, five EurAsEC countries signed the Treaty on a Customs Union and a Common Economic Space), the partners are still at the beginning of the road to the set goal: a common economic space. The free trade regime was introduced with difficulty, and work on the creation of a Customs Union is progressing very slowly.

At the Minsk Summit of the EurAsEC member states (23 June, 2006), their presidents had to admit that in seven years the partners had been unable to resolve their customs problems and that even the free trade regime was not such in full measure. As President Kurmanbek Bakiev of Kyrgyzstan noted, “the key to economic renewal is trade with lifting of restrictions.”⁶ And President Alexander Lukashenko of Belarus said: “Frankly speaking, this process is not running as quickly as one would like.”

Over the past year, the partners have made no progress in the development of a common customs tariff, although according to the Priority Areas for the Development of the EurAsEC the formation of the Customs Union was to be completed in 2006. At the Minsk Summit, it was decided to prepare the final documents on the Customs Union so as to sign them in 2007.

As a result, the main indicator of integration—the volume of intraregional trade—has been growing much slower than the total volume of the EurAsEC countries’ foreign trade. Thus, their mutual trade in 2005 reached \$54.1 billion, having increased 1.8 times compared to 2000, whereas trade with CIS countries doubled, trade with other states multiplied 2.7 times, and the increase in overall foreign trade was 2.5 times. In the past five years, Belarus trade with Community countries increased 1.7 times, while the increase in the country’s total trade turnover was 2.0 times; the figures for Kazakhstan were 1.3 and 3.2 times, respectively, for Russia, 1.8 and 2.5 times, and for Tajikistan, 1.2 and 1.5 times. Kyrgyzstan alone had a different trend: 2.7 and 1.7 times.

Given these processes, the share of mutual trade between the EurAsEC countries in their total foreign trade turnover fell from 17.2% in 2000 to 12.8% in 2005. A similar trend was recorded in Belarus, where this share was down from 58.8% to 49.1%, Kazakhstan (from 31.7% to 22.7%), Russia (from 10.4% to 7.8%) and Tajikistan (from 31.9% to 25.3%); Kyrgyzstan was the only country where this share increased from 28.8% to 47.2%.

The trade structure remains mostly unchanged. A significant place here belongs to fuel, raw materials and low value added products, which does not promote the development of integration-type relations.

Intra-Community trade is mostly bilateral and is focused on ties with Russia, which in 2005 accounted for 48.8% of total regional trade. At the same time, the share of mutual exchanges between the partner countries in their total foreign trade, with the exception of ties with Russia (ranging from 15.2% to 46.5%), constitutes a very insignificant amount (from 0.03% to 1.4%). Only in

⁶ *Rossiiskaia gazeta*, Moscow, 24 June, 2006.

Kyrgyzstan and Tajikistan the share of trade with Kazakhstan was 16.4% and 8.4%, respectively. All of this shows that ties between the partners are insignificant and do not have a noticeable effect on their economy. Integration has not received a proper impetus from the production and investment sectors of the economy; multilateral cooperation projects have virtually no impact on economic interaction between the partners, and actual integration processes “lag behind” their legal implementation.

The creation of a legal framework for the Customs Union and a common economic space is of exceptional importance for the future of Eurasian integration. It is a matter of developing a legislative basis (“directly applicable” laws) in the customs, foreign trade, tax and other spheres. If this problem is resolved, this will mean that integration has taken place.

The entry into force of the Treaty on the Status of the Fundamental Legislation of the Eurasian Economic Community, the Procedure for Its Development, Adoption and Implementation of 18 June, 2004, means that the EurAsEC members have risen to a qualitatively new level in pursuing an agreed legal policy in the interests of more effective integration. The process of ratification of this document in the EurAsEC countries is nearing completion.

With the expansion of the scale of integration ties within the framework of the emerging Customs Union and in connection with the establishment of a supranational body, the partners’ economic interdependence tends to increase, just as their mutual responsibility for implementing joint decisions. That is why in contrast to the former practice of cooperation between the CIS countries, when agreements were rarely implemented, the Fundamental Legislation Treaty gives special status to the Community’s legal acts that lay down uniform rules of legal regulation in the key areas of mutual relations. With this aim in view, the Treaty envisages a standardized procedure for the development, consideration and adoption of EurAsEC legal acts, and also for monitoring their implementation.

The pursuit of a coordinated legal policy by the Customs Union states also places higher demands on their legislative and executive authorities, which amount to ensuring full implementation of EurAsEC legal acts in national legislation and compliance with them.

The Community countries have started work to coordinate their agroindustrial policies, which should help to reduce poverty, raise living standards and ensure social stability.

The implementation of major investment projects for the construction of hydropower facilities (Sangtudin and Rogun HPPs in Tajikistan, Kambaratinsk HPP-1 and HPP-2 in Kyrgyzstan) will be of great importance for the economic development of the Central Asian region. Mechanisms for distributing electricity between the Community countries, and also for water and energy regulation in Central Asia have been created for the same purpose. In 2003 alone, over 900 million kWh of electricity which had no market at home was supplied from Tajikistan and Kyrgyzstan to Russia through Uzbek and Kazakh networks.

The partners have started creating a common energy and transport space. They have adopted the concept of a common electric power market for the EurAsEC countries, including the development of a fuel and energy balance, and have signed an agreement on the pursuit of a concerted policy to create and develop transportation corridors.

In the sphere of economic policy, the Community countries have got down to a comparative analysis of their socioeconomic programs and preparation of proposals for harmonizing their economic development conditions and for carrying out economic reforms.

The adopted procedure for harmonizing the main macroeconomic indicators of economic development is of great importance for determining the stages of the advance along the road of convergence and integration between the EurAsEC states. At each stage, the parties plan to lay down guidelines for the Community’s development, which include criteria for convergence, sustainability of national capitals, and stability of currencies, prices and financial markets.

The convergence criteria, whose fulfillment is to be recommendatory, include: an annual government budget deficit within the limits of 4% of GDP; a government debt not exceeding 80% of GDP; inflation of no more than 5% above the average inflation rate of the three best performing countries; currency exchange rates and interest rates on credit.

Major steps have been taken to intensify relations in the financial sphere. The parties have approved a concept of cooperation in the field of exchange rate policy and have set up a EurAsEC Council on Financial and Economic Policy (similar to the long-functioning Council of the European Union) to promote the eventual creation of a common market.

No integration grouping can function effectively without common financial institutions. On this assumption, the parties have established a Eurasian Development Bank (EDB) with an authorized capital of \$1.5 billion, one-third of which was contributed by Kazakhstan and the rest by Russia. It is planned to turn the EDB into an instrument for supporting the main socioeconomic programs of the Community countries. Its investment activities will be geared in large part to implement projects in the electric power sector, transport, nuclear and aerospace industries, engineering, innovation and the agroindustrial complex.

Igor Finogenov, elected board chairman of the EDB, has spoken of such long-term financing projects as the completion of the Rogun HPP and Sangtudin HPP-1 in Tajikistan, the Kambaratinsk hydropower system in Kyrgyzstan, the second hydropower unit of the Ekibastuz HPP in Kazakhstan, the creation of Eurasian rail transportation corridors for the purpose of expanding transit freight traffic between Europe and China, the construction of tankers with a displacement of 12,000 tons at the Vyborg Shipyard for oil transportation in the Caspian Sea, the establishment of a joint venture for the assembly of KamAZ trucks and the development of the Zarechnoye uranium mine in Kazakhstan.⁷

In order to attract private sector support for integration projects, a EurAsEC Business Council was set up in the real sector of the economy in February 2002. The main purpose of this association is to support business activity, enhance the social and legal status of its members, and protect their interests in relations with the authorities of the EurAsEC countries. The Business Council partners are interested in restoring economic ties, developing cooperation between credit institutions and cross-border production cooperation, retooling the extractive industries, and improving procedures for cross-border movement of persons and goods.

Development Prospects

The prospects of integration between the EurAsEC countries will largely depend on their successes in implementing major investment projects in the energy sector, transport, industry and agriculture; in creating a level playing field for investors and businesses; and in pooling the financial assets of enterprises, banks, insurance and trading companies.

The EurAsEC countries' accession to the WTO and their adjustment to the requirements of that organization will affect the creation of the Customs Union. WTO membership will accelerate their economic liberalization and approximation of laws, which is bound to encourage business activity. This is particularly important for the establishment and operation of financial and industrial groups, transnational corporations and joint ventures, which are "locomotives" of the integration process.

⁷ See: *Yezhenedel'nik promyshlennogo rosta*, Moscow, No. 19, 2006.

It goes without saying that the EurAsEC's relations with the European Union and the Shanghai Cooperation Organization (SCO) are important factors influencing its development. The EU is one of the main sources of investment for the Community countries, and for Russia, Kazakhstan and Kyrgyzstan it is a major trading partner as well.

The prospects for the creation of a free trade area with the EU are in large part connected with the possible entry of EurAsEC states into the WTO. Partnership agreements (for Russia, the concept of pan-European economic cooperation) are major steps in this direction.

EurAsEC development prospects may also be influenced by relations with the dynamically advancing Shanghai Cooperation Organization, which includes five EurAsEC countries (except Belarus, currently seeking to join the SCO). Apart from combating terrorism, separatism and extremism, the SCO pays much attention to economic interaction. At its jubilee summit in Shanghai (15-17 June, 2006), the SCO set up a Business Council and adopted an action program for the period until 2010 in support of regional economic cooperation between member banks of the SCO interbank association. Joint investment and bank funds will make it possible to finance major transport, energy and telecommunication projects, which will help to eradicate poverty and unemployment and to raise living standards in this large region. The main thing for the EurAsEC in this process is not to "dissolve" within the SCO framework but to pursue its mission and select effective, mutually beneficial and complementary areas of cooperation.