DEVELOPMENT PROSPECTS FOR THE INTEGRATION PROCESSES WITHIN THE EURASIAN ECONOMIC UNION: A TAJIKISTAN CASE STUDY

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ABSTRACT

This article examines the Republic of Tajikistan's participation in regional integration among the Eurasian states. It analyzes the integration experience accumulated during the activity of the Eurasian Economic Community (EurAsEC) and the main obstacles hindering the integration within the framework of the EurAsEC. It focuses on the trends, problems, and prospects for Tajikistan's possible accession to the Eurasian Economic Union (EEU).

This analysis of the dynamics of Tajikistan's reciprocal trade turnover with the Union states resulted in an assessment of the state and prospects for Tajikistan's interaction with the EEU Participating states. In conclusion, a SWOT analysis was carried out of Tajikistan's accession and non-accession to the EEU.

KEYWORDS: *integration, Eurasian Economic Community, Customs Union, foreign trade turnover, Common Economic Space, World Trade Organization, Eurasian Economic Union, Tajikistan*

Introduction

The EEU, which originally united Russia, Kazakhstan, and Belarus, was founded on 29 May, 2014 in Astana; this integration project is one of the most ambitious, advanced, and rapidly developing among the post-Soviet states. On 2 January, 2015, Armenia acceded to the EEU, and on 29 May, 2015, Kyrgyzstan joined it.

Subregional integration within the EEU was the result of searches for an optimal form of cooperation and the creation of a common economic space; at one time, the CIS and EurAsEC made a futile attempt to reach this goal.

Today there is a need to comprehend the experience of the integration formations mentioned and compare them with the EEU. This is extremely important, not only from the scientific, but also from the practical viewpoint, since it alleviates the choice of those countries looking at the possibility of acceding to the EEU. This applies in particular to Tajikistan.

There can be no doubt that the formation of the Customs Union (CU) on 20 January, 1995, which joined Russia, Belarus, and Kazakhstan, was the first step on the way to integrating the Eurasian countries. In March 1996, Kyrgyzstan joined this union, followed by Tajikistan in 1998.

However, the goals set within the EurAsEC were not reached. This failure was instigated by Kyrgyzstan joining the WTO (World Trade Organization) without coordinating its accession conditions with the other EurAsEC partners, which was one of the reasons for the CU being transformed into the EurAsEC (the agreement on founding of the Eurasian Economic Community was signed in 2000 and came into force on 30 May, 2001).

In recent years, the EurAsEC countries have mainly advanced in reciprocal trade liberalization (that is, in ensuring a free trade regime within the Community).

Despite the adoption of a whole series of documents relating to the formation of the CU, the Community members were unable to achieve the designated results, which was largely due to the differences in their approaches to setting custom duty rates. For example, in 2006, import customs duties among Russia, Belarus, and Kazakhstan were only coordinated by 62%. As for the customs tariffs of Tajikistan and particularly of Kyrgyzstan, they were not very well coordinated with the basic index of the common customs tariff of the community's countries.

Other unrealized tasks include, for example, establishing a common market of transportation services and an energy market, as well as coordinating and unifying economic and foreign economic policy measures necessary for achieving integration goals.

The main reasons for inefficient integration were the absence of a supranational structure and the fact the EurAsEC structures were not endowed with real powers. What is more, the decisions made were not mandatory, which waived all responsibility for their non-implementation.

Tajikistan and the EurAsEC

The low effectiveness of Tajikistan's interaction with the EurAsEC countries was primarily manifested in its dependence on import deliveries from the Far Abroad. In other words, the market of the EurAsEC countries was unable to give Tajikistan's export opportunities the necessary boost.

Tajikistan's foreign trade relations development shows that between 2000 and 2013, the share of the EurAsEC countries in its total export volume decreased from 34% to 18.6%, while in imports it increased from 29% to 42.3%. The share of the EurAsEC countries in the total volume of Tajikistan's trade turnover increased slightly from 32% in 2000 to 37.1% in 2013.[1]

The dynamics of the absolute volumes of the country's foreign trade turnover show that during the indicated period, Tajikistan's export to the EurAsEC countries decreased 1.22-fold, while imports, on the contrary, increased 8.66-fold.[2] On the whole, in 2013, compared with 2000, Tajikistan's export indices with respect to the EurAsEC countries amounted to 82%, while import indices reached 86.5%.

The republic's untapped economic potential also prevented an increase in its foreign trade efficiency; we believe this was one of the main factors of Tajikistan's failure to become properly engaged in the integration processes within the framework of the EurAsEC, since participation in them presumes a certain level of maturity.

The following indices show the level of Tajikistan's economic development in the period under examination:

— per capita GDP in Tajikistan with respect to the average index of the EurAsEC countries amounted to 8%, while foreign trade turnover was 15%[3];

— Tajikistan's share in the total volume of industrial production was equal to 0.2%, and in agriculture to 2%[4];

— Tajikistan's share in the total import volume of the EurAsEC countries decreased from 0.6% in 2000 to 0.34% in 2013, while in export, its share increased from 0.6% to 2.4%[5];

— in 2013, trade turnover with the community's countries amounted to $1,972.8 million, or 37.1% of the country's total foreign trade volume. In so doing, export to the EurAsEC countries amounted to $216.6 million, and import from the EurAsEC countries to $1,756.2 million.[6]

Tajikistan's trade with the EurAsEC countries was characterized by its imbalance. In 2013, the negative balance of the country's foreign trade with the community's countries amounted to $1,539.6 million.

Tajikistan's main trade partner in the EurAsEC was Russia. Its share in Tajikistan's export amounted to 10.3% of its total export volume with respect to the EurAsEC countries, while it enjoyed a 52% share in import.[7]

What Prevented Integration within the EurAsEC?

We know that integration leads to the emergence of two types of economic effect—static and dynamic. However, neither the one nor the other are observed in the economy of the community's

[1] Calculated according to: *Commonwealth of Independent States*, *2013 (statistics yearbook),* CIS Interstate Statistics Board, Moscow, 2014, 614 pp.

[2] Calculated according to: *Eurasian Economic Community*, *2000-2012* (brief statistics collection), CIS Interstate Statistics Board, Moscow, 2013, p. 102.

[3] Calculated according to: *Eurasian Economic Community, 2012 (statistics yearbook),* CIS Interstate Statistics Board, Moscow, 2013, p. 17.

[4] Ibidem.

[5] Calculated according to: *Commonwealth of Independent States, 2013* (statistics yearbook).

[6] Calculated according to: *Foreign Economic Activity of the Republic of Tajikistan, 2014 (statistics yearbook)*, Statistics Agency under the President of the Republic of Tajikistan, Dushanbe, 2014, 551 pp.

[7] Ibidem.

countries, since there is essentially no real effect from foreign trade within the EurAsEC, a qualitative index of which is primarily export.

An analysis of the data of reciprocal trade turnover[8] shows that the foreign economic strategies of the group's countries have different vectors. This led to fragmentation of a once unified political and economic area within the framework of the EurAsEC and CIS.

According to the data of the CIS Statistics Board, between 2000 and 2013, the share of the EurAsEC countries' reciprocal trade in the total volume of their foreign trade turnover amounted to 13-17%, whereby showing a downward trend.

It should be noted that subjective factors, in addition to objective, also promoted the low level of integration efficiency within the community (as in the Commonwealth as a whole). These subjective factors included low performance discipline and the absence of political will.

The disintegration processes were caused both by global competition and the absence of coordinated approaches to the accession of the group's countries to the WTO.

The wide gap in the levels of economic potential of the community's countries also prevented the development of efficient integration within the EurAsEC: Tajikistan and Kyrgyzstan significantly lagged behind Russia, Kazakhstan, and Belarus.

Russia's share in the total GDP volume of the EurAsEC countries amounted to 87.6%, Kazakhstan's to 8.7%, Belarus' to 3.2%, Tajikistan's to 0.3%, and Kyrgyzstan's to 0.2%.

The share distribution of the foreign trade turnover for the indicated countries also looked approximately the same. For example, Russia provided 79.8% of the total trade turnover volume of the community's countries, Kazakhstan 11.4%, Belarus 7.7%, and Tajikistan and Kyrgyzstan 0.5% and 0.6%, respectively.[9]

Meanwhile, the theory and practice of regional integration indicate that it is more efficient between countries with comparable levels of economic development. However, some experience has been garnered recently of countries with different levels of economic development achieving successful integration. It should be said, however, that different levels of economic development lead to a varying degree of interest of partners in economic interaction and integration.

The economic structures of the EurAsEC participating states also noticeably differs: Russia and Belarus were the most developed in the industrial respect; in Kazakhstan, the production and agricultural branches prevailed; while in Kyrgyzstan and Tajikistan, there was a decrease in industrial production and an increase in the share of the agrarian sector. All of this was seriously complicated the development of reciprocal exchange among the organization's participating states.

Searches for Integration

Against the background of the low efficiency of integration within the EurAsEC, Russia initiated a new project called the Common Economic Space (CES). In addition to Russia itself, it was also to include Ukraine, Belarus, and Kazakhstan. But this project was never implemented, primarily because of Ukraine's lack of desire to advance integration cooperation.

In 2005, there was a meeting of the heads of state of the CES, at which it was announced that Russia, Kazakhstan, and Belarus would jointly move toward creating a full-fledged customs union, as well as a common market of goods, services, capital, and labor.

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[8] Calculated according to: *Eurasian Economic Community, 2012 (statistics yearbook)* and *Commonwealth of Independent States, 2013 (statistics yearbook)*.

[9] Calculated according to: *Eurasian Economic Community, 2012 (statistics yearbook)*.

Further, the CU, with the participation of Russia, Kazakhstan, and Belarus, became one of the most important mechanisms for strengthening integration cooperation among the Eurasian states; the agreement on its establishment was reached during an informal summit of the leaders of the EurAsEC countries in August 2006.

The heads of Russia, Kazakhstan, and Belarus designated a plan for establishing a Customs Union consisting of three states, with the prospect of the other members of the community joining it as they were ready.

In October 2007, the Agreement on Establishment of the Customs Union was signed; it began functioning on 1 January, 2010. On that day, customs-tariff and non-tariff trade regulation measures with third countries, unified for all three CU states, were introduced.

In July 2010, the CU Common Customs Code came into effect, which provided an organizational and legal framework for the common customs territory. On 1 July, 2011, customs control was fully transferred to the external borders of the CU countries, which meant formation of the common customs territory was complete.

In the Declaration on Eurasian Economic Integration adopted on 18 November, 2011, the sides stated their intention to complete codification of the international agreements composing the legal framework of the CU-CES by 2014 and form the EEU on its basis.

On 1 January, 2012, the agreements on formation of the CES came into force, but at first it functioned on a perfunctory basis.

According to the basic agreement on the formation of the CES, by the end of the current decade, the free movement of goods, services, capital, and labor was to be fully ensured, as well as harmonization and unification of national legislation, formation of common branch markets, and real coordination of economic and foreign economic policy with the prospect of establishing a currency union.

The Problems and Prospects of Integrating Tajikistan into the EEU

The EEU was established on the basis of the EurAsEC Customs Union (on 10 October, 2014, a treaty to enlarge the EEU to Armenia was signed followed by Kyrgyzstan on 23 December, 2014).

The Agreement on the EEU came into force on 1 January, 2015; since that day, the EurAsEC ceased its existence. Since the EEU was created on the basis of the EurAsEC CU, the main candidate for accession to the new integration group is Tajikistan.

As mentioned above, Kyrgyzstan acceded to this organization on 23 December, 2014. However, it does not plan on becoming a full-fledged member of the Union until the end of May 2015.

There are extremely significant obstacles hindering the accession of Kyrgyzstan and Tajikistan to the EEU and CU. The main problem for Tajikistan is the absence of customs borders between it and the CU member states.

Tajikistan's accession to the CU will only be possible after Kyrgyzstan joins it. However, judging from everything, Kyrgyzstan's accession to the CU will be a long and difficult process; moreover, several questions must be resolved relating, among other things, to this republic's membership in the WTO.

Tajikistan will also encounter similar difficulties in acceding to the CU.

Art 24 of the General Agreement on Tariffs and Trade sets forth the principles that should guide countries establishing customs unions and free trade areas.[10] In this context, the following example is indicative: according to the WTO Charter, a member of this organization does not have the right to join unions like the CU that do not include WTO members without reexamination of its membership provisions.

Tajikistan's, as Kyrgyzstan's, customs duty rates are lower than those of the CU countries, and it cannot join the EEU without coordinating this with other WTO members.

There are different approaches to assessing the prospects for Tajikistan's accession to this organization. As Ambassador of Kazakhstan to Tajikistan Agybai Smagulov notes, establishment of the EEU fully corresponds to the principles of the WTO, the main one being a gradual decrease in tariffs and removal of the barriers hindering trade flows.

Russia, which has joined the WTO, must lower its rates. Kazakhstan plans to complete the negotiation process this year and pledges to lower import duty rates with respect to third countries (with transition periods for the most vulnerable goods of course). Bishkek believes that Kazakhstan's and Tajikistan's rates will be lowered and come close to each other (keeping in mind the transition periods of the latter).

At present, the simple mean arithmetical of the ad valorem parts of the import duty rates of Tajikistan's tariff schedule is equal to 8.71% and 9.45%, which is not much lower than the corresponding index of the CU. According to the calculations on the obligations assumed to the WTO, by the end of 2020, these indices will be even closer and amount to 7.73% and 7.90%.

There are also plans to draw up proposals that the import customs duty rates that differ from the unified customs tariff of the EEU should be used temporarily with respect to certain goods.[11]

Since Russia and Tajikistan have also joined the WTO, we think the most realistic way to resolve this problem is for Belarus and Kazakhstan to accede to this organization on generally coordinated conditions. In this event, the accession of Kyrgyzstan and Tajikistan to the CU will be entirely realistic and lead to conditions being created for implementing one of the prospective ideas of integration cooperation among the Eurasian states.

Keeping in mind contemporary geopolitical reality, it is very logical to presume that when coordinating their obligations within the WTO, Kyrgyzstan and Tajikistan might encounter certain difficulties.

Nevertheless, despite everything else, the possibility of creating deep and strong economic cooperation within the EEU is very realistic. This new union is based on integration cooperation among the Eurasian states, where a great deal of aggregate economic potential is concentrated.

It stands to reason that strengthening cooperation within the EEU meets the long-term interests of the member states and corresponds to the trends seen in the world economy. However, further prospects for its development primarily depend on the successful resolution of economic tasks that are equally important for all the participating states and the achievement of real improvement in the life of the population in the Eurasian states. Further, the viability of Eurasian integration will be determined both by the internal need for rapprochement and by the political will and desire of the elites of the participating states to intensify cooperation.

It should be noted that implementing the Eurasian integration model will not be easy at first. The thing is that within the EEU (as within the CIS in general), we are not seeing the mutual striving of the countries toward each other that could ensure the emergence of genuine integration. It is logical to presume that without an increase in economic potential and competitiveness, it will simply be impossible for each of the countries to achieve success.

[10] See: I.I. Diumullen, *Vsemirnaia torgovaia organizatsiia*, ZAO "Izdatelstvo Ekonomika," Moscow, 2003, p. 117.

[11] [http://news.tj/ru/newspaper/article/kazakhstan-delitsya-opytom].

The trend toward closer and more systemic cooperation could be reinforced by activating the subjective factor; it implies the foreign economic policy of the countries, which should be efficient and pro-integration. Without this, it will be extremely difficult to ensure the interests of the EEU countries, particularly keeping in mind the impact of globalization.

If we are objective, the goods turnover structure of the countries and the level of their socioeconomic development are not promoting stronger integration potential so far. One of the ways to strengthen integration interaction is to activate different forms of economic cooperation. The matter primarily concerns production-technological cooperation and investment activity. In so doing, branches of the Russian economy that possess the greatest export potential and financial opportunities could perform a structure-forming function. They have the realistic possibility of being the main element in building vertically integrated structures within the EEU.

What is more, the Collective Security Treaty Organization should play a certain role in intensifying production ties.

In conclusion, we tried to evaluate the state and prospects of Tajikistan's cooperation with the EEU members. To do this, we examined Tajikistan's reciprocal goods turnover with the Community's countries and presented the results of a SWOT analysis of its accession to the EEU.

Table 1

Tajikistan's Trade Intensity with the Community's Countries

Countries / Years	2007	2008	2009	2010	2011	2012	2013
Armenia	0.6	0.0	0.0	0.3	0.0	0.0	2.1
Belarus	1.1	1.9	2.6	2.5	3.6	1.8	1.2
Kazakhstan	7.1	3.0	6.8	8.2	18.7	29.6	28.4
Kyrgyzstan	11.4	16.6	23.9	27.6	10.6	17.9	19.1
Russia	4.2	4.9	6.6	5.2	3.4	4.3	5.6

Note: The table was complied according to the data of the statistics collection *Tajikistan's Foreign Economic Activity*, Statistics Agency under the President of the Republic of Tajikistan, for the corresponding years.

The system index of Tajikistan's trade with the EEU countries on a bilateral basis is calculated according to the following formula:

$$I_{ij} = \frac{X_{ij}}{X_i} : \frac{M_j}{(M_w - M_i)} = \frac{X_{ij} \times (M_w - M_i)}{X_i \times X_j},$$

where I_{ij} —the system index of bilateral goods flows of country *i* to country *j*;

X_i —total export volume of country *i*;

X_{ij} —export of country *i* to country *j*;

M_j —total import volume of country *j*;

M_i —total import volume of country *i* and

M_w —total volume of world import.

The calculations we carried out show (see Table 1) that Kazakhstan and Kyrgyzstan hold the leading places in Tajikistan's goods turnover with the Central Asian countries.

The level of mutual significance between Armenia and Tajikistan remains low, which is caused by the low level of development and weakness of the foreign trade (primarily export) potential of both countries, as well as their distance from each other. Evidently, this state of affairs will continue in the future.

In all likelihood, after a common customs border is created within the EEU, the dynamics of Tajikistan's trade intensity with Kyrgyzstan will drop. This prognosis is explained by the fact that Tajikistan's import from Kyrgyzstan largely consists of the re-export of Chinese goods.

The situation in Russia, which is deteriorating due to the West's sanctions and the crisis, is leading to a decrease in the purchasing power of the Russian population and demand for Tajik goods and services. What is more, employers are hiring fewer foreigners, which is leading to a mass exodus of Tajik guest workers from Russia.

It stands to reason that this situation could lead to a drop in purchasing power in Tajikistan and a decrease in import volumes from Russia.

One way to overcome the above-mentioned negative phenomena could be to carry out a coordinated policy in the real production sphere (for example, by creating contemporary import-substitution production units).

The restoration of cooperation ties on an essentially new basis among the EEU countries in all spheres of the real sector will raise the level of integration maturity of small economies (including Tajikistan's) planning to join the union, as well as become a driving force behind its economic development.

Coordination of a structured policy presumes drawing up and implementing efficient division of labor in the EEU, whereby specialization of the Union's countries should be based on the principle of relative advantages.

Table 2

SWOT Analysis: Assessment of Tajikistan's Accession to the EEU

	Positive Factors	Negative Factors
	Strengths or Internal Potential (S)	**Weaknesses or Internal Shortcomings (W)**
Internal origin	—sufficient (wealthy) raw resources, surplus workforce and relatively high productive force potential; —branches with a high level of competitiveness in the world markets; —high level of integration cooperation with individual EEU countries established within the EurAsEC; —unified legislation within the EurAsEC; —high demand for Tajik goods and services by Tajikistan's main potential EEU partners; —relatively high economic and foreign economic potential (untapped); —opportunities for diversification of Tajikistan's foreign economic specialization within the EEU and system of international labor division in general;	—deterioration in the national production structure; —low competitiveness of the national economy, goods, and services; —de-industrialization of the economy; —inefficient foreign economic policy; —inability of national enterprises to compete with import goods; —high degree of openness, to a certain extent limiting the implementation of an efficient industrial policy; —critical dependence on the external labor market; —country's distance from Russia and Belarus; —transport restrictions by Uzbekistan that create certain difficulties both for the country's efficient development

Table 2 (continued)

	Positive Factors	Negative Factors
	—membership in the CSTO.	in general and for intensifying its economic-commercial ties with the EEU countries; —proximity to Afghanistan, which has a negative effect on the country's investment appeal; —existence of certain difficulties for accession to the EEU caused by Tajikistan's membership in the WTO.
	Opportunities (O)	**Threats (T)**
External origin	—implementation of an efficient economic and foreign economic policy, including integration, could allow the country to significantly change its position and quality of participation in the international labor division system; —increase in opportunities to intensify economic trade interaction with the group countries; —free movement of the country's labor resources within the EEU; —resolving the economy's restructuring tasks; —implementing strategic tasks to ensure its own energy, transport, and food security; —possibility of finishing the construction of major hydropower plants; —slowdown in the de-industrialization processes; —possibility of restoring cooperation ties, including within the CSTO; —protection of national interests in globalization and geopolitical instability conditions.	—deterioration of the global situation could have a significant effect on the parameters of Tajikistan's participation in world trade (due to the limitation of export goods); —possible drop in revenue from the sale of raw resources capable of lowering the country's financial potential; —high degree of the country's dependence on the inflow of migrant remittances could have a negative effect on the economic growth rates; —deterioration of the situation in the labor market in Russia due to the sanctions and mass inflow of migrants could have a negative effect on social stability; —change in the geopolitical situation in the region related primarily to the economic sanctions against Russia could significantly narrow the opportunities for ensuring the sustainable economic development of Tajikistan and the EEU countries; —possible deterioration of the economic situation in the EEU countries is fraught with weaker integration interaction.

Conclusion

As the SWOT analysis shows, the main problems facing Tajikistan regarding its possible accession to the EEU and efficient integration cooperation within this union are caused by the low efficiency of the country's national economy and foreign economic complex. Ensuring Tajikistan's national interests, aggravated by the globalization processes, the high dependence on foreign markets (goods, services, labor, and capital), and tough competitive struggle for resources, as well as retaining its political independence depend on the implementation of an efficient integration policy. In addition to integration within the CIS, accession to the EEU is an important strategic vector of Tajikistan's foreign and foreign economic policy.

At the same time, all the potential negative consequences of Tajikistan's accession to the CU and EEU must be seriously studied. These consequences might be caused by a drop in revenue from foreign economic activity, for example. However, it seems that there is very justified hope that they will be covered by the synergetic effect from Tajikistan's accession to the EEU in the form of market expansion, increase in the volume of national production, increase in export scope, optimization (cheapening) of import, increase in employment, and so on.

In this context, it is worth remembering that the establishment of the CU presumes the formation of a common basket of customs duty receipts and each country receiving its share of its distribution.

From the viewpoint of protecting national economic interests and achieving an optimal balance of pluses and minuses during Tajikistan's accession to the EEU, it should be kept in mind that there will likely be disbursements relating to the country's contribution to this basket and it should try to increase its share in it.

In my opinion, in the near future, the EEU will become the main model of integration cooperation in the CIS. However, we must also recognize the exclusively important role of Russia, Kazakhstan, and Belarus as the founding countries of the CU and, later, the EEU.

It should be noted that the development prospects for the EEU in general and its efficiency for Tajikistan in particular primarily depend on the ability of crisis-stricken Russia to fully realize the organization's integration potential. This is largely prevented by the deterioration in the world geopolitical situation and the EU sanctions instigated against it.

On the other hand, the situation developing within Russia and around it could serve as a catalyst for intensifying interaction within the EEU and promote a transfer from declarations (as was the case in the CIS) to the creation of a real integration union among the Eurasian states.