

THE ANALYSIS OF INTEGRATION PROCESSES IN EURASEC CUSTOMS UNION THROUGH THE MODERN ECONOMIC CONCEPT

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Abstract: The paper demonstrates some peculiarities of EurAsEC Customs Union at present, investigates its functioning through the theory of integration. The article analyses the problems present in the CU structure and considers the main principles common to any integration structure.

Key words: Customs Union, the theory of integration, customs duties, common economic space, EurAsEC, World Trade Organisation, common tariff.

6 July 2010 is the day, when the integration union of the three countries: Russia, Belarus and Kazakhstan, called the Customs Union of the EurAsEC began to function. This union involves economic integration of the three countries, the creation of a common customs territory, the introduction of common customs tariffs and a common trade policy towards third countries. The elimination of trade barriers between the CU member countries contributes to the increased mutual trade flow among those without need to take any tariff and non-tariff restriction measures. A flood of opinions and comments regarding the reasons for its formation as well as its economic and political perspectives have been both positive and negative. Experts of the Russian Academy of Sciences predict the growth of both intra-union trade and GDP of member states by 2015. On the other hand, Judy Shelton, an economist and vice chairman of the Board of Directors of the American National Endowment for democracy, sees no future for this organization because of differing economic objectives of its participants and the meaninglessness of this Union as a whole.

A number of western politicians and researchers consider the newly formed CU in terms of politics as an attempt of the Russian president Vladimir Putin to reestablish a USSR type union, as a forced measure caused by the postponement of Russia's accession to the WTO. This union is more worth being analyzed in terms of current economic conceptions. It has been shown that the application of different theories makes it possible to identify specific features of the integration processes within the Customs Union. These modern theories arose in the multi-polar world, which lately has been witnessing the worldwide increase in integration processes and, as a result, has reflected on the accumulated experience and expressed it in the theory of integration.

This approach is based on the principle of multilateralism which enables us to identify the common features of the existing economic integration organizations, as well as common problems of their organizational structures. According to the principle of multilateralism proposed by Miles Kahler, John Gerard Ruggie in one of his works allocates 3 principles essential to the creation of integration unions, namely (Kahler, 1992; Ruggie, 1992):

- the principle of indivisibility,
- the principle of non-discrimination,
- the principle which is called "diffuse reciprocity".

The principle of indivisibility is inherent in every organization and it means that all the association members agree to take equal political and economic responsive measures in case one of them comes under some outside attack. In the EurAsEC Customs Union this principle is reflected in common tariff and non-tariff regulation measures, sanitary and phytosanitary restrictions in trade relations with non-block countries whose products don't comply with any Union member's requirements. There have been a few cases of this principle being used, including the refusal of all the CU states to buy meat and milk imported from Ukraine and a well-known case of restrictions for U.S. to export poultry and turkey meat to CU since February 11, 2013. These products did not meet the

requirements of the Russian Federation standards, however, all the CU member states took the same prohibitive and restrictive measures, which was a direct proof of this principle being in operation in this organization.

It should also be noted that Russia's accession to the WTO entailed the harmonization of its custom duties in accordance with the WTO requirements, which in the long run required similar revision of those for all the members of the Customs Union. This procedure not only testified the well-coordinated work of the participating countries, but also created a good springboard for the Republic of Belarus and the Republic of Kazakhstan to the subsequent possible accession to this organization (WTO).

The next principle to be considered is that of non-discrimination, which implies the elimination of any barriers within the Union and the encouragement of the most favourable atmosphere among all the participants. The very idea of this principle is expressed in the definition of the term "Customs Union" itself – it is meant to provide non-restricted intra-bloc movement of goods produced on its territory as well as goods from outside countries. It should be noted that there is no discrimination of its members' interests, as each of them is entitled to submit any issues for the consideration of the Eurasian Economic Commission (ECE), which is a permanently functioning governing body of the association.

The last principle is that of "diffuse reciprocity", which ensures that CU member states' interaction is guided not by the principle of "service-to-service" (i.e. quid-pro-quo), but is based on long-term guaranteed balanced relations. The three countries have concluded a lot of treaties and agreements regulating the cooperation in a wide spectrum of directions and that are valid for the whole period of the Union's functioning. The creation of the common economic space is a long process during which the CU countries, in exchange for long-term common goals, have to sacrifice a lot of profitable short-term projects including favorable interest rates on a number of goods. We believe that, the existence of the CU and its planned transition to the Common Economic Space (CES) in 2015 provides evidence of the successful functioning of the above-mentioned principle.

Lisa L. Martin, a professor of the University of Wisconsin whose research is based on the integration theory, identifies four major problems a participant of any integration structure faces, namely those of (Martin, 1992):

- collaboration;
- coordination;
- suasion;
- assurance.

Let's consider each one individually. The issue of collaboration implies that countries creating an integration association must agree on a balance of interests for some specific issues, which inevitably undermines some of their basic strategies. In other words, in order to resolve the disputes all of the association members have to neglect some of their own interests and make concessions, thus suffering some losses in the short term, but in the long term gaining a lot from the decisions made. With regard to the Customs Union concerned, it should be noted that some tariff agreements for various groups of goods haven't been achieved. When the CU was created there were a lot of debates about the external duty rates for goods strategically important for the member states due to different levels of the member states' economic development, so the "floating rate" was adopted. It establishes varying rates of duties for some goods, which after a while will have fixed specific value for all member states. However, still some uncertainties exist in these matters; for example, neither the agreement on export duties for oil products has been reached nor the agreement on import duties for foreign cars. Alexander Lukashenko's criticism of the Customs Union at the conference in Minsk on October 24, 2013 is worth mentioning. He accused Russia of limiting the access of some Belarusian goods to the Russian market, "You remember the "sugar war", the "milk war", etc. Onishenko (G.G. Onishenko the ex-chief Sanitary Inspector of Russia since 1996) is the main ideologist and trade representative in Russia. He is a leading expert in Moldovan wines, Georgian mineral waters and in our meat, milk, sugar. You know how these levers are geared", he said. This problem should be resolved, because the differing tax rates on the different goods for CU countries will lead to the confusion inside the union, as being beneficial only for one member country thus causing the problem of assurance.

The coordination problem implies that there has to be one authority body that manages the union and whose decisions require unquestioning fulfillment. Such regulatory bodies have been created, with the above mentioned Eurasian Economic Commission enjoying 170 functions and authorities being one of them. The higher supra-national body of the association is the Highest Eurasian Economic Council (HEEC), which is made up of the heads of CU States and heads of their governments. The existence of these bodies, as well as annual meetings of the heads of CU states and their governments, as well as the clearly defined strategy of its transformation to the CES enables us to conclude that this problem, that of coordination, has not surfaced in the work of the EurAsEC Customs Union.

The assurance problem means one simple rule - while all the CU members commit themselves to one common course - it makes no sense for any of the member countries to play its own game, as it won't bring any profit. As used here, it is very difficult to elicit this problem in the existing Customs Union; despite some disagreements the member states continue to pursue the common course and try to settle any arising dispute. When we consider this problem with regard to the CU the only thing that can afflict the assurance is the possible change of power in the states concerned. In each state there are political forces that by all means resist the existing integration and downplay its significance and its benefits. However, this problem is common not only to this kind of an association but also to any democratic state, due to the fact that any authority has its own opposition that is adherent to a different position on some issues and strives for power in order to put its plans into action.

Last but not least is a suasion problem. As its name implies, it involves pressure measures the member states may take towards each other in order to gain some benefits. These may include either reasoning or threats. For example, when the CU countries need to make a contract with a third country, which seems to be money-losing on a short term horizon, one of its participants can convince the others by making some concessions, or by covering some part of the expenses in view of the impending income receivable, or by threatening to reduce their share in the anticipated long-term profit. Within the EurAsEC Customs Union this problem has been raised by Belarus that wanted Russia to make some concessions regarding energy supplies, and threatened to withdraw from the CU in case of Russia's refusal. However, these issues have been successfully resolved, with both sides of the conflict being satisfied.

In conclusion, it should be noted that the above analysis based on economic conceptions shows that the CU established within the EurAsEC is not an ordinary integration union. In order to provide a comprehensive picture of the integration unit under consideration and allocate the problematic elements and situations, it is necessary to apply different approaches and paradigms to the CU. The theories of integration have made it possible for us to explore how the three principles typical to any integration association function in EurAsEC Customs Union.

The principle of indivisibility is illustrated by the harmonization of the union's duties in compliance with the WTO requirements, as well as joint common tariff and non-tariff regulation measures, sanitary and phytosanitary restrictions in trade relations with third countries whose products don't comply with any Union member's requirements. The principle of non-discrimination is reflected in the management and regulatory bodies of the Customs Union, with every member state being represented and having a say in setting the agenda and bringing up for discussion various issues of concern. The principle of diffuse reciprocity can be found in the operation of the CU itself, the number of tradeoffs among its members, solutions that sacrifice short-term gains in exchange for long-term aggregate benefits and more rapid movement towards a fully-fledged economic union. Research on the EurAsEC Customs Union in terms of the problems formulated by Lisa Martin has shown that it still has to address some cooperation problems or conflicts of interest, including lack of agreement over unified tariff rates for some goods. Another negative aspect about CU worth mentioning is various forms of leverage affecting the block's members' decision making process, which can be illustrated by the Belorussian leader's ultimatum issued on oil products' tariffs.

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