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Polesky State University, Pinsk, Republic of Belarus*Received 12 September 2017***SYNERGISTIC FINANCE-ECONOMIC INTEGRATION EFFECTS IN THE EAEU AS THE MAIN FACTOR IN THE EFFECTIVENESS OF THE FUNCTIONING OF THE WHOLE UNION**

Summary. *The article describes main macroeconomic indicators which characterize the effectiveness of the functioning of the Eurasian Economic Union. The prospects for the further development of the EAEU based on the synergistic and multiplicative integration effects are considered.*

Keywords: *Eurasian Economic Union, international economic integration, division of labor, mutual investments*

Introduction: The Eurasian Economic Union (EAEU) began its activity as an international integration structure from January 1, 2015. The EAEU is a multi-vector economic space. At first Belarus, Kazakhstan and Russia united together within the Union, and Armenia and Kyrgyzstan were joined by them later.

However, after the collapse of the USSR, the states received sovereignty and sought to preserve historically developed trade and economic, military-political and socio-cultural links without obligations, which could affect their independence, at the same time sought to international economic integration. So, the international economic integration is a high (mature) degree of internationalization of production based on the development of deep stable interrelations and division of labor between national economies, leading to a gradual merging of the reproductive structures of a number of states [1, p. 10]. Thus, the EAEU member states sought to deepen trade and economic links, work to eliminate barriers, exceptions, limitations and create single markets, uniting the economic and production structures of the states within the framework of integration cooperation at the level of the economic union with the growth of mutual investments and joint ventures.

Results and their discussion. Eurasian Economic Union began its activity in difficult conditions, and the more obvious are the benefits of the Union's creation to its members. It is easier for states to overcome crisis by working together. During the first year of the Union's activity the situation was complicated by the worsening economic situation in Russia.

Russia as a leader of Eurasian integration had a negative impact on the economies of member states [2, p. 25-26]. It should be noted that Russia provides 80% of the Union's gross domestic product (GDP).

Among the factors that weaken the economies of the states of the Union in 2015, it can be identified instability in world markets, low oil prices, weakening of national currencies. The weakening of the Russian ruble led to devaluations of the currencies of the Eurasian Economic Union member states. The Kazakhstani tenge depreciated by 3% against the US dollar, the Armenian drams – by 18%, the Kyrgyzstani som – by 25%, the Belarusian ruble – by 50% and the Russian ruble – by 57%. Such a chain reaction is connected with the fact that these states are united by mutual trade and economic relations.

Analyzing the economic sustainability of the integration association, should consider dynamics of main macroeconomic indicators and results of trade and economic cooperation among of the EAEU member states for the period from 2015 to 2016.

So, the GDP of the EAEU in 2015 decreased by 3% (1.6 trillion US dollars) compared with 2014. In Belarus, the GDP decreased by 3.9%, in Russia – 3.7%. At the same time, GDP growth was tagged in Kazakhstan – 1.2%, Armenia – 3% and Kyrgyzstan – 3.5%. The fall in the economy of the EAEU in 2016 was 0.1% (1481.6 billion US dollars). The trend of GDP growth was noted in Kazakhstan, Armenia and Kyrgyzstan by 1%, 0.2% and 3.8% respectively in 2016. There is a positive trend in Belarus and

Russia compared with 2015. Belarus' GDP declined only by 2.6%, in Russia – 0.2%.

The total volume of investments in fixed assets in the Union fell by 7.2% in 2015. The decline in this indicator was only 1% in 2016. In particular, volumes decreased in Belarus, Armenia and Russia by 17.9%, 10.8% and 0.9% respectively. The growth of volumes in fixed assets investments was observed in Kazakhstan (5.1%) and Kyrgyzstan (3.8%) in 2016. Reducing the volume of concessional lending has affected the reduction of fixed assets investments in Belarus.

The annual inflation rate of the EAEU in the whole in 2015 was 12.4%, which is 1.3% higher than in 2014. The highest inflation rate was tagged in Kazakhstan – 13.6%, which was the result of delayed devaluation. In Russia, prices increased by 12.9%, in Belarus – 12%, Kyrgyzstan – 3.4% and Armenia – 3.7%. In 2016, this indicator of the EAEU in the whole decreased by 2 times, amounting to 5.7%. In Belarus inflation was 10.6%, Kazakhstan – 8.5%, Russia – 5.4%. Deflation was tagged in Armenia and Kyrgyzstan of 1.1% and 0.5% respectively. The decline in inflation in the EAEU in 2016 was affected by the stabilization of economic conditions in global markets and a reduction in capital outflows [2, p. 26].

Volumes of industrial production of the Eurasian states in 2016 increased by 0.9% compared to 2015. This is better than the situation in 2015, when the reduction in volumes was 3.4%.

The dynamics of the volume of agricultural production of the EAEU in 2016 was positive. The increase was 4.5% compared with 3% in 2015 year. The reduction of imports (by 10%) continues due to increase of its own production.

Next, consider the trade and economic cooperation of the Union's countries.

In 2015, internal trade turnover amounted to 90.57 billion US dollars, increasing by 35% compared with 2014. The balance was positive

at the level of 0.18 billion US dollars. The largest share in the value of export payments in the total mutual trade volume of the EAEU belongs to Russia and Belarus (Table 1).

It should be noted that there was a mutual trade growth of the proportion of the total foreign trade volumes of the EAEU by 0.6% to 14.2% in 2016 with respect to 2015. Yet these quantities aren't sufficient to ensure the sustainability of the Eurasian Economic Union. Let's remind that the minimum level of mutual trade in total trade volume should be 25%.

The foreign trade turnover of the EAEU member states with the third countries in 2015 was at the level of 579.49 billion US dollars (a decrease of 33.3% compared to 2014). Volume of goods exports of goods decreased by 32.8%, imports decreased by 34.2%. The balance of foreign trade in goods in 2015 amounted to 168.7 billion US dollars, which is below the level of 2014. In 2016, this figure was 509.7 billion US dollars (a reduction of 12%). Including export amounted to 308.4 billion US dollars (lower by 17.5%), import – 201.3 billion US dollars (lower by 2%). So, the surplus of foreign trade amounted to 107.1 billion US dollars (Table 2).

It is necessary to note positive trends in the activity of the EAEU in the first two months of 2017. The main indicator of positive changes was the statistics of foreign and mutual trade in January-February this year, which demonstrated its sharp growth. According to the data of the Eurasian Economic Commission, the mutual trade of the EAEU member states in January-February 2017 increased by 34.2% compared to the same period of the previous year. Armenia was the leader in terms of growth rates, its mutual trade grew by 52.8%. The second place in this indicator was occupied by Kazakhstan (42.6%), followed by Belarus (41.7%), Russia (30.9%) and Kyrgyzstan (8.6%).

Table 1 – Contribution of the EAEU member states to the aggregate volume of the mutual trade in 2015 and 2016, %

States	2015	2016	2016 compared to 2015
Belarus – Russia	57,14	61,05	3,91
Kazakhstan – Russia	33,45	30,41	-3,04
Armenia – Russia	2,82	3,12	0,3
Kyrgyzstan – Russia	3,2	2,74	-0,46
Kazakhstan – Kyrgyzstan	1,9	1,53	-0,37
Belarus – Kazakhstan	1,26	0,93	-0,33
Belarus – Kyrgyzstan	0,15	0,12	-0,03
Armenia – Belarus	0,07	0,12	0,05
Armenia – Kazakhstan	0,01	0,08	0,07

Source: compiled by the author according to the Eurasian Economic Commission data [3]

Table 2 – Foreign trade volume of the EAEU member states with third countries in 2015 and 2016, mln. USD

Armenia				
Indicators	2015		2016	
Trade turnover	3472,3		3560,5	
including export and import	1253,4	2218,9	1390,8	2169,7
Balance	- 965,5		- 778,9	
Belarus				
Indicators	2015		2016	
Trade turnover	28794,2		24368,4	
including export and import	15688,6	13105,6	12162,5	12205,9
Balance	2583		- 43,4	
Kazakhstan				
Indicators	2015		2016	
Trade turnover	60131,5		48366,9	
including export and import	40838,8	19292,7	32858	15508,9
Balance	21546,1		17349,1	
Kyrgyzstan				
Indicators	2015		2016	
Trade turnover	3199,2		3500,4	
including export and import	1136,6	2062,6	1126	2374,4
Balance	- 926		- 1248,4	
Russia				
Indicators	2015		2016	
Trade turnover	483895,8		429993,3	
including export and import	315189,5	168706,3	260907,6	169085,7
Balance	146483,2		91821,9	
Eurasian Economic Union				
Indicators	2015		2016	
Trade turnover	579493		509789,5	
including export and import	374106,9	205386,1	308444,9	201344,6
Balance	168720,8		107100,3	

Source: compiled by the author according to the Eurasian Economic Commission data [3]

Russia became the leader in terms of growth in foreign trade. Its trade turnover with third countries increased by 33.2% in January-February this year, while Armenia – by 19.5%, Kazakhstan – by 15.6%, Belarus – by 9.5%, and Kyrgyzstan – by only 4.8%. One of the reasons for this jump was the increase in oil prices, which began after the agreement was reached by OPEC and other oil-producing states at the end of last year to cut oil production.

However, not only oil supplies increased in mutual trade. If the trade in mineral products in two months increased by 24.6%, then by metals and metal products – by 2 times, by machinery, equipment and vehicles – by 44.5%, and food goods and agricultural raw materials – by 34.1% [4].

That is, in all other areas, the growth of mutual trade turned out to be much more significant

than for mineral products, the main of which are oil and gas. Thus, at the end of this year, it can be expected a stabilization of the situation relative to last year.

Let us turn to the consideration of macroeconomic indicators, characterizing the sustainability of the Union's economic development. These indicators are spelled out directly in the Treaty on the EAEU. Firstly, the annual deficit of the consolidated budget of a state-controlled sector should not exceed 3 percent of the gross domestic product. Secondly, debt of a state-controlled sector should not exceed 50% of the GDP. Thirdly, inflation rate per annum (December to December of the previous year, in percent) shall exceed the

inflation rate in the Member State with the lowest value by not more than 5 % [5].

Consider how the requirement to the value of the annual deficit of the consolidated budget of a state-controlled sector relative to GDP was fulfilled in the EAEU member states (Table 3). Kazakhstan didn't match the established standard in 2015 – the budget deficit was 3.4%. The budget deficit in Armenia, Russia and Kyrgyzstan in 2015 was at the level of 4.8%, 2.6% and 1.48% respectively. Belarus completed the year with a budget surplus of 1.7%. The situation didn't change radically in 2016: the budget surplus was 1%. The remaining countries of the Union – with a deficit: Russia (3.56%), Kazakhstan (1.7%), Armenia (5.6%) and Kyrgyzstan (4.5%).

An important characteristic of budget sustainability is the size of its deficit. Fluctuations in its value of the EAEU member states were related with the worsening of the external economic situation, the sharp fall in oil prices. For this reason, in 2016 Belarus' consolidated budget revenues amounted to 100.5% of the adjusted annual plan, while expenditures – 97.1%. Also, the decline in demand for domestic products in traditional export markets affected the deviation of results of economic development in 2016 from the approved target parameters [6].

The reasons for the growth of Armenia's budget deficit are a general reduction in budget revenues due to lower revenues from the value

added tax and reduction of non-tax revenues. At the same time, experts of the Eurasian Development Bank note that the expansion of the budget deficit in 2016 was somewhat offset by an increase in income tax (by 5.4%) and profit tax (by 28.6%) [7].

The value of Kazakhstan's budget deficit in 2016 reduced by half after adaptation to a significant shock, which was caused by low oil prices and weak demand from key trading partners. The new budget plan for 2017-2019, based on the price of \$ 35 per barrel for oil exported by Kazakhstan, starts from a gradual reduction in the budget deficit of the republic to 1% of GDP by 2019, provided that the growth of expenditures will be lower than the nominal GDP growth and the budget stimulation will cease [8].

The main reason for the budget deficit in Kyrgyzstan is the decline in social reproduction. The budget deficit is formed by reducing taxes and increasing costs, the so-called «countercyclical policy», which involves economic recovery for several years. The problem of cyclicity is that the downturns and ups in the economic cycle may not be the same in depth and duration. Thus, reasonableness of the state budget expenditures and the lack of confidence in the real fulfillment of the obligation (collection of taxes and basic budget revenues) cause concern [9].

Table 3 – Indicators of economic sustainability of EAEU member states in 2015 and 2016

2015			
States \ Indicators	Annual deficit of the consolidated budget of a state-controlled sector, % of GDP	Debt of a state-controlled sector, % of GDP	Inflation rate per annum (December to December of the previous year), %
Armenia	-4,8	47,8	103,7
Belarus	1,7	32,5	112
Kazakhstan	-3,4	27,6	113,6
Kyrgyzstan	-1,48	63	103,4
Russia	-2,6	15	112,9
2016			
Armenia	-5,6	56,8	98,9
Belarus	1	39,4	110,6
Kazakhstan	-1,7	26	108,5
Kyrgyzstan	-4,5	60,9	99,5
Russia	-3,56	13,2	105,4

Source: compiled by the author according to the Eurasian Economic Commission data [3]

The budget deficit of Russia increased by 1% in 2016. Among the reasons for this can be seen a reduction of oil and gas revenues to the budget by 1.4% of GDP, the reduction in energy prices, the prolonged effect of sanctions from Western countries and a very problematic import substitution, and complications of international economic and political relations [10].

The size of debt of a state-controlled sector relative to GDP in Belarus, Kazakhstan, Russia, Armenia and Kyrgyzstan was 32.5%, 27.6%, 15%, 47.8% and 63% respectively in 2015. Only Kyrgyzstan has not complied with this requirement. This standard wasn't performed by two countries in 2016: Armenia (56.8%) and Kyrgyzstan (60.9%). The size of debt of a state-controlled sector relative to GDP was 39.4%, 13.2% and 26% in Belarus, Russia and Kazakhstan respectively.

Inflation rate in the countries of the Union exceeds the established standard. In 2015 only Armenia and Kyrgyzstan were close to the minimum allowable level of consumer price index (the minimum level is + 5 pp.). This requirement wasn't also observed in 2016, despite the fact that the inflation rate decreased by 2 times in 2016 compared to 2015.

Analyzing the compliance of the EAEU members with the standards, defined in the Treaty on the EAEU, it can be concluded that it's impossible to implement a single monetary policy at the present time. Thus, the EAEU doesn't have sufficient macroeconomic sustainability.

Returning to the Treaty on the EAEU it should be noted the main objectives of the Union are spelled out in it. Firstly, to create proper conditions for sustainable economic development of the member states in order to improve the living standards of their population; secondly, to seek the creation of a common market for goods, services, capital and labour within the EAEU; thirdly, to ensure comprehensive modernisation, cooperation and competitiveness of national economies within the global economy [5].

Conclusion: In conclusion, it should be noted that the Eurasian Economic Union hasn't sufficient macroeconomic sustainability yet, as the member states don't comply with the relevant standards which are spelled out in the Treaty on the EAEU. This concerns the level of annual deficit of the consolidated budget of a state-controlled sector, debt of a state-controlled sector and inflation rate per annum of the EAEU member states.

Analyzing how in particular the state of the Belarusian economy has changed, it should be noted that before joining the EAEU the economic situation of Belarus was characterized by a number of problems: on the whole, none of the forecast indicators of economic development was fulfilled by the results of economic activity in 2014. The foreign trade balance of goods and services to GDP was minus 0.5% (with a forecast of plus 0.1%); GDP growth – 101.6% (forecast 103.3%); exports of goods and services declined by 1.1% instead of the planned growth forecast by 8.6%; the consumer price index for the year of 2014 – 116.2% (forecast – not more than 111%). It also concerned the volume of foreign direct investment (the plan was fulfilled at 40.0% of the annual target), foreign trade in goods and services and other indicators. In fact, this trend is associated with deterioration in the financial position of enterprises and population.

In this connection the great hopes of stabilizing economic situation in Belarus were laid on the Eurasian Economic Union. Despite the transition to a deeper phase of economic cooperation, its outcome was very modest. The EAEU united mainly raw-material, dependent on foreign markets and technologically dependent economies and faced many difficulties in terms of external economic and geopolitical shocks.

At present, the economic situation hasn't changed radically. The oil and gas issue remains controversial for the Belarus-Russia relations. Despite the fact that within the framework of the Union State was decided to equal income gas prices for Belarusian and Russian entities, but it remained on paper. As a result, an additional burden on the economy of Belarus in the last 10 years amounted to 15 billion US dollars.

Currently, despite the general decline in economies of the EAEU member states, the increase of agricultural production within the Union in 2016 was about 4%. External supplies are gradually replaced by their own products. Import from third countries decreased by more than 10%. It's important that Eurasian cooperation in the agricultural sphere reaches a qualitatively new level and yields tangible results.

Belarus is heavily dependent on Russia. Although Belarus has a completely different political and economic model, Russia is its important market. Belarus has become very dependent on supply of petroleum products to Western markets. From the point of view of economic security, it isn't the best option. The

main export products are machinery and equipment in developed economies.

For example, Russia and Kazakhstan are resource-based economies; Kyrgyzstan and Armenia are an emigration type, as the share of remittances from migrants is almost half of GDP. Belarus is the only production economy, which maintains its industry as an important sphere not only for employment, but also for economic security.

That's why during the EAEU activities, synergistic and multiplicative integration effects become important. So, along with the increase of mutual trade volumes of the countries, the importance of mutual investments and joint ventures is growing. At present, the Union's potential hasn't yet been fully realized. The Union has to overcome a thorny path to eliminate barriers, restrictions, create necessary conditions for the harmonisation of national legislations in order to enhance the economic potential of the Union, the formation of single markets and their effective activity. Competition is an attribute of successful integration. It is necessary to create a favorable investment climate for activating entrepreneurial activity in the Eurasian space. That is why the process of removing barriers in the Eurasian Economic Union is accompanied by the unification and harmonisation of national legislations.

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КОРОЛЬ О.В.

СИНЕРГЕТИЧЕСКИЕ ФИНАНСОВО-ЭКОНОМИЧЕСКИЕ ЭФФЕКТЫ ИНТЕГРАЦИИ В ЕАЭС КАК ГЛАВНЫЙ ФАКТОР ЭФФЕКТИВНОСТИ ФУНКЦИОНИРОВАНИЯ ВСЕГО СОЮЗА

***Аннотация.** В статье проанализированы основные макроэкономические индикаторы, характеризующие эффективность функционирования Евразийского экономического союза. Рассмотрены перспективы дальнейшего развития ЕАЭС на основе синергетического и мультипликативного эффектов интеграции.*

***Ключевые слова:** Евразийский экономический союз, международная экономическая интеграция, разделение труда, взаимные инвестиции*

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