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Master's Thesis

The Effect of the Eurasian Economic Union on Kazakhstan

유라시아 경제 연합이 카자흐스탄에 미치는 영향

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Abstract

The Eurasian Economic Union (hereafter – EAEU) is one of the youngest but at the same time one of the biggest regional economic integration organizations on the global arena along with other respectful organizations, such as the European Union, NAFTA, MERCOSUR, and many others. It consists of five members of post-Soviet Union countries, such as Armenia, Belarus, Kazakhstan, Kyrgyzstan, and the Russian Federation. The EAEU was established in 2015 year, but the first attempts to initiate and stimulate integration processes between countries had been started way earlier, right after the collapse of the USSR in 1991, however the final and fully functional organization, the Eurasian Economic Union, was brought into force five years ago.

This thesis examines the Eurasian Economic Union as a regional economic integration association and its effect on its member-countries and specifically on Kazakhstan. In this work, theoretical background on the former USSR space's integration process history and an institutional structure of the most recent regional organization, the EAEU, are provided. What is more, there was made an analysis based on the statistical data from different brochures, reviews, and reports from official sites of the Eurasian Economic Commission, Ministries of countries and etc. Furthermore, there were utilized regression analysis method in order to give a full understanding of how Kazakhstan's trade pattern was affected by the Union's creation. Moreover, taking into consideration that there are a huge variety of advantages of integration between neighboring countries, hence it was expected to observe the positive trend between member-states' trade and to witness an increase of the export value from Kazakhstan to other parties of the Union right after the establishment of the Union.

However, the results obtained from analysis parts demonstrate that the effect of the Union on the export value of Kazakhstan isn't significant and doesn't contribute substantially to its overall increase. It also shows that there might be other different aspects that contributed to a close linkage between the Union's parties even

before the establishment of the Union, such as common history when they were all one single country, USSR. However, according to the results, Kazakhstan has gradually increased its exports to contracting parties throughout the years of functioning and most substantially import and it actually became more importing country rather than exporting within the Union despite its initial goal.

Moreover, after the observation of obtained results from the analysis part, the author discussed some negative aspects and problems that Kazakhstan is facing as one of the member-countries of the Union and also provided some possible solutions. Also, there were discussed some advantages that are beneficial for Kazakhstan and also there were highlighted future perspectives that may contribute to further improvements.

Key words: regional economic integration; integration effects, Eurasian Economic Union; Customs Union; Common Economic Space; export, import, trade.

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추상적

유라시아 경제 연합(이하 EAEU)은 최연소 중 하나이지만, 동시에 유럽연합, NAFTA, MERCOSUR 와 같은 다른 존경스러운 조직들과 함께 세계 무대에서 가장 큰 지역 경제 통합 조직 중 하나이다. 아르메니아, 벨라루스, 카자흐스탄, 키르기스스탄, 러시아 연방 등 소비에트 연방의 5 개 회원국으로 구성되어 있다. 2015 년에 EAEU 가 설립되었지만, 국가 간 통합 프로세스를 시작하고 자극하려는 첫 번째 시도는 소련 붕괴 직후부터 시작되었지만, 최종적이고 완전하게 기능하는 조직인 유라시아 경제 연합이 5 년 전에 발효되었다.

본 논문은 유라시아 경제 연합을 지역 경제 통합 협회로서 그리고 그 회원국과 특히 카자흐스탄에 미치는 영향을 고찰한다. 본 연구에서는 옛 소련 공간에 대한 통합 프로세스 역사의 이론적 배경과 가장 최근의 지역 조직인 EAEU 의 제도적 구조가 제공된다. 더구나 유라시아 경제위원회, 국가부처 등 공식 사이트의 서로 다른 브로슈어, 리뷰, 보고서 등의 통계 자료를 바탕으로 분석이 이뤄졌다. 나아가 카자흐스탄의 무역패턴이 유니온의 창설로 어떤 영향을 받았는지를 충분히 이해할 수 있도록 회귀분석법을 활용하였다. 더욱이 주변국 통합의 장점이 다양하다는 점을 고려해 회원국 간 교역의 긍정적 흐름을 관찰하고, 연합 창설 직후 카자흐스탄에서 다른 정당으로의 수출가치가 높아지는 것을 목격할 것으로 기대했다.

그러나 분석 파트에서 얻은 결과는 유니온이 카자흐스탄의 수출가치에 미치는 영향이 크지 않고 전반적인 증가에 크게 기여하지 않는다는 것을 보여준다. 그것은 또한 그들이 모두 하나의 단일 국가였던 소련의 공통 역사와 같이 연방이 설립되기 전부터 연방의 정당들 사이의 긴밀한 연계에 기여하는 다른 다른 측면들이 있을 수 있음을 보여준다. 그러나 그 결과에 따르면 카자흐스탄은 기능하고 가장 실질적으로 수입하는 기간

동안 계약 당사국들에 대한 수출을 점차 늘려왔고, 초기 목표에도 불구하고 실제로 연합 내에서 수출하기 보다는 수입국이 되었다.

또한 저자는 분석 부분에서 얻은 결과를 관찰한 후 카자흐스탄이 연합의 회원국 중 하나로 직면하고 있는 몇 가지 부정적인 측면과 문제점을 논의하였고 몇 가지 가능한 해결책을 제시하였다. 또한 카자흐스탄에 이익이 되는 몇 가지 이점도 논의되었고, 더 나아가 향후 개선에도 기여할 수 있는 미래 관점도 강조되었다.

주요 단어: 지역 경제 통합, 통합 효과, 유라시아 경제 연합, 관세 연합, 공통 경제 공간, 수출, 수입, 무역.

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Abbreviations & Explanations

CES	Common Economic Space
CIS	Commonwealth of Independent States
COMTRADE	UN Database of Merchandise Trade Statistics
CU	Customs Union
EAEC	Eurasian Economic Community
EAEU, Union	Eurasian Economic Union
EDB	Eurasian Development Bank
EEC	Eurasian Economic Commission
EurAsEC	Eurasian Economic Community
EU	European Union
FTA	Free Trade Organization
MERCOSUR	Mercado Común del Sur (Eng.: Southern Common Market)
NAFTA	North America Free Trade Agreement
UK	United Kingdom
USSR	United Soviet Social Republics
WTO	World Trade Organization

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I. INTRODUCTION

In modern conditions, the increasing internationalization and openness of national economies contribute to the rapid development of integration processes and their transition to a new qualitative level. The economic role of integration is great, it expands economic space and unites the efforts of the member countries in solving socio-economic problems and determining foreign economic policy. Hence, the question of the effectiveness of regional integration associations on the huge territory of post-Soviet Union countries is an important issue since they all shared a common history and single market for a long period of time and the goal of the economic development for all members of the Eurasian Economic Union is to achieve and maintain a high-quality and sustainable economic growth. The Republic of Kazakhstan is one of the first initiators and an active and consistent organizer of integration processes between neighboring countries. The development of integration processes in the EAEU countries was supposed to contribute to solving economic, political, and social problems. Thus, after over five years of the EAEU's existence, a significant increase in macroeconomic indicators could be noted. For example, the EAEU GDP at purchasing power parity soared by 13%, GDP per capita grew by 12%, the unemployment rate fell by 12%, while investment in fixed assets improved by 19%.¹ Before and after the establishment of the Union, there were conducted numerous studies with relation to this economic Union. Hence, many researchers and experts were giving their evaluation on the EAEU functioning, for instance, E. Vinokurov and Migranyan were also assessing the Eurasian Economic Union as an integration association and were trying to figure out its effect on Kazakhstan and other member - countries. What is more, in the article written by S. V. Pankova and V.V Popov, they were assessing the mutual trade between the biggest economies within the Union, such as Russian Federation, Belarus, and Kazakhstan, and where they concluded that the member country which benefited

¹ Primeminister.kz site: Retrieved from <https://primeminister.kz/ru/news/reviews/eksperty-o-eaes-usilenie-konkurencii-na-rynke-eaes-glavnoe-dostizhenie-evraziiskoi-integracii>

most was Belarus. Nowadays, at the same time, a number of modern Kazakhstani scientists and analysts raise doubts about the effectiveness of the Union, because some of high expectations that Kazakhstan had have not been met yet. On the other hand, due to being a new organization of mostly developing post-socialist countries, the economic potential of integration didn't reach its peak yet and there are still ways for future improvement. Hence, there is still a likelihood of future upcoming opportunities that Kazakhstan as one of the member states could enjoy. So this issue is still under big question and needs further assessment.

Table 1. Economic size of the EAEU in international comparison²

Position	Country/Trade bloc	GDP in US\$ bill, 2019	GDP EAEU/GDP country
1	USA	21 374,4	8,9%
2	EU	15 592,8	12,1%
3	China	14 432,9	13,1%
4	Japan	5 081,8	37,2%
5	Mercosur	3 396,0	55,8%
6	India	2 875,1	65,8%
7	United Kingdom	2 827,1	67%
8	EAEU	1 892,6	100%
9	Canada	1 736,4	108%
10	South Korea	1 642,4	115%

² World Bank site: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>

1.1 Research Question

The purpose of this thesis is to analyze the effect of the integration process and specifically the effect of the establishment of the very last and final version of integration organizations such as the Eurasian Economic Union on Kazakhstan. The research question in this thesis is to understand the effect of the economic integration within the framework of the Eurasian Economic Union on Kazakhstan and to observe if the trade pattern of Kazakhstan with member-countries have a positive trend in comparison with a trade pattern of Kazakhstan with non-member countries and how it affected the economic development of Kazakhstan. As a result, to conclude if the regional integration organization effective and or not, and then to find out problems and provide some possible perspectives.

In order to achieve this purpose, the main objectives of the research are:

- to cover the history of economic integration processes on the territory of former Soviet Union countries and provide theoretical foundations of the Eurasian Economic Union;
- to provide overall recent economic indicators of all EAEU member-countries;
- to analyze trade patterns of Kazakhstan with EAEU member-countries and non-member countries within the period of the integration process and before and after the creation of EAEU;
- to observe the effect of EAEU on Kazakhstan by using regression analysis method;
- to identify problems and perspectives of Kazakhstan within the Eurasian Economic Union.

1.2 Purpose and Significance

In modern conditions, the increasing internationalization and openness of national economies contribute to the rapid development of integration processes. The

role of neighboring countries' integration in economics is significant, it expands the economic space and unites the efforts of member countries in solving social and economic problems and determining foreign economic policy in relation to third countries. Currently, this topic is one of the most pressing issues, since the goal of the economic development of the Eurasian Economic Union is to achieve and maintain high-quality and sustainable economic growth of participating countries. These days the EAEU member-countries' economies are developing within the framework of the current form of integration, where moderate elimination of trade barriers could be observable. The gradual reorientation of trade relations from external to domestic ones in order to get rid of foreign imported goods and to promote the development of their own market is widely discussed; hence, the analysis of the impact of mutual trade flows on the economic potential of the Union's members is important. The Eurasian Economic Union in its development has overcome a difficult path, while in the legal system there are many problems and issues that require resolution and regulation. Due to the difficult economic situation in Kazakhstan at the time of signing the Treaty, the assessment of the effects of Eurasian integration for the republic remains relevant to this day, and the question of the discrepancy between the achievements of the initial expectations of the republic's membership in the Eurasian integration bloc is constantly discussed by many experts. Therefore, finding the main issues, problems and clarifying perspectives is one of the most important tasks. There are constant talks about the Union, however, since the fits initiator of the idea of integration was the first President of the Republic of Kazakhstan, questioning the relativity of the Union isn't that widely and openly discussed on the higher echelons of power.

1.3 Methodology

The theoretical and methodological foundation of the thesis is scientific works of leading Kazakhstan, Russian, Belarusian, Armenian, and also foreign researchers, official reviews, and journal articles on issues, which are related to the

regional economic integration's processes on the territory of former Soviet Republics and the performance of the most recent regional integration union, the Eurasian Economic Union.

The second part of this thesis provides a theoretical basis for an understanding of the integration process in the post-Soviet states' space and the history of how the process was initiated and its long way towards the actual final establishment. Likewise, it provides an overall overview of the period of establishment of the EAEU and also covers structural and institutional organization: main functions, objectives and goals, operations. Moreover, it also covers the performance of all member and their trade patterns.

The third part covers an analysis of the main functions of the economic integration of member-countries within the regional trade agreement framework. The first subpart covers an analysis of the performance of Kazakhstan starting from the establishment of the Customs Union in 2010 with other member countries, such as Russia, Belarus, Armenia, and Kyrgyzstan until the recent year and also trade with the third countries and its effect on country's macroeconomic factors. The second subpart represents the linear regression model by using the OSL statistical method to observe the overall effect of the EAEU on Kazakhstan's trade pattern with its member countries. There are provided several models where dependent variables are represented by export and import values, while independent variables are represented by dummy variables and difference-in-difference estimator demonstrates the overall effect.

In the last part, after the analysis of the current situation of Kazakhstan within the EAEU framework, there are analyzed challenges and difficulties, which were brought by the EAEU and provided some ways for their improvement. There are covered negative and inefficient aspects, which should be improved or nullified in the future. Besides, there are highlighted perspectives of the Union and ways of

the improvement of Kazakhstan performance within the framework of EAEU by finding solutions of disputing issues and observe the perspectives.

For the purpose of the analysis, there is used data from the databases of various international organizations, such as the International Trade Statistics Database, The World Bank, Organization for Economic Cooperation and Development and etc. They are taken with the aim of calculating the trade value of member countries with each other and other countries of the rest of the world. Also, there are used data from the official sites of the Eurasian Economic Union as well as some databases of the member countries' state institutions. Likewise, there are used official reports and documents from Eurasian Development Bank, Eurasian Economic Commission, Ministries of Economics, Finance and Trade of Republic of Kazakhstan and etc.

II. THE THEORETICAL ASPECTS OF THE EURASIAN ECONOMIC UNION AND ITS EFFECT ON KAZAKHSTAN

2.1. Historical background of the Eurasian integration process and formation of the EAEU

The period of the collapse of the USSR was marked by a complex of disintegrating factors of regionalization, such as «the cold war» between socialist and capitalist systems and socio-economic and ideological crises during «Perestroika», which led to interethnic conflicts, separatism of national political elites, and became the main prerequisite for the emergence of new, post-Soviet communities. Therefore, the integration processes in the Common Independent Space after the collapse of the Soviet Union went a long way from the disintegration of the economic ties of former players, which was characterized by the collapse of single economic, monetary and financial space within the framework of single economic complex, to their subsequent phased integration.³

The main factors that characterize regionalization and contributed to the formation of the post-Soviet space are a common geographical position of new territorial-political subjects, long-term joint historical development within the Eurasian region framework, and, as a result, established close political and socio-cultural community of nations, single transporting system, close economic ties established by the centralized planned economy during the USSR period. Moreover, another essential factor that contributed was the creation of the World Trade Organization in 1995th year. Its establishment has determined the information agenda for discussions in terms of Eurasian integration, where getting into the WTO was defined as a vitally essential goal towards which all self-respecting national countries should strive. As a result, in order to achieve such a big goal, they realized that it's important to unite within the regional economic integration with the closest

³ See Mayer, M., Mikhailova, V., & Sykhdykova, Z. (2014).

neighbors. It was seen as an intermediate in order to be accessed to WTO on the grounds that for each country willing to access the WTO, it was mandatory to have a certain established legislative basis and developed tools of economic and customs control and the regional integration framework had similar requirements. As a result, one of the goals of the economic integration on the Eurasian space was to develop a national legal base and advanced instruments, in order to harmonize them in accordance with WTO requirements and standards.⁴ In addition, the regionalization of the post-Soviet space was also stimulated by the activation of integration processes in Europe (EC), the emergence of adjacent to the Eurasian space new regional powers like Turkey, Iran, and India, and global-regional power like China.

However, the process of regionalization among post-Soviet countries was split into two main branches: European and Eurasian, which led to the formation of two new geopolitical sub-regions de jure - the Baltic and the second one - the Eurasian. The European branch, which implies integration into Western European regional groupings and return to the fold of Western civilization, is represented by the Baltic countries, while the majority of remaining former Soviet Union countries chose the Eurasian branch of international integration.

Thus, the creation of the Commonwealth of Independent States (hereinafter - the CIS) was one of the very first steps of Eurasian integration, the main goal of which was reintegration from the already sovereign republics into an international regional organization with a single political, economic and social space. However, the collapse of the monetary union and the abandonment of common currency named ruble as a single currency and the introduction of national currencies made the countries of the Commonwealth trade less with each other, orienting their economies more towards non-CIS countries.⁵ As a result, the disintegration tendencies were

⁴ PCT Agency website “The history of the creation and development of the EAEU: from the EurAsEC through the CU and the CES” <https://www.rctest.ru/news/istoriya-sozdaniya-i-razvitiya-eaes-ot-evrazes-cherez-ts-i-eep.html>

⁵ See Goncharenko, M., & Khomyakova, L. (2016)

strengthening, which were also facilitated by the blurring of the legal and institutional framework of the Commonwealth and the almost complete absence of financial instruments and mechanisms. Therefore, the results of integration within the CIS turned out to be contradictory, and therefore, in the CIS space, all countries began to attempt actively to integrate with a smaller number of countries based on the concept of multi-speed and multi-level integration.⁶

Initially, the first President of the Republic of Kazakhstan, Nursultan Nazarbayev, was the first one who emphasized the idea of the establishment of a single unified intraregional project between former Soviet Union countries. He firstly introduced his idea during his speech in March of the 1994 year during the meeting at Moscow State University where he strongly emphasized the need to create a Eurasian Union, which would have a precise orientation only on economic issues between countries. However, Nursultan Nazarbayev's initiative, which was stated at the very peak of disintegration among post-Soviet countries, was a very bold act and it was not immediately accepted and supported right after his speech. The main reason behind it was that during that time there were two forces, that were opposing to each other: on the one hand, the strengthening of each CIS country's national independence and sovereignty, and on the other - developing economic cooperation between each other. So basically countries weren't ready to one single community, uniting their economies on the ground that they considered it as a threat to their sovereignty.⁷

However, the rapprochement of the Eurasian countries began in 1995, with the signing of the Agreement on the Customs Union between three countries like Kazakhstan, Russia, and Belarus. On February 26 of the 1999 year, Russia, Kazakhstan, Belarus, Tajikistan, and Kyrgyzstan, have signed the Treaty "On the Customs Union and Common Economic Space". This document made it possible to

⁶ See Mayer, M., Mikhailova, V., & Sykhdykova, Z. (2014)

⁷ See Migranyan A. (2019)

significantly simplify procedures of border control, intensify joint activities with the aim of expanding economic and trade cooperation, improve the foundations of a common customs tariff and determine the patterns of the application of protective measures in trade relations, and strengthen national monetary and financial structures.

Despite the fact that the common customs space has already been implemented, the heads of the participating countries expressed their desire for deeper economic integration. Therefore, they wanted not just "common borders", but a "common economy". As a result, on October 10 of the 2000 year Russia, Kazakhstan, Kyrgyzstan, Belarus, and Tajikistan signed “the Treaty on the Establishment of the Eurasian Economic Community” (hereinafter – EurAsEC), which already had elements of supranational economic regulation. At that time the first supranational body appeared, named the Court of the Eurasian Economic Community. The Treaty came into force in the year 2001 and from that moment all the principles and provisions of the Customs Union were inherited by the EurAsEC. The EurAsEC was confirmed being one of the most effective integration associations in the post-Soviet space at that time. The EurAsEC was a form of cooperation in terms of economic, social, and humanitarian spheres of six countries, such as Russia, Kazakhstan, Belarus, Kyrgyzstan, Tajikistan, and Uzbekistan, which existed from 2001 and until the year 2014. The main advantage is that there is no need to create a common market from scratch for all countries since they have been already functioning within the framework of a single national economic complex for many years.⁸

On September 19 of the year of 2003, Kazakhstan, Belarus, Russia, and Ukraine and signed an Agreement on the formation of a Common Economic Space, at the same time work began on the preparation of a legal framework in order to

⁸ EAEU. Goals and the history of establishment. Retrieved from <https://cyclopedia.ifcg.ru/wiki/>

create a single economic space that would ensure the free movement of “four freedoms”: goods, services, capital, and labor.

On October 6 of the year of 2007 Kazakhstan, Russia and Belarus signed an “Agreement on the Creation of a Single Customs Territory and the Formation of a Customs Union” on the basis of the EurAsEC. Another supranational body appeared, the Commission of the Customs Union and Supreme Economic Council. This is the very same Customs Union, in which many technical regulations will appear after several years. Customs Union started functioning from the year of 2010. It was an essential step in the EurAsEC development. The creation of the CU led to the elimination of customs, administrative, and other various barriers in mutual trade between member-countries. This helped to reduce the cost of production of the participating countries, favored the development of production ties between enterprises of the countries, created conditions for the growth of mutual trade, cooperation, and joint activities.

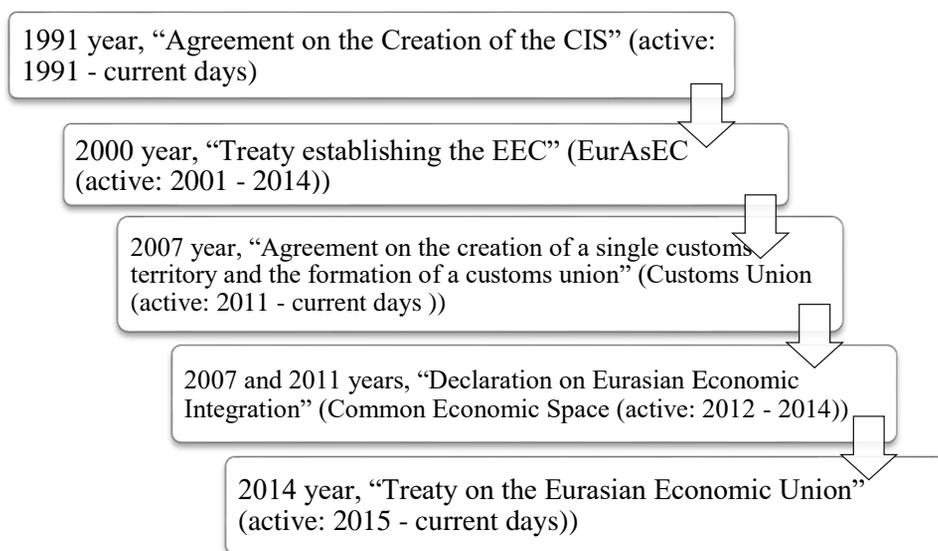
In addition, in 2010 countries of the Customs Union signed a package of agreements which was the fundamental basis in order to create the Common Economic Space (hereinafter - the CES) in the 2012 year. While CU is a free trade area, where all members share a single external tariff, the CES is a more complex term that indicates integration organization that includes not only a common market of goods, services, capital and labor, but also a common economic policy and harmonized legislation within all member-states. Hence, participating countries of the CES had a goal to encourage the establishment of a common market, which would be based on the free flow of goods, services, capital, and labor.

On November 18 of 2011, heads of Kazakhstan, Russia, and Belarus signed a declaration on the Eurasian integration. This document outlined a new target of the integration process, which was the formation of the Eurasian Economic Union by the year 2015 and the creation of a supranational interstate body, named the Eurasian Economic Commission, which had the main task such as ensuring the activities of

the CU and the CES, and also developing proposals for the further development of integration processes within member-countries. The creation of the EAEU was supposed to serve the formation of coordinated approaches in order to implement market transformations and their joint inclusion into the worldwide economic system.

The period of formation and implementation into the reality of EAEU took place from the year 2012 and until 2015. The EAEU was positioned as the "core of continental integration" which is uniting two continents, Asia and Europe. On the 18th of November in 2011, the Declaration on the Eurasian Economic Integration (the actual roadmap for an establishment of the EAEU) and the Treaty on the Eurasian Economic Commission (which meant the official recognition of a supranational regulatory body) were signed. On May 29 of 2014, in Astana (nowadays – Nur-Sultan), an “Agreement on the establishment of the EAEU” was signed. Finally, on January 1 of 2015, “the Treaty on the Establishment of the EAEU” came into force.⁹

Diagram 1. The Eurasian integration process’ chronology



⁹ Eurasian Economic Commission site: “EAEU: Questions and answers. Figures and facts” http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_razv_integr/Documents/

2.2. Institutional structure of the Eurasian Economic Union

The Eurasian Economic Union (EAEU) is a regional integration organization with an economic focus, which was founded on the territory of Common Independent States' space and has its own legal basis and was formed in accordance with the Treaty on the Eurasian Economic Union, which was signed on May 29 of the year of 2014 by the Heads of three participating parties like Russia, Belarus, and Kazakhstan.

According to Article 4 of the Treaty on the EAEU, the main goals of the Eurasian Economic Union are following:

- to create appropriate conditions for stable development and growth of the member-countries' economies with the aim of improving the living standards of their population;
- to create a single market of goods, services, capital, and labor resources;
- to initiate comprehensive modernization, cooperation and to stimulate the competitiveness of member-countries' national economies at a worldwide scale.

Bodies of the EAEU are presented by several essential organizational structures, such as: Supreme Eurasian Economic Council (hereinafter - SEEC); Eurasian Intergovernmental Council (hereinafter - EIC); Eurasian Economic Commission (hereinafter - EEC) and also the Court of the Eurasian Economic Union.¹⁰

The Supreme Council (SEEC) is the main body of EAEU, which consists of the leaders of the Union's member countries. The Supreme Council's main functions are to take into consideration the fundamental matters of the EAEU, to determine the leading strategy, main routes, and perspectives for further integration development and also to make appropriate decisions with the aim of achieving main targets. Besides, other functions of the Union include approval of the budget, budget

¹⁰ the Treaty on the Eurasian Economic Union, p.10, 2014

regulations, budget execution report, the size of the states' share contributions to the budget, and the procedure for remuneration of the EAEU bodies, and also approves the position and external audit in the bodies of the EAEU and also reviews the results of this audit.¹¹ The consensus is the way for adoption of all decisions and orders among Supreme Council members. The SEEC's decisions can be subject to execution by all participating members in accordance with their national legislation. The Supreme Council' working meetings are carried out once a year, however, if there any urgent issues in terms of SEEC's decision arise, then based on the proposal of any of the member state or the Chairman of the High Council, there can be convoked additional High Council's meeting.¹²

Another important body of the EAEU is the Eurasian Intergovernmental Council (EIC), it is the body of the Union, which consists of the government leaders of the participating countries, except for Armenia, on the grounds that from the year 2016 Armenia has become a parliamentary republic. The Intergovernmental Council ensures the implementation and control over “the Treaty on the Eurasian Economic Union” and also other international treaties within the Union and decisions of the Supreme Council. In addition, upon the proposal of the Council of the Commission, it considers issues on which no consensus has been reached; it also provides instructions to the Commission and exercises other powers provided for by the Treaty on the EAEU and international treaties within the Union. All decisions and orders of the Eurasian Intergovernmental Council are adopted by consensus, and are subject to execution by the member states. Meetings of the EIC are held as they are needed, but required minimum - 2 times in one year. Therefore, in cases if there is an urgent need to resolve certain issues, then in accordance with the initiative of any

¹¹ the Treaty on the Eurasian Economic Union, p.12, 2014

¹² The Eurasian Commission site: “EEC: questions and answers”.
http://www.eurasiancommission.org/ru/Pages/eec_quest.aspx#t3

member-state or the initiative of a Chairman of EIC, an additional meeting can be convoked.¹³

The Eurasian Economic Commission plays the role of the regulatory agency of the EAEU. It consists of two branches, such as Council and the Board. The main goals of EEC are to ensure the conditions of the developments and functionality of the Union and also to initiate various suggestions and recommendations in order to deepen economic integration between all members within the EAEU framework. The commission makes decisions that are of a regulatory nature and binding on the member states. Besides, the EEC's decisions are included in the law of the Union and subject to a direct application on all member states' territory. However, organizational and administrative orders and recommendations are not binding.¹⁴ The EEC has an extensive range of powers, covering almost all spheres, which were transferred to the supranational level: import customs duties' enrollment and distribution, trade policy in relation to third countries, foreign and mutual trade's volume statistics, macroeconomic and competition policies, industrial and agricultural subsidies, natural monopolies, state and (or) municipal purchases, mutual trade in services and investments, transport and transportation, currency policy, protection of the results of intellectual activity, labor migration between member-countries, financial markets, customs-tariff and non-tariff regulation, customs administration, information and communication technologies, and many others.¹⁵ The main function of the Council of Eurasian Economic Commission is overall management after EEC's functioning. The EEC Council consists of five representatives, one from each contracting party to the Treaty, who holds the post of Deputy Prime Minister in their national governments. Meetings of the EEC Council take place once a month, and decisions are made by consensus. The Board of the EEC is an executive body, which makes suggestions, offers, and proposals with the

¹³ the Treaty on the Eurasian Economic Union, p.15, 2014

¹⁴ the Treaty on the Eurasian Economic Union, annex 1, general provisions, p.1

¹⁵ the Treaty on the Eurasian Economic Union, annex 1, general provisions, p.3

aim of further integration within the framework of the Customs Union and the Common Economic Space. The EEC Board in total consists of 10 members, where 2 members are chosen from each participating party, one of whom is appointed as a chairman of the EEC Board. All decisions, orders, and recommendations of the Board are made by the vote of a majority (2/3) out of the total number of members of the Board or also by consensus (but in those cases if they indicated on the list of sensitive issues, which is determined by SEEC).¹⁶ The EEC Board members and the Chairman are appointed by Union's Supreme Eurasian Economic Council for a 4 years period, which is, in its turn, is represented by the heads of participating countries with an opportunity to extend their power.¹⁷

The Court of the Eurasian Economic Union is a permanent judicial body of the Union, the main purpose which is to control and ensure the uniform application by participating parties of "the Treaty on the EAEU", international treaties between members and non-members within the Union, international treaties of the Union with third countries and Union bodies' decisions. The EAEU Court is supposed to solve a variety of disputes which appear in terms of full compliance and legally correct execution of the Treaty on the EAEU, international treaties within the Union and/or in terms of decisions of the Union bodies at the request of a member country or economic entity. In accordance with dispute results, at the request of a member state, the Court makes a decision, which is obligatory to the parties that take part in the dispute. Analogically, according to the results of the dispute consideration at the request of an economic entity, the Court makes a decision, which is obligatory to the Commission. The EAEU Court consists of 2 judges from each participating country, which are appointed by the Supreme Eurasian Economic Council, the decision of which was based on the offers of participating states. Judges of EAEU are set for nine years.¹⁸

¹⁶ Eurasian Economic Union site: "Questions and answers. Numbers and facts"

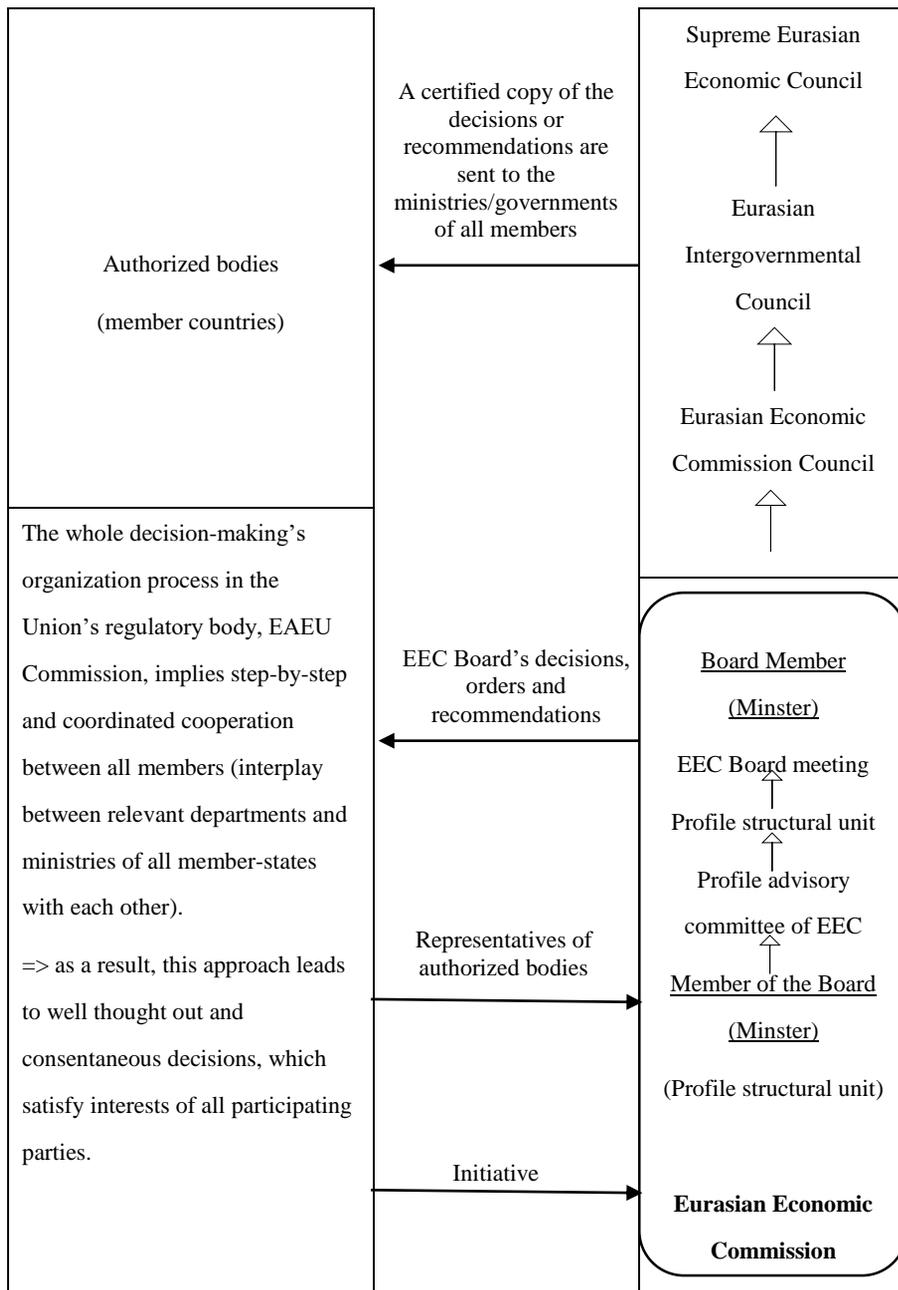
http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_razv_integr/Documents/

¹⁷ Eurasian Economic Commission meaning <https://www.alt.ru/information/glossarium>

¹⁸ The Eurasian Commission site: "EEC: questions and answers"

http://www.eurasiancommission.org/ru/Pages/eec_quest.aspx#t3

Table 2. EAEU institutions and decision-making mechanism¹⁹



¹⁹Eurasian Economic Commission site: "Eurasian Economic Union. Figures and facts", 2016.

[https://eabr.org/upload/docs/EDB%20Centre%202017 Monograph Chapter%203.pdf](https://eabr.org/upload/docs/EDB%20Centre%202017%20Monograph%20Chapter%203.pdf)

2.3. General Recent Economic Indicators of the EAEU Member Countries

Member countries of the Eurasian Economic Union, as it was previously mentioned, include five countries, represented by Armenia, Belarus, Russia, Kazakhstan, and Kyrgyzstan. Hence, the EAEU countries together possess a huge potential of natural and human resources. The overall EAEU territory is more than 20 mill. square km and accounts for more than 16% of the worldwide surface with a capacious and self-sufficient single market of 184.3 million people (which is 4.4% of the world's populations) and accounts for up to 80% of the total CIS GDP, or 4% of the world GDP.²⁰ Besides, on the territory of the Eurasian region, there is more than 25% of the world's all explored various types of minerals are concentrated, the value of which is estimated in the range of 30 trillion US dollars up to 40 trillion US dollars. What is more, the region accounts for more than 40% of the world's resources of gas and 25% of coal, 20% of oil, 25% of forests, 13% of arable land, and 11% of freshwater.²¹

The integration process into the EAEU started in extremely difficult economic and social conditions, which were accompanied by political instability in all countries. First of all, at that time there could be observable huge losses in the production industry as well as huge downturn in the welfare of national economies in the 1990s during the beginning of the transformation of socio-economic and political systems right after the collapse of the USSR. Thus, a significant reduction in GDP in a number of countries (-53.1% in 1993 in Armenia and -49.3% in 1995 in Kyrgyzstan from the 1990 level) led to a prolonged recovery of lost opportunities. The worldwide financial crisis of 2008 also caused a high level of uncertainty regarding further development, and the external price shock of 2014-2015 became a critical test of economies for stability, which led to a significant reduction in export and financial capacities of all countries of the Union.

²⁰ Eurasian Economic Union. About the Union.
URL: <http://www.eaeunion.org/#about>

²¹ See Morozova G. (2015)

In general, during 2000–2017, the GDP of all EAEU countries showed positive dynamics, but the growth rates of the countries differ significantly from each other. However, countries that demonstrated the highest numbers compared to other countries were Kazakhstan and Armenia.

In 2017, Kazakhstan's GDP grew by 194.0% compared to the 2000 level, which was facilitated by the market reforms of the 1990s. The rapid growth of the economy of Kazakhstan in 2000–2014 was largely due to an increase in the production of extractive industries and the export of mineral resources.

In terms of Armenia, its GDP grew by 191.6%. In 2000-2008, Armenia was one of the countries with the highest rates of economic growth in the world: during this period, the annual GDP growth was almost 12%. These dynamics was due to the consistently high volumes of private transfers from abroad and the ongoing monetary policy. However, the global economic and financial crisis of 2008-2009 led to a 14.2% contraction in the economy due to a collapse in prices for an important export commodity like copper, negative dynamics of personal transfers, which play an important role in the Armenian economy. Moreover, due to a decrease of foreign investments in construction, which was considered as one of the leading economic sectors.

In the case of Belarus, during 2000–2017, its GDP grew by 116.1%. The main growth was observed in 2000-2008 when its GDP almost doubled. The economic boom occurred as a result of well-executed privatization in the 1990s, manufacturing capacity retained from Soviet times, as well as against the backdrop of high energy prices. After the “great recession,” the growth rates of the country's economy slowed down significantly, and in 2015–2016 they were negative, amounting to –3.8% and –2.5%, respectively.

In 2017, the GDP of Kyrgyzstan grew by 105.5% compared to the 2000 level. Moreover, only in 2011, the country's GDP exceeded the indicators of 1990

due to political and socio-economic crises in the country. Since 2014, the rates of GDP growth in Kyrgyzstan have fluctuated in the range of 3.8-4.6% per year.²²

Diagram 2. The EAEU countries' GDP dynamic (as % of previous year, in current price)²³

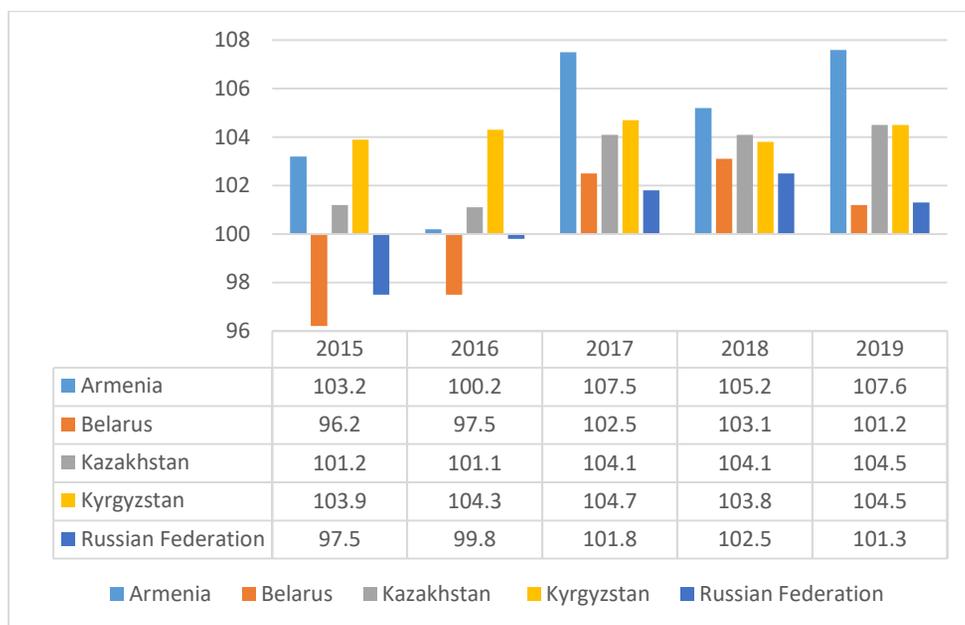


Table 3. The EAEU member-countries' characteristic

Categories	Member-countries				
	Kazakhstan	Armenia	Belarus	Russia	Kyrgyzstan
Territory	2 724,9 mill. km2	29,7 km2	207,6 km2	17,1 mill. km2	199,9 km2
Population	17,4 million	3 million	9,5 million	146,3 million	5,9 million

²² Analyticheskiy centr pri Pravitel'stve Rossiyskoy Federacii. EAEU: social-economical development of the regions, 2018. Retrieved from <http://ac.gov.ru/archive/files/publication/a/19000.pdf>

²³ "Evraziyskaya Economicheskaya Comissiya Evraziyskiy ekonomicheskyy souyz v cifrah: kratkiy statisticheskiy sbornik" [Eurasian Economic Union in numbers: short statistical bulletin], 202 http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/econstat/Documents/Brief_Statistics_Yearbook_2020.pdf

GDP (2019)	\$170.326 bill. (increased by 4.5% compared to 2018)	\$13.444 bill. (increased by 7.6% compared to 2018)	\$62.572 bill. (increased by 1.2% compared to 2018)	\$1.638 trill. (increased by 1.3% compared to 2018)	\$8.261 bill. (increased by 4.5% compared to 2018)
Natural resources	oil, coal, gas, iron and manganese ore, tungsten, chromium and phosphorus ores, lead, chromium, zinc, molybdenum, uranium, bismuth, bauxite, gold, tin, silver, copper, phosphates.	copper, molybdenum, gold, lead, zinc, raw aluminum, iron, basalt, andesite, limestone, marble, pumice, obsidian, granite, clay, table salt and mineral springs.	potash and rock salts, peat, iron ore, oil, shale, brown coal, cement raw materials, building stone, building sands, dolomites, granites, carbonate materials, limestones, chalk, clays, sand materials and gravel materials.	fuel and energy resources. Which include: natural gas, coal, oil, uranium; ferrous, non-ferrous, rare and noble metals and diamonds, non-metallic minerals: apatites, phosphorites, potash and sodium chloride, magnesium, graphite, precious and ornamental stones and others.	mercury, antimony, coal, gold as well as oil, gas, wollastonite, oil shale, iron ore, nonferrous and rare earth metals, facing stone, platinum, sand and gravel deposits, sulfur.
Main industries	nonferrous and ferrous	mining and processing of	metallurgical industry,	gas and oil	hydropower, non-

	metallurgy, oil production and oil refining, chemical, mechanical engineering, light, food, as well as production of building materials.	building materials, production of cement, aluminum, molybdenum and gold, diamonds' cut. Also, wine and brandy products are produced. There are enterprises for the production of metal-cutting machines, press-molding equipment, synthetic rubber, tires, plastics, chemical fiber, mineral fertilizers, electric motors, tools, microelectronics, jewelry, silk fabrics, knitwear, hosiery.	mechanical engineering, metalworking, chemical and petrochemical, light, food	production, processing of precious stones and metals, weapons and military equipment production, nuclear industry, electrical engineering, automobile industry, pulp and paper industry, transport, road, aircraft construction, rocket & space production, agricultural engineering, light and food industries and so on.	ferrous metallurgy, mining, mechanical engineering, instrument making, light and food industries. ²⁴
Agricultural production volume (2019)	\$13 698.1 million	\$1 851.5 million	\$9 986.6 million	\$91 269.9 million	\$3 151.8 mill.

²⁴ Eurasian Economic Commission site: "Eurasian Economic Union: in the interests of business and citizens"

http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_razv_integr/Documents

Industrial trade volume (2019)	\$76 080.3 million	\$4 379.0 million	\$54 337.2 million	\$1 077 326.6 million	\$3 991.4 million
Foreign trade volume (2019)	\$68 051.4 million	\$5 042.8 million	\$32 238.3 million	\$555 582.6 million	\$3 816.8 million

In terms of mutual trade between EAEU member countries, it's seen that the volume of trade between member states follows the positive trend when it increased from 45.6 billion \$USD in 2015, the year of the establishment of the Union to 61 billion \$USD in 2019, or 133.8% to the level of the year of 2015.

Table 4. Mutual trade volume between the EAEU-member countries

(USD million)

	2015	2016	2017	2018	2019
Armenia-Belarus	34.6	35.4	41.6	49.4	70.4
Armenia-Kazakhstan	4.9	5.5	10.5	14.7	14.6
Belarus-Kazakhstan	578.6	411.2	693.5	888.6	925.4
Belarus-Kyrgyzstan	61	52.0	130.5	132.5	111.2
Kazakhstan-Kyrgyz	756.1	702.7	785.3	927.2	941.5
Kazakhstan-Russia	15 413.7	13 005.6	17 104.4	18 321.1	19 653.3
Kyrgyzstan-Armenia	0.5	1.0	1.9	1.1	3.3
Kyrgyzstan-Russia	1 467.3	1 211.0	1 665.1	1 996.2	1 820.9
Russia-Armenia	1 295.8	1 337.0	1 804.3	2 017.0	2 414.5
Russia-Belarus	26 003.2	26 198.9	32 474.5	35 913.7	35 079.0
EAEU	45 615.7	42 960.3	54 711.6	60 261.5	61 034.1

Furthermore, in terms of the trade with the EAEU non-member countries, it is also increasing. However, the contribution of each country is differentiated significantly. Obviously, Russian Federation is the country which takes the biggest share compared to others due to its biggest size of the economy and its reaches 84%

for almost every year. Then, it's followed by Kazakhstan and Belarus with around 10% and 5% accordingly.

Diagram 3. Contribution of each EAEU member-country to aggregate foreign trade value in 2015

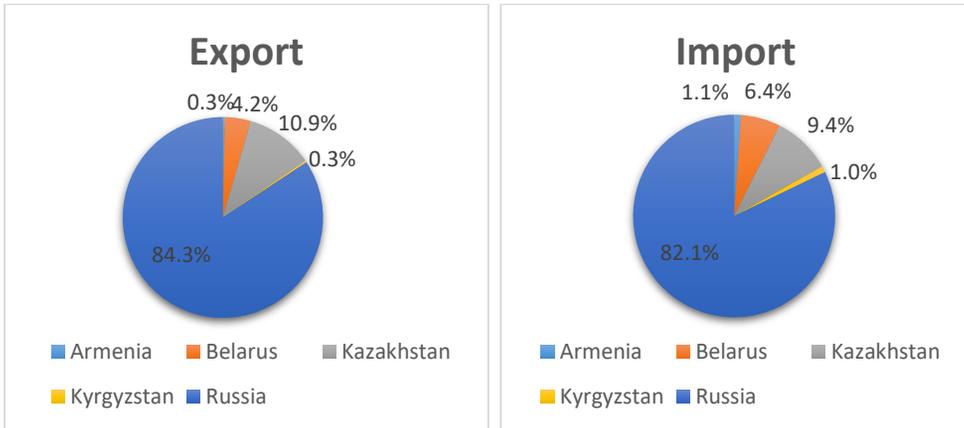


Diagram 4. Contribution of each EAEU member-country to aggregate foreign trade value in 2016

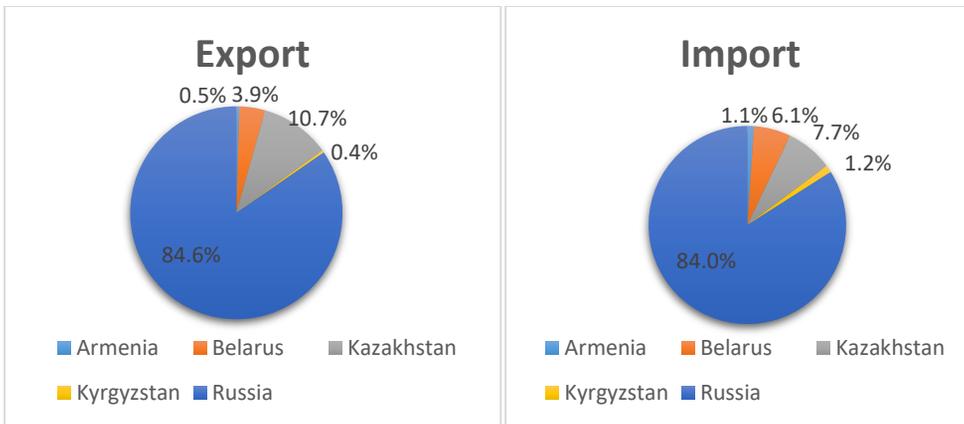


Diagram 5. Contribution of each EAEU member-country to aggregate foreign trade value in 2017

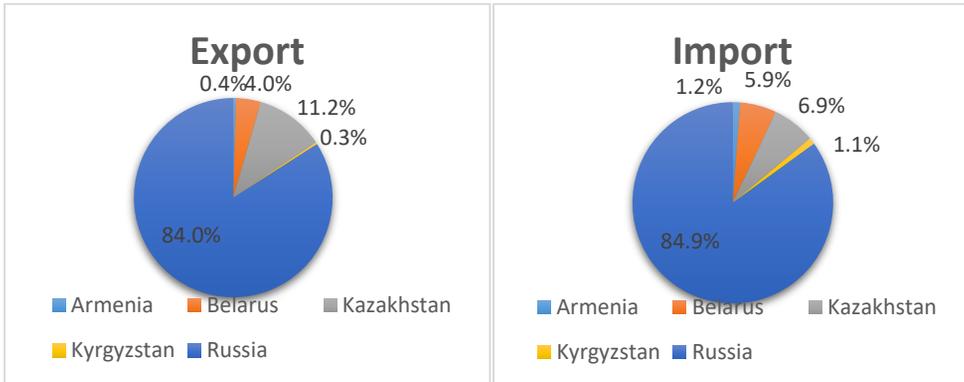


Diagram 6. Contribution of each EAEU member-country to aggregate foreign trade value in 2018

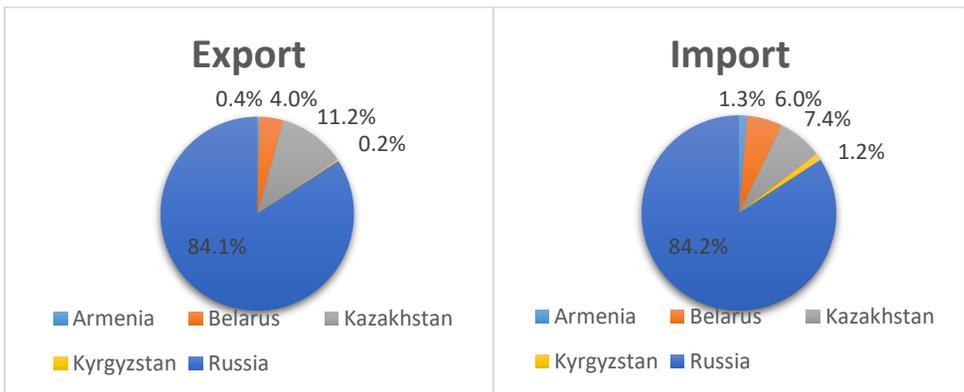
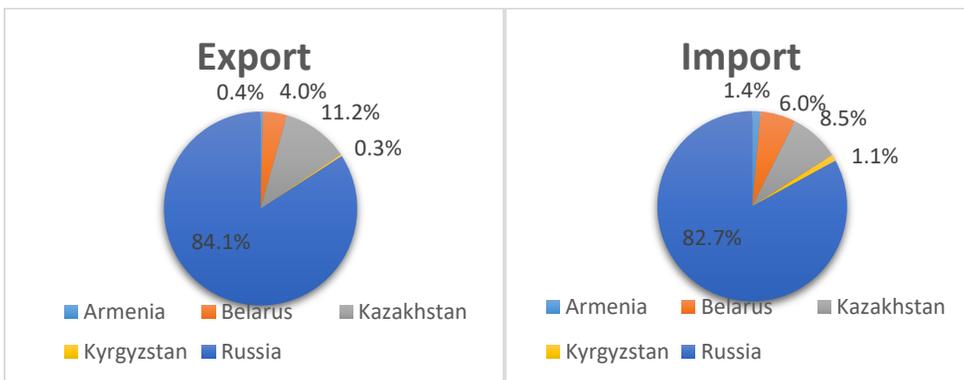
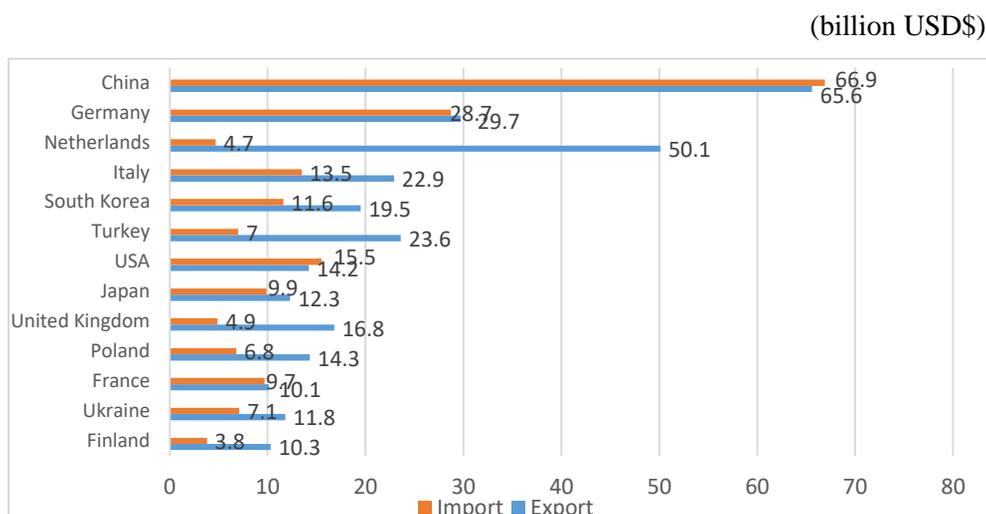


Diagram 7. Contribution of each EAEU member-country to aggregate foreign trade value in 2019



Moreover, in terms of the main partners of EAEU within the third countries, as it's seen from the diagrams below, China and Germany are the main destinations of export and import for EAEU member states. They are followed by Netherland, Italy, South Korea, and Turkey. However, in general, member states export there way bigger than import from there.

Diagram 8. The volume of trade of the EAEU member countries with the third countries – main trade partners in 2019²⁵



Moreover, in terms of the commodity structure of EAEU export, it's observed that the main commodity for export is mineral products, which accounts for more than half of all export goods, 65.8% in the 2019 year. Then it's followed by metal and metal products and chemical industry products with 8.8% and 5.8% respectively. However, in terms of main importing products, the first place is taken by machinery, equipment, and other vehicles, which accounts for 44.4%. Then it's followed by chemical industry products and food products and agricultural raw materials with 19.1% and 11.1% accordingly. Also, textile, textile products, and footwear are also one of the main import products.

²⁵ Eurasian Economic Commission site: Retrieved from http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/econstat/Documents/Brief_Statistics_Yearbook_2020.pdf

Diagram 9. Commodity structure of the EAEU member countries export in foreign trade with third countries in 2019²⁶

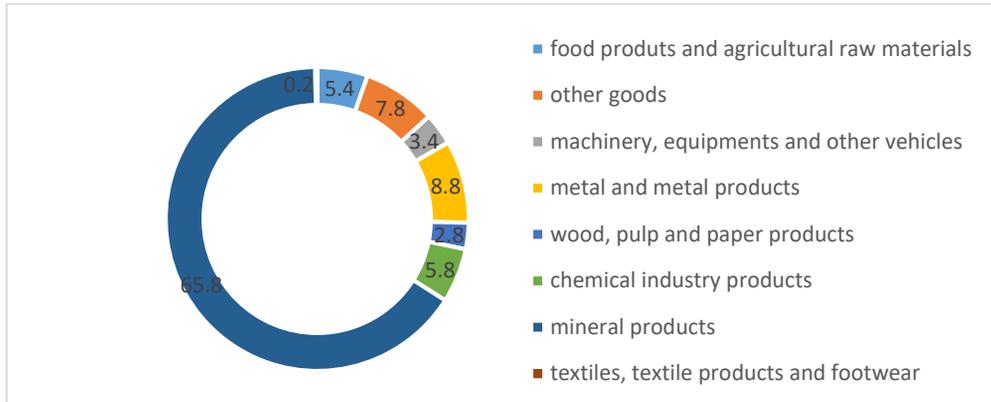
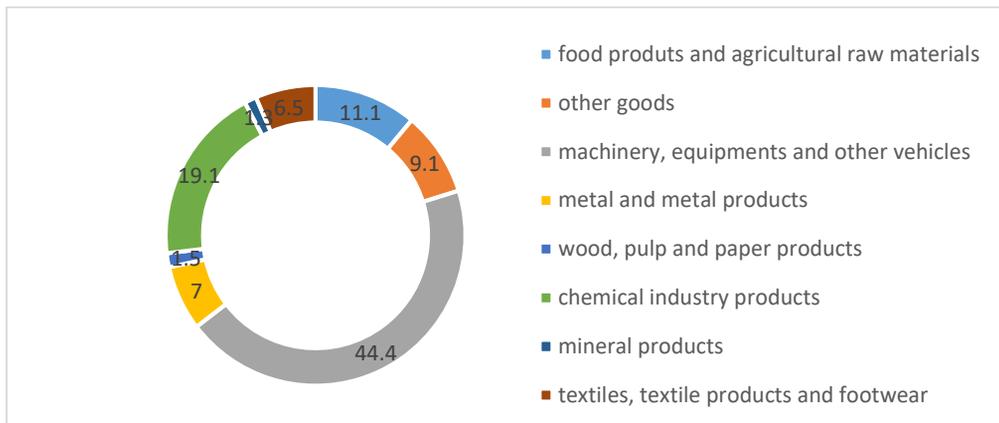


Diagram 10. Commodity structure of the EAEU member countries import in foreign trade with third countries in 2019²⁷



²⁶Eurasian Economic Commission site: «EAEU in numbers: brief statistical bulletin». Retrieved from http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/econstat/Documents/Brief_Statistics_Yearbook_2020.pdf

²⁷Eurasian Economic Commission site: «EAEU in numbers: brief statistical bulletin». Retrieved from http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/econstat/Documents/Brief_Statistics_Yearbook_2020.pdf

III. THE ANALYSIS OF FUNCTIONING OF THE EURASIAN ECONOMIC UNION AS AN INTEGRATION ASSOCIATION

3.1 Kazakhstan in the EAEU: trade and economic effects

Despite the fact that five years have passed since the start of EAEU functioning, the accumulated empirical experience of Kazakhstan's integration interaction with the main partners in the EAEU is usually counted from an earlier period, from around 2010 year, the moment when the Customs Union between the three founders of the Eurasian integration processes, such as Russia, Belarus, and Kazakhstan was formed. Now, after making an overall EAEU analysis in terms of trade, the next step is to specifically concentrate on Kazakhstan and especially on its relation with other EAEU member countries and also with the third countries as well.

So in the tables below there are demonstrated main export and import values of Kazakhstan to EAEU member countries. It could be noted that the biggest export partner is Russia, and then is followed by Kyrgyzstan. The least volume of export goes to Armenia. However, in terms of import, Russia is the main import partner, but then it's followed by Belarus.

Table 5. Export of Kazakhstan to the EAEU member countries from 2010 to 2019

(USD million)

	Armenia	Belarus	Kyrgyzstan	Russia	Overall
2010	7.6	41.5	424.3	3 006.5	3 479.9
2011	2.3	103.5	507.8	7 514.5	8 128.1
2012	0.5	90.4	724.0	6 747.2	7 562.1
2013	0.8	58.3	675.2	5 875.3	6 609.6
2014	0.4	61.2	704.0	6 388.5	7 154.1

2015	0.7	53.4	517.7	4 547.5	5 119.4
2016	0.3	31.9	376.1	3 509.2	3 917.4
2017	5.6	101.2	516.7	4 639.0	5 262.5
2018	4.9	105.1	656.9	5 279,9	6 046.8
2019	9.1	101.5	604.0	5 602,5	6 317.2
Overall	32,2	748	5 706.7	53 110.1	59 597.1

Table 6. Import of Kazakhstan from the EAEU member countries from 2010 to 2019

(USD million)

	Armenia	Belarus	Kyrgyzstan	Russia	Overall
2010	3.2	251.1	165.7	5 475,7	5 895.7
2011	3.4	623.4	242.0	16 269,1	17 137.9
2012	3.2	675.5	333.0	17 110.5	18 122.2
2013	7.1	698.3	351.2	17 971.8	19 028.4
2014	7.8	773.8	351.2	13 807.7	14 940.5
2015	4.3	488.0	182.0	10 529.3	11 203.6
2016	2.9	332.6	200.6	9 129.8	9 665.9
2017	5.0	531.7	248.4	11 732.9	12 518.2
2018	9.0	607.3	243.6	13 237.5	14 097.4

2019	7.0	654.8	251.9	14 065.1	14 978.8
Overall	52.9	5 636.5	2 569.6	129 329.4	137 588.6

Diagram 11. Export of Kazakhstan to the EAEU member countries from 2010 until 2019

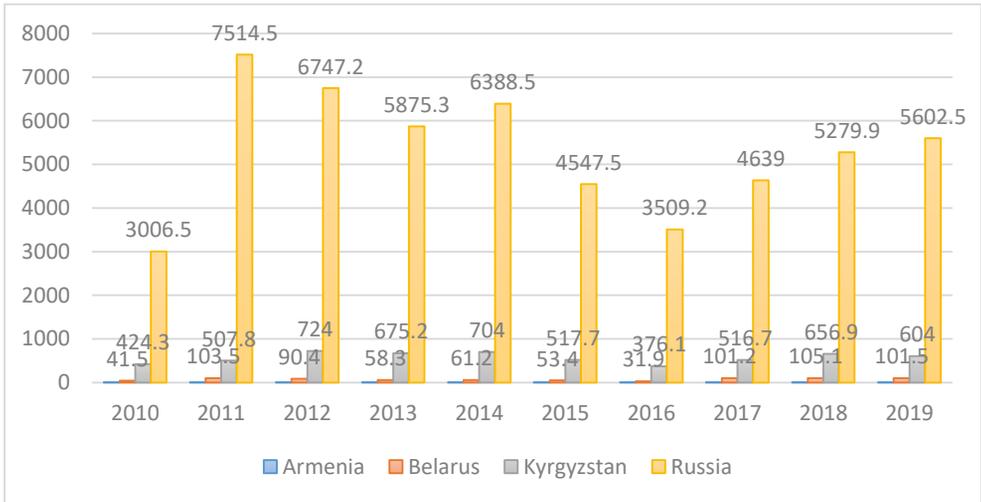
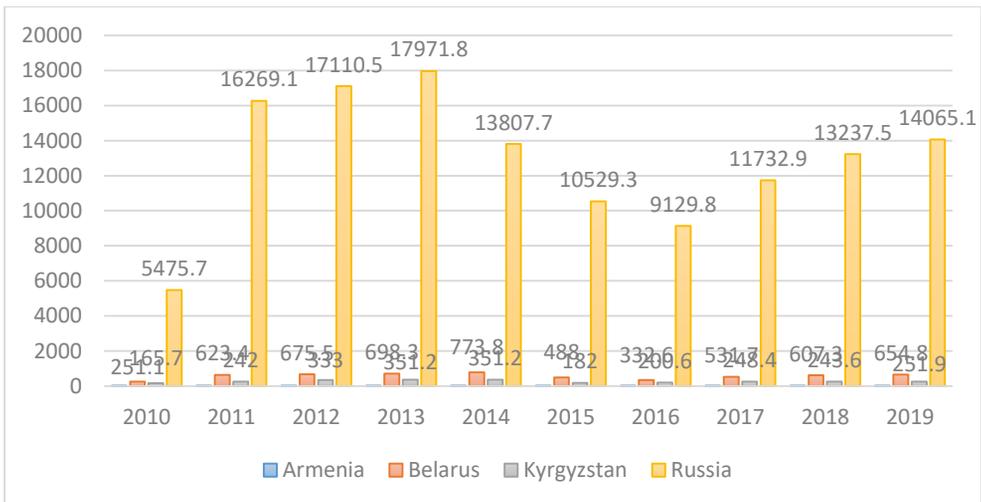


Diagram 12. Import of Kazakhstan from the EAEU member countries from 2010 until 2019



It can be observed that during the period of EAEU existence, Kazakhstan's mutual trade with the EAEU countries increased by 23,5% (from 16.3 to 21.3 billion US dollars), including export increased by 19,1% (from 5.1 to 6.3 billion USD), import by 25,3% (from 11.2 to almost 15 billion USD). Trade turnover between Kazakhstan and the EAEU countries in 2019 amounted to \$21.3 billion, which is 5,6% higher than in the same period of the previous year of 2018 (\$ 20.1 billion). However, it's also could be noted that the export and import both slowed own during the 2015-2016 years, which is due to the economic crisis, which was experienced by Russia and then flowed to all other member countries.

Furthermore, in terms of foreign trade of Kazakhstan with non-member countries, it's seen that after 2014 the export and import dropped significantly, while initially before 2015 it was increasing with every year.

Table 7. Foreign trade of goods of Kazakhstan with non-CU and non-EAEU countries²⁸

(USD million)

Years	Turnover	Export	Import	Net balance
2010	71 891.9	53 764.1	18 127.8	35 636.3
2011	100 852.2	79 979.8	20 872.4	59 107.4
2012	111 135.3	84 719.4	26 415.9	58 303.5
2013	108 902.3	78 766.8	30 135.5	48 631.3
2014	99 785.5	73 030.5	26 755.0	46 275.5

²⁸ Statistical Bulletin "Foreign Trade in Goods of the Member States of the CU and CES". Retrieved from http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/publication/ Documents/Forms/AllItems.aspx

Table 8. Foreign trade of goods of Kazakhstan with non-EAEU countries²⁹

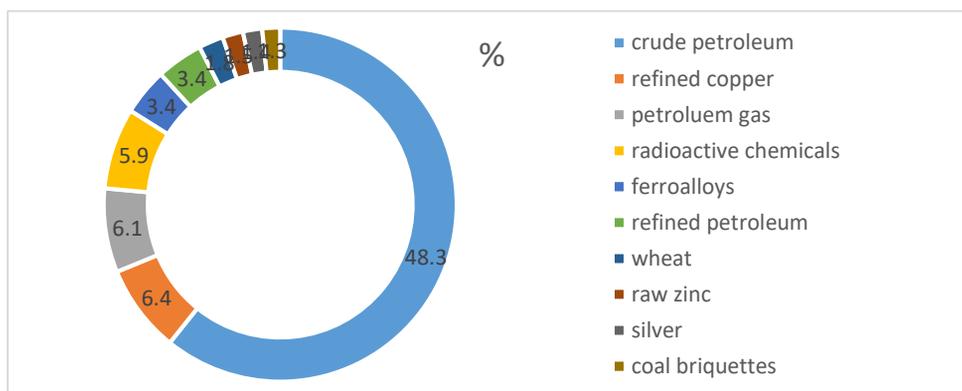
(USD million)

Years	Turnover	Export	Import	Net balance
2015	60 131.5	40 838.8	19 292.7	21 546.1
2016	48 366.9	32 858.0	15 508.9	17 349.1
2017	60 287.1	43 223.8	17 063.3	26 160.5
2018	74 375.3	55 064.3	19 311.0	35 753.3
2019	74 783.6	51 405.7	23 377.9	28 027.8

Nevertheless, according to the table provided above, there are several goods that takes the biggest share of country's export. For example, in 2015 export of crude petroleum has almost half of the whole export amount and accounted for 48.3% out of the total. It's followed by refined copper, petroleum gas, and radioactive chemicals with 6.4%, 6.1% and 5.9% respectively.

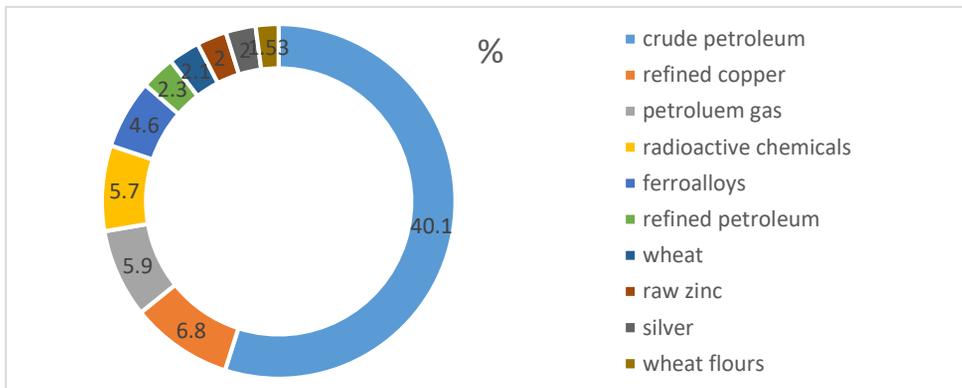
²⁹ Eurasian Economic Union site: "Statistics of the Eurasian Economic Union: main socio-economic indicators of the EAEU. Policy". Retrieved from http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/econstat/Documents/Analytics/

Diagram 13. Main export goods of Kazakhstan in 2015³⁰



However, in 2016 the export share of crude petroleum had declined by almost 10% and accounted for 40.1% out of total. But in terms following export goods, the situation almost didn't change. The 2nd, 3rd, and 4th places are taken by refined copper, petroleum gas, and radioactive chemicals with 6.8%, 5.8%, and 5.7% respectively.

Diagram 14. Main export goods of Kazakhstan in 2016³¹

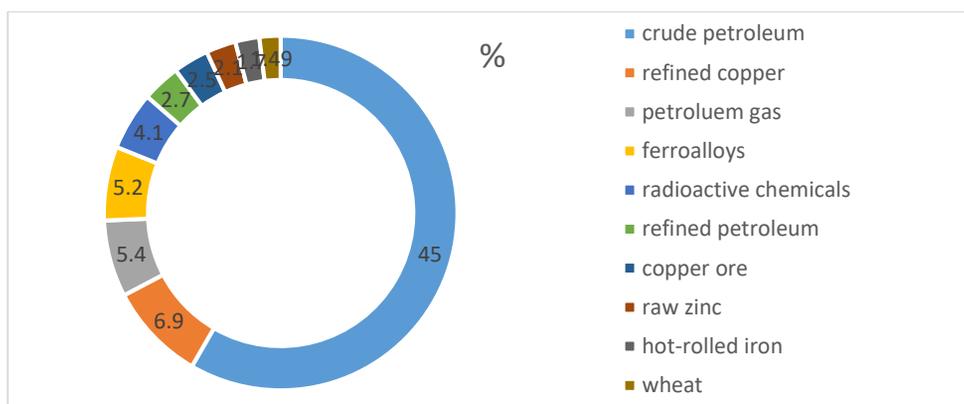


In terms of 2017 the export share of crude petroleum increased relative to the previous year and accounted for 45% out of the total. But in terms following export goods refined copper, petroleum gas, and instead of radioactive chemicals there is bigger share of ferroalloys with 6.9%, 5.4%, and 5.2% accordingly.

³⁰ OEC site, UN Comtrade

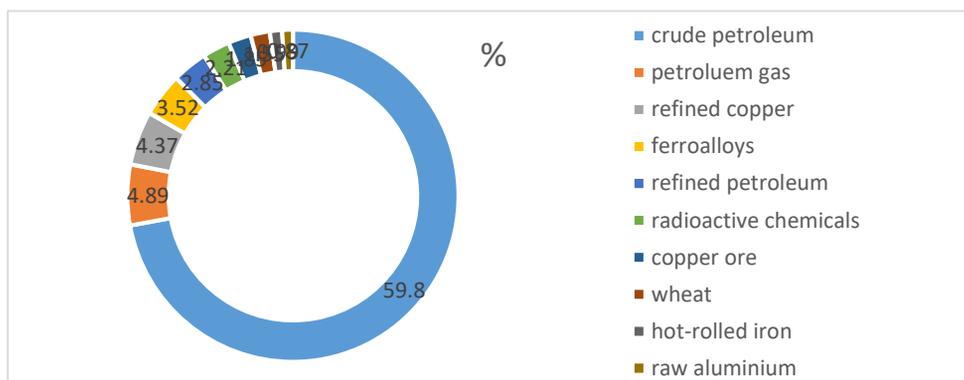
³¹ OEC site, UN Comtrade

Diagram 15. Main export goods of Kazakhstan in 2017³²



However, in 2018 the share of crude petroleum export substantially increased and accounted for almost 60%.

Diagram 16. Main export goods of Kazakhstan in 2018³³

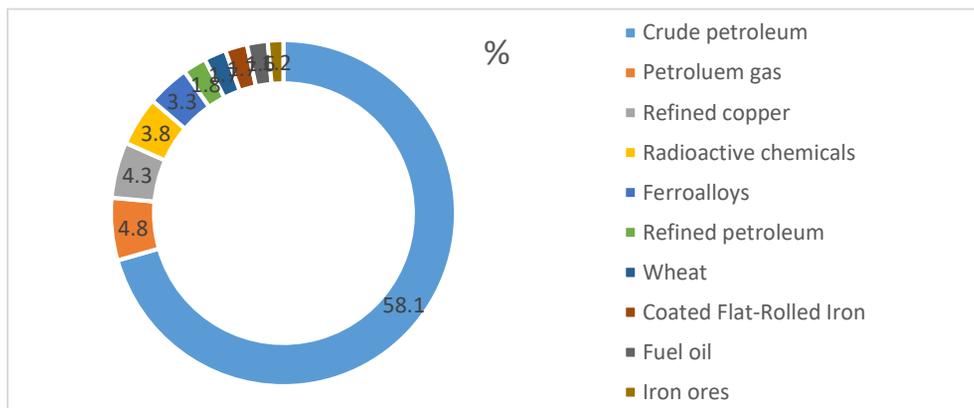


In 2019 the export share of crude petroleum accounted for 58.1% out of total. However, the share of export refined copper, petroleum gas and instead of radioactive chemicals significantly declined compared to previous years with 4.8%, 4.3%, and 3.8% accordingly.

³² OEC site, UN Comtrade

³³ OEC site, UN Comtrade

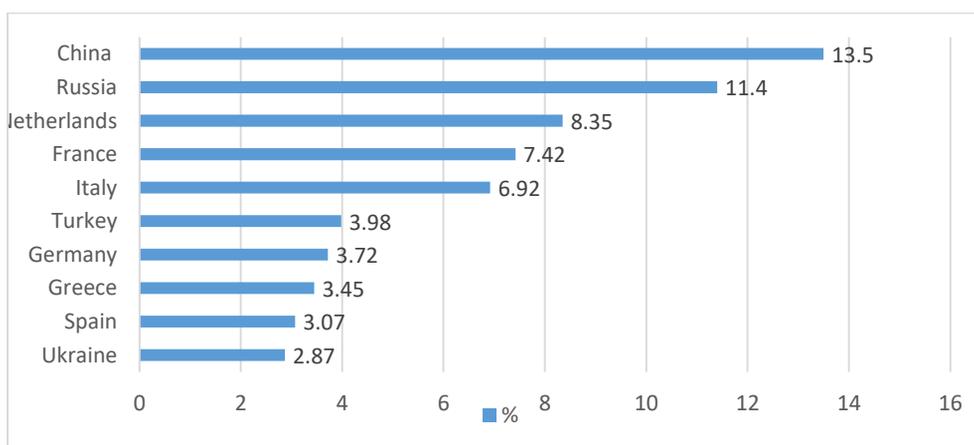
Diagram 17. Main export goods of Kazakhstan in 2019³⁴



Summing up, from the table above it's clearly seen that the main export products are still mineral resources and the tremendous part is taken by crude petroleum, which accounts for almost 60% out of total export.

In terms of major destination of Kazakhstani export, there is the table provided which demonstrates each countries % out of total. So in 2015 China with 13.5% was the main importer of Kazakhstani export. And it was followed by Russia, Netherlands, and France.

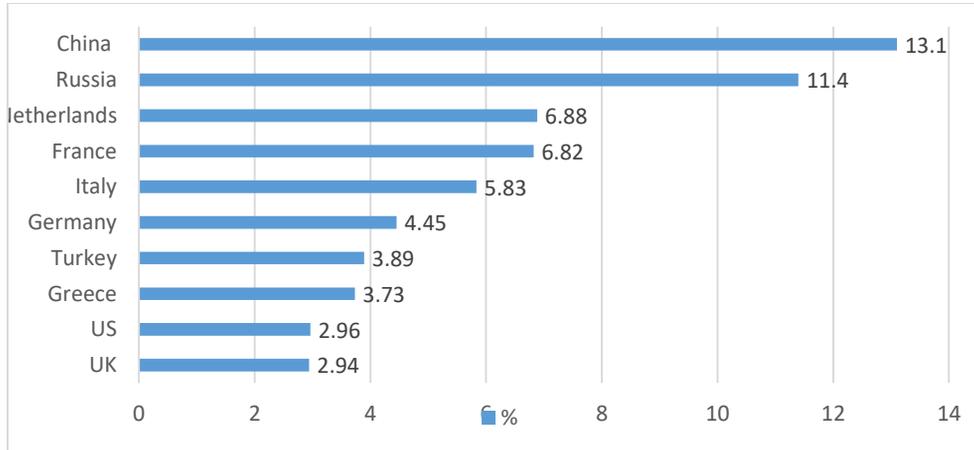
Graph 1. The major destinations of Kazakhstani export in 2015



³⁴ Assosiaciya finansistov Kazakhstana site: Retrieved from <http://www.afk.kz/ru/analytics/monitor-mnerk/dolya-nefti-v-strukture-kazaxstanskogo-eksporta-snizilas-do-58-po-itogam-2019-goda.html>

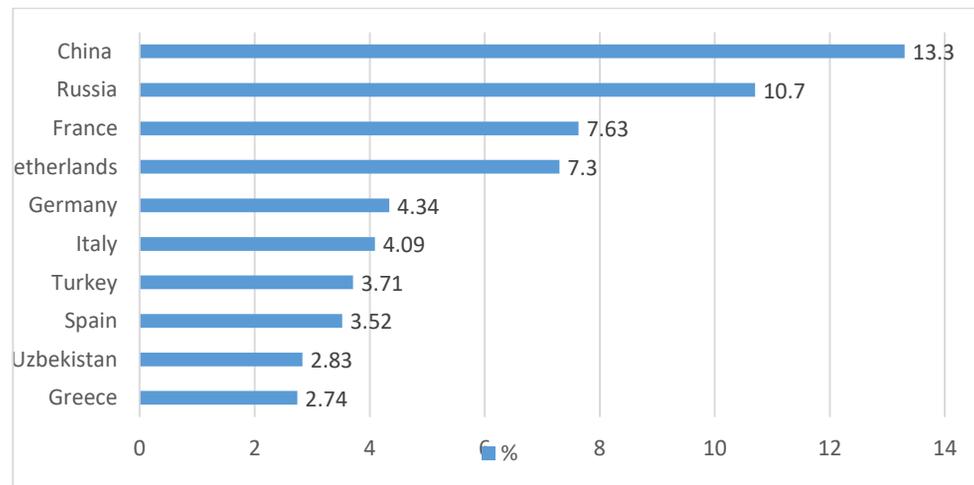
In 2016 the situation almost didn't change, but countries such as US and UK ousted Spain and Ukraine in the first 10 main importers.

Graph 2. The major destinations of Kazakhstani export in 2016



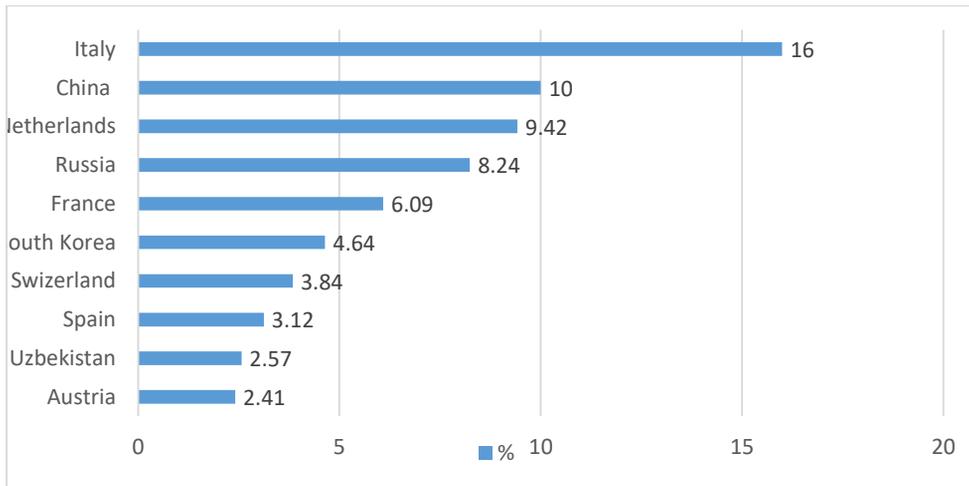
In 2017 China, Russia and France are the biggest importers of Kazakhstan's goods with 13.3%, 10.7% and 7.63%, that are followed by other European countries, such as Netherlands, Germany and Italy.

Graph 3. The major destinations of Kazakhstani export in 2017



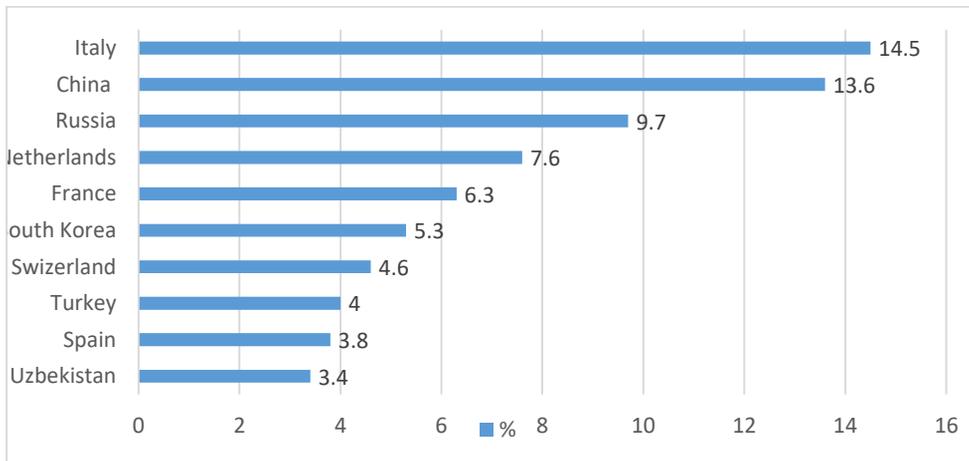
In 2018 Italy became the main importer with 16% out of total, while China, Netherlands and Russia accounted for only 10%, 9.4%, 8.2% respectively.

Graph 4. The major destinations of Kazakhstani export in 2018



In 2019, again, Italy was the main importer with 14.5% out of total, while China, Russia, and Netherlands accounted for only 13.6%, 9.7%, 7.6% respectively³⁵.

Graph 5. The major destinations of Kazakhstani export in 2019



Moving to import, according to the table provided below the goods variety is more differentiated, there is no one single prominent good as it is in the case of Kazakhstan's export. For instance, in 2015 the main importing goods were refined

³⁵Assosiaciya finansistov Kazakhstana site: Retrieved from <http://www.afk.kz/ru/analytics/monitor-mnerk/dolya-nefti-v-strukture-kazaxstanskogo-eksporta-snizilas-do-58-po-itogam-2019-goda.html>

petroleum, medicaments, cars, valves planes, and other transport vehicles and etc.
 So the same picture is following every year.

Diagram 18. Main import goods of Kazakhstan in 2015³⁶

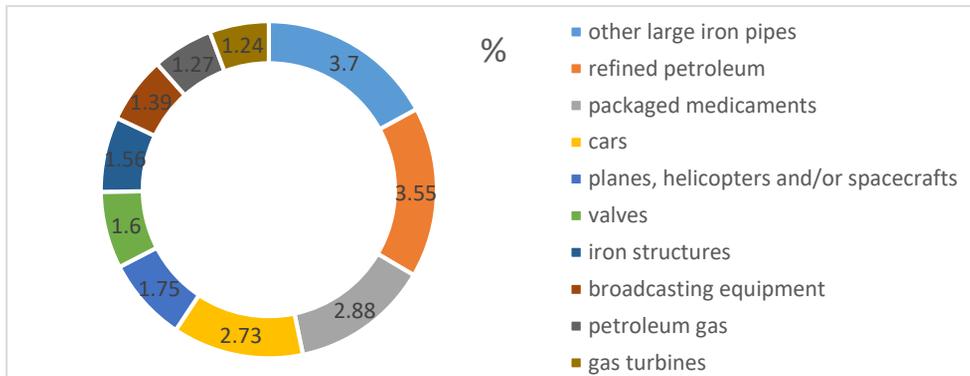
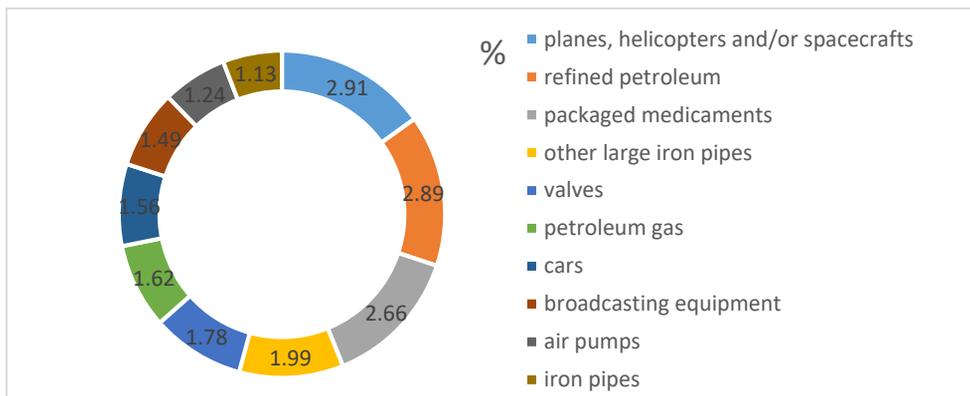


Diagram 19. Main import goods of Kazakhstan in 2016³⁷



³⁶ OEC site, UN Comtrade

³⁷ OEC site, UN Comtrade

Diagram 20. Main import goods of Kazakhstan in 2017³⁸

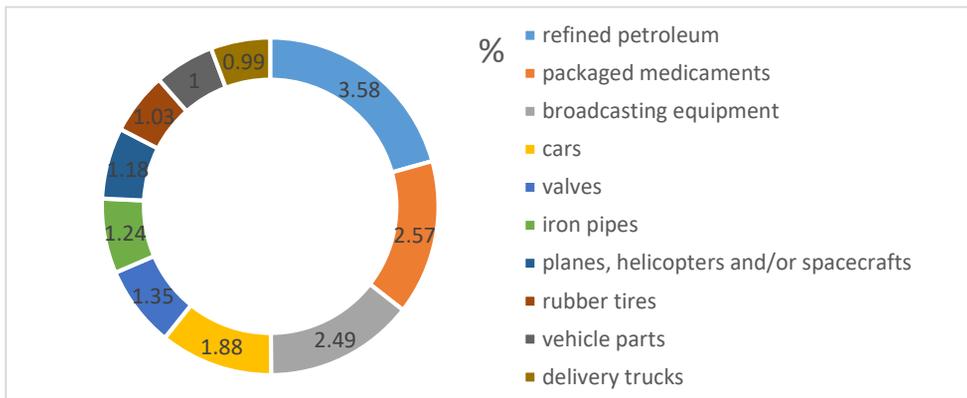
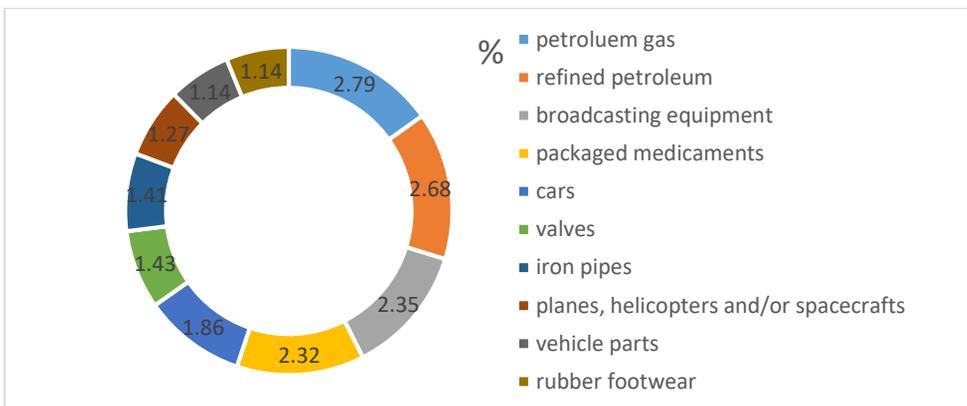


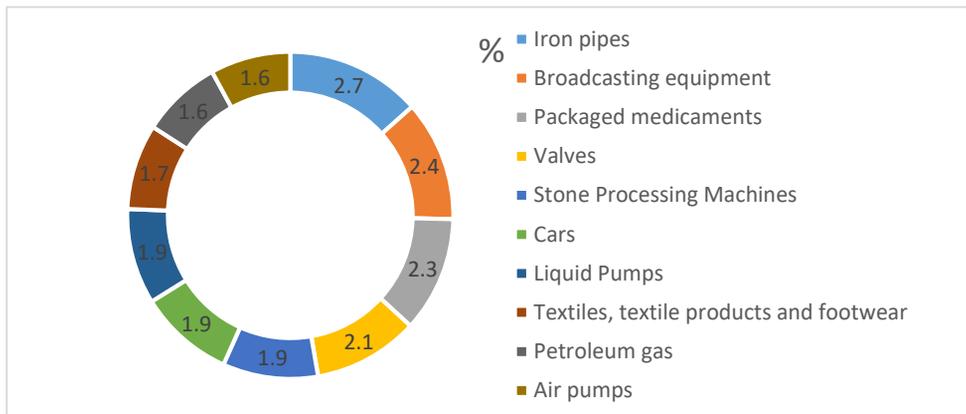
Diagram 21. Main import goods of Kazakhstan in 2018³⁹



³⁸ OEC site, UN Comtrade

³⁹ OEC site, UN Comtrade

Diagram 22. Main import goods of Kazakhstan in 2019⁴⁰

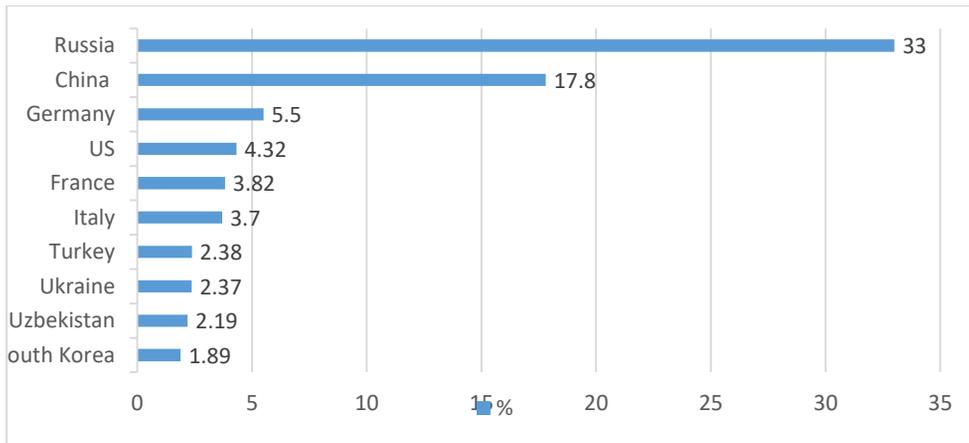


Finally, as it can be seen the majority of import products constitute cars, vehicles, and other types of transportation and equipment along with packaged medicals and refined forms of mineral resources. Therefore, it could be stated that Kazakhstan is still exporting almost the same products as it was before the establishment of the Union.

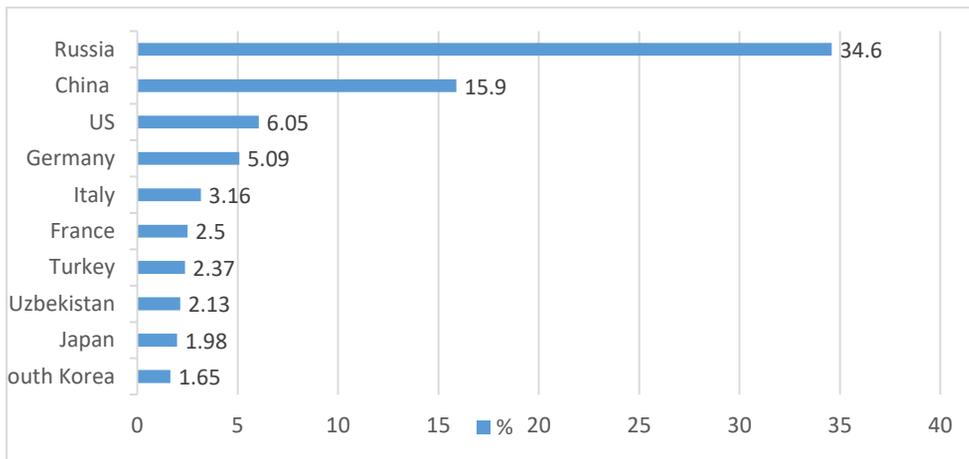
Nevertheless, in terms of major partner countries importing to Kazakhstan most, it could be stated that the biggest percentage out of total has Russian Federation with around 35% every year and which is followed by China with around 20%. There is, at the top 10 importing countries, other EAQEU member country, Belarus, also could be noted. It demonstrated an increase in 2017 – 2018 years and achieved almost 2% out of total import. What is also interesting to note is that South Korea's share in 2019 improved considerably from 2.4% in 2018 to almost 9%.

⁴⁰ Associaciya finansistov Kazkhstana <http://www.afk.kz/ru/analytics/monitor-mnerk/dolya-nefti-v-strukture-kazaxstanskogo-eksporta-snizilas-do-58-po-itogam-2019-goda.html>

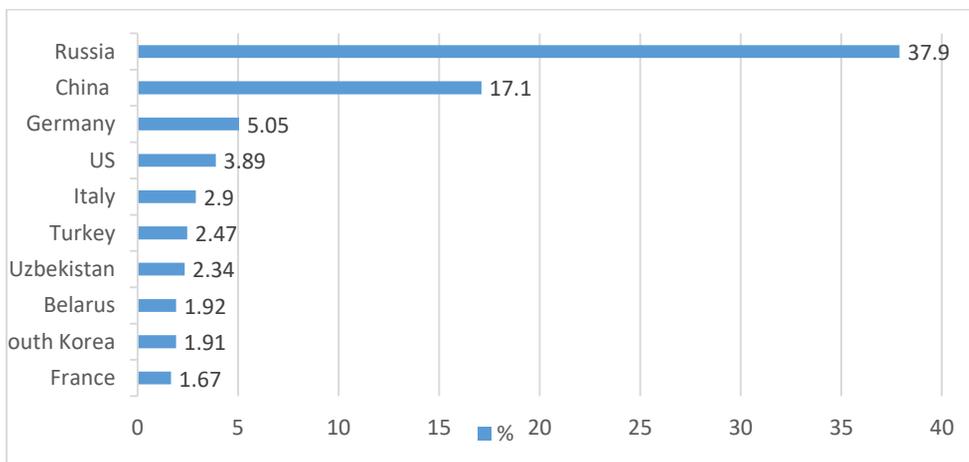
Graph 6. The major destinations of Kazakhstani import in 2015



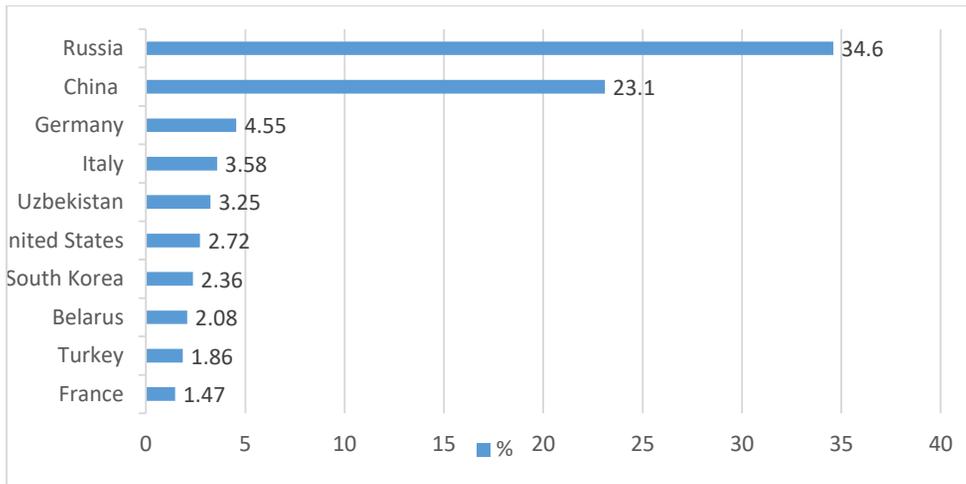
Graph 7. The major destinations of Kazakhstani import in 2016



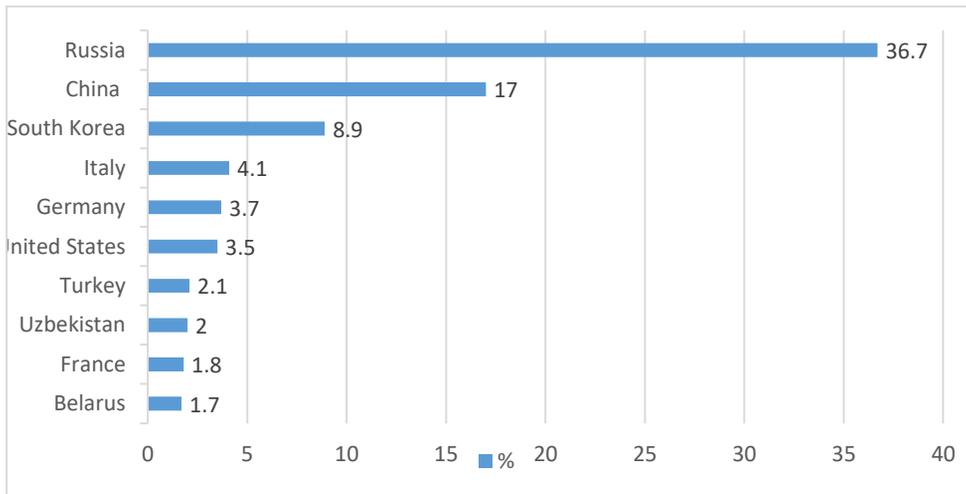
Graph 8. The major destinations of Kazakhstani import in 2017



Graph 9. The major destinations of Kazakhstani import in 2018



Graph 10. The major destinations of Kazakhstani import in 2019



Based on the table above, it could be stated that the main trading partners of Kazakhstan are Russia, China, and Germany. Recently the import from South Korea is also increased. But what also important and can be noted that import from Belarus was strengthening due to its increase throughout 2017, 2018, and 2019 years and this could be one of the outcomes of the establishment of the Eurasian Economic Union.

3.2 The effect of the Eurasian Economic Union on Kazakhstan

Research question: trade volume of Kazakhstan with EAEU member countries is increasing with the establishment of EAEU compared to the trade volume of Kazakhstan with other countries of the rest of the world.

Research method: ordinary least squares (OLS) regression, difference-in-difference estimator.

Dependent variable: export value of Kazakhstan (US\$), import value of Kazakhstan (US\$).

Independent variable: dummy variables, such as

DTr (1 – for treatment group or EAEU member countries, 0 – for control group or all other countries);

DPost (1 – for the years after the establishment of EAEU, 0 – for all years before the establishment of the Union);

DTrXDPost (multiplication of two abovementioned variables in order to check the effect of the Union to Kazakhstan).

Based on the result it could be determined if the export is increasing for other EAEU member countries, hence I will be able to observe if the elimination of significant trade barriers stimulated trade compared to the export for other non-member countries. Therefore, it could be concluded if the integration is influenced a lot trade patterns of its member country.

Time frame: 2000 – 2019, where 2010-2019 was used in order to calculate the effect of the EAEU, 2000-2019 in order to check the results by another regression model covering the effect of another important integration association between major players of the Union – Custom Union).

3.2.1 Data Description

All data for export and import values are extracted from the International Trade Statistics Database (UN Comtrade site). In addition, some missed data were obtained from the official site of the Statistic Committee of the Ministry of National Economy of the Republic of Kazakhstan.

In order to answer the research question and to evaluate the impact of an EAEU on the export-import of Kazakhstan (both of which are Y – dependent variables) between member and non-member countries, the linear regression model was utilized. Since there are two groups indexed by treatment status $T = 0, 1$ (dummy variable) where 0 indicates all countries that aren't in EAEU (control group), and 1 are those countries, which are members of EAEU, i.e. the treatment group. So:

Treatment group – EAEU member countries, which include 4 countries, except Kazakhstan: Armenia, Belarus, Kyrgyzstan, Russian Federation.

Control group – all other non-EAEU member countries.

Number of observations: 106 countries.

Data source: International Trade Statistics Database (UN Comtrade), official website of the Ministry of National Economy of Republic of Kazakhstan.

Limitation: in the work are included only countries that had available data. Besides, there are more available data on import.

Two dummy variables:

DTr – EAEU member countries (Armenia, Belarus, Kyrgyzstan, Russian Federation).

DPost – years after the period when EAEU and CU were established (2015, 2010 years respectively).

In an analysis, each dummy variable is being compared to a reference group. In this case, a positive regression coefficient means that the export/import value is relatively higher for dummy variables DTr/DPost/DTr*DPost than for the reference

groups.⁴¹ Ln was used in order to normalize variables. When we use ln, then coefficients of the variables in the analysis represent the percentage change. So when the coefficient of DTr variable is equal to 2.48, it says that the Kazakhstani export to EAEU - member countries was already higher for the coefficient of 2,48 for each country of the treatment group compared to its export to other countries of the world.

When the second coefficient of an independent variable, which represents time, is equal to = 0.11, it says that the Kazakhstani export after 2015 year was higher for insignificant difference, which is only a little higher compared to the years prior to the year of 2015.

The third variable, which is equal to the multiplication of the two abovementioned variables, and states the export value of Kazakhstan to the EAEU countries after 2015 in comparison with other countries of the world. The coefficient is equal to 0.22, which states that the difference is small, which represents the effect of the Union of the country.

Linear regression model equation

$$Y = b_0 + b_1x_1 + b_2x_2 + \dots + b_nx_n$$

⇒ The equations of different models, that were obtained:

$$\ln(\text{export value (EAEU)}) = 19.76364 + 2.496243DTr + 0.2652522 DPost + 0.1937125DTr*DPost$$

$$\ln(\text{export value (CU)}) = 17.95743 + 3.175435DTr + 3.399105DPost + (-0.5005335) DTr*DPost$$

$$\ln(\text{import value (EAEU)}) = 14.47321 + 8.473349DTr + (-0.0380227)DPost + 0.2774942DTr*DPost$$

⁴¹ Stattrek site: “Dummy Variables in Regression”. Retrieved from <https://stattrek.com/multiple-regression/dummy-variables.aspx>

$$\ln(\text{import value (CU)}) = 11.69971 + 9.456429\text{DTr} + 1.987856\text{DPost} + 0.0324055\text{DTr}*\text{DPost}$$

The R-squared demonstrates how the conditional variance of the model differs from the variance of the real values of Y. The more coefficient is closer = 1 it states that conditional variance is small enough, which states that the data is described sufficiently by the model. In all of the models, R squared and adjusted R squared are around 0.80, which is quite a high result, which states that the calculations are meaningful.

3.2.1 Models description

The statistical method used in all below described models – Ordinary least squares (OLS) regression. The statistical technique used – difference-in-difference.

Firstly, before introducing any regression model with a difference-in-difference (DID)S estimator, it's essential to emphasize what each of the coefficients means. The treatment variable in this regression analysis is DTr, which is coded as 1, when it's an active treatment, in case of this research is EAEU membership, and it is coded as 0, when it's treated as a control group (the rest of the world countries). The second dummy variable is the time variable, which is DPost, and it is also a dichotomy with 0 when time period prior to the establishment of the Union and 1 = time period following the establishment. So from now, the regression is ready to estimate the difference in differences.

Hence, the first coefficient, which is the treatment variable's coefficient, β_1 , is the estimated mean difference in Y between two groups (treatment and control ones) until the establishment: it demonstrates whatever "baseline" differences existed between treatment and control ones before an establishment was utilized to a control group.

The next coefficient, which is β_2 is the expected mean change in outcome from before to after the onset of the established time period among the control group

(rest of the world countries). It demonstrates the pure effect throughout time when there is no outside intervention.

The third variable, which is the multiplication of previous first ones (DTr*DPost), is itself a difference-in-difference estimator. In accordance with D. Albouy's definition, the difference-in-difference estimator is described as "the difference in average outcome in the treatment group before and after treatment minus the difference in average outcome in the control group before and after treatment".⁴² It demonstrates if there is a substantial difference of an expected mean change in the outcome before and after were the difference in two groups. If the coefficient is significant, it tells that side intervention was effective and influenced results a lot. Otherwise, if the coefficient is not that essential, it tells that the effect of the outside intervention was not important. Therefore, in case of this research, this coefficient demonstrates the effect of the Union on the export and import values of Kazakhstan.

So moving to the models, Model 1 demonstrates the increase/decrease of export value of Kazakhstan to all partner countries within the Union, which actually describes the effect of the Union itself.

Model 1 (export of Kazakhstan to EAEU member countries with the establishment of EAEU).

Firstly, since there are only two existing independent variables and in order to utilize a difference-in-difference estimator, it's needed to generate the third variable. Besides, it's needed to generate all countries year by year by using code "group (country) = countryid", so each country will be considered as a separate unit throughout all years. Finally, it's needed to add country fixed effect and time fixed effect by using codes "i.countryid", "i.year".

⁴² D. Albouy "Program Evaluation and the Difference in Difference Estimator"

```

. gen DTrXDPost = DTr*DPost

.
. gen ln_exvalue = ln(exportvalue)

.
. egen countryid = group(country)

.
. regress ln_exvalue DTr DPost DTrXDPost i.countryid i.year

```

note: 80.countryid omitted because of collinearity
note: 2019.year omitted because of collinearity

Source	SS	df	MS	Number of obs	=	1,023
				F(114, 908)	=	45.31
Model	14658.189	114	128.580605	Prob > F	=	0.0000
Residual	2576.62444	908	2.83769211	R-squared	=	0.8505
				Adj R-squared	=	0.8317
Total	17234.8135	1,022	16.8638096	Root MSE	=	1.6845

ln_exvalue	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
DTr	2.496243	.8008621	3.12	0.002	.9244865	4.067999
DPost	.2652522	.2353226	1.13	0.260	-.1965872	.7270917
DTrXDPost	.1937125	.5434767	0.36	0.722	-.8729041	1.260329

From the results of running the first regression analysis, it is seen that Model 1 describes the correlation between the export value of Kazakhstan and two dummy variables, where each of them indicates the treatment group (EAEU membership) and time variable. Besides, the difference in difference estimator was also used in order to determine the difference between the treatment group's result after a certain period and the same result for the rest of the world. At this model, first one, the dependent variable is the export value of Kazakhstan. So the treatment group includes EAEU member countries, which is coded as 1, while other partner-countries, which are non-members, are coded as 0. For the second variable, DPost, the EAEU establishment was taken as the outside intervention. So the year before 2015 were coded as 0, while years after 2015 were coded as 1. As a result, the third variable, DTr*DPost is demonstrating the effectiveness of the establishment of the Union on the export amount of Kazakhstan to different countries.

Model 2 (export of Kazakhstan to EAEU member countries with the establishment of CU)

After obtaining results from the first regression analysis, Model 1, it was decided to assess the effect of another important step towards the integration, such as Customs Union, that was taken 5 years before the establishment of EAEU in order to see if it had more remarkable effect before the establishment of EAEU or not. Hence, the same method was applied with two variables: DTr and DPost, but for this time, the time frame was starting from 2000 and until 2019, where years before 2010 was coded as 0, while years after 2010 was coded as 1. And for the third independent variable, which is needed to be generated the third variable, the multiplication of previous ones were used. Then all countries were generated year by year, so each country is considered as a separate unit throughout all years. Finally, country fixed effect and time fixed effect were utilized.

```
. gen DTrXDPost = DTr*DPost
.
. gen ln_exvalue = ln(exportvalue)
.
. egen countryid = group(country)
.
. regress ln_exvalue DTr DPost DTrXDPost i.countryid i.year
```

note: 81.countryid omitted because of collinearity

Source	SS	df	MS	Number of obs	=	1,957
Model	22425.8107	127	176.581187	F(127, 1829)	=	47.43
Residual	6808.70113	1,829	3.72263594	Prob > F	=	0.0000
				R-squared	=	0.7671
				Adj R-squared	=	0.7509
Total	29234.5119	1,956	14.9460695	Root MSE	=	1.9294

ln_exvalue	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
DTr	3.175435	.6487111	4.89	0.000	1.903143 4.447727
DPost	3.399105	1.08738	3.13	0.002	1.266468 5.531742
DTrXDPost	-.5005335	.4407377	-1.14	0.256	-1.364936 .3638687

As a result, it's seen that Model 2 describes the correlation between the export value of Kazakhstan and two dummy variables, where one of them indicates the treatment group (Custom Union member countries, which included Kazakhstan, Russia, and Belarus and plus future EAEU countries such as Kyrgyzstan and Armenia) and control group (all other countries of the globe). The second variable indicates the time of the establishment of the Union, which is 2010, where 1 is for years after 2010 and until 2019 and 0 is for years starting from 2000 and until 2010. As a result, the third variable, DTr*DPost is demonstrating if the creation and bringing into force of Custom Union somehow affected the trade pattern between member countries.

Model 3 (export value all together)

```
. regress ln_exvalue DTr DPost2010 DPost2015 DTrXDPost2010 DTrXDPost2015 i.countryid i.year
note: 81.countryid omitted because of collinearity
```

Source	SS	df	MS	Number of obs	=	1,957
Model	22426.3912	129	173.847994	F(129, 1827)	=	46.65
Residual	6808.12067	1,827	3.72639336	Prob > F	=	0.0000
				R-squared	=	0.7671
				Adj R-squared	=	0.7507
Total	29234.5119	1,956	14.9460695	Root MSE	=	1.9304

ln_exvalue	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
DTr	3.175358	.6490392	4.89	0.000	1.902421 4.448295
DPost2010	3.405959	1.08807	3.13	0.002	1.271968 5.539951
DPost2015	-.2167077	2.008521	-0.11	0.914	-4.155947 3.722531
DTrXDPost2010	-.6188253	.5399751	-1.15	0.252	-1.677859 .4402081
DTrXDPost2015	.2368914	.6229314	0.38	0.704	-.9848411 1.458624

After the analysis of export of Kazakhstan, the next step is the analysis of the import value of Kazakhstan from other EAEU member countries and the rest of the world countries. Hence, the next model – Model 4 represents the import value of Kazakhstan from EAEU member and non-member countries after the establishment of the EAEU.

Model 4 (import value of Kazakhstan from EAEU member and non-member countries after the establishment of EAEU)

```
. egen countryid = group(country)
```

```
. regress ln_imvalue DTr DPost DTrXDPost i.countryid i.year
note: 88.countryid omitted because of collinearity
note: 2019.year omitted because of collinearity
```

Source	SS	df	MS	Number of obs	=	1,144
Model	13337.6236	125	106.700989	F(125, 1018)	=	106.07
Residual	1024.05449	1,018	1.00594744	Prob > F	=	0.0000
				R-squared	=	0.9287
				Adj R-squared	=	0.9199
Total	14361.6781	1,143	12.5648977	Root MSE	=	1.003

ln_imvalue	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
DTr	8.473349	.476709	17.77	0.000	7.537904	9.408794
DPost	-.0380227	.1334705	-0.28	0.776	-.2999313	.223886
DTrXDPost	.2774942	.3228747	0.86	0.390	-.356082	.9110703

As it's seen from the results provided above, model 4 observes the results of the import value of Kazakhstan from other EAEU member countries and non-member countries. In this model, the dependent variable is the import value of Kazakhstan from EAEU member and non-member countries, while independent variables are the same dummy variables as they were in the previous models with an export value.

Model 5 (import value of Kazakhstan from EAEU member and non-member countries after the establishment of CU)

In this model, there will be evaluated the import value after the establishment of the Customs Union. After obtaining results from the first regression model with export value, the second step was to assess the effect Customs Union. Hence, the same procedure is following the import value examination. So here the dependent variable is an import value, while independent variables are DTr, where countries of treatment group = countries of Customs Union such as Russia and Belarus, but plus Armenia and Kyrgyzstan, while the rest of the world countries are in the control group. The second variable is DPost, which indicates a time period, where 0 = years before the establishment of CU, starting from 2000 and until 2010, while 1 = years after the establishment of the Union from 2010 and until 2019. So again, it is needed

to generate the third variable in order to utilize difference-in-difference estimator. Then all countries are generated year by year, so each country will be considered as a separate unit throughout all observing years. Finally, country fixed effect and time fixed effect are also added.

```
. egen countryid = group(country)

. regress ln_imvalue DTr DPost DTrXDPost i.countryid i.year
note: 88.countryid omitted because of collinearity
note: 2019.year omitted because of collinearity
```

Source	SS	df	MS	Number of obs	=	2,258
Model	25728.2145	136	189.178048	F(136, 2121)	=	114.44
Residual	3506.32183	2,121	1.65314561	Prob > F	=	0.0000
				R-squared	=	0.8801
				Adj R-squared	=	0.8724
Total	29234.5363	2,257	12.9528296	Root MSE	=	1.2857

ln_imvalue	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
DTr	9.456429	.4321375	21.88	0.000	8.608971	10.30389
DPost	1.987856	.1720239	11.56	0.000	1.650503	2.325209
DTrXDPost	.0324055	.2927681	0.11	0.912	-.541737	.606548

3.2.3 Empirical Results

In accordance with the regression analysis results, the aim of which was to assess the effect of the Eurasian Economic Union on Kazakhstan, it is fair to make several important inferences, coming after the results.

Firstly, in accordance with the Model 1, where the export value of Kazakhstan was a dependent variable and the treatment group includes EAEU member-countries, such as Russia, Belarus, Kyrgyzstan, and Armenia, it's seen that Kazakhstan was already exporting a significant amount to these countries on the grounds that the coefficient of DTr variable is positive and relatively high, which is equal to 2,496243 or 2.5%.

Besides, in accordance with the second independent variable, which describes the time period, DPost with 2015 year, which is the year of the EAEU establishment, the coefficient isn't comparatively high, but still is positive and equal

to 0,2652522. So it means that the export value of Kazakhstan to all the countries after 2015 increased, but not that much, only around 0,3%. Finally, in accordance with the third variable, which is the multiplication of $DTr*DPPost$ and which indicates the export trend after the establishment of the Union in 2015 with the treatment group, it is clearly seen that the coefficient is even smaller than $DPPost$ coefficient even though it still has a positive number and equals to 0.1937125. Therefore, it's observed that Kazakhstani export didn't increase to the EAEU member-countries after the establishment of the Union that much since the coefficient is less than the overall increase of export after 2015. As a result, it can be finally concluded that the export of Kazakhstan to EAEU countries was already high even before the establishment of EAEU, so there is no significant effect of the establishment of EAEU to export of Kazakhstan to EAEU member-countries.

However, knowing from the theoretical base that the creation of Customs Union was one of the very first and important steps towards the integration process of the former Soviet Union countries, I tried to analyze if the high coefficient of export from Kazakhstan to EAEU member countries was somehow due to the establishment of Customs Union in 2010. However, after making such calculations, it was observed that the coefficient DTr (treatment group included Customs Union members and also Armenia and Kyrgyzstan) was also comparatively high, and the coefficient of $DPPost2010$ variable increased as well, but to even the bigger number than coefficient of treatment group DTr variable. Therefore, it means that Kazakhstan after 2010 with the creation of Customs Union started exporting way more than before starting from 2000 and until 2009. However, in terms of the third coefficient, which is $DTr*DPPost$ we can observe that it is even negative, which means that despite the fact that overall export of Kazakhstan after 2010 increased, the export to CU countries and Armenia and Kyrgyzstan even decreased. Hence, it could be stated that there is even negative effect of CU to its members and to future two additional countries like Armenia and Kyrgyzstan, which states that Kazakhstan increased its export potential, but mostly to the third countries.

After the analysis of Kazakhstani export, the second step was the analysis of the import from Kazakhstan to EAEU member-countries and the rest of the world. In accordance with the results obtained from Model 4, where time frame acquired years starting from 2010 and until 2019, and where import value is a dependent variable, it's seen that the import of Kazakhstan from EAEU member-countries was already high, it's observed due to high DTr coefficient (treatment group: EAEU member countries). However, the coefficient of the second independent variable, DPost, is negative, which states that the import amount from all countries after 2015 decreased, but in accordance with the obtained coefficient of the third variable, which is $DTr \cdot DPost$ it's observed that the import from the EAEU countries, oppositely, increased. Therefore, it states that despite the overall decrease of import amount after 2015 year, the import from EAEU countries was relatively high.

Then again, in terms of import similar to the case of export, I also tried to calculate the effect of CU on its member-countries and two additional EAEU member countries (Armenia and Kyrgyzstan). Hence, in accordance with calculations, it's observed that the DTr was relatively high and the coefficient of $DPost_{2010}$ was also high, which indicates that the import of Kazakhstan from CU member countries and Armenia and Kyrgyzstan was already high. The positive coefficient for DPost also indicates that import of Kazakhstan from the rest of the world after 2010 also increased. However, in accordance with the third variable, which is the multiplication of them two $DTr \cdot DPost$, which has also a positive coefficient, but still a small number, states that the import from the treatment group also increased, but not that much compared to other the rest countries of the world. However, it shows that the creation of CU somehow affected Kazakhstan in terms of import and it started importing more from CU member countries.

Therefore, based on obtained results from regression analysis and different models, it could be concluded:

⇒ The export of Kazakhstan from EAEU member countries was already relatively high and it was slightly increasing after 2015. However, the share of EAEU in overall amount after the establishment of the EAEU isn't big. Hence, there is no significant effect from EAEU in terms of export.

⇒ Import from EAEU countries was already high. However, after 2015 there is a decline in overall import to all countries of the world. However, the import from EAEU countries increased compared to the import from the third countries. Hence, it could be stated that there is some effect from EAEU, but in terms of import.

⇒ Therefore, what could be stated from the analysis is that the EAEU more positively affected import rather than the export of Kazakhstan. Hence, within the EAEU framework, Kazakhstan is a more importing country. However, it contradicts its initial goal, which was to increase export and to increase the overall competitiveness.

⇒ As a result, there is next question arises: what is the point to Kazakhstan to stay in EAEU, if it doesn't benefit from it, while other member countries do?

To wrap up, Kazakhstan after the establishment of EAEU started importing more from member states than exporting to them. However, in terms of trade with the third countries, the trade balance of Kazakhstan demonstrated a more positive tendency: export increased higher than import (26% versus 20,6%). In monetary terms, export increased from \$40,8 billion in 2015 year to \$51,4 billion in 2019, while import grew less - from \$19,4 billion in 2015 to \$23,4 billion in 2019 year. In other words, in terms of the trade balance, trade with other countries of the world was more favorable for the economy of Kazakhstan. Even excluding the export of crude oil - Kazakhstan's main export position - non-oil exports to foreign countries grew by 22%, while imports increased by 21%. These conclusions, it must be admitted, are based on extremely insignificant changes, however, there are no other ways of more or less objective assessment so far.

IV. POLICY IMPLICATIONS

After conducting an analysis of this research paper, one of the biggest issues that should be emphasized is that still, Kazakhstan is more exporting to foreign countries and more than half of the export goods are natural resources, while the export to EAEU didn't demonstrate significant improvement. So it says that there is no change in the export pattern of Kazakhstan and as a result no change of national economic structure. Moreover, Kazakhstan's import from EAEU is higher than export and it was increasing higher compared to the import of Kazakhstan from third countries, so Kazakhstan became the biggest sales market for Russia and Belarus, which fully contradicts the initial goal of Kazakhstan from the establishment of the Union, which was to increase national export in the common market and substantially increase the competitiveness of the national economy of Kazakhstan through freedom of trade. So what could be the main reasons behind such non-optimistic trade patterns?

4.1. Problems of Kazakhstan and their possible solutions within the framework of the Eurasian Economic Union

1. Insufficient mutual market satisfaction among member-countries.

Economic integration in modern times, when the world's highly developed economies underpin all technological orders, is becoming more and more challenging for less developed countries. The economic systems of developing countries, which are based on raw materials and agricultural production, do not complement each other and do not stimulate technical and technological progress, but they only compete with each other in the raw materials market and they continue to focus on technologies and consumer goods of developed countries.⁴³ The same is happening in the EAEU, where the majority of export products between member

⁴³ See Koshanov, A. (2017, April 20)

countries are raw materials, like oil or other mineral resources. As a result, the competition between them is processing only in the raw material or agricultural products sectors, which is obviously do not stimulate the economic development or any technological breakthrough among member countries. Therefore, it could be stated that the main goals of the Union, modernization and economic development, are not being fulfilled. Hence, in order to improve the level of development and stimulate the modernization of the EAEU member-countries' economies, technological and investment exchange is an important necessity. However, the structure of the Union countries' economies, which is characterized by the desire to overcome dependence on raw materials, is relatively non-competitive when integrated into the global economy. In spite of the fact that Russia is a relatively large economy, its participation in technological and investment exchange does not exert a dominant influence and does not provide the necessary tasks of modernizing the member-states' economies of the integration association. Since Kazakhstan is abundant in various mineral resources and its export is mostly natural resources orientated, reorientation of its economy isn't easy work. Therefore, an important problem that restricts trade is a competition of the member-states on the same market of natural resources' industry. And as it's seen from the analysis part that for all member-states of the Union, natural resources and primary processing products are the main export goods. Therefore, participating parties aren't able to complement each other's needs, but only compete with each other in the same industry and import goods from the third countries. Hence, countries are anyway interested in the market of third countries due to the fact that only they can satisfy their needs for technologically more advanced products.

Possible solution: as a result, it's seen that there is an urgent need for the EAEU member-countries of an improvement of industrial development, stimulation of the manufacture of new products, and member countries' specialization in different production spheres, so they will not have or will have a minimum of identical products at the common market and will not have to compete in an

exhausted natural resources' market with each other anymore. However, this issue is the most difficult one since it requires to each country find their own unique specialization within the Union and even at the global scene. In other words, it requires the whole modernization of the economy. This is not an action of one or several years, but it requires a way longer period of time. All members, specifically Kazakhstan, should start to produce goods and services that will satisfy the populations' needs. This question is a core issue and very essential since it requires huge amounts of investment. Otherwise complete reorientation of the national economy is almost impossible.

2. Lack of investments, specifically in industrial/innovation spheres.

These days integration between members of the EAEU mainly takes place in traditional economic sectors that are exhausting their potential: energy, chemical, petrochemical industries, metallurgy, and other products with low value-added. But according to the UN classification, it's known that 1 kg of raw materials' cost does not exceed \$100, in contrast to science-intensive products with the cost equal to \$1000000 for 1 kg of goods. Therefore, it's essential to become less dependent on the raw materials' export, change the country's specialization, and reorient to the production of more technologically advanced products. However, this field requires huge amounts of investments, which is the main stumbling block on the grounds that unlike the EU, the national economies of all the EAEU members are always experiencing a constant shortage of investments and new technologies.

Possible solution: Kazakhstan by utilizing its advantage of having a very good geographical location could become one of the biggest attractions for many investments. Investments are a good way to start industrial breakthroughs with the help of more advanced countries, which follow their own interests, so the process will be mutually beneficial. Investors contributing to the industry, manufacture of home country can become the reason for its flourishing economic development. Besides, as countries develop their industries and reach that level of development when they can be called industrial, investments coming from outside, which

stimulate and actively support foreign trade flows of these countries, contribute to the further integration of these countries into the worldwide economy. Besides, in terms of investments in the innovation sphere particularly, an important source of improvement could be a government's support (funding) towards producers of the innovative sphere, such as grants, scholarships and etc. with the aim of stimulating for better performance and fruitful outcomes. Then, at the same time, within the framework of the IDP (innovative development programs), companies would not only implement innovative investment projects themselves but also would create demand for domestic high-tech goods and services and would create conditions for the development of import-substituting projects.

In order to improve investment from other countries, it's essential for Kazakhstan to improve its legal basis in order to guarantee law supremacy, capital safety, transparent and comfortable business environment for investors. Therefore, the necessity of reforms is obvious.

However, there also might be some works on the micro-level done in order to stimulate the productions of more innovative and high-tech products. For example, to create a platform that will unite businesses that already operating on the market and project developers (brand-new startups). So businessmen will have an opportunity to further develop their business presence and power and/or to become a leader in the industry thanks to ideas generated by the professionals. This kind of business practices and idea creators (consultants) isn't common in Kazakhstan, hence it's seems that building such a strong relationship between them and already operating businesses is a good idea which will stimulate the progress.

3. Existence of non-tariff barriers.

The main important non-tariff barriers include technical barriers, sanitary and phytosanitary measures, price controls, and measures affecting competition. However, in accordance with the results of a survey in the study of enterprises-exporters of goods (more than 500 companies from each member-country took part) report No. 29 "Assessment of the economic effects of the abolition of non-tariff

barriers in the Eurasian Economic Union", it was demonstrated that one of the main barriers that create restrictions on trade within the EAEU are technical barriers. And among those technical barriers are the barriers that influence most are the necessity of product testing and certification and compliance with manufacturing standards. Besides, another barriers on trade between EAEU member countries that were highlighted in the research are competition measures and measures of price control, which include taxes and also fees in the country of destination (mostly linked to value-added taxes payment). Furthermore, as it's noticed by the experts, where Kazakhstan has the potential to supply high value-added goods, goods in the manufacturing industry, it faces barriers. Kazakhstani exporters counted more than 85 barriers. Some of the most acute remain for several years: the establishment of a minimum level of control prices in Kyrgyzstan; restriction of transit through the Russian territory to the territory of Ukraine; obstacles and bureaucratic delays for dairy suppliers; difficulties with entering the alcoholic beverages market in the Belarusian market; transit restrictions; lack of database integration and so on. Out of all member countries of the Union, Kazakhstan has demonstrated the biggest concern about non-tariff members. The respondents from Kazakhstan believe that the presence of barriers and restrictions on the Russian market leads to an increase in the cost of transport services by an average of 10-20%. If the barriers and restrictions on the territory of Russia were removed, the volume of cargo transportation would increase by 30–35%.⁴⁴

Possible Solution: In order to solve the technical regulation barriers' issue within the framework of the EAEU, one of the possible solutions might be the establishment of certain procedures for a mutual recognition with the aim of assessing the products' conformity, which aren't covered by CU's technical regulations, and harmonization of rules and norms of marking, packaging, labeling

⁴⁴ Eurasian Development Bank "Assessment of the economic effects of the abolition of non-tariff barriers in the EAEU", 30, 2015
http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_makroec_pol/developDocs/Documents/EAEU_survey.pdf

within the CU. Moreover, during the cases when exporting goods are stuck at the border due to these various technical regulation or bureaucratic issues, there could be created some kind of an operational working group to respond to barriers or optimize existing one in order to solve the problems as soon as possible.

4. Weak transport infrastructure and insufficient level of logistics.

The territory of the EAEU is more than 20 million square kilometers, therefore the movement of goods between distant points is not always fast and safe, especially taking into consideration the quality level of roads, equipment, and vehicles used. Nowadays the development of the transporting system in all member-countries is progressing. However, despite that, they still aren't a single unified logistics space, which is essential within the framework of regional integration. Moreover, there are also other important problems within transporting system issues, such as limited throughput of border crossings between neighboring countries, which restrains the increase in the speed of transit container trains. There are also problems in the automotive infrastructure, such as its weak development and especially the roads' bad quality, particularly of non-highways. Besides, transport companies in the region tend to suffer from high transport costs and a lack of qualified personnel. The logistics industry is still at an early stage of development, and logistics costs are high for the EAEU member countries compared to international practice. Complex logistics services, including freight forwarding, customs brokers, or third-party logistics providers (3PL providers) are rare. The low level of cooperation and harmonization of rules and regulations is another problem. Currently, not all signed and ratified agreements are being implemented since there is no mechanism for monitoring compliance with their conditions and requirements. In addition, differences remain between countries in the applicable standards for maximum mass and axle load for heavy goods vehicles, as well as in official procedures and rules for entering the country and crossing its territory, which once again underlines the lack of cooperation and harmonization in the region. The situation is complicated by significant time-consuming border crossing, which is most facilitated by long queues.

Possible solution: one of the solutions that may somehow help to contribute to the development of transportation system as well as logistic could be the construction of new and modernization of already existing roads, the increase of their capacity, improving the road surface use, which include the increase of the consignments' volume of transported goods, the use of "mega-trucks", consolidation of goods before shipment as well. However, all of this requires additional investments from all countries. Moreover, the expansion of the usage of information technologies in transportation and promoting transport services, and also the expansion of the transit container services' geography could also be one of the essential tools to improve transportation and logistics problems in the region.

In terms of Kazakhstan, it should be emphasized that there is already done work. For example, it developed the state program of infrastructure development named "Nurly Zhol" where were set several goals in order to improve Kazakhstan's transport and logistic infrastructure. In accordance with this program, it's planned to improve the quality of automobile roads to 95-100%, to build and reconstruct more than 10 thousand kilometers until the year of the 2025 year, to increase the average daily speed of transit container trains, and to increase the number of bus stations, and etc.⁴⁵ Therefore, the success of this program, particularly the construction of new cross-border transport infrastructure projects can solve the problem of insufficient capacity when transporting resources abroad, contribute to the economic development of adjacent territories, as well as realize a high degree of mutual integration and mutual benefit of cooperation between the EAEU countries. Based on the results of previous years, it could be stated that the program is quite efficient since it has reached most of its goals, which were set in a previous five-year plan.

5. Another important problem that Kazakhstan is facing, just like any other member country of the EAEU, is the unstable relationship between Russia and the

⁴⁵ Decree of the Government of the Republic of Kazakhstan dated December 31, 2019 No. 1055 "On approval of the State program for infrastructure development" Nurly Zhol "for 2020 - 2025" Retrieved from <http://adilet.zan.kz/rus/docs/P1900001055>

United States and other countries of the Western bloc. The unstable situation between the opposing forces leaves a huge imprint on the neighboring partner countries. For example, during the 2014 - 2016 years, Western countries and Russia imposed sanctions and counter-sanctions against each other, which underpin the essence of integration organization. The main problem of the sanctions regime was that the introduction by the Russian side of counter-sanctions formally violated the principle of a single customs territory and a single trade policy in relation to third countries. This negated the achievements of Eurasian integration and provokes conflicts within the EAEU, whose countries must pursue a coordinated policy in the common interests. In addition, in 2016, significant differences arose in the positions of Russia, Belarus, and Kazakhstan regarding the nature of trade and economic relations with Ukraine after the signing of an association agreement with the European Union by Kyiv and the actual refusal of Belarus and Kazakhstan to support Russia's position on Western sanctions, including retaliatory measures, arose serious problems associated with compliance with the regime of a single customs territory and, as a result, ensuring the efficiency of the EAEU. Moreover, many EAEU experts criticize the “crisis contamination effect” which leads to many negative consequences at the macroeconomic level for all member-countries. For example, when Russia was experiencing an economic crisis in 2014-2015 years and significant depreciation of its currency, as a result, the collapse of the Russian ruble created conditions for price superiority in the competition in the common EAEU commodity market, which triggered a shift in demand in both the Russian and the national market of Kazakhstan for Russian products and the expansion of the segment of Russian producers to the detriment of Kazakhstani ones.

Possible solution: this question is a complex issue on the grounds that it's closely related to politics, while the EAEU is considered to be a clearly economic organization. Mostly this situation affects Kazakhstan in terms of currency volatility, when the Russian currency ruble falls, which develops the influx of Russian cheap goods to Kazakhstan. In this case, Kazakhstan has an option to depreciate a national

currency, the tenge, in order to protect home producers. This situation already happened in the first year of sanctions' imposition. However, the international agreements with non-member countries, like free trade agreements with some Asian, like Singapore and Vietnam, and also Latin America countries, as well as the economic and trade cooperation with China and the project such as China's Belt and Road Initiative (or New Silk Road) are also helping to reduce the effect of anti-Russian sanctions on member countries.

4.2 Advantages of the EAEU and future perspectives

Despite the fact that the results from an analysis are contradictory, there are still several essential positive aspects were brought with the establishment of the Union, that have influenced Kazakhstan in a good way. For instance, the creation of the Union helped to eliminate some trade barriers and made export less problematic due to the less bureaucratic works associated with transportation, relaxation of customs duties at the border of countries, harmonization of national legislations and so on, all of which made a trade with each other easier than it used to be previously. As a result, Kazakhstan in overall managed to increase its export to the EAEU member countries. In addition, freedom of trade in the common EAEU market contributed to the multiple growths of mutual trade between Kazakhstan and other member-countries, which made it possible to significantly reduce the negative factors coming from the crisis recession during the 2015–2016 years. As a result, exporting goods became cheaper, so the demand for them increased and they became able to compete with other countries' cheaper products, for example like Chinese products.

Furthermore, EAEU stimulated the competitiveness of the commodity positions of Kazakhstani producers in member countries' markets; it helped to expand the potential and scale of cross-border economic cooperation between Kazakhstan and the EAEU countries and helped to build up investment cooperation

within the integration block. Besides, it helped to enhance positive effects in the process of macroeconomic convergence.⁴⁶

What is more, the EAEU and the EU have an increasing interest in cooperation with each other. Closer economic integration with European Union countries is vitally essential for the EAEU member-states due to the fact that the European Union is still the biggest trading partner for Kazakhstan and also to Russia, where the EU is the main importer of these two countries export. Hence, the role of the EU is still very important and perspective.⁴⁷

Nevertheless, the establishment of the Union already provided an opportunity to build economic relations with some other countries, such as Vietnam, Singapore, Serbia, Iran, and so on. For example, the very first agreement to establish FTA between EAEU and Vietnam was signed in May of 2015 and came into force in October of 2015. This was one of the very first official documents, which covers the trade agreement between EAEU as an integrated organization of member-countries with the country, which is outside of the agreement. Under the agreement, it was supposed to reduce customs duties by 88% of goods of mutual trade, where 59% immediately after the sign of the agreement and the remaining 29% within the next 5-10 years⁴⁸. Besides, there were included some procedures of special operating, which are being applied to joint production facilities of contracting parties. As a result, it could be noted that the mutual trade between countries indeed increased, inter alia, Kazakhstan's export to Vietnam increased from 10.4 billion in 2015 to 79 billion dollars in 2019 or for almost 86% and mostly due to the export of food products, agricultural raw materials and metals and products from them.

What is more, apart from Vietnam, later the EAEU has signed FTA's with several other countries like for instance Singapore, Iran (a limited FTA because of

⁴⁶ See Migranyan (2019)

⁴⁷ See Vinokurov (2014)

⁴⁸ Eurasian Economic Commission site: Zone of FTA Signed by EAEU and Vietnam Takes Effect. 2016. Retrieved from: <http://www.eurasiancommission.org/ru/nae/news/Pages/06-10-2016-1.aspx>

existing sanctions regime), and Serbia (the latter replaced already existing bilateral agreements with the EAEU main economies). Besides, negotiations with countries such as India, Egypt, Indonesia, and Israel are proceeding. Also, there was negotiated the trade-economic union agreement, specifically a non-preferential deal with one of the biggest global economic players such as China. Moreover, there are some talks about the possibility of negotiating agreements with countries such as South Korea, Cambodia, Mongolia, Peru, Chile, and also MERCOSUR.⁴⁹ However, as numerous experts state, the more realistic one out of all these perspective agreements is an FTA with South Korea. Apart from being a \$2 trillion economy, the Republic of Korea has relatively good logistics to the EAEU markets. One could try to resurrect this prospect now employing various protective measures for the EAEU internal market. So there is still a way for further development.

Another perspective for Kazakhstan as one of the member countries within the EAEU is a future creation of a single financial market on its territory. Among the significant problems that are planned to be solved in this direction are the harmonization of national legislation and the practice of its application; improving the regulation of the securities market; integration of the exchange space; solving the problem of lending to enterprises in the real economy sector; a decrease of government participation. Therefore, by 2025, it is necessary to complete the harmonization processes and create a supranational regulatory body for financial markets. Besides, it is planned to locate a supranational financial regulator in the city of Almaty, which will make it the financial center of the EAEU and financial hub connecting Europe and Asia. Hence, it will become the main concentration of financial resources and a place for favorable business development and investment attraction. In general, financial integration will contribute to the greater resilience of markets to the manifestations of crisis phenomena. The solution to this problem will allow to ensure efficient capital allocation, diversify and minimize risks, increase

⁴⁹ See Vinokurov E.(2020)

competition in the financial services market and remove restrictive barriers to mutual admission. During the global economic crisis period and restrictions on access to external sources of financing, the formation of a common financial market will become a powerful step towards the economic growth of the EAEU states⁵⁰.

The formation of a common financial market will be held in several steps. At the first stage, member-states will start to gradually harmonize national legislation in the financial sector. For the coordinated regulation of the financial sphere, it is first necessary to determine the prudential requirements for banking, insurance, and securities market activities, and to formulate uniform requirements for the financial market participants. The process of harmonization of national legislation will also stimulate the increase of export. At the second stage, the countries will form a regulatory framework and develop some uniform technologies and procedures with the aim of regulatory supervision over the financial market participants' activities. In order to achieve a qualitatively new integration level the mutual recognition of licenses of the participants of the financial market, when an individual or legal entity, having received a license in one country, can fulfill financial activities throughout the EAEU is essential. After the completion of the process of harmonization of legislation in the financial sphere, the next step will be creating a supranational body for regulating the financial market. The supranational regulatory body's main liability is to provide certain conditions within which the single financial market will be effectively functioning.⁵¹

To sum up, EAEU is a relatively new integration organization that has the potential to become one of the biggest organizations due to its advantages and expecting perspectives. It has an exceptional transcontinental geographical position, which contributes to strengthening the competitiveness of the union in the world

⁵⁰ See Alekseenkova, E. (2017)

⁵¹ Russian Banks Association. The formation of common EAEU financial market: benefits and challenges for member countries. Retrieved from <https://asros.ru/news/opinions/formirovanie-obshchego-finansovogo-rynka-eaes-preimushchestva-i-vyzovy-dlya-stran-uchastnits/>

arena and the creation of transport corridors at the regional and global levels. And all this stimulates the increase of the scale of trade flows between Europe and Asia.⁵² Therefore, taking into consideration all the abovementioned positive outcomes and future perspectives, Kazakhstan as well as other members of Unions, has a great opportunity to benefit from the organization in the long-run future.

⁵² See. Podkina (2019)

V. Conclusion

After choosing the topic of the work and after the analysis of existing articles and papers related to the performance of the EAEU and performance of countries within the Union, and also considering the critics from some local experts in terms of the Union activity, I have decided that the research question will be related to the evaluation of the performance effectiveness of the most advanced form of integration on the territory of former Soviet Union countries, the EAEU.

Therefore, the first step was the research on the background of the Union starting from the beginning of the very first thoughts about integration that were emphasized in the 1994 year by the first President of Kazakhstan. Then it was followed by an analysis of socio-economic parameters of all member countries, it was clearly seen that Kazakhstan has the full potential to become one of the main players since it has one of the biggest economies right after the Russian Federation. There were used a variety of sources with the aim of a better understanding of the trade relations of member states as within the Union as with all other countries. There was provided information on trade patterns of all member countries starting from the establishment of the EAEU.

Furthermore, after providing a brief introduction to Kazakhstan's case, the next step was to make a regression analysis to assess the effect of the Union on Kazakhstan's trade pattern. As a result, based on the regression analysis results, it is observed that Kazakhstan was already having good trading relations with member countries before the establishment of EAEU and even before the establishment of CU, which fairly could be explained by their common long history being one single country. During the Soviet Union period, Kazakhstan was the main provider of mineral resources and even after gaining independence, Kazakhstan is still following the same path. However, it's known that one of the main goals of the EAEU establishment is to increase member countries' competitiveness and to develop more high-value-added goods for export, and make themselves less dependent on the

export of raw materials. But what could be noticed from the regression analysis and difference-in-difference estimator is that the increase of the export of Kazakhstan to other member countries after the year of the establishment didn't increase for a significant number, which basically states that the effect of the Union isn't that remarkable. So the answer for the research question that was set might be: the establishment of Union indeed had some effect on the country, but in terms of export value it didn't bring any substantial difference. Besides, in terms of import value, the increase also isn't that remarkable. However, it's still higher than export, which made Kazakhstan a more importing country.

Finally, after making an analysis of the performance of Kazakhstan in terms of trade with the establishment of the EAEU, it could be stated that the effect of the EAEU as an integration organization didn't demonstrate its strength in its full volume in the case of Kazakhstan. Kazakhstan is exporting more from member countries, and its positive trade surplus is supported due to trade with European Union countries and some others. However, there is some positive aspect, such as an overall increase of export and import values.

Nevertheless, I reckon that it's too early to make the final assessment of the performance of the Eurasian Economic Union and more time is needed in order to give a proper answer for the question of effectiveness. The organization has been functioning for 5 years only, however, from the worldwide experience, it's known that some organizations achieved their highest peak way later. It could be observed that it still has many perspectives for future development, hence in order to give the final evaluation for the EAEU performance longer period is required. However, the integration organization, as well as free trade zones, don't guarantee the increase of trade, it just expands trade borders, providing members more opportunities, that needed to be utilized properly. Moreover, modernization of the economy cannot be achieved only by opening the borders. Therefore, previously to integration, industrial improvement should have been done, especially for such raw materials export-

oriented country, like Kazakhstan if it wants to boost its export. Therefore, the very first and the most important task for Kazakhstan is industrial reconstruction and modernization of the socio-economic space. The modernization of the economy in Kazakhstan should be started with the industry's restoration and reindustrialization. It is necessary to find new industries and form new industries that meet modern global trends. However, as it is obvious, new industrial directions will require significant investments and coordination of actions of all participants of the single market. I reckon that it's essential for Kazakhstan to innovate something which will drive and stimulate future nonraw material production and become a more technologically developed country. There the strengths of the Union that may contribute to it.

Hence, at first sight, it might seem that the effect on the trade patterns of Kazakhstan isn't that significant and that initial goals, which were set before the establishment of the Union were not achieved yet. However, after looking at policy implications, it could be stated that Kazakhstan despite the fact that EAEU has many unsolved problems as well as Kazakhstan itself within the Union's framework that have the power to restrain export, there are still possibilities to reduce their effect. Moreover, there are still various kinds of future perspectives that could bring benefits to the Union members and especially Kazakhstan. The possibility of further relief of some non-tariff barriers will stimulate the further increase of mutual trade between member countries. In addition, the establishment of the financial center of the Union in Kazakhstan may stimulate the creation of a common financial market, so Kazakhstan could become the main center of investment attraction of CIS countries. With the advancement of integration legislations and harmonization, there is a possibility that the organization will benefit more their members. Nowadays, Kazakhstan is experiencing severe competition from other country's production capacities. Many Belarusian or Russian products are more available for people due to their lower price and relatively good quality, while domestic products are still more expensive and the variety isn't big. As a result, this situation may stimulate the

competitiveness of domestic products to increase their quality and reduce the price. Therefore, it seems that the peak of the EAEU isn't achieved so far, therefore it feels that there is an opportunity to witness better results in the long-run future.

To conclude, it is essential to emphasize that Eurasian Economic Union is a young integration organization, therefore with the unstable worldwide economic situations, the results of its operation might still be blurry. However, from what is seen from the analysis of the thesis it could be clearly stated that at the current time Kazakhstan has moderate results from the Union, it is a more importing country within the Union framework and still, the main trade partners are mostly non-EAEU member countries. However, there are substantial perspectives of the Union in the future. Therefore, I suppose that after some changes, developments, harmonization of national legislations and various regulatory processes within the Union, which are contradictory at the current stage, Kazakhstan will be able to receive prominent positive effects.

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