



## Uzbekistan and the Eurasian Economic Union (EEU): (is) Integration in the Interests of the Country and the People?

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### ABSTRACT

*This article analyzes whether or not Uzbekistan join the Eurasian economic union, how beneficial or harmful integration can be for our economy and leading to both positive and negative consequences.*

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**Introduction.** On May 29, 2014 the Eurasian economic union agreed to establish an international law subject for the free movement of goods, services, capital and labor, and for the implementation of common economic goals coordinated in the economy and the organization has been in operation since January 1, 2015. The Eurasian economic union is based on an agreement signed between Armenia, Belarus, Russia, Kazakhstan and Kyrgyzstan.

### **How does the Eurasian economic union work?**

The main part of the Eurasian economic union is the **Interstate council**. The decision will be made by agreement between the member states. The permanent part of the Eurasian economic union is **the Integration committee**. This committee meeting is defined to meet at least four times a year. The committee decisions shall be implemented only if approved by two-thirds of the members. Members' votes in the organization are determined on the basis of fees. If so, Russia – 40; Belarus – 15; Kazakhstan – 15; Kyrgyzstan – 7,5, Armenia has 7.5 votes.

Taking into account high cost of Russia, the votes of Russian Federation are crucial. **Toir Mansurov** is currently the general secretary of Eurasian economic union. There is also an inter-parliamentary commission of Eurasian economic union and the commission includes 42 deputies from Russia, 16 from Belarus, 16 from Kazakhstan, 8 from Kyrgyzstan and 8 from Armenia.

**The secretariat headquarters** was in St. Petersburg. In order to address and develop economic issues there is a special bank also works between Russia and Kazakhstan. There was also an anti-crisis fund under the Eurasian economic union, its purpose was to help overcome the crisis in the world economy. In 2012, it was also established the Eurasian economic union court. The court seeks to resolve disputes between member states.

**The Eurasian economic union** is the **second stage** of integration by the form. That is, there is a "customs regime" between the member states. This means that member states pursue the same foreign trade policy. That is, non-member countries will be subject to the same customs dues level (the organization currently has some exceptions).

Last year in March, Uzbekistan decided to join the Eurasian economic union as an observer state. This means that we have taken a very big step towards joining the union (we are more likely to be a member of the union in one, two, three, or as long as 5 years)

**Relevance.** In general, integration always stimulates economic growth. As long as the rule of law prevails in the integration organization over the interests of any member state. In the Eurasian economic union, states (mostly Russia) have repeatedly violated union laws out of self-interest. For example, after the events in Crimea Russia has restricted the flow of Ukrainian products to Kyrgyzstan and Kazakhstan, or Russia has imposed restrictions (mainly license) on milk and dairy products import from Belarus under various pretexts (there should be no such problem in the customs union), or the recent oil trade problem between Belarus and Russia is due to the fact that Russia puts its interests above other union members.

As we can see, Russia was the main guilty in all the problems mentioned in the current example.

Now we get an official **observer state** status, after we will join the union who can guarantee that there will be no such problems between Russia and our country Russia today is not a leading state that would promote any alliance. (as they think).

The question is why are there no reports of attempts to join the WTO? Did the same thing happen in 1994 when it started and stopped again?

In general, we do not have to be any organization member to open the borders, in fact, in the current situation; simply removing the barriers at the border will bring us positive benefits (even without any state agreement).

#### **The issue content**

How can Uzbekistan's current membership in the Eurasian economic community affect our economy?

Looking at the world economy history, we can see that most countries that have been involved in the globalization and **regional integration process** have returned to the rapid growth pace. In general, increasing global specialization is accelerating the globalization process between countries. Therefore, integration organizations are becoming one of the strongest factors in the states economic development. But in the current situation, what are Uzbekistan's membership consequences in the organization?

**Advantages:** First of all, customs dues on goods entering our country at our borders will be reduced. As a result, prices for goods and services in the domestic market will naturally fall. Consumers will benefit from this, as they will be able to buy more expensive products at a lower price, as well as increase their choice. In short time, this will lead to a reduction in the market segment manufacturers'

size (as a result of increased external competition). In long time, the domestic producers' competitiveness will increase and exports will increase in areas with a relative advantage. Areas that do not have a relative advantage may disappear (not all). It is natural that there will be positive changes in the logistics system.

**Disadvantages:** First, **the Russian effect**, historically, European countries have imposed sanctions on Russia, Kazakhstan, a member of the organization, also received sanctions from several countries. In general, the extent to which Russia participates in the political process will have a direct impact on the organization's activities in the future. In other words, the sanctions imposition on Russia by other major leaders will have an impact on other organization members.

The membership in the organization could increase Russia's influence in our economy. This will more or less undermine economic freedom.

If we look at the organization history, we can see that Russia has repeatedly failed to comply with the agreements reached within the organization. Such cases recurrence in the future will lead to the organization position deterioration (in practice, will lead to the organization failure). Or the actions taken by the Republic of Belarus: at the time the EU sanctions against Russia, the Republic of Belarus took advantage of this situation, i.e. no sanctions were imposed on Belarus from Europe. There have been many cases of Belarus importing European products (many of which have been converted to "Made in Belarus") into Russia through Belarus (which has caused significant damage to the Russian government).

In addition, the organization has competitors in our country, which are mainly engaged in raw materials export. In this regard, the borders opening towards these states may not lead to any positive situation in practice.

### Conclusions and recommendations

In my opinion, the fact that Uzbekistan is joining the **Eurasian economic union** as an observer is the right decision. The migrants issue has often been at this alliance forefront. I do not believe that joining the union will ease the situation for migrants. But I expected the decision not to join to make things worse for them. We know Russian politicians who do not tolerate any inferiority in achieving their goals. Following the abrupt decision not to join the union, there was a growing pressure on our migrants in Russia. And taking into account Russia's influence in Central Asia, we could expect the pressure to be more than that. I think (if it will as I think) that this decision was made wisely and will help the national economy gain time until it recovers somewhat.

Does joining an alliance make it easier or harder to join the WTO?

One of the main conditions for joining the WTO is the import tariffs reduction. From this perspective, joining an alliance will accelerate accession to the WTO. Why? Currently, the average tariff rate in the country is 20% (if other dues are added, the figure is higher). The average tariff in the Eurasian economic union is about 6%. The average tariff rate in WTO member countries is about 9%. As you can see, joining the union will reduce the tariffs level in our country by about 3 times (that is, tariffs will be closer to 6%). This in itself eliminates the main problem of joining the WTO. That is, in theory, joining an alliance would make it easier (or faster) to join the WTO.

How will joining the union affect exports and imports?

The conclusion that joining the union will dramatically increase exports is not true. This is because the free trade agreement between the former Soviet Union countries has been in force since 2011. This means that until now, **tariffs** on exports to the Eurasian Economic Union countries have not been significantly affected. Joining the union may lead to a slight reduction in tariffs (a very small change), but it will not lead to a sharp increase in exports. However, import dues are the same not only

for the member states of the Union, but also for other countries. That is, under the customs union, goods entering the union territory (regardless of the state territory) are subject to the same tariffs. For example, if a product from China enters Russia with 5% due, it means that it enters Uzbekistan with the same due. Taking into account the current tariffs level in our country, joining the union will provide a huge incentive for imports in the short term. Of course, this process can seriously hurt domestic producers. Consumers, on the other hand, will benefit from being able to buy cheaper than before. From an economic point of view, joining a union increases the society well-being as a whole. Because domestic producers and the state budget damage will be less than the benefits to consumers.

However, these analyzes do not lead to the conclusion that it is necessary to join the union, because the above conclusions are based only on purely economic calculations. It does not take into account the fact that a state violates the union laws in its own interests, restricts trade and the political consequences. Maybe the political consequences will be more costly for our country than the economic benefits, and if so, joining the union will not be justified. The issue of joining this union is more politicians work, and it is impossible to form a complete picture with economic calculations alone.

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