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EURASIAN ECONOMIC UNION AND STANCE OF MONGOLIA

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ABSTRACT

As the development process intensifies in various regions, countries are increasingly cooperating, leading to greater economic interdependence and integration. Europe and Asia, the largest geo-economic region in the world, cover the biggest landmass and are home to 5 billion people, accounting for 72.5% of the world's population (12.5% in Europe and 60% in Asia). Eurasia accounts for 60% of the world's Gross Domestic Product (GDP) and holds three-quarters of the world's discovered energy resources. The region is home to six highly developed economies and hosts most of the world's major players in natural resources, manufacturing, and services. There are over 320 socio-economic alliances in this region, one of which is the Eurasian Economic Union (EAEU). In 2015, the Government of Mongolia and the EAEU signed a Memorandum of Cooperation. In 2015, a joint working group was established by the parties, and its first session was held in Ulaanbaatar. The second session took place in Moscow in 2016. In 2020, Mongolia and the EAEU organized the first consultative meeting to establish a joint research team that would explore the feasibility of concluding a free trade agreement. These efforts demonstrate the need for further research in this area. Therefore, this study aims to investigate some of the fundamental issues regarding the national security of Mongolia and to determine future guidelines and methods within the framework of Mongolia's cooperation with the EAEC.

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Main part.

On January 1, 2015, Belarus, Kazakhstan, and the Russian Federation established the Eurasian Economic Union (EAEU). The EAEU codified and expanded all previous treaties related to the Customs Union and integration. Armenia joined this Union in January 2015, followed by Kyrgyzstan on May 8, 2015. The EAEU aims to establish a single currency system and achieve the "four freedoms" - free movement of goods, services, capital, and labor within the single market or the creation of a unified macroeconomic policy. The agreement also sets certain economic targets, such as keeping the budget deficit at 3% of GDP, maintaining the national debt at 50% of GDP, and ensuring inflation is not more than 5% of GDP.

The creation of a Customs Union has resulted in a single market of 183 million consumers and an increase in EAEU's GDP to approximately 2.2 trillion US dollars in 2016. This accounts for 2.3% of world imports and 3.7% of world exports.¹ The union has an economically active population of 92.9 million, and the unemployment rate is relatively low at 5.3%, compared to 6.2% in the United States. The EAEU is a leading global sector in three industries: energy, manufacturing, and agriculture. For instance, the share of the EAEU in the global energy sector is about 14.6% (first place) for oil production and 18.4% (second place) for natural gas production. Energy production is 5.1% (fourth place), steel production is 4.5% (fifth place), mineral fertilizers are 10.8% (second place), cast iron production is 4.5% (third place), agriculture 5.5%, and milk production is 7%, respectively. These statistics can be found on the Eurasian Economic Commission website.

EAEU members continue to expand trade and economic sectors by conducting bilateral and multilateral FTAs with other countries.

Table 1. Trade agreement of the EAEU countries ².

Members	Number of Bilateral trade agreements	Number of Multilateral FTA
Belarus	12	7
Kazakhstan	7	8
Russia	8	7
Armenia	8	5
Kyrgyzstan	5	5

The EAEU is implementing free trade agreements (FTAs) with Vietnam, Singapore, and Serbia, short-term agreements with Iran, and two non-concessional agreements with China. Let's analyze the progress of the EAEU-Vietnam FTA as Vietnam is the first country to have an FTA with the Union.

Vietnam's Tariff Commitment Schedule lists 14,158 commodity categories. In 2015, 4,959 categories of tariffs were removed during the implementation of the agreement. In 2020, 2025, and 2027, the tariffs will continue to be reduced to the following levels, respectively.

Table 2. Tariff Commitments of Vietnam and EAEU Member States³.

Years	2016	2020	2025	2027
Exempted from tariffs	4,959	7200	8,253	8,280
Additional tariff deductions have been made	0	2,241	1,053	27
Total tariff category*	9,471	9,471	9,471	9,471
Exemption from tariffs, %	52	76	87	87
Percentage not fully exempted from tariffs, %	48	24	13	13

In Vietnam's schedule of tariff obligations, 8280 tariff lines out of a total of 9471 categories have been committed to be reduced to 0% by 2027.

Vietnam has calculated that the EAEU-Vietnam FTA will lead to economic growth, job creation, trade promotion, and investment cooperation, as well as accelerate economic relations with the EAEU countries. As per the EAEU-Vietnam FTA's commitment, Vietnam

¹ Eurasian Economic Commission website

² ARIC website, <https://aric.adb.org/fta-group>.

³ <http://wtocentre.iift.ac.in/>

will reduce almost 90% of import tariff categories to 0% or eliminate all of them by the tariff reduction schedule. It is estimated that this mechanism will increase Vietnam's access to the common market of the five EAEU countries with a total future GDP of 2.2 trillion dollars and more than 183 million users. The seafood export sector is expected to benefit the most from this FTA, and it is believed that Vietnam's fisheries will be more competitive when enjoying a 0% import tariff. However, it is important to ensure the delivery, hygiene, and quality of seafood, including shrimp and fish, to gain wider acceptance in the market.

Vietnam has the potential to gain significant advantages by expanding its activities in several areas related to trade, such as trade protection, the principle of origin, customs management, technical barriers, food safety, quarantine measures, government procurement, intellectual property, and sustainable development. By focusing on these key areas, Vietnam can further strengthen its economy and support bilateral trade activities, which can lead to increased trade volume, favorable conditions for investment, technology, qualified personnel resources, and better access to the EU market.¹

On the other hand, Vietnam may encounter some challenges in accessing the free trade zone. To enter the EAEU market, all products must comply with certain standards that are set by the EAEU. As per the regulations of the EAEU-Vietnam FTA, Vietnam is obligated to maintain its commitment to the rules of origin and intellectual property rights.

To gain preferential rights in the EAEU market, it is important to comply with the rules of origin and obtain a certificate of preferential rights. Furthermore, small and medium-sized enterprises in Vietnam need to enter and compete with EAEU companies to meet their domestic demand. This requires Vietnamese enterprises to constantly strive and adopt strategies to produce high-quality and competitive products, ultimately leading to Vietnam's rapid integration into the global economic market.

In addition, enterprises operating in the manufacturing industry, particularly those engaged in the production of garments, textiles, and footwear, should brace themselves for the high cost of global production and the need to modernize supply chains. To ensure sustainable development, they should reduce their dependence on imported materials and expand their network of suppliers. Additionally, despite the reduction in tariffs, Vietnamese exporters must prioritize safeguard measures under the EAEU-Vietnam FTA. Vietnam is a significant player in the textiles and clothing industry, being the second-largest supplier of these products to the US market. This has resulted in China's market share in this industry decreasing from 60% to 42%. However, member countries of the Eurasian Economic Union (EAEU) are worried that the increased competition from Vietnamese products could negatively impact their domestic businesses. As a result, the EAEU has decided to halt its zero-tariff policy on the export of Vietnamese textile and garment products.

Vietnamese businesses are required to follow certain procedures to comply with the unique origin requirements set by the EAEU. For instance, the EAEU-Vietnam FTA prohibits the split loading of cargo. This means that containers can only be shipped together, even if they are from different factories in different countries or transnational companies. Moreover, the cargo must be shipped directly from Vietnam to the member countries of the EAEU. A certificate of origin is also mandatory to avail of the favorable agreement.

The member states of the EAEU have joined the Union to serve their interests. For instance, Belarus joined the EAEU to gain much-needed financial resources and to acquire affordable energy from the Russian Federation. The accession of Kazakhstan to the Union was viewed optimistically. The establishment of a single economic space has contributed to the modernization of its economy, industry, and agriculture, enhancing its competitiveness by providing access to markets beyond its own 160 million people.

¹ <https://en.vietnamplus.vn/opportunities-challenges-lie-ahead-under-cuvietnam-fta/94084.vnp>

None of the member states have experienced significant economic benefits from the integration process. The economy of Kazakhstan has been particularly affected by the economic crisis in Russia, the Western countries' economic sanctions, the depreciation of the ruble, and the significant decline in oil prices on the international market. As a result, Kazakhstan's currency has been devalued.

The Global Competitiveness Report ranks Armenia 85th, Kyrgyzstan 108th, Russia 53rd, and Kazakhstan 50th. The Russian government has implemented several measures and initiatives to attract foreign business and investment, such as liberal reforms and amendments to foreign trade and investment laws. Although Russia's "Ease of Doing Business" rating has improved significantly, Moscow is facing challenges in attracting foreign businesses due to its isolation from the West and the economic sanctions imposed by the United States and some European countries. It is still too early to evaluate the progress of the EAEU, but the organization has had some success, such as creating a common market in the oil, gas, and electricity sectors, which was expected by the three original member states: Belarus, Kazakhstan, and Russia.

The EAEU has been facing some challenges. For instance, one of the biggest issues arose in response to Russia's occupation of Crimea and their support for the separatist movement in eastern Ukraine, Western countries imposed sanctions on Russia, which led to Russia banning the import of agricultural products from those countries. Russia expected that other members of the EAEU would take similar sanctions, but this did not happen. As a result, Russia complained about the exports of other member states and even closed some of its markets, which harmed the exports of other members. For instance, the Russian Federation declared that some meat and dairy products from Belarus were unsafe for consumption because they did not meet Russian standards, and thus banned their import.

Russia has accused Belarus of transferring and packing Western goods subject to Russian sanctions. Kazakhstan has withdrawn some Russian meat products from the market, accusing it of violating quality standards. Other member states have taken measures to protect their interests, including imposing similar restrictions on selected goods entering the Russian market from Kyrgyzstan. For instance, Kazakhstan has ceased importing Russian fuel and gas to prevent an oversupply of Russian oil products from affecting its domestic market.

Russian researcher Yesdauletova has identified five major problems in the successful integration of the EAEU which include: (a) Too many economic sectors that require excessive regulation, (b) The pace of integration, which needs to be improved, (c) The failure of all three member countries to transfer foreign trade of the Single Economic Space (SES) market, (d) The non-diversified nature of production of the countries in the SES, (e) Errors in the policy of adjusting and balancing tariffs between the three member countries. These problems need to be addressed to ensure the successful integration of the EAEU.

In 2015, Mongolia and the EAEU signed a Memorandum of Cooperation, which led to the establishment of a joint working group. The first session of the group was held in Ulaanbaatar in the same year, while the second session took place in Moscow in 2016. The fact that the first consultation meeting on this issue was held only in 2020 highlights the need for further research in this area. As part of the cooperation with the EAEU, the research work aims to study some of Mongolia's major national security issues and determine future policies and methods to follow. Our country is committed to safeguarding its economic independence and enhancing its international position by promoting balanced and friendly international relations in foreign trade and integration policies and actively participating in regional cooperation.

An optimal policy of foreign trade and integration is an important means of ensuring national economic security. Its goal, as stated in Section 3.2.5.1, is "reducing the vulnerability of the national economy, which is overly dependent on the export and import of a few

markets and a few types of products”. Additionally, foreign economic relations are considered as an important means of supporting national manufacturing and industry, which is why it is stated in 3.2.5.2 that “reducing the foreign trade deficit and using appropriate tariff and non-tariff measures to support domestic manufacture is crucial. This will ensure that national manufacturing and industry are reliably provided with strategic goods and raw materials, and favorable conditions will be created for the import of industrial equipment”.

China and Russia account for a significant amount of our country's foreign trade, making up 70-80 percent of the total circulation. China is the major recipient of our country's exports, accounting for 86.3 percent of total exports between 2010 and 2019. This number rose to 92.4 percent in 2011 and 2012 when the mining industry was experiencing high growth. In 2019, Mongolia imported goods and products worth 6.1 billion US dollars, which was an increase of 82.5 percent from 2016. However, there was a decrease of 4.8 percent from 2012, while it had an increase of 1.9 times from 2010. The major contributor to this import growth was the increase in the import of diesel fuel, gasoline, vehicles, and their parts. Mongolia mainly imports petroleum products from Russia, cars from Japan, electric power, trucks, and various lightweight goods from China. When we look at the country-wise structure of imports, we see that in 2019, 33.6 percent of the total imports went to China, followed by 28.2 percent to Russia, 9.6 percent to Japan, 4.7 percent to the United States, 4.4 percent to South Korea, and 3.1 percent to Germany. The import trade with these countries accounts for 83.6 percent of the total import value. Mongolia imported goods and products worth 6.1 billion US dollars in total. In 2019, 33.6 percent of the total imports went to China, 28.2 percent to Russia, 9.6 percent to Japan, 4.7 percent to the United States, 4.4 percent to South Korea, and 3.1 percent to Germany. These countries' imports accounted for 83.6 percent of the total import value. Mineral products, equipment, and vehicles still dominate the imports. From 2010 to 2019, mineral products made up an average of 23.6 percent, machinery, equipment, and their parts made up an average of 21.8 percent, automobiles, air, and water vehicles, and their parts made up an average of 16.0 percent, basic metals and their products made up an average of 8.5 percent, and food and ready-made products made up 7.4 percent on average.

Given this economic outlook, joining the EAEU FTA without major changes in export structure is biased and risky, bringing more disadvantages than advantages.

Many experts, both domestic and foreign, as well as international organizations, have expressed concern that the policies of our country lack stability and continuity in the long, medium, and short term. This is largely because successive government policies are not connected and there is a lack of unified policy. As a result, Mongolia is facing a crisis in governance, economy, and society. The consequences of this socio-economic crisis can be seen in the current economic statistics. Our country's economy is not diversified and is heavily reliant on mining, which is monopolized by fuel and energy-exporting countries. Additionally, we rely entirely on imports for certain types of food, consumer goods, medicines, health products, cars, and heavy machinery. If we establish an FTA without addressing this vulnerability domestically, it could lead to negative economic pressure and further harm our national security.

Mongolia, to effectively engage in regional integration, first of all, must establish a multi-pillar, diverse economy that aligns with regional development policies and adheres to the Constitution, National Security Concept, Foreign Policy Concept, Vision-2050, Basis of Defense Policy, and relevant laws on development policy and planning. To achieve this, the following recommendations are suggested:

General Recommendation.

Recommendation	Projects and measures to implement
To develop legal documents to identify the level of economic security	Conduct research and analysis on economic security, solve the issues of formulating proposals and deductions based on conclusions and unit structures
When implementing national-level regional development policy, it's important to focus on producing goods and services using local material resources while adhering to international standards.	Strengthen cooperation with developing countries in the field of production base and human resources and establish joint ventures to extend the national production capacity, before the establishment of FTAs with the EAEU
To develop cooperation with neighboring regions and near-border areas	Analyze the market of neighboring and EAEU countries, and explore the opportunities and space to enter those markets
To create an active stance on regional infrastructure issues	Implement a program of cooperation with Russia and Kazakhstan in the field of transportation, natural gas, oil, and energy corridors
To develop a strategy to increase Mongolia's macro economy and regional competitiveness	Determine the factors that can improve competitiveness, develop evaluation methods, and prioritize investments accordingly
To create opportunities for the practical implementation of the programs outlined in "Vision-2050" practically, with a focus on economic priorities, and an improved monitoring system	Identify and evaluate opportunities for external and internal cooperation of regions and provinces in terms of economy and security

Mongolia has signed several cooperation agreements with Russia, which is the main member of the EAEU. In 2000, Mongolia and the Russian Federation signed the Ulaanbaatar Declaration, and in 2006, they signed the Moscow Declaration, establishing the nature of Mongolian-Russian relations as a strategic partnership. In 2009, they signed the Declaration on the Development of Strategic Partnership between Mongolia and the Russian Federation, and in 2019, they signed the Friendship Declaration. Additionally, agreements on relations and comprehensive strategic partnership between Mongolia and Russia were signed.

Article 10 of the Agreement on Friendly Relations and Comprehensive Strategic Partnership states that “the parties involved shall conduct open economic policies towards each other. They should develop fair and mutually beneficial cooperation, including the creation and operation of special economic zones. The parties should also exchange experiences in this field, promote bilateral trade, create favorable conditions for business activities, support investments, and establish direct relations between citizens, industries, and other subjects of economic cooperation. The parties are committed to encouraging and supporting investment cooperation”. A comprehensive strategic partnership is a relationship that covers all aspects and continues to develop intensively. According to this agreement, which has no set deadline, the parties involved will create conditions for the expansion and development of stable, fair, and mutually beneficial cooperation in all fields. Therefore, within the framework of this agreement, taking and implementing

measures to empower domestic economic production is an important issue prior to establishing an FTA with the EAEU.

To summarize, the Russian Federation played a leading role in the establishment of the EAEU and in organizing, expanding, coordinating, and resolving disagreements and conflicts within the union without giving other member states a chance to contribute. While some member states may not have favored Russia's leadership in this integration process, there was no opposition to it. When Russia occupied Crimea and supported the separatist movement in eastern Ukraine which led to Western sanctions, the other EAEU member states did not support Moscow. Additionally, the Union's economic integration efforts are less effective due to the varying goals, interests, and weaknesses of its member states. Russia has intentions to use the EAEU to serve its political, security, and strategic interests, as well as to demonstrate its global leadership and prestige. However, Kazakhstan, a strong advocate of economic integration, aims to prioritize economic, trade, and investment issues without political or ideological pressures. Its primary objective within the EAEU is to promote free trade, capital, human resource skills, and free movement of investment. Smaller countries, such as Armenia, Belarus, and Kyrgyzstan, are expected to support Russia regarding economy and security.

Russia's lack of leadership within the EAEU creates tensions and conflicts among its member countries. The country often uses various excuses to limit aid to its fellow members and restrict their favorable conditions. For instance, member states accuse Russia of maintaining a double standard when it comes to complying with international rules and policies. The Russian Federation imposes internal trade barriers and restrictions on the trade of its member countries with Central Asian nations, and it also restricts labor, investment, and free movement. Meanwhile, Russia continues to promise concessions to new members looking to join the EAEU without complying with legal and economic rules and regulations with its existing member states. However, the potential of the EAEU is directly tied to the economic situation of Russia, which is caused by the fluctuation of international oil prices.

Therefore, it is important for Mongolia to consider the current state and future of the EAEU, as well as Russia's political policies and position in the region.

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