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"Global Challenges and Prospects of the Modern Economic Development"****FORMATION OF A SINGLE EAEU SERVICES MARKET:  
PREREQUISITES, TRENDS AND BARRIERS**

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***Abstract***

The article deals with scientific problems of assessing the prerequisites for multi-speed integration of the countries of the post-Soviet space and analyzing the dynamic and structural indicators of mutual trade in services, as well as analyzing the local problems of forming a single service market in the EAEU. The authors consistently answer questions about dynamic parameters of mutual trade in services and structural characteristics of mutual trade in services in the EAEU since the creation of integration association, paying attention to barriers characteristic for the formation of a single market for services in the EAEU. The study was carried out by dint of methods for analyzing the statistical base of mutual trade between EAEU countries in the context of all key segments and sectors of services, structural and dynamic analysis of mutual trade in services between EAEU countries and analysis of the regulatory environment for the formation of a single market for services of the EAEU countries. The authors come to the conclusion about multi-speed integration in the period before the creation of the EAEU. Structural-dynamic analysis of the export of services of EAEU member states was carried out. Recommendations on the development of individual service sectors for Russia, the Republic of Kazakhstan, the Republic of Belarus and the Republic of Kyrgyzstan were formulated. The authors' conclusion is that the creation of the EAEU and regulatory measures taken in the process of its functioning, aimed at creating a single market for services, has not yet yielded the expected results.

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**Keywords:** Single service market, EAEU, barriers, prerequisites, trends.



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## 1. Introduction

The signing of the Treaty on the Eurasian Economic Union (EAEU) of 2014 (Treaty on the EAEU, 2014) (hereinafter the Treaty), which entered into force on January 1, 2015, was preceded by a lengthy process of trade and economic cooperation of the post-Soviet states, which was heterogeneous in terms of integration dynamics. This process was also called multi-speed integration. The Treaty providing for the creation of an economic union envisaged the creation of a single market for services. The creation of a single market for services of the EAEU countries in such a short time was objectively difficult. The national treatment here is laid down as the basic one, that is, Member States adopt the national treatment with respect to the service provider and other Member States without any restrictions; nevertheless, in practice this provision of the Treaty has remained unfulfilled for a number of service sectors. The single service sector can also be called one of the economic drivers of modern integration structures, which is why this direction of forming an economic union in the territory of the post-Soviet countries is of scientific and practical interest and is proposed by the authors of this study as an object of scientific discussion and research.

The formation of a single market for services was the subject of research by a number of scientists. Pelkmans (2016) analyzed the role of the single market as a whole and its individual segments, including the services market, in particular. Schroff and Street (2018) examined particular features of the formation of one of the segments of a single service market. Howarth and Quaglia (2018) assessed the prospects for the development of the financial sector of a single European market for services in the face of current negative developments in the countries of the European region. Bruszt and Vukov (2017) analyzed a single market in terms of ensuring the economic sovereignty of the countries participating in European integration.

A number of studies are devoted to certain issues of the formation of a single economic space of the EAEU and, in particular, ensuring freedom of movement of services. Kondrat'eva (2016) assessed the general prospects for the formation of a single economic space on the territory of the EAEU, comparing the model of formation of integration with European regional integration. Daribayeva and Sarsekenova (2017) assessed the state of regulation of trade in services in the EAEU and some issues of national treatments in creating a single service market. Biryukova (2017) assessed the status of the current regulation of the single services market in the EAEU. Vinokurov (2016) summed up preliminary results of the formation of the EAEU and assessed the formation of a single services market. Tarr (2016) explored economic prospects for the formation of a single EAEU market space, including in the service sector. Volchkova, Kuznetsova, and Turdyeva (2016) analyzed the status and prospects of changes in export flows in the EAEU countries. Bayadyan and Baghdasaryan (2017) studied a separate segment of the single service market – namely, its financial sector.

## 2. Problem Statement

The current state of institutional and legal design of Eurasian economic integration was preceded by a quarter-century path of transformations of the created integration associations in the territory of the post-Soviet countries: signing an agreement on the creation of the CIS, the creation of the Customs

Union, the Common Economic Space and the transition to the Eurasian Economic Union (EAEU). Different goals of the states, united by some common historical features, socio-cultural components, the economy structure and directions of foreign economic policy, have led to multi-speed integration at various stages of the formation of the modern EAEU. At the same time, the formation of a single services market as a focused activity of participating countries has not been given primary, special attention for many years.

The negative experience of the member states of various integration associations operating in the territory of the post-Soviet space requires taking into account the mistakes made in order to effectively form a single market for services in the EAEU. This requires thorough analysis of the dynamics and structure of mutual trade in services, as well as problems in their regulation at the local (country) level.

### **3. Research Questions**

The authors pose the following research questions: 1) What are the dynamic parameters of mutual trade in services in the EAEU since the creation of integration association ?; 2) What are the structural characteristics of mutual trade in services in the EAEU countries since the creation of integration association? 3) What are the local barriers in recent years in the formation of a single market for services in the EAEU?

### **4. Purpose of the Study**

The purpose of the study is to assess the prerequisites for multi-speed integration of the countries of the post-Soviet space, to assess the dynamic and structural indicators of mutual trade in services, to analyze the local problems of forming a single market for services in the EAEU.

The purpose of the study is comprehensive and contains several goal settings. The authors intend to assess the prerequisites for the multi-speed integration of the countries of the post-Soviet space. In addition, the goal is to assess the dynamic and structural indicators of mutual trade in services and to conduct the analysis of local problems of the formation of a single market for services in the EAEU.

### **5. Research Methods**

To achieve the objectives set in the study, the following methods were used: analysis of the statistical base of mutual trade between the EAEU countries in the context of all key segments and services sectors; structural and dynamic analysis of mutual trade in services between the EAEU countries; analysis of the regulatory environment for the formation of a single market for services of the EAEU countries.

Depending on the tasks solved in the study, several methods were used. To study the state and structure of mutual trade of the EAEU countries, the statistical base analysis was carried out in the context of all key segments and service sectors. In addition, the method of structural-dynamic analysis of mutual trade in services of the EAEU countries was used. The method of analysis of the regulatory environment for the formation of a single market for services of the EAEU countries was applied.

## **6. Findings**

To achieve the purpose of the study and answer the questions posed, the authors carried out structural analysis of the state of mutual trade between the EAEU countries in recent years and identified some problems that are characteristic for the formation of a single market in the context of individual Member States and segments of the service market.

### **6.1. The state of mutual trade in services between Russia and the EAEU Countries**

Russia plays a key integrating role in the formation of a single EAEU services market, and therefore, the state and problems specific to this member state have a significant impact on the entire system of trade and economic relations between the countries.

As shown by the structural-dynamic analysis of export relations of Russia, the most significant sectors of services export of Russia are: transport services (the share in total exports for the three analyzed years was 26.9%), other business services (their share in total exports was 25.4%) and trips (their share in total exports was 17.3%). At the same time, the shares of these sectors in mutual trade are distributed as follows: transport services occupy 15.9% in mutual trade, other business services occupy 14.6% and trips occupy 38.1% (Eurasian Economic Commission, 2019; Central Bank of The Russian Federation, 2019). At present, the following service sectors of Russia are not integrated into the single EAEU services market: insurance and services of private pension funds, financial services, fees for the use of intellectual property and public services.

These four sectors together account for 6.4% of the total export of services in Russia and 6.4% of the total export of services to the EAEU countries (Eurasian Economic Commission, 2019; Eurasian Economic Commission, 2018). These four service sectors are the least developed and characterizing barriers in terms of the formation of a single EAEU services market.

The segments occupying positions 4 to 7 in the given ranking also have the potential to form a single services market: telecommunication, computer and information services, construction services, maintenance and repair, as well as services for processing material resources owned by other parties. These services sectors account for 23.1% of Russia's total exports and 23.7% of exports to the EAEU countries, respectively.

Concerning mutual trade in services between Russia and the EAEU countries, we can also conclude that the creation of integration association allowed deepening mutual integration only in some areas. In a number of service sectors (other business services, trips, telecommunications services), with their high share in the structure of exports, negative dynamic was observed. In addition, it is necessary to strengthen the mutual activity of countries regarding the formation of a single market for financial services, public services, fees for the use of intellectual property, which show negative dynamics.

### **6.2. The state of mutual trade in services between Kazakhstan and the EAEU countries**

A number of conclusions follow from the analysis. The structure of services export of the Republic of Kazakhstan is characterized by significantly greater heterogeneity in comparison with the Russian structure of exports - both in total terms and export of services to the EAEU countries. The structure of

Russian trade accounted for 78.2% of the total export of four segments of services, whereas the export share of only the two largest service segments in the total export of the Republic of Kazakhstan for the analyzed period amounted to 81% - that is, the dependence of the country's export on a small number of service segments is obvious. An even deeper heterogeneity is observed in the export of services to the EAEU countries – two segments (transport services and trips) account for 87.6% of total exports to the EAEU countries. A negative trend is a decrease in exports by certain services sectors of the Republic of Kazakhstan in 2017 compared to 2015: transport services by 30.9%, construction services by 68.4%, public services by 38.1%, etc.

The signing of the Treaty by the Republic of Kazakhstan allowed obtaining benefits only in some sectors of services. In particular, there was a positive trend in other business services (29%). Growth in other sectors (financial services (2800%) and fees for the use of intellectual property (50%)) cannot be attributed to the results of participation in the formation of the EAEU, since these sectors were not included in the single market. In general, for the Republic of Kazakhstan the local experience in creating a single service market should be recognized as not yet effective enough.

One can distinguish such individual problems and barriers to the formation of a single market for services from the part of the Republic of Kazakhstan as: participation in not all subsectors of the construction services sector; The Republic of Kazakhstan is not involved in the single market for freight vehicle services; the state does not participate in three large sectors: insurance services, financial services and fees for the use of intellectual property, as well as government services.

Summing up the analysis for the Republic of Kazakhstan, we can note that efforts to form a single market for services in this local area should be concentrated on such sectors as: transport services, trips, other business services, construction services and financial services. The named sectors are priority in terms of prevailing dynamics. In addition, measures are required to develop other service sectors.

### **6.3. The state of mutual trade in services between Belarus and the EAEU countries**

The structural and dynamic analysis made it possible to find out that over the period of the EAEU's existence, the most significant segments of services of the Republic of Belarus were identified in both foreign and mutual trade. In particular, transport services are the most significant segment both in total exports and in exports to the EAEU countries, due to the geographical location of the Republic of Belarus.

At the same time, within the framework of the EAEU, so far it has not been possible to achieve the inclusion of all transport services sectors in the single EAEU services market. In particular, only in relation to the delivery of services of freight transport agencies, it is not required to create a legal entity in the state of delivery, qualifications and permits are recognized. While the main sectors of transport services, such as irregular passenger transportation by road (taxi services, car and bus rental, passenger transportation, etc.), freight transportation by road, transportation services by pipeline transport, other auxiliary transport services, are not included in the EAEU single market and the term for their inclusion in the EAEU single service market is not defined.

Despite the absence of these services in a single market, the main advantage of participation in the Union is that their delivery within the EAEU is subject to a national treatment (the same for both

domestic suppliers and suppliers from member states, i.e. discriminatory requirements cannot be introduced), which allows, albeit gradually, but to increase such supplies: statistics of trade in services shows that export of transport services for 2015-2017 from the Republic of Belarus grew by 18.3%, including export to the EAEU countries grew by 18.3% and export to third countries increased by 15.7% in 2017 compared to 2015.

Another significant export component of services from the Republic of Belarus is construction services. So, the share of construction services in the total export of the Republic of Belarus for the period from 2015 to 2017 amounted to 13.7%, while the share of construction services in the export to the EAEU countries amounted to 18%. The export of construction services from the Republic of Belarus in 2017 fell by 10.2% compared with 2015. Of these, exports to the EAEU countries in 2017 compared to 2015 increased by 36.4%, and exports to third countries over the same period decreased by 22.1%.

The growth of exports to the EAEU countries occurred against the background of the fact that since January 1, 2015, most construction services have been in the single EAEU services market. The export of financial services from the Republic of Belarus during 2015-2017 decreased by 6.54%, wherein export to the EAEU countries decreased by 45% and export to third countries increased by 20.58%. This reduction in the export of financial services to the EAEU countries can be explained by the fact that financial services are not included in the single EAEU services market. The share of financial services in the total export of the Republic of Belarus is insignificant and according to the results of 2017 amounted to only 0.36%, while this share in the export to the EAEU countries is only 0.34%.

The export of telecommunication, computer and information services from the Republic of Belarus during 2015-2017 increased by 44.9%, wherein export to the EAEU countries increased by 14.9% and export to third countries increased by 51.9%. It should be noted that only certain subsector of services (data processing services, database related services) are included into the EAEU single market of services. This is confirmed by the relative small increase in the export of such services to the EAEU countries in comparison with exports to third countries. It is worth noting that the share of these types of services in the total export of the Republic of Belarus following the results of 2017 amounted to 18.57% of the total export of services, while this share in the export to the EAEU countries is 9.8% (Eurasian Economic Commission, 2019). It seems that the consistent inclusion of the remaining sectors of these types of services in the single EAEU services market will gradually increase the growth rate of export of these types of services to the level of growth of export to third countries.

Thus, we can conclude that for the most attractive service sectors of the Republic of Belarus in terms of export share (transport, construction, telecommunications, computer and information, maintenance and repair) the creation of the EAEU allowed increasing the export of these types of services to the EAEU, despite the fact that not all sectors are included in a single market, while a national treatment has been in force for all service sectors within the EAEU. The inclusion of construction services in the single market of the Union allowed to significantly increase the growth rate of export of these types of services from the Republic of Belarus to the EAEU countries.

#### 6.4. The state of mutual trade in services between Kyrgyzstan and the EAEU countries

The Republic of Kyrgyzstan entered the union somewhat later than Russia, Kazakhstan and Belarus, and therefore the statistical array is limited here for years from 2016 to 2017 (CIS, 2016). The export structure of the Republic of Kyrgyzstan is also characterized by heterogeneity: two sectors (trips and transportation services) account for 74.1% of total exports and 77.3% of exports to the EAEU countries. The dynamics of leading sectors in the export structure is also not characterized by stability and unity of positive values. Currently, the following sectors are not fully included in the EAEU single market of services: insurance and services of non-state pension funds, financial services and fees for the use of intellectual property.

The existing structure of the aggregate export of the Republic of Kyrgyzstan and export to the EAEU countries is to a certain extent determined by the structure of the country's economy. In this regard, it seems that the promising sectors include construction services, transport services, financial services and telecommunication services.

### 7. Conclusion

The study allowed us to conclude that the creation of the EAEU and the regulatory measures taken in the process of its functioning and aimed at forming a single market for services have not yet yielded the results expected from them. The integration association is in its infancy, and therefore a number of problems are characteristic of this area of the economic union. In particular, countries have not resolved the issue of removing barriers to individual service sectors; barriers to a national treatment or most favored nation treatment are also observed in many service sub-sectors. The strong positions of individual service sectors characteristic of the Central Bank of the Russian Federation Member States (transport services and trips) are due to the geographical features of the EAEU structure and the common transport and logistics space. Thus, the formation of a single EAEU services market requires the adoption of a set of scientifically sound measures aimed at removing barriers for sectors with the greatest potential in the first place and for other services sectors in the future.

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