

ICEST 2021

II International Conference on Economic and Social Trends for Sustainability of Modern Society

**INVESTMENT AND TECHNOLOGICAL COOPERATION IN THE
EURASIAN UNION**

E. V. Davydenko (a)*, A. A. Ovodenko (b)

*Corresponding author

(a) Saint-Petersburg State University of Aerospace Instrumentation, 67, Bolshaya Morskaya str., Saint-Petersburg, Russia, davvas@mail.ru

(b) Saint-Petersburg State University of Aerospace Instrumentation, Saint-Petersburg, Russia, kaf83guap@yandex.ru

Abstract

The urgency of considering the problem of investment and technological cooperation in the Eurasian union (EAEU) is due to the high importance of direct investments and innovations as factors of inclusive economic growth, contributing to the sustainable development of both the member states of the integration union and the integration group as a whole. The article analyzes the concept of sustainable development, the state of investment and technological cooperation within EAEU, highlights the existing problems and suggests recommendations for solving these problems. As a result of the study, the authors conclude that the low level of investment and technological cooperation within EAEU corresponds to the potential of the EAEU member states, that hinders their sustainable development, competitiveness and deepening of integration ties. The pandemic has had a negative impact on investment and technological activity in the EAEU. Nevertheless, despite the existing problems the potential for investment and technological cooperation in the EAEU can be assessed as high.

2357-1330 © 2021 Published by European Publisher.

Keywords: The Eurasian union, investment and technological cooperation, mutual direct investments, Russia, sustainable development



This is an Open Access article distributed under the terms of the Creative Commons Attribution-Noncommercial 4.0 Unported License, permitting all non-commercial use, distribution, and reproduction in any medium, provided the original work is properly cited.

1. Introduction

Despite the strengthening of protectionist trends in the global economy, the negative impact of the pandemic on the social and economic development of states, the closure of borders, integration processes have not slowed down, but even intensified. In particular, in 2020 China, Australia, Japan and twelve other countries of the Asia-Pacific region created the world's largest free trade zone – “The comprehensive regional economic partnership” (Polyakova, 2020). The successful development of economic cooperation within the framework of the EAEU countries.

The deepening of the integration level in the integration groups contributes to improving the competitiveness of the integration union as a whole, as well as ensuring the sustainable development of the member states. And vice versa the strengthening of the economy in the member states results in the strengthening of the economic power of integration group. Direct investments and technologies play an important role as sources of sustainable economic development. In this regard, the relevance of the analysis of investment and technological cooperation in the EAEU in the context of sustainable economic development is beyond doubt.

2. Problem Statement

Investment and technological cooperation within the framework of the EAEU contributes to the sustainable development of the member states. Currently due to a number of factors the level of investment and technological cooperation remains extremely low. For further research on this topic, it is important to identify a number of problems:

- disclosing the concept of sustainable development and the importance of direct investments and technologies for sustainable development;
- analysis of investment and technological cooperation in the EAEU at the present stage;
- identifying problems in investment and technological cooperation and the most promising directions for solving these problems.

2.1. Disclosing the concept of sustainable development and the importance of direct investments and technologies for sustainable development

The discourse of sustainable development is a fairly popular topic in the modern scientific economic literature. Sustainable development is a model of society's development, in which current activities and satisfaction the needs of modern society do not harm future generations, but find a balance between them. In the modern interpretation it is a balance between economic, environmental and social development. Direct investments and innovations play an important role in ensuring sustainable economic development as drivers of economic growth.

2.2. The analysis of investment and technological cooperation in the EAEU at the present stage

Despite the positive dynamics of the development of investment and technological cooperation of the EAEU member states, the level of cooperation is currently low. In comparison with investment and technological cooperation with countries outside the EAEU, it lags significantly behind. Thus, it can be concluded that the strengthening of investment and technological cooperation will directly depend on the increase in the economic power and competitiveness of the EAEU member states.

2.3. Identifying problems in investment and technological cooperation and the most promising directions for solving these problems

The key problems of low level of investment and technological cooperation in the EAEU are due to the weakness of economic development of the member states themselves, the framework and declarative nature of most of the signed agreements in the EAEU, divergence of economic interests of the EAEU member states. To identify the promising directions for investment and technological cooperation in EAEU, it is necessary to focus on convergence points and priority directions of the economic cooperation between the EAEU member states.

3. Research Questions

This study raises the following questions:

- What is sustainable development?
- What is the relationship between sustainable development and direct investments and innovations?
- What is the current state of investment and technological cooperation in the EAEU?
- What problems hinder investment and technological cooperation in the EAEU? What are the ways to overcome these problems?

4. Purpose of the Study

The aim of this study is to propose recommendations for strengthening investment and technological cooperation in the EAEU in the context of increasing the sustainability of the economies of the EAEU member states.

5. Research Methods

The theoretical and methodological basis of this research is rooted in the research works by leading Russian and foreign scientists (Khairov et al., 2020; Kostunina, 2019; Meadows et al., 2004, etc.), including scientific articles on sustainable development, investment and technological cooperation in the EAEU, international and Russian organizations' reports – “Our common future” etc. The data base of the research

is the statistical data from the Eurasian Economic Commission (The direct investments in the EAEU, 2020), the Federal State Statistics Service (Federal State Statistics Service, 2021) etc.

In this study we used such methods of scientific analysis as the comparative economic systems analysis and the scientific abstraction method. Their complex application allowed us to ensure the reliability of the results of the research.

5.1. The concept of sustainable development and the correlation between sustainable development and direct investments and innovations

In 1987 the UN World Commission on Environment and Development published the report “Our common future” that reflects the main approaches to ensuring sustainable development (Report of the International Commission on Environment and Development “Our common future”, 1987). At the conference in Rio de Janeiro in 1992 the concept of sustainable development was officially recognized, and its main document “Agenda for the 21st century” called on governments of different countries to develop national strategies for sustainable development. There are a huge number of definitions of the concept of sustainable development. In whole sustainable development can be understood as a strategy of society's development forward, in which current activities and satisfaction the needs of modern society do not harm future generations, but find a balance between economic, social and ecological spheres (Meadows et al., 2004). The direct investments and innovations are factors of economic growth, contributing to the sustainable development of countries.

5.2. The specifics of investment and technological cooperation in the EAEU

According to the Decision of the Supreme Eurasian Economic Council #28 from 16.10.2015, the long-term strategic goal of the EAEU development is to achieve high-quality and sustainable economic growth. The advantage of the EAEU is to ensure the freedom of movement of investments. The Decision of the Supreme Council of the EAEU #12 from 11.12.2020 “On strategic directions for the development of the Eurasian economic integration until 2025” (2020) clarifies the importance of the transition of the EAEU to an innovative path of development by increasing investment activity and modernizing the economies of the member states on the basis of a new technological way.

The article will pay close attention to direct investments as the most preferred form of investment in terms of its positive impact on economic growth. Direct investments in the EAEU can be divided into mutual (internal, within the framework of the integration group) investments and investments from other states. As can be seen from the Table 1, investments from other countries significantly exceed mutual investments. This fact can be interpreted as follows. Currently, the investment and financial potential of the EAEU is still extremely small, which is explained by the weakness of the economies of most member states and negatively affects the integration future of the EAEU. The maximum volume of direct investments in 2016 was caused by the favorable investment situation in the world (The direct investments in the EAEU, 2020). In 2018 there was a sharp decline in foreign direct investments (FDI) from other states in the EAEU what is explained by the deterioration of the investment conditions in the world economy. This decline was offset by an increase in mutual (internal) FDI in the EAEU.

Table 1. FDI in EAEU in 2016-2019, million US dollar

FDI flows	2016	2017	2018	2019
Total from other countries	50518	33558	9313	36157
Total from the EAEU member states	1439	1132	1511	1144

(Source: collected by authors with reference to: The direct investments in the EAEU, 2020, p. 12).

Let's analyze mutual investments in the EAEU in the country context. Russia is the only net exporter of mutual investments in the EAEU due to the scale and degree of development of the Russian economy in comparison with the economies of other EAEU member states. At the same time, the share of FDI from member states in the total volume of FDI in the Russian Federation is extremely small – according to the 2016-2019 this figure is only 1% (Federal State Statistics Service, 2021). The same indicator in Armenia in 2019 was equal to 41%, in Belarus – 32%, in Kazakhstan – 3%. While in Kazakhstan, Russia and Armenia during 2016-2019, this parameter remained approximately at the same level, then since 2017 in Belarus there has been a significant decrease in the share of mutual investments in the total volume of FDI (The direct investments in the EAEU, 2020).

Consider the situation by country. Armenia receives mostly direct investments from Russia amounting 16.7 billion USD in 2019. Belarus has been the second largest country in terms of attracted mutual investments in recent years. The main share of mutual investments in Belarus comes from Russia which is explained by the effect of the neighborhood and the existence of the Union State between The Russian Federation and Belarus. Kazakhstan is the most attractive territorial jurisdiction for mutual investments from the EAEU. In 2019 Kazakhstan attracted mutual investments in the amount of 494.2 million USD. Kyrgyzstan is the most unattractive country in terms of mutual direct investments from other EAEU member states. At the end of 2019, there is an outflow of capital from Kyrgyzstan to neighboring Kazakhstan (Kostunina, 2019). In 2019 Russia received only 179.2 million USD of mutual direct investments. Most of the investments came from Kazakhstan (Federal State Statistics Service, 2021). Such a modest figure can be explained by the limited investment opportunities of other EAEU member states.

The predominant instruments of mutual direct investments are investments in the capital of companies, including reinvestment of income, investments in units and shares of investment funds. The leading sectors of mutual FDI in the EAEU are oil and gas industry, non-ferrous metallurgy. E.g. in Armenia Russian TNCs invest mainly in communications and information technologies, the fuel complex, non-ferrous metallurgy, and the financial sector (The direct investments in the EAEU, 2020). Attracting foreign investments is closely related to the level of investment attractiveness of states, and is in direct correlation.

To date, 16 technological Eurasian platforms have been created in the EAEU. The key tasks of the technological Eurasian platforms are the development of industrial partnership and import substitution, reengineering, technical re-equipment and modernization of production facilities, and the introduction of breakthrough technologies. Unfortunately, so far the level of progress in the development of technological platforms is extremely insignificant.

Thus, in whole the potential of investment and technological development in the EAEU is still low. The problems of investment and technological cooperation include low investment and technological possibilities of the EAEU member states, poorly developed economic relations between the countries, and the lack of economic sectors that are attractive for mutual investments. As recommendations for

strengthening investment and technological cooperation between the states in the EAEU, we can select harmonization of legislation on the regulation of the investment and technological sphere, the signing of effective agreements to promote investment and technological cooperation, and improvement of investment attractiveness and investment image, economic growth of states.

6. Findings

The stability of economic development is directly connected with the increase of innovativeness of the economy, the growth of direct investments in the country. The integration involves strengthening cooperation between the member states in various areas, including investment and technological cooperation.

Mutual direct investments in the EAEU is insignificant both in absolute and relative terms. We see the main reasons for this in low investment and technological potential of the EAEU member states, poorly developed economic ties between the countries, and the lack of economic sectors that are attractive for mutual investments. In general, the industry structure of mutual investments is characterized by the dominance of the oil and gas sector.

The leading investor in the economy of the EAEU is Russia, and the situation has not changed for a long time. In addition, Russia is the only net exporter in the mutual direct investments of the EAEU. This is due to the more developed economy and the greater capacity of Russian TNCs. With a significant gap from Russia, Kazakhstan and Belarus follow as investors in the EAEU (Khairov et al., 2020). It is necessary to recognize the imbalance of mutual investment and technological relations. So for Russia, the main partners are Belarus and Kazakhstan, for Belarus – Russia, and for Kazakhstan – Russia and Kyrgyzstan. This situation resembles the situation in NAFTA (the North American Free Trade Agreement) (now – USMCA - United States-Mexico-Canada Agreement) where the interaction was asymmetric – the US interacts with Canada and Mexico, and the economic ties between Canada and Mexico are significant. The low level of investment and technological cooperation has little impact on the degree of competitiveness and sustainable development.

As recommendations for strengthening investment and technological cooperation between the states in the EAEU, we can note both the measures of the supranational plan and the efforts of the states themselves. The supranational measures include the harmonization of legislation on the regulation of the investment and technological sphere, the signing of effective agreements to promote investment and technological cooperation. The domestic measures imply strengthening of investment attractiveness and investment image, economic growth of states. In compliance with these recommendations as well as taking into account the positive dynamics of strengthening investment and technological cooperation in the EAEU and the short period of existence of the integration group, it is possible to assess the potential of investment and technological cooperation in the EAEU highly. This allows us to speak about great opportunities for the sustainable development of the EAEU member states. The Decree of the President of the Russian Federation #204 from 07.05.2018 “On national goals and strategic development objectives for the period up to 2024” sets the goal of increasing the volume of accumulated mutual investments by 1.5 times (The Decree of the President of the Russian Federation, 2018).

7. Conclusion

The pandemic has had a negative impact on investment and technological activity in the EAEU. From the second quarter of 2020, the total volume of accumulated mutual investments within EAEU began to decline, amounting to 213 million USD, while investments from other countries continued to flow. As a result, the share of mutual investments of the EAEU countries in the total volume of FDI accumulated in their economies was 2.37% (Inozemzev, 2021). Almost all major investment projects that were supposed to be launched were postponed or suspended in 2020. Nevertheless, despite the existing problems the potential for investment and technological cooperation in the EAEU can be assessed as high.

References

- Federal State Statistics Service. (2021). *FDI*. <https://www.gks.ru>
- Inozemzev, V. (2021, February 19). The EAEU during the pandemic. *Russian Council for International Affairs*. <https://russiancouncil.ru/analytics-and-comments/comments/eaes-vo-vremya-pandemii/>.
- Khairov, B. C., Kovalev, V. A., & Khasanov, R. Kh. (2020). Features of financial integration of the Eurasian Economic Union member states. *Omsk Scientific Bulletin. Series Society. History. Modernity*, 5(1), 112-119.
- Kostunina, G. M. (2019). Vzaimnye pryime investicii v stranah EAES: osnovnye tendencii i factory vliyeniya [Mutual direct investments in the EAEU countries: main trends and factors of influence]. *Greater Eurasia: development, security, cooperation*, 435-350.
- Meadows, D. H., Randers, J., & Meadows, D. L. (2004). Limits to growth. The 30-year update. *White River Junction, VT: Chelsea Green*.
- Polyakova, V. (2020, November 15). In Asia the largest in the world free trade zone was created. *RBC*. <https://www.rbc.ru/economics/15/11/2020/5fb0bdb69a7947d5289e28e9>
- Report of the International Commission on Environment and Development “Our common future”. (1987). <http://www.un.org/en/ga/pdf/brundtland.pdf>
- The direct investments in the EAEU. (2020). Statistical bulletin of the Eurasian Economic Commission. Moscow.
- The Decision of the Supreme Council of the EAEU. (2020). #2 “On strategic directions for the development of the Eurasian economic integration until 2025” from 11.12.2020 www.consultant.ru/document/cons_doc_LAW_375194/
- The Degree of the President of the Russian Federation. (2018). #204 “On national goals and strategic development objectives for the period up to 2024” from 07.05.2018 www.consultant.ru/document/cons_doc_LAW_297432/