

Eurasian Economic Union – Iran Partnership on Bilateral and Multilateral Basis: Economic and Geopolitical Aspects

Elnur T. Mekhdiev -* Center for Analysis, Risk Management and Internal Control in Digital Space, Department of State and Municipal Administration, Financial University under the Government of the Russian Federation, Moscow, Russia.

Elizaveta S. Sokolova-Center for Analysis, Risk Management and Internal Control in Digital Space, Department of State and Municipal Administration, Financial University under the Government of the Russian Federation, Moscow, Russia.

Natalia V. Toropova - Center for Analysis, Risk Management and Internal Control in Digital Space, Department of State and Municipal Administration, Financial University under the Government of the Russian Federation, Moscow, Russia.

Ighal A. Guliev-International Institute of Energy Policy and Diplomacy, MGIMO University, Moscow, Russia, 76, Prospect Vernadskogo Moscow, Russia.

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Abstract

The recent signing of the Interim Trade Agreement between Eurasian economic union (EAEU) and Iran has been the subject of political discussion. The future of cooperation between these two parties may shift the look of the Middle East and solve numerous problems, characteristic for the region and for EAEU. Russia as a key player in EAEU plays a significant role in the process of cooperation with Iran. The article aims at: a) revealing the economic and political benefits of cooperation between Iran and EAEU, b) revealing the economic and political benefits of cooperation between Iran and Russia, c) developing a strategy and clarifying the vision of the future of Interim Trade Agreement for EAEU. The key findings of the article incorporate the proof of the effectiveness of trade cooperation between EAEU and Iran and the effectiveness of the development of trade in services between Iran and Russia, based on energy cooperation; the strategy which allows to gain more benefits for EAEU countries and Iran in the process of cooperation under the Agreement and its successor. The novelty of the article comprises from revealing the high potential of such cooperation format and its future and the assessment of political and socio-cultural consequences and benefits of cooperation for both sides.

Keywords: Iran, Interim Trade Agreement, Strategy, Politics, The Middle East.

* E-mail : e.mekhdiev@gmail.com

1. Introduction

Iran has historically been one of the major stabilizing powers in the Middle East and in the Persian Gulf regions (Yadlin and Golov,2013). The future of the region, especially in economic and security aspects is tightly connected with the politics of the major global players, interested in the regional development: these are the USA and Russia. The two forces play a significant role in the regional politics, using the intermediary instruments, such as the Eurasian Economic Union from the Russian side and the sanctions and oil price competition (through OPEC instruments, forced forward by Saudi Arabia).

This competition leads to the high vulnerability of the regional security, as we can observe, the creation of the instability haven in Persian Gulf through the everlasting conflicts in Egypt (for instance, the Gulf Wars, Arab oil embargo, Suez crisis etc.), Libya and Syria and the preservation of the tensions between Israel, Gaza Strip and Muslim countries leads to the growth of stabilization mechanism's role. Due to the fact, that instability is the key goal of the US policy in the region (Sjursen,2019; Stephens,2019; Van Buren,2015; Mueller and et al,2017), the only way to meet the stability needs for the leading countries of the region is to form a cooperation bloc with EAEU, headed by Russia as it's one of the major, if not the foremost rival of the US global dominance in politics. The cooperation with the EAEU comprises from the cooperation with its leading economies, which are Russia, Kazakhstan and Belorussia. Hence, the estimation of economic benefits should include this component, but in the article, attention is paid to the cooperation with Armenia, as the neighbor of Iran and a country, geographically situated in the Iranian zone of interest. This is a part of the EAEU – Iran preferential trade agreement, moreover, the re-export of the Iranian goods through Armenia is a good option for both countries to boost economy and to avoid sanctions for Iran (Tehran Times,2021).

The article is aimed at assessing the future of economic cooperation between the EAEU and Iran in the context of the temporary trade agreement, signed between the parties and at the formation of prospects of political cooperation between Iran and Russia in the conditions of sanctions, imposed against both countries and the crisis of relations with the USA.

The scientific novelty is composed of the methodology of the assessment of economic benefits through multilateral trade and the methodology of political component introduction in the economic analysis.

2. Research Gap and the Objective of the Study

The political and economic aspect of EAEU cooperation with other countries through the methods of Free Trade Agreements is researched limitedly. This sphere of economic cooperation is reviewed as a necessary and economically effective, still this thesis is doubtful. The political aspects of cooperation with Iran are difficult to assess too and they aren't covered in the context of the FTA between EAEU and Iran. The article analyzes both political and economic consequences for EAEU and Iran, paying special attention to the Russia-Iran cooperation and EAEU – Iran cooperation, including Armenia. Hence, the objective of the study is to give the answer to the question whether the interim FTA should be prolonged and changed to the constant.

3. Literature Review

The literature on the theme of economic cooperation between Iran and EAEU is scarce, so the majority of the topics, covered in the article were studied, based on the sources, not directly devoted to the theme. The main ideas of the article may be divided to Russia-Iran relations, EAEU-Iran relations, the US politics in Middle East and Russian politics in Middle East . The literature, devoted to Russia-Iran relations covers mainly, political issues, for instance, Kozhanov (2015) pays less attention to economics, than to history, so in contemporary fast changing conditions is less informative. The same refers to Divsallar (2019). When speaking of Russia-Iran energy partnership, the article by Parker (2016) gives an interesting point of view, that Russia and Iran are simultaneously rivals and partners, still the authors feel the necessity to expand this idea to the political sphere.

The only article devoted to the issues of cooperation between EAEU and Iran covers the issues of cooperation between Armenia, Kazakhstan and Iran. The article covers the key issues of trade in the Union, where one of the countries has no common borders with other countries.

The US policies in the Middle East is covered by a number of articles, such as by Ashford (2018), depicting as new course of the USA in the region, and by Thompson (2018), where the policy of Iran isolation and destabilization of the region is described. Article by Fawcett (2018) demonstrates the vital role of the region in global politics for the major global powers, including Britain. Rørbæk (2019) makes the picture more complex with describing the role of religion and culture in the relations in the region and stating their primary role in its development. These two articles allow the authors to

make conclusions on the cultural and religious benefits for Iran and EAEU from cooperation. Russian strategy in the region is covered by Sladden et al. (2017) who state that Russia doesn't have a clear strategy in the region, so it needs to develop it. Barmin (2017) depicts the correlation of economic and political issues, especially in the sphere of energy cooperation.

All in all, the authors conclude, that the literature on the theme is vast, but there is no scientific approach to researching the questions of Russian and EAEU influence and role in the development of the Middle East and Iran in particular.

4. Materials and Methods

The article is based on the methodology of assessing the economic and political benefits of cooperation through econometric and statistical methods. The economic cooperation assessment is based on the regression models, which help forecast the development of trade in goods and services between Iran and EAEU and Russia. The data on the topic is scarce, so the most effective methodology is the comparison of trade before and after the agreement was signed. In order to do that, the authors have introduced the effectiveness coefficient. It is based on the following suppositions:

1. The growth of trade between the countries is constant and there is no boom neither today, nor expected
2. The growth of trade during the year has no seasonality, or the values in November and December of 2019 were close to the average
3. The direct comparison between the scenario before signing the agreement and after is possible due to the single row of data and the previous two suppositions.

The economic effectiveness is counted with the use of simple method:

$$EE = S_b / S_a * 100\%$$

Where EE is economic effectiveness, S_b is the forecast for a specific year, based on data before signing the agreement, S_a is the forecast for a specific year, based on data after signing the agreement.

The estimation of the political and social effects is based on the analysis of economic data and empirical analysis. This methodology allows to give the major points of the future cooperation between the countries and to develop recommendations for the better future of cooperation between the named countries and institutions.

5.Results and Discussion

The main theme of recent discussion is the formation of the second circle of Eurasian integration in the context of Big Eurasia formation. Big Eurasia is a geopolitical idea of V.V. Putin, encircling a wide variety of tasks and policies for the formation of a single economic space from the Pacific to the Atlantic Ocean. It can be viewed as the Russian analog for the Chinese Belt and Road Initiative. This circle comprises of the bilateral Free Trade Agreements between the EAEU and countries of its interest in Europe and Asia: these are Vietnam, the country that provides exotic food goods on the Russian market, Singapore, which allows Russian companies to avoid sanctions through the developed banking system and provides new opportunities for Russian expansion on the Asian market, Serbia, a long-lasting ally of Russia in Europe, offering quality foods and numerous political benefits for both sides and lastly, Iran, which can boast a three-year long temporary trade agreement with Russia. The future of this agreement lies in the sphere of politics, but economy plays a significant role in making the political decision. Let's reveal the main economic benefits, both countries and EAEU gain from partnership with Iran.

The Interim agreement on formation of the Free Trade zone (FTZ) between EAEU and Iran (Interim Agreement leading to formation of a free trade area between the Eurasian Economic Union and its Member States, of the one part, and the Islamic Republic of Iran, of the other part, 2018) compiles all the main parts of a free trade agreement, but doesn't cover trade in services. At the same time, high attention is paid to the specification of rules of origin of goods and to the business and authorities' cooperation. Such attitude demonstrates the future directions of cooperation, with regard to the weak points of the two economies. The main cooperation tracks lie in the spheres of:

1. Trade in goods, produced on their territories (The countries have taken into account the Russian experience of avoiding countersanctions by Belorussia).
2. Business cooperation, including creation of the joint ventures.
3. The cooperation of customs and the unification of customs rules – this arises from the fact, that Armenia neighbors Iran, but has no common borders with other EAEU countries. This measure allows Armenia to gain the majority of positive effects, this agreement provides.

4. The cooperation in the sphere of security and culture – the high attention, paid to the creation of close bonds between the authorities of the countries is the firm basis for further cooperation in these spheres.

At the same time, the weakest point of the agreement is a non-common for contemporary multilateral agreement point – the lack of prospects for the cooperation in the sphere of trade in services. This point reveals the weak sides of EAEU cooperation and Russian economy, just as the lack of services production in Iran – none of the involved countries can provide intensive development of the service economy .

The authors have calculated the volume of trade between the EAEU and Iran in goods (Table 1).

Table (1): Trade in Goods, Reporting Economies – EAEU Countries, Partner Economy – Iran in Billion\$

Year	2014	2015	2016	2017	2018	2019	Average (% of GDP)
EAEU	3,1	2,3	3,1	2,7	2,7	2,7	0,4%
Russia	1,68	1,28	2,18	1,7	1,74	1,59	0,1%
Belarus	0,1	0,06	0,05	0,06	0,05	0,03	0,09%
Kazakhstan	1,05	0,66	0,66	0,58	0,54	0,38	0,4%
Armenia	0,26	0,29	0,21	0,38	0,40	0,7	2,73%
Kyrgyz Republic	0,01	0,01	0,01	0,02	0,01	0,01	0,1%

(Source: Based on the Kofner (2019), World Trade Organization. Data (N/d), ad CEIC Data (N/d), Statista, OEC Database)

The trend in trade is generally falling in the researched period, the reasons for such dynamic are not clear, but one of the main factors lies in the sphere of oil trade, where Iran is one of the major rivals for Russian hydrocarbons exports. Despite this fact, the volume of trade in services between the countries follows the general track of trade in goods: the results of the analysis are demonstrated in table (2) and figure (1).

Table (2): The Volume of Trade in Services: Reporting Economy - Russia, Partner Economy – Iran in Million\$

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017
Travel	15	6	9	12	11	14	13	24	30
Construction	4	8	1	17	11	0	42	109	7
Technical, Trade-Related, and other Business Services	13	8	8	8	34	58	84	37	72
Architectural, Engineering, Scientific, and other Technical Services	11	7	7	5	33	56	83	33	71
Total Services	70	60	46	90	78	84	150	242	145

(Source: Based on World Trade Organization. Data (N/d))

figure (1) demonstrates the tight correlation between the goods trade volume of EAEU and the trade in services of Russia in the past 4 years.



Figure (1): The Correlation between the Trade in Goods and in Services (Billions and Millions \$ Respectively)

The data on figure (1) demonstrates the forecast of trade relations, based on the data, preliminary to the creation of the FTA. But, it's remarkable, that the volume of trade in services tends to grow, so the tempo of economic development of both parties in the sphere of creation of service economy rises. The future of trade cooperation can be only predicted, based on the monthly data from shattered sources. The authors stick to figure of 330,9 million of turnover between Iran and EAEU in the month, following the agreement (Iran-Eurasian Economic Union Trade Hits US\$330 Million A Month Since FTA Signed Off,2019). The approximate calculation on a yearly basis lead to a figure of 4 billion dollars turnover a year. The

corrected forecast for the same dataset demonstrates the rapid growth in trade volumes. The effectiveness coefficient is presented in table (3).

Table (3): The FTA Economic Effectiveness Coefficient (in %)

Year	2020	2021	2022	2023	Average
	153	118	121	123	129

The political aspect of the cooperation between the EAEU and Iran should be assessed in two different directions. The first one is represented by the benefits gained by the EAEU and Russia in particular, the second – by those profits, Iran gets from cooperation with Russia.

The profits for the EAEU are comprised from the several main points, listed hereinafter:

1. The creation of tighter bonds between the EAEU countries and Armenia.
2. The easing of tensions between the Muslim and Cristian countries in EAEU and communities in different countries of the Union.
3. The growth of Russian potential in the Middle East.
4. The destruction of the US geopolitical aims of creating an instability zone in the Middle East.
5. The stabilization of the region, which results in stabilization of the Caucasus region.

The first point of the list is a result of geographical position of Armenia. Its neighbors are Muslim countries, which have tense relations with Armenia. The search for political, economic and military support brought Armenia to the EAEU, but the country has no common borders with its members. This fact makes the benefits of the country from the integration to the Union lower than the benefits of other members (Ter-Matevosyan and Drnoian, 2017). The FTA with Iran allows Armenia to regain its profits from EAEU and serves as a mechanism of redistribution of wealth and gains between the members of EAEU – in this form it can be regarded as a mechanism of boosting cooperation in the inner circle of EAEU integration.

The second point refers to the fact, that the countries of EAEU are divided by the religious principle – Kazakhstan and Kirgiz Republic are Sunni Muslims, while the dominating religion in other countries is Christian. This leads to the potential unrest on the religious grounds of the domination of Christian countries in the Union. At the same time, nearly 20 million of the population of Russia are Muslims, while 5 million are Sunni, 3 million are Shia and the rest unidentified. This fact is a potential point of social unrest

in several Russian regions, especially Caucasus regions, which can result in the massive problems, including armed conflicts, taking into account the past experience of Chechen Republic. The cooperation with Iran will allow to form a balance between the concessions and the tight cultural exchange will distract the attention from the conflict situation in the Union and in Russia. In addition to that, Iran as a Shia country will receive the support in its ambitions to become the leading center of Shia Muslims in the world, while Russia is eager to play a significant role in this process (Glebova, 2019).

The potential of Russia in the Middle East has significantly fallen since the crash of the Soviet Union. The new regional influence leader is the USA. Its allies, the most influential of which is Saudi Arabia, are protecting the US interests in the region, which is normal for the current distribution of forces and potential, but the interests of the USA lie in destabilizing the region and creating external enemy in order to preserve the wholeness of the nation in the situation of crisis – both economic and social (Hanson,2020). The policy for Russia consists of introducing measures of region stabilization, both through multilateral international organizations, such as UN, and through the introduction of direct force to the region – for instance, the temporary basement of the Russian aircraft forces on the territory of Syria. Still, it's necessary to add, that this presence is temporary and doesn't have a long-term effect on the regional conflicts, but allows Russia to keep them under control. The last incident of the Iranian missile attack on the Ukrainian aircraft demonstrates the possibilities of Russian force in the region – the US officials preferred to regulate the conflict without introducing military measures.

The USA are aiming at reviving their economy through the stabilization of dollar and the proliferation of its role as an international currency. The strategy of realization of these plans depends mainly of the financial and political influence of the USA. Both aspects have recently degraded because of the unclear politics of D. Trump (Thompson,2018) and several political misfortunes of the USA (Sjursen,2017). In order to regain its influence, the USA needs to create several regional conflicts, where it is able to demonstrate the potential of its weapons and its diplomatic successes. In addition to that, the sales of weaponry produce additional revenues to the US budget, which are sustainable. In this regard, the key to the US politics in the region is creating conflict situations around Iran and building up

pressure on it. Russia isn't interested in such a scenario, because its interests are contrary to the US interests and because the massive unrest in the region may provoke problems in EAEU, as a neighboring region and will lead to a crash of the Big Eurasia integration model.

As a result of the previous benefit, Russia will receive a more sustainable and stable Caucasus region, which is influenced by the Middle East countries, this effect is especially important because of the Azerbaijani-Armenian conflict and the threat from Georgia. In addition to that, stable and strong Iran and its neighbors will cut down the drug traffic through the Caucasian countries and, consequently, Russia.

The benefits for Iran are significant too:

- Milder sanctions pressure
- Better technologies for oil development in Iran (Karami and et al,2019; Therme,2018)
- New markets for Iranian production and services
- The growth of Iranian influence in Middle East on the religious track (Wastnidge,2020; Jödicke,2017)
- The growth of stability and security in the region and in the country

The first point is connected with the fact, that both Iran and Russia (EAEU, consequently, is affected by sanctions too) are under the economic pressure from sanctions, imposed by Pro-american and European countries. The cooperation between the discussed countries leads to the formation of better conditions for Iranian manufacturers, which can get access to the new markets at lower prices. In addition to that, China is interested in trilateral dialog with Iran too, so the options for Iran are significantly higher, bringing new markets to the country's exporters in the nearest future. All these opportunities can be created only by cooperation with inclusive international institutions, such as the newly formed Asian institutions, including EAEU .

The second aspect is connected with the investments and technological transfer of Russian oil and gas companies to the Iranian hydrocarbons sector. Iran is the major competitor of Russia on the global oil market, due to the similar characteristics of oil, but the political benefits of such cooperation, such as the support from Iran in the decisions, made by the OPEC countries and supported by Russia. In addition to that, loyalty of the Iranian oil and gas manufacturers leads to the better attitude of the Iranian establishment to the propositions, made by Russia on political issues (Haddad,2018; Xing and Yuan,2010; Coşkun,2009).

The third aspect was already described previously, still it's important to mention, that the EAEU has the opportunity due to its geographical position, to serve as a bridge between Iran and China in the sphere of trade and investment through the Eurasian Development Bank, so Iran avoids the sinoization, gaining all the profits China (PRC) can provide and finds a new market for its oil, transporting it through the EAEU system of pipelines to Asia.

The growth of Iranian role in the Azerbaijan and the Gulf countries countries has been already described, it's necessary to add, that the religious counteraction is supported by the political tensions, as the major US partners in the region are Sunni countries, so the religious tensions support the political and economic confrontations.

Iran, just as any other country, is interested in the stable region and sustainably developing countries – the situation in the Middle East region today is different. Russia can support the stability in the countries of the region and in Iran through the measures of military and diplomatic presence in the region, offered hereinafter.

The authors have revealed the major benefits of the cooperation between EAEU, particularly, Russia and Iran in the framework of the contemporary economic and political situation in the region. The next step of the research is the analysis of the effectiveness of such form of cooperation and the development of the future steps for the creation of a more inclusive and sustainable partnership, so that the cooperation is prolonged after the expiration of the current agreement. The strategy is given for the EAEU, as the initiator of cooperation.

The future of cooperation between the named countries lies in the sphere of institutions' interaction. As we have already said, EAEU is exporting its institutions, so the cooperation with Iran is the opportunity for EAEU to gain experience in cooperation with countries, using radically different institutions.

In this regard, the steps for further cooperation are the following:

1. The proliferation of the Interim Agreement on other groups of goods and the inclusion of services in the FTA.
2. The cooperation in the sphere of energy should become the pivot sphere for the services cooperation between Iran and Russia – while competing on energy markets, the technology exchange is still possible as a realization of the geopolitical anti-american strategy.

3. The cooperation in tourism looks like the second sphere with high potential.
4. The proliferation of the Agreement on other countries, unification of its positions with Vietnam, Singapore and Serbia.
5. The inclusion of the dialog with China in the framework of the Agreement, especially the sphere of investments in innovations and infrastructure.
6. The development of the zone of national currencies exchange under the control of Eurasian Development Bank (EADB).

The first point is connected with the contemporary situation in the sphere of trade in goods: The Interim Agreement covers only 50% trade in goods between the countries (Kofner,2019). It's far not enough for stable and effective partnership, so in order to overcome the problem, the countries need to figure out their most competitive and endangered sectors of economy and figure out the White Book of sensitive goods and sectors and concrete timing of overcoming these problems and introducing zero tariffs for all economic sectors. The same situation is observed in the sphere of services, where both countries haven't decided on whether to cooperate or not. This issue is highly important, because today EAEU stands on the rim of formation of the single market of services (Daribayeva and Sarsekenova, 2017; Biryukova,2017), so the cooperation in this sphere with Iran, which needs to develop this sector may prove useful and economically beneficial for both sides. Iran and Russia are long-lasting political allies in the region, but politics should be based on economic basis, so the cooperation in services may become one of the most influential instruments in the political dialog of the two countries. The extraction of hydrocarbons requires constant growth of technology and the advance in technical solutions, but Iran can't get access to them, because it's under sanctions. Russia is also under sanctions, but it has a much mightier technological base, than Iran and numerous partners, such as China, which export crucial technologies for the Russian energy sphere.

Cooperation in tourism, as the second service with high growth rate and high importance for the economies of Russia and Iran is crucial too. The development of the sphere doesn't require high investments, moreover, it can be developed by the joint ventures of EAEU countries and Iran. In this context, the cooperation with the Chinese companies and banks may prove effective in lending financial resources to the joint ventures of EAEU

countries and Iran. In addition to that, EADB can provide additional financial resources on securing investments from Chinese and EAEU entities. The general direction of development of this initiative is the development of cooperation between the major partners of EAEU with the use of its institutional and financial mechanisms.

Due to the fact, that EAEU is building a second circle of integration, using the form of FTA with other countries, the idea of unification of the rules of trade, investment regimes and rules of origin within the network of such kind of agreements looks challenging, but promising from the point of view of institutional development. The more unified these agreements are, the better quality of institutions and the lower transactional costs of EAEU are. The next step in this direction is the creation of the single free trade agreement with all the members of the current bilateral agreements with EAEU. This will lead to the proliferation of the power and influence of the Union on other regions and will contribute to the better realization of the idea of Big Eurasia.

China today is the major investor in Asia and one of the key economic powers in the world. Its Belt and Road Initiative has significantly changed in the previous years (Johnston,2019), shifting to investment more than to infrastructure development. In the context of developing EAEU, partnership with Iran allows EAEU countries to get part of the extensive revenues Iran can get, if the major corridors of BRI are to go through its territory, while missing out EAEU countries' territories. In addition to that, Iran lies on the South-North corridor, which allows EAEU to export goods to the new markets of Persian Gulf and African countries. This aspect of cooperation allows to benefit both Chinese companies and EAEU corporations, because they can enter new markets through tight cooperation with Iran.

The creation of a single currency on the territory of EAEU is one of the most long-lasting and ambitious projects within the Union. Still in contemporary conditions there is no possibility to do that, but to create a synthetic basket of national currencies of EAEU, which are highly dependent on Ruble, a highly volatile currency (Zharikov,2018). This won't bring any benefits to the economies of the Union, because the fluctuations of their currencies' courses are interdependent. If the basket includes the national currencies of the countries, which have FTAs with EAEU, it can balance the basket and allow to produce a new and efficient financial instrument, which contributes to the development of the financial system of

the EAEU and its allies. In addition to that, this measure will help EAEU countries to make the role of dollar in their international economic policies lower and in this way give a serious blow to the hegemony of dollar in the global monetary system.

When speaking about the political and social measures, contributing to better cooperation, the major measure is cultural exchange between the two countries (tourism contributes to it, so financial measures are part of the political strategy of cooperation).

Iran and EAEU can develop strong relations and Russia can become an important player in the region (Muraviev,2020), but the course of cooperation should be based on the mild and weighted strategy, which is oriented on a long-run partnership, not short-run profits.

6. Conclusion

The openness of the global economy today has significantly influenced the models of cooperation of countries. Iran, just as EAEU, has joined the global trend. The current situation on the global arena pushes Iran to the partnership with EAEU and Russia due to the ineffectiveness of the Western institutions in securing peace and financial sustainability in the region.

The future of economic cooperation of Iran with EAEU depends on the future of the Interim Agreement on free trade, which has been signed in 2019 with EAEU. This agreement includes trade in goods and stimulates the countries to export their goods. The effect of this agreement is positive, with the average growth of trade of 129% in the following 4 years. The cooperation in political and social sphere can boost economic cooperation effects, but are based on economic measures. In addition to that, trade in services, which is not incorporated in the general framework of the Agreement. The development of this sphere, especially in the sphere of oil and gas extraction and tourism can boost the effectiveness of the economies of the countries.

The study demonstrates that the Agreement contributes to the development of all the countries, but is especially effective in helping Iran, Armenia and Russia in achieving their goals on the global arena.

It's necessary to mention, that the Agreement, despite being temporary, has all the chances of developing successfully after the expiration into long-term partnership, as is one of the major points in creating the second circle of Eurasian integration and has a significant political influence and meaning for all the parties.

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