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## Eurasian Economic Integration: Origins, Patterns, and Outlooks

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Over twenty years ago, on December 8-10, 1991, two very important geopolitical events happened in Europe and Eurasia.

On December 8, 1991, a decision to dissolve the Soviet Union was taken in Belovezhskaya Pushcha. And on the next day in Maastricht, leaders of the European community decided to create the European Union (EU).

The coincidence in the timing of these two events allows me to reword the famous proclamation of the French royal ritual: “The Union is dead, long live the Union!”

Indeed, the Soviet Union died, but another union emerged on the globe – the European Union, which is, obviously, built on absolutely different economic and political principles. When new independent states began to search for ways of interaction after the breakdown of the Soviet Union, they used (and continue to use), the European Union as a reference point, as opposed to the Soviet one.

This is a very important, key aspect – one that is practically disregarded. All initiators of the integration processes in the post-Soviet space chose and continue to choose the European Union as a model, despite its own problems, which have become very acute. However, this is the only functioning integration model that is used as an example in Eurasia, Latin America and other parts of the world.

The history of Eurasian integration is actually an attempt to build something similar to the EU.

This history is meandering, complicated, controversial and sometimes very dramatic.

...The very next morning after the breakdown of the USSR, the former Soviet republics understood that they needed each other's assistance in building their sovereignty and independence. They had been a single economic mechanism for too long a time to begin to function independently overnight. The beginning of the 1990s was flagged with various integration initiatives, including the 1993 Agreement on the Formation of the Economic Union, the 1994 Agreement on the Formation of the Free Trade Area, and the 1994 Agreement on the Payment Union, in an attempt to preserve the shrinking, as *la peau de chagrin*, rouble zone.

In the mid-1990s, it became clear that not all of them were interested in real integration and a multilevel structure began to form in the post-Soviet space.

In 1995, first agreements on the Customs Union of Russia, Belarus and Kazakhstan were signed, to which Kyrgyzstan and Tajikistan were later added. These were, to a significant extent, framework agreements or memoranda of intent. Yet, a higher level of interaction emerged – a core of the states that were ready for more advanced forms of cooperation. At this stage, however, they did not understand that they would have to sacrifice their sovereignty for these purposes or, to put it more precisely, to transfer a part of their sovereignty, on a purely voluntary basis, to a supranational level. For the moment, these "advanced" countries were living to an "integration plus sovereignty" principle.

In 1999, the five countries signed the agreement to form the Customs Union and the Single Economic Space. The same year, Russia and Belarus created the Union State with the aim of making it a fully-featured economic, currency and political union. Thus, another level of integration appeared.

In 2000, the five countries transformed into Eurasian Economic Community, and the "triad" of the Commonwealth of Independent States, EurAsEC and the Union State emerged in the post-Soviet space. These three unions adopted hundreds of documents, a host of plans of actions, and several institutional reforms. However, no real integration happened despite their statements. No one went beyond the level of a free trade area.

The main reason for the inefficiency of all these projects was that they formally copied the models of European integration, with the creation of similar institutes and the proclamation of similar objectives. In essence, however, these first attempts of integration disregarded the key laws of the integration process. In spite of this fact, these first attempts were not useless as they established a basis for making integration practical.

The turning point was marked in 2003, with the launch of a project to create the Single Economic Space across four states: Russia, Ukraine, Belarus, and Kazakhstan. It was clear from the very beginning that this project did not have much chance of success. For this reason, the participants focused primarily on

the “intellectual” side of the issue. The preparation of the SES Blueprint and Agreement were not viewed as traditional interstate negotiations where they could bargain over their positions or concessions. The objective was to prepare a comprehensive and viable project that could be implemented, given the existence of political will as a matter of course.

This was a revolutionary document for the post-Soviet area. It provided for the creation of a supranational body, the transfer of a part of national authority to it and the adoption of decisions subject to the economic weight of the states. All these are universal laws and principles of integration, which were at this point acknowledged for the first time by post-Soviet states.

The SES Agreement was signed and ratified in 2003 and although Ukraine later withdrew from it, the remaining three participants continued to fulfil it. This process could have continued until now if the global financial crisis had not taken place. When all countries in the world began to look for mechanisms to minimise its consequences in 2008, Russia, Belarus and Kazakhstan saw the consolidation of economic effects and deep economic integration as one of the possible tools.

Therefore, we should “thank” the global economic crisis for the successful development of integration over the past four years. It was the crisis that made these countries able to understand the significance and necessity of integration.

The CU of Belarus, Kazakhstan and Russia was formed on the existing base (in a rather accelerated fashion) on January 1, 2010. This was an unexpected turn of events for many people, including those abroad. This was not because timely information had been unavailable, quite the opposite – there had been many talks at different levels but no one had believed them. As a quick reminder, the creation of the CU had been in discussion since early 1990s and everyone tended to see these talks as traditional political statements or wasted words that would not bring about any real results.

Therefore, when this idea finally materialised many people were surprised at the appearance of a new formation. We should do justice to our foreign partners who regarded this process with understanding, recognised its conformance to global economic trends and acknowledged that it did not contradict in any manner to the standards and principles of the World Trade Organisation (WTO). I would like to specifically point out that Russia was admitted as a member of the WTO after it had become a member of the CU. It is obviously not only the evaluation of Russia’s efforts to harmonise its laws with the requirements of the WTO but also the recognition of the fact that the CU is a structure which meets the requirements of global economy. After joining the WTO, Russia’s tariff obligations will become mandatory for the whole territory of the CU. As a result of this, the states signed a special

international agreement and Russia's obligations before the WTO will be carried out in a rigorous fashion.

Seventeen agreements were quickly signed on the basis of the CU to form the Single Economic Space. If you wish to draw an analogy with Europe, this is the "Eurasian version" of the EU single internal market. The agreements took effect on January 1, 2012.

The implementation of integration ideas and their transition from theoretical and bureaucratic concepts has driven interest to their conceptual basis. Where does integration begin? What are its stages? What are its laws and principles? What is being actually built in Eurasia?

These issues that in our countries were previously of interest to a narrow circle of experts have become topical for politicians, officials, business people and the general public. This is very encouraging because the SES project requires broad public support – even more so than the CU. The CU has been in development for fifteen years and in the end no one believed it was a serious project. When it was finally created it amazed those in the member states or abroad.

The SES and the Eurasian Economic Union are expected to produce another effect. This project will inevitably give rise to a host of myths. Some people will expect, with hope or horror, a revival of the Soviet Union. Russia's neighbours will inadvertently become anxious about the reinstatement of Moscow's "imperial ambitions". The Russian will be concerned whether they would "again pay for everyone". All this will happen against a very significant background of sympathy with integration trends among the general public.

However, the national egoism of our companies is equally, or I would say already, significant. They do not want greater competition, even from weaker competitors. There is no sense in ordering everyone to "parade" towards integration. Companies need to see its advantages as European companies saw them in the common market, although they faced a stiffer expansion of competition. For this reason, thorough work with the general public and the business community is needed.

On the other hand, we have thousands, possibly tens of thousands of research studies on integration in our countries. The majority of them begin to formulate its theory with the statement that the objective preconditions for the formation of integration tendencies formed in late 1950s.

Here's an important quote: "One of the objective tendencies in the modern global economic relationships is the formation of regional integration unions inspired by technological progress, intensive centralisation and concentration of production and capital, which gives rise to the need to bridge the gap between internationalisation in all areas of global economic ties on the one hand and

the existence of separate, relatively isolated national economic complexes on the other”.

Overall, this statement does not raise any objections. I still agree with it on the whole; it opened my own Ph.D. thesis in 1995.

However, today, after fifteen years of participation in the practical building of integration, I have to admit that this statement explains only the economic component of integration. It is important, but it not the only factor.

It does not answer why integration is so successful in Europe and why it is so slow, compared to the EU, in other parts of the world. Indeed, the EU is, at present, the only regional union that went beyond a free trade area and a customs union and that created an economic and currency union and supranational mechanisms that have significantly restricted national sovereignty.

Surely, we can suppose that Europe, divided into national economies, has more clearly understood the conflict between the internationalisation of the global market and the existence of national borders. It is understandable why the US, at least because of the scale of their economy, did not have a need for a continental union for a long time and why the prototype for an integration union, the North American Free Trade Area, began to form at significantly later dates.

This is a logical explanation. However, what about Japan, which is characterised by economic openness, its dependence on foreign markets and, at the time, stable economic growth? Why didn't it manage to pull together around itself an efficient Asian integration union? Why all numerous regional unions that exist today are still so far from the EU?

Is it possible that the reason is that, in addition to the economic component, there is an important political, mental or psychological component, without which integration cannot succeed?

The founders of the European Union were inspired with the “European idea”, – the idea of common spiritual and cultural values of the European civilisation. Integration for Europe is, in essence, a return to its roots. In different historical epochs, be it the Roman Empire, Charlemagne's empire, the Holy Roman Empire of the German Nation, or the Habsburg or Napoleon's empires, Europe was united for long periods of time. The collapse of an empire caused lengthy fratricidal conflicts on the continent, which culminated in the twentieth century when the flame of old European conflicts burst out with new military power and plunged the world into two world wars.

In addition to interstate conflicts, Europe suffers from a host of in-country tensions. Who can intelligibly explain where the Basque, Irish, Corsican and

other forms of separatism originate from today? They all have their sources in Europe's past. It is difficult to delineate a "correct" state border in Europe today because there will always be those who disagree.

The idea has risen that it would be easier to reinstate the former unity on a new basis, and the European community was invented for this very purpose. I hope economists will pardon me for my statement that the founders of the EU had thought not about growth and modernisation but rather how to create an integral European mechanism, in which former state borders would lose their importance and practically dissolve. They hoped this would eradicate causes for new European wars.

It is no accident that geographically the united Europe of 1957 reminds that of Charlemagne's empire. Only the original European Six that could prepare, sign and ratify the Treaty of Rome, a document that remains even today an unrivalled example of revolutionary economic thinking.

It is difficult to believe that only ten years after the destructive war the winners and the defeated countries voluntarily agreed to create a supranational union, in the name of which they had sacrificed their national sovereignty (which they had been protecting only a short time ago with arms). I am convinced that the Treaty of Rome was made possible and signed because it had been prepared by the countries that were linked with very strong, although controversial historical ties.

Having consolidated, the Six began to involve other countries that at different times were parts of previous European communities. Europe restored the borders of Charlemagne's empire and began to chase, in a gradual fashion, the ghosts of other former empires. It remembered about the empire of the Caesars and began its movement toward the Mediterranean and Great Britain. Then it remembered about the Habsburg heritage and opened its doors for Central Europe. It encompassed the Scandinavians, whose ancestors, the Normans, had at one time conquered half of Europe and settled there. For all these countries, the joining to the EU was the return to Europe, and the implementation in practice of the great European idea.

This idea was born in the Middle Ages when many intelligent scholars dreamt about the creation of a single European Christian republic, and it acquired its modern shape in the 19<sup>th</sup> century when Victor Hugo proclaimed the concept of the United States of Europe. Without paying attention to the criticism from his contemporaries who considered this idea absurd (France and Germany regarded each other at the time as eternal enemies), in August 1849 at the International Peace Congress, Hugo presented a speech that became one of the fundamental thoughts in the European philosophy:

"A day will come when you France, you Russia, [...] you England, you Germany, you all, nations of the continent, without losing your distinct qualities and your

glorious individuality, will be merged closely within a superior unit and you will form the European brotherhood [...] A day will come when we shall see those two immense groups, the United States of America and the United States of Europe [...]"

He prophetically called for the creation of a single "continental currency", resting on European capitals and driven by the activity of 200 million Europeans.

In other words, in addition to the economic efficiency of integration, the Europeans have always had an ideological component. The EU could not have managed to do what it has done without it. This is precisely what many other regional unions lack – they cannot formulate clearly their overall objective. A federation? Or a confederation? They do not understand why they should sacrifice their national sovereignty and, therefore, resist the process, making integration efforts useless.

To put it differently, the development of integration would be difficult without an inspiring, be it even ambiguous, idea, even when all necessary economic components exist. In my opinion, an optimal integration zone is a region where, in addition to economic prerequisites, mental prerequisites exist that often stem from the common past.

Is the experience of the EU, therefore, absolutely unique? No. It is universal because there are other regions on the globe, in addition to Europe, which, in my opinion, are in an optimal integration area. Eurasia is one of these regions, but not in a purely geographic sense as a continent spreading from the Atlantic to the Pacific – I mean its median part, which is equally different from its European and Asian ends.

Was Eurasia united in the past? It certainly was. The Scythian union existed before Christ, which then gave place to the Turkic Khaganate, which existed in 6-7<sup>th</sup> centuries A.D. and stretched from the Yellow to the Black Sea. The Turks were replaced by the Mongols headed by Genghis Khan, who came from Siberia. Then, after a period of complete disintegration, Russia took the initiative in the 15<sup>th</sup> century with its movement eastward to the Pacific Ocean. The Russian Empire then yielded to the Soviet Union and the Soviet Union to post-Soviet regional unions. Over ages of living together, the Eurasian peoples have obviously developed a common mental space as well as common traditions and behavioural patterns.

It was therefore no accident that the "Eurasian idea" was born in the 1920s. The October revolution seemed to bury the Russian Empire forever. Yet, even as early as 1922, the Soviet Union emerged in its place as a state with an absolutely different socio-political and economic structure, but with practically the same borders. There is no other such instance in history where a multinational empire collapsed and was instantly revived.

What was it that tied the fragments of the former Russian Empire together? The new states with a similar social order that appeared in its area found themselves surrounded by enemies – and a common enemy always fosters unity. However, was it only the Bolshevik ideology and the military threat that made the peoples to want to unite? Russian emigrants who opposed Bolshevism could not believe it.

In "civilised" Western Europe, people with a European education and a brilliant knowledge of the world's history, politics and philosophy felt that European strangers should have been closer and more relateable to them than the "barbarian Asian Russians". Yet they did not deem themselves the Europeans. They understood all of a sudden that they were the Eurasians with their unique mental and social peculiarities.

For this reason they believed that the basis for the revival of the Russian Empire lay in Eurasia's specific geographical, psychological or, as we put it today, mental and cultural factors. In their opinion, the Eurasian mentality meant the priority of collectivist ideology over individualism, the eternal ideals over instantaneous values, and the spiritual values over material ones.

The Eurasian idea obviously did not fit the communist ideology or the administrative and command system; there were other factors that cemented the Soviet Union, and their dissolution caused its breakdown. The interest to the seemingly forgotten Eurasian doctrine emerged in the wave of this collapse. This was the doctrine that, despite all its internal controversies, managed to offer a real uniting dominant idea.

So, Eurasia also has its idea of unity. However, why were these ideas born in Europe and Eurasia? Proceeding from the postulate that it is social being that determines consciousness, I would assert that uniting ideas are only born where they have a solid material base, not just an economic one.

Economic efficiency is a necessary precondition for integration, but it is not in itself sufficient. A sufficient precondition appears when not only economies, but also peoples as a whole are ready for integration.

In my opinion, the theory of ethnogenesis by Lev Gumilev, whose 100<sup>th</sup> anniversary we celebrate this year, explains the phenomenon of appearance of similar uniting ideas. As it is recorded, Gumilev described the historical process as interaction of developing ethnoses with landscapes they occupied and other ethnoses. He defined ethnos as a "stable group of people that opposes itself to all other similar groups, has its own, original internal structure, and a dynamic behavioural pattern".

Ethnoses have limited periods of existence, of approximately 1,200-1,500 years, during which they pass a number of stages in their development, "from dawn till dusk". Each of these stages has a pattern of behaviour of individuals, peoples,

ethnicities, nations and even civilisations, which is determined by their level of passionarity. This basic pattern changes objectively depending on the phase of ethnogenesis, each of them lasting for several centuries.

According to Gumilev, the highest level in the ethnic hierarchy is a superethnos, which consists of several ethnoses that emerged simultaneously in the same region and were connected by economic, ideological and political relationships, and which manifests itself in history as mosaic integrity.

Among the superethnoses, Gumilev specifically distinguished the European one, which was previously “the Christian world”, and the Eurasian one that populated the median part of the Eurasian continent.

I suppose it was no accident that the European and Eurasian ideas were born in the frameworks of these superethnoses. In other words, a uniting idea cannot appear without a solid material base formed by ethnic structures.

Soviet science never recognised Gumilev and Russian science doesn't either, despite numerous republications of his works. Few people dare to declare him a charlatan, as he was a son of respected parents and a man who lived a hard life. However, mainstream science does not recognise this scholar.

Where does this inattention, if not to say ignorance, stem from? Gumilev's theory seems to be in line with the ideas of cyclical development of civilisations, including those by universally acknowledged scholars such as Toynbee.

I believe there are two reasons. The first one is that Gumilev's writings were very simple, maybe too simple. Humanitarian sciences do not tolerate simplicity, which is deemed to be worse than plagiarism.

Another reason is that Gumilev contradicted the proletarian internationalism. He dared to state that not all nations could co-exist comfortably with each other. He does not blend with Russian nationalism. He believed that Russia did not exist at all as an independent ethnic structure. The Russian (or, as he sometimes calls it, Eurasian) ethnos in his view was an ethnos that populated the former Russian Empire, in which the Slavic peoples blended firmly with the Finno-Ugrians, the Mongol Tartars and other descendants from Eurasian steppes. The common home to this ethnos was not Russia, but Eurasia.

In my opinion, however, it is Gumilev's concepts that make it possible to explain why economics, or politics, are not the only determinant factors in integration and that explains why it includes the ideological and mental component.

I would make two fundamental conclusions. The first one is that integration is a form of the state organisation of a superethnos. I anticipate an objection that the idea of integration appeared only in the past decades while superethnoses existed for hundreds of years. However, superethnoses, as ethnoses, pass several stages in their development with evidently different forms of their state

organisation. At the "acmatic"/development stage superethnoses organise in an empire, in my opinion. In Europe this was Charlemagne's empire, which the Europeans zealously attempted to revive until approximately the 17<sup>th</sup> century. At the climax stage, when, according to Gumilev, "they [ethnoses], governed by the dialectic law of the unity of opposites, find areas of activities while "maintaining" a stable balance in the continuous struggle with each other", these are nation states, which are very similar and have many things in common, possibly including ethnic and religious components, and which quarrel or are at war at times and are united at other times. This was what Europe looked in the 17-20<sup>th</sup> centuries.

At the inertial stage it is integration. This is the European Union.

The history of the Eurasian superethnos confirms my hypothesis. During the "acmatic"/development stage, it existed in the form of the Russian Empire. During the climax stage, which occurred in the 19-20<sup>th</sup> centuries, this was in essence a unitary state. It was no accident that the tsarist Russia was called "the prison of nations", and the USSR tried to breed a new community – the Soviet people with smoothed ethnic diversity. This attempt failed and the Eurasian ethnoses divided into nation states. Now we witness the end of the climax stage and Eurasia is entering its inertial stage, which means that the Eurasian superethnos is ready for integration.

Since integration is a form of the state organisation of a superethnos, another important conclusion follows that integration has clear, objective borders - the borders of the superethnos.

This provides an explanation for many things, including the Europeans' doubts about admitting Turkey to the European Union. The reason is not simply Islam. The reason is that Turkey belongs to an absolutely different superethnos.

On the other hand, Ukraine, Moldova and Belarus consider themselves part of Europe and Europe agrees because their western areas belong to the European superethnos. These countries are situated on an ethnic "dividing line" of our continent, which can become geopolitical if the European and Eurasian superethnoses do not unite. We'll discuss this further later.

Therefore, the application of Gumilev's concept onto the modern map of the world helps reveal the objective laws of many geopolitical processes.

The European superethnos is now in the inertial phase, "the golden autumn" of civilisation, and is integrating quickly. At that, some decisions, including the quick expansion of the European Union, cannot be explained by economic efficiency. Quite the contrary, as sometimes they are taken in defiance of economic priorities. The key is in the underlying desire to "unite and strengthen" the European superethnos which is eroding from inside because of the fast pace of immigration.

The North American ethnos is rather young and it is at the “acmatic”/development stage. This stage is characterised by aggressive wars abroad. Indeed, we witness a change in the American ideological model. The country, which had been developing its territory before and had taken part in the world wars of the 20<sup>th</sup> century contrary to the will of its own nation, has engaged in one reckless military undertaking after another since the 1950s. However it comes as no surprise to admit that the North Americans are, according to our hypothesis, pervaded by the “imperial syndrome”.

As for the Chinese superethnos it is traditionally viewed as a very old one, at the stage of convolution. I cannot agree with this statement. In my opinion, it is in the very beginning of a new cycle. I also disagree that (in the way Gumilev’s followers traditionally state it) the Islamic superethnos, as a contemporary of the Eurasian one, is at its climax stage.

I believe that a new passionate impetus was given to China, India, Pakistan, Iran, Saudi Arabia, and the Near East in the 19<sup>th</sup> century. The incubation phase of new superethnoses is coming to its end or has probably ended already. We witness the birth of two new superethnoses, the “new Chinese” and “new Islamic” ones that are based on fundamentalism. The Arab spring was a vivid confirmation of this. We witness how the remnants of the old, “religiously tolerant” Islamic ethnos, which gravitated towards Europe, gradually become history with our own help.

Since integration is a form of organisation of a superethnos, it becomes evident why Russia and China, or Latin America and North America can integrate within themselves, but not with each other.

Latin America received a passionate impetus in the 15<sup>th</sup> century when the Europeans began to investigate the continent and is now at the inertial stage. It is indeed ready for integration and its integration unions are quite viable. The US and Canada, which form a single superethnos, are de facto a viable integration union. However, they will never integrate with Latin America.

The post-Soviet space can and should integrate. Otherwise the Eurasian superethnos will be pulled apart piece by piece by its neighbours. If they do not integrate, many Eurasian nations will possibly cease to exist as a part of the Eurasian superethnos and will become parts of other superethnoses: the European one in the west, the new Islamic one in Asia and, possibly, the new Chinese one in the east.

For this reason the significance of integration in the post-Soviet space goes beyond geopolitical objectives and is closely connected to the future of the Eurasian ethnos. Only true integration will make it possible for the Eurasian ethnos to preserve its identity and geographical location when it is surrounded by young and energetic Islamic and Chinese superethnoses.

In addition, Eurasian integration does not contradict the more global project to integrate the space from the Atlantic to the Pacific. Quite possibly, the post-Soviet space and Europe can integrate in the future and give birth to a new superethnos. All the necessary prerequisites exist. Europe, which is ageing ethnically, simply has no other choice. It needs fresh blood and new "passionate people" to help it revive.

Europe is ready for regeneration, for the birth of a new superethnos on the basis of the old one. What will it be? Possibly, the European and Muslim one if Europe merges with the remnants of the old Islamic ethnos, which has been forced out from its traditional borders.

Yet, there is another option, the European and Eurasian one, one that frightens Europe for the moment. Common Europeans associate Eurasia with the Huns, Mongols, Tatars, and communists. However, they also feel that this option is preferable. This is reflected, among other things, in Russia and the EU's decision to form "four common spaces", including the economic one.

It is all the more possible because Eurasian integration is developing in accordance with universal laws whose existence is proved by the experience of the EU.

The European Union is indisputably the primary source and pioneer whose experience was used to prepare the documents of the CU and the SES and will undoubtedly be used in the preparation of the legislative framework of the European Economic Union. The European Union has tried the integration concept in practice blindfolded (not always supported by theoretical research). Our task is to thoroughly study the experience of the EU and learn from the mistakes of the others, a host of which have already been made and will surely continue to be made by our European counterparts.

This experience helps us formulate the universal laws of an integration process: stage-by-stage development, supranationality, subsidiarity, and convergence.

The first law is stage-by-stage development meaning an inevitable rise from lower to higher stages of integration.

We all know what happens to a car if we start with the third or fourth gear. The engine will stop. A similar thing occurs with integration – its stages cannot be avoided.

Integration begins with the first gear, a free trade area. At this stage, member countries remove, in a gradual fashion and in agreed timeframes, mutual trade barriers while remaining absolutely free in economic relationships with third countries. For this reason, they preserve customs borders and customs posts between each other to control the origin of goods that cross their frontiers and exclude those goods that are imported from third countries using preferential

conditions of import into each other's territories. The CIS is currently at this stage.

The second stage of integration is the customs union. At this stage, a single customs tariff and a uniform trade policy with respect to third countries is adopted. Customs bodies are gradually eliminated on the "internal" borders of the member states of such a union and transfer their functions to customs services on common external borders, which now become the common borders of a single customs space. Supranational bodies, which are vested with certain coordination and management functions, begin to function at this stage.

This is the stage Eurasia entered into on January 1, 2010.

The next stage of integration is the single economic space – meaning a single internal market, which provides the so-called "four freedoms" (free movement of goods, people, services and capital) and a uniform or coordinated policy in key economic sectors.

Key economic sectors vary depending on the stage of the SES, the specifics of economies, and their level of development, as well as that of global economy. Fifty years ago, coal and steel were the key sectors, which were regulated by the Europeans in the first place. Other sectors dominate today. Accordingly, the set of the SES elements will change in an ongoing fashion while competition (in a broad sense of the word) policy and technical regulation will obviously remain key elements. Without them even the customs union will be inefficient. The Single Economic Space is being built in stages from January 1, 2012.

The next stage is the economic and currency union, marked with the introduction of a single currency. Here, the Europeans had to literally move blindfolded, running before they could walk, stumbling and then beginning from scratch.

The reason for that was simple, in my opinion. No one thought about currency integration when the Treaty of Rome was being prepared. There was simply no need for it. The Bretton Woods monetary system ensured a rather high degree of stability of the world's currency system, fixed parities, and a common equivalent (gold).

The founders of the EU could not foresee that this system would collapse in some fifteen years, and that the unstable 1970s would come when the EU countries would clearly understand what it meant to live in a customs union without protective trade measures and with unstable currency rates. To improve their competitiveness, the EU countries began to extensively make use of currency dumping.

To avoid this they decided to speed up the process of currency integration. They were not ready for a comprehensive economic and currency union at

the time and did not need it for internal reasons; however, external instability forced them to begin what they were not prepared for.

The actual currency union and the single currency appeared only when they became necessary in the actively developing single economic space, when national currencies turned out to be a serious economic barrier.

Therefore, economic integration has its internal dynamics. Each stage leads to the next one. To continue the car analogy, it could be said that the next integration gear can be used when the integration engine has the necessary number of revolutions and achieves the necessary speed. Then the engine requires the use of a higher gear.

Indeed, as integration moves toward its higher stages and barriers are removed in the way of the single economic space, the remaining barriers become increasingly inefficient. The economic policy of one of the countries begins to impact other countries in an integration union to a stronger extent and can cause them to take preventive or protective measures. These measures begin to threaten integration achievements and a challenge arises whether to make another breakthrough or to accept the loss of the existing integration accomplishments. It is no accident that the integration process is sometimes compared to riding a bicycle: any stop can lead to a fall. So, integration is an objective, self-developing process with its internal logic.

The second key law is supranationality. It appears at the stage of the customs union and solidifies significantly at the stage of the formation of a SES.

National regulatory tools become inefficient when economies become closely tied and a common market begins to function in practice. Finally, countries strive to unite their efforts to find other, joint ways of implementing economic policies. This may be coordination on an interstate basis, with the preservation of sovereignty by nation states and the adoption of decisions in primarily a unanimous fashion or on a supranational basis when supranational institutes are created and vested with a part of state powers.

The post-war decades have demonstrated rather convincingly that the combination of interstate and supranational mechanisms of regulation, with a gradual solidification of the supranational component, is a universal element in the development of regional integration. This approach was utilised in the SES documents as well.

Again, the EU experience was used. When it made an attempt to analyse why thirty years after the "common market" had been proclaimed it still had barriers to the movement of goods, services, capital and labour in the mid-1980s, it arrived at a conclusion that one of the causes that prevented the necessary joint steps from being taken was an insufficient degree of supranationality. This resulted in the 1986 adoption of the Single European Act, which introduced

majority voting as a general rule and made the making of decisions by consensus an exception.

Therefore, a single economic space is sustainable only when supranational bodies are formed and vested with competency that can be gradually extended. At the same time a supranational law, which would prevail over national laws, and a majority voting system, where the right of veto is used in exceptional cases only, are needed.

Subsidiarity is the third law of an integration process. We do not use this term in our integration efforts at the moment and the Europeans only began to use it not so long ago, in early 1990s when their integration process began to glitch. This is another mistake made by Europe that we should avoid.

Subsidiarity means that decisions are taken at the levels of state management where they are most efficient. Everything that can be resolved at lower levels is done there and what cannot be resolved at lower levels is passed to a higher level. This helps avoid the excessive centralisation of decision-making at the higher levels of state. Friedrich August von Hayek wrote that, "with its centralism, inefficiency, an excessive devotion to legal issues, etc., federalism without subsidiarity is a step toward feudalism".

With respect to the EU, the principle of subsidiarity means that the community is vested with those functions only, which cannot be fulfilled by its member countries in an efficient manner any more.

The fourth law is convergence. The development of integration processes leads to significant coordination of economic policies of member states. A single trade, customs and tariff policy appears at the stage of the customs union. Competition and subsidising policies are adopted and policies in certain sectors become coordinated at the stage of the SES. A single monetary policy appears at the stage of the currency union.

A single policy means common goals and regulatory instruments. However, common goals can only appear and be fulfilled when main economic indicators are aligned and the levels of economic development and economic structures are close. How can a common policy be implemented when basic conditions differ? Convergence, or the alignment of main economic indicators, is needed to make an integration system stable.

All these laws should be carefully taken into account in building the Eurasian Economic Union. This is the only way to make it successful. What is the outlook for Eurasian integration?

On January 1, 2012, we entered into the stage of the single economic space. It is currently based on seventeen international agreements. Obviously, it is premature to talk about the completion of its formation.

I remember a phrase, which I often heard from the Europeans in the 1990s when they built and then improved their internal market. They said that building a single internal market was like a repair. It could not have been completed and carried on without cessation. Indeed, new spheres that need to be regulated and new challenges that need to be faced emerge continuously. In fact, even Europe, which made the project of a single internal market effective since January 1, 1993, still continues to work in this sphere.

We are at the very beginning of this road. These seventeen agreements need to transform into another eighty documents, including international agreements. This work is planned for the period until 2017.

The work to form the single economic space is based on the main principles the European Union used.

The most important of them is national treatment. Our businesses are gradually provided with an opportunity to function on an equal basis in all the three countries without discrimination between "nationalities". This means in fact that national administrative systems now face competition: businesses can work in the jurisdiction which is the most efficient and the least burdensome.

This form of competition is very useful and efficient for the modernisation of state structures.

Another key element of the single economic space is the principle of mutual recognition. Everything that has been legally produced in any of the SES states should have a legal opportunity to be sold or used throughout the whole space. This includes goods, services, certificates, passports, and graduation certificates.

Finally, there is the principle of integrity or what the Europeans call *acquis communautaire*; the achievement by the community. Our measures to form the SES are also interconnected and interrelated. The states cannot implement them in a random fashion, that is to say, "I'll do this because I like it and I won't do this because I don't like it". The SES is a "table d'hôte", not a menu in a restaurant where you can choose what you like. It should be ordered and eaten in its entirety. This is very important to the process of potential expansion: a country can join Eurasian integration in a comprehensive fashion only.

A colossal market is being formed based on these principles, with 170 million consumers, unified legislation, and free movement of capital, services and labour.

It is of crucial importance that the SES is based on uniform standards and requirements for goods and services, the majority of which will be harmonised with the European ones, and on coordinated approaches to key areas such

as macroeconomics and competition, technical regulations and agricultural subsidies, transport, natural monopolies' tariffs, and, as it can be expected in the near future, a single migration policy.

Eurasian integration has a clear institutional structure. The single regulatory body managing the customs union and the SES is the Eurasian Economic Commission. It includes a standing board composed of nine ministers.

The Eurasian Economic Commission is the first supranational integration body in the history of our three countries, and is envisaged to be neutral, with respect to the member states, and prevent dominance by any of them. One of its main functions is to prepare proposals on further integration in the framework of the CU and the SES.

One of the Board's paramount tasks is the possibility and necessity to develop dialogue with the business community, with which we would like to cooperate, and form transparent and clear rules of doing business throughout the Single Economic Space.

Now, a look to the future.

By January 1, 2015, all the legislative framework of the CU and the SES should be codified. Eurasian integration, as distinct from European one, still lacks a fundamental document. It does not have anything similar to the Treaty of Rome or its subsequent modifications. It has a legislative framework of more than 100 international agreements. These agreements were written in different periods and although the majority of them are new, made in 2007-2010, this framework includes documents that were made in the second half of the 1990s.

However, even new documents are written by different teams of negotiators and they sometimes overlap or have identical provisions stated in different legal formulae, which can complicate their implementation, or have some gaps.

Therefore, there arises the need to form a single legislative framework. Legislation needs to be systematised, the current regulatory standards need to be thoroughly analysed, and disagreements and controversies in regulation need to be eliminated.

The presidents required that the codified document be prepared and take effect not later than on January 1, 2015. The Eurasian Economic Union should also start its work based on this document no later than January 1, 2015.

The Eurasian Economic Union will be built on the basis of the comprehensive development of the SES, the improved coordination of economic policies, and stronger cooperation in the production, agricultural and other sectors.

The formation of the Eurasian Economic Union will definitely change the appearance of the post-Soviet space and Eurasia on the whole.

A parallel with the EU is again useful. While its current problems stem from its quick (I would even say rampant) expansion and not always well-grounded inclusion of new countries in the eurozone, the problem of the post-Soviet space lies in its excessive fragmentation into those who really want integration and are ready for it, those who want it but cannot join for economic reasons, and those who could join but do not want and are not ready to be satisfied with just advanced economic ties and a free trade area.

The CIS has fallen into pieces of unions. For better or for worse, this is again fully in line with the EU's experience. Let us remember that European federalists had also begun with the creation of an organisation which did not turn into an integration union, but became later the Council of Europe. The supporters of real integration had made numerous attempts before they prepared the Treaty of Rome, which still remains a revolutionary document.

What will we achieve? We have four levels of integration today: the CIS, EurAsEC, the Customs Union and the Single Economic Space, and the Union State of Russia and Belarus. It is quite possible that with the expansion of the customs union with Kyrgyzstan and Tajikistan who already express their interest in joining it, the CU and the SES will organisationally extend to EurAsEC. The Union State of Russia and Belarus will become a partner of this new union, more advanced in certain areas such as foreign politics and the military sector, but identical from the economic point of view. In the longer run, the Eurasian Economic Union will obviously acquire functions in the humanitarian and social sphere, and transform into a fully-fledged Eurasian Union.

Therefore, two levels of integration will co-exist in our space, the CIS and the European Union.

The CIS will operate as an interstate union, which economically won't go beyond free trade and elements of the single economic space and which therefore does not envisage the creation of supranational institutes. This will be a common denominator of interaction that will be satisfactory for all post-Soviet states.

The Eurasian Union will become a supranational integration association, which will gradually move from the Single Economic Space toward the economic and, in the longer run, currency union.

This internal orderliness and balance in the Eurasian space will make it possible to better organise economic ties on our continent and I hope that no new barriers will emerge. If we remember the discussions that took place in the period when Europe was building its single internal market, many people

were cautious that the process would finally result in a so-called “fortress Europe”. However, very few of them remember this today because this did not happen.

Today’s discussions are concerned with whether Eurasia would become isolated from the rest of the world.

I’m absolutely convinced it won’t be. The Eurasian Union is being built as a regional association on the same principles that were used for the creation of the European Union. It is intended to partner with both the European Union and the dynamically developing Asia-Pacific.

The Russian Federation and the European Union have been discussing the formation of a single economic space since 2003. Now it becomes clear that this single economic space can be the space encompassing the European Union and the emerging Eurasian Economic Union.

In the process of forming this space, Belarus, Kazakhstan and Russia are obviously interested in becoming harmonised with European counterparts in the use of the world’s best practices, including international standards and customs administration, among other things. Accordingly, what the three countries do for themselves cannot contradict in any way to the work they plan to do with the Europeans.

In 2012, Russia will chair Asia-Pacific Economic Cooperation (APEC), in September it will host a summit in Vladivostok. The economic liberalisation processes that are underway in the Asia-Pacific region are in line with the tendencies of the modern post-crisis global architecture.

Russia intends to take a proactive part in these processes and harmonise with its Asian counterparts. At the same time we cannot use standards that would differ from those that form the basis of the European Union and of the single economic space. These very standards should be used in the work with the Asia-Pacific partners.

I believe this is an absolutely natural process, which can lead to the formation of a true global economy because today’s global economy has formed in a rather spontaneous fashion.

Countries and their economic policies simply could not keep up with globalisation processes at the micro level, which has resulted in the formation of a global economy with global interdependence and interrelationships but without global management.

Organisations that were in charge of the global management of various spheres of this economy discovered during the crisis that they lacked sufficient authority and capacity. Among them were the International Monetary Fund and the World Trade Organisation.

Therefore, the process of regionalisation should not be deemed an alternative to globalisation.

Regionalisation means that two hundred participants in the global economy can hardly come to an agreement. However, if these two hundred participants unite into twenty teams with common interests and economic interconnection, and if these teams will together build global rules of the game in the world's economic field, this process is expected to be more systemic, more intelligible and less stressful.

For this reason I believe there are no controversies between globalisation and regional integration. They are two sides of the same coin. The process of economic integration, of which Eurasian integration is a dynamic manifestation, is one of the tools to help the global economy recover from its currently challenging condition.

I also hope that this will change the world's geography: Big Europe (from the Atlantic to the Pacific), that politicians have been talking about for a long time, will be born. Or perhaps it will be Wide Europe, from Vladivostok to Lisbon?