

# Pragmatic Integration

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This article systematises and defends a pragmatic approach to Eurasian integration<sup>1</sup>.

The terms ‘Eurasia’ and ‘Eurasianism’ are very often used in Russia, Kazakhstan and other CIS countries. As a rule, they are used as a synonym for the post-Soviet space. In Russia they are also often used to emphasise an anti-Western ideology and Russia’s ‘exclusive’ way (there is no such phenomenon in Kazakhstan) (Vinokurov and Libman, 2012; Laruelle, 2008).

These approaches have a number of alternatives. Eurasia can be deemed a space for interaction between a wide range of countries on the continent, including both Europe and Asia. Russia, Kazakhstan and the CIS region as a whole could be considered to benefit most from the continental scope of integration.

It would be useful to distinguish two processes in Eurasian integration up front. The first is post-Soviet Eurasian integration – a process that has become increasingly intensive within the post-Soviet ‘regional integration core’ in recent

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years. The second one concerns the processes of convergence on the continent that have become a reality in the past decades. In our understanding, Eurasian continental integration means the qualitative growth of economic, political and social ties between the regions of the Eurasian supercontinent – Europe, Northern and Central Eurasia (post-Soviet world) and Eastern, Southern and Western Asia (Linn and Tiomkin, 2006; Vinokurov and Libman, 2012 and 2013).

In this paper, I refer to both processes, first to the ‘post-Soviet’ and then to the ‘continental’ form. The particular focus is consistently placed on the interests and objectives of the current members of the Single Economic Space (SES) in properly structuring their economic and institutional integration with each other and within the Eurasian continent as a whole.

Pragmatic Eurasianism (as an overarching approach to integration to be employed by the SES members) is based on the understanding that integration is not an end in itself, but a tool for resolving the pressing problems of the states involved, whose first priority today is economic modernisation.

It is aimed at ensuring successful bottom-up integration – the free flow of goods, services, labour and capital – to guarantee the long-term stability and success of this integration project. This is a project and ideology of open regionalism, with regional governments eschewing insularity for an understanding of the necessity of integration with continental partners, both to the East and the West. There should be no place for a tendency to recreate the Soviet economic space under a different name.

Pragmatism in politics does not override the inherent ideological content. Eurasianism is an ideology. What matter is what is inside: its technocratic approach to political and managerial processes, the priority given to the economic component, and a serious approach to determining the balance of long-term benefits and losses?

As a whole, pragmatic Eurasianism comprises the following components: the understanding of integration as a tool, but not a purpose; open regionalism; the principle of subsidiarity; several states leading the process integration; the priority of economic integration; and the focus on bottom-up integration.

### **INTEGRATION IS NOT AN END IN ITSELF**

Integration professionals such as politicians, experts and technical specialists often fall victim to an occupational hazard: they start to see integration as an end in itself.

However, economic integration processes can have both positive and negative effects. For example, international trade experts know well that trade integration can have either the effect of ‘trade creation’ or that of ‘trade diversion’, or a ‘decrease in welfare’. The latter happens when the establishment of a free trade

area or a customs union results in consumption shifting from a foreign producer with a lower cost to a domestic producer with a higher cost. In any event, the effects of integration are not necessarily intrinsically positive.

Economic and institutional integration is therefore not an end in itself, but a tool for achieving specific objectives. The entire process must be planned and managed as part of a targeted approach. For the Single Economic Space of Belarus, Kazakhstan, and Russia<sup>2</sup> as well as the entire CIS region, the objective is economic development through modernisation, spanning such aspects as attaining a more advantageous position in the international division of labour, overcoming dependency on oil and gas, and increasing industrial capacity through mutual economically beneficial cooperation. This objective governs cooperation in the area of research and engineering and, to a significant extent, in the area of education. In the social sphere, the key objective of integration is to promote stable international and interreligious peace, and a comfortable environment to support the millions of relationships between the citizens of the countries involved.

#### **BOTTOM-UP INTEGRATION: EURASIAN INTEGRATION NEEDS TO BE ABLE TO WITHSTAND LOW OIL PRICES**

The current oil prices (\$100-110 per barrel of Brent) are anomalously high in a historical perspective, even if they are recalculated in real terms. They will not remain this high forever. For this reason, developing long-term economic policies that rely on a favourable external environment is irresponsible at best and doomed to failure at worst. Planning should instead be based on the presumption that there is a probability that oil prices will fall for a prolonged period of time.

The post-Soviet economies may be divided into three groups. Group 1 comprises energy exporters: Russia, Kazakhstan, Azerbaijan and Turkmenistan. Group 2 comprises the relatively small economies of Armenia, Moldova, Kyrgyzstan and Tajikistan, which are major exporters of labour. Group 3 comprises the economies of Belarus, Uzbekistan and Ukraine, whose exports contain a significant proportion of products with a relatively high level of processing. These differences determine the adverse impact of foreign shocks on the economies in a certain group. The next global cyclical recession will affect all Eurasian countries, without exception, although there will be primary and secondary channels of influence. The oil exporters – Russia and Kazakhstan – will be the first to face the challenge of decreasing export revenues and

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<sup>2</sup> A methodological note. The Custom Union (CU) forms a central part of the Single Economic Space, which also includes dozens of agreements on such issues as coordination of macroeconomic policies, access to infrastructure, common anti-trust rules, free movement of labour, etc. The SES member-states envisage moving to the Eurasian Economic Union (EAU) in 2015.

poorer access to foreign finance, which is vital for the banking system and the real sector. The exporters of labour will face a decrease in money transferred by labour migrants working in Russia and Kazakhstan. The countries in the third group will suffer from both an external demand shock and prohibitively expensive foreign borrowings. Therefore, everyone will be affected (EDB Centre for Integration Studies, 2012b).

A fall in oil prices would destabilise the region's leading countries and would result, at best, in their loss of interest in integration. It has to do with at least three reasons: first, the diminishing attractiveness of the Russian market, second, rising protectionism, and, third, the level of transfers in the union. If protectionism evolves in response to a crisis, will it be possible to mitigate it within the framework of the Customs Union? Will it be possible to preserve the level of integration achieved without a system of transfers between more or less successful members? When export revenues and economic activity decrease sharply, the countries involved will lack resources to provide external assistance to others. In addition, offering financial assistance for foreign partners will be very unpopular from a political point of view.

With respect to Eurasian integration, the question takes the form of a conventional stress test: Could Eurasian integration withstand a price of \$80 per barrel for an extended period of time? What about \$60?

There is no panacea. However, it is clear that the long-term sustainability of integration processes could be ensured by lively and successful bottom-up integration – the mutually beneficial flows of goods, services, labour and capital. In the first place, these are investment flows and labour migration. Trans-border companies and holdings that own intertwined assets in a number of countries of the future Eurasian Union would become an important stability factor. Such projects have the potential to be problematic (consider the regular Franco-German squabbles around the EADS), but they form the skeleton of long-term economic integration capable of surviving a crisis.

### **GENERAL INDUSTRIAL, RESEARCH AND TECHNOLOGICAL POLICIES**

Long-term economic growth depends on the technological leadership, at least in some important areas. If a country has failed to find its technological niche, it will be at a disadvantage when mastering new technologies and will have to content itself with lower added value. The integration of markets, resources and assets has two advantages in this regard: first, a broader domestic market creates favourable conditions for achieving economies of scale; and, second, closer technological ties provide additional capabilities necessary to succeed in the technological race.

President of Kazakhstan, Nursultan Nazarbayev, voiced this sentiment as early as 1994: “[...] The development of the post-Soviet space today has two tendencies. The first is the formation of nationhood and the second is

integration of the CIS countries. This is logical. In the context of the exuberant scientific and technological progress and a tough fight for markets, survival is only possible through integration. Consider Western European countries with their centuries-long nationhood, which are moving towards integration. They understand perfectly that the global market is becoming strongly polarised [...]” (Nazarbayev, 1994).

The objective economic needs of the SES attach an increasingly important role to the advancement of the industrial sector in the member economies of the integrated union. Industry needs to be revived as the driver of the economy. The respective policy should factor in not only the demand of separate countries for cutting-edge, quality industrial products, but the needs of the member countries of the integrated union and their export potential (EDB Centre for Integration Studies, 2013a). This means not the conventional industrial policy of indicative planning, but the promotion of growth, support for competition and the establishment of rules that would attract both domestic and foreign investment.

At present, for the first time in the past twenty years, there are favourable preconditions in place to devise a comprehensive and coordinated programme for long-term economic development and improved competitiveness, both on the national level and for the SES as a whole. In this context we should speak of a combination of “a single trade policy + a coordinated industrial policy + a coordinated scientific and technological policy” for the member states.

## **TRANSBORDER COMPANIES AND HOLDINGS**

Mutual investment by and into transborder companies and holdings in particular should be one of the key drivers of stable and successful Eurasian integration.

An expedient approach seems to be the promotion of cooperation, including mergers and acquisitions, with SES producers making a consolidated entrance onto the global market. Transnational companies and holdings generally develop in sectors in which member states have real potential for global leadership, and the combination of strengths has a synergy effect, furthering their potential. Transnational companies are usually established in technologically advanced sectors. Accordingly, they become an instrument of technological convergence and modernisation.

Transnational companies (jointly owned either by government or, preferably, by private parties from the member states) should be set up in areas that already offer comparative and/or competitive advantages or have serious potential for developing them. The post-Soviet space has some ten to twelve such sectors, which are, in essence, breakthrough points, apart from the oil and gas sector (a definitive list may be disputable). These include ferrous and non-ferrous metallurgy, coke chemistry, fertilisers, power engineering, rail engineering, heavy automobile construction, aircraft and helicopter engineering, the space industry

and agriculture, in particular the grain sector. In particular, the development of 'Eurasian champions' needs to be supported in those breakthrough industries where the structure of the global market does not permit them to evolve without the state support.

A joint 'Eurasian champion' should have ambitious objectives such as, for example, those for the potential Russian-Ukrainian helicopter holding – "deep modernisation, new niches and an increase in global market share from 17% to 30% by 2030" or, those of the Kazakh-Russian nuclear power holding – "to be represented at all stages of the nuclear fuel cycle, to outpace Areva, Cameco and Toshiba and to become no. 1 supplier of goods and services of the nuclear fuel cycle on the global market by 2030." These grand objectives should be accompanied by additional capitalisation, R&D financing, and (possibly, most important) the financing of relevant professional education.

### **THE PRINCIPLE OF SUBSIDIARITY**

The principle of subsidiarity, which underlies American federalism and European integration, is applicable to Eurasian integration as well.

According to this principle, tasks should be resolved at the lowest level where they can be dealt with effectively. Authority and financial resources are distributed in the same fashion. A set of criteria is used to prove the compliance of the proposed measures with the principle of subsidiarity. The first criterion is the proximity of the government to citizens. The second criterion is sufficiency. Can objectives be achieved to a sufficient extent at lower levels? The third is benefit. Will the resolution of a task at a higher level be more effective or beneficial?

In accordance with the principle of subsidiarity, the only tasks that should be raised to the supranational level are those that either need to be resolved at this level by definition (for example, a single foreign trade policy or single technical regulations for a common market) or whose solution at this level would be significantly more efficient. The principle of subsidiarity is particularly relevant to institutional integration.

This principle is not easy to apply in a consistent and convincing manner (there is a constant battle in the EU about this). Nevertheless, it serves well as a general guideline in how competencies should be allocated.

### **IMPORTANCE OF SOCIAL AND CULTURAL INTEGRATION**

Integration is not limited to the economy. In addition to the economy, there are also security issues (including soft security) as well as various social and cultural issues. In fact, they are comparable, in terms of their long-term societal importance, with economic achievements. The social and cultural aspects include family ties, permanent and temporary migration, educational links,

tourism, the exchange of values and many other positive cultural aspects. Integration strengthens international and interreligious peace, not only in international relationships but within the countries involved as well.

The effects of social integration are, to a significant extent, intangible and so are difficult (or even impossible) to quantify. However, their importance must not be underestimated. For example, the recent launch of the Astana–Omsk flight could be more important in practice to the people living in the Omsk and Akmola regions than an abstract growth of trade flows. Whereas, previously, one had to take an eleven-hour train ride, now it is possible to get to the other city in slightly more than an hour. Such measures simplify trade and investment cooperation, family ties, tourism, and educational exchanges.

The Russian language plays a huge role as a means of integration. Research shows that the use of a common language has a positive effect on the intensity of trade and investment relationships. The Russian language as a lingua franca is currently under threat in many part of the post-Soviet space. Even despite a hugely beneficial impact of labour migration, there is a serious risk that the next generation will not be able to communicate with each other in Russian. Thus, the measures to preserve the Russian language as a medium of international communication in the region will be highly profitable in a comprehensive sense of the word. Language and cultural networks such as the Pushkin Institute are a good investment in the future.

Strengthening educational ties – from school, student, postgraduate and academic exchanges, to the harmonisation of curricula and the mutual recognition of graduation certificates – is a key instrument of long-term integration. A programme of mass school, university, postgraduate and academic exchanges, which would be similar to, for example, Europe's Erasmus Mundus programme, still needs to be developed and launched. Such a programme could be named after Shoqan Walikhanov, a Kazakh researcher, historian, and ethnographer who studied in Omsk. It could be structured as a system of grants which would cover, in full or in part, the expenses for studying abroad for one or two semesters. The primary task is to make the programme a large-scale one, with an annual intake of tens of thousands of students.

## **EURASIANISM AS A PROJECT AND IDEOLOGY OF OPEN REGIONALISM**

Pragmatic Eurasianism requires that a long-term balance of costs and benefits be taken into account during discussion and implementation of integration measures. Both components of the balance are extensive and the long-run planning horizon makes it possible to factor in multiple effects, not necessarily those of a purely economic nature. That does not mean, however, that Eurasian integration should be a purely 'accounting' process. Even if the discussion of the future of Eurasian integration is consciously framed in a pragmatic and

technocratic context, Eurasianism remains an ideology. The question is what kind of ideology it is.

The Eurasian idea is often understood as an alternative to, as a minimum, Russia and other post-Soviet countries' European orientation or, as a maximum, a synonym of Russia's 'unique way'. As it is known, the ideas of Eurasianism were born in the 1920s, although their roots can be traced to 19<sup>th</sup>-century Russian intellectuals' search for identity. This kind of Eurasian ideology was elaborated by Russian emigrants – unfortunate, suffering people who believed in the grandeur of their homeland but were forced to depart and watch its agony from exile. Eurasianism's evolution still remains complicated, its development hindered by both real and contrived nostalgia for the Soviet past.

The formation of a constructive and productive Eurasian ideology for the SES member states could be based on a number of aspects.

First, post-Soviet Eurasian integration should remain focused on the economy. The combination of the Customs Union (the common customs area) and the SES (dozens of agreements that set forth the basics of the common economic rules or, in essence, the common Eurasian market) is a healthy foundation.

Second, it is very desirable that Russia should not become the only driver of integration. "Eurasia is not a synonym for Russia" (Nysanbayev, Kurmanbayev, 1999). Despite Russia's apparent weight as the region's largest economy, the Eurasian project or, at least, its political dimension, should not be a Russian-centric phenomenon. Other drivers and active players are needed. In this context, the maintenance of Kazakhstan's proactive position is of critical importance.

Third, post-Soviet Eurasian integration should not become introverted or aim to restore the unity of the post-Soviet space in any fashion. Certainly, the potential for economic and technological convergence in the post-Soviet world is significant (EDB Centre for Integration Studies, 2012a, provides comprehensive assessment of economic impact), but it is limited. Eurasian continental integration would be a logical step forward. Deeper economic integration, both westward (with the Eurasian Union) and eastward (with China, South Korea, Japan, Southeast Asia) and southward (Turkey and, to a lesser extent due to economic geography, India and the Gulf states), could bring about multiple benefits. The range of potentially profitable areas includes a common trade regime, the harmonisation of technical standards, the infrastructure of hydrocarbon exports, rail and car transport, the industrialisation of transport, land telecommunications, regional and subregional common electricity markets, cooperation between bordering regions, visa-free travel between certain countries, educational exchange and many other things.

These principles in the aggregate are aimed at developing open regionalism in Eurasia, where the post-Soviet countries will become simultaneously the drivers, the backbone and the key beneficiaries of the process.

This paradigm makes it possible to apply another approach to some important aspects of integration, in particular the role of Ukraine.

## THE UKRAINIAN ISSUE

There is hardly another issue that involves as many clichés and such a degree of politicisation as 'Ukraine's civilisational choice.' Unfortunately, the discussions of Ukraine's future usually take an 'either/or' format and are in danger of descending into emotional back-and-forth arguments of the relative merits of identity with Europe or with Russia<sup>3</sup>. It does not have to be like this: the paradigm of continental integration makes it possible to apply a 'both/and' approach.

The post-Soviet space and the EU often demonstrate a deep misunderstanding of the essence of each other's integration processes. On the whole, Europe and the West tend to perceive the CIS and, recently, the SES as products of 'Russian imperialism.' However, the post-Soviet integration project has a vital economic dimension which is expected to produce considerable benefits for the member states. It seems to be difficult for Europeans to understand the depth of cooperation ties that have been inherited by post-Soviet countries from the Soviet Union, and the vital importance of these ties for the modernisation of the economies of Russia, Ukraine, Kazakhstan and Belarus. There has been no precedent for a similar breakdown in the world, except, possibly, the breakdown of Austria-Hungary. It is not difficult to model, though. Imagine a breakdown of the European Union (not only the currency zone but the entire common market). Now imagine all the incentives for Europe's reintegration in this case. And now triple the result, because the Soviet economy was much more intertwined than the economy of today's European Union is (for a comprehensive economic analysis of the costs of disintegration of the Soviet Union, see Linn 2004; based on his analysis, Linn concludes that the principal focus of reintegration should be on lowering barriers to internal trade and transit and to internal mobility of labour, capital and knowledge within the region, while at the same time aiming at integration of the region with the rest of the world)<sup>4</sup>.

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<sup>3</sup> We should also state quite clearly: the EU membership is not on the table as a viable alternative nor will it be in the long-term future. Turkey can readily provide a lesson or two in this regard. The choice is currently framed as 'Association agreement with the EU vs. the full membership in the Eurasian Economic Union'.

<sup>4</sup> For a comprehensive economic analysis of the costs of disintegration of the Soviet Union, see Linn 2004. Linn concludes that the principal focus of reintegration should be on lowering barriers to internal trade and transit and to internal mobility of labour, capital and knowledge within the region, while at the same time aiming at integration of the region with the rest of the world.

The most important point is that European and post-Soviet integration should not be deemed mutually exclusive. On the contrary, CIS regionalism could become a step towards integration with the European Union. The Customs Union of Belarus, Kazakhstan and Russia could be a more effective and strong partner for the EU than separate countries. In particular, this would give additional incentives for extending dialogue on mutual infrastructure and partial adaptation of European norms and standards.

At present, Ukraine – located between the European Union and the Customs Union – is overwhelmed with discussion on its possible entry to one of these communities. However, let us ask ourselves: would Ukraine's European orientation make integration with Russia and its partners impossible? Russia gravitates towards Europe as concerns trade and investment flows, the distribution of population, and cultural preferences. Kazakhstan is also a 'European' country: the EU is its largest trade partner (37.7% of exports and 32.3% of foreign trade in 2010, according to the IMF); Kazakh companies are listed on the London Stock Exchange. The winners of the Bolashak governmental programme for students prefer to study in Europe. Up to 50% of the Bolashak winners studied in Europe, compared with 5% in East and Southeast Asia (plus 28% in the United States and 9% in Russia)<sup>5</sup>.

It seems that the optimal long-term solution to the 'Ukrainian issue' can be found in economic integration both with the EU and the EAU in various forms. A strong option would be to include Ukraine in the CU and then sign a deep and comprehensive free trade agreement (DCFTA) between the post-Soviet trade bloc (with a population of approximately 220 million and GDP of \$2.2 trillion) and the European Union. In this scenario, Ukraine would achieve all its objectives by ensuring favourable relationships with Russia and other partners in Northern and Central Eurasia, and at the same time strengthening its own European choice. Such an agreement would become a universal basis for legislative convergence and, ultimately, the adoption of a visa-free regime. Another option is to make a DCFTA (or a set of agreements) between the triangle of the EU, Ukraine and the CU. In any case, the agreement should obviously be a comprehensive solution governing not only trade, but the free movement of people (visa-free regime) and capital, the gradual unification of technical standards and the integration of infrastructure as well.

One way or another, an optimal solution to including Ukraine in Greater Eurasia is possible only with the participation of both the EU and the CU. The European Union does not deny in principle the possibility of cooperation with economic blocs: in 2010 it renewed negotiations on free trade with Mercosur (the Southern American common market). The very modest results of the EU's

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<sup>5</sup> Calculated by the author based on the data from the Centre for International Programmes (<http://edu-cip.kz/Media/Default/HtmlWidget/Articles/statistika2012new.pdf>). Aggregate data for 1994-2011.

current Eastern Neighbourhood policy should also be considered. It is time to think about deep changes in conceptual approaches on both sides.

### **EURASIAN PARTNERSHIP PROGRAMME: FLEXIBILITY AND DIVERSITY OF TOOLS**

Eurasia is not limited to the post-Soviet space. The geographical boundaries of the integration project should not be deemed to have been finally determined by its Soviet past. If in some respects the post-Soviet space could really be the optimal region for integration, in other instances other combinations of countries would be more advantageous.

The new reality calls for new tools of constructive cooperation with neighbouring partners in the CIS and the Eurasian continent as a whole. To develop multilateral cooperation, the SES and the future Eurasian Economic Union could launch a programme with a working title of Eurasian Partnership, which would promote deeper integration with neighbouring countries (EDB Centre for Integration Studies, 2013b). The Eurasian Partnership could encompass both bilateral and multilateral cooperation. However, it should focus on bilateral arrangements that would factor in the specifics of each of the partners. This cooperation could be governed not only by agreements, but by joint plans of action (as in the European Neighbourhood Policy) and participation in joint programmes.

The objective of the Eurasian Partnership Programme will be to ensure deeper trade and economic cooperation between the countries of Northern and Central Eurasia and, in the future, with other strategic partners in Eurasia without obligatory membership to the SES. The format could be similar to that of the Euro-Mediterranean Partnership: the SES could interact with a partner country with the objective of both including it as a member of the SES and establishing the shortest possible distance in cooperation. The "Eurasian partnership" could become a fundamental basis for cooperation between various countries and the SES, with the interests of all parties taken into account.

### **CONCLUSION**

In conclusion, let us summarise some points about pragmatic Eurasianism described in this article:

- Economic integration is not an end in itself, but a tool for resolving fundamental tasks faced by the member countries: economic modernisation, the achievement of an optimal position in the international division of labour, and the achievement of international and interreligious peace in the region. In doing so, there should be no place for a tendency to recreate the Soviet economic space under a different name.
- For the post-Soviet Eurasian integration to have a future, it should be able to withstand crises and, in the first place, a possible long-term decrease in oil prices. Long-term stability could be ensured by lively and successful

bottom-up integration: intensive and mutually beneficial flows of goods, services, labour and capital (investment flows and labour migration in the first place). Transborder companies and holdings that own intertwined assets in a number of countries of the future Eurasian Economic Union could become one of the most important guarantees of stability.

- The objectives of economic modernisation and the improvement of competitiveness of the SES countries require that a number of common policies be adopted, including a combination of “a single trade policy + a coordinated industrial policy + a coordinated scientific and technological policy.”
- The principle of subsidiarity is part of the overall pragmatic approach to building regional integration institutes.
- Integration and international cooperation embrace at least three very important areas of interstate and international cooperation: economy, security and social and cultural ties. Investments in the social and cultural sphere, such as educational cooperation or support of the Russian language, are necessary and could be very profitable in the long run. However, a pragmatic approach emphasises the priority of economy as the foundation of integration.
- The geographical boundaries of the post-Soviet integration project should not be deemed to have been determined by the Soviet past forever. Eurasian continental integration is a flexible and pragmatic approach to uniting in western and eastern directions, in which post-Soviet countries can become simultaneously the driver, the backbone element and key beneficiaries.

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