1 Introduction

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The Eurasian Development Bank and its Mission

The Eurasian Development Bank (EDB) is an international financial institution with a mandate to facilitate economic growth and integration processes in the Eurasian region. The Bank was founded by an intergovernmental agreement that was signed in January 2006. The initiative for establishing the Bank came from the Presidents of the Russian Federation and Kazakhstan.

As a multilateral development bank, the EDB feels strongly about the creation of public goods. In the research sphere, we are focusing on the development of a wide range of research and analytical products, which will serve the needs of states, policy-makers, businesspeople, and expert society, providing them with reliable information as well as venues to discuss issues of economic development and integration. The Yearbook is just one product in the line that we offer to practitioners and researchers, mostly in member states, but also to the global community. The EDB considers it a part of its mission to become a catalyst for regional integration. This function is anchored in its Charter. In particular, Article 1 identifies the support of mutual trade and investments between Member States as a primary objective. In pursuit of these commitments, the Bank not only finances projects with substantial integration impact but also collects and analyses data on development and economic integration (Article 2 and 11).

Thus, in compliance with the Bank’s Charter, EDB research puts emphasis on the processes of the regional integration of its member states. The Bank holds conferences on the issues of regional integration twice a year – in spring and autumn. These conferences attract leading experts in the field, as well as representatives of public agencies, international organisations and businesses. In October 2008, the EDB started a quarterly ‘Journal of Eurasian Economic Integration’. This Russian-language journal intends to become the leading source of analytical support for the regional integration processes. In addition to this, the Bank has introduced a series of Reports on selected countries in the post-Soviet space and particular industries, such as electric power, hydro- and nuclear power, the transport sector, aerospace, agriculture etc. Another series of Country Reports, focusing on the Central Asian republics, Russia, and other FSU countries, are currently being prepared. We also foresee the realisation of large research projects along the way. The first of these is the ‘EDB System of Indicators of Eurasian Integration’, a large-scale applied research project, which should result in the development of a valuable set of tools, suitable for measuring the state and dynamics of various
facets of regional integration. The Bank offers consulting to its clients and strategic partners. Administered by the Research Department, consulting services employs the expertise of various departments within the Bank, drawing on our extensive expert pool from the CIS countries.

**ON THE CONCEPT OF THE EDB EURASIAN INTEGRATION YEARBOOK**

The ‘Eurasian Integration Yearbook’ publishes a wide range of articles and other materials on theory and practical aspects of Eurasian integration. The major part of the annual almanac consists of the English versions of selected articles published in the ‘Journal of Eurasian Economic Integration’ and other analytical publications of the EDB. Integration chronicles will supplement these for the previous years, book reviews, interviews etc. The Yearbook aims at improving access of the world community to the best articles published in the Russian language and providing a comprehensive and coherent view of regional integration in the ‘Eurasian’ area. Aside from articles published in the Journal, papers written specifically for the Yearbook in Russian and English languages are also welcome.

While it is largely focused on economics, the Yearbook publishes materials addressing a broad spectrum of urgent issues in Eurasian integration. This includes theories of integration, including its relevance to the development context; economic integration (trade, investment and financial institutions); institutional integration; other cooperation issues in the post-Soviet space as well as international experience of regional integration.

We are happy to announce the formation of a reputable Advisory Council. The Council currently comprises twelve world-class experts on various integration issues from: Belgium, France, Kazakhstan, Russia, the U.S.A., and Ukraine. The Council will serve as a consultative body on the contents of the Yearbook and also on the Eurasian Development Bank’s research activities.

This volume has been drafted for wide distribution among the international community of researchers and practitioners. The book can also be downloaded free of charge at the EDB website.

**WHAT IS EURASIA? WHAT IS EURASIAN ECONOMIC INTEGRATION?**

What is ‘Eurasia’ in the context of ‘Eurasian integration’, as used widely on the pages of this volume?

Since 1991 geographers, economists, political scientists and social scientists have struggled with the terminological ambiguity concerning the states of the former Soviet Union. The term ‘post-Soviet space’ is largely used along with the ‘former Soviet Union’ (FSU). Another commonly used description is the Commonwealth of Independent States (CIS). However, all of these denominators hold obvious deficiencies. To begin with, the former two terms are derivatives of the past, i.e. they draw on a non-existent political entity. Conversely, the CIS draws on an existing
political entity, which has only limited relevance to the politics and economics of the region. Aside from this, all of these terms artificially bind the actual political and economic geography of the region.

The straightforward solution to the problem would be to find an appropriate geographical description of the territory in question. It would seem that, ‘Northern and Central Eurasia’ would be the closest to being correct. This sounds a bit awkward however, and would be far too long a phrase for practical use.

In our ‘Journal of Eurasian Economic Integration’ and in the ‘Eurasian Integration Yearbook’ we focus predominantly on the post-Soviet states. When doing so, we can combine the emphasis placed on the internal integration process with the willingness to address any external integration considerations of the post-Soviet states. It is advisable to keep in mind what Johannes Linn, former Vice-Director for Europe and Central Asia of the World Bank and current Executive Director of Brookings Institute, described as the ‘Eurasian Super-Continent’. Linn rightly points out that the break-up of the Soviet Union triggered the process of economic integration on the whole Eurasian super-continent. In the 11th to 14th centuries Eurasia represented a relatively integrated economic space – undoubtedly relative to the overall levels of economic ties in other regions of the world. The current geo-economic situation is favourable to the new round of economic integration on the Eurasian continent, this time in a qualitatively ‘smaller’ world. Due to its geographic location and national economic interests, Russia, Kazakhstan, and other FSU states are directly interested in Eurasian integration, which would spill over the tight bounds of the post-Soviet space.

In conclusion, this Yearbook will focus on the regional integration processes of relevance to post-Soviet states, which means monitoring and analysing both internal and external developments. This is why, while being aware of the limitations, we opt for ‘Eurasia’ as a description of the region in question.

What is Eurasian economic integration in the context of the volume? We imply a wide definition of economic integration in the sense of advanced regional economic cooperation. Functional scope is particularly important to us for three reasons. First, we regard it as both practical and suitable for the development bank to concentrate on. Second, it is theoretically, conceptually and statistically underresearched. Third, the fragmentary information for economic sectors and industries as well as specific issues (such as customs, rules of transit, migration, education, soft security etc.), which are available to Russian-speaking readers, might not be as readily available for the global English-speaking audience. The ‘Eurasian Integration Yearbook’ is there to partially fill this gap.

ABOUT THE CONTENTS

The Yearbook’s contents comprise introduction, full-scale papers and reports as well as a regional integration chronicle and a number of supple-
The core of the Yearbook is composed of seven papers and two reports, grouped into four sections.

The first part is entitled ‘Institutional Integration’. It contains analysis of the institutional issues of regional integration in the post-Soviet space. Chapter 2, written by Aleksandr Libman, ‘The Sustainability of Regional Integration Projects in the Post-Soviet Space’, looks at the sustainability of integration groupings. Counterfactual analysis of the concept of integration as the regional union for EurAsEC shows that the size of this group is close to (but nevertheless higher than) its sustainable optimum considering quality of governance, and below the optimum in terms of economic development. Nevertheless, EurAsEC is closer to its sustainable size (in terms of the quality of governance) than all other integration projects in the former Soviet Union.

Following on from this is a discussion on the ‘The EurAsEC Integration: Opportunities and Obstacles’, written by Michail Golovnnin. In the medium term, the creation of a customs union will play a key role in encouraging formal integration in the EurAsEC. It will face impediments that are both objective (disparities in the structure of member country economies) and political in origin (for instance, Russia’s self-serving approach fails to create attractive opportunities for partners prepared to make concessions from their side). The most likely basis for a customs union at the moment is the SES-3 (three countries of the Single Economic Space – Russia, Kazakhstan and Belarus); however, some major challenges continue to affect this association too. Golovnnin comes to the conclusion that the potential for further integration is constrained by the need to coordinate many aspects of hugely varying national economic policies.

The financial sector holds the most promise for further cooperation in the EurAsEC. It is linked neither with the troubles of the fuel and energy, nor with the inefficiencies of machine-building industry inherited from the Soviet economic system. Corporate integration between Russia and Kazakhstan can be strengthened through the expansion of their financial institutions into one another’s markets. Like Libman in Chapter 2, Golovnnin points out the crucial issue of Russia-Kazakhstan ties. These two champions of financial services development could share their experience with others to facilitate the development of banking systems and financial markets in other EurAsEC member-states. It would be expedient, therefore, to initiate a joint pilot project on development of a selected segment of financial markets of EurAsEC member states. Development of the corporate bonds market appears to offer the most potential.

The next section, ‘Economic Integration: Industries, Sectors, Issues’, contains four papers, which look into various specific fields where the potential of integration might be revealed and realized – machine-building, common electricity markets, financial integration, and transborder cooperation. This part is indeed central to the Yearbook, as certain functional issues are both underresearched and promising in terms of real
economic gains. We intend to continue to emphasise functional integration in specific industries and sectors in future Yearbooks.

In Chapter 4, Yuriy Shishkov assesses an often-overlooked handicap pertaining to the efficiency of the CIS machinery sector − insufficient cooperation between the CIS machine-building industry and their more advanced foreign partners. Drawing on foreign experience, Shishkov clings to the possibility of a technological leap in the sector, which can be based on a deeper economic cooperation. International cooperation, in particular within the CIS where there is a long history of strong mutual dependence, would harmonise technical standards between countries, expand international scientific and technical cooperation, and reduce disparities in the legal regulation of economic relations in this sphere. In successfully integrated organisations (the EU, NAFTA and others) the intermediate machine-building sector in member countries exports 50-100% more than in the CIS, where a rapid contraction of exports threatens to dismantle the industrial foundations of integration.

The Yearbook continues with Chapter 5 by Leonid Vardomskiy, ‘Trans-border Cooperation on the ‘new’ and ‘old’ Russian Borders’. Prospects of transborder cooperation of Russia with its CIS neighbours depend on whether it will manage to contain the ‘barrier function’ of its new borders. Vardomskiy concludes that the security factor still prevails over the cooperation factor. Also, the economic effects of transborder cooperation are insufficiently studied, thus the picture of potential gains is distorted. When there is more data and research on economic effects, a more balanced decision-making on border policies and transborder cooperation will become feasible.

Chapter 6 by Evgeny Vinokurov, ‘The CIS Common Electricity Market’, starts with a detailed analysis of mutual trade and investments in the sector. As it turns out, trade has stagnated over the last few years, as economic growth dampens exports. Investments are one-sided, as only Russia invests abroad in energy generation and distribution. Vinokurov subsequently concludes that both trade and investment statistics are low and inadequate to the potential of the sector. After looking into both the CIS and EurAsEC initiatives, the paper argues that energy markets, i.e. hydrocarbons, coal, electric power, and uranium, should be treated and regulated as separate markets for the sake of functional integration. This does not preclude the need to work on the common fuel balance. Vinokurov further analyses barriers on the road to the common electricity market and singles out the unfinished liberalisation of the key CIS power market in Russia. Overall, although integration of electricity markets depends on the institutional structures, it can be feasible even with state monopolies dominating generation and distribution. Finally, the exciting prospects of enlarging the CIS Common Electricity Market are briefly outlined. The economic logic of electricity trade pushes the CIS countries toward establishing sub-regional common markets with other key markets of the broader Eurasia, for example the EU, China, India, Pakistan, Iran, and Turkey. Virtually all CIS countries would gain substantially if
real mechanisms of transborder trade are established both at the material, technological, and regulatory levels.

Anna Abalkina starts her chapter, ‘Preconditions and Prospects for Banking Integration in the EurAsEC’ by pointing out that regional economic integration in the EurAsEC countries is increasingly considered in terms of cooperation in trade and investment. Much less attention is paid to the activities of the banking intermediaries that fund these operations. Abalkina delves into the most interesting, yet not sufficiently explored, world of financial integration, focusing on banks. (A parallel can be drawn with Chapter 3 by Golovnin, which states that the financial sector holds the most promise for further cooperation in the EurAsEC). She analysed a number of indicators, including the share of foreign assets and capital owned by the CIS banks. Apparently we are witnesses of a wave of transactions between banks that leads the way to the formation of several CIS banking groups. Notably, Kazakh and Russian banks are particularly fervent in their pursuit to expand across the CIS.

On an institutional level, Abalkina argues for a ‘stable, rather than a single’ financial market in the EurAsEC member countries. EurAsEC and CIS countries could look into experience of Asia Pacific countries, which chose to reduce the role of foreign credit by developing a regional bond market which is less exposed to global crises. In other words, the creation of a formal common financial services market may be premature at the moment. It would be more beneficial to take steps to increase stability within national financial systems, to increase their capitalisation and to develop a regional credit market.

The next section ‘Measuring Regional Integration and Economic Development’ features only one paper, written by Uljana Agibetova and Ivan Samson. This section has been deliberately singled out, as we will put significant emphasis on the issue of the measurement and assessment of integration in the future. One example of this is a large-scale research project entitled: ‘System of Indicators of Eurasian Integration’, which was initiated by the EDB Strategy and Research Department. Chapter 8, entitled: ‘The Metropolisation of the FSU Area: Temptative Measurement through the Method of Hyperlinks Notoriety’, delves into the measurement of certain cities’ metropolisation in the post-Soviet space. The chapter starts with the question: “Does the FSU run patterns of Western metropolisation or it is a specific model marked by the historical legacy that emerges in the post-communist world?” In an attempt to answer this question, the paper starts with the presentation of the tools of observation and the measurement of studied processes, and then develops the analysis and the interpretation of results. Historically, the Soviet urban world has been built on other spatial principles than the Western ones, and its legacy is reflected through the existence of large industrial cities networks. Today the FSU still manifests itself as a space of mono-polar territorial activity, where Moscow is the only city recognised as a global city. However, this territory, being the largest in the world, can no longer operate from a single global city. The measurement of cities’ metropolisa-
tion is not a simple task, especially in the post-Soviet context. The authors set up a method of measuring metropolisation through the number of hyperlinks in Internet search engines.

The next part of the volume, ‘EDB Reports’, logically relates to the collection of papers described above. EDB Industry Reports is a series that aims to provide in-depth analysis on sectors with substantial integration potential. These sectors notably include power generation and distribution, transport, telecommunications, agriculture, aerospace, and finance. In this Yearbook we present two EDB Reports, ‘Nuclear Energy Complexes in Russia and Kazakhstan: Prospects for Development and Cooperation’ and ‘Water and Energy Resources in Central Asia: Development and Utilisation Issues’. These reports represent case studies of two sectors with critical consequences for the regional integration.

In particular, the first report deals with the growing cooperation between Russian and Kazakh nuclear sectors. Kazakh uranium has become a focus of attention and fierce competition between the world’s largest consumers, including France, Canada, USA, Japan, China, South Korea, and Russia. Early this decade, Russia’s substantial production capacity and highly competitive uranium ore conversion technologies added to calls for the country to renew its economic links with Kazakhstan in the uranium mining and nuclear industries. Given Russia’s ambitious plans to develop nuclear energy, and the fact that its uranium stocks are practically depleted, the benefits of closer cooperation with Kazakhstan are clear. However, Russia will have to compete with other players for Kazakhstan’s uranium market. The need to integrate the nuclear power complexes of Kazakhstan and Russia along the entire production chain is a logical response to their urgent need to reduce their energy deficit, and to increase the synergies which exist between their production capacities and technologies at each stage of the nuclear fuel production chain: uranium mining, uranium enrichment, production of fuel pellets and fuel elements, reactor design and production, the construction and operation of nuclear power plants, and nuclear waste processing and disposal. The first steps in these directions were undertaken through the act of joining forces and assets in three Russian-Kazakh joint ventures (extraction, enrichment, and nuclear reactors).

The second Report looks into the most complex issue of interstate cooperation and conflict in Central Asia: the water and energy nexus. Water is vital for Central Asian countries, and coordinating the shared utilisation of water is problematic to say the least as Central Asian countries are closely interdependent in their water utilisation. Most of the water in the Aral Sea Basin is from upstream river waters, whereas in Kazakhstan, Turkmenistan and Uzbekistan water is mostly used for irrigation in downstream areas. Competing demands for water in the region have considerably exceeded supply for a long time. In the future, water shortages will only worsen in Central Asia because of the growing population, the development of industrial and agrarian production and the expansion of irrigation. In such circumstances, regulation of the hydrological models of the Syr-Darya and Amu-Darya is becoming critically important.
Tajikistan and Kyrgyzstan have vast hydro-energy capacity, but heavily depend on the supply of hydrocarbons from other countries in the region. During winter 2008, public electricity and heating was completely cut off in Tajikistan; production of aluminum at the Tajik aluminum plant, the country’s main source of foreign currency, fell dramatically.

Resolving the issues of shared utilisation of water and power resources in Central Asia has huge economic, ecological, political and international importance, as it is a major factor in preserving stability, economic prosperity and ecological security in the region. The most important issues in this regard are the management of water and energy resources and leverage of significant long-term investments in hydro-energy projects.

The last part of the Yearbook, ‘Chronicles, Digests and Book Reviews’, presents the Regional Integration Chronicle. The Chronicle serves the particular purpose of providing our readers with structured information on integration events throughout 2007. The first section of the Chronicle is grouped around institutional integration and covers, among other issues, the CIS, the EurAsEC, the SCO, and Russia-Belarus Union. The second section covers various sectors and issues, in particular integration initiatives in customs and transit, migration, energy, transport corridors, and education.

It is supplemented by the review of ‘Activities of Multilateral Development Banks’ in the region, written by Natalia Maqsimchook of EDB. You will also find information on the Round Tables conducted by the Eurasian Development Bank in November 2007 and May 2008 as well as a book review of the recent monograph by B. Kheifets and A. Libman on corporate integration in the post-Soviet space.

We intend to continue publishing structured chronicles and reviews in the next Yearbooks, thus providing the global audience with a coherent and dynamic picture of Eurasian integration and economic development.

Overall, the Yearbook intends to provide a dynamic overview of integration processes in the post-Soviet ‘Eurasian’ space and the challenges to which the Northern and Central Eurasian states will have to provide adequate responses. I genuinely hope that the EDB Eurasian Integration Yearbook will become a reliable companion to those studying regional integration.

I would particularly like to thank Vladimir Yasinskiy, head of Strategy and Research Department at the EDB, for solid support and encouragement along the way. For exceptional assistance I am very grateful to Natalia Maqsimchook, a thoughtful, energetic and hard-working colleague at the EDB Strategy and Research Department. Our permanent partner, publishing company ‘Ruan’, was most instrumental in providing professional services needed to produce this volume.