1 Accelerating Regional Integration: Directions for Research

Evgeny Vinokurov

Breakthrough in 2009–2010

2009–2010 are marked by a major breakthrough, namely the establishment and beginning of operation of the Russia–Kazakhstan–Belarus Customs Union (CU), the establishment of the EurAsEC Anti-crisis Fund, as well as the announcing of the goal to move the Single Economic Area (SEA) forward by 2012.

Russia, Kazakhstan, and Belarus drew closer in the context of the Eurasian Economic Community (EurAsEC), Shanghai Cooperation Organisation (SCO), and the Common Security Treaty Organisation (CSTO) major projects and initiatives, most importantly the Customs Union. These three countries constitute the integration core of the post-Soviet space according to the comprehensive System of Indicators of Eurasian Integration, managed by the Eurasian Development Bank (see Vinokurov, 2010).

The creation of the Customs Union became the first major systemic integration initiative to make it as far as implementation. The package of documents was signed at the EurAsEC Interstate Council in Minsk on November 27, 2009. The common external tariff became operational on January 1, 2010, and the common customs territory is to become functional on July 1, 2010. The deepening and widening of the union is being considered, as the heads of state envisage the development of the single economic area by 2012, and both Tajikistan and Kyrgyzstan have expressed interest in acceding to the Customs Union. Also, importantly, the CU Commission might come to represent the first truly supranational institution in the 20 years of the post-Soviet attempts at reintegration in the region.

Kazakhstan’s President Nursultan Nazarbayev, a vocal and consistent proponent of integration initiatives in the post-Soviet space, proposed an economic rationale for the emerging customs union: “We need to open up our market for each other to promote the innovational industrialisation of our countries. This cooperation is mutually beneficial” (Nazarbayev, 2009). Nazarbayev concludes that integration processes should continue under
the aegis of the integration organisations that set the course for a Customs Union, a common currency, common energy and transport markets, and collective security. Kazakhstan will make full use of the advantages it has due to its energy resources, while maintaining a balance between the interests of major players. This continuous articulation of and support for the idea is of utmost importance to its acceptance in Kazakhstan, in particular while the short-term balance of profit-and-loss is probably on the loss side, at least in widely held public opinion in Kazakhstan. For example, in Russia 82% of customs tariffs remain unchanged, 14% will be lowered, and only 4% will rise. In comparison, for Kazakhstan these figures are 45%, 10% and 45%, respectively.

The major efforts in the economic sphere are being accompanied by advances in the regional security arrangements within the CSTO. In February 2009, its member states took a decision to establish collective forces for rapid response. The final treaty was signed on June 14, 2009. Russian and Kazakhstani troops constitute the main core of the collective forces. The first manoeuvres took place in October of the same year in Kazakhstan, which emphasised Central Asia as the primary vector of their potential employment. In addition, the close views and positions of both countries were demonstrated once again by the support that Russia rendered to Kazakhstan in its successful quest to become the OSCE Chairman in 2010.

The latest developments call for the intensification of theoretical and applied research, including in some new directions. Below, we outline several of these directions and issues.

First, applied research relevant to the advancement of the CU and the SEA is crucial for the success of regional economic cooperation. It includes such vital issues as the trade in goods and services, movement of labour, financial integration and cooperation, and common currency.

Second, it has become obvious that the harmonisation of legislation represents the vital and natural step to establishing a truly common economic area. The legal component organically complements the economic initiatives, which would remain severely constrained without harmonised legislation.

Third, the ‘deepening vs. widening’ dilemma has suddenly become highly relevant to the advancement of the CU and the SEA.

Fourth, on the theoretical front, it is striking how understated the relevance of the theories of regional integration remain in the post-Soviet ‘Eurasian’ context. The task on the agenda is to finally apply such theories as neofunctionalism and intergovernmentalism to the regional realities.
The Customs Union and the Single Economic Area

The decline of integration in the post-Soviet space continued into the 2000s – this was the conclusion of *The EDB System of Indicators of Eurasian Integration* (Vinokurov, 2010). The composite index of integration of the post-Soviet space generally suggests that integration levels are falling. In parallel with that, EurAsEC-5 and especially its core comprising the three largest members – Russia, Kazakhstan and Belarus – became more integrated. It is instructive to note another crucial result of the EDB System of Indicators of Eurasian Integration. According to the ensuing study, the quantitative data confirms that Russia remains the undisputed ‘integration leader’ for the whole of Central Asia, including Kazakhstan (Libman, Vinokurov, 2010).

In 2009 the formation of an “integration core” suddenly gained momentum, largely due to the crisis. That year saw astonishing progress in creating the Customs Union of Belarus, Kazakhstan and Russia. Unusually, this process proceeded in a timely manner as per the schedule approved by the heads of states in 2007. As we have mentioned above, the CU Commission is a supranational body whose decisions can be enforced directly in the member states. The next step will be the creation of the Single Economic Space, as was agreed by the Presidents of the three countries at the end of 2009. This task is expected to take two years to complete.

This very rapid movement toward regional economic integration calls for the intensification of applied research. The applied research relevant to the advancements of the CU and the SEA is crucial for the success of regional economic cooperation. It includes such vital issues as the trade in goods and services, movement of labour, financial integration and cooperation, common currency, and comprehensive harmonisation of economic legislation and law enforcement practices. A number of politically sensitive issues will have to be settled. The first one is access to energy resources. The second one is access to transport infrastructure, including the elimination of double pricing in the railway sector and provision of access to pipelines on a non-discriminatory basis. It is no secret for all market players that at present these issues cause major conflicts. Principally, we are talking about Russian infrastructure and costly concessions from Russia. Finally, the third issue is strengthening the cooperation in the financial sector. The financial services market needs a harmonised legal framework and real opportunities to access the stock exchanges of neighbouring states.

Deepening vs. Widening in the Post-Soviet Integration

The interrelation and possible contradiction between widening an integration zone and deepening the integration of existing member states: are these processes antagonistic or synergetic? This issue is hotly debated in international literature, but no common point of view has been reached so far.
If any synergism is possible in principle, what are the optimum conditions for it? This is the so-called deepening vs. widening dilemma.

This (speculative) dilemma came under close scrutiny in the context of the EU and, to a lesser extent, ASEAN, the Caribbean and other integration regions. We should mention the example of “the second expansion” of the EU which nearly coincided with the start-up of the Common Market and the Single European Act. At that time, the widening and deepening processes ran in parallel successfully. On the other hand, any success in European integration since the Maastricht Treaty (1992) accompanied by the rapid expansion of the EU is disputable.

The deepening vs. widening dilemma was also widely discussed in connection with the ASEAN’s free trade area (AFTA). However, the experience of this integration area is rather negative. The failure to establish AFTA+ (including trade in services, harmonisation of economic laws, etc.) is probably attributable to the utter lack of uniformity among the newly admitted states, both in terms of the political regime and economic development.

This common dilemma is now fully relevant to Eurasian regional integration.

In 2009 the formation of an “integration core” suddenly gained momentum, largely due to the crisis. That year saw astonishing progress in creating the Customs Union of Belarus, Kazakhstan and Russia. At the end of 2009 the Presidents of the three countries agreed to accelerate the creation of the Single Economic Space (SES): a task that was allotted two years for its completion. Therefore, first, the formation of the SES can be considered a deepening process.

Second, in the next few years the integration of the emerging core may magnetise other countries, in particular Kyrgyzstan and Tajikistan, which have shown considerable interest in joining the CU. According to the EDB’s System of Indicators of Eurasian Integration, smaller post-Soviet countries are most interested in economic integration with their neighbours. This can be explained by their high dependence on trade with other post-Soviet states (principally, Russia) and the export of labour within the region. It is no surprise that, according to composite indices, Tajikistan and Kyrgyzstan are the integration leaders in the CIS in relevant terms.

The prospects for the region’s economic integration with Ukraine are much more uncertain, even though it is Ukraine whose presence can impart true completeness to the region’s economic integration. Joining the CU and the SES is beneficial to this country’s economy, especially petrochemistry, metallurgy, mechanical engineering and agribusiness. This fact allows us to hope that the eastern direction will eventually receive due attention in Ukraine’s foreign policy. One of the preconditions for this scenario is the
demonstration of real achievements and benefits by the Customs Union of Belarus, Kazakhstan and Russia.

Theoretically, there are three possible answers to the deepening vs. widening problem: (1) deepening without widening; (2) widening without deepening; and (3) deepening and widening in parallel. It should be noted that there is no consensus on this issue, and the EU’s practical experience shows that successful combination of deepening and widening is possible under certain conditions. However, both the theoretical and practical aspects of this dilemma are still poorly understood.

**The Theories of Regional Integration and the Post–Soviet Space**

When studying regional post-Soviet integration, most economists from the CIS countries confine themselves to looking at economic problems proper and, when so doing, they most often rely on the classic Balasz structure (based on the following levels of economic integration: preferential trade zone, free trade zone, customs union, common market, economic and currency union, full economic union). A great deal of high-quality applied research has been done in this area: calculations of the CU’s effects on the inter-industry balance; trade flow gravity models; studies of mutual investments, labour migration, optimum parameters of financial and monetary cooperation, etc.

However, any complete, comprehensive integration theory must be an economic and political theory, and the respective models must incorporate both economic and institutional variables. In our opinion, a complete regional integration theory must:

- be a part of an international relations theory;
- be, at the same time, a disintegration theory, i.e. explain the disintegration process;
- explain both successful and failed attempts at integration; and
- provide a clear insight not only into the inception phase but also into the deepening and widening processes.

To date, there have been almost no attempts to build upon the existing regional integration theories in the post-Soviet context. No use is being made of the works of Haas, Deutsch, Lindberg, Schmitter, Moravcsik, Mattli and other theoreticians of regional integration.

At the same time, the liberal intergovernmental theory with its focus on the decisive role of heads of states in integration could be instrumental in evaluating the performance of the regional integration organisations EurAsEC, CIS, SCO, CSTO, Union State of Russia and Belarus (USRB) and, of
course, the efforts to establish the Customs Union of Belarus, Kazakhstan and Russia. Neofunctionalism, in its turn, could be a useful tool for studying the deepening process – particularly, the evolution from the CU to the SES.

How can the successes and failures of post-Soviet integration be explained on the ground of neofunctionalism, the liberal intergovernmental theory or other regional integration theories? How relevant are the integration models that have been developed specifically for the EU, the Americas or other regions? What role should be attached to the special variables of post-Soviet integration (especially the fact that the concerned countries are all the successors of a single state)? What specific features should be anticipated in the widening processes (new admissions to the CU) and the deepening process (creation of the SES), and could they become mutually exclusive? These questions, among many others, are awaiting answers – and the answers must be found in theoretical models capable of explaining the logic and special features of post-Soviet integration.

**Review of Contributions**

The current volume presents 13 contributions, structured in four sections.

The Yearbook starts with a major section entitled *Data and Events*, prepared by EDB analysts, which covers exactly what the title suggests. It starts with a large digest of integration events in 2009, in which we follow the tradition of the previous two EDB Yearbooks, published in 2008 and 2009. This Chronicle, compiled by Natalia Maqsimchook, is structured along the lines of both the major regional organisations and sectors where economic cooperation takes place. The *Main Macroeconomic Indicators of the CIS Countries*, compiled by Yerzhan Moldabekov, complements the Chronicle. An overview of the activities of international and regional development banks in the CIS region by Zhanar Sagimbayeva rounds up the section. This latter overview is also highly relevant to regional integration research, taking into consideration that multilateral development banks (MDBs) represent both the objects of integration and its subject as MDBs proactively shape economic interaction of states, e.g. by investing in crucial cross-border infrastructure.

The section on *Regional Integration and Regionalisation* features four papers. Evgeny Vinokurov and Alexander Libman introduce the general findings of the EDB System of Indicators of Eurasian Integration, a major applied research project of quantitative nature. Mikhail Golovnin, Darya Ushkalova and Aleksandra Yakusheva’s paper presents the results of research on the effects of external shocks on the CIS economies during the latest economic crisis. During the latter crisis, Russia was the principal source of economic turmoil felt in the other CIS countries. The crisis spread primarily through changes in foreign trade patterns. The paper argues that, while the CIS economies have mainly relied on national anti-crisis measures, there are many opportunities
to promote integration based on concerted efforts to overcome the crisis. Further two papers by Yang Cheng and Ikboljon Goraboyev delve into the issue of integration trends in Central Asia. Particularly, Goraboyev argues that the research community should move from the “Central Asian regional integration debate” to discussions centred on the “Eurasian integration space”. We support this thesis, which finds vast empirical support in the series of reports on functional integration in certain sectors and industries published by the Eurasian Development Bank.

The section on Financial Integration and Common Currency combines accounts by theoreticians and practitioners of financial and currency integration. Marsel Salikhov and Sergey Agibalov provide analysis of the rouble’s actual and potential functioning as the payment currency in the CIS. In their opinion, establishing the rouble as a “regional reserve currency” would elevate its status to that of an international currency. This process however may take many years. Viktoria Mishina’s empirical contribution focuses on the importance of stock market development, interaction between CIS stock exchanges and the prospects for trading national currencies.

The section on Sectors and Issues features papers on specific aspects of importance of regional cooperation. Murat Jadraliyev’s report on the economic cooperation in the agricultural sector represents a comprehensive review of cross-border cooperation trends in Russian, Belarusian, Ukrainian, and Kazakh agriculture. It is a neglected and under-researched aspect of regional economic cooperation. Meanwhile, a number of the states, including Russia and Kazakhstan, possess serious comparative advantages in this sector, providing a base for sustainable growth, regional specialisation, and the rapid growth of mutual investment and trade. The issue of ecology and its numerous cross-border implications are the subject of two further articles. Sagit Ibatullin, Vladimir Yasinskiy, Alexander Mironenkov provide an account of climate change in Central Asia in the respective EDB Industry Report republished in this volume. Furthermore, the comparative analysis of ecological indexes for Russian and Kazakh enterprises by Alexander Martynov is of considerable interest, too, as Martynov is head of NERA, an NGO with rich expertise and high standing in this area.

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 yearly EDB Eurasian Integration Yearbook will become a reliable companion to those studying regional integration. Once again I am pleased to direct readers to the EDB website, where this volume, the previous Yearbooks, the Journal of Eurasian Economic Integration (in Russian) and a number of reports and stand-alone papers relevant to regional integration are available to download free of charge.
References

