The Customs Union and the Single Economic Space: Towards the Eurasian Economic Union

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The Customs Union of Belarus, Kazakhstan and Russia was established in 2010. It expanded into the Single Economic Space in 2012, based on a comprehensive set of agreements covering subjects from the coordination of macroeconomic and fiscal policies to labour migration, energy and technical regulation. Regional integration will be taken a step further through the planned creation, by 2015, of the Eurasian Economic Union. The Customs Union was the first major systemic integration initiative to make it as far as the implementation stage. Importantly, the Eurasian Economic Commission may also come to represent the first truly supranational institution in the region’s 20 years of post-Soviet reintegration attempts.

The primary goal of the SES is to promote the free movement of goods, capital, services and people. It will increase competition and create equal conditions for all businesses and investors, regardless of their country of origin. The SES will reduce and ultimately eliminate the structures of national legislation at every stage of the business transaction and guarantees an overhaul of technical regulations and standards. The adoption of improved standards will ensure that
the SES complies fully with WTO standards and that there is a high degree of compatibility with EU and ISO standards. This will facilitate technological integration between manufacturers, including investors from outside the SES.

The EDB System of Indicators of Eurasian Integration shows that the decline of integration in the post-Soviet space in the 2000s and the general trend of the 1990s have not been reversed. The composite index of integration in the post-Soviet space suggests that integration levels have generally been falling, but that Russia, Kazakhstan and Belarus have in fact become more integrated. This counter-process genuinely stands out. These three economies form an ‘integration core’ in the post-Soviet space, which, during the first decade of the 21st century, has developed from the bottom up, with its roots in enterprises and households. In 2009-2010 the formation of this integration core gained momentum, largely due to the global economic crisis, and culminated in the establishment of the CU.

The development of the CU and the SES is crucial for the success of regional economic cooperation. It encompasses vital processes such as the trade in goods and services, movement of labour, macroeconomic coordination, financial integration, common technical regulations, and regulatory convergence. Applied economic research is, in turn, crucial for a deeper understanding and appropriate management of these complex processes. The Eurasian Integration Yearbook, published for the fifth consecutive year, attempts to move in this direction.

TWO EURASIAN INTEGRATIONS

Further development of regional integration may include a deep and comprehensive free trade area (DCFTA) between the European Union and the SES. Such a DCFTA would represent a huge step forward by removing barriers to trade in goods and services, improving the management of intellectual property and the mobility of labour and capital. Furthermore, the SES is already taking its first steps towards free trade with its Asian and Pacific partners. Smaller economies (Vietnam, New Zealand, etc.) as well as large economies (South Korea, India, and China) immediately spring to mind. Spilling over the boundaries of the former Soviet Union entails ‘another’ Eurasian integration, distinct from the post-Soviet one.

As the post-Soviet space forms part of the greater Eurasian ‘super-continent’, regional integration in Northern and Central Eurasia should be viewed in the context of wider economic and political interconnection. Continent-wide Eurasian integration is gradually becoming a reality. This spreads ‘from the...
bottom up’, with minimal support from national governments. We think that an important task for the 2010s – both for researchers and practitioners – will be to reconcile both kinds of ‘Eurasian integration’, the post-Soviet and the continental one. The latter we take to be the qualitative growth of economic links between various sub-regions of the Eurasian continents – Europe, East Asia, South Asia, West Asia, and Northern and Central Eurasia (i.e., the post-Soviet space).

In our view, Eurasian continental integration could become a key driver of development, motivated by the integration of energy trade, non-energy trade and transport, capital and labour flows, tourism, pharmaceuticals trade and epidemiological threats. A key question is whether or not the main continental powers will allow this integration – which represents a catch-up process in the historic worldwide drive for globalisation – to proceed smoothly and efficiently by cooperating in the establishment of transport networks, opening up access to natural and human resources and creating institutions that support collective action in the pursuit of regional benefits and the alleviation of regional disadvantages. Or, conversely, will competition over resources, boundaries and allegiances, or disagreements over values and political systems drive deep wedges between countries and sub-regions across Eurasia, as they had in the past.

Although potentially vital for all countries involved, Eurasian integration has particular significance for Russia and Central Asia. These countries have much to gain from Eurasian integration that is constrained within the boundaries of the post-Soviet area. Therefore, it is valid to argue in favour of open regionalism in Eurasia as an economically optimal component of post-Soviet integration. The ‘two Eurasian integrations’ should supplement each other.

REVIEW OF CONTRIBUTIONS

The 20 contributions in this volume are divided into four sections.

The section on the Customs Union and the Single Economic Space features papers relating to economic impact, including that of potential enlargement. The first paper presents the results of a large-scale project, which combined the forces of three institutions – the Moscow-based Institute for Economic Forecasting, the Kyiv-based Institute for Economy and Forecasting, and the EDB Centre for Integration Studies. The results of the project provide a coherent and nuanced picture of the long-term economic impact of the CU. It also extrapolates the model to Ukraine and the potential impact of the country’s accession to the CU. The paper by Alexander Pavlov analyses the potential impact of Kyrgyzstan’s accession to the CU. It is followed by an incisive commentary by Nazik Beishenaly based on the independent research into the same issue. The section includes an important paper by Tatyana Valovaya, a Minister of the Eurasian Economic Commission. Her paper outlines the history and principles
of Eurasian post-Soviet integration. This paper provides comprehensive insight into the general patterns of regional integration in the post-Soviet space and how the extensive experience of the European Union is being carefully rethought by its eastern neighbours.

The section on The Economics of the Post-Soviet and Eurasian Integration aims to knit together what we call the ‘two Eurasian integrations’ – that is, the post-Soviet and continental ones. Evgeny Vinokurov and Alexander Libman summarise the findings of their two monographs, each of which focused on one of these two types of Eurasian integration. Throughout the last two decades, the term ‘Eurasia’ has been used more and more by scholars and practitioners, but the definition of the term has remained unclear. This lack of clarity is amplified for the concept of Eurasian integration. The authors elaborate on the concept of Eurasia and Eurasian integration, distinguishing between three notions of ‘Eurasia’ and corresponding views of Eurasian integration, and evaluate their importance in literature and possible research developments. The next paper by Johannes Linn, a well-known and influential proponent of Eurasian integration, delves into the intricacies of Central Asia. Based on the large body of research, Linn elaborates on the opportunities provided by this region, which could well serve as the laboratory of continental integration in Eurasia.

The following three contributions bring us back to the post-Soviet space, covering three complex issues: public finances (Elvira Kurmanalieva and Konstantin Fedorov); mutual investments (Alexey Kuznetsov); and EDB Integration Barometer (by Igor Zadorin). All three papers originate from the projects undertaken by the EDB Centre for Integration Studies. Alexey Kuznetsov’s account in particular presents the database on mutual investment in the Commonwealth of Independent States (CIS), which includes around 600 examples.

The section on Advanced Economic Cooperation in Sectors and Industries features three sectors: air transportation and electric power (Aigul Absametova); and hydropower and water management in Central Asia (Vladimir Yasinskiy, Alexander Mironenkov and Tulegen Sarsembekov). Based on our assuredness that robust integration is formed primarily ‘from the bottom up’ by means of substantial cooperation, the EDB continues to publish a series of reports on cooperation in particular sectors and industries throughout the post-Soviet space.

The fourth section, Data and Reviews, reflects the structure of previous Yearbooks representing a very substantial source of information for researchers and students. It includes a chronicle of regional integration by Natalia Maqsimchook, a structured digest on the main events in post-Soviet integration in 2011. The Key Macroeconomic Indicators in CIS Countries complement the Chronicle. Ella Baibikova’s overview of international and regional development bank activity in the CIS rounds off this section. Multilateral development banks
represent both the objects of integration and its subjects, since they proactively shape economic interaction between countries, for example, by investing in crucial cross-border infrastructure. Therefore, this overview is highly relevant for all research on regional integration.

Overall, the Yearbook is an attempt to provide a dynamic overview of integration processes in the post-Soviet ‘Eurasian’ space and of the challenges to which the Northern and Central Eurasian states will have to provide adequate responses. I genuinely hope that the EDB’s annual 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 (www.eabr.org), where this volume, 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.