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Brief No. 9, 2015 (No. 9)

Specific features of the Eurasian economic integration model[1]

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The objective of regional integration is to create the most efficient global stratum enabling its participants to enhance the positive effects of globalization and mitigate negative ones. Initial preconditions always dispose the model and mechanisms of regional integration. The author identifies four distinguishing features of Eurasian economic integration and refers to the experience of other regional groupings that may be useful to it.

The Eurasian Economic Union (EAEU) of Russia, Kazakhstan, Belarus, Armenia and Kyrgyzstan came into being on January 1, 2015. Like any other integration grouping, the EAEU is a tool promoting the participation of its member states in global stratification. Its goal is to create a more successful global stratum as compared to the one that the participants would have belonged to individually, without forming a union. The integration is assigned to take advantage of globalization and minimize its costs, thus, to provide a favorable strategic perspective for the union and its individual member states.

[1] An earlier version was published in: О.В. Буторина, А.В. Захаров. О научной основе Евразийского экономического союза // Евразийская экономическая интеграция, 2015. №2 (27), с. 52-68 [O.V. Butorina, A.V. Zakharov. Scientific basis of the Eurasian Economic Union // Eurasian Economic Integration, 2015. No. 2 (27). Download link: http://www.eabr.org/general//upload/CII%20-%20izdania/2015/EII-2-2015/eei_2_2015_butorina_etc.pdf

Evidently, the EAEU integration model will be shaped by its initial specific features, i.e. post-transition economy, monocentric nature of the union, inter-trade rather than intra-trade division of labour, and the presence of external centers of attraction.

The actors of the Eurasian economic integration are post-transition economies. A transition economy can no longer be considered a system which is definitely moving toward a mature market economy and will become such in the foreseeable future. Economists know that certain key macroeconomic indicators (the ratio of stock market capitalization to GDP, the share of national currency in global trade flows and foreign exchange markets, R&D spending as a share of GDP, to name a few) improve extremely slowly. Their dynamics gives no reason to expect that in the next 20 years former socialist countries will catch up with Western economies in terms of the maturity of financial markets and the role of innovation in economic development. That is, the gap in living standards and market quality is not something transient but a phenomenon that will stay on during the lifetime of a generation.

Though post-transition economies have much in common with emerging markets, they are not identical to them. Former socialist countries have experienced rapid transformation from state to private ownership, from regulated to free prices, and from full employment to unemployment, all of which has left a mark on their social and economic systems. Unlike the developing countries in Asia and Latin America, the post-transition states have highly educated workforces and developed education systems. They have retained, however truncated, their retirement systems and social benefits. The external liberalization of the 1990s led to rapid degradation of national industry, especially machine and tool building and other types of technologically sophisticated production. Due to de-industrialization the quality of supply in the labor market proved much higher than demand. The great importance of higher education in the system of family and personal values contributed to this gap. A post-transition economy is marked by hybrid urbanization, with a significant portion of the urban population engaged in informal rural work on cottage farms and *dachas*.

The EAEU countries maintain the basic features of emerging economies: high volatility of key macroeconomic indicators, widely spaced business cycles, clear tendency to overheat the economy and vulnerability to external shocks. In good times they enjoy rapid economic growth that fit the general logic of catching up. But at the first sign of trouble, stock market indexes drop and foreign capitals flee abroad, exacerbating the funding gap and the depth of the crisis.

Since EAEU central banks do not issue international currencies they are under double pressure of inflation and exchange rates. The dilemma they face is to choose between two sub-optimal decisions: a smooth or a stepped depreciation of their national currencies. In the first case, the ruble (tenge or dram) lose their value in accordance with the inflation differential between its own country and the United States or the euro area. Consequently, residents get a reliable store of value – dollars or euros, while the monetary authorities have to cope with currency substitution and lower efficiency of national monetary policies. In the second case, a central bank attains a long-term exchange rate stabilization and creates a common good for the economy and the population. A stable exchange rate favors economic modernization and helps to address social problems thanks to the fact that the cost of imported equipment, technology and medicines in national currency grows slower than it does in the first case. However, over the years, the difference in the purchasing power of the local and foreign currency builds up, creating a risk of disorderly depreciation which threatens economic activity and social stability.

EAEU institutions need to design specific mechanisms of macroeconomic governance of post-transition economies addressing their peculiar challenges that do not exist in developed markets. The experience of Mercosur and ASEAN are likely to be of use, especially the ASEAN+3 foreign-exchange stabilization mechanisms employed since 1997.

Eurasian integration is monocentric, or heliocentric. From the very beginning, integration within the EEC was driven by the political elites in three big and quite equally populated countries – France, Germany and Italy. In the EAEU, Russia is the key participant and the only (political, economic and geographic) center. A polycentric system facilitates collective decisions and creation of supranational institutions. Heliocentricity makes it more difficult to work out compromise solutions and fix a common political vector. NAFTA and Mercosur are monocentric, with the United States dominating the first, and Brazil the other. The fact that these groupings have not built a developed system of supranational bodies and stopped at the lower stages of integration (as a free trade area and a common market with large exceptions, respectively) does not diminish their geopolitical importance.

Close ties with Russia predetermine high dependence of the economies of Kazakhstan, Belarus, Armenia and Kyrgyzstan on Russian economic performance. A Russian turmoil quickly spreads to neighboring countries, not vice versa. This fact makes it objectively difficult for the EAEU to develop a common economic policy, though it may exist in certain flexible forms. Especially in those areas where a post-transition economy requires special mechanisms to protect itself from external shocks.

The EAEU, just like the CIS in previous years, has an umbrella-like system of trade flows: the bulk of them are exports to Russia and imports from it. Trade links between Kazakhstan and Belarus, Kyrgyzstan and Armenia are quite limited. This puts a special obligation on Russia to act as the engine for modernization and the main promoter of integration. Umbrella trade systems also exist in NAFTA and Mercosur. EAEU governing bodies would be well-advised to learn lessons from the two unions and selectively adapt them to their current needs.

Inter-trade division of labor. Although former Soviet republics formed a single economic complex, cross-border production chains are now more of an exception than a rule. Since the founding of the CIS, trade has been the key form of economic relations, not joint design and production of sophisticated high-tech products, nor joint investment projects.[2] In

[2] Строев Е.С., Бляхман Л.С., Кротов М.И. Экономика Содружества Независимых Государств накануне третьего тысячелетия. СПб.: Наука, 1998. [E.S. Stroyev, L.S. Blyakhman, M.I. Krotov. The

industrial specialization and cooperation between enterprises, the EAEU nations lag behind not only from the EU, but also the export-oriented ASEAN economies. Experts point out a minimal sectoral dimension of Eurasian integration, along with weak links between business entities in the member states.[3]

A strategic dilemma for EAEU is to choose between intra-trade and inter-trade division of labour in its integration model. In other words, to rely on division of labor *between* industries or *within* the same industries. The first option (inter-trade division of labour) requires intergovernmental agreement on specialization profiles, consequently, governments are the main promoters of regional integration. This model was operational within the Council for Mutual Economic Assistance (CMEA). The second option takes place when there are close trans-border links between enterprises, therefore governments and business both express demand for integration. Whether regional integration can develop on the basis of inter-trade division of labour deserves a comprehensive scientific discussion. EAEU countries should usefully examine the interaction of Mexico and the United States within NAFTA, and relations within Mercosur.

External centers of attraction. Western European countries formed a union in special geopolitical conditions, sandwiched between two centers of the global bipolar system, i.e. the United States and the Soviet Union. True, the United States was on the other side of the Atlantic Ocean. The Soviet Union and its CMEA partners were not a center of attraction because of their closed economies and nonconvertible currencies.

The EAEU is making a start in a fundamentally different environment. All the five countries have strong economic and technological links with Europe where they get advanced technology, industrial equipment, medical supplies and many types of consumer goods. The EU accounts for 50% of Russia's foreign trade and less than 15% of that of the rest of the EAEU. The prospects of modernizing Russia and its EAEU partners depend on their cooperation with the West and with the growing Asian center of power, especially China. The EAEU countries' intention to diversify their trade and investment geography and expand contacts with China, India and Brazil reflects the objective trend of forming a multipolar world.

Indeed, external economic relations prevail over internal exchanges within the EAEC. Therefore, its governing bodies will need to develop an open integration model[4] combining implementation of regional interests with active interaction with external players. ASEAN

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econimy of the Commonwealth of Independent States on the eve of the third millennium]. St. Petersburg: Nauka Publishers, 1998.

[3] Трещенков Е. Европейская и евразийская модель интеграции: пределы соизмеримости // Мировая экономика и международные отношения. 2014, № 5. С. 31 – 41. [E. Treshchenkov. European and Eurasian integration model: the limits of commensurability // The World Economy and International Relations.] 2014, No. 5.

[4] Винокуров Е., Либман А. Две евразийские интеграции // Вопросы экономики, 2013, № 2. С. 47-72 [E. Vinokurov, A. Libman. Two Eurasian integrations // Voprosy ekonomiki, 2013, No. 2.].

faced a similar challenge in its early days. Integration had a two-fold task – to maintain regional identity as it cooperated and rivaled with the United States, on the one hand, and with communist China and Vietnam, on the other. The European Union and Mercosur have, throughout their histories, coped with the need to develop broad cooperation with the United States while keeping aloof from it all the time. The specific tools that underlie these decisions are of theoretical and practical interest for Russia and its EAEU partners.

Conclusions. Eurasian economic integration is clearly specific. To create a successful global stratum its member states need to design a "tailor-made" integration model taking into account objective conditions, constraints and opportunities. It would be inappropriate for EAEU countries to replicate the experience of any other block. Instead, they should critically reflect and selectively apply the experiences of various regional communities in those specific areas where such experience is similar with the objectives and initial conditions of the EAEU.

Date of issue: July 12, 2015.

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