



Eurasian economic integration and relationship of Russia with former Soviet republics

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Learning outcomes

Main directions and organizations of integration between Former Soviet States

History of Eurasian integration

Current state of Eurasian integration

Trade between Russia and Former Soviet States

Foreign Investment cooperation between Russia and Former Soviet States

Russia is a member of the Commonwealth of Independent States (CIS)

Commonwealth of Independent States

The Commonwealth of Independent States (CIS) is an interstate association of the former republics of the Soviet Union

Active members



History

8.12.1991	Agreement on the Establishment of the Commonwealth of Independent States (Belarus, Russia and Ukraine)
21.12.1991	Azerbaijan, Armenia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan joined the CIS. The declaration on the purposes and principles of the CIS was signed
01.1993	The Charter of the CIS is adopted
3.12.1993	Georgia becomes an active member of the CIS
01.1996	Emblem and flag of the CIS are adopted
08.2005	Turkmenistan withdrew as an active member to become an associated member/observer of the CIS
2008	Afghanistan voices its wish to join the CIS
12.08.2008	Georgia announces its wish to withdraw from the CIS
18.08.2009	Georgia officially leaves the CIS

Charter of the CIS

Areas of member-states' joint activities:

- Protecting people's rights and freedoms
- Coordinating foreign policy
- Cooperation in the formation of a common economic space, developing transport and communication systems
- Healthcare and environmental protection
- Social issues and immigration policies
- Fighting organized crime
- Cooperation in defense policies and guarding borders

The Commonwealth of Independent States

Soviet Union collapsed in 1991.

Now-former republics created the **Commonwealth of Independent States (CIS)** in 1991.

The CIS:

- A means to manage the divorce among the neighbors (Carol R. Saivetz 2012);
- Represents “cooperation without integration” (Pogrebinsky, 2011).

Each year there were summits of presidents, of defense ministers, and of foreign ministers.

A vehicle for economic integration, for political integration, or for joint defense operations?

The Collective Security Treaty Organization (CSTO)

Designed to be a joint military force.

Has revived military cooperation between Russia and Armenia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan.

To most observers - “simply a Russian and Kazakh force”.

Aims to be comparable to NATO and a counterbalance it.

The Shanghai Cooperation Organization: security and economics

The **Shanghai Cooperation Organization** (1996) → border issues between **Russia and China** and between China and the newly independent states of Central Asia.

Members: Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, India and Pakistan.

Russia and China pushed the SCO to become a countervailing force to NATO in global politics.

Eurasian Economic Community and customs union: history

Russia has also tried to create a common market among the post-Soviet states.

The CIS member states first signed a **free-trade agreement** in 1994.

2000: **Russia, Belarus, Kazakhstan, Tajikistan, and Kyrgyzstan** created the **Eurasian Economic Community** - a political platform for economic integration.

The goal was the creation of a common economic space.

2007: A formal agreement was signed between **Russia, Belarus, and Kazakhstan** that created the **Customs Union Commission** (CUC) to oversee key issues of integration.

Eurasian Economic Community and customs union: history

Harmonization of legislation in December 2008 on:

- customs procedures and regimes,
- procedures for goods customs declaration,
- the formation of a legal environment for a Customs Union within the EurEcCom.

The **Customs Union** went into effect on January 1, **2012**. Initially it included: **Russia, Belarus and Kazakhstan**.

Eurasian Customs Unions → Eurasian Economic Union (2015)

2015: Armenia and Kyrgystan joined.

Structural evolution of Eurasian Economic Union

Signed	1992	1996	2000	2007	2007 and 2011	2014
In force	1991-1994	1996	2001	2010	2012	2015
Document	Treaty on the Commonwealth of Independent States	Treaty on Deepening Integration in the Economic and Humanitarian Fields	Treaty on the Eurasian Economic Community	Treaty on the establishment of the Common Customs Space and formation of the Customs Union	Declaration on the Eurasian economic integration	Treaty on the Eurasian Economic Union
					Common Economic Space	Eurasian Economic Union
				Customs Union		
			Eurasian Economic Community			
		Deepening integration in the economic and humanitarian fields				
	Commonwealth of Independent States					

Customs union`s external tariff

Unified external tariff → **largely based on Russian external tariff**

Belarus and Russia have rather similar external tariffs before Customs Union
→ Belarus external tariff did not change much after joining Customs Union.

Kazakhstan external tariffs were much lower than of Russia before joining the Union → **Kazakhstan external tariffs have increased significantly.**

Kazakhstan had to switch from import from other countries to import from Russia for goods produced in Russia due to increased tariffs with the rest of the World. →

good for Russia (increased export to Kazakhstan), bad for Kazakhstan (has to substitute import of foreign goods by import of Russian goods even if the quality of the latter is worse than of the former).

TABLE 1 Average Most Favored Nation Tariffs for Eurasian Economic Union Members Before and After Joining EAEU, and Tariffs in 2020 After Russia's WTO Commitments Are Implemented

Country	Average tariff prior to joining ECU		Average tariff after applying ECU common external tariff in 2010		Final WTO bound average tariff	EAEU average common external tariff in 2020
	<i>unweighted</i>	<i>trade weighted</i>	<i>unweighted</i>	<i>trade weighted</i>	<i>unweighted</i>	<i>unweighted</i>
	Tariffs in 2009					
Belarus	12.0 ^a	8 ^a	11.1 ^a	N/A ^b	N/A ^b	7.9 ^c
Russia	11.9	11.6	11.1	11	8.6	7.9 ^c
Kazakhstan	6.7	5.3	11.1	9.5	6.1	7.9 ^c
	Tariffs in 2013					
Armenia	3.5	3.4			8.5	7.9 ^c
Kyrgyzstan	4.6	4.1			7.5	7.9 ^c

Sources: Data for Russia in 2009, 2010, and 2020 are from Shepotylo and Tarr (2013); estimates for Kazakhstan in 2009 and 2010 are from Shepotylo (2012); for the final bound rate of Kazakhstan WTO (2015). For Armenia and the Kyrgyz Republic, values are from World Trade Organization interactive website: https://www.wto.org/english/res_e/statis_e/statis_maps_e.htm

Eurasian integration at present: Institutions

Capitals of Eurasian Union:

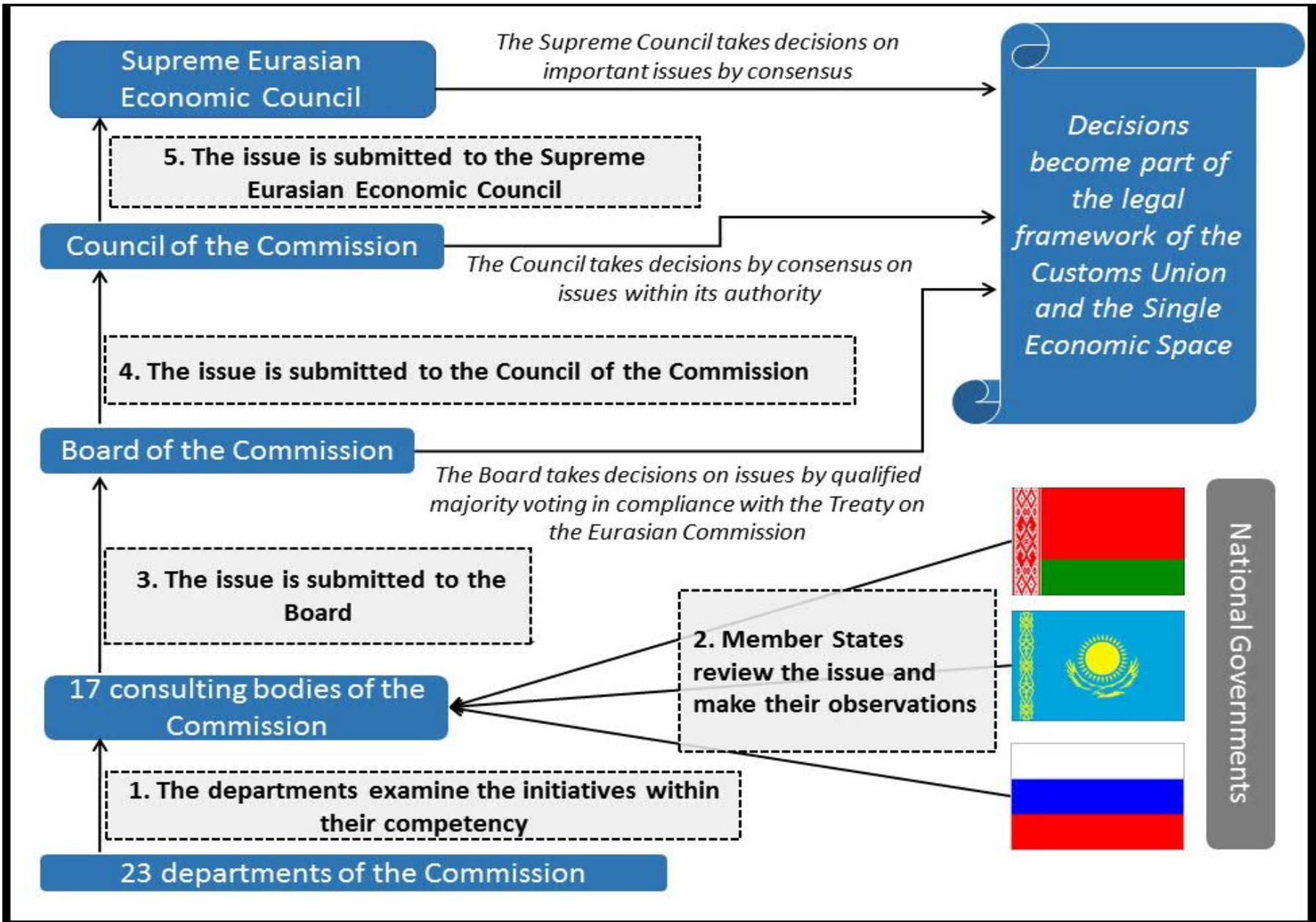
Astana and **Omsk**.



Eurasian Development Bank (Almaty, 2006);
Eurasian Business Council (Moscow, 2008);
Eurasian Media Forum (Almaty, 2001);
Eurasian Association of Universities (Moscow,
1989/1992);
Eurasian Association of Scientists (Astana, 2008).

L.N. Gumilyov Eurasian National University (1996), Astana,
Kazakhstan





Eurasian integration at present

The Customs Union –

➔ a big step in regional integration by removing all barriers to trade, capital, and labor movements between the member countries.

68 technical standards – to replace former soviet state standards.
Approved by WTO.

Russian language – official language. Only those countries where Russian language is widely used can join the Union.

Eurasian integration: future

2016 Common market for medical products.

common Eurasian medical device and pharmaceutical regulations formally came into force in January 2016.

2019-2024 Common electric power market.

2025 Supranational regulatory authority for financial market;
Common market for gas, oil and petroleum.

Eurasian Union: achievements and threats?

Already achieved:

- Freedom of movement of goods.
- The Eurasian commission (2012) – is a fully functioning supranational organization.

Threats:

- Larger and more competitive Russia – can swallow up Belarus and Kazakhstan.
- Hence, no much desire for a larger integration from Belarus and Kazakhstan.

Eurasian integration: what is the purpose of it?

Questionnaire results (Moscow, Astana, Minsk, Almaty; by Sean Roberts, 2014):

- ✓ They want economic union.
- ✓ No parliament, no monetary union, no politics.
- ✓ Building regionalism as an aim – deepening and widening integration.

What is the interest by country?

- *Belarus* – access to Russian market, gradual modernization without exposure to globalized economy.
- *Kazakhstan* – access to Russian market, modernization, increased competitiveness ahead of WTO membership.
- *Russia* – mostly geopolitical interests though economic interests also present.

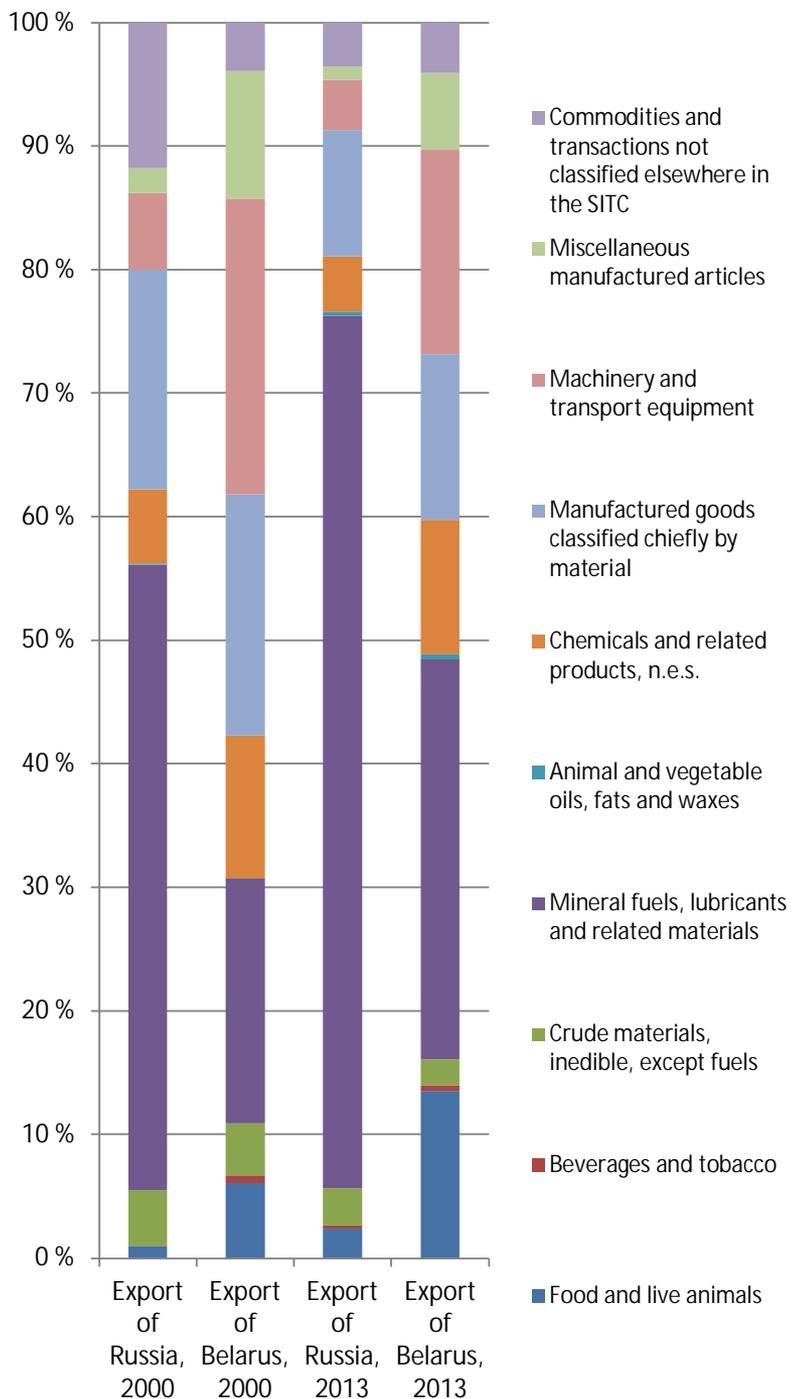
Eurasian integration: Belarus

Belarus was lured into the Union because its economy was in trouble and because it needed loans, and reduced oil and gas prices.

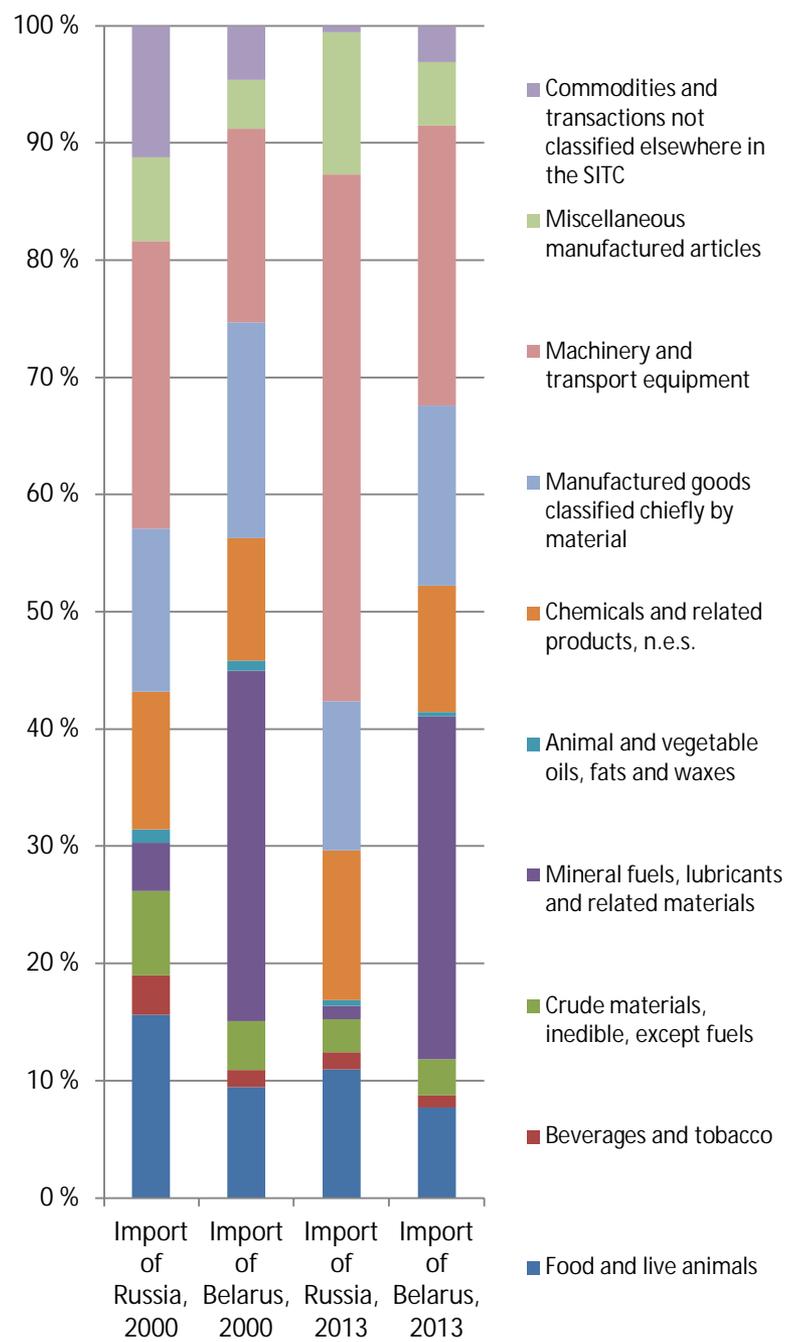
Belarus is Russia's largest trading partner in the CIS.

With large imports of energy from both Russia and Kazakhstan.

And exports of agricultural and heavy industrial goods (including tractors and trucks) to its fellow Customs Union members.



T



Similarity index between Russia and Belarus in trade

Similarity index: 0-100% of similarity.

Export

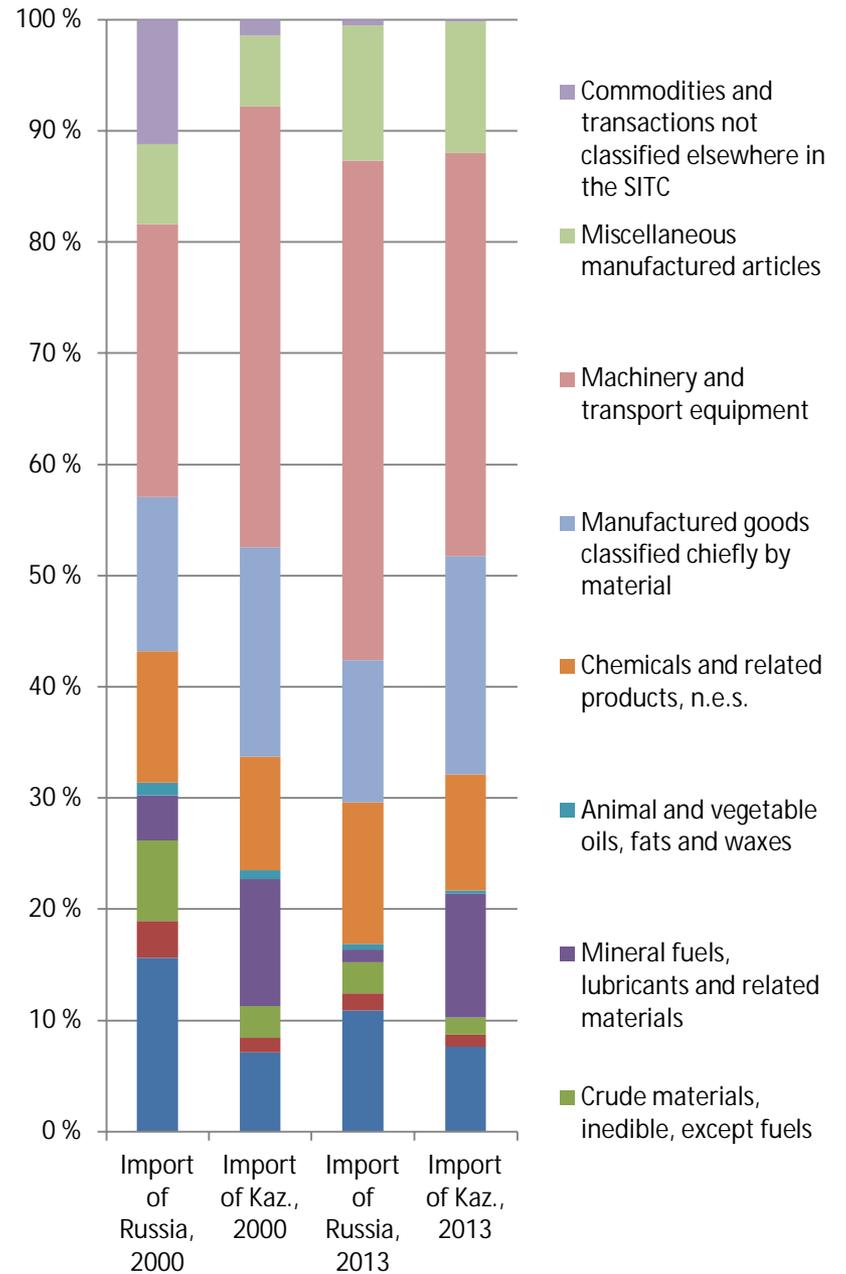
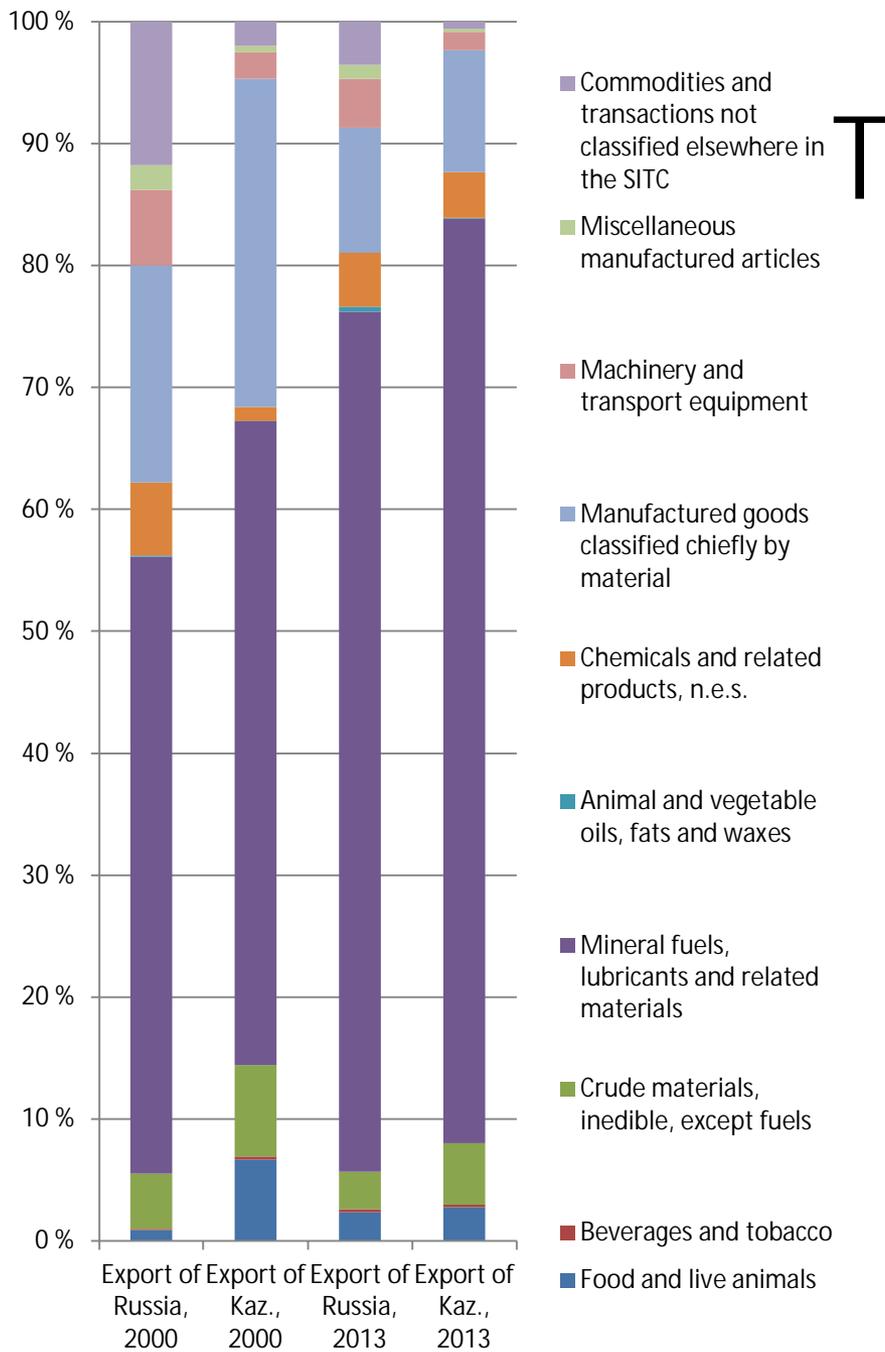
2000: 61%

2013: 61%

Import

2000: 70%

2013: 67%



Similarity index between Russia and Kazakhstan in trade

Similarity index: 0-100% of similarity.

Export

2000: 80%

2013: 92%

Import

2000: 73%

2013: 83%

Eurasian integration: Russia and Kazakhstan

The similarity of output between the two largest countries—Russia and Kazakhstan—with their dependence on natural resources, **a warning sign for increased integration.**

The natural resources that both Kazakhstan and Russia hold have translated into a high reliance on resource-based outputs.

However, in nearly every commodity, Russia holds an absolute advantage.

Co-dependence on prices for primary energy commodities would mean that both countries are synchronized in their boom/bust cycles.

Is there enough differentiation in the economies of Kazakhstan and Russia to make easier trade translate to growth and improved outcomes?

Eurasian integration: Divergence in policies

Divergence in policies:

Monetary or exchange rate policies, which have moved somewhat independently since the Russian crisis of 1998—1999.

- Belarus uses a state-administered exchange rate policy allowing for multiple rates;
- Kazakhstan has focused on inflation targeting via the interest rate for its monetary policy;
- Russia targets money supplies for both inflation and exchange rate management.

Eurasian integration: Financial sector

The governmental approach to financial sector development in the three Customs Union countries appears to have major commonalities.

A lack of liberalization of financial systems pervades the region.

This tight state control may be the sole source of any financial convergence that has occurred as only Russian and— in some cases—Kazakh banks have really penetrated the region.

Eurasian integration: labor markets

Labor costs in Kazakhstan are much more competitive than in Russia or Belarus.

Kazakhstan's labor productivity higher than in Russia but lower than in Belarus.

These differences can allow companies to take advantage of increased integration across the three countries.

Eurasian integration: prospects for the other CISs

While the absolute volumes of both imports and exports have been on the rise in the CIS (apart from Tajikistan, which has had declining exports since 2000);

the proportion of trade that has occurred within the CIS realm has been declining.

Eurasian integration: Prospects for the other CISs

Integration and trade seem to be on the rise is energy, which is, again, dominated by Russia and Kazakhstan (but also includes oil-rich Azerbaijan).

The movement of people from the periphery of the CIS to Russia. The vast majority of emigrants from CIS countries go to work in Russia.

Migration to Russia: usually only one family member lives in Russia and sends money back. Indeed, these remittances support many of the economies of the CIS countries, with Tajikistan, Moldova, and the Kyrgyz Republic having more than one-third of their economies reliant on remittances.

Free Trade Agreements of Eurasian Economic Union

In force since 2012, the multilateral CIS FTA established between Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia (now all EAEU member states), as well as Ukraine, Uzbekistan and Moldova.

Russia has suspended the Agreement with respect to Ukraine from 1 January 2016.

State	Date of entry into force
Ukraine	20 September 2012^{[note 3][note 4]}
Moldova	1 January 2013 ^[note 3]
Uzbekistan	9 January 2014 ^[note 3]
Egypt	5 October 2015
Tajikistan	19 March 2016 ^[note 3]
Vietnam	5 October 2016 ^[157]
China	beginning 2019
Iran	beginning 2021
Serbia	beginning 1 October 2019



FTAs of EAEU with non-members

Eurasian customs union and Ukraine

Equal pressure has been applied to Ukraine, and many commentators question the value of the Customs Union without Ukraine.

Vladimir Putin was open about Russian concerns:

“If Ukraine creates a free-trade zone with the EU, we will have to start building a border.” (Ukrayina Moloda, 2011).

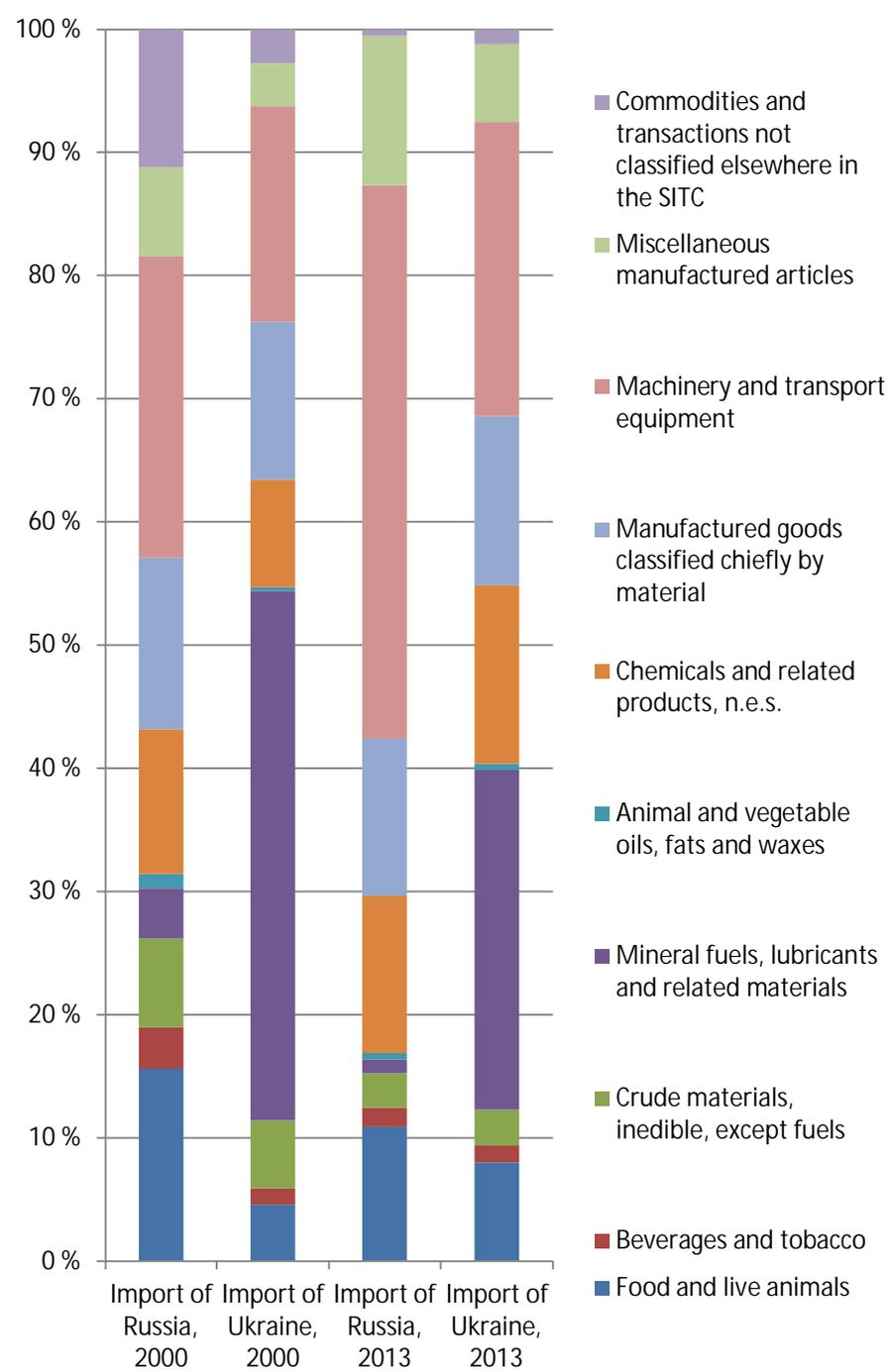
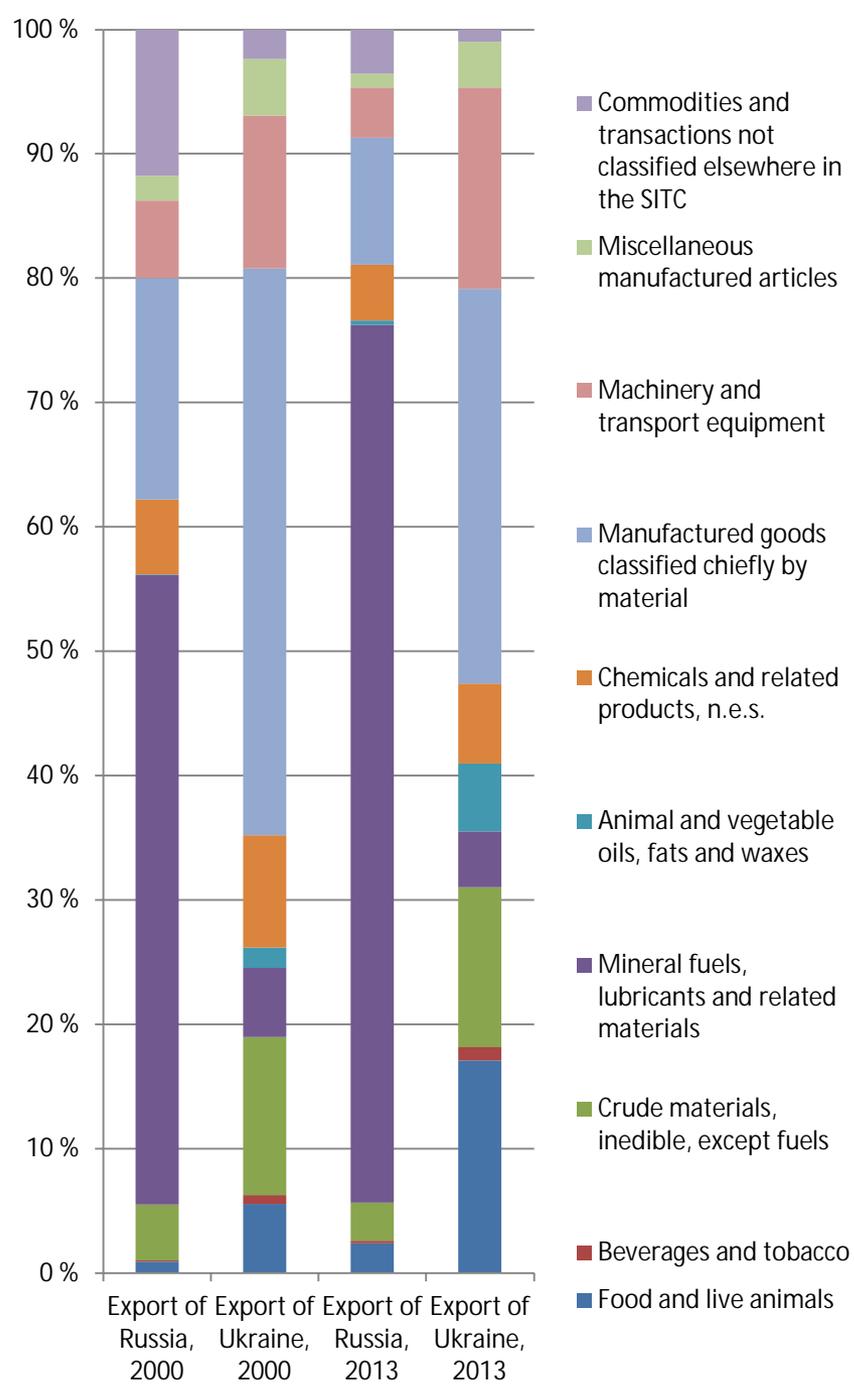
Ukraine: The elephant in the room

Why **Ukraine** was important?

It is **the second-largest country in the CIS**, which would automatically bring a much larger market to the Union than, say, tiny Tajikistan.

Ukraine's position adjacent to both the European Union (EU) and Russia can make it **a conduit for Customs Union goods to Europe** .

Ukraine's economy is not based on extractive industries but **is much more diversified**. → many more opportunities for trade between Ukraine and other countries in the Union.



Similarity index between Russia and Ukraine in trade

Similarity index: 0-100% of similarity.

Export

2000: 46%

2013: 31%

Import

2000: 61%

2013: 70%

Eurasian Union and Asia

An implicit goal in creating the Eurasian Union that it would eventually also encompass **Tajikistan** and **Uzbekistan**.

Not very large potential for trade within the Union.

OPINION: “The land-locked nature and high dependence on natural resources of those countries suggest the impossibility of increasing trade by creation of an agreement” (Kurmanalieva & Vinokurov, 2011, p. 8).

Looking east. . . or west?

The relationship of the new Eurasian Union to the old EU?

CIS trade with the EU has underperformed since the collapse of the Soviet Union.

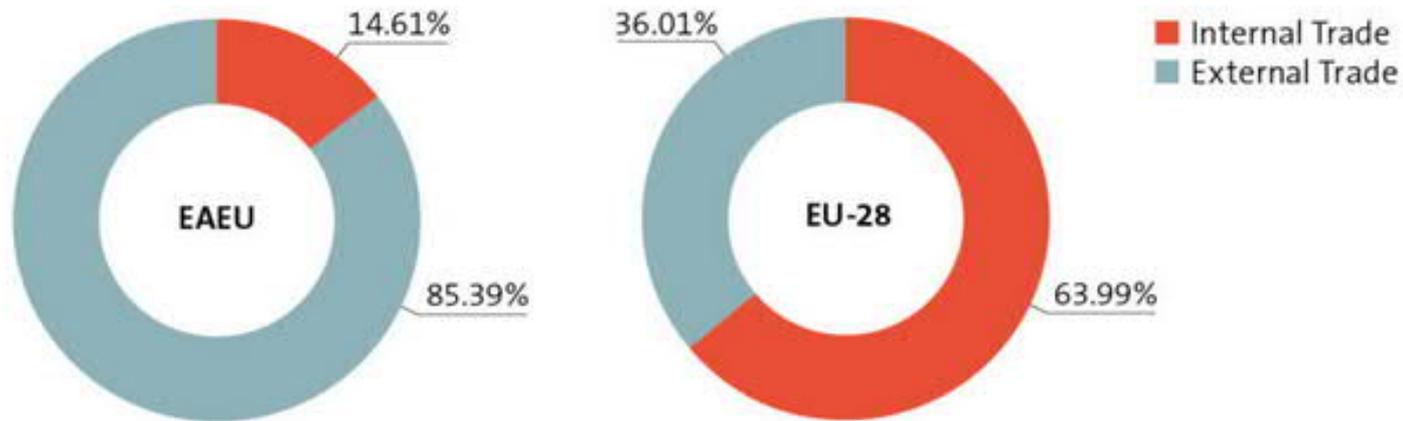
The trade that has occurred with the EU has mostly been in the form of energy, with little movement toward diversification.

Must seek to become a complement to rather than an alternative for the EU.

The worst-case scenario → two opposing trading blocs facing each other, each protected by high tariffs and focused on inward rather than outward trade.

External and Internal Trade: The EU and the EAEU Compared

2017

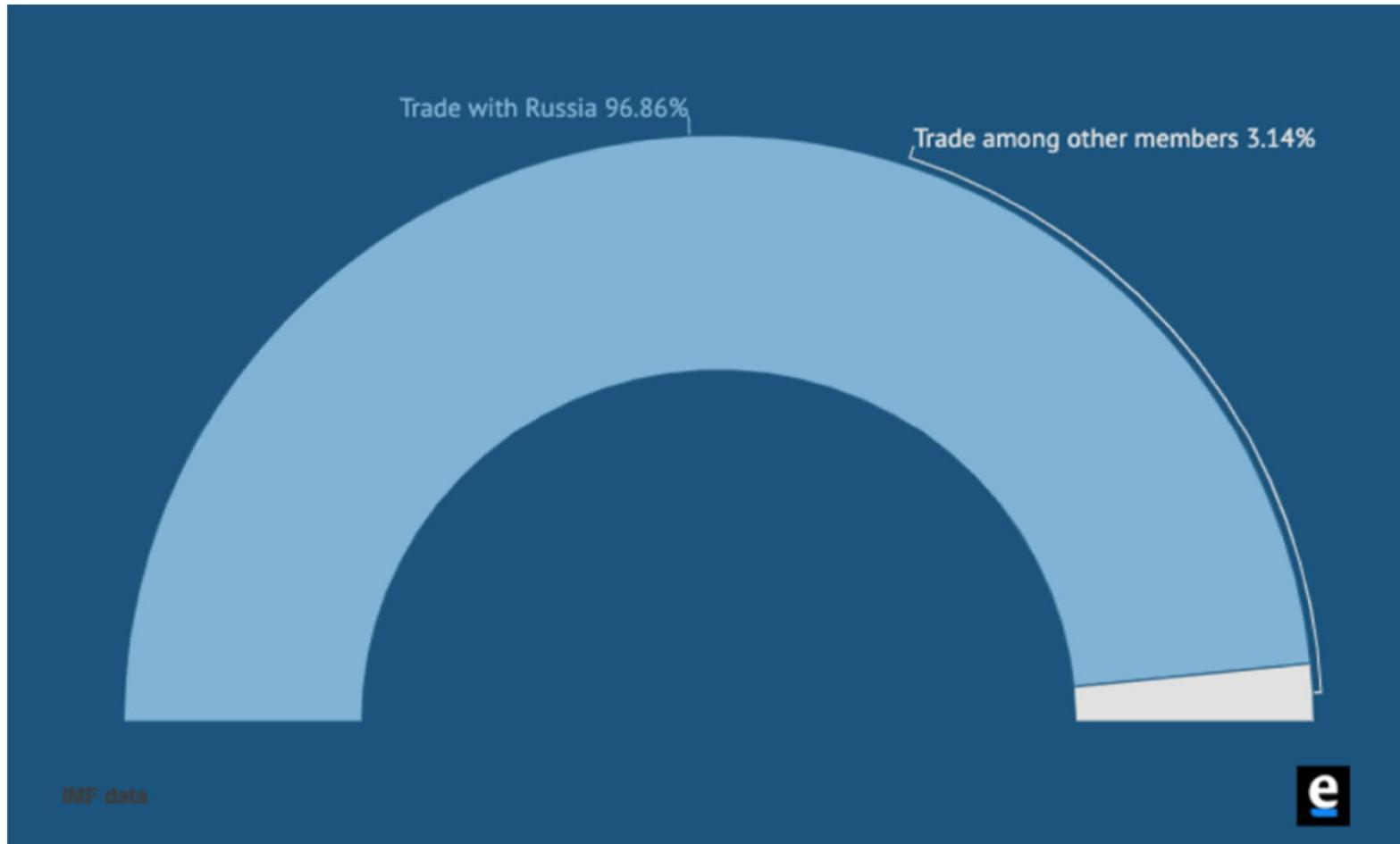


Sources: Eurostat; Eurasian Economic Commission; Ricardo Giucci, Anne Mdinaradze, "Die Eurasische Wirtschaftsunion. Analyse aus einer handelspolitischen Perspektive", *Berlin Economics* (2017).

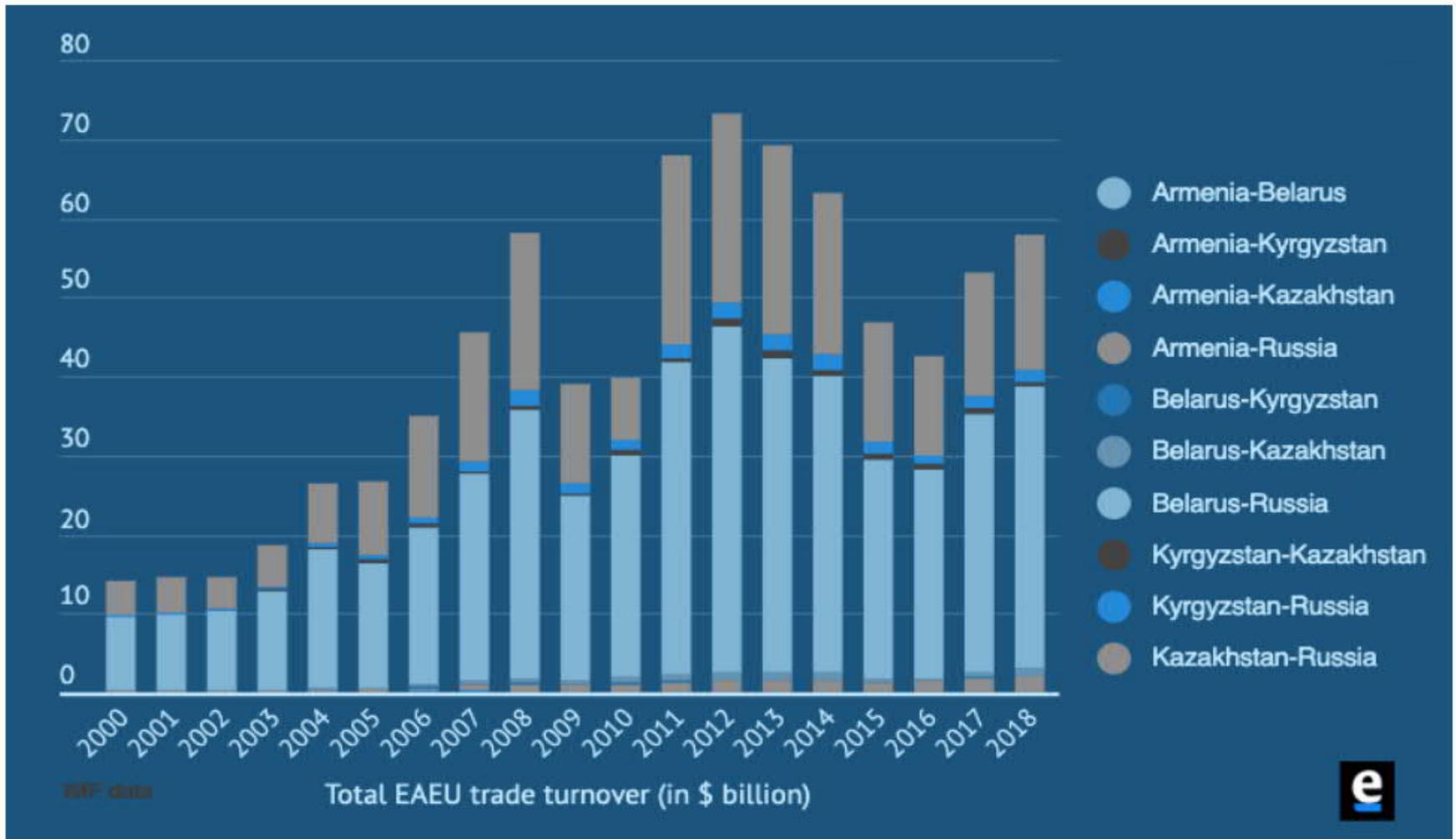
Strategic Trends 2019 (Center for Security Studies, ETH Zurich)



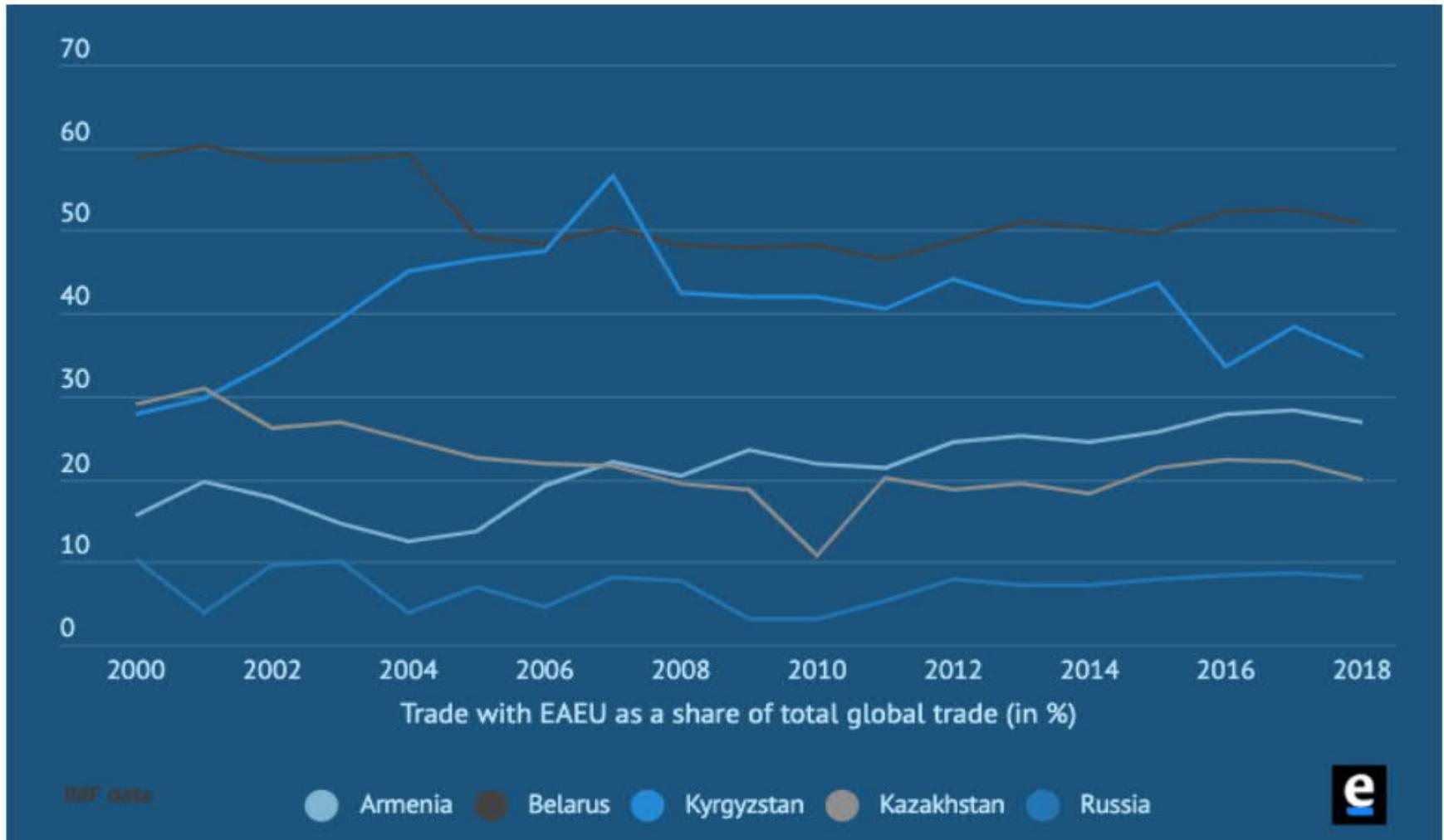
In 2018 trade with Russia accounted for 96.9% of all trade within the Eurasian Union; trade among the four smaller countries accounted for the remaining 3.1%.



Eurasian Union trade by country pairs



EAEU trade as share in total trade of member states



Eurasian Union: Latest facts

Population, 1 Jan 2017: 184,3 million people (2.4% of World population)

GDP (2017) – 1.9 trillion USD; 3.2% of World GDP.

Foreign trade with thrid countries in 2018 –
753,8 billion USD.
(3% of World export; 1.7% of World import).

Unemployment rate – 5%.

2. The economic size of EAEU member countries

	GDP		Population		GDP per capita
	USD bn	% of EAEU	m	% of EAEU	USD
Russia	1,281	87%	143.4	80%	8,929
Kazakhstan	134	9%	17.9	10%	7,453
Belarus	49	3%	9.5	5%	5,143
Armenia	10	1%	3.0	2%	3,511
Kyrgyzstan	7	0%	6.1	3%	1,073

Source: IMF, Eurasian Economic Commission, Data for 2016

- Dominant role of Russia
 - 87% of EAEU GDP
 - 80% of population
- *Comparison EU: DEU is the largest member; 27% of GDP and 16% of population*
- And: The living standard in Russia is much higher than in most other countries
 - **Russia is by far the largest but also the wealthiest country of the EAEU; no union of “equals”**

3. Economic size of the EAEU in international comparison

Position	Country / trade bloc	GDP in USD bn, 2016	GDP EAEU / GDP country
1	USA	18,561	8%
2	EU-28	16,519	9%
3	China	11,392	13%
4	Japan	4,730	31%
5	Mercosur (BRA, ARG, etc.)	2,393	61%
6	India	2,251	65%
7	Canada	1,532	95%
8	EAEU	1,461	100%
9	South Korea	1,404	104%
10	Turkey	736	199%
11	South Africa	280	522%

Source: IMF, European Commission

→ **EAEU is a mid-weight in the world economy**

4. Significance of the EAEU in international trade

Country / trade bloc	Trade volume, USD bn, 2016	% of world trade
USA	3,703	13.1%
China	3,686	13.0%
EU-28	3,454	12.2%
Japan	1,252	4.4%
South Korea	902	3.2%
Canada	792	2.8%
India	617	2.2%
EAEU	509	1.8%
Mercosur (BRA, ARG, etc.)	405	1.4%
Turkey	341	1.2%
South Africa	149	0.5%

Source: UN Comtrade, Eurasian Commission, only trade in goods.

Note: For the trade blocs EU-28, EAEU and Mercosur only trade with third countries (internal trade excluded)

- EAEU accounts for only 1.8% of world trade
- But: Significant share of 6.6% in world energy trade

No big player in international trade; but important role in energy trade

11. Structure of internal trade by countries

		Importing country, USD m, 2016					
		ARM	BLR	KAZ	KGZ	RUS	EAEU
Exporting country, USD m, 2016	ARM	-	14	6	1	371	392
	BLR	22	-	364	49	10,821	11,255
	KAZ	0	32	-	376	3,509	3,918
	KGZ	0	3	275	-	139	417
	RUS	957	15,144	9,427	1,026	-	26,554
	EAEU	980	15,194	10,072	1,452	14,840	42,536

Source: Eurasian Economic Commission

- 61% of EAEU internal trade is conducted between Russia and Belarus
- Further 30% between Russia and Kazakhstan
- Only 2% of total trade between Belarus and Kazakhstan

→ **Belarus and Russia are strongly integrated;**
otherwise the economic integration within the EAEU is rather limited

Mutual direct investments of Russia, Kazakhstan, Belarus, Armenia, and Kyrgyzstan in late 2015

Recipient country	Investor countries FDI stock, \$ million					
	Russia	Kazakhstan	Belarus	Armenia	Kyrgyzstan	Total for the 5 countries
Russia	X	3367	204	3	0	3 574
Kazakhstan	7 095	X	34	0	0	7 129
Belarus	8 297	53	X	10	4	8 364
Armenia	3 056	8	0	X	0	3 064
Kyrgyzstan	811	695	0	0	X	1 506
Total for the 5 countries	19 259	4123	238	13	4	23 637

Share of
Russia –
81.5%

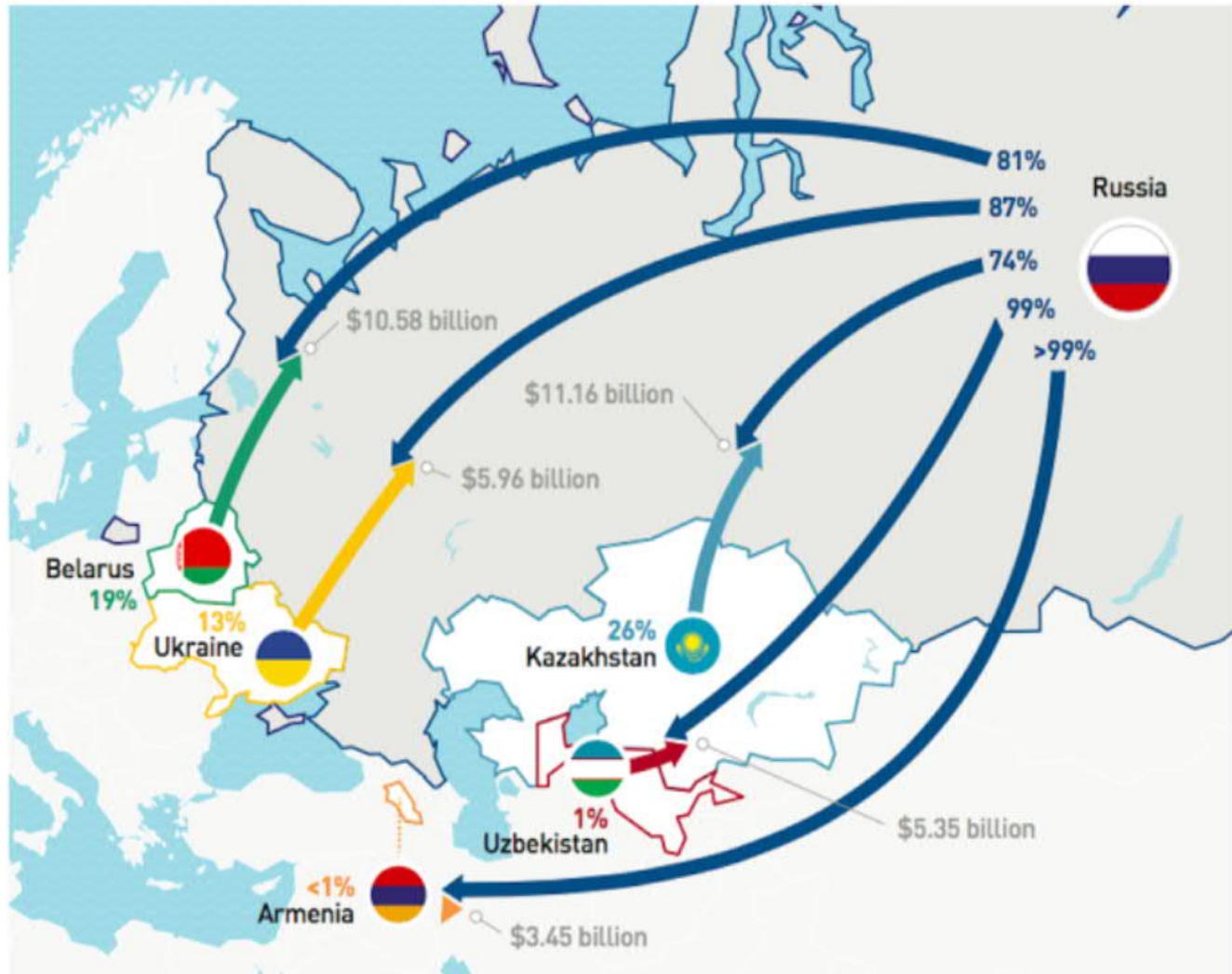
Note: In line with the methodology used in monitoring mutual investments in CIS countries, only projects with FDI stock in excess of \$3 million are included in the database.

Source: EDB.

Vinokurov 2017

Investment within Eurasian Economic Union, end of 2016

Figure 5. Leading Investment Pairs in the MIM CIS Database at the End of 2016



FDI in EAEU in brief

- Russia is responsible for the lion's share of outward FDI investment;
- Russia is the only EEU member that is a net exporter of FDI to other countries in the bloc;
- Overall, Russian companies accounted for over 78% of the stock of FDI in its fellow EEU member states, followed by Kazakhstan trailing behind with 13.5% of the total and Belarus with \$8.2bn;
- FDI from Armenia and Kyrgyzstan flowing into other EEU members was minimal.

FDI in the EAEU: Industrial structure

- Oil and gas industry (~47% of total Russian FDI in EAEU countries);
- Non-ferrous metallurgy (~18%);
- Telecommunications (~11%).

Top investing companies in EAEU

Table B. Top Investor Companies in the MIM CIS Database at the End of 2016

Investor Company	Country	Main Recipient Sector of the Company's FDI	FDI Stock, \$ Billion	Countries in the Region with Active Subsidiaries (with FDI in Excess of \$1 Million)	Main Recipient Country in the Region	Share of That Country, %
Gazprom (including Gazprom Neft)	Russia	Oil and Gas	8.34	9	Belarus	62
LUKOIL	Russia	Oil and Gas	7.59	6	Uzbekistan	50
VimpelCom (since 2017: VEON)	Russia	Communication and IT	1.82	8	Kazakhstan	43
MTS	Russia	Communication and IT	1.79	5	Belarus	46
Yuras Oil	Belarus	Chemicals	1.75	1	Russia	100
SOCAR	Azerbaijan	Oil and Gas	1.29	2	Georgia	87
Meridian Capital	Kazakhstan	Transportation	1.19	3	Russia	92
VS Energy	Russia	Infrastructure Networks	1.08	1	Ukraine	100
Polymetal	Russia	Non-Ferrous Metals	0.87	2	Kazakhstan	92
Verny Capital	Kazakhstan	Tourism	0.87	2	Russia	81