

Introduction

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The Crisis-Related Threats to Integration

The on-going crisis has triggered qualitative changes in the global political and economic architecture. Separate elements of global economic and financial reforms are already visible. In particular, the process of G20 institutionalisation, which reflects the growing weight of developing economies, has finally begun. Following a slowdown of operations over the last decade, the role of IMF has increased rapidly, as the institution finds itself at the forefront of helping many national economies survive. The idea of the world reserve currency is actively discussed and IMF's SDRs are the most commonly mentioned option. Furthermore, for better or worse, a global financial regulator is likely to be established.

There is less substance on the level of post-Soviet regional integration. The EurAsEC Anti-Crisis Fund, designed to help less developed countries of the region stabilise their economies and launch important transborder integration projects, stands out. Also, Russia's massive financial aid to its neighbours, in particular Belarus, Kyrgyzstan, and Armenia, is worth mentioning. At the same time, the wave of protectionism is gaining ground as countries resort to any means available to counteract their shrinking GDP. Unfortunately, there is high probability that the crisis will not push the countries of the region toward qualitatively new parameters of comprehensive economic cooperation and a more efficient mode of the realisation of the vast integration potential.

In general, a global economic crisis is unlikely to affect integration in a critically damaging way. However, the introduction of protective measures in support of domestic producers by a number of countries sends a troubling message. The consequences are dire. On balance, the crisis bears in itself more threats than opportunities for the consequential development of regional economic integration. For the post-Soviet countries, which are not even bound by the WTO rules, protectionist policies are all too tempting. However, the immediate gains conflict with the requirements of optimal foreign trade policy. Recent years witnessed very promising developments along the 'bottom-up' approach to integration based on market economy principles – namely the rapid growth of mutual trade and investments, corporate expansion across the border, the nascent Eurasian transnationals, the technological alignment

in crucial sectors, and the large-scale transborder infrastructure projects. Will short-sighted policies damage the first healthy sprouts of Eurasian economic integration?

The Growing Base of Economic Integration

Mutual trade, mutual investments, and corporate expansion are building a firm foundation of regional economic integration.

Volumes of mutual trade have risen continuously over the last years. For instance, trade turnover between Kazakhstan and Russia grew by 30% per year and reached \$19.7 billion in 2008, increasing twofold from \$9.7 billion in 2005. The bilateral trade turnover of other countries (most significantly, that of Belarus and Russia) increased at a comparable rate. All EurAsEC bilateral trades, large and small economies alike, demonstrated mutual growth of between 50% and 200% over the last three years. Table 1.1. shows trade flows between EurAsEC member states, which are marked by relatively high levels of economic interaction.

Trade turnover between countries	2005	2006	2007	2008
Russia–Belarus	15834.0	19944.0	26074.0	34188.9
Russia–Kazakhstan	9749.0	12807.0	16576.0	19731.7
Russia–Kyrgyzstan	544.0	755.0	1 169.0	1 802.9
Russia–Tajikistan	335.0	504.0	772.0	1002.8
Kazakhstan–Belarus	234.5	355.3	525.3	567.0
Kazakhstan–Kyrgyzstan	344.1	406.7	517.0	608.4
Kazakhstan–Tajikistan	167.6	185.1	198.9	295.4
Belarus–Kyrgyzstan	10.8	21.5	25.8	47.8
Belarus–Tajikistan	12.0	18.0	34.0	75.1
Kyrgyzstan–Tajikistan	24.9	26.7	30.4	43.2
<i>Total trade:</i>	<i>27255.8</i>	<i>35023.3</i>	<i>45922</i>	<i>58362.5</i>

Table 1.1.
Trade turnover between EurAsEC member states (\$ million)

Source: CIS Statistics Committee

Nevertheless, the slowing pace of trade growth marked 2008. This can be attributed not only to the naturally slower pace of growth in wealthier economies but also to the negative consequences of the economic crisis, which became evident in the fourth quarter of 2008. *2009 is likely to become the first year since 1998 when trade volumes will contract.* The data for the first quarter of 2009 confirms this observation. For instance, Russia-Kazakhstan turnover went down by 44.6% in January-March year on year. At the same time, Russian exports to Kazakhstan, impacted by the large percentage of machinery and consumer goods trade, decreased by half.

The pace of trade growth looks slow compared with that of mutual investments that have boomed over the last few years (naturally, from a low starting point). Practically all of the major economic sectors were affected, including hydrocarbons, metallurgy, machine building, agriculture, transport, telecommunications, development, and electric power generation and distribution¹. It is remarkable that the investment growth is reflected not only in sheer volume but also in the quality of mutual investments. We witnessed the first massive long-term investments into capital-intensive projects, the first portfolio investments (previously virtually unknown in the post-Soviet area), and the formation of the first Eurasian transnationals.

	Russian investments in EurAsEC countries			EurAsEC countries' investment in Russia		
	2000	2008		2000	2008	
	Total	Total	Direct and portfolio investments	Total	Total	Direct and portfolio
Belarus	490.2	771.2	661.9	2.5	103.5	32.7
Kazakhstan	2.2	99.7	30.2	5.7	894.8	228.0
Kyrgyzstan	0.0	20.6	0.1	0.1	70.5	5.2
Tajikistan	0.0	61.7	1.2	0.0	25.9	0.0
Uzbekistan	0.4	333.9	250.7	3.5	7.0	5.2
Total EurAsEC:	492.8	1287.1	944.1	11.6	1101.7	271.1
Total CIS:	555.6	2521.4	1921.3	19.3	1502.6	562.8

Table 1.2. Cumulative mutual investments of Russia and the EurAsEC states, at the beginning of the year (\$ million) *

Note: * excluding investments within the banking sector

Source: Federal State Statistics Service of Russia

The total volume of cumulative Russian investments in other four EurAsEC countries grew by 160% over the seven years from 2000. This figure is even more impressive for the CIS – 350% (excluding banks). On the other hand, EurAsEC countries' investment in Russia increased 100 times during the same time period, from a negligible size to a magnitude comparable with Russian investment in the EurAsEC. This fact clearly demonstrates both the growing size of the post-Soviet economies and their growing awareness of the vast advantages provided by the neighbouring large market for their goods, services, and expertise.

¹ For example, MTS and Vimpelcom represent brilliant cases of brand new corporate transnationals in Eurasia. Developers from Kazakhstan and Russia have ventured into each other as well as in Ukraine, Georgia, Belarus, and Tajikistan. In power sector, Sangtuda-1 HPP with the installed capacity of 670 MWt, the largest power station constructed in Central Asia over the last 20 years, has been built and set in operation by the Russian INTER RAO. Also, the third power block of Ekibastuz GRES-2 with the installed capacity of 500 MWt, is likely to be built by the Russian-Kazakh joint venture. There is also a high probability that the new 1 GWt power block of the nuclear power station in Armenia will be built by joint effort.

The situation changed quite abruptly in the second half of 2008. The global economic crisis forced post-Soviet states to focus on their domestic markets, as most active market players were compelled to concentrate all available resources in their home markets in order to survive. Mutual investments virtually came to a halt. Large foreign investments suddenly became impossible without the direct participation of the states (such as the planned Russian-Kyrgyz joint venture, which was established to build Kambarata-1 HPP).

Although the absolute volumes are still relatively low compared with the absolute size of the regional economies and their economic potential, we have witnessed an unprecedented surge in mutual trade and investment. *In fact, what we saw amounts to the restoration of cooperative ties between the post-Soviet 'Eurasian' economies, based on the new market foundations.* The goal for policy makers is clear: prevent the economic crisis and related protectionist policies from reversing this very positive trend.

The Concept of the EDB Eurasian Integration Yearbook

This is the second EDB Eurasian Integration Yearbook. The first one, published in 2008, is also available online and free of charge.² The Yearbook is there to improve access for the global community to the best articles published in Russian and to provide a comprehensive and coherent view of regional integration in the 'Eurasian' area. It publishes a wide range of articles and other materials on the theory and practical aspects of Eurasian integration. The major part of the almanac consists of English versions of selected articles published in the Journal of Eurasian Economic Integration and other analytical publications of the EDB. They are supplemented by the Integration Chronicles and other specialised analytical materials. Papers written specifically for the Yearbook are also welcome.

While primarily focusing on economics, the Yearbook addresses a broad spectrum of urgent issues in Eurasian integration. This includes theories of integration; economic integration (trade, investment and financial institutions); institutional integration; other cooperation issues in the post-Soviet space; and experience of regional integration in the other macro regions of the world. The reputable Advisory Council ensures the quality of the volume. The Council currently comprises twelve world-class experts on various integration issues from countries like Belgium, France, Kazakhstan, Russia, the U.S.A. and Ukraine.

A pertinent and non-trivial question relevant to the idea of this volume would be the definition of 'Eurasia' in the context of 'Eurasian integration', terminology used widely on the pages of this volume. Since 1991, geographers, economists, political scientists, and social scientists have struggled with the terminological

² At <http://www.eabr.org/eng/publications/IntegrationYearbook/>

ambiguity concerning the states of the former Soviet Union. The term 'post-Soviet space' is frequently used, as is the term '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 first 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. Quite apart from these factors, all 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. In my opinion, 'Northern and Central Eurasia' would be the closest to being correct. However, this sounds a bit awkward, 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 processes with the willingness to address any external integration considerations of the post-Soviet states. I believe that 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 their geographic location and national economic interests, Russia, Kazakhstan, and other FSU states are directly interested in Eurasian integration, which would overspill the tight boundaries of the post-Soviet space.*

The Contents of the Yearbook

The EDB Yearbook 2009 consists of an introduction, full-length papers and reports as well as a regional integration chronicle. The volume is composed of six parts.

The Yearbook starts with a 'Chronicle of Eurasian Regional Integration in 2008', compiled by Natalia Maqsimchuk, a senior analyst with the EDB Strategy and Research Department. This thoughtfully structured digest covers the economic, political and social dimensions of interaction between the member states of the CIS and EurAsEC. It provides the Yearbook's readers with updates on the status of the current and new policy initiatives within and between the integration groupings, as well as an overview of business activity. The Chronicle was placed at the very beginning of the volume on purpose as we wanted to precede the academic analysis with the dynamic picture of what was actually going on in 2008 in terms of integration and cooperation. This picture is in fact quite mixed. Positive developments in the corporate sector and substantial advances in the formation of the Russia-Kazakhstan-Belarus Customs Union are on the positive side, while the negative consequences of the economic crisis, Georgian-Russian war and subsequent Georgian withdrawal

from the CIS, accompanied by the suspension of Uzbek membership in the EurAsEC amount to a retreat in integration processes.

The next part of the Yearbook features three high quality papers dedicated to institutional integration and its relation to economic growth. Alexander Libman and Leon Zewin provide a qualitative and quantitative assessment of the relationship between the territory size and the efficiency of integration groupings. The chapter defines six organisation models. The efficiency of each model depends on its ability to support a full-scale integration project, avoid the trap of quasi-integration, and maintain the required balance between market exchange and redistribution. The chapter by Johannes Linn and Oksana Pidufala contains an analysis of the experience of regional economic cooperation organisation relevant to Central Asia. The last chapter of this part, written by Alexander Libman, defines the role of regionalisation in Central Asia and provides an analysis of bottom-up integration approaches in the region.

The next section, 'Economic Integration: Trade, Investments, and Ecology', contains four papers, which look into various trade- and investment-related issues. Starting with an analysis of regional trade arrangements by Irina Gurova, we logically move to Boris Heifetz 'Russian Direct Investments in the EurAsEC Countries: Developing Energy and Transport Infrastructure in Eurasia'. These papers are followed an assessment of relevant transborder ecological problems in Central Asia by Vladimir Yasinskiy and Alexander Mironenkov.

Following on from this is a discussion about the growing cooperation in the financial sector. This part comprises one report and two papers. Zhanara Sagimbayeva of EDB provides a concise overview of the activities of international and regional development banks in the region. Multilateral development banks play a significant role in economic development. Notably, their relative standing is growing in the times of economic difficulties. They are also important actors in promoting global and regional integration through large infrastructure investment, relevant technical assistance, and research. I would like to draw the reader's attention to this overview as it represents the first attempt to summarise the activities of multilateral development banks in our region. Further, Michail Golovnin analyses the prospects of a joint stockmarket infrastructure and Evgeny Vinokurov looks into developing mutual investments in the CIS banking sector.

In the subsequent part of the Yearbook, we deviate from the functional analysis of economic cooperation and jump onto the seemingly technical – but actually highly pertinent and policy-oriented – issue of monitoring and measuring integration. Philippe de Lombaerde rightly points out that these questions cannot be reduced to a set of technical problems, as the starting point for setting up a system of indicators is usually political in nature. The purpose of monitoring is usually the evaluation of regional integration policies,

given the 'implementation problem' faced by several regional initiatives, and to test the quality of regional governance. The paper that follows Lombaerde's highly informed discussion of indicator-based monitoring is Brendan Whyte's piece on visa-free travel as an indicator of global integration. He draws on the comprehensive study of visa-free travel privileges by Henley & Partners, a Swiss firm specialising in migration. The paper analyses the dataset, and confirms that the ability to travel visa-free to other countries is strongly correlated to the wealth and openness of a traveller's own country. Using population figures for each country, a Global Travel Freedom Index was developed.

The concluding part of the volume is actually the largest one. It is devoted to the transport sector as one of the most interesting functional sector where integration can bear visible fruits. EDB has recently published a report on the EurAsEC transport corridors, which sets the stage for discussion in further papers by Yuriy Shcherbanin, Leonid Kozlov, Alexey Belyakov, and Vitaly Zbaraschenko. The authors shed light upon various aspects of transborder infrastructure, such as railway transit corridors, transport-energy water systems, proposed new navigation canals enabling transborder shipping, etc. The section is highly practical but may also be useful for more theoretically-inclined researchers.

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 Yearbook, the Journal of Eurasian Economic Integration and a number of reports and stand-alone papers relevant to regional integration are available to download free of charge.

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