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Pragmatic Eurasianism

Prospects for Eurasian Integration

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This article offers a systematic and pragmatic approach to Eurasian integration. It assumes that integration is not an objective, but an essential means to resolve the pressing problems of all countries involved, with economic modernization as the key challenge.

Pragmatic Eurasianism is aimed at securing “integration from below,” meaning that free movement of goods, services, labor, and capital is a guarantee of long-term stability and is crucial for the success of integration. It is an ideology of open regionalism that does not shrink into itself, but which is based on consolidation across the continent, both towards the West and the East.

Pragmatism in politics does not mean it cannot be fleshed out with a value dimension. Eurasianism is an ideology. It needs substance and a technocratic approach to the political and management processes. It gives priority to the economy and is a prudent approach to estimating the balance between long-term benefits and losses.

NOT AN END IN ITSELF

Integration can have both positive and negative economic results. For example, specialists know that integration can “launch trade” or “scale down trade or welfare.” Trade often declines in a newly established free trade zone or a customs union when consumption shifts from an external producer with low production costs to the domestic producer, with higher production costs. Consequently, the benefits shrink. In this case,

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the calculations are complicated and should take into account the impact of this shift on employment, the long-term goals of industrial policy, security issues, etc. Integration may not necessarily have positive effects a priori. The entire process should be thoroughly calculated.

Integration is a tool to achieve objectives. For CIS and Common European Space economies (Russia, Belarus, and Kazakhstan), modernization is the objective. This goal implies a more advantageous place in the international division of labor, less dependence on oil and gas, and increasing industrial strength based on cooperation. Indeed, cooperation in science, technology, and education serve this purpose. In the social sphere, the key objective of integration is to reach lasting international and inter-religious peace, and secure a comfortable environment in order to maintain family ties between citizens of the countries involved.

The current oil price of \$110 per barrel for Brent crude is abnormally high and prices will not stay at this level forever. Thus, it would be irresponsible, at the very least, to build a long-term economic policy based on the hope that prices will remain favorable. Economic planning should allow for a possible decline in oil prices over an extended period.

The post-Soviet economies can be divided into three groups: (1) fuel suppliers (Russia, Kazakhstan, Azerbaijan, and Turkmenistan); (2) the relatively small economies of Armenia, Moldova, Kyrgyzstan, and Tajikistan that are the major suppliers of labor resources; (3) and Belarus, Uzbekistan, and Ukraine, countries noted for a considerable share of exports with a high level of processing.

The economic crisis will impact all of the Eurasian integration countries without exception. Oil exporters – Russia and Kazakhstan – will be the first to suffer and experience a decline in export revenue. Additionally, Russia and Kazakhstan will encounter problems in foreign investment, which is vital for the banking system and the manufacturing sector. Workforce exporter countries will see a drop in revenue from labor migrants working in Russia and Kazakhstan, while countries in the third group will be affected by plunging external demand and high prices for foreign loans.

Falling oil prices could destabilize the leading countries of the region; at best, those countries will not feel like engaging in any integration projects. Will protectionism prevail during the crisis and can it be truncated within the scope of the Customs Union? Will the Customs

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Union member-states be able to maintain the attained integration level without resorting to transfers between well-to-do countries and their less successful partners? With plunging export revenue and economic activity, there will not be enough funds for foreign aid. On top of that, such transfers would be extremely unpopular politically.

In case of Eurasian integration, the challenging question is: Will integration remain strong with oil prices at \$80 per barrel for an extended time, at \$60 or even \$40?

One thing is clear: the stability of this integration project can be secured in the long term only through real and successful integration “from below” – with the help of mutually advantageous flows of goods, services, labor, and capital. Transnational companies and holdings with interdependent assets in countries of the future Eurasian Union could become a crucial factor for stability. It is true that such projects are often problematic (consider the repeated Franco-German rows in EADS), yet they form the backbone of economic integration, which can survive a crisis.

A prerequisite of economic growth is not to launch new technologies as such, but technological leadership, at least in certain areas. If a country cannot find such a niche, it will be slow to learn new technologies and have to be content with a smaller volume of added value. Pooling markets, resources, and assets has two advantages. First, a more capacious domestic market creates favorable conditions for saving on a larger scale. Second, close ties within the framework of technological chains provide necessary stability and additional resources.

The objective needs of CES countries’ economic development require an enhanced role of the industrial sector in their economies. They are facing the task of reviving industry as an economic driver. Consequently, the CES’s economic policy should take into account the needs of its member-states and their export potential. This entails moving away from traditional industrial policy based on indicative planning, while developing incentives, maintaining competition, and ensuring attractive rules of the game for businesses.

For the first time in the past two decades, a favorable environment is taking shape for formulating an integral coordinated program for the long-term economic development of CES states and increasing the global competitiveness of their national economies, and of the CES in

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general. This program should envision a tight bond – a uniform trading policy for CES states, coordination of their industrial policies, and coordination of their science and technology policies.

TRANSNATIONAL COMPANIES AND HOLDINGS
Mutual investment in general and transnational holdings and companies in particular can serve as one of the key factors of stability and success of Eurasian integration.

It is expedient to stimulate cooperation and the process of mergers and acquisitions with the consolidated entry of CES producers into the world market. Transnational companies or holdings should be set up in areas where their member-states have real opportunities to become world leaders, and where the consolidated potential of several countries is expected to contribute to cooperation. As a rule, transnational companies are established in technologically advanced sectors of the economy. Consequently, creating transnational companies becomes an instrument of technological rapprochement and modernization. In certain cases, where it is economically justified, broken technological links are restored.

It makes sense to set up transnational companies in those sectors where they already have comparative and/or competitive advantages, or a considerable potential for such. There are about 10 to 12 sectors or breakthrough points outside of the oil and gas sector in the post-Soviet space. These areas include ferrous and non-ferrous metallurgy, the coke industry, fertilizer production, power machine building, railway engineering, heavy truck manufacturing, aircraft and helicopter manufacturing, and the aerospace and agriculture sectors (especially grain production). The making of “Eurasian leaders” requires support in the breakthrough sectors where the global market does not allow the emergence of such leaders without the state’s involvement.

Transnational companies should have ambitious tasks. For example, the Russian-Ukrainian helicopter holding is planning to undergo extensive modernization, find new market niches, and boost its share in the world market from 17 percent to 30 percent by 2030. The Kazakh-Russian nuclear energy holding is looking for a foothold in all stages of the nuclear fuel cycle. The company wants to overtake Areva, Cameco, and Toshiba to become the number one nuclear energy supplier to the world

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market by 2030. A federal support program has been created with the view of meeting ambitious targets, and it includes market protection measures, recapitalization, funding, and financing R&D and professional education, which is probably the most crucial investment.

THE SUBSIDIARITY PRINCIPLE

The subsidiarity principle underlying U.S. federalism and European unification can apply to Eurasian integration as well. In simple terms, the principle can be formulated thus: “If there is no drastic need to do something at the supranational level, do not do it.”

Under this principle, problems are solved at the lowest possible level where their solution is feasible and effective. Authority and financial resources are shared in the same manner, while political decisions are made at a level that is as close to the population as possible.

Under the subsidiarity principle, the problems addressed at the supranational level are those whose solution is either necessary at that level (such as uniform foreign trade policy and technical regulation within the common market) or more effective and advantageous. Therefore, the implementation of the subsidiarity principle becomes part of the general pragmatic approach to integration.

THE SIGNIFICANCE OF SOCIO-CULTURAL INTEGRATION

The long-term significance of the socio-cultural aspects of integration is on par with economic achievements at the very least. These include family ties, permanent and temporary migration, educational links, tourism, cultural exchange, etc. Integration strengthens ethnic and religious peace not only in international relations, but also in the countries involved.

The effect of social integration is largely immaterial and defies calculation, yet its significance is difficult to overestimate. For example, residents of the Omsk and Akmola regions would care more about the recent launch of the Astana-Omsk air link than robust trade statistics. A trip between these two cities, which took eleven hours by train, can now be made in just over an hour. Such innovations facilitate trade and investment interaction, communication between relatives, tourism, and educational exchange.

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The Russian language plays a tremendous consolidating role. Measures to preserve it as a means of international communication are highly profitable. The network of Pushkin institutes is a good investment in the future. The key education goals in long-term integration include: cultural and educational exchanges of grade school students, university students, post-graduates, and teachers; the harmonization of education programs; and mutual recognition of teaching certificates. An educational exchange program comparable to Europe's Erasmus Mundus program could be named after Shoqan Walikhanov, a Kazakh scholar and historian who was educated in Omsk. A system of grants could cover, either fully or partially, expenses to study abroad for one or two terms. It is essential that the widespread program involve thousands of students every year.

OPEN REGIONALISM

Pragmatic Eurasianism should take into account both the expenses and benefits of integration so that the elements on both sides of the debate are understood in a broader context. An extended project timeframe allows for a number of other effects, not necessarily economic. But does this mean that Eurasian integration is a purely "bookkeeping" process? No, it does not. Even if the discussion of the future of Eurasian integration is deliberately held in a pragmatic and technocratic light, the ideological aspect remains. Indeed, Eurasianism is an ideology. The question is what kind of ideology.

At the very least Eurasianism is often viewed as an alternative to the European orientation of Russia and former Soviet republics and as a synonym for the "special path of Russia." The idea of Eurasianism appeared in the 1920s, although its origins are in the search by 19th-century Russian intellectuals for self-identification. The Eurasian ideology had a difficult path, as it emerged within the community of Russian emigrants who were detached from their once great, but now devastated, homeland. Today the establishment of Eurasianism is complicated by a real and far-fetched nostalgia for the Soviet past.

The terms 'Eurasia' and 'Eurasianism' are quite popular today in Russia, Kazakhstan, and other countries of the Commonwealth of Independent States. 'Eurasia' is usually used as a synonym for the post-Soviet space. In Russia, Eurasianism is often treated as an anti-Western ide-

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ology that underlines the exclusiveness of a “special way for Russia,” whereas in Kazakhstan it is never used in that sense. There are some alternatives to these approaches. Eurasia can be regarded as a space for interaction between a broad range of countries in Europe and Asia. Russia, Kazakhstan, and the CIS in general would benefit most from the continental format of integration.

It would be useful to make a distinction between two Eurasian integrations: the processes of unifying post-Soviet space that have become increasingly intensive in recent years, and the processes of rapprochement across the continent that have become a reality in the past decades. We understand continental Eurasian integration as a quality growth of economic, political, and social ties between regions of the Eurasian supercontinent – Europe, Central and Northern Eurasia, and East, South, and West Asia.

There are several key aspects to forming a productive Eurasian ideology.

First, post-Soviet Eurasian integration should focus on the economy. The collaboration between the Customs Union (a common customs space) and the Common Economic Space (dozens of agreements to establish uniform rules in the economy; in effect, it is a Eurasian common market) establishes a solid groundwork for integration. This focus will help strengthen the technocratic element and dedicate integration instruments to resolving the main task – economic modernization and increased global competitiveness. A package of socio-cultural issues is an integral addition to economic integration. At the same time, a conservative approach based on the subsidiarity principle is expedient in developing the political aspects of integration.

Second, Russia should not be the only locomotive of integration. That Eurasia is not a synonym of Russia is a crucial point. Despite Russia’s obvious domination as the largest regional economy, the Eurasian project, at least its political dimension, cannot be Russia-centric. It needs other active players, and keeping Kazakhstan’s important role in it is crucial.

Third, Eurasian integration should not shrink into itself or try to restore the unity of post-Soviet countries in one form or another. Unquestionably, the potential of economic and technological rapprochement in the post-Soviet world is considerable, but not endless. Continental Eurasian integration would be a natural further step.

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Deeper economic integration to the west (the European Union), to the east (China, South Korea, Japan, Southeast Asia), and, to a lesser extent, to the south (India, Turkey) promise many benefits. Such prospects include: establishing common trade regulations; harmonizing technical standards; building infrastructure for the export of hydrocarbons; creating railway and motor transport transit; industrializing transit; improving ground telecommunications; expanding regional and sub-regional electricity markets; bettering cooperation in border areas; establishing visa-free travel between certain countries; promoting student exchanges, etc.

These principles are aimed at establishing open regionalism in Eurasia, where post-Soviet states will serve as the driver, the supporting element, and the main beneficiaries. This paradigm allows for a new outlook at key issues of integration, such as the role of Ukraine.

THE UKRAINIAN ISSUE

Almost no other issue is as politicized and formalized as Ukraine's choice of civilization. Regrettably, this discussion largely runs along the "either – or" principle, while in continental integration the "and – and" approach is more likely.

There is profound misunderstanding in the post-Soviet space and the European Union of the essence of integration projects. Europe and the West in general have viewed the Commonwealth of Independent States, and, recently, the Common Economic Space, as products of "Russian imperialism." Europeans find it difficult to comprehend just how deeply rooted cooperation ties inherited from the Soviet past really are, and how vital their role is for the economic modernization of Russia, Ukraine, Kazakhstan, and Belarus. The world has seen no precedents for such disintegration (except for, perhaps, the collapse of the Austro-Hungarian Empire), although a breakup of this kind is not difficult to picture. Just imagine a collapse of the European Union (not only of the euro zone, but the entire common market). Consider all the incentives for European reintegration in this situation and multiply the result by three; the Soviet economy was much more integrated than the economy of the current European Union.

The laws of competition should not be ignored either. In the CIS, production cooperation is expected to secure entry into export markets.

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Who said that global rivals want to see an industrial breakthrough of Eurasian partners?

Importantly, European and post-Soviet integration should not be viewed as mutually exclusive. On the contrary, CIS regionalism might become a step towards integration with the European Union. The Customs Union of Belarus, Kazakhstan, and Russia could be a more effective and stronger partner for the EU than individual countries. It could also provide additional stimuli to launch dialogue over common infrastructure and adapt European norms and standards.

At present, Ukraine, sandwiched between the EU and the Customs Union, is being torn apart by heated debates about the possibility that the country will join this or that community. But let us consider: Does Ukraine's "European choice" rule out its integration with Russia and its partners? After all, Russia's European choice and its desire for economic, political, and cultural rapprochement with Europe are obvious.

Kazakhstan is a "European" country too. The European Union is Kazakhstan's largest trading partner and, according to the IMF, the EU accounted for 37.7 percent of Kazakh exports and 32.3 percent of foreign trade in 2010. Kazakh companies place securities on the London Exchange and Kazakh students study in Europe under the Bolashak government-sponsored scholarship program. Some 50 percent of Bolashakers studied in Europe (compared to five percent in East and Southeast Asia; 28 percent in the United States; and nine percent in Russia).

The economic integration of the European Union and Customs Union may provide an optimal long-term solution to the "Ukrainian issue." Granting Customs Union membership to Ukraine would be a strong move, with the subsequent signing of a free trade agreement between the post-Soviet trading bloc (embracing a population of some 220 million and a GDP of around \$2.2 trillion) and the European Union. Under this scenario, Ukraine would achieve all of its goals and secure good relations with Russia and other partners in North and Central Eurasia, while strengthening its European choice at the same time. Such an agreement would become a universal groundwork to harmonize legislation and eventually launch visa-free travel. Another option is to sign agreements on comprehensive free trade within the EU-Ukraine-Customs Union triangle. These accords should certainly include not only trade

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issues, but also free movement of people and capital, the gradual unification of technical standards, and infrastructure integration.

An optimal solution to engaging Ukraine in a “large Eurasia” is only possible through the involvement of the European Union and Customs Union. In principle, the EU does not reject the possibility of interaction with economic blocs; in 2010 it resumed free trade talks with MERCOSUR. The very modest results of the EU’s Eastern Partnership policy should also be taken into account.

A EURASIAN PARTNERSHIP PROGRAM: FLEXIBILITY AND VARIETY

Eurasia is not the same as the post-Soviet space and its borders cannot be regarded as firmly fixed by the Soviet past. Whereas post-Soviet space can indeed be the best region for integration in certain sectors, other options might envision a different combination of countries.

The new reality requires new instruments of productive cooperation with partner countries both inside the CIS and on the Eurasian continent. For multi-party cooperation, it is possible to set up a program for CES and a future Eurasian Economic Union that might be called “Eurasian Partnership.” Both bilateral and multi-party partnerships would be possible within the framework of this organization. However, emphasis should be placed on bilateral accords that take into account the specifics of a particular partner. Cooperation can be arranged not only through agreements, but also through joint action plans (as in the European neighborhood policy) and through participation in joint programs.

The purpose of the Eurasian Partnership program is to ensure concentrated trade and economic interaction between the countries of North and Central Eurasia, and, in future, with other strategic Eurasian partners without the mandatory prospect of CES membership. A format similar to the Euro-Mediterranean partnership could be used, where it is possible to interact with a partner country both in moving towards CES membership or towards the closest possible cooperation. “Eurasian cooperation” could become a solid framework for interaction between various countries and the CES that would promote the interests of all parties.