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Regional economic integrations in the post-Soviet Eurasia: An analysis on causes of inefficiency

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Abstract

In post-Soviet Eurasia, established several regional economic integrations in order to develop the regional economic cooperation and adapt to the world economy. These integrations, participated by the countries also referred to as the Commonwealth of Independent States (CIS), have remained on paper as ineffective formations that are far away from achieving their common goals. The findings obtained through the statistical data of the countries included in the region concerning the causes of inefficiency can be listed as inadequacy in converging with the rules of market economy and in adapting to the world economy, differences in macroeconomic structures (national income and income distribution, industrialization, national and foreign direct investments, foreign trade capacity and balance of payments), regional conflicts of interest and claim of power, lack of common goals, geographical position, and the contradictions created by being member to the World Trade Organization (WTO) and to regional integrations.

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Keywords: Regional economic interations, Eurasia, post-Soviet;

I. Introduction

Regional economic integrations are formations serving for the common economic objectives of countries with similar performances and that still survive in today's economic system where the global economic dynamics are prevalent. The economically and politically independent nation states that had emerged in consequence of the Soviet Union losing its control economy power, had no option other than being in convergence with the market economy in order to get integrated to the world economy. One of the methods the countries in the region adopted within the search for economic collaboration for this process that needed to be achieved with in a fairly short period, was regional economic integration. The economic integrations, most of which were centered on Russia as the power center of the former block, emerged with different names and in different processes. Some of these are the Commonwealth of Independent States (CIS), the Union of Georgia - Ukraine - Azerbaijan - Moldova (GUAM), the Eurasian Economic Community (EAEC) or EurAsEc, and the Shangai Cooperation Organization (SCO) where also China is included as a secondary force and where the primary purpose is not economic cooperation but economic objectives are included in the goals. However, none of these managed to achieve the economic force objectives by creating a common goal in the region, or in other words to enable economic effectiveness.

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Within the scope of the study, the reasons of inefficiency of the integrations established by the countries in the Eurasian region, or in more common terms by the CIS countries, integration to the market economy as the inevitable prerequisite for integration to the world economy, similarity or differences of the macroeconomic dynamics among the countries and their levels of welfare, problems related with the geographical position, common goal and conflict of regional interests, and the effects of WTO memberships to the regional integrations are discussed by keeping the indispensible conditions of regional economic integrations in consideration.

2. Literature Review

Some of the prominent studies in the related literature are Pomfret (2010), Bobokulov (2006), Tumbarello (2005), Rakhimov (2010), Buszynski (2004), Adams (1998), and Metcalf (1997) Obydenkova (2011). Economic and political integration efforts of the Russia-centric Central Asia and Eurasia countries, comparison of the region with some strong integrations that are integrated to the world economy such as the European Union and NAFTA, effects of WTO memberships on regional integrations, possible future integrations and the problems of the region are among the matters the researchers emphasize on. However, the studies conducted in this context do not explain the reasons as a whole why the economic unions in the region fail to reach their primary objectives, do not question the causes of inefficiency, or primarily seek such reasons in the dynamics of political balances. Therefore, it is considered to be useful to examine the region as a whole from the economic perspective and to question the reasons of inactivity.

3. Adaptation to market economy

One of the important problems to be focused on while examining the efforts of the countries, referred to as Eurasian countries with regard to their geographical position, to create regional economic integration, is the integration of the countries in the region to the rules of market economy. The matter to be emphasized at this point is the inevitability of adapting to the rules of market economy for getting integrated to the global economy, or in other words to the rest of the world economy. Being the very first economic and political union that emerged after independency, CIS has also been the start of the economic regime in question. (Obydenkova, 2011)

Table 1: Progress of the PSSs in economic transition in 1992–1998.

Countries	Share of private sector in GDP (%)	Privatization of large enterprises	Privatization of small enterprises	Liberalization of prices	Freedom of market competition
Russia	70	3+	4	3-	2+
Georgia	60	3+	4	3	2
Kirgizia	60	3	4	3	2
Armenia	60	3	3	3	2
Kazakhstan	55	3	4	3	2
Ukraine	55	2+	3+	3	2
Moldova	45	3	3+	3	2
Azerbaijan	45	2	3	3	1
Uzbekistan	45	3-	3	2	2
Tajikistan	30	2	2+	3	1
Turkmenistan	25	2-_	2	2	1
Belarus	20	1	2	2	2

Sources: Shishkov (2001: 409); The Economic Report. The Economist Intelligence Unit. London, March 1999.
System of evaluation: "4" – "more than 50% of programmes of economic transition and the progress in economic transition is significant"; "3" – "more than 25% of programmes"; "2" – "progress is fair", and "1" – "almost no progress at all".

According to the table, while Russia is the country where the private sector has the highest share within the GDP with 70%, Georgia, Armenia and Kyrgyzstan follow it. With a share of 20%, Belarus appears to be the country that has the lowest share of private sector. Other than Russia's lead in the other market economy convergence criteria presented in the Table, it is clear that a sufficiently homogenous structure for integrity is missing among the countries. For instance, no reform structure rated 4 could be seen in privatization of large enterprises, freedom of market competition and liberalization of prices.

The differences among the countries in the region in terms of convergence to market economy as seen in Table 1, result from the different timings of reform implementation. Dissolution of control economies and the structural reforms implemented in the transition to market economy have shown a rapid progress in Russia, Kazakhstan, Kyrgyzstan and Ukraine. Turkmenistan, Uzbekistan and Belarus, on the other hand, have preferred, "gradual transformation model[*]", instead of these fast and demanding reforms that completely alter the economic policy (Grinberg & Vardomsky 2001). However, the slow progress of the reforms in this model, and the problems caused in integrating to the world economy and converging to the market, cost the macroeconomic indicators to be relatively weak in comparison with the other countries. This situation in turn has become one of the obstacle preventing an effective integration according to the, "universal market principles[†]".

4. Intercountry macroeconomic variations

Another indispensable condition for economic integrations to create the intended results, is the similarity of the macroeconomic balances of the member countries constituting the integration, or in other words, to have similar levels of welfare if not the same. Economic force conflicts can be prevented and actions for a common goal can be taken only in this case.

4.1. Level of income and income distribution

The most notable macroeconomic difference among the countries in the region is related with the real GDP per capita (table 2). In the decade from 1994 to 2003 shows that the real GDP per capita in the countries other than Russia, Kazakhstan and Belarus was less than 1000 dollars.

However, examining the figures of the years from 2004 to 2012 shows that the real GDPs of all the countries in the region except for Uzbekistan, Tajikistan and Kyrgyzstan have exceeded 1000 dollars. Still, the differences in income within the region cannot be regarded as too little. For instance, Russia's and Kazakhstan's income per capita is approximately ten times of that of Kyrgyzstan and Tajikistan. On the other hand, when the countries in the region are grouped as energy importers and energy exporters, as they are presented in Table 2, it can be observed that the income of the exporting countries are higher. Among the importing countries, Belarus and Armenia are the prominent ones. If it is considered, from the macroeconomic perspective, that the most important part of total demand consists of consumption expenditures and that the main objective of economic unions is foreign trade, such prominence of differences in intercountry incomes presents difficulties for regional commercial partnerships.

According to the GINI index presented in Table 2, in both of the periods, income distribution of the countries in the region remains below 0.50. This indicates a general efficiency in the income distribution of the countries in the region. Despite the fact that the per capita incomes of the countries are low and nonhomogenous, their income distribution efficiency levels seem to be unproblematic in terms of the efficiency of economic unions

[1] Gradual transformation model aims to carry out convergence process applications gradually, instead of fulfilling all conditions of the market economy simultaneously.
[2] The principle in question sets forth the level to be achieved in implementing the market rules necessary for adapting to the world markets.

Table2: GDP per capita ($), real GDP annual percent change, GINI index

	1994-2003 * average			2004-2012* average		
Country	**GDP per capita constant price $**	**Real GDP annual percent change**	**GINI index**	**GDP per capita constant price$**	**real GDP annual percent change**	**GINI index**
Net energy exporters						
Russia	1731	0.7	38	2763	4.5	35
Kazakhstan	1226	2.1	35	2266	7.2	---
Uzbekistan	543	2.5	38	813	8.1	---
Azerbaijan	622	2.2	35	1837	15.2	33
Turkmenistan	606	4.3	40	1007	8.2	32
Net energy importers						
Ukraine	672	-2.3	31	1041	3.3	---
Belarus	1185	2.3	29	2321	7.8	27
Georgia	651	--	40	1157	6.1	40
Armenia	600	7.5	37	1286	6.3	33
Tajikistan	145	0.5	31	238	8.2	40
Kyrgyzstan	267	1.1	34	355	4.3	30
Moldova	382	-3.1	37	2763	4.5	36

Source: World Bank World Economic Outlook (WEO) database October 2012
Note: Despite the fact that Georgia has resigned from CIS membership, it is still included in the table due to its significance in terms of the integrity of the Region. * avareges were calculated using annual data of the period

Examples of income distribution efficiency from other regions may help to better understand the nonproblematic case in the region: In accordance with the WEO (World Economic Outlook) 2012 data of the OECD countries for 2008, the lowest GINI index measurement was made for Slovenia with 0.24, while the highest measurement of 0.49 belonged to Chile. Latin America and the Caribbean Region have the highest measured GINI index rate of 48.3. Other values determined are 44.2 for Sub-Saharan Africa, 40.4 for Asia, 39.2 for Middle East and North Africa, 35.4 for Central Asia and Eastern Europe that also includes the Eurasia region, 30.9 for High Income Countries and 36 for U.S. Considering that the mean value in the period from 2004 to 2011 was 34 for Eurasian countries, it is possible to state that a fairly efficient income distribution exists. Maintenance of this also in the future will have a positive effect on the establishment of an effective economic union.

4.2. Total national investments and the share of industry

Table 3 presents the total national investments and the shares of industry the countries in their respective real GDPs. The rates of total investments between 18.8% and 27.7% in the first decade can be considered homogenous. Investment rates increased consistently in the following years.

Table 3: Total investment (% of GDP) and Industry value added (% of GDP)

	1994-2003* average		2004		2008		2012	
Countries	**Total invest. % of GDP**	**Industry value added % of GDP**	**Total invest. % of GDP**	**Industry value added % of GDP**	**Total invest. % of GDP**	**Industry value added % of GDP**	**Total invest. % of GDP**	**Industry value added % of GDP**
Net energy exporters								
Russia	21.0	37.2	20.3	36.3	24.0	36.1	23.5	36.9
Kazakhstan	23.3	34.6	26.2	37.6	27.1	43.2	23.1	40.1
Uzbekistan	20.5	25.2	24.5	25.9	31.0	30.7	30.8	36.1
Azerbaijan	27.7	41.3	57.9	54.7	19.8	70.2	19.4	66.8
Turkmenistan	--	48.6	---	40.1	---	53.6	---	48.4
Net energy importers								
Ukraine	21.9	37.8	21.1	35.8	27.9	33.6	18.6	31.7
Belarus	28.7	38.4	29.5	40.8	39.2	44.2	32.4	44.4
Georgia	25.5	21.3	29.3	26.4	27.0	21.8	26.2	23.2
Armenia	21.3	35.4	22.9	41.1	43.8	43.5	30.7	37.1
Tajikistan	14.7	35.3	14.8	31.7	20.4	26.8	19.8	20.1
Kyrgyzstan	18.8	23.9	20.8	24.1	20.2	23.5	24.9	28.8
Moldova	25.0	26.7	26.3	17.2	39.2	14.3	25.2	93.6

Sources: World Bank World Economic Outlook (WEO) database October 2012

* avareges were calculated using annual data of the period

The only exception at this point is Azerbaijan with its 57.9% investment speed in 2004 decreasing to 19.8% in 2008. Here, the global economic crisis of 2008 and the decrease in oil prices constituted the risk factors of the country. It is possible to state that from 2004 onwards, industrial outputs of the countries in the region increased in comparison to the first decade. The increases in industry outputs also manifest homogeneity among the countries. In this context it is possible to state that the notion that agricultural commodities are ineffective in the global trade, as experienced by the countries in the region in the past, is valid. However, despite this positive development, the industrial production volumes and national investments of the countries in the region are still not adequate enough for the adaptation to world economy.

4.3. Foreign investments

On the other hand, also the infrastructural developments of the countries in the region vary largely. Particularly, the fact that the sources of raw-materials vital for the manufacturing industry vary among the countries or the lack of the infrastructure needed to extract and process available resources is one of the most important problems. The necessity to process raw materials in this line both hampers the local real sector and causes the interest of foreign investments to decrease. According to market economy rules, only the countries capable of attracting foreign investments and developing production technologies can advance in terms of growth. (Libman, 2006)

Table 4 presented below sets forth the foreign direct investment data of the countries in the region. Considering the region-wide data, a homogenous structure cannot be found among the countries and serious fluctuations can be observed periodically. It is observed that Kazakhstan and Azerbaijan attract more direct investment than Russia as the leading country of the region, and that the direct investment rates of Georgia and Kyrgyzstan rise consistently.

Table4: Foreign direct investments net inflows % of GDP

Country	1994-2003* average	2004	2008	2012
Net energy exporters				
Russia	1.00	2.61	4.51	2.84
Kazakhstan	7.09	9.63	12.60	7.03
Uzbekistan	0.65	1.46	2.54	3.09
Azerbaijan	18.52	40.96	8.16	7.07
Turkmenistan	4.91	5.17	6.62	11.35
Net energy importers				
Ukraine	1.50	2.64	5.94	4.36
Belarus	1.27	0.70	3.60	7.25
Georgia	5.42	9.60	12.43	8.02
Armenia	4.25	6.92	8.02	6.47
Tajikistan	1.68	13.10	7.28	0.17
Kyrgyzstan	2.83	7.93	7.33	11.71
Moldova	3.78	3.37	12.00	4.20

Sources: IMF world economic outlook statistical database October, 2012
*avareges were calculated using annual data of the period

4.4. Foreign trade capacity and balance on current account

In economic integrations, participating countries are preferred to have completed their industrialization phase and to have different production expertise. By this means, countries of the region can trade also in the areas where they are weak and this in turn will have a positive impact on the trade capacity of the integration. Also by providing customs exemption through free trade zones, that are vital for integrations, partner countries are encouraged to compose a competitive structure that complete each other and in this way a rich structure that constitutes a whole with the differences it includes is established. This structure constitutes a financial, commercial and industrial whole. However, World Trade Organization (WTO) memberships were considered instead of free trade zones for the countries in the region and the fast membership acceptance processes of some countries prevented to create common goals in the region. Since this matter is examined under a separate heading, only the foreign trade volumes will be discussed here.

Table 5 gives an idea on the countries' total commodity, service, import and export capacities. It can be seen from the table that energy exporting countries have closed their foreign trade deficits and reached positive values in the second period (2004 - 2012). The rates of the foreign trade deficits of importing countries to their GDP have negative values. This indicates the presence of significant differences in the total foreign trade volumes and payment balances among the countries.

On the other hand examining the foreign trade structures of the countries in the region more specifically shows that the countries focus on varying fields of production. Armenia, Moldova, Kyrgyzstan and Ukraine export agricultural commodities at the rates of 16.8%, 42.2%, 13.2% and 19.7% respectively and in this field produce more than the other countries

Table5: Export and import good and service % of GDP and Balance on current account % of GDP

Country	1994-2003* good and service export	import	balance on current accounts	2004-2012* good and service export	import	balance on current account
Net energy exporters						
Russia	33.3	24.0	8.27	31.7	21.5	7.12
Kazakhstan	41.6	42.5	-3.48	49.9	37.4	0.51
Uzbekistan	26.0	26.3	-0.07	37.2	33.0	6.45
Azerbaijan	32.6	46.8	-17.36	60.0	35.3	16.06
Turkmenistan	68.3	73.5	-7.12	71.2	44.6	3.40
Net energy importers						
Ukraine	49.5	49.0	1.22	50.2	52.4	-0.76
Belarus	61.0	65.8	-3.46	62.7	69.1	-7.57
Georgia	25.6	46.8	-8.19	32.3	53.7	-13.45
Armenia	25.6	54.5	-13.53	21.9	42.9	-7.87
Tajikistan	68.3	75.4	-7.62	23.6	62.0	-6.03
Kyrgyzstan	36.7	47.3	-9.78	49.1	76.3	-5.73
Moldova	50.4	70.6	-7.86	26.0	26.3	-9.90

Sources: World Bank WEO database, October, 2012
* avareges were calculated using annual data of the period

As for the exportation of energy and natural resources, Azerbaijan, Kazakhstan and Russia are the leading countries with respective rates of 96.2%, 85% and 71.8%. According to figures of the manufacturing industry, Georgia with 50%, Belarus with 49.7%, Moldova with 52.7% and Ukraine with 62.5% are the leading countries of the region. Concerning the foreign trade product variety of the region, the differences seem to be able to constitute a whole, as explained above. However, with the World foreign trade structure in mind and according to the figures of 2011*, the most significant commercial partners of the countries in the Eurasia region appear to be the European Union (EU) countries with a total trade volume of 51.8%, and Asian countries (particularly China) with 14.8% right after them. The most important commercial partner of Russia, as the country having the biggest economic volume in the region, is again EU countries and China. A considerable trade volume only exists with Ukraine among the countries of the region (total commodity export 3.8%, total commodity import 7.0%) and the trade volume with the other countries are rather limited. The trade volume of the region in itself stays at 19.5%. The region's total share within world trade on the other hand is 4.4%. In this sense, it is not viable to comment that the countries in the region commercially integrate with each other. In other words, even if the product variety is convenient as explained above, the emerging problems prevent an effective integration.

5. Geographical positions of the countries

One of the other obstacles on the path of the foreign trade for the countries in the region is their geographical positions. The fact that the primary commercial partnerships are in other regions prevents the establishment of an effective commercial route. On the other hand, while the 27-country EU has a total area of 4.3 million km^2, the total area of the 12 countries in the Eurasia region is 22.1 million km^2. That is nearly the same with the 21.7 million km^2 area of NAFTA. The wide span of the area limits the commercial capacity of the countries in the region and prevents the

* WTO statistical database of foreign trade for 2011

formation of an efficient integration by causing problems also in terms of security. Also the wide geographical area of Russia in the Region limits effective control of the customers and causes illegal crossings[*].

6. Economic conflicts of interest and claim of regional power

The economic integrations formed by the countries of the region could not reach the promising structures that serve for a common goal. Two problems that need to be discussed at this point is the conflicts of interest among the countries and the leadership and regional force claims of the economically and politically more powerful countries in the region.

Meeting on "overlapping objectives" in line with common economic interests and establishment of a supra-national structure is essential for the success and sustainability of economic integrations. In this perspective it is important for countries in a region to follow supra-national policies rather than national policies, in terms of achieving the set objectives and increase the benefits tried to be achieved. However, the common problem in the economic integrations experienced until now in the region is the fact that, through fear of losing national sovereignty, members of such formations have always acted in line with their own national interests, instead of serving for supra-national purposes. Thus, these formations could not go beyond being "expert-consultative information organizations[†]", rather than becoming "strict implementation" formations capable of create effective regulations and strictly committed to the purposes of the union (Linn, 2004). In this direction, CIS countries have always lacked a " single driving idea" (Bobokulov, 2006).

On the other hand, in integrations it is generally the main objectives determined by the economically strong, founding and driving member countries that are taken as basis, common objectives could not be reached and this prevents the creation of a trust relation between the countries. Despite the regular meetings and forums held within the body of the organizations, presidents of the individual countries have different points of view concerning the purposes and duties of the integrations. For instance, while the integration projects proposed by Russia receive full support particularly from Armenia, Belarus and Kazakhstan, which are known to be in close relations with Moscow, and from the countries not included in GUAM, GUAM countries tend to object to these projects, claiming that Russia maintains its imperialist attitude with these projects.

7. The dilemma between WTO membership and regional economic union

The choice between WTO membership and regional economic union creates a harmony problem, rather than affecting the welfare levels of the countries in the region. The factors affecting countries' levels of welfare primarily depend on their trade preferences and capacities, levels of economic development and their bargaining powers. In case that one of the members of a regional union is already a member of WTO, problems concerning the incompatibility of the customs tariff undertakings between the organization and the union can arise. WTO's suggestion for such cases states the member countries to implement the lowest possible tariffs and in this way to reduce the trade deviating and protective risks to minimum. Also the protective policies also known as customs unions make the implementation in question more difficult. For instance, according to the EAEC tariff structure, protection rates of Kyrgyzstan, Kazakhstan and Tajikistan need to be increased, but this in turn raises the foreign trade costs of the WTO member countries that implement more liberal tariff rates. (Tumbarello, 2005) Also, as it is the case in the EAEC example, the protective foreign trade policies of regional customs unions delays or completely prevents the memberships of the countries willing to be members to the WTO.

All of the membership dates of the WTO member countries presented in table 6 took place in and after 2000, except for the case of Kyrgyzstan. Therefore, the high tariffs in the 94-2003 period presented in the first column, tend to fall in the 2004-2010 period. Another point of view that should not be ignored, is the support provided by the Western countries to WTO memberships of Eurasian countries (Shishkov, 2007).

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[3] The border only between Kazakhstan and Russia reaches 6846 km length.
[4] The case where the member countries interpret and implement the integration conditions according to their own interests

Table6: Tariff rates applied primary products (%)

Country	1994-2003 * average	2004-2010 * average
WTO members		
Kyrgyzstan	4.99	4.55
Georgia	12.58	6.17
Moldova	9.35	6.87
Armenia	6.59	5.49
Ukraine	9.49	5.28
Russia	9.37	8.09
Tajikistan	9.69	4.45
Non -WTO members		
Azerbaijan	14.65	10.37
Kazakhstan	10.75	5.58
Belarus	10.26	6.68
Uzbekistan	10.67	11.47
Turkmenistan	7.36	---

Sources: World Trade Organization database, tariff rates by country 2012
Note: WTO member countries are presented on the basis of their membership dates. Kazakhstan's membership in 2013 is not finalized yet. * avareges were calculated using annual data of the period

All of the membership dates of the WTO member countries presented in table 6 took place in and after 2000, except for the case of Kyrgyzstan. Therefore, the high tariffs in the 94-2003 period presented in the first column, tend to fall in the 2004-2010 period. Another point of view that should not be ignored, is the support provided by the Western countries to WTO memberships of Eurasian countries (Shishkov, 2007). The most important reason under this is the opinion that the countries of the region, which go through the processes of adaptation to market economy, have rich natural resources and high trade potentials, will create considerable markets in the future. Diverging from the thought of regional economic integration and preferring WTO membership instead will negate the future economic and political power potential of these countries and will relieve the future concerns of the west, and particularly of the U.S

8. Conclusion

Having operated in line with the rules of control economy in the Soviet Union period, after gaining their independency Eurasian countries formed mostly Russia-centric economic integrations in order to facilitate the process to adapt to market economy and bring together the forces of region. However, such formations fell short in reaching common economic goals and creating a regional economic force. In other words presented in the literature, they could not go beyond being on paper. However, considering the natural resource potentials of some of the countries in the region, it is in fact clear that they possess a significant power for rapid economic development.

Within the scope of the study the causes of inefficiency of the integrations established in the region until now were questioned, and the problems became clearer when the countries in the region were categorized as energy importing and energy exporting countries. Accordingly, the regional integration problems determined with the aid of the statistical data of the region, are primarily the inter-state process and success differences in transition to market economy. The low real GDP per capita included in the macroeconomic balances, is a significant factor that decreases total demand potential and foreign trade volume. Despite the national investments and the fact that domestic capital increases, the insufficiency in terms of adapting to the world economy and the inter-state difference in industrial production capacities are obvious. This picture prevents the strengthening of national economies and in turns prevents the creation of a strong structure for integration. While the foreign trade capacities and payment balances are determined to be adequate for energy exporting countries, the increasing deficits in the other countries also presents an obstacle in the formation of integration. Although Foreign Direct Investments are essential elements for increasing efficiency and bringing technology to the countries within the process of adapting to the market economy, the countries in the region are not successful of attracting such investments. It was concluded under the other topics that the wide geographical area of the region creates problems in terms of border security and trade, that the countries' claims of power and conflicts of interest negate common goals, and that WTO memberships contradict with the rules of customs union in the region by causing differentiation of the customs tariff rates.

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