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RESEARCH ARTICLE

Political Economy of the Eurasian Integration

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ABSTRACT

The Eurasian Economic Union, launched in 2015, is often seen with suspicion for ostensible domination by the Kremlin over those former Soviet republics that seek various benefits from reestablishing close links with Russia. Yet the very idea of intergovernmental integration implies that Russian influence can no longer be applied directly but has to be channeled through supranational institutions. In the context of globalization the Eurasian project can also be seen as an attempt to boost economic competitiveness of its members by reorienting the region from inherently unstable resource-based models into more sustainable ones, based on vibrant domestic industries. In practice, however, the EAEU has not yet demonstrated much economically, especially as far as mutual trade and investment are concerned, and after the recent resignation of the Kazakhstan's president Nursultan Nazarbaev as one of its earliest and most influential enthusiasts, there may also be political challenges to the very survival of the project.

KEYWORDS: EAEU; Postsocialism; Regional economic integration

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1. Introduction

When the Soviet Union was disintegrating hardly anyone envisaged that rather soon the region will witness a reverse process that would eventually culminate not just into anything consequential but in an organization modeled at nothing less than the European Union (EU). That is what the proponents of the Eurasian Economic Union (EAEU) tend to enthuse about it, naturally supported by the evolving class of Eurasian bureaucrats. "The legal base of the EAEU […] seeks to incorporate the best global practices, including those of the European Union. There is no other example of such a deep integration", said Victor Khristenko, the chairman of the Eurasian Economic Commission (EEC) board in mid-2015 (Pivovar 2015). The critics, though, typically see in it either another vehicle of Russian hegemony (Dragneva & Wolczuk 2013) or Putin's "response to neoliberal globalization" (Lane & Samokhvalov 2015). Propaganda and ideological biases aside, the Eurasian integration is a reality (see Table 1 for some of its quantitative features), and its meaningful analysis should first seek to uncover its driving forces and assess their current dynamics in order to make well-grounded suppositions about its prospects.

Table 1 - EAEU key figures, 2018.

Indicator	**Armenia**	**Belarus**	**Kazakhstan**	**Kyrgyz Rep.**	**Russia**	***EAEU***	***EU***
Population, million	3.0	9.5	18.3	6.3	144.5	*181.6*	*513.2*
GDP, bn current USD	12.4	59.7	170.5	8.1	1657.6	*1908.3*	*18756.1*
GDP at PPP, bn current international dollars	28.3	179.1	476.8	23.1	3817.2	*4524.5*	*21109.3*
GDP per capita at PPP, current int. dollars	10325	19960	27831	3878	27147	*26452*	*43715*
Territory, thsd sq km	29.7	207.6	2724.9	200.0	17098.3	*20060.5*	*4384.3*

Source: World Bank 2019.

Having mentioned the issue of driving forces, it is impediment to specify them, and the notion of political economy appears particularly helpful here. Whereas in general its modern discourse has been preoccupied with various aspects of generating and distributing welfare, i.e. its "powertrain", analyzing driving forces can be constructed in terms of class or its derivatives. However, such views, despite their residual magnetism in the postsocialist context, would necessitate engagement in political debates that properly belong to national power arenas rather than workings of international public organizations (EU being, perhaps, the only viable exception). Since the present article seeks to review the Eurasian integration as a political economy phenomenon of its own significance rather than a mere sum of national political landscapes of its member states, driving forces here would have a somewhat different meaning. On the one hand they can be seen as sectors that stand to benefit or lose from regional economic integration. As the latter is typically about exchange of merchandise rather than anything else, the following analysis will focus on non-service sectors. On the other hand, though, very much like in physics, the ultimate driving force for much of human activity is gravity, and in the context of political economy it arguably means existing economic and social structures and their institutional underpinnings. As such, the Eurasian integration can and should be seen through the prism of current and potential complementarity of its constituent national economic systems. For any project in economic integration, be it a preferential trade agreement or a customs union, is essentially an attempt to bring together different production capacities to develop welfare synergies that would be not only big enough to compensate inevitable economic, political and social tradeoffs, but also provide for a more or less fair distribution of concurrent benefits, i.e. in line with realistic expectations of integrating partners (Mattli 1999; Laursen 2010).

Some economists, particularly those favoring classic Riccardian views, put it more bluntly, that is, integration works out if there is more trade creation than trade diversion (Viner 1950; McKay et al. 2005). As argued in a World Bank analysis of early postsocialist trade developments, "trade creation results in improved wel-

fare … for much the same reasons as increased trade improves a country's welfare … [while] trade diversion is typically (but not necessarily) welfare reducing" as members of an integration bloc must pay more for imports by suppliers from less efficient partners (Michalopolous & Tarr 1997, p. 5). This argument echoes earlier assumptions by Balassa (1974) with regard to European integration that "welfare effects of the increased exchange of consumer goods take largely the form of improvements in the efficiency of exchange […] while horizontal and vertical specialization permits the exploitation of economies of scale" (p. 123). One can expect then that successful integration projects lead to increasing volumes and shares of mutual trade among their members, which should also be true for other key economic variables, notably investment, labor and technology exchange. This idea will stem through the first, economic, part of the article: it will start with scrutiny of mutual trade data for the EAEU, which will then be brought together in a single driving-force framework with data on mutual investment, labor and output across three broad sectors: agriculture, commodities and manufacturing. In response to a popular association of the Eurasian integration with Russia, the second part of the article will focus on geopolitical considerations, notably the argument that the EAEU may be a vehicle of external activism to divert attention from internal issues generated largely by neoliberal ways of postsocialist transformation.

Finally, as important as it may be for the postsocialist discourse, the EAEU is only one among a plethora of multi-national organizations around the world, and its political economy analysis would undoubtedly benefit from the use of a comparative framework. The choice of the European Union here is determined not only by some official allegiances (see Pivovar 2015 above, for example), immense common borders and history, but also by increasingly obvious geopolitical rivalry in the region, most evident in case of Ukraine. Given the importance and unique nature of postsocialist context for the EAEU, as well as its relative "youngness", the choice of EU may not be the optimal one. Nevertheless, it appears worth of a serious consideration as the Eurasian project is already based on substantial Soviet institutional legacy and has succeeded in establishing some new intergovern-

mental structures that at least formally place it in the special category of a regional integration, as most of its other attempts either lack similar ambitions or fail to develop into projects with "substance" (mostly economic).

2. Economic considerations

2.1. Trends in the EAEU mutual trade

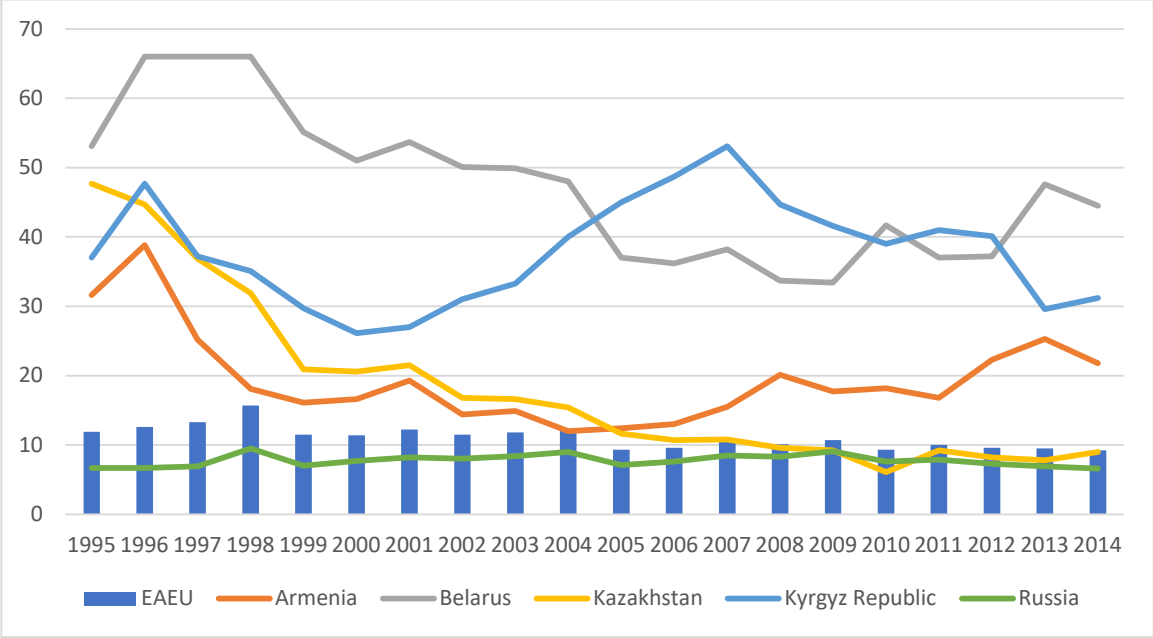
An obvious starting point for investigation of economic aspects of any modern integration project from a political economy perspective relates to a profile of mutual merchandise exchange. Hereto integrating partners are expected to have quite intense trade links, reflected not just in high shares of mutual merchandise exchange, but also in its complimentary and/or diversified nature. Usually, such patterns evolve historically and, geography aside, involve many other commonalities, i.e. cultural, ideological, religious, etc. At the onset of European integration, for instance, the level of mutual trade among its founding members (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) stood at about one third of total (for Benelux it was close to a half) and progressing more actively than trade with the outside world (UNDESA 1960, p. 161). These countries "traded chiefly with each other" and mostly "exchanged manufactured goods", also exporting them to "agricultural countries of Europe" while importing "primary products from them" (UNDESA 1949, p. 174). And the strength of historical European trade patterns was best exemplified by Germany: "one of the chief trading partners of the western European and Scandinavian countries" before the World War II, it saw its role greatly diminished in the immediate postwar period (to just a few percentage points in exports of its future European Economic Community partners), yet promptly recovered in the decade preceding the conclusion of the Treaty of Rome in 1957 (UNDESA 1948, p. 176; OECD 1963, p. 35). When the EEC Customs Union was launched in 1968, the share of internal exports was as much as 62.5% for France, 38.3% for Germany, and 55.4% for the Netherlands (OECD 1969a, p. 67; OECD 1969b, p. 67; OECD 1969c, p. 58).

If the Eurasian Union is indeed modeled at its European neighbor, then one would expect a substantial degree of mutual trade at least among its three founding members: Belarus, Kazakhstan and Russia. It would be particularly natural given their common Soviet background and very high level of mutual merchandise exchange shortly after the break-up of USSR, i.e. in the early 1990s. Notably, according to Michalopoulos and Tarr (1997), in 1992 the share of intra-regional (i.e. among all 15 ex-Soviet republics) exchange for Belarus stood at 79% on the export side and 76% on the import one, for Kazakhstan it was 96% and 100%, and for Russia 72% and 86% per cent respectively (p. 28).[1] On average for these three countries and for the period between 1992 and 1995 mutual merchandise exports constituted 55.5% of respective total, while imports were 60.8%, well in line with corresponding EU figures if not for its early period, than at least for a similar chronological period (1993-1995): 63.3% for exports and 62.6% for imports (ECs 2003, pp. 18, 20, 92). These were also considerably larger than corresponding shares for the whole of the ex-USSR: 43% and 50% respectively.[2] By the start of the global financial crisis and towards the formation of the EAEU, though, mutual trade among its members has substantially decreased in relative terms. Measured by the cumulative export share (i.e. the ratio of exports of the future EAEU members to themselves against their total exports), it fell from a peak of nearly 16% in 1998 to just over 9% in 2014, the year preceding the formal launch of the EAEU. However, these dynamics accrue mostly to Russia, while for its smaller Eurasian partners the respective decreases were much more substantial (see Figure 1), despite a fivefold absolute increase of mutual trade between the late 1990s and 2007-08, from around 10 to 50 bn USD.

[1] For Kazakhstan the actual import figure is 110.1%, which may be caused by highly volatile macroeconomic conditions in the period that affected the accuracy of trade statistics.

[2] Here one must not fail to note an early deviation of two smallest Eurasian partners, Armenia and Kyrgyz Republic, from trade patterns typical of their bigger peers: already in 1992 their intra-regional exports stood at 58% and imports at just 46%, while the corresponding figures for the whole period were about only 30% on both sides, i.e. twice as low as for their three future Eurasian partners.

Figure 1. Mutual exports in the EAEU, 1995-2014.



Source: UNCTAD 2019.

These regressive mutual trade trends are particularly remarkable given the fact that just as its European counterpart, the Eurasian block is based on a customs union[3] which historically implies rather high and progressive mutual trade trends. Yet by the (re-)launch of the Customs Union of Belarus, Kazakhstan and Russia, their mutual trade measured by exports stood at just 12% of total external merchandise exchange, which compares quite unfavorably with respective figures for the EU both in 1968 (when the Customs Union of the European Communities "opened for business") and in the concurrent period, as well as with the aforementioned early 1990s data (EC 2018; EEC 2019). Not much has changed a decade later: in 2018 mutual trade in the EAEU stood at just 11%, or nearly six times less than a respective figure for the EU in 2017 (see Table 2).

[3] There were several attempts to create it in the former USSR, and the current one dates to 2009-2010, as the corresponding treaty establishing the Union was signed by presidents of Belarus, Kazakhstan and Russia on 19 December 2009 in Astana, while its common customs tariff took in the following two years, partially on 1 January 2010 and fully on 1 July 2011 (Vinokurov 2018, p. 6).

Table 2 - Mutual exports in the EAEU, 2009-2018.

Country/bloc	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Armenia	17.7	18.2	16.8	22.3	25.3	21.8	15.6	21.7	24.9	27.1
Belarus	33.4	41.7	37.0	37.2	47.6	44.5	40.9	48.2	46.4	41.3
Kazakhstan	9.2	6.1	9.2	8.2	7.8	9.0	11.1	10.7	10.6	9.7
Kyrgyz Republic	41.6	39.0	41.0	40.1	29.6	31.2	25.4	31.8	30.7	31.2
Russia	9.1	7.6	7.9	7.3	6.9	6.6	7.1	8.9	8.3	8.6
EAEU	10.7	9.3	10.0	9.6	9.5	9.2	9.8	11.9	11.2	10.8
EU	66.9	65.4	64.5	62.8	62.0	63.2	63.2	64.1	64.1	-

Sources: Eurostat 2019, UNCTAD 2019.

Equally if not more problematic looks the composition of mutual merchandise trade in the EAEU: for the large part it is formed by natural resources, whereas in the EU both originally and at present it has been dominated by manufactured goods. Such a domination is important because it reflects transcending nature of value creation in an integration project, whereby in search of better returns on their surplus capital companies from members with more sophisticated economic structures tend to engage in cooperative arrangements with counterparts from economically less sophisticated and/or smaller partner states, particularly neighboring ones. A clear example of such a cross-border arrangement in the EU is its "new industrial core", according to the IMF experts comprising Austria and Germany on the one hand, and Czechia, Hungary, Poland (notably its south-western region of Silesia) and Slovakia on the other hand (IMF 2013). Ultimately, cross-border value creation process can be seen as a "sticking substance" for sustainable integration projects, which otherwise fail to live up to their typically inflated original expectations.

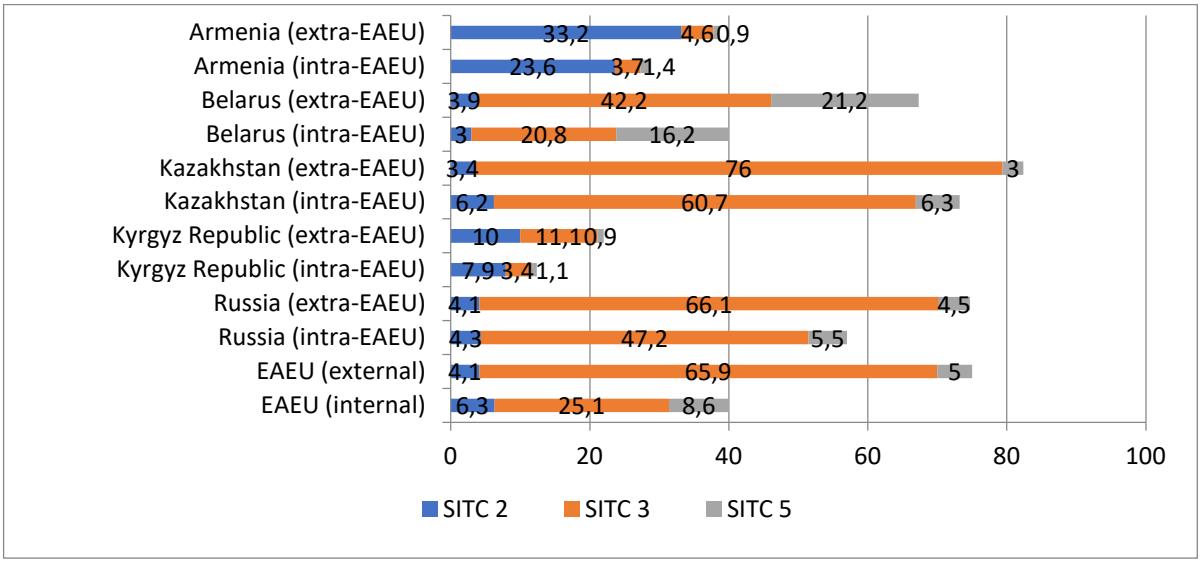
There is certainly not enough of such a "substance" in the EAEU, at least as suggested by the current profile of its mutual trade. Indeed, in 2018 as much as 40% of the latter consisted of commodities, including 25.1% of coal, gas, and oil (SITC 3)[4] (EEC 2019). Manufactured goods (SITC 6, 7, 8) accounted for 43.3% of total mutual merchandise trade among five Eurasian partners, including just 18% of

[4] SITC – Standard International Trade Classification, in its current 4th version was accepted by the United Nations Statistical Commission at its thirty-seventh session in March 2006 (UNSTAT 2008).

machinery and transport equipment (SITC 7). By contrast, in the EU the latter occupied as much as 37.2% of the total mutual merchandise exchange, while the combined share of manufactured exports in 2017 stood at 64.4% (Eurostat 2019). Moreover, among all 28 EU members, the latter stood for less than half of respective mutual totals only in Belgium (49.4%), Lithuania (47.3%), Cyprus (40.1%) and Greece (39.5%), while among 5 EAEU partners they were predominant only in Belarus, at 56.5% in 2018. Yet even this relatively high share compared quite feebly to respective figures of the EU "champions" in mutual trade by manufactures (SITC 6, 7, 8): Czechia (84.6%), Slovakia (84.3%) and Romania (83.3%) in 2017 (Eurostat 2019). Likewise, if one took Germany and Russia as the largest members of their integration blocs, the figures would similarly speak for themselves, especially as far as mutual machinery exports (SITC 7) are concerned. Notably, in 2018 manufactured goods accounted for 39.9% of Russia's intra-EU exports and for 71.1% of Germany's intra-EU ones, while the shares of machinery and transport equipment were 16.8% and 45.5% respectively, or nearly three times in favor of Germany (EEC 2019; Eurostat 2019).

By all means this comparatively and inherently unfavorable for the EAEU trade structure stems foremost from the specifics of Russia's merchandise trade, as it stood for as much as 84 per cent of the block's external trade and 65 per cent of its internal trade in 2018 (EEC 2019). Since the mid-1990s, they have been characterized by increasing commodity exports overshadowed by dwindling shares of manufactures in total exports. As a result, Russia developed a trade profile typical of most developing countries and was often depicted as a modern case of the so-called "Dutch disease" (Welfens & Kauffmann 2005, pp. 10-11; Economist 2011, p. 76). Very similar patterns are true for Kazakhstan and seem to be developing in smaller EAEU members (with an exception of Kyrgyz Republic, where most of external trade is unclassified), at least if one judges by the shares of merchandise groups usually associated with commodities (SITC 2: inedible crude materials; SITC 3: mineral fuels and related materials; SITC 5: chemicals and related products) (see Figure 2).

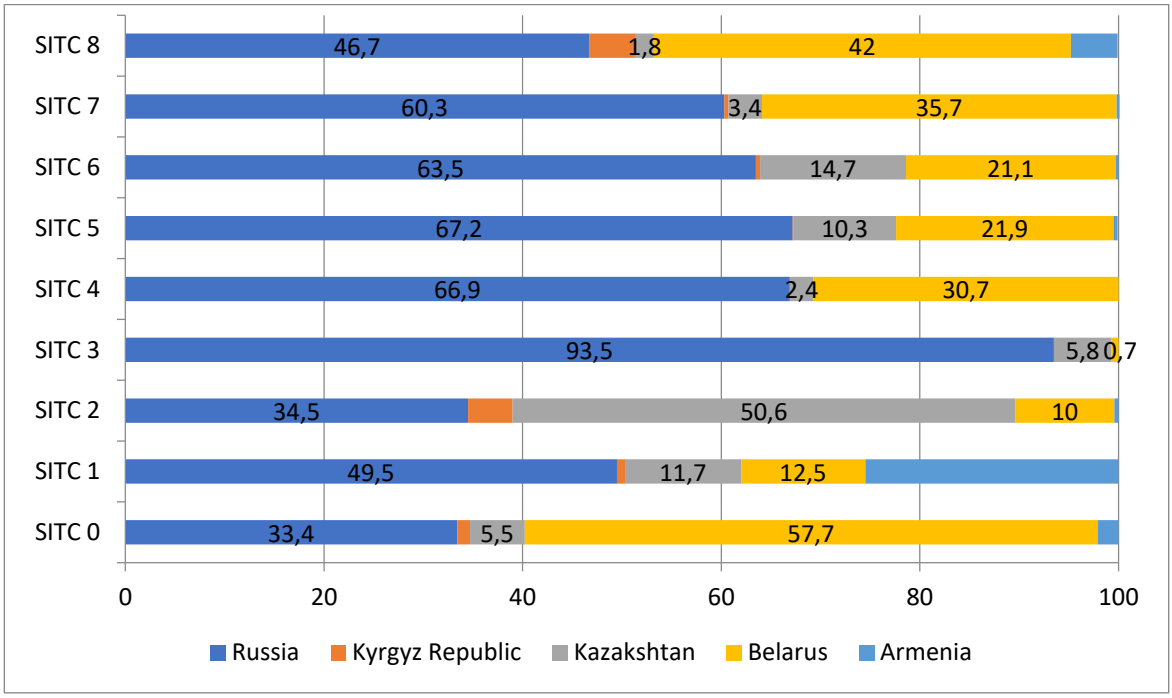
Figure 2. Domination of commodities in the EAEU exports, 2018.



Source: EEC 2019b.

To be sure, in absolute terms Russia's manufactured exports (SITC 7) have dominated the mutual merchandise exchange of the EAEU before and since its creation, yet their share has been comparable to that of Belarus, a much smaller economy (see Table 1). In fact, despite its minor proportions vis-à-vis two other founding members of the EAEU and the Customs Union, in intra-EAEU exports Belarus comes second by most SITC categories, leaving even Russia far behind in mutual food exports (SITC 0). There is also a visible ascending trend in Belarus' shares of mutual trade in the upper SITC categories (5-8) related to manufacturing, reflecting the country's industrial expertise inherited from the Soviet Union and upheld during the transformation (see Figure 3).

Figure 3. Domination of Russia in the EAEU mutual exports by SITC categories, 2018.



Source: EEC 2019b.

2.2. Trends in the EAEU mutual investment

The dynamics and sector-specific structure of cross-border investment in the EAEU have generally resembled those of the mutual merchandise exchange in the bloc. Thus, according to the Center of Integration Studies of the Eurasian Development Bank, which between 2011 and 2017 conducted the monitoring[5] of mutual investment in the non-Baltic former Soviet republics, in 2016 (the latest available period) the total stock of mutual FDI in the EAEU stood at 26.7 bn USD, which was less than a similar figure for 2012, further confirming stagnancy of mutual economic intercourse in the region (see Table 3). Just as with mutual trade,

[5] Methodologically, it is based on open-source media analysis of reports on cross-border FDI with further expert verification (EDB 2017). This approach, despite some reservations about its reliability, is similar to the one used by UNCTAD as the ultimate source of internationally comparable FDI data.

Russia was the source of 21 bn USD, or nearly 80% of total mutual FDI in the EAEU, and the recipient of just 5 bn USD, or 19% of the respective total (EDB 2017, p. 42). Yet as far as Russia's outward investment in the EAEU is concerned, it was just a fraction of its total outward FDI stock for the period, and mostly related to commodity sector.

Table 3 - Trends in mutual FDI in the EAEU, 2012-2016.

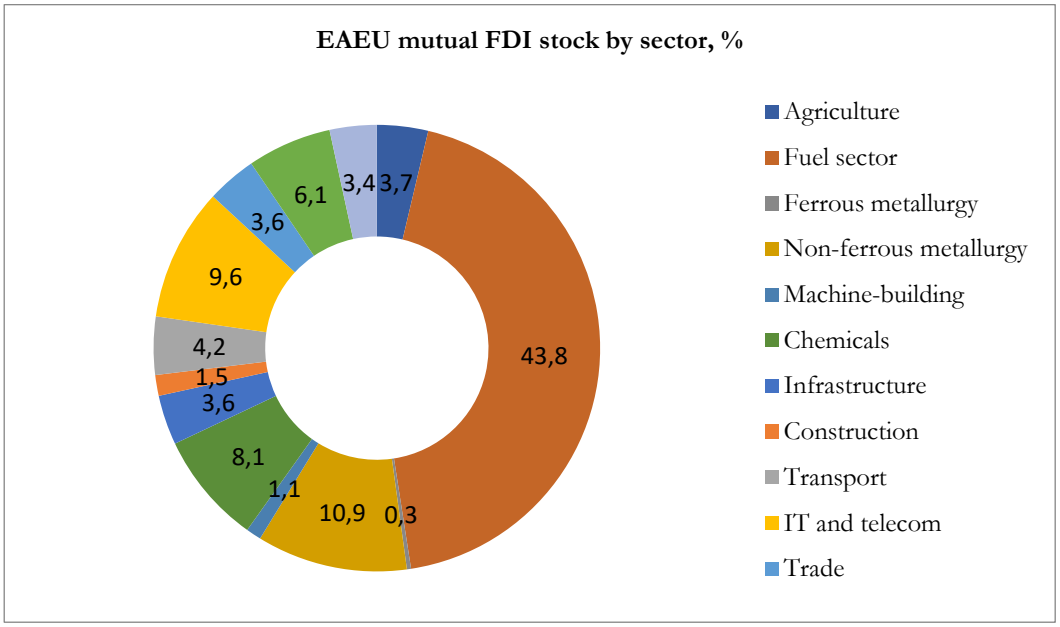
Country	2012	2013	2014	2015	2016
Inward stocks	*Billions of USD*				
Armenia	1.94	2.21	3.06	3.06	3.44
Belarus	7.55	7.92	8.31	8.36	8.60
Kazakhstan	10.91	9.32	9.12	7.13	8.25
Kyrgyz Republic	1.10	1.14	1.33	1.51	1.47
Russia	4.70	3.35	3.24	3.57	5.01
EAEU total mutual FDI stock	26.20	23.94	25.06	23.63	26.76
Russia's EAEU outward FDI stocks	21.06	20.01	21.06	19.26	21.03
In % of total EAEU mutual FDI stock	80.38	83.58	84.04	81.51	78.59
In % of total outward FDI stock (below)	6.33	5.19	6.39	6.81	6.29
Russia's total outward FDI stock	332.83	385.32	329.82	282.65	334.27
Kazakhstan's total outward FDI stock	22.93	23.37	25.56	26.75	23.47
Total outward FDI stock of Armenia, Belarus and Kyrgyz Republic	0.81	1.02	0.95	1.20	1.34

Sources: EDB 2017, UNCTAD 2019.

It should come as no surprise, then, that in the aggregate intra-EAEU FDI stock the share of machine-building, a manufacturing sector with arguably the highest value-added potential beneficial both for development of the Eurasian partners and internal cohesion of their integration project, stood at miniscule 1.1% in 2016 – the lowest among all 13 sectors identified by the experts from the Eurasian Development Bank. Overall, commodities were responsible for as much as 55% of mutual FDI stock in the block, and nearly two thirds (63%) if taken together with a closely related chemical sector (see Figure 4). The remaining third related to services, mostly telecommunications, finance and retail (these three sectors accounted for one fifth of total intra-EAEU stock). Agriculture accommodated just 3.7%, or one billion USD, which was on par with corresponding figures for such sectors as

utilities, retail and tourism. In turn, the absolute amount of mutual FDI in machine-building for the whole period covered by the EDB monitoring was just 300 million USD, or one fifth of a German carmaker VW investment in just one plant in Russia over 13 months between October 2006 and November 2007 (Busvine 2007).

Figure 4. Structure of mutual FDI in the Eurasian Economic Union, 2016.



Source: EDB 2017.

2.3. The EAEU current and potential driving forces

From a classical political economy perspective, the economic fundamentals of the Eurasian integration specified above are important mostly because of their welfare implications stemming from potential synergies in value creation. They are also instrumental for identifying the scope of implicit support for the EAEU by those who have direct stakes in its progress, i.e. employed in sectors with the highest shares of mutual exchange, both merchandise- and capital-related. For the bloc in general, such sectors are related to commodities, especially hydrocarbons (oil and gas) and metals. On the individual level, though, it is true only for Russia and Kazakhstan, but not for the smaller members. Because of their scale problems the lat-

ter are also likely to have a generally higher interest in the Eurasian integration project as it promises them easier access to the large, vibrant, but foremost geographically, culturally and historically close Russian consumer market.

Bringing together data on trade, investment, employment and output requires a certain extent of discretionary generalization. Notably, given the specifics of the Eurasian mutual exchange, both merchandise and capital, it seems justified to identify three broad economic sectors that may not strictly coincide with criteria of existing classifications, i.e. those by the United Nations. The first such a sector is agriculture, and as far as foreign trade is concerned, it mostly falls into SITC 0, 1 and 4 categories. The next sector covers primary and semi-finished products as found in SITC 2, 3 and 5 categories, and may be referred to as "commodities". Finally, the third sector is manufacturing, represented by SITC 6, 7 and 8 categories.[6] Using statistical data provided by the Eurasian Economic Commission, which claims to adhere to the UN trade statistics standards revised in 2010 (EEC 2018), one can draw a table showing relative importance of the identified three sectors for the EAEU and its individual members in particular (see Table 4).

Table 4 - Relative importance of agriculture, commodities and manufacturing sectors in the EAEU merchandise exchange, 2015/2018.

Bloc/country	**Agriculture (SITC 0, 1, 4)**		**Commodities (SITC 2, 3, 5)**		**Manufacturing (SITC 6, 7, 8)**	
	2015	*2018*	*2015*	*2018*	*2015*	*2018*
Armenia	72.1	51.9	4.6	4.9	19.5	36.1
Belarus	35.0	31.3	13.1	11.6	51.0	56.6
Kazakhstan	8.8	8.3	64.7	55.4	22.3	36.1
Kyrgyz Republic	25.8	18.1	18.0	30.5	52.6	49.0
Russia	8.2	7.7	52.7	49.1	36.2	39.8
EAEU mutual exports	15.3	13.9	43.9	40.3	38.3	43.4
EAEU external exports	*4.2*	*4.9*	*74.5*	*75.3*	*15.1*	*14.5*

Source: EEC 2019b.

[6] One of the obvious shortcomings of this approach is that SITC 6 includes goods that may have closer association with commodities than with manufacturing, e.g. metals.

Although marginally, still for the EAEU as a whole mutual trade in manufactures in 2018 exceeded that in commodities. It also grew by 13% over the first three years of the EAEU existence, and was three times larger than the volume of mutual trade by agriculture products. However, on the country level mutual manufacturing trade was dominant only in Belarus,[7] which also had the lowest share of commodities in the EAEU merchandise exchange, and the second largest share of agriculture products. Commodities were predominant in the EAEU-bound exports of Kazakhstan and Russia, which also had roughly similar shares of agriculture and manufacturing products. In the EAEU external exports the latter stood at just 15% in 2018, implying that the bloc's internal trade has been much more progressive than its external one.

Table 5 - Relative importance of agriculture, commodities and manufacturing sectors in the EAEU mutual investment exchange, 2016.

Bloc/country	Agriculture	Commodities	Manufacturing
	% of respective total FDI stocks		
Armenia	0.1	38.6	1.7
Belarus	0.8	73.0	0.9
Kazakhstan	1.6	75.2	1.6
Kyrgyz Republic	0.0	26.0	0.9
Russia	15.8	47.6	0.5
EAEU	3.7	63.1	1.1
	% of respective non-service FDI stocks		
Armenia	0.2	95.5	4.2
Belarus	1.1	97.7	1.2
Kazakhstan	2.0	95.9	2.0
Kyrgyz Republic	0.0	96.7	3.3
Russia	24.7	74.5	0.8
EAEU	5.4	92.9	1.6

Source: EDB 2017.

[7] A relatively high share of manufacturing in case of Kyrgyz Republic should be viewed with caution as on average 45% of this country's merchandise exports between 2015 and 2018 were unclassified (see p. 9).

According to the data from the latest available monitoring report on mutual FDI in the Commonwealth of Independent States by the Center of Integration Studies of the Eurasian Development Bank (EDB 2017), there are no grounds for a similar assessment of mutual FDI stocks in the EAEU. Notably, the share of commodities in the latter stood at as high as 93% if services are excluded from total stocks, while manufacturing took a mere 1.6%. The absolute domination of commodities here is not affected even with the inclusion of services in the estimate of the EAEU mutual FDI stocks (see Table 5).

However, when it comes to employment either on aggregate or national levels, the role of commodities in the EAEU is insignificant. According to the relevant data from the statistical database of the International Labor Organization (ILO), labor markets of all Eurasian partners are dominated by services (ILO 2019). When they are excluded, agriculture comes on top in three out of five members – Armenia, Kazakhstan and Kyrgyz Republic, while in Belarus and Russia it is manufacturing that plays a leading role. Commodities are relatively more important for non-service employment in Kazakhstan and Russia, but even in these two countries their share in registered employment lags far behind that of manufacturing, especially in Russia. It hovers around a few percentage points in other three members, well in line with arguments about low employment potential of this sector and hence its political economy impact on regional economic integration. For the EAEU as a whole, commodities provided just 1.9 million jobs in the ILO-reported total labor force of 87 million in 2017, or just 2% (9% of the non-service total of 20.5 million). In the same period manufacturing jobs totaled 11.7 million, or more than six times more, taking the highest share in the non-service employment with 57% of the respective total, followed by agriculture with 7 million jobs and one third in this total (see Table 6).

Table 6 - Relative importance of agriculture, commodities and manufacturing sectors in the EAEU employment, 2017.

Bloc/country	Agriculture	Commodities	Manufacturing
	% of respective total labor forces		
Armenia	33.4	0.9	8.2
Belarus	10.7	0.6	18.4
Kazakhstan	15.1	3.4	6.5
Kyrgyz Republic	26.7	0.4	7.6
Russia	5.9	2.2	14.2
EAEU	8.0	2.1	13.4
	% of respective non-service labor forces		
Armenia	79.3	2.1	18.7
Belarus	35.1	1.8	63.1
Kazakhstan	64.6	12.1	23.2
Kyrgyz Republic	76.7	1.1	22.1
Russia	28.8	9.4	61.8
EAEU	34.0	8.9	57.0
		Thousand jobs	
EAEU (total including services - 87293)	6998	1869	11674

Source: ILO 2019.

A political economy profile of the EAEU gets more controversial if key output characteristics are included in the analysis. Notably, commodities do not seem to play dominant roles suggested by their shares in mutual (as well as external) merchandise and investment exchange. Indeed, even for Kazakhstan and Russia their importance in terms of GDP seems relatively minor. Nevertheless, when services are excluded commodity shares become more crystallized, closely resembling the ones observed in mutual merchandise trade profiles both on the EAEU and national levels (see Table 7).

Table 7 - Relative importance of agriculture, commodities and manufacturing sectors in the EAEU output, 2017.

Bloc/country	Agriculture	Commodities*	Manufacturing
		% of respective GDP	
Armenia	16.3	8.4	11.2
Belarus	9.0	5.4	25.6
Kazakhstan	4.7	16.3	11.9
Kyrgyz Republic	13.8	3.5	16.9
Russia	4.5	12.6	13.2
EAEU	4.3	11.5	12.2
		% of respective non-service GDP	
Armenia	45.4	23.4	31.2
Belarus	22.5	13.5	64.0
Kazakhstan	14.3	49.5	36.2
Kyrgyz Republic	40.4	10.2	49.4
Russia	14.9	41.6	43.6
EAEU	15.4	41.1	43.6

Note: refers to mining and utilities which stand undivided in the source
Source: UNCTAD 2019.

In an attempt to summarize the political economy profile of the Eurasian integration project, one can draft a matrix that would juxtapose the findings on mutual merchandise trade and non-service investment with those on non-service employment and output using the tripartite sector approach (see Table 8). On the one hand, a very close observable correlation between mutual trade and non-service output here is an obvious sign of the EAEU relative fundamental strength, reinforced by the leading role of manufacturing, particularly in employment (on the aggregate level, and for Belarus and Russia on the country level). On the other hand, a similarly strong position of commodities in mutual trade and especially investment indicates that EAEU is still struggling to maintain its positive momentum as surplus capital raised through commodity exports of its leading partners is not used for establishing robust regional value chains in agriculture and manufacturing but is instead channeled abroad.

Table 8 - Political economy profile of the EAEU: mutual merchandise trade, mutual FDI stocks, non-service employment and output in agriculture, commodities and manufacturing sectors, 2017.

Bloc/country	Agriculture	Commodities	Manufacturing
	% of respective EAEU total		
Mutual merchandise trade	13.9	40.3	43.4
Non-service mutual FDI stocks	5.4	92.9	1.6
Non-service employment	34.0	8.9	57.0
Non-service output	15.4	41.1	43.6

Source: UNCTAD 2019.

Indeed, the stock of mutual FDI in the EAEU is more than dwarfed by the cumulative external FDI stocks of Kazakhstan and Russia (see Table 4), which, in turn, may be just a tip in the iceberg of money moved out of the region through various channels. For instance, only in the first three years of the EAEU existence net registered private capital outflows from Russia exceeded 100 bn USD, whereas the total of such outflows for the whole period of postsocialist transformation can well be over a trillion (CBR 2018, p. 34). And while the issue of capital flight may be less severe for other Eurasian partners, it may be one of the key reasons for the apparent procrastination with modernization in general and reindustrialization in particular as arguably the key factors of the EAEU macro-competitiveness.

2.4. Postsocialist context and deindustrialization

An inquiry into the economic aspects of the Eurasian integration would be incomplete without mentioning postsocialist transformation that formally started with USSR breakup and has since been equally acute for all partners to the EAEU. From a political economy viewpoint, transformation (also frequently referred to as "transition") essentially amounts to replacing socialism based on collective-centered communist ideology with capitalism based on individual-centered liberal one (Offe 1991). Lacking historical precedents, this process has not occurred as smoothly as might have been initially envisioned by its Western proponents and has arguably not been accomplished even in those postsocialist countries that joined the WTO, EU,

OECD and are considered its showcases. As far as Eurasian partners are concerned, all of them initially adopted mainstream neoliberal prescriptions of liberalization, privatization and restructuring, which brought about immediate and severe public costs but not much, at least in the 1990s, public welfare (Ellman 2000). Consequently, some future EAEU members chose to ditch neoliberalism yet in the mid-1990s (Belarus), while others (Armenia and Kyrgyz Republic) dragged along apparently because it helped them secure foreign funds necessary to keep macroeconomic stability in the face of mounting trade deficit and foreign debt. Arguably, for much of the 1990s and early 2000s Russia has been one of the most ardent and important adepts of neoliberalism in the entire postsocialist world, while Kazakhstan preserved its neoliberal allegiance well into the late 2010s (Aslund 2012). In both cases, though, continued neoliberal practices might have been determined not so much by some sort of elite enlightenment as by hefty natural resources that helped to mitigate substantial social costs of the transformation. Postsocialist options of resource-poor Armenia, Belarus and Kyrgyz Republic were far more restricted due to their much smaller resource endowments, Soviet inheritance (especially industrial, as for example in the case of Belarus), and geography (all three are land-locked, with Armenia and Kyrgyz Republic also located in mountainous terrains sparred of transport infrastructure typical for similar locations, for example, in OECD countries).

Among numerous effects related to the early adoption of neoliberalism by the future Eurasian partners deindustrialization, perhaps, is the one that has had the greatest impact on the unfavorable (from a development perspective) profile of the EAEU mutual merchandise and investment exchange uncovered in sections 2.1 and 2.2. In 2017, the bloc's aggregate manufacturing value added (MVA) measured in constant 2010 international dollars was marginally but still lower than in 1990, whereas in the same period the aggregate MVA of the European Union increased by a half (UNIDO 2019). In both cases the dynamics have arguably been set by those of the largest members: Russia in case of the EAEU, and Germany in case of the EU. Russian manufacturing output halved in the first years of postsocialism,

and failed to recover fully even two decades later, standing at one tenth less in 2017. By contrast, despite its minor decrease in the early 1990s, in the whole specified period Germany's MVA increased by two fifths, which helped to nearly double its lead over Russia compared to 1990 (see Table 9). As far as other EAEU members are concerned, there is a clear divide between Belarus and Kazakhstan on the one hand, and Armenia and Kyrgyz Republic on the other hand. While the former two managed not just to uphold but to significantly increase their manufacturing output, the latter saw it falling by as much as a half. In the EU such a dramatic drop was not experienced even by Greece, where MVA grew by a quarter between 1990 and 2008, having contracted by nearly a third since then, on the background of the debt crisis and ensuing austerity measures imposed by foreign creditors.

Table 9 - Trends in manufacturing value added in EAEU and EU, 1990-2017.

Country/bloc	**1990**	**1995**	**2000**	**2005**	**2010**	**2015**	**2017**	**2017 to 1990**
	Billions of constant 2010 international dollars							*%*
Armenia	2.2	0.4	0.5	0.9	0.9	1.2	1.3	58.2
Belarus	5.0	3.1	5.0	8.7	13.3	13.8	13.8	275.3
Kazakhstan	10.0	7.2	8.7	13.5	16.8	19.4	19.6	197.3
Kyrgyz Republic	1.7	0.4	0.7	0.7	0.8	0.8	0.8	49.6
Russia	238.7	121.6	140.0	187.2	195.0	216.8	217.6	91.2
EAEU	257.5	132.6	154.8	210.9	226.7	252.1	253.1	98.3
EU	1825.8	1860.9	2152.9	2309.5	2344.7	2565.1	2689.1	147.3
Germany	574.6	549.1	608.9	643.3	682.0	775.0	812.0	141.3
Greece	21.2	20.3	22.9	26.6	21.7	18.6	18.4	86.8

Source: UNIDO 2019.

Admittedly, postsocialist deindustrialization of the Eurasian partners may be related not only to neoliberal ways of their transformation, but also to structural aspects of the inherited Soviet industrial sector and its general lack of competitiveness on open global markets. Nevertheless, Soviet industry was not unique in lack of global competitiveness, and perhaps no less competitive than China's state-owned industrial enterprises during the 1980s, yet it did face unique challenges of adapting not only to mountainous technological changes of the period, driven by

automatization and IT, but also to the collapse of existing economic ties, a stream of new regulations, and fierce competition resulting from ideologically-motivated radical liberalization (neoliberal "shock therapy"). Coupled by similarly radical transformation of property relations (privatization) and exodus of most talented professionals (either abroad or into emerging private sector), these multiple challenges proved detrimental for much of the postsocialist industry, in particular its most knowledge-intensive sectors such as electronics and machine-building, consistently forming the bulk of OECD exports in SITC 7 category of their trade statistics.

3. Geopolitical aspects

The geopolitical background of the Eurasian project is important due to the increasingly globalized nature of contemporary international relations in general and highly politicized global public perceptions of Russia and its external policies in particular. Even among experts, particularly in the West, the Eurasian integration tends to be closely associated with Russia, which is understandable yet rather unhelpful from an academic perspective. Indeed, the EAEU may be dominated[8] by Kremlin in all realms, yet in the modern history there has been no precedent of a power arrangement where Russia would be presented on at least formally equal terms with its neighbors, and in this respect the EAEU is an obvious breakthrough for the regional politics (Libman 2017).

However, as the analysis in the previous section should have demonstrated, the bloc is still to become a similar breakthrough for regional economics. Indeed, on the aggregate level it has so far failed to achieve visible advances not just in mutual merchandise trade, a cornerstone of any successful integration project, but also in other forms of economic exchange, notably foreign direct investment. This

[8] Domination here is understood foremost in economic terms scrutinized in the preceding section and does not necessarily equal to the notion of "hegemony" favored in some Russia-focused traits of contemporary political science literature. Nevertheless, it is this economic domination which arguably has the greatest impact on the nature and style of decision-making related to the functioning of the EAEU. Notably, since Russia's external economic standing is mostly shaped in "corporate hydrocarbon logic", it has little if any internal impetus for streamlining EAEU regulation of internal trade. This may be a key factor behind reportedly slow progress in removing numerous barriers to internal trade despite the establishment of a special task force within the Eurasian Economic Commission as early as in March 2016 (EEC 2019a).

is especially clear if one compares the EAEU with its western neighbor and counterpart, the European Union. Despite numerous internal and external challenges, including those determined by enlargement and globalization, the latter has not only managed to uphold high levels of mutual merchandise and capital exchange, but also their predominantly industrial nature, critical in the era of internationalized production along global value chains.

By contrast, the EAEU still seems to be "chained" foremost by gas and oil pipelines rather than anything else (Balmaceda 2013, 2017). Given their predominantly Russian roots, it is not surprising that the bloc is frequently considered a modern incarnation of Russian regional "hegemony" (Delcour & Kostanyan 2014; Balakishi 2016). Indeed, developments around Ukraine, as well as Armenia's 2014 last-moment turnaround in negotiations with the EU in favor of the entry into the EAEU, seem to justify such views. They also go well in line with popular anti-Russian sentiments in the West, which received a major boost after the secession of Crimea in 2014 and in the course of protracted hostilities in Syria. Besides, one can uncover an internal dimension in the discussion of Russian neo-imperialistic agenda (if it at all exists): by taking an increasingly activist foreign policy stance, authorities in Kremlin may seek to divert attention of their electorate from numerous internal problems generated by the country's neoliberal model of postsocialist transformation adopted in the early 1990s under Boris Yeltsin and uphold largely unchanged by his successor Vladimir Putin.

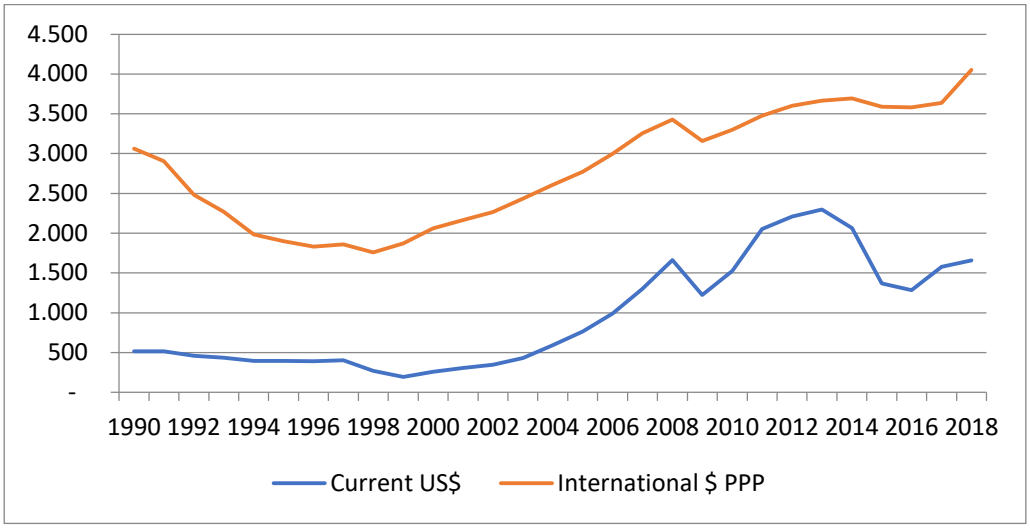
Such problems range from ageing and crippling infrastructure, particularly in remote areas, to unequal distribution of national wealth, epitomized by the phenomenon of Russian oligarchy. Essentially, they were determined by radical property reforms in the form of mass privatization that saw much of public wealth going into frequently unscrupulous private hands that chose to secure it offshore, thus diminishing local fiscal base and consequently resources for modernizing economic and social spheres inherited from the Soviet period (Abalkin & Whalley 1999; Ledyaeva et al. 2013). These new nouveau riches have naturally been interested in locking their advantages, in most cases related to commodities, by blocking any

changes not just to modalities of property relations in the country, but also to any economic measures that could transform its economic structure. As a result, Russia became a typical commodity-dependent economy[9] with untypical geopolitical ambitions highly irritating for the West.

Historically, though, it is not novel, as this nation tended to play a far bigger role first in the European and then in the global politics than what could be justified by its economic and social fortunes. What does seem novel is the role energy combined with market size play in the present regional (as well as global) power dynamics. To be sure, with the collapse of the Soviet Union, Moscow seemed to have lost its geopolitical clout, but not for long. Backed by rising commodity prices in the decade preceding the global financial crisis (and following its sovereign default of August 1998), Russia not only recovered much of its output wiped out in the turbulent 1990s, but made significant gains, particularly in current USD terms (see Figure 5). In turn, the global financial crisis might have triggered reinvigoration of practical steps towards post-Soviet reintegration that led to the formal launch of the EAEU in 2015. As usual, though, political (and for Russia mostly geopolitical) necessities have left many economic nuances neglected, which did not take long to recover in numerous trade disputes with smaller integration partners.

[9] According to the UNCTAD, a country is dependent on commodities if they exceed 60% of its merchandise exports, and if their share exceeds 80%, which was the case for every second developing country as recently as in mid-2010s, such dependence is considered strong or extreme (UNCTAD 2017, p. 19). The analysis of the merchandise trade data established strong commodity dependence for all but one member of the EAEU, namely Belarus. Notably, in 2017 share of commodities in total merchandise exports of Armenia stood at 80% (on average 76% since 2009, and 68% since 1995), for Kazakhstan the respective figures were 85%, 87% and 82%, for Kyrgyz Republic were 75%, 66% and 66%, and for Russia were 76%, 77% and 70% (UNCTAD 2019). In turn, commodities made up 46% of Belarus' merchandise exports in 2017 (41% in preceding year), with a similar average share since 2009 and 38% since 1995. It should be noted, however, that in 1995 Belarus' commodity exports constituted just 15% of its total, or nearly four times less than the corresponding average for other EAEU members in the same period. By 2018 this difference shrank to less than two times.

Figure 5. Trajectory of Russia' GDP, 1990-2018.



Source: World Bank 2019.

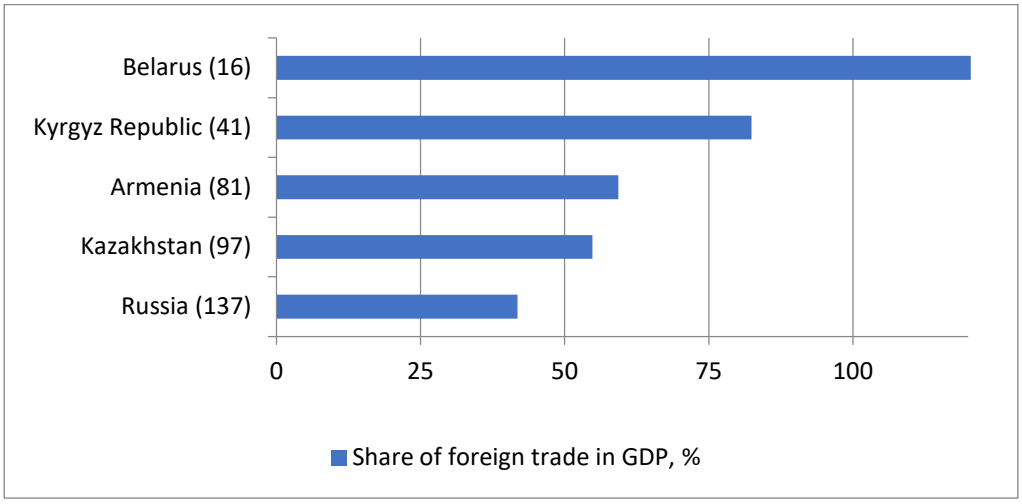
These vicissitudes have become particularly vocal in bilateral relations between Russia and Belarus in 2017-2018, and given the latter's specific geographic position and distinctive political stance towards its southern neighbor Ukraine, quickly gained a geopolitical dimension. Indeed, following a public spat between the leaders of two countries in late 2018 during an EAEU summit in St Petersburg, many observers, including those in the West, contemplated about no less than an imminent takeover of Belarus along the Crimean scenario (Carroll 2018; Ioffe 2019). Such speculations were fueled by the position Moscow took in debating with authorities in Minsk the implications of tax reforms in its oil sector. Notably, some top level Russian officials, notably prime minister Dmitry Medvedev, publicly claimed that any compensation Belarus was seeking for worsening terms of oil trade as a result of the so called "tax maneuver" was dependent on more intense integration along the lines of the Union State Treaty (Preiherman 2019).

To be sure, Belarus has long relied on special terms of energy supplies from its eastern neighbor, quite natural in the context of inherited and later upgraded Soviet-era pipeline network, refining capacity (similar, for instance, to those of Sweden or Turkey), and close political ties with Russia along the early and quite sophisticated bilateral legal framework (BP 2018). Moreover, the country was the first

among its post-Soviet peers to enter into formal agreements with Moscow, having signed a friendship treaty on 21 February 1995, a community treaty on 2 April 1996, a union treaty on 2 April 1997 and a declaration on further unity (25 December 1998) that preceded the aforementioned and still valid Union State Treaty signed on 8 December 1999 in Moscow (Union State 2019).

Historical, political and other considerations aside, these agreements were determined by the extraordinary economic importance of Russia for a newly independent Belarus which reflected itself foremost in foreign trade. Notably, in the early-1990s Russia' share in Belarus' exports was on average over 70%, and in the late-1990s was 60%, or several times higher than, for example, for other EAEU partners: in 1995-1999 similar average figure for Armenia was 25%, Kazakhstan 34%, and Kyrgyz Republic just 22% (UNCTAD 2019). Reorienting so much of merchandise exports to the West was hardly an option as most of them, no matter how feeble in absolute terms, were manufactured goods. Notably, their average share in total exports in the late 1990s was close to 80%, including in exports to Russia, while for Armenia the corresponding figure was 40%, and around 30% for Kazakhstan and Kyrgyz Republic, or several times lower than in the case of Belarus (UNCTAD 2019). And foreign trade played a special role for Belarus, averaging (merchandise exports and imports combined) 109% of its GDP from 1994 to 2017 (World Bank 2019). In 2017, for instance, Belarus ranked 16th globally by this measure, usually referred to as a foreign trade quota. Foreign trade has been important for its Eurasian partners, too, but to a much lesser extent (see Figure 6).

Figure 6. Importance of foreign trade for EAEU partners, 2018.



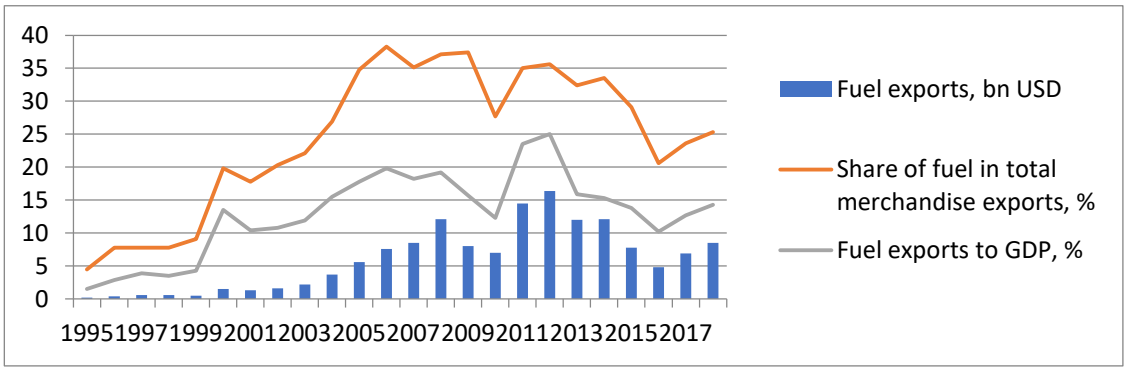
Note: in brackets – global rank among 182 countries and territories with the available data
Source: World Bank 2019.

On the background of the global commodity boom that began with the start of the new millennium, exports of fuel made from Russian crude imported on practically duty-free basis gained a major share in Belarus total merchandise outlays and foreign currency receipts (see Figure 7). As a result, the country has become frequently disdained for allegedly taking advantage from "cheap" Russian energy supplies which were attributed not just to most of its economic growth in recent decades but to the very endurance of president Lukashenka (incumbent since 1994) and his preferred model of postsocialist transformation (IMF 2012, p. 16; Dobrinsky 2016, p. 10; Soldatkin & Makhovsky 2016).

Such speculations, however, downplayed at least two important facts. First, Belarus' fuel export expansion was mirrored by its ballooning trade deficit with Russia. To be sure, since the mid-1990s the former had a positive balance in bilateral merchandise exchange with the latter only once, in 1997, when barter, or goods-for-goods exchange, was still widespread and could thus have a distortive impact. Furthermore, a cumulative deficit of Belarus in trade with Russia for the period with available data (1995-2018) amounted to no less than 125 bn USD, which was very close to the country's cumulative fuel exports in the same period, at 144

bn USD, depriving claims about alleged Belarus' profiteering of at least some empirical substance (UNCTAD 2019). Secondly, energy has been largely excluded from all trade arrangements in the former Soviet space, which is untypical for international trade practices in general and those underpinning the European integration in particular (Mattli 1999). Indeed, the very beginnings of the latter are associated with treaties establishing common markets for coal, steel and atomic energy, while in the Eurasian project creation of common energy markets was delayed until 2025, i.e. by as much as a decade from the official launch of the organization (EEC 2017; Zemskova 2018).

Figure 7. Belarus' fuel exports, 1995-2018.



Source: UNCTAD 2019.

Dragging along with the common energy agenda in the EAEU trade architecture, reportedly on the insistence of its dominant power, cannot raise suspicions about both the latter's underlying intentions and the bloc's overall future. Indeed, its short albeit rather intense history of trade disputes points at latent yet growing concerns about the divergence of driving forces of the Eurasian integration. On the one hand it gets increasingly clear that Russia values it mostly for geopolitical reasons, or as a showcase of its regional gravitational potency. On the other hand, its partners, especially Belarus, seem to be concerned foremost about economic effects, notably market access and energy supplies at present and synergies in modernization efforts, particularly related to industrialization, in the future. For them geopolitical concerns

may have mostly instrumental value. And though their bargaining power vis-à-vis Russia is ultimately restricted by differences in size (see Table 1), these nuances can be considered secondary for resolving more fundamental political economy issues of the Eurasian integration project.

4. Conclusion

Historically projects in regional economic integration have been undertaken in attempt to boost welfare through synergies resulting from trade creation. Reflecting internationalization of global production in recent decades, this traditional rationale has been expanded to include more intense cross-border foreign direct investment exchange. By both these measures the EAEU is yet to deliver: the share of mutual trade has stuck at around 12% of total, while cross-border FDI has been even less significant and actually decreased. Such dynamics were determined foremost by sector specifics of regional economic relations, as well as by the models of postsocialist transformation adopted in the early 1990s, particularly by Russia as the biggest partner and one of the keenest adepts of neoliberalism in that period. Indeed, following rapid deindustrialization along "discipline and encouragement" neoliberal agenda in the spirit of the original "Washington consensus", mutual merchandise and investment exchange in ex-USSR, including among its Eurasian partners, was swiftly dominated by commodities. At the same time, the natural appetite for consumerism, previously restrained by ideology but unleashed with the Soviet demise, was no less swiftly met by imports, helped by eased access to foreign finance eventually settled in foreign debt (Yarashevich 2013, p. 211). The global financial crisis did trigger some changes in these patterns, which were helped by new geopolitical positioning of Russia. One can observe this in relatively higher shares of manufacturing when it comes to mutual merchandise trade, as well as regional employment and output profiles. Yet these trends have not been backed by intense mutual capital exchange, and this may pose one of the most serious political economy challenges for the future of the Eurasian integration.

As argued in 2012 by the authors of the EBRD's flagship "Transition report" dedicated to regional economic integration, the latter "has the potential to bring multiple economic benefits" provided that the following issues are dealt with: non-tariff barriers to trade are lowered, cross-border infrastructure is improved, the use of tariff barriers with other countries is limited, market access to service sectors is liberalized, and institutions at the level of regional performance are strengthened (EBRD 2012, p. 63). There is also an interesting view that regional economic integration nowadays aims at bridging fragmented economic activity along global value chains with trade rules originating more than half a century ago, prior to the onset of the digital era (Baldwin 2011). But meeting these ambitious goals implies foremost the absence of restrictions in trade among partners (free trade zone) and a unified approach to third parties (customs union).

Featuring these prerequisites formally, the EAEU is still lagging behind with their practical implementation, which is testified by stagnant dynamics and rather unsophisticated structural profile of mutual merchandise and investment exchange as well as numerous internal trade disputes. Given the ultimate failure of the previous grand regional unity attempt under Moscow-based leadership in the form of USSR, it is clear that the Eurasian project can succeed only if it learns from its own as well as the European experience. Apparently, the most important lesson here would concern rebalancing political and economic considerations: globalization pressures should make the latter not just proclaimed, but the real priority. So far this appeared problematic, but the global financial crisis and ensuing economic and political troubles could and should have provided the necessary impetus for a new approach to common economic and social development in the still evolving institutional framework of the EAEU.

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