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Abstract

The USSR collapse in 1991 marked a new era in the Eurasian geopolitics, which was characterized by western domination and socio-economic transformation often referred to as post-communism. The cold war seemed to be over, with US and its European NATO allies celebrating the victory over the communist bloc. Russia lost its satellites not only in Central Europe, but also among many former Soviet republics, including in Central Asia. Yugoslavia was falling apart in a rapid and violent manner. Capitalism and democracy (western-style) looked as the only development option for the region. If there was a mention of integration in the mid-1990s with regard to the post-communist world, it was almost exclusively about membership in the EU, as well as in NATO (which always came first, perhaps as a security pre-condition). Apart from Belarus nobody sought to re-establish close links with Russia, which anyway was too busy with privatization and other neo-liberal economic policies that ended up in 1998 default and subsequent rise of Vladimir Putin. The evolution of Eurasian integration as an alternative integration option during post-communism was by no means smooth, yet it did culminate in the establishment of the Eurasian Economic Union in 2015, with the Eurasian Economic Commission as its supranational governing body. Initially pushed by Belarus, Kazakhstan and Russia, the EAEU now has five full members and one candidate country, Tajikistan. Often criticized by the west as an attempt to reconstruct the Soviet "empire", officially the EAEU seeks to emulate the 28-member strong European Union in offering its citizens and firms border-free movement, though still subject to numerous provisional exemptions. And while economically it is dwarfed by its much stronger western neighbor, the elaboration

of common policies, including the industrial one, in the very first year of its existence suggests that it has the potential to become a viable development project for the region.

Post-communist background

A profound analysis of integration in the former USSR would ostensibly lack firm grounding without an inquiry into its wider context. The latter can be neatly characterized as post–communism – a process of unprecedented political, economic and social transformations that began more than twenty years ago in more than twenty countries, most of them newly independent. Capitalism was rolled out in societies without the necessary institutions, notably private property, which was virtually banned for several generations. Simultaneously, the region embraced democratization, in most cases having no meaningful experience of democracy. As things stood, then, post-communism amounted to a region-wide capitalist revolution, which differed from similar revolutions in western history in one crucial aspect – there were no capitalists or bourgeoisie behind it (Offe 1991).

Due to the sheer complexity of post-communism, it is not surprising that its practical outcomes have been rather controversial. On the one hand, it seems that some countries, notably those 13 that joined the EU in the 2000s, have been more successful than the others (at least so they might have believed before being asked to share the burden of recent migration influx). On the other hand, even more successful post-communist countries still face structural economic and social problems which transition to capitalism was about to solve, not to speak about less successful reformers in the Balkans and the former Soviet Union (EBRD 2010). In the economic sphere such problems include persistently high unemployment, budget and trade deficits, as well as lack of investment and competition. In the social sphere the biggest concern, perhaps, is rapidly aging population and the strain on the pension systems it puts. And in politics it is diminishing trust in democratic institutions and the rise of populism which seem to be most salient issues.

Across the region integration has been often seen as a viable solution to many of these problems. Such expectations have been particularly apparent with regard to membership in the European Union, but its Eurasian counterpart has similarly come with a lot of attached enthusiasm. How justified it was in both cases can only be verified in the longer term, but a respective appropriate political economy analysis can offer some immediate clues.

More specifically, in the context of post-communism political economy can amount to a critical interpretation of links between politics and economics in the region formed by various public interests. The latter essentially reflect the views of major social groups with regard to how economy should be run so that public wealth is maximized and fairly distributed. And whereas the configuration of public interests during post-communism was shaped by many factors, it seems that most important among them was a failure of political elites to balance the interests of major social groups for the long–term benefit of the whole society. As time has passed, it proved a serious challenge for all post-communist countries, especially those in the former Soviet Union. Arguably, to a large extent this was determined by the wrong capitalist model chosen for post-communism.

Backed by resources from international financial institutions such as the International Monetary Fund, World Bank or the European Bank for Reconstruction and Development, neo-liberalism has become the mainstream policy approach in most post-communist countries. At the same time, it came under intense academic criticism yet in the early 1990s, with many experts raising concerns about its policy agenda. It was feared that simultaneous transitions to capitalism and democracy in ex-USSR and its satellites could open "a pandora box" of legitimate public resistance to reforms, which would overturn the whole post-communist project (Offe 1991, p.881). To prevent this "worst case scenario", some authors emphasized the need for appropriate compensation mechanisms to be introduced early during reforms (Przeworski 1991, p.76); others argued for gradual speed and sequential mode of reforms (van Brabant 1995, p.162; Murrell 1992, p.42), while some focused on social and economic institutions as underlying blocks of post-communism (Bartlett 2000; Stark 1998).

No matter how useful such criticisms were, however, they did not amount to substantive alternatives with interests of majority social groups at the center rather than on the periphery of proposed policy agenda. Instead, they by and large tried to explain what happened as a result of neo-liberal policies, and how these groups should adapt to their new "subordinate" roles. As such, critical approaches to neo-liberal practices in the region formed the so called "adaptation discourse", which tended to view non-entrepreneurial social groups as obstacles to reforms. As argued by Riabchuk (2009), the "adaptation discourse misrepresents post-communist workers by suggesting that their marginal socio-economic positions are due to their lack of adaptation potential" (p.62). In reality, though, it concealed social inequalities brought about by post-communism, promoted individualization of labor relations and thus indirectly facilitated neo-liberalism by refusing to address the fundamental roots and possible remedies for the conflict between entrepreneurial minority and non-entrepreneurial majority during post-communism.

This conflict, it seems, lies precisely in the perception of non-entrepreneurial groups representing workers, pensioners, housewives, students, etc., i.e. majority of people anywhere in the region (Offe 1991, p.876), as impediments to reforms. In turn, such a perception stems from the failure to acknowledge the principal deficiency of neo-liberalism with respect to the type of capitalism it sought to impose on the post-communist world. Rather than emulating modern western capitalism, which implies restraints on private actors in a form of institutional arrangements including rather than excluding workers and other non-entrepreneurial groups, neo-liberalism promoted essentially pre-war, rather "primitive" form of capitalism based on the "mythologized histories of… the free market paragons, Britain and the United States" (Amsden 1994, p.3).

Naturally many disliked it, especially in those countries which did not join the EU and were left alone with their economic and social problems. And while democratization could have helped to transform these negative sentiments into political outcomes, in practice this did not happen due to specifics of institutional configurations negotiated at the exit from communism (Bartlett 2000, p.38). It is not surprising, then, that elections in the region became largely reflections of emotional protest rather than of rational political choices, as many people lost faith in politicians as a class (Greskovits 1998, p.90). The consequences of such disaffection have been laid bare by the violence of "color revolutions" and their aftermaths in some of the former Soviet republics, especially Ukraine; political developments in Russia bemoaned by the west; and even recent electoral outcomes in Poland, where "a growing chunk of voters alienated from the traditional political parties and deeply disenchanted with the country's entire political class" (Lyman 2015, p.3).

Yet the controversy of post-communist political economy should not come as a surprise given the state of discussion about the kind capitalism appropriate for the region. Only in recent years did such a debate gain sufficient academic (though not yet political) momentum, while in the late 1980s and early 1990s hardly anyone even mentioned the issue. This may have resulted from the lack of aspiration to understand post-communist political economy from the interest-based perspective, and, in turn, led to more superficial visions emphasizing not "a conflict of interests but [by]… a conflict of identities: liberals, communists, "red barons", and atheists against the …nation" (Ost 2009, p.510). Such identity-based explanations inevitably marginalized certain social groups and distracted attention both from the neo-liberal practical shortcomings and more salient challenges such as, for instance, global competitiveness.

In the modern globalized world competitiveness implies not just having absolute or comparative trade advantages, but also a capacity to attract increasingly mobile capital and other factors of production. Yet such a mobility is not homogenous, as "many forms of capital, such as technological and managerial knowledge, skills, and networks, are specific to their current use and cannot easily be transferred from place to place" (Frieden 1991, p.429). This is important because high national living standards mean foremost high incomes for non-entrepreneurial groups, whether in the form of wages for workers, or pensions for the retired. To deserve the latter from the choosy transnational business (mostly through foreign direct investment), they need to be well-educated, well-qualified and more productive than others:

> Whereas masses of unskilled workers are available anywhere in the world, skilled labor is relatively scarce. This tends to mitigate capital mobility, which is the most important weapon of businesses against immobile workers in the world of global finance and transnational production (Bohle 2006, p.9).

In contemporary Eastern Europe, Caucasus and Central Asia, just like in other parts of the continent and developed world, opportunities to obtain better qualifications critically depend on welfare, i.e. public provision of services such as education, health care, pensions and other social benefits. Yet in their neo-liberal binge most post-communist countries have not only failed to learn from the Continental social model, but also deprived themselves of the key sources of wealth to provide for the welfare. Indeed, swift privatizations that took place across the region led to foreign-controlled property structures whereby profits, "a basic source of wealth… are claimed now by foreign owners of banks and factories" (Poznanski 2001, p.320). As a result, post-communism produced economic systems with inadequate internal sources of adjusting to globalization, and as such significantly differ from more resilient western economic systems.

Political economy failings of post-communism may have also resulted from a narrow perception of institutions. To be fair, they have been emphasized by both neo-liberal and alternative approaches, but seldom have they been specified in the interest-based perspective. Yet it seems that in a modern capitalist society institutions are important not per se, but as a framework providing for efficient mitigation of competing public interests, i.e. as a platform for peaceful resolution of economic conflicts among major social groups. As argued by Ost, modern capitalism can generate prosperity for all only if "states and societies [are] developing institutions that guarantee extensive labor participation and cooperation with capital. It is these institutions – rules, structures, norms, expectations – that generate and reproduce the awarding of the benefits" (Ost 2009, p.508). Historically, such institutions evolved in the context of socialist rather than liberal economic policies, which is particularly true for the former Soviet Union and its East European satellites.

However controversial the political economy of post-communism may seem, it is important to understand that quarter of a century ago there hardly was a viable alternative. With USSR breakup East European countries had nowhere to turn but to the west, where neo-liberalism was dominant since the mid-1980s. The EU support helped mitigate some of the most negative consequences of neo-liberal policies in its new member states from Eastern Europe, but other post-communist countries, particularly in the Caucasus and Central Asia, did not have such a privilege. As such, they might have benefited from other forms of capitalism, different from a "primitive", or "normal capitalism" (Ost 2009, p.507) imposed by neo-liberalism. Yet looking at the EU experience of their former communist peers, some ex-USSR republics chose re-integration as a long-term development plan. Still, without profound changes to the underlying neo-liberal political economy sustainable development is not guaranteed for any post-communist country, and the ongoing global economic distress provides a good opportunity to embrace new economic models, advantageous not only for entrepreneurs (and political elites), but also for other social groups representing wider societies in the region. Drawing on both their own historical experience and that of some of their western neighbors, many post-communist countries now seem to have good chances of coming up with good alternatives to established neo-liberal practices often running against the core principles of sustainable development.

Two paths of integration in post-communist Eurasia

For most countries in the post-communist world integration implied abandoning Russia and "(re-)entering" the west (meaning Europe or European Union). To a large extent this is a reflection of cultural, economic and political influences, as well as of mere geographical realities: most post-communist states are located in Europe, which, in turn, tends to be associated with the European Union. As the latter represents some of the most advanced nations in the world, while the Soviet Union/Russia by the late 1980s lagged considerably behind by most economic criteria (IMF 1991), turning to the west in the that period seemed quite natural. Nuances such as substantial differences in political culture and economic development were ignored both in the west, which strove to geopolitical supremacy, and in the east, which was confident in its ability to catch-up (Mencinger 2003, p. 361).

As only a few post-communist countries in Eastern Europe were initially invited to take part in the European integration, it was logical that some of the remainder decided to develop their own alternative. Hence in the mid-1990s the idea of Eurasian integration was born, and after twenty years of evolution the Eurasian Economic Union (EAEU) came into existence in 2015. Despite all criticisms, it seems that for ex-USSR countries the Eurasian initiative is just as natural as the European one was for France, Germany and their neighbors after the World War II. And it is not hard to imagine that both Eurasian and European integration projects are compatible, i.e. can peacefully co-exist and produce social and economic synergies. Both projects are based on different ideas which do not conflict each other in principle, and for this reason there is essentially no hard choice between them, at least for the former USSR republics outside the EU.

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Nevertheless, comparing the European and Eurasian integration projects in ways free from ideological bias and dominated more by economic rather than political analysis has not yet become common. This applies to both sides in the debate, and can be exemplified, on the one hand, by the titles of some recent projects conducted by the research unit of the Eurasian Development Bank ("Conflict of Two Integrations", "Dead-End of Integration Struggle in Europe"), and, on the other hand, by the following statement by professor David Lane, the author of numerous works on post-communist transformation from Cambridge University:

> The decline of the CIS states and degeneration of their societies into chaos have precipitated the ideas of Eurasianism and the proposed Eurasian Union. Post-Soviet political leaders have sought to find the *illusive* "alternative" to the neo-liberal ideology learned from the West, which to them legitimates the political and economic hegemony of the United States. In this quest they seek forms of association which would bring them into the world economy on more equal and, optimistically, more beneficial terms than they have so far managed to achieve (Lane 2015; emphasis added).

By mentioning the word "ideology", the aforementioned quote, perhaps, gives a clue for the current state of debate on integration in post-communist world. Indeed, neo-liberalism might have become so dominant that challenging it risks to be met with scorn in western academic (see italics in the aforementioned quote, for instance) or media circles (particularly Anglo-Saxon ones). All this holds true despite numerous neo-liberal failures in recent decades, the global financial crisis being one of the most obvious of them. Yet neo-liberalism does get under pressure as globalization shifts economic power towards Asia and the so-called south in general. In its turn, even if the Eurasian integration would "not mount a very serious challenge to the hegemonic core" – for example, G7, by allying with BRICS or G20, it may well develop into a "significant alternative to the neo-liberal global order" worth at least a serious academic insight (Lane 2015).

Integration, including economic one, has been the subject of many research fields, and has often been used interchangeably with the term ***regionalism***. In their comparative analysis of European integration, Laursen and colleagues (2010) asserted that corresponding scholarship can be generally divided into two large straits – neo-liberal institutionalism, or regime theory, and new regionalism, or "informal institutionalism" (p. 3). According to Acharya and Johnston (2007), the former focuses on states and hence may have a "rationalist bias", while the latter puts more emphasis on informal rather than formal institutions, investigating "informal sectors, parallel economies, and non-state coalitions" (pp. 9-10). But whereas both approaches may be good for integration and regionalism studies in general, in the specific post-communist context, characterized by obvious state domination and weak civic linkages, the traditional institutional approach may be more applicable than its informally-oriented alternative. Hence, a comparative analysis of European and Eurasian integration projects must rely mostly on works dealing with interaction among states rather than among individuals or enterprises, with due acknowledgement of limitations this may entail. It should also be noted that "much integration theory has been developed to explain specifically the European case", which may produce a certain "Eurocentric bias" and limit its use to the study of other cases, including the Eurasian one (Laursen 2010, 4).

Driving forces

It seems that any attempt to research regional integration should naturally focus on its driving forces. In particular, this would imply establishing the reasons why states come together and transfer parts of their sovereignty to supranational institutions. Whereas in most cases it is done to foster prosperity, there may be numerous nuances behind official rhetoric. Studying them should reveal if there is a scope for accommodation between the two poles of integration in the post-communist world, which seems inevitable given that at the moment and for the foreseeable future the EU has neither intention nor capacity to accommodate more members from the former USSR, and that neither of the founding EAEU members (Belarus, Kazakhstan and Russia) has ever sought membership in the EU.

Such a prospect, though, is hindered by a view, particularly widespread in the west, that Eurasian integration is an attempt by Russia to reconstruct its empire (Economist 2014). However, it does not hold up to a number of counterarguments. First, the very idea of Eurasian integration does not have Russian origins, at least as the available literature suggests: it was Nursultan Nazarbayev, the incumbent president of Kazakhstan, who made it public yet in March of 1994.[1] Second, the political, empire-focused, view of Eurasian integration inevitably disregards its economic (or prosperity-focused) motivation, which appears rather significant given the common legacy-Soviet republics were "very closely integrated within the former Soviet Union" (Freinkman 2004, p. 23). The Soviet economy featured quite considerable extent of internal goods exchange due to centrally planned specialization among the republics and the Union's general closeness to the global economy (Simon 2010, p. 21). The break-up of USSR in 1991 led to a substantial contraction of this exchange, estimated at as much as 50% for the period between 1992 and 1995, so a quest for some sort of an inter-state solution was quite natural (Michalopoulos 1997, p. 1). Thus, there are no grounds to doubt that the Eurasian Economic Union is "is being created to comprehensively upgrade, raise the competitiveness of and cooperation between the national economies, and to promote stable development in order to raise the living standards of the nations of the Member-States" (EAEU 2015).

There is also nothing new in Russia's apparent political ambitions with regard to the Eurasian project: at the end of the day, the German Zollverein, "the pioneer and by far the most important customs union", was "engineered" by Prussia "primarily for political reasons, in order to gain hegemony or at least influence over the lesser German states" (Viner 1950, pp.97-8). And at the early stages of the European integration there was just as much politics, if not more, than there is now in the Eurasian case: the European communities were "set up with the aim of ending the frequent and bloody wars between neighbors, which culminated in the Second World War" (EU 2015a). Admittedly, there was also a strong economic logic: since Franco-German disagreement in industrial age was mostly about steel (German machine-builders wanted ore from Elsass-Lothringen/Alsace-Lorraine to combine with Ruhr-basin coal for steel production), the proposal to establish common authority for coal and steel production as the ultimate solution for this historic conflict was natural. But economic reasons may have become prevailing only with consequent enlargements (with the exception of UK, perhaps). As an example one can refer to the case of Austria and Switzerland: in April 2015 during a seminar in Vienna devoted to European and Eurasian integration, an argument was aired that Austria's decision to join the EU in 1995 was based primarily on economic grounds (natural in the view of its formal political neutrality), and that with the current trajectory of the country's catching up with its Alpine neighbor's in per capita GDP terms, Switzerland might soon reconsider its EU stance once Austria overtakes it in per capita output (Nauschnigg 2015).

The original predominance of political motivation in the European project may also explain why it took 12 years after the so-called "rapture point" of the WWII end before a supranational body in the form of the Commission of the European Economic Community to administer and coordinate economic integration on the continent was created (EU 2015b). And while in the Eurasian case it took more, 20 years (if one considers a period between the formal dissolution of the Soviet Union at the end of 1991 and the start of the Eurasian Economic Commission in early 2012), the difference does not seem too big given political economy changes mentioned in the first part of this paper. Still, similar to the EU experience, the apparent predominance of political motivation meant that the path to supranational institutionalization was not smooth: after numerous attempts to reverse disintegration trends in the region, the necessary political momentum was gained only in late 2009, when presidents of Belarus, Kazakhstan and Russia signed an agreement in Minsk establishing a Customs Union (CU) from 1 January 2010 (EBRD 2012, p. 64). While being neither the first such a union among these countries, nor the most comprehensive one (with numerous exemptions and special transition arrangements), it nevertheless proved quite resilient, and led to the launch of the Single Economic Space from 1 January 2012, and most recently – of the Eurasian Economic Union from 1 January 2015. In turn, the consequent accessions of Armenia and Kyrgyzstan may also be explained by predominantly economic rather than political concerns, analogous to EU enlargements. And while the present architecture

[1] According to some sources - at a speech in London on March 22 (Sadykova 2013, p. 382), but according to the official EAEU website – during a speech at the Lomonosov Moscow State University on March 29 (EAEU 2015).

of the EAEU may seem rather simple compared to that of the EU, it should be remembered that the latter actually dates back to the early 1950s, not the early 1990s (despite the fact that the term European Union was introduced by the Maastricht Treaty signed in 1993).

In any case, the creation of supranational institutions in the EAEU may have automatically moved it from "traditional" regionalism, i.e. interstate cooperation, into a new dimension, previously occupied largely by the EU, whereby "a political system that can make authoritative decisions for the entire group of participating states" is created (Laursen 2010, p. 4; Hix 2005; Lindberg 1970). According to the EBRD, the EAEU "involves developing supranational institutions, modeled explicitly or implicitly on those of the European Union, headed by the Eurasian Economic Commission, with nine commissioners responsible for various areas of economic integration" (EBRD 2012, p. 65). It seems, then, that the Eurasian integration took a lot from the EU model (unsurprisingly given its longevity), which has been openly acknowledged by the head of the Eurasian Economic Commission V. Khristenko during a business forum in St. Petersburg in June 2015 (Pivovar 2015).

On a theoretical level, the Eurasian integration, like its European counterpart, may be driven by the intention to solve the collective action problems arising among the former USSR republics. These problems manifest themselves through so-called "defection and distribution" issues (Laursen 2010, p. 4). Specifically, ***defection*** means inclination of sovereign states to avoid costs which may result from collective cooperation, particularly as far as trade regulations are concerned: "theory shows that agreements, which should realize optimal outcomes, will often be unstable because actors will be tempted to cheat or defect from the cooperative agreement to realize outcomes that are better for themselves, at least in the short run" (Laursen 2010, p. 5; Stein 1990; Taylor 1987). In turn, the ***distribution*** issue in integration relates to power sharing, especially acute when such projects involve asymmetries among member states (Laursen 2010, p. 6). Practically, in the EU case it meant dealing with distribution of votes between Germany, France, Italy, UK and Spain on the one hand, and other members on the other hand, first made acute by the German unification in 1990, and then by eastward enlargement of the 2000s (with accession of such big countries as Poland and Romania). In case of the EAEU this problem may appear even more acute, as Russia clearly outweighs all its partners. And while similar problems are also apparent and somehow dealt with in other major modern integration projects, such as Mercosour (Brazil and Argentina), ASEAN (Indonesia), the Gulf Council (Saudi Arabia), or NAFTA (USA), the challenge faced by the EAEU is much greater as it is not another attempt at intergovernmental regionalism, but a supranational project with much greater ambitions.

Both European and Eurasian projects may also be driven by what Moravcsik and Mattli identified as "demand" from society, particularly its economic elites, and "supply" from politicians (Laursen 2010, p.8; Mattli 1999; Moravcsik 1998). In the EU case this demand was originally based on peace aspirations of ordinary Europeans who were tired of two world wars separated by a time-span of just one generation. For the EAEU the corresponding demand might have been based on stability aspirations of ordinary residents of Belarus, Kazakhstan and Russia, as well as of Armenia and Kyrgyzstan, exhausted by reforms (or what they came about in practice) and uncertainty about the future (which apparently was not an issue in the Soviet era). Indeed, whatever one's attitude to the Soviet legacy may be in the west, for most who were born and lived in the USSR it was associated with progress and global status, and Vladimir Putin's reference about its break-up as the "greatest geopolitical catastrophe" might have been just a reflection of widespread public sentiment (Osborn 2005).

It was in the Soviet period that all current EAEU partners not just urbanized, but also industrialized and generally modernized, which helped "drag" respective societies "from agrarian poverty to manufactured plenty" (Economist 2015b, p. 69). As this largely took place not in not so distant past, notably in the post-WWII period (see Table 1), there should be no misunderstanding about the lack of widespread aversion to the Soviet legacy (and to Russia), at least in those countries that decided to take part in the Eurasian integration project.

Table 1. Urbanization and industrialization in EAEU members

		Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia
Urbanization rate, % of total population	1922	16.9	18.3	8.9	10.8	14.9
	1940	28.4	21.3	29.8	21.7	34.4
	1959	50.0	30.8	43.8	33.7	52.4
	1970	59.5	43.4	50.3	37.4	62.3
	1979	65.8	55.1	53.9	46.6	73.3
	1989	67.2	65.4	57.1	38.2	73.5
	2009-2011	63.3 (2011)	74.3 (2009)	54.1 (2009)	34.1 (2001)	73.7 (2010)
Industrialization rate, % of industry in total output*	1975	64.7				
	1980	63.6				
	1990-1992	52.0	47.1	44.6 (1992)	35.0	48.4
	2013	31.5	42.2	36.9	26.7	36.3
Industrialization dynamics, industry output growth (1922=1)	1940	21	23	28	18	25
	1965	257	161	331	186	180
	1980	937	669	868	658	465

Sources: CIS 2015; TsSU 1982; World Bank 2015a

Note: * Data for industrialization prior and after 1990 may not be comparable due to possible differences in methodology of the sources (1975 and 1980 – USSR total)

Indeed, it was urbanization, industrialization and agricultural collectivization that bound Soviet republics more than any other factor (except for, perhaps, the central authority in Moscow). Yet most of these factors stopped working in the late Soviet period, and in the context of rising nationalism and western influence on the one hand, and dysfunctional communist ideology on the other hand, the Soviet "disunion" could be well anticipated. It was the halting of industrialization that had the worst effect on development of all current EAEU members, well illustrated by the experience of Armenia and Kyrgyzstan, both short of natural resources, dependent solely on imports to satisfy previously constrained consumer demand, and consequently running into debt problems shortly after gaining independence (IMF 2001, p. 9). To be sure, the EAEU membership does not automatically imply renewed industrialization, but it may create more conducive conditions, with protectionist tendencies being the first sign of them:

> Its [EAEU] common tariff, which was formulated in the crisis environment of 2009, was also used in part as a tool of ***industrial policy*** to promote selected ***import substitution*** through an ***increase in tariffs*** (for example, in the case of the automotive sector).The common tariff's introduction resulted in significant changes to the import tariff structure in each constituent country, with tariff lines adjusted upwards and downwards (EBRD 2012, p. 66; emphasis added).

And despite the World Bank's warning that import-substituting industrialization is "not a successful strategy for growth and economic development", it seems to be precisely what all EAEU members are seeking from their joint efforts (World Bank 2012, p. ix). For even if traditional "recipes" for successful development, including industrialization, may be loosing relevance due to globalization, with manufacturing no longer offering "the employment or income gains that it once did", manufactured exports, even according to neo-liberal advocates, "still remain the surest path to success for emerging markets – competing in global markets is the best way to raise productivity" (Economist 2015a, p. 13).

In addition to intended industrialization, another major driving force of the Eurasian integration may be related to common markets for services and investments, not just merchandise. According to the EBRD, "the value of modern trade agreements derives primarily from the removal of non-trade barriers and from investment and service liberalization, rather than changes in rules governing movement of goods" (EBRD 2012, p.71). Yet as suggested by the EU experience, the path to them may be thorny even for countries with sophisticated political and economic systems. Considering that such systems are far less advanced among the Eurasian partners (exemplified by, inter alia, inconsistent enforcement of integration treaties), progress with their integration efforts may be ultimately determined by political will rather than by any other single factor.

While industrialization and trade-related factors may have also been applicable to those post-communist countries that allied with the EU, for them the major driving force seemed to be ***convergence***. Indeed, at the onset of post-communism (and to a great extent still now) in Eastern Europe there was "a cult of the West, portrayed as the unique repository of civility, democratic empowerment, and material prosperity" (Nation 2004, p. 53). It appeared natural given the enormous difference in wealth at the time of the "big enlargement" in 2004: "GDP of EU [was] 40 times bigger, and GDP per capita 7.5 times higher, than those of ten applicants" (Mencinger 2003, p. 361). Of course, those post-communist countries that applied and were eventually accepted as the EU members could look at earlier convergence experience of such countries as Greece, Spain or Portugal, for example, but there has still been a lot of skepticism regarding expectations of quick catching-up. More than a decade after the first round of the EU eastward expansion, such skepticism seems to be vindicated (see Table 2).

Table 2. Convergence of post-communist EU members in purchasing power terms, 2004-2014

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
European Union	100	100	100	100	100	100	100	100	100	100	100
Bulgaria	34	36	37	40	43	44	43	44	45	45	45
Croatia	57	58	58	61	64	62	59	60	61	61	59
Czech Republic	79	80	81	84	82	83	81	83	82	82	84
Estonia	55	60	64	69	68	62	63	68	71	73	73
Hungary	62	62	62	61	63	64	65	65	65	66	68
Latvia	48	51	55	60	60	53	53	57	60	64	64
Lithuania	50	53	56	61	63	57	60	65	69	73	74
Poland	49	50	50	53	55	59	62	64	66	67	68
Romania	34	35	38	42	48	49	50	51	53	55	54
Slovakia	57	60	63	67	71	71	73	73	74	75	76
Slovenia	86	86	86	87	89	85	83	83	82	82	83

Source: Eurostat 2015

Nevertheless, it seems justified to say that EU membership has had a predominantly positive effect for East European countries, helping them not just recover from shocks of the early reform period, but also adjust to the challenges of globalization, in particular those related to economic competitiveness. Arguably, industrialization efforts of the Eurasian partners, if duly implemented, should have a similarly positive economic impact.

Prospects

Although integration is always based on ideas and ambitions, it cannot be viewed only as realization of some politicians' dreams. From an economic perspective, it is usually justified by synergy, a concept meaning creation of a whole that is greater than the simple sum of its parts. In the specific post-communist context, this means creating or joining economic unions which are intended to boost welfare of participating countries through, inter alia, removal of barriers to all forms of economic activity, market expansion, and policy coordination. As argued by the EBRD, "regional economic integration has the potential to bring multiple economic benefits" provided that the following challenges 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 while most modern economic integration projects, constrained by their intergovernmental mandates, do it mostly in the field of trade and investment, both Eurasian and European unions, thanks to their supranational character, can be regarded as attempts at deeper and wider economic consolidation. This undoubtedly reflects concerns by the continent's economic and political elites about their countries' prospects in the age of globalization.

Notably, as politicians both in the EAEU and the EU seek to fulfill their ubiquitous promises of higher living standards, they must attract increasingly mobile capital and technology to keep up employment and tax revenue within their countries. But since global business is structured along international value chains, politicians across the continent are mostly interested in investments that provide skilled jobs, technology development, and steady financial flows. To ensure

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this, they seek to increase market size, harmonize regulation, and unify public administration, and for all this integration is a useful tool. Yet no integration effort would help in meeting the challenge of globalization nowadays lest the latter is perceived from the skills perspective:[2]

> Whereas masses of unskilled workers are available anywhere in the world, skilled labor is relatively scarce. This tends to mitigate capital mobility, which is the most important weapon of businesses against immobile workers in the world of global finance and transnational production (Bohle 2006, p. 9).

Historically opportunities to obtain better skills on the continent have depended on public welfare, i.e. state provision of such services such as education, health care and social security. In Europe this has been based on a social market model whereby employers and employee interests are mitigated by the state, often in formally institutionalized forms (such as in Germany or Austria, for example). Since its beginnings in the 1950s the EU has not just upheld this model, but spread it across Europe to an extent that might have critically influenced membership aspirations among those post-communist countries that were familiar with it (due to geographical proximity and common history). Yet neo-liberal predominance during the transformation of the 1990s has not only restricted the ability of post-communist countries to learn from the European (or Continental) social-market experience (Koechler 2015), but also contributed to erosion of their internal revenue bases essential for welfare provision. Indeed, mass privatizations that took place across the region led to either oligarch or foreign-controlled property structures whereby profits, "a basic source of wealth… are claimed now by foreign owners of banks and factories" (Poznanski 2001, p. 320). As the latter underwent deep restructuring in the 1990s adjusting to globalization, the post-communist world became for them a new "land of opportunity", happy to accept substantial FDI inflows with little if any conditions attached (Bohle 2006, p. 10).

As a result, post-communism produced economic systems with little if any invulnerability to globalization risks, which put them in a much weaker position compared to more resilient systems in the EU, particularly from its northern part. And whereas new EU members from Eastern Europe could take some respite from technical and financial assistance provided through the Union's cohesion policies, most of the former Soviet republics were less fortunate. It seemed reasonable, then, that they decided to join forces at emulating the European integration experience (Koechler 2015). Yet as the previous attempt of regional economic integration under the Moscow-based leadership largely failed, there is little doubt that their new integration project can succeed only if it learns from the past experience, as well as from that of the European Union. Apparently, the most important lesson here would concern rebalancing political and economic considerations – globalization pressures should make the latter not just proclaimed but a real priority. So far this appeared problematic, but the global financial crisis and the recent plunge in relations with the West can well provide the necessary impetus for Eurasian development.

[2] Such a perception is admittedly rather narrow and would not capture the whole concept of competitiveness promoted by, inter alia, the Swiss-based World Economic Forum or the IMD World Competitiveness Center.

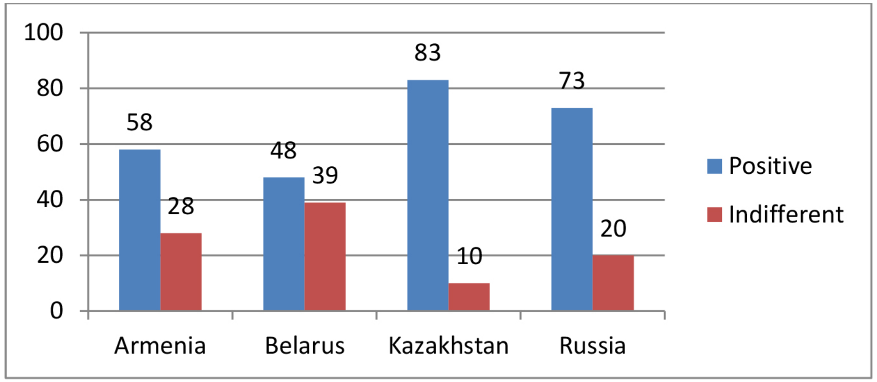
The Customs Union as the core of the Eurasian Economic Union: case studies

As mentioned in the preceding part of the present paper, the Eurasian Economic Union, launched on January 1, 2015, is economically based on the third version of the Customs Union among Belarus, Kazakhstan and Russia, signed in 2009 and operational since 2010 (IMF 2011a). In theory, customs unions are supposed to shield countries at comparable level of economic development from stronger foreign competitors while promoting mutual trade among the members (Yarashevich 2014, p. 587). While there can be both trade creation and trade diversion in such unions, in general they are aimed at increasing internal trade at the expense of external one (Viner 1950, p. 44; Balassa 1961, p. 24). As argued by Simon, the "theory of customs unions was originally elaborated by List, who represented a point of view different from that of Smith and Ricardo" (Simon 2010, p. 10). According to the latter, free trade could benefit all countries regardless of their development level, while List emphasized the importance of initial development level and contended that in practice free trade favored only developed countries (List 1991, pp. 188-9). Recognizing the development trap of isolationism, though, he proposed a third way, whereby countries at similar level of development would unite in a customs union, completely liberalizing their internal trade, but sifting the borders for external trade, thus making them relatively rather than absolutely open to the world (List 1991, p. 188).

In the postwar period the theory of customs unions was revived in the works by, inter alia, Balassa, Giersch, Meade and Viner, who studied customs union's effects on welfare (Balassa 1961), location of economic activity (Giersch 1949), production (Meade 1955) and trade flows (Viner 1950). This renewed academic interest was most likely generated by the process of European integration, where the Customs Union was formed in 1968. And it is the European experience with economic integration, including the workings of its Customs Union, which also guided the integration process in the former USSR (Pivovar 2015; Miasnikovich 2011).

The political economy of Eurasian integration is quite complicated for a number of reasons, some of which, related to the phenomenon of post-communism, were already discussed. From the economic viewpoint, it seems that the apparent resource-orientation of bigger Eurasian economies such as Kazakhstan and Russia "deprives them of interdependence and inter-complementary character", thus making the whole integration project less efficient and hardly sustainable (Simon 2010, p. 18). Smaller partners, especially industry-oriented ones such as Belarus, may find it hard to adjust common Eurasian policies at internal industrially-based development. Politically, it is obvious that the Eurasian project involves countries with highly-centralized political systems (with the exception of Kyrgyzstan) and thus may appear an elite project lacking democratic legitimacy. Indeed, the issue of integration has never featured high in political deliberations in any of the partner countries, with little if any criticism in the national media. Only in Belarus the issue was taken to a referendum, but that was in 1995, with a new generation of voters having matured since then, who can be more skeptical about the virtues of a single economic, not to mention political, space among the former Soviet republics. Indeed, according to the EDB Integration Barometer, an annual survey by the Center of Integration Studies of the Eurasian Development Bank conducted since 2012, in 2015 young people in Belarus (aged 18-34) were the most skeptical towards EAEU among their peers in Armenia, Kazakhstan and Russia (see Figure 1).

Figure 1. Perception of Eurasian integration among 18-34-year-olds in Armenia, Belarus, Kazakhstan and Russia



Source: Vinokurov 2015

To be sure, this may reflect not just the specifics of Belarus' location at the western frontier of the Eurasian project and in direct neighborhood with three EU countries (Latvia, Lithuania and Poland), but also a difference in generational attitudes, as well as a failure to promote the positive image of the EAEU by the country's politicians. For there is hardly any other explanation to why the young Belarusians were four times as likely to be indifferent to EAEU than their peers in Kazakhstan, located in the heart of Central Asia and ruled by Nursultan Nazarbayev since the mid-1980s. Yet apart from the case of Belarus' (and to a lesser extent Armenia's) youth, there may indeed be a broad support for the Eurasian project, judging by the EDB survey data, which means that political actors promoting it have sufficient public mandate, at least for the time-being.

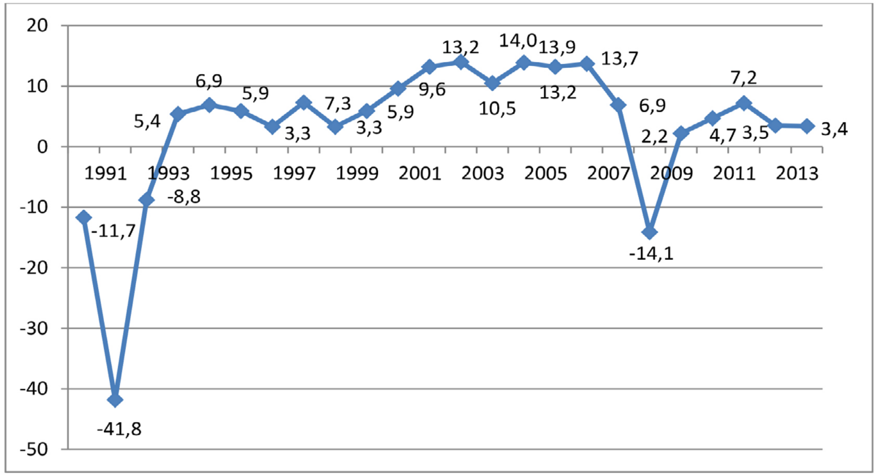
So far the experience with the Customs Union suggests that despite significant progress many challenges, particularly in economic sphere, persist, most evidently manifesting themselves in mutual trade. How efficiently such challenges are dealt with will ultimately determine the fate of the Eurasian project, and is thus worth a special enquiry, which will be done on a case-by-case basis for all members of the EAEU Customs Union. In what follows then, the standing of Armenia, Belarus, Kazakhstan, Kyrgystan and Russia will be analyzed in more detail with regard to their specific economic interests in the CU/EAEU. It will be demonstrated that despite different sizes, populations and economic structures these countries are seeking basically the same political economy effects from the integration – maintaining electoral bases by maximizing employment opportunities through import-substituting reindustrialization.

Armenia

Located "at the crossroads between Europe and Asia", Armenia is the smallest country in the Eurasian Economic Union (30 thousand square kilometers, or about the size of Belgium), and has no direct borders with any of its members (UNDP 2015). Its decision to join the EAEU came as a surprise not just to some external observers, but also to many of the country's 3 million residents, particularly younger ones (for instance, met by the author in Italy in late 2014) (RFE/RL 2013). Yet given the country's land-locked position in the Caucasus and tense relations with two of its four neighbors (Azerbaijan and Turkey), the apparent u-turn of its president Serzh Sargsyan in association negotiations with the EU in favor of the Russian-led union in late 2013 could have been anticipated. Indeed, Armenia has very close economic and social links with Russia, which is its "largest trading partner and a key source of remittances, financing and investment", as well as a home to a million-strong diaspora (IMF 2015, p. 5). On top of that there are significant security concerns, highlighted by the Russian patrol of the country's borders "under an agreement that ensures a constant [Russian] military presence through 2045" (Resneck 2015).

Since proclaiming independence in 1991, the performance of Armenia's economy has been quite unstable: first, it was affected by the fragmentation of Soviet economic ties, exacerbated by the conflict with neighboring Azerbaijan over Nagorny Karabakh district, then by commodities boom and the global financial crisis, and most recently – by the slump on global commodity markets and political instability in the region (see Figure 2).

Figure 2. Armenia's GDP dynamics, % change, 1991-2014.



Source: World Bank 2015b

In absolute terms, the country's output grew from just over 2 billion USD in 1991 to nearly 11 billion USD in 2014, or from 1022 USD per capita to 2365 USD respectively (according to the World Bank methodology and data). Modern Armenia's economy is dominated by services and agriculture, while industry (mostly mining) plays a significant role only in value added but not in employment. Notably, in 2014 services accounted for 48% of GDP and 56% of total employment, agriculture – 22% and 35% respectively, whereas industry contributed 30% to GDP but employed only 9% of the labor force (Armstat 2015, p. 61; World Bank 2015b). It should be noted that in the late Soviet period industry's economic role was far more significant, at 52% of output and 43% of employment in 1990, which overshadowed both that of services, at 31% and 39%, and agriculture, at 17% and 18% respectively (World Bank 2015b; Vodopivec and Vroman 1993).

Armenia has a rather open economy in terms of foreign trade, which is confirmed by its membership in the World Trade Organization since 2003, and a typical trade-to-output ratio of 50%. In 2014 its total merchandise exports of 1.5 billion USD were dominated by metals and ores (50%), precious stones (15%, mostly crude diamonds), tobacco (9%), and mineral fuels (7%), while merchandise imports of 4.4 billion USD mainly consisted of machinery and vehicles (32%), precious stones (10%, mostly processed diamonds), mineral fuels (7%) and other manufactured goods (Armstat 2015, pp. 459-69). Geographically, in 2014 the biggest share of Armenia's merchandise exports went to the EU (30%), Russia (20%), China (11%), Canada and USA (both at 6%), while the combined share of Belarus, Kazakhstan and Kyrgyzstan was just over 1% (Armstat 2015, pp. 469-72). In imports the greatest share in the same period was taken by Russia (25%), China (10%), Turkey, Iran and Ukraine (each at about 5%). Likewise, combined merchandise imports from EAEU partners other than Russia were insignificant, at less than 1% (see Table 3).[3]

Table 3. Foreign merchandise trade of Armenia, 2000-2014

	2000	2005	2010	2014
GDP, in million current USD	1911.6	4900.5	9260.3	10881.6
Foreign merchandise trade, million USD	1134.4	2628.5	4793.2	5649.7
Merchandise exports, million USD	294.1	937.0	1011.4	1490.2
Russia, %	13.9	12.4	15.8	20.4
China, %	0.2	1.0	3.1	11.5
Belarus, Kazakhstan, Kyrgyzstan, %	0.7	0.5	0.8	1.1
Mineral fuels and chemicals (SITC 3,5),%	8.2	2.4	5.3	7.4
Manufactured goods classified chiefly by material (SITC 6), %	43.7	63.5	41.8	30.0
Machinery and transport equipment (SITC 7), %	10.5	3.2	3.2	1.7
Merchandise imports, million USD	840.3	1691.5	3781.8	4159.5
Russia, %	15.0	14.8	21.9	25.7
China, %	0.1	1.5	10.6	10.0
Belarus, Kazakhstan, Kyrgyzstan, %	0.2	0.7	1.2	0.8
Mineral fuels and chemicals (SITC 3,5),%	31.5	23.3	26.9	30.3
Manufactured goods classified chiefly by material (SITC 6), %	20.8	27.0	19.2	19.9
Machinery and transport equipment (SITC 7), %	14.7	18.4	22.1	16.7

Source: Comtrade 2015

In any case, Armenia seems to have no clear trade advantages by joining the EAEU, as it is the EU that has in recent years taken the largest shares in both exports and imports of this Caucasian republic. Yet given the difference in profiles of its exports and imports, it is evident that in current market conditions, characterized by stagnant commodity prices, the country would hardly be able to tap the gap in its trade balance without recourse to non-trade related financing. Remittances from migrant Armenians, working mainly in Russia, have become the largest source of such financing since 2004, followed by foreign investment, also mainly from Russia, and official development assistance, mostly from the west (see Table 4).

[3] It should be noted that according to the United Nations' Comtrade Database, the established source of comparable foreign trade data for most countries, the breakdown of Armenia's merchandise exports and imports did not quite correspond to the aforementioned figures from the national statistics, but that may be due largely to different classification methods rather than to any other reasons (there is no data for Armenia for 1995 or 1996 on Comtrade).

Table 4. Major sources of trade deficit financing in Armenia, million USD, 1991-2014

Year	Personal remittances	Net FDI	Net official development aid	Merchandise trade balance
1991	-	-	3	-
1992	-	2	22	-
1993	-	1	109	-
1994	-	8	191	-178
1995	65	25	218	-406
1996	84	18	292	-566
1997	136	52	166	-659
1998	92	221	194	-681
1999	95	122	209	-568
2000	87	104	216	-588
2001	94	70	212	-531
2002	131	111	300	-482
2003	168	121	254	-594
2004	435	248	253	-628
2005	915	292	170	-828
2006	1169	467	216	-1207
2007	1644	668	250	-2116
2008	1904	944	303	-3369
2009	1440	760	526	-2611
2010	1669	529	343	-2771
2011	1799	653	400	-2881
2012	1915	489	273	-2839
2013		380	293	-2997
2014		404	-	-2882

Source: World Bank 2015b

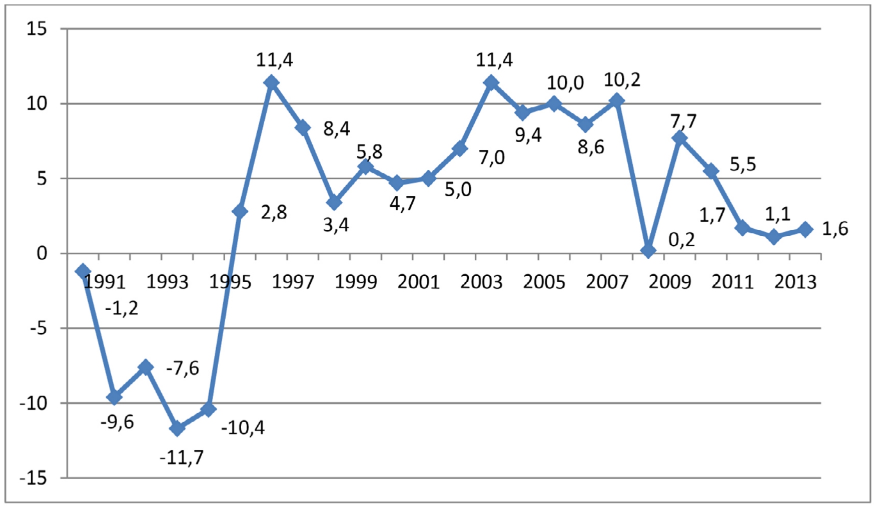
Thus, it seems that from the economic viewpoint Armenia's decision to join the EAEU rather than to seek ever closer association with the EU risking a fall-out with Russia might have been based on the need to keep its migrant workers happy (or at least shield them from additional risks), as well as ensure continued Russian FDI and cheap energy prices (the country pays the lowest price for Russian gas, lower than even Belarus) (Kates and Luo 2014). These considerations might have even outweighed the apparently fundamental issue of Armenia's membership in the EAEU Customs Union, which is a lack of common borders with any of its members. At the end of the day, the country's trade relations with any of its neighbors have been weak anyway, as the border with Turkey has been sealed since 1993, relations with Azerbaijan are strained due to Nagorny Karabakh, while trade with either Georgia or Iran might have been complicated by geography as much as by other reasons, not least cultural (and religious). By "sticking" to Russia (in the words of one critical publication in the UK's Economist (2015c), then, Armenia has evidently opted for a bird in the hand rather than a pie in the sky economically, as well as for a status quo in its security profile politically. This integration preference, though, can bring fruit only if the country grasps the opportunity to kick-off industrialization, luring back its migrant workers into well-paying jobs while promoting exports of its agricultural products and high-value-added manufactured goods.

Belarus

As it was on the territory of Belarus, in the ***Belavezhskaya Pushcha*** national park, that Soviet Union was formally written off from existence in December 1991, one would hardly expect a lot of enthusiasm about Eurasian integration from this European country of 207.6 thousand square kilometers and 9.5 million people, bordering the EU, Russia and Ukraine in nearly equal proportions. Indeed, in the first years of its independence Belarus did not rush to restore political and economic ties with Russia and other former Soviet republics, despite some efforts made by the country's first prime-minister V. Kebich, particularly with regard to monetary policy in 1993.[4] All that changed with the election of A. Lukashenka as the first president of the country in 1994. Almost immediately he began seeking closer links with Russia, first signing the Customs Union treaty in January 1995, then the Community treaty in April 1996, and finally the Union State treaty in April 1997 (Yarashevich 2015, p. 592). As a result, Belarus became the first former Soviet republic to re-establish close relations with Russia in virtually all spheres. This reflected the outcomes of a referendum in 1995, in which 83% of voters supported official "actions aimed at economic integration with the Russian Federation" (CECB 1995).

Initially the smallest country in the Customs Union, Belarus has a very open economy in terms of foreign trade (despite the lack of WTO membership), which features relatively advanced manufacturing and agriculture, as well as infrastructure and social sphere (Freinkman 2004, p. 30). Up until 2015, the country's GDP has grown non-stop since 1996 at an average rate of just over 6%, and in 2009 Belarus was one of only two countries in Europe (Poland was the other) to avoid output contraction. Even in 2011, which was marked by severe domestic macroeconomic instability, it managed to register relatively high GDP growth and virtually no lay-offs (see Figure 3).

Figure 3. GDP dynamics in Belarus, % change, 1991-2014.



Source: World Bank 2015b

[4] According to some sources, at the end of 1993 V. Kebich agreed with the then Russian prime-minister V. Chernomyrdin on the monetary union, which was never implemented though (Furman 1998).

Lacking natural resources, Belarus has relied on its manufacturing, inherited from the Soviet period and preserved by the government policies, to provide its citizens with levels of welfare comparable to those in its resource-rich EAEU partners Kazakhstan and Russia (see Table 5).

Table 5. Wages, pensions and poverty in Belarus, Kazakhstan and Russia, 1995-2014

	1995	*2000*	*2005*	*2010*	*2014*
Wages, USD					
Belarus	66	89	215	407	593
Kazakhstan	79	101	256	527	675
Russia	104	79	303	682	856
Pensions, USD					
Belarus	34	46	98	195	259
Kazakhstan	31	30	68	146	206
Russia	53	29	90	248	264
Poverty, % living below minimum per capita national income					
Belarus	31.2	35.7	9.3	3.4	3.4
Kazakhstan	34.6*	31.8	31.6	6.5	2.8
Russia	24.8	29.0	17.8	12.5	11.2

Sources: CSK 2015, FSSSR 2015, Belstat 2015
Note: * – data for 1996

Belarus' foreign trade is characterized by exports of manufactures and imports of natural resources. According to a special World Bank study on trade performance in the former Soviet Union, Belarus is the only exception for the general "withering of manufactured trade" in the region (Frankstein 2004, p. 9). Indeed, in the mid-1990s manufactures comprised nearly four fifths of total exports, and even after substantial reduction during post-communist transformation they still accounted for nearly a half of all exports in 2014, or at levels comparable with those of some western economies. At the same time, the country's merchandise imports have been consistently dominated by manufactured goods, particularly machinery and equipment (see Table 6).

Table 6. Foreign merchandise trade of Belarus, 1995-2014

	1995	*2000*	*2005*	*2010*	*2014*
Foreign merchandise trade, billion USD	10.3	16.0	32.7	60.1	76.6
% GDP	100.0	153.4	107.7	110.4	101.2
Merchandise exports, billion USD	4.8	7.3	16.0	25.2	36.1
Russia, %	60.5*	50.7	35.8	38.5	42.1
EU, %	-	28.4	31.8	30.1	29.6
China, %	0.6	1.9	2.7	1.9	1.8
Kazakhstan, %	1.6	0.3	1.1	1.8	2.5
Mineral fuels (SITC 3), %	7.8**	19.8	34.8	28.1	33.3
Chemicals, manufactures and machinery (SITC 5,6,7,8), %	78.2**	65.3	52.0	53.2	46.3
Machinery and transport equipment (SITC 7), %	28.4**	23.9	18.7	17.2	13.6
Merchandise imports, billion USD	5.5**	8.7	16.7	34.9	40.5
Russia, %	61.4*	64.2	60.4	51.3	54.8
EU, %	-	21.4	19.6	21.5	23.5
China, %	0.2	0.5	1.7	4.7	5.9
Kazakhstan, %	1.0	0.5	0.2	1.2	0.2
Chemicals, manufactures and machinery (SITC 5,6,7,8), %	59.4**	49.6	47.7	48.9	52.0

Sources: Belstat 2015, Comtrade 2015, World Bank 2015b
Notes: * – data for 1996
** – data for 1998

Referring to a substantial increase of mineral fuels' share in total exports, typically criticized as a sign of Belarusian economic weakness and dependence on Russia, one can also look at it as a sign of the country's relatively strong refinery potential, as 95% of exports in SITC3 group are classified as petroleum products' (SITC 334) rather than crude oil dominating the exports of both Kazakhstan and Russia (IMF 2011b, p. 3). Having inherited from the Soviet period two large refineries close to Russia's main west-oriented oil pipelines, with a total capacity of nearly half a million barrels a day, or as high as that of Sweden, it is logical that Belarus processes some of the Russian crude on its way to Europe, as Russian refining capacity has lagged far behind its production and reserve levels (BP 2015, p. 16).

Just as in case with Armenia, Russia's economic importance for Belarus goes without saying, but it is not limited to allegedly "subsidized", yet in reality purely commercial supplies of oil, gas and other raw materials. It is true that stable supplies of Russian crude are vital for generating the bulk of the country's foreign cash by selling refined oil products to western consumers, yet economic importance of Russia for Belarus seems to stem foremost from its employment effects. Russia is the major market for Belarusian producers, being the largest consumer of Belarus-made tractors, trucks, harvesters, refrigerators, TV-sets, furniture and foodstuffs, particularly dairy products. As most of these products are rather labor-intense, Russian consumers keep up employment in much of Belarus export-oriented industries, as well as agriculture. Carrying more added value than mineral exports, these exports have been politically very important for Belarus, as yet in the Soviet times the republic specialized in high-end manufacturing and its upkeep throughout the post-communist transformation has been a special pride for the incumbent authorities (Ioffe 2004, p. 90). Besides, Belarusian manufactures, particularly machinery, are in most cases designed specifically for Russian consumers, and re-orienting them to other markets would require substantial and costly technological and marketing updates, with no guarantees for eventual success in the view of fierce global competition in these market segments both from established western and rising Asian companies (Yarashevich 2014, pp. 596-7).

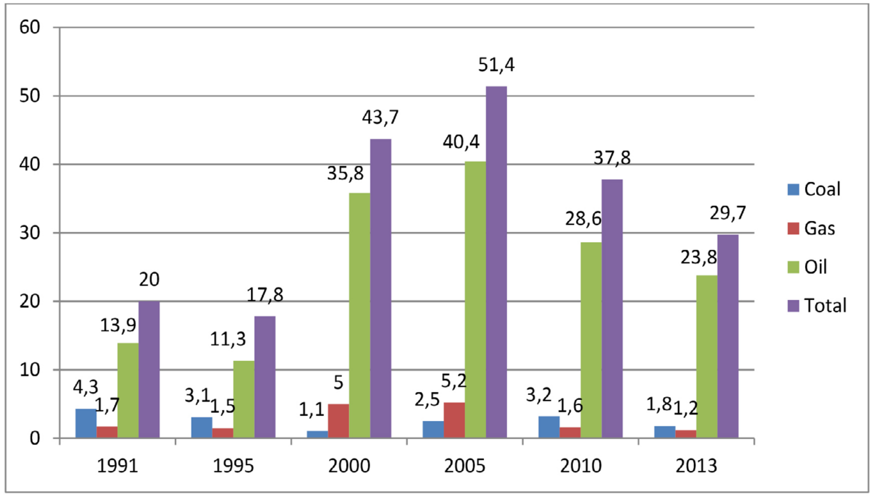
The Russian market, however, is getting ever more competitive, particularly in machinery and transport segments preferred by the Belarusian exporters, so they may consider Eurasian integration as an opportunity to ensure more favorable terms of trade while keeping their established market positions. There may also be strategic considerations – if Russia gets serious about modernization through industrialization (rather than through continuation of neo-liberal policies), Belarusian manufacturers, with their easy market access and great deal of experience, could gain significant benefits, either through increased exports of machinery and equipment, or through closer industrial cooperation. All these benefits, however, can be realized if at least the Customs Union is fully implemented, i.e. all exemptions, including on energy products, are removed, and sufficient public support is generated to ensure the necessary political momentum.

Kazakhstan

The second largest country in the Customs Union in geographic, demographic and economic terms, Kazakhstan has long been claiming to be the leader of the Eurasian integration (Nysanbaev and Dunaev 2010). In his response to V. Putin's and A. Lukashenka's articles on integration in the Russian ***Izvestia*** newspaper, published in late 2011, the country's incumbent president Nazarbayev (born in 1940) highlighted his personal role in creating the Commonwealth of Independent States and the Eurasian Economic Community, the predecessor of the Eurasian Economic Union (Nazarbayev 2011). In power since the first of day of Kazakhstan's independence (and in the highest power ranks of it as a Soviet republic between 1984 and 1991), Mr. Nazarbayev can indeed be proud of his achievements, including in the diplomatic sphere, as his country was treated very differently by the west than Belarus or even Russia, for example. To an extent, though, this might have been determined by Kazakhstan's rich endowment with natural resources, above all oil and gas.

According to official reports, "there are more than 5,000 deposits of mineral resources in the country, the estimated cost of which is said to be tens of trillions of dollars" (PRK 2015). Kazakhstan is among the world leaders in production of uranium, chromites, titanium, magnesium and rhenium, and is also an important producer of bauxite, cadmium, copper, gallium and zinc (Safirova 2014). Most significant, however, appears the country's endowment with oil – with 30 billion barrels of reserves, or 1.8% of global total, and daily production of 1700 barrels in 2014, or 2% of global total, Kazakhstan ranks 17th largest oil producer in the world (BP 2015, pp.6-8). Similarly strong is the country's position on another major hydrocarbon – natural gas: it has 53 trillion cubic feet of proved natural gas reserves, or 0.8% of global total, and in 2014 produced 19 billion cubic feet of gas, or 0.6% of global total (BP 2015, pp.20-2). Thus, Kazakhstan has a clearly resource-oriented economy, with manufacturing accounting for a relatively small portion of the country's domestic product, employment and exports. According to the World Bank, rents of mineral resources have been the key component in the country's output, reaching their maximum of more than 50% in 2005 (see Figure 4).

Figure 4. Natural resources rents in Kazakhstan, % of GDP, 1991-2013



Source: World Bank 2015b

Similar to Armenia and Kyrgyzstan, the country's labor force is heavily concentrated in agriculture, and although its role in employment has been gradually decreasing, it did not happen because of rising job prospects in industry (see Table 7).

Table 7. Selected indicators of Kazakhstan's economy structure, 1995-2014

	1995	2000	2005	2010	2014
GDP, billion USD	16.6	18.3	57.1	148.1	227.4
Agriculture, % of GDP	20.6	15.5	9.9	6.6	6.2
Industry, % of GDP	68.5	69.2	69.6	55.5	45.5
Incl. manufacturing, % of GDP	35.2	31.7	24.5	17.6	14.9
Employment, million people	6.6	6.2	7.3	8.1	8.5
Agriculture, % of total	21.8	31.3	33.2	28.3	18.9
Industry, % of total	-	-	-	11.7	12.8
Incl. manufacturing, % of total	-	-	-	7.0	6.3

Source: CSK 2015

Foreign trade reflects the country's economic profile – exports have been dominated by oil, gas and mining products, while imports have mainly consisted of machinery and foodstuffs. Geographically, more than half of total merchandise exports go to EU and China, while in imports the greatest share is taken by the EU, followed by Russia and China. Whereas for Belarus trade within the Eurasian Customs Union is important both for export and import operations, Kazakhstan's trade here is concentrated in food and machinery imports from Russia, while trade with Belarus has been relatively insignificant (see Table 8).

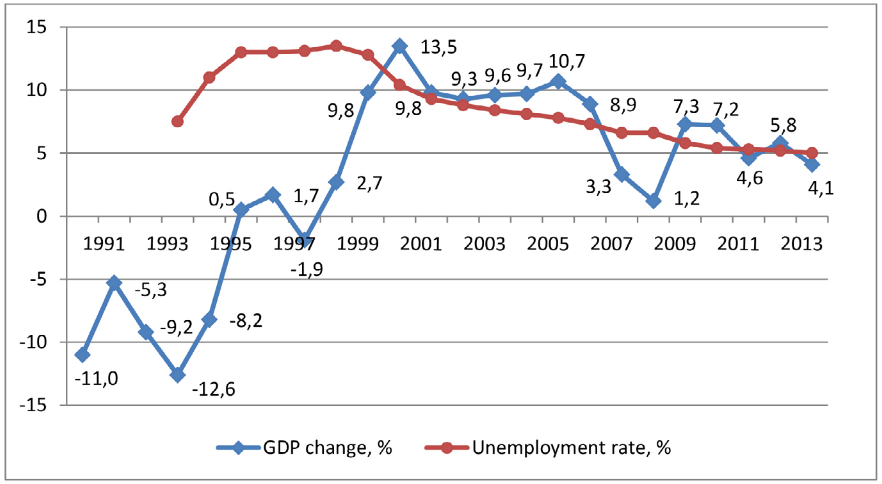
Table 8. Foreign merchandise trade of Kazakhstan, 1995-2014

	1995	*2000*	*2005*	*2010*	*2014*
Foreign merchandise trade, billion USD	9.0	13.6	45.1	681.2	120.8
Merchandise exports, billion USD	5.2	8.7	27.8	57.2	79.5
EU, %	-	40.6	45.8	34.4	-
China, %	5.4	7.7	8.7	17.7	12.3
Russia, %	45.2	19.8	10.5	5.3	8.1
Belarus, %	1.0	0.2	0.1	0.1	0.1
Mineral fuels (SITC 3), %	25.0	52.8	70.1	71.7	76.4
Chemicals, manufactured goods and machinery (SITC 5,6,7), %	56.6	30.3	19.8	18.0	15.1
Machinery and transport equipment (SITC 7), %	6.0	2.2	1.2	0.6	2.3
Merchandise imports, billion USD	3.8	4.9	17.3	24.0	41.3
Russia, %	49.9	47.5	38.0	22.8	33.4
EU, %	-	26.6	25.6	28.8	-
China, %	0.9	3.1	7.2	16.5	17.9
Belarus, %	2.0	0.8	1.2	1.0	1.9
Chemicals, manufactured goods and machinery (SITC 5,6,7), %	53.4	68.7	72.4	70.5	70.5

Source: Comtrade 2015

Overall, the economic virtue of the Customs Union for Kazakhstan appears to lie in the opportunity to reduce its dependence on the oil sector, which is hampering both industrialization and the effectiveness of macroeconomic policies by exposing them to oil price volatility (IMF 2011c, pp. 30-1). According to the IMF, Kazakhstan would gain from the "greater access to the large Russian market and the eventual free movement of labor and capital", with agriculture and commodity exports set to benefit most (IMF 2011c, p. 21). The authorities may be also aware that their country's socio-economic stability is highly dependent on employment opportunities available to ordinary Kazakhstanis, and the oil sector is not likely to provide them because it is "more capital than labor intensive" (IMF 2011c, p. 30). Indeed, despite the consistently positive GDP growth since the late 1990s, Kazakhstan has persistently had rather high unemployment (see Figure 5), as well as a growing number of self-employed, which swelled from 0.3 million in the early 1990s to 2.4 million in 2014 (CSK 2015).

Figure 5. GDP and unemployment dynamics in Kazakhstan, 1991-2014



Source: CSK 2015

With half of the population still living in rural areas, the Kazakhstani authorities must be certainly concerned about providing them with market opportunities to switch from subsistence to more commercial agriculture; equally, those who will eventually migrate into urban areas should be able to find industrial jobs, and the Customs Union with Russia and other EAEU parents may seem better fit for that than continued laissez-faire trade relations with China and the rest of the world (Yarashevich 2014, p. 602).

Kyrgyzstan

Kyrgyzstan is a relatively small land-locked former USSR republic located in the very heart of Central Asia, with many of its 5.7 million people speaking Russian and using Cyrillic alphabet for their native Kyrgyz language. Yet, despite some reports in the western media, its dependence on Russia is not as clear-cut as is the case with Armenia or even Belarus, which is best illustrated by its foreign trade profile (Ott 2014).

Indeed, among its EAEU partners, Kyrgyzstan, perhaps, can be proud to have the most liberal economy in terms of foreign trade, a status that can be verified by, inter alia, the fact of it being the first ex-Soviet republic to join the World Trade Organization as early as in 1998 (WTO 2015). In recent years the country's foreign trade exceeded its domestic output, but this was largely due very developed import and re-export operations on the background of relatively modest exports. For example, in 2013 Kyrgyzstan's merchandise imports stood at as much as 82% of its GDP, while exports accounted for only 24%, and re-exports – for 3% of GDP. In the same period, nearly half of the Kyrgyz merchandise exports of 1.8 billion USD was comprised by unclassified commodities (44%), followed by chemicals (including fuels), at 11%, precious metals (mainly gold), at 9%, and manufactures (9%). On the imports side, in 2013 nearly a third of the total 6 billion USD was taken by fuels and chemicals (32%), while two other biggest groups were machinery (including transport equipment) and products classified by material (including miscellaneous and being most likely textile and clothing), accounting for a quarter each. Geographically, in recent years the biggest share of Armenia's merchandise exports went to Switzerland, the major importer of Kyrgyz gold, United Arab Emirates, Kazakhstan and Russia, while the combined share of Armenia and Belarus has been insignificant. In imports the biggest shares have been taken by Russia, China and Kazakhstan, with very little supplies from either Armenia or Belarus (see Table 9).

Table 9. GDP and foreign merchandise trade of Kyrgyzstan, 1995-2013

	1995	*2000*	*2005*	*2010*	*2013*
GDP, million of current USD	1661	1370	2460	4794	7335
Foreign merchandise trade, million USD	934	1058	1780	4711	7756
Merchandise re-exports, million USD	-	-	42	191	228
Merchandise exports, million USD	412	504	672	1488	1773
Switzerland, %	0.4	6.7	9.7	26.1	28.9
UAE, %	0.0	0.3	25.7	20.3	12.5
Kazakhstan, %	16.3	6.5	17.3	12.2	21.5
Russia, %	26.0	12.9	19.9	17.3	8.6
Armenia, Belarus, %	1.2	0.6	0.2	0.4	0.7
Mineral fuels and chemicals (SITC 3,5),%	23.1	19.4	12.8	8.4	10.8
Goods classified chiefly by material (SITC 6), %	22.4	3.7	12.8	3.4	9.2
Manufactured goods (SITC 7,8), %	14.3	13.0	14.4	15.4	18.3
Unclassified goods (SITC 9), %	0.7	38.7	37.5	56.4	44.2
Merchandise imports, million USD	522	554	1108	3223	5983
Russia, %	21.8	24.0	34.2	33.6	33.2
China, %	1.2	6.7	9.3	20.7	23.9
Kazakhstan, %	21.6	10.3	16.3	12.0	9.3
Armenia, Belarus, %	1.0	0.7	0.6	1.7	1.9
Mineral fuels and chemicals (SITC 3,5),%	42.3	35.4	43.1	36.5	31.8
Goods classified chiefly by material and miscellaneous manufactured articles (SITC 6, 8), %	16.7	22.2	20.5	22.7	26.2
Machinery and transport equipment (SITC 7), %	18.4	25.6	18.1	21.5	25.1

Source: Comtrade 2015

As the trade balance of Kyrgyzstan started to deteriorate markedly from the mid-2000s, reaching a record of 4.3 billion USD, or 58% of GDP in 2013, the country's dependence on non-trade sources of external financing drastically increased. Similar to Armenia, there have been three major sources of such financing: personal remittances from migrants working abroad, mainly in Russia; official development aid, mainly from the west; and net FDI, mainly from Russia and Kazakhstan (see Table 10).

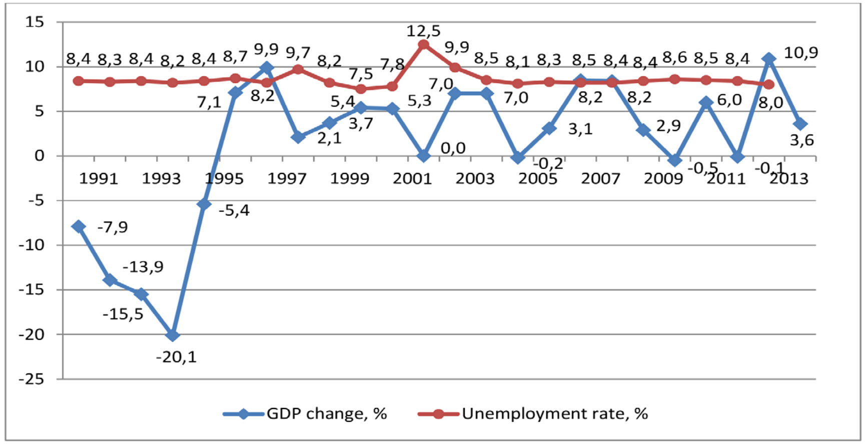
Table 10. Major sources of trade deficit financing in Kyrgyzstan, million USD, 1992-2014

Year	*Personal remittances*	*Net FDI*	*Net official development aid*	*Merchandise trade balance*
1992	-	-	21	-
1993	2	10	95	-
1994	1	38	174	24
1995	1	96	285	-113
1996	2	47	230	-333
1997	3	84	240	-105
1998	25	109	239	-328
1999	18	44	283	-146
2000	9	-2	215	-49
2001	11	5	188	9
2002	36	5	186	-101
2003	78	46	200	-135
2004	189	175	261	-222
2005	313	43	268	-430
2006	473	172	311	-1040
2007	704	208	274	-1468
2008	1223	377	360	-2217
2009	982	189	313	-1367
2010	1226	438	380	-1467
2011	1709	694	525	-2282
2012	2031	293	473	-3480
2013	2278	758	537	-4279
2014	2243	211	-	-4000

Source: World Bank 2015b

Taking into account the erratic performance of Kyrgyz GDP and persistently high unemployment (see Figure 6), it is not surprising then that Kyrgyz authorities eventually opted for closer economic links with Russia in the framework of the EAEU. Indeed, with remittances from migrant workers, largely from Russia (Ott 2014), reaching as much as 30% of GDP in 2014, with the share of mostly western foreign aid dropping to less than 3% in the same period, it is clear that there is a hard integration choice for this Asian and largely Muslim country, whose capital Bishkek is 5211 km/ 3238 miles away from Brussels (one and a half times farther than Baghdad, for instance). One should also bear in mind that Kyrgyzstan is the only former USSR republic still considered a heavily indebted poor country by the World Bank, along with, inter alia, Haiti, Somalia and Sudan (World Bank 2015c).

Figure 6. GDP and unemployment dynamics in Kyrgyzstan, 1991-2014



Source: World Bank 2015b

To be sure, thanks to its location Kyrgyzstan could for some time benefit from its commercial intercourse with China, the world's second largest and very dynamic economy, yet unlike its more resource-endowed neighbor Kazakhstan, it did not stable internal sources of finance to sustain such a trade regime. Hence, its decision to opt for a more protectionist trade regime within the Customs Union and EAEU in a hope of developing a different economic model, based on export-based growth led by local industry and agriculture appears logical:

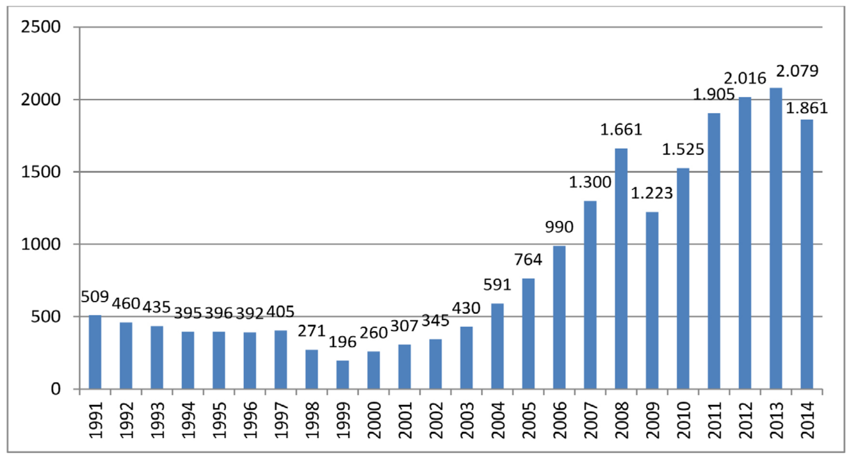
> Kyrgystan's prime minister, Djoomart Otorbaev, says there is "no alternative" to the country joining the EEU. For almost two decades, traders in Kyrgyzstan took advantage of WTO membership to import cheap Chinese goods and re-export them to other post-Soviet countries, including Russia. The EEU's barriers put an end to that. "The old model does not work any more", says Talat Sultanov, director of Kyrgyzstan's National Institute for Strategic Studies, a government think-tank. He says Kyrgystan has to learn how to manufacture (Economist 2015d, p. 45).

Russia

The largest country in the Customs Union / EAEU, Russia has clearly dominated the process of Eurasian integration by the virtue of its size, power and geopolitical ambitions. But while in the 1990s its efforts to bring the former Soviet republics into its sphere of influence were not particularly successful, the establishment of the Eurasian Economic Union proves that it can still have a positive appeal. Notably, Russia's president sees the Eurasian integration as a viable alternative to the European Union for the former republics of the Soviet Union (Putin 2011). Yet even in Russia there are different views on the prospects of Eurasian integration, natural in the view of the country's changing economic standing (Pogosyan 2014).

Indeed, on the one hand Russia has become one of the largest and fastest-growing economies in the world, already in 2001 included in the well-known BRIC group (O'Neill 2001). By 2014 the country's GDP in nominal terms increased nearly ten-fold since the nadir of 1999, remaining significantly higher than it was throughout the 1990s and quickly recovering after a substantial contraction in 2009-10 following the global financial crisis of 2008 (see Figure 7).

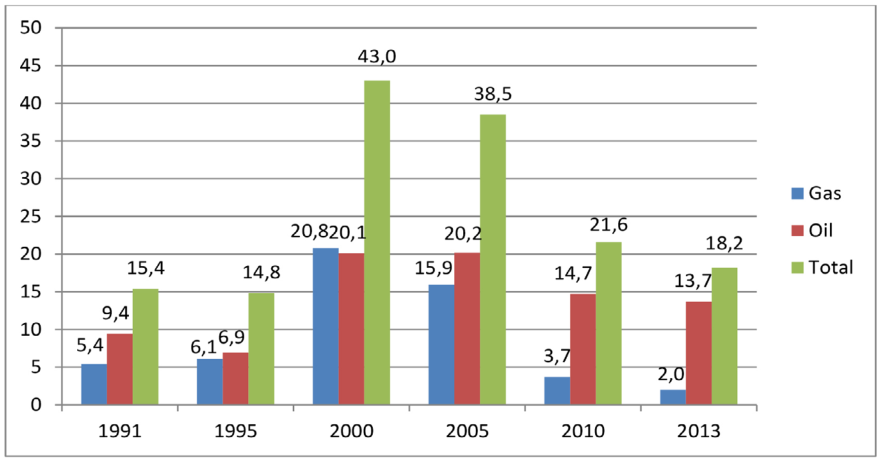
Figure 7. Russian GDP in absolute terms, billion USD, 1991-2014



Source: World Bank 2015b

According to the US Geological Survey, in 2012 Russia "ranked among the world's leading producers or was a leading regional producer" of at least 50 mineral commodities, including aluminum, copper, gold, lead, molybdenum, nickel, palladium, silver, tin, titanium, uranium and vanadium (Safirova 2015). But similar to Kazakhstan's case, it is oil and gas that have been of particular significance for Russian economy, accounting for about one fifth of the country's GDP, with a total share of natural rents in the country's output ranging from 15% in the mid-1990s to around 40% in the early 2000s (see Figure 8). With 103 billion barrels of proved oil reserves, or 6.1% of global total, and daily production of 11 thousand barrels, or 12.7% of global total, in 2014 Russia was the second largest oil producer in the world, only slightly behind Saudi Arabia (12.9%) and marginally ahead of US (12.3%) (BP 2015, pp.6-8). Equally robust is the country's position on natural gas: holding the world's second largest (after Iran) proved reserves of 1153 trillion cubic feet, or 17.4% of global total, in 2014 it was the second largest gas producer(after US), with 579 billion cubic feet, or 16.7% of the global natural gas output (BP 2015, pp. 20-2).

Figure 8. Natural resources rents in Russia, % of GDP, 1991-2013



Source: World Bank 2015b

Exports of natural resources have arguably allowed Russia adjust to the shocks of post-communist transformation, also contributing to political stability. At the same time, they reduced the incentives for exporting goods with higher added value, notably machinery, or at least chemical products rather than crude oil. Indeed, the structure of Russia's foreign merchandise trade resembles that of a low-income developing country, with exports dominated by a few primary commodities heading mainly to developed countries, notably the EU, and imports, composed largely of chemicals, machinery and other manufacturers, coming from the same developed countries and China. It is also obvious that Russia became particularly dependent on exports of hydrocarbons, notably crude oil and natural gas. Whereas two decades ago they took only a third of all Russian exports, in 2014 their combined share rose to 43%, propelling the share of mineral fuels to a record of 70%. In the same period the share of manufactures decreased from over one third of total exports to about one fifth, while that of machinery and equipment nearly halved – from 7% in 1996 to 4% in 2014 (see Table 11).

Table 11. Foreign merchandise trade of Russia, 1996-2014

	1996	*2000*	*2005*	*2010*	*2014*
Foreign merchandise trade, billion USD	149.3	137.0	340.2	648.8	784.4
Merchandise exports, billion USD	88.7	103.1	241.5	400.1	497.8
Belarus, %	3.8	5.4	4.2	4.5	3.3
Kazakhstan, %	2.7	2.2	2.7	2.7	2.8
EU, %	-	56.9	57.9	51.3	-
China, %	4.5	5.1	5.4	5.1	7.5
Mineral fuels (SITC 3), %	43.1	50.6	61.8	64.4	69.5
Crude oil (SITC 3330), %	16.9	22.9	33.0	32.3	30.9
Natural gas (SITC 343), %	15.8	15.6	12.6	11.6	12.2
Chemicals, machinery and other manufactures (SITC 5,6,7,8), %	34.4	32.0	23.8	19.2	20.6
Machinery and transport equipment (SITC 7), %	7.0	6.2	4.1	2.9	4.0
Merchandise imports, billion USD	60.6	33.9	98.7	248.7	286.6
Belarus, %	4.8	11.0	5.8	3.9	4.3
Kazakhstan, %	4.8	6.5	3.3	1.8	2.5
EU, %	-	61.7	71.6	46.1	-
China, %	1.7	2.8	7.4	15.7	17.8
Chemicals, machinery and other manufactures (SITC 5,6,7,8), %	44.6	57.4	72.5	69.1	82.3

Source: Comtrade 2015

According to some reports, such patterns of foreign trade contributed to economic "overheating" and underdevelopment of "non-resource sectors", notably manufacturing and agriculture (Oomes and Kalcheva 2007, pp. 3-4). It was also argued that modern Russia is a clear case of the so called "Dutch disease", a term introduced by the Economist in the 1970s to describe an economic phenomenon associated with "mismanagement of natural resources" (Economist 2011, p. 76; Welfens and Kauffmann, 2005, pp. 10-1). Just as in Kazakhstan, then, the Customs Union and overall Eurasian integration may be viewed in Russia as catalysts of structural changes in the country's economy, capable of reducing its dependence on natural resources, which may bring a lot of budget revenue, but do not provide a great deal of employment (Welfens and Kauffmann 2005, p. 10). Indeed, only in the last ten years Russia lost 2.4 million manufacturing and 2.1 million agricultural jobs, whereas the number of employed in mining remained stable at just over 1 million. Of course, job destruction in the country's industry and agriculture was partly compensated by job creation in services and small business, but with overall employment contracting by 7.5 million, or 10%, from 1990 to 2014, it seems that post-communist reforms have cost Russia dearly in terms of labor (see Table 12).

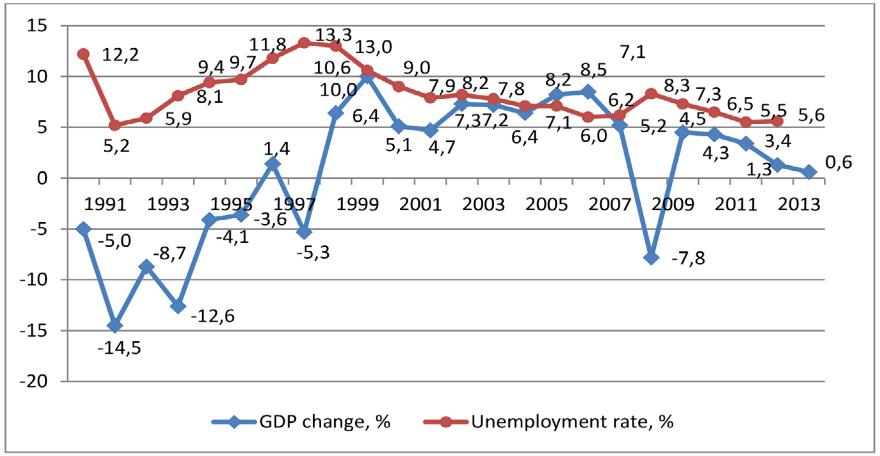
Table 12. Selected indicators of employment in Russia, million people, 1990-2014

	1990	*1995*	*2000*	*2010*	*2011*	*2012*	*2013*	*2014*
Total employment	75,3	66,4	64,5	67,5	67,6	68,0	67,9	67,8
Agriculture	9,7	9,7	8,4	6,6	6,6	6,5	6,4	6,3
Industry	22,8	17,2	14,5	13,3	13,3	13,2	13,1	12,9
Incl. manufacturing	-	-	12,3	10,3	10,3	10,2	10,1	9,9
mining	-	-	1,1	1,1	1,1	1,1	1,1	1,1

Source: FSSSR 2015

Given such trends in Russia's labor market structure, it would hardly be surprising that, just as in case with Kazakhstan, strong output growth after the country's default in 1998 has not been accompanied by the appropriate reduction of unemployment. Among other things, this may once again highlight the capital rather than labor intensity of economic growth based on natural rents rather on industrial development (see Figure 9).

Figure 9. GDP and unemployment dynamics in Russia, 1991-2014



Source: World Bank 2015b

As in the Soviet times Russia strove to produce nearly everything to satisfy its domestic needs, the decline of its industry and agriculture, which used to provide nearly half of all jobs, appears problematic both economically and politically. Whereas Belarus, for instance, does not have its own energy and mineral resources, Russia obviously has everything to stage an industrial revival, lacking only good management and technology, as well as, for sure, appropriate policy decisions. In this respect the establishment of the Customs Union and later – of the Single Economic Space and the Eurasian Economic Union – can been seen as a reflection of the official commitment to deal with the apparent "Dutch disease" of the Russian economy. To be sure, there is little alternative, given the worsening of relations with the west, which used to provide the country with most of its industrial and other imports, and the price crunch on the global commodity markets, which used to provide it with much of the necessary cash for such imports.

Conclusion: Political economy implications of Eurasian integration

The case studies of Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia suggest that the process of Eurasian integration may have quite important political economy implications. Indeed, the Customs Union and EAEU amount to geographically the largest common trade area in the world, open for internal but relatively restricted for external competition. So far the latter proved a serious challenge for the development of manufacturing and agriculture in nearly all EAEU partners, as demonstrated by the profiles of their economic structure and foreign trade. Only Belarus managed to preserve the bulk of its industrial and agricultural capacity, but as a small, open yet heavily centralized economy, it can hardly yield sufficient influence on its EAEU partners, particularly the larger ones – Kazakhstan and Russia. It goes without saying that they need to revive their manufacturing and agriculture not only to correct imbalances in economic structure and trade, but also to boost employment opportunities for the electorate. Indeed, ordinary people in all EAEU countries are likely to be getting increasingly anxious about the lack of decent jobs despite the recent economic growth and in the view of currently unstable economic situation in the Union, increasingly referred to as a crisis.

While in the last twenty years services could compensate for huge job losses in industry and agriculture, their potential seems to be running out, as the essential institutional or infrastructural conditions for the transformation of the Eurasian partners into developed post-industrial economies are yet to be firmly established. Indeed, in the immediate aftermath of the USSR breakup there might have been a place for unqualified service jobs on open markets, in cafes or construction, yet much greater there was a need for affordable and quality consumer goods. As local industry withered and scores of qualified workers moved into unqualified service occupations, the latter was met through largely unregulated imports from China, Turkey or Poland. This has not only degraded labor qualifications and motivations, but also led many countries into debt traps as they struggled to balance their external trade (Yarashevich 2013, p. 211). Furthermore it meant that industrialization in this region, started in the Soviet period, has not been completed, making the Customs Union and EAEU look like attempts to do so against the odds of the increasingly turbulent global economic environment.

Another important political economy implication of the Eurasian integration concerns the link between employment opportunities and political stability. It is obvious that political elites in all five partner countries may be reluctant to lose power for various reasons, and thus need to consolidate it at the grass roots level. Naturally, decent employment opportunities are essential in this regard, and given the general level of workforce qualifications and business infrastructure in the region these opportunities are likely to be concentrated in industry and agriculture. Up until recently, these sectors have been largely neglected in all EAEU members except Belarus, at first because of economic instability in the 1990s, and then due to commodities boom of the 2000s. However, the global economic crisis might have prompted the leaders of the Customs Union /EAEU to reconsider the political economy role of industry and agriculture. Indeed, by employing substantial numbers of educated yet less entrepreneurial voters, these sectors not only satisfy their material needs, but can also boost national spirits through perceptions of economic self-sufficiency and security, vital to back up patriotic slogans in electoral campaigns. Taking into account certain illiberal trends in all partner countries, their leaders may require a lot more concentrated popular support to validate their hold on power than would be sufficient in pluralist democracies, where voter preferences tend to be diffused along competing party lines. In other words, because of its anticipated positive labor and other economic effects, the Customs Union and its greater EAEU framework can be considered a political economy mechanism capable of preserving incumbent elites in the region prone to instability due to numerous social and economic problems accumulated since the break-up of the USSR. Whether it is good or not remains to be seen, but it is clear that by facilitating regional cooperation and industrialization Eurasian integration can meet social and economic needs of many if not most Armenians, Belarusians, Kazakhs, Kyrgyz and Russians even if it would also benefit their frequently imperfect politics elites.

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