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External Factors Encouraging Integration within the Eurasian Economic Union

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Abstract

The paper analyses the existing relationships between the Eurasian Economic Union (EAEU) countries, studies the dynamics of integration, clarifies the external factors affecting these processes and key problems the member states have to deal with. The study highlights the role of China and its Belt and Road Initiative as the central driving force behind integration. Having assessed the degree of convergence of the EAEU member states, we find that the level of convergence between them is decreased, which is indicative of the EAEU territory lacking catch-up integration processes. The EAEU nations are more inclined to interact with China, cooperation with which is supported by financial resources. The paper identifies the core challenges and constraints of China's Initiative for all the participating states. It also substantiates the need for strengthening support for the technological and innovative development of Russia and the EAEU nations to form competitive advantages in the dialogue with China on integration.

Disciplinary: International Economic, Globalization, Politics and International Relations.

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1 Introduction

The relationships between Russia, the Eurasian Economic Union (EAEU) member states, and China have always been complicated and dynamic. These countries follow different models of development and the way they act in the international arena is based on different value systems,

cultures, and traditions. Russia and China are undergoing a period of fundamental reforms, the results of which will have a far-reaching effect. Given the undeniable mutual interest, further expansion of cooperation is a strategically important opportunity for both states. At the same time, the interaction between the two countries faces several difficulties associated with international and political realities. This primarily relates to their cooperation within the EAEU and the implementation of China's Belt and Road Initiative (BRI). China's growing influence in Central Asia indicates a struggle for geopolitical and geo-economic leadership (Dai & Cai, 2017). This poses a new challenge to Russia threatening its desire to become a global power player (Curcio, 2018).

Thus, the *purpose* of the study is to analyze the prospects for stimulating integration processes within the Eurasian space, substantiate the need to broaden Russia's participation in the BRI and promote technological cooperation between China and Russia.

To accomplish the stated purpose, we put to test the following assumptions: (a) the growing influence of the BRI on the integration within the EAEU leads to Russia losing its leadership in the region; (b) to regain its dominance, Russia should more actively participate in China's project "Digital Silk Road".

Based on the purpose of the study, we formulate the following objectives: to examine the positions of the Central Asian states on further cooperation with Russia; to establish the effects, problems, and constraints of the BRI for all the participating countries; to analyze the current state of the economic integration of the EAEU nations using sigma- and beta-convergence; to justify the prospects for further Russia-China cooperation.

2 Literature Review

International regional integration is the subject of economic, political, and sociological research. One of the most controversial issues is integration in the Eurasian space, which serves as a basis for various projects (Xiaolin, 2018; Mikhalev, 2016; Ma, 2017; Druzhinin & Dong, 2018; Hushcha & Gribov, 2018). Ambitions of Russia and China to dominate the region led to the emergence, on the one hand, of the Eurasian Economic Union, and on the other, the Belt and Road Initiative (Kitson & Liew, 2019). The BRI aims to establish strong economic and political ties between China and Europe through Central Asia and Russia; link China and the Middle East through Central Asia; and connect China and Southeast Asia, South Asia, and the Indian Ocean. At the same time, Russia focuses on implementing the concept of the Greater Eurasian Partnership that can be described in three ways (Borisov, 2017; Luzyanin, 2017; Matveev, 2017). First, it is designed as a geo-economic, geopolitical, and civilizational (or geo-ideological) project. Second, it represents Russia's new approach to foreign policy that was adopted under strained relationships with the USA and the EU. Third, it is regarded as Russia's attempt to reinvigorate the concept of "Turn to the East" involving the EU countries. One can agree that the EAEU offers an alternative to the bipolar order (Manukov, 2019), however, unlike the EAEU, China's Initiative has strong financial support from international funds.

Coordination of the BRI and the EAEU is viewed from several perspectives. Sangar et al. (2017) analyze the current situation and identify the obstacles to Russia-China cooperation. Kaczmarski (2017) scrutinizes the conceptual development of the Eurasian regional integration. According to Kassenova (2017), China's economic expansion into Central Asia did not provoke an open confrontation with Russia, mainly due to viewing the Central Asian region as a significant one to Russian identity, as well as due to careful Chinese diplomacy. At that, the EAEU member states are mostly portrayed as observers of the confrontation between China and Russia (Li, 2018).

To understand the influence of integration processes on the economic development of the member states, it is of special importance to choose the most indicative assessment methods. In empirical studies, there is no consensus on a set of methods to be used; however, this choice is dependent on several factors. For instance, Salsecci & Pesce (2008) applied such determinants as trade, capital flows, and institutional change to examine the level of integration of the countries of Central and Eastern Europe after accession to the EU through economic growth. Zuk et al. (2018) compared the countries of South-Eastern and Central-Eastern Europe in terms of economic growth and identified several determining factors, including institutional aspects, innovation, competitiveness, investment, openness, and change in human capital. Lejko & Bojnec (2011) studied the correlation between integration and the size of foreign direct investment in Central and Eastern Europe. According to Ani (2015), there is a correlation between the quality of the business environment and productivity, investment, innovation, or efficiency of production factors. It is worth noting that the quality of the business environment is one of the drivers of economic growth linked with the processes of integration and cooperation. At that, the issue of ensuring the coherence of these processes is of a convergent nature.

The differences in the approaches, the depth of coverage of the observation objects, and periods led to the conclusion that there was no methodological consistency in empirical studies. We attempt to resolve the existing contradictions. The literature review has demonstrated the importance of analyzing the level of integration through convergence indicators to be applied in the current research.

3 Method

To test the assumptions and determine the prospects for integration, we assess the strength of convergence (σ- and β-convergence). The methodological approach to convergence is based on Solow's contribution; it is used to measure the convergence of various indicators' levels, which relate to variability/homogeneity, polarization, concentration, complementarity, and entropy (Monfort et al., 2013). The results obtained may or may not confirm various aspects of the convergence process. Sigma-convergence is observed when the spread of real per capita income across a group of economies decreases over time. Beta-convergence is present when a partial correlation between income growth over time and its initial level is negative.

Sigma-convergence is calculated through the coefficient of variation. Variation is measured for a larger number of elements using simple indicators (deviation, range) and synthetic indicators

(linear mean deviation, variance, standard deviation, and coefficient of variation). Synthetic indicators characterize the distance between the variables' values for each element and the average level (Kutan & Yigit, 2009). In dynamic analysis, the change in descent suggests that there is a more obvious convergence process. Therefore, the coefficient of variation and the root mean square (standard) deviation allow making comparisons. Sigma-convergence is calculated by

$$V = \frac{s}{\bar{X}} * 100\ \% \quad (1),$$

where σ is standard deviation; $\bar{X}$ is the arithmetic mean of the indicator.

Sigma-convergence is calculated based on the statistical data on GDP per capita of the EAEU countries for 2013-2019 (Table 1). The ratio of GDP per capita of the EAEU countries to the same indicator in Russia was determined, as the variances/SD were estimated.

Table 1: GDP per capita of the EAEU countries for the period of 2013–2019, US dollars

Country	2013	2014	2015	2016	2017	2018	2019
Armenia	3,680	3,852	3,512	3,524	3,872	3,895	3,899
Belarus	7,898	8,289	5,829	4,997	5,729	5,805	5,860
Kazakhstan	13,891	12,807	10,510	7,715	8,770	8,811	9,150
Kyrgyzstan	1,342	1,331	1,163	1,134	1,220	1,235	1,243
Russia	16,016	14,278	9,389	8,779	10,475	10,526	10,621
Mean value	8,565.4	8,111.4	6,080.6	5,229.8	6,013.2	6,054.4	6,154.6

Source: World Bank (2020b).

To calculate β-convergence, Barro regression is used (Mankiw, Romer & Weil, 1992):

$$\left(\frac{1}{T}\right) ln\left(\frac{y_{it+T}}{y_{it}}\right) = a + b_i \ln y_{it} + e_1 \quad (2),$$

where y_{it+T} is an indicator for analysis at the late period; y_{it} is an indicator for analysis at the early time; α is a constant term; β1 is a coefficient of regression equation; $\left(\frac{1}{T}\right) ln\left(\frac{y_{it+T}}{y_{it}}\right)$ is average annual growth rate; e_1 is random error.

The studies show that β-convergence is a necessary but insufficient condition for σ-convergence. At that, if the regression coefficient is less than zero and statistically significant, then the presence of β-convergence is confirmed and there is a "catch-up" effect in the countries of the integration group. If the coefficient has positive values, then there is a divergence of the states. To analyze β-convergence, the Gini coefficient was used (Table 2).

Table 2: Gini coefficient of the EAEU countries for the period of 2008–2019 (EEC, 2020a).

Country	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Armenia	0.339	0.355	0.362	0.371	0.372	0.372	0.373	0.374	0.375	0.359	0.360	0.360
Belarus	0.274	0.268	0.265	0.284	0.285	0.283	0.275	0.276	0.279	0.269	0.275	0.272
Kazakhstan	0.288	0.267	0.278	0.290	0.284	0.276	0.278	0.278	0.278	0.287	0.289	0.290
Kyrgyzstan	0.363	0.371	0.371	0.382	0.420	0.456	0.429	0.408	0.406	0.392	0.378	0.364
Russia	0.421	0.421	0.421	0.417	0.420	0.417	0.415	0.412	0.412	0.411	0.413	0.411
Mean value	0.337	0.336	0.339	0.349	0.356	0.361	0.354	0.350	0.350	0.344	0.343	0.339

4 Result and Discussion

Based on the calculation of the coefficient of variation, we assess the presence of σ-convergence by GDP per capita among the EAEU member states (Table 3).

Table 3: Coefficient of variation, SD, and variance for GDP per capita of the EAEU member states

Year	SD, USA dollars	Variance, USA dollars	Coefficient of variation*, %
2013	6,331.7	40,090,879.8	73.9
2014	5,572.8	31,055,867.3	68.7
2015	3,918.2	15,352,223.3	64.4
2016	3,102.9	9,628,141.7	59.3
2017	3,713.1	13,786,969.7	61.7
2018	3,726.5	13,886,468.8	61.5
2019	3,815.1	14,554,871.3	62.0

Note: * σ-convergence is calculated using the coefficient of variation., Source: World Bank (2020b).

The calculated coefficient of variation of GDP per capita for the EAEU member states indicates that the convergence is insufficient. Sigma-convergence allows comparing the homogeneity of GDP per capita indicators. For 2013-2019, the value was above 33%, which indicates that the sample was heterogeneous and characterized by a high dispersion. Until 2015, the indicator was falling, but since 2016 the situation has reversed, which was primarily due to external factors.

For β-convergence, the Barro regression was obtained as

$$\frac{1}{17}\ln\left(\frac{y_{it+T}}{y_{it}}\right) = -0,3195 + 0,0003\ln y_{it} + e_1. \quad (3).$$

Table 4 presents the regression statistics according to the Barro equation.

Table 4: Regression statistics for β-convergence

Indicator	Value
Multiple R	0.150
R-square	0.022
Normalized R-square	–0.075
Standard error	0.008
F-test	0.230

The calculation results show that the beta-coefficient is positive and equal to 0.0003, and since its value is greater than zero, β-convergence is absent. Despite the fact that the actual F-test (F_f = 0.230) is greater than the table value (F_{table} = 2.3), one cannot conclude about the presence of a catch-up effect in the dynamics of the GDP per capita indicator among the EAEU countries, since σ-convergence also demonstrates that no catch-up effect is observed. This trend is associated with the increasingly complex relationships between the Eurasian nations and the growing impact of negative external factors on the Russian economy (instability of oil prices, sanctions policy of the USA and other developed countries). All this resulted in a decline in the EAEU's share in global GDP by 0.6-3.6%. This is primarily attributable to the Russian economic crisis caused by the sanctions and falling oil prices. The growth rates of the EAEU countries' GDP over the period under study decreased by 3.2% (Figure 1).

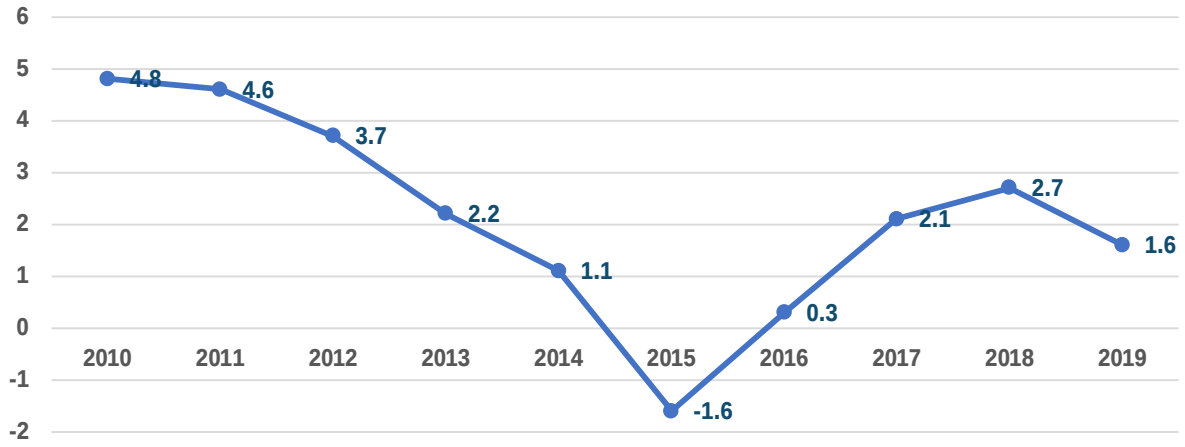

Figure 1: EAEU GDP growth rate, %/year (World Bank, 2020b).

The obtained results show that convergence between the EAEU nations was positive until 2014. Since 2015, the reverse processes have unfolded, which resulted in the discrepancy between the GDP per capita indicators and the divergence of the Gini coefficient of the studied countries. Thus, we can claim that the assumption about Russia's decreasing influence on the Eurasian countries is confirmed. The fact that negative trends emerged simultaneously with China planning the Belt and Road Initiative allows us to deduce that China's growing influence on integration processes in the Eurasian space leads to Russia losing its position in the region. However, it is worth noting that participation in large-scale infrastructure and technological projects can create favorable conditions for increased cooperation between the EAEU economies.

The Belt and Road Initiative is some kind of a challenge to regional geopolitics and the interests of Russia, the United States, and the EU in the very heart of Eurasia. From the perspective of classical geopolitics, the Initiative can be regarded as a key tool for uniting the states and establishing a new world order based on new rules (Dirmoserd, 2018). Economically, Russia is interested in intensifying ties and uniting the infrastructure of Europe and Asia. Putting the idea into practice will help expand and deepen communication, trade, and economic relationships. China is prioritizing cooperation with neighboring countries on many major projects on integrating railroad and motor-road networks into the transcontinental infrastructure system. This may have a strong effect on the geopolitical relationship between China and Russia.

As for its economic interests, China seeks to expand access to markets in Eurasia and the EU, as well as to trade routes connecting Asia with Europe and some parts of Africa. In addition, the scheme of cooperation within the existing integration unions is also changing. The Eurasian Economic Union, which is important to Russia as a platform for developing economic relationships in the region, is no longer viewed as a promising organization. The BRI is competing with the EAEU in many aspects, actually "eroding" it and causing serious disintegration tendencies in the Union. This is confirmed by the data on the trade turnover of particular countries with China (Table 5).

Table 5: Trade between the EAEU and the PRC (EEC, 2020b).

Country	2014		2019		2020 (January–September)	
	Turnover, billion US dollars	Share in turnover with China, %	Turnover, billion US dollars	Share in turnover with China, %	Turnover, billion US dollars	Share in turnover with China, %
EAEU	108.55	12.5	133.41	18.13	90.07	20.16
Russia	88.35	12.09	79.87	17.6	74.38	20.11
Kazakhstan	17.18	17.23	14.76	19.41	11.28	22.96
Belarus	3.01	7.88	4.48	12.56	3.2	14.49
Kyrgyzstan	–	–	1.8	42.89	0.59	24.61
Armenia	–	–	0.9	15.8	0.624	18.66

In 2019, the share of China in the total trade of the EAEU states amounted to 18.13%; in the 9 months of 2020, it rose to 20.16%. Over 82% of the trade accrues to Russia, for which China has become the major foreign trade partner. If compared to Russia, the economies of Kyrgyzstan and Kazakhstan are more closely related to China. It is noteworthy that the share of two-way trade of the EAEU countries in their foreign trade has hardly changed over the past 5 years and amounted to 16.6% in 2019 (EEC, 2020b).

In addition to Russia losing its influence on the EAEU member states, bilateral relations with China are also deteriorating. The share of China in total exports and imports is increasing annually (Figure 2). However, the structure of the two-way trade increasingly indicates that Russia is turning into China's natural-resource base that serves as a big supplier of industrial resources.

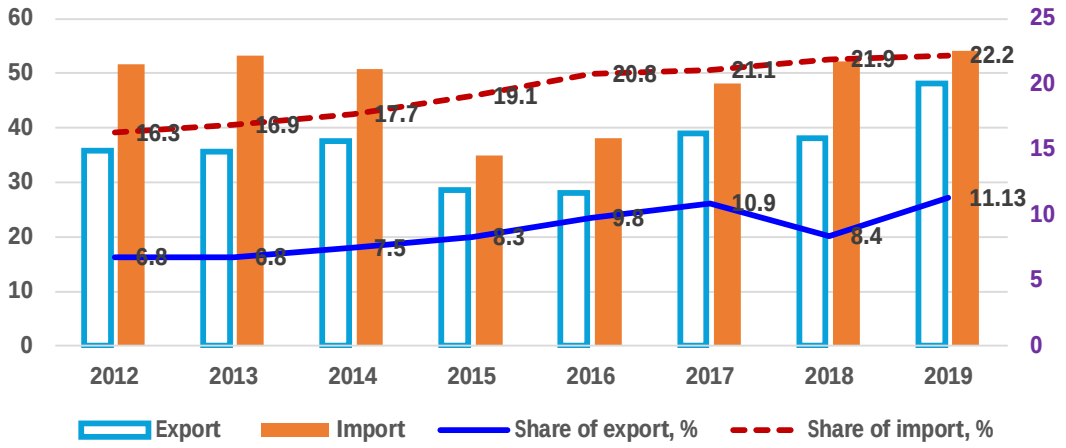

Figure 2. Dynamics of trade between Russia and China, billion US dollars (FCS, 2020).

To resolve this problem, Russia needs to develop a proactive strategy focused on investments and innovation in human capital, science, and technology (Romanova et al., 2017; Romanova & Kuzmin, 2020). Analysis of recent studies proves the high importance of technological development in attaining high positions in the geo-economic and geopolitical cross-country ratings (Druzhinin & Dong, 2018; Dudley, 2020; Li, 2018; Borisov, 2017; Luzyanin, 2017; Litau, 2020). The creation of science-intensive structures capable of ensuring the development of competitive products and attracting investments in the implementation of promising innovative projects should become a priority of state policy. Cooperation with China in the field of technology may be the central thrust. Numerous researchers believe that next-generation telecommunications will be among the avenues for Russia-China scientific cooperation (RVC, 2017; Woody, 2018;

Tkachenko & Martynova, 2019). To restore its position, Russia needs to actively participate in the BRI, and thus our assumption is confirmed.

It is worth highlighting the importance of the EAEU for the partner countries. Strengthening the relationships between the EAEU and China may be of the greatest importance. Russia is a strategically important partner for China in ensuring energy security; China is Russia's largest trading partner as well. At the same time, Russia expresses serious concerns about China's excessive influence in the Eurasian space. At that, it is important to understand that technological interaction between Russia and China within the BRI and the EAEU seems to be a rather promising avenue for international cooperation.

It is noteworthy that serious problems in implementing the BRI are due to the new global financial crisis caused by the COVID-19 pandemic (World Bank, 2020a; Segal & Gerstel, 2020; TASS, 2020; The Economist, 2020). They are associated both with a slowdown in the economic growth of the participants and the global economy and with a falling number of China's financial capabilities aimed at restoring the internal economic potential (Vinokurov, 2020).

5 Conclusion

This paper explores the peculiarities of Russia's participation in the EAEU and the current state of the partnership with China. The research findings demonstrate the insufficient level of σ-convergence in GDP per capita, which, given positive values of β-convergence, made it possible to establish that there were no catch-up integration processes on the EAEU territory. This allows us to conclude that the economic integration of Russia and other EAEU nations is characterized by low effectiveness despite all the measures undertaken. At the same time, China's growing influence on integration processes in the Eurasian space through the Belt and Road Initiative leads to the fact that Russia's position in the region is weakening. There emerges an obvious need for finding an optimal scenario for Russia-China cooperation. It is of critical importance to follow a consistent policy on the BRI, which is not an easy task due to the necessity to consider the interests of both Russia and its EAEU partners, as well as to develop mutually beneficial solutions. The paper proved that, with no regulatory actions taken, Russia would not be able to successfully transform its economy. To regain its dominance, Russia should more actively participate in the BRI. The principal focus should be put on technological cooperation in terms of communications, artificial intelligence, and the Internet of Things.

6 Availability of Data And Material

Data can be made available by contacting the corresponding authors.

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