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The Rise and Fall of the Eurasian Regionalism

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Abstract: The essay traces the evolution of the Eurasian regionalism over the last three decades. It focuses on the inherent contradictions between the centripetal market forces and the geopolitical clashes affecting the economic integration perspectives. In Eurasia, economic integration has been repeatedly reinterpreted in terms of geopolitical power; at the same time, economic interaction emerged across the politically motivated boundaries.

Keywords: Eurasian regionalism; geopolitical competition; Eurasian Economic Union; Belt and Road

JEL Classification: F15; F52

1 Emergence of the Eurasian Economic Integration

While referring to the ‘Eurasian’ regional economic integration, scholars typically consider one of two interrelated integration processes, which developed since early 1990s. Both of them were triggered by the collapse of the Communist block: however, while the first (‘narrow Eurasia’) was associated with attempts to *preserve* and to *restore* economic ties across former Communist states and Soviet republics, the second one (‘broader Eurasia’) focused on *creating* economic ties across the entire Eurasian landmass, connecting the EU with Russia, China, India and Southeast Asia. Both integration processes were to some extent linked to each other: without effective integration in the ‘narrow Eurasia’, protectionist policies of former Soviet republics would have diminished the feasibility of transcontinental linkages.

The initial rationale for the economic integration in the ‘narrow Eurasia’ was associated with high economic interdependence existing across post-Communist countries. Soviet-style planned economy heavily relied on creating value chains, where each enterprise had a unique monopolistic position due to extremely high asset specificity: thus, a Russian company could have been unable to survive without

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inputs from, say, Uzbekistan, and again, had a company in Belarus as the only buyer (Obydenkova and Libman 2019). On top of that, the lack of experience in the market economy made it fundamentally difficult for companies to find new partners (Blanchard and Kremer 1997). As a result, multiple economic integration spaces emerged across the post-Communist world. While some of them were explicitly seen as transitory until their member states would join the EU (e.g. the Central European Free Trade Agreement, CEFTA), in the former Soviet Union the attitude towards these new integration formats (starting with the Commonwealth of Independent States, CIS) was more mixed: while some considered them merely a tool of adaptation to the new reality, others treated them as nuclei for new persistent economic cooperation formats (Adams 1998).

Most 'post-Soviet' regional integration projects in the 1990s turned out to be highly ineffective and purely rhetorical (Kubicek 2009). The elites of the new independent states rather embraced rent-seeking and protectionism than cross-border economic cooperation (Libman and Vinokurov 2012a). Deep transition recession was a problematic environment for regional integration (Vinokurov and Libman 2014). The situation started to change in the early 2000s, when the economic situation in the post-Soviet Eurasia improved. Initially, this change was associated not with the activity of the governments but with private actors: emerging multinationals and migration networks. Unlike the unsuccessful top-down integration attempts of the 1990s focusing on reviving the old planned economy ties, the new bottom-up integration was driven by the market logic: common knowledge of the Russian language, similarity of laws and culture, as well as existence of informal people-to-people ties, making the post-Soviet Eurasia a natural space for FDI and migration (Libman and Vinokurov 2012b). Businesses and migration flows managed to overcome the lack of cooperation of the new independent states. Ironically from the contemporary perspective, it were the economic linkages between Russia and Ukraine, which were particularly successful during this phase (Libman, Stone, and Vinokurov 2022).

The governments caught up with this spontaneous economic integration only by the end of the first decade of the 2000s. By that time, Russia, Belarus and Kazakhstan created a number of new integration institutions, which turned out to be much more successful than their predecessors. The most important one was the Customs Union (2010), which in 2015 was transformed into the Eurasian Economic Union (EAEU). The EAEU (which currently includes also Armenia and Kyrgyzstan) managed to create a more or less functioning customs union (with a number of exceptions though), as well as to liberalize movement of capital and labor across member countries. It also achieved some level of supranationality, with trade policy decisions being made by the Eurasian Economic Commission (Vinokurov 2018). Originally, the EAEU's agenda was associated with promoting market reforms in the member states (Furman and Libman 2015); the EAEU aspired direct dialogue with the EU (an offer at that moment

of time the EU rejected) to boost its legitimacy but also to learn from the European experience. EAEU explicitly was designed as a purely economic integration project; in particular, Kazakhstan insisted on excluding any elements of a political union from the institutional design of the EAEU (Libman and Vinokurov 2018).

The integration in the 'broader Eurasia' also started with the bottom-up economic linkages: cross-border economic networks and investment activity of companies from the EU (and later from China and Russia) exploring the new opportunities emerging due to the open borders (Calder 2019; Frankopan 2019; Mações 2018; Pomfret 2019). Unlike the 'narrow Eurasia', 'broader Eurasia' has never aspired to create an institutionalized format of regional integration; rather, from the very beginning, the focus was on flexible arrangements and, in particular, on infrastructural projects. The *leitmotiv* of the integration in the broader Eurasia became the creation of land-based (roads, railroads and pipelines) and the expansion of sea-based infrastructure enabling trade and investments rather than creation of common institutions and norms. The emphasis should have been on pragmatism and on crossing the boundaries of traditional regions to ensure economic exchange (Vinokurov 2014).

The first governmental initiatives focusing on transcontinental connectivity emerged already in the 1990s and in the first decade of the 2000s (EU-led TRACECA and the US-led New Silk Road), but turned out to be unsuccessful. The situation changed in the 2010s, with China launching the Belt and Road Initiative (BRI). It is difficult to give an exact description of what BRI is about: the concept was redefined and restructured multiple times since it was initiated, and ultimately is an umbrella term many aspects of Chinese foreign economic policy fit to (Godehardt 2016). Most importantly, the BRI was associated with massive investments in the transportation infrastructure in Eurasia, including Central Asia. In the second half of the 2010s, EU and Japan followed suit with their own connectivity projects (Partnership for Quality Infrastructure (PQI) and the EU-Asia connectivity strategy). BRI ultimately led to multiple economically unreasonable investment projects, driving the recipient countries into debt traps (Carmody and Wainwright 2022). However, there were also multiple success stories: for example, the transcontinental railroad connection between China and the EU, originally heavily subsidized by the Chinese government, gained economic traction of its own, with cargo transport continuing to expand even during the Covid pandemic (Libman and Vinokurov 2021).

2 Economic Integration and Geopolitics

Ultimately, however, neither one of the Eurasian integration projects turned out to be a real success story. The promise of 'purely economic' and 'pragmatic' regionalism in both cases turned out to be illusory.

The EAEU and the regionalism in the ‘narrow Eurasia’ from the very beginning developed in the shadow of enormous power asymmetry in the post-Soviet space. With Russia being the dominant player, new independent states were concerned that economic integration will ultimately lead to the restoration of Russia’s control. Transformation of Russian politics itself hardly alleviated these concerns: the 2000s became not only a period of first bottom-up and then top-down economic integration in the post-Soviet Eurasia but also a period of consolidation of Vladimir Putin’s authoritarian rule in Russia and increasing Russian foreign policy activism. Since Russia actively promoted Eurasian regionalism, this raised the question insofar economic integration should have been seen as an attempt to cement Russian influence in the post-Soviet world and insofar it was driven by tangible economic gains for the participating countries.

In practice, most likely, both logics were present: Eurasian regionalism made sense economically (otherwise one would not have observed the proliferation of bottom-up economic ties since 2000 on) but there were also at least some groups in the Russian political elites, which saw it as a geopolitical tool to regain Russia’s dominance (Libman 2022). In the first decade of the 2000s Russia predominantly relied on economic influence in the post-Soviet Eurasia rather than on open imperialism and its military might (Tsygankov 2006); this changed only gradually (the ultimate turning point was the annexation of Crimea in 2014) (Matveev 2021): as a result, the market logic and the power logic were difficult to separate. In any case, one should distinguish between the underlying motives of Russia (and the presentation of Eurasian regionalism in the Russian domestic political rhetoric) and the final outcome – the specific institutions of the Eurasian regionalism. By aspiring to advance Eurasian integration (which Russian elites saw as an attribute of a great power), Russia had to make concessions to the smaller countries in Eurasia concerned about the regionalism becoming the channel of the Russian influence: as a result, paradoxically, the EAEU adapted decision-making mechanisms, which rather constrained than extended Russian power (Libman 2017).

Another challenge was the interaction between the Eurasian regionalism and the EU. The EU from the very beginning adapted a very skeptical stance towards the Eurasian regionalism. It was driven partly by the concerns about growing influence of the authoritarian Russia but at least to some extent by the bureaucratic inertia in Brussels – the EU unwilling to adapt or to change its own designs for the Eastern neighborhood. At the same time, Russia considered economic cooperation between Eurasian countries and the EU as a threat to its influence in Eurasia. This could have been one of the reasons for the choice of the specific format for the regional integration – a customs union, which made simultaneous participation in the Eurasian integration process and the signing of Deep and Comprehensive Free Trade Agreements with the EU impossible. As a result, post-Soviet states had to make a choice as

to whether they advance the Eurasian or the European vector of the economic integration. Precisely this choice triggered the revolution of dignity in Ukraine in 2014, followed by the start of the war between Russia and Ukraine.

As for the 'broader Eurasia', similarly, the skepticism about the purely non-political nature of the connectivity projects was there from the very beginning. On the one hand, some of them (in particular, the BRI, as well as the Russian idea of the Greater Eurasian Partnership) were seen as attempts to expand the political dominance of their core country. On the other hand, the 'new continentalism', as the process was referred to by Calder (2012), was considered a potential source of alternative norms promoted by authoritarian state and potentially weakening the governance institutions built by democracies. While the idea of connectivity and open and flexible integration formats remained popular, a somewhat paradoxical result occurred: multiple connectivity projects (of China, the EU, Russia, India or Japan), while all conceived to overcome traditional regional boundaries, were increasingly seen as competing with each other and thus created new boundaries (Libman and Vinokurov 2021).

In spite of these geopolitical tensions affecting regionalism in both 'narrow' and 'broad' Eurasia, throughout the 2010s, a fundamental consensus seems to have existed: geopolitical competition ought to happen *within* the boundaries of the global economy and intensive economic exchange. The examples of complete economic decoupling in Eurasia were rare, both in the 'narrow' one (the most prominent being the massive decline of economic ties between Russia and Ukraine) and the 'broad' one. The Customs Union and the EAEU, in spite of some protectionist tendencies, ultimately supported or at least not constrained the integration of members in the international institutions like the WTO (Libman 2021). Interestingly, while before 2014 EU showed little interest in dialogue with the EAEU, after 2014 the idea of such dialogue was broadly discussed in some of the European states as a way to still engage in some sort of exchange with Russia – but at that moment Russian leadership had much less interest in such dialogue it promoted before the start of the Russo-Ukrainian war.

3 Eurasia's Uncertain Future

After 2022, this consensus of 'geopolitical competition within the framework of globalization' broke down. On the one hand, unprecedented sanctions imposed by the EU and the US against Russia made the future of the EAEU uncertain; at the same time, Russia's aggression against Ukraine made Eurasian countries (even those interested in developing economic relations with Russia in the past, like the EAEU members) even more concerned of the risks of excessive dependence from Russia.

On the other hand, the ideas of ‘de-risking’ and ‘friend-shoring’ seem to play a much bigger role in the European politics; the EU expects Eurasian countries to take sides in its economic war against Russia and growing economic rivalry with China. China, at the same time, seems to proceed from the assumption that it cannot escape a large-scale economic conflict against the EU and the US in the foreseeable future, and is preparing for this scenario.

As of 2023, the EAEU continues to function and its members mostly still implement their commitments towards the organization. At the same time, it faces two major challenges. First, the EAEU turned into a natural conduit for delivering sanctioned goods from the West to Russia, as well as for Russia to re-organized its logistics. This is not unusual (Swaziland was accused to have played a similar role in the South African Customs Union during the anti-apartheid sanctions), but forces the EAEU members to make an uneasy decision: they want to avoid sanctions from the EU and the US but are tempted by lucrative profit opportunities associated with trading with Russia and have to follow the EAEU regulatory framework (with free movement of goods across the borders). Officially, all EAEU states reaffirm their commitment to stop the flows of sanctioned goods over their territory; whether this commitment is really implemented in practices is doubtful (Chupilkin, Javorcik, and Plekhanov 2023). Second, the EAEU needs to seek new cooperation formats with its key member being cut off from the international payment systems and extremely unlikely to show any positive economic dynamics in the years to come. Whether and how exactly the EAEU will deal with these challenges, is unclear.

Sanctions against Russia also have a strong impact on the possibility of development of transcontinental linkages in the broader Eurasia. But, more generally, both the EU and China seem to be more and more inclined to focus on maintaining spheres of their exclusive economic influence rather than on flexible cooperation. This is based on a fundamental change in perceptions: economic ties with countries with different political institutions and foreign policy orientations are more and more perceived as risk of dependence rather than as lever for influencing the other side. Thus, in the future we may observe more fragmentation than connectivity in Eurasia.

4 Conclusions

The Eurasian economic integration (both in the ‘narrow’ and in the ‘broad’ Eurasia) thus appears to be an example of how geopolitical confrontation and fundamental value differences between the democratic and the authoritarian states ultimately make successful economic cooperation impossible. Under the current geopolitical conditions, one can doubt whether the ‘narrow’ Eurasia will persist at all as a

coherent region – with smaller countries slowly moving away from Russia with its unpredictable aggressive policy and increasingly weak economy. Similarly, new connectivity projects in the ‘broader’ Eurasia are likely to be designed as exclusive and treat each other as substitutes rather than complements.

At the same time, in spite of these prospects, one should not forget: precisely the growing isolation of economic spaces erecting protectionist walls across their boundaries creates particularly attractive arbitrage opportunities. Russia’s post-Soviet neighbors, as well as Turkey or (to smaller extent) UAE, massively profit from Russia’s isolation from the world economy due to re-routing of trade flows and financial transactions, but also emigration of Russian citizens. The more de-coupling we are going to observe in Eurasia, the more actors (both countries and private companies or networks) will be interested in benefitting from the position of intermediaries. Paradoxically, this could lead to a new wave in the development of the Eurasian integration (the ‘broad’ and the ‘narrow’ one), which will differ a lot from the Eurasian integration of the past decades by being much less transparent and visible and a much riskier endeavor for all its participants.

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