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Convergence and Divergence of Economic and Social Development

Our analysis so far provides a highly heterogeneous picture of economic integration in the post-Soviet space. Formal regionalism seems to perform relatively poorly, and there are significant differences between the individual ‘holding-together’ initiatives. With regionalization, different sectors and different economic and political links also generate substantially different results. However, we have based our discussion so far on the key assumption that surviving Soviet economic and social links are significant for the countries of the former Soviet Union, or, in other words, that the FSU comprises ‘interdependent countries’. It is worth questioning whether this assumption is valid: in order to validate our analysis of the FSU in terms of ‘holding-together regionalism’, we must focus on the dynamics of internal links between countries in the region, that is, whether countries move closer to each other or diverge economically, politically and socially. This is especially important to any assessment of the future potential of regional integration.

The fact that the FSU experienced significant disintegration in the 1990s comes as no surprise, given the disintegration of the single state and the fact that new market economies emerged with new forms of economic coordination between agents (therefore, the links between economic actors had to be constructed from scratch even within the borders of the newly independent states). What is more interesting, however, is the development of FSU economic integration and convergence in the second decade of independence, when the initial ‘big bang’ effect of the USSR’s formal disintegration was no longer relevant. While the 2000s was a period of economic growth for the region’s countries, there were, generally speaking, no reasons to expect cross-border political cooperation to intensify. As we discussed in earlier chapters, this is more likely in adverse economic conditions. However, it is neither
clear whether this absence of cooperation affected cross-border links at a micro level (which, as we have shown, are able to survive even under strong governmental protectionism) nor is it clear how extensive the disintegration was. This is the problem we address in this chapter.

Our analysis is based on recent data from the EDB System of Indicators of Eurasian Integration (SIEI), which was designed to measure regionalization in the FSU. This quantitative database covers the period between 1999 and 2008, that is, almost the whole economic boom period we are interested in. The SIEI data can be used to study the extent of market integration (or disintegration) and economic convergence between FSU countries, taking into account various economic development indicators. Market integration is in some senses a measure of the (at least, potential) ‘demand’ for regionalism from economic actors (with all the aforementioned caveats regarding government–business relations in the FSU) and also a measure of the outcomes of regionalization. Economic convergence can be seen as a measure of the similarity of individual countries’ reactions to positive or negative external shocks, as well as of the similarity of the development issues and policy challenges they face, which in turn makes policy coordination less difficult. We also include a third element in our analysis: the divergence of the institutional and political systems of FSU countries. For this, SIEI data alone are insufficient.

**Market integration**

The SIEI calculates five indicators of market integration: total market integration, labour migration, and the three key ‘functional markets’ of electricity, grain and educational services (measured by the mobility of students). All indicators are calculated in a fairly similar way: trade-related indicators look at the intra-regional flow of goods or factors of production as a proportion of regional GDP or, for migration and educational services, proportion of regional population. For total trade flows the indicator is an arithmetic mean of intra-regional trade as a proportion of regional GDP and of intra-regional trade as a proportion of total trade for the region’s countries. The indicators show how regional trade and factor flows develop in relation to the overall growth of national economies. All the variables are calculated for five regions: (1) CIS-12 (all post-Soviet countries); (2) EurAsEC-5 (the five members of EurAsEC: Russia, Kazakhstan, Kyrgyzstan, Belarus and Tajikistan); (3) EurAsEC-3 (Russia, Kazakhstan and Belarus, the three largest EurAsEC countries that are attempting to form an ‘integration core’ in the region); (4) SES-4