To what extent can BRI affect the Eurasian Economic Union and the capacity of Russia to act as a regional economic centre vis-à-vis its periphery?

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Abstract:

The purpose of this paper is to analyse how China's Belt and Road Initiative has affected the Eurasian Economic Union as a project of regional economic integration. In the first section, the paper will assess to what extent the BRI has been generating trade diversion and reshaping regional production networks in the Eurasian Economic Union and its neighbourhood since 2014. The second section will assess the attractiveness of the Eurasian Economic Union as a regional integration process for Russia's neighbours since 2012. It will highlight its limitations due to the lack of economic complementarity and to the incapacity of the Russian economy to act as a regional economic centre or as a regional paymaster[2]. The third section will conclude by showing that BRI is likely to accelerate the decline of Russia's influence in Eurasia but that this decline had actually started a decade earlier due to long term structural factors brought about by the respective evolutions of the Chinese, the Russian but also of the EU economy.

1. The genesis of the Eurasian Economic Union

Central Asia and Transcaucasia were displaced to the periphery of world economy in the 16th century as circumnavigation offered alternative and cheaper ways to transport goods than the continental silk roads. Undeveloped economically and technologically, these regions became quickly dominated by the expansion of Western colonising powers in the 18th and 19th century, Russia and Great Britain, notably, at the expense of the Ottoman Empire in Transcaucasia and of China in the East. Despite the creation of the Trans-Siberian railways and the building of the tsarist state in this area, it remained in the periphery of the world economy as Russia was itself the least developed European powers.

By breaking the tsarist aristocratic state, the Russian revolution generated a new modernizing state (Khalid 2015, Smith 2013, Ubiria 2016 & Yekelchyck 2006). The USSR bureaucracy that has grabbed power through repression in the late 1920s and 1930s imposed a top-down modernization process throughout its territory (Smith 2013). As part of the economy periphery of the USSR, Transcaucasia and Central Asia were less urbanized and not industrialized, with only a limited qualified indigenous labour force who could work in industry and capital-intensive services. The modernization and deeper economic integration with the centre of the USSR implied the arrival of ethnic Russian elites coming from the centre of the USSR economy. Some local elites were also co-opted by the regime that grew in importance over time. The top down and brutal collectivization imposed after 1928 had severe consequences for the population with a famine that claimed two million lives in Central Asia and generated a decline of production in agriculture, especially in Kazakhstan (Ubiria 2016).

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[2] The term regional paymaster refers to Mattli's analysis of regional integration (Mattli 1999).

The integration of these regions into the Soviet economy generated a higher degree of interdependency with the development of a centralized transport and energy infrastructure. The planned economy generated a rapid industrialization and urbanization as well as an improvement in education standards, especially from the 1940s onwards. Once Central Asia and Transcaucasia recovered from the disastrous effects of the brutality of the rural collectivization in the 1950s, standards of living began to increase as did economic interdependency with the rest of the USSR. The 1950s and 1960s began to see some convergence with the centre of the Soviet Union in Western Russia. However, as the Soviet economic growth slowed down in the late 1970s, so did economic convergence between the centre and the periphery of the USSR (Brainerd 2008).

The collapse of the Soviet Union allowed local bureaucratic elites of the former USSR republics to take over the control of their state apparatus and their economic reforms. It generated a brutal and rapid economic disintegration as central planning was given up. Furthermore, the deregulation of finance and external trade enabled the local bureaucrat elites to take advantage of their economic management position to engage in massive state assets embezzlement through skewed privatization schemes, bribery or transfer pricing through privately owned joint-ventures (Banaroya 2006, Radvanyi 2007, Cabanne & Tchistiakova 2005). The capital outflows resulting from these embezzlements reached proportion unseen in the 20th century and continue to riddle the former USSR republics (Cooley & Heathershaw 2017, Schimpfössl 2018). GDP per capita and standards of living experienced a drastic fall until 1996. Armenia, Belarus, Kazakhstan had to wait until 2003 to recover the level of their 1990 GDP per capita, the Russian federation until 2005, Azerbaijan, Turkmenistan and Uzbekistan until 2006 and the last four had not yet recovered at the time of the eruption of the global crisis in 2008 (Maddison project 2010). The periphery of the former USSR experienced different paths, some could more easily adapt to an open capitalist economy as they benefited from abundant oil and gas reserves (Azerbaijan, Turkmenistan and Kazakhstan) but were less lucky and suffered more from their geographical isolation and weak connectivity, from their low technological level, from brain drain and from capital outflows. Many of these countries suffered a relative deindustrialisation as the local manufacturing units were already using too obsolete production methods to be able to face international competition, a situation made worse by the plundering of state assets and by the lack of investment (Cooley & Heathershaw 2017, Schimpfössl 2018).

The GKO financial crisis of 1998 marked the demise of the retreat of the state in the economy that had been pursued under the successive Yeltsin administrations. As Putin rose to presidency, the former KGB officer tried to recentralize power away from Russian regions and municipalities and to seize part of the oil revenue to secure financial resources for the state (Sapir 2011). The new administration progressively adopted a more developmentalist vision of the state and industrial policy (Daucé 2008). Putin quickly considered that the ineffective existing economic agreements that existed with former USSR republics were not sufficient for Russia's new geopolitical and economic goals. Moscow was trying to create a deeper economic integration with some former soviet republics.

President Nazarbayev supported these economic integration projects as it was seen as a way to balance the rising economic and diplomatic influence of China that was becoming Kazakhstan's first trade partner (Kassenova 2013). Lukashenko also accepted, not only to balance the rising economic influence of the EU with Belarus, but also to benefit from subsidized energy products from Russia. Furthermore, many of the Belarus manufacturing production units were still highly integrated with their Russian counterparts for historical reasons (Frear 2013). The Eurasian Economic Union (EEU) was conceived. Two other smaller economies from the former USSR, Armenia and Kyrgyzstan, decided to join the EEU in 2013 and new supranational institutions were established in 2015 (Dragneva and Wolczuk 2017).

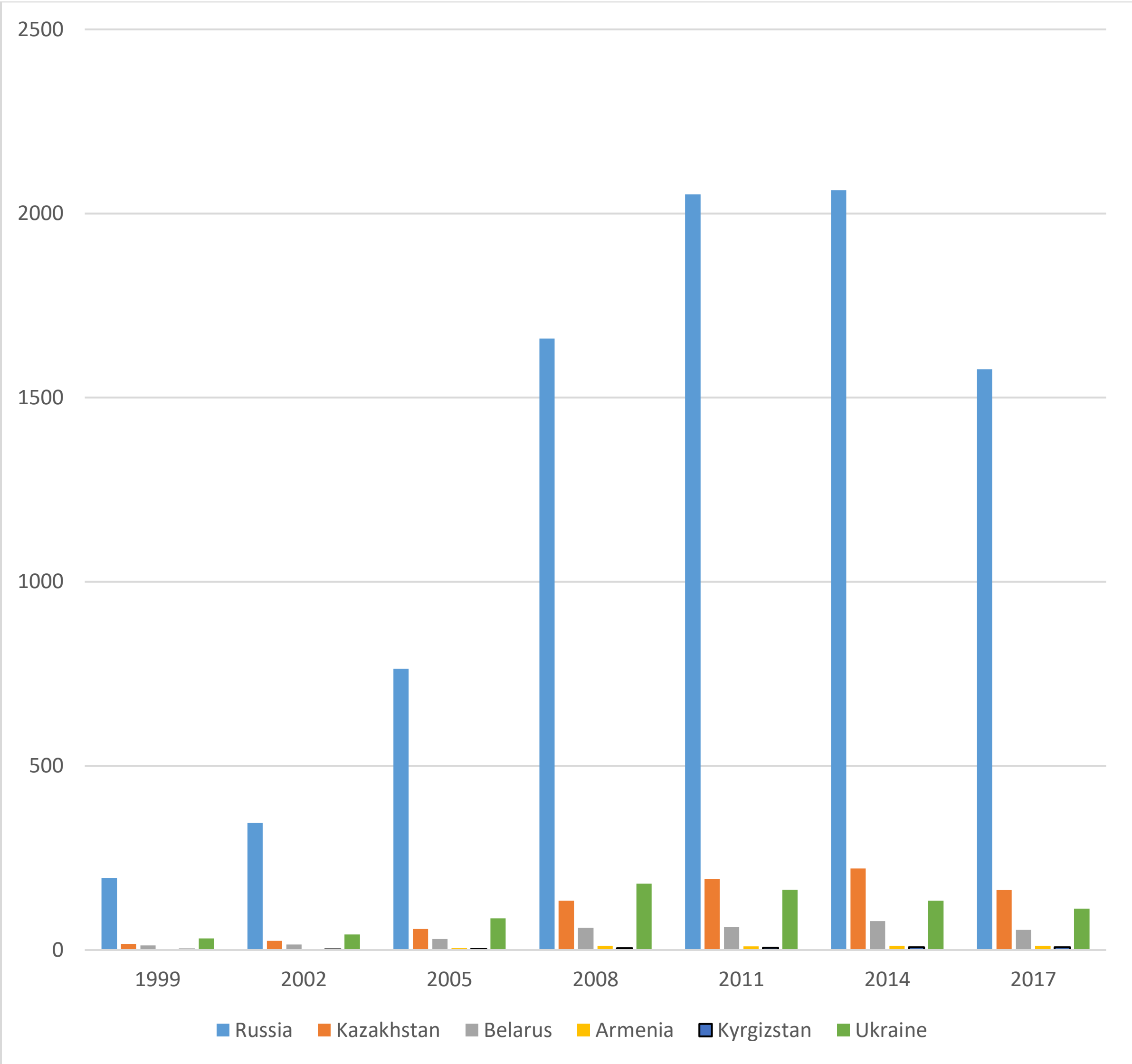
2. The EEU as a tool for increasing Russian economic and geopolitical influence and as a tool for the development of a Russian industrial policy.

Putin quickly recognized the importance of trying to rebuild an economically integrated area that corresponded to the former USSR. One goal of Putin's administration was to generate an increased economic interdependency that would keep the former soviet republics within the Russian sphere of influence as a way to prevent them from being pulled toward Western influence such as the Baltic states that had joined NATO and the EU in 2004. Some authors consider that the EEU is more a geopolitical than an economic tool (Busygina and Filippov 2017). Dragneva and Wolcuk claim that "*Russia's primary interest in Eurasian integration is to strengthen its own global influence. Other member states have diverse reasons to engage in Eurasian integration but they are not interested in pursuing deep economic integration in a regional context. As such, the competing objectives of member states are actually hindering the project from becoming a genuine economic union"* (Dragneva and Wolczuk 2017). Furthermore, the economic concessions made by Russia to convince partners to join their regional integration process incur significant financial costs for the Russian public finances (Busygina and Filippov 2017, Batsaikhan & Dabrowski 2017). Finally, as the next sections of this article will demonstrate, the limited level of complementarity weakens the prospects of a successful regional economic integration.

Nevertheless, beyond geopolitical considerations, there were some economic motives to pursue the EEU. Putin needed a preferential access to a larger market than Russia's, especially when Russia became more isolated after the 2014 war in Ukraine (Busygina and Filippov 2017). With a declining population and a GDP smaller than France, Russia's consumption was insufficient to provide the capital-intensive industries of Russia with sufficient economies of scale to remain competitive at the global level. A larger integrated market was seen a necessary condition for developing a successful industrial policy and supported by the Russian Union of Industrialists and Entrepreneurs since the mid-2000s (Cooper 2013). Of course, the combined GDP of the four other EEU members did not constitute a major increase to Russia's domestic market (+13.2% in 2011 at the outset of the custom union of the EEU) but Russia was attempting to include Ukraine (6% of Russia's GDP in 2011). This would have increased significantly the Russian market (by almost 20% in 2011) (see table 1 infra). The will to push Ukraine in joining the EEU is one of the factors behind Russia's intervention when a radical change of power in Ukraine was turning the country toward an association with the EU (Delcourt & Wolzcuk 2013). A deeper economic integration between the Soviet Republic could also facilitate the use of clearing mechanisms to reduce their dependency on foreign currency. With a fast aging population, the Russian government and business also needed to facilitate the flow of immigrants from the younger Central Asian and Transcaucasian republics. Finally, the remnants of Soviet infrastructure and production networks could be more rationally used if the different national economies of the former USSR republics could be better economically integrated.

Table 1. Nominal GDP 1999-2017 of EEU members and Ukraine

(in billions of current dollars)



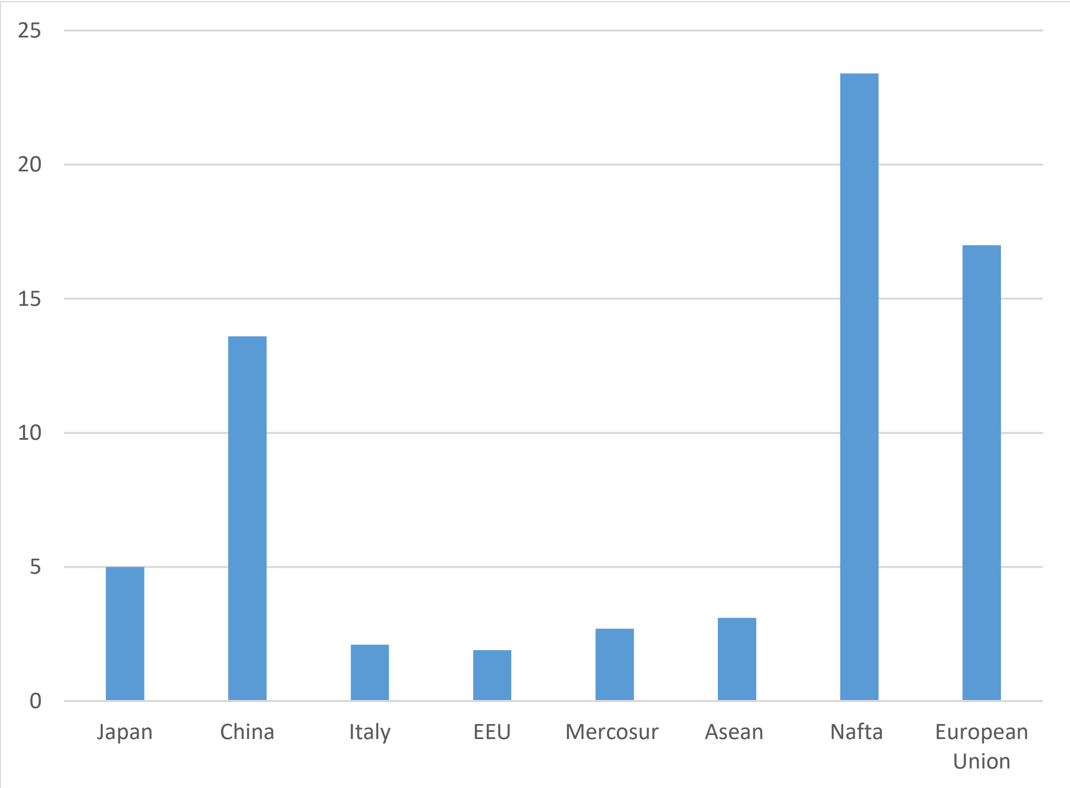
Different steps took place to develop a custom union with Kazakhstan and Belarus in 2007, it became effective in 2011 and the new supranational national institutions of the EEU were established in 2015.

The question remains: can the EEU fulfil Putin's geopolitical and economical ambitions? The analysis of EEU's basic economic indicators pinpoints important inherent weaknesses and confirms many of the points raised by Dragneva and Wolczuk (Dragneva and Wolczuk 2017).

2.1. A limited size, insufficient to reach the minimal efficiency and to act as a magnet to neighbouring economies

The EEU remains among the small regional agreements in terms of combined GDP. The EEU economy remains smaller than the 4th largest economy of the EU, far below large economies like Japan or China (see table 2 infra). This limits the capacity of the EEU to act an economic magnet to counter the economic influence of the neighbouring China and the EU that each constitutes a much larger market. The limits of the domestic market remain an important factor that restraints the development of indigenous high-tech capital-intensive enterprises characterized by important economies of scale and network economies.

Table 2. Nominal GDP in 2018 (in trillions of current dollars)



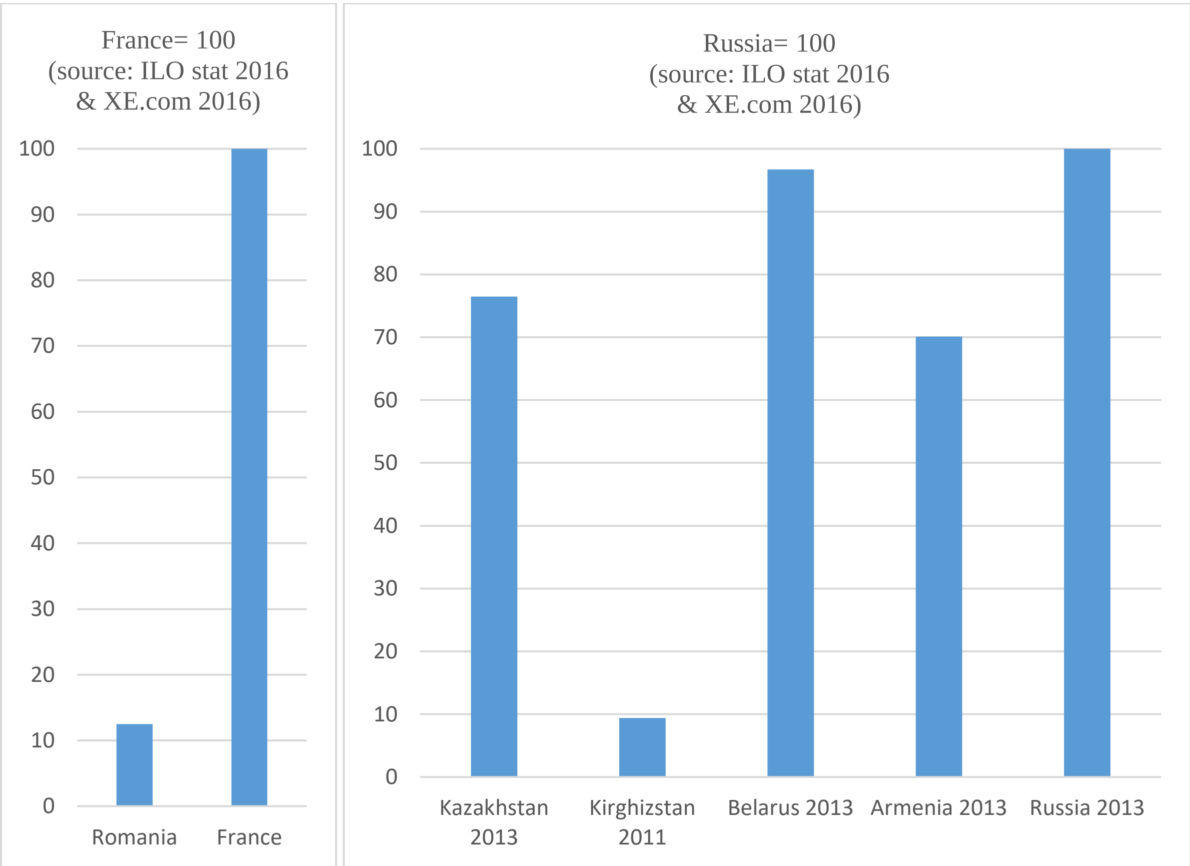
(source: World Bank open data 2019)

2.2.A lack of complementarity and a missing bottom-up microeconomic force

An essential condition for an economically successful regional integration project is a high level of complementarity that can generate a regionalization of productions processes in goods and services. NAFTA (now USMCA) or the European Union have helped firms to take advantages of the different comparative advantages to reorganize spatially their production process across the various economies that have ratified the regional agreement (Defraigne 2009). Since 1994, US companies have relocated labour-intensive activities such as car and electronics assemblies to the northern states of Mexico to benefit from a cheaper and more flexible labour force as well as from looser environmental local rules (Ashbee 2010). The EU enlargement toward the Mediterranean in 1986 and Eastern Europe in 2004 has also accelerated the regionalization of production process for similar reasons (Defraigne 2017). This has generated an increased dependency of the Mexican economy vis-à-vis US firms and of Eastern European member states towards Western European firms. This underlying microeconomic development has been a driver of regional economic integration in both NAFTA and the EU (Defraigne 2009).

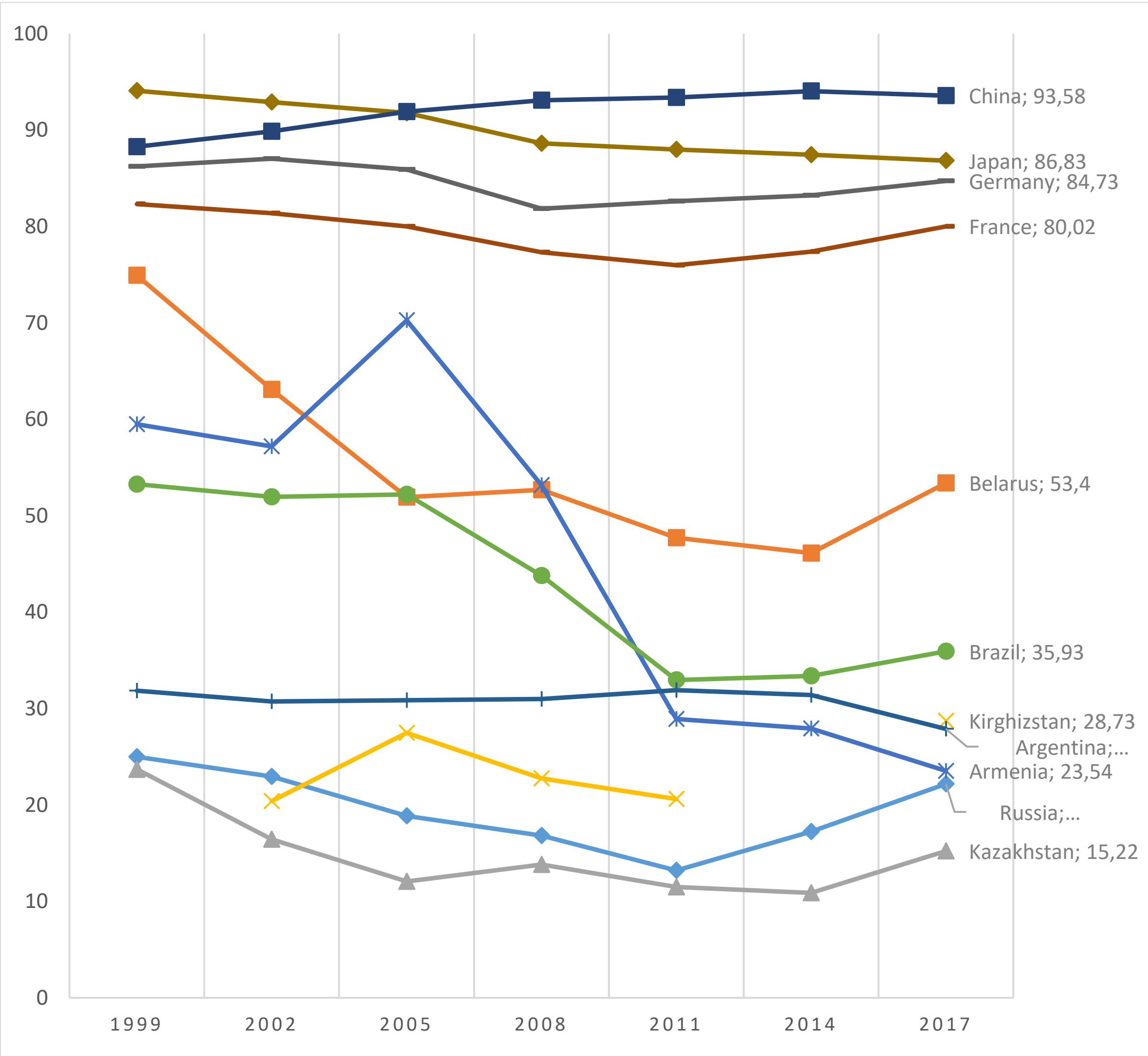
However, this phenomenon is far less likely to develop significantly across the EEU. The differences between the various EEU members in terms of wages, social regulation and environmental legal constraints are far more limited than within NAFTA-USMCA or the EU. There are thus few incentives for Russian firms to relocate activities to other EEU member states and engage into a regionalization of their production process. The table 3. below shows the importance difference between the EU and the EEU in this regard.

Table 3. Minimum wage in current dollars



As Mercosur, the EEU remains composed of economies with a strong comparative advantage in the export of raw materials: energy, mining or food (see table 4. infra). This type of economic specialization makes regional integration less important as it does not enable to improve competitiveness by regionalizing the production process. The US, Japan or Germany are specialized in high tech services, manufacturing and innovation which means that their large firms can consider a regionalization or globalization of their value chain to outsource low tech labour intensive activities toward less developed economies characterized by cheaper wages, a more flexible labour force and loser environmental rules. For these reasons, multinational enterprises (MNEs) from these countries act as catalysers of regional economic integration, even in the absence of a deep institutionalized regional agreement (this has been the case for Japanese firms in Southeast Asia). It is what scholars specialized in regional integration label a bottom-up integration force (Hatch & Yamamura 1997 & Telo 2001). In the short or medium run, Russian MNEs are unlikely to play such a role. They are far more specialized in the primary sector or in services that are usually not important driver for the regionalization of production processes. As for the other member states of the EEU, they do not host firms that are large and international enough to play a comparable role in terms of regionalization as the US, Japan or Western European MNEs. It means that the integrating microeconomic force of regionalization will be limited in the case of the EEU.

Table 4. Share of manufactured products in exported goods

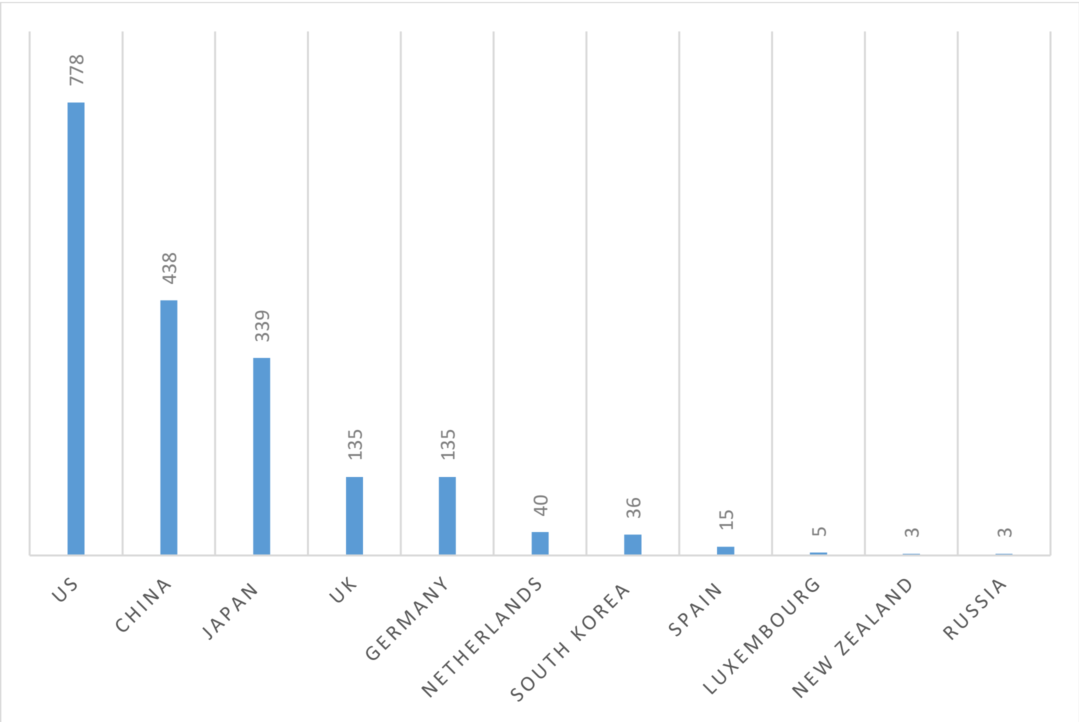


(source: World Bank open data 2019)

2.3.A lack of technological leadership

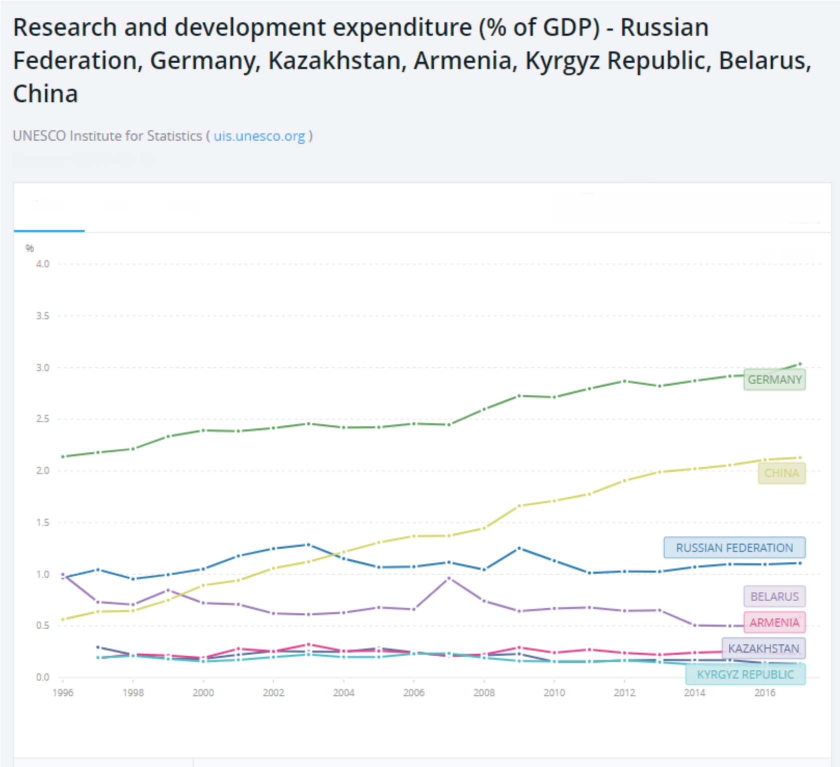
Russia cannot act as the main provider of technology for the region given its limited indigenous innovation capacities and its reliance on Western European or East Asian technology. The collapse of the USSR has generated one of the largest brain-drain in modern history with hundreds of thousands of scientists leaving the country in the 1990s to North America, Western Europe or Israel. The lack of financial resource in the 1990s has weakened durably the technological and scientific base of Russia. No Russian university manage to reach the top hundred universities in the Times Higher education ranking. A slight improvement was visible between 2015 and 2018 but the results of 2019 show Russian universities receding in rankings (Times Higher Education 2019). Royalties or R&D as a % of GDP are far lower than Western countries of even China. There are only three Russian firms making it to the top 2500 firms in terms of R&D spending compared to over 300 for China or the EU (without the UK) (European Commission 2018). Russia does not belong to the top innovator countries. Under the Medvedev and Putin administrations, some high-tech initiatives have been launched such the Skolkovo R&D cluster in 2009 or the Innopraktika project at Moscow University in 2014. Nevertheless, as tables 5 to 7 below highlight, aggregate data from the last decade continue to highlight that despite some slow progress, Russia is lagging behind Europe and now China (World Bank open data 2019). It means that Russia is unlikely to have a strong leverage in the EEU thanks to technology as its member are continuing to rely on Western or East Asian technology, notably from the EU and China.

Table 5. Number of firms in the top 2500 R&D spenders



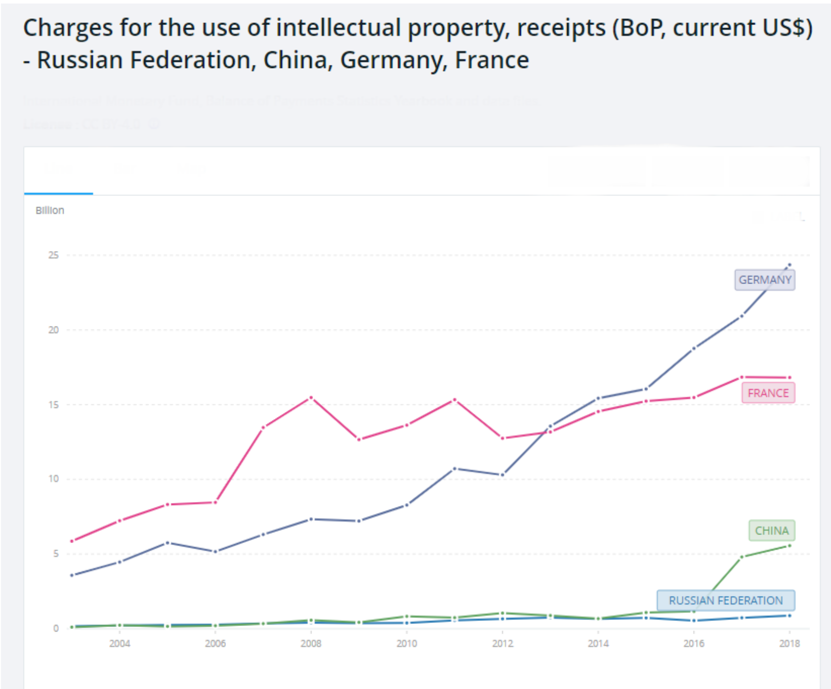
(source: European Commission 2018)

Table 6.



(source: World Bank open data 2019)

Table 7.



(source: World Bank open data 2019)

2.4. A weak regional paymaster

Finally, can Russia act as a “regional paymaster” for the EEU. Walter Mattli’s concept refers to the capacity of a regional leader to absorb the economic costs of regional integration suffered by some member states of the region considered. Mattli argues that for example Germany has played that role in the EU by providing financial transfer to make economic integration more acceptable for some member states that were suffering welfare losses (Mattli 1999). Russia, as by far the largest economy of the EEU, is the only member state that could fill this role for this region. In the case of Armenia and Belarus, Putin administration could offer subsidised energy and other financial or military aid to facilitate the building of the EEU. Russia has a much greater share in the EEU combined GDP than Germany in the EU. However, in absolute terms, Russia has far more limited financial resources than Germany. Russia’s financial position is more fragile than the US or Germany due to its higher dependency on the energy exports that account for a substantial share of government revenue (Kluge 2019).With the severe downfall of oil prices in 2014, the Russian government suffered severe financial strains that forced it to impose unpopular cuts in welfare. Given the recent changes in military technology and warfare that require a more capital-intensive armed forces and given its declining population, Russia had to increase military spending considerably in the late 2010s if the Russian government wanted to act as a major global power. Since 2015, Russia has spent on average more than 4% of its GDP on military spending compared to 3.2% for the US, 2.3% for France, 1.2% for Germany and less than 1% for Japan (SIPRI 2019). A analysis of public finances highlight the structural weaknesses that limit the capacity of Russia to act as a regional paymaster to bear to cost of regional integration across the EEU.

2.5.The failure of the EEU to include the economies of the former USSR

The EEU has only managed to attract five of the fifteen former soviet republics. The Western part of the former USSR has been strongly attracted to the EU a regional economic centre. Not only is the EU GDP more than five time the size of Russia’s but the western former republics of the USSR have more complementarity with the EU than with Russia in terms of wage differential, level of technology and economic specialization. For the Baltic republics, historical political factors explain the will to get away from Russia and to join as soon as was possible the EU and NATO. But even countries where the historical political situation was more ambiguous such as Moldova and Ukraine progressively shifted economically toward the EU. In the three years that followed the conception of the EEU supranational institutions in 2012, the EU managed to develop association agreements with Georgia, Moldova, Ukraine to lower their respective economic obstacles. The Russian attempts to react to this situation proved disastrous. Sanctions against Moldova (on wine imports) backfired and generated trade diversion in favour of the EU (Nastol 2014) and the war in Ukraine has generated a situation that had reduced Russian exports to Ukraine by 75% from 2012 to 2017 (OEC 2019).

Even very close partner to Russia such as Belarus have developed strong economic ties with the EU that is the second most important trade. Although, these two economies have a very degree of integration in manufacturing production since the USSR industrialization, the fear of Moscow that Belarus should shift toward the EU enabled the Belarus president Lukashenko to benefit from important Russian subsidies, notably in energy imports (Batsaikhan & Dabrowski 2017).

Turkmenistan, Tajikistan, Uzbekistan and Azerbaijan have also refused to join the EEU. Turkmenistan and Azerbaijan's extreme specialization on oil exports as Tajikistan and Uzbekistan's on mineral ore, notably gold, can explain the lack of interest in joining a Eurasian integrated market. The economic specialization of these countries in commodities for which there is a structural permanent demand by developed economies (thereby facing zero tariff for product like gold, oil or gas) reduces the need to create a regional market as their domestic producers from these extracting industries do not need a privileged market access like manufacturers, exporters of tradable services or agricultural producers.

2.6. The EEU member states elites are more composed of *comprador* rent-seekers rather than entrepreneurial capitalists

In a private-led economy, an essential condition for the success of regional economic integration and for the capacity of Russia to act as economic centre for this region to challenge other potential centres such as China or the EU is the presence of entrepreneurial capitalists and MNEs who support the economic integration scheme. This is true for the creation of the European Single Market with the role of the European Roundtable of Industrialists, for the completion of NAFTA or for the ASEAN Free Trade Area. As numerous scholars specialized on regional integration such as have pointed out, an important necessary condition for successful economic integration is the existence of a microeconomic rationale for economic integration that create a bottom-up support from business to the state engaged in the regional integration process (Matli 1999, Telo 2001, Defraigne 2009). Benefiting from economies of scale thanks to enlarged market, reducing production cost by regionalizing their production process across the various economies of the region being economically integrated and securing a privileged access to an enlarged market constitute such microeconomic rationales for firms and entrepreneurs willing to engage in international competition and to dominate their industry.

To explain the incapacity of some countries to move out of the economic periphery and industrialize their domestic economy, international political economy theories have developed the concepts of *comprador* capitalists, *ersatz* or rent-seeking capitalists (Harvey 2007, Ravenhill 1986, Yoshihara 1988, Mandel 1972). In less developed economies, local capital holders might not feel capable of challenging global competitors on international markets because of their limitation in technology or management know-how. They develop activities in the local services or local industries that are preserved from international competition thanks to privileged relations with the local political elites or because they are merged by family links with those elites. Such capitalists do not have the ambition to challenge the existing international division of labour. They are not trying to lobby their state into establishing an industrial and technology policy to develop MNEs in the high-tech and capital-intensive industries. They usually see little interest in supporting a regional integration process that could possibly challenge their rent-seeking positions nurtured by their cosy relations with the national political elites. Generally, a large part of the profit generated by their rent-seeking activities is not reinvested in the local economy but transferred to unregulated financial off-shore centres for tax evasion and money laundering purposes. The capital is then reinvested overseas in real estate or financial portfolio mostly in developed economies harboured from the recurrent macroeconomic shocks experienced by developing economies. This induces a lack of domestic investment in the local economy and generate bottlenecks in the economic development of the national economy of the rent-seekers capitalists. The importance of such rent-seeking behaviour by capital holders is a major obstacle in many south-south regional agreements in the developing world.

The EEU project and the capital holders from former soviet republics constitute no exception in this regard. Various studies and financial scandals have shown that the former soviet republics are plagued by this phenomenon to a higher degree than many developing countries. While developing countries such as China, Vietnam, India or South Korea are also characterized by high level of corruption and cronyism, a large share of the profits are reinvested in domestic industries and sporadic political purges limit the scale of the phenomenon (Wedeman 2012). Various indicators show that they are few checks to corruption, capital evasion and money laundering from former soviet republics. There are recurrent massive unregulated capital outflows that can be seen on the balance of payment of these countries. Indicators from the World Bank and Transparency International put the former republic in the bottom of the list in terms of good governance and corruption practices (Batsaikhan & Dabrowski 2017). Cooley and Heathershaw have exposed the magnitude of rent-seeking, corruption and capital evasion across Central Asia (Cooley and Heathershaw 2017). Scandals such as the Danske Bank of Estonia in 2019 have revealed that hundreds of billion dollars are channelled out of former soviet republics to be laundered in Western banks (Milne 2019). These amounts are extremely high relatively to the domestic GDP, even by developing world standards, and compare with the worst cases of sub-Saharan Africa and MENA countries. Economic analyses of the Russian economy from various scholars and the regular capital outflows that Russia has experienced from the transition to the 2010s are characteristic of the importance of comprador rent-seekers capitalists among Russian capital holders (Schimpfössel 2018, Radu 2019, Marie 2016, Judah 2013, US Department of State 2019). The regular capital outflows that Russia has experienced from the transition to the 2010s are characteristic of the importance of comprador rent-seekers capitalists among Russian capital holders.

The analysis above has shown the weaknesses of Russia as regional economic centre and the limits of the EEU, its main tool to promote regional economic integration for economic and geopolitical purposes. Russia is a medium economy by world standard, much smaller than neighbouring EU or China and the EEU remain a small regional integration projects compared to the EU, NAFTA or TPP and twice smaller than ASEAN or MERCOSUR. Russia is not advanced and rich enough to be the main provider of technology and finance to the former USSR republics, creating a vacuum in this region that the EU and China can fill. Finally, the importance of comprador rent-seekers capitalists in the EEU, and in Russia in particular, also limits the prospects of the EEU integration process and Russia's position of regional leader.

3. The Belt and Road Initiative (BRI) as a competing regional integration project

3.1. The origins of BRI

Since 2013, China has engaged in the BRI, Xi Jinping administration's major global strategy, to facilitate its access to overseas markets and raw materials. The BRI is motivated by domestic and international concerns by the CCP leadership.

On the domestic front, BRI could be perceived as a way to reduce industrial capacities that emerged after the slowdown of the Chinese economy in 2012 and also to foster the integration and development of the Western provinces, notably of Xinjiang, as to reduce political instability and increase economic and social integration within China.

On the international front, the CCP leadership has long realized that the increasing dependency of the Chinese economy on overseas market and raw materials. One response developed by the Hu Jintao administration from 2006 has been to try to stimulate domestic consumption as to reduce the share of exports in China's economic growth. Nevertheless, the economic dependency has remained high as China continues to lack key raw materials and is still far more export oriented than the EU or the US.

After the 2008 crisis, the US diplomacy toward China eastern and southern neighbourhood becomes more assertive as the Obama administration considered Pacific Asia as the most important future outlet for American goods and services. Obama adopts the strategic "pivot to Asia" in 2010 and state secretary Hillary Clinton summarized the new US economic diplomacy priority: *"Open markets in Asia provide the United States with unprecedented opportunities for investment, trade, and access to cutting-edge technology. Our economic recovery at home will depend on exports and the ability of American firms to tap into the vast and growing consumer base of Asia. Strategically, maintaining peace and security across the Asia-Pacific is increasingly crucial to global progress, whether through defending freedom of navigation* in the *South China Sea*, countering the *nuclear proliferation efforts of North Korea, or ensuring transparency in the military activities of the region's key players"* (Clinton 2011).

In parallel, on the Chinese side, Beida Professor Wang Jisi, an authority in international relations advocated a new strategy for China to avoid a US encirclement, a "*march toward the West"* based on the development of the silk roads that once linked China to Asia (Griffiths 2017). In late 2012, the Obama administration adopted a two-pronged strategy by simultaneously launching the TTIP negotiations and bringing Japan aboard on the ongoing TPP negotiations. This proactive economic diplomacy that aimed at creating the two biggest regional trade agreement was marginalizing China (and the other BRICS). It was also openly attempting to set global technical and legal standards based on the US economic model that would be inconsistent with China's economic diplomacy and level of state interventionism in the economy (Defraigne 2017).

In that respect, BRI can be interpreted as a response to the US diplomatic offensive that aims at containing China rising economic and geopolitical influence. The Chinese leadership is attempting to deepen the economic integration of the Eurasian continent through the building of transportation corridors to Southeast Asia, South Asia, Central Asia, Europe, the Middle East and Africa (Defraigne 2020). This should increase the level of economic interdependency between China and the continent, secure market access, notably of the EU, and strategic raw material access.

Unlike the US or the EU, China cannot offer legally binding new generation bilateral free trade agreement that covers procurements, technical barriers to trade, ISDS and IPRs. Indeed, the Chinese leadership want to keep these specific tools in terms of industrial policy to protect and support its national champions in key industries (Defraigne 2020). What China can offer is to aid and investment to develop infrastructure projects that will favour the *de facto* and not *de jure* economic integration of the Eurasian continent.

In this context, the fifteen former soviet republics located in Central Asia and Eastern Europe gained a new importance. China had already developed numerous bilateral and regional agreement with the various countries of the former USSR but the New Silk Roads gave a new impetus to their relations (Calder 2019). However, the role of the former soviet bloc countries in the BRI should not be overstressed for the following reasons. In the eyes of the Chinese leadership, one of the goals of BRI is to guarantee Chinese firms an easier access to important markets which are mostly based in Western Europe and Southeast Asia (Rolland 2017). The former Soviet bloc space and the Balkans are playing the role of a corridor to reach the European market and also the role of provider of key raw materials, mostly energy products. They constitute a limited market compared to the Western part of EU or Southeast Asia. The BRI is building seven main corridors to generate a complex web of transport routes in which no individual country becomes indispensable. Despite significant improvement in the rail network this decade, sea transport remains a much cheaper alternative to the train (Griffith 2017). This situation that make the land routes through the former soviet republics less attractive. Nevertheless, their geographic position in the Eurasian continent and their energy resources make this region an important piece in the BRI connectivity strategy.

The open goal of the BRI is to integrate better the Eurasian continent and to foster trade, investment and economic interdependency. Given the significant financial means put forward by the Chinese government, can one expect China to replace Russia as the main driver for Eurasian economic integration in the short or mid-run? In terms of GDP size, financial capacities and even technological level, China fares certainly better than Russia for the role of regional leader for the Eurasian continent. Russia only outpaces Chine in the field of military capacities but given China resources allocated to R&D and military spending, Russia's edge is unlikely to be maintained the mid run. To what extent the BRI could challenge the cohesion of the EEU and the role of Russia as the regional economic centre of the former Soviet space?

3.2. BRI effects after five years of implementation.

It is difficult to assess precisely the impact of BRI as there are no precise data on the amount effectively spend and the China authorities are ambiguous on the countries targeted. Referring to the original group of 65 countries named in the original OBOR documents, the average annual contribution of BRI to the recipient countries GDP range from 0.22 and 0.82%. To compare with other major infrastructure plans, the Marshall Plan (1947-1952) contribution to Western Europe's GDP stood at 1.5% and that of the accession funds provided by European Union to the new member states from Eastern Europe (2000-2006) at 2% (Defraigne 2020). BRI funds are significant but they are not exceptional by historical standards.

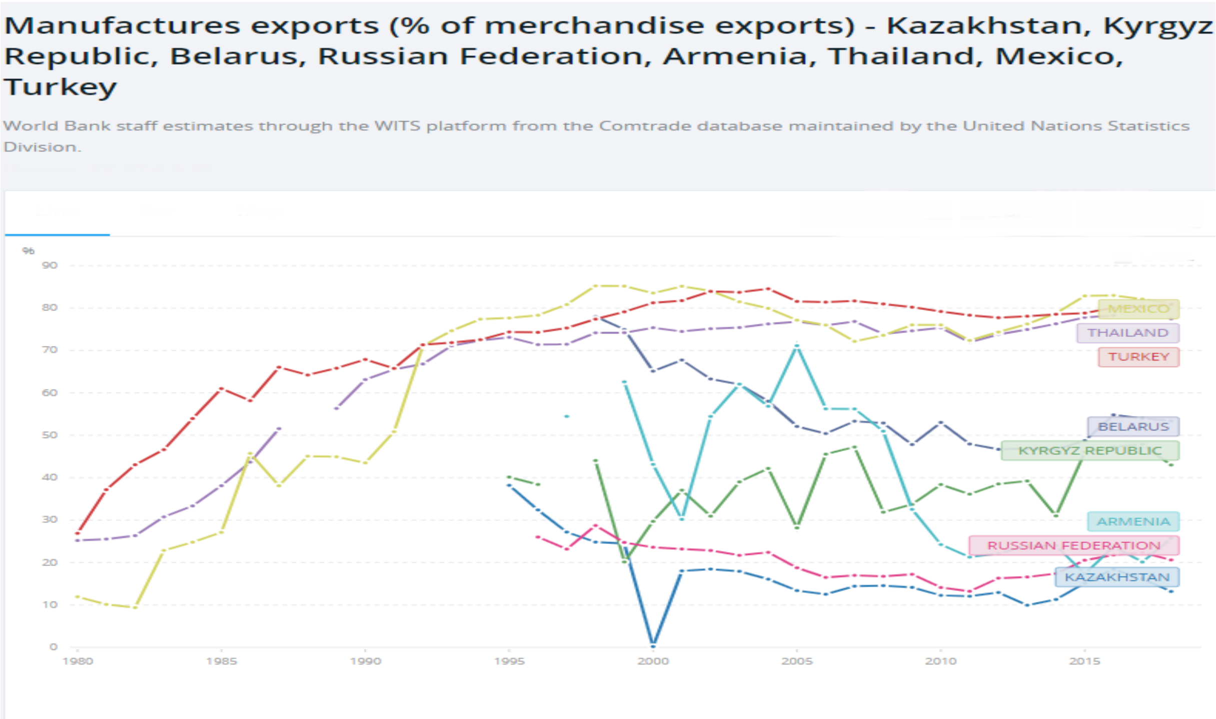
The Marshall plan imposed the opening of Western Europe to US FDI and technology transfers as well as the launching of the economic integration process in Western Europe (Ellwood 1992, Hogan 1989). This induced a profound transformation of the Western European economies and generated stronger transatlantic ties. The EU accession funds also considerably accelerated the transformation of Eastern European economies. By improving infrastructure and developing the same institutional framework (i.e. the *Acquis Communautaire*) than Western firms, EU funds accelerated the insertion of the new member states from Eastern Europe into the international production networks of Western European firms and others MNEs operating in the EU (Berend 2009). This increased considerably the level of economic integration and interdependency between the new and old EU member states. It marginalized further Russia that had played the role of centre in the former COMECON regional integration. Could the new silk roads generate a similar trade diversion and transform the role of the BRI recipient countries in the international division of labour by inserting them in the international production networks (IPNs) of Chinese MNEs?

From 2014 to 2019, the effects of the BRI on the role of important recipient countries in the international division of labour remain limited (Defraigne 2020). Various indicators can measure the insertion of recipient countries into IPNs such as the rise of manufactured products in the share of GDP and exports, a rise in productivity as MNEs generate technological spill over. One should also observe an acceleration of the inflow FDI in these countries as Chinese MNEs develop production units.

If one looks at the various economies from the ex-Soviet bloc, the most significant change of these indicators have been for those who joined the EU such as the Czech Republic or Hungary and the change took place around the 2004 EU enlargement and not during the implementation of BRI from 2014 to 2019 (Defraigne 2020, OEC 2019).

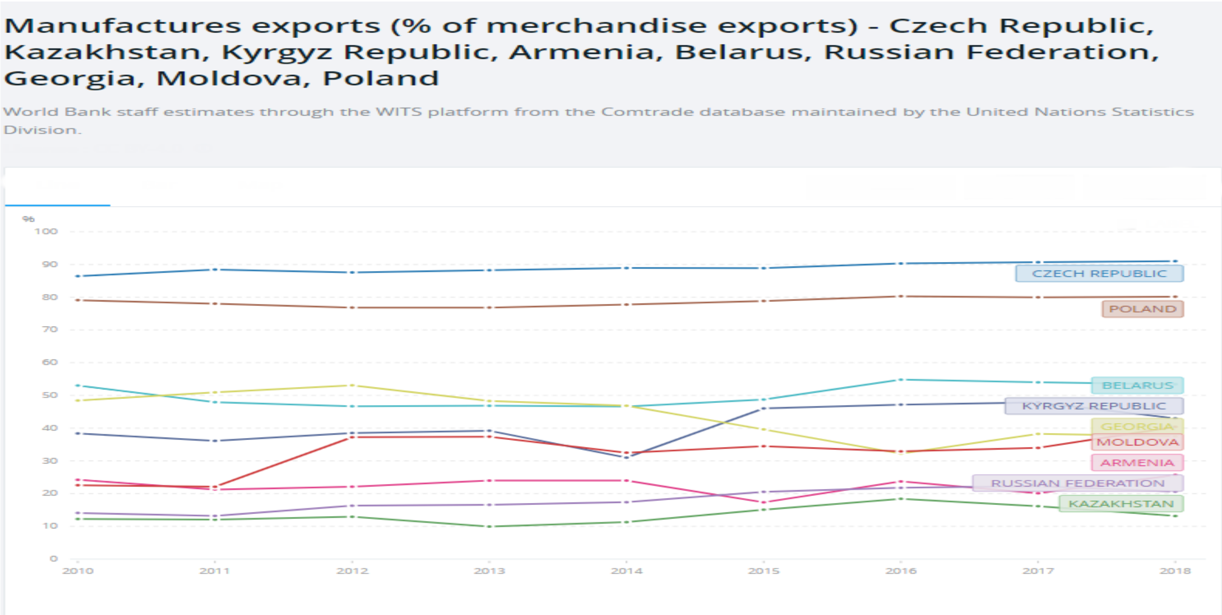
The tables 8 and 9 below show how three developing world countries that are known for being inserted in IPNs of MNEs in the 1980s and 1990s: Turkey with EU MNEs, Thailand with Japanese MNEs and Mexico with the US MNEs (Defraigne 2009). The share of manufacture in their total export is rising fast because of the insertion into MNEs but similar evolution is visible for EEU member states in the 2010s. Looking at Poland and the Czech republic which have been inserted in Western EU MNEs IPNs in the late 1990s and early 2000s (Berend 2009), one can observe the high level of manufactured products in merchandises exports throughout the 2010s but there are no major changes except for the Kyrgyz Republic but a share remaining far more modest.

table 8.



(source: World Bank open data 2019)

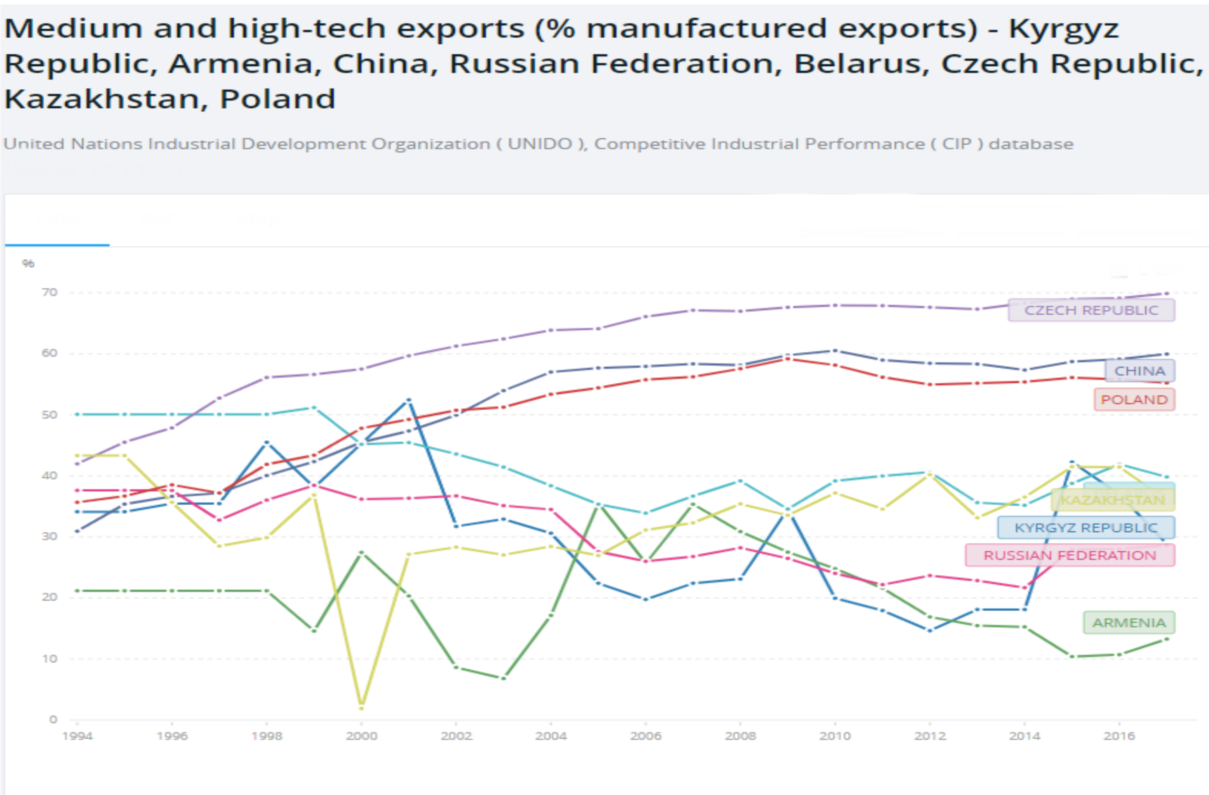
table 9.



(source: World Bank open data 2019)

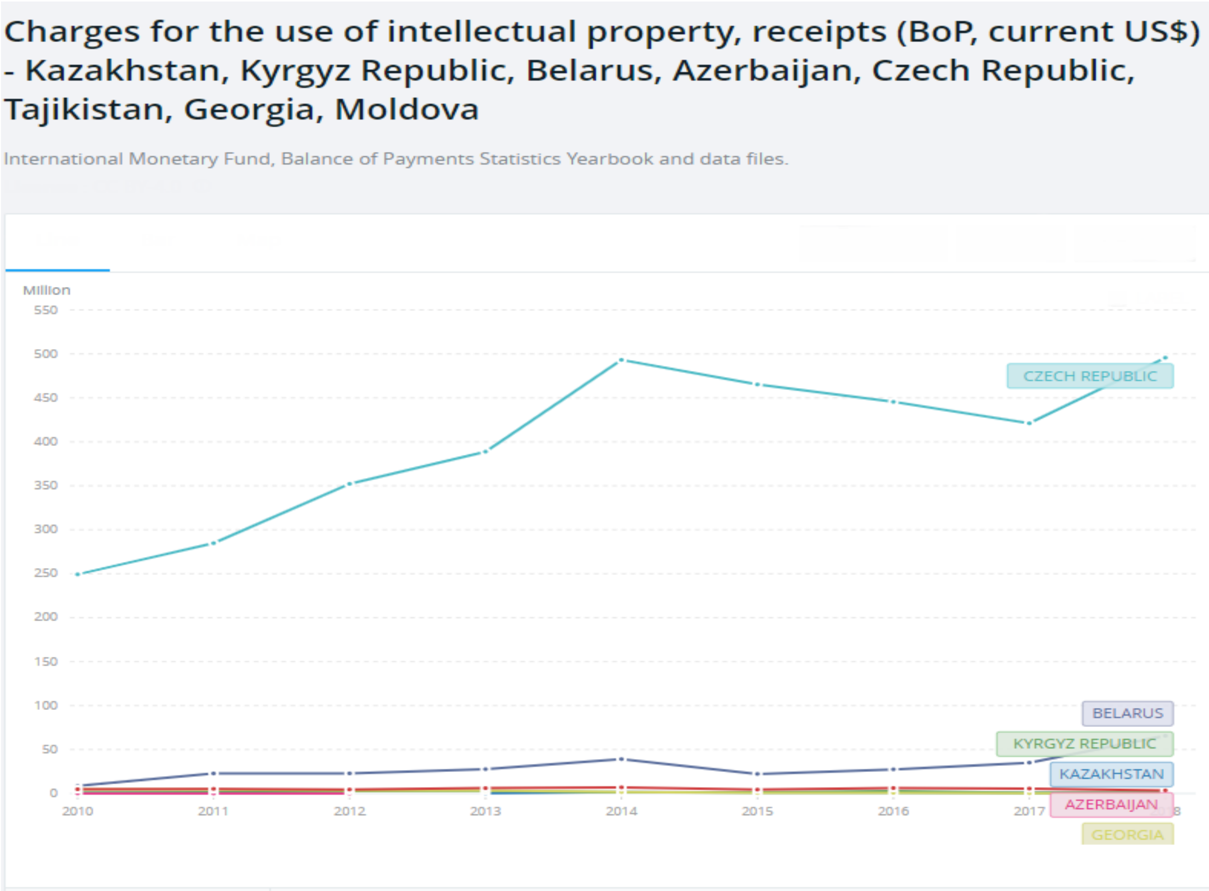
Table 10 and 11 below highlight the low technological intensity of exports and the low level of technological innovation shown by the modest IP receipts. There is no clear rupture since the adoption of the EEU and the launching of the BRI.

Table 10.



(source: World Bank open data 2019)

Table 11.



(source: World Bank open data 2019)

One can observe a rise of China's share in the total trade of these countries that corresponds roughly to the rise of China in the global trade and in the global economy (OEC 2019). It is too early and reliable data are lacking to determine precisely the effect of BRI on China's trade with the BRI recipient countries but the effect is likely to be positive. However, macroeconomic indicators do not show a major transformation of the role of these countries in the international division of labour that is concomitant with the BRI. Therefore, although the rise of the economic weight of China generate an increase in trade, the level of economic interdependency with the BRI recipient countries is unlikely to be as strong as between the EU and its periphery member states or between the US and the EU.

Various factors explain why the insertion of the BRI recipient countries from the former soviet bloc in Chinese MNEs' IPNs has remained limited or inexistent so far. Most of these economies lack locational specific advantages to attract FDI in manufacturing and tradable (international) services. The cost, the qualification and flexibility of their labour force is not particularly advantageous relatively to inland Chinese provinces that are better connected to the international transport networks (Defraigne 2020).

Over the years, Chinese firms have developed very efficient Marshallian districts in various manufactured sectors that make Chinese production very competitive. Such business clusters generating external economies of scale in light industry can be developed in less than a decade to compete internationally as the experience of countries like Vietnam or Bangladesh have recently shown (Chaponnière 2014, Onishi 2018). However, few economies from the former blocs that have managed to build internationally competitive Marshallian districts. The USSR developed such business clusters in defence and aerospace but for strategic reasons, these Russian Marshallian districts are not opened to Chinese FDI. Eastern European EU member states also host such business clusters in manufacturing, but so far they are more developed by Western EU MNEs than by their Chinese counterparts.

Despite improvements in the transport system these last years and those that the BRI should bring in the short run, many countries from the ex-Soviet bloc are landlocked and remote from the main centres of the world economy (Western Europe, North America, East Asia). Thanks to progresses in the rail infrastructure and to the reduction of red tape related to border crossing, rail transport across Eurasia is now twice as fast as the shipping time from China to Europe. However, the price of the rail remains more than the double per forty-foot equivalent unit shipping container (Schramm & Zhang 2018), making the land silk road an expensive alternative for average goods.

A very important obstacle to the insertion of these countries into Chinese MNEs IPNs is the weakness of the state and of public goods. The high degree of cronyism, corruption and capital evasion have eroded the level of public goods that existed at the time of the USSR. Public security, education, transport and energy infrastructure have declined since the collapse of the USSR. The inadequacies of these public goods make it more difficult to develop export processing zones and manufacturing activities compared to other mere efficient states from the developing world.

The elements explain why countries from the ex-Soviet bloc are unlikely to be inserted into Chinese MNEs' IPNs. Therefore, the degree of economic interdependency with the Chinese economy should not reach that of the new EU members vis-à-vis the Northwest EU member states. These ex-Soviet bloc countries remain a destination for Chinese exports and FDI, notably in energy, utilities and mining and that will make China an important trade partner but with a lesser degree of economic integration than Eastern EU member states with their Western counterpart of Canada and Mexico with the United States.

Conclusion

This article has shown why BRI and the Chinese expansion in the former USSR republics have not yet generated a major change in the international division of labour for these countries and has not generated a high degree of economic integration and interdependency as the EU or NAFTA. If China's economic influence is rising in many of these countries, it is because of their relatively low level of industrialization and their economic complementarity as provider of commodities to a growing Chinese economy. The BRI developments have not significantly accelerated the trends of Chinese trade and investments in the former soviet republics. As the BRI did not fundamentally alter the role of these countries in the international division of labour, it means that they are likely to remain in the economic periphery in the short and mid run. Their trajectories do not compare with the emerging economies inserted in MNEs IPNs in the 1990s and early 200s such as Eastern Europe, Mexico or East Asia.

The economic analysis of Russia shows that it remains a weak economic regional leader because it is only a medium economy by world standard and cannot play the role of main provider of technology and finance to the former USSR republics. Furthermore, the importance of comprador rent-seeking capitalists among the capital holders of the region explain the weakness of the bottom-up driving force for regional integration and the limits of the EEU as a tool to generate regional economic integration and thereby to increase the level of economic interdependency.

In other words, the rise of Chinese economic influence in the region is in large part explained by the incapacity of Russia to act as a regional leader capable of integrating economically better the region and to act as a magnet vis-à-vis the former soviet republics. China and EU economic actors take advantage of this vacuum and their relations with this region strengthen the existing international division of labour in which the former soviet republics play the role of commodity providers to more advanced industrialized economies. Should the phenomenon continue, the bottom-up driving force for regional integration will remain weak and Russia's economic influence in the region will not be comparable to that of China and the EU vis-à-vis their respective neighbourhood.

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