

Eurasia vs the Balkans: a comparison between two economic blocs

Abstract

The aim of this article is to show the strong economic dependence of Eurasian countries on Russia. The process of economic union is one last step in a deep relationship between these countries and Russia, and represents a driving force of this geopolitical Janus. The Economic Union has the potential to become a powerful geo-economic actor. Analysing data drawn from two macroeconomic variables – remittances and trade (imports and exports) in 2013-2014 – we will show that Moscow leads and promotes economic development across the entire Eurasian bloc. The Balkans situation, in contrast, remains fluid and very uncertain: the Balkans represent a specific geo-political area, albeit outside the context of a specific geo-political bloc, but they are still highly connected to certain European Union countries, failing to establish strong trade flows within the region. This represents a risk that could lead the Balkans to become an EU periphery instead of being a geo-political actor on the world scenario.

Keywords: Russia, Eurasia, Balkans, geopolitics, growth

Introduction

After the election of Vladimir Putin, Russia has built in a few years a series of international relations such as to act as an irreplaceable point of reference in the region of central Asia. The creation of the Eurasian Economic Union (EEU) was announced in October 2011 by Putin as a means of achieving greater economic integration among its member states, including the free movement of goods, services, capital and labour. On 29 May 2014 in Astana, Putin met the presidents of Kazakhstan and Belarus, Nursultan Nazarbayev and Alexander Lukashenko, and signed the treaty establishing that economic union, which came into force on 1 January 2015. Therefore, the founders of the EEU are Belarus, Kazakhstan and Russia but, since August 2015, Kyrgyzstan has also joined the organisation.

The creation of the EEU was affected by the escalation of the conflict in Ukraine, which led to the sanctions battle between Moscow and Brussels.

The EU gradually imposed a series of restrictive measures during 2014 in response to the annexation of the Crimea and the consequent destabilisation of Ukraine. In particular, the main EU measures were the cancellation of the EU-Russia summit; individual restrictive measures, such as asset freezes and travel restrictions for a number of individuals and entities; a ban on the import of goods from the Crimea and Sevastopol; and a block on investment and the provision of tourist services in Crimea.

At the same time, Moscow imposed an embargo on certain products from the European Union. On 6 August 2014, the Russian government placed a ban on the import of 51 categories of agricultural products and foodstuffs from the European Union, United States, Australia, Canada and Norway. Among these are, in particular, meat, cheese, dairy products, and fruits and vegetables. On 11 August 2014, Moscow also banned the import from the same countries of textiles, clothing, and footwear and leather as far as Russian public companies were concerned.

However, in recent years international pressure has had a strong economic and political impact in terms of development across the area of the Balkans which, nonetheless, still have an uncertain future both in terms of domestic economic stability and in terms of international integration. Interestingly, the Balkan countries that did not experience Ottoman rule were the first to join the European Union (Slovenia in 2004; Bulgaria and Romania in 2007; and Croatia in 2013); while Albania, Macedonia, Montenegro and Serbia have recently gained candidate country status. Bosnia-Herzegovina and Kosovo still have a long way before starting the integration process.

Most of the international trade of Balkan countries takes place with EU countries. According to data reported by *Trade Map*, over 60% of the volume of imports and exports is with the European Union. This represents a transmission channel for the crisis that has hit EU countries. The Balkans are not a homogeneous region as regards their socio-economic, political, cultural and ethnic characteristics, with the main consequence that such a low level of regional integration reduces the benefit of the European Union. This determines, among other things, a strong level of dependence on the west. This deteriorated in the Balkans with the violent dissolution of Tito's Yugoslavia and the resulting massive international presence (especially in Albania, Bosnia-Herzegovina, Kosovo and Macedonia). This dependency is not only economic but also political-strategic, and tends to cause problems of moral hazard at the expense of development processes.

Conceptual framework

In the years after 2000, remittances have played an increasingly large role in the economies of small and developing countries. Their existence constitutes a substantial amount of the flow of capital between countries: indeed, remittances from international migrants to their countries of origin constitute the largest source of external finance for developing countries after foreign direct investment (FDI). The contribution of remittances for growth and for poverty alleviation could reduce the possibility of adopting macroeconomic policies to implement necessary structural reforms. In fact, remittances will be able to contribute more to growth in the longer-term when the political and economic institutions of those countries receiving remittances create incentives for financial and business investments to be made from them (Lucas, 2007).

Academic studies show that remittances have a positive impact on macroeconomic growth and on well-functioning financial markets by lowering the costs of conducting transactions. At the same time, they may also help direct remittances towards projects that yield the highest returns and, therefore, enhance growth rates. On

the other hand, remittances might become a substitute for inefficient or non-existent credit markets by helping local entrepreneurs start productive activities (Guiliano and Ruiz-Arranz, 2006).

Most of the economic literature has focused on three main issues:

1. the direct impact of remittances on income distribution, poverty alleviation and individual welfare
2. the subsequent effects of remittances on the economy as a whole, discussing the impact on employment, productivity and growth
3. the contribution of remittances to cover deficits in the trade balance and in the current account.

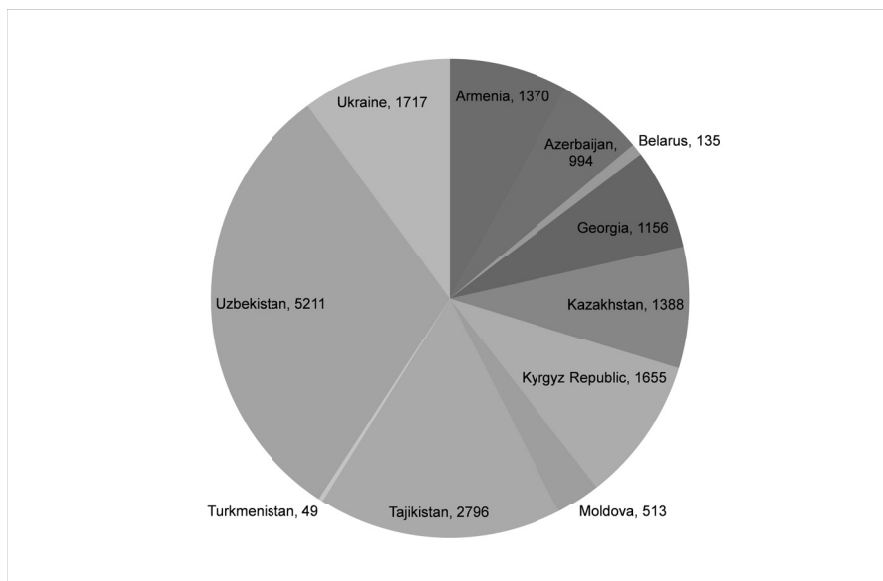
Research into the income distribution effects of remittances focuses on social justice and equality, and empirical evaluations. Indeed, remittances are an important source of income for many low and middle-income households in developing countries, as well as a very important source of capital. They are less important than FDI, but are a very stable source of capital. Recently, international migrant remittances have grown further, but they cannot substitute for sound economic policies in developing countries. Furthermore, productive investments depend on market infrastructure, interest rates, stock prices, macroeconomic policies and stable economic growth.

Eurasian bloc

Chart 1 shows that, concerning remittances, Russia plays a key role right across Eurasia: in fact, approximately \$14.1bn is headed out of Russia to Eurasian states. Except for Kazakhstan and Turkmenistan, Russia has a negative balance with all of Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, Tajikistan, Ukraine and Uzbekistan. Hence, these data show that Russia represents the main pole of attraction for Eurasian countries, especially given the geographical and also historical reasons.

Russian influence over the Eurasian bloc has remained constant after the Soviet era; this close relationship is even more evident if we analyse trade flow.

Figure 1 – Remittances from Russia (\$m)



Looking at trade with Eurasia, Russia represents the most important economic partner for all the countries. Russia accounts for an export share in the Eurasian market of about 25%, as well as about 22% of its imports. Trade data (World Bank, 2013) shows that some countries are closely tied to Russia: in Belarus, Russia accounts for a 52.47% share of imports and a 44.98% share of exports. In addition, there is also a high export share as regards Turkmenistan (41.08%), Ukraine (23.81%), Azerbaijan (25.06%) and Armenia (22.61%); while Russia represents the source of a high share of imports in Ukraine (30.19%), Kyrgyzstan (33.25%), Kazakhstan (36.19%), Armenia (25.95%), Azerbaijan (14.07%), Moldova (14.35%) and Turkmenistan (14.25%).

Russian dominance in this bloc of countries can be explained as follows:

- import and export volumes are directly related to the size of the economy, and Russia represents the biggest one on the block
- the distance between markets influences transportation costs and, therefore, import and export costs
- the ability of leaders to establish personal contacts and communications influences trade
- cultural affinity is important: if there is a common language in countries, even if it is a second language, or they have cultural ties, it is likely that they also have strong economic relations – however, there are particular exceptions, such as the Baltic States
- geography is also important: for example, the absence of mountain barriers accelerate trade flows.

Table 1 – Distance, GDP and volume of trade

	Distance to Moscow (km)	GDP constant (\$, m)	Volume of trade (\$, m)
■ Russian Federation		2,079,024	
■ Astana (Kazakhstan)	2,272	231,876	23,490
■ Kiev (Ukraine)	798	183,310	9,310
■ Baku (Azerbaijan)	1,925	73,561	2,029
■ Minsk (Belarus)	675	73,097	39,310
■ Tashkent (Uzbekistan)	2,792	56,796	3,620
■ Ashgabat (Turkmenistan)	2,512	41,013	1,283
■ Tbilisi (Georgia)	1,646	16,140	779
■ Erevan (Armenia)	1,804	10,431	917
■ Dushanbe (Tajikistan)	2,993	8,507	742
■ Chişinău (Moldova)	1,143	7,985	1,420
■ Bishkek (Kyrgyz Republic)	2,991	7,335	2,142

Table 2 – Pearson correlation

	Distance	Trade volume	GDP
Distance	1	-0.468	-0.257
Trade volume	-0.468	1	0.528
GDP	-0.257	0.528	1

Table 2 shows the Pearson correlation coefficients relating GDP, the volume of trade and distance to Moscow (using, in the first two cases, 2013 data). The Pearson correlation coefficient relating distance and trade volume is equal to -0,468, but the correlation is negative. This means that increasing distance from Moscow corresponds to a decrease in trade: consequently, there is a negative correlation between the GDP of Eurasian countries and distance to Moscow (-0,257); thus, the distance to the principal economic partner (Russia) has a negative impact on GDP.

In short, this simple data exercise shows the relevance of distance to international trade in the Eurasian bloc. The volume of trade has a mild positive effect on the volume of GDP (0.528).

Balkans countries

Russia has historically, politically, spiritually and culturally been present in the Balkans for centuries. Consequently, relations between Russia and the Balkans have

a rich and long tradition. In the geostrategic sense, Russia is increasingly realising its interests through diverse forms of economic co-operation with the economically most important countries and world associations. Its economic potentials (energy, raw materials, etc.) make it a very respectable subject in the global economy. The last decades of the twentieth century, which saw the cessation of the socialist social structure and the collapse of the Soviet Union and Yugoslavia, have changed the course of foreign policy for Russia and for the majority of the Balkan states.

A presence in the Balkans is one of the strategic economic interests of Russia. In particular, over the last decade there has been an increasing volume of foreign trade between Russia and individual Balkan countries, in which Russian companies have invested more and more capital in organising production and other economic activities. A major part of these investments has been focused on the following economic sectors:

- processing and distribution of oil and gas (from investments by Lukoil, Gazprom, Gazprom Neft and others in Bulgaria, Romania, Serbia, Republika Srpska, etc.)
- base metal production (investments in ironworks in Croatia and Romania, and the production of aluminium (in Romania and Montenegro, etc.)
- manufacturing (manufacturing of machinery, building materials, pharmaceuticals production, food industry, etc.)
- investment in tourist capacities in Turkey, Bulgaria, Montenegro and Albania.

In terms of future prospects, trade between Balkan countries and Russia should not be seen only in the context of the energy sector: it should comprise numerous other sectors in the production of both goods and services. From a long-term perspective, the energy sector can represent a link as well as a factor in the development of other kinds of relationships in other domains of trade.

Some Balkans countries have, meanwhile, become members of the EU or have been working intensively on the process of EU integration but there has, nevertheless, been a rising trend in their foreign trade with Russia.

The charts in this section show the role of the main EU countries in remittances to Balkan countries.

Figure 2 – Remittances from Italy (\$m)

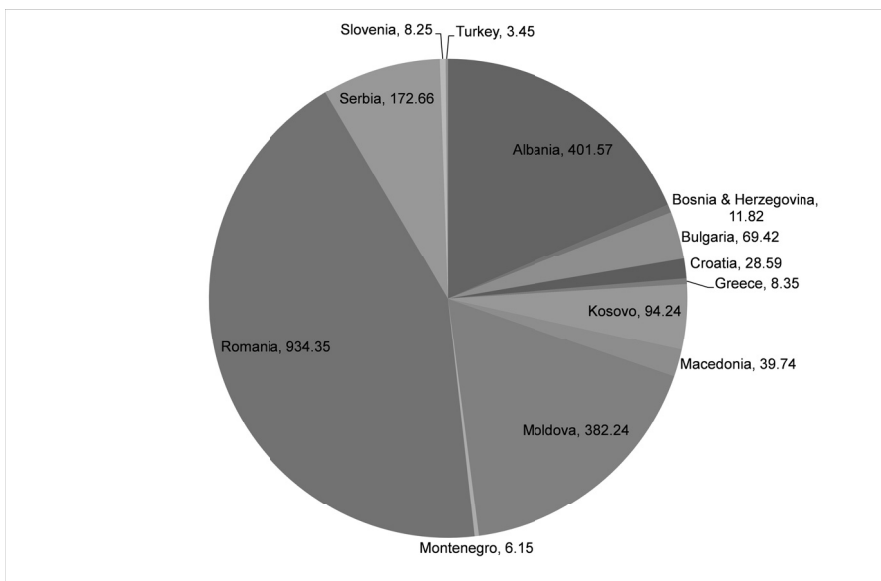
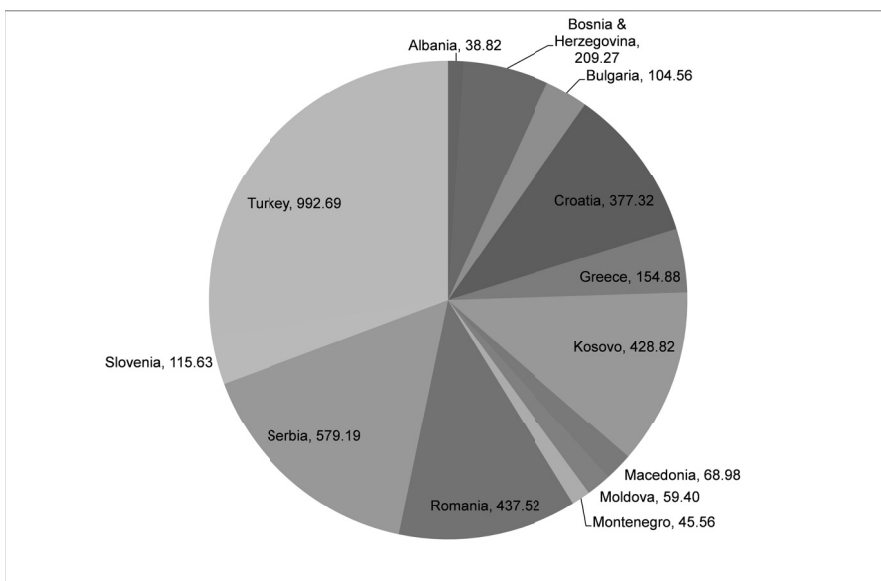


Figure 3 – Remittances from Germany (\$m)



Analysing these charts, it emerges that the situation is more fluid than the Eurasian bloc. In fact, there is no polarisation around a single country like Russia.

Italy represents the first country for flows of remittances to the Balkans: approximately \$2.137bn are headed out of Italy to the Balkans, the main beneficiary countries being Romania, Albania, Moldova and Serbia. In particular, there is a positive, and very small, reverse balance only with Slovenia and Turkey.

Germany is the second most important state in order of flows of remittances: approximately \$1.627bn is headed out of Germany to Balkan states, with the main beneficiaries being Turkey, Serbia, Romania, Kosovo and Croatia.

Analysing Balkan trade data, Albania is the country which, more than the others, has historical ties with Italy, especially in terms of trade relations, due to the diffusion of the Italian language. Italy has done much in recent years, both bilaterally and multilaterally, to facilitate the path of Albania towards greater economic and social stability. Italy is the primary trade partner of the Albanian state, with a market share of around 35%, and is the main investor for a number of firms and the leading bilateral donor. In the last decade, Italian businesses have achieved a remarkable foothold in the Albanian market, continuing to hold a primacy as regards the foreign presence, with approximately 400 small and medium-sized enterprises operating mainly along the Adriatic coast and in the western area of the country.

Along with Germany, Italy is the next largest trading partner for western Balkan countries, with more than 30 000 companies investing in the former Yugoslav countries and Albania, where there is a consolidated economic presence, especially in terms of financial investment in public utilities.

Italy can thus be at the centre of a political revival of 'Project Europe' for the Balkans, with Italian foreign policy attention to this area playing an important role. The decisive factor has been not only geographic proximity but also strategic interests, as well as economic, security and historical relations with the western Balkans (Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Montenegro, Kosovo, Albania and Macedonia).

Analysing trade data (World Bank, 2013), Italy represents a 46.33% share in Albania's export market and a 33.08% share of the import market; in Croatia it represents a 13% share of Croatian of imports and exports; and it accounts for a 10% share of Bosnia-Herzegovina imports and exports.

At the same time, Germany 'dominates' the Macedonian market (35.94% of exports and 10.51% of imports), but a high share are also held as regards Bulgaria and Bosnia-Herzegovina.

However, recent Chinese investments in the Balkans could reduce Italian and German markets: indeed, in 2014, commercial exchanges between the two areas has already reached a figure of \$50bn, according to statements of the Chinese government.

Chart 4 – Remittances from France

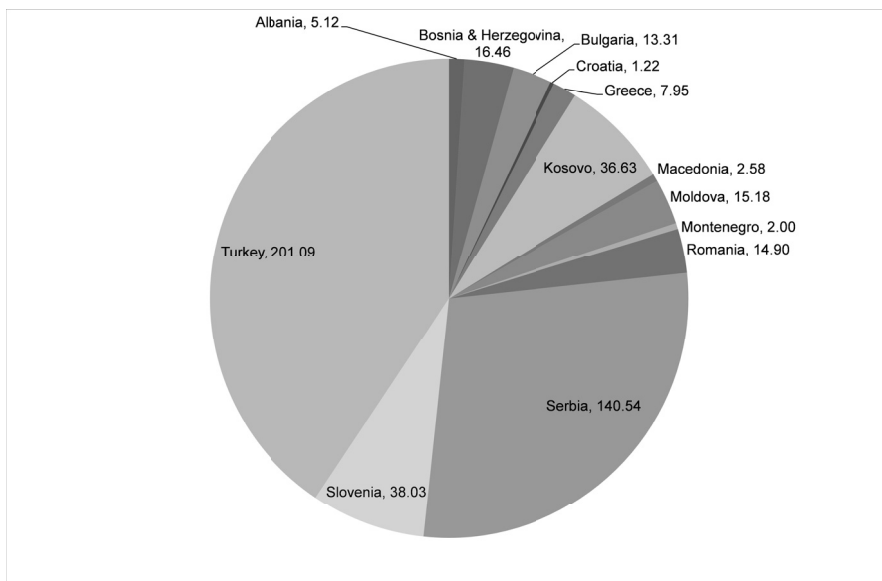
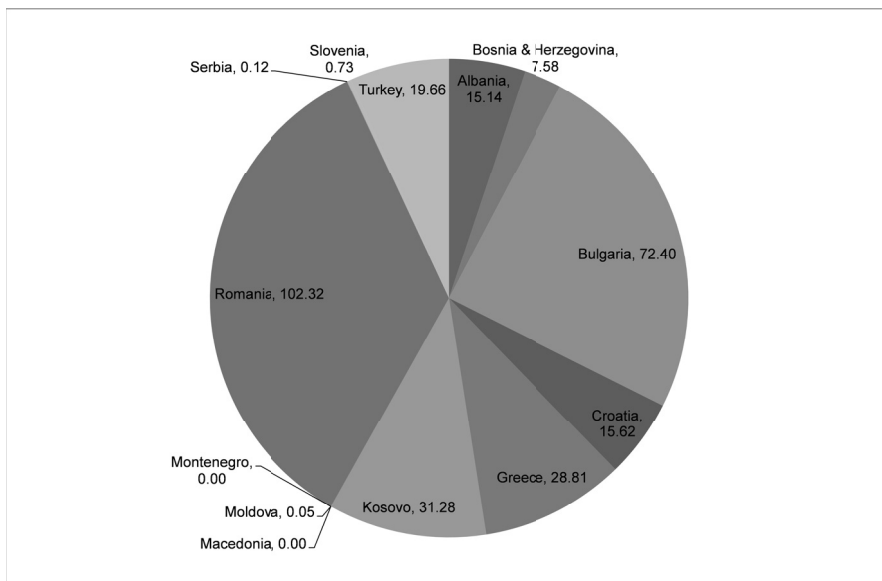
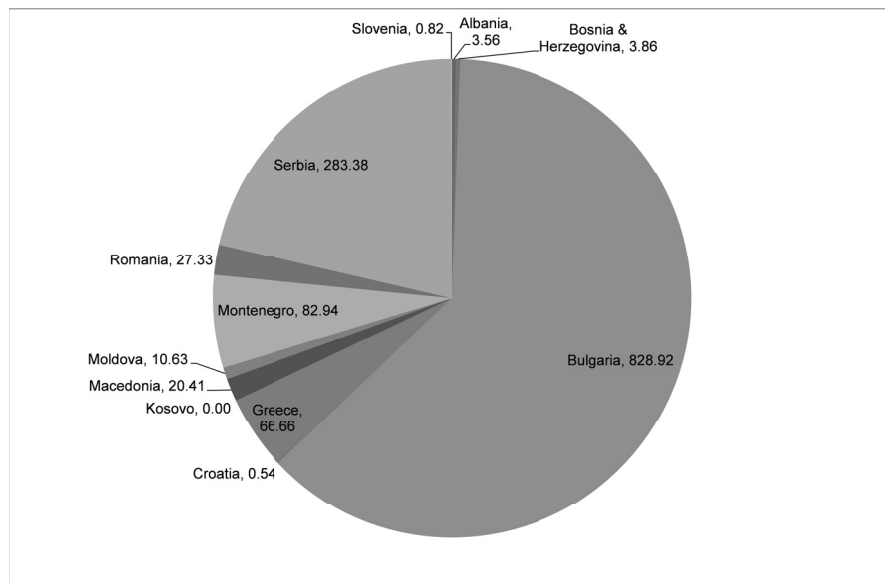


Chart 5 – Remittances from UK



Charts 4 and 5 show the situation of two other EU countries: the total balance of remittances from France to the Balkans is equal to \$1bn; while the UK flow of remittances is around \$292m. The respective market shares of these two countries are also small compared to Italy and Germany; the only relevant fact is marked by Macedonia, where the United Kingdom is the leading EU partner for imports (taking an 11% market share).

Chart 6 – Remittances from Turkey



Finally, we analyse the case of Turkey, a non-EU country, which plays a key role in the Balkan region: in fact, the Turkish flow of remittances into the Balkans is around \$1.329bn. Turkey encourages trade with and investment in the Balkans, in particular as a result of its historical and cultural ties.

Conclusion

The aim of the EEU is to build relations with European post-Soviet countries, starting with the proposal for a new economic bloc as a strong alternative to the European Union. This seeks to ensure the free movement of goods, services, capital and workers and, at the same time, a co-ordination of policies in the key sectors of energy, industry, agriculture and transport. Given that its first three members (Belarus, Kazakhstan and Russia) control 20% of the gas and 15% of the oil reserves in the world, the EEU could be a new powerful geo-economic actor. It already ensures a market of 170m people and has an aggregate GDP of \$2.7 trillion.

Russia will play a key role for the structure of the EEU, carving out an internal position of *primus inter pares*. This research has shown that Russia is the main pole

of attraction for the Eurasian bloc, especially given that it is the main market for imports and exports, hence confirming itself as the leading power in the region.

In contrast, regarding the situation in the Balkans, the situation remains more fluid. The Balkan region does not seem to be becoming a geo-political bloc, but its future seems to be linked to the EU bloc.

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