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Building Entrepreneurial Ecosystems: Effects of Economic Integration

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Introduction

Entrepreneurial ecosystems (EEs) are defined as a set of interdependent actors and factors coordinated in such a way that they enable productive entrepreneurship within a particular territory (Stam & Spigel, 2017). The main difference with other related concepts such as *industrial district*, *cluster*, *innovation system*, and *business ecosystem approach* is that EEs consider small fast-growing businesses as central players (leaders) in the creation of the system and in keeping the system healthy (Feldman, 2014), rather than larger, more established firms or slower growing SMEs. In cluster and industrial districts, high growth start-ups are not necessarily included (Markusen, 1996). Start-ups are explicitly placed in the center of the ecosystem. Entrepreneurial employees are of great importance not only for new value creation in developed economies like Europe (Bosma,

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Stam, & Wennekers, 2012; Stam, 2013) but also for resource-rich developing countries, due to their attempt to overcome the *middle-income trap* and diversify from resource industries to the new service industries. These problems are particularly relevant for Kazakhstan striving to build its entrepreneurial ecosystems (Jumasseitova & Bigabatova, 2017). This research considers how economic integration with the EEA affects the development of the entrepreneurial ecosystem in Kazakhstan.

Economic Integration

Integration can be defined as a process of “the grouping together of units or factors to form a single whole. Integrated development may, therefore, mean either the integration of a number of regions or increased cohesion between sectors, regions and social classes” (Perroux, 2010). In this research, we focus on the integration of sectors between countries, in particular, the transportation and digital industries. The key point in the discussion about international economic integration is the degree of state participation. Some argue that the market is the most effective regulator of the economy and therefore see integration as a creation of a single economic space based on free foreign trade and monetary policies (e.g., Friedman, 2009). Other economic schools attempted to find a compromise between market mechanisms and the role of the state in the coordination of economic policies (e.g., Chang, 2002). In this research, we believe that unless a national state exists, it is not possible to achieve integration without the participation of member states. Therefore, when the full integration of the economic systems of member countries is not the aim, integration is achieved based on the principles of the market mechanism with the coordinating role of the state.

Trade-facilitating integration agreements encompass two parts: a definition of the underlying trade facilitation principles and a set of specific, binding, and enforceable trade facilitation measures (Wille & Redden, 2007). Balassa (1961) differentiated five stages of economic integration: a free trade zone, the customs union, which then moves into a single market, economic union, and finally full economic integration. There are various degrees of integration, depending on the type of agreement made between the trading countries and the degree to which barriers between

them are removed. Economic integration has both positive and negative (access to new markets and increased foreign competition respectively) effects on the local companies' development (Nguyen & Enderwick, 2016). However, foreign competition forces domestic firms to become more innovative, and productive, and as a result more competitive (Kyophilavong, Vanhnalat, & Phonvisay, 2017). Research suggests that the industrial SMEs integrate and internalize more quickly and reactively with the help of advanced technologies (Huin, Luong, & Abhary, 2003). The regional digital economy has the potential to expand further (Pitakdumrongkit, 2018). The implementation of a cooperative policy between regional states may assist enterprises to grow internationally (Soesastro & Basri, 2005).

Research on recent economic integration initiatives, such as China's Belt and Road Initiative (BRI), finds that it has provided Chinese firms with significant incentives to speed up the pace of internationalization, having a positive formal institutional effect on the export performance of Chinese SME's firms that target the *Belt* countries (see Ribberink & Schubert, 2020, this volume; Li, Liu, & Qian, 2019). Previous economic integration initiatives such as the European Union (EU) and the Association of Southeast Asian Nations (ASEAN) simplified export and import procedures and expanded the market for SMEs.

To summarize, economic integration initiatives can have a significant effect on economies of participating countries, including its small- and medium-sized sectors. Kazakhstan is situated in the region with high integrative activity. Currently, two major integration projects such as the EEA and the BRI are emerging. In the next sections of this chapter, we will observe the development of the EEA project, which has currently reached the stage of single market integration.

Eurasian Economic Union

Recent global economic and geopolitical trends have led to the need to review the development strategy of Kazakhstan by evaluating regional integration processes in Eurasia. The process of Euro-Asian integration began after establishing the Commonwealth of Independent States (CIS), following the dissolution of the Soviet Union in 1991. The concept of the

Eurasian Economic Union was originally proposed by the former President of the Republic of Kazakhstan Nursultan Nazarbayev in 1994. The aim of this initiative was a voluntary, equitable integration, to pursue joint political and economic development of the post-Soviet economies, in order to take a leading position in the global economy (Dragneva & Wolczuk, 2012). That concept presented the principles, objectives, and mechanism of formation of the Eurasian Union provided the establishment of a number of coordinating supranational structures, setting out the basic premise of cooperation. It includes cooperation in the economy, scientific exchange, cultural cooperation, educational cooperation across countries, and joint environmental initiatives. The participation in integration unions is a priority for Kazakhstan, as the country sees great opportunities to develop capabilities based on regional integration. The main goal of integration is considered to be a stable, economic development and security in the region. Table 9.1 shows the evolution of economic integration within the Eurasian Economic Union.

Table 9.1 Evolution of the Eurasian Economic Union

Union	Period	Type	Main principles	Member countries
Eurasian Economic Community (EurAsEC)	2000–2014	Free trade area	No trading barriers	Belarus Kazakhstan Kyrgyzstan Russia Tadjikistan
Eurasian Customs Union (EACU)	2010	Customs union	No customs, common tariff on all import goods	Armenia Belarus Kazakhstan Russia
Eurasian Economic Space (EES)	2012	Single market	Free movement of people, goods, services, and capital	Armenia, Belarus Kazakhstan Kyrgyzstan Russia
Eurasian Economic Union (EAEU)	2015	Single market	Free movement of people, goods, services, and capital; common macroeconomic policies; transport, industry, and agriculture; competition and antitrust regulation	Armenia Belarus Kazakhstan Kyrgyzstan Russia

Source: Author

Table 9.2 shows the geographic and economic characteristics of member countries. As can be observed, Russia has dominated in terms of area, market size, and national income.

The Eurasian Economic Area was established in 2012 for the purpose of a common market that provides the free movement of persons, goods, services, and capital. The Eurasian Economic Space initially consisted of Belarus, Kazakhstan, and Russia and was expanded by Armenia and Kyrgyzstan joining in 2015 (Tarr, 2016). The key aim at this stage was the creation of a common market, in particular, the market of energy resources. The EAEU introduced the free movement of goods, capital, services, and people, and it provided common policies in the spheres of macroeconomics, transport, industry and agriculture, energy, foreign trade and investment, customs, technical regulation, and finally competition and antitrust regulation. The Eurasian Economic Union is designed to achieve a number of objectives. The economic objectives include improving resource allocation, efficiency in production, competition, reduction in prices for consumers and expansion of consumer choice, as well as an increase in investment by firms that want to take advantage of the larger market size.

Table 9.2 Selected economic and geographic indicators of member countries (2017–2018)

Country	Area, Tkm ²	Population, Mln	Life expectancy at birth, total (years)	Adjusted net national income per capita	
				Current US\$	Annual % growth
Armenia	30	2952	74.8	3412	9.1
Belarus	208	9485	74.1	4980	3.4
Kazakhstan	2725	18,276	73.0	6378	0.9
Kyrgyzstan	200	6316	71.2	971	7.1
Russia	17,125	144,478	72.1	8519	2.0
Tajikistan	142	9101	71.2	793	–

Source: Author's own processed data based on the World Bank

The methodology in this research was a survey of companies (Ritchie & Spencer, 2002), based on a group of companies operating in Kazakhstan which was selected to determine the effect of EAEU on their activity. The survey questionnaire was administered to 204 small and medium-sized firms from different sectors of the economy in Kazakhstan. We received 184 fully completed answers, with a response rate of 90%. The questionnaire aimed to explore whether SMEs in Kazakhstan feel the effect integration in EAEU. Closed-end-type questions were used. Respondents could choose from a choice of answers to help find an association (positive, negative, neutral) between economic integration and the company's activity. To assess companies' sensitivity toward Eurasian economic integration, we asked the executives whether integration had an impact on their respective businesses and whether this impact was positive or negative. Positive effects included companies' intentions for regional expansion, increasing sales, and whether they were acting to improve their competitiveness to take advantage of integration. Examples of the questions: "Are there suppliers from the following countries among your partner companies?" "Are there buyers from the following countries among your partner companies?" "If exporting abroad, indicate which country" "New markets have opened for you in the following countries: (list of countries)".

The companies in our study represented a wide range of industries, including energy, industrial goods, construction, financial services, catering, retail, IT, and telecommunications. Following the classical view of the three-sector theory developed by Fisher (1939) we divided the respondents into three sectors of activity: extraction of raw materials (primary), manufacturing (secondary), and services (tertiary). The primary sector includes extraction of raw materials, mining, and agriculture. The secondary/manufacturing sector is concerned with the production of final goods. The tertiary sector is related to offering services such as trade, IT, logistics, telecommunication, retail, tourism, banking, and entertainment.

The focus of our research was the development of small and medium-sized organizations in Kazakhstan as one of the possible ways of the diversification of the economy. The Law of the Republic of Kazakhstan *On private entrepreneurship* defines a small business as one with no more than 50 employees. A medium-sized business is a company with between 51 and 250 employees. Large businesses are defined as separate legal

entities carrying out the entrepreneurial activity with more than 250 employees. The majority of the companies in this research are small enterprises—63% of respondent companies, 25% medium enterprises, and 11% large enterprises representing all three sectors of the economy. Pearson's chi-square test was applied to test the independence of categorical variables. The coefficient of the test proves that the observed distribution of data fits well with the distribution that is expected, and the variables are independent.

Discussion and Further Directions of Research

Although the integration process on post-Soviet space has a long history, the Eurasian Economic Union is a relatively young institution. Therefore, it may be too early to expect to see the effects of integration on the entrepreneurial ecosystem. However, in fact, trends can be identified. To suggest further directions of research, this research provided the following results. The share of total trade between Kazakhstan and EAEU member countries has increased since 2015, which shows that countries are using the opportunities provided by integration and non-tariff trade for their benefit. However, the results are different across the sector. Most companies from the tertiary sector did not experience any effect of the Eurasian Economic Union on their businesses; most of them are small enterprises (84.3%) that provide mostly services. This can be explained by the small scale of their activity. Medium-sized businesses are the most sensitive to the integration effects among the companies we surveyed. About half (48.6%) of these companies responded that there was an impact on their business after joining the Eurasian Economic Union. These findings show that more research needs to be done to understand how entrepreneurial ecosystems function and what institutions can be developed to support SMEs in emerging countries. Despite their importance for the economy, entrepreneurial ecosystems are a relatively new topic in the literature on international business (Autio, Nambisan, Thomas, & Wright, 2018; Brown & Mason, 2017). As ecosystems can be geographical and online, it is especially interesting how regional integration and digital technologies can support the development of SMEs. The directions of further research with respect to the possible diversification in Kazakhstan

could be the following: how are digital entrepreneurial ecosystems developing in the emerging countries' context? What is the role of regional integration in fostering such entrepreneurial ecosystems? What kind of government policy helps or hinders entrepreneurial ecosystems?

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