



Review of Economies in Transition

Idäntalouksien katsauksia

1996 • No. 1

27.3.1996

Reprint in PDF format 2002

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Bank of Finland
Institute for Economies in Transition, BOFIT

ISSN 1235-7405
Reprint in PDF format 2002

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Problems and Prospects of Economic Reintegration within the CIS

Abstract

The article deals with current state and future possibilities of the development of economic cooperation within the framework of Commonwealth of Independent States (CIS). According to author's position, both the most probable and the most preferable scenario of the process under review would be gradual reintegration of the member-states national economies within the alliance. At the same time, author discusses several major obstacles which at the moment (as well as at least in the medium run) hinder reintegration movement.

Key words:

Commonwealth of Independent States (CIS), economic integration, Russia, foreign trade.

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1 Introduction

This article looks at the current state of economic relations between the CIS countries from the point of view of short-run and long-run opportunities. The current problems in this area are extremely important issues and also highly controversial. They are important because development of economic cooperation within the framework of the alliance has an immense influence on its member states and on the outside world. And they are highly controversial because the process under review in turn depends upon so many factors, some of them being productive and others counter-productive.

2 Problem of definition: re-integration vs. integration

In many publications as well as in speeches of political leaders of the countries concerned the process under review is referred to as "integration". Strictly speaking this is a misnomer. The process should rather be referred to as REintegration and the distinction is meaningful not only from the purely stylistic point of view, but also in the economic sense of the word. As in many other cases in Soviet economic history, the establishing of close economic links between the newly independent states is a unique phenomenon which has no direct analogies in the world economy.

Basic theory on international economic relations distinguishes between several possible types of trade-economic alliances, ranking them from initial and simple to more complex and comprehensive: free-trade area, customs union, common market, economic union and full economic integration.² Needless to say, the real world

does not precisely match these theoretical cases, but rather each alliance may be dominated by one theoretical type while also exhibiting other features. Nevertheless, such a classification into ideal categories, creates a useful framework for analysis.

Returning to the issue of reintegration, it should be noted that all successful integration processes in Western Europe, North America, even the third world, have been gradually creative. Their starting point was a relatively low level of economic interdependency and mutual adaptation which slowly increased from one year to the next, resulting in a shift from free-trade area to customs union and so on. The process can be compared to the construction of a 'common dwelling' on a previously empty building-site.

In sharp contrast, however, the 'integration' among the former Soviet republics has, from the very start, been characterized by a dichotomy: it is destructive as well as a creative process. This is not a 'creative destruction' in the Schumpeterian sense of the word, which

- a) would result in 'new combinations' and
- b) is, so to say, the general rule of dynamics for any modern economic agent.

In the case under review, we first have the dismantling or destruction of what was called a 'single economic complex' (Edinyi Narodno-khoziaistvennyi Kompleks). According to classification set out above, it might be regarded as the highest form of alliance, namely full economic integration (to say nothing of the social, political and military aspects, which are beyond the scope of this article). Shortly after this destruction process had been started, a creative one was launched, having as its strategic, long-term goal the formation of an economic union, i.e. a less complex, less advanced type of alliance in comparison with full economic integration. Returning to the construction analogy, the process has been akin to reconstruction of existing and functioning (though in efficiently) 5-star hotel into a much less ambitious and sophisticated motel, which might eventually develop into a 3-star hotel.

Indeed, the agreement on the Commonwealth of Independent States represents a kind of device for simultaneously achieving two different ends:

² In a broader sense of the word, integration means a gradual process of interpenetration and mutual adaptation of several national economies, eventually leading to the formation of a single economic body or full economic integration type of alliance. Under the conditions of the latter member states, strictly speaking, cease to be independent and sovereign, with their fiscal, monetary, social, etc. policies being totally unified.

The notion of integration, in the sense of a process, is commonly used, however, and refers to all types of trade-economic alliances.

- the final and ultimate liquidation of the old, Soviet-type economic mechanism and institutions of economic cooperation;
- establishing a new type of economic relationship between independent states operating under the market principles.

Some experts would argue that unification of the Soviet republics into the USSR was premature from an economic point of view and mainly based upon political pressure and ideological premises. Hence, it was not integration in the strict sense of the word³. Such an argument is generally consistent with the famous 'command economy' theory. However, at the same time it seriously underestimates the role of political factors in both the foundation and the operation of market economies in the West (nor to mention the third world); it also tends to treat the political and economic dimensions of social development as entirely separate and independent, which is difficult to justify.

Regardless of all other aspects of the problem, the unique features of the CIS 'integration' process mentioned above make Western approaches and experiences even less relevant in the CIS countries than in many others. Indeed, the problems of applicability of foreign integrational experience to the circumstances of the CIS are under neat debate in the Russian press⁴. But even those who treat the CIS as a special case tend to emphasize the transitional nature of post-Soviet economies in the sense that there is a poorly developed regular market environment and institutional structure. This is clearly very important. Nevertheless, the

³ N.A.Cherkasov O teoreticheskikh osnovah i zadachah strategii integratsii gosudarstv-uchastnikov SNG. Analiticheskaja zapiska. MPA. SPb. 1995.

⁴ Shishkov Ju.V., Evstigneev V.R. Reintegratsiya postsovetskogo ekonomicheskogo prostranstva i opyt Zapadnoi Evropy. Institut mirivoi ekonomiki i mezhdunarodnyh otnoshenii RAN.M.1994; "Model' dlya SNG mozno naiti... v Amerike" Moscow News November 20-27, 1994; Petrakov N., Shagalov G. "Cherez Platezhnyi sojuz k integratsii stran SNG" Moscow News December 11-18, 1994; Vinogradova L. "Economicheskaja integratsiya v SNG n opyt tret'ego mira" MEiMO 1995 No.9; "V SNG rodilsya vse-taki tamozhennyi sojuz, a ne rublevaya zona" Commersant Daily. January 31, 1995; and many others.

peculiarities connected with reintegration (as opposed to integration), as the essence of the process under review, seem to be of at least equal (if not greater) significance.

3 Disintegration of the Soviet economy - was it inevitable?

Any assessment of the process under review should be based upon the understanding that the collapse of the Soviet Union was not inevitable from an economic point of view; it was mostly a politically-motivated phenomenon. This is not, of course, a view held by everyone. In 1992, in particular, many proponents of USSR disintegration argued that its inability to survive economically was amply proved by the ease and speed of the collapse. Indeed, the Soviet Union disappeared overnight. But that is only part of the story. At least four other points are relevant here:

- conventional wisdom tells us that it is normally much easier and quicker to break something, than to build it. This is no less true of multi-level, sophisticated social-economic systems;
- as the principal force in the economy, the disintegration process, had quite a short history. For a relatively short period of time the CIS had been treated (to use Ukrainian President Leonid Kravchuk's expression) entirely as a tool to effect a 'civilized divorce'. The course was soon changed to one of 'preventing further disintegration' and, eventually, 'establishing new relations';
- for the vast majority of 'ordinary people', the changes that began in 1992 have been somewhat unreal and beyond their comprehension;
- the role of external (geopolitical) factors should not be forgotten. Many states, both in the West and the East, have benefitted from the collapse of the Soviet Union.

Table 1 Production of selected products by individual Russian enterprises in 1993
(% of total output)

Enterprise	Type of product	% of total Russian output
PO "Kolomenski zavod"	Diesel locomotives	100
PO "Novocherkasski electrovozostroitel'ni zavod"	Electric locomotives	100
Tverskoe PO vagonostroeniya	Railway passenger carriages	86
Zavod "Bezhetski mash"	Flax combine	100
Trolleybusni zavod im. Urizkogo	Trolley buses	100
PO "Leningradski metallicheski zavod"	Steam turbines	80
PO "Rostsel'mash"	Combine harvesters	81
AO "Tulamashzavod"	Motor scooters	100
Tikhorezki mjasokombinat	Meat goggles for children	100

Table 2 Concentration of Russian industrial production in 1993

Branch of industry	Share of total Russian output (%)		
	3 enterprises	6 enterprises	10 enterprises
Electrical engineering / Electricity generation	11.7	18.5	25.6
Fuel industry	12.3	22.7	34.1
Ferrous metallurgy	26.4	40.2	52.0
Non-ferrous metallurgy	26.2	39.7	48.7
Chemical industry	8.9	13.4	19.0
Mechanical engineering	12.6	16.3	19.8
Timber, wood-processing and paper industry	5.4	9.4	13.5
Construction industry	4.1	6.2	8.4
Light industry	4.0	7.0	10.1
Food processing	3.9	6.0	8.4

The disintegration of the USSR has also seriously damaged the pre-existing system of cooperation, thus contributing greatly to the economic crises.

4 Collapse of the USSR and the scale of economic crisis in the CIS countries

There is another crucial factor to be considered in the analysis of the ongoing process. The disintegration of the USSR underiably generated enormous economic problems for almost all the countries involved⁵, contributing greatly to the extent of the economic crises experienced currently by member countries of the CIS. For example, according to some estimates, up to 60% of the decline in industrial output in Russia and the other former Soviet republics can be attributed to the collapse of Soviet Union⁶.

The reason for this is clear: the structure and composition of the former Soviet economy. One of its key features was an extremely high level of specialization and monopolization. Under these circumstances and with a state monopoly on foreign economic relations, each republic was not only 'closed' towards the world economy but inevitably participated actively in inter-republican trade relations.

During the period 1965-1990 the average share of imports (both from other Soviet republics and from outside the USSR) in total consumption fluctuated in the Soviet republics from 15-16% (Russian Federation) to 30-31% (Armenia). The share of exports (both to other Soviet republics and to the outside world) fluctuated from 10-12% (Russian Federation, Kazakhstan) to 25-28% (Azerbaijan). At the same time, the republics' share of inter-republican exports in total exports, was, on average 75-80%. Below this average was only the Russian Federation (65-70%). For all the other republics the indicator was substantially higher, reaching 95-97% in Moldavia, Kirgizia and Armenia. The corresponding level of interdependence among the EC countries estimated by the same method at that time was only 60%. According to other experts, at the end of the 1980s the total volume of inter-republican trade amounted to

21% of Soviet GNP (in comparison with 14% for the EC). Even in 1993-1994 the level of interdependence of the former Soviet republics was substantially higher than in the EU (except for Ireland, Portugal and the Benelux countries).⁷

As for monopolization, it is well known that large state enterprises - monopolies in terms of their market share - were the key element of the Soviet economy. Whereas international standards define a monopoly as a firm which controls more than 30% of the market, there were several markets in the USSR with only one producer for the whole country (e.g. domestic air conditioners were produced only of the Baku plant). Official Soviet statistics used to divide the entire range of industrial products into 344 so-called enlarged groups (i.e. markets). In 1989 there were 109 groups with only one producer controlling more than 90% of the entire market and 209 groups in which one producer had a market share exceeding 50%. It is worth emphasizing that the situation has not changed substantially since that time. More over, there is good reason to believe that the real level of monopolization in the Russian economy has, in fact, increased since the collapse of the USSR. Tables 1 and 2⁸ illustrate the current state of affairs.

5 Prospects for the future: cautious optimism

The foregoing sections have outlined the historical background to the process under review. We now turn to the current situation. Currently all the leaders of the CIS countries officially recognize that there is no reasonable alternative to the development of a framework of cooperation. This has resulted in a move towards establishing the necessary institutional and legal environment for reintegration.

During the last four years (the CIS was created on December 8, 1991) a great many treaties,

⁵ Since the article deals with the CIS countries, the author has deliberately omitted the otherwise very stimulating issue of the impact of USSR disintegration upon the Baltic states.

⁶ Bykov A. "Rossiya - SNG - mirivoi rynek" *Economica i zhizn'* 1995, No. 5.

⁷ See.: Kolchin S. "Rossia - blizhnee zarubezh'e: vzaimootnosheniya, interesy, tseli politiki" MEiMO 1995, No. 4; Shishkov Ju.V., Evstigneev V.R. *Reintegratsiya postsovetskogo ekonomicheskogo prostranstva...* p.17.

⁸ Vorozheikin V.N., Rybakov F.F. *Demonopolizatsiya ekonomiki kak element rynochnyh otnoshenii*. SPb. Gidrometioizdat. 1994, p.28,37.

agreements, etc. have been prepared and some have been signed and ratified. The first and most important of them was the Agreement on Foundation of the Economic Alliance signed in Moscow on Sept. 24, 1993. The agreement covers a 10-year period and defines the main objectives for the development of the reintegration process. Many of these objectives were already specified in documents dealing with different aspects of cooperation within the CIS.

In October 1994 the so-called Interstate Economic Committee (Mezhgosudarstvennyi Economicheskii Comitet - MEC) was created as a permanent body of the Economic Alliance with some administration and control functions. The IEC also has to perform some analytical tasks, elaborate joint programmes for the development of specific branches of the economy, put forward proposals for harmonization of the social and economic policies of member states and for harmonizing commercial legislation, etc.

In March 1995 the formation of another agency, the Interstate Currency Committee (Mezhgosudarstvennyi valutnyi comitet), was approved. Among its main tasks are: analysis of inter-CIS credit and monetary relations; elaboration of the agreed rules of formation and functioning of the CIS payment system, including forex operations; exchange control co-operation; elaboration of proposals for securing mutual convertibility of memberstates' currencies, etc.

Even taking into consideration the fact that a substantial share of the formally approved (not to mention the unratified) CIS documents remain 'on paper'⁹, the only longer-term prospects for reintegration within the alliance framework are reasonably favourable. In support of this optimistic¹⁰ conclusion, the author would suggest three

groups of arguments: long-term, medium-term and short-term.

From the long-term point of view the most important factor seems to be the structure and composition of the national economies of the CIS countries, discussed above. In spite of some changes over the last few years, the countries are still closely interlinked. It has been estimated, that in the hypothetical case of zero intra-CIS trade, even Russia (obviously the most self-sufficient country within the alliance) would produce only about 2/3 of her current output. For the other republics the situation would be much more extreme. Azerbaijan, for example, would be able to produce 31% of its current output, Kazakhstan 27%, Ukraine 15% and Belarus 4%.¹¹

These estimates, in addition to other supporting evidences, make it worth emphasizing that the mutual dependence of the republics within the framework of both the Soviet Union and the CIS has been, and still is, based upon what the adherents of the new trade theory refer to as intra-industry trade. In contrast to inter-industry trade, this is believed to be a more sophisticated and advanced form of trade.

The current drastic shortage of financial resources in the CIS countries prevents any radical structural reform, which, in order to be successful, should be based upon substantial inflow of capital. Moreover, taking into consideration the worldwide tendency towards internationalization and globalization of business and production, it would be unwise to ignore the mutually complementary nature of the CIS economies. In fact, this represents a significant 'comparative advantage' for the countries within the alliance and could (in the event of a general improvement in the economic situation in the CIS) give a powerful boost to the development of the reintegration process.

Another important long-term factor is historical precedent. Although not always in peace and harmony, many generations of Russians, Ukrainians, Georgians, etc. used to live, side by side in the same country, be it the Russian Empire or the

⁹ It is the gap between the CIS leaders' grand declarations and drafted and adopted documents, on the one hand, and the real status of reintegration within the CIS, on the other, which most Russian and foreign publications consider to be among the most striking features of the process under review.

¹⁰ Ph.Hanson from CREES (Univ. Birmingham, U.K.) once suggested that western experts on the Soviet economy should be classed in two categories: pessimists and optimists. According to thus classification, those who belong to the first category consider Russia's economic prospects to be bad, while those in the second category consider them very bad. The author of the

present article confines himself to a more traditional interpretation of optimism and pessimism.

¹¹ Kolchin S. Rossiya - blizhnee zarubezh'e...; Petrakov N., Shagalov G. Cherez Platezhnyi sojuz k integratsii...

Table 3 Russian fuel exports to former Soviet republics
(from 1992 excluding the Baltic republics)

	1990	1991	1992	1993	1994	1995*
Oil, m tons	123	117	72	43	34.1	12.6
Gas, bn cu m	89	92	101	75	74.8	37.6
Coal, m tons	29.2	19.9	15.6	7.6	4.9	4.5

* - first six months of the year.

Table 3 shows a decline in Russian exports to the CIS countries of the single largest category of goods - fuels. The situation with machinery, metal, fertilizers, etc. is generally similar, if not worse.

Most worrying, however, is not the decline per se, but the substitution of the CIS countries for outside trade partners (see Table 4).

Source: Russia. EIU Country Profile...p.39; BIKI 1995 No.24; Sotsial'no-ekonomicheskoe polozhenie Rossii... p.67.

Table 4 Russian fuel exports

	Total exports			1993/92 increase (+), or decrease (-) (%)		1994/93 increase (+), or decrease (-) (%)		1995/94** increase (+), or decrease (-) (%)	
	1993	'94	'95*	CIS	Rest	CIS	Rest	CIS	Rest
Oil, m tons	123	123	59	-41	+20	-21	+11	-13	+2
Gas, bn cu m	171	184	98	-26		-0.3	+13	-2	+11
Coal, m tons	27.3	22.3	12.4	-51	+9	-35	-12	+67	+4

* - first 6 months of the year

** - Jan-Jun 1995 to Jan-Jun 1994

Other CIS member states also tend to rely more and more on consumers and suppliers from outside the alliance. Table 5 illustrates the anti-reintegrational tendency quite clearly.

Source: Russia. EIU Country Profile...p.39; BIKI 1995 No.24; Sotsial'no-ekonomicheskoe polozhenie Rossii... p.67.

Soviet Union. From a purely positive point of view, a long common history can be said to result in behavioural stereotypes, which constantly reveal themselves on different levels and in different dimensions of life.

Similarly, there is the underivable existence of a common language. This gives the CIS a substantial and, to some extent, unique advantage over all other integrational alliances in the world.

From the medium-term point of view, it is significant that the hopes entertained by individual CIS members of establishing their own close contacts with, say, West European countries and thereby attaining some kind of 'personal integra-

tion' into the world economy have proved, at least for the moment, to be illusory¹². As for the

¹² Addressing a conference on economic policy in September 1995 Ukrainian Premier Marchuk, albeit in a rather ambiguous and unspecified manner, admitted: "...unfortunately, we do have some disregard in some industries regarding cooperation, especially with the CIS countries, the opinion being that our course is only towards the West, and the CIS countries are the past. From the point of view of technological prospects, this, perhaps, is true. But from the point of view of present-day realities, and in order to preserve large hi-tech production facilities

so-called 'local integration plans' (foundations of sub-alliances of several republics, for example the Central Asian¹³, without Russian participation), they have one common shortcoming: they generally underestimate the fact that within the framework of the Soviet (as well as Czarist Russian) economy, the republics (or their predecessors) had been tied economically not so much to each other, as to the centre, to Russia.

As a result, they currently have similar rather than complementary economic structures, and therefore lack the natural basis for real integration. A good example of this is the so-called economic union established in January 1994 by Uzbekistan and Kazakhstan, soon thereafter joined by Kyrgyzstan. According to experts in The Economist's Intelligence Unit, it was "supposed to institute free trade and co-ordinate economic policies. Nothing of the kind happened... Central Asian co-operation is superficial".¹⁴

From the short-term point of view it is the current economic crises that play the most crucial role. Furthermore, for most people in the media (and others too) the crises constitute THE reason for re-unification under the roof of the CIS¹⁵. At

the level of ordinary, day-to-day existence in many republics (which is, to a large extent, reflected in the positions of their leadership¹⁶) there had been rapid and dramatic change following the collapse of the USSR. During the last of the Soviet system years, when the threat of economic calamity had gradually become more and more perceptible, the popular position, which was consistent with the ideas and goals of the nationalistic movements, had been: "Save yourself while you still can". Many tried, but most failed. Then the pendulum swung the other way: "We are all in the same boat", "We can only survive by helping each other"¹⁷.

Unfortunately, real life is not so simple. If history teaches us anything, one of its fundamental lessons might be called "Economic crises make national altruism twice as scarce". Indeed, the Great Depression (the only disaster in modern economic history comparable, at least in relative terms, to the current situation in the CIS states) demonstrated that in a calamity countries tend to: 1) sacrifice international cooperation for the sake of internal stabilization; and 2) behave, in their relations with foreign partners, in accordance with a beggar-thy-neighbour policy¹⁸.

and large scientific and research structures, we should not determine this trend unequivocally, otherwise we shall make a mistake." (BBC Monitoring Summary of World Broadcasts. 18 Sept. 1995).

¹³ Ideas of this type are in fact on the agenda. It was Kazakhstan's President Nazarbaev who proposed to establish some kind of alliance of Turkic-language countries of the former Soviet Union with participation of Turkey. (Tsentral'no-aziatskoe sodruzhestvo mozhet stat' al'ternativoi SNG. Novaya Gazeta 21 Oct. 1994.)

¹⁴ Empire free trade Business Central Asia. October 1995, p.1.

¹⁵ The FT's Matthew Kaminski corresponded from Minsk that "Belarus... views integration as a way to reverse the steep economic decline since the Soviet Union broke up." (Belarus heads back to Russian fold, Financial Times May 16, 1995.)

In September 1995 Kyrgyzstan made a formal application for entry into the customs union formed by Russia, Belarus and Kazakhstan in January. According to a Kyrgyz Embassy spokesman in Moscow, his republic has made its decision in favour of entry "first of all from the economic point of view,

taking into consideration the continuous decline in production". (BBC Monitoring Summary of World Broadcasts. 15 Sept. 1995).

¹⁶ The problem of the correlation between ordinary everyday experience and state policy is extremely controversial. On the one hand, the latter should (at least in democratic societies) give as much attention as possible to the former. On the other hand, ordinary everyday experience is, at best nothing but common sense. It normally tends to emphasize a short-term approach and to ignore more fundamental aims and reasons. The dominance of short-term thinking in state policy (unfortunately, Russia and probably the whole CIS fit that pattern) creates a curious situation of 'tactics without strategy'.

¹⁷ It was Moldovan Premier Andrei Sangeli who, in 1993, said: "If someone thinks they can get out of the economic crisis on their own, they are living in an illusion." (Slow Progress for CIS Economies Transition 1994 in Review. Part 2, p.20).

¹⁸ Good examples are the Ukrainian re-export of Russian oil to Eastern Europe (according to some estimates up to 8 mln tons) and re-export of Russian industrial goods from the Central Asian republics to

6 Difficult decisions - obstacles remain

An assessment of the four-year history of the CIS leads us to the conclusion that the reintegration process, although the most probable and preferable scenario of future development, will be controversial, slow and difficult. The main reasons for this are discussed below.

1. In spite of all integrational rhetoric the CIS member states are gradually trying to reorient their international economic relations towards countries outside the alliance¹⁹. Statistics on foreign trade²⁰ illustrate the situation clearly enough.

China. (Petrakov N., Shagalov G. *Cherez Platezhnyi soyuz k integratsii...*)

¹⁹ Modern Russian publications commonly make a distinction between "distant foreign countries" - "dal'nee zarubezh'e", and "nearby foreign countries" - "blizhnee zarubezh'e". The latter include other CIS states or, sometimes former Soviet republics.

²⁰ In analysing Russian statistical data one should bear in mind three significant points.

Firstly, reported foreign trade figures are often incomplete due to underreporting. According to The Economist Intelligence Unit, this is "especially pronounced on the import side where producers play down the true extent of imports to escape tax payments". (Russia. EIU Country Report. 4th quarter 1994, pp.34-35).

Secondly, figures reported by different state agencies (State Committee for Statistics, State Customs Committee, etc.) sometimes mismatch substantially.

Thirdly, due to high inflation and exchange rate fluctuations, different estimates (measuring volumes of CIS countries' foreign trade either in US dollars or Russian rubles, expressed in terms of nominal official or commercial exchange rates) produce diverse results. For example, according to a World Bank study, between 1990 and 1993 the former Soviet republics' interstate exports and imports were literally decimated to 1/10 of their 1990 levels. In contrast, other estimates note a drop in trade by about two thirds. (Helen Boss: *Four Years of Declining Inter-CIS Trade: Decentralization the Hard Way*, The Vienna Institute Monthly Report 1995/6, p.23.)

According to official data, the share of the CIS countries in total Russian foreign trade turnover was 24% in 1994 and 23% in the first half of 1995²¹. These figures are in sharp contrast to the situation of the late '80s. Indeed, during 1987-1990 the share of the Soviet republics in the total exports of the Russian Federation fluctuated from 67.5 % to 69.9 %. For imports the respective figures were 47 % and 51 %²². Unfortunately, foreign trade is not the only form of economic cooperation in which substitution of intra-alliance links for external ones is taking place. Another significant field is international loans. Whereas it was initially Russia that played the role of principal lender to the other CIS member states, they are now switching to Western countries and international financial institutions, with which they currently have debts 2.6 times as great as those with the Russian Federation²³.

2. The gap between 'poor' and 'rich' members of the CIS is gradually becoming wider. In contrast to the Soviet era, when convergence of economic development was, at least officially, a top political, social, ideological and economic priority, today nobody really gives the matter much thought. Meanwhile, as far as we can judge from the experiences of other regional alliances, countries with a similar rate of growth, standard of living, etc., generally have better potential for smooth and rapid integration.
3. After the collapse of the USSR, all the CIS countries started reforming their economies in line with their respective policies and programmes. This naturally resulted in the development of a wide variety of economic mechanisms and legal environments. What is more, during the ongoing process of reform they have gradually diverged, a pace with the formation of national markets, pricing systems, financial institutions and monetary systems.

²¹ *Sotsial'no-ekonomicheskoe polozhenie Rossii. Yanvar' - mai 1995*. M. 1995, p.66.

²² Russia. EIU Country Profile. 1994-95. p.36.

²³ *Commerzant Daily*, 23 Sept, 1995.

Table 5 Foreign trade of selected CIS countries in January-June 1995
(as % of January - June 1994)

	Azerbaijan	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Moldova	Uzbekistan
Total exports	58.4*	102.2x	98.3*	155.7*	105y	124.7*	90.2
Exports to CIS	41.2*	98.2x	73.1*	126.5*	74.5y	92.7*	59.1
Exports to outside CIS	74.5*	141.1x	169.8*	213.2*	2.4 times y	2.4 times*	148.9
Total imports	56*	2.1 times x	86.2*	72*	2.2 times y	112.9*	104.1
Imports from CIS	30.7*	2.1 times x	81.6*	72.5*	2.4 times y	112.3*	74.3
Imports from outside CIS	105.6	2.2 times x	102*	71.2*	132y	114.4*	140.5

* - Jan-May 1995 over Jan-May 1994, x - Jan-April 1995 over Jan-April 1994, y - Estimate

Source: BIKI 1995 No.24; Sotsial'no-economicheskoe polozhenie Rossii... pp.377-378.

Table 6 Russian share of intra-CIS trade of member states (% of total)

	Exports 1990	Imports 1990	Exports 1993	Imports 1993
Armenia	54.0	47.8	74.4	64.4
Azerbaijan	60.7	52.8	47.6	41.4
Belarus	57.7	62.6	67.7	77.1
Kazakhstan	50.6	63.4	69.7	70.9
Kyrgyzstan Rep.	36.9	48.4	39.1	49.0
Moldova	59.6	49.3	52.3	57.9
Tajikistan	49.1	44.6	47.5	46.7
Turkmenistan	51.7	43.6	20.1	35.1
Ukraine	65.9	74.1	75.1	70.4
Uzbekistan	59.2	50.0	53.1	52.9
Georgia	61.2	54.6	56.3	32.0

Source: Robin A. Watson Interrepublic Trade in the Former Soviet Union: Structure and Implications//Post-Soviet Geography. 1994. Vol.XXXV, N7, p.375-376; Statistical Handbook 1994. States of the Former USSR. The World Bank. Washington DC. 1995. p.16.

As Table 6 shows, Russia was less important as a partner in intra-CIS trade in 1993 than in 1990 for only three republics of the CIS, namely oil-rich Turkmenistan and Azerbaijan and Georgia. For Armenia, Belarus, Kazakhstan and Moldova the Russian share of both exports and imports increased. For the other member states a growth in the export indicator was somehow balanced by a corresponding decline in import indicator of vice versa.

Looking at the problem from a different point of view, it should not be forgotten that the CIS member states are interested in developing their relations with Russia because of its role as a supplier of fuel. In spite of the decline in total volume (see Table 3), Russian oil, gas and coal are of great importance for many CIS countries. Two main issues are relevant in this context. Firstly, CIS member states receive fuel from Russia at substantially discounted prices. Tables 7 and 8 illustrate this point clearly enough.

(The problem of prices in intra-CIS trade is one of the most pressing. Indeed, this is often a source of conflict over exporters' and importers' interests. From the point of view of the new independent status of the CIS countries, prices on the world market seem to be the most relevant. At the same time, prices per se are a reflection of the situation in the economy and its structure and peculiarities. Since the countries under review were for a long period of time (and

to a great extent still are) "closed" to the rest of the world economy, world prices in many cases do not match the economic realities of the alliance. Under the circumstances a fast U-turn towards world prices could seriously damage both the national economies of CIS countries and their mutual cooperation.

According to research by David G.Tarr from The World Bank Trade Policy Division, who estimated the terms-of-trade impact on former Soviet republics of shifting to international prices in their trade, Russia, Turkmenistan and Kazakhstan would gain while Belarus and especially Moldova would be the biggest losers (David G. Tarr The Terms-of-Trade Effects of Moving to World Prices on Countries of the Former Soviet Union//Journal of Comparative Economics. 1994, Vol.18, No.1.) That is why member states quite reasonably chose a more gradual approach to the adjustment of intra-CIS trade prices.)

Table 7 Average Russian export prices for fuel in 1994 (USD/ton)

	Ukraine	Belarus	Kazakhstan	CIS average	Rest of world
Crude oil	64.1	58.5	41.7	58.4	99.3
Gas*	49.4	51.5	11.2	50.5	60.0
Coal	30.5	28.3	15.0	26.3	33.0
Black oil	50.2	50.8	34.1	28.4	61.9
Diesel fuel	112.8	122.4	127.1	122.3	133.1

* - USD per 1000 cubic meters

Source: Kommersant Daily. 23 Sept. 1995.

Table 8 Average Russian fuel export prices to CIS countries as percentage of non-CIS prices (1994)

	Ukraine	Belarus	Kazakhstan	CIS average
Crude oil	64.6	58.9	42.0	58.8
Gas	82.3	85.8	18.7	84.2
Coal	92.4	85.8	45.5	79.7
Black oil	81.1	82.1	55.1	45.9
Diesel fuel	84.7	92.0	95.5	91.9

The latest available data show that in the first quarter of 1995 the gap between CIS and non-CIS fuel prices was rather substantial, albeit narrowing in comparison with 1994 for oil, gas and coal. As for diesel fuel and black oil the gap became even wider (Russian Economic Trends. 1995. Vol.4, No.1, p.81.).

Secondly, fuel is the main source of the indebtedness problem the CIS countries, whose debt to Russia is growing rapidly. While at the beginning of 1995 it amounted to just over 9.2 trillion rubles, by the end of the second quarter it had reached 14.6 trillion rubles. About 80% of the total is taken by the two largest consumers of Russian fuel in the CIS - Ukraine and Belarus (Sankt-Peterbugskie vedomosti. 2 Feb. 1995; Kommersant Daily 23 Sept. 1995.).

An interest in deliveries of fuel as well as other kinds of natural resources is obviously a strong incentive for reintegration. At the same time, however, it generates only a relatively primitive, basic form of economic cooperation within the framework of the CIS. More complex forms of cooperation capable of providing the basis for the much needed technological leap forward to be very unlikely at the moment. The main reason is the economic crises which, in many cases, badly hit the R&D sector and a large proportion of high-tech engineering.

In order to achieve the goals defined in the 'Agreement on Foundation of the Economic Alliance' the CIS member states should sooner or later start to integrate their economic mechanisms and legal systems - the sooner, the better, if irrevocable divergence is to be averted. On the other hand, harmonization places added strain on state budgets and the national economy in terms of extra costs and lost opportunities.

This dilemma represents a specific but fundamental conflict faced by any society undergoing the process of reform. Reform is normally induced by some form of crisis. The deeper the crises, the stronger the inducement. In order to launch and successfully implement reforms a choice must be made between sacrificing welfare or (preferably) using existing reserves. The more radical the reform, the more reserves it takes. By the same token, a higher level of existing reserves means crises are less painful and social structures less vulnerable.

In other words, when society can afford radical reform, it normally has no urgent desire for it. But, when it is in a desperate need of reform, it cannot afford it²⁴.

4. Development of the reintegration process is seriously impeded by the lack of a clear and specific general strategy for political, social and economic development, which includes economic relations within the framework of the CIS.

In the well-known words of I. Kornai, Soviet-type economies were in fact "economies of deficit". From at least 1985, however, a variant on this can be distinguished: a deficit of strategy. At that time almost everybody in the country understood that serious changes were on the agenda. The popular film by Stanislav Govorukhin entitled 'One can't live like that' - ('Tak zhit' nel'zya') successfully captured the general mood of the mid-'80s.

But what was to be done? How were the economy and society to be reconstructed? Pretty soon (at least in political slogans) the general idea of 'perestroika' became established, though this was merely substituting an administrative command system with democratic socialism. Unfortunately, no serious discussion on the true nature of

either concept took place. Eventually, it was "commonly accepted" that the administrative command system referred to everything that had existed in the Soviet Union from roughly the mid-'30s to the mid-'80s. As for democratic socialism, this notion became a kind of medium or long-term goal and literally meant whatever you wanted it to be.

It should be emphasized that after only about two years of 'perestroika' ordinary people were already fed up with what seemed to them as purely ideological or academic mind games with 'isms' (socialism, capitalism, etc.). Ordinary people simply wanted enough food in the shops, a decent income and a secure future for themselves and their children. It did not matter what the official label was for the society in which they happened to live. This attitude was, unfortunately, gradually adopted by the Soviet political leadership as well, who, under intensive pressure to pursue "common sense" policies, abandoned any attempt at serious long-term strategic analysis.

Following the coup of 1991, the collapse of the USSR and Yeltsin's coming to power, the situation became in many ways even worse. On the one hand, the destructive impetus had clearly strengthened and on the other hand, guidelines for the reconstruction process still remained on the level of unspecified political slogans about market economies and democracy. This huge level of strategic uncertainty (social, political and economic) can be viewed as one of the really tragic dimensions of Soviet/Russian history of the last ten years. It seemed that the political leadership, to say nothing of the people, did not really know what to destroy, and what to build (and still does not). Hence, Russias felt secure in destroying the old system entirely and then reassured themselves by declaring that it was difficult to bring about any positive changes.

A recent advocate of the present line of argument is Vladimir Shlapentokh of Michigan State University. In his view, today's Russian politicians (including the President and other high-ranking State officials) are so absorbed with serving their personal goals that they more or less completely ignore the interests of their country²⁵.

Regarding reintegration within the CIS, 'the deficit of strategy' led to a situation where, after the

²⁴ See, for example: Severing Bailer. *Soviet Paradox*. New York. 1987.

²⁵ Vladimir Shlapentokh. *Russia - Privatization and Illegalization of Social and Political Life*. CND(95)459.

collapse of the Soviet Union, neither Russia nor the other former Soviet republics had any clear idea of how the new system of economic relations within the alliance should be organized²⁶. Some experts argue (though this view is rather controversial) that Russia's interest in the formation of the CIS was generated in autumn-winter 1991 mainly through short-term internal political motives, namely to thwart another attempt at a military coup²⁷.

Even today, to quote the Financial Times, "views on the future role of the CIS are as diverse as ever. Modernisers, broadly defined, imagine the future of the CIS as an eastern version of the European Union, a free association of the states agreeing to pool elements of sovereignty in the common weal. At the other extreme are those who dream of restoring the Soviet empire."²⁸

Under the circumstances, many CIS countries tend to define their attitude towards cooperation within the alliance in a rather vague manner. Thus, Ukrainian Premier Marchuk, presenting the government's economic programme to Parliament, said: "The programme presents in detail our view on the status quo, the tasks and the prospects for development in the field of foreign economic relations, including those with the CIS and Russia. While we are in favour of building economic bridges with all countries, we believe that this should not remain a one-way process. The government will stand firmly and consistently in favour of symmetry and equality in foreign economic relations."²⁹ While ascertaining its commitment to the formation of a single market area within the CIS countries, the Tajik government's economic reform programme for 1995-2000 also stresses that "the government of Tajikistan is of the opinion that it is in the republic's interests to maintain and improve

equal and mutually advantageous relations with all other countries of the world."³⁰

As for Russia itself, many supporters and opponents of intensive reintegration within the alliance, speaking from inside as well as outside the country, emphasize the striking, if predictable, inconsistency in Russian policy towards the CIS. This manifests itself both in the inability to make progress and in permanent contradictions that exist between the openly expressed attitudes of individual top-ranking officials and state agencies concerning various aspects of the process under review³¹.

5. For each CIS member state (including Russia) there are both pro and anti-reintegration arguments. Moreover, even in the case where the arguments in favour are concerned, some countries are interested in not pushing the process too hard.

In a way Russia's special de facto status in the alliance is at the heart of the problem. Being the largest country in the CIS³², it has no alternative but to perform the function of leader. This indisputable fact generates anti-Russian sentiments in other CIS member states, which, at the same time, appear to be anti-reintegrational sentiments. Indeed, the notion of Russian imperialism has often been voiced by nationalistic movements in the former Soviet republics.

Meanwhile, it is Russia (as it was the Soviet Union) that represents the major trading partner for other CIS countries within the framework of the alliance.

²⁶ Petrakov N., Shagalov G. *Cherez Platezhyi soyuz k integra-tsii...*

²⁷ John B. Dunlop *The Rise of Russia and the fall of the Soviet Empire*. Princeton, NJ: Princeton Univ. Press. 1993, pp.271-276.

²⁸ *Future of the CIS*//*"FT"* Feb. 15, 1995.

²⁹ BBC Monitoring Summary of World Broadcasts. 14 Oct. 1995.

³⁰ BBC Monitoring Summary of World Broadcasts. 27 Sept. 1995.

³¹ Kolesnikov A. *Rossiia vozvratshaetsya v prostranstvo SSSR*. *Novaya Gazeta* 7 Oct. 1995; Kolchin S. *Rossiia - blizhnee zarube -zh'e...*; Peter Rutland A *Twisted Path toward a Market Economy//Transition 1994 in Review*. Part 2.

³² e.g. the Russian share in 1994 of total CIS exports was more than 50%. (*Voprosy ekonomiki* 1995, No.5, s.103).

7 Conclusion: does Russia need reintegration within the CIS?

Bearing in mind the special de facto status of Russia within the CIS described above, it seems reasonable enough to assume that Russia's attitude towards the alliance is crucial in terms of its future prospects. In order to answer the question whether Russia needs reintegration or not, two lines of arguments should be examined - the 'pro' and 'anti' arguments. Since the author's attitude towards the problem discussed is, in general, pro-reintegrational, it would be logical to begin with the 'anti' arguments.

From Russia's point of view, the argument against reintegration is basically that: - until now the alliance has proved to be a kind of device for transferring welfare from Russia to other member states³³. Thus, in assessing the CIS integration process the magazine 'Transition' concludes that Russians show little enthusiasm for making economic sacrifices to rebuild a political sphere of influence³⁴; - the proposal creation of certain political institutions for the sake of facilitating the reintegrational process (e.g. the Euro-Asian Union suggested by the President of Kazakhstan, N. Nazar-baev) might be used by smaller CIS countries to force upon Russia measures and decisions which run counter to its real needs and interests³⁵. Even already existing agencies are subjected to severe criticism on this basis³⁶.

³³ See, for example, Bekker A. *Prezhdevremennyi soyuz. Segodnya*. 15 Dec. 1994; Vladimir Shlapentokh *Russia - Privatization and Illegalization of Social and Political Life*. CND(95/459).

³⁴ *Slow Progress for CIS Economies Transition 1994 in Review Part 2*, p.20.

³⁵ See, for example, Kuznetsov V. *Kuda nas zovet Nazarbaev? Sankt-Peterburgskie vedomosti*. 11 Mar. 1995.

³⁶ Thus, according to the Chairman of the Duma Committee for CIS affairs Konstantin Zatulin, the "one country - one vote" principle in the CIS Inter-Parliament Assembly decision making process makes it impossible for the Assembly to deal effectively with any serious problems of integration. (Zatulin K. *Mezhparlamentskaya Assambleya SNG neeffektivna*. *Novaya Gazeta*. 11 Feb. 1995.)

On the other side of the balance sheet are the 'pro' arguments:

- from the point of view of national security considerations, Russia would feel itself much more secure being surrounded by close economic partners. But it is more than that. According to Russian Deputy Prime Minister and Minister for Foreign Relations Oleg Davydov, a higher level of economic integration between the CIS member states would meet their (not simply Russian) national security interests against the background of trade and economic expansion in the West³⁷;
- from the geopolitical point of view it is the only possible alliance within which Russia can be the undisputable leader. A strong and united CIS would bring extra bargaining power for Russia in its negotiations with Western as well as Eastern nations³⁸. This is also true, at least in part, for other member states³⁹;

³⁷ Oleg Davydov *vystupaet za uskorenie ekonomicheskoi integratsii v SNG*. *Segodnya*. 5 Oct. 1995.

³⁸ Under the circumstances it is quite understandable that some European and US politicians and experts feel uneasy on the issue of CIS reintegration as contradicting the national interests of Western powers. (See, for example, Men'shikov S. *Pora podyskivat' zamenu*. *Pravda*. 10 Mar. 1995). As for the official position, President Clinton tends to ignore the CIS as a single organization, underlining in the 'Doctrine of National Security' that the US deals with "former Soviet republics". (Zagorski A. *Zapad vyzhydaet*. *Moscow News* 20-27 Nov. 1994). The EU has recognized the CIS as an alliance, though mainly deals with its member states within the framework of bilateral agreements, which, as in the EU-Ukraine agreement on partnership and cooperation, emphasize the EU's interest in seeing former Soviet republics as sovereign and independent states. (BBC Monitoring Summary of World Broadcasts. 24 June 1994).

On the Russian assessment of Western interests in CIS countries see also: Podlesnyi P. *V otnoshenii SNG Zapad vse chatshe zanimaet aktivnuyu zhiznennuyu pozitsiyu*. *Segodnya*. 4 Nov. 1994; Kolchin S. *Rossiya - blizhnee zarubezh'e...*

³⁹ According to the Financial Times, the CIS concept "has attraction for inexperienced leaders of newly independent republics who feel isolated". (Future of the

- from the economic point of view the CIS member states are currently and probably in the medium-run too the only external mass consumers of Russian machinery and engineering products (except military supplies). The share of this in Russian intra-CIS exports for the first half of 1995 was 16.6%, in contrast to about 5% for total exports⁴⁰. At the same time, the CIS countries provide Russia

with highly scarce resources, securing in some cases up to 70-100% of her needs⁴¹.

In general terms then, it seems that there is some light at the end of the tunnel. At the same time, however, we should not become too optimistic until positive results can be seen, cautious optimism is perhaps the best watchword.

CIS/"FT" Feb.15, 1995.)

⁴⁰ *Commerzant Daily*. 23 Sept. 1995; *Russian Economic Trends*. 1995. Vol.4, No.1.

⁴¹ Petrakov N., Shagalov G. *Cherez Platezhnyi soyuz k integratsii...* Authors argue that not paying enough attention to economic cooperation within CIS might lead Russia to eventually become a raw material adjunct not only for Western countries, but for former Soviet republics as well.

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