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Economic integration in the Commonwealth of
Independent States. Perspectives, Problems, Solutions.

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Abstract

It has been 17 years since the Soviet Union broke up and its constituent countries gained their independence. In the beginning years the sovereignty was considered an indisputable priority, resulting in economic matters being put off. However, in the light of slow economic development in the area, it seemed to be imperative for these countries to pursue economic integration.

Backed up by political will, several attempts had been made to establish various integration groupings, one of them being the Commonwealth of Independent States. The established organisation's main aim was to assist countries in preserving the connecting links inherited from the former Soviet Union. Some of the countries in the region managed to achieve relatively high growth rates mainly due to their individual efforts. Unfortunately, so far, none out of a number of proposed integration projects has proven to be an effective and binding tool in the political and economic development of the region.

This thesis aims to identify problems standing in the way of economic integration of the Commonwealth of Independent States. As of now, a free trade area – the initial form of economic integration – has not been established. Although trade ties between the member states function, the main export destination of these states is outside the Commonwealth. It is recommended that the initial steps in setting up a free trade area in this territory should begin with developing integration within regional associations, due to smaller numbers of participants and their common interests.

Without trying to fathom the mysteries of the universe,
visible and invisible, without seeking an explanation for everything,
one can never be what one should be – a human being.

Abay Qunanbayuli – Book of Words

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Glossary

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| APEC: | Asia-Pacific Economic Cooperation |
| CES: | Common Economic Space |
| CIS : | Commonwealth of Independent States |
| EU: | European Union |
| EurAsEC: | Eurasian Economic Community |
| GATT: | General Agreement on Tariffs and Trade |
| GDP: | Gross Domestic Product |
| GUAM: | Georgia Ukraine Azerbaijan Moldova |
| NAFTA: | North American Free Trade Agreement |
| NATO: | North Atlantic Treaty Organisation |
| UN: | United Nations |
| USA: | United States of America |
| USSR : | Union of Soviet Socialist Republics |
| WTO: | World Trade Organisation |

CHAPTER ONE INTRODUCTION

1.1 Introduction

The economic integration movement, which started in the twentieth and continued in the twenty first century, is winning favour with more and more countries around the world. In fact, it has become a global phenomenon. The system of international economic relations has introduced its mechanism and as a result various forms of economic integration can be seen to have been set up by many regional groupings. There is practically no difference whether the countries are large or small, have developed or underdeveloped economies or are situated in the Eastern or Western part of the world, nearly all of them are suitable for economic integration. Common economic, political and cultural directions chosen by states often serve as factors for integration. Certainly, results vary from one regional association to another. However, with a balanced choice of strategy and mechanisms, countries are ensured to gain as many benefits from integration as possible. Successful economic integration can result in playing a triggering role for other spheres, such as social, industrial, military and so on. Thus, economic integration plays a multifunctional role in fostering mutually beneficial relations between states.

The Commonwealth of Independent States (CIS) is an association of 12 former Soviet Union republics – Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan (see map in Figure 1). This organisation does not include the three Baltic States: Estonia, Latvia and Lithuania. The Commonwealth has been drawing the attention of experts from around the world since its creation in 1991. Its uniqueness and main difference from other integration projects was that these states had been part of one country - the Union of Soviet Socialist Republics (USSR) – for nearly 70 years and two years after gaining their independence, in 1993, the former constituent republics had come to a decision to integrate by following the classical integration path proposed by Balassa (1961): (1) free trade area, (2) customs union, (3) common market, (4) economic union and (5) full economic integration.

Nonetheless, the ultimate aim of the post-Soviet states was not to reanimate the USSR, but rather stop at the fourth step thus forming an efficient, full-fledged economic union with the participation of all 12 member states of the Commonwealth. The level of the economic union was supposed to provide a coordinated economic policy and free movement of goods, services, capital and labour.

The role of the CIS in integration has been considerable; first of all, it had fulfilled its primary objective – provide proper division of the former Soviet country into sovereign, full-fledged republics. A short time after the breakup, the new states gained full sovereignty. To date, in addition to introducing all state attributes, most of them have had their international borders demarcated. One of the main achievements of all this process is that there were no serious military conflicts between the new states. Thus, in terms of the political aspects, the division of the states went through smoothly. A number of bilateral agreements have been signed between the states.

The concept of economic integration seemed to have found favour with the Commonwealth states, as it most closely fits their attempts to preserve economic ties, which had been developed and formed during the lengthy Soviet period. Moreover, all favourable preconditions for their integration were present: strong ties in economic, political and humanitarian spheres. The young, independent states were eager to integrate, as the possibility of successful integration had already been fulfilled by the Western Europe states. Due to the low competitiveness of the Commonwealth states' products on the world markets, their option was to preserve economic ties, thus securing stable markets within the CIS and at the same time gradually develop trade with partner-states outside of the CIS and hence integrate into the world economy.

Besides such a large integration grouping as the CIS, which consisted of 12 states, there are various economic integration projects with a smaller number of participants that aimed to fulfil a similar set of tasks. At present, functioning organisations amongst others include the Union of Russia and Belarus set up in 1996; the Georgia, Ukraine, Azerbaijan, Moldova alliance (GUAM) set up in 1997; the Eurasian Economic Community (EurAsEC) with six members including Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan set up in 2000; and the Common Economic Space (CES) with four members Belarus, Kazakhstan, Russia and Ukraine established in 2003.

In general, the economic side of former Soviet states' activity has been ambivalent. On the one hand, the attempts to integrate the members of the CIS have not been successful. The promising Economic Union formed in 1993 failed to achieve its main aims – to create a free trade area, customs union and common market. On the other hand, the failure of integration between all Commonwealth members motivated them to form alliances with a smaller number of states. Thus, the EurAsEC initially set up by four countries is expected to introduce a free trade area between three of them in 2010. It will be the first ever “classic” free trade area formed between more than two former Soviet states. To a certain degree, CIS had assisted in building economic ties between its members.

The Commonwealth is an organisation that inherited almost everything from the Soviet Union: economic capacity, territories, people, military and at the same time managed to avoid its ideological doctrines. And as such the Commonwealth has been considered to have great potential. Hitherto the Commonwealth has been in a situation when it is urged to choose, as described by Valovaya (2005, para. 1), between “Separately impossible. Together” and “Separately. Together impossible”. Naturally all this puts a considerable amount of pressure on states, which seem unable to take the opportunity of the already existing preconditions for integration.

Without the required effort and, importantly, concessions – there can be no integration achieved even with the favourable conditions provided to the Commonwealth states. Therefore, there is a constant search conducted by the states for an optimum model that has to become effective enough to prompt them to achieve deep integration, be it in the Commonwealth framework or in regional associations.

1.2 Aims and objectives of the research

This research paper aims to examine and identify major obstacles standing in the way of economic integration of the CIS. By “economic integration” the researcher refers to a process of economic interaction between two or more countries that leads to an eventual economic interdependence with a high level of harmonization and coordination regarding economic policies. These conditions are achieved with the help of establishing the forms of economic integration mentioned earlier.

The achievement of such results requires considerable efforts, investments (both in terms of finances and time) and interest of states. In many cases economic integration takes place when there are certain conditions and preconditions available. It is very important that integrating countries have more or less similar levels of economic development, stable mutual trade and governmental political aims. Viewing the Commonwealth as an example, it can be stated that these preconditions were present at the time of its creation. It can be expected that the level of states that have once been a part of one country and thus economic system, will be similar. The political will of the countries regarding integration is usually dictated by economic aspects, therefore when the Commonwealth states had to choose a way for further development, integration seemed to be an appropriate one.

The Commonwealth states have a large economic potential based on several factors. The member states occupy large land territories with Russia being the biggest country in the world. They possess large natural resources, mainly energy sources, that is gas, oil and coal. Although, based on the United Nations (UN) Population Division (2006) data, CIS states' total population makes up only 4.2 per cent of the world total and in the cases of Russia and Kazakhstan, the level of population density is very low (8 and 6 people per square kilometer respectively). However, the population in the CIS states has a high level of literacy and good professional training, thus the states tend to have high scientific potential and industrial output levels.

The factors mentioned above turned the member states into almost ideal candidates for integration, which, if achieved, was supposed to yield great results. Despite being so well endowed with natural resources and having a huge potential, these countries have significant economic issues connected, first of all, with inability (or unwillingness) to work together as one single unity.

The present paper argues that there is a problem in the way economic integration takes place in the CIS. The examination of the member states' achievements within the Commonwealth framework suggests they are minimal at the moment. According to the mentioned forms of economic integration, the lowest level is a free trade area. Unfortunately, while bilateral free trade agreements have been signed between many member states and are functioning, they were not able to establish this on the

Commonwealth scale. Assuming that rather a complex plan of action is involved in such a large process, a free trade area could have been established between three or four states first. However, the initial plan introduced in 1994 was supposed to include every single member state of the Commonwealth, regardless of the level of its interest, readiness and inclination.

In order to understand the problems hindering the integration processes it is important to research specific areas/aspects, which give an insight into the situation at that time.

These areas include:

1. What preconditions urged the member states to choose integration?
2. Under what economic conditions initial integration steps had been taken?
3. What decisions had been made by member states regarding integration and what was their motivation?
4. What was the states' strategy during integration?
5. What were the peculiarities of each stage in the Commonwealth development?

Therefore it is crucial for this work to analyse the time period from 1991 to 2007, which is the time the CIS was created and functioned. This analysis will track the significant changes that took place during its existence, assess their usefulness and importance and give a picture of the situation.

This analysis is expected to give an understanding of the difficulties in the Commonwealth and help identify the nature of obstacles, whether they are economic, political, humanitarian or a combination thereof.

I have always had a profound interest in international relations, in the way states' governments deal with keeping good relationships and settling disputes with other states, especially when there had been contradictions in the past. I find the ability of states' officials to overcome difficulties, to come to a compromise, as a very high level of diplomacy. The interest in this particular research arose during my first year of studying Public Policy at Massey University. Ironically, the interest in the CIS integration processes became stronger when I was actually out of my home country of Kazakhstan, which is a member of the CIS. This interest can be attributed to moving to a new place,

and to subsequent changes that took place; when various matters are seen more clearly, with hidden details coming to light. Indeed, looking at the situation in the CIS from New Zealand, I was able to form a more balanced, neutral view of the causes and nature of common interest and misunderstanding, expectations and disappointment, advantages and disadvantages arising in the CIS.

For this reason I happily embarked on this research, as my belief was that an analysis and identification of problems and their introduction to readers will increase the possibility that more people read and become interested in this topic. This, in its turn, means that there will be even bigger interest and thus more chance for new suggestions and hopefully new solutions proposed. This is practically everything that the Commonwealth needs at present, interest and actions to save it.

1.3 Chapter outline

This thesis consists of six chapters. In the first chapter the reader is introduced to the background of the study, followed by the aims and objectives of the research. Chapter two contains the theoretical framework that helps with insights into theories underlying the process of economic integration. In chapter three, in the methodological part, the project's design has been defined. Main stages of the interviewing process and collection of secondary data were described as well. In chapter four, forms of economic integration and their characteristics are given. Also, the economic situation in main integration groupings currently existing in the world is discussed.

Chapter five represents an essential part of this thesis, as it includes a research of economic integration processes taking place in the CIS. It begins with identifying economic preconditions for integration that existed before the breakup of the Soviet Union. The period beginning with establishment of the Commonwealth to its present situation is analysed. In addition, economic interaction between the CIS member states, specifically their trade relations are examined.

In chapter six, the analysis of economic integration in the CIS is further developed. The direction chosen by the CIS member states for their foreign policy is examined. Consequently, the focus is put on regional associations that have been created within the

Commonwealth framework and foreign direction that they have chosen. The study examines the overall economic potential of main integration associations, as well as the degree of their readiness and aspiration to achieve economic integration.

In chapter seven an attempt is made to identify main obstacles standing in the way of economic integration in the Commonwealth. Chapter eight concludes the research paper. Discussion of the level of influence of each obstacle identified in the previous chapter and some suggestions regarding development of economic integration in the Commonwealth are presented.

CHAPTER TWO THEORETICAL FRAMEWORK

2.1 Overview

This chapter gives an overview of main theories on economic integration. Authors of these theories suggest their own concepts of integration, as well as research the process of integration. Possible results that integrating states can achieve are widely discussed. Since, economic integration represents a process, various attempts to classify it into forms or stages have been described. Mostly opinions of authors who are believed to be first contributors to the concept of economic integration have been presented in this chapter. Those opinions expressed later will be presented throughout the rest of this work.

2.2 Origins of economic integration

The theory of international economic integration, being closely connected with international trade, originates from the 18th-19th century works, when classical economists Adam Smith, David Ricardo and John Stuart Mill presented the theory of free trade. Smith, who introduced his theory of “absolute advantage” in 1776, underlined the importance of development of free trade with foreign countries, as he believed it was a beneficial way for a country to promote its economy.

Along with the state, it is especially advantageous for individuals to have an opportunity to sell abroad surpluses of their production; thereby ensuring capital flows into a country’s economy and raises the population’s living standard. This process takes place naturally, with no assistance from outside, thus letting a market force regulate income distribution. Smith confirmed that being engaged in the buy-sell process “[i]t is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy” (Smith, 1904, para. IV.2.11).

When the macroeconomic situation is taken into consideration, Smith (1904) explains that countries in the world may produce one type of commodity and at the same time incur different production costs. Thus, for each commodity produced in a certain country there are various costs, which may turn out to be lower or higher in comparison

with another country. Because the resources spent for producing goods are not the same, it is in the interests of a domestic market to sell abroad goods with low production costs. By the same token, for the purpose of establishing a harmonious, balanced trade, foreign producers should be allowed to import types of goods, in which production more costs are involved.

This concept is known as the “absolute advantage theory”. A country with an absolute advantage provides a greater output when producing the same goods. Hence, in order to have a stable export destination to release its goods, such countries should focus on production of only those goods which incur lowest costs. However, the theory has been proved to be imperfect as various questions came up: what if a country does not possess an advantage for producing any goods?

In 1817, Ricardo presented his own view on advantages a country may possess. This view, in a way, developed Smith’s theory. Ricardo explained that a country may still stay competitive in world markets and gain profit from trade even if it does not have an advantage for manufacturing any goods. According to him, using the example of two goods, a country may need fewer resources for production of one good in comparison with another, while a foreign country may have an advantage for producing both. This very distinction allows for a country to have a comparative advantage. Hence, in what seems to be a losing situation, it is imperative for a country to specialise in production of a commodity, for which production costs are lower, even though the country does not have an absolute advantage for it.

Ricardo (1821) had been a proponent of the idea of free trade and stated that “[b]y stimulating industry, by regarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically: while, by increasing the general mass of productions, it diffuses general benefit, and binds together by one common tie of interest and intercourse, the universal society of nations throughout the civilised world” (1821, para. 7.11). Hence he recognised that within the framework of a full freedom of market, the theory of comparative costs is supposed to operate automatically and occasionally lead to an optimum specialisation between the countries. Free trade specialisation of the countries takes place according to the criteria of saving labour and capital expenses. By

establishing more and more trade ties it could be possible to create a network for exchange of goods and eliminate potential losses.

Since Ricardo's theory represented a static model, it could become its drawback, because, in fact it does not take account of dynamic aspects. Changes in the rates of prices and wages and consequent inflationary fluctuations; shift of focus of government expenditure; changes in tax rates; in cases of foreign trade, changes in balances of payments – can all be understood by dynamic aspects. Thus, when used in static conditions, (which is per se impracticable) the theory of comparative advantage can be very efficient, but if followed in its pure form, may lead to irrevocable losses. At the same time, in terms of its level of relevance to the modern international economic integration theories, it should be said that the theory paved a way for future concepts that absorbed traits of the principle of comparative advantage.

There are, however, a number of theories of economic integration, as every author sees it differently. Despite the interest in the given subject, there is no common understanding of the essence of the study. Authors tend to indicate different approaches to the various forms of economic integration. Often, significant contradictions can be noticed, especially regarding such vital topics as the role of governments in integration and creation of supranational institutions.

Machlup (1977), who conducted one of the most extensive and comprehensive researches on the origin of the term “international economic integration”, explained that the term itself appeared no earlier than 1942, after which it was quickly accepted and applied to different aspects of international economic relations, that is international trade and finances.

The economic integration groupings started to appear after the Second World War, as a response to economic recovery of the Western Europe which had suffered one of its hardest war crises. The “Marshall Plan” had been developed by the United States of America (USA) and applied to the European states' economies for the period of four years and lasted until 1951. This programme remains as one of the most substantial and effective measures applied by a foreign country in relation to a number of its economic partners and political allies.

In 1950, the European Coal and Steel Community was founded by six states (France, West Germany, Italy, Belgium, Luxembourg and the Netherlands) and is recognised as an initial step in the development of a base of what is known today as the European Union (EU). The Community was called to act as an organisation assisting in closer cooperation of industrial enterprises. Thus, a decision had been made to utilise Europe's existing industrial potential as a driving force in gradual integration of other sectors and later, other states.

Each form of integration has certain requirements and brings certain changes. At that time it was vital to work out a common mechanism of implementation of these forms, so that states had a clear vision of what their deep cooperation is likely to turn into.

2.3 Trade creation and trade diversion

One of the first authors in the field of economic integration was a Canadian economist Jacob Viner. Out of all forms of economic integration, he focused on the customs union, as one of the most effective forms of integration. When writing about the purpose of the customs union, Viner underlined “[t]he primary purpose of a customs union, and its major consequence for good or bad, is to shift sources of supply, and the shift can be either to lower - or to higher-cost sources, depending on circumstances” (Viner, 1972, p.34).

He made a significant contribution to the economic integration subject by defining consequences from the creation of the customs union. His study consisted of analysing changes in trade between the countries, taking into account that before creating a customs union each country imposed its own tariff restrictions on the imported goods. After creation of the customs union they cancelled restrictions in mutual trade and established common customs duties.

Viner (1972) was first to introduce the concepts of “trade creation” and “trade diversion”. By trade creation effect, he meant reorganising a country's import stream from a less effective internal (domestic) source to a more effective external (foreign) source, which becomes possible as a result of elimination of customs duties for import within the frames of a customs union.

Viner stated that this effect would lead to the situation when “...one of the members at least must benefit” (Viner, 1972, p. 34). By the example of two countries A and B, before creation of a customs union, domestic producers of country A are under protection of the state which, by imposing import duties, makes goods imported by country B more expensive and therefore their price on the domestic market of country A is higher than price for the same type of goods on the domestic market of country B. As a result of cancellation of mutual restrictions within the limits of the customs union, goods from the partner country B become comparatively cheaper, hence it leads to the creation of a new import stream for country A and is favorable for both countries. Therefore it becomes more efficient for country A in particular, and for the customs union as a whole to begin its import from country B, its partner in the union. Thus, country A receives cheaper goods and country B a new source of export. Overall this leads to a more effective allocation of resources in the union.

As for the impact of the trade creation effect on world trade, Viner claimed that it would be positive in the “...long-run only as the result of the general diffusion of the increased prosperity of the customs union area” (Viner, 1972, p. 35).

By trade diversion effect, Viner meant reorganising the import stream from a more effective external source (that is from the countries which are not members of the customs union) to a less effective internal source (the partner country in the customs union), as a result of elimination of the customs duties for import within the frames of the customs union. In this case, according to Viner, “...one at least of the member countries is bound to be injured” (Viner, 1972, p. 35).

As a result this can lead to a trade situation, opposite to trade creation effect, when country B, the import source in the customs union, is not always capable of providing effective trade with country A. At the same time, countries outside of the customs union (for example, country C) can offer certain goods at a even lower price, but the customs duties imposed by the union increase its retail price on country A’s domestic market. Since countries A and B signed an agreement and are members of the customs union, country A has to import goods from partner country B (even though goods’ production cost is higher than in C, but after removal of tariffs it nominally becomes cheaper). Thus, country A imports goods from a more expensive source (country B), while it could

import them for a lower price if country C was a member of the union. As a result, an effect of trade diversion is created; the well-being of the countries participating in the customs union worsens, because the allocation of resources in the union becomes less effective.

As for the impact of the trade diversion effect on trade outside the union, "...there will be injury to the outside world and to the world at large" (Viner, 1972, p. 34). In this aspect, another theoretician, Meade, agreed with Viner and underlined that the trade diversion effect was "uneconomic and wasteful" (Meade, 1955, p.31). In addition, the world production decreases, as does the living standard of countries' populations.

The level of the customs union's successful activity directly depends on which of two trade effects is prevalent in the union. In case trade creation effect becomes dominant in trade relations there is a chance for further extension of an union, as other neighbouring states may become attracted by the achieved results – while a union dominated by trade diversion effect may negatively affect trade patterns in the world trade and thus discourage states from creating new integration projects.

Lipsey (1957), Meade (1955), Johnson (1965) and other authors developed Viner's theory and added their own interpretation of the customs union theory. As was the case with Ricardo's theory, Viner did not take into account that consumption of goods in each member state of a customs union can vary greatly, which, in its turn, may completely change trade patterns between them. Meade (1955) took this aspect into consideration and assumed that supply and demand levels in a customs union could change. These changes may as well be a result of a shift in consumption. In addition, Meade (1955) and Lipsey (1957) claimed that contrary to Viner's statement about the negative effect of trade diversion, it can actually be positive for trade. Lipsey pointed out "... when consumption effects are allowed for, the simple conclusions that trade creation is 'good' and trade diversion is 'bad' are no longer valid" (Lipsey, 1957, p.41).

Lipsey (1957) presented his own interpretation of these changes and introduced two concepts: "production effects of union" and "consumption effects of union" (p.40). He connects these two effects with the change in relative prices after creation of the customs union. Production effects influence the decision about where goods are

produced and consumption effects where goods will be consumed. Thus, if consumption of goods is taken into account, then the whole “picture” presented by Viner is changed, because lower prices can lead to more consumption, which in turn may cause increase in the well-being in the importing country and production increase in the exporting country. As a result, both countries are better off.

2.4 Process and state of affairs

Because an optimum economic integration of the countries is also connected with factors other than market integration, a search began for alternative mechanisms which could be used in an association. Special attention was given to the role of governments, namely to the creation of a supranational body, capable of carrying out a common policy for the countries in the union.

The concept of customs unions had become an integral part when the general theory of economic integration was analysed. Together with research into the role of state and economic effects of integration, Bela Balassa (1961) was one of the first authors to present a scheme of development of integration processes. This widely accepted division consisted of five forms of integration: (a) free trade zone, (b) customs union, (c) common market, (d) economic union, (e) full economic integration. The forms of economic integration will be considered in Chapter 4.

Recognised worldwide, Balassa (1961) made a significant contribution to the development of the concept “economic integration”. First of all, Balassa warns about a careful use of such concepts as “cooperation” and “integration”. While integration begins with mutual removal of barriers standing in the way of trade between countries, cooperation is a mere collaboration in various spheres without making vital decisions.

He paid attention to parity between a market economy and state regulation in the integrated countries. Liberalisation of markets does not necessarily mean effective integration because other spheres should be taken into consideration as well. They can be: inflation, employment, consumption level and so on. For this purpose a concrete mechanism with certain tasks, which would correct and regulate in terms of economic and public policy was necessary.

Balassa (1961) suggested considering integration as a “process” and as a “state of affairs”. “Regarded as a process, it encompasses measures designed to abolish discrimination between economic units belonging to different national states; viewed as a state of affairs, it can be represented by the absence of various forms of discrimination between national economies” (Balassa, 1961, p.1). By the process, Balassa clearly means achievement of an agreement between integrating countries on free trade or customs union directed at gradual, mutual elimination of tariffs. Further effective functioning of the created association is meant by state of affairs. It is necessary to note, that such effective functioning is achievable only by means of a certain control body, which is supported by economic and political decisions. Thus, integration generates favourable conditions for both countries, which treat each other as equal partners and there is no discrimination between them.

As for the initial steps to integration, these should be supported by a political decision. Balassa (1961) believes that integration dictated by economic needs should bear some kind of a political will, and later an economic union can be transformed into a political one. He once again underlines the importance of a political step on the way to the economic integration. Indeed, there are many cases when, according to the economic indicators of two separately taken countries’ economies, they could both greatly benefit from integration, but it does not occur because of political reasons.

At the same time Balassa writes that eventually the main question which should be asked by states when integrating is “...what the economic effects of integration are likely to be” (Balassa, 1961, p.7)? And this, in turn, directly depends on the participation of countries’ governments in integration processes. He also admits that certain functions have to be fulfilled by governments and recognises that this idea is not new. Regarding government's role he writes “the question is not whether government intervention is needed or not in an integrated area, but whether economic integration results in a more intensive participation of the state in economic affairs or in a more intensive reliance on market methods” (Balassa, 1961, p.9).

In this regard, Balassa remembers the ideas of regulation of a national economy and applies them to the integration processes. He admitted that at the initial stage governments could successfully participate in regulation on the integrated territory,

especially in such spheres as “regional development planning, and ... transitional problems” (Balassa, 1961, p.10). However, he notes that as borders of the economic union extend, the economies of scale develop, more goods are produced and market forces come into play, so the government would have to cease its presence in these spheres. Thus, looking at Balassa’s plan, it can be said that the government’s involvement in this case is rather used as a "springboard" for integration processes. In the process of successful expansion of the integration union and achievement of the further forms of integration, the government can rely on market self-control. Basically, this mechanism is already successfully applied in the EU; its functioning common market is rather free and does not demand serious intervention from the union member states.

Balassa, as well as the previous economists, underlines the importance of integration for the purpose of increasing the well-being, which he characterises as “the ultimate objective of economic activity” (Balassa, 1961, p.10). In his opinion, the well-being of people is influenced as a result of integration of countries and gives the following four reasons (Balassa, 1961, p.10): (a) a change in the quantity of commodities produced, (b) a change in a degree of discrimination between domestic and foreign goods, (c) a redistribution of income between the nationals of different countries, and (d) income redistribution within individual countries.

Irrespective of what sort of effect has been reached from integration process, these changes will occur. And while changes in discrimination level between the countries-partners can be discussed and registered in the integration agreement, changes in the quantity of produced goods are harder to discuss. The decision of how many goods will be imported depends on several factors including: demand in the importing country, transport costs, prices for goods and so on. As for the distribution of incomes between countries and in each of the countries, this depends on what potential effect integration has on the well-being.

2.5 International disintegration

Another prominent economist, who contributed to the economic integration subject, was Gunnar Myrdal. According to his definition, the economic integration is “...the

realisation of the old Western ideal of equality of opportunity” (Myrdal, 1956, p.11). Thus, integration of economies takes place only in cases when all citizens of countries are provided with equally distributed income irrespective of distinctions between them. He therefore makes his main focus the welfare of integrating countries’ populations.

In his opinion, a full liberalisation of a common market of integrated countries will not lead to the effective growth of economies, but on contrary will unbalance them and in addition will cause inequality of incomes. He writes that “no liberalisation of international trade can be expected by itself to change radically this situation of open international disintegration” (Myrdal, 1956, p.2). Unlike Balassa, Myrdal supports government’s extensive involvement and states that economic relations between countries can and should be regulated. The primary means of integration is a political decision which will lead processes in integrated countries.

Myrdal points out that the most convenient form of international integration would be “a world state under a world government, directed by a democratic process in which, directly or indirectly, all people participate” (Myrdal, 1956, p.4). Though he understands that the world government is a state which has never been reached, he believes that if established, it can be capable of providing equality by intervention in market processes. Therefore he transfers the responsibility for economic and social policy to the supranational body which would provide necessary conditions for the equal development of regions and states.

Countries closest to the “ideal of economic integration, in national terms” (Myrdal, 1956, p.17) are, in his opinion, the North-western Europe, North America, New Zealand and Australia. Thanks to the high business activity and rapid economic development, especially after the Second World War, these countries managed to achieve a stable socio-economic situation. He attributes it to a high level of employment (hence, high income), relatively large natural resources base and industrial revolution that took place in these countries. This allowed them to achieve “national integration”, not in small part due to government intervention. According to Myrdal, the way to effective international integration lies through strong, integrated national economies.

The process of “international disintegration” (Myrdal, 1956, p.44) is one of the obstacles to development of national economies in underdeveloped countries. The task of overcoming such a state of affairs is up to nationally integrated economies and it is they who have to work out effective policies that will be “favourable to international integration” (p. 44). The main steps will have to be fixing of distorted trade patterns and national policies.

He urges countries to reach agreements and to refuse mutual tariffs, that is achieve “international economic disarmament” (Myrdal, 1956, p.50), as proper functioning of trade relations contribute greatly to the overall development of international economic integration. In addition, he expresses his confidence that the few results achieved in the field of integration by the Western European states at that time was due to lack of “international solidarity” (p.52).

2.6 Positive and negative integration

Dutch economist Jan Tinbergen (1965) defines the concept of integration as “...the creation of the most desirable structure of the international economy, removing artificial hindrances to its optimum operation and deliberately introducing all the desirable elements of coordination or unification” (p.57).

He also agrees that relying only on market mechanism in international economic integration is incorrect. It is more important to create international integrated structures (supranational institutions) in regional associations and they together, by way of cooperation, would develop common economic and social policies in order to achieve their aims. In addition, he underlines the inevitability of using interventionist methods, to a lesser or greater degree depending on the “prevailing tastes in this respect and according to the circumstances” (Tinbergen, 1965, p. 96). But in this case there emerges a centralisation and decentralisation problem. It was important for Tinbergen to define what economic functions should belong to central and supranational structures and what can be transferred to local national structures without causing damage to the general integration mechanism.

In order to solve this problem, Tinbergen suggests four types of tools: “supporting, conflicting, neutral and mixed” (Tinbergen, 1965, p.60). Each tool has its own effect on economic integration. When the supporting tool is put into use, the mechanism used in the policy of one country will favourably affect another country. The conflicting tool, on the contrary, will have a negative impact on the policy of the neighbouring country. The neutral tool used by one country does not have any effect on another and the mixed tool will have a mixed effect, depending on what policy is used by one of the countries.

Tinbergen marks the vital importance of centralisation “[e]conomic integration of a number of countries consists of the centralisation, at a supra-national level, of a number of instruments of economic policy” (Tinbergen, 1965, p.67). And here also, he distinguishes four types of centralisation. With each stage of centralisation the role of development of a joint policy is strengthened. Centralisation can be at the level of “consultation, co-ordination, agreement of lasting character and the strongest form being one supra-national authority” (Tinbergen, 1965, p. 67). Thus, he suggests a rigid system of implementation of integration measures with its ultimate aim being a supranational institution. Consequently, this institution is given wide authority.

One of Tinbergen’s main contributions is his introduction of “positive” and “negative” (Tinbergen, 1965, p.76) integration concepts, which have a certain effect at each form of integration. At negative integration countries make a decision to reduce trading restrictions and tariffs without establishing common institutions. This effect leads to a “better division of labour” (Tinbergen, 1965, p.77) between countries. In case of a positive integration there arises the necessity for modification of existing or creation of additional structures for effective functioning of a union. Usually, the positive integration comes into play after countries achieve a customs union level, which operation requires a certain structure to coordinate joint actions of its member states.

Gradually he comes to a conclusion that countries have already developed effective international organisations which are engaged in the supervision of the several basic spheres, including (Tinbergen, 1965, p. 99):

1. “the supervision and reduction of trade restrictions, – [ITO (International Trade Organisation) and GATT (General Agreement on Trade and Tariffs)].
 2. the regulation of raw materials, – [FAO (Food and Agricultural Organisation) and UN CICT (Committee for International Commodity Trade of the United Nations)].
 3. the supervision of the convertibility of currencies, – [IMF (International Monetary Fund)].
 4. the supervision of spending equilibrium and employment policy, – [left to national governments].
 5. the supply of capital for development, – [various agencies].
 6. the transfer of knowledge and education assistance, – [various institutions belonging to the UN family].
 7. the regulation of migration – [no effective institution]”.
- (Tinbergen, 1965, p. 99)

Thus, nowadays the idea presented by Tinbergen in relation to international integration, has technically been carried out. He suggested building a certain hierarchy of institutions at several levels, beginning with local, then national, regional and international. At the present time, these institutions are established; each of them is responsible for the sphere into which its authority extends. The countries are integrating and forming regional associations and creating supranational institutions. Local and national bodies of the countries divide areas of their responsibility. The only task that is not carried out is the strict control from governments. Basically, the control itself exists, but not to the extent described by Tinbergen. This is because nowadays market economies are established in many states, and liberal principles are put into use in the created customs unions and common markets.

2.7 Functional and institutional integration

Rolf Sannwald and Jacques Stohler (1959) presented two methods of integration: functional and institutional. The functional method integration is carried out by reaching agreements on elimination of restrictions and tariffs for import and export. It assumes a rather liberal approach that encourages governments to refrain from intervening into

integration processes. Since integration is directly connected with trade between countries, it is preferable that liberal principles are applied. The idea is that the subjects of trade operations are capable of independently carrying out their responsibilities. Regulation from a government's side may distort this balance and hence hinder integration processes.

Conversely, institutional integration assumes more tight interaction of governments of participating countries. As its name suggests, governments set up institutions responsible for implementation of integration tasks and oversee cooperation between countries. The supranational institutions formed by the EU states can serve as a good example of the institutional approach.

Sannwald and Stohler also present the concept of partial integration. As an example they take the European Coal and Steel Community. Within its framework, the initial step was signing an agreement on integration of industries: it is a so-called "sectoral method of integration" (Sannwald & Stohler, 1959, p.100). In this case tariffs on products and supply materials used for production processes in the indicated industries had been abolished. In addition, an institution (Coal and Steel Community) with functions similar to a supranational body had been established. It essentially was engaged in functional operation of this association. When partial integration takes place, Sannwald and Stohler advise beginning integration of other sectors "as soon as possible" (p. 105), because integration in only one sphere causes economic imbalance.

The role of governments, which per se act as main agents of change in economic integration processes, is a focus of attention of many theoreticians. The decision of creating or not creating a supranational institution remains hard even nowadays. As a matter of fact, it may lead to two different consequences. Creation of supranational institutions would, first of all, jeopardise countries' sovereignty. Such institutions tend to be given powers that may extend to domestic affairs of member states. In addition, their creation does not guarantee a better development of trade relations. The optimum solution would be to stipulate their powers, areas of influence beforehand, in order to avoid possible misunderstanding.

A decision not to create a supranational institution may lead to disorganisation in the sphere of trade. Functioning of some type of regulation body would monitor the situation, consult the sides on proper interpretation of legislation and work towards harmonisation of standards and technical norms for commodities.

It should be noted, that the described concepts and theories, proposed at different times and aimed to explain the integration processes in the world, do not fully extend on to the diversity of integration groups created in the CIS. The principles of formation of the new regional groups are significantly different from the principles used in the models of the past. The main difference of the CIS integration processes is that they are heavily dictated by political principles. And often, there are no economic preconditions behind political decisions.

To sum up, views of theoreticians on economic integration have been presented in this chapter. It has been established that economic integration may have a certain impact on economies of integrating states depending on the level of development of their production spheres. Thus, economic integration requires review of and adjustment to trade relations between states and as such, brings considerable structural changes. The appropriateness of government intervention in integration processes, especially the necessity to establish supranational institutions, has been discussed. In the next chapter the methodological approach applied in this research will be considered.

CHAPTER THREE METHODOLOGICAL APPROACH

3.1 Overview

This chapter presents research methodology chosen by the researcher. It is followed by discussion of the data collection process, consisting of a thorough examination of both primary and secondary data. Research ethics, regarding this work including participants, are explained. Data analysis and interpretation processes are also illustrated.

3.2 Methodology

It has been decided that the optimum method used to reach aims of this research should be qualitative. It has been important to make sure that this strategy corresponds with identifying obstacles that hinder integration processes in the CIS. The qualitative method is described by Creswell (1994, p.1) as “...an enquiry process of understanding a social or human problem, based on building a complex, holistic picture, formed with words, reporting detailed views of informants, and conducted in a natural setting”.

Thus, the qualitative approach can be said to be a process that aims to understand the very nature of people’s views by way of simply interacting with them, often in a comfortable, relaxing atmosphere. The use of the chosen method often brings benefits to the researcher, as it aims to synthesize collected information and present the best output to the researcher. Creswell (1998, p.13) thinks of qualitative research as “an intricate fabric”. Indeed, qualitative research represents thoughtful analysis of rather deep, comprehensive information.

In a qualitative approach, collected information is often not strictly systemised in that it does not focus on statistic measures, but on understanding, explanation and interpretation of empirical data. Such a method supposes a less systemised approach. Therefore, it is unlikely that qualitative research data can be used for the purpose of a quantitative analysis. This type of research cannot help to calculate the number of people who have spoken on a certain matter in surveys, but can help to understand, for instance, reasons behind their opinions. Creswell (1998, p.17) states that in most cases the qualitative approach uses questions how and what instead of the quantitative why.

The researcher has chosen to follow a scheme, described by Berg (2004, p.19) as “theory-before-research” instead of “research-before-theory” that encourages use of practice or research before actually studying theory. Thus the scheme described by Berg represented a complete research model (p.19): Idea→ Theory → Design → Data collection → Analysis → Findings.

The researcher’s aim was to try to follow this model as closely as possible. Such a rational approach allowed good planning. In addition, every constituent part of this model was examined and had its own research scheme that was more detailed and consisted of, for instance, a list of relevant literature, main points, and timeframes for completion.

3.3 Informants’ interviews

Data collection and interviewing were conducted in the researcher’s home country (Kazakhstan) during a three month midyear break at Massey University lasting from December 2007 to February 2008. The researcher conducted three interviews with representatives of Kazakhstani public sector. Economic integration largely depends on what decision is made by governments and whether they consider it beneficial for states’ economy. The post-Soviet states, being former countries with administrative type of management, still possess such a practice when most of decisions are made by representatives of public sectors. The choice of people working for governments was supposed to give an insight into their opinion of economic integration, whether they consider it a crucial part of CIS countries’ policy.

The initial contact with the informants took place two months before interviewing. The aim of several visits to city and regional governments was to meet potential interviewees, tell them about the research and offer to participate in it. The researcher made several visits to departments governed by city and regional governments, where about six employees expressed their interest in participating in the research. Those who were interested though, asked to be contacted later, so they could first settle the matter with individuals of a higher position, that is heads of departments. After a certain amount of time, the researcher made a second attempt to contact the mentioned employees. However this time, potential interviewees refused to participate and

explained that they were not given permission by heads of departments. Contacting heads of departments proved unsuccessful, as they explained straight away that they did not wish to participate.

The only option was to visit a deputy head of a city government department. The researcher and this individual were acquaintances as he was employed by city government and had worked at one of its departments before coming to study in New Zealand. After the researcher acquainted this employee with details about the research aims, she gave her consent to be interviewed. The researcher still asked this individual to contact heads of other departments at city and regional governments and try to persuade them to participate in this research as well. Unfortunately, most of the heads of departments again expressed their reluctance to be interviewed, stating they had insufficient level of knowledge in this research sphere, lack of time and simple unwillingness.

There was, however, one head of department who gave his consent. One more individual, who also served as deputy head of department, agreed to share her views. As it turned out she was particularly interested in this subject since her study at a university.

The next step was to set a date, time and a place for interviewing. All three interviewees preferred that interviewing took place at their offices, after business hours. All these arrangements took a fair amount of time. In addition, there were several cases when planned meetings with the researcher had been cancelled or postponed due to their busy work schedules.

The designed interview guides were semi-structured, which allowed interviewees more freedom in terms of expressing their opinions. Such structure was expected to make sure that the interviewees did not feel obliged to stick to a certain topic on which they were not inclined to comment. Thus, there were only main questions that helped keep the focus of the interview on track. Anytime there was a moment to change a current topic or continue, the next topic was chosen to comment on. This way of interviewing avoided long pauses, when there may have been a possibility that informants might lose the thread of the major points being discussed in their answers. In addition, the researcher had more flexibility regarding timeframes for each question.

Two of the three interviewees had studied economics as their major, while the third studied international relations and history. Thus, all three interviewees were well educated and due to the positions they held, possessed a relatively high level of knowledge about the situation in the CIS. One of them, as mentioned earlier, did a deeper study of the CIS as part of her study, therefore her answers were more specific.

The interviews usually began with general questions about the Commonwealth and its current situation. Gradually questions became more specific, asking informants to comment on the CIS model, its participants and possible problems. It should be mentioned that most of the interviewees felt rather constrained and therefore the researcher kept making sure they were encouraged to speak freely, and they actually did, though only when the interviews were nearing the end.

The interviews were recorded with a digital recorder. The time planned for all interview sessions were 15 to 20 minutes, and this timeframe was not breached. During interviewing, questions that were not initially written, started to come up and they also were asked. Those that were relevant and could give more information to the researcher were added to the next interview questions list. In general, the researcher tried to keep all three interviews balanced, giving informants a chance to speak on both positive and negative sides of affairs. A common direction was kept for all interviews, so that the researcher had an opportunity to compare their opinions. A copy of the interview guide (Appendix one) is attached.

Needless to say, since interviews represent primary data, initially a larger number of interviews had been planned by the researcher. However, in practice this turned out to be rather difficult. Potential informants avoided taking part in any projects that might include interviewing, revealing information about them and their work. It worked better if individuals knew the researcher in person and were confident that their identity would not be revealed and information collected be used solely for research purposes. Nevertheless, opinions of those who agreed to be interviewed were useful and will be used in this work whenever they are relevant.

3.4 Secondary data

The main sources for secondary data analysis include public documents, previous research datasets and other data that has been collected and can be used in other research. Creswell (1998, p.304) explains that secondary data analysis “refers to research findings based on data collected by others”. Thus, while primary data is directly collected by a researcher for his/her own research, secondary data is raw data collected by someone else. Thus, such data can be analysed by a researcher and possibly be used in his study in order to explain his ideas and support statements. Specifically, according to Blaikie’s (2000, p.188) classification of types of sources, that is “natural social settings, seminatural settings, artificial settings and social artefacts”; the most suitable type for this research is “social artefacts”, which will be used. This type of source includes, among others official statistics and public documents.

The documents in social research, which this research contains, may be used in different aspects: as “resources” or as “topics” (Scott, 1990, p. 36). The use of documents in a research as resources, supposes examination of its contents and can represent for a researcher a good source of information that helps him support his statements and point of view. However, the use of documents as topics puts a focus of a research on a document itself. The document is rather thoroughly described and in fact, becomes a part of a study. In the case of this research, the documents are used as resources that are analysed to help back the work’s contents. Sarantakos (2005, p.293) gives the reminder that “researchers study documents as much as – if not more than – people”. Indeed, this type of research requires examination and analysis of a significant amount of secondary data.

The qualitative method was successfully used in the past. Scott (1990) and Straits and Singleton (2004) state that studies based on a secondary data were very popular with many famous researchers, such as Marx, Durkheim and Weber, who used it (secondary data) in a number of their successful research projects.

However, not all researchers agree that this type of data collection is useful. Straits and Singleton (2004) are not very positive about using secondary data as “using available data is a bit like wearing someone else’s shoes” (p. 359). They doubt that those previous

studies conducted by others and which had a different purpose, might be in compliance with the purpose of different research. In the case of this research it is indeed the researcher's responsibility to be able to use the available data in an effective way so that it can become a credible part of a different, but still valuable piece of research. Frankfort-Nachmias and Nachmias (1996) point out that problems can arise with data collection, especially when it comes to credibility, accessibility and insufficiency. While the last two requirements will be discussed later, it can be stated with confidence regarding the first one, that the data used in this research is of high reliability; even if there are documents with doubtful contents, they are rather easy to identify by simple comparison of statements with other sources. However, McNeill and Chapman (2005) warn against relying too much on official statistics: they give an example of governments which change the way they count unemployed people in order to present a lesser number. This indeed turned out to be a problem in some cases during their use in this research and they will be explained in the corresponding chapters.

Regarding requirements for statistical data for this research, a decision was made by the researcher and supervisors that it should be comprehensive, accurate and up-to-date. Therefore the main focus was to find an organization that could provide such data. Probably the only suitable organization was the "Interstate Statistical Committee of the Commonwealth of Independent States", that stated it was "an official disseminator of statistical information on social and economic situation in the CIS countries". The researcher enquired about a possibility of purchasing their materials before going back to his country for the midyear break. After arrival in New Zealand in March 2008, the researcher made an application to the Massey University School of Social and Cultural Studies Graduate Research Fund that was also supported by his supervisor. The researcher asked for funding for purchase of the mentioned materials in order to use them in his work. After the funding was approved and several contacts had been made with the Interstate Statcommittee, the payment was processed and materials were received at the end of May 2008.

The materials consisted of:

1. Commonwealth of Independent States in 2007, Digest of preliminary statistical results, Russian-English version (2008, ISBN 978-5-89078-074-4, 452 pages).

2. Main Macroeconomic Indicators of the Commonwealth of Independent States 2000-2006, Statistical Compendium, Russian-English version (2007, ISBN 978-5-89078-079-9, 146 pages).

3. 15 Years of the Commonwealth of Independent States (1991-2005), Statistical abstract, Russian-English version (2006, ISBN 5-89078-061-1, 437 pages).

This choice of materials represented a good combination of up-to-date information and statistical data that covered, in particular, the 1991-2005 time period. Thus, the researcher possessed essential economic data that covered a period from 1991 to 2007. This factual information made an excellent source of secondary data and as such, has been used throughout the research. It was indicated in the application to the Graduate Research Fund that after the completion of the research, the purchased materials would be donated to the university library.

Other sources of secondary data included information in form of reports, working papers and research available on websites of various international organizations. Thanks to the relatively large amount of this type of information, it was possible to present points of view of various experts, which in turn contributed to this research's balanced and neutral content.

Journal articles, textbooks and newspapers were used as a main source of information. The use of newspaper articles was justified in cases when there was a need for information about an event that had taken place recently. In that case, they represented a primary source. Half or even a larger number of all journal articles and textbooks used in this research have been brought by the researcher from Kazakhstan. The process of collecting journal articles was very time consuming, because during one and a half months the researcher had to visit a number of libraries to find necessary materials. Another challenge was to have all of them photocopied, since borrowing so many journals was not allowed. The journal articles and textbooks are equally divided between those published in Russia and those published in Kazakhstan. Most of them are written in the Russian language.

At first sight, the fact that materials used for the research were in a foreign language could seem limiting. However, it is the belief of the researcher and the supervisors that it can also be considered as an advantage, because there are not many works to be found written in English which also, at the same time, used materials in a foreign language so extensively. The researcher also believes that such a decision is justified, as the topic of the research assumes that works of authors that come from member countries of the Commonwealth would be most appropriate to use. This research that combined works written in English and those written in Russian gives an opportunity to analyse and compare opinions of authors both from the Commonwealth and the rest of the world. In case only one group of these authors' works had been used, the research risked ending up looking one-sided. In addition, through this work, a reader in New Zealand gets a chance to familiarise himself with works of Kazakhstani and Russian authors, which otherwise would not have been available.

It has been mentioned several times, that the researcher aimed to present a balanced and a neutral look at the processes of integration in the Commonwealth. Only in this way does a reader get an opportunity to form his opinion and make his own conclusions about the topic.

And finally, at the moment, the Commonwealth member states are experiencing the impact of the global economic downturn. As in many other states in the world their economic indicators are going or have already gone negative, which indirectly influences, among other spheres, trade. Unfortunately, these aspects have not been reflected in this work due to the fact that it was written during 2008. It was practically impossible to predict the approach of this global recession in autumn of 2008. It seems that any attempts to do so would have been rather rash. Also, the data supplied by the CIS only go as far as 2007.

3.5 Research ethics

In compliance with the regulations of the Massey University Code of Ethical Conduct, every thesis should meet requirements regarding human ethics. After a thorough ethical analysis of the project was conducted by the researcher and later discussed with the supervisor, it was decided a Low Risk Notification be sent to the Massey University

Human Ethics Committee. This notification basically meant that the risk of violating ethical principles set by the Committee was low.

With the aim to follow approval procedures and ethical principles provided by the Committee mentioned above, an Information Sheet and a Consent Form were designed. During the researcher's visits, potential interview participants were given information sheets containing all details regarding the research. After questions of the potential participants had been answered and all details had been clarified, the researcher suggested that they take part in an interview – in which case the researcher required that they sign a consent form. During this procedure, the potential participants were reminded several times by the researcher that their participation was based on volunteering and anonymity. Thus, only the researcher and his supervisors had access to the interview transcripts. Copies of the Information Sheet (Appendix two) and the Consent Form (Appendix three) are attached.

Although the participants wrote their names on the consent forms, their identity will be kept anonymous in the transcripts. Unfortunately, one of the informants strongly refused to sign any papers that would contain any information about her. This was explained by a possibility that her comments might look too negative and that it could somehow impact her relationship with other employees, including the head of a department. Thus this individual chose to stay anonymous, but because her opinion was very useful, it was decided to keep her transcripts to use in this work.

For the convenience of referring to their opinions in this work, they will be named Informant 1, Informant 2 and Informant 3.

3.6 Data analysis

One of the main aims in the data interpretation and analysis process was to present as many views as possible on a discussed problem. Since many issues had been discussed in this research, it was a rather time-consuming activity to try to make sure that opinions of authors from both sides (Commonwealth and the rest of the world) were reflected.

I chose to apply a systematic approach to interpretation of materials. First of all, each material: a journal article, a newspaper article, a textbook was given a certain tag as I read them through. These tags usually consisted of several key words that helped to identify the materials' content easier. Secondly, each material was given a number, so that while thinking about which authors' opinions should be used for discussion of a certain problem, I assigned to them corresponding numbers. As a result, after such a "brainstorm" process, certain topics or problems had a row of numbers that connected them to materials. And thirdly, after a thorough analysis of the materials, I created certain "groups" of authors that had similar opinions on a number of problems. In my papers these groups were often put against "opposing" groups whose opinions were directly opposite.

These measures cannot be said to be time effective, as during preparation for writing each section of this research, all the materials had been read through many times anyway. However, these measures helped to keep the writing process more systemised, ensuring that no essential information was missing. In addition, this approach allowed working out a common direction for each chapter, keep data integrated even though they were written at different times.

The methodological approach applied for this work by the researcher has been described in this chapter. A qualitative approach has been put into use in this work. This approach helped get as much as possible out of primary and secondary data collected by the researcher. Primary data was represented by interviews of people who expressed their opinions on the topic. Secondary data represented a large number and a wide variety of various literature. The research ethics and difficulties faced by the researcher have been discussed. The chapter ended with the description of the data analysis process. In the next chapter, forms of economic integration will be discussed.

CHAPTER FOUR FORMS OF ECONOMIC INTEGRATION

4.1 Overview

This chapter will present and analyse forms of economic integration. It will start with an overview regarding various forms that integration may take. Criteria for forms of integration and a total number of existing integration associations are given. A thorough examination of forms of economic integration, their peculiarities and level of complexity is made. This is followed by an overview of main integration groupings functioning currently in the world.

4.2 Variations in interpretation

An agreement between countries on economic integration may have various forms. According to Balassa (1961, p. 2), there are five forms of economic integration (Figure 2):

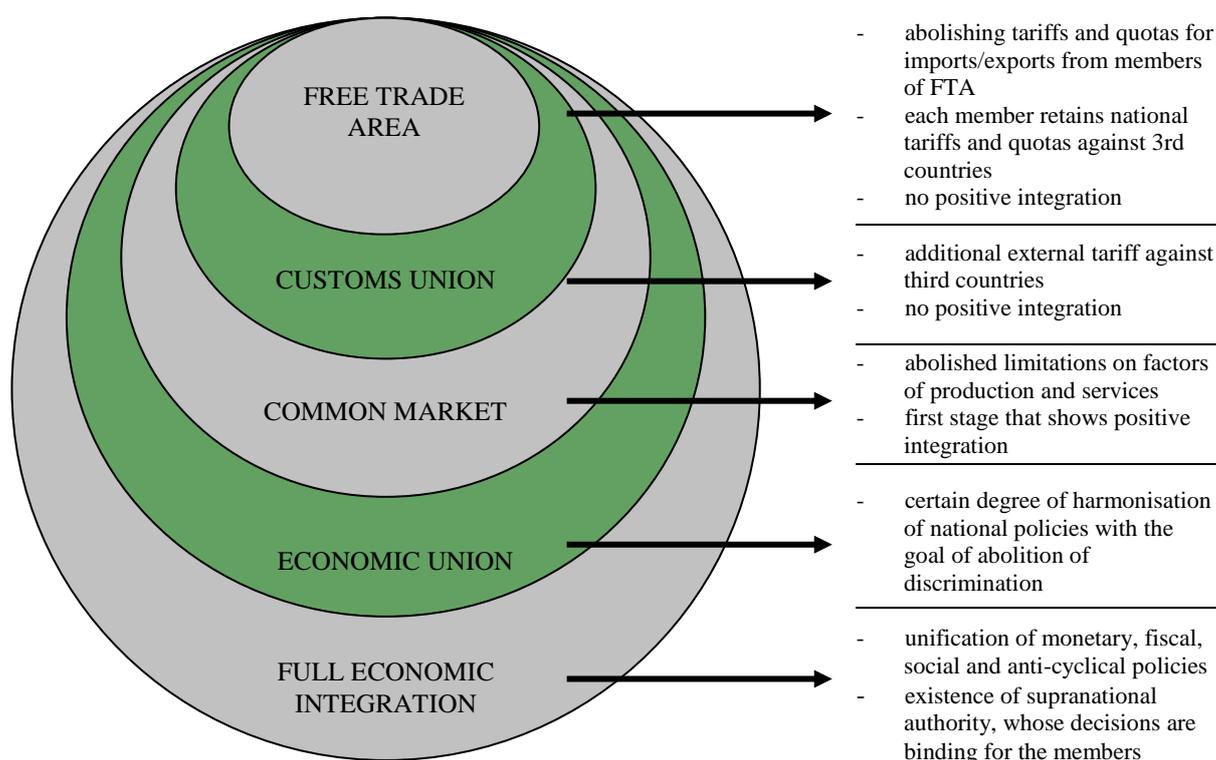


Figure 2. Balassa's stages of Economic Integration. From "Economic Integration in North America: Theory and Reality of Rules of Origin," by A. Dotrelova, 2007, p. 7. Modified by the researcher.

One important warning is given by El-Agraa, who asks for the proper use of terms “form” and “stage”, as integration forms should not be interpreted as “stages in a process” (El-Agraa, 1997, p. 3) that eventually lead to a final form of integration. Any integration grouping may choose to stick to one form of integration for a long period of time. In fact, this is often made on purpose, as states may be reluctant to open up their economies too wide to their partners.

It should be mentioned that various authors look at forms of integration differently. For example, Kireev (1998) and Jovanovic (1998), in addition to the classifications offered by Balassa, add one more form of economic integration: *preferential trading area*. Although it has been argued that this form of economic integration is often used as a temporary measure in nearly all bilateral trade agreements aiming at reaching initial integration form, it is also included in the discussion of the scheme of economic integration given below. Jovanovic (1998, p. 10) writes about a “partial customs union”, when integrating countries keep their national tariffs on imports from other countries, but establish a common tariff on imports from the outside world. Kireev (1998, p. 365), Bulatov (1999, p. 304) and El-Agraa (1997, p. 2) interpret the final stage of integration as “political integration”; they argue that the decisions made for full economic integration, that is unification of main policies (monetary, foreign, social) are political and involve significant loss of sovereignty. However, there are no “political integration” projects in the world at the moment; Bulatov (1999, p. 304) only reminds us of the Swiss Confederation of cantons which could be considered as a prototype in this matter. In this work we use the classification offered by Balassa: the highest form of economic integration is treated as full economic integration.

Often a name given to an integration project by integrating countries does not necessarily point to its level of integration, but can only indicate states’ intentions (Kireev, 1998). For example, a grouping naming itself an “economic union” might only be at the stage of removing customs restrictions, that is they have not even reached the level of a free trade area (in the case of the EurAsEC).

Kireev (1998) emphasises that in practice, the easiest economic integration forms to achieve are its initial stages. Indeed, the majority of groupings is currently at the level of preferential trading agreements or free trade zones. In this case, often countries are not required to coordinate or unify their policies and it proves to be a convenient form of cooperation that keeps partners’ options open in case they decide to switch to deeper

integration in future.

The integration groupings in the world are formed according to the structural similarity of their economies. Developed economies, which in many respects are based on liberal principles, tend to choose partners with a similar level of openness to trade. Otherwise, it obviously becomes difficult or even technically impossible to try to integrate, for instance, economies significantly regulated by governments.

Main regulations relating to international trade have been provided in the General Agreement on Tariffs and Trade (GATT) signed in 1947. Criteria for formation of free trade areas and customs unions are specifically indicated in the GATT Article XXIV (World Trade Organisation (WTO), 2008a). This agreement is based on the “most favoured nation” principle, meaning all countries are treated in the same way in terms of trade advantages offered by an importing country, as if each and one of them was a most favoured nation (free trade areas and customs unions are exempt from this principle). The main criteria mentioned above include:

1. Free trade areas and customs unions should not be used as an obstacle to the trade of countries outside the union.
2. Creation of a free trade area or a customs union should not exceed 10 years.
3. Rules should be liberal relating to new countries entering the existing union.
4. Agreements should cover all or most of trade and goods originating in partner countries.
5. Common external tariff established in a customs union should not exceed the tariff that existed in countries prior to the creation of the union.

According to the WTO (2008b), the number of regional trade associations to have notified the WTO since the 1990s reached 380 by July 2007. Free trade and partial scope agreements make up 90 per cent of total number, while customs unions and integration associations of a higher level make up only 10 per cent. Currently there are 223 regional trade associations registered and in force (for the list of major existing integration projects see Appendix four). The classification of integration associations shows that in the modern international economy there are many integration groupings, representing each form of economic integration. The “popularity” of each form of economic integration directly depends on the level of integration that a certain form offers to the countries. Therefore, it is rather

understandable that the most widespread forms of economic integration are free trade zones and customs unions. Other forms of integration are of higher level and necessarily require creation of supranational institutions, which decisions are considered to be imperative for all members of a union. Each economic and monetary union is built on a common market, which provides a basis for a free movement of goods, services and factors of production.

4.3 Form by form examination

When countries come to a decision to integrate, their first step would be a conclusion of *preferential trading agreement* on a bi- or multilateral basis. The aim of such agreement is to decrease tariffs in integrating countries in comparison with tariffs for goods and services with the rest of the world. Such discrimination of countries which are not participating in the agreement, is not in compliance with the “most favoured nation” principle, however, these measures could be interpreted as initial steps to higher forms of economic integration.

Preferential trading agreements are a result of development of the international processes in the field of trading agreements. The first multilateral trading agreements and later preferential agreements were signed after the end of the Second World War.

The second stage of integration is creation of a *free trade zone*, where all tariffs for goods from member states of an agreement are gradually removed, but each country conducts its own customs policy in relation to imports from the rest of the world. Often the removal of customs duties occurs gradually and does not embrace all goods. As for the main mandatory actions to be taken by integrating parties, Isingarin and Islamova (1999, p.61) point out the following:

1. “Consecutive lowering and cancellation of customs duties, taxes and dues, and also quantitative and all other equivalent restrictions in mutual trade.
2. Harmonisation of customs legislation, mechanisms of tariff and non-tariff regulation to the extent necessary for a proper functioning of a free trade area.
3. Unification of customs documentation necessary for conducting

customs statistics and simplification of customs procedures.

4. Non-admission of re-export from third countries.
5. Observance of the principle of transit freedom by harmonizing tariffs for transportation of goods and people.
6. Levying identical indirect taxes in mutual trade”.

(Isingarín & Islamova, 1999, p. 61)

One of the most sensitive parts in a functioning free trade area is a problem of re-export of goods from third countries. For example, tariffs on import of goods into country A from country C are lower in comparison with the tariffs on import into country B. As a result country A might be used by country C as a “backdoor” to the domestic market of country B. This problem is solved (not always effectively) by applying the principle of “rules of origin” (Jovanovic, 1998, p. 98). According to this rule, there are four types of actions that can be taken:

- “*Substantial transformation*: the origin is determined by the country in which the good underwent the last substantial transformation (the one that gave the good a new name, a new character and a new use). Critics say that this is an imprecise and subjective method”.
- “*Change in the tariff heading*: even if the good made/assembled in country A has imported components, that good can be regarded by foreign countries as a good that originated in country A if that was sufficient to change the tariff classification of the imported materials”.
- “*Value-added method*: a certain minimum amount of value added must be incorporated in the good in country A in order to enable foreigners to regard the good as originating in country A”.
- “*Specified technological process*: a good must pass through a certain technological transformation in country A in order to be regarded by foreign countries as having been produced in country A”.

(Jovanovic, 1998, p. 98)

In addition, Jovanovic differentiates two types of “rules of origin”: restrictive and liberal (1998, p. 99). Accordingly, the restrictive rule would apply higher requirements for the origin of the goods being imported, while liberal would require less percentage of components (for example, in value-added method) or easier technological norms (for example, in specified technological process).

At the level of free trade area, trade relations between member states, as well as general regulation of trade do not necessarily require creation of any supranational institutions. In some cases, a coordination body may be established; though, important decisions are made by high officials of participating countries. The legal status of international agreements signed by integrating parties possesses a higher priority over national legal acts (Scherbanin, Rozhkov, Rybalkin & Fischer, 1997).

In general, free trade agreements provide more stable trade policy. The established free trade area strengthens competition between national and foreign manufacturers in domestic markets. This, on the one hand, increases danger for less competitive firms, and on the other, turns into a stimulus for manufactures to expand and raise the level of their production. The removal of customs duties and non-tariff restrictions mostly concerns manufactured goods, while for the reason of food security, tariffs for the import of agricultural goods remain unchanged (Kireev, 1998; Bulatov, 1999).

Dwelling on the status of cooperation in the CIS, Kolesov and Os'mova (2000, p. 459) mention that the development of integration processes in the CIS simultaneously takes place at three levels: on the CIS level (Economic Union), subregional level (Customs Union, Central Asian Union) and bilateral level. They mostly speak in favour of bilateral relations, as in this type of relations it is easier to fulfil commitments, to pay off debts, to use transit mains (roads) and, in general, to solve common problems of cooperating parties.

It is somewhat disappointing to see no development in formation of a free trade area that would involve all CIS countries. Back in 1994, presidents of all 12 member states signed an Agreement on the formation of a free trade zone. However, according to Avdokushin (1999), only 6 countries actually ratified this agreement. He mentions that at that time countries split into two groups. The first one was a group which supported

the idea of trade regulation in the CIS in terms of a free trade zone. The second one was reluctant to be involved in a complex free trade agreement deal. Instead they preferred mutual trade on the basis of bilateral economic agreements.

Avdokushin (1999) further writes about another attempt made in 1995 by creating a Customs Union, a project, the name of which, in reality, only indicated its intention. This project helped to achieve some progress in free trade between the members, which consisted of Belarus, Kazakhstan, Kirghizstan, Russia. In particular, trade turnover of Belarus with members of the union rose by 68 per cent, Kazakhstan by 40 per cent and Russia by 12 per cent. This trend continued in 1996, in Belarus 27 per cent, Kazakhstan 31 per cent, Kirghizstan 44 per cent and Russia 17 per cent (Avdokushin, 1999, p. 353).

As for the common tariff of this customs union, by 1997 the four countries managed to agree on 95 per cent of all tariffs, however later, as noted by Avdokushin (1999) they rolled back to the level of 1995-1996. Isingarín and Islamova (1999) think that the malfunctioning of the Customs Union showed that effective trade is impossible without free transaction of payments between partner countries; mutual convergence of currencies, and mutual access of businesses to the domestic markets of member countries, that is without attributes of a common market of services, capital and labour. At present in the EurAsEC (established in 2000 on the basis of the 1995 Customs Union), a partial free trade zone functions between members of this union: all four members of the Customs Union with the addition of Tajikistan and Uzbekistan. The Community currently aims to finish all paperwork on creation of a customs union between the members by 2010 (EurAsEC, 2008). The EurAsEC will be discussed in further chapters.

Free trade agreement is not cancelled or replaced by other agreements when other integration forms (customs union, common market, economic and monetary union) are created. In order to establish the integration forms mentioned above, a successfully functioning free trade agreement is required.

The third level of integration is creation of a *customs union*. Such a union provides closer economic cooperation as member states gradually remove national customs duties and apply common customs duties and methods of non-tariff regulation in

relation to third countries. In both cases the interstate relations concern only the sphere of trade of goods, which provides countries with similar opportunities in development of mutual trade. In this case the competition between domestic producers and importers from partner countries gets stronger, which, in its turn, influences prices for products. This situation proves to be positive, as it urges producers to invest in their fixed assets in order to improve quality and try to lower the cost price of goods produced.

A customs union applies a duty-free movement of goods within a region and also requires creation of common coordinating institutions. As mentioned before (in the theoretical part), a customs union involves significant changes in the structure of production and consumption. By conducting a common customs policy, member states regulate their trade flows and in most cases new ones are created or old flows are diverted into a union (trade creation and trade diversion schemes). Such changes either positively or negatively influence the world production and allocation of resources, depending on which effect of the two outweighs the other.

As a rule integration in customs union takes place at a micro level, that is integration of industries. Shcherbanin et al. (1997) consider industries as a driving force in a customs union because the sphere of production is more suitable for cooperation in comparison with integration of financial institutions. At this level, banks and insurance companies act more as an assisting tool to industries.

In most cases a customs union is a grouping of countries with different economies. Ideally, according to Kireev (1998), a customs union would have one or more countries, endowed with natural resources, which could provide others with raw materials at low prices (due to elimination of tariffs) and also include countries with manufacturing industries in their economies. Indeed, such a well blended grouping would be complementary, creating opportunities for countries to produce finished goods within a union. It should be admitted that most likely, in the beginning, production costs of these finished goods might be high; but, eventually, effective investment (especially in fixed assets) would make costs lower and output level higher. Thus, in return, countries receive independence in terms of their sufficiency and protection of their markets.

The fourth level of economic integration is a *common market*. A common market is

another integration form representing a higher level. It provides both common customs policy and freedom of movement of goods and services, and in addition introduces a free movement of factors of production, that is capital and labour. By causing a triggering effect, these changes urge countries to harmonise their policies in social sphere, education, science, culture (Shumskyi, 2003, p.124). These actions are of a significant importance for individuals due to the flow of capital and migration of population of member states. This is why the functioning of the common market requires formation of common social assistance and regional development funds (Shcherbanin et al., 1997). The same as in the case of customs union, Shcherbanin et al. write that another task for integrating countries would be working out a common policy for development of certain sectors of their economies. The choice of a sector to be developed depends on its importance for future integration and on what effect it would have on the social system. Normally, an economic union is established at a stage of high economic development. Integration at this level usually requires considerable coordination efforts.

There are only four functioning common markets in the world, which proves that this is a very high level of integration to achieve. Isingarini and Islamova (1999) explain that since all tariff quotas (direct restriction) have been reduced and removed previously in the free trade area and customs union, the creation of a common market requires further abolition of non-tariff (indirect restriction) obstacles. Non-tariff obstacles may be in form of technical norms for goods, differences in national legislations of member states and so on. Therefore, first of all, legislation in member states should be improved and harmonised as close as possible. In some aspects countries are expected to act as one country, by introducing common currency (free movement of capital), common passport (free movement of labour) within a union.

The fifth form of economic integration is an *economic union*. In an economic union, besides the common customs policy and the free movement of resources, a coordination of macroeconomic policy in fiscal sphere is conducted. Hence governments concede a part of their functions to intergovernmental bodies. These supranational institutions consist of a number of branches, each assigned to certain area. For example, EU, which is the only integration grouping that managed to achieve this level, currently functions under three traditional branches of government: executive (European Commission),

legislative (Europarliament) and judiciary (European Court of Justice). So practically this Union consisting of 27 countries uses a mechanism similar to the one used in one single country.

The economic union is often supplemented with a monetary union. According to Jovanovic (1998, p. 171) such union would require convertibility of integrating countries' currencies, a single central bank, identical rates of inflation, harmonisation of fiscal systems and so on. It is also imperative for an economic union to have a common currency that circulates in all or at least in the majority of member states.

The highest form of economic integration is a *full economic integration*. This form is characterised by introduction of common economic policy and as a consequence, unification of legislation, tax system, fiscal policy, monetary policy and so on.

Although this form of economic integration has never been achieved, there is one integration grouping potentially suitable for such qualification if not now, but in the future – the EU. At the present moment, the EU has implemented a significant part of its planned integration program and is focusing on improving its separate spheres. One of the aims still to be reached is the establishment of a European Constitution. Nevertheless, even at this stage it is considered as the most developed integration grouping, a model, which is cited to display successful achievement of integration forms.

4.4 Main integration projects

Three geographical areas, where economic integration processes are well developed are singled out by Bulatov (1995, p. 485), Matsnev (2003, p. 19) and Spiridonov (1999, p. 73): Western European, North American and Asian-Pacific. Indeed, the EU, the North American Free Trade Agreement (NAFTA) and the Asia-Pacific Economic Cooperation (APEC) represent three powerful regional groupings which have a big potential to further expansion and progressive economic integration amongst its member states. The first two are both well established integration groupings with the second one being a future economic integration grouping with a high (if not the highest) economic potential.

Thanks to the growth of their power and influence, regional integration groupings have already taken up the role of leaders in world economic development. This is one of the main distinctive features of the world economic development at the present time.

Data in Table 1 shows that economic indicators of the EU and NAFTA are similar enough. The difference in size of their territories is not important. Though the NAFTA's territorial superiority may have a positive value with reference to the USA, another NAFTA member, Canada, for example is, to a considerable extent, located in severe Arctic areas where nearly no economic activities are conducted.

Table 1

Main integration groupings

| | European Union (27 members) | North American Free Trade Zone (3 members) | Asia-Pacific Economic Cooperation (21 members) |
|---------------------------------|--|---|---|
| Territory, km ² | 4,324,782 | 21,783,850 | - |
| Population, mln. | 499,0 | 445,3 | 2701,0 |
| GDP, bln. USD\$ | 16,830 | 16,169 | 29,209 |
| Share in world GDP, per cent | 30,9 | 29,7 | 53,7 |

Note. GDP=Gross Domestic Product. USD=United States Dollar. Data from “*Key development data & statistics,*” by World Bank, 2008c.

The EU is the largest world trade participant: its total share in the world goods turnover makes up nearly 43 per cent (Directorate General for Trade of the European Commission, 2007) and more than a half of the EU's international goods turnover accounts for trade within this integration grouping. Main external trading partners of the EU are the USA, China, Russia and European states outside of the union (Switzerland, Norway, Turkey). This testifies that the EU external trade has a diverse orientation and this policy most likely will remain active in future.

Zverev (2000) reminds that NAFTA is the first trade bloc to unite two advanced and one developing country: USA, Canada and Mexico. Despite this fact, the union's Gross

Domestic Product (GDP) volume is nearly the same as the EU's. It is noticeable that such a figure is mainly the USA's contribution (85 per cent), which repeatedly surpasses partners in scales of production. According to the Directorate General for Trade of the European Commission (2007), the NAFTA's share in the total world trade volume is 21 per cent (USA's – 14.9 per cent). Most part of the NAFTA's trade is directed outside. The main trading partners of this grouping are the Asian and European countries. Because the integration processes in the NAFTA have not yet reached the degree and the depth of the EU (Matsnev, 2003), it is, so far, rather early to consider this grouping as a single subject of the world economy (unlike the EU). It should be noted that from time to time various discussions take place concerning the future of the NAFTA, especially regarding plans on developing integration within the grouping, which includes changing its current form from the free trade area to the customs union (Huelsemeyer, 2004). In general, the comparison between the NAFTA and the EU only makes sense when basic indicators (as above) are taken. For more detailed comparison, it is prudent to examine separately each member country of these groupings.

Being a large economic cooperation grouping of 21 Pacific Rim countries, APEC significantly differs from the previous two. Being an “amorphous” (Matsnev, 2003, p.20) economic grouping, the data given above rather characterises the APEC from the point of view of its potential. It gives an idea of how powerful this potential union could be if APEC in practice had turned into an integration grouping similar to the EU. Therefore, namely this integration project seems to be one of the most promising for several reasons. Firstly, its member is a country with the largest economy in the world, that is the USA. Thanks to their territory's attachment to the Pacific Ocean and thus openness of trade to sea routes, member countries enjoy stable economic development. However, it should be noted that they do vary in their level of development, ranging from “developing” (Brunei, Indonesia, Papua New Guinea, Vietnam and so on) to “advanced” (the USA, Canada, New Zealand, and Japan). Secondly, the grouping unites two countries with the largest populations in the world – China and India. Thirdly, member countries, still each of them being unique, represent the world's four continents and these contribute to the grouping's diversity.

This chapter has presented an examination of the forms of economic integration. Economic aspects of each form of economic integration have been discussed. The

chapter also contains opinions of authors suggesting classification of forms different from the traditional one. It has been defined that depending on what form economic integration takes, its participants make changes to mutual trade patterns. To give an example of economic integration, three integration groupings have been examined. In the next chapter, a closer look will be taken at the CIS.

CHAPTER FIVE THE COMMONWEALTH OF INDEPENDENT STATES

5.1 Overview

In this chapter the CIS will be examined during the period 1991-2007, starting with a detailed look into the economic and political situation in the former Soviet states before and after the breakup. The creation of the CIS, its development, aims and objectives are discussed. The analysis of economic measures taken by the CIS member states is made by dividing the CIS activity years into four time periods. Also trade patterns between the CIS states and their characteristics are discussed. At the end of the chapter, various prognoses and possible scenarios for CIS future development are described.

5.2 USSR to CIS

The breakup of the USSR led to a new geopolitical order. The long lasting opposition and rivalry between the USSR and the USA, “East” and “West” was left in the past. The breakup concluded an epoch and clearly indicated it is a time for changes, introducing new mechanisms in how international relations work.

Taking into account a number of failed attempts to come to a compromise, December 8, 1991 is considered to be a turning point in the disintegration of the USSR. The main decision was made by presidents of three states in the governmental residence situated in the Belovezhsky forest. Presidents of Russia - Yeltsin, Ukraine - Kravchuk and Belarus - Shushkevich – as countries founders of the USSR had together denounced the Treaty on the establishment of the USSR, which later became known as “Belovezhskaya Accord”. It had been declared, that the Soviet Union had ceased its existence both as a subject of international law and a state (Matsnev, 2003). Thus, the USSR created on December 30, 1922 was liquidated after nearly 70 years.

In order to build a new system of relations in the post-Soviet space, the need for a new political model became clear. One of the solutions was creation of a regional organisation able to keep the states united under new aims. Common interests of the states had to become one of the main factors in integration.

It is also important to note here that being a constituent part of the USSR for nearly 70 years, every country in the Soviet Union was regarded by the “Centre” (Moscow) as an indispensable link in one production mechanism. Therefore, it can be admitted that the Soviet Union possessed a deeply integrated economic system. Regarding capacity, the USSR economy was a second largest economy in the world after the USA, and while being controlled by an administrative command system, the USSR always strived for self-sufficiency. In fact, as specifically underlined by Isingarín (2000, p.9) and Shumskyi (2003, p.125), the single economic complex of the USSR had been for many years built according to the territorial division of labour with highly specialised, co-operative manufacturers and a single network of communications. This led to specialisation of separate Soviet republics in production of goods where it was more effective than other republics. The republican industrial complexes were components of one single mechanism, each of which could not function independently.

This is the reason why the economic relations in the USSR surpassed the level of cooperation between the countries of the EU. According to the International Monetary Fund (1991), 21 per cent of the GDP was involved in the interrepublican trade in the USSR, while in the EU it was only 14 per cent. Matsnev (2003, p.53) also writes about a high level of specialisation in the USSR. He gives an example of how these ties had been built during the 70 years of the USSR existence. For instance, Armenia, Belarus, Russia and Ukraine had a highly developed machine-building industry, contributing a share in the total USSR production varying from 34.2 percent (Belarus) to 30.3 percent (Russia) in 1990. Another group of states Azerbaijan, Georgia, Kyrgyzstan and Moldova specialised in the food production industry and their share varied from 37.4 percent (Georgia) to 24.8 percent (Kyrgyzstan). Another example given by Matsnev is sources of energy in the USSR. They consisted of oil and gas industries of Russia, Kazakhstan, Azerbaijan, Turkmenistan and Uzbekistan, as well as the coal industry of Russia, Ukraine and Kazakhstan. Construction materials were provided mainly by the metallurgic complexes of Russia, Ukraine and Kazakhstan. Chemical, petrochemical industries and building materials were available in all constituent countries. These figures show the correctness of calculations by de Kort and Dragneva (2006), who state that nearly 90 per cent of trade in the CIS took place between its member states. In fact, this was an excellent example of a self-sufficient state.

Thus we can conclude that a favorable factor for integration of the Post-Soviet states can be the complementarity of their economies, which developed as a result of an interrepublican division of labour, and also the presence of a common raw-material base that includes practically all necessary reserves for an effective independent development within the Commonwealth.

The figures presented in Table 2 show key indicators of each Commonwealth member state.

Russia clearly stands out among this group of countries. Making up 77 per cent both of the CIS territory and its total GDP and 51 per cent of the total CIS population, Russia can be considered as the dominant country in this region. Therefore, experts often assign it a leading role in the integration processes amongst post Soviet states. Small states in terms of their territory tend to have relatively small economies as well. Countries such as Armenia, Georgia, Kyrgyzstan and Moldova altogether produce less gross domestic product than Azerbaijan alone, even though the latter cannot be considered a country with strong economy.

According to the World Bank (2008b) data, in 2007 the total GDP of the member states of the Commonwealth made up \$1.6 trillion USD. The total GDP volume of the Commonwealth is only 3.08 percent of the total world GDP. Though this percentage on the global scale might seem rather minor, the member states of the Commonwealth possess large natural and economic potential which gives them a significant competitive advantage and an opportunity to take an important place in the international division of labour. The member states “make up 16.3 per cent of the world’s territory, 5 per cent of the world population, 25 per cent of the reserves of natural resources, 10 per cent of industrial output, 12 per cent of scientific and technological potential, and 10 per cent of resource saving goods” (Ziyadullaev 2004, p.79). Amongst the natural resources are some of the highly sought after materials on the world market: oil, natural gas, coal, wood, non-ferrous and rare metals and potash salts.

As for other countries, Belarus, Kazakhstan and Ukraine play an important role in the post Soviet era, with the former two being staunch supporters of integration initiatives and Ukraine striving for integration with the EU. However, it also should be emphasised

Table 2

Key indicators of the Commonwealth of Independent States

| Country | Territory | | Population | | GDP | |
|--------------|-------------------|---|----------------|--|------------------------------|------------------------------------|
| | thous. sq. km. | as % of total territory of the CIS | mln. people | as % of total population of the CIS | current US\$, billions | as % of total GDP of the CIS |
| Azerbaijan | 86.6 | 0.39 | 8.6 | 3.1 | 31.2 | 1.8 |
| Armenia | 29.8 | 0.14 | 3.0 | 1.1 | 9.2 | 0.5 |
| Belarus | 207.6 | 0.94 | 9.7 | 3.5 | 44.8 | 2.6 |
| Georgia | 69.7 | 0.32 | 4.4 | 1.5 | 10.2 | 0.6 |
| Kazakhstan | 2724.9 | 12.32 | 15.5 | 5.5 | 103.8 | 6.1 |
| Kyrgyzstan | 199.9 | 0.90 | 5.2 | 1.8 | 3.5 | 0.2 |
| Moldova | 33.8 | 0.15 | 3.8 | 1.3 | 4.4 | 0.2 |
| Russia | 17075.4 | 77.21 | 141.6 | 51.1 | 1291.0 | 77 |
| Tajikistan | 143.1 | 0.65 | 6.7 | 2.4 | 3.7 | 0.2 |
| Turkmenistan | 491.2 | 2.22 | 5.0 | 1.8 | 12.9 | 0.7 |
| Uzbekistan | 448.9 | 2.03 | 26.9 | 9.7 | 22.3 | 1.3 |
| Ukraine | 603.5 | 2.73 | 46.4 | 16.7 | 140.5 | 8.3 |

Note. GDP=Gross Domestic Product. USD=United States Dollar. Compiled from “15 years of the Commonwealth of Independent States (1991-2005). Statistical abstract,” by Interstate Statistical Committee of the Commonwealth of Independent States, 2006; “Key development data & statistics,” by World Bank, 2008c.

that nowadays the ethnic and cultural background of the countries have a significant impact on the way countries cooperate with each other. Therefore it seems pertinent to briefly describe these features.

All the CIS countries are sovereign and treated as subjects of international law. After forming statehood, countries introduced their own new currencies and official state languages.

A look from another angle shows the diversity of these countries. According to their cultural and ethnic composition, Friedrich (n.d., para.2) roughly divides the CIS countries into four major “culture areas”: European Russia, Central Asia, Siberia and Caucasus. European Russia consists of Slavic countries such as Russia itself, Belarus and Ukraine. The Central Asian countries, including Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan, are Turkic. Although Tajikistan is located in the Central Asian region, its people are culturally Iranian (Persian). There are a number of people of different nationalities living in this region, but for various reasons they did not form their own states. The Caucasus countries include Armenia, Azerbaijan, Georgia and a number of smaller and unrecognised states such as Abkhazia, Adzharia, Nagorny Karabakh, South Ossetia. This region is considered as one of the most unstable in the CIS territory, which is evidenced by various military conflicts between these countries. This tension is also influenced by close location of the Chechnya and Dagestan republics of the Russian Federation. Siberia is a vast region with 35 million people population that is inhabited by a great number, 40 or more (Friedrich, n.d., para.25), of small and large ethnic groups. This area is situated on the Russian Federation territory, therefore the republics are also considered to be subjects of the Russian Federation.

These differences in culture and ethnics, as well as religion, naturally split the CIS countries into several groups. Although 15 years has passed since the breakup of the USSR, the Russian language is still spoken in the former constituent countries. And this factor acts as one of the binding mechanisms between the countries (Shumskyi, 2003). Cultures of these countries are significantly different, though during the Soviet period it can be stated that there was one cultural ideology that blended this diversity into a single entity.

5.3 Establishment of the CIS

The CIS is an organisation that offers various opportunities. Perhaps, its most useful function is coordination of CIS states' foreign policies regarding various global issues. This, however, does not suggest that there cannot be differences in their approaches. The topic of foreign policy of the CIS states will be discussed in further chapters.

It should be noted that while the member states seem to seek integration outside of the CIS at present, their reluctance to quit the organisation is strong enough. Unfortunately, due to the recent military conflict in the South Ossetia region between Georgia and the Russian Federation, the Georgian Parliament voted for quitting the CIS. However, Georgia will be considered as a member of the CIS in this work, since its withdrawal will become effective only in August 2009.

As stated above, the Belovezhsky Accord had officially legalised the Soviet Union's breakup. The CIS had begun functioning on December 21, 1991 when the Alma-Ata (Kazakhstan) meeting of heads of the Post-Soviet states took place (Kolesov & Os'mova, 2000). Eleven out of the 15 former Soviet states Azerbaijan, Armenia, Belarus, Kazakhstan, Kirghizstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine signed the Alma-Ata declaration. Two years later Georgia joined the other states to increase the total number of the states to 12. Thus, except for the three Baltic States (Estonia, Latvia and Lithuania), all others became members of the Commonwealth. In relation to the Baltic States, Sakwa and Webber (1999) comment that the CIS accession was counter to their aim to integrate with Western Europe and consequently the CIS was deprived of three relatively strong economies. In fact, this was an expected move, as these countries have always been geographically and culturally closer to Europe than to the Soviet states.

At the summit the member states aimed to work out various schemes that would underlie the new CIS formation. The necessity to solve post breakup problems and form common economic, political and humanitarian space was urgent. One of the most important achievements of the CIS member states after the USSR disintegration was avoidance of the USSR splitting according to the states' religious and national division. Runiewicz and Antonova (2006) remind us that at the time when the presidents of

Russia, Ukraine and Belarus were deciding the fate of the USSR, the heads of the Central Asian countries were contemplating the creation of a Muslim or, as Tulepbergenova (2005, p.16) notes, an “Asian” union. The President of the Republic of Kazakhstan, Nazarbaev, as one of the participants of those events, recalls: “[t]oday many have forgotten about the situation of those days, but we really were on the verge of creation of two unions - Slavic and Turkic including Tajikistan [which belongs to Persian culture]...What we would have today, if such unions had been created, is simply hard to imagine” (as cited in Kvyatkovskiy, 2006, para. 4). Thus, after avoiding the disintegration according to the Yugoslavian scenario (with serious military conflicts involved), the former Soviet countries had to make another vital decision – form groupings within the CIS, such as a political confederation or finally break up and gain independence. It goes without saying that by choosing to stay sovereign and equal, countries laid the foundation for a region free of serious conflicts.

In the 1991 Alma-Ata Declaration, the member states underlined their aim: “seeking to build democratic law-governed states, the relations between which will develop on the basis of mutual recognition and respect for state sovereignty and sovereign equality, the inalienable right to self-determination, principles of equality and non-interference in the internal affairs” (Library of Congress, 1991). Also the document confirmed “the rejection of the use of force, the threat of force and economic and any other methods of pressure, a peaceful settlement of disputes, respect for human rights and freedoms, including the rights of national minorities, a conscientious fulfillment of commitments and other generally recognized principles and standards of international law” (Library of Congress, 1991). This document laid a legal basis for peaceful and mutually tolerant cooperation between the member states.

Taking into account the socio-economic situation on the post Soviet territory and the quick, but responsible decisions that the development of the crisis demanded, integration tasks in various areas, especially economic, had to be defined and implemented. In the declaration it was supposed that the majority of the new independent states would keep the inherited common economic space and interstate borders, as well as coordination of their social and economic policies.

In the first documents on creation of the CIS, particularly the Charter adopted on January 22, 1993, the parties clearly defined spheres where their joint activity would be implemented through coordinating institutes of the Commonwealth:

“ensuring human rights and fundamental liberties;
coordination of foreign policy activity;
cooperation in the formation and development of a common economic space, common European and Eurasian markets, and customs policy;
cooperation in the development of transport and communications systems;
protection of health and the environment;
questions of social and migration policy;
combating organized crime;
cooperation in the sphere of defense policy and the protection of external borders.”

(TheRussiaSite, 1993)

Because the Charter outlined areas where coordination of the CIS would be applied, especially such a sensitive area as foreign policy, a number of countries, Ukraine and Turkmenistan in particular, refused to sign it, and Uzbekistan and Belarus were opposed to certain articles. In the end, as Kubicek (1999, p.17) mentions, the document “was so watered down that it did not oblige members to do anything”. Therefore, in order to understand the nature of the CIS Charter it is very important to remember that the Commonwealth states hardly follow its provisions, while the organization remains neither a state nor a confederation and it possesses no supranational powers. The reanimation of the USSR model was not the aim of the Commonwealth members. Although they tried to save the economic ties between each other, any new political formation that “even bore the title ‘union’, ‘federation’ or ‘confederation’” was unanimously opposed (Gleason, 2001, p.1078). Nevertheless, the member states of the Commonwealth have common aims, interests and spheres for activity and at the same time they preserve the sovereignty of every member state. This leads to a statement that this is an international organisation. Thus, it is a natural process that the member states

of the Commonwealth have multilateral and bilateral relationships based on equal partnership.

5.4 Post-Soviet transformation

After gaining independence all the hopes of the post-Soviet countries for development of their economic relations with the rest of the world were let down. First attempts of the new independent states to redirect their economies to produce and export products to the far abroad turned out to be, in many respects, unsuccessful. Except for raw materials, note Scherbanin et al. (1997), all other products proved to be uncompetitive. One main solution to this problem was to open economies to each other by quickly creating a free trade area and a customs union, in which, according to Viner's (1972) concept of "trade creation" states could form mutually beneficial trade ties by turning their import/export flows to their CIS partners. This strategy could be effective, especially at that period of time, when the number of foreign trade partners was limited.

This situation urged the member states to seek cooperation within the framework of the CIS. Although the level of trade between the member states was rather satisfactory, it was halted by the development of crisis. The governments of the Post-Soviet states attempted to take measures against the coming economic crisis, which led to restrictions on export of goods and raw materials, non-fulfilment of mutual obligations on products export, delays of payments (Metcalf, 1997). This situation disrupted trade ties between member states.

The difficulties with investments, industrial and agricultural outputs, retail trade turnover resulted in a decrease in main economic indicators (see Table 3).

Three years after the breakup of the USSR, the CIS countries experienced drastic changes in their main economic indicators. Except for a relatively good performance in the agricultural sector, other sectors failed to match or even get closer to the 1991 indicators. The agricultural sector had at all times been regarded as a "core" sector by the Commonwealth states, as it provided food security in each country.

Table 3

Main economic indicators in the CIS in 1994 as a percentage of 1991

| Country | GDP | Investment in fixed assets | Industrial output | Agricultural output | Retail trade turnover |
|----------------|------------|---|------------------------------|--------------------------------|----------------------------------|
| Azerbaijan | 47.8 | 69 | 42 | 56.1 | 37 |
| Armenia | 55.9 | -- | 49 | 100.3 | 26 |
| Belarus | 73.8 | 54 | 70 | 81.2 | 61 |
| Georgia | 34.9 | 12 | 21 | 85.1 | 5 ¹ |
| Kazakhstan | 75.2 | 27 | 53 | 94.7 | 28 ² |
| Kirghizstan | 58.1 | 32 | 36 | 69.5 | 43 |
| Moldova | 48 | 20 | 53 | 69.8 | 23 ¹ |
| Russia | 68.1 | 40 | 57 | 76.2 | 102 ² |
| Tajikistan | 46 | 33 | 52 | 76.6 | 15 |
| Turkmenistan | -- | -- | 67 | 87.1 | 43 |
| Uzbekistan | 82.3 | 50 | 98 | 87.9 | 68 |
| Ukraine | 59.6 | 44 | 63 | 77.7 | 46 ¹ |

Note. GDP=Gross Domestic Product. Compiled from “15 years of the Commonwealth of Independent States (1991-2005). *Statistical abstract*,” by Interstate Statistical Committee of the Commonwealth of Independent States, 2006.

¹ Trading organizations.

² Excluding turnover of catering enterprises.

One of the spheres, where CIS countries were hit severely turned out to be retail trade turnover. Certainly this is only one of the consequences of the macroeconomic failure.

However, the GDP level was a major concern. Georgia, Tajikistan, Azerbaijan and Moldova suffered the most with their GDP decreasing by 34.9 per cent, 46 per cent, 47.8 per cent and 48 per cent respectively. Such a significant decrease was the result of the changes taking place at that time. Surely, twice and in some cases nearly a three times decrease of the GDP had a negative impact on the social situation in these countries as well. As for investment in fixed assets, Georgia, Moldova and Kazakhstan had to sharply decrease their investments. This change serves as evidence of the countries' inability to stand the crisis situation, for instance, Georgia invested only 12 per cent of what it had invested prior to the breakup.

Nevertheless, countries like Belarus, Kazakhstan, Russia and Uzbekistan did relatively well after the breakup. In particular, their GDP levels in 1994 showed fewer changes, with Uzbekistan's being the least negative change at 17.7 per cent since 1991. The reasons for not such a bad performance are various – from relative economic strength to artificial growth by way of giving higher indicators than reality. Shynybekov (2006), Scherbanin et al. (1997) warn that such high indicators might be a consequence of statistics and economic phenomena, characteristic of the command economy, including, amongst others, upward distortion and falsification. A good example of such actions is Uzbekistan's indicator relating its industrial output showing 98 percent in 1994. This figure might not be reliable, as at that time the industries in the USSR, as was demonstrated, were in steep decline. Even highly industrialised countries as Russia and Belarus were hardly able to produce what they used to in 1991.

The burden of facing difficulties was also on the population of the CIS member states. There was a significant distrust in the ability of the governments to overcome the crisis, while “nostalgia” (Fedorov, n.d., para.8) for the USSR model with all benefits provided by the Communist Party was strong. For instance, according to Kaser (1997), a survey conducted 4 years after the Soviet Union breakup, showed that 68 per cent of the participants – citizens of the former Union, had a negative opinion of the USSR dissolution, 26 per cent were neutral and just 6 per cent thought of it as a positive decision. Compared to the survey conducted 2 years after the dissolution (29 per cent,

23 per cent and 48 per cent respectively), Fedorov's statement about nostalgia proves to be right.

5.5 Macroeconomic performance of the CIS member states

The disintegration of the USSR, nevertheless, was not a barrier for the CIS member states to achieve a "civilised divorce" (Malfliet, 1998, p.97; Valovaya, 2005, para.3) of the former Soviet republics. However, the negative side of such achievement was that countries might have assumed that one of the main tasks mentioned above had been solved and integration in the CIS could be put aside for a while. For instance, Chubchenko bluntly describes the CIS's fruitless efforts by claiming that it is actually one of the most effective international organisations, because the main aim of the CIS is not integration of its members, but their "civilised divorce" (1999, para.1). This rather harsh statement is probably made to indicate the extent, to which the countries were not able to progress.

An important comment is made by Kolesov and Os'mova (2000), stating that, thanks to the bilateral and multilateral agreements reached by the Commonwealth states, various matters had been solved. For instance, visa free travels between member states, as well as financial debts that were assumed by the Russia and military property divided according to their territorial location.

At the present time there are a number of viewpoints on the CIS situation. An interesting assessment is given by Salpynov (2000), who notices that two main tendencies had emerged in the CIS: first being a tendency that aimed at uniting countries, keeping former ties and their further development with account of their independence and sovereignty. Another aimed at the disconnection of these ties, while the CIS is treated as a temporary organisation that is utilised to weather the disintegration of the former Soviet republics. And the future of the CIS will depend on which tendency of these two outweighs the other.

Writing about the development tendencies in the CIS, Isingarín (2000) and Grinberg and Vardomskyi (2001), suggested dividing its activity into three stages. They defined a

time interval of the first stage as 1991 to 1993, the second 1993 to 1996, the third 1997 to 2000.

Following the division given above, the researcher assumed it would be pertinent to slightly alter and extend it and add a fourth stage. Thus, the CIS activity has been divided into four stages – first 1991-1993, second 1994-1997, third 1998-2002 and fourth will be from 2002 to 2007. As a whole the assessment and interpretation of the first two stages correspond to the statements made above. The third one is characterised as a period when the Commonwealth states enter the period of relative political and social and economic stabilisation. The fourth is a stage of a pragmatical approach in interaction of sovereign, economically and politically developed states.

5.5.1 First stage – 1991-1993

The first stage (1991-1993) represents a period when countries, in the first place, aimed at resolving various matters concerning internal economic, political and humanitarian spheres. Initial steps on development of integration by way of reaching agreements within the CIS had been taken.

After 1991, the CIS member states ratified the arrangements reached at the Alma-Ata meeting. On December 30, 1991 in Minsk (Belarus) and on January 16, 1992 in Moscow, the presidents of the CIS states gathered to continue work on forming a legal basis of the CIS (Torkunov, 1999).

Since the given period was in many respects an initial stage in economic reforms of the CIS states, the main aim was to overcome economic difficulties. It was in this period when the “rouble zone” ceased its existence in August, 1993 (Kononczuk, 2007). The member states introduced their own currencies.

However, deepening of general macroeconomic destabilization negatively influenced the economies of all CIS states (see Table 4).

Table 4

Rates of growth, decline (-) of main macroeconomic indicators on the average in the Commonwealth in 1992-1994 (constant prices)

| Indicators | 1992 | 1993 | 1994 | 1994 as |
|--|---------------------------------------|-------|-------|-----------------------|
| | as percentage of the previous year | | | percentage of 1991 |
| Gross Domestic Product | -14.0 | -9.7 | -14.2 | -33.4 |
| Industrial Output | -14.0 | -12.0 | -22.0 | -41.0 |
| Agricultural Output | -7.0 | -2.0 | -14.0 | -22.0 |
| Investment in Fixed Capital | -39.0 | -10.0 | -23.0 | -58.0 |
| Retail Turnover Through All Channels of Sales | -14.0 | -6.0 | -5.0 | -23.0 |

Note. Compiled from “15 years of the Commonwealth of Independent States (1991-2005). Statistical abstract,” by Interstate Statistical Committee of the Commonwealth of Independent States, 2006.

The figures of the main indicators are an expected result of the changes, which took place in the CIS. Low growth rates went further down and became negative. Crisis processes strengthened in the economies of all independent states. Crises embraced manufacture, financial, monetary systems and foreign trade activities. The slump in production and the decrease in the populations' living standard acquired a large-scale character. According to the data presented, the GDP of the Commonwealth states decreased to 33.4 per cent in the period of 1991-1994. Although such a level of decline is rather predictable and explainable for the countries which broke up without any preparation, but 41 per cent decline in industrial output and 58 per cent in investments can undermine economic processes of any country for a long period of time.

Accordingly, the political, social and economic reforms had not made an expected impact on key spheres in the states' economies. Because the mentioned reforms had been launched at different times and carried out inconsistently (Andriyanov, 2005), the common economic mechanism of the planned economy failed to match new market

economy principles. As a result, the Commonwealth states experienced a downturn of main macroeconomic indicators and a rupture of established trade ties.

Consequently, the crisis situation demanded undertaking serious actions in order to revive economies of the states. The decision was made to form an economic union that was supposed to solve two main problems at the same time: give a new impulse to deteriorating economic mechanisms and assist in economic integration of the states. On September 24, 1993, leaders of nine CIS member states Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan and Uzbekistan signed an Agreement on creation of the Economic Union (Avdokushin, 1999, p.350; Matsnev, 2003). Ukraine, which had not signed the given document, did however, approve its text and joined the Agreement as an associate member. Georgia was not a member of the CIS at the time of signing this agreement. Turkmenistan had serious objections to a number of articles of the Agreement and as a result, had postponed its accession to the Economic Union and joined the Agreement later (Kononczuk, 2007).

The Agreement provided only a concept of the Union's stage by stage formation. Beginning with a free trade zone and customs and payment unions, the agreement was supposed to provide main features of a common market – which is free movement of goods, services, capital and labour in the CIS region (Avdokushin, 1999). Thus, according to Tinbergen's (1965) interpretation of economic integration, states were supposed to go from “negative”, that is removal of trade barriers with no regulatory institution established, to “positive” integration – creation of a supranational structure.

In addition, following tasks had to be implemented (Rybalkin, 1999), including: conduct of a co-ordinated financial, credit, tax, price, currency and customs policies; assistance in development of an international industrial cooperation, direct interaction between enterprises of the countries-participants; joint efforts on development of enterprise activity and investment process and, harmonisation of economic legislations and conduct of co-ordinated social policy. The signing of this document was supposed to become a major landmark in the cooperation of the CIS states.

The Agreement on creation of the Economic Union tagged by Kononczuk (2007, p.34) as “[t]he most ambitious and most far-reaching document ever adopted within the CIS

framework” was indeed a promising document with a detailed concept of a new formation of the CIS member states. The possibility of associate membership was provided in the Agreement. This feature was important for its potential members, as a process of full accession and possible quitting of the organisation would be too long and full of various consequences.

The plans for implementation of the stages of integration initiatives were rather too ambitious. According to Matsnev (2003), free trade zone had to be completed in November 1994, customs union agreement prepared by December 1994, payment union created in the fourth quarter of 1994, common market by the middle of 1995 and a currency union by the middle of 1998. Thus, the authors of the project planned to “reach and outreach” Matsnev (p.119) the EU, which by that time was at the stage of creation of a monetary and economic union. Matsnev wonders that by 1999 it took about 40 years (from 1957) to create the EU, while the CIS was supposed to go through all the stages in four years – 10 times faster. It was believed that this process would take less input on the CIS territory as there were already prerequisites present. The main step that had to be taken was to simply reanimate the former ties, which did not have to take much time, because the EU countries had to actually go through creation of such ties. Later, the time that took CIS member states to establish even the lowest form of integration had proved that integrating at this speed was not an accomplishable task.

Basically, the plans for achieving the set tasks were undermined by several factors. The main reasons, according to Torkunov (1999), were not only non-fulfilment of the signed agreement, but also different directions chosen by the states for economic reforms and market economic mechanisms. This circumstance became a determinative factor that slowed the integration processes in the post-Soviet territory, and was one of the main obstacles in the way of coordinated multilateral cooperation. Sushko (2004) on the other hand, sees the main reason for this project’s failure in Russia’s actions as being the fact that all CIS countries, participating in this Agreement, had ratified it except for Russia, which informed other parties that exclusions and restrictions had to be made to the Agreement, for instance, on products such as oil and gas, as well as on “sensitive” (Sushko, 2004, p.121) items as metals, chemicals, and agricultural products. With such limitations, a free trade area surely would not be able to function properly. After all,

Russia decided not to ratify the agreement. This decision destroyed plans on creating even the lowest form of integration.

5.5.2 Second stage – 1994-1997

The second stage of the Commonwealth development was in the period of 1994-1997. Its highlights were attempts to come to a common decision regarding the CIS's future. At the same time, the first signs of states losing interest in the project had appeared.

On April 15, 1994 the presidents of the member states signed an additional agreement on creation of a free trade zone and on cooperation and mutual aid in customs sphere, which supplemented the Agreement on Economic Union. The Concept of the Payment Union amongst member states of the Economic Union and executive institutions of the Economic Union, including the Interstate Economic Committee had also been approved on October 21, 1994. Kononczuk (2007, p.34) describes the latter as “a body intended as the first supranational executive authority of the CIS with the power to issue binding decisions”. In particular, it was supposed to unite countries on the basis of common energy, transport and communications spheres. Unfortunately, with such extended authority, the Committee never managed to initiate its work.

However, the main objective for this period was to create a free trade area between the states in the shortest possible period of time, as it was important to include all CIS member states before they became indifferent to integration. After achieving this level, the establishment of a customs union and a common market seemed to be rather easier, as initial ties would have been set up by that time. However, in many respects the accepted documents remained only as “declarations of intentions” (Runiewicz & Antonova, 2006, p.26) and “scraps of paper” (Suezawa, 2002, p.17). Six countries, including Russia have not yet ratified the Agreement on creation of a free trade zone. At that time, countries such as Russia, Ukraine and Kazakhstan demonstrated a more effective approach to solution of the economic difficulties. These tendencies became obvious against the background of other states. Their efforts in fighting the crisis were less effective and as a result these states sought support from their more powerful partners.

One of the decisions made by the member states was the creation of regional integration associations. According to Kononczuk (2007), Russia developed a new strategy for the Commonwealth, its main aim was “creating an economically and politically integrated union of states that could aspire to play an important role in the world” (p.34). Thus, on January 9, 1995 Belarus and Russia signed a treaty on formation of a Customs Union, later Kazakhstan in 1995 and Kyrgyzstan in 1996 also joined it.

Another project initiated by Russia was more adventurous. On April 2, 1996, the “most ambitious integrational effort to date in terms of seeking a tighter merger between CIS states” (Adams, 1998 p.58), namely the Commonwealth of Russia and Belarus had been formed, and in three years on December 8, 1999 it was transformed into the Union State of Russia and Belarus. This idea was supposed to introduce practically a new state with corresponding bodies such as High State Council, Council of Ministers, Bicameral Parliament, High Court and all other common bodies normally attributed to a single state.

Kononczuk (2007) believes that this initiative belonged to Russia, which merely gave up its attempts to integrate the “twelve” and focus on a smaller number of countries instead. This decision made by Russia confirms the thoughts of Runiewicz and Antonova (2006, p.22), who claim that there had been three concepts of the relations within the CIS:

1. “neo-imperialism” - with Russia dominating the post Soviet territory as it was in pre CIS time. The creation of the Union State could be utilised as a building block in the reintegration by Soviet Union type;
2. “isolationism” - when countries would abstain from any relations with former Soviet states and lead their own policy by seeking partners from outside;
3. “integrationalism” - when countries come to an agreement to integrate and form a kind of Euro-Asian association.

Indeed, creation of the Union had one main goal: to demonstrate to other states a successful example and encourage them to join the two countries, thus triggering a chain effect. However, no country followed this example, as this Union with “pseudo-federal structure” (Kononczuk 2007, p.35), failed to achieve the level of integration that could be attractive to other states.

The problems following after the disintegration of the USSR became more complex and the ability of the CIS to reach such a level of authority to be able to influence the settling of these issues was rather doubtful. Despite offering a new formation of the independent states, the CIS had practically halted implementation of the plans provided in numerous agreements. As mentioned earlier, the attempts to create economic and payment unions, as well as many other agreements remained on paper. States were more inclined to act in frames of bilateral or multilateral agreements, to establish closer connections.

These negative tendencies strengthened with a worsening of the financial situation in Russia in 1997-1998 caused by the Asian financial crisis (Secretariat of the Economic Commission for Europe, 2003; Grinberg, 2005). This crisis had a serious impact on the external trade of all Commonwealth states. This is explained by Russia's role in trade patterns of the CIS, where it is regarded as a main trading partner of the majority, if not all CIS countries. Besides that, Bulatov (1995) reminds us that the crisis led to devaluation of national currencies of the CIS member states. The devaluation of the Russian rouble and deterioration of the payment mechanism led to worsening of foreign trade relations within the frames of the Commonwealth. Nearly all CIS countries had to devalue their national currencies, though to a lesser extent compared to Russia.

The changes in main macroeconomic indicators of the member states in particular, and the Commonwealth as a whole were rapid and critical, see Table 5.

Although the yearly decline had not been sharp as in previous years, the percentage over the years 1997 to 1991 is still significant. During these years, the sharpest decline was again in the investments in fixed capital, with -17 per cent in 1996. As it can be seen in Table 5, the year 1997 showed a relatively positive outcome, though minimal development with the highest figure being a retail turnover rise of 6 per cent.

As a result of the failure of various projects, the states' negative attitude towards them led to a situation where last chances of creating integration forms on the CIS level were lost. After this, the member states felt rather free to choose their own path of further development.

Table 5

Rates of growth, decline (-) of main macroeconomic indicators on the average in the Commonwealth in 1995-1997 (constant prices)

| Indicators | 1995 | 1996 | 1997 | 1997 as percentage of 1991 |
|--|---------------------------------------|-------|------|----------------------------------|
| | as percentage of the previous year | | | |
| Gross Domestic Product | -5.3 | -3.4 | 1.4 | -38.1 |
| Industrial Output | -6.0 | -6.0 | 2.0 | -47.0 |
| Agricultural Output | -7.0 | -5.0 | 1.0 | -30.0 |
| Investment in Fixed Capital | -14.0 | -17.0 | -3.0 | -71.0 |
| Retail Turnover Through All Channels of Sales | -8.0 | 3.0 | 6.0 | -23.0 |

Note. Compiled from “15 years of the Commonwealth of Independent States (1991-2005): Statistical abstract,” by Interstate Statistical Committee of the Commonwealth of Independent States, 2006.

5.5.3 Third stage – 1998-2002

This period embraces a time when all the CIS countries admit the existence of the crisis, expressed in non-fulfilment of the founding agreements and refusal of some countries to cooperate with other states in economic and political spheres. Also during this period, after the economic crisis in August 1998 in Russia, the member states experienced stabilisation and slight growth of their macroeconomic indicators. Kononczuk (2007, p.35) writes that the new century brought a new understanding of the processes in the CIS and the integration projects were now based on the assumption that “a more realistic assessment of the prospects for integration in the post-Soviet area was necessary”. The relatively positive changes in the economies of the Commonwealth countries can be seen in Table 6.

Table 6

Rates of growth, decline (-) of main macroeconomic indicators on the average in the Commonwealth in 1998-2000 (constant prices)

| Indicators | 1998 | 1999 | 2000 | 2001 | 2000 as percentage of 1991 | 2000 as percentage of 1995 |
|--|------------------------------------|------|------|------|----------------------------------|----------------------------------|
| | as percentage of the previous year | | | | | |
| Gross Domestic Product | -3.9 | -5.4 | 9.0 | 6.2 | -31.7 | 7.7 |
| Industrial Output | -3.0 | 8.0 | 9.0 | 6.0 | -40.0 | 8.4 |
| Agricultural Output | -10.0 | 2.0 | 6.0 | 8.0 | -31.0 | -5.5 |
| Investment in Fixed Capital | -6.0 | 5.0 | 17.0 | 13.0 | -66.0 | -5.6 |
| Retail Turnover Through All Channels of Sales | -1.0 | -3.0 | 9.0 | 12.0 | -20.0 | 11.3 |

Note. Compiled from “15 years of the Commonwealth of Independent States (1991-2005). Statistical abstract,” by Interstate Statistical Committee of the Commonwealth of Independent States, 2006.

After the Asian crisis, the CIS countries finally gathered their resources and stepped onto the development path; for instance, in 1999 industrial output grew by 8 per cent, agriculture by 2 and investment in fixed capital by 5 per cent. This tendency was followed in 2000 with, surprisingly, tripled growth of indicators for GDP, agricultural output was up by 6 per cent and investment in fixed capital by 17 per cent. There was a slight decrease in indicators in 2001. In addition, the state of affairs seems different when the year 2000 indicators are compared to those in 1991. In spite of the development, they clearly show that the situation was no better. Still the GDP, on average, in the CIS was only two thirds of the total percentage and industrial output 40 per cent less than in 1991. Thus, as Tulepbergenova (2005) states countries displayed different approaches to the reforms in their policies regarding building market economies and choice of political partners.

In June, 2000 the heads of the member states confirmed the Program of Actions on Development of the CIS for the period till 2005 (CIS Executive Committee, 2000). One of the main aims of this document was formation of long-term and mutually

advantageous economic ties. For instance, it still included creation and development of a free trade zone. For this long awaited initiative to be implemented, countries agreed to create certain conditions for it. Yarov (2001, p.76) explains that in this case consecutive, purposeful and supportive actions were needed from both the “top” (public sector) and the “bottom” (private sector). For instance, in the areas of transport, communications and informational provision of the free trade area.

These main spheres were supposed to “prepare” countries, that is, to improve their infrastructure for easier access and circulation of goods and services. The plans for further development included provision of conditions for entrepreneurship, industry cooperation and formation of consumer and raw materials markets. This had to be accompanied by an improvement of product competitiveness by mastering new technologies and the unification of standards and norms. These actions were to assist in exporting goods produced in the CIS to the world markets.

During this period four regional associations were formed, while Armenia, Georgia, Kyrgyzstan and Moldova gained accession to WTO (Shumskyi, 2003, p.202). Accordingly, these states accepted trade rules imposed by the WTO regulations. Because their CIS partners were not members of the WTO, the main problem with this situation was the difference in the tariff rates set by the Customs Union member countries and WTO members. Under these conditions, plans on creation of a free trade area within the Commonwealth had to be postponed.

The situation in the CIS demonstrated that interest in integration on a large, CIS scale faded from year to year. Member states saw more perspectives in newly created regional organizations; therefore the decision to shift efforts to the development of regional integration was made.

5.5.4 Fourth stage – 2002-2007

The fourth stage in the Commonwealth development history may be said to have begun in the second half of 2002.

The main characteristic of this stage is macroeconomic stabilisation. Member states eventually defined their main income sources and as a result they positively influenced

populations' consumer demand. Governments managed to successfully support economies' growth rates, and relative revival of economies led to reduction of unemployment. Main indicators for this period can be seen in Table 7.

Table 7

Rates of growth, decline (-) of main macroeconomic indicators on the average in the Commonwealth in 2001-2007 (constant prices)

| Indicators | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2007 as percentage of 2000 |
|--|------------------------------------|------|------|------|------|------|----------------------------------|
| | as percentage of the previous year | | | | | | |
| Gross Domestic Product | 5.3 | 7.8 | 8.1 | 6.8 | 8.0 | 9.0 | 63.0 |
| Industrial Output | 4.0 | 10.0 | 9.0 | 5.0 | 5.0 | 7.0 | 57.0 |
| Agricultural Output | 2.0 | -0.1 | 8.0 | 3.0 | 4.0 | 2.0 | 29.0 |
| Investment in Fixed Capital | 6.0 | 16.0 | 16.0 | 12.0 | 15.0 | 21.0 | 153.0 |
| Retail Turnover Through All Channels of Sales | 10.0 | 10.0 | 14.0 | 14.0 | 15.0 | 16.0 | 138.0 |

Note. Compiled from “15 years of the Commonwealth of Independent States (1991-2005). Statistical abstract,” by Interstate Statistical Committee of the Commonwealth of Independent States, 2006; “Commonwealth of Independent States in 2007 (digest of preliminary statistical results),” by Interstate Statistical Committee of the Commonwealth of Independent States, 2008.

Data in Table 7 shows the positive development of economic related spheres in the CIS member states. The GDP of the CIS has been displaying stable growth since 2002. The average 7.5 per cent growth during six years (2002-2007) is an impressive figure for this region and points to stabilization of the economies. Already by 2005, Armenia exceeded its 1991 GDP level by 53 per cent, Belarus by 33 per cent, Kazakhstan by 38 per cent, and Uzbekistan by 2 per cent. Countries such as Georgia, Kyrgyzstan and Ukraine were still behind their pre CIS levels by an average of -15 per cent. However, the most negative tendency was in Tajikistan (one of the poorest CIS countries), which produced only 48 per cent of its 1991 GDP.

It is rather disturbing that the industrial output still shows low level of development, while following Sannwald and Stohler's (1959) "sectoral integration", namely industry could act as a driving sector in the overall CIS development. However, at the time when countries prefer focusing on extraction of natural resources and exporting them to the world markets, they do not seem to be interested in taking more intensive actions for the development of other industries. Therefore, the average 6.6 per cent growth in six years (2002-2007) cannot be regarded as a significant achievement, especially taking into account that only two out of twelve countries were able to achieve their 1991 level by 2005.

The relatively slow development of the agricultural output is explained by its stability during post Soviet time, as it was mentioned earlier, CIS countries went to great efforts to save their agriculture. The robust growth of investments and retail turnover is a direct indicator of the flow of money into the CIS countries' economies. This flow was supported by opening up their markets to the investors from foreign countries and having access to the finances offered by the lending financial institutions in Europe and North America.

In general, a large number of initiatives, various integration projects mentioned in this and previous sections might look somewhat abundant and at the same time chaotic. The reason for such a situation is a simple lack of joint actions between the CIS member states.

After 2002, the countries have come to an understanding that they have significant distinctions in levels of their economic development. In this period they were more careful about which integration projects they initiated and who their partners would be. Therefore, their cooperation in trade and economic spheres had to take into account this important factor that mainly constrained integration both within the twelve states, and in such regional associations as EurAsEC, GUAM.

5.6 Intra and Extra CIS trade

The main functions of the Commonwealth include development of trade and while it is believed that it failed attempts to create a free trade zone, there are experts who defend

the free trade area project in the CIS and believe it was not as unsuccessful as it was claimed. For instance, Pastukhov (2004, p.110) and Rushailo (2007, p.72) state that the exceptions to the goods (mentioned earlier) in free trade between countries are applied only to 27 commodity positions, while non-tariff restrictions apply to less than 200. These figures show that fewer obstacles are present in CIS free trade than in other international organisations. For instance, Pastukhov gives an example of NAFTA where restrictions are applied on a greater number of commodities – 1500.

As a result, after disintegration of the USSR, the Commonwealth states chose to expand their trade and cooperation with countries and economic groups outside the association. The Secretariat of the Economic Commission for Europe (2003, p.166) explains that “[t]his shift was due to the deliberate redirection of exports away from the CIS markets against the background of a nearly 90 per cent decline in intra CIS trade between 1991 and 1993”. The main aim behind this decision was to gain more income from selling raw materials and in exchange be able to purchase, for instance, basic foodstuffs and consumer goods which production in the CIS countries is currently still at a low level (Kolesov & Os’mova, 2000; Aubakirova, 2002). This leads to countries’ economies simply turning into basic exchange platforms, a situation described as a “cash in – cash out scheme” (Informant 3, personal communication, February 25, 2008). Another aim, though to a smaller extent, was to purchase capital equipment with the aim of modernising and creating manufactured items which were world class.

Figures 3 and 4 provide information on exports and imports of the CIS countries.

The sums of exports in Figures 3 and 4 show that the countries were able to set up their trade relations from scratch since the breakup of the USSR. According to the CIS Interstate Statistical Committee data (2006, p. 227-235), there was a significant increase in exports by 314 per cent, and an increase in imports by 241 per cent in 2005 compared to 1995.

According to the WTO (WTO, 2007; WTO, 2008d), the CIS was one of the seven countries to achieve the highest export and import growth in 2006. It is noted that the exports of the CIS made up \$422 billion USD, which is two times higher than three years ago. As for the imports, they comprised \$278 billion USD, with the merchandise

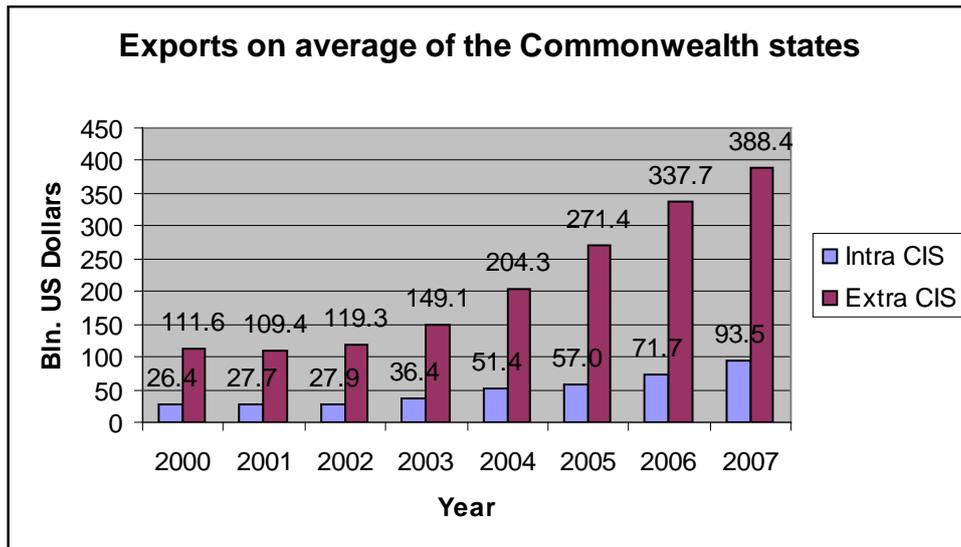


Figure 3. Exports on average of the Commonwealth states. Compiled from “*Commonwealth of Independent States in 2007 (digest of preliminary statistical results)*,” by Interstate Statistical Committee of the Commonwealth of Independent States, 2008, p. 141-142.

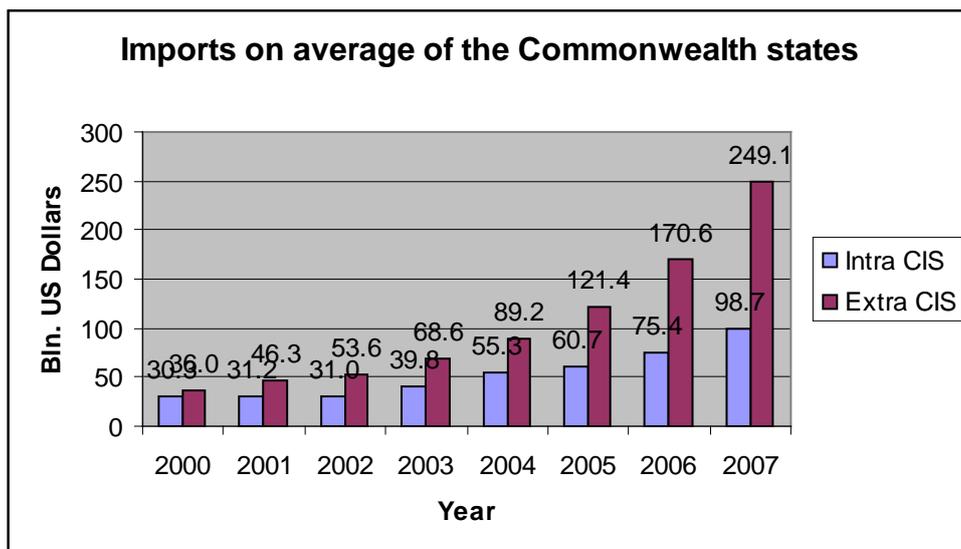


Figure 4. Imports on average of the Commonwealth states. Compiled from “*Commonwealth of Independent States in 2007 (digest of preliminary statistical results)*,” by Interstate Statistical Committee of the Commonwealth of Independent States, 2008, p. 141-142.

surplus being \$20 billion USD in 2006. In 2008, the Commonwealth states managed to increase their output levels and made up 40 per cent of the world output growth in 2007. Figures above suggest that the share of total trade turnover between the CIS countries made up \$192.2 billion USD in 2007 and rose by 29.5 per cent since 2000. The trade turnover with countries outside the CIS exceeded \$637 billion USD in 2007 and increased by 23.1 per cent in comparison with 2000. In particular, exports grew by 28.7 per cent, and imports by 12.1 per cent. Thus the trade balance of the CIS countries in the year 2007 is positive and comprises \$139.3 billion USD surplus.

The indicators of the CIS states' exports show that the share of intra CIS exports has had a strong tendency to grow since 2000. From \$26.4 billion USD in 2000, it went to \$93.5 billion USD in 2007. Even though this 3.5 times increase involves increased raw materials exports within the CIS, it still points to a growth. This means that trading links have been established and they will hopefully extend, once the level of production of other products (manufactured, agriculture) increases.

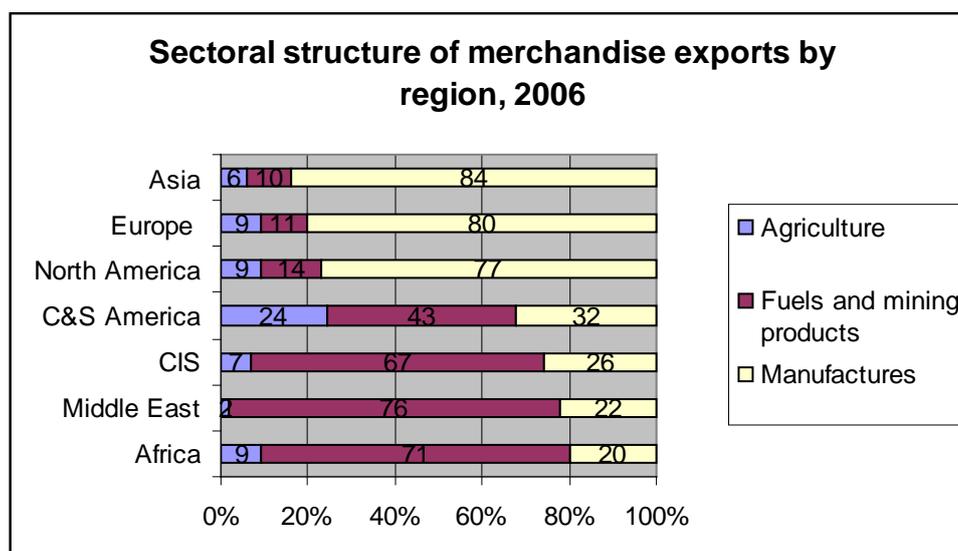


Figure 5. Sectoral structure of merchandise exports by region, 2006. From “*International Trade Statistics 2007*” by World Trade Organisation, 2007, p. 4.

The indicators in Figure 5 demonstrate the one-sided export tendency for the Commonwealth states. Although the relatively small percentage of agriculture is justified, as it should be directed mainly at domestic markets, the high share of fuels and minerals puts the member states at the mercy of world price fluctuations. The asymmetry of the graphics shows a tendency in the Post Soviet space towards

diversification of foreign trade ties. The reasons for prevailing figures of exports to countries outside of the CIS, and hence the decision to turn trade flows to outer markets, are rising prices for minerals, chemicals and metallurgy on the world markets and an increase in volumes of extraction. Since the mentioned products are the main items on the export list of the majority of CIS states, gaining high profits outweighs the necessity to provide the domestic markets with cheap raw materials; hence even though these states are main exporters, prices on the domestic market tend to be the same as world prices, while the income level of the populations remains low.

In general, a large number of CIS states find it beneficial to trade with foreign instead of CIS partners. Although, mutual support in terms of economic preferences in trade would have looked a natural choice for former Soviet Union states, higher income and more opportunities in trade with foreign states turns out to be beneficial.

5.7 Current CIS status

As to the present functions of the Commonwealth, experts claim that today the CIS is a “club of presidents” (Valovaya, 2005, para.25; Kononczuk, 2003 p.36), utilized to build common ties and resolve minor difficulties.

Taking into account the uniqueness of the Post-Soviet integration process, its purposes and problems, Grinberg (2005), Grinberg and Vardomskyi (2001) conclude that the Commonwealth states, in the near-term and medium-term outlook (10-12 years), will not be able to achieve a more effective regional association status. Kaveshnikov (2003) agrees that in the nearest future, integration in the CIS, comparable to the EU model, is very unlikely. However, it does not mean that the economic integration may not take place in different forms. In the given conditions of the CIS, he admits that the maximum level of integration able to be implemented in the area is a free trade zone.

Regarding the performance of the CIS, critical opinions have been expressed both in the beginning and intermediate years of the Commonwealth existence. Often, no author misses a chance to criticise this or that flaw of the organization. Due to the large number of these opinions, it could be agreed that there exist problems and that these critics might have valid grounds for their attitude. Some of them somewhat belittle the role and

significance of the CIS; in particular, Kononczuk (2007) is critical of the CIS and writes that it “became a facade organisation, intended to preserve the illusion that the post-Soviet states were grouped in an organisation” (p.36). Other unflattering comments include for instance, “Soviet Humpty Dumpty” (Adams, 1998, p.61), and “a talking-shop” (Kononczuk, 2007, p.36).

Another group of authors is more specific, and single out particular areas of unsatisfying performance. There are a number of them including the acceptance of about 1000 joint decisions (Metcalf, 1997; Torkunov, 1999) in various areas of cooperation in the period of 1992 to 1998, while most of the decisions remained on paper. This problem has been mentioned by other authors as well. For example, Valovaya (2005, para.21) also thinks that the negative role in the CIS development is played by the “complex and poorly governable bureaucratic structure” of the integration mechanism. For instance, the CIS member states had created 70 various entities within the organization (Suezawa, 2002, p.16; Grinberg, 2005, p.7) and during the informal CIS summit in Moscow in July 2006, Kazakhstan’s president Nursultan Nazarbaev declared that according to his assessment, of the 1600 agreements adopted, only around 10 per cent had been implemented (Melikova, 2006). These facts clearly point to the systemic flaws within this organisation and a lack of mechanisms to overview the progress of these agreements and to discipline any non-fulfilment which occurs. This also shows that overall, the Commonwealth was not regarded as an authoritative organisation. In this regard, summing up the attempts in the 1990s in general, Kononczuk (2007, p.35) states that the integration projects in the CIS were based on the assumption that “anything could be signed because nothing would ever get implemented anyway”. Such an approach will not work towards integration between the countries.

Another reason includes the inability of the CIS member states to work out a “common vision” (Timmermann, 1998, p.41); there are no uniting aims which would assist in the development of integration processes. This is especially evident in the spheres of foreign policy, trade, and security.

Many experts also offer various forecasts regarding the CIS future. As is always the case with the CIS, the forecasts tend to vary from very negative to relatively positive. Grinberg (2005) thinks that there are two scenarios for the CIS. First one is a breakup of

the Commonwealth and creation of new associations in various combinations. The second scenario is gathering of the current CIS members around Russia, thanks to its domination in political and economic aspects. To some extent, the latter option reanimates in some way, the USSR model. According to Grinberg (2005) and Informant 3 (personal communication, February 25, 2008), integration in the CIS should be based on business to business integration and industry approach – that is integration of industries as was the case in Western Europe. Another factor that might influence integration is across the border cooperation, which basically includes building economic ties between the businesses of two bordering regions of partner countries.

Kubicek (1999) has a yet more gloomy prediction about the CIS future. According to him, the breakup of the CIS is inevitable. It would take place “...since throughout its life it has had, at best, a marginal impact on most of its member states” (p.24). Moreover, the dissolution of this organisation will finally give the member countries a chance to pursue their own interests and make decisions which would be favourable to them in the first place.

The member states will likely introduce a common currency, believes Astapov (2005) and forecasts that in the long term this would help them decrease trade expenses within the organisation, as well as make them independent from foreign price fluctuations on main export items. Kolesov and Os'mova (2000) and Ziyadullaev (2004) state that the CIS countries have all prerequisites needed for turning the organisation into a highly effective integration association. And Isingarini (2001, p.71) rounds up these forecasts and gives his own vision of the future for the CIS; according to him there are three possible scenarios for the CIS:

1. “Pessimistic – the CIS ceases its existence as member states would eventually quit the agreements signed within the organisation.
2. Uncertain – the heads of states and governments would periodically (one-two times a year) hold official meetings, make decisions (not obligatory for implementation), while some member states would still refuse to sign documents.

3. Optimistic – the CIS states eventually achieve free trade area level, integrate their economies, reform the CIS organs and activate them. This is the path for formation of a real international integration organisation”.

(Isingarin, 2001, p.71)

If we follow Isingarin’s scenarios, at present the CIS is at the “uncertain” level. It may be stated that it is now up to the member states to leave behind all the misunderstanding, disappointment, distrust and gather together, work out a common “vision” and follow the plan that will be drawn together and take into account the opinions of every member. Only then, will the countries be able to achieve the “optimistic” level and thereby fulfil the CIS’s initial development plan.

In general, various statements and forecasts have been made and will be made throughout the existence of the CIS. However, Shumskyi (2003) believes that currently the level of integration of the Commonwealth states corresponds to their level of socio-economic development, reform of market economy and democratisation of social relations. Informant 3 (personal communication, February 25, 2008) states that the model chosen and followed by the CIS states is “best possible” – meaning that with such a large number of states there cannot be anything more expected.

The CIS still remains as the first integration organisation in the post-Soviet space. Even though the performance of the CIS cannot satisfy any of its member states, it has had a role to accomplish. This role has been underlined throughout this chapter. The main words in its defence are that the Commonwealth as an organization, was able to provide harmless disintegration and to build traditional, equal relations between the former “brother states”.

In this chapter the economic situation in the CIS member states has been discussed. The economic and political aspects of changes in the CIS states after the USSR disintegration have been discussed. States’ economic performance has been examined and significant changes in macroeconomic indicators have been noted. They negatively influenced states’ production sphere and as a result, their trade patterns substantially deteriorated. Over-reliance of a number of CIS states on raw materials in their exports

structure led to low rates of diversification of their economies. The chapter has concluded with a discussion of CIS's future perspectives that differs significantly, ranging from pessimistic to optimistic. In the next chapter, regional associations, created on the CIS territory, will be discussed.

CHAPTER SIX REGIONAL ASSOCIATIONS IN THE POST-SOVIET TERRITORY

6.1 Overview

This chapter will present a discussion of the regional economic integration associations created on the CIS territory. The choice of direction in the foreign policy of the CIS member states will be highlighted. It will then focus on a description of the economic and political situation in the four regional associations. Pre-conditions that existed for integration and the reasons that urged their member states to join will be examined. The regional associations' similarities, interests, as well as difference of opinions on matters regarding economic integration will be discussed.

6.2 Foreign policy direction of the CIS states

The inability of the member states to integrate within the frames of the Commonwealth has urged them to change their tactics of integrating all twelve countries at once. The decision was that it would be more effective to do it amongst those which are ready and eager to cooperate. As a result, one of the main factors having had an influence on these decisions was, in fact, the political relationship status between the member states and the political will of the countries' presidents. Favourable conditions of trade between them, economic potential as well as similar direction of their foreign policies predetermined their choice of partners. Therefore, finding suitable partners became an important task for these states. In addition, Ismailova (2005) notes that the independent states' economies which had been a part of the common economic complex of the Soviet Union have now only one option for becoming part of the world economic scenario – regional integration.

The formation of the regional associations in the CIS formally divided the member states; one group of states supported the development of economic integration, the other group preferred bilateral interaction. For instance, according to Smirnov (2003, p.16), Isingarín (2001, p.72) the first group of countries has formed (amongst other alliances) several regional associations: The Union State of Belarus and Russia formed in 1996; the EurAsEC with participation of Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan

and Uzbekistan formed in 2000. The CES, formed in 2003, with participation of Belarus, Kazakhstan, Russia and Ukraine, can also be added to this group. The EurAsEC and the CES are moving in similar directions. Other CIS states, represent the second group. They have formed the regional organisation GUAM, formed in 1997. This alliance sticks to pro Western direction and it thereby leans towards integration with Western Europe rather than with the post-Soviet region.

When analysing political division and diversity in the CIS, Kuzio (2000, p.81) defined several foreign policy directions chosen by the states. There are four directions: Westernisers, Pragmatics, Radicals and Russophiles. A detailed division can be seen in Figure 6.

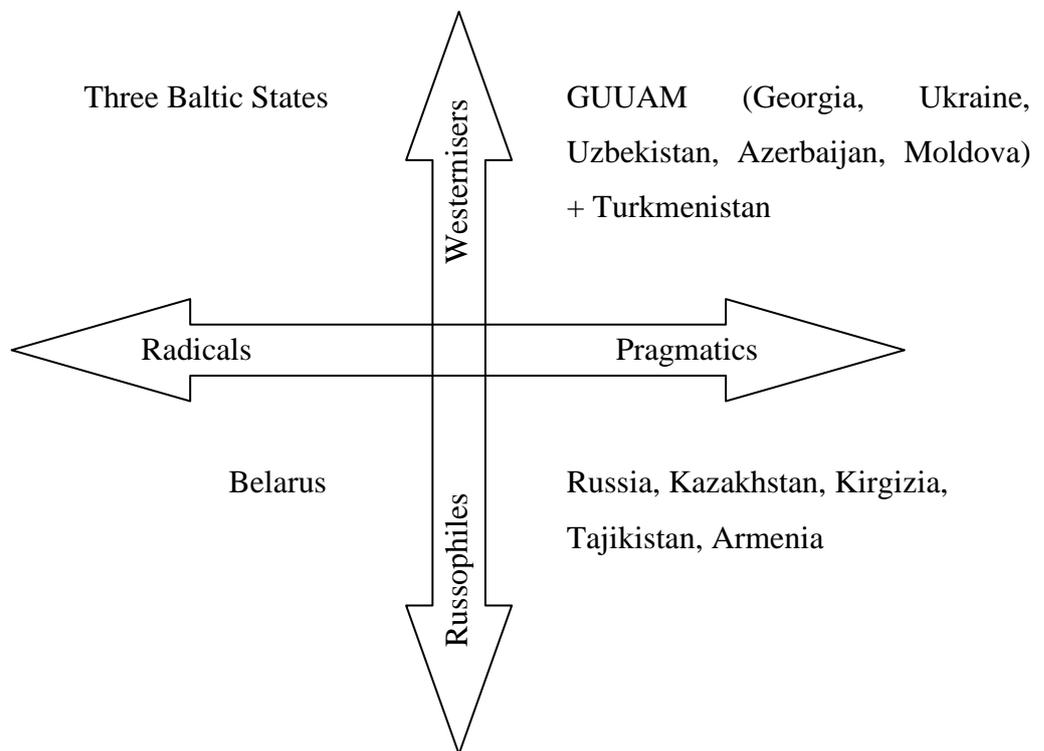


Figure 6. Foreign policy orientation in the CIS. From “Promoting political pluralism in the CIS: the emergence of GUUAM,” by T. Kuzio, 2000, *European Security*,9(2), p. 82. Modified by the researcher.

Although this work was presented in 2000, there have not been many significant changes in the countries’ relations since then. Only GUAM does not include Uzbekistan any longer. Westernisers are countries leaning towards integration with Europe and include the three Baltic States. Because of their rejection of any political proposals from

the CIS side, they are considered radicals in this case. Another group of countries (GUAM) is also interested in integrating with Europe and unlike the previous states applies a pragmatic approach in its relations with the CIS. As a result, gaining various benefits from their relationship with countries plays a decisive role for them. Countries gathered around Russia are labelled by Kuzio as Russophiles, meaning that they tend to unanimously support the political and economic initiatives coming from Moscow. At the same time they also prefer using such relations in their own interests and naturally expect favourable economic conditions from Russia's side in economic cooperation. The only country that has a radical approach towards integration with Russia, is Belarus. While Russophiles may look positively at economic and in some cases political cooperation with Europe and the USA, Belarus actively opposes integration with the West, thereby leaving itself the only option available – cooperation with Russia.

As a result of such division, integration becomes somewhat inefficient. Under such conditions, as Grinberg (2005, p.15) notes, these regional groupings should be “depoliticised” in the first place, as such hidden political confrontation only impedes the development of integration processes. Indeed, dividing their efforts for a certain period of time in order to work separately, but effectively achieving one common aim is one thing, but splitting and eventually ending up on opposite sides of the political chessboard is completely different.

As for the forces that cause such confrontation, Ziyadullaev (2004, p.80) issues a reminder that the “splitting” of countries and alliances was admitted by Russia because of weakness of its economy and absence of a firm political will. In this connection it can be said that while having a strong economy is not an easy thing to achieve, the absence of the political will becomes the main reason. However, as mentioned before, Russia had all the opportunities at hand and it was only a question of being able to use them. The case in point was not trying to build a “second USSR”, but effectively, in a timely manner, right after the breakup, take the chance, while the countries' economies were competitive, and try to save the economic ties in the first place. The opportunity was lost at that time and this factor, to some extent, accounts for the present division.

6.3 The Georgia Ukraine Azerbaijan Moldova alliance (GUAM)

Taking into consideration that the CIS could not offer anything more than a useful platform for regular meetings, it turned into a space of subregional political alliances and economic interstate blocks. Unlike the Union State of Belarus and Russia and the EurAsEC, which are focused on Russia, GUAM prefers uniting without Russia's participation.

On October 10, 1997 the presidents of four states: Georgia, Ukraine, Azerbaijan and Moldova, during the summit of the EU countries, signed a Communique about the creation of the regional association GUAM (Pomfret, 2007). The very fact that the creation of the regional association of countries, situated in the post Soviet territory, took place during the EU summit points to the direction chosen by its member states. GUAM presented itself as an "informal alliance" (Silaev, 2006) for regulation of transportation of the Caspian hydrocarbons through the created Transcaucasian transport corridor (Kubicek, 1997).

However, it is considered that the creation of GUAM was as an attempt at counteraction of the four states' leaders in opposition to domination of Russia in the post-Soviet territory. The main objective of the given block is creation of alternative transport and power corridors which would bypass Russia (Transport Corridor Europe-Caucasus-Asia and the Eurasian oil corridor) (Sakwa & Webber, 1999). Aside from this objective, the member states planned to settle territorial conflicts in Abkhazia (Georgia), Nagorny Karabakh (Azerbaijan) and Dniestr region (Moldova).

The decision to bypass Russia has been motivated not only by political reasons, but also economic. Oil from either Kazakhstan's Caspian shore or Azerbaijan's own oil is to be transported by "Baku-Supsa" oil pipeline (see Figure 7) from Azerbaijan through Caucasus and Black Sea to Ukraine and possibly further, into Poland, that is Europe. Thus, the oil pipeline will run through three of four GUAM countries and bypass Russia. No doubt, this relatively big project should bring economic benefits to the GUAM participating countries and ease Ukraine's dependence on the Russian energy sources.

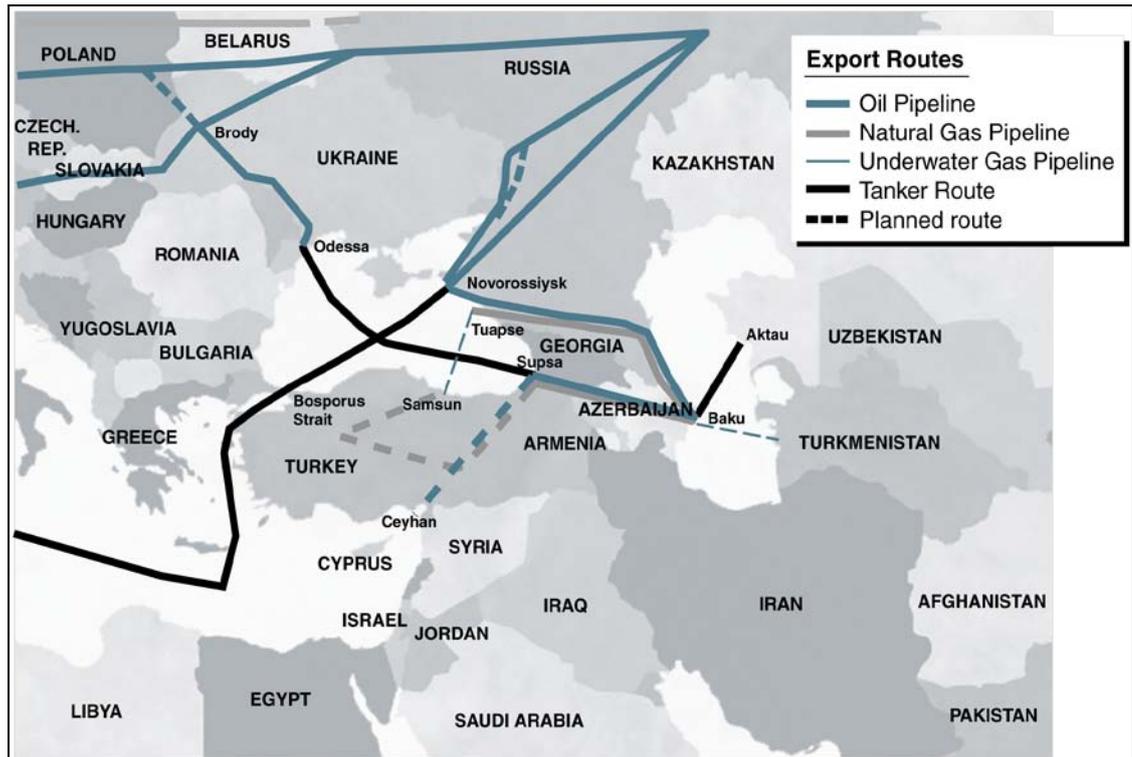


Figure 7. Export routes of the Caspian oil. From “Ukraine and the Caspian. An opportunity for the United States,” by O. Olikier, 2000, *RAND Issue Paper IP-198*, p.2.

It is noticeable that in the first place the member states aim to develop ties between each other and act in their own interests. Interestingly, in their declaration GUAM members intend to start cooperation “for the sake of a stable and secure Europe” (GUAM Joint Communique, 1997).

The Declaration itself was based on the principles of “respect for sovereignty, territorial integrity, inviolability of state frontiers, mutual respect, cooperation, democracy, supremacy of law, and respect for human rights” (GUAM Joint Communique, 1997). In two years, in April 1999, during the North Atlantic Treaty Organisation (NATO) summit in Washington, Uzbekistan was accepted to GUAM. It should be noted that Uzbekistan is a country situated in Central Asia; therefore its intentions when joining GUAM are motivated rather politically than economically. Perhaps for this reason Uzbekistan had not been a member of the organisation for a long period of time, as in 2002 it had suspended its membership and eventually left the alliance (Silaev, 2006). During this three year period the organization had been called GUUAM. And again

attention should be paid to the states' decision to accept their new member during the summit of NATO, which is one of the organisations Russia does not favour, to say the least.

These actions and the functioning of an organisation with a critical approach to integration in the CIS had its negative influence on the Commonwealth. In addition, GUAM actively engages itself in cooperation with the USA in such areas as trade, transport, border and customs control, fighting against terrorism, organised crime, and illegal drug and arms distribution (Rakhmatulina, 2004).

On July 20, 2002, the GUAM member states signed an agreement on creation of a free trade zone (Eurasian Home, 2004). Tariffs, tax rates and quantitative restrictions were supposed to be removed in trade between members. However, as of now the states have not come to an agreement regarding the free trade zone. One of the difficulties that impeded its creation is the relatively small economies of the three of its members: according to the World Bank data (2008b), the total GDP of Moldova, Azerbaijan and Georgia makes up only \$45.8 billion USD. This is about one third of Ukraine's GDP alone. Also as shown by the World Bank (2008a) data on economies' income level, all the four GUAM member states happen to be in the "lower-middle-income economies" group, while the three states of the CES (Belarus, Russia, Kazakhstan) are in the "upper-middle-income economies" group. Other barriers standing in the way of free trade are the same as those for the CIS, that is difference in tariff rates, standards, presence of industries highly protected by governments, weakly developed manufacturing industry and so on.

After Uzbekistan made the decision to quit the alliance in 2002, there was a period in GUAM's activity when, as characterised by Rakhmatulina (2004), integration processes in the alliance were rather "idle" (p.121), because no significant activities had taken place during this period.

However, this situation had changed by the end of 2004 after the "Orange revolution" in Ukraine (Larrabee, 2007, p.55). The country's new government chose to integrate with Western Europe (Informant 2, personal communication, February 22, 2008). It should be added here that a certain level of confrontation between Ukraine and Russia occurred

earlier as well. The causes can be attributed to the fight for leadership in the region, Russia's disapproval of Ukraine's decision to seek integration with Europe, as well as Ukraine's reluctance to integrate with the post-Soviet countries for economic and political reasons. Thus, this situation arose long before the current government came to power. For instance, Sakwa and Webber (1999, p.402) note that the former presidents of Ukraine, Kravchuk and Kuchma, "have been essentially distrustful and have viewed the CIS as an instrument of Russian influence". Therefore the line of policy conducted by the Ukrainian government should be interpreted taking into account the historical momentum.

Eventually, the GUAM member states made a decision to change the organisation's name. In May, 2006 the name GUAM and consequently the status was changed to "Organization for democracy and economic development – GUAM" (Rouseau, 2008). Whether these changes have significant weight and power to help achieve the organisation's aims is yet to be discovered.

Together with the EurAsEC and CES, GUAM contributes to the political pluralism on the post Soviet space. Having different strategy, structure and approach, GUAM chases its own opportunities in cooperation with Europe. However, at present GUAM acts in a rather similar way to the CIS: it is a useful association in terms of discussing important economic, political matters, but when it comes to real action, it leaves much to be desired.

6.4 The Eurasian Economic Community (EurAsEC)

The EurAsEC consists, according to Kuzio's (2000) division, of the "Russophiles" and "radical" Belarus. Despite this group's attempts to integrate since the USSR breakup and with rather mediocre results achieved, it made a decision to build a separate integration grouping.

An economic organisation, EurAsEC consists of such member states as Belarus, Kazakhstan, Kirghizstan, Russia and Tajikistan. Moldova and Ukraine (since 2002), and Armenia (since 2003) have an observer status. In 2006, Uzbekistan joined the association (Shishkov, 2007) and, in November 2008, decided to suspend its

membership. In total, at present the community has 6 members. The main objective of the EurAsEC is creation of customs union in the territory of the member countries (Zhukov & Reznikova, 2006).

The Agreement on the formation of the EurAsEC was signed on October 10, 2000 in Astana (Kazakhstan) by the presidents of Belarus, Kazakhstan, Kirghizstan, Russia and Tajikistan (Koshanova, 2005). It intended to comprise aims and tasks that were set before by the CIS member states, including creation of free trade area and customs union. In particular, the Community's priority tasks include such vital provisions as unified customs regime; creation of mutually beneficial conditions for the attraction of foreign and domestic investments into the states' economies; harmonisation of economic, financial, labour, social and criminal legislations; coordinated economic policy of the member states during interaction with other states and international organisations, and removal of all obstacles for free movement of member states' citizens on the territory of the community (Primbetov, 2006, p. 16; Baipakova, 2005, p.34).

Experts speak in favour of this organisation, emphasising that its founders did everything possible to avoid mistakes made during the CIS functioning years. Baipakova (2005, p.41) even noted that the Community is a "theoretically irreproachable plan of economic integration". It should be recognised that the aims set before the countries in the Agreement are well-thought of and if they are properly implemented, some tangible results can be achieved. Speaking about the principles laid in the foundation of the association, Valovaya (2005, para. 30) mentions that the "EurAsEC has good prospects as a regional organization built on the basis of EU principles". However, it should not be forgotten that the same principles had been applied by the CIS states in the early years when forming, for instance, the Economic Union.

Nevertheless, creation of the EurAsEC gave a new impulse to economic integration processes in the CIS and plans on creation of a free trade zone and a customs union became more realistic. In addition, it was given an observer status in the UN General Assembly in December 2003 (Bohr, 2004). This fact testified the intention of the regional association to achieve deep integration and long-term cooperation. From 2003

on, the association was given a right to be represented at UN sessions, as well as hold talks with other organisations. The formation of the EurAsEC represented the appearance of a new alternative for those states that realised the new association's economic potential. Thus, this regional association gathered countries interested in cooperation with Russia in the first place, even though it has nearly the same aims as those of the CIS. The advantage of this step is the absence of opposing states within the association, which was a significant problem in the CIS and definitely counter-productive in its nature.

As mentioned earlier, one of the problems of the CIS was non-fulfilment of the accepted agreements due to the weak mechanism of monitoring and discipline. In this respect, EurAsEC differs significantly from the CIS. As well as CIS, EurAsEC possesses a status of an international organisation. In the CIS, the member states often simply refused to sign or delayed ratifying decisions and agreements, the result was that many decisions waited a long period of time to be accepted, and after being accepted it took another time period to have them ratified.

In this relation EurAsEC exercises a more strict approach: according to Ismailova (2005) a document is accepted only when it is signed by all members of the community. After accepting a document, it becomes obligatory for all member states to carry out tasks, which have to be implemented in the specified time frame. Also, each country is given a certain voting percentage, which represents both their financial contribution to the community and size of their economies. Thus Russia has 40 per cent, Belarus, Kazakhstan and Uzbekistan 15 per cent each and Kirghizstan and Tajikistan 7.5 per cent each voting power (Zhukov & Reznikova, 2006, para. 5). In order for a decision to be made, two third of the votes are required.

However, the aim of creation of a customs union might not be implemented in the very near future. Although it has been stated that more than a half (62 per cent) of common tariff rates of the EurAsEC are coordinated (Zhukov & Reznikova, 2006, para.7), there seems to be no further advancement in this area. In fact, these 60-62 per cent of tariffs were coordinated back in 2000, when the member states had just finished formalities regarding the creation of the Community. However, in one of his latest interviews, the Secretary General of the Community, Mansurov, assured that a free trade regime

without any restrictions, customs duties, taxes is already functioning in the EurAsEC territory (Kovalev, 2008). In addition, the trade turnover between the member states grew from \$29 billion USD in 2001 to \$102 billion USD in 2007. Although these figures look optimistic, still various questions arose, for instance in the EurAsEC economic development plan 2003-2006, it had been written that creation of the Customs Union within the association had to be completed by 2006 (Valovaya, 2005), but no signs of this could be seen in either 2006 or 2007.

At the present moment, because of Ukraine's decision not to form a common economic space with other CIS states, on October 6, 2007 at the summit of the EurAsEC, the presidents of Russia, Belarus and Kazakhstan signed a number of constitutive documents regarding the legal base of the Customs Union within the EurAsEC. This involved agreement on the Commission of the Customs union, on creation of common customs territory and on formation of the Customs union, as well as the order of accepting international agreements forming the legal protocol of the union and withdrawal from them (Tajikistan to hold rotating presidency in Eurasec in 2008, 2007). Accordingly, the creation of the customs union is expected to finish "in the first half of 2010" (Eurasec says Customs Union to be set up early 2010, 2008). The two other members of the community, Tajikistan and Kirghizstan will join the customs union later as soon as their economies and legislation are ready. Thus, the member states have set another "final" date for the completion of their customs union.

In general, the presidents of the EurAsEC member states speak positively in relation to the potential of the association: for instance, the President of Russia Vladimir Putin optimistically assesses the development prospects of the EurAsEC, stating "[t]oday EurAsEC... is per se a locomotive of integration processes on the CIS space" (Efanov, Kuz'min & Yershov, 2006). Hopefully, the three economically stable countries will be able to implement this long-awaited project. It is believed that successful results achieved within the frames of the EurAsEC will have a positive effect on other post-Soviet states, encouraging them to become members.

6.5 The Common Economic Space (CES)

As it has been stated before, the CIS countries are diverse, in particular in terms of their economic potential. Hence, when integration takes place, especially when it is economic, suitable partners have to be found. Informant 3 (personal communication, February 25, 2008) believes that real integration is only possible between a few countries only. Shumskyi (2003, p.133) and Informant 2 (personal communication, February 22, 2008) for instance, think that countries such as Russia, Belarus, Ukraine and Kazakhstan have more chances than other CIS member states of achieving economic integration in the near future.

The possibility of integration amongst these four countries was discussed within the frames of the EurAsEC. Thus, the presidents of Russia, Belarus, Kazakhstan and Ukraine declared their intention to form the CES on February 23, 2003 (Buszynski, 2004). In the Declaration the countries expressed their wish to create the CES to achieve a free movement of goods, services, capital and labour (Shishkov, 2007). The Agreement was eventually signed on September 19, 2003.

The Union did not include Kirghizstan and Tajikistan, but Ukraine joined the Union as a full member. Sushko (2004, p.130) notes that by creating this association, the member states made a wise choice by excluding "...the unnecessary baggage: the too-Western Baltics; too-Eastern Central Asia; the too unpredictable Caucasus; and, finally, Moldova, which has already entered the WTO".

Indeed, the CES member states are arguably the most economically and technologically developed countries in the post-Soviet space. The aggregate GDP of the four countries comprises 94.1 per cent of the CIS total. In addition, they are closely connected with each other in terms of trading, not only in the raw materials sphere, but also in manufacturing branches where they are better suited to solving problems of integration than other partners in the EurAsEC. As data in Table 8 suggests, the member countries of the CES play major roles in each other's trading schemes. For instance, Russia's exports to the three other states in 2005 amounted to more than \$29 billion USD. In general, for Belarus, Russia and Ukraine, the main exporting destinations in the CIS are the three other CES member states.

Table 8

Exports and Imports of the CIS countries in 2005 (million US dollars)

| | Belarus | | Kazakhstan | | Russia | | Ukraine | |
|---------------|----------------|---------|-------------------|---------|---------------|---------|----------------|---------|
| | exports | imports | exports | imports | exports | imports | exports | imports |
| Total | 15977,2 | 16698,7 | 27849,0 | 17352,5 | 241219,4 | 98576,7 | 34286,7 | 36141,1 |
| CIS countries | 7058,4 | 11117,9 | 4066,7 | 8133,9 | 32594,1 | 18935,3 | 10739,7 | 17030,3 |
| Azerbaijan | 28,0 | 2,0 | 129,1 | 21,3 | 857,8 | 206,5 | 290,7 | 27,8 |
| Armenia | 12,8 | 2,1 | 43,1 | 2,1 | 191,2 | 101,3 | 97,5 | 13,2 |
| Belarus | - | - | 26,5 | 208,0 | 10093,6 | 5713,9 | 892,0 | 939,9 |
| Georgia | 6,6 | 2,5 | 52,0 | 7,2 | 353,0 | 157,6 | 199,7 | 41,0 |
| Kazakhstan | 183,5 | 31,1 | - | - | 6526,1 | 3209,3 | 668,0 | 186,4 |
| Kyrgyzstan | 8,8 | 2,0 | 225,5 | 118,6 | 397,2 | 145,5 | 31,8 | 5,7 |
| Moldova | 102,2 | 72,3 | 52,5 | 18,6 | 448,4 | 548,3 | 679,1 | 84,2 |
| Russia | 5713,9 | 10093,6 | 2927,2 | 6591,3 | - | - | 7495,8 | 12843,4 |
| Tajikistan | 8,6 | 3,5 | 150,6 | 17,0 | 240,1 | 95,0 | 46,9 | 5,3 |
| Turkmenistan | 43,9 | 1,1 | 17,3 | 50,7 | 223,6 | 77,2 | 187,4 | 2678,1 |
| Uzbekistan | 42,1 | 13,9 | 242,6 | 254,5 | 860,5 | 904,0 | 150,9 | 205,3 |
| Ukraine | 907,8 | 893,9 | 200,4 | 844,7 | 12402,6 | 7776,9 | - | - |

Note. Compiled from “15 years of the Commonwealth of Independent States (1991-2005). Statistical abstract,” by Interstate Statistical Committee of the Commonwealth of Independent States, 2006.

In fact, this perfected association was supposed to act as an example and play its role as a major integration project to inspire the states to unite despite their disagreement on a number of issues.

The creation of the Space was supposed to be an integration breakthrough, as according to Sidorov (2005, para. 9-15), the following factors were present:

- “secluded technological cycle (when an extractive enterprise is located in one country, manufacturing in second, completing in third and so on);
- historical division of labour, following from the preceding point, as economies of many former USSR republics became extractive oriented, or involved in manufacturing, where priority was given only to the most developed industry, and accordingly professional personnel had been trained;
- as a result of people of different nationalities living in one country for a long period of time, a tendency to mixed marriages, common cultural space, absence of language barriers has been marked;
- stability of international and interconfessional relations in the CES states;
- importance of creation of such interstate association as CES;
- high level of investment attractiveness of the CES;
- insignificant level of ambitiousness amongst CES member states’ heads”.

(Sidorov, 2005, para. 9-15)

Basically, the founders of the association were not original in the choice of strategy for the new beginning. Looking at the CES project, one notices that its aims and participants were similar to those of the EurAsEC. As was the case with the EurAsEC, the member states chose a direction of the EU in terms of adopting procedures on accepting and implementing decisions (Konurova & Slambekova, 2004).

On September 15, 2004 at the summit in Astana (Kazakhstan) the presidents of the member countries confirmed a list of 29 documents which were subject to signing. Later another 15 documents had been added (Andriyanov, 2005, p.58). It was supposed, that all 44 prime agreements would comprise an integrated package and should be signed and come into force simultaneously.

The association was expected to add a new dimension to integration in the CIS space. One of the notable achievements was inclination of both Russia and Ukraine to take part in one economic integration project that implied creation of supranational structures. Unfortunately, the member states did not manage to come to an agreement regarding the status of the CES as a whole, and of each of the member states, in particular. Since Ukraine's management aims at integration with Western Europe (that is accession into the EU and NATO), its main goal within the CES was only creation of a free trade zone with members of this organization (Andriyanov, 2005). The reluctance of Ukraine to form anything more than a free trade zone (for instance, a customs union) is motivated, according to Rakhmatulina (2004, p.135), by three main reasons:

- “keeping their course of integration with Europe.
- possible problems that might arise when acceding to the WTO (in case customs union is formed).
- customs union requires creation of a supranational regulating organisation, which contradicts Ukraine's sovereignty provided by the state's Constitution”.

Rakhmatulina (2004, p.135)

As a result the government of Ukraine approved the Agreement of the CES formation with one main reservation: the Agreement on formation of the CES should not contradict the Constitution of Ukraine and their choice of European integration (Akysh & Kurmanov, 2005). It should be noted here again that Ukraine's participation was very much needed for jumpstarting integration processes in the CIS. In fact, without Ukraine, there was no point in creating this organisation at all.

Despite its choice of integration with Europe, Ukraine still supported the idea of creation of a free trade zone within the CES. There appeared questions about the

reasons for such ambivalence, or basically why was Ukraine trying to sit between two chairs? The main reason is that Russia (largest economy in the CIS) and Ukraine are very tightly connected in terms of their economies, therefore it is very beneficial for Ukraine to be in the CES free trade agreement. For instance, Akysh and Kurmanov (2005) state that there are two motives behind Ukraine's unquenchable interest in free trade – Ukraine would be able to purchase energy sources from Russia (without export tariffs, and most importantly, value added tax would be paid at the destination – that is in Ukraine) and there would be removal of all restrictions imposed by the Russian side on Ukrainian production.

As for Ukraine's future prospects, Rakhmatulina (2004) notes that its economic integration with Europe is weak due to its economy's low competitive capacity and Europe's reluctance to sign Ukraine's associate membership agreement. Keeping in mind that interaction between these two sides is ongoing and that integration is likely to be achieved sooner or later, Ukraine regards the CES as a rather temporary association in its way to integration with Europe.

The future of the CES itself is not clear and most likely, as Sushko (2004, p.130) notes, it would “follow in the footsteps of the unratified 1994 CIS FTA [free trade agreement] and the slowly decaying 2000 EurAsEC”. Such outcome was expected, as it was clear that the main aim of creation of this association was to have Ukraine as part of it. The Ukraine's eventual refusal of the goal to form a common market within the CES meant that the common economic space would be formed within the framework of only three states - Belarus, Kazakhstan and Russia.

As mentioned in the previous chapters, the CIS space is well endowed with natural reserves and therefore possesses significant energy sources. This leads to a growing interest of countries all over the world in the CIS area. In particular, states' energy potential can become even more attractive in the light of eventually increasing scarcity of reserves and so far unsuccessful attempts to find alternative energy sources. This is the age of energy and being able to use it properly to the benefit of the CIS countries is one of the most important tasks at the moment.

At the same time, there are many areas where CIS countries might unite efforts and become more competitive on the world stage. To release this significant potential, especially economically, countries have been looking for ways to integrate. The biggest hope has been the Commonwealth itself, for a fair period of time there have been many attempts to initiate integration processes within the organisation and only after the CIS failure, came the realisation that other types of integration projects had to be formed. What the CIS space now has is a number of regional associations with various aims and participating countries. It remains to be researched whether the alliances mentioned above were able to integrate the states or are they on the same track as the CIS is.

The thought expressed by Nabiyev (p.23) rounds up the discussions about the situation with integration associations: “[t]he expectations for integration in the CIS came to their boundary line. Customs Union, EurAsEC, ORI [CES] – is a lot for ten years to finally be disappointed in our common future”

This chapter has discussed the regional economic integration projects that have been set up on the post-Soviet territory. It has been described that the CIS member states tend to have different approaches when choosing direction for their foreign policy and political partners. Due to the difference in their views regarding integration, several integration alliances have been established. The chapter highlighted the economic and political situation in three economic integration associations. It has been identified that the EurAsEC and the CES tend to have similar aims and the same states as their members, while GUAM consists of another set of states and proposes significantly different ideas. In the next chapter, problems of integration of the CIS states will be discussed.

CHAPTER SEVEN PROBLEMS OF INTEGRATION IN THE POST-SOVIET TERRITORY

7.1 Overview

The chapter will discuss the identified problems standing in the way of the integration of CIS member states. There are ten identified problems in total and the chapter focuses on discussing the difficulties of the various, mainly economic aspects. The chapter highlights existing obstacles despite attempts by CIS states to overcome them, including, among others, distorted trade patterns that have been negatively impacted by the changes made to the structure of the CIS states' exports.

7.2 Identified problems

Integration of all twelve members of the CIS in one effective association seems to be a difficult task to accomplish. However, the usefulness of integration of the post Soviet states has never been questioned. The greater the number of participants, the more positive the results expected of integration. One of the proponents of the "Eurasianism" idea, Dugin (Mamazhanova, 2003, p.19), considers economic integration between states, in this case between the CIS member states, as "a panacea, a remedy for all problems". Reflecting back on the years after the states gained their independence, it is noticeable that countries have gradually come to realize that, in order to preserve once effective and stable economic ties, it is necessary to integrate. Bachurin (1997, p.92) expresses his doubts that, after entering the global economy as "outsiders", the CIS states will be able to find their own worthy niche there.

It should be admitted that the fragmentation of the post Soviet space led to irreversible changes in practically all spheres of the member states' activity. It takes a certain period of time to recover from such depressing consequences. Finding enough power to overcome them and enough motivation to call partner countries to integrate requires a large amount of confidence. For instance, the first main integration step (that is, formation of the Economic Union) was taken by the member states in 1993 only. This was partly due to the countries' caution about new beginnings and consequent disinclination to cooperate as it might have involved a loss of part of their sovereignty,

as well as EU membership aspirations for some of them. For this reason any integration project, especially involving Russia, have been looked upon with caution by one group, and distrust by another. In this regard Adams (1998, p.56) reveals that “bilateral agreements between the CIS countries have proved to be far more effective than CIS multilateral agreements”. This indeed is a serious barrier between the member states, however, it should be noted that the implementation of various plans of action provided in agreements signed by a relatively large number of participants is, in reality, more difficult and requires more time than those signed between two countries only.

The problems or barriers standing in the way of integration in the Commonwealth are of a diverse nature. After the examination of the works by various authors, it can be concluded that the most significant problems are economic ones; however there are other negative factors involved. Although the latter cannot be said to be the main cause for disintegration tendencies, they still play a significant role and are, in one way or another, connected with economic aspects. The enumeration of problems below is in no way sorted or classified, as it is thought that none of them can be said to be the “main one”. It is rather a combination of identified problems hindering integration processes.

7.2.1 Failure of the mechanisms chosen for the operating of the CIS

Batyuk (1999, p.34) and Kononczuk (2007, p.36) compare the CIS to the British Commonwealth in terms of its weak functionality. Putting aside the fact of the substantially different aims of these two organisations, attention should be paid to Batyuk’s remark about the vainness of the measures taken by the CIS and the British Commonwealth, as they “both were created on the ruins of empires, not on the basis of economic self interest, like the EU was” (p.34). Such a view on the problems behind integration efforts seems to lack sufficient logic. Developing this opinion further, after the breakup of the British Empire, the constituent countries, for some reason, happened to have little economic interest in each other. However, in the case of the CIS, there had been a true self interest in maintaining the economic ties between countries and even though one group of countries had later withdrawn from making these attempts, the other group still took pains to revive trade, but failed. Thus, it can be stated that there might be different reasons for integration problems in the CIS other than it being built on the remnants of the USSR.

7.2.2 Differences in the level of economic development of the states

Krotov (2001) and Informant 1 (personal communication, February 18, 2008) explain that real income wages of populations of Russia, Kazakhstan, Belarus are significantly higher than those of Tajikistan and Georgia citizens. Astapov (2005, p.99) also points to the “unevenness of the economic development of the CIS member states”. As a result of low income from foreign trade, the poor ability of economies to generate sufficient capital, means, first of all, peoples have to experience a low living standard. The data given in Table 9, demonstrates the states’ GDP per capita.

Depending on what their economies are based on, the CIS states’ GDP per capita can vary greatly. Three Central Asian countries (Kyrgyzstan, Tajikistan, Uzbekistan) less endowed with natural resources, lag behind other member states. In fact, in 2007, the level of GDP per capita in Tajikistan (the lowest in the CIS) turned out to be 15.9 times smaller than that of Russia’s (the highest in the CIS). This rather significant difference shows how scattered the GDP per capita level can be within members of one regional organisation.

The 1992 indicators show, so to speak, the “starting positions” of the then newly independent states. Russia’s figures have always been the highest throughout 1992-2007 and there is a strong probability that this will remain so. The most impressive leap in performance was shown by Armenia, which was able to increase its per capita GDP 88.6 times during 15 years. However, it should always be kept in mind that these figures might not be absolutely correct for the reasons given in Chapter 5. Kazakhstan was the second country to greatly improve its performance, by an increase of 40.1 times. Those who failed to achieve high figures include countries with a worryingly low 6.6 times (Moldova), 4.9 times (Uzbekistan) and just 3.4 times (Kyrgyzstan) increase in 15 years.

Matsnev (2003) argues that a population’s poverty and low amount of capital available for investment significantly influence aggregate demand activity. In fact, investments in both domestic and foreign markets could be a forcible argument when suggesting conducting active economic interaction with neighbouring countries. When there is not enough demand for products in the partner countries, manufacturers naturally react by slashing prices, decreasing their imports or completely cancelling the trade link.

Table 9

Gross Domestic Product per capita of the Commonwealth of Independent States

| | Gross Domestic Product per capita, | | | | | |
|--------------|---|-------------|-------------|-------------|-------------|-------------|
| | current prices, U.S. dollars | | | | | |
| | 1992 | 1995 | 1998 | 2001 | 2004 | 2007 |
| Armenia | 30 | 341 | 497 | 659 | 1102 | 2659 |
| Azerbaijan | 163 | 314 | 540 | 701 | 1040 | 3632 |
| Belarus | 402 | 1035 | 1515 | 1241 | 2335 | 4655 |
| Georgia | ... | 395 | 803 | 728 | 1187 | 2339 |
| Kazakhstan | 168 | 1058 | 1445 | 1490 | 2862 | 6748 |
| Kyrgyzstan | 206 | 325 | 348 | 307 | 435 | 713 |
| Moldova | 196 | 399 | 464 | 407 | 720 | 1297 |
| Russia | 576 | 2112 | 1833 | 2095 | 4104 | 9074 |
| Tajikistan | 52 | 97 | 216 | 170 | 328 | 578 |
| Turkmenistan | 246 | 1432 | 638 | 1468 | 2870 | 5052 |
| Ukraine | 399 | 718 | 834 | 787 | 1377 | 3066 |
| Uzbekistan | 167 | 448 | 624 | 465 | 464 | 830 |
| CIS average | 236 | 722 | 813 | 876 | 1568 | 3386 |

Note. Data from “World Economic Outlook Database” by International Monetary Fund, 2008.

... - data unavailable

Such situations leave countries with fewer positive arguments regarding development of mutual trade.

Kaveshnikov's (2003) opinion, in many respects coincides with the previous ones, stating that when integration is attempted by countries where the levels of economic development are not even, it will result in deceleration of growth rates in more developed states. As an example he cites the reunion of the two Germanys. In order to understand this example it should be recalled that at that time the German Democratic Republic (East Germany) had been a part of the "Eastern Bloc" and was noticeably behind in its development compared to the Federal Republic of Germany (West Germany). As a result of their reunion, the new country had to go through economic difficulties connected with the assumed obligations for restoration and jumpstarting the relatively weaker East German economy.

However, it can be argued that the case of the Commonwealth is nevertheless different, mainly because its member states do not have and have never had any plans for forming a single country or reviving the USSR. This means that neither country will be responsible for other countries' economies. As for the statement that during integration an economically weaker country may "pull down" a stronger country's economic indicators, it can be said that the CIS countries do not have tight enough relations to greatly influence each other's economies.

7.2.3 Integration alliances formed within the CIS

According to Matsnev (2003, p.140), the integration alliances have led to "...different macroeconomic dynamics, strengthened autonomy in their [alliances] development and decreased economic ties between them". Indeed, such alliances as GUAM, former Central Asian Economic Community, countries of Caucasus and others do not contribute to the overall stability of the CIS states' interaction level. On the other hand, "Russia oriented" associations as EurAsEC, CES and Union State of Russia and Belarus cannot be said to be very effective and promising either. In general, the creation of various regional integration associations including only 3-4 countries, distorts the atmosphere of common understanding and trust between countries. As a result, countries left outside these organisations virtually find themselves in a territorial vacuum, in fact, the process of formation of these groupings is often left unfinished with

one idea being substituted by another, and then a new project may be suggested, so all efforts are switched to that, while the already formed projects are eventually forgotten. Analysing this situation, Pastukhov (2004, p.109) labelled the CIS as a “system of overlapping setups”, where the formed associations often duplicate each other by having a similar set of aims and participants. He expressed concern that this model which has been working since the very beginning might negatively influence, trade in the first place and, at the moment, we can see by the outcome, that decisions to create other integration associations without taking into account the situation in already existing ones, have not been beneficial.

Rapota has also expressed his opinion on this matter. According to him regionalisation within the CIS has a rather “contradictory effect” (Mamazhanova, 2003, p.18). While integration associations aim at deeper integration and bolstering economic relations and can act as “locomotives” (p.18) of integration processes, the fragmentation of the CIS economic space undermines its status as an “integral organisation” (p.18). Consequently, in all these rather chaotic changes, the states themselves are often forgotten. The states are merely losing time in the debates regarding their views of the “ideal” integration scheme that is eventually supposed to suit all the participants. This, in its turn, forms another obstacle to integration, discussed in the paragraph below.

7.2.4 Different views held of the integration projects and the Commonwealth

Informant 3 (personal communication, February 25, 2008) underlines that for nearly all CIS states integration is not “a priority task” due simply to the existence of other, more important tasks. Alesin (2004) and Shumskyi (2000, p.111) write that despite their regular meetings and participation in various forums, CIS countries’ presidents do seem to have different views regarding the CIS’s “aims and tasks, the meaning of integration, its principles and realisation tempo”. It is rather noticeable that countries closer to Russia, such as Armenia, Belarus, Kazakhstan and others seem to be in full support of most of the integration projects suggested by Moscow and view them as an effective way to consolidate their potential and reserves. On the other hand, GUAM countries reject participation in these beginnings by explaining that they see it as attempts by Russia to revive its imperialistic aspirations and practically impose its will on former Soviet states. However, in this case the loss of sovereignty following deep integration has its certain aims and benefits, that is in order to achieve serious results in integration,

a country should make a trade off between giving part of the authority to a supranational institution and staying completely sovereign. Otherwise, as argued by Shumskyi (2000, p.112), without these actions, the formed supranational institutions merely turn into “expert-consultative information organisations”. Surely such institutions cannot promise to provide effective regulation and strict implementation of the tasks that are integrative in nature.

Moreover, Timmermann (1998) and Kaveshnikov (2003) think that the CIS member countries lack a single driving idea. At present, countries simply put their interests first, often neglecting interests of the others. A single idea should encompass many aspects of integration and have a supreme significance, so that the countries follow it and try to achieve it in spite of losses which might happen in the process. The question here is whether the member states will be ready to help each other (especially in a difficult time) for little or no compensation?

7.2.5 Different level of reforms implemented by the states

These reforms took place after the dissolution of the command economy. They tend to vary according to Grinberg and Vardomskyi (2001) and, depending on their effect, might range from minor to major. Zhukov (1999) and Bagramov (2003) also underline that the degree and level of market reforms are different in the CIS countries. The abrupt shift from planned to market economy can prove to be rather destructive for constitutive sectors of economy of any country. As a result, some of the CIS states are still left in a position of a country with a transit economy, literally standing on the “halfway” line. For instance, Kazakhstan, Kyrgyzstan, Ukraine and Russia had chosen from the very beginning of their independence to build market economies in order to quickly merge into the world markets. Market economy supposes the presence of different approaches, mechanisms and rules. The CIS states had to learn about such new notions as free choice, be it the direction of their economic development, political allies, and trade partners.

At the same time, countries such as Turkmenistan, Uzbekistan and Belarus decided that such crucial steps as changing the economic policy not long after the USSR breakup would not be worthwhile at that time. Therefore they chose a “gradual transformation model” (Grinberg & Vardomskyi, 2001). It is something they have virtually never

undertaken before and naturally there was room for mistakes, which later proved to bring serious consequences. Thus, features of an economic mechanism which had been used by the Soviet government can still be traced in the economic policies of the countries mentioned above. This situation significantly decreases their chances of integrating into the world economy and acts as a hindering factor in integration in the post-Soviet territory. Countries with rudimentary administrative economic systems cannot be successfully integrated with the ones that were able to introduce universal market principles.

The level of infrastructural development in the CIS countries also differs significantly, mainly in favour of countries with prevailing manufacturing production spheres. There are not many resources needed to form infrastructure for extraction of raw materials, while infrastructure of manufacturing industries is vital for its effective work. These factors lead to the poor development of business conditions in countries that rely on extractive industries, and consequently little or no interest from foreign investors in development of other spheres due to the unavailability of appropriate conditions.

Stemming from this transformation, are changes in the development of industries and production of competitive goods. Countries which were able to draw foreign direct investments and modernise their industries with the introduction of new technologies and sufficient capital input, had stepped onto the path of development. Their products are competitive not only on the regional level, but also on a wider scale.

By the same token, it is rather unlikely that integration between weakly industrialised states takes place. It is highly preferable for economic integration that participating states are industrialised and have diversified production lines. Grouping of such countries would allow them to complement each other's goods and services in those spheres where a partner country's competitive advantage is lower. Such interaction would positively influence the export and import structures of countries and allow them to mainly focus on the production of goods where they are more competitive and let partner countries import goods which require more resources. Suzdal'tsev (2005) gives an example of the EU and their common project "Airbus" assembled from parts constructed in a number of the EU member states. When it comes to the CIS, no similar or even close "integration brand" (Suzdal'tsev, 2005, para. 14) can be found.

With the introduction of a free trade area, the export as well as the import of goods becomes free of duties, encouraging partner countries to complement each other. As a result, countries are tightly connected to each other by various ties, both at micro and macro levels. These ties include a variety of spheres, mainly being financial, trade, and industrial. However, these ties may not be enough for successful integration, especially as another important factor such as geography comes into play.

7.2.6 Countries' geographical peculiarities

Several reasons for the barriers to trade of the CIS and other countries have been singled out by Bartlett (2001) and Runiewicz and Antonova (2006). The geographical factor is one of these barriers, as Commonwealth states' main trade partners are situated in other regions, often on other continents, it is problematic to build effective trading routes between them, taking into account that a large category of commodities (foodstuffs, for example) has its own "distance limit", and when exceeded, the sale of goods becomes unprofitable.

The Commonwealth states are stretched over relatively large territories and in addition have certain climatic (specifically continental climate in the Central Asian region) and topographic (mountainous, desert lands) peculiarities, consequently they experience harder cooperation conditions in comparison with the EU countries. For instance, Informant 1 (personal communication, February 18, 2008) gives an example of Kirghizstan where 90 per cent of the territory is mountainous. For this reason they are very limited in natural resources and choice of economic "backbones". To make things more complicated, nine out of the twelve Commonwealth states are landlocked. Uzbekistan, in addition, is one of only two double landlocked countries in the world (the other being Liechtenstein).

The EU has 27 members, while its total territory is only about 4.3 million square kilometres. On the other hand, the CIS has 12 member states and possesses a territory of about 22.1 million square kilometres, so the Commonwealth territory is practically five times larger than the EU's, but is about the same size as the territory of the NAFTA member states – about 21.7 million square kilometres. Because of such a vast territory, the CIS countries are separated from each other by two and even three states. Clearly,

the further the countries are apart, the fewer issues they have in common and hence fewer motives for integrating.

On top of everything, Russia's large geographical size and hence its large economic capacity naturally makes it one main dominating centre. As a result, countries have to look at other CIS partners through Russia's prism. Long land borders do not contribute to effective customs control either. For instance, the longest land border lies between Russia and Kazakhstan and makes up 6846 km. It is practically impossible to defend from illegal actions, such as smuggling. In comparison, the EU is more compact in size, connection between states is easier and there is no pronounced single dominating centre there.

7.2.7 Influence from the outside of the CIS

A number of post Soviet experts are of the opinion that one of the obstacles to integration is an influence from the so called "Western forces", in that a certain group of developed countries which happen to be primary purchasers of the raw materials from the CIS states are not interested in the actual integration on the post Soviet territory. However, not all the experts give explicit reasons for such tactics of the Western states. For instance, Russian specialists, Klotsvog (1998), Avdokushin (1999) and Grinberg and Vardomskiy (2001) only draw readers' attention to the presence of such forces outside of the CIS. Alesin (2004, p.38) is more specific on this topic and even goes on to reveal who the "forces" are. According to him it is primarily the USA. Shishkov (2007, p.21) tries to give a fuller explanation, that is "the decline of the CIS can be nothing but good news for those in the West who fear the revival of a powerful economic and political center in the post-Soviet space". Perhaps, Shishkov has every reason to believe that integration of the post Soviet states may indeed threaten the economic and political situation in Western countries, let alone instilling fear into them. Moreover, this statement sounds rather flattering for the CIS itself as it makes one think that the Commonwealth has, if needed, a potential to influence the state of affairs in the world. However, bearing in mind that the economies of a number of the CIS countries are mainly based on extracting raw materials or their transportation, it should not be forgotten that, at present, the CIS is weak, both in terms of its countries' economic and political strength.

7.2.8 Unresolved territorial disputes between the CIS member states

Alesin (2004, p.38) reminds us that there are still international conflicts between Azerbaijan and Armenia (Nagorny Karabakh) and in Georgia (Abkhazia) and Moldova (Transnistria). The first two states argue as to which side Nagorny Karabakh, the region predominantly inhabited by people of Armenian nationality, belongs to. The situation is complicated by the region being in an “enclave” position on the Azerbaijani territory. As a consequence of the current dispute and military conflicts in the past, there are practically no diplomatic relations between the two countries. Considered in the context of attempts to integrate the Commonwealth member states, it is unlikely that this strained situation will be easily resolved.

Conflicts in Georgia and Moldova are of a slightly different character, with Abkhazia having proclaimed its independence from Georgia in 2008 and its sovereignty being recognised by only two countries (Russia and Nicaragua) as of now. The Transnistria region in Moldova had also gone through military conflicts and at the moment is not recognized by any UN states.

These three problems make one look at integration in the CIS from a different perspective – that is integration without economic aspects involved. In general, these disputes contribute to the overall instability in the diplomatic relations between some of the countries. In addition to the diplomatic tensions between Azerbaijan and Armenia, there is currently no interaction between Russia and Georgia. Other CIS countries are also put under pressure from time to time by basically having to indicate which of the conflicting sides they generally support. This was noticeable, especially in the conflict between Russia and Georgia. Pastukhov (2004, p.108) writes that “under no circumstances must the economic sphere become hostage to politics, or rather, to the political biases of certain public figures or groups”. Contrary to what Pastukhov had warned against, specifically, not to mix politics and economy in the CIS, this was exactly what happened. In general, many decisions regarding economic matters are made through the prism of political relations between the countries (Informant 3, personal communication, February 25, 2008). This surely does not assist in development of their economies. A good example of such a situation is the current relations between Russia and Ukraine and their “gas wars” (disputes over prices for transportation of natural gas from Russia to Ukraine and further to Europe).

It should also be added that there are other “hidden” moments of conflict, dispute and separatism on the Commonwealth territory, which stretch from the very beginning of the breakup or even earlier. The only option to stop these issues from splitting former “brotherly” countries and from hindering integration processes is to resolve them by coming to a compromise. Unfortunately, it seems that this is a long process which may theoretically continue for decades.

7.2.9 Lack of unity of people

The community of the former Soviet peoples which has been bred for decades by the Communist Party is eventually lost. Once important slogans, for instance, “building socialism” and “reaching and outreaching the USA” were advanced in order to stimulate people with the help of effective ideology; this cannot be utilized anymore. More nationalistic views swept through after the breakup with once strongly united republics, from which, according to Adams (1998, p.53) “[t]he most powerful deterrents working to impede integration of the commonwealth arise”. It could probably have been easier to achieve the set goals if an association of countries, for instance CIS, was regarded as something more than a group of countries with their own pragmatic interests in it – perhaps as a more tight, harmonized structure with countries striving for common development and good, friendly relations between their peoples. This problem has also been mentioned by Grinberg (2005, p.12), who explains that “citizens of countries belonging to the European Union increasingly view themselves as Europeans”. People of the Soviet Union were often described as “homo soveticus” (p.12), however such a feeling of affiliation cannot be seen in the present Commonwealth; instead “people increasingly think of themselves not as Soviet citizens but as Ukrainians, Kazaks, or Azerbaijanis” (Tsepka, 1998, para. 47). This matter also contributes to the number of obstacles in the way of integration, as people play an important role in how relations between countries are built.

7.2.10 Ineffective trade ties

This is the last, but certainly not the least, obstacle. Ineffective trade ties have been caused by the unbalanced structure of exports of the member states. It has been mentioned earlier that one part of the member states (Azerbaijan, Kazakhstan, Russia, Turkmenistan) has chosen to export raw materials and those which are not well

endowed with natural reserves (Georgia, Moldova, Tajikistan), have had to rely upon their relatively weak manufacturing and agricultural spheres.

At present, the major part of the exports of CIS countries is directed at states outside of the Commonwealth (Table 10).

The data given in Table 10, testifies that by 1995 a tendency had begun in the post Soviet states' trade to lose connections and to trade with non-CIS countries more than with each other. Due to the lack of alternative trade partners, a certain quantity of exports was still directed at other CIS countries. Thus, Armenia, Belarus, Moldova and Kyrgyzstan displayed a relatively high level of adherence to export to CIS states with an average percentage of 63 per cent. On the other hand, states such as Azerbaijan, Russia and Turkmenistan preferred exporting to countries outside of the Commonwealth, comprising an average 67 per cent of their total exports. In particular, Russia's exports to CIS countries made up only 19 per cent of its total exports, showing its obvious lean towards trade with third countries.

By 2000 the shift in exports towards non-CIS countries had strengthened significantly. In Armenia it was particularly dramatic, with exports to CIS countries changing from 63 per cent to only 24, giving a -39 per cent fall. Other countries included Azerbaijan -32 per cent change, Kazakhstan -28, Kyrgyzstan -25, Georgia and Ukraine -22. The only country showing considerable increase in exports to CIS countries in 2000 was Tajikistan with +14 per cent, however, it can be traced in later periods that this figure was temporary. Russia's indicators continued to fall in this particular category, recording a further -6 per cent and making up only 13 per cent, which had become by far the lowest indicator amongst Commonwealth states along with Azerbaijan. However, due to the size of the Russian economy, its changes turned out to be far more notable compared to other states' economies. The low share of Russia's trade operations with its CIS partners brings up questions, one of them to do with the actual necessity for Russia to create a free trade zone or a customs union with the CIS countries.

Table 10

Share of the CIS and other countries of the world in total exports of individual CIS countries (per cent)

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|-----------------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Azerbaijan | | | | | | | | | | | | | |
| CIS countries | 45 | 46 | 48 | 38 | 23 | 13 | 10 | 11 | 13 | 17 | 21 | 15 | 18 |
| other countries | 55 | 54 | 52 | 62 | 77 | 87 | 90 | 89 | 87 | 83 | 79 | 85 | 82 |
| Armenia | | | | | | | | | | | | | |
| CIS countries | 63 | 44 | 41 | 37 | 24 | 24 | 26 | 19 | 19 | 17 | 19 | 22 | 31 |
| other countries | 37 | 56 | 59 | 63 | 76 | 76 | 74 | 81 | 81 | 83 | 81 | 78 | 69 |
| Belarus | | | | | | | | | | | | | |
| CIS countries | 63 | 67 | 74 | 73 | 61 | 60 | 60 | 55 | 55 | 53 | 44 | 44 | 46 |
| other countries | 37 | 33 | 26 | 27 | 39 | 40 | 40 | 45 | 45 | 47 | 56 | 56 | 54 |
| Georgia | | | | | | | | | | | | | |
| CIS countries | 62 | 65 | 57 | 56 | 45 | 40 | 46 | 49 | 49 | 51 | 47 | 40 | 38 |
| other countries | 38 | 35 | 43 | 44 | 55 | 60 | 54 | 51 | 51 | 49 | 53 | 60 | 62 |
| Kazakhstan | | | | | | | | | | | | | |
| CIS countries | 55 | 54 | 46 | 40 | 26 | 27 | 31 | 23 | 23 | 20 | 15 | 15 | 17 |
| other countries | 45 | 46 | 54 | 60 | 74 | 73 | 69 | 77 | 77 | 80 | 85 | 85 | 83 |
| Kyrgyzstan | | | | | | | | | | | | | |
| CIS countries | 66 | 78 | 53 | 45 | 40 | 41 | 35 | 35 | 35 | 38 | 45 | 48 | 50 |
| other countries | 34 | 22 | 47 | 55 | 60 | 59 | 65 | 65 | 65 | 62 | 55 | 52 | 50 |
| Moldova | | | | | | | | | | | | | |
| CIS countries | 63 | 68 | 70 | 68 | 55 | 59 | 61 | 54 | 54 | 51 | 51 | 40 | 41 |
| other countries | 37 | 32 | 30 | 32 | 45 | 41 | 39 | 46 | 46 | 49 | 49 | 60 | 59 |
| Russia | | | | | | | | | | | | | |
| CIS countries | 19 | 19 | 20 | 19 | 15 | 13 | 15 | 15 | 15 | 16 | 14 | 14 | 15 |
| other countries | 81 | 81 | 80 | 81 | 85 | 87 | 85 | 85 | 85 | 84 | 86 | 86 | 85 |
| Tajikistan | | | | | | | | | | | | | |
| CIS countries | 34 | 43 | 37 | 34 | 46 | 48 | 32 | 26 | 17 | 17 | 20 | 13 | 15 |
| other countries | 66 | 57 | 63 | 66 | 54 | 52 | 68 | 74 | 83 | 83 | 80 | 87 | 85 |
| Turkmenistan | | | | | | | | | | | | | |
| CIS countries | 49 | 64 | 60 | 26 | ... | 52 | 55 | 52 | 46 | ... | ... | ... | ... |
| other countries | 51 | 36 | 40 | 74 | ... | 48 | 45 | 48 | 54 | ... | ... | ... | ... |
| Uzbekistan | | | | | | | | | | | | | |
| CIS countries | 39 | 21 | 33 | 25 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| other countries | 61 | 79 | 67 | 75 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Ukraine | | | | | | | | | | | | | |
| CIS countries | 53 | 51 | 39 | 33 | 28 | 31 | 29 | 24 | 26 | 26 | 31 | 33 | 38 |
| other countries | 47 | 49 | 61 | 67 | 72 | 69 | 71 | 76 | 74 | 74 | 69 | 67 | 62 |

Note. Compiled from "15 years of the Commonwealth of Independent States (1991-2005). Statistical abstract," by Interstate Statistical Committee of the Commonwealth of Independent States, 2006; "Commonwealth of Independent States in 2007 (digest of preliminary statistical results)," by Interstate Statistical Committee of the Commonwealth of Independent States, 2008.

... - data unavailable

Time has turned out to be a detrimental factor for the CIS countries' mutual trade level. The figures show that by 2007, eleven out of twelve member states displayed negative figures in their ratio of exports to partners in the CIS and third countries. The only state that did not have a negative bias in its exports towards CIS is Kyrgyzstan, which sustains a 50/50 ratio. It can be expected that no later than in 2009, Kyrgyzstan's intra CIS trade figure may also become negative. Thus, the lack of trade between states has become a characteristic of the CIS.

The situation with a low proportion of the Commonwealth states in each other's total trade is similar to another association located in South America – the Southern Common Market (MERCOSUR), states Krotov (2001). According to him, the total mutual trade share of Argentina, Brazil, Uruguay and Paraguay is several times lower than their trade with the USA. And usually such cooperation does not reach higher levels than a free trade area.

Due to the limited range of finished products, Commonwealth states rely upon exports of raw materials and unprocessed goods. Countries with prevailing agricultural or extracting economies have less or little chance to form a sufficient integration grouping. Matsnev (2003, p.139) underlines that it is "inexpedient" for extracting economies to integrate with a similar type economy. As a result, a Shumskiy (2003) and Shishkov (2007) notice, such countries become competitors on world markets. Indeed, export products of the countries cannot be said to be diverse, usually being limited to a few categories. Such a somewhat narrow assortment clearly does not contribute to mutual trade – as exporting them to neighbouring countries is rather meaningless as they too lack technologies and production infrastructure for processing them. Shumskiy and Shishkov compare this situation to Latin America, Africa and Asia in the 1960s and 1970s, where numerous attempts to form viable free trade areas and customs unions had been failed hopelessly. In general, as Dzhaparkulov (2006, p.68) states, in their activity, the CIS countries "become more independent from each other and more dependent on world economic processes".

Trade is an integral and a major part of any country's economy. Moreover, it tends to dictate the dynamics of integration processes as well, with the Commonwealth space not exempt. An important thought was expressed by Isingarin (2001, p.69), in that the main

motive for integration is for its participants to save “a stable and capacious common market of the CIS”. As the data here suggests, the CIS countries were not able to maintain the once high level of cooperation. Thus, having effective trade ties can be interpreted as the main constituent of integration; unfortunately, the task has never been accomplished by the CIS member states. Hence, it can be said that integration failed for namely this reason: countries were not able to save their common market which was supposed to act as the very core of their integration. Since this main task has failed, all other derivative tasks cannot have a real influence on the integration processes, whether they are accomplished or not. The constant failure of integration projects, especially of an economic nature, that is involving trade, has turned out to be the main destructive force for the CIS.

These negative results have proved that no real integration can be achieved unless it is based on viable, working trade ties, with their minimum achievement being the creation of a free trade area.

Basically, various regional integration groupings in the world, when deciding to integrate, mainly focus on structure and level of trade between countries. It is rather unlikely that with such indicators CIS countries would be able to form an association similar to the EU in the near future. For this reason bilateral relations on the post Soviet space tend to be more efficient; for instance, as Informant 1 notes (personal communication, February 18, 2008), they come to an agreement on “simplified customs, tax mode”, removal of “value added tax at customs”. However, the creation of a common economic space faces a set of problems. This should help avoid artificial integration, when it is proposed just for the sake of it. Such actions should be avoided as they lead to little or no results, but leave countries disappointed with integration proposals. The best option for such countries would be to choose formation of a free trade zone.

This chapter exposes the way various obstacles hinder economic integration processes between CIS states. The states faced a number of obstacles, which seemed to be hard to overcome due to the absence of coordinated actions and common development strategy between member states. In general, each problem can be separately overcome; however, since these obstacles are of a diverse character, they represent a complex problem that,

in its turn, requires a complex solution. In the next chapter, a conclusion will be made regarding the identified problems in particular, and the thesis as a whole.

CHAPTER EIGHT CONCLUSION

8.1 Conclusion

Economic integration between member states of the CIS has been discussed in this work.

Economic integration is utilised to reach closer relationship between, in most cases, neighbouring states in their economic sphere. A free trade area, being the first step towards integration of the states, assists in building non-discriminatory trade ties. Thus, the process, beneficial to both parts, can be started from the very outset. In general, one of the main constituents of economic integration can be said to be formation of necessary conditions for states' economic interaction. These conditions include, amongst others, coordinated, or in the case of higher forms of integration, common fiscal and monetary policies. Hence policies regarding price, budget, inflation, market and so on obtain more similar features. Once coordinated economic policy is achieved, it is in practice easier to advance to higher forms of economic integration.

The discussion of theories of economic integration made at the beginning of this work provided an opportunity to see their variety. At the same time, this variety turned out to be an obstacle in the way of drawing-up a common theory or at least its common features. This situation is best described by Puchala (1972, p. 267), who likens the work towards defining a common theory to “the story of the blind men and the elephant”, meaning that every author perceives the problem only from his own perspective and does not see its other aspects. Nevertheless, based on the secondary source materials, various aspects of economic integration have been examined. Out of the five forms of economic integration, authors mainly worked on explaining mechanisms of a customs union. Such important concepts as “trade creation” and “trade diversion” helped draw the conclusion that integration within a customs union may not always be successful. Often the level of success depends on a number of factors which influence how close trade relations between countries are and the chances become higher when states are more focused on partners from the same integration grouping than on third states – have a high number of agreed items on a common external tariff.

One of the main questions focused on answering in this work is what obstacles are standing in the way of economic integration between the CIS states.

As a matter of fact, the Commonwealth itself, both as an area and an organisation, is a rather complex notion due to a number of peculiarities that include, but are not limited to, a large number of member states, the large territories they are located on, diversity of interests, cultures, imbalance between their level of development, presence of dominating forces and so on. These peculiarities act against integration and contribute to centrifugal forces in the CIS.

In the previous chapters ten main obstacles to economic integration have been set forth. When considered together, it can be seen that they exert a significant influence upon the development of integration processes. However, it should be asked, to what extent are these obstacles real? Which of them truly presents a problem, and which can be said to be minor?

A quick glance over the list of presented problems shows that problems such as people's lack of unity, geographical peculiarities, influence from outside the CIS and unresolved territorial disputes between the states can be said to be secondary.

A lack of unity amongst peoples is rather a consequence of the USSR breakup and to a certain extent represents an irreversible process. If, in the beginning, in 1993, the CIS states had achieved success in their integration, then such a common notion as a Soviet man, citizen, would have regenerated or developed into an alternative variant that is more suitable for the CIS. Anyway, this problem cannot be recognised as a serious obstacle. Countries' geographical peculiarities are in a certain way consequences as well, but of a natural character and cannot be changed or corrected. However, these difficulties are surmountable in the age of high technologies, especially in transport and information spheres.

It was rather surprising to encounter in the literature analogous opinions of a number of authors who consider the influence of forces outside the CIS as an obstacle. Firstly, it is doubtful that Western countries are ready to spend time and resources on such ambiguous actions. Secondly, assuming that this is so, the aims behind these actions

remain unclear. It seems more sensible that the Western states are rather interested in the stability of the CIS states, as then they turn into more reliable and hence predictable political partners. And since one of the aims of economic integration is assistance in the economic development of countries, then developed CIS states would represent an additional large market for these states. Therefore such statements seem to lack valid grounds.

Unresolved territorial disputes between the CIS states do not seem to seriously influence their economic relations. In the case of the CIS, the main two problems are confrontations between Russia and Georgia, and Azerbaijan and Armenia. The first problem seems to be rather temporary and solvable in the short run, while the problem of two other states is deeply rooted. However, considered on a large scale, these are relations between only two states out of twelve. Therefore the threat of this situation is unlikely to impact greatly.

The other six problems are of a more serious nature and each of them is capable of playing a crucial role in disintegration. It should also be admitted that there are many integration groupings in the world and it would be wrong to state that they do not face their own problems characteristic of their region. However, considering what they have achieved so far it seems that problems do not prevent them from conducting integration processes. The EU is clearly a leader in terms of its integration achievements and, in addition, consists of economically developed states, therefore, its case cannot be compared to the CIS. Still, can it be said that the CIS is weaker in its integration potential than the West African Economic and Monetary Union, the Economic and Monetary Union of Central Africa or the Caribbean Community? Even with ups and downs, the first two unions de facto have economic unions and common currencies, and the third one has a common market. These unions represent a good example of how a shift from talks to business can be effective in integration even when economic aspects play against their plans. Perhaps, these examples also suggest that the levels of economic development and market reforms conducted by integrating states are not main obstacles and there are often ways around them.

After examining the obstacles mentioned above, there are four left:

1. The failure of the mechanisms chosen for the operating of the CIS.
2. Integration alliances formed within the CIS.
3. Different views held of the integration projects.
4. Ineffective trade ties.

After such synthesis of problems, there is a strong likelihood that each of these in particular, and their combination as a whole represent obstacles in the way of integration of the CIS states. It is noticeable that they are tightly connected.

The problem with flaws in the mechanism of the CIS has been discussed throughout this work. Partly due to the lack of interest in the declared projects and partly due to their unsuitability for participating countries, the signed agreements are often not implemented. One project might be favourable and beneficial to one country, but non-lucrative and having no prospects for another. In addition to the lack of implementation mechanism, the CIS was not able to implement a properly working system of disciplinary actions for unfulfilled obligations. As a result, most of the CIS member states acted somewhat carelessly when participating in procedures for signing agreements, and treated the assumed obligations emanating from mutual cooperation schemes with the same approach.

On top of everything the very first step towards integration, that is formation of a free trade area, has not yet been made despite its proposal 15 years ago. Throughout these years there have been several attempts to establish it; however they were fruitless, moreover, with every proposal, a very firm opposition to it grew accordingly.

The next two problems are somewhat connected with each other. As a result of appearance of various integration associations (EurAsEC, CES, GUAM, Union State of Russia and Belarus), it is now time for their members to determine each organisation's role. At the moment there is a tendency to focus more on regional integration rather than on the Commonwealth itself. Its reformation does not seem to be a rational action, first of all reformation will require a certain period of time and also a substantial financial replenishment. Hence it is unlikely that these actions will be undertaken and the CIS becomes a main integration organization. This choice of direction is also connected with

difficulties in uniting a dozen countries under one organization. The established associations, specifically GUAM have, from the beginning, set distinctly different aims, tasks, interests, spheres of cooperation, structures, and members. To date, the Commonwealth states have been raising this matter at the meetings and summits and still have not come to a full consensus on it. In particular, Ukraine's opposition to the introduction of a supranational institution had played arguably a major role in hampering – and in fact, suspension of processes in the CES project.

The problem of ineffective trade ties have been considered in the previous chapters on many occasions. It can only be noted that diversification of economies and hence creation of new competitive production enterprises is sine qua non for countries aiming to achieve economic integration. These actions will result in the levelling out of the exports structure with equal shares of raw materials, processed and agricultural products. The economic policy should provide a strong financial, tax friendly support for producers (including subsidizing unprofitable but vitally important spheres) and encourage them to introduce avant-garde technologies. Another task is for the CIS member states to provide protection of their domestic producers and markets by way of imposing higher tariffs and taxes on exports from states outside of the CIS, along with creating conditions for winning foreign markets. Only in this case, does there appear a hope for a mutual interest in trade that will lead to closer ties in other spheres as well.

The problem with the creation of supranational structures within the regional associations is topical. Firstly, not all states are keen to continue their cooperation with other republics. Secondly, even if they do, the creation of supranational bodies seems unacceptable to them. Ukraine and Uzbekistan, especially, insist that integration should be voluntary and equal, with no domination of any of the states.

Aside from the factors mentioned above, it is vital for a country to have interest in integration with others, even if it does not bring immediate benefits. Countries have to rely upon their own economic potential and national resources, and unlike the policies of the Soviet period, no help is to be expected from other states. Countries have to be ready to develop their economic and social spheres all by themselves.

The solution to these four problematic issues in future seems to be a key to the way out. In order to achieve effectiveness of the mentioned integration groupings it is important to work out a model for each such grouping that is based on an effective performance of a supranational institution. Any integration scheme beyond a free trade area requires some type of regulating body. Creation of a central coordinating body that regulates interaction between all members of an integration grouping is a necessary task to accomplish if the parties want to achieve integration. This body should be given high credentials and be formed by the grouping's member states, each possessing an equal share of votes. A suitable mechanism should be worked out that would allow existence of an institution and at the same time leave to member states, the authority to make vital decisions.

The CIS states have been emphasising from the very beginning that the ultimate aim of integration within the Commonwealth is to form an economic union, that is, not to implement a complete economic integration project, as that would mean, reanimation of the Soviet Union in its modified form. The implementation of an economic union project by the CIS member states looks as a very much wanted, but, practically, an unrealisable task in the near future. Therefore, it seems that for the CIS states the main focus of integration projects should be the establishment of regional integration associations. Due to the smaller number of their members and common interests, there is a chance to achieve substantial results within them. With confirmed plans of establishing a customs union within three states in the EurAsEC framework, there is a chance that it would act as a demonstration for other states and associations of what the CIS countries are capable of. Eventually interests, as well as efforts of various integration groupings could be joined together in order to attempt integration within the CIS framework, between all twelve member states. Taking into account the member states' huge economic potential, there is reason to believe in a bright future for the CIS.

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APPENDICES

APPENDIX ONE: Interview guide

INTERVIEW GUIDE

Questions

1. What is your opinion of the economic situation in Kazakhstan? How would you characterise it?
2. What do you think about the situation in the Commonwealth of Independent States? Do you see any signs of development?
3. Who are the leaders and outsiders in the Commonwealth?
4. Are there any problems that hinder integration processes?
5. What do they stem from?
6. What are the solutions to the situation?

Topics

1. Economic situation in Kazakhstan. Its development since gaining independence.
2. Current status of economic relations between the CIS states. Economic situation in each of the CIS member state. Level of economic reforms. Influence of social, political, economic aspects on integration between these states.
3. Optimum model of the CIS, its level of effectiveness. States' contribution to economic integration. Leader and outsiders in the CIS. Groupings inside the CIS, states' closer cooperation based on common interests and vision.
4. Barriers in trade. Their impact on the level of trade between member states. Choice of trade partners inside and outside of the CIS.
5. Reliance on raw materials sector as a major source of income. Diversification of economies.
6. Problems of economic integration. Ways to overcome these problems.

APPENDIX TWO: Information Sheet

[Massey University College of Humanities and Social Sciences letterhead]

Economic integration in the Commonwealth of Independent States. Perspectives, problems, solutions.

INFORMATION SHEET

Researcher(s) Introduction

Dear participant!

My name is Yeldos Nashiraliyev, I am a Massey University (Auckland, New Zealand) postgraduate student. As part of my two year study, a thesis research should be conducted in order to fulfill the thesis requirements for the Master in Public Policy degree. My supervisor's name is Grant Duncan, who is employed as a Senior Lecturer at the Massey University.

This research looks at the member countries of the Commonwealth of Independent States. The aim of the work – to examine the present interrelation between the Commonwealth states and define the level of contribution this organisation brings to the integration processes on the Post Soviet territory.

Participant Recruitment

- *Representatives of public service organisations of the Republic of Kazakhstan will be interviewed on the topic. There are no selection criteria, an individual who gives his consent to take part in the interview will be chosen. In case there is more than one, no exclusions will be made. In other words, all eager participants will take part in the interview.*

Project Procedures

- **Use of data:** *the data obtained from interviewing will be used in the research, which is a requirement for completing Master's degree.*
- **What will happen to the data when it is obtained:** *the data will be interpreted, analysed and put together, so that a researcher draws conclusions regarding the integration processes between the CIS countries.*
- **Storage and disposal of data:** *the researcher and the administration of the School of Social and Cultural Studies at the Massey University are responsible for the storage and disposal of the data. The period of data storage and its disposal is regulated by the recommendations given by the Massey University administration.*
- **Method for accessing a summary of the project findings:** *should the participant(s) or any other interested party wish to access the project findings, a request to the*

researcher and to the administration of Social and Cultural Studies at the Massey University should be sent.

- **Method for preserving confidentiality of identity (if offered):** *in case the participants will want to stay anonymous, no personal details will be revealed. As part of this anonymity condition, a confidentiality agreement may be signed.*

Participant involvement

the only procedure which involves participants will be interviewing. In addition, interviewing assumes one time participation and does not entail further surveying or any other procedures.

Participant's Rights

You are under no obligation to accept this invitation. If you decide to participate, you have the right to:

- *decline to answer any particular question;*
- *withdraw from the study (specify timeframe);*
- *ask any questions about the study at any time during participation;*
- *provide information on the understanding that your name will not be used unless you give permission to the researcher;*
- *be given access to a summary of the project findings when it is concluded.*

(In case the participants wish to stay anonymous):

- *Completion and return of the questionnaire implies consent. You have the right to decline to answer any particular question.*

Project Contacts

Should you have any questions or suggestions, please contact the researcher through e-mail: yeldosnas@hotmail.com or telephone +7 7262 455301 or the supervisor Grant Duncan through e-mail: L.G.Duncan@massey.ac.nz or telephone +64 09 414 0800 9086

N.B. This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. The researcher named above is responsible for the ethical conduct of this research.

If you have any concerns about the conduct of this research that you wish to raise with someone other than the researcher, please contact Professor Sylvia Rumball, Assistant to the Vice-Chancellor (Ethics & Equity), telephone 06 350 5249, email humanethics@massey.ac.nz

APPENDIX THREE: Participant Consent Form

[Massey University College of Humanities and Social Sciences letterhead]

**Economic integration in the Commonwealth of Independent States.
Perspectives, problems, solutions.**

PARTICIPANT CONSENT FORM

This consent form will be held for a period of five (5) years

I have read the Information Sheet and have had the details of the study explained to me.

My questions have been answered to my satisfaction, and I understand that I may ask further questions at any time.

I agree/do not agree to the interview being audio taped.

I agree to participate in this study under the conditions set out in the Information Sheet.

Signature:

Date:

.....

Full Name- printed

.....

APPENDIX FOUR: List of existing integration projects

[Summarised from “Regional trade agreements notified to the GATT/WTO and in force,” WTO, 2008c]

| Integration form | Name of integration, year of establishment | Countries-members |
|-------------------------|--|---|
| Free Trade Agreement | European Free Trade Association (EFTA), 1960 | Iceland, Liechtenstein, Norway, Sweden |
| | Central European Free Trade Agreement (CEFTA), 1992 | Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia, Kosovo |
| | Association of Southeast Asian Nations Free Trade Area (AFTA), 1992 | Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam, Laos, Myanmar, Cambodia |
| | North American Free Trade Area (NAFTA), 1994 | USA, Mexico, Canada |
| | Greater Arab Free Trade Area (GAFTA), 1997 | Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates, Yemen |
| | Common Market for Eastern and Southern Africa Free Trade Area (COMESA FTA), 2000 | Djibouti, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia, Zimbabwe, Burundi, Rwanda |
| | Dominican Republic-Central America Free Trade Agreement (DR-CAFTA), 2004 | U.S., Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Dominican Republic |
| Customs Union | Switzerland – Liechtenstein, 1924 | Switzerland, Liechtenstein |
| | Central American Common Market (CACM), 1960 | Guatemala, El Salvador, Nicaragua, Honduras, Costa Rica |

| | | |
|---------------|---|---|
| Customs Union | European Union Customs Union (EU), 1968 | 27 Countries –members of the European Union |
| | Southern African Customs Union (SACU), 1970 | Republic of South Africa, Botswana, Lesotho, Swaziland, Namibia |
| | European Union – Andorra Customs Union (EU-Andorra), 1991 | European Union, Andorra |
| | Southern Common Market (MERCOSUR), 1991 | Argentina, Brazil, Paraguay, Uruguay |
| | Andean Community of Nations (CAN), 1994 | Bolivia, Colombia, Ecuador, Peru |
| | European Union – Turkey Customs Union (EU-Turkey), 1995 | European Union, Turkey |
| | Economic and Monetary Community of Central Africa (CEMAC), 1999 | Cameroon, Central African Republic, Chad, Republic of the Congo, Equatorial Guinea, Gabon |
| | East African Community (EAC), 2000 | Kenya, Tanzania, Uganda, Burundi, Rwanda |
| | West African Economic and Monetary Union (WAEMU), 2000 | Benin, Burkina Faso, Côte d’Ivoire, Mali, Niger, Senegal, Togo, Guinea-Bissau |
| | European Union – San Marino (EU-San Marino), 2002 | European Union, San Marino |
| | Gulf Cooperation Council (GCC), 2003 | Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates |
| Common Market | Caribbean Community (CARICOM), 1973 | Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Monserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and Grenadines, Suriname, Trinidad and Tobago |
| | European Union Single Market (EU), 1992 | 27 countries-members of the European Union |

| | | |
|-----------------------------|---|--|
| Common Market | European Economic Area (EEA), 1994 | European Union, Norway, Iceland, Liechtenstein |
| | Gulf Cooperation Council (GCC), 2008 | Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates |
| Economic and Monetary Union | European Union (EU), 1999 | 15 countries-members of the European Union |

