

MAKING SENSE OF POST-SOVIET ECONOMIC SPACE

— FREE TRADE AND BEYOND IN THE CIS*

David A. Dyker**

Abstract

The article begins with an analysis of the integration agenda in the area of the former Soviet Union, against the background of the patterns of regional economic exchange that developed within the Soviet Union, and of the peculiar political legacy left by the Soviet system. It goes on to describe and evaluate the existing regional trade agreements within the region, before turning to an assessment of how membership of global institutions of economic integration might be able to facilitate regional integration within post-Soviet economic space. The conclusions focus on the issue of whether global and regional integration initiatives could be brought together to fashion an 'enhanced free trade area' within the area of the former USSR.

Key words : Former Soviet Union, regional economic integration, comparative advantage, free trade

Introduction

The Soviet inter-regional division of labour (or perhaps we should say the Eurasian division of labour as it developed in the Soviet period) was not completely without foundation. Let us consider, for example, the classic principle of comparative advantage as reinterpreted by *Heckscher and Ohlin*, which posits that countries / regions will tend to export goods, the production of which requires relatively large quantities of factors of production of which they dispose in abundance. In those terms, it was perfectly reasonable for Central Asia to provide cotton for the old-established textile industries of Russia, for Siberia to supply the whole Union with hydrocarbons and non-ferrous metals (with some help from Central Asia), for Transcaucasia and Central Asia to supply the whole Union with speciality and sub-tropical foodstuffs like wine, tea, citrus fruit etc, and for Ukraine and South Russia to grow wheat

* This article is based on a study originally commissioned by the UK Department for International Development.

**School of European Studies, University of Sussex ; Visiting Professor, Faculty of Economics, Ritsumeikan University, April-August, 2001.

for the whole Union.

There was also a union-wide machine-building complex involving a great deal of *intra-industry trade*, based on a finer division of labour than in the Heckscher-Ohlin case. But because the Soviet planning system was very insensitive to locational considerations, inter-regional trade in engineering components often involved 'long cross-hauls'. In Central Asia, in particular, machine-building ministries based in Moscow tended to use small, local engineering enterprises to supply particular components - often at very high cost - to their union-wide network of enterprises. So micro-specialisation there was, though it was often anything but cost-effective.¹⁾

In addition, there was a degree of 'macro-specialisation' within Soviet machine-building, mainly involving Russia and Ukraine. An example is the aircraft industry, where much of the design capacity was located in Ukraine, while the bulk of production capacity was located in Russia. Local trade across republic boundaries was hampered by bureaucratic restrictions, but it was important, particularly in Central Asia, with its tortuous and geographically arbitrary boundaries.

The main thing that has changed in the post-Soviet period, in terms of real trade flows, is that the comparative advantage trade has been globalised. Russian deliveries of oil and gas, for instance, have been to a great extent, re-oriented to the international, hard-currency market. But there has been very little globalisation of intra-industry trade. In the engineering and machine-building sectors, there have been a few deals between Russian and Ukrainian companies, on the one hand, and companies from the developed industrial countries on the other, and these have given CIS manufacturing a taste of modern industrial supply networking. But they have not filled the vacuum left by the break-up of the old system. At 2001, Russia was still dependent on supplies from other CIS countries for some one-third of total production. The corresponding figure for Kazakstan was one-half, for Ukraine two-thirds, and for Azerbaijan 85%.²⁾

Not surprisingly, the scope and pattern of local trade has been little altered by the break-up of the Union, though there has been a striking new development of cross-border trade across the Ukrainian-Polish border, a trade flow that was largely forbidden in Soviet times, even though Poland was a 'fraternal' communist country.

More dramatic than changes in the trade pattern, have been changes in the pattern of *payments*. Under the Soviet system, payments for inter-regional deliveries were made through the State Bank, but the payments were of a purely passive, accounting nature. Delivery patterns were driven by the plan, and any consequent inconsistency on the financial side was automatically covered by budget transfers. The break-up of the Soviet Union signalled transition to a system based notionally on hard-currency payments. But because most

of the newly independent republics were very short of hard currency, payments have in practice been made to a great extent in terms of barter, or have accumulated in the form of claims in cases where payment has simply not been made. Where surpluses have persisted, they have usually been in Russia's favour, and Russian policy has been to negotiate their settlement through debt-equity swaps (note that the Russian government has taken this approach to trade debts outside the CIS too, e. g. in relation to Serbia³⁾).

The CIS integration agenda

Under the Soviet system, Russia subsidised all the other republics of the union in the sense that it supplied oil to all of them at (implicit) prices⁴⁾ (in terms of the counter-flows of other goods to Russia) far below world market prices. In the early years of transition, with the rouble zone in operation, the same pattern persisted, or was even amplified. Since then, the Russian government has steadfastly followed a policy of reducing Russian surpluses in trade with CIS partners, while moving delivery prices towards world levels. This goal has imposed a basic constraint on Russian policy for CIS integration as such. But it has not prevented the articulation of a definable Russian policy agenda on integration with the countries of the former union. In seeking to develop that agenda, the Russian government has been less interested in abolishing borders within the CIS than in establishing a Russian presence on non-Russian CIS borders with the 'far abroad' (e. g. on the Belarusian-Polish border). Showing no strong commitment to the principle of free movement of goods, the Russian government has grown increasingly hostile to the principle of free movement of people, as demonstrated by the decision of the Russian government in 2000 to impose visa requirements on the citizens of most CIS countries. In a word, the Russians, in their CIS policy, have been concerned with *control* rather than integration. But they are not going for control at any price. Even in relation to Belarus, where mutual links are at their closest, Moscow is absolutely clear that 'ever closer union' does not imply any open-ended subsidisation of the Belarusian economy.

The policies of the other countries of the CIS in relation to regional integration are more difficult to define. Countries like Ukraine and Georgia have been at pains to distance themselves from Russia on the political dimension, but have done little to develop trade with non-CIS countries, or to break their energy-dependence on Russia. Kazakstan has to a degree reoriented its hydrocarbon-based business to the world market, but remains close to Russia politically. The Belarusian government seems at times to be aiming for total reintegration with Russia, though that would hardly be compatible with the political ambitions of President Lukashenka. The Central Asian countries vary in their attitudes and policies towards Russia and each other, among themselves and over time, but, with the exception of Kyrgyzstan, continue to follow essentially Soviet-type (and therefore implicitly highly autarkic) economic policies within their own borders. Uzbekistan has, indeed, sought explicitly to in-

crease the level of autarky through the development of, for instance, cotton-processing. Sub-regional groupings like CACOM and GUUAM (see below) have yet to develop serious economic agendas. In no case can one confidently identify a long-term strategic orientation vis-a-vis post-Soviet economic space. In some cases this may reflect general weakness of government rather than lack of ideas. The fact remains that Russia stands out as the only post-Soviet country with a clear agenda for the rest of the former Soviet Union.

The influence of the Soviet political legacy on trade policy

As noted above, some of the CIS countries are today ruled by the same men who ruled them in Soviet times, and in much the same manner that they ruled them in Soviet times. But even in the more reformed CIS countries, the habits formed in the school of Soviet politics are difficult to shake off. The wide prevalence of corruption is only the most obvious manifestation of that. Less obvious but at least as important is the survival of the Soviet notions of 'blat' (influence, good connections, old boy's networks) and 'the economy of agreements' (*ekonomika soglasovaniï*), under which, in Soviet times, a market effectively existed for bureaucratic signatures on pieces of paper with important resource implications. These political influences from the past continue to shape policy today. In the post-Soviet world 'blat' translates into a range of unsavoury power devices including blackmail and conspiracy. Most important in the present context, it means that post-Soviet leaders will tend instinctively to seek for solutions to post-Soviet problems, including trade policy problems, through the exercise of blat. That means that networks developed in the context of a centrally planned economy may be called upon to address the problems of the market economy, an obvious nonsense in economic policy terms.

In political terms it is perhaps not so difficult to see how hard-pressed leaders may be tempted — with the best will in the world — to fall back on the old ways. An outstanding example is that of President Shevardnadze of Georgia, a sincere enough reformer, but one whose instinct to solve external and internal problems through 'blat' has tended, if anything, to intensify the difficulties in Georgia's relations with Russia, and to exacerbate the weaknesses of Georgia's own transition process, especially in relation to problems like corruption. It is unofficially estimated that a 10% cut in corruption would produce a 10% increase in GDP in Georgia. In the post-Soviet world, the 'economy of agreements' comes through in the form of universal 'gate-keeping' behaviour, with politicians and business leaders alike inclined to use their control over any strategic point in the economy, whether locational, sectoral or technological, to maximise short-term gain rather than to build for the future.

One very specific way in which the old 'economy of agreements' has been developed and transformed in the post-Soviet world is in terms of what might be called the 'economy of exemptions'. Tariff revenue is a relatively small proportion of the total value of imports in

most CIS countries, often smaller than might appear likely on the basis of published tariff rates. What this reflects is the crucial importance in post-Soviet states of the prerogative of giving tariff exemptions to favoured interests. In Belarus this is one of the key ways in which President Lukashenko has built his power system. In Ukraine, President and Parliament argue about who should have the greatest rights in terms of changing tariff levels. All of this is clearly crucial to the whole issue of trade policy. Specifically, the notion of bound tariffs is totally incompatible with the 'economy of exemptions'. Whether this is fully understood in the CIS countries which have just joined or may be just about to join the WTO is doubtful.

Current Regional Trade Agreements

CIS Free Trade Area

The CIS Free Trade Area was originally set up in October 1994, but has not been ratified by a number of CIS states, including Russia. It has never worked as a proper free trade area. While the average unweighted level of tariffs at intra-CIS borders varies from 4 per cent to 30 per cent,⁵⁾ import duties do not in themselves represent a major barrier at intra-CIS borders. But VAT has always been a big problem, with Russia generally levying at the point of production and the other countries on the destination principle, and excise duties have given rise to similar problems. Only three countries, Russia, Belarus and Kazakhstan, have resolved this issue as far as their mutual trade is concerned.⁶⁾ And Russia insists on levying duties on exports of oil to CIS partners, as to the rest of the world. Finally, there is a heavy incidence of NTBs at intra-CIS borders.

Long delays at the border and onerous paper requirements by customs officers can be (and often are) avoided by means of bribes. This adds to the cost of the consignment between 1 per cent (Kyrgyz customs officials being the cheapest) and 6 per cent (in Uzbekistan) on average ... Moldovan businessmen report that transit transport through Ukraine and into Russia is levied with a deposit, equal to 100 per cent of the consignment value, on the Moldovan-Ukrainian border. The payment has to be made in Ukrainian currency. Foreigners cannot, however, own Ukrainian currency above certain limits and hence they have to exchange money at the border, and then exchange money back when entering Russia. In the currency exchange process, an average of 7 per cent of the value of the consignment is added to costs.

Exporting Moldovan wine to Moscow is more expensive than exporting Australian wine to Moscow, even though the travel distance is eight times smaller. Similar deposits

(at 50% of the consignment's value) exist for Kyrgyz exports through Kazakhstan into Russia. Kyrgyz businessmen report that in one-quarter of the cases they never get the deposit back. In addition, many countries charge foreigners higher rates for rail transport.⁸⁾

A CIS summit in mid-2000 produced a declaration in favour of trying to make the Free Trade Area more of a reality. Since that time, however, virtually no progress has been made.⁹⁾ Russia is still unmoved on the oil export duty issue, and will remain so, at least until such time as world prices of oil come back down to a level where export duties would be irrelevant, or until the issue becomes critical for WTO accession (see below). Even if no duties or taxes were levied at intra-CIS borders, it would still be difficult to describe the CIS as a free trade area, because quasi-fiscal barriers are often encountered within individual countries, owing to the prevalence of 'gate-keeping' behaviour on the part of local political bosses, who often levy local taxes without legislative authority, and to widespread corruption among police forces.

CACOM

At the time of the proclamation of the CIS Free Trade Area, some of the Central Asian states (Kazakhstan, Kyrgyzstan and Uzbekistan) had already (January 1994) announced the creation of a 'common economic area' (CACOM) based on free trade. This constellation did not have the problem of export duties on energy materials to contend with, but the other problems which have hampered the development of the broader free trade area quickly became evident in CACOM as well. CACOM seems to have been somewhat upstaged in 1995 by the creation of the Customs Union (see below). It was renamed the Central Asian Economic Community in 1998, but this failed to give the initiative any significant new impetus. The trend has been for levels of actual trade within the Central Asian region to fall steadily since the break-up of the Soviet Union. At present Kazakhstan's trade with its CACOM partners accounts for less than 8% of its total trade with CIS countries.

A CACOM summit held in Dushanbe in June 2000 sought to breath new life into the agreement with the adoption of an economic strategy for the Community to the year 2005 and of a programme of priority measures for the formation of a single economic space by the year 2002. This would involve, in the first place, harmonisation of customs laws and cooperation in the battle against illegal financial operations.¹⁰⁾ At early 2002, however, there appeared to have been little progress in this direction. As with the CIS as a whole, the important agreements among Central Asian countries seem to be bilateral rather than multilateral.

CIS Customs Union

The CIS Customs Union (Russia, Belarus, Kazakhstan, Kyrgyzstan and, from 1998, Tajikistan) was set up in January 1995, or rather the participating countries agreed at that time to start working towards a customs union.¹¹⁾ They claim still to be working in that direction, and indeed in October 2000, still aping the terminology of the European Union, they proclaimed the Customs Union transformed into a Eurasian Economic Community. As of the present time, however, the CIS Customs Union still cannot claim to be a Customs Union in the textbook / Treaty of Rome sense, for seven main reasons.

1. It has no unified external tariff¹²⁾
2. It has no agreed system of preferences on import tariffs
3. Russia in particular levies a wide range of export duties on goods going to Customs Union partners
4. Russia has up to now not permitted transit through its territory of goods (in particular hydrocarbons) from Customs Union partners on equal terms with Russian organisations
5. Levels of tariffs on intra-Customs Union trade (e. g. of Russian oil export duties) are not contractually bound, and there have been a number of cases where member states have imposed penal emergency tariffs on goods coming from fellow-member states, with Kazakhstan the worst offender.
6. The agreement does not exclude anti-dumping measures between partners
7. There has been no significant progress on harmonisation of tax regimes etc.

The Customs Union does, however, in practice maintain a fair approximation to a free trade regime over a wide range of traded goods. It does, furthermore, have its own decision-taking body (the Integration Committee of the CIS Secretariat), though that body was only founded in mid-2000, after the dissolution of the Russian Ministry for CIS Affairs, and it remains unclear how operational it is.¹³⁾ The Customs Union has shown itself to be an active organisation with some capacity to push integration policy forward. In January 1998, for instance, the member-states agreed to implement measures aimed at harmonising transit conditions throughout the territory of the Customs Union, thus addressing a key point of contention be-

tween Russia and her Customs Union partners, and at allowing customs personnel of particular member-states to operate throughout the Union for some purposes.¹⁴⁾ By 2001 the Customs Union partners were working towards the creation of a *Transport Union*.¹⁵⁾

A new development on the Customs Union dimension is the *International Economic Organisation* (IEO), which was scheduled to start functioning in parallel to the Customs Union from the end of 2000. The role of the IEO would be mainly to represent the Customs Union in the world at large, including at the WTO. It would also have responsibility for unifying the Customs Union's external policy, hinting at the possibility of attempts to establish a common external tariff. No reports of the activities of the IEO have come to hand, and it may not yet have been activated. Looking to the future, however, if the Customs Union does turn into something more recognisably free-trade-oriented, and if all its members want to join the WTO, it will have to negotiate a derogation with the WTO. The IEO could presumably play a key role here.

Russia-Belarus Union

The Russia-Belarus Union is something of a curiosity in all this.¹⁶⁾ It was created mainly for political and strategic reasons, to appease the 'red-brown' advocates of the reestablishment of the Soviet Union within Russia, and to provide a counter to NATO expansion. It is a customs union in the sense that there is a common (Russian) customs service and joint Customs and Border Committees. But there are still customs posts on the Russian-Belarusian border, and there has been no systematic harmonisation of tax regimes etc. between the two countries. Legislation was passed in early 1998 in Belarus harmonising most Belarusian tariffs to their Russian counterparts, but the legislation has not been systematically implemented. As a result, the Russian authorities have re-imposed some controls on the Belarusian-Russian border, to stop Ukrainian companies using Belarus as a cheap route for exporting to Russia. The issue has also arisen in the opposite direction, with the Belarusian government complaining that their market was being flooded by cheap foreign textiles coming in through Russia, which levies a lower tariff on textiles than Belarus.¹⁷⁾ A decision by the Central Bank of Russia in February 2000 to increase, unilaterally and without consultation with the Belarus Central Bank, the amount of hard currency residents can take abroad without special permission, introduced a new anomaly in the workings of the Union.¹⁸⁾ Where the Union has made much more even progress towards the status of a real customs union is in relation to labour and social security matters, with the right to live, work, study and receive social security benefits anywhere in the Union guaranteed for all citizens of the Russian Federation and Belarus.¹⁹⁾ There are some forty joint Russian-Belarusian programmes operating under the aegis of of the Union, in the spheres of industry, social security and security.²⁰⁾

The Union has also afforded Belarus specific privileges in its economic relations with Rus-

sia. At the beginning of the process of negotiating the union, Russia wrote off Belarusian debts totalling some \$1.5 bn, and has continued to extend credits to Belarus since then. Most important, Russian gas has been delivered to Belarus at prices less than half those charged to other CIS countries. And when Belarus has been unable to pay her gas bills even at these preferential prices, the Russian government has intervened to help arrange barter deals etc to cover the unpaid bills. The World Bank judges that these elements of support from Moscow have been a crucial factor in Belarus's economic stability.²¹⁾ It should be noted, however, that Belarus does not obtain Russian *oil* at significantly better prices than other customers.²²⁾ The annual burden of the Russian-Belarusian Union on the Russian budget was estimated at \$2 bn in 1997.²³⁾ By 2000 the Russian-Belarusian Union was looking to press on with harmonisation of taxation and customs duties, and with the establishment of a monetary union. In the event these hopes have been disappointed, and at early 2002 the tax and customs duties regimes of the two countries remained unharmonised. There has been talk in Moscow of Kazakhstan and even Ukraine joining the Russia-Belarusian Union, but this should probably be heavily discounted.

GUUAM

GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova) is a very loose grouping of southern-rim countries, which has, up to now, been mainly concerned with arms-control issues, and providing a (pro-Western) counterweight to the Russian-dominated CIS Collective Security Treaty (Russia plus Belarus, Kazakhstan, Kyrgyzstan, Armenia and Tajikistan). A GUUAM summit meeting in September 2000 agreed, however, to try to set up a free-trade area, and to take a proactive stance in relation to pipeline development, a point of clear common interest between the countries. Now that final agreement on the Baku-Ceyhan pipeline has been reached, the pipeline development aspect of GUUAM may take on new importance. On the free trade side, however, it is not clear how a multilateral GUUAM agreement would add much to the existing (imperfect) bilateral free trade agreements that exist between most of the participants. In any case, little progress appears to have been made in the direction of turning GUUAM into a free trade area over the past two years or so.²⁴⁾

The integration of post-Soviet economic space — has any progress been made ?

This account of attempts to create integrative mechanism within the CIS has basically been a history of shams and failures. Not surprisingly, perhaps, given the predominance of political motives on the part of the one key player with a clear CIS strategy, and given the extent to which traditional, anti-market ways of trying to settle disputes have survived among CIS leaders, even those with a broad political commitment to economic liberalisation, free trade in the CIS has meant anything but free trade, customs unions anything but customs unions, and

so on The whole terminology of economic integration has, indeed, been taken over, twisted and distorted to suit the purposes of politicians whose goal has generally been the building or reinforcement of arbitrary power. And while this political game has been going on, intra-CIS trade has been falling inexorably — from an aggregate \$138 bn in 1991 to \$59²⁵⁾ bn in 2000.

Is the situation improvable ?

Let us start with the bad news.

1. The CIS institutions of economic cooperation have achieved virtually nothing in terms of economic integration, and are now so tainted with failure that it may be difficult to resurrect them, even if there is genuine political will to do so.
2. The pattern of post-Soviet politics, based, as it is, on the exercise of prerogatives and *force majeure*, is the very antithesis of the kind of rule-bound political behaviour which lies at the foundation of the system of 'open trade' which predominates in the world at large.

Still, consideration of the pattern of CIS trade diplomacy does offer some ray of hope. In the case of the Customs Union, the causes of power politics and economic integration have discovered some degree of common ground. Might it not be possible to develop that common ground, perhaps through some interweaving of regional and global initiatives? Let us look briefly at the existing situation in terms of economic integration of the CIS countries with the world at large:

The Energy Charter

The Energy Charter, to which every CIS country is a signatory, covers trade in energy carriers, promotion and protection of investment in energy sectors, and sovereignty issues as they relate to energy. It is based on the MFN principle, and it includes a disputes mechanism. It is the only global trade agreement to which all CIS countries have acceded. In practice, however, the Charter has failed to make a fundamental impact on patterns of cooperation within former Soviet economic space. Where serious disputes have arisen, e. g. in relation to nuclear energy, Charter mechanisms have not been able to resolve them. And for major energy players like Russia and Kazakstan, the importance of the Charter is in any case much more in terms of relations with the rest of the world (even here, it has not been a par-

ticularly effective mechanism for resolving disputes). Thus while the Energy Charter membership is important as a symbol of commitment to open trade values within the CIS, its operational impact is marginal.

EU Partnership and Cooperation Agreements

Partnership and Cooperation Agreements have been signed between the EU and most of the CIS countries. While these agreements are primarily symbols of political goodwill, they do include important clauses in relation to 'level-playing field' matters like investment and IPRs. But they are strictly bilateral agreements. There is on-going discussion as to how they might be developed in a multilateral, region-wide way, but nothing concrete in this connection has yet emerged. So their impact, to date, on intra-CIS relations has been negligible.

WTO membership

The General Agreement on Trade and Tariffs (GATT) and associated agreements which lie at the foundation of the World Trade Organisation are based on the principles of most favoured nation (MFN), national treatment for foreign nationals and companies, equal treatment for all contracting parties, and binding contractual commitments. In thus excluding, by definition, all forms of arbitrary behaviour in relation to trading matters, they therefore clearly address many of the problems that have afflicted the various attempts to develop economic integration within the CIS. Up to now, however, only three CIS countries — Georgia, Kyrgyzstan and Moldova — have actually acceded to the WTO. And in joining the WTO ahead of its Customs Union partners (which would, of course, not be possible in a proper customs union), Kyrgyzstan brought considerable disruption on that union - because it effectively allowed goods into the area of that Customs Union at WTO-compliant tariff levels. This did not strictly break existing Customs Union rules, because the Customs Union agreement specifies that each member will negotiate separately with the WTO. But it did, at least in the eyes of partners, conflict with the principle that individual member-states should consult with partners before negotiating with the WTO. Kazakhstan took the view that Kyrgyzstan had not consulted enough. As a result, that state imposed emergency tariffs on goods coming in to Kazakhstan from Kyrgyzstan, which, again, they would not have been able to if the Customs Union had been a real customs union. But by the same token, if it had been a real customs union, Kyrgyzstan would not have been allowed to negotiate separately with the WTO. Of course, the real problem here is with the so-called Customs Union, not with the WTO, but it has to be recognised that, under the present institutional framework, WTO membership for just a *few* CIS countries is almost worse than useless from the point of view of regional integration.

Russia has been in negotiation with the WTO since 1993, but Russian accession still seems to be some years off. The problems in the Russian negotiations do, it must be said, relate exclusively to Russia's relations with the non-CIS world, with protection of agriculture and financial services, export duties on oil and scrap iron and treatment of foreign investment and IPRs, standing out as the key issues. But until Russia joins, and even if a number of other CIS countries join in the meantime, the impact of the WTO on the CIS trading zone in strictly trading terms will be limited, because so much of the intra-CIS trade of the smaller CIS countries is with Russia, quite apart from the dimension of institutional disruption discussed above.

By way of conclusion-building an 'enhanced free trade area'

It is clear that universal membership of the WTO within the CIS is the first condition for developing meaningful economic cooperation across the post-Soviet region. It is equally clear that present difficulties in Russia's negotiations for accession to the WTO are the main obstacles to such a development. But universal membership of the WTO will not make the CIS into a free-trade area. What it will do is to establish the principles of bound commitments and rule-based behaviour within the region. Once those principles have been established, it should be possible to start to multilateralise the trade-related dimensions of the Partnership and Cooperation Agreements, to develop the Energy Charter framework as a framework for the settlement of disputes, and even possibly to use the existing free trade / customs union structures within the CIS as a vehicle for establishing genuine free trade. In this way, it might be possible to build an 'enhanced free trade area', as an integrational construct which would offer many of the advantages of a common market in a region where, for political reasons, common markets are outside the feasible area. For this, however, two key conditions would have to be fulfilled. Firstly, a range of flanking measures would have to be implemented in technical areas like trading infrastructure, trade facilitation and standards harmonisation — it hardly needs saying that you cannot have free trade unless you have efficient and transparent procedures for moving goods from one country to another. The second key condition is political will. A cynical eye would view the history of 'integration' in the CIS as simply an exercise in power politics, and pose the question: 'why should it be different next time?' A more optimistic view would set the issue of regional integration in the FSU in the framework of global integration. The fact that the majority of CIS governments, notably the Russian, are currently redoubling their efforts to join the WTO reflects their evolving perception of their position in the world economy, rather than any new ideas about regional integration. But if you join the WTO because you see an area of common interest between you and your trading partners, you are bound to adopt the same principles of enlightened self-interest vis-à-vis your immediate neighbours as you do vis-à-vis more distant partners — assuming all your neighbours have joined as well. Thus WTO accession in itself may do much to change the perception of CIS trade as a zero-sum game. The outcome is

not certain, but it is clear that rapid accession to the WTO on the part of the majority of CIS countries which are still not members offers the best hope of making progress in the integration of post-Soviet economic space.

注

- 1) See D. A. Dyker, *The Process of Investment in the Soviet Union*, Cambridge University Press, 1983
- 2) L. Artsishevskii and N. Promskii, 'Ekonomicheskaya integratsiya stran SNG: problemy i resheniya', *Ekonomist*, No. 9, 2001, p. 53
- 3) 'Saradnja na najvišem nivou', *Ekonomika Politika*, 4 September 2000, pp. 11-12
- 4) In 1991 the domestic Soviet price for crude oil was 13% of the world level, and for petrol and diesel fuel 9%. (Artsishevskii and Promskii, *op. cit.*, p. 52.) Because Russia ran 'trading' surpluses with most of the other republics in terms of official prices, the true delivery prices of Russian oil and fuel were even lower than that.
- 5) S. Djankov & C. L. Freund, *Disintegration*, Board of Governors of the Federal Reserve System, International Finance Discussion Papers, No. 618, August 1998, p. 30
- 6) The Interstate Council of the Customs Union issued a recommendation in October 1999 that the countries of the Union should uniformly adopt the destination principle for mutual trade. The recommendation does not appear, however, to have been systematically implemented. See N. Isingarín, 'SNG: integratsionno-dezintegratsionnye faktory, stsennarii razvitiya i tendentsiya regionalizatsii', *Rossiiskii Ekonomicheskii Zhurnal*, No. 9, 2001, p. 73
- 7) The extent of the problem can be illustrated from the case of Russo-Ukrainian trade. In addition to both being members of the CIS Free Trade Area, Russia and Ukraine have signed a bilateral free trade agreement. The bilateral free trade agreement is, however, a typical CIS free trade agreement, excluding about 200 categories of goods, many of which are among Ukraine's main exports. The dispute between the two countries concerning the collection of VAT and excise duties has a long history. In early 1995, Ukraine stopped charging VAT on its exports to Russia, and in mid-1996 moved fully to the destination principle by starting to charge VAT on imports from Russia. In the same vein, Ukraine stopped charging excise duties on its exports in December 1995. Russia then claimed that imports of Ukrainian alcohol, spirits, and sugar surged as a result of Ukraine's move to the destination principle, and accordingly imposed a VAT of 10-20 percent on imports from Ukraine (creating a situation whereby Russia was levying VAT on both exports to and imports from Ukraine), and excise duties on imports of excisable goods from Ukraine equal to those paid by Russian producers of such goods. In addition however, Russia threatened to impose import quotas on sugar, alcohol, spirits and light bulbs at levels far below Ukraine's current exports. Following protracted negotiations between the parties, the Russian government agreed not to impose any quantitative restrictions, and to apply price-based protective measures only to the extent that there had been injury to domestic producers.
- 8) Djankov & Freund, *op. cit.*, pp. 30-31. In Russia about 200 customs officers are dishonourably discharged every year, and 50-60 found guilty of criminal offences ('Korrupsziya pod pritselom', *Ekonomika i Zhizn'*, No. 7, 2000, p. 27). It must be surmised that this is only the tip of the iceberg.
- 9) Isingarín, *op. cit.*, p. 71
- 10) *Ibidem*, p. 72

- 11) According to Isingarin (*ibidem*, p.72), 'the term "customs union" was initially used, not as a description of what had been achieved in terms of integration, but rather as a way of underlining the ultimate goal of the decisions taken.'
- 12) Isingarin reports (*op. cit.*, p.73), that something more than 60% of individual tariffs have been unified for imports from third countries.
- 13) The exact nature of the Integration Committee is still not clear. It is headed by the prime ministers of the member states, and takes decisions on the basis of qualified majority voting. The politicians are presumably supported by a professional staff, but to what extent is not clear. Isingarin, writing in mid-2001, states that the Integration Committee *will* have two headquarters — one in Moscow and one in Alma-Ata (*op. cit.*, p.74). The implication is that at that time the headquarters had still not been set up.
- 14) 'Transit - delo nekhitroe', *Ekonomika i Zhizn'*, No. 30, 2000, p. 27
- 15) Isingarin, *op. cit.*, p.73
- 16) A treaty 'On the Formation of a Community' was signed in April 1996, followed by another one a year later which proclaimed a 'Union' between the two states. Then in December 1999 Russia and Belarus signed a treaty 'On the Formation of a Union State'. At early 2002, however, the crucial 'Union Constitutional Act', which would give the union a proper legal structure on the model of the Treaty of Rome, had still not been adopted.
- 17) C. Rontoyanni, *A Russo-Belarusian 'Union-State': a Defensive Response to Western Enlargement*, ESRC 'One Europe or Several' Programme Working paper 10 / 00, p. 15
- 18) 'Pravila vyvoza valyuty v Rossii i Belorussii razlichny', *Ekonomika i Zhizn'*, No. 8, 2000, p. 27
- 19) Rontoyanni, *op. cit.*, p. 9
- 20) Artsishevskii and Promskii, *op. cit.*, p. 55
- 21) World Bank, *Transition: The First Ten Years*, 2002
- 22) Rontoyanni, *op. cit.*, p. 13
- 23) *Ibidem*, p. 17
- 24) Isingarin, *op. cit.*, p. 72
- 25) Artsishevskii and Promskii, *op. cit.*, pp. 51-2. Of course the GDP of the region has also fallen, but intra-regional trade has fallen faster.