



**INSTITUTE FOR WORLD ECONOMICS  
HUNGARIAN ACADEMY OF SCIENCES**

**W o r k i n g P a p e r s**

No. 182

October 2008

**Svetlana Glinkina**

**RUSSIAN IDEAS ON INTEGRATION WITHIN THE CIS SPACE.  
HOW DO THEY MATCH OR CLASH WITH EU IDEAS?**



1014 Budapest, Orszagház u. 30.  
Tel.: (36-1) 224-6760 • Fax: (36-1) 224-6761 • E-mail: [vki@vki.hu](mailto:vki@vki.hu)

## FOREWORD

---

This paper is one of several studies done at the Hungarian Academy of Sciences' Institute for World Economics (IWE) under the CIS Strategic Research Project. A contract between the Hungarian Prime Minister's Office and the Hungarian Academy of Sciences in the summer of 2007, allowed some new, wide-ranging thematic research into the post-Soviet space to be launched. The project entitled "Hungary's CIS strategy with special regard to Russia, Ukraine and Kazakhstan" gave new impetus to post-Soviet research in the IWE and its partner the Hungarian Academy of Sciences' Research Institute of Sociology. The new opportunity was important especially because the CIS or post-Soviet space had become a neglected area in Hungary over the previous 15 years and there was a research gap to fill.

Meanwhile the post-Soviet space has been returning to the political agenda in the last year or two, due to rising ambitions in a strengthened Russia, sharp conflicts within the post-Soviet space, and worldwide problems of energy supply and prices. The research seeks to provide up-to-date answers to such emerging questions.

The project sets out to cover a wide range of essential issues about the CIS space, notably the three most important countries for Hungary: Russia, Ukraine and Kazakhstan. It deals with the issues such as the regional energy prospects, the integration and disintegration processes among the CIS states, the formulation of relations with the European Union and with other important actors worldwide, and the effects of the world economy in the region. In conjunction with the key economic questions, it examines the current social and political changes and the various political systems.

The intention is to create not just a network of Hungarian specialists on the post-Soviet space, but an international network of researchers from these newly independent states. Inviting outside researchers and think-tanks to join us in this project was a first step. The IWE is currently working with Russian and Ukrainian partners.

This paper written by Svetlana Glinkina, deputy director of the Institute of Economics of the Russian Academy of Sciences, analyses the important and challenging issue of how Russian integration ideas and initiatives within the CIS space fit into or clash with EU ideas. It is highly topical. Post-Soviet ideas of integration are usually seen as contrasting with EU ideas on integrating several CIS states, such as Ukraine or Moldova, into EU structures. Is this the only option? Naturally, the latest political events, such as the Georgian-Russian war of August 2008, tend to support this "either/or" analysis. But from a longer perspective, Russian/EU cooperation on "common neighbourhood issues" seems inevitable.

The first part gives an overview of the main Russian-initiated integration groups within the CIS space over the past 15 years, listing also some reasons why they failed

to be realized. The second is devoted to one of the most challenging economic initiatives: the Common Economic Space, which aims to integrate Russia, Ukraine, Belarus and Kazakhstan, the region's four largest economies. The third examines changing Russian approaches to cooperating with other CIS countries. The final part tries to put the European "common neighbourhood" into a special perspective, a so-called "Russia/Euroeast" dimension.

Zsuzsa Ludvig  
project leader

Processes of integration in the post-Soviet area are constituents of an international process of world economic collaboration and regionalization, and subject to regularities that govern it. But they display a number of specific features: 1. They involved former Soviet republics once parts of a single state. However, CIS states belong to a number of regional formations with bordering non-CIS states. 2. The formations are at the initial stage of economic integration. 3. The process of creating and running the formations includes an express political component. 4. Development of the formations is interdependent and duplication apparent in certain functions.

## 1) PRESENT LEVELS OF INTEGRATION AND COOPERATION

---

There are serious problems with implementing projects for regional post-Soviet integration with Russian participation.

*Table 1* shows the history of integration in the post-Soviet space to be a succession of unimplemented projects. Many reached no further than a statement of aims and signing of foundation documents before dying. Professor Y. V. Shishkov, an authority on international economic integration has dubbed these “quasi-integration formations” or “Potemkin villages”. Regional unions of Russia and CIS countries have yet to advance beyond preparing for the initial stage of market integration and free trade zones.

The first step towards creating a multilateral CIS free trade zone was the

Agreement on Free Trade-Zone Formation in the Framework of the Treaty of the Economic Union of the CIS Countries signed in 1993 by nine countries: Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan and Uzbekistan. Ukraine signed as an associated member, and Georgia and Turkmenistan excluded themselves. But the treaty was never implemented and expired as a *de jure* agreement in 2003.

A 1999 attempt to revive the 1993 agreement failed for objective reasons after the default of the Russian rouble in August 1998 and consequent depreciation of all national currencies, coupled with corruption of the new payment system among “soft” CIS currencies. The crisis in Russia spread to all CIS states, affecting regional trade and initiating a new protectionist phase. The member-states that had proposed the multilateral free trade zone (including Ukraine and Georgia at the time) sought easy access to Russian markets for their goods and cheap imports of fuel, and abolition of VAT on exports of oil, gas and gas condensate. But Russia was too much weakened by the default to start subsidizing CIS trade.

Table 1  
Regional integration in the post-Soviet space with Russian participation:  
declared aims and attained collaboration levels, 2008

Name of formation	Participant countries	Year of creation	Declared aims	Attained level of collaboration
Economic Union of CIS Countries. Treaty of 1993	All CIS countries with Russia as leader (Ukraine as an associated member)	1993	Free trade zone → tax union → common market → monetary union and confederation of states	Treaty of Economic Union expired in September 2003. The multilateral trade zone has not been created <i>de jure</i> , it functions <i>de facto</i> under bilateral agreements
Tax Union (TU), 1995–6	Russia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan	January 1995–March 1996	Tax union with prospects of creating a common market synonymous with a common economic space	Terminated in 2000 without having attained unification of external tariffs. Kyrgyzstan joined the WTO earlier than other TU countries and made unwarrantable commitments
Eurasian Economic Community (EurAsEC)	Russia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan—2006. Ukraine, Moldova, Armenia observers	November 2000	Tax union → common economic space and common Eurasian currency (by 2008)*	60 per cent of the tariffs of participating states have been reconciled; interstate trade limited, anti-dumping investigations occurring. The tax union is at a development stage; the free trade zone functions within limits
United State of Russia and Belarus	Russia, Belarus	April 2008: R–B Community; Union of R and B 1997; United State, December 8, 1999 treaty	Confederation of two states with equal rights and common economic space, budget and currency (supposed to appear 2005)	Does not meet criteria of a common tax space; free trade zone functions with limitations. Major disagreements over common currency introduction and price preferences in trade
United Economic Space (UES)	Russia, Belarus, Kazakhstan, Ukraine	Agreement and Concept of Formation, September 19, Yalta	Free trade zone → tax union → UES → monetary union (2005–7) → Organization of Regional Integration, coordinated WTO policy	Discords at agreement preparation stage. Ukraine ready only to create a free trade zone and joined the WTO after separate negotiations

\* Kazakhstani proposal supported by Russia: President N. Nazarbayev advanced the idea of a common currency or Altin at the Dushanbe summit in April 2003.

Source: L. Kosikova: "Integration that Failed or Why Russia Cannot Unite the CIS Countries". *Mir Peremen*, M., 2004:1, 108–23 and additions in 2005–8.

Later the CIS countries started to conclude free trade-zone agreements, which Russia now has with all other CIS countries. However, they incorporate various exemptions and limitations, typically for sugar, tobacco, cigarettes and spirits. Furthermore, the parties apply to each other non-tariff restrictions (quotas, licences) and antidumping and protective duties as temporary trade measures for certain classes of goods.<sup>1</sup>

Bilateral free-trade bilateral agreements have produced free trade-zone conditions *de facto* without a multilateral agreement being signed. According to the CIS Executive, almost 12,000 commodity items are traded freely in the regional market, with only 27 having official exceptions (stated in 10 bilateral protocols). Another 200 items are limited by quotas.<sup>2</sup>

The legal framework for a free trade zone within the EurAsEC has been developed to some extent. Free trade bilateral agreements became a basis for trade between EurAsEC member-states that was not subject to tariff and quantitative limitations. Enabling agreements have already come into effect in five countries. New agreements and further implementation measures were needed when Uzbekistan joined EurAsEC in 2006.

There are almost no exceptions to the free trade between EurAsEC countries. This is also favoured by consultations on free trade compliance within the Commission on Customs Tariff and

Non-Tariff regulations, acting within the EurAsEC Integration Committee.

Currently, both domestic customs tariff conditions and quotas and tax barriers affecting trade are due to be removed. It is also necessary to harmonize indirect tax-collection systems in foreign trade, *i.e.* VAT and excise payments in these countries. Since 2001, all member-countries have applied the destination country principle: 0 per cent VAT on commodity exports and refunding of VAT to exporters by the budget. Currently, harmonization of excise policy is underway.

The order under which each member-state has a right to establish trade conditions for third (non-EurAsEC) countries on a national level at its own discretion has a negative effect on the development of a EurAsEC free trade regime free of exceptions and limitations. Countries' rights to conclude protocols on exceptions to the free trade-zone conditions mean that all EurAsEC countries have independently signed bilateral documents (on exceptions) with CIS countries that are not EurAsEC members. Furthermore, these protocols use different commodity classification to define the exceptions.

This situation called for further harmonization and held back development of the EurAsEC free trade-zone formation free of exceptions and limitations.

The lack of conformity in the exceptions for third countries is currently being removed and levelled. The EurAsEC Intergovernmental Council confirmed a uniform commodities list for such exceptions, covering only a very limited number of items, and the 2004 uniform schedule of exceptions prescribed the removal of indicated com-

<sup>1</sup> See Section 4, "Direct and indirect preferences and subsidies analysis in trade with CIS countries".

<sup>2</sup> Porously, V.: The condition of the economy and potential for cooperation among CIS member-states. *Obshchestvo i Ekonomika* 2004:5-6, 145.

modities from the list in the period 2006–12.

The provisions of the March 30, 2002 Agreement on Customs and Tax Control of the Production and Turnover of Ethyl Spirit, Alcohol, Alcohol-Containing and Tobacco Products on the Territory of the Eurasian Economic Community (March 30th 2002) were extended in March 2005 to sugar. Adoption of the corresponding document<sup>3</sup> finalizes the protection mechanism for EurAsEC countries within an environment of non-usage of indicated exceptions by single EurAsEC member-countries.

All EurAsEC countries are due to sign a protocol on Completion of Full Free Trade Conditions and its execution by EurAsEC member-states, as the final step to forming a free trade zone formation and embarking on a customs union.

## 2) THE COMMON ECONOMIC SPACE

---

The idea of integrating Russia, Ukraine, Belarus and Kazakhstan into a common economic space (CES-4) evolved as a political initiative at summit level. Presidents Vladimir Putin, Leonid Kuchma, Alexandr Lukashenko and Nursultan

<sup>3</sup> Protocol Introducing Amendments and Supplements to the Agreement on Customs and Tax Control over Production and Trading of Ethyl Alcohol, Alcohol, Alcohol-Containing and Tobacco Products (white sugar added under EurAsEC Harmonized Commodity Description code 1701 99 100).

Nazarbayev signed a brief single-page joint declaration on February 23, 2003 in Moscow. Sometimes referred to as the Presidents' Declaration, this expresses a "political resolve to create a Common Economic Space" as a start towards a "new phase of economic integration."<sup>4</sup> The point is also made of a need to pursue an "agreed economic policy in several areas, harmonizing the relevant laws and establishing an independent, regulatory intergovernmental Trade and Tariffs Commission." This Commission would, it was initially assumed, coordinate the CES member-countries' negotiations with the WTO and develop an agreed stance for subsequent WTO entry as a common customs union. The Declaration reads that the "ultimate goal of the efforts is establishment of a Regional Integration Organization (RIO)." It also points to the beginning of intergovernmental negotiations on the measures required to develop the CES. The presidents set up as a standing executive body a joint High Level Group (HLG) of vice-premiers from each country and approved a mandate for it. The HLG was assigned the priority task of drawing up by September 2003 the text of an intergovernmental agreement to serve as a legal framework for creating the CES. On September 19, 2003, heads of the four states signed at a Yalta (Ukraine) Summit a package of documents on building the CES, notably an Intergovernmental Agreement and a Concept. On completion of intrastate procedures, these fundamental agreements were rati-

<sup>4</sup> Quoted from the Declaration of Presidents of the Russian Federation, Belarus Republic, Kazakhstan Republic and Ukraine as a start to the formation of a Common Economic Space. Moscow, Kremlin, February 23, 2003.

fied by the legislatures of Russia, Ukraine, Belarus and Kazakhstan.

Formation of a regional integration group of the four economically most developed post-Soviet states was initiated for a number of reasons.

First and foremost there was dissatisfaction with the current state of economic cooperation among the CIS countries. This applies both to the entire CIS (CIS-12) and to the narrower regional associations such as EurAsEC and the United State of Russia and Belarus.<sup>5</sup> None of these associations with Russian participation could markedly boost intra-CIS mutual trade or economic relations within the CIS. The Regional Integration Organization (RIO) mentioned in the Presidents' Declaration is indicative of that, being conceived as a prototype for a new regional union. An economically powerful CES 4, pursuing agreed policy, could serve as a core and a motor for integration processes in the post-Soviet region.

The CES 4 then accounted for 94 per cent of CIS GDP, 89 per cent of goods turnover, and 80 per cent of population. This presaged the creation of quite a big internal consumer market, close in population to the theoretically "optimal market size" for developing an up-to-date, diversified economy (250–300 million people).

Russia's CES partners are closely tied not only in energy supplies, as the majority of former Soviet republics are, but also in such areas as manufacturing and basic and applied sciences. This is especially true of the relations between Russia and Ukraine, Russia and Belarus, and Ukraine and Belarus. As

<sup>5</sup> See Table 1.

potential integration partners the four states match to a greater extent than those that previously made up EurAsEC earlier (remarkably, Tajikistan and Kyrgyzstan are much less developed than Russia, Belarus or Kazakhstan). Of all post-Soviet states, Russia, Ukraine and Belarus have the most diversified manufacturing, making them much better prepared for mutual cooperation in technologies and production than other CIS countries would be. Estimates by the CES Executive show the CES 4 to be in a position to offer the world market some 10–15 of the 50 or so macro-technologies, provided they coordinate their activities and pool their efforts.<sup>6</sup> These include aviation, space and nuclear technologies, shipbuilding, transport, chemical and power engineering, biotechnologies, *etc.* with an estimated aggregate market of almost USD 100 billion by 2010.

Yet another motive behind the CES project was the need for a "symmetrical" response to pending EU expansion up to CIS borders in May 2004. The European Neighbourhood Policy proclaimed by Brussels in 2003, on the eve of its eastward expansion, extended also to East European countries (Ukraine, Belarus, Moldova) and Transcaucasia (Armenia, Georgia, Azerbaijan). The declared EU policy goals within the "new-six neighbours" zone were perceived with a certain anxiety in Russia.<sup>7</sup> Authoritative western political scientists also noted that an expanded Europe was likely henceforth to see these countries

<sup>6</sup> *Obshchestvo i Ekonomika*, 2004:5.

<sup>7</sup> See Belov, E.: "European Union against Russia". *Rossiiskiy Vestnik*, December 17–23, 2003; Kazin, F.: "What Big Europe Do We Need?" Russia's perception of the EU new neighbourhood strategy. [www.mpa.ru](http://www.mpa.ru).



as a buffer zone between the EU and Russia.<sup>8</sup> The integration initiative of the CES 4 was actually a response to a policy of ignoring the special rights of Russia as an heir to the Soviet Union within the Soviet sphere, and to a challenge to its national interests. The evolving union of the CES 4 included the major trade and economic partners of Russia immediately bordering on Ukraine and Belarus. Unfortunately, the CES project left out Moldova, also in Eastern Europe, and Armenia, which is united with Russia in a common security system (the CIS Collective Security Treaty Organization). Apparently, account was taken of negative factors such as economic weakness in Moldova and Georgia and involvements in local territorial conflicts (Transnistria, Abkhazia).

There were economic reasons as well as geopolitical ones. All the early forecasts of the implications of EU eastward expansion pointed to increasing damage to the terms of trade between the CIS countries and their traditional partners in Central and Eastern Europe, while CIS competitiveness in the combined EU 25 market would decline in several respects.

So the idea behind the customs union of the CES 4 was to compete jointly with the EU on the western borders of the CIS. The third important motive for the CES project design is apparently yet another Russia's attempt to involve

Ukraine in the process of Eurasian integration, all previous such efforts having failed. Despite prospects of considerable preferences in the form of low energy prices and preferential transport tariffs, Ukraine did not sign the CIS Charter, preferring association with the EU (1993) and merely supporting the idea of a multilateral free-trade zone. The republic's leadership ignored invitations to join the Union of Russia and Belarus (1999) and later EurAsEC (2000). Ukraine has always strongly objected to intergovernmental unions among CIS countries, if Russia is to be a member. It aspires to become an independent focus of integration for post-Soviet states that have chosen a Europe-oriented vector for their foreign policies (the GUAM countries—Georgia, Ukraine, Azerbaijan and Moldova). So what had changed by the beginning of 2003? Trade between Russia and Ukraine intensified in 2001–2. Russian capital became involved in the privatization of Ukrainian businesses, while Ukraine's image, in particular that of President Kuchma, steadily deteriorated, so that the prospects of European integration became more vague. So it was deemed wise under the circumstances to put yet another proposal to Ukraine and convince it of the benefits of economic integration with the CIS countries. Furthermore, there was specific pressure applied to President Kuchma personally to sign the Presidents' Declaration, as his personal position against a growing opposition at home left him highly dependent on Russian support.

The new integration project caused something of a sensation in the CIS, giving rise to various contradictory comments. The Presidents' Declaration

---

<sup>8</sup> Commenting on the neighbourhood policy, Alexandr Rahr, for example, of the Research Institute of the German Council on Foreign Relations, told *Washington Profile*, "Vehement strife is pending in the next few years within Europe and set to turn Europe into 'EU-Europe' and Russia, dividing the continent between the CIS and EU."

had not been expected by experts dealing with cooperation among the newly independent states or by senior state officials.<sup>9</sup> Indeed, there had been no mention of it made even on the eve of the summit, when the potential for EurAsEC was praised. This shows that it was drawn up by a small team of bureaucrats close to Putin's office, without wide public discussion or expert analysis.

Thereafter, the "opaque" manner of striking the agreements played a negative role: the CES concept was repeatedly criticized, especially in Ukraine, not always justifiably, and the very emergence of the CES project was used by its opponents, in member-states and in the West, as a tool for political struggle against the "imperial ambitions of the Kremlin". Yet the project displays a novel integration concept, far from standard for the post-Soviet period. For the first time, CIS countries are trying to test a functional approach rather than an institutional one. All previous regional groups were created as international organizations. They started with the establishment of bureaucratic structures embodying a wide network of administrative bodies (intergovernmental councils, executive committees, *etc.*) The CES project, on the other hand, began as an economic venture that may turn into a regional integration organization only if a successful economic component emerges.

<sup>9</sup> Boris Tarasyuk, Ukraine's current foreign minister, was quoted as recalling "that when a decision of principle on creating the CES was made, Ukraine's foreign minister and minister of economics and European integration learnt of it from the media." *Zerkalo Nedeli* (Kiev), No. 15, April 23–May 6, 2005.

The fact that the CES agreement contributed to raising mutual trade turnover in the member-states gave an impetus to new business contacts. CES 4 trade volume in 2004 rose by 40.7 per cent, while that with the rest of the world grew by only 34.6 per cent. Russia's goods turnover with other CES countries in 2004 exceeded the 2003 volume of its trade with all other CIS countries (USD 40 billion as against USD 30 billion).<sup>10</sup> Remarkably, Russia–Belarus trade volume reached USD 15 billion, that of Russia and Ukraine about USD 15 billion (goods only) plus some USD 20 billion of services; and that of Russia and Kazakhstan rose to USD 8 billion. The growth rate of trade between Ukraine and Belarus was also noticeable: figures for 2004 indicate that it exceeded USD 1 billion, with a mutual trade balance was about zero and the exchange balance improved.<sup>11</sup> Commodity turnover between Belarus and Kazakhstan increased to USD 67.7 million in the first half of 2004, up 88.6 per cent on the same period of 2003.<sup>12</sup>

The CES project has passed through three implementation phases so far:

- 1) Preparing framework agreements (February 2003–May 2004).
- 2) Developing a CES legal framework (June 2004–September 2005).

<sup>10</sup> Quoted from a speech by V. Khristenko at the 16th HLG meeting on CES formation in Kiev, October 22, 2004. <http://www.for-ua.com/print.php?u=news/2004/10/22/161917.html>.

<sup>11</sup> Quoted from a presentation by Andrei Kobayakov, vice-premier of the Republic of Belarus, at the HLG meeting on October 22, 2004.

<sup>12</sup> *Belorusskaya Delovaya Gazeta* No. 1460, September 7, 2004.

3) Harmonizing the CES legal framework at national and inter-governmental levels, and preparing treaties for signing (autumn 2005–autumn 2007).

During the preparatory phase, the CES 4 progressed from the Presidents' Declaration of intent to build a common economic space, to signing of multilateral documents—the Concept of and Agreement on the CES (Yalta, September 19, 2003). Later the framework documents were ratified by national legislatures.<sup>13</sup>

Development of the CES legal framework took a further year. *Ad hoc* working groups of experts<sup>14</sup> prepared a package of agreements incorporating about 90 international treaties (in the course of working-group activities, the number thereof varied between 93 and 86). This package is a kind of CES code of practice or legal framework. The agreements embrace such key co-operation areas as:

- \* Tariff regulation, non-tariff regulation, customs administration.
- \* Competition policy, natural monopolies, subsidies, privatization.
- \* Technical regulations, intellectual property.

\* Fiscal and monetary policy: currency regulation/control, macroeconomic indicators.

\* Services.

\* Capital flows, investment.

\* Labour migration.

This stage in the formation of the CES involved drafting treaties and harmonizing the principles for concluding them, as a package or individually. In the latter case, there was the question of what order to sign them in. At a second summit of CES heads of states, held as part of a wider CIS summit at Astana, Kazakhstan, on September 15–16, the CES 4 presidents appraised the legislative preparations and approved a list of 29 “first priority” treaties whose texts would be harmonized by December 14, 2004. The plan was then to start negotiations on these at interstate and inter-governmental levels, but the harmonization deadline was not met and it was apparent by mid-2007 that Ukraine would not sign the priority package, which was first scaled down (to 14–15) and then up (38) again.

As work continued, the project concept gradually became emasculated and confused, with conflict of interests appearing. When the CES concept and the quadripartite agreement were being prepared, there had been hardly any mention of ultimate goal of integration, a regional integration organization. Next the states abandoned the idea of joining the WTO as a foursome with a common customs union, preferring to conduct separate talks. One intractable problem was to establish a CES Regulatory Commission as a supranational body. Nor has there been any mention

<sup>13</sup> In spring 2004, the legislatures of the CES 4 ratified the agreement on its creation in a package with CES concept: concurrently on April 20, 2004 in Russia and Ukraine, and on the 21st and 23rd in Kazakhstan and Belarus respectively. The ratification documents were signed by the presidents of Russia, Kazakhstan and Belarus on April 23, April 28 and May 14, respectively. The CES agreements and concept were deposited with Kazakhstan.

<sup>14</sup> Specialists from the CIS Executive, the Secretariat of the EurAsEC Integration Committee, branch ministries, and scientific institutions.

for a long time of a potential common currency.

Few of the earlier plans have been realized and they could hardly have been so with Ukraine acting from the outset of a “Trojan horse”.

Back in August 2003, the Ukrainian delegation suggested applying the principle of states being involved in project implementation at “different paces and different levels”.<sup>15</sup> It was on these terms that Ukraine signed and later ratified the framework agreement. It also included a reservation in the text: “Ukraine will take part in building and operating the Common Economic Space within limits consistent with Ukraine’s constitution.” The other states clearly had to agree to Ukraine’s preconditions if they wanted to preserve the project as such, for otherwise it would have broken down at the outset.

The talks showed that the four countries each saw the future CES structure differently. They showed different levels of willingness to bring their economies closer together. Russia, Belarus and Kazakhstan are agreed on deeper integration within the association. They are ready to establish a customs union and a common space that secures the “four freedoms of movement”—of goods, services, capital and labour. Ukraine would prefer only to form a quadripartite free trade zone with all restrictions lifted. It is not yet ready to talk about deeper forms of multilateral cooperation and integration until it “sees how the free trade zone performs.”

So the CES remains just an integration project rather than an international

organization or a real integrative association. None of the specific agreements within the CES framework has yet been signed. It became clear at a certain stage that unless Ukraine agreed to sign the entire first priority package (now made up of 38 documents laying the foundation for a customs union), the CES would be formed to three countries and develop thereafter as the fast-track core within EurAsEC established by a respective resolution of the EurAsEC summit of heads of state and government in Autumn 2007.

### 3) NEW APPROACHES TO RUSSIAN COOPERATION WITH CIS COUNTRIES

---

Russia’s policy towards the CIS countries after the collapse of the Soviet Union was *ad hoc*, with a policy emphasis on price preferences, above all in natural gas. The creation of alternative unions, such as the Union State of Russia and Belarus or the EuroAsian Economic Community, was used as one means of applying pressure on CIS members perceived as “disloyal”. In fact membership of all these unions was intended to offer greater economic benefits than plain membership of the CIS, *i.e.* to stimulate the development of ties with Russia. But the expectations were not fulfilled, for one reason because of inconsistency in Russia’s policy towards “pro-Russian” and “pro-Western” states. So Belarus, Russia’s main military and strategic partner within the CIS and one of its main partners for cooperation in manu-

<sup>15</sup> Transactions of the 16th working meeting of the HLG in Kiev, August 20, 2003.

facturing and IT, received USD 1.5-2 billion dollars per year of direct or indirect subsidies from Russia in 1992–2005. Meanwhile Ukraine, which did not even sign the CIS Charter, received subsidies whose size was no less and sometimes much greater than those to Belarus, in the shape of annual gas and other energy debt write-offs, preferential oil prices and special nuclear fuel prices for Ukrainian power stations. State debt restructuring reached an annual level of USD 3–5 billion in 1999–2003, according to estimates by S. Glazieva and L. Kosikova. The financial help that Ukraine received in the presidential election year (2004) cost Russian USD 1 billion through changes in the taxation of oil and gas exports. Yet the new Ukrainian government started by denationalizing premises owned by Russian investors in Ukraine, reconsidering the lease terms for the Russian naval base on the Black Sea, declaring its desire to join NATO in the near future, *etc.*

But there have been recent changes in Russian policy that weigh the foreign policies of CIS states. When the latter run counter to Russia's interests, it withdraws financial help.<sup>16</sup> Among the policy areas used are the passport and visa regime for crossing borders, the immigration regime (the number of days that can be spent in Russia without registering), and tariff and non-tariff restrictions on some "sensitive" export goods. In 2005–6, Russia put restrictions on products of the wine-making industry and Borjomi mineral water from Georgia, on wines, fruit and vegetables from Moldova, and on

meat and milk products from Ukraine, saying they did not meet the medical inspection standards. Such measures were perceived by CIS and Western countries as economic sanctions on countries that sought to drop out of the CIS and join NATO. As a rule, they lacked any chance of exerting equivalent pressure on Russia, though the problems with transit across Belarus and Ukraine showed that Russia had geographic weaknesses.

Apart from such "compulsion to friendship", Russia also applies a principle of "pragmatism" in its relations with CIS countries. This is manifested most clearly in consecutive refusals to grant former preferences to CIS partners. The Russian Foreign Ministry considers a move to market principles in trade and economic relations as "evidence of mature mutual relations".<sup>17</sup> Meanwhile the remaining links between CIS members and Russia are justified by short-time profit but in strategic terms detrimental. Price preferences are no replaced by any other "new ties" or attractive project of modernization to strengthen the "Russian vector" and offset CIS external cooperation in other directions.

Although pragmatism cannot replace strategy, there can be grounds for it. Russia has a high number of claims against its CIS neighbours. It has not profited from the great financial infusions it has made in the region. Russian investors and other enterprises operating on CIS internal markets have not received significant advantages from them either. Direct or indirect subsidies to

<sup>16</sup> This trend was exemplified by the late 2006–early 2007 oil conflict with Belarus.

<sup>17</sup> Contemporary world and Russia. *International Life*. 2007:1–2, 79.

the CIS countries have either been treated simply as state revenue transferred to private bank accounts through the widely used shadow schemes. At present, Russia's partners are often bewildered by the figures indicating the scale of real aid because it has not always been mentioned in interstate agreements or reported in the media. Any references to financial aid are seen in the CIS countries today as unjustified reproaches made by a large, resource-rich Russia against ostensibly small, poor states. All these factors hinder further real cooperation based on mutual partnership.

The low efficiency of Russia's financing of the economies and public of the newly independent states is explainable because there have never been political inducements for it to be otherwise. This is a very serious flaw in its post-Soviet policy. Relations with the CIS countries were built up by the international financial organizations and Western countries on a quite different basis. To obtain a credit tranche from the IMF, the recipient country had to sign a memorandum setting forth the IMF loan terms. This gave an inducement to carry out reforms and created favourable conditions for activity by foreign firms. For example, the IMF could dictate to the government of Ukraine what level of duty on sunflower-seed imports to introduce to ensure high profitability for joint ventures being established with Western food-industry partners. Meanwhile the Russian government was failing to make Ukraine transfer its pipeline systems to the international gas transportation consortium. This went on for over ten years even though Ukraine was the main export direction for delivering Russian gas to Europe and the

neighbouring country was making an annual USD 2–2.5 billion out of this. Russia, at a new stage of relations with the CIS countries, should consider its strategic goals (the growing importance of the CIS countries as a source of population increase and preservation of its role as a key actor on the international energy market), and it should devise a more rational policy that considers all the factors that have recently been shaping relations with the CIS.

The Eastern enlargement of the EU produced a zone of geographical contact with Russia and the CIS. The new EU members now have common borders with Belarus, Ukraine, Moldova and the Russian Federation. So Russia's "near abroad" has also become the "near abroad" of the EU 27.

Since the ten new member-states acceded in May 2004, the EU has begun a transition to a new stage of interaction with the CIS countries. These concerns with the establishment of mutual cooperation in various fields of politics, the economy and the humanitarian sphere, with the format of "neighbourhood". Since the preparation of the first joint projects "for Eastern neighbours" (in 2003–4), European Neighbourhood Policy has extended geographically to three countries of the Southern Caucasus: Armenia, Azerbaijan and Georgia. All members of the Neighbourhood Policy have adopted action plans and are working out new supplementary mechanisms of cooperation—strategies and indicative programmes of cooperation for each country in the "neighbourhood belt", memorandums on mutual understanding concerning cooperation in the energy sphere in Azerbaijan, and "energy dialogue" with Ukraine, and fi-

nancing of EU activities in the CIS countries is increasing.

The concept of an enlarged EU with “neighbouring countries” is being substantially amplified, so changing the model of EU–Russian relations established in the 1990s and creating a triangular Russia–EU–CIS situation. This is usually concealed in official inter-state relations and contacts on the highest level. But experts persist in drawing the attention of political leaders to the geopolitical triangle forged in Eastern Europe.

Russia’s official attitude to European Neighbourhood Policy is somewhat ambiguous. It is quite often interpreted as a serious challenge to Russia’s presence and influence in the whole post-Soviet region in the long term. Still more negative is Russia’s attitude to the possibility of EU intervention, as there is no concurrent creation of equal global partnership in the security sphere, whose necessity is not recognized by all EU countries.

The EU aspiration to control its Eastern neighbours is backed by the welcoming policy of certain CIS countries, for which accession to the EU and NATO (which may even lead to full integration) is the main external policy priority. Such is the case with Ukraine, Moldova and Georgia, and to some extent Azerbaijan. All these countries form part of the regional GUAM, which is considered an alternative to “pro-Russian” alliances in the post-Soviet space and seeks to develop cooperation with NATO through various partnership programs.

The new situation in the “near abroad” means that Russia should re-

consider urgently its approach to partnership with states in the post-Soviet space.

#### 4) RELATIONS IN A NEW SECTOR: “THE RF–EURO EAST”

---

It is necessary to devise a model of co-operation that takes into account the aspirations of some East European CIS countries to cooperate closely with the EU (even acceding to it, problematic though this may seem today) and their desire to cooperate with Russia in the spheres where they see this as beneficial.

As far as economic cooperation between Russia and its partners in the EU and CIS goes, it is important to find a way to “combine” the concepts of the two economic spaces—the common European economic space between the RF and the EU, and the Common Economic Space/Common Market (as a triple or quadruple union). None of the projects of integration have been shaped. There are political declarations of readiness to cooperate and some framework agreements, but no well-devised, practical drafts confirmed by relevant international treaties.

Unfortunately the model for Russia’s relations with its “common neighbours” in the CIS has not been devised yet even at concept level, let alone in terms of practical cooperation. However, some of the difficulties in Russia’s cooperation with Eastern European countries have

emerged. Russia has to establish bilateral relations while bearing in mind that the EU and its collective external policy towards the CIS has the support of NATO and the United States.

The widespread opinion in Russian political circles that European Neighbourhood Policy is incapable of preparing its partners for future EU membership (and that is not a goal as such) quite often misleads those who try to assess the integration prospects for Russia and the states of the “neighbourhood belt”. It somehow comes to be believed, for example, that if Ukraine does not join the EU, at least in 10–15 years, it will gain an incentive to join regional unions with Russia. Meanwhile the countries oriented towards Europe have no dilemmas to solve. This, in our opinion, is how the split in the post-Soviet space comes to deepen into pro-Russian and pro-European blocs.

Clearly the strategy of regional (Euro-Asian) integration for the CIS countries has not been universally adopted. There are serious internal and external obstacles to such a model. There are grounds for believing that Russia will revise its policy towards the CIS countries in the near future:

- \* It will establish “special” relations with its closest allies in the common security system, while pursuing a state policy of integration.
- \* It will set up partnership and economic cooperation at various interaction levels with the rest of the countries, while pursuing Russian neighbourhood policy.
- \* It will consolidate the post-Soviet region round Russia under conditions

of growing competitiveness, on a basis of flexible combination of integration policy for the allies and of neighbourhood policy for other partners.

It is clear that Russia’s relations with the newly independent states have undergone several transformations in line with the mentioned “consolidation–alliance/integration–neighbourhood” approach. These steps were made to render the CIS and EurAsEC consistent with the new developments at the CIS and EurAsEC summit in Dushanbe in October 2007. There CIS heads of state signed a concept for further development of the CIS and a plan for major developments in fulfilment of the concept. These state the aim of completing the formation of a free trade zone and further advance in line with the rules and norms of WTO.

At the EurAsEC summit, the heads of state of Belarus, Kazakhstan and Russia signed an agreement on forming a common customs zone, took decisions on establishing a Customs Union Commission of Russia, Belarus and Kazakhstan and an action plan for implementing one.

\* \* \* \* \*