



TRANSFORMATION, **I**NTEGRATION and **G**LOBALIZATION **E**CONOMIC **R**ESearch
CENTRUM BADAWCZE TRANSFORMACJI, INTEGRACJI I GLOBALIZACJI

TIGER Working Paper Series

No. 83

The Role of Commonwealth of Independent States (CIS) in the Economic Integration and Political Stability of the Region

Malgorzata Runiewicz and Hanna Antonova

Warsaw, February 2006

Malgorzata Runiewicz is the Assistant Professor in TIGER Research Centre.

Hanna Antonova is MA student of the Political Science in the National University of Kyiv-Mohyla Academy.

Malgorzata Runiewicz¹
Hanna Antonova²

The Role of Commonwealth of Independent States (CIS) in the Economic Integration and Political Stability of the Region

Abstract

The collapse of the Soviet Union revealed big productivity, structural and technological gaps between its economy and Western markets. The latter made it difficult to reorient its members trade flows towards new Western and Asian markets. An alternative solution was to rebuild up intra-regional relations on new sound economic grounds. In 1991 twelve former Soviet Union republics (excluding the Baltic States) signed the agreement on the Commonwealth of Independent States (CIS). The CIS member countries have also signed a number of regional agreements including the bilateral agreements among the members.

Regional integration agreements haven't been that successful in the CIS as they were in the case of the CEE countries integration with the EU. The economic gains, in terms of shifting in the structure export specialization and intra-regional capital flows were very modest and could be applied only to several countries, with leading role of Russia. The last years of 2000-2005 show to a continuous growth for the whole CIS grouping and in particularly in Azerbaijan, Kazakhstan and Russia. The engine of this economic recovery results from the buoyant energy and metals prices as well as a strong domestic demand of its members.

From the political perspective, the CIS played an important role of a regular interstate consultative forum, which had a positive effect on political stability in the region. On the other hand, multiple problems that arise in the work of the CIS restrain the organization from being effective in military conflict resolutions.

In order to contribute from all the economic advantages offered by the regional integration CIS members have to face a challenge of creating new integration mechanisms. The latter mechanism must consider specific needs of CIS members and be evaluated on their individual merits integration policies. Moreover, the progress and benefits from the regional integration will depend on the sound domestic policies, good investment climate, basic property rights and infrastructure development.

¹ Malgorzata Runiewicz is the Assistant Professor in TIGER Research Centre.

² Hanna Antonova is MA student of the Political Science in the National University of Kyiv-Mohyla Academy.

1. Introduction

The world growth has accelerated sharply in recent decade with several transition economies growing faster than their average growth rates in 1980s and 1990s. Almost every transitional country witnessed a solid growth in increasing investment and trade volumes. The latter enable us to say that transition and integration processes undergoing in many former Soviet Union countries interact with each other and determine their economic reforms. Today one-third of global trade takes place between countries that have some form of Regional Trading Agreements (RTA), two of them cover a number of transitional economies, mainly the European Union and Commonwealth of Independent States (CIS). If it is a bilateral or multicountry treaties, RTA assure its members preferential market access, ranging from zero tariffs to only preferential quotas for eligible products³. Whereas better access to markets improve macroeconomic climate and offers the regions the best chance to make progress in transition and integration to the world economy.

The collapse of the Soviet Union has revealed the uncertainty about the directions of economic reforms in the Newly Independent States (NIS). Big productivity, structural and technological gaps made it difficult to reorient their trade flows towards new Western and Asian markets. One of the alternative solutions for these countries, followed the political and economic disintegration of the Soviet Union, was to rebuild up intra-regional relations on new sound economic grounds.

Commonwealth of Independent States (CIS) was created in 1991 by twelve former Soviet Union republics, excluding the Baltic States (Estonia, Latvia and Lithuania)⁴ and as every regional grouping has come through several phases of integration.

The first phase of integration within CIS, lasting until 1993, there were attempts to reintegrate the post-Soviet states by maintaining the ruble zone. The latter concept, however,

³ Following World Trade Organization (WTO) convention “regional trade agreement” include both reciprocal bilateral free trade or customs areas and multicountry agreements. These are distinct from non-reciprocal voluntary agreements, such as the generalized system of preferences (GSP), Global Economic Prospects. Trade, Regionalism and Development 2005, Word Bank, Washington D.C. 2005. p. 6-8.

⁴ Following the Declaration of the Commonwealth the participants declared their interaction on the basis of sovereign equality.

appeared to be totally unrealistic⁵. As result of that, of the Heads of the CIS decided to follow the classic model of stage-by-stage integration, including the creation of an Economic Union from a Free Trade Agreement (FTA), a Customs Union, a Common Market (liberalization of capital, goods, labour and services flows) and a Currency Union⁶. In September 1993, CIS member countries signed an Agreement on the creation of Economic Union, establishing a common economic space, based on free movement of goods, services, labour force and capital. The evolution of CIS towards further economic and political integration covers also activities and coordination of monetary policies, tax, customs and external economic relations⁷.

The purpose of the paper is to present the evidence of the impact of CIS on the regional economic and political integration of CIS countries. By analyzing the institutional grounds and the real sphere, such as the turnovers of trade, capital and labour, we would like to answer the following questions:

- What was the role of CIS in the inter- and intra- regional trade recovery and the investment climate in the region?
- Does the CIS motivate and reinforce broader reforms in the domestic policies of its members?
- What are the perspectives and barriers for the larger integration and co-operation of CIS?
- Doest the CIS contribute to a political environment and stability in the region?

The paper presents the analysis from the year of establishment of the CIS up to recent possible data of 2005 and covers geographical territory of the present CIS members. For the comparative purposesfor the comparative reasons also countries of Central East Europe (CEE) region.

⁵ L. Vardomsky, Russia's new borders in the context of regional cooperation in the post-Soviet space, Head of Department for CIS, the Institute for Economic and Political Affairs, Russian Academy of Sciences, Moscow, www.iiss.org/rrpfree.php

⁶ In order to facilitate further integration the Agreement on deepening of integration in economic and humanitarian field of four countries (Belarus, Kazakhstan, Kyrgyzstan, Russia) and Agreement on creation of Commonwealth of Sovereign Republics (Belarus and Russia) were signed in 1995. In February 1999 by the decision of the Interstate Council of four countries (Belarus, Kazakhstan, Kyrgyzstan, Russia) the Republic of Tajikistan was recognized as participant of the customs union enjoying full rights, www.absoluteastronomy.com.

⁷ Interaction of countries in the framework of the Commonwealth is realized through its coordinating institutions (as of 2 April 1999): Council of the Heads of States, Council of the Heads of Governments, Inter-Parliamentary Assembly, Economic Court, Council of Foreign Ministers, Council of Defense Ministers, Economic Council, Executive Committee, Council of Commanders-in-Chief of Frontier Troops, Council of Collective Security, Interstate Bank and Interstate Statistical Committee. Bodies of Branch Cooperation: (Consulting Council for Labour, Migration and Social Security of Population, Transport Coordinating Conference, Interstate Council for Aviation and Air Space Uses, Interstate Ecological Council, Intergovernmental Council for Agro-Industrial Complex, Council for Electric Energy, Bureau for Coordinating Anti Organized Crime Activities, Interstate Euro-Asian Association of Coal and Metal, etc), Ibidem.

Statistical analyses based on findings from several econometric studies indicate that every regional trading agreement (RTA) may cause both positive and negative effects to its members. Many agreements cost the economy more in lost of trade revenues (by leading to discrimination against efficient, low-cost suppliers in non-members countries) than they earn. However, despite the possible risks the RTA undoubtedly contribute to positive effects associated with trade and services liberalization or any benefits related to adoption of new regulations can not substitute for the domestic policies. The balance of the positive and negative effects of RTA depends on the sound domestic policies, good investment climate, basic property rights and infrastructure development.

Another observation of the world RTA formation lead to a conclusion that the gains of RTA are greater if the integrated economies have distinct technological and other different factor proportions. This observation was based on the experience of the North-South (EU, NAFTA) and South-South (CARICOM, COMESA) agreements⁸. The first one was more effective in inducing the economic growth (due to increase of trade and investments volumes) and technological spillovers. From this point, the CIS members represent very similar technological and economic development, what certainly has had impact on the success of regional integration.

While there is large literature on causes of output decline and growth in transition economies, there is little studies done on the effects of globalization, trade and capital account liberalization and issues of their regional re-integration. The greatest problem is the lack of data, particularly data comparable across countries and over time. That is why the analysis, presented in this paper has focused mainly on the impact of RTAs on foreign direct investments (FDI) flows and intra-regional trade.

In terms of political stability the results of different studies prove that only RTAs that expand trade flows appear to have substantial impact on conflict, making a military inter-state dispute decline by around 50 percent⁹. If evaluated at the lower level of inter-state trade it appears that membership in the grouping may reduce the chance of dispute by just 15 percent. Finally, other studies suggest that RTAs may actually exarbate conflict if the gains from trade are not

⁸ NAFTA - North American Free Trade Agreement, EU - European Union, CARICOM – the Caribbean Community, COMESA – the Common Market of Eastern and Southern Africa, Global Economic Prospects 2005.

⁹ E.D. Mansfield, J.C. Pevehouse, Trade Blocs, Trade Flows and International Conflict, International Organization, Autumn (4) 54, p.775-808, in: “Global Economic Prospects 2005”, World Bank, p.38.

distributed evenly or the increasing vulnerability making the military expansion more attractive [Powers 2003]¹⁰. In application to CIS region it would be interesting to find out what particular factors in these countries inflow political stability and increase economic integration into the world economy.

The paper consists of four sections, conclusions, policy implications and bibliography. Section 1 and 2 include the introduction and some theoretical background, a global economic outlook of the CIS countries economic development and transformation progress in 1991-2003 as well as trade and investment flows between the CIS members and third countries. The importance of these processes for the transformation and integration between the CIS economies are presented in a deeper and broader context of the recent events in the world trade policies and growing number of Regional Trading Agreements (RTA) are discussed in section 3. Section 4 presents the political environment in the CIS countries and possible role of the agreement on the stability in the region. Finally, section 5 is concluded with the formulated implications in regard to the suggested economic policies for the CIS members.

2. Global economic outlook of the CIS countries economic development and transformation progress in 1991-2003

In 1991, the former Soviet Union countries of Europe and Central Asia region have experienced unprecedented economic challenges. Initially, output declined sharply, followed by a period of recovery in the late 1990s. The smallest total decline of slightly more than 16% was registered in Uzbekistan, while the largest decline was seen in Georgia, where GDP decreased by more than 75% over that period. Of course, external liberalization cannot take all the blame for this output performance.

Literature provides several explanations of difference in growth patterns of transition economies. External liberalization was only a small part of the multi-faceted process of transition from the planned to market economy, which CIS countries embarked on in the early 1990s. This process involves reduction of the role of the state in all areas of the economy, not only in external relations. Some countries were affected by military conflicts at the beginning of transition, and it is those countries which experienced the deepest decline (see more in section 4). Moreover, bad initial conditions, a lower initial degree of liberalization of the economy and a higher dependence on trade within the former Soviet Union, determined the differences in growth patterns of CIS. In

¹⁰ Global Economic Prospects 2005, World Bank, p.38.

particularly, more active reformers were able to return to the growth path faster and to grow faster. In Central and Southeastern Europe and the Baltics (CSB), real output fell 22 percent from its 1990 level before it recovered in 1993. In the Commonwealth of Independent States (CIS), it plummeted 50 percent, not to begin recovering until 1999. By 2000, countries in the first group had more than restored their original output levels, while those in the second group were still 35 percent below. Moreover, according to the study made by IMF a key success factor was the speed of reforms. The analysis shows that annual output is related to the level of the reform index—that is, cumulative policy reforms. The quicker that reform level is achieved and sustained, the sooner the economy can attain faster growth¹¹.

Direct comparison of growth performance of countries with different external liberalization strategies suggests that trade policies have so far played a very minor role in explaining differences in growth rates of the CIS countries¹². Yet, it doesn't include the significance of Russia for the CIS intra-regional investment-trade integration. The importance of Russia in the CIS region has revealed after the the expansion of the Russian crisis to the other members of grouping in August 1998. The crisis in Russia led a number of CIS countries to backtrack in reform and has also been largely overcome, with the lifting of most temporary trade and exchange restrictions imposed in response to the crisis. The recovery followed the 1998 Russian crisis has brought on average growth for the region as a whole is estimated to be in the 4-5 per cent range in 2000.

¹¹ P.K. Mitra, M. Selowsky, Lessons from a Decade of Transition in Eastern Europe and the former Soviet Union, Finance & Development, Quarterly Magazine of the IMF, June 2002, Volume 39, Number 2.

¹² K.Yudaeva, Globalization and Inequality in CIS Countries: Role of Institutions, The paper written for GDN conference in Cairo, January 19-21, 2003.

Table 1. Real GDP growth of CIS region and by country in 1987-1996 and 1997-2006 in %

	Average 1987- 1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
CIS	-	1.1	-3.5	5.1	9.1	6.4	5.4	7.9	8.2	6.5	6.0
Armenia	-	3.3	7.3	3.3	6.0	9.6	13.2	13.9	10.1	8.0	6.0
Azerbaijan	-	6.1	8.6	7.9	10.3	9.6	9.7	10.8	10.1	21.6	38.3
Belarus	-	11.4	8.4	3.4	5.8	4.7	5.0	6.8	11.0	7.1	6.0
Georgia	-	10.9	2.9	3.0	1.9	4.7	5.5	11.1	8.5	6.0	5.0
Kazakhstan	-	1.6	-1.9	2.7	9.8	13.5	9.8	9.3	9.4	8.0	7.7
Kyrgyz Republic	-	9.9	2.1	3.7	5.4	5.3	-	6.9	6.0	5.0	5.9
Moldova	-	1.6	-6.5	-3.4	2.1	6.1	7.8	6.3	7.0	5.0	4.0
Mongolia*	-0.2	4.0	3.5	3.2	1.1	1.0	3.9	5.3	6.0	5.5	5.5
Russia	-	1.4	-5.3	6.3	10.0	5.1	4.7	7.3	7.1	6.0	5.5
Tajikistan		1.8	5.2	3.8	8.3	10.2	9.1	10.2	10.6	8.0	7.0
Turkmenistan	-	-11.3	6.7	16.4	18.6	20.4	19.8	16.9	7.5	7.0	6.5
Ukraine	-	-3.0	-1.9	-0.2	5.9	9.2	5.2	9.6	12.1	7.0	4.0
Uzbekistan	-	2.5	2.1	3.4	3.2	4.1	3.1	1.5	7.1	3.5	2.5

*Source: World Economic Outlook, April 2005, IMF, p.209.

Observations of the last several years, starting from 2000 to up to 2005 show to a continuous growth for the whole CIS grouping and in particularly the several emerging economies of the CIS, such as Azerbaijan, Kazakhstan and Russia (see Table 1)¹³.

A closer look at the sources of the dynamic growth of the region indicates that its economic recovery of the CIS region was supported by a buoyant energy and metals prices and strong domestic demand of its members. The latter was reinforced by strong regional linkages that boosted exports from energy importers.

High oil prices drove growth in Russia – to 7.3 per cent last year from 4.7 per cent in 2002 – as well as in Azerbaijan and Kazakhstan. Higher gold prices helped the Kyrgyz Republic recover from stagnation in 2002, while industry fuelled a near-doubling of growth in Ukraine.

A further rise in oil prices may however create a risk to favorable outlook of the CIS economies, as it may reinforce the recent weakening growth and investment flows in Russia – a dominant economy in the region. Sustaining disinflation will require a careful management of the

¹³ Transition report 2000: Employment, skills and transition, EBRD, London 2000.

revenues from oil and commodity exports as well as making the transition to more flexible exchange rates¹⁴.

Summing up we admit that CIS countries have made an impressive progress in: sustaining macroeconomic stability, reducing the inflation, stabilizing the exchange rates and attracting foreign capital, in particularly foreign direct investments (FDI) (see more in 3.2). However, despite relative achievements to rebuild their economies none among the CIS (with the exception of the special case of Uzbekistan) approached the GDP level recorded in 1989 (as in 2001). In case of Georgia, Moldova and Ukraine this level represented only one third of their GDP level in 1989.

3. The impact of regional integration on the transitional progress in Russia and other CIS countries

It is important to look closer to determinants, advantages and disadvantages resulting from the CIS economic integration for the transitional progress in CIS region. Several economic theories and empirical analysis agree on a growth stimulating effect of trade and investment as well as a contribution to technological progress, exploitation of economies of scale and enhancing competition.

The CIS countries have signed a number of regional agreements including the bilateral agreements among the members. Bilateral agreements on the Customs Unions have been signed among four members: Kazakhstan, Kyrgystan, Belarus and Russia (table 2)¹⁵.

¹⁴ World Economic Outlook...op.cit. p. 44.

¹⁵ The Republic of Tajikistan was recognized as participant of the customs union enjoying full rights.

Table 2. Participation of CIS economies in the regional Free Trade Agreement (FTA) (as for 1999)

Country	Partnership and Co-operation Agreement	CIS Free Trade Agreement	Bilateral agreements
Armenia	Initiated 1995	Provisionally applied	
Azerbaijan	1996	Effective 1996	
Belarus	1995	Provisionally applied	Customs Union with Kazakhstan, Kyrgystan and Russia
Georgia	1996	Provisionally applied	
Kazakhstan	1995	Provisionally applied	Customs Union with Belarus, Kyrgystan and Russia
Kyrgystan	1995	Effective 1995	Customs Union with Kazakhstan, Belarus and Russia
Moldova	1994	Effective 1994	Trade and economic agreement with Russia, FTA with Romania
Russia	1994	Provisionally applied	Customs Union with Kazakhstan, Kyrgystan and Belarus
Tajikistan	-	Effective 1997	Kazakhstan, Kyrgystan, Belarus and Russia
Turkmenistan	Initiated 1997	Provisionally applied	
Ukraine	1994	Provisionally applied	
Uzbekistan	1995	Provisionally applied	

Source WTO, OECD.

Azerbaijan, Kazakhstan and Russia – have also overcome the post-transformation recession most rapidly and experienced dynamic economic growth¹⁶. It is however difficult to say if that was trade and investment liberalization, that contributed to economic development or more general transitional success and economic reforms.

Other sources of study results over the transitional reforms, measured with the Aggregate Transition Indicator (ATI)¹⁷, show that few of the CIS countries did relatively good, such as Kyrgystan and Moldova, followed by Kazakhstan, Armenia and Russia. The results in terms of ATI indexes can be comparable with some of the reforms in CEE (e.g. Romania, Bulgaria).

¹⁶ B.Kalinova, A Decade of Trade Liberalization in Transition Economies, Working Party of the Trade Committee Trade Relations with Economies in Transition, CCNM/TD(2000)110/FINAL, December 2000 OECD, p. 10.

¹⁷ The ATI indicator ranks from 1 to 4+, where 4+ indicates structural reforms comparable to those observed on average in the advanced economies, where 1 indicates to the state before reform in a centrally planned economy, Transition Report, EBRD.

Table 3. Selected transitional progress indicators in 1989-1997

CIS counties	ATI	LI	EMA
Armenia	2.7	3.4	-
Azerbaijan	2.2	2.6	-
Belarus	1.5	2.5	-
Georgia	2.5	3.3	-
Kazakhstan	2.7	4.4	-
Kyrgystan	2.8	3.4	-
Moldova	2.8	4.4	-
Russia	2.5	4.3	52
Tajikistan	2.0	2.2	-
Turkmenistan	1.4	1.5	-
Ukraine	2.4	2.6	48
Uzbekistan	2.1	2.8	32
New EU members and candidate countries			
Bulgaria	2.9	4.9	57
Czech Republic	3.4	6.4	60
Estonia	3.5	5.7	78
Hungary	3.7	6.8	66
Latvia	3.1	5.0	-
Lithuania	3.1	5.4	73
Poland	3.5	6.8	60
Romania	2.8	4.5	70
Slovakia	3.3	6.1	52
Slovenia	3.3	6.8	74

Source: *Transition report*, EBRD; *World Economic Outlook*, IMF; Center for Asia and the Emerging Economies, www.dartmouth.edu/ruck/fac_research/centers/caee.html

The ATI index is the average of 8 component transition indicators of structural reforms, measuring the extent of enterprise privatization and restructuring; market liberalization, competition and financial sector reforms (table 3).

The indicator of the transition progress in CIS is the Cumulative Liberalization Index (LI)¹⁸, reveals the weighted average state of the domestic market liberalization and enterprise privatization and banking reforms. The cumulative LI indexes presented in table 3 indicate that duration of liberalization in some CIS countries, such as Kazakhstan, Moldova and Russia was close to the level of CEE countries (Bulgaria and Romania). Whereas the overall Emerging Market Access Index (EMAI) score of each country show that countries like Ukraine, Uzbekistan and Russia considered to be the most open economies among CIS (with Russia having the same

¹⁸ The cumulative LI index ranges from 0 to 9, where 0 denotes lack of change and 9 full liberalization during the period of observation.

score as Slovakia). The EMAI is the sum of its scores on 16 areas of market openness: barriers to trade in goods (average tariffs levels, customs regimes, import licensing requirements, import quotas, standards barrier to trade, certification requirements); good tax structure, intellectual property rights regime (the patent, copyright and trademark system, prevalence of piracy); barriers to services including financial, telecommunications and legal), export subsidies; investment barriers; government procurement policies. Scores were given by international evaluators, selected from the governmental and business sectors. The index scales from 0 to 100; 100 for a very open market, 0 for total lack of market access.

Despite the legal frameworks for the regional integration and a growing number of intra-CIS regional integration initiatives there was a modest influence on the economic progress and trade flows, limited to small group of countries. The reasons of that unequal distribution of gains are following:

- ineffective trade policy of participating countries,
- the lack of a monitoring mechanism in current intra-CIS initiatives, and so the necessary feedback and legal support to trade policy makers in these countries,
- finally, the Partnership and Co-operation Agreement (PCA) have not provided the kind of legal and regulatory boost and therefore could not play the strong supportive role in designing more rationalized and coherent trade regimes in the CIS¹⁹.

By contrary, the experience of CEE countries shows that the acceptance of EU regulations and technical standards might create additional technical barriers to other partners, especially the CIS²⁰. In addition, the technical standards problem doesn't exist in regard to the EU access to CIS markets. In this respect to CEE experience of the accession to the EU played a crucial role in providing legal, regulatory and institutional guidance and strong monitoring mechanisms. The mechanism for controlling implementation of agreed commitments has guaranteed a thorough application and prevented backward revisions of trade liberalization targets²¹.

Summing up, the effect of regional integration involving the CIS has been significantly less important in comparison to CEE countries. The existing agreements do not define ambitious mutual trade preferences and disciplines of legal harmonisation. There was also a lack of

¹⁹ B.Kalinova, A Decade of Trade Liberalization...op.cit.

²⁰ Ibidem.

²¹ Ibidem.

surveillance mechanism. These differences constitute an important factor explaining different results of regional integration and overall trade liberalization in the CEE and CIS countries.

3.1. Trends in inter- and intra- regional trade between the CIS members and third countries

Studies conducted by Subramanian and Wei [2003] indicate that Free Trade Agreements (FTA) can boost trade by around 80 per cent. Whereas IMF estimates that the impact can be considerably lower - around 25 per cent, but nonetheless quantitatively important²². The latter results allow to conclude that trade liberalization has a significant positive effect on trade flows.

After remarkable slow down in the export growth from CIS countries in the early 90s slowed very, reflecting in part breakdown of the previous regime production-trade linkages, a slow growth of their main partners in CEE and Western Europe and a weakening competitiveness of their tradeable goods sectors. In 1994-1996, an intra-regional trade among CIS members has been recovered. Moreover, exports to the region were growing much faster than exports to the CEE and Baltic region (at below-average rates). This enables us to say that the CIS agreement was an important impulse for export recovery of its members.

As it concerns the commodity compositions of CIS exports there have been few changes in comparison to the Soviet time period. In general, during the whole transition period, exports remain concentrated on a few commodities: primary goods and fuels, whereas import has been dominated by agricultural products, prepared foodstuffs, and machinery and equipment. Oil accounts for 90% of Azerbaijan's export earnings and 58% for Kazakhstan (with ferrous metals another 24%). Natural gas is 57% of Turkmenistan's exports and oil makes up another 26%. Uzbekistan's exports are 42% cotton and 10% gold.²³

So, as CIS countries have been deepening their specialization in the resource-based export, most CEE countries have been observing the rising share of manufactured products, reaching

²² More liberal trade policies by and large contribute to greater integration. Trade between two WTO members is, other things being equal, around 25 per cent higher than trade between non-members, The IMF index ranges from 1 (fully liberal) to 10 (fully restrictive). According to our estimates, the difference between a fully liberal and a fully restrictive trade regime would account for around 25 to 70 per cent difference in trade by country, I.Babetskii, O. Babetskaia-Kukharchuk, M.Raiser, How deep is your trade?, Transition and international integration in eastern Europe and the former Soviet Union, World Bank 2003.

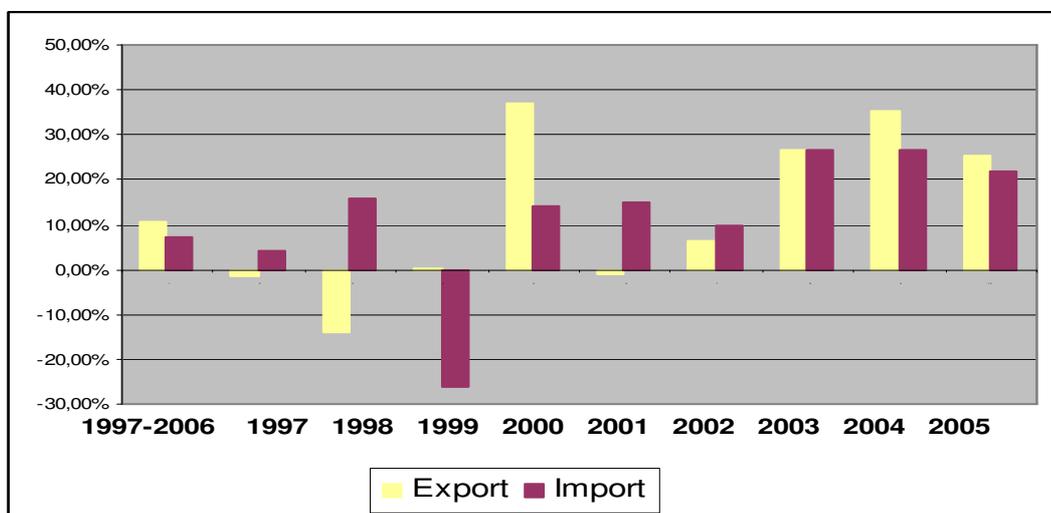
²³ P. Rutland, CIS economies: growth without prosperity?, Eurasia Daily Monitor, Volume 2, Number 42, March 2, 2005.

more than half of total exports in 1998. In contrast, the share of manufactured products decreased between 1995 and 1998 in total exports of Russia and Ukraine.

Such resource-based commodity dependency creates troubles to economic growth for several reasons. Firstly, it leaves CIS countries vulnerable to world price fluctuations. Especially, that recent high prices for copper and cotton will not continue indefinitely. Secondly, even if oil and gas prices stay high, long-term economic growth will depend on the capacity to extract more resources and get the access to the new world markets. Thirdly, the revenues from commodity exports are not equally distributed to citizens living in rural areas and industrial cities. Moreover, in the countries without resources to export, such as Moldova and Georgia, the trade reforms are even more challenging.

The foreign trade of CIS countries now accounts for 50-100% of the value of GDP. However, this proportion might be artificially high due to the under-valued exchange rates. Nevertheless, CIS region has witnessed a dynamic growth of export volume in the last several years in comparison to the early transition period (Figure 1).

Figure 1. The share of CIS trade in goods (annual percent change)



Source: *World Economic Outlook*, April 2005, IMF.

Many of these countries have rebuild their trade relations with other CIS states and in particularly with Russia. To the most active inter-regional exporters belong Belarus, Georgia, Ukraine and Kazakhstan. In 2003 Belarus and Georgia were exporting some 55 percent of their exports to the CIS, while the corresponding figures for Ukraine, Kazakhstan and Azerbaijan were

- 26 percent, 23 percent and 13 percent. A group of the most active importers in the region include Belarus, Tajikistan, Kyrgyzstan, Ukraine and Kazakhstan. These countries share of imports amounted correspondingly: Belarus - 70 percent, Tajikistan - 68 percent, Kyrgyzstan - 57 percent, Ukraine 50 percent and Kazakhstan – percent, followed by Azerbaijan and Georgia both 32 percent, and Armenia 22 percent. Russia seems to be the least dependent on CIS trade, with only 15 percent of Russian exports going to the CIS region.

Table 4. Exports and Imports between the Countries of the CIS as of January-October 2003 (in mln USD)

	Exports	as %	Imports	as %	Share of the CIS countries in total volume of trade, %	
					Exports	imports
With CIS countries						
Azerbaijan	496,8	211	937,1	141	18,0	33,5
Armenia	98,7	95	233,9	100,6	17,0	21,5
Belarus	5873,6	134	9065,9	140	52,9	71,9
Georgia	276,4	148	501,0	172	52,4	34,8
Kazakhstan	3322,9	142	4879,0	157	21,2	47,6
Kyrgyzstan	218,2	146	465,8	145	37,0	61,5
Moldova	403,3	119	599,3	132	51,1	43,4
Russia	23057,3	140	14193,2	136	16,0	23,7
Tajikistan	127,6	109	790,5	165	17,1	69,3
With other countries						
Ukraine	6887,4	143	12255,5	132	26,0	52,5
Azerbaijan	2258,5	126	1863,5	139	82,0	66,5
Armenia	483,1	103	853,9	105	83,0	78,5
Belarus	5237,9	142	3538,0	129	47,1	28,1
Georgia	251,5	134	939,9	151	47,6	65,2
Kazakhstan	12366,1	149	5365,8	151	78,8	52,4
Kyrgyzstan	372,0	131	291,0	118	63,0	38,5
Moldova	385,2	135	781,7	127	48,9	56,6
Russia	121216,0	131	45578,4	129	84,0	76,3
Tajikistan	620,9	123	350,0	163	83,0	30,7
Ukraine	19650,0	143	11075,7	124	74,0	47,5

Source: 2005 Interstate Statistical Committee of the CIS.

In response to strong domestic demand for consumer and investment goods (except in Russia, where imports fell) the imports from developing countries was growing.

Similarly to CEE countries, the politically and economically most important event was the signing of the Europe Agreements (EA) They also established cooperation links with some third countries, in particular with the EU within the framework of the Partnership and Co-operation Agreement (PCA). However, the co-operative arrangements undertaken by the CIS have had less pronounced effects than those of the CEE countries.

The share of exports to EU in total CIS-7 exports have increased from 21% in 1996 to 35% in 2002, for imports these shares are 18% in 1996 and 23% in 2002. While shares of new EU members are much smaller, they have grown as well. This is understandable taking into account the size of new EU10 economies in comparison to old EU15. However, this trend is characteristic for the CIS-7 trade totals, individual country data demonstrate more diverse picture (see figure 2). For Trans-caucasian countries and Moldova the increase in trade with EU is strong, while for Central Asian countries one can see much less progress. This fact suggests that the geography does matter, and more remote from Europe Central Asian countries made less progress in trade with EU²⁴.

The studies over the intra-industry trade condition in CIS region revealed the intensity of Russian trade with CIS, reaching some 0,92²⁵. The latter indicates an extremely high degree of the integration trade integration between within the region. Same index for the Russian-EU records was somewhere at 0,06 level and Russia – CEE at 0,05 (including Baltic States)²⁶. Specialization is particularly strong in fuels, crude materials, and animal and vegetable oils sectors, where most of the trade is of inter-industry type. This explains the earlier observation on Russia's trade. Overall, this figure tells that IIT is more common in sectors where there is significant production differentiation such as manufacturing. This indicates that CIS countries

²⁴ R. Mogilevsky, CIS-7 perspective on trade with EU in the context of EU enlargement, Center for Social and Economic Research CASE-Kyrgyzstan, Annual Bank Conference on Development Economics–Europe Brussels, Belgium, May 10-11, 2004.

²⁵Intra-industry indexes were calculated according to the following formula: $IIT = \frac{Export_j + Import_j - |Export_j - Import_j|}{Export_j + Import_j}$, in which j – particular product group or product. The index ranges from 0 to 1, and its value defines the intensiveness of the intra-industry trade, P.H.Lindert, T.A.Pugel, International Economics, Irwin Book Team, Chicago 1996.

²⁶ J.J.Boillot, Institutional Change and Economic Integration: the way round. Lessons from East Central and Russia follow the same sequences of trade integration in the enlarged Europe?, DREE, conference papers, 20-21 September 2002, Moscow.

have developed mainly horizontal IIT, occurring when similar products are simultaneously exported and imported mainly due to product differentiation. It is insignificant, in sectors with standardized products such as natural resources, where most trade is inter-industry²⁷.

The theory of intra-industry trade shows following determinants of development of parallel export and import inside definite industry branches between countries²⁸

1. The intra-industry trade is intensive, when average level of their economic development, measured by the level of GDP per capita, is high.
2. The intra-industry trade development is influenced by both the level of demand and its diversification. It allows utilizing advantages of production scale as well as wide range of diversified products. This utilization has one condition - efficient system of market information and communication infrastructure.
3. The intensity of intra-industry trade between countries depends also on differences in sizes of their markets - the smaller differences are, the more intensive is trade.
4. Wider access to the partner's market through eliminating trade barriers and lowering transaction costs, enhances development of intra-industry trade.
5. There is positive correlation between intra-industry trade and differentiation of produced industrial goods.

In the context of defined analysis subject we should emphasize the meaning of FDI in development of intra-industry trade. Observations of international enterprises behaviors and their foreign branches in less developed countries prove, that the mobility of international enterprises capital can make possible to export industrial products, which aren't sold on internal market or are sold in small amount by newly industrialized countries.

Study on the Trade, Regionalism and Development 2005, done by the World Bank conclude that the CIS agreement show a propensity to export significantly less than "normal". It also says that most of agreements in which export propensities are lower also appear to generate fewer imports than would the countries not participating in the agreements. In general, members of CIS agreement have been relatively less open to imports in comparison to other groupings (MERCOSUR, NAFTA, AFTA)²⁹.

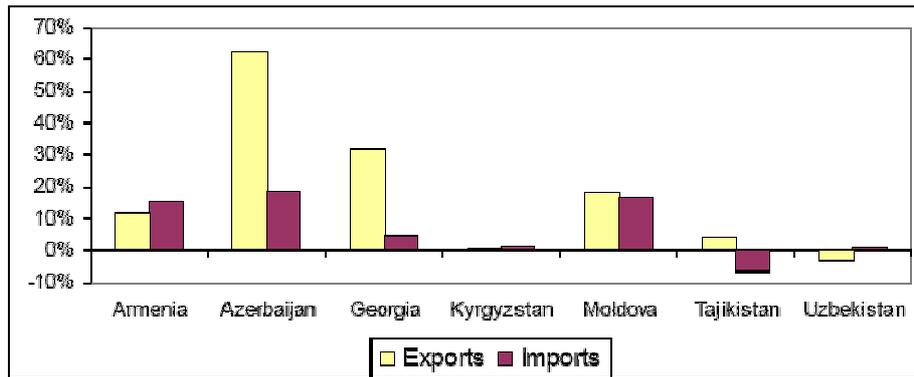
²⁷ Y. Kandogan, Intra-industry Trade of Transition Determinants, University of Michigan-Flint, W.Davidson, Working Paper 566, May 2003.

²⁸ P.H.Lindert, T.A.Pugel, International...op.cit..

²⁹ MERCOSUR – Southern Lone Common Market, NAFTA- North Atlantic Free Trade Agreement, AFTA- Association of Southeast Asian Nations Free Trade Area, Trade, Regionalism and Development 2005, World Bank 2005, p.63.

Further analysis shows that dynamics of CIS-7 exports to the high-income countries, including the EU was limited to few resource-based CIS countries. Moreover, the structure of export is very much dependent on just one-two commodities for each country accounting for more than 50% of exports of the country to EU.

Figure 2. Increase in share of trade with EU for 1996-2002



Source: IMF 2003.

These most important commodities are diamonds for Armenia, oil for Azerbaijan, gold for Kyrgyzstan, aluminum for Tajikistan, cotton and gold for Uzbekistan. Exports of these commodities are volatile in terms of prices, physical quantities and countries of destination, and their increase could not be treated as an evidence of sustainable strengthening trade links of CIS-7 with EU6. If one considers exports to EU net of these commodities, the shares of exports to EU in total exports of these countries demonstrate no visible growth trend and become smaller, somewhere 10-15% of total exports. For these countries European market is not export destination of primary importance).

The analysis of the main obstacles to trade between the CIS members and third countries lead to the following factors:

- *geographical distance*: several of the CIS members are located relatively far from the major world trading partners in western Europe, North America and in East Asia.
- *transportation costs*: since most of the CIS countries are landlocked transport costs may be up to 75 per cent higher than in countries with open access to seaports [Raballand 2003].
- *export specialization*: export of the CIS members is concentrated in resource-based commodities, which together with the high costs of transportation largely diminish the possible gains from cost-based competitiveness,

- *poor infrastructure*: relate to both transport infrastructure and lack of information and communication technology (ICT) facilities,
- *administrational costs and customs borders*: new borders may decrease trade and transit turnovers both as a result of administrative costs, visas and other restrictions, which disintegrate the CIS region,
- *trade policies and institutions*: trade taxes and poor quality of institutions discourage trade and give little credibility to the contracts enforcement. Most restrictive trade policies are applied in: Belarus, Turkmenistan and Uzbekistan.

Summing up, the limited resource-based export structure will deepen even further as there is little import from the EU. The latter fact and the lack of competition from outside the region, give low incentives to achieve the efficiency necessary to compete in world markets.

3.2. Dynamic, regional and geographical structure of investment flows to the CIS members

The trade integration beyond the former Soviet Union has not been accompanied by an inflow of foreign direct investment (FDI). The achievements of the CIS countries were quite modest by standards of transition economies (Table 3). In 2000 and 2001 net average FDI inflows to these countries were 3.2% and 3.1 % of GDP respectively.¹⁰ This is, of course, much higher than the average for developing countries, but substantially lower than 5.5% and 4.9%, observed in countries of Central- Eastern Europe, and Baltics, and even lower than 3.9% and 5.0% registered in South-Eastern European countries. What is even more worrisome, however, is that most of FDI has gone to oil and gas rich Kazakhstan, Turkmenistan, and Azerbaijan, while FDI inflows to countries poor in natural resource have been quite insignificant.

The only country, which attracted significant amounts of portfolio investment, was Russia. The level of portfolio investment in this country was higher than direct investment in some periods of the 1990s. Among the other CIS countries, the strongest performing countries – Kazakhstan and Azerbaijan - have attracted most of FDI exceeding the average level for CEE region countries (Table 5).

Table 5. Main recipients of FDI in CIS and CEE countries in % of GDP in 1992 –1995 and 1996-1999

Country	1992-1995	1996-1999
CEE	0.5	3.3
CIS	1.0	2.5
Azerbaijan	4.2	20.9
Kazakhstan	2.7	6.4
Russia	0.3	0.7
Turkmenistan	3.5	3.0

Source: World Bank 2002.

The stock of FDI is equal to 47% of GDP in Azerbaijan, a very high figure by international standards (only three countries have more than 30%), and 12% in Kazakhstan. It is around 5% in Georgia, Moldova, and Armenia and less than 2% elsewhere³⁰.

The only country, where the outward FDI has exceeded FDI inflows in the last couple of years was Russia.

Low foreign capital inflows to CIS regions were substituted by the relative direct transfers from abroad. The latter include both loans and grants from international financial institutions and private transfers, coming from the families in the other CIS countries³¹. During the 1990s several countries borrowed heavily, with debt service taking up 34% of export earnings in Kazakhstan and 25% in Kyrgyzstan. Moldova's debt service hit 60% of exports 2002, rescheduling has brought it down to 20%. The stock of official debt was around \$1 billion for each of the smaller countries, rising to \$4.3 billion in Uzbekistan, \$4.6 billion in Turkmenistan, \$12.6 billion in Ukraine, and \$16.5 billion in Kazakhstan³². Another resource of private transfers originated from migrant communities in the Western countries (e.g. Armenian community in Europe and United States).

³⁰ P.Rutland, *CIS economies...*op.cit.

³¹ Many citizens of the CIS countries, who were unable to earn a living in their own countries, went to other countries of the former USSR, mainly to Russia, where they had better chances of getting a job, although frequently an illegal one. The Russian construction sector attracted most of such cheap labor from the CIS countries. Unfortunately, I am not aware of any reliable estimates of the number of such migrants. There is no doubt, however, that this phenomenon has helped to reduce the poverty rate in some of the poorest CIS countries, such as Armenia, Moldova and Turkmenistan

³² P.Rutland, *CIS economies...*op.cit.

Summing up, CIS countries have relatively open capital markets, but bad state of institutions, poor infrastructure, lack of property rights protection and corruption reduces the possible gains from the FDI impact on transitional progress in the region. These countries need fundamental restructuring of their national economies, which requires considerable investments, in particularly FDI. Lack of foreign competition in their economies and a subsidy-oriented policy preserve the existing structures and slow down the reintegration process into the world market economy. Future perspective for growth in the CIS regions will remain generally favorable despite the moderate GDP growth in 2005.

4. The Impact of the CIS on Political Stability in the Region

The CIS in many senses is an heir of the Soviet Union and thus of its problems and conflicts. Among them are the issues of resettled peoples, multiethnic territories combined in one state, re-division of ethnic and historic territories and numerous influential Russian minorities in these countries. All of these problems, which the newly independent states had to handle by themselves after the collapse of the Soviet Union, result in demolition of political stability in the region.

The political stability of the region could be defined, as the lack of internal and external conflicts involving threats to regimes, territorial structures, and civilian populations (or their parts) of these countries. Thus, promoting political stability by a regional organization, such as CIS, we shall view as its role in such conflicts' prevention and resolution.

The role of CIS in promoting political stability in the region is analyzed on three level of analysis: institutional, legal and practical one. The first is the institutional level, i.e. the organizational capacity and institutional arrangements of the CIS for promoting stability. The second is the legal level, which includes the CIS' documents concerning political stability and military security within the region. And third, the practical level, which comprises the CIS' attempts to resolve the existing conflicts, i.e. the peacekeeping activities conducted in the conflict spots of the region. The policy implications based on the results of this analysis will be presented in the conclusion.

4.1. CIS as a forum for dialogue

In 1991, when the three presidents of the Slavic republics, Russia, Ukraine and Belarus had signed the agreement for creation of the CIS in Viskuli, the leaders of 5 Central Asian republics gathered in Ashgabat to discuss the possibility of forming an alternative union of Muslim countries. Such a division on the Slavic and Turk components within the collapsing Soviet Union delivered a threat to political stability in the whole region. Thus, the Central Asian leaders decided to join the CIS as its founders. The united organizational body was also very important, because many of the Soviet Union successors were only making their first steps in forming the national states, and the very notion of sovereignty was rather strange to them after the ages of a subordinate status in the Russian and Soviet empires. For these countries, the CIS had become the only forum for meetings and discussions on the highest level under the leadership of the former USSR. Therefore, the impact of the CIS as an organizational body was extremely important for sustaining political stability in the region.

From the beginning of CIS existence organizational capacity has been initiated and dominated by Russia³³. Thus, the operation of the CIS has been greatly dependent on the internal balance of forces in this country. There are three main competing concepts of these relations:

- neo-imperialism (varying from the restoration of the Russian Empire in its pre-revolution borders to building the new Soviet Union),
- isolationism (complete dissociation with the countries of the region, conducting the policy of non-interference),
- 'integrationalism' (gradual regional integration into a kind of Euro-Asian Union).

Unfortunately, the first concept had often prevailed in Russian political discourse, which can be concluded from numerous statements of Russian politicians, military commanders, and scholars. Such a state of public opinion in Russia negatively influences the position of Russia as the CIS leader. As a result, several CIS members resist adopting decisions initiated by Russia within the CIS³⁴. Moreover, the latest tendencies in Russian indicate the country's trend toward strong authoritarian regime under President Vladimir Putin. Theoretically, the agenda-setting in such regimes tend to be nontransparent, therefore, they appear to be rather unpredictable in their

³³ Today, out of about 86 bodies of the CIS, some 46 are headed by the representatives of Russia, among them all of the CIS Statute bodies, excluding the Economic Court, and the most important non-statute bodies like Interstate Monetary Committee, Interstate Committee for Military and Economic Cooperation, Intergovernmental Council for Oil and Gas, Interstate Telecompany 'Mir', and Interstate Bank.

actions. In this case, neither Russia, nor Russia-dominated CIS would be able to be the guarantor of political stability in the region as tension among the member states would escalate with suspicions and attempts to diversify their military arrangements.

At the same time, because of many differences among the CIS countries (political, cultural, economic, religious, historical, etc.) and the strategic misbalance that exists among them, they failed to form significant coalitions that could alter Russia's initiative and dominance and serve as a powerful 'opposition' in the organization³⁵. Thus, each country basically decides upon its position in the CIS by itself. In the conditions of such a lack of trust, consolidation, and coordination among the members of the organization, the ability of the CIS members to reach consensus on various issues, especially when stabilizing activities are concerned, is minimized, weakening the organization's capacity of promoting political stability. Moreover, these factors do not allow deeper integration within the CIS, leaving the organization in its present amorphous state.

On the institutional level the CIS members established several bodies promoting political stability within the region, including the Council of Heads of States (CHS), the Council of Ministers of Defense (CMD), the Council of Ministers of External Affairs (CMEA), and the Council of Commanders of Border Troops (CCBT). These authorities deal with the issues of political stability and military security within the region. At the same time, it is important to remember that since 1994, the CMD and other military authorities of the Commonwealth function within the Organization of Collective Security Treaty (OCST) rather than within the Commonwealth. Most of the military and political cooperation in the CIS is concentrated among the members of this Treaty.³⁶

Member states participate in the work of all of the CIS bodies on voluntary basis³⁷. All of the decisions are made as a consensus of interested sides, and countries have the right to declare their unconcern about any issues discussed within the CIS as well as participate in the decision-

³⁴ Among them Georgia, Ukraine, Azerbaijan, Moldova, Turkmenistan - the countries either not interested in the CIS integration or having historically suffered the most because of Russia's politics towards them.

³⁵ The organizations within the CIS as the Central-Asian Union or GUUAM cannot be viewed as such alternative due to lack of coordination of efforts of their members within the CIS, which can be concluded from, for example, how they sign decisions within the CIS.

³⁶ A. Zagorski, *Regional Structures of Security Policies within the CIS*, in: R. Allison and C. Bluth, eds. "Security Dilemmas in Russia and Eurasia", Royal Institute of International Affairs, London 1998, pp. 281-300

³⁷ Article 1 of the CIS Statute, <http://www.cisstat.com/eng/#cis>

making process. However, there is no really influential institution or legal mechanism of control over implementation of collective decisions and punishment for failure to carry out these decisions. Such conditions negatively impact the efficiency of CIS authorities' decisions and their implementation. A lack of this mechanism reduces the role of CIS in promoting political stability in the region in such activities as peacekeeping. Nevertheless, the need for such a structure is increasing, especially in the context of the growing threat from internal and international terrorism to many countries. In 2000, an Antiterrorist Center of the CIS was created. However, due to several member states' opposing to broadening of its authority beyond consultative level, the Center inherited the mentioned common problems of other CIS bodies. Thus, the efficiency of its work is quite limited.

It is also worth mentioning here, that the CIS bodies constantly experience financial shortages due to the long economic crisis associated with the post-socialist transformation in all of the member countries; the main financial support of the whole organization comes from Russia. As a result, all of the activities aiming at promoting political stability are financed almost solely by Russia, with the participation of mostly Russian military forces. Other CIS countries appear either to be not interested in or not ready for providing support for such activities³⁸. Such a state of things has a negative effect on the work of the CIS as an regional integration organization and its activities in promoting political stability.

The legal base for promoting political stability in the CIS region includes documents defining the strategy of peacekeeping in the CIS. Among them are the Statute of the CIS (1993), the Tashkent Treaty of Collective Security (1992), the Agreement on the Groups of Military Observers and Collective Peacekeeping Forces and the protocols supporting it (1993), the Agreement on the Collective Peacekeeping Forces³⁹ (1993) the Concept for Prevention and

³⁸ For instance, the Collective Peacekeeping Forces upon their creation included a Russian division, an Uzbek battalion and a Kyrgyz battalion. In 1994, a decision was made to increase the number of peacekeeping forces to 16 thousand persons, however, in 1995-1997 Kyrgyzstan withdrawn its battalion, and Uzbekistan left only one company of 100 men, which was withdrawn in 1998. Thus, the CIS' peacekeeping forces include only Russian military personnel, www.raspechatka.ru/

³⁹ This document and its supplements are not usually included in the official list of the international legal base of the peacekeeping operations in the CIS, because the CIS was given the status of a region (as according to the provision of the UNO Statute on the possibility to use the regional organizations, their bodies and agreements for supporting peace within the region), and the member states received the right to hold regional peacekeeping operations only in March 1994. However, they played a role of a base for the decision to send the Collective Peacekeeping Forces to Tajikistan, <http://www.cisstat.com>.

Resolving the Conflicts on the Territory of Member Countries of the Commonwealth (1996), the Provision on the Collective Peacekeeping Forces within the CIS, and others.

The inefficiency of many CIS documents is that they were signed or ratified by only a part of member states, sometimes by a minority of them, which is especially true when stabilizing activities are concerned⁴⁰. Therefore, such documents are not effective for the CIS members not having joined them, which creates a lot of vague situations among the CIS members and makes many stabilizing activities of the CIS are simply lacking legitimacy.

Moreover, the current package of CIS documents concerning peacekeeping does not contain any norms regulating the political control and governance, financial and social guarantees for peacekeepers. There is also no definition of an institutional body that would regulate the process of peacekeeping in each particular conflict – none of the CIS institutions functioning on permanent basis has such an authority.⁴¹ Thus, we can make a conclusion that the legal base for promoting stability in the region by the Commonwealth of Independent States requires significant development and improvement before it becomes really effective.

On the practical level, there are four peacekeeping activities being held in the areas of conflict in the three of CIS states: in Transnistria (Moldova) since 1992, in South Ossetia (Georgia) since 1992, in Tajikistan since 1993, and in Abkhazia (Georgia) since 1994. Among all of the mentioned activities, there is only one operation, in Abkhazia, which is being conducted under the aegis of the CIS. In Transnistria and South Ossetia, the operations are conducted on the basis of tripartite and quadripartite agreements accordingly, involving Russia and the concerned sides of the conflict. The operation in Tajikistan is beyond the framework of peacekeeping operations definition since it is conducted on the basis of the special Agreement on the Collective Peacekeeping Forces of 1993.⁴² However, there are other unresolved armed conflicts in the CIS region, which require international mediation. Those are the conflict in Nagorno-Karabakh (Azerbaijan), in Ingushetia and in Chechnya (Russia). All of the above conflicts differ greatly in

⁴⁰the Statute of the CIS – have not been signed by Ukraine, Turkmenistan and Moldova; the latter signed but not ratified it. The Agreement on the Collective Peacekeeping Forces was signed by only 5 countries, including Russia, Kyrgyzstan, Kazakhstan, Uzbekistan, and Tajikistan. 10 countries joined the Tashkent Treaty, but only 6 countries signed the Protocol for its prolongation in 1999. 15 out of 18 documents concerning the peacekeeping operation in Abkhazia, Georgia were not signed by all of the member states, <http://www.cisstat.com>.

⁴¹ www.blackwell-synergy.com

⁴² <http://www.cisstat.com>.

their range and importance, however, they all have common features: a negative impact on political stability in the region, and the lack of efforts made within the CIS to settle them.

As a general trend, despite the military activities in all of the conflict none of the conflicts is fully resolved⁴³. The role of the CIS in settling these conflicts was rather symbolic. The potential of the CIS as a guarantor of stability in these areas is not being used for further steps in resolving these conflicts. Some of them were not even put into the CIS agenda⁴⁴.

Summing up, the role of CIS in promoting political stability in the region is analyzed on three level of analysis: institutional, legal and practical prove lack of efficiency of CIS in solving the regional political and military conflicts. One of the reasons of that is a lack of legal mechanism of control over implementation and execution the failure of decisions. Consequently, the results of our analysis of the practical level indicate that the role of the CIS in promoting political stability in the region was very small, and in all of the cases, the effectiveness of the attempts made by the Commonwealth was rather limited.

5. Main conclusions and policy implications

1. The collapse of the Soviet Union has revealed the uncertainty about the directions of economic reforms in the Newly Independent States (NIS). Big productivity, structural and technological gaps made it difficult to reorient their trade flows towards new Western and Asian markets. One of the alternative solutions for these countries followed the political and economic disintegration of the Soviet Union, was to rebuild up intra-regional relations on new sound economic grounds. The CIS have also signed a number of intra-regional economic agreements, some of them establishing rather ambitious integration objectives, in particular the Customs Union between Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan, which aims at the creation of a unified economic space. However, these different agreements remain generally declarations of intentions that have so far been followed by only a few concrete actions. In general, intra-regional trade flows have severely contracted and the commodity structure has not evolved favourably as it remains concentrated on raw materials. Regional trade relations continue to be dominated by Russia, which often records a relatively large trade surplus vis-à-vis other CIS.

⁴³ as result can be given the three recent conflicts in Nagorno-Karabakh.

⁴⁴ like the conflicts in Chechnya and Ingushetia.

2. Regional arrangements haven't been successful in the CIS in comparison to CEE countries in the EU. The economic gains, in terms of shifting in the structure export specialization and intra-regional capital flows were very modest and could be applied only to several countries, with leading role of Russia. The latter can be explained by two phenomenons: firstly, incomplete reforms, poor investment climate and partially implemented trading arrangements, secondly, greater gains of RTA result if the integrated economies have distinct technological and other different factor proportions.

3. Nevertheless, a closer regional integration between the CIS countries could be a complementary process to integration with the world economy rather than a substitute. Reduction of intra-CIS trade and transit barriers would be the best guarantee that those countries located on the periphery of the CIS would truly benefit from improved market access to the EU or the proximity of their Central Asian republics to the Chinese and South Asian markets.

4. Our analysis of the CIS role in promoting political stability in the region indicates that the impact of the CIS in this sense was rather ambivalent. On one hand, the Commonwealth played an important role of a regular interstate consultative forum, which had a positive effect on political stability in the region. On the other hand, multiple problems that arise in the work of the CIS restrain the organization from being effective in military conflict resolutions. The institutional and legal bases of the organization, though in a great need for further development and improvement, have a considerable start potential for being effective in promoting political stability in the region, which, unfortunately, cannot be used in the current state of the Commonwealth. The lack of control over implementation of its decisions, as well as the lack of trust, consolidation and coordination among its members, the unwillingness of a number of them for further integration diminishes the role of the Commonwealth in promoting stability in the region.

5. Both economic and political experience of CIS regional integration show its organization is faced with the necessity of creating new integration mechanisms. The latter, need to consider the negative aspects of the Soviet experience and failures made after the collapse of the Soviet Union. Meanwhile, the CIS should rely more on multilateral trading disciplines for accelerating their trade reforms. Multilateral commitments would help them improve the domestic and external credibility of the trade liberalisation process. In order to contribute from all the economic advantages offered by the regional integration CIS members should follow specific and evaluated

on their individual merits integration policies, supported with the sound domestic policies, good investment climate, basic property rights and infrastructure development.

References

- Y. Andrienko, S. Guriev, 'Determinants of Inter-regional Mobility in Russia' CEFIR working paper, 2001.
- A. Atkinson, "Is Rising Inequality Inevitable? A Critic of the Transatlantic Consensus." Wider Annual Lectures 3, WIDER/UNU 1999.
- A. Berg, E. Borensztein, J. Zettelmeyer, The Evolution of Output in Transition Economies: Explaining the Differences, IMF Working Paper, WP/99/73, Washington D.C. 1999.
- E. Bergloef, A. Kunov, Y. Shvets, K. Yudaeva, *The New Political Economy of Russia*, MIT Press, Cambridge 2002.
- J.J.Boillot, *Institutional Change and Economic Integration: the way round. Lessons from East Central and Russia follow the same sequences of trade integration in the enlarged Europe?*, DREE, conference papers, 20-21 September, Moscow 2002.
- Djankov, S., and C. Freund(2001): "Trade Flows in the Former Soviet Union, 1978 to 1996". *Journal of Comparative Economics*, v. 30, No.1, pp. 76-90.
- EBRD (2001): *Transition Report 2001. Energy in Transition*. EBRD, London.
- Global Economic Prospects. Trade, Regionalism and Development 2005*, World Bank, Washington D.C. 2005.
- B.Kalinova, *A Decade of Trade Liberalization in Transition Economies*, Working Party of the Trade Committee Trade Relations with Economies in Transition, OECD December 2000.
- Y. Kandogan, *Intra-industry Trade of Transition Determinants*, University of Michigan-Flint, W.Davidson, Working Paper 566, May 2003.
- E.D. Mansfield, J.C. Pevehouse, *Trade Blocs, Trade Flows and International Conflict*, International Organization, Autumn (4) 54.
- De Melo, M., Denizer, C., and Gelb, A. (), From Plan to Market: Patterns of Transition, in *Macroeconomic Stabilization in Transition Economies* (eds. Blejer, M., Skreb, M.) Cambridge 1997.
- P.K. Mitra, M. Selowsky, *Lessons from a Decade of Transition in Eastern Europe and the former Soviet Union*, Finance & Development, Quarterly Magazine of the IMF, June 2002, Volume 39, Number 2.
- R. Mogilevsky, *CIS-7 perspective on trade with EU in the context of EU enlargement*, Center for Social and Economic Research CASE-Kyrgyzstan, Annual Bank Conference on Development Economics–Europe, Brussels May 10-11, 2004.
- S. Fisher, R. Sahay, C. Vegh (1996), "Stabilization and Growth in Transition Economies: The Early Experience", *Journal of Economic Perspectives*, 10(2).
- J. Klugman, *Poverty in Russia. Public Policy and Private Responses*. The World Bank, Washington, D.C. 1997.
- V. Popov, Shock Therapy Versus Gradualism: Explaining the Magnitude of the Transformational Recession. – *Comparative Economic Studies*, No. 1/2000.
- G. Roland, Th. Verdier, "Transition and the Output Fall", *Economics of Transition*, 7 (1)/1999.

P. Rutland, *CIS economies: growth without prosperity?*, Eurasia Daily Monitor, Volume 2, Number 42, March 2, 2005.

K. Sonin, "Inequality, Property Rights, and Economic Growth in Transition Economies: Theory and Russian Evidence", CEPR Discussion Paper 2300/1999.

Transition report 2000: Employment, skills and transition, EBRD, London 2000.

L. Vardomsky, *Russia's new borders in the context of regional cooperation in the post-Soviet space*, Head of Department for CIS, the Institute for Economic and Political Affairs, Russian Academy of Sciences, Moscow.

K.Yudaeva, *Globalization and Inequality in CIS Countries: Role of Institutions*, The paper written for GDN conference in Cairo, January 19-21, 2003.

A. Zagorski, *Regional Structures of Security Policies within the CIS*, in: R. Allison and C.Bluth, eds. "Security Dilemmas in Russia and Eurasia", Royal Institute of International Affairs, London 1998.