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**PROSPECTS FOR REGIONAL INTEGRATION IN
CENTRAL ASIA: THE CASE OF EURASEC**

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Danışman: Yard. Doç. Dr. M. Sait AKMAN

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TEŞEKKÜR

Yüksek lisans tezimin hazırlanması sürecinde, tezin konusunu belirlemede, sonraki aşamalarda her türlü yönlendirme ve desteğini esirgemeyen, bana yol gösteren, konuya farklı açılardan yaklaşmama olanak sağlayan, mevcut yoğun iş akışı içinde zamanını ayıran tez danışmanım Saygıdeğer hocam Yard. Doç. Dr. Sait Akman' a,

Ayrıca, öğrenimim boyunca derslerinden istifade etme şansına ulaştığım, ve aynı zamanda bu tezin ortaya çıkarılması sürecinde, çeşitli aşamalarda okuyup, eleştiri ve yorumları ile katkıda bulunan Sayın Prof. Dr. Osman Küçükahmetoğlu hocama,

Ve bana her zaman motivasyon veren ve destek olan aileme

Teşekkürlerimi sunarım.

ABSTRACT

Economic cooperation among the Central Asian countries can be viewed both as a natural outcome of and as a prerequisite for their economic and social development. It is a natural outcome partly because of their geographical proximity. Economic cooperation is also a necessity as each of the countries individually has a rather small market. More importantly, these countries used to be parts of the big economic complex of the former Soviet Union. The infrastructure of the Soviet Union was a common one.

In many respects, cooperational ties have not been lost, or may be restored, and close contacts between people have been preserved. Moreover, there exist common cultural and social traditions. After the break-up of the Soviet Union, some of the links were severed. However, recently, there have been made some efforts to restore and revitalize economic complementarity among these countries. A course toward mutual economic rapprochement is an official policy of both Russia and the Central Asian countries.

Development and deepening of cooperation within the framework of integration association, namely, the EURASEC may provide the social and economic progress of the member states, and moreover may lead to formation of a competitive participant of economic and political activity in the world arena.

ÖZET

Orta Asya ülkeleri arasındaki ekonomik işbirliği, hem bu ülkelerin ekonomik ve sosyal gelişmelerininin doğal bir sonucu, hem bu gelişme için olmazsa olmaz şartlarındandır. Bu ülkelerin coğrafik açıdan birbirlerine olan yakınlığı, ortak tarihsel, kültürel ve sosyal bağları, ve bunun dışında geçmişte Sovyetler Birliği çatısı altında kurulan ortak altyapı, ve ekonomik bağları ekonomi ve diğer alanlarda işbirliğini kaçınılmaz yapan sebeplerdendir.

Sovyetler birliğinin dağılması, ve Orta Asya ülkelerinin bağımsızlıklarını elde etmeleri sonucunda kopmuş olan bağlar şimdilerde tekrar dizeltilmeye çalışılıyor. Hem Rusya, hem Orta Asya ülkelerinin yürütmüş oldukları politika ekonomilerin yakınlaşmasına yöneliktir.

İşbirliğinin EURASEC (Avrasya Ekonomik Topluluğu) çerçevesi içinde gelişmesi ve derinleşmesi üye ülkelerin ekonomik ve sosyal gelişmesini sağlayabilir, ve dahası, gelecekte dünya arenasında yeni bir oluşumun ortaya çıkmasının temeli olabilir.

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LIST OF ABBREVIATIONS

AEA	African Economic Association
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
CACO	Central Asian Cooperation Organization
CAFTA	Central Asian Free Trade Area
CARs	Central Asian republics
CMEA	Council for Mutual Economic Aid
CPSU	Communist Party of Soviet Union
ECO	Economic Cooperation Organization
ECWAS	Economic Community of West African States
EU	European Union
EURASEC	Eurasian Economic Community
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GUUAM	Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova
MERCOSUR	Common Market of the South America
MFN	Most-Favored-Nations
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organisation
OAU	Organisation of African Union
RF	Russian Federation
RSFSR	Russian Soviet Federative Socialistic Republic
RUR	Russian Rouble
SCO	Shanghai Cooperation Organization
UNCTAD	United Nations Conference on Trade and Development
US	the United States
USA	the United States of America
USSR	Union of the Soviet Socialist Republics
VAT	Value Added Tax
WTO	World Trade Organization

INTRODUCTION

The study of regionalism and regional integration has been one of the major growth industries in the political sciences over the past half a century. The liberalization of domestic economies, the strengthening of cooperative regimes in international trade and finance, and the transnationalization of corporate structures have all contributed to this dramatically accelerated growth of globally integrated market structures. Under conditions of globalization, regional and sub-regional integration tends to become a prevailing trend at all levels – from the corporate to the national. The modern world is characterised by growing interdependence. Some nations need access to external markets, others require manpower, still others look for technologies and energy imports. Self-sufficiency in the modern world is not compatible with the notion of progress.

The term “regional integration” suggests that we are talking about geographically close units – the integration of physically adjacent economies. The idea of region is further suggestive of some kind of geographical limit or boundaries to the regional project in question. Geographical proximity is the likely starting point of this phenomenon. Unless there is a forbidding enmity between peoples, one trades with one’s neighbours first before moving further afield. Shared historical experiences among states of a particular region develop over time, and the cultural affinities which facilitate commerce are more likely with neighbouring peoples than with those from afar.

Most pronounced in this regard is undoubtedly the European Union (EU). For decades the European Union has been working to increase the level of economic cooperation among its member states. The most spectacular example of this integration in recent years is the implementation of the Euro common currency among 12 EU members. Now from Lapland on the Arctic Circle to Palermo in Sicily the money in people’s pockets is the same.

The implementation of the Single European Act and the conclusion of the Maastricht Treaty and introduction of a single currency have greatly accelerated the process of European

integration. The advantages to international business of having the common currency euro-zone are obvious. But that is the only one of thousands of steps taken by the EU toward economic integration. A significant number of public policy issues in the EU member-states are now managed to a greater extent through cooperative processes at the regional level. The movement towards a single market for goods, services and capital in the European Union has, furthermore, been accompanied by parallel regional integration processes elsewhere in the world economy.

The economic success of the EU members during the 1950s and 1960s contributed to the formation of many regional arrangements in North America, Latin America, South-East Asia and Africa. However, it should be stated, that the distinctiveness of the European Union makes it incomparable with other regional blocs. Anyway, the positive experience of European Union, NAFTA, ASEAN, MERCOSUR and other international structures proved to work much better than mercantilist practices of the past. Free trade, non-discriminatory access to markets, freedom of movement of capital, goods, services and labour is a must for regional and world prosperity and stability. The above mentioned structures stimulate others to a quest for integration models so that, at least, not to lag behind political and economic developments elsewhere in the world. It is especially obvious in post-Soviet area, mainly in Central Asia, where the states have recently celebrated the first ten years of their independence. Upon the Soviet Union's collapse integration and regionalism have been growing across the formerly common territory.

This study is devoted to research of one of the most pronounced developments of the twentieth century – regional economic integration. The aim of this study is to consider the challenges of Central Asian countries to work for the future together. Since the demise of the soviet Union, in international relations Central Asia has gained currency as the designation of the five newly independent states that lie to the east of the Caspian Sea, namely, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. These states are regarded as constituting a natural region, characterized not only by contiguity and interdependence, but also by a dense web of shared socio-cultural characteristics. Central Asians themselves have been enthusiastic proponents of this idea of a common regional identity.

The need for deep economic cooperation re-awaked just after the collapse of the Soviet Union. However, the road from idea to full its implementation into practice is long and complex. Adequate tools, institutions, methods, timing and content of integration should be chosen if it is to be a success story not just for a group of politicians in the short run but for the countries involved. So, the searches for the appropriate common policy in the way of integration are still continuing.

The first section of this work provides a brief introduction to the term “regional integration”, the purposes, types and stages of integration. The second half of first section observes the customs union and its static effects. The static effects of, particularly, the customs union is the basic tool to identify the impacts of regional integration arrangements, on trade and welfare of member countries, non-member countries. It is just the customs union, that is the main stage of integration, and depending on the success of the customs union it is decided to deepen the integration or not. The customs union was the starting point of integration arrangement described in the third section.

The second section gives a brief introduction to the political history of the Central Asian region, and its geopolitical importance. Economic cooperation among the Central Asian countries can be viewed both as a natural outcome of and as prerequisite for their economic and social development. It is a natural outcome partly because of their geographical proximity. More importantly, these countries used to be parts of the big economic complex of the former Soviet Union, and were firmly integrated into the USSR. Some of the links were severed. More recently, efforts have been made to restore and revitalize economic complementarity among these countries. Economic cooperation is also a necessity as each of the countries individually has a rather small market. Central Asian countries having many common historical and geographical characteristics and areas of economic complementarity, have a considerable potential to be a new growth area collectively, and a good foundation for sub-regional cooperation. The second half of this section analyzes integration attempts of the countries of the region.

The third section focuses attention on the most promising regional integration association in the post-Soviet region – Eurasian Economic Community (EURASEC). Formation of the EURASEC had become a good forerunner of a successful economic cooperation at the territory of the former Soviet Union. Today it is possible to say that the EURASEC is the most successful and acceptable integration association that was formed in the post-Soviet region. This section reviews the stages of creation and development of the EURASEC, its main goals and lines of activity, and assesses the potential and prospects of the Community.

Finally, the conclusion summarises the development of integration processes in the region.

I. THEORETICAL FOUNDATIONS OF ECONOMIC INTEGRATION

Economic integration is a process of economic cooperation of countries, leading to rapprochement of economic mechanisms, taking the form of interstate agreements and regulated in coordination by interstate bodies.

Development of integration processes became natural result of growth of international movement of goods and factors of manufacture, that has demanded creation of more reliable industry-market communications between the countries and elimination of numerous obstacles in a way of international trade and movement of factors of manufacture. To make it, was found to be possible only within the framework of interstate integration associations on the basis of multilateral political agreements.

1.1. The Purposes of Integration

The numerous integration associations arising and developing in modern international economy put before themselves basically the similar tasks.¹

Use of advantages of economy of scale. To provide expansion of the sizes of the market, reduction of transnational costs and extraction of other advantages on the basis of the theory of economy of scale. It, in turn, will allow involving foreign direct investments that come with greater aspiration to the markets of significant sizes, on which it is meaningful to create independent manufactures, satisfying the needs of that market.

¹ Alexei Kireyev, Mejdunarodnaya Ekonomika. Moscow: Mejdunarodnye Otnosheniya, 1997. p.363

Creation of the favourable foreign policy environment. The major purpose of the majority of integration associations is strengthening mutual understanding and co-operation of the participating countries in political, military, social, cultural and other non-economic areas. For the countries located geographically close from each other and having similar problems in the field of development, presence of kind relationships with the neighbours, supported by mutual economic obligations, is the major political priority.

The solution of problems of a commercial policy. Regional integration is quite often considered as a way to strengthen negotiation positions of the participating countries within the framework of multilateral trading negotiations with WTO. It is considered, that the coordinated performances on behalf of the block of the countries are more powerful and lead to more desirable consequences in the field of a commercial policy. Moreover, regional blocks allow creating more stable and predicted environment for mutual trade, than multilateral trading negotiations, where the interests of participants very strongly differentiate. Integration associations with northern America, Latin America and Southeast Asia assign special hopes for collective efforts within the framework of multilateral trading negotiations.

Assistance to structural reorganization of economy. Joining in of the countries which are creating market economy or carrying out deep economic reforms, to regional trading agreements of countries with higher level of market experience, is considered as a major transfer channel of market experience, and a guarantee of invariability of the chosen course on the market. More advanced countries, joining the neighbours to processes of integration, are also interested in acceleration of their market reforms and creation there the fully fledged and capacious markets. Such purposes pursued many West-European countries, being connected in this or that form to EU.

Support of young branches of the national industry. Even if integration does not provide discrimination measures against the third countries, it is quite often considered as a way to support local manufacturers for whom there appear wider regional market. Such protectionist moods prevailed in the countries of Latin America and in the countries of Africa to the south from Sahara, especially in 1960-70s.

So, economic integration represents process of economic interaction of the countries, leading to rapprochement of the economic mechanisms, taking the form of interstate agreements and adjustable by interstate bodies. Its preconditions are comparability of levels of market development of the participating countries, their geographical affinity, shared problems facing them, aspiration to speed up market reforms and not to stay aside of going integration processes. Integration groupings are created with the aim to use the advantages of unified market, creation of favourable external conditions for national development, strengthening of positions of the participating countries on economic questions, exchange of experience of market reforms and support of the national industry and agriculture.

1.2. Types of Integration Associations

Integration associations of various types have received the greatest development in the second half of XX century. Despite of distinctions in approaches, ideologies, definitions and names of these or those groupings, it is possible to pick out some general features and laws among them. Historically integration evolves through some basic steps, each of which testifies to a degree of its maturity. The features of various levels of integration process are shown in the table (Table 1.1).²

1.2.1. Stages of Integration

At the first level, when the countries just take the first steps to mutual rapprochement, they conclude *preferential trading agreements* between themselves. Such agreements can be signed either on a bilateral basis between the separate states, or between already existing grouping and the separate country or group of countries. According to them the countries give

² M. Healey Nigel, The Economics of The New Europe From Community to Union. London: Routledge, 1997. p. 5

more favourable mode to each other, than they give to the third countries. In a sense it is a withdrawal from the most-favoured-nation (MFN) clause which is sanctioned by GATT/WTO within the framework of the so-called temporary agreements leading to formation of the customs union. The preferential agreements providing preservation of the national custom duties of each the countries that has signed them, should be considered not even as the initial, but as the preparatory stage of an integration process which becomes such, only when gets more advanced forms. There's no necessity to create any interstate body for management preferential agreements.

Table 1.1
The dimensions of economic integration

	<i>Free trade between member states?</i>	<i>Common external tariff?</i>	<i>Free movement of factors of production?</i>	<i>Harmonization of economic policy?</i>	<i>Centralization of economic and monetary policy?</i>
Free trade area	Yes	No	No	No	No
Customs union	Yes	Yes	No	No	No
Common market	Yes	Yes	Yes	Yes	No
Economic and monetary union	Yes	Yes	Yes	Yes	Yes

Source: M. Healey Nigel, *The Economics of The New Europe From Community to Union*. London: Routledge, 1997.

At the second level of integration countries pass to creation of *the free trade area* (FTA) providing not simple reduction, but a full cancellation of the customs duties in mutual trade and preservation of the national custom duties towards the third countries. In most cases conditions of *the free trade area* are spread to all goods, except generally for agricultural

products. Free trade may be limited to certain sectors. A zone of free trade can be coordinated by small interstate secretary located in one of the member-countries, but frequently does without it, coordinating key parameters of the development at periodic meetings of heads of corresponding departments.

The third level of integration is connected with the formation of *the customs union*, which embraces all the provisions of a free trade area – namely, the abolition of restrictions on trade between members – but also obliges member states to pursue a common trade policy in their dealings with the rest of the world (e.g., by adopting a common external tariff). The customs union provides duty-free intra-integration trade of goods and services and full freedom of their movement inside the region. Usually customs union demands creation of more advanced system of interstate bodies coordinating the carrying out of the concerted foreign trade policy. More often they take the form of periodic meetings of the ministers supervising corresponding departments which in the work lean on permanent interstate secretary. Such meetings serve not only as a means of regulation and coordination of trade policy, but also at these meetings governments consider the possibilities and intentions of subsequent development and deepening of integration. Generally, by their very dynamics, the lower forms of integration tend to bring forth more advanced forms. Impulses for further policy integration come from both the external and internal dimension of the free movement of products. Externally the setting of a common external tariff and its regular adjustment to changed circumstances call for a common trade policy. Moreover negotiations with third countries can be conducted to greater advantage by the customs union acting as an entity than by each member state on its own. Internally tariffs and quotas appear to be easier to abolish than non-tariff barriers, such as higher taxes on foreign goods than on domestic ones, technical norms (allegedly meant to safeguard workers and consumers, but actually supporting the country's own production), priority to national companies for (government) orders, and so on. To remove such obstacles, regulations must be harmonized in such widely divergent fields as taxation and safety, regulations which are often deeply rooted in the countries' legal, institutional and social structure. For the internal market to function properly, measures are also needed to prevent competition distortion. Competition can be limited by companies (agreements) as well as governments (state support, export subsidies and so on). Hence a

common competition policy, with rules for private and public sectors is also necessary. Such policy affects other areas as well: equal competitive conditions for companies require a degree of harmonization of consumer policy (concerning responsibility, for instance) and also of environmental policy (avoiding unnecessary costs; pollution abatement).³

When the integration process reaches the fourth level - *the common market* - the integrating countries agree about freedom of movement of not only goods and services, but also factors of manufacture - the capital and labour. Freedom of interstate movement of the factors of manufacture, under protection of the common external tariff, demands considerably higher level of interstate coordination of economic policy. Free movement of workers requires in practice the mutual recognition of diplomas or certificates of professional proficiency. Measures of social security must be harmonized lest different claims for sickness, accident, old-age and other benefits should in practice make a mockery of the free movement. Free movement of capital necessitates the elimination of some administrative obstacles, such as exchange control, and legal ones, such as company laws. In the fiscal sphere some adjustments will also be necessary in order to prevent capital flowing to states with a favourable tax regime. The mobility of capital also demands the adjustment of monetary policies (rate of exchange, interest and so on) to diminish economic disturbances caused by speculation. In principle, capital is more mobile than labour. The creation of a common market may lead to concentrated investments in certain regions, and growing unemployment in others. Such situations require measures of common social and regional policies. The proper functioning of the integrated market can be severely impeded by monetary disturbances; indeed trade and investment are negatively influenced by exchange rate uncertainty. Moreover countries with a stable currency will want to prevent countries with a depreciating currency from using their monetary policy as a means to enhance their international competitiveness. Hence the single market pushes towards monetary union. The coordination of all policies mentioned above is carried out at periodic meetings (usually one-two times a year) by heads of the states and the governments of the participating countries,

³ Willem Molle, The Economics of European Integration: Theory, Practice, Policy. Hants: Ashgate Publishing Limited, 1997. p.15

considerably more often meetings of heads of the Ministries of Finance, the central banks and other economic departments leaning on permanent secretary. Within the framework of EU - it is a European Council of heads of the states and the governments, Council of Ministers of EU and Secretary of EU.⁴

At last, at the fifth, and the highest level integration turns to the strongest form of economic integration - *the economic and monetary union*, which provides alongside with common customs duties and free movement of the goods and factors of manufacture as well, coordination of macroeconomic policy and unification of legislations in key areas - monetary, fiscal. At this stage there is a need for the bodies allotted not simply with the ability to coordinate actions and to observe economic development, but also to make operative decisions on behalf of a grouping as a whole. The governments in coordination transfer a part of the authority and hence concede a part of the state sovereignty to the overstate bodies. Such interstate bodies with overstate authority are allotted the right to make the decision on the questions concerning the organization, without the coordination with the governments of member states. The distinction between a common market and an economic union is blurred and essentially one of degree, rather than of kind. A monetary union entails the extension of central policymaking to monetary policy, as well as other areas of economic policy. To the extent that the fear of exchange rate fluctuations and the transactions costs of switching between national currencies are major factors preventing the cross-border movements of goods, services, labour and capital, it could be argued that monetary union – the move to a single currency issued by a single central bank – is a necessary condition for the attainment of a common market.⁵

It is essentially possible the existence of the sixth level of integration - *the political union* which would provide transfer by the national governments of the most part of their authority in relations with the third countries to overstate bodies. It actually would mean the creation of the international confederation and loss of the sovereignty by the separate states.

⁴ Kireyev (1997), p.365

⁵ Healey (1997), p. 6

However any integration grouping not only has not reached such level of development, but even does not put before itself similar tasks.

It is rather difficult to define precisely, on what level of development is this or that integration association, due-to both the absence of enough comparable information, and frequently arising strong distinctions between the proclaimed purposes and real achievements. Quite often the grouping naming itself the economic union, can only be at early stages of mutual liquidation of the customs duties, that is haven't reached yet even a level of a free trade area, and the association, considering itself the customs union, can exist in general only on a paper as the common customs duties is not developed yet and is not entered.⁶

Integration groupings in the international economy, especially among less developed countries, sporadically arise and disappear. According to data of GATT/WTO, in the middle of 1990-s in the world it was totalled more than 30 integration associations of various type in comparison with 5-6 in the 1980-s when many groupings actually did not work, and 18-20 in the 1970-s when progress of integration in the Western Europe has given a push to growth of quantity of integration associations in other parts of the world.

Classification of the basic working integration associations on the declared ultimate goals shows, that in modern international economy there are many examples of the integration groupings which are taking place on each stages of development of integration process. The level of the achieved progress according to objects set is rather various. Separate groupings have completely executed the planned program of integration and improve its separate parties. The majority, however, is still on early approaches to objects in view. For example, only Dominica and Saint Vincent and the Grenadines from among 7 members of the Organization of East-Caribbean States, naming itself the customs union, really use common custom duties concerning the third countries. And the African Economic Community proclaiming the

⁶ Kireyev (1997), p. 367

purpose of creation of the economic union of 51 African countries will be organized within a transitional period of 34 years since 1994.⁷

As shows historical experience, most simply it appears to realize in practice the initial stages of economic integration up to a level of the customs union. Independently from the proclaimed purposes and names the majority of groupings is at a level either of preferential trading agreements, or zones of free trade which do not include any obligations as agreed or unification of a macroeconomic policy and are most simple for implementation. The most advanced integration association, some kind of a model on which separate elements of integration are fulfilled, is certainly the European Union.

1.3. Principles of an Assessment of Integration

Within the framework of the international economy integration as a whole should be evaluated from the point of view of, whether it is a step on a way to the greater freedom of commerce or, on the contrary, it appears restriction on ways of trading streams. According to rules of GATT/WTO there is only one exception of a most favoured nation treatment - clause XXIV, which provides an opportunity of creation of the customs unions and zones of free trade. According to rules before creation of integration groupings it is likely the existence for rather a long period of time of 'transitive arrangements' which should lead to the formation of the customs union or a zone of free trade through 'a reasonable time interval' under the conditions that trading barriers between members are eliminated on 'practically all' goods and that barriers in trade with other countries, at least, are not increased.

To estimate, whether the creation of an integration grouping corresponds to interests of the international economy as a whole, in first half of the 1990-s a number of independent

⁷ Kireyev (1997), p 367

researches and experts of World Bank have formulated a number of criteria. Among them are the following:⁸

- regional trading agreements should cover all branches of economy without exception;
- the transition period should not exceed 10 years and include the precise schedule of liberalization of trade in separate branches;
- liberalization of trade on conditions of MFN should precede or accompany the formation of any new integration grouping, especially if initially tariffs are high;
- the common customs duty entered within the framework of the customs union, should not exceed the lowest tariff existing in the country with the lowest tariff in corresponding branch, or even the lowest tariff within the frameworks of MFN.
- rules of acceptance of new members to integration agreements should be rather liberal and not prevent their expansion;
- rules of determination of a country of origin of the goods should be transparent and should not be the instrument of protectionism inside a grouping;
- fast transition to the more advanced forms of integration which are preferable to less advanced as they provide more rational distribution and use of factors of manufacture is required;
- after the creation of an integration grouping antidumping rules should not be applied anymore between its members, and in relations with the third countries clear rules of their application should be established.

So, the basic stages of development of integration process are the preferential trading agreement, a zone of free trade, the customs union, the common market, the economic union and the political union. Integration begins with liberalization of mutual trade of goods, includes the creation of common customs duties concerning the third countries, is supplemented with freedom of interstate movement of factors of manufacture and comes to the end with unification of a macroeconomic policy and creation of interstate controls.

⁸ Kireyev (1997), p. 370

Despite of fast growth of number of integration associations, the majority of them are at early stages of formation.

1.4. Static Effects of Integration

The formation of the theory of economic integration and, in particular, the customs unions usually connected with a name of Canadian scientist Jacob Viner. In a basis of the analysis lies the comparison of trade between the countries under the conditions of existence at each of own customs duties and the conclusion between them of the agreement on the customs union, eliminating tariffs in mutual trade. In his analysis Viner developed the concepts of trade creation and trade diversion. The concepts of trade creation and trade diversion were used to represent advantageous and disadvantageous welfare shifts in trading patterns. According to the theory of the customs union of Viner as a result of its formation in economy there are two types of effects:

- Static effects - the economic consequences shown immediately after creation of the customs union as its direct result.
- Dynamic effects - the economic consequences shown at later stages of functioning of the customs union.

1.4.1. The Static Effects of Customs Union

Among static effects the greatest values have the effects of trade creation and trade diversion.

a. Effect of Trade Creation

Trade creation - reorientation of local consumers from less effective internal source of delivery of the goods to more effective external source (import), that became possible as a result of elimination of import duties within the framework of the customs union

As a result of formation of the customs union there can be a situation when the goods which were traditionally bought in a home market, appear to be more expensive, than the same goods made abroad. If customs union formation results in shift in domestic consumption away from relatively high cost domestic production to relatively low cost partner production, or rest of world production, or both, then such switch is called 'trade creation', figure 1.1.⁹

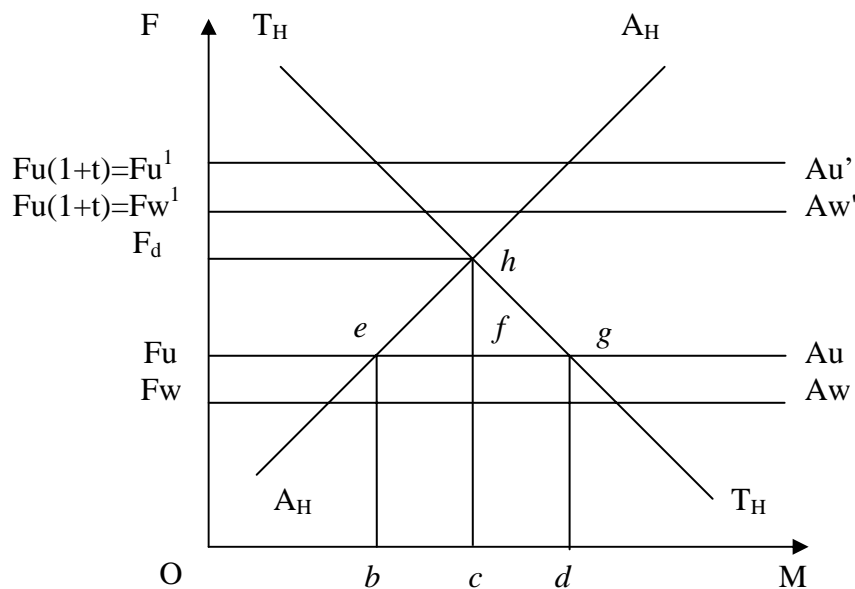


Figure 1.1. Trade creation

T_H and A_H represent the home demand and supply curves for the good. $F_u A_u$ and $F_w A_w$ are the customs union and rest of the world supply curves. However, prior to formation of the union both external producers are excluded from the home market by imposition of a tariff which moves their import supply curves above the equilibrium price in the domestic economy. The home country is self-sufficient at an equilibrium price of $O F_d$ and quantity of $O c$. After the creation of the union the common external tariff does not apply to the union partner, but obviously applies to the rest of the world. The union partner's supply

⁹ Frank McDonald and Stephen Dearden, European Economic Integration. NY: Longman Publishing, 1994. p.3

curve now reverts to $FuAu$ and supplies imports of bd to the home country. Domestic supply falls from Oc to Ob , but domestic demand rises from Oc to Od . The resource cost of producing bc of the good has fallen from $bche$ to $bcfe$, a saving of efh . This is beneficial in terms both of union welfare and world welfare. The home country has clearly gained, for although producers' surplus has fallen by $FuehFd$, consumers' surplus has risen by $FughFd$. Assuming that these surpluses are equally weighted, the net gain to the home economy is heg . But, if the home economy had formed the union with the rest of the world the gain would have been larger. To be realistic, of course, had a policy of free trade been pursued rather than membership in a union, the gain would appear to be maximized. However, in terms of welfare gain, participation in the union is obviously a step in the right direction, because there is a gain from free trade. Nevertheless, free trade with all trading partners would lead to greater welfare gains.

b. Effect of Trade Diversion

Trade diversion – occurs when imports from the efficient or cheap producer 'world market' are replaced by imports from a higher-cost (or less efficient) producer, namely, the 'partner country'. That country's products can be sold more cheaply in 'home country' than world market production, because the customs union imposes a protective tariff on imports from rest of the world, while leaving imports from the partner country free.

The imposition of the common external tariff against third countries could have a trade diversion effect, figure 1.2. The argument is that the participation in a union results in a switch from a low cost source of supply to a higher cost source of supply. Thus the tariff may discourage imports from outside the union and encourage imports from less efficient sources of supply within the union. So, the resulting trade diversion reduces a country's economic welfare. The net welfare effect of a customs union will depend on the amount of trade created and diverted as well as on differences in unit costs. The degree of trade diversion is likely to

be small where the members of a union have extensive trade with each other and low common tariff on imports from outside the union.¹⁰

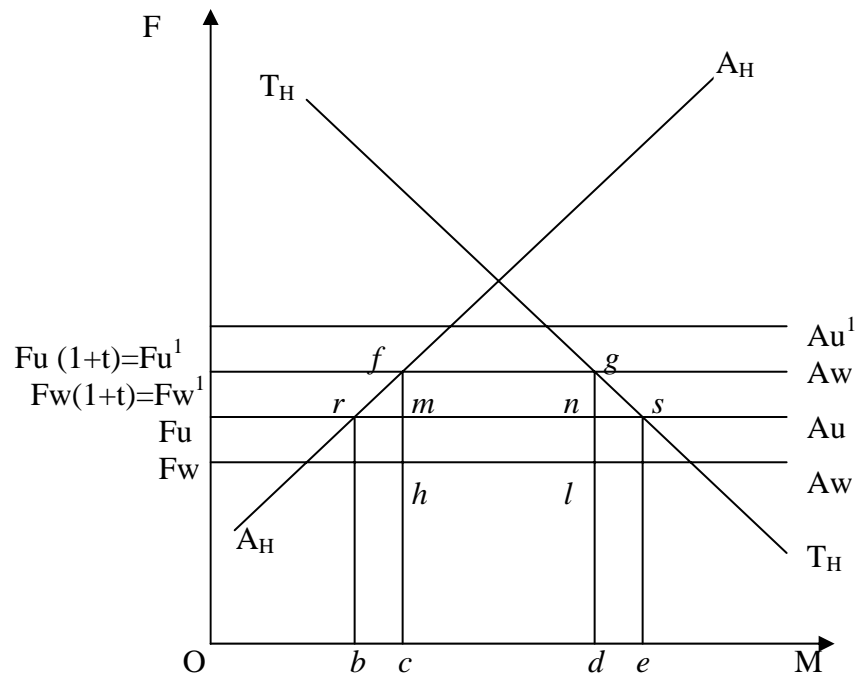


Figure 1.2. Trade diversion

Refer to Figure 1.2, which introduces an analysis of trade diversion. The lowest priced source of import supply prior to participation in a union, when t is a tariff level on potential partner and rest of world supplies, is the rest of the world $F_w^1 A_w^1$. Domestic production is Oc and import cd . Tariff proceeds $fglh$ go to the government of the home country. In a situation when the home country joins a union whose external tariff is identical to that of the home country according to participation, the domestic production falls to Ob but domestic consumption rises to Oe . Imports now come from the union partner be at a tariff-free price of OF_u . Trade diversion has arisen. The cost of the original quantity of imports cd has risen by $hlnm$. There is a loss of tariff revenue to the domestic government of $fglh$. Additionally, producers' surplus has fallen by $F_u F_w^1 rf$, but consumers' surplus has risen by $F_u F_w^1 gs$. The gain in consumers' surplus minus the loss in producers' surplus is equal to $rfgs$. Part of this,

¹⁰ Walter Mattli, The Logic of Regional Integration Europe and Beyond. Cambridge University Press, 1999. p.10

namely *fgnm*, is part of the loss tariff revenue and consequently this reduces the gain of *rfgs* to the areas *rfm* and *sgn*. The other part *hlnm* (the amount of trade diversion) may be compared with the two triangles *rfm* and *sgn*. Clearly here there is a net trade diversionary loss. The extent of this loss will be the greater the bigger the gap between world prices and union prices.¹¹

1.5. General Parameters for a Successful Integration

From the second half of XX century due-to fast economic development of the industrial countries and improvement of means of international transport and communication ties there was a rapid development of international trade of goods and services. International trade began to be supplemented more and more with various forms of the international movement of factors of production (capital, labour and technology) as a result of which, not only ready goods, but also factors of production began to move abroad. Therefore, the natural result of development of international trade of goods and services and the international movement of factors of production became economic integration.

Integration processes lead to development of economic regionalism, as a result of which separate groups of countries create among themselves more favourable conditions for trade, and in some cases for inter-regional movement of factors of production, than for all other countries. Despite of obvious protectionist features, economic regionalism is not considered as a negative factor for development of the international economy, unless a group integrating countries, liberalizing mutual economic relations, establishes less favourable, than prior to the beginning of integration, conditions for trade with the third states. In other words, economic regionalism, simplifying economic relations between the countries of one group, should not lead to their complication with all other countries. Until then while regionalism, at least, does not worsen conditions for trade with other world, it can be considered as the positive factor of development of the international economy.

¹¹ McDonald and Dearden (1994), p.5

In economic literature the preconditions for integration differentiate depending on author, however it is possible to gather together the following preconditions for integration:

Proximity of levels of economic development and degree of market maturity of integrating countries. With rare exception interstate integration develops either between the industrial countries, or between developing countries. Even within the framework of industrial and within the framework of less developed countries integration processes go most actively between the states which are taking place at approximately identical level of economic development. Although attempts of associations of integration type between the industrial and developing states do take place, they are at early stages of becoming, not allowing yet to draw unequivocal conclusions on a degree of their efficiency. In this case because of primary incompatibility of economic mechanisms they usually begin with a various sort of transitive agreements on the association, special partnership, trading preferential and etc., validity of which is stretched for many years until the creation in less advanced country of market mechanisms comparable on a degree of maturity with mechanisms of more advanced countries.

Geographical affinity of the integrated countries, presence in most cases of common borders and historically developed economic relations. The majority of integration associations of the world began with the several neighbouring countries located on one continent, in direct geographical affinity from each other, having transport communications and quite often speaking one language. To primary group of the countries - to an integration nucleus, - that became the initiators of integration association will join other neighbour states.

Common economic and other goals and problems facing the countries in the field of development, financing, regulation of economy, political co-operation, etc. This is necessary for two reasons. Firstly if the countries have the same goals, they are a lot less likely to disagree about overall direction of policy. For Europe the goal was peace and economic recovery after the war. Secondly, if the countries have similar methods for resolving problems, they are less likely to have arguments about how to resolve problems. Economic integration is called to solve a set of concrete problems which really face to the integrated

countries. Obviously therefore, that, for example, the countries the main problem of which is the creation of bases of market economy, cannot be integrated with the states in which development of the market has reached such level that demands introduction of the common currency.¹²

Demonstration effect. In the countries which have created integration associations, usually occur positive economic shifts (acceleration of rates of economic growth, decrease in inflation, growth of employment and etc.), that rendered certain psychological influence on other countries which, certainly, watch for occurring changes. The demonstration effect was showed to become brightest, for example, in desire of many countries of a former socialistic bloc as soon as possible to become members of EU, at all not having for this purpose some serious macroeconomic preconditions.¹³

Domino effect. After the majority of countries of a certain region proclaim an integration association, other countries which stayed behind its limits, inevitably experience some difficulties connected with reorientation of economic relations of the countries, included in a grouping, against each other. It quite often leads even to reduction of trade of the countries which have appeared outside integration. Some of them, at all not having essential primary interest in integration, state interest in connection to integration processes simply because of a fear to remain behind its limits. That is, in particular, why many countries of Latin America concluded agreements on trade with Mexico after its occurrence in NAFTA.¹⁴

Competitive but complementary economies. Competitive economies means that the countries produce similar goods – but have different levels of efficiency. Once the countries form a FTA, everyone can start buying from the cheapest producer. That producer then benefits from economies of scale, and their products get even cheaper. Complementary economies require dissimilarity – that they produce different things. For example – if one country produces

¹² Kireyev (1997), p.363

¹³ Davydenko Elena (1999). Opyt Mejdunarodnoi Ekonomicheskoi Integratsii dlya SNG. Retrieved May 05, 2004 on the World Wide Web: <http://belojournal.by.ru/1999/3/P/11.shtml>

¹⁴ Kireyev (1997), p.363

cotton and the other produces synthetic fibers – the two systems complement one another. Or, if one makes steel and the other cars, each can specialize in their area of comparative advantage, in different stages or types of production. This analysis works well for the EU countries. In postwar Europe, German industry and France's agricultural sector complemented each other, later Britain joined with its strong financial services sector and so on. Therefore, for integration to be successful, the countries need to have economies that are both competitive and have the potential to be very complementary.¹⁵

¹⁵ Forsberg Erik (2003). Integration Based on the EU Model: A Central Asian Union? Retrieved July 22, 2004 http://www.kisi.kz/English/Exrp01/04-29-03_Forsberg_en.html

II. CENTRAL ASIA: INTRODUCTION TO THE REGION AND REGIONAL COOPERATION INITIATIVES

Since the 1980's in the World Economy the tendencies of regionalisation has been intensified. European Union (EU), the basis of which was the Rome Treaty (1957) purposed the creation of the common market by the 1993, and at present day it has created not only the common market, but also has achieved the economic union with the common currency EURO, and is actively moving towards the political union.

In 1989 the Free Trade Area was formed between Canada and the USA, and in 1994 in the framework of North American Free Trade Agreement (NAFTA) Mexica has joined this association.

The Asia Pacific Economic Cooperation (APEC) was founded in 1989, and nowadays 18 countries are members of this cooperation. In 1994 the APEC countries have agreed on the creation of free trade area in the region till 2020.

In 1992 six member states of Association of South East Asian Nations (ASEAN) agreed on creation of free economic area till 2008.

In Sub-Saharan Africa in 1991 the Organisation of African Union (OAU) purposed the creation of African Economic Association (AEA) till 2025. Economic Community of West African States (ECWAS), East African Economic Group and South African Conference on Development and Coordination are trying to renew the integration processes.

In 1991 seven countries of Caribbean Sea and four countries of Southern part of the South America arranged about the creation of customs union in these regions (MERCOSUR).

Besides, almost all countries of America agreed on creation of the free trade area in western hemisphere.

In 80-90's the Council for Mutual Economic Aid (CMEA) was collapsed which was created by the socialist countries in 1949, on December of 1991 the USSR was collapsed that caused the destruction of Common Economic Area and Management. Demise of the Soviet Union not only ended the Cold War also it is thought that it brought disorder to the world politics, international order with potential problems which are difficult to solve and might effect long-term stability of the world. The other consequence of the disintegration is the emergence of fifteen new states including the former Soviet republics of Central Asia¹⁶.

Paradoxically, in the immediate post-Soviet period, the mode of interstate relations among the Central Asian states of the Former Soviet Union contrasted with tendencies elsewhere towards integration and multilateral cooperation. While regionalization and globalization were gaining ground around the world, linking industrialized and developing countries, Central Asian states moved towards less dependent, more self-sufficient development. During the Soviet Era all the states constituted the republics of an integrated and interdependent socialist system. With the dissolution of the Union of the Soviet Socialistic Republics (USSR), they obtained unprecedented political freedom and sovereignty, but most of their vital economic and social links were lost. Quite naturally, this resulted in falling economic indicators, low levels of growth and a region-wide degradation of society.

But after few years of such a disintegration geographical and cultural proximity, a significance of economic structure, shared security concerns and common challenges pushed them to re-activate the linkages among states. Central Asian states are searching for a new collective mechanism to deal with shared challenges.

¹⁶ Jorayev G. (July, 2003). Central Asia at the Beginning of the Twenty-First Century. E-Journal of Strategy and Analysis, 1-13 . Retrieved February 19, 2004 on the World Wide Web: <http://www.stradigma.com/>

But before beginning to describe these processes it will be expedient to give the general survey of these states and the Central Asian region in general and significance of Central Asia in the world economy.

2.1. Central Asian Republics: Geography, Culture and People

Central Asia is an important region in Asia. The region consists of five countries: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. In past, the region was a place where many of the great civilizations emerged. Historically, Central Asia was a gateway between China and the Mediterranean, between East Europe and Persia. From almost fourteen centuries, the region has been serving as a major staging post for the ancient Silk Road. The latter brought prosperity to the city-states situated along the route and largely contributed to the unique mixture of cultures, traditions, languages, tribes and nations. The importance of the Silk Road significantly diminished with the establishment of sea-routes from Europe to India.

In their present boundaries, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan appeared on the political map of the world about eighty years ago. Nowadays, these countries are usually referred to as the former Soviet Muslim republics of Central Asia, although historically and culturally the term “Central Asian region” included Afghanistan and some parts of the western provinces of China. Central Asia is a landlocked region with total population of about 56 million people living on approximately four million square kilometres, shares borders with China, Afghanistan, Iran and Russia. The biggest by territory republic is Kazakhstan, which composes almost two thirds of Central Asia. The most populated and second biggest by territory Uzbekistan is a dwelling place for almost 40% of the regions’ entire population. The region’s main ethnic groups are the Kazakhs, Kyrgyzs, Turkmen, and Uzbeks, who are culturally, religiously and linguistically close to each other. All together, Turkic speaking people are 60% of region’s population, and thus this part of the Russian Empire was often referred to as “Turkistan”. The Persian speaking Tajiks, who are culturally and religiously, but not linguistically, close to these ethnic groups, live as a compact group in the mountainous southern part of Central Asian and represent no more than 8% of the region’s population. The Slavs (Russian, Ukrainians and others) constitute around 20% of the region’s

population. Their distribution varies from country to country. The highest concentration of the Slavs is in Kazakhstan and Kyrgyzstan and the lowest is in Tajikistan and Turkmenistan. In Uzbekistan, 1.6 million Russians comprise less than 8% of the republic's population. It is important to note that this ethnic pattern formed during last fifty years and the proportion of the Slavs is steadily decreasing, especially since the 1980's. This trend is the result of recent emigration of the Slavic population to Russia and a high birth rate among some of the local ethnic groups.

Several features of development make the Central Asian republics different from the Eastern Europe and other countries of former Soviet Union as well as from immediate neighbours, such as Afghanistan, Iran and China. Thus, a brief description of each country and analysis of some important characteristics will assist in better understanding of the Central Asian republics.

Kazakhstan lies in the north of the Central Asian republics and is bounded by Russia in the north, China in the east, Kyrgyzstan and Uzbekistan in the south, and the Caspian Sea and part of Turkmenistan in the west. It has almost 1,177 mi (1,894 km) of coastline on the Caspian Sea. The territory is mostly steppe land with hilly plains and plateaus.

Kazakhstan is important to world energy markets because it has significant oil and natural gas reserves. After years of foreign investment into the country's oil and natural gas sectors, the landlocked Central Asian state has recently begun to realize its enormous production potential. With sufficient export options, Kazakhstan could become a major world energy producer and exporter over the next decade. Kazakhstan has the Caspian Sea region's largest recoverable crude oil reserves, and its production accounts for approximately two-thirds of the roughly 1.8 million barrels per day (bbl/d) currently being produced in the region (including regional oil producers Azerbaijan, and Turkmenistan). Kazakhstan also has Central Asia's largest economy, and its nominal gross domestic product (GDP) grew by 33 percent in 2004, to \$39.0 billion, resulting in a per capita GDP of \$2,615 (roughly comparable to

Honduras and Vietnam). This marked the sixth consecutive year of significant economic growth in Kazakhstan since its independence in 1991.¹⁷

Kyrgyzstan is a country of incredible natural beauty. The Tien Shan mountain range covers approximately 95% of the whole territory. The mountaintops are perennially covered with snow and glaciers. Kyrgyzstan borders Kazakhstan on the north and northwest, Uzbekistan in the southwest, Tajikistan in the south, and China in the southeast.

Kyrgyzstan has rich pasturage for goats, sheep, cattle, and horses. Over 80% of the cultivated area is irrigated. Cotton, potatoes, sugar beets, tobacco, vegetables, fruit, and grapes are grown; sericulture is carried on, and grain crops are cultivated in the nonirrigated areas. The Kyrgyz have traditionally excelled in wood carving, carpet weaving, and jewelry making. Kyrgyzstan has deposits of antimony, gold, molybdenum, tin, coal, tungsten, mercury, uranium, petroleum, and natural gas. Industries include food processing, sugar refining, nonferrous metallurgy, and the manufacture of agricultural machinery, textiles, building materials, appliances, furniture, and electric motors. The leading exports are cotton, wool, meat, tobacco, metals (particularly gold, mercury, uranium, and steel), hydropower, and machinery; chief imports are grain, lumber, industrial products, ferrous metals, and fuel. The main trading partners are other former Soviet republics and China. In 1998, Kyrgyzstan became the first former Soviet republic to join the World Trade Organization.¹⁸

Ninety-three percent of Tajikistan's territory is mountainous, and the mountain glaciers are the source of its rivers. Tajikistan is an earthquake-prone area. The republic is bounded by China in the east, Afghanistan to the south, and Uzbekistan and Kyrgyzstan to the west and north. The Central Asian republic also includes the Gorno-Badakh Shan Autonomous region.

Tajikistan's economy is dependent on agriculture and livestock raising. Some two thirds of the population is extremely poor, and a sixth now work in Russia or other foreign countries. Mining and raw-materials processing, which were formerly important, have

¹⁷ <http://www.eia.doe.gov/emeu/cabs/kazak.html>

¹⁸ <http://www.infoplease.com/ce6/world/A0859154.html>

diminished since the economic collapse in the 1990s, after Soviet rule ended and civil war began. The lowlands specialize in the cultivation of cotton, wheat, barley, fruit (including wine grapes), and mulberry trees (for silk). Karakul sheep, dairy cattle, and yaks are raised. The republic's mountains yield coal, antimony, silver, gold, salt, uranium, mercury, tungsten, lead, and zinc, but most mining has ceased. Cotton ginning, silk spinning, food processing, winemaking, carpet weaving, metals processing, and the manufacture of textiles, chemicals, fertilizers, and cement were the leading industries, but these too have been curtailed. There is some petroleum, and Tajikistan is well provided with hydroelectric resources. The country's economic problems and political turmoil have led Tajikistan to become an important heroin smuggling transit point. Trade is primarily with other former Soviet republics; the first road to China was opened only in 2004.¹⁹

Turkmenistan is bounded by the Caspian Sea in the west, Kazakhstan in the north, Uzbekistan in the east, and Iran and Afghanistan in the south. About nine-tenths of Turkmenistan is desert, chiefly the Kara-Kum. One of the world's largest sand deserts, it is approximately 360,000 sq km.

The republic's numerous mineral resources include rich deposits of oil and natural gas on and off the Caspian Sea coast. In the late 1990s, pipeline projects running from the Caspian gas fields through Iran and Turkey to Europe were under consideration with both Russia and Western consortiums. Other resources include coal, sulfur, salt, phosphate, iodine, lignite, clays, and building stones such as limestone and gypsum. More than 90% of the cultivated land is irrigated. Cotton, grown along the canal and in the Murgab and Tejen oases, is the chief crop; wheat, barley, corn, millet, sesame, vegetables, melons, wine grapes, and alfalfa are also cultivated. The diversion of water from the Aral Sea for irrigation is drying up the sea and reducing the flow of freshwater in the region. Karakul sheep (which provide wool for the region's famous carpets), cattle, horses, and camels are raised, and silkworms are bred. Turkmenistan's industries include oil refining, fish canning (along the Caspian), meat processing, and the production of petroleum products, chemicals, textiles, and building

¹⁹ <http://www.infoplease.com/ce6/world/A0108024.html>

materials. The country has numerous hydroelectric stations. The Trans-Caspian rail road is the main transportation route. In 1996, an important rail link between the border city of Sarakhs and Mashhad, Iran, was opened.²⁰

Uzbekistan is situated in central Asia between the Amu Darya and Syr Darya Rivers, the Aral Sea, and the slopes of the Tien Shan Mountains. It is bounded by Kazakhstan in the north and northwest, Kyrgyzstan and Tajikistan in the east and southeast, Turkmenistan in the southwest, and Afghanistan in the south. The republic also includes the Karakalpakstan Autonomous Republic, with its capital, Nukus (1992 est. pop., 182,000). Uzbekistan's rivers and many irrigation canals furnish water for the cotton crop, the country's main export. Large quantities of rice also come from Uzbekistan (notably from the Zeravshan valley). Other crops include cereals, alfalfa, fruits, wine grapes, kenaf, sesame, tobacco, and sugarcane. There is extensive use of irrigation for farming. The diversion of water for irrigation from the tributaries of the Aral Sea is drying up the sea and reducing the flow of freshwater in the region. Livestock are raised in the more arid western areas; Uzbekistan also produces Karakul sheep pelts. Cotton, silk, and wool provide the basis for Uzbekistan's extensive textile industry. Traditional crafts such as silk dyeing and carpet weaving, discouraged under Soviet rule, have enjoyed a renaissance since independence.

Industrialization increased after the transfer during World War II of many industries from European Russia to the less vulnerable Uzbek region. Machine building, metallurgy, food processing, and the manufacture of chemicals, fertilizer, and building materials are leading industries. Uzbekistan has more than 20 hydroelectric power plants.

Uzbekistan is rich in mineral resources. The Fergana Valley is not only an important cotton, silk, and wine region, but it is also the site of oil fields. Western Uzbekistan has large natural-gas deposits. Coal, gold, zinc, copper, tungsten, molybdenum, lead, fluorspar, and uranium are also found.²¹

²⁰ <http://www.infoplease.com/ce6/world/A0108058.html>

²¹ <http://www.infoplease.com/ce6/world/A0108128.html>

It will be expedient to note, that the further analysis will not cover all of these countries, but will cover some others, namely, Belarus and Russia. These states along with the three states of Central Asian region, namely Kazakhstan, Kyrgyzstan and Tajikistan had established the regional organisation described in the third section of these work.

As part of the former Soviet Union, Belarus had a relatively well-developed industrial base; it retained this industrial base following the break up of the USSR. The country also has a broad agricultural base and a high education level. Among the former republics of the Soviet Union, it had one of the highest standards of living. But Belarusian's now face the difficult challenge of moving from a state-run economy with high priority on military production and heavy industry to a civilian, free-market system.

After an initial outburst of capitalist reform from 1991-94, including privatization of state enterprises, creation of institutions of private property, and entrepreneurship, Belarus under the country's first president, Lukashenko, has greatly slowed its pace of privatization and other market reforms, emphasizing the need for a "socially oriented market economy." About 80% of all industry remains in state hands, and foreign investment has been hindered by a climate hostile to business. The banks, which had been privatized after independence, were renationalized under Lukashenko.

Economic output, which declined for several years, revived somewhat in the late 1990s, but the economy remains dependent on Russian subsidies. Until 2000, subsidies to state enterprises and price controls on industrial and consumer staples constituted a major feature of the Belarusian economy. Inflationary monetary practices, including the printing of money, also have been regularly used to finance real sector growth and to cover the payment of salaries and pensions.

Peat, the country's most valuable mineral resource, is used for fuel and fertilizer and in the chemical industry. Belarus also has deposits of clay, sand, chalk, dolomite, phosphorite, and rock and potassium salt. Forests cover about a third of the land, and lumbering is an important occupation. Potatoes, flax, hemp, sugar beets, rye, oats, and wheat are the chief

agricultural products. Dairy and beef cattle, pigs, and chickens are raised. Belarus has only small reserves of petroleum and natural gas and imports most of its oil and gas from Russia. The main branches of industry produce tractors and trucks, earthmovers for use in construction and mining, metal-cutting machine tools, agricultural equipment, motorcycles, chemicals, fertilizer, textiles, and consumer goods. The chief trading partners are Russia, Germany, Ukraine, and Poland.²²

The Russian Federation is the largest of the 12 republics that make up the Commonwealth of Independent States. It occupies most of Eastern Europe and north Asia, stretching from the Baltic Sea in the west to the Pacific Ocean in the east, and from the Arctic Ocean in the north to the Black Sea and the Caucasus in the south. It is bordered by Norway and Finland in the northwest; Estonia, Latvia, Belarus, Ukraine, Poland, and Lithuania in the west; Georgia and Azerbaijan in the southwest; and Kazakhstan, Mongolia, China, and North Korea along the southern border.

Russia is important to world energy markets because it holds the world's largest natural gas reserves, the second largest coal reserves, and the eighth largest oil reserves. Russia is also the world's largest exporter of natural gas, the second largest oil exporter, and the third largest energy consumer.

During the Soviet times Moscow had great influence almost in all areas of the Soviet Union republics; economy, politics, governance, administration, decision-making etc. After the dissolution of the USSR, all of its members gained independency. Russia attempted to re-establish its influence over them, however it was more difficult to provide healthy foreign policies towards its backyard, especially countries of Central Asia, because of uncertainty in internal affairs of Russian Federation and its continuation in external affairs. One more obstacle that creates difficulties at the level of impossibility is the engagement of other major powers and neighbour states to the regions' daily life economically and politically. The region with untapped oil-rich energy reserves and natural gas resources geostrategic and geopolitical

²² U.S. Department of State, Bureau of European and Eurasian Affairs, Background Note: Belarus <http://www.state.gov/p/eur/ci/bo/>

standing between two nuclear possessing powers, Russia and China and close deals of Turkey, Iran, the EU and the US, shaping the way of new emerging game of power politics, economics and strategies on this part of the world. So, this shows us that Central Asia is still a chessboard, with many national interests at play, but they are behaving very attentive and clever in order not to clash with each other's interests. This is the region that both west and east has their eye on. It is rich in untapped oil and gas, and Pipeline Stan (as it is often referred to Central Asian states), is a golden future: a paradise of opportunity in the form of approximately US \$ 5 trillion of oil and gas in the Caspian basin and in other parts of Central Asia.

2.2. Regional Cooperation in Central Asia

2.2.1. Soviet Period History

Soviet period imposed from the 1920's until 1991 did in some ways develop into original cooperation. Central Asia was treated as a single economic subdivision within the "unified economic complex of the USSR". Major plants and industries were subordinate all-Union ministries, their production plants determined from Moscow. Only minor activities were under dual (Union-republic) or republican control, which might have allowed a more regional focus. In Kyrgyzstan, for example, over a third of enterprises were administered directly from the center. All Union ministries habitually took little notice of regional authorities and their needs. New investments of any size had to be approved in the five year or one year plans set forth by the Communist Party of Soviet Union (CPSU). For the most part, then, Central Asian production was run from Moscow for the benefit of the Union, as determined by the CPSU authorities. Moscow decided the trade amounts and direction for the Central Asian republics; the USSR Ministry of Foreign Trade and Internal supply agencies made these deals on behalf of all the 15 constituent republics, mostly to assure priority industries adequate supplies. The system resulted in exceptionally high levels of intra-Union trade - 89% for Kazakhstan's trade turnover, 86% for Kyrgyzstan, and 89% for Uzbekistan.

Though the CPSU made decisions for the entire Union, its Central Committee and Politburo always included representatives of the non-Slavic nationalities. Occasionally these minority members were personally influential at the centre—for example, Sharif Rashidov (first secretary from Uzbekistan for more than two decades), Edward Shevardnadze (formerly foreign minister of the USSR and then former president of Georgia), Heidar Aliev (former President of Azerbaijan), Nursultan Nazarbaev, and several others. Reportedly they had influence in succession struggles and over nationalities policy. All the Russians were disproportionately represented in the CPSU membership, Moscow's policy was hardly one-sided exploitation for the benefit of Russia. Rather, the Parties hierarchy took a long-run view of the benefits of entire Soviet Union, assuming as they did that it would last indefinitely. Massive subsidies of strategic industries in non-Russian areas and of social supplements were part of the deal, leading one observer to call it “welfare colonialism”, similar to that of the USA in Puerto Rico. In the extreme case of Kyrgyzstan, for instance, the centre supplied at least, 10-12% of gross national product (GNP) as subventions, additions to the republican budgets, and investments in defense and other industries.²³

Integration of Central Asian economies into the Soviet system for over sixty years and even their inclusion in common administrative region did not, however, create sufficient infrastructure to facilitate their trade with each other once independence was achieved. Railroads and pipelines have been built primarily to take fiber, fuels, and ores to their processing plants in the Russian Republic (RSFSR- Russian Soviet Federative Socialistic Republic) or Ukraine. For example, Kyrgyzstan lacked direct real connection from its capital, Bishkek (then called Frunze) to its second largest city (Osh) or to its nearest neighbouring city, Almaty. Kazakhstan's metallurgical and energy base was linked primarily northwards, towards the Russian Republic. Gas pipelines had different pressures, complicating inter-republican supply. The tourist industry was run from Moscow, with flights and hotels were booked from the Russian capital. Hence, local officials in this important industry, like manufacturers, had little direct contact with foreign decision makers.

²³ Martin C. Spechler (2000). Regional Cooperation in Central Asia: Promises and More Promises. PRAXIS The Fletcher Journal of Development Studies Volume XVI, 1-11.
<http://fletcher.tufts.edu/paxis/xvi/Spechler.pdf>

Notwithstanding some regional planning, especially under the CPSU leadership of Nikita Khrushchev from 1962-64, Moscow had decided in the 1920's and 1930's to maintain political control over Central Asia by creating five independent Union-republics, with irregular and sometimes economically and ethnically irrational borders, rather than permitting a single Turkistan entity. When the Soviet Union was dissolved in late 1991, these union-republics became the successor states. Whatever their degree of ethnic homogeneity – fairly high for Tajikistan, Turkmenistan, Kyrgyzstan, and even Uzbekistan – the former, now internationally recognized borders cut up natural economic areas. The Fergana Valley, fed by river systems rising in the mountains of Kyrgyzstan and Tajikistan, is divided among Kyrgyzstan, Uzbekistan and Tajikistan. Moreover, the Leninabad region of Tajikistan and the Osh region of Kyrgyzstan are both separated by snow-covered mountains from their countries' respective capitals. Both of these areas have a high admixture of ethnic Uzbeks, a situation which has already led to violent confrontations over land and water rights in these border regions. Recently Uzbekistan has erected a barbed wire fence on its frontier with Kyrgyzstan; this has impeded, but apparently not altogether prevented, Uzbeks from crossing over and back to trade with their relatives.

Part of Moscow's "divide and rule" strategy was to appoint ethnic representatives of each titular nationality for most honorific posts in each republic, with only a few Slavic viceroys as second secretaries of the republican Parties. Over the years, the titular nationalities came to assume that this situation, however symbolic, would persist. In the late 1980's Mikhail Gorbachev attempted to replace a native Kazakhstan's leader with the Russian, prompting bloody riots in Almaty and other cities of Kazakhstan. This CPSU appointments policy means that each Central Asian republic now has a cadre of officials of the titular ethnic background. Only a few officials from Central Asia, as contrasted with Ukraine and Belarus, were called to Moscow for all-Union careers. Though many were trained in Moscow or Leningrad, very few had any foreign education or experience. Thus, the Central Asian republics now have a shortage of statesmen with the linguistic and diplomatic

experience to deal with the outside world. Nor do these economies have senior commercial cadres with the skills to develop markets in Western Europe or elsewhere beyond the CIS.²⁴

2.2.2. The Case for Regional Cooperation

The newly independent republics of Central Asia have had to implement strategies for economic development since becoming independent of the Soviet Union in 1991. Despite their rhetorical acceptance of regional cooperation neighboring Turkic countries, all have chosen an external strategy which might be called “export globalism”. Export globalism implies dealing on world markets for the sale of raw materials and the purchase of capital and some consumer goods. No particular trading partner in the region is given preference. Rather, they seek most-favored-nation treatment and membership in the World Trade Organization, along with loans, technical aid, and investments from national and multilateral sources. Indeed, the Central Asian countries have recently taken ad hoc protectionist measures against each other. Lack of convertibility for the Uzbek currency has complicated small-scale trade with the region. In practice, a true regional strategy has not yet emerged, though it would contribute much to the common economic development.

Regional cooperation has been a long-standing theme of official proclamations. President of Uzbekistan Islam Karimov has called for a “single Turkistan”, though the majority of his speech stressed national independence. Presidents of Kyrgyzstan and Kazakhstan Askar Akayev and Nursultan Nazarbaev have also recognized an ethnic kinship with their neighbors. The countries languages are closely related, though not mutually intelligible, except for Tajik, related to Persian. Their Muslim religious and customary practices are similar. Rural Kyrgyzs and Kazakhs are traditionally nomadic pastoralists; the

²⁴ Martin C. Spechler (1999). *Regional Cooperation in Central Asia: Promises and Reality*. Indianapolis: Indiana University-Purdue University. Retrieved: April 22,2004.
<http://condor.depanl.edu/~rrotenbe/aeer/v17n2/Spechler.pdf>

Uzbeks and Turkmen have been settled agriculturalists. But even the most urbanized of these countries, Uzbekistan, had not been a modern nation state before 1991.²⁵

Central Asian economists generally recognize that regional cooperation would be favorable for the regeneration of Central Asian industry and ultimate growth renewal. The recognition of the importance of mutual relations was demonstrated clearly by searches for new collective mechanism to deal with shared challenges, such as:

Islamic extremism: in the Central Asian republics (CARs), the population comprises mainly Muslims, and the youth, thus, is inclined to radical actions, supported by different extremist grouping, creating instability in the region;

Drug trafficking: the CARs are used as market for shipment of drugs. The emergence of crime and terrorism in Central Asia shows that powerful criminal organizations are working together to destabilize areas where most of the contraband trafficking is concentrated.

Threat posed by organized crime and corruption: in the CARs, the masses are poor while the elite sections have become rich because of their closeness to the corridors of power, their defaulting on loans and then financial corruption and monopoly over the major exports. The elite is uncertain of the future, and hence, prefer to transmit its money to Western banks, resulting in a capital outflow from the CARs.

Demographic pressures. Overpopulation, along with the restricted land resources, poverty, and traditional large families, presents a range of problems, especially in Uzbekistan.

Militarized conflicts near the borders have serious security implications for these new states. The Central Asian countries have territorial disputes with each other. Borders determined during the Soviet period are mainly conventional; some districts have been transferred from one republic to another in the Soviet times.

Ecological security issues and management of water resources. For a region of desert and steppes, conflicts over the allocation of scarce water resources are inevitable and pose the single greatest internal threat to regional security. Water will become increasingly scarce in the years to come. The drying out of the Aral Sea is a real ecological catastrophe. The prevailing west-east winds sweep up tones of salt and carry it to the Tian-Shan and the Pamir

²⁵ M.C.Spechler (2000), p.2

mountains. Deposited on the high mountains, this salt is gradually melting the massive glaciers that are the source of water for the entire region.²⁶

The persistence of socio-economic interdependencies across the borders of nation-states becomes even more serious with globalization. Globalization is a threat to weak or capriciously governed states. But it also opens the way for effective, disciplined states to foster development and economic well-being, and it sharpens the need for effective international cooperation in pursuit of global collective action. In the age of globalization, an effective state is not one that closes its borders to outside influences, but rather one that finds the means to channel those outside influences which are beneficial to its economic and political development and limit those outside influences that threaten it.

Therefore, the above mentioned security, economic and other challenges facing the Central Asian states, and the Commonwealth of Independent States (CIS) in common should reinforce cooperation. Economic integration and common security are co-reinforcing processes. Enhancing regional stability will encourage economic integration and vice versa. The costs of failure are high; the rewards of success are great. If the states succeed in establishing a new level of cooperation they will reinforce their own sovereignty. Paradoxically, perhaps, greater cooperation will enhance national independence and preserve autonomy. But if inter-state cooperation continues to prove elusive, the problems relating to border disputes, trade and payments, common infrastructure arrangements, trans-border natural resources, intra-regional migration, terrorism, and trafficking in drugs and weapons, will increasingly circumscribe the autonomy of the states. The Central Asian states are faced with a choice. In the short run it may be easier to withdraw into self-protection and self-reliance than to cooperate with neighbours, but in the long run only greater cooperation will solve Central Asia's emerging regional problems.²⁷

²⁶ Meena Singh Roy (2001)

²⁷ Gleason Gregory (2001). Inter-State Cooperation in Central Asia from the CIS to the Shanghai Forum Retrieved: January 20, 2004.
http://www.findarticles.com/cf_dls/m3955/7_53/80933396/print.jhtml

A free trade area in Central Asia would constitute a much larger market than any of the isolated countries. An economic union allowing free movement of factors of production as well as goods would be even better. Foreign investors would be attracted by the prospect of operating in this larger market. Also, expanding the boundaries of accessible markets for these countries, in economic terms means creating a uniform space for the activities of national companies outside the political borders of a nation state.

Even if less than optimal, considerable intra-regional trade in the area is already based on different factor endowments. Many otherwise well-informed sources have erred in stating that Central Asian states have no natural complementarity. Kyrgyzstan supplies electricity, hides and wool, and non-ferrous minerals. Uzbekistan supplies natural gas and cotton. All these rely on specific factor endowments. Furthermore, the complementarity that exists could be enhanced by regional cooperation in manufacturing investment. After all, intra-industry trade is the fastest growing type of trade among advanced countries around the world.

To assure efficiency and progressiveness, industrial structures in Central Asian area must have several competing manufacturers in each product market. As shown by the experience of Japan, Western Europe and the United States, it is mainly competition that spurs innovation, cost-reduction, and management efficiency. Insulated as they are to some extent by the natural barrier of distance, needed competition must come in large part from within the Central Asian region. Without salt-water ports within easy reach, Central Asia must create a large enough arena to accommodate workably competitive industries that can survive and thrive without budgetary subsidies. But ensuring competition by fostering small and medium-sized enterprises is a neglected aspect of economic reform in all these countries. Even in free-market Kyrgyzstan, enterprises with more than 500 employees still produce more than half of all industrial output. The governments have preferred to regulate monopolies with stifling price controls rather than encourage free entry from domestic and nearby foreign sources.

Openness across regional borders would increase competition; it would also tend to reduce petty government interference in the market, an endemic problem in authoritarian Uzbekistan and a temptation everywhere in the region. To counter such interferences and

related corruption without a vigorous parliamentary opposition and court system is quite difficult. Experience of the EU and other mature economic unions has shown that the legal and practical requirements of these supranational institutions limits ill-advised sovereign attempts to prop up stagnant industries, such as steel, or to protect infant industries unduly.

A large economic area of Central Asia, if it is united politically for foreign policy purposes, can negotiate better prices on certain imports and preferential loan rates. To gain access to the regional market, foreign equipment suppliers would be forced to lower prices and improve terms. All these advantages would seem to apply to Central Asia, were it to move towards economic union in the future.²⁸

2.3. Regional Cooperation Initiatives

All five Central Asian states belong to various regional cooperation integration schemes such as the Commonwealth of Independent states (CIS), Eurasian Economic Community (EURASEC), Central Asian Cooperation Organization (CACO), Common Economic Space, Economic Cooperation Organization (ECO), GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova), Shanghai Cooperation Organization (SCO), etc. The lackluster success of cooperation within the CIS prompted the countries of the region to consider other options. In most cases, these schemes include ambitious trade liberalization components such as the creation of free trade areas with the elimination of tariff barriers among members or customs union with the adoption of common external tariffs. At the same time, CARs are making their new international borders more effective with the strengthening of customs controls, and raising numerous technical and administrative obstacles to trade in goods.²⁹

One of the first regional initiatives of post-Soviet period was establishment of the CIS, formed in 1991 by Boris Yeltsin and 11 other heads of former Soviet states (excluding the

²⁸ Spechler (1999)

²⁹ Shirin Akiner (2002). Regional Cooperation in Central Asia. London: University of London. p.190-193

three Baltic states of Latvia, Lithuania and Estonia). This institution, however, has shown little vitality in the military, political or economic areas. Early efforts to preserve economic unity were destined to fail. Divisive reactions were only to be expected during 1991-93 with the collapse of the Russian economy and currency. Various protective measures were taken everywhere at that time to prevent the flow of necessary food, energy, materials, and consumer goods to higher price areas. By 1993 the common ruble zone collapsed as Moscow could no longer prevent the former republics from expanding their ruble credits and contributing to the zone's hyperinflation.³⁰

The acronym GUUAM designates an organization that comprises Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova and was established in 1996. It was to facilitate the development of a Eurasian TransCaucasus transportation corridor that would bypass Russia, thereby underpinning the independence of these former Soviet countries. Despite assurances that it was 'not aimed at any third country or group of countries', it was clearly intended as a counter-balance to Russian influence, because it sought closer links with the West and NATO. However, despite considerable Western, and especially US, support and encouragement, progress towards setting a policy agenda or creating viable working structures was slight.³¹

Another abortive attempt at cooperation was the Eurasian Customs Union (Tamojennyi Soyuz), a free-trade area which included Belarus, Russia and Ukraine. Kazakhstan and Kyrgyzstan became members in early 1995, but Uzbekistan has not. President Nazarbaev was especially keen on this association. Nonetheless, practical considerations have prevented the Eurasian Customs Union from operating well. Russia unsuccessfully insisted on setting the tariff rates and standards.

Despite the apparent conflict with other commitments, both Kazakhstan and Kyrgyzstan have been enthusiastic proponents of the Central Asian Free Trade Area

³⁰ Spechler (1999)

³¹ Akiner (2002), p.193-194

(CAFTA). Their presidents signed agreements in 1993 and 1996 to allow completely tariff-free trade among the three countries, only to find Uzbekistan, which had acceded formally, holding out for restrictions on important categories. Since 1996 the inconvertibility of the Uzbek sum has prevented much expansion of mid-level trade between Uzbekistan and its near neighbours. In the middle of 1999 the three presidents have again postponed hard decisions on creating any single economic zone, but Uzbekistan has promised to return to convertibility. Meanwhile, continual petty disputes have occurred among the Central Asian neighbours over non-payment of bills for fuel, transit fees and water.

One major influence over the region's future is the Shanghai Cooperation Organisation (SCO), the political alliance of Russia, China, Uzbekistan, Tajikistan, Kazakhstan and Kyrgyzstan created in June 2001. The SCO developed out of efforts to resolve bilateral issues between China and adjacent CIS members. The first such priority was border demarcation. China shares long frontiers with Kazakhstan, Kyrgyzstan, Russia and Tajikistan, and so it initiated moves to resolve the problems of disputed territory and borders that were not demarcated formally in the Soviet times.

In its first year of existence SCO concerned itself primarily with regional security and border control. At its founding, the six countries had pledged to combat the 'three evil forces' of terrorism, extremism and separatism. However the group is not merely a security mechanism, but also a promising framework for building tighter trade, investment, cultural, environmental, and technological relations between member states. The rhetoric of the SCO points towards the future possibility of it becoming an influential multilateral organization. However, the prospect that the young SCO will blossom into a powerful regional bloc requires many assumptions. For example, each country would need to invest the necessary political will into SCO framework; the organization would have to develop its own autonomous agencies and capable leadership, distinct from its constituent states; and the most importantly, the SCO would have to operate as a legitimate vehicle for the collective interests of its members rather than as an organ dominated or directed by one or two states. This final condition is difficult to satisfy. Russia and China, by virtue of their much larger geographic

size, economic strength, and military power, have dominated the group from the start by pressuring the leaders of their smaller neighbours to support their policies.

In the eyes of Russian and Chinese policymakers, the SCO was a way to seal the strategic Sino-Russian dominance over Central Asia while engaging in friendly relations with their Central Asian neighbors. They all shared common concerns, such as the need to stifle increasingly violent international terrorism; however, unlike their smaller fellow members, Moscow and Beijing desired to directly confront American hegemony, especially in a region they long considered their natural sphere of influence.³²

On 10 October 2000 Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan signed a Treaty establishing the Eurasian Economic Community (EURASEC) in Astana and it came into effect in May 2001. The main basis of unification, in the framework of EURASEC, is the coincidence of the main interests of the countries which had formed this structure, in order to ensure the stable social-economic development and security, the worthy entry to the world community on the basis of integration advantages. The partners are intended to realize its regional opportunities for the joint adaptation to political and economic realise of the modern world, to effectively use the advantages and to mitigate the negative consequences of the globalization. The absence of other two Central Asian states Turkmenistan and Uzbekistan in this structure is explained by that, Turkmenistan's regime has become increasingly personalised and autocratic, pursuing a policy based on neutrality and economic independence, with minimal economic reform; the case of Uzbekistan is quite different than that of Turkmenistan's, Uzbekistan rejected this proposal, as the president Islam Karimov, a strong proponent of independent Uzbekistan, saw it as a vehicle for reasserting Russian influence. However, despite such a position of Uzbekistan, and taking into account that, Uzbekistan was not a proponent of creation of the SCO and it became the member of this organisation later. It may be assumed that in the case of EURASEC, Uzbekistan's leader may also change his position.

³² Sean L. Yom (2002). Power Politics in Central Asia. The Future of the Shanghai Cooperation Organisation Retrieved: June 09,2004.
<http://www.fas.harvard.edu/~asiactr/haq/200204/0204a003.htm>

The motive of creation of EURASEC is the aspiration of its each member to realize their economic opportunities, to compensate the difficulties of their own development and the imperfection of production structure. All these countries have not only the common history, but also potential market capacity, which has been formed during the years of their common national economic complex, which included supplement source of raw materials, compatible production and consumer standards, common infrastructure of transport and communication.³³

The break of the traditional economic system has led to the stagnation of many enterprises and to reduction of turnover within republics. The community partners are interested in creating the Eurasian market and to use it as a base for renewing and developing the mutually beneficial relations not only on the branch level, but also on the level of certain aspects of production and to regulate the tight cooperation between enterprises. The most important effect of this will be the emergence of a strong incentive for investment, which is lacking today. It is well known that the size of capital investment depends on the capacity of the domestic market, while that capacity depends on the number of the population. The other positive effect of the market's expansion, especially in EURASEC, will restore a market that is traditional for its members, as well as restore links that were traditional in the Soviet Union.³⁴

Eurasian Economic Community is the most enormous regional union in the Post-Soviet area. EURASEC countries acquire the natural and economic potential, capacious market which give them considerable competitive advantages and afford them to consider them as the hub of the Commonwealth.

Russia's successive way to integration with EURASEC countries is first of all conditioned by its aspiration not only to reserve, but also to develop the formed economic relations, specialization of certain productions, cooperation of delivery, which promote the

³³ Akiner (2002), p.191

³⁴ Khristenko Victor (2004). Making Headway to Integration
<http://eng.globalaffairs.ru/numbers/6/508.htm>

more complete use of economic potential and strengthening the security of Community's countries. It is necessary for Russia to ensure the regular work of transport highways which connect Russia with its partners within CIS and through their territory with the third countries. Apart from this Russia is interested in assisting the increasing of foreign trade inflow of goods from Kazakhstan and other Central Asian countries, and then from China to Europe. The interest of Russian producers in the capacious Eurasian market is also considerable.³⁵

Rapprochement of the "Eurasian" partners is promoted also by the geographical proximity, developed diverse inter-regional and frontier contacts, common infrastructure, first of all in power, on transport and in communication. The important factor of integration – is the need not only for preservation, but also for the further development of historically established common educational, scientific, cultural and information space. The course to consolidation and closer interaction is defined also by necessity of cooperation for interests of a safety and stability on the Eurasian space. Having collided on the southern boundaries with widespread invasion of the international terrorism, religious extremism and drug trafficking, the countries of EURASEC have realized these realities as a general danger from which it is impossible to be covered in "national apartments". The mentioned threats are especially faced by Tajikistan, Kyrgyzstan, Kazakhstan and Uzbekistan. Developing co-operation in the widest format, the countries of "the Eurasian five" give special attention to interaction in frameworks of Collective Security Treaty, in boundary sphere, in formation and functioning of collective forces of fast expansion. Besides political and military-technical communications in interests of strengthening of national safety promote development of co-operation in economy, in scientific and technical and in other spheres.³⁶

³⁵ Duschanov Ravshanbek (2003). The Opportunity of Using an Experience of Integration of Western Europe Countries by the Central Asian Countries. *Central Asia and Caucasus* 5(29),2003, p.202

³⁶ Duschanov (2003), p.204

III. THE EURASIAN ECONOMIC COMMUNITY AS A CASE STUDY

The establishment of the Eurasian Economic Community in October 2000, became a landmark in the development of the geo-economic and geopolitical processes on the territory of the former Soviet Union. In that way a group of the CIS member states announced their intention to implement the concepts of model of multi-speed integration of CIS member states and the creation of sub-regional unions of the countries with closer views of the prospects of economic and political integration within the Commonwealth.

3.1. The History of the Establishment and Development of the EURASEC

Not much has passed since the creation of the EURASEC, the Community has not initiated any large-scale projects; its regulatory and legal framework is still in the making. All this complicates a profound analysis of the effectiveness of that international formation, forecasting the stages and directions of its further development.

Meanwhile, it is already possible to analyze the specific traits of the Community, its stages of formation and structures in comparison with other interstate unions.

3.1.1. The Customs Union

The Eurasian Economic Community's predecessor was the Customs Union formed by the Treaty Establishing the Customs Union between the Russian federation and the republic of Belarus of January 6, 1995,³⁷ joined by the Republic of Kazakhstan³⁸ on January 20, 1995, and by the Kyrgyz Republic³⁹ on March 29, 1996. The same day, the newly-formed "Four" signed the Treaty on Extending Integration in Economic and Humanitarian Spheres that

³⁷ Agreement on the Customs Union of January 6, 1995. – <http://www.eurasec.ru/establishment.htm>.

³⁸ Agreement on the Customs Union of January 20, 1995. – <http://www.eurasec.ru/establishment.htm>.

³⁹ Treaty of Accession of the Kyrgyz Republic to the Agreements on the Customs Union of March 29, 1996.

envisaged creation of a single customs space. Furthermore, the Treaty set the end goal of the Union – creation of the “community of integrated states on the condition of observance of the sovereignty of the Parties”. It also mentioned co-ordination of the foreign policy of the customs Union member states and common protection of its external borders.

Pursuant to the Treaty, governing bodies of the customs Union were formed: the Interstate Council (the supreme body) made up by the heads of states and governments, foreign ministers, and the head of the Integration Committee (with a deliberative vote); the Council of the Heads of Governments attached to the Interstate Council (established in October 1997); the Integration Committee (the permanent executive body), the Interparliamentary (the body of parliamentary co-operation); the Council of the Heads of the Customs Services of the Customs Union member states (established on February 24, 1998).

On February 26, 1999, the Customs Union Interstate Council passed a decision on the Official accession of the Republic of Tajikistan to the agreement on Extending Integration in Economic and Humanitarian Spheres⁴⁰. Those decisions transformed the customs “Four” into “Five”.

At the same Interstate Council meeting, on February 26, 1999, the heads of the five member states of the Customs Union signed the Treaty on Customs Union and Single Economic Space. The Treaty encompassed various aspects of co-operation, with focus on the provisions of the completion of formation of the Customs Union and creation of the single economic space, as well as harmonisation and unification of the legislation of the Customs Union member states.

On September 24, 1999, the Council of the Heads of Governments of the Customs Union meeting in Astana (Kazakhstan) passed a decision on the common position of the

⁴⁰ Decision of the Interstate Council of the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Russian federation and the Republic of Tajikistan of February 26, 1999, “On the legal Execution of the Accession of the Republic of Tajikistan to the Customs Agreements of May 5 and May 20, 1995, and to the Treaty on the Extending Integration in Economic and Humanitarian Spheres of March 29, 1996” - <http://www.eurasec.ru/establishment.htm>.

Customs Union member states at the negotiations on accession to the World Trade Organization. The review of this issue and the mentioned decision were prompted by the unilateral accession of the Kyrgyz Republic to the WTO in 1998.

On October 26, 1999, the Interstate Council of the Customs Union meeting in Moscow approved the Programme of Harmonization of the National Legislative and Other Regulatory-Legal Acts of the Parties to the Treaty on the Customs Union and Single Economic Space of February 26, 1999. It also passed the Moscow Declaration stating that the Customs Union “is open for accession of any CIS country that recognizes its principles and is ready to assume all the commitments ensuing from the adopted documents”. The heads of the Customs Union member states expressed the conviction that the “Five” would form the integration hub around which other CIS countries would be able to unite as well.

On February 17, 2000, the Council of the Heads of States of the Customs Union meeting in Moscow agreed to the issues of the common customs tariff; safeguard, antidumping and countervailing measures and the mechanisms of their implementation; harmonization of the customs legislation of the member states; co-operation of the energy systems.

An important step in the Customs Union development was presented by the decision made on May 23, 2000, at a meeting of the Interstate Council in Minsk, of its transformation into an international economic organization and granting it the status of a subject of international law. The decision set the goal – formation “on the basis of the Customs Union of an international economic organisation entrusted with the functions related with the accession to the WTO, formation of the external customs borders, common foreign economic policy, tariffs, prices and other components of a common market”⁴¹.

⁴¹ Decision of the Interstate Council of the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Russian Federation and the Republic of Tajikistan No.77 of May 23, 2000. – <http://www.eurasec.ru/establishment.htm>

In less than six month after that decision – on October 10, 2000 – the heads of the Customs Union member states signed the Treaty Establishing the Eurasian Economic Community⁴² and made a relevant Declaration⁴³.

The creation of the EURASEC was a direct consequence and continuation of the process of integration within the Customs Union at the stage where the economies of its member states overcame a long systemic crisis and began regaining economic growth - which objectively allowed setting before them qualitatively new tasks connected with the measures aimed at the increase of the aggregate economic potential of the parties and co-ordinated restructuring of their economies, and therefore, further harmonisation and unification of the national legislation.

The decision to establish the EURASEC was also prompted by the fact that the Customs Union became one of the most dynamic structures within the CIS: over the time of its existence, the trade turnover of Belarus with the countries of “Five” increased three-fold, of Tajikistan - two-fold, of Russia - by 51%, of Kazakhstan - by 27%. To some extent, this was related with the removal of tariff and quantitative restrictions in mutual trade, the introduction of common customs tariffs on the majority of articles, performance of co-ordinated non-tariff regulation measures, the beginning of the formation of common rules of trade with third countries and the formation of a single customs territory. Simultaneously, some joint projects were initiated in the humanitarian sphere – in education, culture, healthcare, and provision of the social rights of citizens of the Customs Union member states.

The completion of the formation of the Customs Union and creation of the Single Economic Space require new forms and mechanisms of interaction. The Treaty establishing the EURASEC, as a direct continuation of the Customs Union activity, envisages expansion

⁴² Treaty Establishing the Eurasian Economic Community of October 10, 2000, (Astana). - <http://www.eurasec.ru/establishment.htm>

⁴³ Declaration of the Heads of States of the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Russian Federation and the Republic of Tajikistan on the Establishment of the Eurasian Economic Community No.79 of October 10, 2000, (Astana). - <http://www.mpa.eurasec.ru/establishment.htm>

and deepening of various kinds of co-operation not only in the formation of the single customs territory but also in the issues of macroeconomic, monetary, industrial and social policies.

Politically, many analysts and politicians ascribe the decisive role in the Customs Union's transformation into the EURASEC to V.Putin's coming to power in the Russian Federation, who stepped up Russia's efforts aimed at economic and political consolidation of the post-Soviet countries.⁴⁴ It is also demonstrative that exactly in January 2000, publications dealing with the re-animation of the Eurasian Union project proposed by Kazakhstan's President N.Nazarbayev appeared in the Russian press.

3.1.2. Creation of Eurasian Economic Community (EURASEC)

In May 2001, the process of the ratification of the Treaty establishing the EURASEC by national parliaments of the member states was over; in January 2002, the governing bodies of the Community began their work.

The EURASEC governing bodies were established in pursuance of Article 3 of the Treaty establishing the EURASEC and substituted the previously established bodies in charge of the integration of the Customs Union member states⁴⁵. The EURASEC governing bodies are: the Interstate Council; the Integration Committee; the Inter-Parliamentary Assembly (IPA); the Community Court.

It should be noted that for the attainment of the goals set by the Treaty establishing the EURASEC, the Interstate Council has the right to establish subsidiary bodies of the Community. On February 15, 2001, the Council of the Heads of the Central (National) Banks of the EURASEC countries was established as a consulting and advisory body entitled to pass recommended decisions. The Transport Policy Council and Energy Policy Council, made up

⁴⁴ V.Putin was elected President of the Russian Federation on March 26, 2000; the inauguration took place on May 7, 2000.

⁴⁵ Decision of the Eurasian Economic community Interstate Council No.2 of May 31, 2001, "On the Provision of Continuity of the Bodies in Charge of Integration". - <http://www.eurasec.ru/establishment.htm>

of the heads of the relevant ministries and agencies of the member states, were formed and held their first meetings.

Therefore, the basic organisational structures in charge of the process of integration have generally been formed within the EURASEC. At the same time, some imbalance between the bodies in charge of interaction on the central state level and on the sector (branch) level is striking. This demonstrates that integration within the EURASEC is predominantly pushed from above, and it has no adequate input on the part of the real sector of economy, or the financial system.

The organisational and legal formation of the EURASEC was generally completed at the May (2002) meeting of the Interstate Council with the approval of the EURASEC emblem, banner and a number of documents, including: Regulations of the Interparliamentary Assembly of the Community; Regulations of the terms and procedure of accession of new EURASEC members; Regulations of the EURASEC observer status. The EURASEC observer status was unanimously extended to Moldova and Ukraine. The observer status at the EURASEC allows a state to take part in all the events of that organisation but without the voting right. However, the actual scope of relations is much wider since all of the member states of the EURASEC, as well as Ukraine, are CIS members and have extensive multilateral economic, social and political ties. Furthermore, there is an on-going practice of bilateral relations between Ukraine and each of the Community member states.

The analysis of the stages of the EURASEC establishment and the basic provisions of the fundamental legal acts that regiment its activity (the Customs Agreements of 1995-1999, the Treaty on Extending Integration in Economic and Humanitarian Spheres of 1996, the Treaty establishing the EURASEC of 2000) identifies certain specific features of the Community, compared to other interstate unions pursuing the goals of economic integration.

One important feature of the EURASEC, compared to the CIS and its Economic Union, lies in the partial departure of the EURASEC from the principle of equality of all

member states. Pursuant to the agreed procedure (Article 13 of the Treaty establishing the EURASEC), the decisions of the Integration Committee are passed by a 2/3 majority of votes distributed in accordance with the contribution of each member state to the Community budget: Russia has 40 votes, Belarus and Kazakhstan - 20 each, Kyrgyzstan and Tajikistan - 10 each. At that, if a decision is supported by four out of five Contracting Parties, but fails to win a 2/3 majority, the issue is transferred for consideration to the Interstate Council.

Therefore, Russia actually has the right of veto in the Integration Committee. Since the Interstate Council decisions are passed by consensus, the present mechanism does not allow the overriding of such a veto. Hence, Russia exerts decisive influence on EURASEC decisions.

By contrast to the interstate union of GUUAM, which is only at the initial stage of formation as a regional organisation, the EURASEC is in fact already formed as a fully-fledged international economic organisation. It is created in pursuance of an international treaty that entered into force, has the appropriate organisational structure and acts as a subject of international law.

There are also differences between the EURASEC and the European Union. Formally, implementation of the EURASEC project resembles the process of integration that took place within the framework of the European Economic Community. Both are based on the same scheme of development: free trade area — customs union — common market — economic and monetary union.

However, by its essence, the EURASEC integration policy fundamentally differs from the one pursued within the EU (Table 3.1 “Comparison of the fundamentals of EURASEC and EU activity”).

Table 3.1
Comparison of the fundamentals of EURASEC and EU activity

Criterion	The EU	The EURASEC
<i>Stages of integration</i>	Successive formation of the single customs, and later, economic and monetary space over a rather long period after the establishment of the European Economic Community in 1957. The political union was formed only in the 1990s.	Extremely rapid approach to development of integration: transition to the higher stages of integration takes place before the attainment of the tasks of the previous stages. For instance, the Customs Union was transformed into the EURASEC even before the final formation of the Customs Union.
<i>Correlation between the national and supranational principles of activity regulation</i>	Continuous deepening of independent supranational regulations with voluntary (through referendum) transfer of a part of the national sovereignty in the spheres of economic, monetary and foreign policy to EU bodies. The common institutes of the Union are not an attachment to the institutes of any separate member state, although large member states have greater influence on the EU decision-making process. In particular, this approach is manifested in the introduction of the new European currency - the Euro - in place of the national currencies.	The prevailing policy is confined to the expansion of the norms of one of the member states: the norms effective in Russia are simply applied to all other countries, while the permanent interstate bodies still have no real powers. This is manifested, in particular, in such spheres as: elaboration of the common position of the member states on the accession to the WTO (based on Russia.s position); unification of the transport tariffs (after the Russian pattern); elaboration of a common customs policy (in fact repeating Russia.s one); the currency of international settlements (supposed to be the Russian Rouble).
<i>Correlation between the development of common institutions and intensity of mutual relations</i>	The relations were institutionalised parallel with the substantial progress in the development of mutual economic, social and political relations among the member states and were adequate to the new tasks that arose in this connection. The common institutions implement large-scale joint projects of EU development, in particular, in the high-technology sector.	The institutions are developing at a pace clearly exceeding the pace of the development of the mutual relations that in many components (e.g., mutual investments, import of new technologies) do not play a decisive role in the development of the member states. Large-scale economic projects of the EurAsEC are not yet initiated in that organisation.

Table 3.1 (continue)

Criterion	The EU	The EURASEC
<i>Correlation between macro and micro-economic approaches to integration</i>	To a large extent, the development of integration was a complementary process that went on simultaneously at the macro- (state) and micro- (company) economy levels.	So far, macro-economic approaches clearly prevail, in the presence of a great deal of purely political issues that in fact present the basis for the interstate political union. National companies of the member states have their own development strategies that often differ from the declared goals of integration.
<i>The political willingness to wait for the benefits</i>	Building integration is like building a house, so it must start with the foundations – not the roof. It is a slow process, building brick by brick, flour by flour. In the EU people like Robert Schuman, Jean Monet, dragged their more reluctant partners into a process. Most of the benefits of integration were long-term, and in spite of the difficulties in some periods the European Union was achieved, bringing peace and prosperity to European people.	As long as the long term benefits may take years, states must be prepared to endure the delay, and be aware that they may experience short term costs. This is particularly a problem for the Central Asian countries, where the poverty levels are high, and corruption at the highest level flourishes, wasting the resources of a country. Corrupt elites seek maximum benefits while they have power. So, they are not very interested in policies that may take a long time to provide benefits.
<i>Political compatibility</i>	For the countries which were the mix of old and new democracies the common goal was peace and economic recovery after the war. The trust between them started at the very bottom. The two World Wars acted as a catalyst to align political goal for peace. It was only because the leaders and populace believed that if they did not cooperate they would not survive.	The case in EURASEC is quite different. The EURASEC countries have political similarities, but the similarities are not always in areas that promote cooperation. The lack of transparency in governing methods leads to a lack of predictability, which in term greatly reduces the potential benefits of integration. It also limits the levels of trust between governments – and trust is essential for a successful integration.

At present, the available information is insufficient to predict either deepening or evening of the differences between the character and content of the processes of integration of the EURASEC and EU. The views of the Community members themselves on that problem differ. Some statements by the heads of the Community member states may be seen as an intention to build relations within the EURASEC in accordance with the principles and norms effective in the EU, in the long run. For instance, the President of Kazakhstan N.Nazarbayev spoke in favour of the transformation of the Eurasian Economic Community into “a union of the EU type”⁴⁶.

By contrast, Russia’s President V.Putin avoids comparing the EU with the EURASEC. Instead, he recommends to concentrate on the prospects of co-operation between the two unions. For instance, at the May (2002) meeting of the Interstate Council, V.Putin said that comparing the EURASEC and the EU at the present stage of the Community’s development was “no good to us”, given the different terms of their existence⁴⁷. However, the Russian President believes that with the EURASEC strengthening, including in the economic sector, it will be possible to speak about co-operation with the EU. He is sure that “the EU will be interested in co-operation, given EURASEC energy and transport capacities”, the capacity of its market and high technologies, and, therefore, “we will try to organise the work within the EURASEC so as to come to co-operation with the EU”⁴⁸.

In the context of the problem of differences between the EU and the EURASEC, one should also note that the process of adaptation (harmonisation, unification) of the national legislation of the EURASEC members, despite its similarity with such activity of the EU, does not seem to be at all-round adaptation of the legislative base to the effective legislation of the European Union. To sum up the above, one may single out three main specific traits of the strategy of integration within the EURASEC that developed from the tangled set of mistakes and achievements that accompanied the processes of integration within the CIS.

⁴⁶ Panfilova V., Khanbabian A. The Community May Replace The Commonwealth. – *Nezavisimaya Gazeta*, May 14, 2002, p.6.

⁴⁷ Konstantinov A. EURASEC as the Engine of Post-Soviet Integration. – <http://www.strana.ru/print/1341146.html>.

⁴⁸ Panfilova V., Khanbabian A. The Community May Replace The Commonwealth. – *Nezavisimaya Gazeta*, May 14, 2002, p.6.

First of all, emphasis was made on multi-speed integration, which presumes the formation of the integration core of the states whose views of the solution of the problems of state independence and development of interstate relations were closer. The achievements (so far, potential) of the union of those states might attract other CIS members (Moldova, Ukraine, and in the future, others), which would mean territorial expansion of the EURASEC.

Second, the process of integration within the EURASEC is based on the political decision of the ruling elite of the member states taken in the conditions of close connection between the authorities (possessing centralised management functions) and the business circles. Under such circumstances, priority attention is paid to the problems of the macro-level (establishment of the common interstate institutions, harmonisation of the legislation, co-ordination of the economic policy, etc.), whereby the political decisions are followed by the elements of the micro-level (interests of economic entities, co-operative ties, financial procedures, etc.). This is one of the main differences of the process of the establishment of the EURASEC from the process of the creation and development of the EU that united the countries with mature civil societies where business was independent from the state, guided by the real interests of the micro-level actors and the initiatives pushed from below.

Third, in the EURASEC, Russia, with its much greater economic potential and strong economic levers, has far greater influence than the 40 votes it has in the Integration Committee as a reflection of its contribution to the Community budget. For Russia, the Community is the means to: (a) create an area in the CIS for promoting its national interests; (b) strengthen its political and economic positions in its relations with the EU, USA and leading international organisations.

3.2. EURASEC Governing Bodies

Interstate Council - supreme body of the EURASEC made up by the heads of states and governments of the member states. Meets no less than once a year at the level of the

heads of states, no less than twice a year - at the level of the heads of governments. Reviews fundamental issues touching on common interests of the member states, determines the strategy, directions and prospects of integration, passes decisions aiming at the attainment of the EURASEC goals and tasks.

Integration Committee - permanent body made up by deputy heads of the member state governments. Meets at least once per quarter.

Main tasks: support of interaction among the EURASEC bodies; submission of proposals as to the agenda of the Interstate Council, drafting decisions and documents; control of the execution of the Interstate Council decisions.

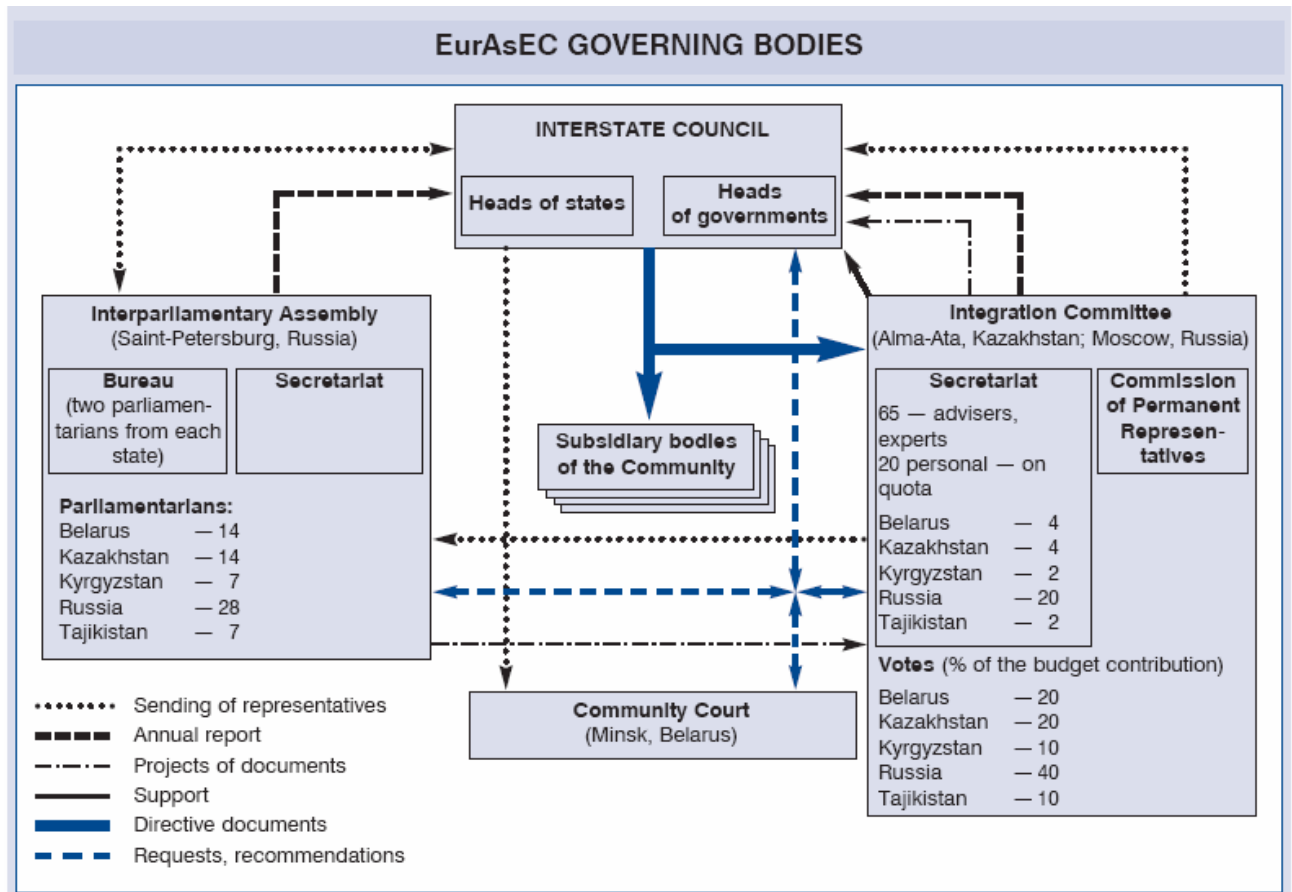
Functions: adoption of decisions in pursuance of the Treaty Establishing the EURASEC and the powers delegated by the Interstate Council; formation of the budget and control of its performance; support for the conclusion of the relevant treaties and pursuance of the common policy in concrete spheres of co-operation among the member states.

Secretariat of the Integration Committee - permanent body responsible for the organisation of work, information and technical support for the Interstate Council and the Integration Committee.

The Secretariat is led by *Secretary General* - the highest administrative officer of the Community appointed by the Interstate Council upon the submission of the Integration Committee for three years.

Current work between the meetings of the Integration Committee is vested in *the Commission of Permanent Representatives of the Contracting Parties to the EURASEC* appointed by the heads of the member states and meets twice a month. The institute of permanent representatives is a EURASEC novelty. Permanent representatives enjoy broad powers - they draft the agenda and discuss all the problems prior to their submission to the Integration Committee meetings.

Figure 3.1
EURASEC governing bodies



EurAsEC Interparliamentary Assembly - body of parliamentary co-operation among the member states. Reviews the issues of harmonisation (adaptation, unification) of the national legislation and their compliance with the treaties made within the EURASEC for the attainment of the Community tasks. Made up of the representatives delegated by national parliaments.

Functions: development of the Bases of legislation in the basic spheres of legal relations, adoption of model Laws, on whose basis national legislative acts are developed.

Community Court ensures uniform application of the provisions of the Treaty establishing the EURASEC, other treaties made within its framework and the decisions of the

EURASEC bodies by the member states. Considers economic disputes among the member states dealing with such treaties and decisions. Made up of the representatives of the Contracting Parties (no more than two representatives from each party) appointed by the Interparliamentary Assembly upon submission of the Interstate Council for six years. The Community Court does not have supranational authority.

Budget of the Community's bodies for 2002 equals Russian Rouble (RUR) 83 million: the Russian Federation contributes 40%; Belarus and Kazakhstan - 20% each; Kyrgyzstan and Tajikistan - 10% each.

3.3. Main Goals, Tasks, Directions and Intermediate Results

The analysis of the constituent documents and the practice of formation of the EURASEC identifies its chief goals and tasks, the main directions of activity and the results attained by the Community over the time of its existence.

3.3.1. EURASEC Goals and Tasks

The main goal of the EURASEC is specified in the Treaty establishing that union. It lies in the “formation by the Contracting Parties of the Customs Union and Single Economic Space”⁴⁹. Meanwhile, the goals of the Customs Union are defined as follows:

- provision, through joint efforts, of the social and economic progress of the respective countries through the removal of obstacles for free economic interaction among their economic entities;
- guarantee of stable economic development, exchange of goods and fair competition;
- strengthening of the co-ordination of the member states economic policy and provision of all-round development of the national economies;
- creation of the conditions for active promotion of the Customs Union member states on the world market⁵⁰.

⁴⁹ Treaty Establishing the Eurasian Economic Community, Article 2.

Said goals were further elaborated in the main tasks of the EURASEC presented in the Declaration of the Community establishment (See below “Main tasks of the EURASEC”⁵¹).

a. Main Tasks of the EURASEC

In the sphere of foreign trade and customs policy the main tasks of the Community are the completion of full-scale formation of the free trade regime, formation of the common customs tariff and the single system of non-tariff regulation. Introduction of the co-ordinated system of preferences, establishment of common rules of trade in goods and services and their access to the domestic markets, elaboration of the co-ordinated position of the member states in relations with the WTO and other international economic organisations are also the main priorities of the Community. In addition, the Community should introduce the unified procedure of foreign exchange regulation and foreign exchange control, create the effective mechanism of settlements creation unified system of customs regulation with uniform rules of customs clearance, customs control and uniform customs regimes. On the external borders of the Community provision of economic security, fight with smuggling and other kinds of customs infringements, strengthening and equipment of the external borders of the Community are also necessary.

In the sphere of economic policy the Community carries out the co-ordinated restructuring of the economies by developing and implementing joint programmes of social and economic development. It is planned to create the common payment system and close interaction among the monetary systems. The formation of the common market of transport services, the common transport system and the common energy market is also the priority of the Community. For the attainment of these goals the Community also should create equal conditions for industry and business, for the access of foreign investments to the participant markets, create the unified system of legal regulation, establish and activate financial and

⁵⁰ Agreement on the Customs Union of January 6, 1995, Article 1.1.

⁵¹ Source: Declaration of the Heads of States of the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Russian Federation and the Republic of Tajikistan on the Establishment of the EURASEC No. 79 of October 10, 2000.

industrial groups on multilateral and bilateral bases and to perform joint research and development programmes in the priority sectors of science and technology;

In the social and humanitarian sphere the harmonisation of the national systems of education, science and culture and of the national systems of provision of the minimum level of social standards are the priority tasks of the Community. Also it should grant the citizens of the Community member states equal rights to obtain education and medical care across its territory.

In the legal sphere it is necessary to co-ordinate and harmonise the national legislation. For the attainment of this goal the community should create the mechanism of co-ordination in the adoption of the national legislative acts and other legal regulations of the member states on issues dealing with the Party commitments within the EURASEC. The other main task is the synchronisation of the terms of the domestic procedures under the treaties made within the framework of the EURASEC and interaction between the legal systems of the member states for the creation of the common legal space within the Community.

Summing up the goals and tasks of the EURASEC with account of the above-mentioned specific features of its establishment, one may draw the conclusion that the Community aims at creating within the CIS a competitive participant of economic and political activity - an attractive partner for the leading countries and international organisations. Therefore, the attainment of all these goals will by far facilitate the establishment of the full-scaled Community with the following main features: the single economic space (common market); common policy of economic security; co-ordinated foreign economic policy of the member states; common legislative fundamentals; close co-operation in the humanitarian sphere.

b. The Directions and Intermediate Results of EURASEC Activity

Pursuant to the set goals and tasks, the Community activity focuses on the following directions.

b.1 Formation of the single economic space. This direction encompasses several interrelated components, the main being: formation of the single customs, financial, tax, energy and transport space. The formation of the single economic space is supposed to be completed before 2005.

In September 2001, Kazakhstan's President N.Nazarbayev as the Head of the Interstate Council, presented at its meeting a plan of the Community development, whereby the customs rules should be unified and transition to the single customs clearance procedure should be completed in 2004, and customs control on the common borders should be cancelled in 2010.

The following issues related with the formation of the single customs area either have been or are being solved.

At a meeting of the EURASEC Interparliamentary Assembly on March 25, 2002 were discussed the legal preconditions for the formation of the common customs area. Then on May 13-14, 2002 at the Interstate Council meeting member states signed an agreement on the development of the mechanism of protection of the internal markets of the EURASEC member states through non-application of special safeguard, countervailing and antidumping measures in mutual trade. Also at that meeting was approved the Basic List of the common customs tariffs and minimal rates of excisable goods manufactured on and imported into the customs territories of the Community member states

Council of the Heads of the Customs Services attached to the EURASEC Integration Committee meeting on June 17, 2002, discussed the issues of co-ordination of activity through the unification of the duty payment procedures; creation of the automated information exchange system; introduction of typical technological schemes of customs control; movement of goods under customs control; norms of foreign currency export by citizens of the EURASEC states to third countries; control of the circulation of alcohol and tobacco products; customs clearance of luggage and cargo at rail transportation.

On September 20, 2002, in Astana, the Interstate Council meeting with government heads discussed the issue of the introduction of the common customs tariff. In total, the EURASEC members have agreed on 60% of import tariff rate list that covers approximately 50% of the EURASEC commodity turnover; for 15% of the rates, the margin between ununified rates does not exceed 5%⁵². The rules of customs clearance of transit goods, procedures of customs escort and movement of goods by customs carriers have been unified.

Meanwhile, final introduction of uniform procedures of custom duty payment is complicated due to the specificity of the foreign exchange and tax regulations, banking systems and civil law of the Community member states.

- *Pursuance of the co-ordinated structural policy.* The Measures at Implementation in 2000-2005 of the Guidelines of Co-ordinated Restructuring of the Economies of the Parties to the Treaty of the Customs Union and Single Economic Space of February 26, 1999⁵³ approved by the Interstate Council on October 10, 2000, is the basic document in that domain laying down the Community Development Strategy through 2005. Among them, the development of the programmes of co-ordinated development of the complementary branches - metallurgy, machine building, chemical, petrochemical, electronic, light industry, agricultural machine building - deserves particular attention.

- *Pursuance of the common energy policy.* The first meeting of the EURASEC Energy Policy Council held in Moscow in April 2002, approved the draft of the Community Energy Policy Fundamentals. It envisaged the development of the plan of joint actions for the formation of the common energy market of the EURASEC member states, discussion of the issues of mutual assistance in the removal of the consequences of natural disasters and accidents at power engineering facilities of the CIS countries, the protocol of customs clearance and customs control of electricity transmitted among the EURASEC member states.

- *Creation of the single financial space* within the EURASEC is envisaged in the near future. This will lead to the relevant changes in the foreign exchange regulation and capital

⁵² See: EURASEC May Fall Apart, Should Russia Join the WTO. – Kommersant, July 29, 2002; http://www.wto.ru/ru/press.asp?msg_id=2375.

⁵³ For more details see: Voitovich A., Maryshev A. From the Customs Union – to the Eurasian Economic Community. – Vestnik Meiparlamentskoy Assamblei, 2002, No.1, pp. 273-286.

registration rules, harmonisation of the legislation on securities, and development of the mechanisms of infrastructural and technological support for integration in that sphere.

Regarding foreign exchange regulation, it is envisaged to cancel restrictions on the movement of capital in priority sectors of financial markets, assume interstate commitments of repatriation of the proceeds of non-resident investors (at least in the currency of the investor country) and attain long-term stabilisation of national currency exchange rates. It is planned to introduce uniform standards of activity on the financial markets of the EURASEC member states, including the standards of trade and disclosure of information, and to work out and implement uniform rules of cross-listings for stock exchanges of the member states. In the event of the creation of a EURASEC common financial space, there will be a strong impetus for stepping up co-operation at investing⁵⁴. One of the supposed end goals of financial integration lies in the formation of an integrated EURASEC system of trade in securities employing the national stock exchanges and uniform technological standards. It is also planned to create reliable and effective trans-border settlement systems.

The mentioned mechanism of interaction is to be provided for in the intergovernmental agreement of co-operation of the EURASEC member states on securities markets, envisaging the procedure of state registration of the issue (emission) of securities, development of the uniform procedure of seeking permission for the distribution and/or circulation of securities on the national markets issued by non-residents representing the EURASEC member states, development of a set of uniform principles of licensing professional activity on the securities market, formation of the uniform approaches to the disclosure of information by issuers.

- *Creation of the common settlement system.* The Council of Heads of the Central Banks of the EURASEC countries meeting in 2002 decided to create the common settlement structure - the Inter-State Bank. It is supposed to help solve the task of further improvement of payment

⁵⁴ Zakharov A. The EURASEC Markets on the Road to Unification. – Izvestiya, July 5, 2002; <http://www.micex.ru/off=line/pubdocs/publicstion/180.doc>.

procedures and creation of the common settlement system of the Community member states based on national currencies⁵⁵.

One should pay particular attention to the proposal by the Head of Russia's Government M.Kasyanov made at the Interstate Council meeting in September 2002, on the use of the Russian Rouble as the currency of settlements among the Community members, to promote economic integration and substantial growth of mutual trade. The heads of the Governments of the EURASEC member states welcomed that proposal, and the issue is to be further discussed in the near future.

b.2 Formulation of the common policy of EURASEC economic security. This line of activity encompasses the following measures: situation analysis; regulation of the intensity of the traffic of goods, transportation means and people through checkpoints; technical equipment of the checkpoints; struggle against smuggling, illegal migration, terrorism, organised crime.

The documents adopted as part of this activity include: (1) plan of the all-round analysis of the situation on the EURASEC external borders (the Interstate Council meeting, February 26, 2002); (2) Fundamentals of the Border Policy of the EURASEC Member States establishing common approaches to the goals, tasks, principles, guidelines and mechanisms of implementation of the border policy (the Interstate Council meeting, May 2002).

Recently, the issues of concluding a treaty of joint patrolling (guarding) of the EURASEC's external borders and removal of the internal borders has been placed on the agenda. These measures are to form the basis for the creation of the single customs territory where goods, services, capital and people will move freely.

⁵⁵ Akshayev D., Zhamadbayev E., Gazabekov A. From the Declaration to Deeds. – Kontinent, 2002, No.1; <http://www.continent.kz/2002/01/08.html>.

There were reports⁵⁶ that according to the developed strategy of the EURASEC development through 2015, it is planned to implement a set of co-ordinated measures to ensure the Community's economic security, starting from 2004:

- before 2005, common approaches to the coordinated border policy will be implemented, multilateral trans-border co-operation will be attained;
- before 2006, it is planned to complete the establishment of checkpoints on the external borders of the EURASEC member states;
- before 2010, all-round establishment and organisation of co-ordinated patrolling (guarding) of the external borders of the Community countries and creation of the single system of control of their customs services are to be completed. Customs control on the borders between the EURASEC member states is to be cancelled;
- before 2015, the single system of command and control of the border services of the Community member states will be created.

Co-ordination of foreign economic policy with respect to third countries. The EURASEC has identified the list of goods subject to embargo or restrictions in trade between EURASEC member states and third countries. For instance, the EURASEC Commission for Customs Tariff and Non-tariff Regulation meeting on April 2, 2002, discussed the approval of the list of so-called sensitive goods for the EURASEC member states (that are not manufactured, or are manufactured in insufficient quantities, or are badly needed for the population or industry), and the introduction of agreed exemptions from the free trade regime among EURASEC member states in economic relations with other CIS countries.

The issues of working out the common position of the EURASEC member states in relations with the WTO were reviewed by the EURASEC Interparliamentary Assembly in March 2002. The task of synchronisation of the member state reforms in the sphere of customs, foreign exchange and foreign trade legislation, including the introduction of the common customs tariff, was set as a priority. Meanwhile, the Interstate Council meeting on May 13-14, 2002, decided to co-ordinate the positions of the EURASEC member states in

⁵⁶ See: <http://www.cvi.kz/text/Konference/NATO/Muzaparova.html>.

negotiations on acceding the WTO proceeding from the terms of Russia's accession to that organisation.

Co-ordination and formulation of the common Bases of the member states' legislation. The EURASEC Interparliamentary Assembly has worked out 34 model laws and models drafts of legislative acts (see Table 3.2 "Model laws and model drafts developed within the framework of the EURASEC Interparliamentary Assembly" ⁵⁷).

To raise the effectiveness of the adopted legal acts, it is planned to move from the development of model laws that bear a recommended character to the development of regulatory-legal acts of direct action - Bases of legislation, i.e., the codes of common legal norms mandatory for national legislative systems⁵⁸.

On March 25, 2002, the second meeting of the EURASEC Interparliamentary Assembly approved the draft of the Treaty on Bases of Legislation of Eurasian Economic Community and the Programme of Legalmaking Activities of the EURASEC Interparliamentary Assembly till 2005 (adopted on June 4, 2002).

The priority tasks set by the Programme of Legalmaking Activity include the development of the bases of tax and customs legislation; fundamentals of legislation on energy and mineral resources; land and transport legislation; basic principles of foreign investment protection; basic principles of trade in services; general principles of organisation and operation of currency markets, border control on the EURASEC's external borders; principles of regulation of the labour migration; fundamentals of economic security.

⁵⁷ The documents are listed in chronological order.

⁵⁸ For more details see: Voitovich A., Maryshev A. From the Customs Union – to the Eurasian Economic Community. – Vestnik Meiparlamentskoy Assamblei, 2002, No.1, pp. 273-286.

Table 3.2

Model laws and model drafts developed within the framework of the EURASEC
Interparliamentary Assembly

- “On Innovation”
- “On Employment”
- “On Fundamentals of Transportation Business”
- “On Border Co-operation Regions”
- “On Supervision and Control of Observance of the Legislation on Labour Protection”
- “On the Struggle against Terrorism”
- “On the Common Principles of Foreign Exchange Regulation and Foreign Exchange Control”
- “On Postgraduate Education”
- “On the Struggle against Corruption”
- “On State Border”
- “On Border Troops”
- “On Military Education”
- “On Technical Barriers to Trade”
- “On the Common Principles of Establishment, Operation and Liquidation of Free Economic Zones”
- “On Safeguard Measures on Imports of Goods from Third Countries”
- “On the Youth and State Youth Policy”
- “On Social Tourism”
- “General Principles of Export Control”
- “On Education Activity”
- “Fundamentals of Banking”
- “On Confirmation of Compliance of Goods and Services with Normative Requirements”
- “On Fundamentals of Social Policy”
- “On State Social Standards”
- “On Bookkeeping”
- “Fundamentals of Auditing”
- “On Education of Handicapped Persons”
- “On the Procedure of Ratification and Denouncement of International Treaties”
- Model draft “On Customs Tariff”
- Model draft “On Electronic Document”
- Model draft “On Social Assistance”
- Model draft “On the Fundamentals of Technical Regulation”
- Model draft “On Consumer Credit Co-operatives of Citizens (Credit Unions)”
- Model draft “On Internal Migration”
- Model draft “On Military Security”

It also planned to develop legislative acts on the subsistence level, fundamentals of mandatory social insurance and on pension legislation.

The development of some legal acts is to involve the General Confederation of Trade Unions that will develop the laws that determine the subsistence level, principles of regulation of labour migration, fundamentals of mandatory social insurance, labour and pension legislation. The experience of branch trade unions will be used in preparation of the bases of the land and transport legislation, legislation on energy, communications and healthcare.

Co-operation in the humanitarian sphere. The EURASEC implements the Programme “Ten Simple Steps towards Common People” that provides greater freedom of movement for citizens of the member states (agreement of streamlined border crossing procedures); the visa-free regime and the agreement of streamlined naturalisation procedures are effective. Agreements of the streamlined procedures of postal orders, remittance of pensions, extension of emergency medical assistance have been made. The agreement on recognition of equivalence of all higher education diplomas of the EURASEC member states and the agreement on the higher attestation commission activity are being developed.

Therefore, one may note rather a dynamic development of the institutional fundamentals of the EURASEC, whose pace substantially exceeds the pace of institutional development of other regional organisations established within the CIS, including those joined by Ukraine. At the same time, it should be noted that the initial stage of EURASEC development complicates the assessment of the effectiveness of the planned integration measures.

c. Preliminary Assessment of the Intermediate Results

Today, the assessments of implementation of the EURASEC establishment strategy vary. For instance, Russia’s President V.Putin said at a meeting of the Interstate Council in May 2002, that the Community “is gradually transforming into the engine of integration

processes”⁵⁹. Meanwhile, the Presidents of other EURASEC member states have recently paid attention to a number of drawbacks in the activity of that organisation, in particular:

- insufficient implementation of the reached agreements;
- excessive use of safeguard and antidumping measures in trade among member states;
- Russia’s policy on the market of transport services aimed at its attaining maximum proceeds from the operation of transport corridors, in defiance of the signed agreements on the transport infrastructure development and use.

According to the EURASEC Deputy Secretary General N.Isyngarin, joint work based on the principles of fair competition within the Community is replaced by another principle: to “oppress” a neighbour and a EURASEC partner⁶⁰.

Experts believe that the real processes of integration within the EURASEC and the CIS lag behind their legal arrangements. In fact, we still witness the first stage of integration — the stage of the free trade area formation. Formation of the Customs Union is far from being completed, as well as the formation of the co-ordinated or common policy in trade with third parties⁶¹.

3.4. EURASEC Potential and Prospects of its Development

The EURASEC covers an area of 20.4 million square kilometres (40% of the Eurasian continent) and unites countries with a population of almost 180 million, has a huge economic potential, developed production infrastructure, rich mineral and vast labour resources (the summarised indicators are presented in Table 3.3 “Some indicators of EURASEC member states”).

⁵⁹ Konstantinov A. EURASEC as the Engine of Post-Soviet Integration. – <http://www.strana.ru/print/1341146.html>.

⁶⁰ Isyngarin N. EURASEC: the Process Is On? – Kontinent, , No.11; <http://www.continent.kz/2002/11/07.html>.

⁶¹ For more details see: Hrynevych A. Frightening Attractiveness of the EURASEC. The Economic Consequences of Ukraine’s Accession. – Kompanyon, 2002, No.45, p.12.

Table. 3.3
Main economic indicators of EURASEC member states in 2004

	Population (mln)	GNI per capita	GDP (bln)	GDP real growth rate	Inflation	Unemployment	Debt - External (bln)
Kazakhstan	15,16	\$ 2.250	\$ 40,4	9,1%	6,9%	8%	\$ 32,4
Kyrgyzstan	5,13	\$ 400	\$2,4	6%	18%	3,2%	\$ 1,97
Tajikistan	7,15	\$ 280	\$2,1	10,5%	8%	40%	\$ 0.888
Russia	142,4	\$ 3.975	\$572,9	7%	10,8%	5,8%	\$ 214,5
Belarus	10,3	\$ 2.140	\$ 22,9	7%	17,4%	2%	\$ 0,6

Sources: The World Bank web site – <http://devdata.worldbank.org>

Accounting for approximately 2/3 of the CIS population and 3/4 of the employed⁶², the EURASEC countries produce more than 3/4 of the Commonwealth GDP, almost 3/4 of the industrial and 2/3 of the agricultural output. They account for almost 9/10 of the CIS retail trade turnover (Table 3.4 “Share of the EURASEC member states in the basic macroeconomic indicators of the CIS”).

Table. 3.4

Share of the EURASEC member states in the basic macroeconomic indicators of the CIS

	GDP	Industrial production	Agricultural production	Retail trade turnover	Foreign trade turnover
% of the CIS total					
Russia	73,3	58,5	53,7	81,1	40,7
Kazakhstan	5,3	4,0	5,7	3,5	9,5
Belarus	2,9	7,8	4,9	4,3	16,1
Kyrgyzstan	0,3	0,6	1,5	0,5	0,8
Tajikistan	0,2	0,4	0,7	0,3	1,0
EURASEC total	82,1	71,4	66,5	89,7	68,2

Source: Ziyadullayev N. Economy of the Commonwealth Countries in the Conditions of Globalisation. –

Voprosy Ekonomiki, 2002, No.3, CIS Statistics (Statistical Bulletin), February 2002, No.3 p.71.

⁶² Ukraine Statistical Yearbook 2001, p.571

At the same time, it should be noted that the EURASEC unites countries very different in their population, economic potential and the level of social and political development (Table 3.5 “Share of the EURASEC member states in the basic macroeconomic indicators of the Community”). Russia produces almost 9/10 of the aggregate GDP of the EURASEC, over 8/10 of the Community’s industrial and agricultural produce, accounts for 9/10 of its retail trade and almost half of the foreign trade.

Table. 3.5

Share of the EURASEC member states in the basic macroeconomic indicators of the Community

	GDP	Industrial production	Agricultural production	Retail trade turnover	Foreign trade turnover
% of the EURASEC total					
Russia	89,3	82,0	80,8	90,4	49,1
Kazakhstan	6,5	5,6	8,6	3,9	16,8
Belarus	3,5	10,9	7,3	4,8	31,9
Kyrgyzstan	0,4	0,9	2,3	0,6	1,0
Tajikistan	0,3	0,6	1,0	0,3	1,2

Source: CIS Statistics (Statistical Bulletin), February 2002, No.3, p.71

The substantial gap between the levels of social and economic development substantially hinders the possibilities for effective integration of the EURASEC.

The differences in the employment of labor force among the economies of the EURASEC member states are also too great (Table 3.6 “Distribution of the employed population by branches of the economy”). While in Belarus, 27,6% of the employed population works in industry, in Russia, that indicators makes up 23%, in Kazakhstan - 16%, Kyrgyzstan - 8%, Tajikistan - 7%⁶³. By contrast, in Tajikistan, the agriculture, forestry and fishing branches employ 65% of all the working population, in Kyrgyzstan - 54%, Belarus - 13,7%, Russia - 13%. The sphere of services accounts for 61% of all employed in Kazakhstan, 56% - in Russia, 51,8% - in Belarus, 36% - in Kyrgyzstan, 26% - in Tajikistan.

⁶³ Ukraine Statistical Yearbook 2001, p.572

The mentioned disproportion complicates the development of effective intra-branch ties - the basis of the economic integration - and requires co-ordinated restructuring of the member state economies.⁶⁴

Table 3.6

Distribution of the employed population by branches of the economy

	Industry (% of the employed population)	Agriculture (% of the employed population)	Sphere of services (% of the employed population)
Belarus	27,6	13,7	51,8
Kazakhstan	16,0	23,0	61,0
Kyrgyzstan	8,0	54,0	36,0
Russia	23,0	13,0	56,0
Tajikistan	7,0	65,0	26,0

Sources: Ukraine Statistical Yearbook 2001, Human Development Report 2002.

The shares of member states in mutual trade also differ. For instance, in 2001, Russia accounted for 57,1% of exports and 41,5% of imports of all of the EURASEC countries, Kazakhstan - 13,4% and 20,1%, respectively, Belarus – 28,0% and 35,7%, Kyrgyzstan - only 0,8% and 1.2%, Tajikistan - 0,8% and 1,5%.

The strong energy potential of the EURASEC presents one of the main factors of its development, but it is very unevenly distributed among the member states. The EURASEC countries produce almost all of the oil and gas, and over 8/10 of coal is produced and more than 8/10 of its electricity is generated in the CIS. However, in all the mentioned sectors, the lion's share belongs to Russia. Russia's power engineering branch alone operates 440 electric power stations connected by 2,5 million km of transmission lines, which also have export capacities (Table 3.7 "Production of the main produce of the energy sector by EURASEC member states").

⁶⁴ Human Development Report 2002; Ukraine Statistical Yearbook 2001

Table. 3.7

Production of the main produce of the energy sector by EURASEC member states

	Power generation Billion kWh	Production of oil (including gas condensate), million tonnes	Production of natural gas, billion m ³	Production of coal, million tonnes
Russia	888,0	348,00	581,00	269,00
Kazakhstan	55,3	39,70	11,60	79,00
Belarus	25,0	1,80	0,30	-
Kyrgyzstan	13,6	0,10	0,03	0,50
Tajikistan	14,6	0,02	0,05	0,02
Total EURASEC	996.5	389.62	592.98	348.52
% of total CIS production				
Russia	73,9	85,3	94,1	62,3
Kazakhstan	4,6	9,8	2,0	18,3
Belarus	2,1	0,4	0,0	-
Kyrgyzstan	1,1	0,0	0,0	0,1
Tajikistan	1,2	0,0	0,0	0,0
Total EURASEC	82,9	95,5	96,1	80,7
% total EURASEC production				
Russia	89,1	89,3	98,0	77,2
Kazakhstan	5,5	10,2	2,0	22,7
Belarus	2,5	0,5	0,0	-
Kyrgyzstan	1,4	0,0	0,0	0,1
Tajikistan	1,5	0,0	0,0	0,1

Source: Ukraine Statistical Yearbook 2001, pp.566-567

The EURASEC produces more than 2/3 of all rolled steel in the CIS, almost all trucks and cars, fabric, up to 9/10 of tractors, mineral fertilisers, chemical fibre and threads.

The EURASEC states also hold the lead position in the CIS agriculture and food industry. In particular, they account for over 2/3 of the production of grain, potatoes and vegetables, almost 2/3 – of fruits, half of sugar beets, 3/4 of meat and butter, dairy products, eggs, sugar, more than half of vegetable oil.

On the other hand, the EURASEC member states have obsolete systems of goods and services standardisation and certification; their legislation and infrastructure are unfavourable for the development of market competition and growth of the competitiveness of the national manufacturers⁶⁵.

For instance, Russia has implemented less than a third of all basic international standards and a tenth of the software quality standards. In Russia's oil and gas industry, so critical for its exports, only 14% of machinery and equipment meets world standards, some 60% of drilling rigs are obsolete. Experts believe that by 2005, no more than 60 million tonnes of Russian oil may appear competitive on the foreign markets⁶⁶.

By and large, Russia, being the leading EURASEC state, in 2002 occupied only the 58th place among 80 countries of the world in the microeconomic competitiveness index and 64th - in the growth competitiveness index⁶⁷.

All this hinders the development of the most up-to date sectors of the EURASEC economy.

3.4.1. Potential of the Development of Trade

In 2001, the EURASEC accounted for 73,4% of the total CIS exports and 63,4% of its imports; by the results of the first half of 2002, the relevant figures made up 65,4% and 61,9%, respectively.

Meanwhile, the ambiguous and contradictory effects of EURASEC membership on the development of mutual trade among the member states are striking (Tables 3.8 "Mutual trade

⁶⁵ For more detail see: Cherkasov A. The Role of the WTO in the Eurasian Economic Community Development Strategy. – Problemy Sovremennoy Ekonomiki, 2001, No.1, pp.67-73, <http://www.mpa.eurasec.ru/publ/new2htm>.

⁶⁶ Maryshev A., Cherkasov N. Modification of the Technological Fundamentals of the Economy and Eurasian Integration as the Dominants of economic Development in the 21st Century, pp.91-101.

⁶⁷ World Economic Forum. Global Competitiveness Report 2002-2003, p.5. – <http://www.weforum.org/site/homepublic.nsf/Content/Global+Competitiveness+Programme%5Creports%5CGlobal+Competitiveness+Report+2002-2003>.

of EURASEC member states in 2000-2002”, 3.9 “Share of EURASEC member states in mutual exports and imports in 2000-2002”, 3.10 “Exports of some member states to other EURASEC members”)⁶⁸.

Table. 3.8

Mutual trade of EURASEC member states in 2000-2002 (\$ million)

Country	Exports			Imports			Trade balance		
	2000	2001	2002*	2000	2001	2002*	2000	2001	2002*
Belarus	3.740,5	3.979,1	1.851,8	5.614,3	5.265,4	2.499,4	-1.873,8	-1.133,5	-647,6
			(1.939,2)			(2.582,3)			(-643,1)
Kazakhstan	1.900,0	1.901,7	778,2	2.535,5	2.971,7	1.214,5	-635,5	-1.070,0	-436,3
			(1.045,6)			(1.640,1)			(-594,5)
Kyrgyzstan	109,0	113,4	57,0	195,8	174,4	115,4	-86,8	-61,0	-58,4
			(58,4)			(72,6)			(-14,2)
Russia	7.963,3	8.120,6	3.647,2	6.240,4	6.115,5	2.817,1	1.722,9	2.004,1	830,1
			(4.149,1)			(3.181,9)			(967,2)
Tajikistan	268,9	111,2	62,0	197,4	226,8	139,1	71,5	-115,6	-77,1
			(84,0)			(132,2)			(-48,2)
Total	13.981,7	14.226,0	6.396,2	14.783,4	14.755,3	6.785,5			
			(7.276,3)			(7.609,1)			

*data of the 1st half of 2002; in brackets – data of 1st half of 2001

Source: CIS Statistics (Statistical Bulletin), February 2002, No.3, pp.71, 73-74.

Table. 3.9

Share of EURASEC member states in mutual exports and imports in 2000-2002 (%)

Country	Exports			Imports		
	2000	2001	1 st half of 2002	2000	2001	1 st half of 2002
Belarus	51,0	53,6	49,2	65,5	65,4	64,0
Kazakhstan	20,8	22,0	19,2	50,2	46,7	39,2
Kyrgyzstan	21,6	23,8	24,1	35,3	37,3	42,7
Russia	7,7	8,1	7,8	18,4	14,8	13,7
Tajikistan	34,3	17,1	17,0	29,2	33,0	35,7
Total	11,6	12,1	11,6	30,3	26,0	24,0

Source: CIS Statistics (Statistical Bulletin), February 2002, No.3, pp.71, 73-74. September 2002, No.17, pp.57, 60-61.

⁶⁸ CIS Statistic (Statistical Bulletin), February 2002, No.3, pp 73-74; September 2002, No.17, pp.57, 60-61.

Table. 3.10

Exports of some member states to other EURASEC members (\$ million)

		Importers				
		Belarus	Kazakhstan	Kyrgyzstan	Russia	Tajikistan
Exporters	Belarus	-	19,6*	4,0	3.714,5	2,4
			28,5**	7,1	3.941,0	2,5
	Kazakhstan	20,1	-	58,5	1.769,1	52,3
		4,9		87,1	1.748,4	61,3
	Kyrgyzstan	3,0	33,4	-	65,1	7,5
		3,2	39,4		64,5	6,7
	Russia	5.557,1	2.247,4	102,9	-	55,9
		5.249,3	2.719,5	82,6		69,1
	Tajikistan	1,7	5,7	2,7	258,8	-
		1,4	3,1	2,0	104,7	

*Data of 2000. **Data of 2001.

Source: CIS Statistics (Statistical Bulletin), February 2002, No.3, pp.71, 73-74. September 2002, No.17, pp.57, 60-61.

The analysis of the data presented in those Tables reveals the following tendencies.

The growth of mutual trade is slowing down, which may prove a limited potential for its development. While in 1996-2000, mutual trade among the five countries - members of the Customs Union, and later of the EURASEC - increased by 88%, in 2001 it grew in comparison to 2000, by only 0,8%, and in the first half of 2002 - it fell, compared to the same period of 2001, by 11,4%.⁶⁹

The share of mutual trade in the total foreign trade turnover of the EURASEC member states is decreasing. The trade turnover among the EURASEC countries in 2001 made up only 16,6% of their total foreign trade turnover (in 2000 - 17%), with the CIS countries - 24,5% (25%), with other countries of the world - 75,5% (75%).

Therefore, the shares of trade of the EURASEC states with the CIS and among themselves decrease. At that, their share in Community exports made up 12,1% (0.5% more than in 2000), in imports - 26% (4,3% less than in 2000).

⁶⁹ See: The EURASEC Secretary General Views Ukraine Optimistically. – Forum Internet publication, July 9, 2002. <http://www.for-ua.com/print.php>.

The first half of 2002 witnessed a further decline in the share of mutual trade: in exports - to 11,6%, in imports - to 24%. At that, the decrease in the share of EURASEC member states in Russia's trade - the core member of that union - is especially striking: in its imports, their share fell from 18,4% in 2000 to 14,8% in 2001 and further to 13,7% in the first half of 2002; in exports, after the growth from a meagre 7,7% in 2000 to 8,1% in 2001, it fell again to 7,8% in the first half of 2002.

This tendency points to the relative weakening of the integration tendencies, since "trade creation" within a union is considered one of the most important criteria of deepening regional integration. For instance, in the EU, the ratio of the intra-Union exports to its total exports made up 61.9% in 2001; in NAFTA - 55.5%⁷⁰.

The foreign trade of the EURASEC member states is mainly confined to trade relations with Russia that accounts for 99,0-99,3% of Belarus' exports to the Community; 91,9-93,1% - of Kazakhstan's and 94.2-96.2% - of Tajikistan's. Only Kyrgyz exports to Kazakhstan (30,6-34,4%) occupies a noticeable place in trade relations not connected with Russia (the latter accounts for 56,9-59,7% of the country's exports). Such a clearly bilateral approach to trade and economic relations shows that the interstate integration largely takes "unipolar shape" rather than ensure even participation.

The trade and economic relations within the EURASEC are developing very unevenly, which witnesses the poor synchronisation of the economic development of the Community member states. For instance, the foreign trade turnover between Tajikistan and the Community members in 2001 decreased by \$128,3 million (or more than a quarter); Belarus - by \$109,8 million; Kyrgyzstan - by \$17 million; of Kazakhstan - increased by \$437,9 million (almost 10%), of Russia - by \$33,4 million. At that, Belarus' exports to the EURASEC member states increased by 6,4%; Kyrgyzstan's - by 4%; Russia's - by 2%; Tajikistan's - decreased more than two-fold, and Kazakhstan's - actually remained unchanged. The lack of

⁷⁰ International Trade Statistics 2002. – <http://www.wto.org>.

synchronism points not only to the limited effectiveness of the multilateral co-operation mechanisms but also to the absence of the cumulative effect in the development of the union normally manifested in the event of successful integration.

The development of mutual trade within the EURASEC is clearly asymmetrical. Russia's exports to other countries in 2000-2001 substantially increased, while the exports of the other member states, with the exception of Belarus⁷¹, to Russia's market went down. Such a tendency caused the unfavourable situation where only Russia had a surplus in foreign trade with the EURASEC countries in 2001 (over \$2 billion - 16.3% more than in 2000), while the other Community members had a deficit: Belarus - of almost \$1.3 billion, Kazakhstan - over \$1 billion, Tajikistan - \$116 million, Kyrgyzstan - \$61 million. While in Belarus and Kyrgyzstan the trade deficit went down, in Kazakhstan, it substantially increased. Tajikistan reversed its surplus in 2000 into a deficit in 2001. To be sure, such asymmetry is not good for the creation of the balance of interests among the EURASEC member states.

The trade within the EURASEC is dominated by raw materials or semi-finished goods that do not create integration ties (i.e., steady structural intra-branch relationships). For instance, the lion's share of Kazakhstan's exports to Russia falls on mineral fuel (stone coal, crude oil and gas condensate, petroleum products), aluminium oxide and hydroxide, ore and concentrates, non-precious metals and articles thereof, wheat, cotton fibres⁷². The bulk (more than 50%) of Kazakhstan's exports to Tajikistan falls on crop products (wheat and wheat-rye mixture, wheat and wheat-rye flour), chemical and associated products. On the other hand, the share of fuel and energy resources supplied to Kazakhstan from the EURASEC member states made up 72% of the total imports of fuel and energy resources, 55% of metal, 44% of foodstuffs and raw materials for their production, 55% of chemical and associated products.

Its imports from Russia are dominated by the supplies of machines, equipment, transportation means, fuel and energy resources, chemical and metallurgical products. Russia

⁷¹ In the first half of 2002, Belarus' and Russia's exports to the EURASEC Decreased.

⁷² Foreign Trade of the Republic of Kazakhstan with the Customs Union Countries.
<http://www.kazstat.asdc.kz/reeliz/v-torg4.htm>.

is the main supplier of petroleum products, trucks and special-purpose cars, spare parts, dairy products, butter and vegetable fat to Kazakhstan. In 2001, the share of petroleum products, butter and vegetable fat imported from Russia made up 88% of all its imports, of electricity - 78%, confectionery made from sugar - 83%, chocolate - 97%, agricultural machinery - 76%, ferrous metals and articles thereof - 55%, hydraulic and vacuum pumps - 42%. Belarus exports trucks, refrigerators, various types of equipment, tires for cars, medicine to Kazakhstan. Kyrgyzstan supplies electricity, construction materials, and foodstuffs. The priority lines of co-operation between Russia and Kyrgyzstan are forestry, agriculture, the petrochemical and chemical industry, machine building, food and processing industry.

The investment potential of the EURASEC member states is rather uneven, as demonstrated by the indicators of foreign investments presented in Table 3.11 “Basic indicators of foreign investments for EURASEC member states”.

Table. 3.11

Basic indicators of foreign investments for EURASEC member states (\$ million)

Country	Foreign direct investments inflows by the country, \$			FDI inward stock		FDI outflows			FDI outward stock	
	1999	2000	2001	\$, 2001	% GDP, 2001	1999	2000	2001	\$, 2001	% GDP, 2001
Belarus	444	90	169	1412*	11,9	-	1	-	18*	0,2
Kazakhstan	1.468	1.278	2.760	12.647	54,8	4	10*	-28*	13**	0,1
Kyrgyzstan	44	-2	40*	459*	32,2	6	5	11*	44*	2,5
Russia	3.309	2.714	2.540	21.795*	7,7	2.208	3.208	2.618	14.412*	4,7
Tajikistan	21*	22*	22*	166*	14,5	---	---	---	---	---

* Estimate of the United Nations Conference for Trade and Development (UNCTAD).
** 2000.

Source: UNCTAD. World Investment Report 2002. – New York and Geneva: United Nations, 2002, pp. 305, 309, 316-317, 334-336.

The analysis of those indicators shows that only two members of the Community - Russia and Kazakhstan - possess a substantial investment potential. On the other hand, Russia is the only strong investor in the economies of other EURASEC member states.

Meanwhile, the statistical data of the volumes of mutual investments proves that the potential of mutual investment in the EURASEC is used very poorly. Belarus was the indisputable leader in the attraction of Russian investments in 2001 - over \$584 million; it is followed, with a huge gap, by Kazakhstan - \$3,64 million, Kyrgyzstan - \$11000, and Tajikistan - \$4000.⁷³

By the amount of investments into the Russian economy, Kazakhstan takes the lead with \$9,1 million, followed by Belarus (\$1,8 million). Kyrgyzstan managed to invest into the Russian economy only \$139000 and Tajikistan - \$6000.⁷⁴

The largest paradox in this context is presented by the amounts of Russian investments in Kazakhstan, for which the significance of the Russian investments is impaired by the strong presence of the Western capital in its economy. According to the Minister of Economy and Trade of Kazakhstan Zh.Kulekseyev, the amount of foreign direct investments into the country's economy in 2002 was approximately \$4,5 billion. According to his words, over the next 10 years investors are ready to invest over \$65 billion into the oil infrastructure of Western Kazakhstan.⁷⁵

The EURASEC stock market is undeveloped. As of the end of May 2002, the aggregate capitalisation of the stock markets of the Community member states made up a bit more than \$130 billion, or two and a half times less than in Taiwan. In 2001, the aggregate turnover of the state and corporate securities approached \$50 billion (Russia - 80% of the total amount, Kazakhstan - 17%, Belarus - 3%, Kyrgyzstan - less than 0,05%), which is four times lower than the turnover of the Finnish market (with a population of 5 million).⁷⁶

⁷³ The Kazakhstan Monitor, September 30, 2002.
<http://www.biscam.kz/news/business>.

⁷⁴ The Kazakhstan Monitor, September 30, 2002.

⁷⁵ In 2002, foreign direct investment into Kazakhstan's economy will total some \$4,5 billion. – <http://www.ru.net4cargo.../?show=news&category=economy&id=113>.

⁷⁶ Zakharov A. The EURASEC Markets on the Road to Unification. – Izvestiya, July 5, 2002.
http://www.wto.ru/press.asp?msg_id=2375.

Over the past three years, only a bit more than a hundred issuers in all the EURASEC member states offered their securities to the market, although the number of joint-stock companies in those countries hits half a million. And the total number of the issuers whose securities are circulated on the organised domestic capital markets does not exceed 1500. The markets of secondary financial instruments in the EURASEC countries remain small. The aggregate turnover of the market of futures and options of the Community member states in 2001 made up less than \$700 million, which according to expert assessments, is approximately 200 thousand times less than the similar indicator of the EU countries. As a result, investors actually have no real possibilities to insure their financial risks.⁷⁷

The situation with the domestic currency markets is not much better. In 2001, their aggregate turnover barely exceeded \$1,8 trillion, with over 97% of that amount falling on Russia. In Kazakhstan, the currency market capacity made up \$20 billion; in Belarus - approximately \$4 billion; in Kyrgyzstan - \$100 million. Although the volume of the mutual trade among the EURASEC member states increased compared to 2000 by 6% and reached \$30,5 billion, the share of the national currencies in its servicing does not exceed 5-10%.⁷⁸

The main general problems faced by all financial markets of the EURASEC without exception are: actual mutual inconvertibility of national currencies, weak involvement of financial markets in investing, insufficient depth and low liquidity of the financial markets, limited range of the available financial instruments.

3.4.2. Obstacles for the Effective Employment of EURASEC Potential

The use of the potential present in the EURASEC is hindered by a number of problems in the relations among the member states that, in addition to the above mentioned problems in the development of mutual trade and investments, include the following.

⁷⁷ Zakharov A. (Izvestiya, July 5, 2002)

⁷⁸ Zakharov A. (Izvestiya, July 5, 2002)

Significant differences in the views of EURASEC priorities. For instance, at the meeting of the Interstate Council in September, 2002:

- Belarus spoke out for the expansion of the Basic List of the common customs tariff;
- Kazakhstan believed that it is important to take measures for the removal of obstacles in mutual trade, referring, in particular, to the breach of agreements in non-application of antidumping measures;
- Kyrgyzstan raised the issue of a multilateral agreement of labour migration and cancellation of the permissive system of cargo transit;
- Russia stands for the common customs tariffs and taxation rates, creation of conditions for mutual investments, development of the common energy balance (after the pattern of Russia-Belarus relations);
- Tajikistan proposed concrete investment projects and cares about the soonest formation of the Transport Union.⁷⁹

Unsatisfactory implementation of the reached agreements. Since the signing of the Treaty establishing the Community, it has been developing on the background of repeated non-execution of many agreements. As of the beginning of March 2002, nearly a third of the international treaties concluded within the framework of the Customs Union that formed the basis of the Community were not ratified. Many of them were not even submitted for ratification to national parliaments. This hinders the process of harmonisation of the legislation of the EURASEC member states⁸⁰.

According to Kazakhstan's Prime Minister I.Tasmagambetov, out of the 55 international treaties passed within the framework of the Customs Union, 40 entered into force. Only nine of them are implemented in full volume, 23 - partially, seven - not implemented at all⁸¹.

⁷⁹ Isyngarin N. EURASEC: the Process is On? – Kontinent, 2002, No.11.
<http://www.continent.kz/2002/11/07.html>.

⁸⁰ An international seminar for legal support for the Eurasian Economic Community was held.
<http://www.akdi.ru/sf/prb55/6.htm>.

⁸¹ Problems of Economic Interaction of the EURASEC Member States.
<http://www.kazaag.kz/showarticle3.php?id=11808>.

Quite often, ministries, agencies and other structures of power do not fulfil the decisions adopted on the highest level. For instance, for several years now, decisions have been taken on the unification and levelling of railway fares in the EURASEC member states, but the Ministry of Railways of Russia is not receptive of those proposals. For nearly four years, Kazakhstan and Belarus have failed to ratify the agreements of road traffic and streamlined cargo movement procedures, since the transport ministries of those countries oppose them. Power engineers of the five countries seek a co-ordinated decision on customs clearance and customs control of electricity transmitted among the EURASEC member states, but the Russian customs officers do not even want to hear about that⁸².

Contradictions in trade policy issues. The temptation to defend domestic manufacturers against imports from other EURASEC member states increases with the toughening of competition on the markets of similar goods. In particular, the practice of application of special safeguard, antidumping and countervailing measures in the relations among the member states continues.

Despite the process of the formation of a single economic space, Russia applies a discriminatory regime of levying VAT on gas, oil and gas condensate exported to the EURASEC member states. Pursuant to the Federal Law “On Ratification of the Treaty of the Customs Union and Single Economic Space” of May 22, 2001⁸³, in relations with the EURASEC countries (with the exception of Belarus) since July 1, 2001, Russia has employed the principle of exacting indirect taxes in the “country of destination” (with the exception of oil, gas condensate and natural gas): gas, oil and gas condensate exported from Russia to the Community member states bear VAT in the amount of 20%. Similar Russian exports to the “far abroad” and the Baltic States do not bear a VAT.⁸⁴

⁸² Isyngarin N., (Kontinent, 2002, No.11)

⁸³ Federal Law “On Ratification of the Treaty of the Customs Union and Single Economic Space” of May 22, 2001.

⁸⁴ Isyngarin N., (Kontinent, 2002, No.11)

Restrictive measures in cargo transit. Russia's central executive bodies resort to actions that hinder growth of the transit cargo traffic across the EURASEC countries, support competing projects that may lead to the loss of part of the traffic on the routes lying across their territory.

Numerous covert barriers in trade, caused, in particular, by the lack of transparency of the decisionmaking processes in the national customs policy, frequent changes of customs tariffs and procedures, excessive complexity of the procedures of customs bodies, and a high corruption rate⁸⁵.

⁸⁵ For more details see, in particular: Cherkasov A. The Role of the WTO in the Eurasian Economic Community Development Strategy. – Problemy Sovremennoy Ekonomiki, 2002, No.1, pp.67-73.

CONCLUSIONS

Regional integration has been on the research agenda of economists at various times over the past sixty years. Actual economic problems, which can not be solved by separate country itself, necessitate integration today. In today's market individual countries do not compete each other, but rather multinational formations with specific principles of cooperation. Under conditions of globalization, regional and sub-regional integration tends to become a prevailing trend in all countries under the pressure and demands of several actors including corporate bodies, business firms, etc. Growing globalization and internalization of production, deepening of international labor division make the traditional politics of supporting the free competition of separate countries inefficient. Generally, globalization and integration are the objective and interrelated processes, which will define the world economic development in nearest decade. Here, if regional economic integration for leading countries is the way of rallying and unification of efforts with the aim to reserve the certain dictates in world economy. Then, regional integration for developing countries is actually the possibility to resist the negative consequences of world globalization and dictates from the side of world leading countries. Nowadays no one country can individually resist the tough competition in the world market. This urges forward the search of new forms of international interaction, which would provide the development stability of separate countries in the system of world economy. One of such forms is the integration of countries into the different kinds of intergovernmental unions, including the large-scale regional economic complexes with the total territory, the apparatus of management, financial system, economy, citizenship and foreign policy. It is the reality of the 21st century that in addition to nations, cross-border structures and unions – such as the EU, WTO – have turned into key players and forces on the international scene. Their influence has spread to cover the global infrastructure of finance, communications and transport.

The regional economic integration is not only the way of to cope with the competition of world economy, but also protection from the economic expansion supporting by the

globalization. This is the method of provision of stability and self-dependence of development of each country.

The first chapter of this work is focused on economic explanation of regional integration, particularly the main economic explanation – the customs union theory, which seeks to understand the welfare implications of integration in terms of trade creation, trade diversion, and also the main preconditions for successful integration.

The second part of this study is dedicated to the integration processes in Central Asia, particularly the main features, problems and prospects of integration in this region. The reality of globalization shows that, no country in the world today can operate a closed market. Countries can not control unilaterally the resources like water and air, and they depend on each other for technological advances. Paradoxically, in the immediate post-Soviet period, the mode of inter-state relations among the Central Asian states contrasted with tendencies elsewhere towards integration and multilateral cooperation. While regionalization and globalization were gaining ground around the world, linking industrialized and developing countries, Central Asian states moved towards less dependent, more self-sufficient development. Looking at Central Asia, we can see, at present that the countries are taking different routes – i.e. Uzbek model is very different from the Kyrgyz model.

Like in many other parts of the post-soviet area, the national and state identities of the Central Asia societies have not taken its final shape yet. Since the disintegration of the former USSR in 1991 the Central Asia has been witnessing the processes of transformation of the socio-political, ideological and economic order. This relates to gradual braking with the rigid vertical, i.e. the orientation at the former Center, and searching for new development and security opportunities in relations with other countries of the world. Central Asia region includes and is surrounded by a number of important regional powers and has considerable geopolitical importance. Unfortunately, regional and global rivalries in the recent past tended to hold the region back and have caused instability. This provides an important background for greater regional cooperation. The prospects for turning the wider Central Asia region once again into a land bridge on the Eurasian continent will thus depend on collaboration not just

among the countries of the region themselves, but among the region's important neighbors as well. Geopolitical uncertainty of the region provided certain opportunities for such countries as Iran, China, India, Turkey, etc., which were looking for their own way to maintain stability in the region and expand their regional influence. Central Asian states have chance to choose their strategic and economic partners among several powers. So it means that no one can force to fulfill or follow certain economic, foreign and trade policies. It will depend on states' own interests and will and this will lead them to make right choice, which will provide economic prosperity, social welfare and healthy, well-planned foreign policies.

Regional integration is the opportunity for the new independent countries of the Central Asia, whose economies had been in the part of powerful common national economic complex of the USSR, to take their place in world economic community. The economic integration of Central Asian countries is the objective and natural process, conditioned by the national interests of each country of the region. The lost of vital economic and social links after the dissolution of the USSR resulted in falling of economic indicators, low levels of growth and a region-wide degradation of society. It is obvious that, the necessity of economic integration in the region is mostly based on deep interdependence and mutual supplementation of economies of countries, since the Central Asian countries are intimately connected with one another. All five countries have large ethnic minorities, including those who are titular majorities in neighbouring states. Some countries also have territorial enclaves within their borders that belong to other countries. Tajikistan and Uzbekistan both import and export electricity to and from one another. The water that irrigates cotton fields in Uzbekistan and Turkmenistan flows from rivers whose headwaters rise in Tajikistan and Kyrgyzstan. Few parts of the world need regional cooperation as much as Central Asia does. In some ways, the importance of regional cooperation has been recognised by the Central Asian leaderships since the creation of their new nation states.

Among the most essential factors promoting an intensification of interstate economic attitudes and integration communications of Central Asian states, it is possible to allocate the following. Firstly, favourable geographical position of region on the Eurasian continent, on a boundary of East and West. It is well known that, the geographical proximity is one of the

main preconditions that push the countries to cooperate. We should not forget that, geographical proximity and shared historical experiences and cultural affinity were the most important factors of the success of the European integration. Second, significant stocks of mineral-raw resources, the same soil-climatic conditions, favourable for development of agriculture as a raw-material base of a process industry. Third, high and steady rates of reproduction of the population and a qualified workforce, which, according to calculations of demographers, will be kept in the long term, that will lead to growth labour provision of the economy, and in case of increase of a preparation level of the national staff of workers and experts it will open the big opportunities for fast and effective escalating an export potential. Fourth, dynamic aspect of economic integration will lead to a deeper integration of these economies into the world economy. Fifth, regional integration in Central Asian will open the gates to the market of its members to each other, since the formation of the integration union allows union producers to more fully exploit economies of scale, thus leading to lower prices and higher consumption

In the mid-1990s, recognition among Central Asian leaders of the importance of mutual relations was demonstrated clearly by attempts to secure interests through participation in the CIS, by signing of agreements between Kazakhstan, Kyrgyzstan and Uzbekistan, and etc. Clearly, Central Asian states have been searching for a new collective mechanism to deal with shared challenges, and there is no yet any single predominant pattern of integration overwhelmingly supported by all leaders. However the formation of Eurasian Economic Community encompassing Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan, if realized, will have a profound effect on other Central Asian states. The EURASEC countries are part of a unified economic area with its common historical and cultural roots. In addition to the same history and cultural links, there are necessary transport corridors and communication lines, which are the great advantage for an integration to succeed.

The third section analyzes the most advanced integration association in the post-Soviet area the EURASEC. The formation of Eurasian Economic Community encompassing Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan, if realized, will have a profound effect on not only the other Central Asian states, but also on other countries of the post-Soviet area. All of

them are part of a unified economic area with its common historical and cultural roots. The establishment of the EURASEC implemented the principles of the Eurasian Union project proposed by the President of Kazakhstan N.Nazarbayev as far back as 1994. However, politically, the Customs Union transformation into the EURASEC should largely be owed to V.Putin's coming to power in the Russian Federation, who stepped up Russia's efforts aimed at economic and political consolidation of the post-Soviet countries.

Taking into consideration that, the Russia's role in Central Asia is particularly important: in addition to its profound historical and cultural influence, Russia is the region's largest single export market, main supplier of foreign investment, and provider of remittance income, the landlocked countries of Central Asia must have tight economic and trade relations both with each other and with other partners from EURASEC. There is a prediction that, the success of the EURASEC will inevitably attract the neighboring countries (Uzbekistan, Ukraine, etc.), because they can not afford the costs of staying outside the union. The similar things had place in the EU development, when the success of the EU at early stages of its formation had a demonstration effect on other European states. The demonstration effect is the psychological influence of the success of integration to other non-member states, and finally the joining of them to the union, like it was in case of the UK and other European countries that initially were reluctant to join the EU.

Taking into account the incomparability of potentials, economic development levels, and perfection of mechanisms of regulation of the integration processes of countries of Western Europe with those of Central Asia, it is nevertheless possible to find out some similarities and differences between the European Union and the economic cooperation within the EURASEC. The basic organisational structures in charge of the process of integration have generally been formed within the EURASEC. However, the EURASEC bodies so far have no 'supranational functions' (as is the case in the EU). There is some imbalance between the bodies in charge of interaction on the central state level and on the sector (branch) level. The process of integration within the EURASEC has no adequate input from the real sector of economy, or the financial system.

The EURASEC's economic potential shows a slow upward trend, but its dynamic and structural indicators failed to become the factors of effective development of integration ties. Moreover, proceeding from the indicators of mutual trade and investments, integration processes in the Community were not decisive for economic growth in its member states. The EURASEC possesses a strong development potential, the reach energy resources being one of its main factors. However, almost 9/10 of the aggregate EURASEC GDP, over 8/10 of the Community's industrial and agricultural output, 9/10 of its retail trade and almost half of the foreign trade fall on Russia. The substantial gap between the levels of social and economic development substantially hinders the possibilities for effective integration of the EURASEC. The macro-structural differences among the economies of the EURASEC member states are also too great for successful integration.

The use of the available EURASEC potential is hindered by a number of problems in relations among the EURASEC member states, the main of them being: significant differences in the views of the EURASEC priorities; contradictions in trade policy issues, caused by the spread practice of special safeguard and antidumping measures; unsatisfactory implementation of the reached agreements; preservation of restrictive measures at cargo transit; numerous covert barriers in trade. The other problems deserving attention are the that, most of them (especially some Central Asian states and Belarus) are authoritarian systems, and they do not lend themselves to majority voting for union decisions. Decentralization does not exist anywhere in Central Asia – the systems remain extremely centralized with nearly all decisions made by the highest levels of government. The lack of transparency in governing methods leads to a lack of predictability, which in term greatly reduces the potential benefits of integration. It also limits the levels of trust between governments that is essential for a successful integration.

Therefore, despite the identification of the formal parameters and the presence of the potential of growth in the EURASEC, its future is not quite clear. The political steps made did not result in the economic growth of the Community member states and its integral qualities as an international actor.

There are two scenarios for further development of the EURASEC. The first of them envisages the accumulation of achievements in the economic and legal spheres on the macro and microeconomic levels. Economies will become much more homogeneous at a fast rate. This will bring a cumulative effect leading to the acceleration of and increase in the Community integration processes, and strengthening of the centripetal forces in the CIS. Under the second scenario, if the mentioned processes develop slowly, one should expect erosion of the Community instead of the appearance of the cumulative effect.

Despite such obstacles, the EURASEC countries have a window of opportunity to continue the process of creating a common economic and social space through cooperation and integration. It is clear that significant gains could accrue to all the Central Asian economies as a result of regional economic cooperation. Therefore, mutual readiness for cooperation and genuine respect for each other's interests, the strong political will of member states, willingness to share decision making, ability to wait for the benefits, support of various policy actors, and also respect of the responsibilities and obligations of them must become major criterion of regional integration between Russia and its Central Asian partners. The EURASEC has the opportunity to become a hub of the integration processes taking place in the post-Soviet area. However, to realize this opportunity, the Central Asian countries will need to deepen cooperation to create conditions that will allow the region to flourish as a peaceful and prosperous area and attract the investment.

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APPENDICES

TREATY Establishing the Eurasian Economic Community*

*This Treaty is ratified by all the member nations and entered into force on May 30, 2001.

Ratified

By Federal Law No. 56-FZ

Dated May 22, 2001

The Republic of Belarus, Republic of Kazakhstan, Kyrgyz Republic, Russian Federation and Republic of Tajikistan, hereinafter referred to as the Contracting Parties,

Moved by the will to ensure its dynamic development by way of agreeing on the social and economic reformations being carried out under efficient use of economic potentials to improve the life level of its nations;

Determined to promote the efficiency of interaction in order to develop integration processes between them and extending mutual cooperation in various fields;

Aware of the necessity to coordinate approaches in integration into the world economy and international trade system;

Expressing their readiness to perform obligations in full extent undertaken under the Agreement on the Customs Union between the Russian Federation and Republic of Belarus dated January 6, 1995, Agreement on the Customs Union dated January 20, 1995, Treaty on extending integration in economic and humanitarian fields dated March 29, 1996 and the Treaty on the Customs Union and a Single Economic Space dated February 26, 1999;

Affirming its adherence to the principles contained in the UN Charter as well as to generally accepted principles and norms of international law,

Have agreed as follows:

Article 1

Establishment of the International Organization

The Contracting Parties hereby establish the international organization Eurasian Economic Community (hereinafter the EURASEC).

The EURASEC has powers voluntarily vested in it by the Contracting Parties according to the provisions of this Treaty. The Contracting Parties remain sovereign and equal subjects of international law.

Article 2

Aims and Objectives

The EURASEC is established for efficient promotion of the Customs Union under formation and a Single Economic Space by the Contracting Parties as well as the implementation of other aims and objectives determined in said Agreements on the Customs Union, Treaty on extending integration in economic and humanitarian fields and Treaty on the Customs Union and a Single Economic Space according to the phases outlined under the documents referred to above.

The treaties, which the Contracting Parties have entered into previously, as well as decisions of the integration governing bodies, shall continue to be effective in part, which is in line with this Treaty.

Article 3

Bodies

Ensuring the succession of the integration governing bodies established previously by the Contracting Parties, in order to perform aims and objectives under this Treaty there shall act under the EURASEC:

Interstate Council;

Integration Committee;

Interparliamentary Assembly (IPA);

Community Court.

A decision to terminate the activities of the integration governing bodies established under the Treaty on extending integration in economic and humanitarian fields dated March 29, 1996 and Treaty on the Customs Union and a Single Economic Space dated February 26, 1999 shall be taken by the Interstate Council.

Article 4

Presidency

The presidency at the Interstate Council and Integration Committee shall be exercised alternately following the Russian alphabetical order by each member nation of the Community during one year.

The order for the presidency at the other Community bodies shall be regulated under appropriate provisions.

Article 5

Interstate Council

The Interstate Council is the supreme governing body of the EURASEC. It comprises the heads of states and government heads of the Contracting Parties.

The Interstate Council shall consider the key issues of the Community associated with common interests of the member nations, determine the strategy, lines and perspectives for the development with respect to integration and make decisions aimed at the execution of tasks and objectives of the EURASEC.

The Interstate Council shall issue commissions to the Integration Committee, apply with questions and recommendations to the Interparliamentary Assembly, with questions to the Community Court.

The Interstate Council, by its decisions, may establish subsidiary bodies of the Community.

The Interstate Council shall meet on the level of the heads of the states at least once a year and on the level of government heads at least two times in a year. The meetings shall be held under the guidance of a representative of the Contracting Party presiding at the Interstate Council.

The functions and procedures for activities of the Interstate Council shall be determined under the Regulation to be approved by the Interstate Council on the level of the member nations heads to the EURASEC.

Article 6

Integration Committee

The Integration Committee is a standing body of the EURASEC.

1. Major objectives of the Integration Committee:

Ensure interaction of the EURASEC bodies;

Preparation of proposals on the agenda for the Meetings of the Interstate Council and level on which they are to be conducted as well as draft decisions and documents;

Preparation of proposals with respect to formation of the EURASEC budget and control for its performance;

Control over the implementation of decisions approved by the Interstate Council.

In order to implement its objectives the Integration Committee:

Take decisions within its competence determined under this Treaty as well as delegated to it by the Interstate Council;

Annually submit to the Interstate Council a report on the state of affairs in the Community and progress of execution with respect to its aims and objectives as well as on the performance of the EURASEC budget;

Examine measures aimed at the accomplishment of the Community aims, including execution of appropriate treaties and pursuance of single policy on certain issues by the Contracting Parties and draft appropriate proposals;

May apply to the Interstate Council with recommendations, with recommendations and questions to the Interparliamentary Assembly and governments of the Contracting Parties, with questions to the Community Court.

2. The Integration Committee comprises deputies government heads of the Contracting Parties. The Chairman of the Integration Committee takes part in the Interstate Council meetings.

The meetings of the Integration Committee shall be held at least one time in three months.

In the period between the meetings of the Integration Committee the day-to-day activities of the Community shall be supported by the Committee of permanent representatives (Permanent representatives) of the Contracting Parties under the EURASEC designated by the member nations heads.

3. Arrangement of activities and information and technical support of the Interstate Council and Integration Committee shall entrusted to the Secretariat of the Integration Committee (Secretariat).

The General Secretary heads the Secretariat, who is appointed by the Interstate Council upon nomination of the Integration Committee for the office of three years.

The General Secretary shall be the supreme administrative executive of the Community, participate in the meetings of the Interstate Council and Integration Committee.

The Secretariat shall be formed from among nationals of the member nations based on quotas taking into account shared contributions of the Contracting Parties to the Community budget and contracted persons under employment contracts.

In exercising his official duties the General Secretary and the staff of the Secretariat shall not request or get instructions from any Contracting Party or external authority, which is outside for the Community. They shall refrain from any actions, which may affect their status as international executives reported only to the EURASEC.

The Contracting Parties shall undertake to respect international nature of the duties vested in the General Secretary and the staff of the Secretariat and do not attempt to exercise pressure in respect of the same in their exercising of official duties.

The functions and procedures for activities within the Integration Committee shall be determined under the Regulation approved by the Interstate Council.

Article 7

Interparliamentary Assembly

The Interparliamentary Assembly shall be the body of inter-parliamentary co-operation within the EURASEC examining the issues on harmonization (approximation, unification) of national laws of the Contracting Parties and bring them into conformity with treaties executed within the EURASEC in order to implement the Community objectives.

The Interparliamentary Assembly shall be formed from the parliamentarians delegated by the parliaments of the Contracting Parties.

Within its competence the Interparliamentary Assembly shall:

Develop the Fundamentals of legislation in the key spheres of legal relations subject to consideration by the Interstate Council;

Approve standard drafts to be used in making acts of national legislation;

May apply with recommendations to the Interstate Council, questions and recommendations to the Integration Committee, parliaments of the Contracting Parties, with questions to the Community Court.

The Regulation on the Interparliamentary Assembly shall be approved by the Interstate Council.

Article 8

Community Court

The Community Court shall ensure a unified application of this Treaty by the Contracting Parties as well as other treaties effective within the Community and decisions taken by the EURASEC bodies.

The Community Court shall also consider disputes of economic nature arising out between the Contracting Parties on the issues with respect to the implementation of decisions taken by the EURASEC bodies and provisions of the treaties effective within the Community, give clarifications as well as issue opinions.

The Community Court shall be formed from among representatives of the Contracting Parties in the number of not more than two representatives from each Contracting Party. The arbitrators shall be appointed by the Interparliamentary Assembly upon nomination of the Interstate Council for the office of six years.

Arrangement and procedures for activities of the Community Court shall be determined under its Statute approved by the Interstate Council.

Article 9

Membership

The admission to the EURASEC shall be opened for any state, which undertakes obligations arising out of this Treaty and other effective treaties within the Community according to the list determined under the decision of the Interstate Council, and which, by the opinion of the EURASEC members, may and intend to honor such obligations.

Either Contracting Party may withdraw from the EURASEC provided that they have settled their obligations before the Community and its members and forwarded an official notification on withdrawal from this Treaty to the Integration Committee at least twelve month prior to such withdrawal. Termination of the membership will be executed in the current budget year, if such notification was forwarded prior to approval of the budget by the Community for the coming budget year. If a notification is forwarded after the budget has been approved for the coming year, then termination of such membership shall be effective in such coming budget year.

Participation in activities of the EURASEC bodies of the Contracting Party, which is in breach of the provisions hereunder and/or treaties effective within the Community may be suspended by decision of the Interstate Council. If such Contracting Party continues to be in breach of its obligations, the Interstate Council may approve the decision on expulsion it from the Community from the day to be determined by the Interstate Council.

Article 10

Observers

The EURASEC observer status may be granted to any state or international interstate (intergovernmental) organization if it applies for it with an appropriate request.

Decisions on granting, suspension or cancellation of the observer status shall be taken by the Interstate Council.

Article 11

Legal Capacity

The EURASEC shall enjoy legal capacity required for the implementation of its aims and objectives on the territory of each Contracting Party.

The EURASEC may establish relations with states and international organizations and enter into treaties with the same.

The EURASEC shall enjoy the rights of a legal entity and for accomplishment of its aims and objectives may, namely:

- enter into agreements;
- acquire property and dispose thereof;
- appear before the court;
- open accounts and execute operations with the funds.

Article 12

Seat of the Bodies

The seat of the Integration Committee shall be the city of Astana (Republic of Kazakhstan) and Moscow (Russian Federation).

The seat of the Interparliamentary Assembly shall be the city of Saint-Petersburg (Russian Federation).

The seat of the Community Court shall be the city of Minsk (Republic of Belarus).

By the decision of the Interstate Council, Representative offices of the Integration Committee may be opened in the member nations of the Community.

Article 13

Procedure for Decision-Making

The Interstate Council shall approve all decisions by consensus, except for decisions on suspension of the membership or expulsion from the Community, which shall be rendered according to the principle ‘consensus minus vote of the Contracting Party concerned’.

Decisions shall be made by the majority of two thirds of votes at the Integration Committee. If four Contracting Parties voted for approval of a decision, and it failed to be supported by the majority of two thirds of votes than the issue shall be referred to the Interstate Council. The number of votes held by each Contracting Party shall be proportioned with its shared contribution to the Community budget, making:

Republic of Belarus – 20 votes;

Republic of Kazakhstan – 20 votes;

Kyrgyz Republic – 10 votes;
 Russian Federation – 40 votes;
 Republic of Tajikistan – 10 votes.

Article 14

Performance of Decisions

Decisions of the EURASEC bodies shall be performed by the Contracting Parties by approving necessary national regulatory acts according to national laws.

The Community bodies shall, within their competence, exercise control over the performance of the obligations undertaken by the Contracting Parties to implement this Treaty, and other effective treaties and decisions within the Community.

Article 15

Financing

Financing of the EURASEC bodies shall be made from the Community budget.

The Community budget shall be drawn up by the Integration Committee for each budget year upon consent with the member nations and be approved by the Interstate Council.

No deficit shall be possible under the Community budget.

The Community budget shall be formed at the account of shared contributions made by the Contracting Parties according to the following scale:

Republic of Belarus – 20%;

Republic of Kazakhstan – 20%;

Kyrgyz Republic – 10%;

Russian Federation – 40%;

Republic of Tajikistan – 10%.

The budgetary funds of the Community shall be used for:

Financing of the activities of the EURASEC bodies;

Financing of joint operations of the Contracting Parties held within the Community;

Other purposes, which are in line with the provisions of this Treaty.

If the indebtedness of either Contracting Parties before the EURASEC budget exceeds the amount equal to its annual shared contribution, it may be deprived of the voting right at the Community bodies by decision of the Interstate Council until the indebtedness has been paid up in full. The votes held by it shall be allocated between the remaining Contracting Parties in proportion to their shared contributions to the Community budget.

Article 16

Privileges and Immunities

The Community and its executives shall enjoy privileges and immunities, which are required to perform the functions and to achieve the aims provided for under this Treaty and treaties effective within the EURASEC.

The scope of privileges and immunities vested in the Community and its executives, staff of the Secretariat and Representatives of the Integration Committee as well as the Permanent Representatives of the Contracting Parties under the Community shall be regulated under separate documents.

Article 17

Working Language

The working language of the EURASEC shall be Russian.

Article 18

Validity and Entry into Force

This Treaty shall be entered into for unlimited period.

This Treaty is subject to ratification by the Contracting Parties and enters into force as of the day the last notification has been delivered to the depositary, which is the Integration Committee, on the execution of national procedures required for entry the same into force.

The Parties shall bring their national laws in line with the provisions hereunder, if it is necessary.

Article 19

Changes and Amendments

This Treaty may be changed and amended, such changes and amendments shall be executed under a separate Protocol by the Parties, making an integral part to this Treaty.

Article 20

Registration

According to article 102 of the UN Charter this Treaty is subject to registration with the Secretariat of the United Nations.

Executed in Astana this 10th day of October, 2000 in one original in the Belarus, Kazakh, Kyrgyz, Russian and Tadjik languages, all the texts being equally in force. If differences arise between the Parties with respect to the texts of this Treaty, the text in Russian shall be controlling to the Contracting Parties.

The original of the Treaty is deposited in the archives of the Integration Committee, which shall transmit its certified copy to each Contracting Party.

(Signatures)