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Edited by Evgeny Vinokurov



Eurasian Development Bank

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The Eurasian Development Bank is an international financial institution established to promote economic growth and integration processes in Eurasia. The Bank was founded by the intergovernmental agreement signed in January 2006 by the Russian Federation and the Republic of Kazakhstan. In April 2009 Armenia has completed all the admission procedures and became the third full member of the Bank. Next, in June 2009 Tajikistan joined the Bank. The Agreement on Establishing the Eurasian Development Bank has come into force for Belarus, it is in the process of finalising the required admission procedures. Electric power, water and energy, transportation infrastructure and high-tech and innovative industries are the key areas for Bank's financing activity.

As part of its mission the Bank carries out extensive research and analysis of contemporary development issues and trends in the region, with particular focus on Eurasian integration. The Bank also hosts regular conferences and round tables addressing various aspects of integration. In 2008, the Bank launched an annual EDB Eurasian Integration Yearbook (in English) and quarterly Journal of Eurasian Economic Integration (in Russian). Both publications are available online at www.eabr.org. The Bank's Strategy and Research Department publishes detailed Industry and Country Analytical Reports and plans to undertake a number of research projects. The EDB System of Indicators of Eurasian Integration has become the first project in the pipeline.

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Eurasian Integration Yearbook 2010

Annual publication of the Eurasian Development Bank

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Abbreviations

ACDE – Association of Central Depositories of Eurasia
 ADB – Asian Development Bank
 ASEAN – Association of South East Asian Nations
 CA-4 – the four Central Asian states: Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan
 CAREC – Central Asia Economic Cooperation Program
 CES – Common Economic Space
 CIS – Commonwealth of Independent States
 CIS IASE – International Association of Stock Exchanges of the CIS
 CMEA – Council for Mutual Economic Assistance
 CRRF – Collective rapid response force
 CST(O)- Collective Security Treaty (Organisation)
 CU – Customs Union
 DFIs – development finance institutions
 EBRD – European Bank for Reconstruction and Development
 EC – European Community
 ECA – Europe and Central Asia
 EDB – Eurasian Development Bank
 EIB – European Investment Bank
 ETS – Eurasian Trade System
 EU – European Union
 EurAsEC – Eurasian Economic Community
 EurAsEC-3 – the three largest EurAsEC countries: Russia, Kazakhstan and Belarus
 EurAsEC-5 – the five members of EurAsEC: Russia, Kazakhstan, Kyrgyzstan, Belarus and Tajikistan
 FDI – foreign direct investment
 FSTS – Ukrainian First Stock Trading System
 FSU – former Soviet Union states
 FTA – free trade agreement
 GDP – gross domestic product

GUAM – Georgia, Ukraine, Azerbaijan and Moldova
IBRD – International Bank for Reconstruction and Development
IDA – International Development Association
IDB – Islamic Development Bank
IERA – Independent Environmental Rating Agency
IFC – International Finance Corporation
IFI – international financial institutions
IMF – International Monetary Fund
IOSCO – International Organisation of Securities Commissions
IPA – Inter-Parliamentary Assembly of the CIS
IWRM – Integrated Water Management System
KASE – Kazakhstan Stock Exchange
MDBs – Multilateral Development Banks
MEDT – Ministry for Economic Development and Trade
MFA – Ministry of Foreign Affairs
MFN – most favoured nation
MICEX – Moscow Interbank Currency Exchange
MIGA – Multilateral Investment Guarantee Agency
NIS – Newly Independent States
OECD – Organisation for Economic Cooperation and Development
OSCE – Organisation for Security and Cooperation in Europe
RF – Russian Federation
RTA – Regional trade agreements
SCO – Shanghai Cooperation Organisation
SCO RATS – Shanghai Cooperation Organisation Regional Antiterrorism Structure
SES – Single Economic Space
SIEI – EDB's System of Indicators of Eurasian Integration
UN – United Nations
UN ECE – United Nations Economic Commission for Europe
UNFCCC – United Nations Framework Convention on Climate Change
USRB – Union State of Russia and Belarus
WB – World Bank
WBG – World Bank Group
WFE – World Federation of Exchanges
WTO – World Trade Organisation

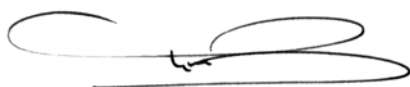
Dear friends,

The Eurasian Development Bank is proud to present the 2010 issue of its *Eurasian Integration Yearbook*. The past year was exceptionally rich in events that will have a direct bearing on the future integration of Eurasia.

First of all, the concerted anti-crisis efforts by our countries have brought about qualitatively new results in economic integration. Notably, EurAsEC countries have not confined themselves to anti-crisis measures alone. Today we are all witnesses to or participants in the large-scale project to establish the Customs Union of Belarus, Kazakhstan and Russia. In the future, a common customs territory will open new GDP growth opportunities for its member states. However, to fully realise the potential of this initiative, a great deal of work has to be done. Since the Customs Union countries are also members of the EDB, we at the Bank believe this Union will provide a strong impetus for trade, investment and new cross-border projects, which in turn will drive demand for the Bank's credit resources.

Another critical area of cooperation is, undoubtedly, the EurAsEC Anti-crisis Fund which in time may well become our "regional IMF". In the past year, the Fund's regulations were finalised, the first meetings of its Council were held, its Experts Council commenced its work, and the preparation of its first loans began. Our experience and firsthand knowledge of development processes in the region and the needs of our member states make EDB a key element of the Fund's resources management structure.

The current stage of integration and the need for responsible decisions on the Customs Union and the Single Economic Space require profound knowledge and understanding of regional economic cooperation. To this end, the EDB is providing comprehensive analytical support to this process, with an emphasis on the sectors and areas that have significant potential for international cooperation. Finally, I am pleased to note that the EDB's publications continue to give our overseas readers an insight into the current status of post-Soviet integration studies.



IGOR FINOGENOV
CHAIRMAN OF THE EXECUTIVE BOARD
OF THE EDB

Dear readers,

The tenth year of EurAsEC saw a number of pivotal developments which will determine the progress of the integration of the post-Soviet states. A great deal of work was done in conjunction with the government agencies and ministries of Belarus, Kazakhstan and Russia to implement the Customs Union treaty. Due to the political will and concerted efforts of these countries' leadership, the legal framework of the Customs Union of Belarus, Kazakhstan and Russia was successfully finalised on time, and the Union began functioning on January 1, 2010. Another milestone was the establishment of the Customs Union Commission – a supranational body to which the member states delegate important powers pertaining to foreign trade regulation. As a follow-up, the leaders of the member states are considering a higher form of integration, the Single Economic Space. This indicates that economic cooperation in Eurasia is approaching a deeper, systemic level.

The Customs Union became a reality. The first assessments of this project's long-term economic effect on the member states have been made. Now we have a lot of hard work ahead of us to adjust the various interrelated elements of the new economic structure. We place particular importance on systemic monitoring and data collection and processing. Equally importantly, we need studies that will enable us to better understand the prospects for Eurasian integration. I welcome and fully support the EDB's efforts in this field.



SERGEI GLAZYEV
EXECUTIVE SECRETARY OF THE CUSTOMS UNION COMMISSION
EURAsEC DEPUTY SECRETARY GENERAL

I have the pleasure of welcoming you to the third issue of our *Eurasian Integration Yearbook*. Since 2008 this yearbook has familiarised the international audience with the studies of the most urgent issues in regional post-Soviet integration.

There are several noteworthy positive developments. The protectionist policies that had emerged in response to the crisis did not further alienate post-Soviet countries from each other, nor did they aggravate the existing fragmentation of the post-Soviet space. On the contrary, the search for ways to overcome the crisis facilitated cooperation between these countries in both existing and new regional formats such as the EurAsEC Anti-crisis Fund. The results of the last year convince us that integration is gaining pace. We now can confidently talk about a transition from low-level integration to truly comprehensive coordination and jointly formulated policies on priority common interests of the member countries. The largest initiatives are the launch of the Customs Union and the efforts to establish a Single Economic Space. We welcome the plans to expand the membership of the Customs Union.

The crisis urged our countries to adopt a more pragmatic approach towards building external relationships. Taking this into account, studying the benefits of regional integration, the specific features this process may have in the post-Soviet space, and the prospective directions for its future development is clearly warranted. The EDB is carrying out systematic work in this area, cooperating with leading specialists and institutions, and developing its own expertise in regional economic integration. In particular, 2010 saw the successful launch of our major project to evaluate integration levels and dynamics in Eurasia entitled *The System of Indicators of Eurasian Integration*. We believe that our comprehensive analytical support will enable informed decision-making, and wide publication of the results of our studies will win support for integration initiatives from business circles and the general public.



VLADIMIR YASINSKIY
HEAD OF STRATEGY & RESEARCH, MEMBER
OF THE EXECUTIVE BOARD OF THE EDB

EVGENY
VINOKUROV

1 Accelerating Regional Integration: Directions for Research

Breakthrough in 2009–2010

2009–2010 are marked by a major breakthrough, namely the establishment and beginning of operation of the Russia–Kazakhstan–Belarus Customs Union (CU), the establishment of the EurAsEC Anti-crisis Fund, as well as the announcing of the goal to move the Single Economic Area (SEA) forward by 2012.

Russia, Kazakhstan, and Belarus drew closer in the context of the Eurasian Economic Community (EurAsEC), Shanghai Cooperation Organisation (SCO), and the Common Security Treaty Organisation (CSTO) major projects and initiatives, most importantly the Customs Union. These three countries constitute the integration core of the post-Soviet space according to the comprehensive System of Indicators of Eurasian Integration, managed by the Eurasian Development Bank (see Vinokurov, 2010).

The creation of the Customs Union became the first major systemic integration initiative to make it as far as implementation. The package of documents was signed at the EurAsEC Interstate Council in Minsk on November 27, 2009. The common external tariff became operational on January 1, 2010, and the common customs territory is to become functional on July 1, 2010. The deepening and widening of the union is being considered, as the heads of state envisage the development of the single economic area by 2012, and both Tajikistan and Kyrgyzstan have expressed interest in acceding to the Customs Union. Also, importantly, the CU Commission might come to represent the first truly supranational institution in the 20 years of the post-Soviet attempts at reintegration in the region.

Kazakhstan's President Nursultan Nazarbayev, a vocal and consistent proponent of integration initiatives in the post-Soviet space, proposed an economic rationale for the emerging customs union: "We need to open up our market for each other to promote the innovational industrialisation of our countries. This cooperation is mutually beneficial" (Nazarbayev, 2009). Nazarbayev concludes that integration processes should continue under

the aegis of the integration organisations that set the course for a Customs Union, a common currency, common energy and transport markets, and collective security. Kazakhstan will make full use of the advantages it has due to its energy resources, while maintaining a balance between the interests of major players. This continuous articulation of and support for the idea is of utmost importance to its acceptance in Kazakhstan, in particular while the short-term balance of profit-and-loss is probably on the loss side, at least in widely held public opinion in Kazakhstan. For example, in Russia 82% of customs tariffs remain unchanged, 14% will be lowered, and only 4% will rise. In comparison, for Kazakhstan these figures are 45%, 10% and 45%, respectively.

The major efforts in the economic sphere are being accompanied by advances in the regional security arrangements within the CSTO. In February 2009, its member states took a decision to establish collective forces for rapid response. The final treaty was signed on June 14, 2009. Russian and Kazakhstani troops constitute the main core of the collective forces. The first manoeuvres took place in October of the same year in Kazakhstan, which emphasised Central Asia as the primary vector of their potential employment. In addition, the close views and positions of both countries were demonstrated once again by the support that Russia rendered to Kazakhstan in its successful quest to become the OSCE Chairman in 2010.

The latest developments call for the intensification of theoretical and applied research, including in some new directions. Below, we outline several of these directions and issues.

First, applied research relevant to the advancement of the CU and the SEA is crucial for the success of regional economic cooperation. It includes such vital issues as the trade in goods and services, movement of labour, financial integration and cooperation, and common currency.

Second, it has become obvious that the harmonisation of legislation represents the vital and natural step to establishing a truly common economic area. The legal component organically complements the economic initiatives, which would remain severely constrained without harmonised legislation.

Third, the 'deepening vs. widening' dilemma has suddenly become highly relevant to the advancement of the CU and the SEA.

Fourth, on the theoretical front, it is striking how understated the relevance of the theories of regional integration remain in the post-Soviet 'Eurasian' context. The task on the agenda is to finally apply such theories as neofunctionalism and intergovernmentalism to the regional realities.

The Customs Union and the Single Economic Area

The decline of integration in the post-Soviet space continued into the 2000s – this was the conclusion of *The EDB System of Indicators of Eurasian Integration* (Vinokurov, 2010). The composite index of integration of the post-Soviet space generally suggests that integration levels are falling. In parallel with that, EurAsEC-5 and especially its core comprising the three largest members – Russia, Kazakhstan and Belarus – became more integrated. It is instructive to note another crucial result of the EDB System of Indicators of Eurasian Integration. According to the ensuing study, the quantitative data confirms that Russia remains the undisputed ‘integration leader’ for the whole of Central Asia, including Kazakhstan (Libman, Vinokurov, 2010).

In 2009 the formation of an “integration core” suddenly gained momentum, largely due to the crisis. That year saw astonishing progress in creating the Customs Union of Belarus, Kazakhstan and Russia. Unusually, this process proceeded in a timely manner as per the schedule approved by the heads of states in 2007. As we have mentioned above, the CU Commission is a supranational body whose decisions can be enforced directly in the member states. The next step will be the creation of the Single Economic Space, as was agreed by the Presidents of the three countries at the end of 2009. This task is expected to take two years to complete.

This very rapid movement toward regional economic integration calls for the intensification of applied research. The applied research relevant to the advancements of the CU and the SEA is crucial for the success of regional economic cooperation. It includes such vital issues as the trade in goods and services, movement of labour, financial integration and cooperation, common currency, and comprehensive harmonisation of economic legislation and law enforcement practices. A number of politically sensitive issues will have to be settled. The first one is access to energy resources. The second one is access to transport infrastructure, including the elimination of double pricing in the railway sector and provision of access to pipelines on a non-discriminatory basis. It is no secret for all market players that at present these issues cause major conflicts. Principally, we are talking about Russian infrastructure and costly concessions from Russia. Finally, the third issue is strengthening the cooperation in the financial sector. The financial services market needs a harmonised legal framework and real opportunities to access the stock exchanges of neighbouring states.

Deepening vs. Widening in the Post-Soviet Integration

The interrelation and possible contradiction between widening an integration zone and deepening the integration of existing member states: are these processes antagonistic or synergetic? This issue is hotly debated in international literature, but no common point of view has been reached so far.

If any synergism is possible in principle, what are the optimum conditions for it? This is the so-called *deepening vs. widening* dilemma.

This (speculative) dilemma came under close scrutiny in the context of the EU and, to a lesser extent, ASEAN, the Caribbean and other integration regions. We should mention the example of "the second expansion" of the EU which nearly coincided with the start-up of the Common Market and the Single European Act. At that time, the widening and deepening processes ran in parallel successfully. On the other hand, any success in European integration since the Maastricht Treaty (1992) accompanied by the rapid expansion of the EU is disputable.

The deepening vs. widening dilemma was also widely discussed in connection with the ASEAN's free trade area (AFTA). However, the experience of this integration area is rather negative. The failure to establish AFTA+ (including trade in services, harmonisation of economic laws, etc.) is probably attributable to the utter lack of uniformity among the newly admitted states, both in terms of the political regime and economic development.

This common dilemma is now fully relevant to Eurasian regional integration.

In 2009 the formation of an "integration core" suddenly gained momentum, largely due to the crisis. That year saw astonishing progress in creating the Customs Union of Belarus, Kazakhstan and Russia. At the end of 2009 the Presidents of the three countries agreed to accelerate the creation of the Single Economic Space (SES): a task that was allotted two years for its completion. Therefore, first, the formation of the SES can be considered a deepening process.

Second, in the next few years the integration of the emerging core may magnetise other countries, in particular *Kyrgyzstan* and *Tajikistan*, which have shown considerable interest in joining the CU. According to the EDB's *System of Indicators of Eurasian Integration*, smaller post-Soviet countries are most interested in economic integration with their neighbours. This can be explained by their high dependence on trade with other post-Soviet states (principally, Russia) and the export of labour within the region. It is no surprise that, according to composite indices, Tajikistan and Kyrgyzstan are the integration leaders in the CIS in relevant terms.

The prospects for the region's economic integration with *Ukraine* are much more uncertain, even though it is Ukraine whose presence can impart true completeness to the region's economic integration. Joining the CU and the SES is beneficial to this country's economy, especially petrochemistry, metallurgy, mechanical engineering and agribusiness. This fact allows us to hope that the eastern direction will eventually receive due attention in Ukraine's foreign policy. One of the preconditions for this scenario is the

demonstration of real achievements and benefits by the Customs Union of Belarus, Kazakhstan and Russia.

Theoretically, there are three possible answers to the *deepening vs. widening* problem: (1) deepening without widening; (2) widening without deepening; and (3) deepening and widening in parallel. It should be noted that there is no consensus on this issue, and the EU's practical experience shows that successful combination of deepening and widening is possible under certain conditions. However, both the theoretical and practical aspects of this dilemma are still poorly understood.

The Theories of Regional Integration and the Post-Soviet Space

When studying regional post-Soviet integration, most economists from the CIS countries confine themselves to looking at economic problems proper and, when so doing, they most often rely on the classic Balasz structure (based on the following levels of economic integration: preferential trade zone, free trade zone, customs union, common market, economic and currency union, full economic union). A great deal of high-quality applied research has been done in this area: calculations of the CU's effects on the inter-industry balance; trade flow gravity models; studies of mutual investments, labour migration, optimum parameters of financial and monetary cooperation, etc.

However, any complete, comprehensive integration theory must be an economic and political theory, and the respective models must incorporate both economic and institutional variables. In our opinion, a complete regional integration theory must:

- be a part of an international relations theory;
- be, at the same time, a disintegration theory, i.e. explain the disintegration process;
- explain both successful and failed attempts at integration; and
- provide a clear insight not only into the inception phase but also into the deepening and widening processes.

To date, there have been almost no attempts to build upon the existing regional integration theories in the post-Soviet context. No use is being made of the works of Haas, Deutsch, Lindberg, Schmitter, Moravcsik, Mattli and other theoreticians of regional integration.

At the same time, the *liberal intergovernmental theory* with its focus on the decisive role of heads of states in integration could be instrumental in evaluating the performance of the regional integration organisations EurAsEC, CIS, SCO, CSTO, Union State of Russia and Belarus (USRB) and, of

course, the efforts to establish the Customs Union of Belarus, Kazakhstan and Russia. *Neofunctionalism*, in its turn, could be a useful tool for studying the deepening process – particularly, the evolution from the CU to the SES.

How can the successes and failures of post-Soviet integration be explained on the ground of neofunctionalism, the liberal intergovernmental theory or other regional integration theories? How relevant are the integration models that have been developed specifically for the EU, the Americas or other regions? What role should be attached to the special variables of post-Soviet integration (especially the fact that the concerned countries are all the successors of a single state)? What specific features should be anticipated in the widening processes (new admissions to the CU) and the deepening process (creation of the SES), and could they become mutually exclusive? These questions, among many others, are awaiting answers – and the answers must be found in theoretical models capable of explaining the logic and special features of post-Soviet integration.

Review of Contributions

The current volume presents 13 contributions, structured in four sections.

The Yearbook starts with a major section entitled *Data and Events*, prepared by EDB analysts, which covers exactly what the title suggests. It starts with a large digest of integration events in 2009, in which we follow the tradition of the previous two EDB Yearbooks, published in 2008 and 2009. This Chronicle, compiled by Natalia Maqsimchuk, is structured along the lines of both the major regional organisations and sectors where economic cooperation takes place. The *Main Macroeconomic Indicators of the CIS Countries*, compiled by Yerzhan Moldabekov, complements the Chronicle. An overview of the *activities of international and regional development banks in the CIS region* by Zhanar Sagimbayeva rounds up the section. This latter overview is also highly relevant to regional integration research, taking into consideration that multilateral development banks (MDBs) represent both the objects of integration and its subject as MDBs proactively shape economic interaction of states, e.g. by investing in crucial cross-border infrastructure.

The section on *Regional Integration and Regionalisation* features four papers. Evgeny Vinokurov and Alexander Libman introduce the general findings of the EDB System of Indicators of Eurasian Integration, a major applied research project of quantitative nature. Mikhail Golovnin, Darya Ushkalova and Aleksandra Yakusheva's paper presents the results of research on the effects of external shocks on the CIS economies during the latest economic crisis. During the latter crisis, Russia was the principal source of economic turmoil felt in the other CIS countries. The crisis spread primarily through changes in foreign trade patterns. The paper argues that, while the CIS economies have mainly relied on national anti-crisis measures, there are many opportunities

to promote integration based on concerted efforts to overcome the crisis. Further two papers by Yang Cheng and Ikboljon Qoraboyev delve into the issue of integration trends in Central Asia. Particularly, Qoraboyev argues that the research community should move from the “Central Asian regional integration debate” to discussions centred on the “Eurasian integration space”. We support this thesis, which finds vast empirical support in the series of reports on functional integration in certain sectors and industries published by the Eurasian Development Bank.

The section on *Financial Integration and Common Currency* combines accounts by theoreticians and practitioners of financial and currency integration. Marsel Salikhov and Sergey Agibalov provide analysis of the rouble’s actual and potential functioning as the payment currency in the CIS. In their opinion, establishing the rouble as a “regional reserve currency” would elevate its status to that of an international currency. This process however may take many years. Viktoria Mishina’s empirical contribution focuses on the importance of stock market development, interaction between CIS stock exchanges and the prospects for trading national currencies.

The section on *Sectors and Issues* features papers on specific aspects of importance of regional cooperation. Murat Jadraliyev’s report on the economic cooperation in the agricultural sector represents a comprehensive review of cross-border cooperation trends in Russian, Belarusian, Ukrainian, and Kazakh agriculture. It is a neglected and under-researched aspect of regional economic cooperation. Meanwhile, a number of the states, including Russia and Kazakhstan, possess serious comparative advantages in this sector, providing a base for sustainable growth, regional specialisation, and the rapid growth of mutual investment and trade. The issue of ecology and its numerous cross-border implications are the subject of two further articles. Sagit Ibatullin, Vladimir Yasinskiy, Alexander Mironenkov provide an account of climate change in Central Asia in the respective EDB Industry Report republished in this volume. Furthermore, the comparative analysis of ecological indexes for Russian and Kazakh enterprises by Alexander Martynov is of considerable interest, too, as Martynov is head of NERA, an NGO with rich expertise and high standing in this area.

Overall, the Yearbook intends to provide a dynamic overview of integration processes in the post-Soviet ‘Eurasian’ space and the challenges to which the Northern and Central Eurasian states will have to provide adequate responses. I genuinely hope that the yearly EDB Eurasian Integration Yearbook will become a reliable companion to those studying regional integration. Once again I am pleased to direct readers to the EDB website, where this volume, the previous Yearbooks, the Journal of Eurasian Economic Integration (in Russian) and a number of reports and stand-alone papers relevant to regional integration are available to download free of charge.

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2 Chronicle of Eurasian Regional Integration 2009

NATALIA
MAQSIMCHOOK

We provide our readers with this chronicle of integration events which illustrates the progress of economic cooperation and integration in the post-Soviet space. This is the third time our digest has been published; the first two issues appeared in the previous Yearbooks, covering 2007 and 2008.

The main highlight of 2009 was, undoubtedly, the formation and launch of the Customs Union of Belarus, Kazakhstan and Russia. This organisation is still in the process of fine tuning. As of Spring 2010, a number of important issues are awaiting decisions, including the procedure of distributing customs duty revenue among the member countries, and adjustment of the Single Customs Tariff rates. Importers are reporting the first problems they have begun to encounter with the new rules and standards of the Customs Union. However, despite all the difficulties of its inception period, the Customs Union is a huge step towards optimising the conditions for the economic development of its member states. Today, the prospects of expanding its membership are already being discussed, as Tajikistan, Kyrgyzstan and Ukraine all announced their intention to join. Finally, the Presidents of the three Customs Union countries adopted a decision to create a single economic space – a task that is expected to take two years to complete.

The intention to join the WTO as a single regional grouping that was announced by Belarus, Kazakhstan and Russia provoked wide international response. Eventually the three countries settled on joining the WTO individually, but in a coordinated manner.

All regional integration organisations were very active in 2009, as their member states strove to develop common approaches and measures to overcome the financial and economic crisis. In particular, the EurAsEC \$8.5 billion Anti-crisis Fund was established. In parallel with that, the SCO and the CIS have been studying opportunities to use the national currencies of their member states in mutual payments, and to create common energy markets. In all these organisations, high-level meetings were held and a number of

important documents were signed on socioeconomic cooperation and collective security. The heads of the five CSTO states signed an agreement establishing the Collective Rapid Response Force.

The political news from the past year gives witness to tangible developments in the relations between post-Soviet countries. The Presidents of Russia and Tajikistan reached an agreement on settling of Tajikistan's debt for supplied electric power, and implementing energy projects. Ukrainian-Belarusian relations improved as these two countries agreed that Ukraine will repay its debt by supplying electric power to Belarus at a preferential rate. At the Summit of the Heads of CIS states held at the end of the year Russia and Ukraine settled the issue of reducing gas import by Ukraine and agreed that Gazprom will not impose sanctions against Ukraine for its failure to take the ordered quantities of gas over the past year. Russia and Belarus settled their discourse that begun with the "milk conflict" and reached their peak when Belarus turned down chairmanship of the CSTO and suspended the operation of the Unecha-Ventspils pipeline section. After these issues were all resolved, Russian milk producers gained access to the Belarusian market.

The oil and gas and energy sectors remained a focus of attention throughout the year. In addition to the traditionally complex Russian-Ukrainian differences centred around the terms of purchase and transit of gas, new problems were reported in this sector. As a result of an accident on the main pipeline in Turkmenistan in April 2009, supply of Turkmen gas to Gazprom discontinued. Friction developed between Turkmenistan and Azerbaijan over the division of oil and gas resources in the Caspian. At the end of the year Moscow and Minsk also had heated debates over the transit of Russian gas via Belarus and export of oil to that country. In December, the opening ceremony of the Turkmenistan-China pipeline was held with the participation of the Presidents of Turkmenistan, Kazakhstan and Uzbekistan. This pipeline undermines Gazprom's monopoly in Central Asia. On the whole, during the past year all oil and gas producing countries made attempts to revise the format of their relations with Gazprom, a long-standing Russian monopoly. The year also saw a series of crises in the electric power sector, specifically, the withdrawal of Uzbekistan from the Unified Electric Power System of Central Asia.

Investment activity slowed in other sectors, as can be judged by the insignificant number of transactions with the participation of Russian players in the banking and mining sectors. By contrast, China expanded its presence in the region and strengthened its positions in the energy and transport and transit sectors.

However, as general conclusion, joint efforts to overcome the crisis stimulated cooperation between post-Soviet countries, and thus the integration process gained pace during the past year.

Regional Organisations' News

CIS

The CIS Council of Heads of Governments in Astana

May 22, 2009

The CIS Council of Heads of Governments was held in Astana. During the session the participants discussed and reviewed 22 draft documents on regulation of the interstate cooperation in economic, humanitarian and information spheres, as well as ensuring the security measures in the CIS member countries.

The participants signed the Action Plan for the implementation of the first stage (2009–2011) of the CIS economic development strategy to 2020. The implementation of the strategy includes three stages: the first stage will be implemented from 2009 to 2011, the second stage – from 2012 to 2015 and the third – from 2015 to 2020. The Action Plan envisages the widening of interaction between the CIS member states in industrial production, implementation of interstate energy programs, transport, agricultural sector (with a view of increasing the competitiveness of produced goods), and the introduction of innovative technologies. Sections of the Plan touch upon boosting cooperation in mutual trade, fuel and energy industry, energy saving, monetary and financial sphere, exploration and use of space, as well as the protection of the environment.

One of the key directions of the CIS activities is cooperation in the sphere of security, fighting against crime, maintaining and strengthening the international security and stability, as well as combating new challenges and threats. The heads of governments of the CIS member countries signed an agreement on the exchange of information on crime control.

*Information and Analytical Department
of the CIS Executive Committee*

Cooperation in Energy Policy Development

May 25, 2009

The key field for interaction between the CIS member states for 2009 is energy. A working group, established early this year, is developing a Concept for energy cooperation between the CIS states for the period to 2030 and an action plan for the implementation of the Concept. The Concept is based upon the prioritisation of economic interests of the CIS member states. It aims at improving the efficiency of production and consumption of energy, the reliability of energy supply and environmental security. The key directions for cooperation are:

- the organisation of a common electric power market, improvement of cooperation in enhancing the reliability of parallel work of the power systems of the CIS member states;
- interaction in compiling future forecasts for production and consumption of energy resources of the CIS states;
- balancing adjustment of flows of energy resources exports to European and Asian markets.

Issues of cooperation in nuclear power were excluded from the Concept. This field of cooperation will be carried out within the framework of the "Cooperation Atom-CIS" programme.

*Information and Analytical Department
of the CIS Executive Committee*

Georgia Completes Withdrawal from the CIS International Treaties and Decisions

August 18, 2009

A formal procedure of Georgia's withdrawal from the Commonwealth of Independent States (CIS) was completed on August 18, 2009. Starting this moment CIS international agreements, as well as decisions made by CIS agencies cease to have effect in Georgia. However, the country remains a party to an array of important multilateral economic agreements in fields of trade, transport and intellectual property protection. For example, the multilateral agreement on conducting a systematic policy in the field of standardisation, metrology and certification will continue to be in effect. Georgia decided to keep its membership in the Organisation for the Cooperation of Railways (OSZHD). Moreover, the country remains a party to agreements on International Railway Freight Traffic and Interstate Transportation of Dangerous and Explosive Loads. Georgian Railways LLC is a member of the International Union of railways.

As for intellectual property, agreement on cooperation in the field of protecting the author's and allied rights and agreement on reporting and restraining imitated trademarks and geographic signs stay in effect as usual. Earlier Georgia filed a request to the CIS for working out a proposal for the country's participation in the Rules for defining the country of origin of goods that were affirmed by the CIS Council of Heads of Governments on November 30, 2000.

RIA Novosti

On August 14, 2008 the Parliament of Georgia abrogated the agreements, which define the country's membership in the CIS. On June 10, 2009 Georgian president, Mikhail Saakashvili, announced Georgia's withdrawal from the CIS. On June 12, 2009 the Parliament of Georgia unanimously adopted two resolutions "On the Interparliamentary Assembly of the CIS" that officially conclude the procedure of Georgia's withdrawal from the Commonwealth.

Summit of CIS Heads of States in Chisinau

October 9, 2009

The main issues on the agenda of the summit touched upon a draft resolution on joint measures to mitigate the consequences of the global financial and economic crisis, possible use of CIS member states' national currencies in mutual settlements, as well as inspection of the CIS contractual and legal base, taking into account Georgia's official withdrawal from the Commonwealth in August 2009. The participants of the summit gave their assent to 22 documents, including a concept of coherent border policy for the CIS member states, an agreement on establishing a council of leaders of the CIS agencies for control over the trafficking of drugs, psychotropic substances and their precursors, as well as the fight against their illegal turnover. One of the most important results of the summit was the establishment of an expert group on settlements in national currencies.

During the summit, Russia, which will chair the CIS in 2010, officially presented its concept and an action plan for the concept's implementation. These documents foresee further boosting the multilateral interaction within the framework of the CIS, improving the efficiency of decisions made in the fields of economy, migration and energy.

The leaders of Uzbekistan, Kazakhstan, Tajikistan and Turkmenistan did not attend the summit.

RIA Novosti

The Session of the CIS Council of Heads of Governments

November 20, 2009

A session of the CIS Council of Heads of Governments was held in Yalta. During the session the participants discussed the economic situation in the CIS member states, joint measures to minimise the consequences of the global financial crisis, as well as projects being implemented within the CIS. During the session the participants made concerted decisions on 26 issues that were on the session's agenda.

The participants of the session adopted a Plan for the implementation of the CIS joint measures for coping with the consequences of the global financial and economic crisis for 2009–2010. The Plan foresees measures for improving the sustainability of the banking systems. It also envisages the signing of agreements on the legal regulation of mutual access by the resident banks of CIS member states to the national currency markets, as well as general political principles of foreign exchange regulations and currency control. According to the Plan, an expert group will be established to study the possibility of using the national currencies of CIS states in mutual

settlements; introducing a coordinated policy that supports the local market of the industrial sector, foodstuffs and other products; as well as ensuring the exchange of information on the state of competition on socially important and infrastructural markets.

Energy was the key sphere of interaction within the framework of the Commonwealth in 2009. During the session the heads of governments reviewed an array of important documents, including the Concept of energy cooperation. The heads of governments approved the Agreement on cooperation in using the national power systems' interstate transmission lines. Moreover, the participants of the session approved a draft agreement on the coherent development of the international transport corridors of the CIS member states.

The next regular session of the CIS Council of Heads of Governments will be held on May 21, 2010 in Moscow.

CIS Executive Committee

The CIS Member States Selected Macroeconomic Indicators in 2009

The CIS Interstate Committee on Statistics does not have data on industrial production in Turkmenistan. In addition, it stopped publishing information on Georgia, which officially withdrew from the CIS in August 2009.

The maximum GDP growth on the CIS was recorded in Azerbaijan – 9.3%, and Uzbekistan – 8%. GDP in Kyrgyzstan grew by 2.3%, in Tajikistan by 3.4%, in Kazakhstan – by 1.2%, in Belarus – by 0.2%. In Armenia, GDP fell by 14.4%, Ukrainian GDP decreased by 15.0%. The decrease in Russian GDP in 2009 was 7.9%. Moldovan GDP went down by 7.3%.

According to the CIS Interstate Committee on Statistics, industrial production in Kazakhstan in 2009 grew by 1.7%. Azerbaijan saw a 7.4% growth in the production sector, Uzbekistan – 9%. Other CIS countries recorded decline in this indicator. The sharpest decline in production among the CIS member states was marked in Moldova (22.2%). In Ukraine it was 21.9%, in Kyrgyzstan 6.4%. Industrial production fell by 10.8% in Russia and by 7.8% in Armenia. In Tajikistan it fell by 6.3%, in Belarus – by 2.1%.

On average, the level of GDP in the CIS member states reduced by 9% compared to the same period last year, industrial production decreased by 13%, cargo transportation fell by 18% and retail turnover dropped by 7%. Growth in the agricultural sector output was 3.5%.

The highest annual inflation among the CIS member states was recorded in Ukraine, where it reached an average of 12.3%. Annual inflation in Russia

amounted to 8.8%, in Kazakhstan – 6.4%, in Belarus – 10.1%, in Kyrgyzstan – 8.3%, Kazakhstan – 7.6%, Tajikistan – 6.5%, Armenia – 6.5%, Azerbaijan – 1.8%, Uzbekistan – 7.4%. Inflation in Moldova and Kyrgyzstan remained consistent at the level of the previous year.

CIS Interstate Committee on Statistics

Russians Evaluate the CIS

December 14, 2009

Russian Public Opinion Research Centre conducted a poll among the citizens of Russia and compiled a credibility rating of the CIS member states and their leaders. The rating reflects which CIS countries are considered to be most trustworthy, stable and successful. According to the poll, the most reliable partners for Russia in the CIS are Belarus (43%) and Kazakhstan (31%). The three most trustworthy partners also include Armenia (8%). Other CIS countries substantially lag behind in the rating of trust: only 4% of the respondents have confidence in Azerbaijan and Ukraine as partners for Russia. The ratings of trust of Kyrgyzstan, Moldova, Turkmenistan and Uzbekistan amounted only to 3% each. Tajikistan and Georgia round off the list with the trust of 2% and 1% respectively.

The confidence of Russians in the CIS leaders is much the same. The president of Belarus, A. Lukashenko, and Kazakhstan's president, N. Nazarbayev, top the credibility rating (33% and 28% respectively). The next eight most trustworthy CIS leaders include the president of Azerbaijan I. Aliyev (6%), the president of Uzbekistan I. Karimov (5%), the Turkmen leader G. Berdymuhamedov (5%), Kyrgyz president K. Bakiyev (4%), the head of Armenia S. Sargsyan (3%), Ukrainian president V. Yushchenko (3%), the president of Tajikistan E. Rahmon (2%) and the acting president of Moldova M. Ghimpu (2%). The outsider of the current poll is the president of Georgia, M. Saakashvili (1%).

Belarus and Kazakhstan top the rating of the CIS member states that, according to the poll, are the most stable and successful (41% and 29% respectively). Following after a wide margin are Azerbaijan (9%), Armenia (8%), Turkmenistan (6%), Kyrgyzstan, Moldova and Uzbekistan (5% each). Georgia and Tajikistan have the lowest rating of stability and success (3% and 2% respectively).

The absolute leaders of the most successful CIS countries in mitigating the crisis rating are Belarus and Kazakhstan (24% and 14% respectively). All other CIS states lag behind with only 3% or less of the poll's total votes.

RBK Daily

EurAsEC**EurAsEC Anti-Crisis Fund***February 4, 2009*

An extraordinary session of the Interstate Council at the level of Heads of States was held due to an urgent need for prompt response to a disturbing economic situation in the EurAsEC member states, caused by the global financial crisis. Presidents of all five member countries, as well as the president of Armenia, which has an observer status in the EurAsEC, attended the session.

The EurAsEC Interstate Council made a decision to establish the EurAsEC Anti-Crisis Fund with charter capital of \$10 billion and to create a Centre for New Technologies, which will be aimed at the implementation of scientific and technical programmes and innovative projects within the organisation.

Public Relations Department, EurAsEC

EurAsEC Crisis Response Measures*May 20, 2009*

A regular session of the EurAsEC Financial and Economic Policy Council was held in Moscow. The chairman of the Council, the deputy chairman of the government of Russian Federation and Finance minister A. Kudrin, EurAsEC Secretary General T. Mansurov, leaders of central (national) banks, economy and finance ministries of EurAsEC member states and Armenia, EurAsEC observer, took part in the session.

The EurAsEC member states faced a tight economic situation. On average the EurAsEC member states' GDP fell by 11% in the first quarter of 2009 compared to the same period of 2008. Industrial production decreased by 13%, freight transportation by 16% and capital investments by 12%. Foreign and mutual trade fell by over 30%. Inflation grew by 14%. All countries reported a substantial decline in exports and imports.

The participants of the session gave their assent to the Plan for the implementation of joint crisis response measures in EurAsEC member states, as well as legal and other documents that constitute the EurAsEC Anti-Crisis Fund and Centre for New Technologies. After the documents are approved by the heads of EurAsEC member states, it will be necessary to form the Fund's authorised capital, sign an agreement with the Eurasian Development Bank, which will act as the fund manager, and organise the Fund's council, which will be made up of the finance ministers of the participating states.

Public Relations Department, EurAsEC

The EurAsEC Anti-Crisis Fund was established by the Heads of Governments of Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan. It aims to help the countries cope with the negative influence of the global financial crisis on the national economies, as well as secure their economic and financial sustainability and boost further widening of the integration process between the EurAsEC member states. The Fund will provide loans to the countries for anti-crisis goals, stabilisation loans and financing for the implementation of the interstate investment projects. The Fund's resources will be distributed on conditions of maturity, serviceability and recoverability. During the voting process each country's votes will carry weight in proportion to their contributions to the Fund. The fund will have \$8.5 billion in charter capital. Russia will supply \$7.5 billion, Kazakhstan \$1 billion, Belarus – \$10 million, and Kyrgyzstan, Tajikistan and Armenia – \$1 million each.

The charter contributions are due six months after ratification of the agreement. Payment is to be made 10% in euro or dollars and the remainder in simple, non-circulating, interest-free promissory notes.

The fund will be managed by a council made up of the finance ministers of the participating states and representatives of participating international organisations. The chairman will be elected by the council members, whose votes will carry weight in proportion to their contributions to the fund. Each vote is the equivalent of \$100,000 in contributions. The Eurasian Development Bank will carry out the council's decisions concerning fund management.

A Package of Documents Concerning the EurAsEC Anti-Crisis Fund Signed

June 9, 2009

Following the results of the EurAsEC Interstate Council session at the level of heads of states the participants signed an agreement on establishing the fund and its enactment, as well as an agreement on the funds management.

www.minfin.ru

July 15, 2009

The Russian State Duma ratified the agreements on the establishment of the EurAsEC Anti-Crisis Fund and the fund's management.

REGNUM

October 27, 2009

The Parliament of Belarus ratified the agreements on establishment of the EurAsEC Anti-Crisis Fund. Belarus is interested in attracting the Fund's resources to finance interstate investments projects and is ready to submit its investment projects for approval to receive the financial assistance.

Reuters

December 28, 2009

Kazakhstan's president N. Nazarbayev signed the law "On ratification of the Agreement on the Establishment of the EurAsEC Anti-Crisis Fund". Moreover, Nazarbayev also signed the law "On Ratification of the Agreement on Management of the EurAsEC Anti-Crisis Fund Finances".

Kazakhstan Today

SCO

Meeting of SCO Interbank Consortium Member Banks Coordinators

June 4, 2009

On June 4, Vnesheconombank as the Chairman Bank of the Shanghai Cooperation Interbank Consortium conducted a meeting of the coordinators in St. Petersburg. In the course of the meeting, Draft Regulations on the Cooperation with Financial Institutions of SCO Observer States and on the Status of SCO Interbank Consortium Chairman Bank were agreed upon and initialled. This document sets out the required legal framework for establishing and maintaining relations with SCO observer states' financial institutions. A Draft Agreement on Cooperation in personnel training and sharing business experiences between SCO Interbank Consortium member banks was also initialled.

*Public Relations Department,
Vnesheconombank*

The SCO Interbank Consortium was established on October 26, 2005. Its activity is designed to support regional economic cooperation. At the moment, it incorporates the State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)", the Kazakhstan Development Bank, the China State Development Bank, OJSC RSK Bank, the Tajikistan National Savings Bank "Amonatbank" and the Uzbekistan National Bank for Foreign Economic Affairs. The Eurasian Development Bank has been the SCO Interbank Consortium's partner bank since 2008.

SCO Leaders Sign Yekaterinburg Declaration

June 16, 2009

On June 15-16, 2009, a meeting of the Council of Heads of Member States of the Shanghai Cooperation Organisation (SCO CHS) took place in Yekaterinburg (Russia). The summit was attended by heads of states and governments of SCO member countries – China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, and leaders of SCO observer nations – Mongolia, India, Pakistan and Iran.

Issues of ensuring stability and security within the SCO, situation in Afghanistan and around North Korea topped the agenda of the meeting. The participants also discussed the idea of establishing a common energy market and constructing a transport corridor from Europe to China. High-ranking representatives of state and private financial and banking structures, manufacturers and entrepreneurs took part in the forum.

Following the results of the meeting, the SCO heads of states signed the Yekaterinburg Declaration, a major political document which assesses the present international situation. The parties voiced their support for the Nuclear Non-Proliferation Treaty, increased cooperation in the control and management of international finance and preserving economic stability. The

SCO Convention against terrorism was also signed. The heads of states gave their assent to a cooperation programme of SCO members in the fight against terrorism, separatism and extremism for 2010–2012, the decision to grant Sri Lanka and Belarus the status of the SCO dialogue partner, an agreement on training the anti-terrorist forces of SCO members, as well as an agreement on cooperation in the field of ensuring international information security.

RIA Novosti

China Intends to Finance the Modernisation of SCO Member Economies

June 16, 2009

China will provide a \$10 billion loan to member states of the Shanghai Cooperation Organisation (SCO) to shore up their economies amid the global financial crisis, Chinese President Hu Jintao said at the SCO summit in Yekaterinburg. The funds will mainly be directed to China's SCO partners from Central Asia – Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. According to the Chinese leader, SCO member states must work together to mitigate the crisis. In light of this, Hu Jintao suggested the implementation of an array of infrastructural projects in the key fields of the economy, including energy and transport.

www.regions.ru

SCO Heads of Governments Council Meets in Beijing

October 14, 2009

A regular meeting of the Council of the Heads of Government of the Member States of the Shanghai Cooperation Organisation took place in Beijing. The heads of the governments discussed the fulfillment of the SCO Multilateral Trade and Economic Cooperation Programme with reference to the implementation of large joint projects in the transport, energy, modern information and telecommunication technologies sectors.

The SCO Business Council and the Interbank Consortium agreed to establish a unified base of investment projects that will unite around 35 projects with a total cost of \$6 billion. The heads of the governments reached an agreement to establish a mechanism of monitoring the economic situation in the region. During the meeting the participants arrived at a decision to hold a meeting of SCO Finance Ministers and leaders of Central Banks in Almaty by the end of the year to discuss the possibilities of using the national currencies in mutual settlement, as well as the issue of establishing a special account for financing the SCO projects. Kazakh Prime Minister K. Masimov suggested the development of an SCO energy strategy.

RIA Novosti

First Meeting of the SCO Finance Ministers and Heads of Central Banks*December 9, 2009*

On December 9, 2009 the first meeting of finance ministers and heads of central banks of the SCO member states took place in Almaty. The parties exchanged opinions on the acute issues and prospects for cooperation among the SCO member states in the financial field.

The participants of the meeting agreed to further consider the possibility of widening the sphere of using national currencies in mutual settlements between the SCO member states, and suggested that the SCO Secretary, together with financial and other experts from member states, speed up the coordination of main conditions for establishing and putting into operation the SCO Special Account.

*www.sectSCO.org***CSTO****CSTO Countries Agree to Establish Collective Rapid Response Forces***February 4, 2009*

The leaders of the Collective Security Treaty Organisation (CSTO) member states signed an agreement on the establishment of a collective rapid response force (CRRF) during a CSTO summit in Moscow. The CSTO comprises Armenia, Belarus, Russia and four Central Asian nations: Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. The initiative to establish the CRRF was first voiced by the Russian President D. Medvedev at the CSTO summit in September 2008.

Moscow's Airborne Division and Assault Landing Brigade (around 8,000 services staff) may form the core of the force. Kazakhstan's Assault Landing Brigade (up to 4,000 services staff) will also become part of the CRRF. Each of the rest CSTO members will provide the CRRF with a squadron bringing the total strength of the force to 15,000 services staff. Military forces of different countries will have the compatible communication systems and will have the opportunity to conduct joint drills. The force will be used for repelling "military aggression," conducting operations to combat international terrorism and extremism, transnational organised crime and drug trafficking, and handling the consequences of emergencies.

Moreover, special attention will be given to the establishment of joint air defence systems. Three regional systems (Eastern European, Central Asian and Caucasian) may be formed in the near future. Russia and Belarus also plan to boost cooperation in this field.

Vedomosti

CSTO Summit in Moscow

June 14, 2009

On June 14, 2009 Moscow hosted the CSTO summit. The presidents of Uzbekistan, Russia, Armenia, Kazakhstan, Kyrgyzstan and Tajikistan participated in the summit. Five of the states – Armenia, Kazakhstan, Kyrgyzstan, Russia and Tajikistan – signed an agreement on the establishment of the CSTO Collective Rapid Response Force. Belarus refused to attend the CSTO summit due to “overt economic discrimination by a CSTO member country against Belarus”. According to the Russian Foreign Ministry, Belarus’ non-participation in the summit does not invalidate the summit’s decisions. Uzbekistan did not sign the CRRF agreement either, citing “some reservations”. The leadership of this country has a specific opinion concerning the collective forces. Tashkent has never been part of any of the CSTO military structures.

The participants of the summit signed a document on the implementation of the CSTO decision to create the CRRF within the organisation dated February 4, 2009; reviewed the drafts of the regulatory legal acts that specify the activities of the CSTO CRRF. Moreover, the participants signed a document that includes the Agreement on the CRRF and a decision on the CRRF Collective Security Council. Other decisions on the principles of establishing and managing the force and resources were also signed.

The decision to establish the CSTO Collective Rapid Response Force was taken on February 4, 2009 in Moscow. Russian service personnel will constitute the bulk of the CRRF.

RIA Novosti

Russia Takes over CSTO Chairmanship

June 14, 2009

By agreement with the CSTO member states Russia took over the technical chairmanship in the organisation “for the period of Belarus’ absence”. This technical chairmanship will be valid for the period until final decisions on the chairmanship are made.

According to the Russian president, the conflict over the ban on imports of dairy products from Belarus would not infringe the work on establishment of the CSTO CRRF and all problems would be settled in the near future. In the meantime, Belarus is now contesting the validity of the summit’s decisions made in the absence of Belarus. The Belarusian Foreign Ministry’s note clearly warns that Belarus’ non-participation in the CSTO Collective Security Council, Foreign Ministers’ Council, Defense Ministers’ Council and Security Council Secretaries Committee “means a lack of approval from Belarus of the decisions that are to be considered” at the summit, as well as

disavowal of decisions made at the pre-summit, ministerial-level meetings, which "consequently means a lack of consensus on these decisions".

Kazakhstan Today

CSTO Informal Summit in Kyrgyzstan

July 31, 2009

Moscow plans to strengthen the military component of the CSTO and turn the organisation into a NATO analogue run the risk of failure. The final formation of the CSTO CRRF was to be the key issue of the agenda of the informal summit in Cholpon-Ata, Kyrgyzstan. The day before the summit Moscow began to speed up the development of military capability within the framework of the organisation. On July 29, Russia initiated negotiations at a staff level on conducting the first ever CRRF collective drills in Almaty. Moreover, Russia plans to establish the first military base in Central Asia under the auspices of the CRRF. However, Russia faced serious obstacles during the preparation for the summit in Cholpon-Ata, including the position of the Belarusian president A. Lukashenko, who refused to take part in the CSTO summit in Moscow and did not sign the agreement on the establishment of the CRRF. Other events also hinder Moscow's plans, including the lack of de jure recognition of Georgia's sovereignty over Abkhazia and South Ossetia by Belarus and the shut down of the Russian oil pipeline. Moscow plans for Kyrgyzstan also faced a lot of difficulties because shortly before the summit Bishkek postponed the signing of a package of documents regarding the military base.

Kommersant

Results of the CSTO Informal Summit in Kyrgyzstan

August 3, 2009

The CSTO summit in Cholpon-Ata resulted in a memorandum on establishing a second Russian military base in the south of Kyrgyzstan. The base is to be officially founded under the auspices of the CRRF. The military contingent on the base would not exceed the size of a squadron. The agreement will be valid for 49 years with an extension possible every 25 years. Russia was counting on the signing of a full-fledged agreement, but the very first day of the summit revealed the impossibility of agreeing the terms of the base establishment. According to the memorandum, the final agreement, which will presumably be signed by November 1, will define all Russian military objects, including the Russian airbase in the city of Kant.

The mass media often mention the cities of Osh and Batken as a would-be location for the second base. Moscow would prefer Osh due to the presence of infrastructure. Kyrgyzstan is in favour of establishing the base from scratch.

Vedomosti

Bilateral relations

Russia–Georgia

Russian and Georgian Interests Sections Open at the Embassy of Switzerland in Tbilisi and Moscow

March 4, 2009

From March 5, Switzerland's Foreign Ministry has officially agreed to represent Russia's interests in Georgia and vice versa.

Neutral Switzerland often plays the role of mediator between different states that have not established diplomatic relations. Georgia broke all diplomatic ties with Russia after Moscow recognised the independence of two Georgian breakaway regions, South Ossetia and Abkhazia, in August 2008. The parties filed a request to Bern to present their interests and in early October 2008 the government of Switzerland gave its assent to both countries. The establishment of Russian and Georgian Interests Sections resulted from two agreements, signed by Switzerland and Russia on December 13, 2008, and Switzerland and Georgia on January 12, 2009.

RIA Novosti

Russia and Georgia Agree to Re-open Border

November 6, 2009

Representatives of Russia, Georgia and Armenia held technical consultations in Yerevan on the issue of re-opening Russian-Georgian land border to traffic. The two countries reached a deal to re-open the only land border crossing, the Upper Lars checkpoint, which was closed in 2006, when Russia banned imports of Georgian products and construction of a new checkpoint started. In late 2008 Georgian Foreign Ministry received notification from Moscow that all construction works were over and a new terminal was ready to serve up to 400 cars a day. However, the Georgian Foreign Ministry demanded that they conduct negotiations on the checkpoint in Geneva under Swiss mediation, which turned out to be unacceptable to Russia. According to the Russian Foreign Ministry, the meetings were held in Yerevan because Armenia is one of the stakeholders in opening the border crossing.

Armenia is interested in opening the checkpoint because almost 30% of the country's external trade turnover was earlier carried out by means of the Georgian Military Road. Georgia constructed a new border crossing at Kazbegi with \$2.5 million in assistance from the United States, which provided the facility with modern offices and search equipment and raised the checkpoint's capacity to 500 cars a day. Georgia agreed to re-open the Upper

Lars checkpoint only on condition of "non-discriminatory attitude towards Georgian products", that is, a repeal of a ban on imports of Georgian agriculture produce, wines and mineral water. Trade restrictions on Tbilisi placed by the Russian agency for consumer market control (Rospotrebnadzor) are still in force.

Kommersant

Belarus–Kazakhstan

June 10, 2009

An array of bilateral agreements was signed during the official visit of Kazakh Prime Minister K. Masimov to Minsk. Kazakhstan and Belarus agreed to establish joint ventures in Kazakhstan, including a Belarusian domestic refrigerators plant, as well as agriproduct processing, cattle breeding, machinery and grain harvester production joint ventures. This will help Belarus enlarge its share in Kazakhstan's markets and boost the turnover between the two countries. Due to the global economic crisis, the sales turnover between Kazakhstan and Belarus decreased by 40% in the last six months. Following the results of the talks both countries signed a long-term cooperation agreement for the period to 2016.

www.mirtv.ru

November 8, 2009

Following the results of the meeting with Kazakh Prime Minister K. Masimov, Belarusian Prime Minister S. Sidorsky announced that Belarus intends to implement 37 projects in Kazakhstan.

The projects aim to increase the production of grain, beetroot and potato in Kazakhstan by using Belarusian agricultural equipment and technology. Moreover, Belarus also suggested developing dairy production in Kazakhstan by constructing milk complexes and equipping these with modern milking facilities. During the meeting the parties discussed a range of specific science and technical cooperation projects in medicine, X-ray examination, as well as production of modern household appliances. They agreed to train Kazakh specialists in the technological institutes and universities of Belarus. Moreover, Belarus suggested several projects for potassium and phosphoric fertiliser production. The parties reached agreement on boosting the production of elevators in Pavlodar and development of BelAZ and agricultural equipment production.

Kazakhstan Today

November 26, 2009

President of Kazakhstan N. Nazarbayev held a meeting with the Belarusian leader A. Lukashenko. Following the results of the talks between delegations

Belarus and Kazakhstan established diplomatic ties on September 16, 1992. Both countries maintain bilateral, multilateral and traditional cooperation within frameworks of the UN, OSCE, EurAsEC and CIS. Kazakhstan and Belarus have signed a total of 76 contracts and agreements, including the Treaty of Friendship and Cooperation, the Economic Cooperation Programme for 2009–2016 and the Free Trade Agreement.

Trade and economic cooperation, the key field of interaction between Kazakhstan and Belarus, is carried out within the framework of the Economic Cooperation Programme for 2009–2016. Kazakhstan is Belarus' third largest partner after Russia and Ukraine. In 2008 the trade turnover between Kazakhstan and Belarus amounted to \$567 million. In 2009 the turnover was \$421.8 million, or 25.6% less compared to 2008.

from the both countries a range of bilateral documents were signed. Kazakhstan's president met with the leadership of BelAZ production plant and Lidselmash open joint stock company (OJSC).

Kursiv

Russia–Tajikistan

October 22, 2009

The presidents of Russia and Tajikistan held talks in Moscow, during which the parties managed to solve the bulk of the issues that had aggravated relations between the countries, including debt for electric energy, implementation of energy projects in gas fields in particular and the conditions of stationing the Russian military base in Tajikistan.

The sides made decisions relating to the settlement of a \$30 million debt of Tajik national company for electric energy supplied by Sangtuda hydropower plant (HPP), as well as the repayment schedule. The sides also agreed upon Tajikistan's payment for its stake in the HPP at an amount of 25% plus one share.

Russian president called for speeding up the implementation of energy agreements. The

agreement on strategic cooperation in gas fields, signed in May 2003, foresees the realisation of geological exploration drilling operations in the gas-bearing areas of Tajikistan, development and exploitation of natural gas fields, construction and reconstruction of gas pipelines. Gazprom has development licenses for two fields in Sarikamysh and Western Shaambary areas. Geological exploration will be completed within the next 1–1.5 years. One of the key tasks is to timely ratify the ways in which Tajikistan will repay expenditures that Gazprom will incur during the geological exploration.

Commenting on the law on the state language Tajik president noted the document regulates the Tajik language sphere solely and that the Russian language will remain the language of international communication.

RIA Novosti

Belarus–Ukraine

November 6, 2009

President of Belarus A. Lukashenko paid his first official visit to Ukraine. Following the results of the meeting with the Ukrainian president

V. Yushchenko the countries announced that "all present contradictions were settled". In particular, the presidents settled the issue of Ukraine's debt to Belarus. Ukraine agreed to supply Belarus with electric energy at a discount price.

The presidents tackled the issue of the ratification of a joint border agreement that was signed in 1997. Ukraine ratified the agreement, but Belarus interlinked the ratification with another document – an agreement on settling Ukraine's financial obligations to Belarus. Ukraine has been under obligation to Belarus since the Soviet era and for almost 20 years the two countries had not been able to agree upon the debt repayment, which in its turn hindered the ratification of the border agreement. The parties agreed that Ukraine's debt will be repaid by means of supplying electric energy to Belarus at a discount price.

Belarus will benefit from electric energy supplies at a discount price for one other reason. By the end of the year Lithuania plans to shut down the Ignalinskaya nuclear power plant and will have to purchase significant amounts of electric energy. It will give Belarus an opportunity to resell cheap Ukrainian electric power to Lithuania at a higher price.

Kommersant

Russia–Belarus

Ban on Dairy Products Import Results in a Conflict

June 6, 2009

A "milk war" broke out between Russia and Belarus. Russia's Rospotrebnadzor imposed a ban on imports of Belarusian dairy products, alleging the country was failing to comply with new labeling regulations. As a result of the ban on imports of over 1,200 different products, Belarus may sustain a loss of around \$1 billion.

From December 17, 2008 a Federal Law "Technical Regulations for Milk and Dairy Products" came into force in Russia. The law established requirements for milk and milk products packaging and labeling. Under the law, fluid milk that is produced from dry milk, concentrated milk or condensed milk can no longer be called "milk" and must be referred to as "milk beverage". According to Rospotrebnadzor, Belarusian producers of milk "did not even try to comply with the new requirements of Russian legislation" and around 500 milk products imported to Russia from Belarus do not have valid documents. Therefore, according to a resolution of a chief sanitary inspector, from June 6, Russia imposed a ban on import of over 500 dairy products that do not comply with the new labeling regulation, as well as the turnover of previously imported goods. Later the list of banned products was expanded.

Despite the fact that the new technical requirements had been in force for six months, Russia's decision to impose a ban was only taken now and coincided with the recent arguments between Moscow and Minsk over the \$500 million tranche of the Russian loan to Belarus. The day before the sanctions were introduced the Belarusian president A. Lukashenko said that military cooperation between Moscow and Minsk is under threat.

Kommersant

June 17, 2009

Belarus state customs committee announced that Belarus may introduce intense control over the transportation of cargo via the main Russian-Belarus highways. The measures were introduced following a decree by Belarusian president A. Lukashenko, as an adequate response to Russia's actions against Belarusian products. However, the intense control measures were not introduced after a compromise was reached with Russia on dairy products.

Vedomosti

June 18, 2009

During the latest in a series of talks about the "milk issue" the parties managed to reach an agreement that Belarusian producers and suppliers will gradually adjust the labeling and other documents to Russia's regulations. Taking this into account, Rospotrebnadzor lifted the ban on importing some of the Belarusian products in accordance with the agreed list of goods. From June 18, Belarus resumed supplies of 139 dairy products to Russia. From June 22, Rospotrebnadzor repealed a ban on another 134 Belarusian dairy products. Therefore, a total of 273 dairy products from Belarus are allowed to be imported to Russia.

RIA Novosti

Gas Row Looms between Russia and Belarus

June 29, 2009

A gas dispute replaced the row over a ban on imports of Belarusian dairy goods to Russia, which had finally been resolved. Although the milk war may have ended, energy issues remain an irritant. The appearance of Russia's new complaints against Belarus proved that the two countries are still very far from a complete resolution of disputes. Russia's gas export monopoly Gazprom has demanded Belarus pays \$244 million in arrears for gas supplies so far this year and promised to cut the gas supplies if Belarus did not repay the debt in July. Belarus authorities acknowledged a debt of \$234 million and promised to repay it no later than November. In other words, Moscow and Minsk were on the brink of a gas war this time.

The stated amount of debt resulted from the short payment for gas supplies in January-April in the sum of \$234 million and fines for an overdue payment. Meanwhile, Gazprom paid \$625 million for 12.5% stake in Beltransgaz this year (bringing its share to 37.5%) and another \$250 million of advance payment for the transit of gas through Belarus. Therefore, Gazprom paid Minsk a total of \$875 million this year.

However, Minsk did not intend to abide by Gazprom's terms. The country planned to start repaying its gas debt in July and fully pay off the debt no later than November. Moreover, Minsk acknowledged only the principle debt in the amount of \$234.1 million and is not going to pay the fines. The reason for the dispute is that the sides have a different understanding of the outcomes of the bilateral meeting of Russian and Belarusian presidents on April 10, 2009. According to Minsk, president Medvedev pledged that Belarus will purchase gas at an annual average price of \$150 for 1,000 m³. Minsk sent a corresponding draft supplement agreement to Moscow in April, however, Gazprom does not acknowledge the verbal arrangements of presidents.

Kommersant

July 22, 2009

Belarus temporarily suspended the Belarusian section of the Unecha-Ventspils oil product pipeline that belongs to Russia's Transneftproduct joint stock company (JSC), citing its unsatisfactory technical condition. The operation of the pipeline was suspended due to the need to conduct scheduled maintenance of ill-conditioned parts of the pipeline. The representatives of the Belarus Emergency Ministry said that the owners of the pipeline, the Russian company Zapad-Transnefteproduct (part of Transnefteproduct) were notified about the transportation suspension ahead of time and were presented with the results of the latest pipeline's inspection performed by a German company in 2007.

The inspection revealed 1,082 defects, which were supposed to be fixed by July 17, 2009. Yet, only 254 defects (23.5%) had been fixed.

On this basis Belarus Emergency Ministry had to suspend the operation of the pipeline due to its poor technical condition and the risk of emergencies and ecological damage. The suspension of the operation of "Unecha-Ventspils" oil-products pipeline was discussed in a phone conversation between the Vice Premiers of Russia and Belarus, I. Sechin and V. Semashko. The Russian and Belarusian sides are taking measures to ensure the prompt resuming of the pipeline's operations.

RIA Novosti

Several large-scale diesel fuel leaks occurred in Belarus. In March 2007 a diesel fuel leak from the oil pipeline polluted over 1 hectare of land. Some of the spilt diesel fuel polluted the Ulla River (a tributary of the Zapadnaya Dvina) and also the Zapadnaya Dvina. On February 14, 2008 a spillage of 70 m³ of diesel fuel polluted 100 m² of land.

October 28, 2009

The Prime Ministers of Russia and Belarus V. Putin and S. Sidorsky held a regular meeting of the Council of Ministers of the Union State. With the crisis conditions Moscow and Minsk needed to smooth over many of the common economic difficulties, including the decreasing sales turnover (42% down).

The meeting was the fourth Russian-Belarusian meeting in two months. Despite a wide range of problems and mutual complaints none of the meetings brought any significant results. During the last meeting the Council of Ministers endorsed a draft budget for the Union State of Russia and Belarus for the next year with an amount of 4.87 billion roubles, or, in other words, kept the budget unchanged from the 2009 level. Energy remains one of the most problematic issues in relationships between the two states. Belarus would prefer to keep current gas prices in 2010 without transferring to the European system of price formation. Moreover Minsk would like to draw interest from Russian oil exports as an “external” western border of the Customs Union. Moscow believes Minsk to already have enough preferential treatment. The situation with the issuance of the last \$500 million tranche of the Russian loan to Belarus remains unclear.

On December 31, 2006 Gazprom OJSC and Beltransgaz OJSC signed an agreement on supplies and transit of gas in 2007–2011. The agreement defines the price formula effective from January 1, 2008 (it corresponds to the formula used to price Russian gas deliveries to Europe), as well as the price reduction factors for 2008–2010 (0.67, 0.8 and 0.9 respectively). According to the agreement, starting 2011 the gas price for Belarus will be levelled with the gas delivery price for Europe. In May 2007 Gazprom OJSC and the Belarus State Property Committee signed an agreement on acquisition of a 50% stake in Beltransgaz OJSC for a total sum of \$2.5 billion paid in equal shares during four years. At present Gazprom owns 37.5% of shares of Beltransgaz. The deal will be closed in 2010.

Though the milk war is over, the political background of the Union relations remains chilly and Lukashenko's refusal to visit the CSTO CRRF drills in Kazakhstan, even though everybody awaited not only his presence but also the signing of the CRRF agreement, once again proves that.

RBK Daily

December 17, 2009

According to Beltransgaz, the price for Russian gas transit throughout the territory of Belarus would be levelled up slightly in 2010. One of Beltransgaz' priorities is to ensure the uninterrupted transportation of gas to Europe through Belarus. At present the Yamal-Europe branch of the gas pipeline is working at full capacity. Beltransgaz is currently in talks with Russia's Gazprom about the possibility of constructing a second branch of the Yamal-Europe pipeline.

RIA Novosti

December 18, 2009

Russia offered Belarus duty-free deliveries of oil for internal use. The volume of deliveries will amount to

5-6 million tons a year. A corresponding offer was voiced by Russia at the Supreme State Council of the Union State of Belarus and Russia in Moscow. The duty-free offer will apply only to deliveries of oil for Belarus' domestic consumption. All other oil deliveries will be liable to export duties.

According to official figures, up to 21 million tons of oil was transported to Belarus via pipelines. Moreover, another 4-5 million tons of oil are being exported via rail or road transportation. From 2010 the reduction factor (0.356 in 2009) will cease to have effect on oil and oil product deliveries to Belarus. Belarus is interested in keeping the reduction factor but Moscow objects due to less favorable terms for the Russian oil refining industry under the current conditions.

RIA Novosti

Belarusian Agricultural Equipment on Russian Market

June 27, 2009

Negotiations on granting Belarusian companies equal conditions for access to the Russian market of agricultural equipment have had no effect.

According to Belstat, in January-April exports of Belarusian tractors decreased by 40% in natural units to 13,000, other agricultural equipment by 35.8% to 9,400 units. Although the figures give evidence of a system crisis, they are not as pessimistic as the car industry statistics, which demonstrate an 80% decrease in sales. Along with that the average prices for Belarusian agricultural equipment rose 37% in dollar equivalent.

Belarus insisted that some Belarusian and Russian producers of agricultural equipment should have the same conditions for access to markets of other countries as those of the national companies. The list of selected companies includes 11 Belarusian and 9 Russian companies. As a mutual concession, Belarus brought its legislation on state purchases in line with the Russian statutory provisions and widened the possibilities of prepaying imports (in particular, by means of credit resources) to an extent that will not hinder the deliveries of Russian equipment to Belarusian farming units within the framework of the state purchases procedure. In its turn Russia introduced a 15% preferential compensation factor for Belarusian producers taking part in state purchases.

Belarus considered the measure insufficient. Belarusian government hoped that all measures of state support would be available to the 11 Belarusian companies on the list. However, Russia's position on accession of Belarusian equipment to Russian market remains firm and unchanged.

BDG Delovaya Gazeta

July 6, 2009

The government of Russia tasked the relevant ministries and agencies with probing cases of “hidden” imports of Belarusian agricultural equipment into Russia. According to the Russian company Rostselmash, Belarusian agricultural machinery producer Gomselmash delivers its combine harvesters to a factory in Bryansk called Bryanskselmash. The combines undergo a trivial presale service before being itemised as Russian products. From that moment these combine harvesters are supported by a subsidised programme to compensate interest rates from the federal budget.

In spring 2009 Belarus filed a proposal to Russia to purchase local combine harvesters via credit facilities. However, the request was rejected due to the fact that credit facilities must be offered to domestic (Russian) producers. In late June the head of Rostselmash accused Belarus of dumping on the Russian market. According to him, while taking part in domestic purchases Belarusian Gomselmash sells its combine harvesters for 5.96 million roubles per unit. However, when supplied to Russia the very same combines cost 4.65 million roubles per unit. Under these circumstances Russian producers cannot compete with Belarusian produce, which is in demand due to the lower prices.

RIA Novosti

July 8, 2009

Talks between Russia and Belarus on mutual supplies of agricultural equipment were held in an atmosphere of mutual complaints. The Russian Premier was tasked with probing the case of Belarus dumping imports of Belarusian equipment on the Russian market. Belarus accused Russia of blocking Belarusian agricultural equipment imports. According to experts, the parties intended to renounce the idea of mutual preferential deliveries in favour of export crediting.

According to a statement by Russian Prime Minister V. Putin, Russia is not going to block imports of agricultural equipment forever. A ban on importing equipment during an acute crisis phase is quite feasible but cannot be applied on a permanent basis.

RIA Novosti

Financial and Monetary Interrelations

Kyrgyzstan Receives a Concessional Loan from Russia

February 3, 2009

Following the results of a meeting between the Russian president D. Medvedev and Kyrgyz head of state K. Bakiyev in the Kremlin, Moscow

pledged to issue a concessional loan to Bishkek totalling \$2 billion and a grant for \$150 million. Moreover, Russia agreed to write off Kyrgyzstan's debt for a total sum of \$180 million.

The total loan amount is \$2 billion. The loan consists of a \$1.7 billion investment in construction of the Kambarata HPP and equipment purchase (the parties signed a separate agreement on the HPP), as well as \$300 million loan to support the country's financial system (with a 0.75% annual interest rate and a term of 40 years).

Moreover, Russia agreed to write off Kyrgyzstan's debt, a total amount of \$180 million, part of which was repaid by the 48% of shares in the Dastan enterprise that produces naval armament and special purpose underwater equipment.

Kyrgyzstan will also receive \$150 million crisis response grant assistance. The country is heavily hit by the economic crisis. Inflation in 2008 amounted to 22.5%. The state's external debt amounted to \$3 billion as of June 2007. Turkmenistan delivered a heavy blow to Kyrgyz economy by almost doubling the gas prices.

Gazeta.ru

Belarus and China to Cut Dollar and Euro Trade Settlements

March 11, 2009

The Central Banks of China and Belarus signed a three-year agreement on cross currency swaps for a total sum of 20 billion yuan (around \$3 billion) in order to avoid dollar and Euro settlements of trade operations between the two countries and transfer to settling in national currencies. In light of this the Central Banks of both countries exchanged deposits. In order to transfer to settlements in their national currencies China and Belarus must sign a special agreement. Belarus will add the 20 billion Chinese yuan it received to its gold and currency reserves.

Reuters

Russia Provides Financial Support to South Ossetia and Abkhazia

March 17, 2009

Russia provided financial assistance to South Ossetia and Abkhazia at the amount of 2.8 billion (\$80.4 million) and 2.36 billion roubles (\$67.7 million) respectively. Russia's financial support is crucial to South Ossetia, which is experiencing an extremely difficult social and economic situation.

Corresponding interagency agreements with South Ossetia and Abkhazia were signed on March 17 by the Russian Finance Ministry. The funds will

support the social and economic development and secure the budget balance of both republics.

The situation in South Ossetia, devastated by the war, is very uneasy. Reconstruction is almost suspended due to the fact that Russian and South Ossetia authorities cannot agree on a scheme of financing. Besides problems with restoring the residential areas and social facilities South Ossetia faced difficulties in financing the public sector. Russian financial assistance will help pay salaries to the personnel of state-financed organisations, children's allowances, pensions, scholarships and state-financed organisations' expenditures. The Russian budget is to finance the reconstruction works to a total of 8.5 billion roubles.

Kommersant

Russia, Armenia Sign \$500 Million Loan Agreement

May 20, 2009

Finance Ministers of Russia and Armenia A. Kudrin and T. Davtyan signed a loan agreement. The \$500 million loan will be granted for a term of 15 years with LIBOR +3% rate to stabilise the country's economy within the crisis conditions. According to A. Kudrin, the credit will be given to Armenia on easy terms with a reduced annual rate of 4%. "We have also provided a 5-year grace period," he said.

According to the Armenian Finance Minister, the loan is of great significance to Armenia's economy under the current crisis conditions. He underlined that Armenia is a conscious borrower and expressed confidence that Armenia will also fulfil its loan-related obligations this time. The loan will be allocated to the development of infrastructure, support of small- and medium- sized businesses and the country's economy as a whole.

RIA Novosti

Russia-Belarus

Russia and Belarus in Talks about Issuing a \$2 Billion Loan

April 3, 2009

Minsk was negotiating with Russia's Sberbank on the possibility of issuing a \$2 billion loan to secure trade operations and the transition to a single currency, which has already been postponed by several years. Earlier Belarus asked Russia to provide 100 billion roubles for the same needs. In practice Belarus needs money to pay for the Russian gas that rises in price every year, but still trades substantially below European prices.

The government of Belarus and Sberbank of Russia signed a memorandum of cooperation. Within the framework of the memorandum the parties will

study the possibility of Sberbank taking part in financing the flow of commodities. In order to do so, the bank needs certain financial assets. Within the crisis conditions Russia's demand contracted and Belarusian exports reduced by 45% in the first months of the year and economic growth rate lowered to 1.4% in January-February from 10% during the last year.

Having received loans from Russia in the past for a total of \$1.5 billion, Belarus was eager to get another 100 billion roubles loan or currency swap to fund the transition to national currencies settlements in external trade. However, the talks were discontinued by Russia.

In November 2008 Russia and Belarus signed an agreement on providing a state loan to Minsk of \$2 billion. The loan was issued for a term of 15 years with LIBOR+3% rate. The same month Belarus received the first \$1 billion tranche of the stabilisation loan. On March 5, the Prime Minister of Russia V. Putin signed a resolution to issue another tranche of the loan to Belarus of \$500 million. Moreover, Gazprom paid over \$1.2 billion for a 50% stake in Beltransgaz.

Reuters

Belarus Refuses to Accept Loan in Russian Roubles

May 28, 2009

A regular session of the Council of Ministers of the Union State of Russia and Belarus (USRB) was held in Minsk. The Russian delegation was chaired by the Russian Prime Minister V. Putin. According to Russia, Belarus refused to accept the second \$500 million tranche of a credit facility for supporting the Belarusian balance of payments, opened by Russia in 2007.

In 2008 Russia agreed to allocate another \$2 billion and in November Belarus received the first \$1 billion tranche. In March 2009 Russia confirmed the allocation of a second \$500 million tranche but suggested transferring the funds in Russian roubles. Belarus refused to accept the loan.

Belarus didn't provide any formal reason. However, Belarus admitted the need for Russian money: on May 28, Russia's Finance Ministry received an application from Belarusian government for crediting the construction of a nuclear power station to an amount of \$9 billion.

Kommersant

Trade and Investments

Customs Union

Key Issues of the Establishment of the Customs Union

February 4, 2009

Moscow hosted the first meeting of the Customs Union Commission, a supranational body of the Customs Union being established by Russia, Belarus and Kazakhstan within the framework of the EurAsEC.

The Customs Union proposes abolishing the customs procedures on the borders between the member states, as well as introducing unified rates of duties and a single system of non-tariff foreign trade regulation. Earlier the governments of the three states agreed to put into operation a single customs tariff and establish a customs union starting January 1, 2010 with completion of all necessary procedures by July 1, 2011. The Customs Union agreement was signed in October 2007 within the framework of the EurAsEC. The participants to the agreement reserved the right to apply protective, anti-dumping and countervailing measures, as well as ban or limit imports or exports.

In October 2008 the heads of three states decided to carry into effect an agreement on the Customs Union Commission dated October 6, 2007 and formed the Commission. Members of the EurAsEC Integration Committee – Deputy Prime Minister of Belarus A. Kobyakov, Minister of Industry and Trade of Kazakhstan V. Shkolnik and the first Deputy Prime Minister of Russia I. Shuvalov joined the Customs Union Commission. The staff list of the Commission's Secretariat and the draft budget of the Commission for 2009 were also approved. The participants of the meeting also reviewed the terms of interaction of the customs services of the Customs Union member states, discussed separate issues in the sphere of indirect taxation and made organisational decisions that will boost the process of the single customs tariff formation.

In 2009 the Supreme Body of the Customs Union, the Customs Union Commission and the governments of member states completed the formation of a single customs tariff for all goods imported to the Customs Union memberstates, worked out the Customs Code and the Statute of the Customs Union Court, as well as many other documents comprising the contractual and legal base of the Customs Union.

Public Relations EurAsEC

April 22, 2009

The Deputy Prime Ministers of the EurAsEC member states took part in the 44th meeting of the EurAsEC Integration Committee in Moscow. During the meeting the participants reviewed the drafts of a free trade agreement, an agreement on a unified approach to applying information technologies to the activities of customs services of member states and an agreement on unified principles of informational interaction of the member states' customs services.

Kyrgyzstan noted the possibility of the country's participation in the work on shaping the Customs Union contractual and legal base.

A meeting of the Customs Union Commission was held the same day to review the issues of establishing a single customs territory, single customs tariff and non-tariff regulation.

Public Relations EurAsEC

August 12, 2009

During a regular meeting of the Customs Union Commission in Moscow the representatives of the Customs Union member states affirmed the adjusted schedule of events for the establishment of a single customs territory of Belarus, Kazakhstan and Russia. In accordance with this decision, the Customs Union will be formed in three stages: the preliminary stage (up to January 1, 2010), the first stage (up to July 1, 2010) and the second stage (up to July 1, 2011). During the preliminary stage it is necessary to create the conditions for the implementation of a single customs and tariff regulation, as well as the shaping of the unified system of non-tariff regulation measures in respect to other countries outside the single customs territory. The free rotation of products subject to compulsory conformance evaluation, as well as the establishment of a sanitary, veterinary and quarantine phytosanitary control system on the external border of the Customs Union must be accomplished by January 1, 2010.

The parties approved an action plan for the transfer of the relevant types of state control, excluding border control, to the external borders of the single customs territory. The action plan must be implemented for the Russian-Belarusian border by July 1, 2010 and the Russian-Kazakh border by July 1, 2011. The participants of the meeting also reviewed the draft Customs Code of the Customs Union. They reached consensus on the issue of working out a mechanism of assignment and distribution of customs duties, other duties, taxes and fees of an equivalent value. Following the results of the meeting regulations for the procedure of joining the Customs Union by the EurAsEC member states was sent to the Customs Union member states for coordination. The Customs Union Commission also endorsed an action plan for the working group on Kyrgyzstan's participation in the Customs Union.

Public Relations EurAsEC

October 21, 2009

Following the results of the regular session of the Customs Union Commission, Russia, Belarus and Kazakhstan finalised all the constitutive documents needed for the establishment of the Customs Union. During the meeting the participants approved all necessary draft international agreements that would need to be signed by the heads of states on November 27, in Minsk. The parties also agreed upon the final draft of the Customs Code, reviewed the planned operating methods for the exterior outline of the Russian-Kazakh and Russian-Belarusian borders. The new operating methods will commence from July 1, 2010 on the Russian-Belarusian border and from July 1, 2011 on the Russian-Kazakh border. A single customs tariff has been formulated and is ready for approval.

Public Relations EurAsEC

October 27, 2009

The customs services of the three countries coordinated the terms of transfer to the unified procedures within the framework of the Customs Union. A single customs tariff was established and sent to all participants of the foreign economic activity for examination. It is expected that the import tariff will rise slightly for Belarus and Kazakhstan and decrease for Russia by an average of 1%.

A unified Customs Code of the Customs Union will be put in force starting July 1, 2010. As soon as the single tariff is in effect, the Customs Union of Russia, Belarus and Kazakhstan will start operating. All procedures necessary for shaping the single customs territory will be completed by summer 2011. However, there is a significant challenge in the way of establishing the Customs Union. The parties will have to agree upon one of the key issues – a mechanism of administering the customs payments and their distribution among the budgets of member states.

At present a schedule for uniting the customs services of the three states has been defined. Its implementation will start on January 1, 2010. The process is currently at the stage of adjustment, unification and a more detailed study of the customs procedures. The major complications are connected with the diversity of the regulatory frameworks of each of the countries. Currently the member states need to adjust the basic customs procedures, such as advanced notice and electronic customs entry form, as well as uniting the procedures of customs clearance.

Kommersant

November 3, 2009

The heads of governments of the Customs Union member states signed a Protocol for tariff preferences. According to the protocol, tariff preferences will be provided by a decision of the Customs Union Commission in the case of import of goods not mentioned in the agreement on unified customs and tariff regulation to the single customs territory. The Commission will analyse the legislation of the Customs Union member states and initiate talks between the participants of the Customs Union in order to reach agreement on the application of tariff preferences.

The government of Russia introduced the agreement on the conditions for applying tariff quotas and preferences within the framework of the Customs Union of Russia, Belarus and Kazakhstan to the State Duma for ratification. In order to put the protocol in effect Russia will have to review the law on customs tariff and abolish the government's function of granting tariff preferences. Moreover, the Russian government suggested ratifying the agreement on conditions and mechanism of applying tariff quotas. The agreement regulates

the conditions and the means of establishing the tariff quotas for imports of agricultural products from other countries to the single customs territory of the Customs Union member states in order to boost agricultural production and secure the necessary size of consumption of agricultural goods. The allocation of tariff quotas will be based on equal grounds. The allocation of tariff quotas to other countries will be based on the results of the consultations with all major suppliers from these countries (with a 10% or larger stake in imports to the single customs territory).

RIA Novosti

November 18, 2009

The total integration benefit from the establishment of the Customs Union may reach about \$400 billion by 2015. The calculations were made by the Institute of Economic Forecasting at the Russian Academy of Sciences. The scientists believe that the dissolution of customs barriers to mutual trade between the three countries will ensure the growth of their mutual GDP by 15-20% by 2015. According to estimates by the experts of the Higher School of Economics, Russian GDP may grow 10%.

www.lenta.ru

November 27, 2009

A meeting of the Supreme Body of the Customs Union of Belarus, Russia and Kazakhstan was held in Minsk. The presidents of the three countries A. Lukashenko, N. Nazarbayev and D. Medvedev reviewed 15 draft agreements, including the agreements on the Customs Code, a single customs tariff and unified commodity classification. The participants of the meeting discussed an array of issues on external trade regulations, including the keeping of statistics, the functioning of a single system of bans and limitations, and the gradual cancellation of economic restriction measures in mutual trade of the three members of the Customs Union. Following the results of the EurAsEC Interstate Council session the presidents of three countries signed a package of documents to launch the Customs Union on January 1, 2010.

RIA Novosti

December 11, 2009

Following the results of the meeting of the Supreme Body of the Customs Union of Belarus, Russia and Kazakhstan in St. Petersburg, Russian Prime Minister V. Putin kick-started the building of a new territorial unit with a common external border and without any internal boundaries. The Prime Ministers signed agreements on technical regulation, sanitary norms and excise duties.

Within the framework of the Customs Union Russia will preserve the customs tariff at a previous level of 82%, 14% of import duties will be lowered and 4% will rise. The figures for Belarus are 75%, 7% and 18% respectively, and for Kazakhstan – 45%, 10% and 45%.

The Customs Union starts operating on January 1, 2010, and from July 1, 2010 a single territory “inspections and duty free” mode will be put into force. A future step is the harmonisation of economic policy not only among the three member states, but also those countries that are already willing to join the Customs Union – Kyrgyzstan, Tajikistan and Armenia, as well as “harmonisation in the field of currency exchange regulation and a single level of support for different economic sectors”.

Kommersant

Single Economic Space

Russia, Belarus and Kazakhstan Establish a Single Economic Space

December 19, 2009

Following the results of an informal summit in Almaty the presidents of Russia, Belarus and Kazakhstan agreed to establish a single economic area by January 1, 2012. The establishment of a single economic area of the Customs Union would be the highest level of economic integration of the countries. Within the framework of the single economic space the countries will establish a common energy market and a unified transport space. Moreover, it will help solve other principal issues.

On February 17, 2010 the president of Ukraine V. Yanukovich tasked his staff with initiating talks on joining the Customs Union of Belarus, Russia and Kazakhstan.

RIA Novosti

Other News on the Customs Union

Kazakhstan's Prospects within the Customs Union

November 26, 2009

With the Customs Union in effect Kazakhstan will have to raise customs duties on imports of goods from the other countries, however the VAT rate will remain unchanged. Being a member of the Customs Union Kazakhstan will discover not only new possibilities but new challenges as well. The higher import duties will lead to a slight increase in domestic prices, and inflation will rise by 0.5-0.7%. However, the rise in the inflation will level out if Kazakhstan reduces imports, replacing them with domestic products.

The Customs Union will come into force on January 1, 2010. It will result in the gradual unification of the customs legislation and introduction of a single customs tariff. The member states agreed upon several exceptional

circumstances in order to support certain sectors of their economies and directly or indirectly support their businesses. The VAT rate is one of the exceptions. The VAT rate in Kazakhstan will remain flat at 12%, in Russia and Belarus – 18%. In addition, after the establishment of the Customs Union the return of VAT from the budget to Kazakhstan's exporters will be performed on a timely basis in accordance with legislation. The leaders of the customs services of three countries plan to sign a corresponding agreement, which will foresee a monthly interchange of a VAT return applications database, which would be performed via special information systems.

Kursiv

Russian Modality to Spread All over the Customs Union

December 2, 2009

A Russian modality of car assembly will spread over the whole Customs Union. From January 1, 2010 the foreign-made cars being assembled in Russia now will be exempt from duties when imported to Kazakhstan and Belarus. The decision was made by the Customs Union Commission and published on its official website. At present the legislations of member states regarding assembly plants differ from each other, in particular Kazakhstan and Russia. Moreover, customs duties are applied to foreign-made cars that are assembled in Russia and imported to neighbouring countries, as the newly established manufactures failed to reach the required level of localisation (50%).

According to decisions made on November 27, 2009 in Minsk, from 2010 foreign-made cars assembled in Russia will be exempt from duties when imported to Belarus and Kazakhstan, if their manufacturer reached a 30% level of production localisation. According to Russian Ministry of Industry and Trade, the bulk of car manufacturers operating in Russia meet this requirement. The same scheme will be applied to imports of foreign-made cars assembled in Kazakhstan. Moreover, by mid 2010 the Customs Union member states are supposed to unify their legislation on commercial assembly on the basis of Russian requirements for capacity and localisation of car components production.

RIA Novosti

Kyrgyzstan Intends to Join the Customs Union

December 3, 2009

Kyrgyzstan authorities contemplate the possibility of joining the Customs Union. The Kyrgyz president K. Bakiyev tasked the government with "studying the issue of Kyrgyzstan entering the Customs

Kyrgyzstan voiced its intent to enter the Customs Union on June 19, 2009 at a meeting of EurAsEC heads of customs authorities.

Union". The government established a special working group that is working on the issues of harmonising the country's customs legislation with the legislations of the Customs Union member states.

RIA Novosti

Belarus, Russia and Kazakhstan Set Up Sugar Producers' Union

December 28, 2009

The sugar producers of Belarus, Russia and Kazakhstan intend to create a sugar union within the framework of the Customs Union. Belarus will be represented by the Belgospischeprom group, Russia by the Union of Sugar Producers, and Kazakhstan by the Asia Sugar association. The parties have recently signed a protocol of intent; the development of foundation documents is underway. The prime responsibility of the union is to boost the production of beetroot sugar in the Customs Union member states.

The union will impose seasonal customs duties on the import of raw sugar to encourage domestic sugar beet producers. Sugar produced from raw sugar will not be exported to markets in Customs Union participating states, only to external countries. The Belgospishcheprom group announced that the parties had already reconciled the balance of sugar deliveries for 2010. Next year Belarus will be able to export 150,000 tons of beetroot sugar to Russia and 10,000 tons of beetroot sugar to Kazakhstan.

The new organisation will be headquartered in Moscow at the Union of Sugar Producers of Russia. Moreover, the Customs Union is also considering the establishment of a union of butter producers.

RIA Novosti

WTO

Accession to the WTO as the Customs Union

June 9, 2009

Russia, Belarus and Kazakhstan plan to launch negotiations for accession to the World Trade Organisation as a Customs Union, Russian Prime Minister V. Putin said following a meeting of the Union's supreme body. Putin also said that a draft project for a uniform customs tariff, effective January 1, 2010, was approved.

The three countries' Prime Ministers had issued a joint statement to notify the World Trade Organisation on the plan to start a negotiation process on the accession of the Customs Union of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation to the WTO as a single customs territory. The three countries are terminating the talks for their separate accession bids.

It remains a common priority to seek the entry of three countries to the WTO, but this time as a single customs space, as a customs union, and not as each country separately. The WTO accession talks will be held by a special joint group of specialists from three countries.

Interfax

Customs Union Member States' WTO Accession Scenarios

July 9, 2009

The Customs Union has not yet filed an official application for accession to the WTO and the date of negotiations has still not been set. According to the WTO Secretariat, the experts held "informal consultations on the subject, which were necessary for a clearer understanding of the situation in order to make it easy for the Customs Union member states to choose the right way of accession".

The experts of the WTO Secretariat and the trade organisation member states suggested three scenarios for WTO accession. The first scenario involved accessing the WTO as a unified Customs Union. The second scenario proposed the accession of three countries within the framework of the Customs Union, simultaneously and on equal terms. According to the third variant, all three countries would join the WTO separately, at different times and on diverse conditions.

The first scenario is the most difficult of all as its implementation requires the Customs Union member states to have a single customs tariff and a common non-tariff regulations system.

Vedomosti

New Prospects for Russia's Accession to the WTO

July 13, 2009

Russia may choose the second scenario for WTO accession, which foresees the accession of Russia, Belarus and Kazakhstan separately but within the framework of the Customs Union, simultaneously and on equal terms. The consultations with the members of the WTO and independent experts showed that from a legal point of view the accession of the Customs Union to WTO as a single organisation does not mean the Union itself joins. First the supranational functions of the Union will have to be expanded on all the spheres related to the WTO regulations. This may substantially delay the accession of the Customs Union member states to the WTO.

Vedomosti

Russia to Access the WTO Together with Belarus and Kazakhstan

August 12, 2009

The issues of the WTO accession negotiation process and the draft Customs Code topped the agenda of the meeting of the Customs Union Commission.

The first issue touched upon the format of accession to WTO. Discussions on the preferable scenario of accession began on June 9, when within the framework of the EurAsEC Interstate Council the Prime Ministers of Russia, Belarus and Kazakhstan agreed to join the WTO together. However, a month later, during the press conference on results of the G8 summit in L'Acquila, Italy, Russian president D. Medvedev announced that Russia would approach the WTO separately. In other words, the member states of the Customs Union will stick to an alternate scenario of joining the WTO that foresees the simultaneous accession of the three states, with their steps being coordinated.

If the countries confirm their intention to join the WTO together, the bilateral talks will be suspended. The negotiations between the Customs Union and the WTO may then be resumed not earlier than 2011, when the formation of the Customs Union will finally be completed.

Following the results of the session the Customs Union being put together by Russia, Belarus, and Kazakhstan established a unified group of negotiators on joining the World Trade Organisation headed by M. Medvedkov. Medvedkov currently leads the Russian delegation in the negotiations on joining the WTO. This negotiating team will hold negotiations on the Customs Union's accession to the WTO and also on Russia's, Belarus', and Kazakhstan's accession to the WTO on acceptable terms and conditions, which will be coordinated. The priority is Russia's, Belarus' and Kazakhstan's simultaneous accession on equal terms.

Kommersant

WTO Talks to be Resumed

September 3, 2009

Russia, Belarus and Kazakhstan held trilateral consultations in Moscow in order to coordinate their stance on WTO accession and resume negotiations with the trade organisation in October. Within the framework of consultations the parties agreed upon certain actions that would allow them to continue talks on WTO accession in the near future. The talks are supposed to resume in January 2010.

Reuters

Russia, Kazakhstan and Belarus to Join the WTO Separately*October 6, 2009*

Within the framework of the multilateral consultations in Geneva, Russia, Belarus and Kazakhstan announced that they intend to resume individual talks on WTO accession. However the countries agreed to coordinate their efforts.

*Reuters***Economic Sectors****Oil and gas****Russian-Ukrainian Relations. Gas Conflict between Russia and Ukraine***January 7, 2009*

From January 1, Russian Gazprom cut gas supply to Ukraine, and on January 7, to European consumers. The conflict resulted from a dispute over Ukrainian Naftogaz' debts for Russian gas supplied in 2008, gas prices for 2009 and Ukraine's illegitimate siphoning off of gas from the export pipeline system. As a result, 18 European countries were cut off from gas supplies.

January 13, 2009

Gazprom resumed pumping gas to Ukraine's pipelines. Gas deliveries are carried out through the Sudzha gas measuring station. Russian gas was first delivered to the most affected countries – Bulgaria, Romania, Turkey, Macedonia, Greece, Moldova and Slovakia. According to Gazprom, the company pumped 76.6 million m³ of gas for the Balkans and another 22.2 million m³ for Slovakia. However, despite the presence of European observers, Ukraine did not open the transit gas pipelines and kept the gas on its territory.

January 15, 2009

Ukraine resumed gas deliveries to Moldova to the smallest possible extent through the main pipeline a week after the deliveries were cut off. Gas deliveries to Moldova via the Ukrainian gas pipeline were cut off on January 7. As a result, the whole Transdnistria region and south Moldova had ran out of gas. On January 14, Ukraine resumed gas supplies to the Odessa region. The two largest regional enterprises – Moldova metal plant (Russian investors own most of its shares) and Moldova GRES (100% owned by Inter RAO UES) were still without gas.

January 20, 2009

Russia resumed gas deliveries to Ukrainian consumers, as well as gas transit through Ukraine to Europe after a three week break in supplies.

According to Gazprom, the Russian gas price for Ukraine will amount to \$360 per 1,000 m³ in the first quarter of 2009 and will be subject to trimestrial changes throughout the year, based on the "European market" gas price with a 0.8 coefficient or 20% discount. According to an agreement with Ukraine, starting January 1, 2010 Ukraine will have no discounts on gas purchases. An agreement for gas transit through Ukraine maintains the preferential transit rate of \$1.7 per 1,000 m³ per 100 km for 2009 and \$2.5 for 2010.

The signing of two separate agreements on gas transit via Ukraine and gas deliveries to Ukraine should serve as a guarantee of uninterrupted supply of gas to Ukraine and Europe in future. Both agreements are valid from 2009 until 2018.

Reuters

March 18, 2009

Gazprom acknowledged the receipt of an official letter from Ukraine's Naftogaz in late February with an offer to review separate provisions of a contract dated January 19, 2009 and reduce the gas supplies to Ukraine in the current year by 17.5% to 33 billion m³.

In March the head of Gazprom, A. Miller, announced that Russia would not fine Ukraine for falling short of the contracted gas purchase volumes in February 2009. However, according to the agreements, every month Ukraine is obliged to purchase the minimal contract-stipulated amounts of gas. On March 12, Russian Prime Minister V. Putin also noted that Moscow would not use sanctions against Kyiv for under-importing under a bilateral agreement due to Ukraine's difficult economic situation.

According to Gazprom's operational principles, a counteragent is obliged to pay for contract-stipulated amount of gas. According to the agreements, Ukraine had to purchase 2 billion m³ of gas in February for \$720 million. However, Ukraine imported only 1 billion m³ of gas for \$360 million. In the first quarter of 2009 Russian gas was being supplied to Ukraine for \$360 per 1,000 m³. Later on the price would be subject to changes in accordance with oil products price dynamics. According to the estimates by the Ukrainian government, the average annual price in 2009 will be \$228.8 per 1,000 m³.

On March 17, Ukraine's Naftogaz presented its new balance, according to which gas supplies throughout Ukraine amounted to 6 billion m³ in February (11.3 billion m³ in February 2008). According to the experts, the annual gas transit through Ukraine to the EU will not exceed 100 billion m³ instead of the stated 120 billion m³.

Kommersant-online

Q3 Gas Price is Set for Ukraine

July 3, 2009

In the first quarter of 2009 Naftogaz bought Russian gas for \$360 per 1,000 m³, in the second quarter the gas price fell to \$280. The gas price for Ukraine in the third quarter was \$198 per 1,000 m³. According to Gazprom's forecasts, the gas price in the last quarter of 2009 will amount to \$155 per 1,000 m³.

The gas price for Ukraine in 2009 was changing every three months according to the world market oil price. In 2009 Ukraine was to buy Russian gas with a 20% discount. The parties agreed to transfer to market relations in 2010.

This allowed Naftogaz to boost Russian gas purchases in July. In June Ukraine sharply decreased the pumping-in of gas to underground gasholders due to higher prices in the second quarter compared to the third quarter of 2009. As a result, Ukraine bought only 1.1 billion m³ out of the 3.4 billion contract-stipulated amount of gas. However, Gazprom did not fine Ukraine for the shortfall. Under the bilateral agreement with Gazprom signed in January, Ukraine is liable to penalties for under-importing if the shortfall exceeds 20%. Within the current economic crisis conditions Ukraine saw a sharp decrease of demand for gas. Ukraine was to pay around \$300 million for gas consumption in June. In July Naftogaz would have had to pay \$1 billion. Ukraine faced difficulties in paying for Russian gas several times during the year. The economic crisis resulted in a sharp fall in budget revenues and losses for Naftogaz, which led to a shortage of funds for gas purchases.

Lenta.ru

Ukraine Boosts Russian Gas Purchases

July 8, 2009

As was expected, the benefits Ukraine receives from the current system of gas pricing, resulted in Ukraine increasing its gas purchases four-fold in the first week of July. Daily average request for a month amounted to around 120 million m³ (33 million m³ in June). Naftogaz said that 19.5 billion m³ of gas were currently stored in Ukraine's gasholders and that the company planned to increase this amount by 9 billion m³ during the third quarter of 2009.

Taking into account the current state of affairs, Naftogaz intended to pay Gazprom \$736.6 million in July. Naftogaz is currently in talks on raising a \$4 billion loan via the Russian bank Troika Dialog. Both Naftogaz and Troika Dialog refrained from comments. Ukrainian Prime Minister Y. Timoshenko pledged that Ukraine would pay for gas on a timely basis. Gazprom confirmed

the receipt of payment for June (less than \$300 million) but voiced concern over the future gas payments due to the increased amount of gas being purchased.

Vedomosti

Kyiv Plans to Raise Gas Transfer Price by 60%

September 3, 2009

One of the key issues of Russian-Ukrainian relations is the transit of hydrocarbons. Around 80% of Russian gas exports are transported through Ukraine to Europe. According to Gazprom, the price for Russian gas transit via Ukraine may be increased in 2010 by 51-59%. At present Gazprom forecasts the transit price in 2010 to be \$2.56-\$2.7 per 1,000 m³ per 100 km. This year Gazprom was paying \$1.7 per 1,000 m³ per 100 km.

Gazprom's estimates are a bit lower than the forecasts of Naftogaz, which foresees a 57-60% rise in transit prices to \$2.67-\$2.72 in 2010. Earlier Ukrainian authorities expressed discontent with the transit rate.

Reuters

Russia Refuses Kyiv Prepayment for Gas Transit

September 7, 2009

Russian president D. Medvedev instructed the head of Gazprom to reject Ukraine's request for prepayment of Russian gas transit. In its turn Ukraine noted that transit rates in 2010 will raise "significantly" but promised there will be no problems with gas transit to Europe.

Relations between Russia and Ukraine, the economy of which suffered the heaviest crisis blow among CIS member states, have remained difficult since the "gas war" early in 2009, which temporarily halted Russian gas supplies to Europe. Around 120 billion m³ of Russian gas is being transported through Ukraine a year or about 80% of all Russian gas export. The head of Gazprom, A. Miller, said that Russian gas transit through Ukraine is currently prepaid up to and including the first quarter 2010.

Ukraine's Prime Minister Y. Timoshenko announced that Ukraine completed the pumping-in of gas to underground gasholders and promised to ensure the reliable export of Russian gas to Europe. However, she warned that the transit rate will rise by 50-70% next year. In summer Ukraine pumps gas into the underground gasholders situated near the country's western border, in order to use it in winter for partial replacement of gas exported by Gazprom to Europe.

Reuters

Russia, Ukraine Settle Gas Issue*November 23, 2009*

Within the framework of the summit of the CIS heads of governments in Yalta the participants held an array of bilateral talks, including talks between the Prime Ministers of Russia and Ukraine, V. Putin and Y. Timoshenko.

Putin agreed to record in writing the reduction of Russia gas purchases by Ukraine's Naftogaz in 2010 and Gazprom's obligation not to fine Ukraine for falling short of contracted gas purchase volumes in the current year. A new round of Russian-Ukrainian gas talks began on November 23, in Moscow. Naftogaz and Gazprom were trying to seal the political agreements reached by the premiers of both countries. According to experts, Gazprom will fulfill the instructions of the Russian Prime Minister and agree to change the gas purchase amount. However, the provision that concerns fines will remain in the contract. Moreover, Naftogaz still has some unsettled issues to take care of – a lawsuit for \$8.3 billion filed by Swiss RosUkrEnergo to the Stockholm Court (50% stake in RosUkrEnergo belongs to Gazprom), for compensation for the loss of 11 billion m³ of gas in Ukrainian gasholders this winter.

During the meeting the parties also discussed other issues. The corresponding agencies of both countries prepared to sign a strategic agreement in the nuclear sphere for the period to 2020. Moreover, Ukraine intends to cooperate with Russia in the field of new technologies by taking part in the construction and development of a global satellite navigation system, GLONASS. Russia and Ukraine also agreed to cooperate in the aircraft industry. A protocol on cooperation foresees the integration of Antonov Group of companies with the United Aircraft Corporation.

Finally, Putin and Timoshenko agreed that by late 2009 the parties will have signed a protocol to the agreement on regulating the deliveries of certain types of Ukrainian-made pipes to Russia in order to prolong the validity of the agreement. The parties are supposed to transfer from the tariff-based method of regulating imports of stainless pipes from Ukraine to Russia (special protective duty) to non-tariff (quota).

www.eurasianhome.org

Gazprom to Lose \$1.3 Billion over Gas Supplies to Ukraine*December 7, 2009*

According to Gazprom, the company will lose \$1.3 billion over gas deliveries to Ukraine. This sum doesn't include fines and is based on the "take or pay" clause in the gas supply contracts.

On November 25, 2009 Naftogaz and Gazprom signed a supplement to the agreement dated January 19, 2009, according to which the contract-

stipulated amounts of gas to be purchased by Ukraine in 2010 will be reduced to 33.75 billion m³ from the planned 52 billion m³. The parties also agreed not to apply fines for the shortfall in 2009. If Russia had fined Ukraine, the country would have paid from \$5.8 billion (Naftogaz' estimates) to \$7.8 billion (president Yuschenko's estimates).

RIA Novosti

Uzbekistan–Russia

Uzbekistan Ready to Sell More Gas to Russia

January 23, 2009

Uzbekneftegaz and Gazprom signed an agreement on strategic cooperation in gas fields on December 17, 2002. The agreement foresees long-term purchases of Uzbek gas for a period from 2003 to 2012, Gazprom's participation in natural gas extraction projects in Uzbekistan under the conditions of the Production Sharing Agreement, as well as cooperation in the field of developing Uzbekistan's gas infrastructure and transportation of Central Asian gas through the territory of the republic.

On February 5, 2005 Gazprom and Uztransgaz (a sub-holding of Uzbekneftegaz national company) signed a mid-term agreement on transportation of natural gas through Uzbekistan for 2006–2010. The agreement aims at organising the transportation of Central Asian gas, primarily Turkmen gas, via the existing Central Asia–Centre and Bukhara–Ural pipelines.

On January 1, 2009 Gazprom finalised the conditions for gas deliveries from Uzbekistan in 2009 and signed a supplement to the agreement on Uzbek gas deliveries that foresees a price setting formula based on the average European gas prices.

During the visit of Russian president D. Medvedev to Uzbekistan, Uzbek head of state I. Karimov noted that Uzbekistan is ready to double its sales of gas to Russia. According to Karimov, Uzbekistan offered Gazprom 16 billion m³ of gas for export this year, but the country is ready to provide more. Gazprom, along with LUKoil, a Russian private oil and gas company, is active in energy-rich Uzbekistan. Considering that LUKoil has been granted permission to increase gas production in this country, Uzbekistan can supply another 15 billion m³ of gas. Moreover, Uzbekistan is ready for new gas pipelines to be built across its territory to increase gas supply and transit.

According to the head of Gazprom, A. Miller, during the Russian-Uzbek talks in Tashkent the parties reached agreements on cooperation in gas transportation sphere. In particular, they are studying the possibility of building gas transit lines running parallel to the existing Central Asia – Centre pipelines. The parties agreed upon the key issue of transfer to market prices in late 2008. In the second half of 2008 the price was \$165 per 1,000 m³ and the average annual price was around \$140.

Ekspert Online

December 11, 2009

Gazprom OJSC and Uztransgaz JSC signed supplements to the agreement on the transit of natural gas through the territory of Uzbekistan

in 2010 and the major conditions for gas deliveries to Gazprom by the Uzbekneftegaz national company in 2010.

www.finam.ru

Uzbekistan–Tajikistan

Uzbekistan Cuts Gas Supplies to Tajikistan

January 26, 2009

Uzbekistan reduced the amount of gas transmitted to Tajikistan by 50% due to Tajik debt of \$9 million. At the time, Tajikistan received around 800,000 m³ of gas a day instead of the 1.65 million supplied earlier.

The clients of the Tajik gas distributor owe the company around \$18.7 million. Dushanbe combined heat and power plant is one of the major debtors. Moreover, the unpaid gas debt of the Barki Tojik energy holding tops \$8.29 million, Tajikcement's debt amounts to \$107 million, Somonsugdgas' – \$1.73 million and Tajikistan's individual consumers' debt amounts to around \$1 million.

Gas deliveries to the country's population continue, however, the large enterprises as TajikAzot, engaged in mineral fertilisers production, and Tajikcement were cut off from gas supplies.

On December 19, 2008 Uztransgaz informed Tajikistan that starting 2009 the gas price will be more than doubled. Tajikistan is not pleased with a gas price of \$300 per 1,000 m³ and considers the current gas price of \$145 per 1,000 m³ to be excessive within the crisis conditions.

Uzbekistan is the only country that exports gas to Tajikistan. Tajikistan's domestic gas production amounted to only 14.7 million m³ in January–November 2008. However, Russian Gazprom and Canadian Tethys Petroleum are currently engaged in developing promising gas fields in Tajikistan.

March 6, 2009

According to Tajiktransgaz, Tajikistan paid \$4 million to Uztransgaz thus having reduced its total gas debt from \$18 million to \$14 million.

Uzbekistan cut gas supplies to Tajikistan by 50% over unpaid debts. In January–February 2009 Tajikistan received 70 million m³ of gas out of the 140 million m³ earlier projected. According to agreements, Uzbekistan will supply around 550 million m³ of gas to Tajikistan at a price of \$240 per 1,000 m³. Last year the gas price for Tajikistan was \$145 per 1,000 m³.

www.ca-news.org

October 1, 2009

According to Tajiktransgaz OJSC, Uzbekistan resumed supplies of natural gas to Tajikistan, after the country cleared the majority of its \$18 million debt. Tajik's debt to Uzbekistan resulted from domestic non-payments, mostly by large Tajik enterprises. The largest commercial bank in Tajikistan, Oriyonbank, issued a \$10 million loan to debtor-enterprises so that they could redeem their gas debts.

In January-August 2009 Tajikistan reduced the import of natural gas from Uzbekistan by 52.7% to 168 million m³. Tajik domestic gas production in the period amounted to 10.8 million m³.

Reuters

Russia–Turkmenistan

Russian–Turkmen Gas Challenges

April 9, 2009

According to the Russian gas company Gazprom, gas supplies from Turkmenistan have been suspended due to a pipeline rupture. Turkmengaz informed Gazprom in the April 9 morning that a rupture and fire occurred on the 487th km of the Davletbat–Dariyalyk gas pipeline at 01:32 a.m.. There has been no delivery of Turkmen gas to Russia since then. Turkmenistan is working to repair the damaged pipeline and to divert deliveries of gas through unused lines of its Central Asia–Centre pipeline network.

Turkmenistan is the largest supplier of Central Asian gas to Gazprom. The first line of the Central Asia–Centre gas pipeline network that transports gas to Russia was built in 1967. The Central Asia–Centre consists of several lines with an annual capacity of 80 billion m³ of gas. According to Turkmen Foreign Ministry, in 2008 Turkmengaz exported around 50 billion m³ of natural gas out of the 70.5 billion m³ produced. In 2009 Turkmenistan plans to produce over 75 billion m³ of gas and export over 51 billion.

The bulk of gas is supplied through Russia to Ukraine. Gazprom has no difficulties with production at present and faced a substantial decrease in demand for its production in the first quarter and had to reduce exports to Europe. Moreover, in early April Gazprom cut gas deliveries to the Balkans due to an explosion at the main gas pipeline in Transdniestria.

The gas relationship between Russia and Turkmenistan became strained after Ashgabad's announcement of an international tender for the construction of an East-West gas pipeline that will transport gas from Iolotan, the largest gas field in the CIS, to the Caspian Sea.

September 14, 2009

Over the last several months the parties have repeatedly tried to bridge the gap. The head of Gazprom, A. Miller, visited Ashgabad on several occasions, and the Russian president D. Medvedev paid a visit to Turkmenistan in September. However, the parties failed to reach an agreement on resuming gas supplies. The leaders of Russia and Turkmenistan were unable to coordinate the schedule for resuming Turkmen gas deliveries to Russia, which were halted after the explosion at the gas pipeline in the spring. The pipeline rupture prevented Turkmenistan, the largest gas supplier, from exporting for nearly six months. Gas deliveries cannot be resumed due to the disagreements over the price and amounts of gas. Before the rupture Turkmenistan supplied Gazprom with around 50 billion m³ a year, or over two thirds of domestic gas production last year and nearly one tenth of Gazprom's production, which remains the only export channel for Turkmenistan.

After the pipeline rupture Ashgabad tried to widen the geography of its gas supplies and reached agreements on increasing gas deliveries to Iran. Moreover, Turkmenistan boosted the preparation for the construction of a gas pipeline to China and made a proposal to deliver gas for a future Nabucco gas pipeline to Europe, a main competitor to the Russian South Stream project. Gazprom does not have an urgent need to purchase expensive Central Asian gas because of a reduction of the company's own sales early this year due to falling European demand.

Though Turkmenistan does not face serious problems with the reduction in gas deliveries due to monetary reserves accumulated in recent years, reaching an agreement with Russia is nevertheless very important.

Reuters

December 22, 2009

Following the results of a meeting between Russian and Turkmen presidents, the state-run companies Gazprom and Turkmengaz signed amendments to the contract, according to which the exports of gas from Turkmenistan to Russia will resume on January 1-10, 2010. Therefore, the gas conflict between the two countries that began in spring 2009 has finally ended. According to the new contract, Russia pledged to purchase up to 30 billion m³ of Turkmen gas annually. Prior to 2009 Gazprom bought around 48 billion m³ of Turkmen gas a year and according to Gazprom's budget for the next three years, purchases of Turkmen gas were to decrease to 10.5 billion m³. The price for gas will be set according to the European price formula.

Due to a decrease in European demand for gas in 2010 Gazprom plans to cut its purchases of gas from Central Asian suppliers. According to the company's budget, next year Gazprom plans to purchase around 32.8 billion

m³ of Central Asian gas. Meanwhile, Gazprom's budget foresees that the level of gas deliveries from Uzbekistan and Kazakhstan will even increase slightly. Gazprom intends to purchase around 14.5 billion m³ of gas from Tashkent and 17.2 billion m³ from Astana. Thus, the forecasted cut in purchases of Central Asian gas will mainly affect Turkmenistan. Turkmenistan may be able to compensate for the loss in revenue by entering the Chinese gas market.

Lenta.ru

Turkmen Gas Transport Routes

March 29, 2009

Turkmenistan announced a tender for the construction of a 1,000 km-long pipeline that will link the gas fields of Eastern Osman and Southern Iolotan and transport gas to the Caspian Sea.

Turkmenistan has repeatedly noted its intent "to diversify the Turkmen gas delivery routes, as well as to establish a reliable and stable system of transporting Turkmen energy resources to international markets".

In late 2007 the governments of Russia, Kazakhstan and Turkmenistan signed an agreement on the construction of a Pre-Caspian gas pipeline. According to the agreement, it is planned to modernise and build new pipelines in the territories of the three states in order to shape the so-called Pre-Caspian gas pipeline system with capacity of up to 30 billion m³ of gas a year. It is planned that the parties will commission the Pre-Caspian gas pipeline, which will follow the Eastern shore of the Caspian Sea and enter the Russian system of gas pipelines, in 2010. Meanwhile, China is building a pipeline from Turkmenistan through Uzbekistan and Kazakhstan, and is also intending to start gas transportation in 2010. The capacity of this pipeline will reach 40 billion m³ a year instead of the planned 30 billion. In turn, the European Union is actively advising Turkmenistan to join the Nabucco project.

Within the framework of the official visit to Moscow on March 24-26, Turkmen president G. Berdymuhamedov met with his Russian counterpart D. Medvedev and the Prime Minister V. Putin. Contrary to expectations, the parties failed to sign an agreement on construction of a gas pipeline in Turkmenistan.

Reuters

June 24, 2009

Turkmen president G. Berdymuhamedov and Chinese Vice Premier Li Keqiang signed a package of agreements on the gas union of Turkmenistan and China. China will provide a \$3 billion loan to Turkmenistan for the development of the country's largest gas field, Southern Iolotan. Gas produced from this field will be transported to China via the pipeline that will be put into operation this year. Chinese authorities intend to transport gas from Southern Iolotan via the Turkmenistan-China pipeline (through Uzbekistan and Kazakhstan), the construction of which is nearing completion. The pipeline's initial capacity will be 30 billion m³ a year, which will be increased to 40 billion m³ a year. The project capacity of the planned Nabucco, for comparison, would be 31 billion m³ of gas a year by

2019. Beijing hopes that for a long term the substantial part of Turkmen gas will be transported to China.

Kommersnat

September 23, 2009

In mid December Turkmenistan is going to pump gas into the new gas pipeline. In 2007 Turkmenistan, Uzbekistan and Kazakhstan reached agreement with the Chinese national oil and gas corporation CNPC over the construction of two lines of a 7,000 km-long gas pipeline to China with a project capacity of up to 40 billion m³ of gas a year. Construction of the pipeline's first route will be completed on schedule. The project costs over \$7 billion.

During the initial stage Turkmenistan will pump around 13 billion m³ of gas a year. With the development of new fields the gas pipeline will reach its project capacity. In June China will provide a \$3 billion loan to Turkmenistan for the development of the country's largest gas field, Southern Iolotan.

Reuters

December 14, 2009

The presidents of Turkmenistan, Kazakhstan and Uzbekistan, G. Berdymuhamedov, N. Nazarbayev and I. Karimov, as well as the Chairman of China Hu Jintao commissioned Turkmenistan–China gas pipeline. The ceremony of the opening of the new gas pipeline was held at the Samandepi field, where the transnational gas pipeline starts from. This event marked Turkmenistan commencing gas supplies to China. A total of 150 million m³ of gas was to be delivered to China by the end of 2009. In the following years, gas supplies will increase. The pipeline's project capacity is 40 billion m³ of gas a year.

RIA Novosti

Russia–Azerbaijan

October 14, 2009

Gazprom signed an agreement on the purchase of up to 500 million m³ of gas from Azerbaijan in 2010. Gazprom plans to add gas from Azerbaijan to its own exports to Europe and hopes to increase purchases in the future. The price for gas deliveries from Azerbaijan will depend on a formula based on world oil prices. Gazprom and State Oil Company of Azerbaijan Republic (SOCAR) agreed to start delivering gas using the first gas from the second phase of Azerbaijan's Shah Deniz offshore field in June. The natural gas reserves of the Shah Deniz gas field amount to 1.3 trillion m³ of natural gas. Gas output of the Shah Deniz gas and condensate field will top 8 billion m³ of gas this year. Gazprom is looking forward to purchasing gas from the second phase of Shah Deniz that will come on stream in 2016. Europe is also counting on the second

stage of Shah Deniz as this field may be used as a possible source of gas for the Nabucco project.

Azerbaijan's authorities repeatedly stated that they will select the buyer for gas from the second stage of Shah Deniz on a basis of business factors.

Reuters

Kazakhstan–Russia

Gas Transit

January 21, 2009

Kazakhstan raised the gas transit rate from \$1.4 to \$1.7 per 1,000 m³ per 100 km. A corresponding agreement was signed by KazMunayGaz and Gazprom.

Reuters

November 19, 2009

Astana is in talks with Russia on transiting gas through the territory of Russian Federation. Until now Gazprom has always re-exported Central Asian gas. Within the framework of negotiations with Russia on the Customs Union, the Kazakh Energy Ministry together with Kazakhstan's national oil and gas company KazMunayGaz have been trying to agree upon improving the conditions for oil transit through Russian territory and the possibility of gas transit. Kazakhstan managed to negotiate stable tariffs on oil that would not exceed the price for oil transportation within Russia. The issue of gas transit is still far from being settled. According to the Russian government, Russia and Kazakhstan held expert consultations on the issues of oil transportation and gas transit on October 14-16. The results of the consultations have not yet been made public.

According to experts, Russia could have benefited from transiting Central Asian gas and not reselling it. It could have been especially feasible for the country's budget because re-export is not liable to customs duties. At present foreign gas is forcing Russian production out of Gazprom's exports. However, Gazprom benefits from selling its own gas and receives higher profit instead of engaging itself in re-exports that sometimes may turn loss making. Moreover, through becoming a transiting company the Russian holding would release itself from the risk of the gas buyer. Demand for gas next year will not be high enough and Kazakhstan fears that Gazprom would not buy enough gas from the country, as happened with Turkmenistan. Astana is striving for direct access to consumers. From an economic point of view this could be more profitable for Gazprom than re-exporting Kazakh gas. However, the holding may lose part of the marketing outlet.

RBK Daily

November 20, 2009

Within the framework of the CIS Heads of Governments meeting in Yalta the participants signed a protocol of amendment to the agreement on oil transit signed by Russia and Kazakhstan on June 7, 2002.

The parties plan to increase the capacity of Atyrau–Samara oil pipeline from 15 million tons to 25 million tons of oil a year, as well as the capacity of the Caspian Pipeline Consortium (CPC) to 67 million tons of oil per annum by 2014. They also envisage cooperating in the projects for the construction of the Burgas–Alexandropolis and Samsun–Ceyhan pipelines.

Moreover, according to the amendments, tariffs for oil transiting must be competitive and non-discriminatory.

In addition, the stated tariff is being fixed as of November 1, 2009 for the period to December 31, 2014 with a possible further annual readjustment in accordance with the level of inflation. The tariff may also include an investment component in case the parties agree to expand the operating systems of main oil pipelines.

www.finam.ru

Other Oil and Gas News

Gazprom Transfers \$625 Million to Belarus for 12.5% of Beltransgaz Shares

February 11, 2009

Russian Gazprom transferred \$625 million to Belarus for acquisition of another 12.5% of shares of gas transportation monopolist Beltransgaz. After long-term arguments Belarus agreed to sell a 50% stake in Beltransgaz to Gazprom in equal parts of 12.5% within four years with each part priced at \$625 million in exchange for preserving preferential gas prices. Gazprom purchased the first two parts in 2006 and 2007.

Reuters

Disputed Matters of Caspian Oil Fields

July 24, 2009

Turkmenistan authorities plan to appeal to the International Court of Arbitration in order to assert the country's rights for the oil and gas fields in the Caspian Sea that are being disputed with Azerbaijan.

Turkmen president G. Berdymuhamedov noted at a government meeting that the issue of delimitation of a passing border and the median line dividing the Caspian between Turkmenistan and Azerbaijan cannot be solved because of the position of Baku. According to him, the situation emerged due to the

fact that the rich oil and gas fields Serdar, Osman and Omar are located in a disputable part of the Caspian Sea but Azerbaijan believes the fields belong to it.

Berdymuhamedov instructed the government to recruit international experts – qualified lawyers to examine the legality of Azerbaijan's claims to the disputed offshore fields in the Caspian Sea, prepare the documents and bring the case to the International Court of Arbitration. The head of Turkmenistan also tasked the government with informing all international companies currently working in the disputed part of the Caspian that, should the Court rule in favour of Ashgabad, Turkmenistan will demand compensation for the damages from these companies.

Kommersant

Kyrgyzgaz is engaged in the purchase, transport and distribution of natural gas in Kyrgyzstan, as well as settling accounts with consumers and suppliers. Kyrgyz State Property Committee owns an 87.9% stake in Kyrgyzgaz and another 5.37% of shares belong to the country's social fund. Kyrgyzstan's proven natural gas reserves are estimated at 6 billion m³. Kyrgyzstan only produces about 30 million m³ of gas annually compared with annual consumption of around 750 million m³. Gazprom's officials were not available for comments on the company's future obligations to Bishkek and the deal's price as all legal formalities had not yet been completed. In October 2008 Gazprom and Kyrgyz government signed a memorandum of understanding on boosting cooperation within the framework of privatising part of the state-owned Kyrgyzgaz. Meanwhile, Russia intends to stretch its assistance beyond Kyrgyzstan's gas field. By the end of 2009 Russia planned to establish a joint venture for the construction of Kambarata-1 HPP, which will belong to Kyrgyzstan and Russia on a parity basis. The project will cost \$1.7 billion.

Gazprom to Gain Control over the Kyrgyz Gas Company

August 6, 2009

Kyrgyzstan agreed to sell Gazprom a controlling stake in Kyrgyzgaz, Kyrgyzstan's national gas company. The Kyrgyz parliament committee for international affairs approved the corresponding draft agreement on June 15, 2009.

The Russian government proposed the acquisition of 75% plus one share in the Kyrgyz national gas company. The Russian party undertook to supply the Central Asian republic with natural gas at tariffs approved by the Kyrgyz government, and also to modernise and upgrade equipment and carry out major repairs to trunk gas pipelines. An estimated \$400 million is required to bring the state of the Kyrgyz gas industry up to an acceptable standard.

RBK Daily

Baku and Astana Agree on Oil Transit

October 2, 2009

The State Oil Company of Azerbaijan Republic and Kazakhstan's national oil and gas company KazMunayGaz signed three documents on the tanker transit of oil from Kazakhstan to Azerbaijan and from there to international markets.

In 2006 Kazakhstan and Azerbaijan, the largest oil producing countries in the Pre-Caspian region, initiated talks on the possible launch of the Trans-Caspian Project in 2012. The project will help deliver oil from Kazakhstan's Kashagan oil field, one of the largest in the world, through Azerbaijan to the Black and Mediterranean Seas.

Within the framework of Kazakh president N. Nazarbayev's visit to Baku on October 2, the parties signed an agreement engaging Azerbaijan's infrastructure in transiting Kazakhstan's oil, a memorandum on performing a Trans-Caspian Project feasibility study for tanker transportation of oil from Aktau and Kuryka over the Caspian Sea and a memorandum on cooperation in establishing a Baku-Black Sea oil transportation route.

The project proposes the delivery of oil from Kazakhstan to Baku ports, where the oil will be distributed among the existing infrastructure – rail and pipelines, and transported to international markets. In order to successfully implement the project Kazakhstan needs to guarantee certain amounts of oil to be transported, mainly from Kashagan, in order to initiate talks with international financial institutions on financing the Trans-Caspian Project.

Reuters

Electric power

Settling the Central Asian Energy Crisis

From January 1, 2009 Uzbekistan halted transit of Turkmen electric power to Tajikistan and aggravated the country's crisis situation even further.

A serious situation emerged at Nurek HPP, which produces around 70% of the country's energy. The amount of water in Nurek reservoir would only be enough to produce energy till mid February. At present the level of water in Nurek reservoir is 8.5 m lower than necessary. The limit for the dam's usage lies only 7 m lower.

February 6, 2009

The Central Asian united power grid may fail due to a complex situation with Tajikistan's power supply. The energy systems of Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan operate in parallel mode with the Central Asian united power grid maintaining the planned cross-flows of electric energy. The Tajik power system faces a tense situation with electric power supply, which may lead to large illegal cross-flows of energy from other power systems to Tajikistan. This in its turn may cause an imbalance in normal parameters of electric energy quality and a possible response from an emergency control schemes that will shut down all other power systems in the Central Asian united power grid.

February 27, 2009

The Central Asian region faced a shortfall in energy consumption. Despite substantial restrictions, introduced in Kazakhstan, Tajikistan and Uzbekistan, all power systems continue to experience difficulties.

According to the National Electric Grid of Kyrgyzstan OJSC, Kyrgyz power system faces difficulties in securing an uninterrupted power supply in the north. On February 26, 2009 Kazakhstan's power grid started operating independently of the Central Asian united power grid, which led to a shutdown of all 500-22-110 kV high-voltage power lines on the border with Kyrgyzstan.

Kazakhstan withdrew from the Central Asian united energy grid due to systematic illegal energy cross-flows to the Tajik power system. The level of Nurek and Kairakum reservoirs was near critical and Tajikistan experienced an acute electric energy shortage. The parties tried to negotiate their parallel work within the Central Asian united power grid.

kg.akipress.org

March 13, 2009

Due to the uncoordinated actions of the Tajik and Uzbek energy systems Kazakhstan's power system has been operating independently of the Central Asian united power grid since February 26, 2009 in order to ensure the stability of the national power system. It was assumed that independent operation of energy systems will continue till the seasonal water inflow and refill of the regional water reservoirs during the second half of April.

The transfer to the independent operation of energy grids boosted the resumption of Turkmen electric energy transit to Tajikistan. However, the imbalance between the generation and consumption of electricity led to frequent failures, frequency drops and restrictions for consumers of energy in Tajikistan, Kyrgyzstan and Uzbekistan.

Kazakhstan considered the possibility of reversing back to parallel operation within the Central Asian united power grid on conditions of energy payback, regulation of energy flows, unhampered transit and adherence to the schedule of energy consumption.

A working meeting of the representatives of ministries and energy systems operators of Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan was held in Almaty on March 6. Following the results of the meeting the parties decided to resume the Kazakh energy system's parallel operation within the Central Asian united power grid.

According to agreements reached during the meeting, Turkmenistan and Uzbekistan will transfer up to 20 million kWh per day to Tajikistan. The Tajik power grid operator will sign an agreement with JSC KEGOC, Kazakhstan's

national power grid operator, on power regulation. This will allow the South zone of Kazakhstan's power system to receive up to 200-250 mW during the peak hours. Moreover, Tajikistan's Barki Tojik will return the unscheduled energy consumption of 88.4 million kWh to Kazakhstan's KEGOC.

Uzbekenergo will provide electric energy transit for the duration of the validity of an agreement between Barki Tojik and Turkmenenergo and secure power regulation within the range of 100-150 mW. Moreover, starting April 20 Uzbekenergo will begin compensating KEGOC for energy losses in January-March.

The parties began preparations for resuming parallel operation on March 7, and from March 11 Kazakhstan's power system again began working in parallel mode with the power grid of Russia and the Central Asian united power grid. Kazakhstan reserved the right to pull out of the united power grids and return to individual operation.

Kazinform

October 28, 2009

According to JSC KEGOC, the national power grid operator, lately there has been unauthorised withdrawal of electricity from the Central Asian power system, namely by Tajikistan. In addition, there has been a difficulty in transmitting the Turkmen electricity through Uzbekistan to Tajikistan. An imbalance between the generation and consumption of electricity may overload the North-South overhead line, which will result in cascading failures affecting both the Kazakh and Russian power systems. The power system of Kazakhstan is largely self-sufficient, KEGOC said, and capable of satisfying not only internal demand for electricity but also supplying it to its neighbour, Kyrgyzstan. Moreover, in the last 10 years Kazakhstan has pulled out of the Central Asian power system twice. The previous occasion was from February 26 to March 11, 2009 due to an imbalance in generation and consumption of electricity by the Central Asian states. Kazakhstan withdrew from the Central Asian united energy grid due to systematic illegal energy cross-flows to the Tajik power system.

Vesti.kz

December 1, 2009

According to the Uzbekenergo state joint stock company, Uzbekistan seceded from the parallel energy grid of Central Asia. In early October the leadership of Uzbekenergo's dispatch centre expressed concern over possible illegal energy cross-flows, as well as the exposure of local power grids to external disturbances.

One of the weak points in the work of Uzbekistan's power system was the disjunction of its constituents – all southern territories of the country depended

on energy supplies from Tajikistan. Over the last two years Uzbekistan had been busy building a loop electric power transmission line that was completed on November 25, 2009.

According to the leadership of Barki Tojik energy holding, Uzbekistan's withdrawal from the Central Asian united power grid will deprive Tajikistan of the only transit line for Turkmen energy. Tajikistan managed to unite its power transmission lines into a joint system before Uzbekistan pulled out of the Central Asian united power grid. On November 29, Tajikistan commissioned a new South-North high-voltage power line with capacity of 500 kW. Until this point, Tajikistan had not had a national united power system for more than 70 years.

Uzbekistan's withdrawal from the Central Asian united power grid mostly affects Tajikistan. The import-export statistics for nine months of 2009 demonstrate that the ratio was nearly equal (1051.8 million kWh and 1171.6 million kWh respectively). Moreover, the bulk of energy is imported from Turkmenistan and the majority of exported energy goes to Uzbekistan. Kazakhstan, being the second largest energy exporter (217.4 million kWh), also used Uzbek power lines.

According to Uzbek authorities, in withdrawing from the Central Asian united power grid, Uzbekistan has not breached any international regulations or international commitments assumed by the state and described the Soviet-era regional power grid as an "outdated and unreliable" union that is becoming a source of conflict among member countries. Kazakhstan noted that its power systems allows it to operate independently and assist Kyrgyzstan, however the country believes that the parallel operation increases reliability and improves the energy supply mode.

*RIA Novosti,
Kursiv*

Other Events in the Electric Power Sector

Construction of Kambarata-1 HPP in Kyrgyzstan

February 3, 2009

The governments of Russia and Kyrgyzstan signed an agreement on the construction of Kambarata-1 HPP. Under the agreement the parties will jointly construct and manage Kambarata-1 HPP and necessary infrastructural facilities. According to the agreement, the parties will establish a joint venture between INTER RAO UES (Russia) and OJSC Electric Stations (Kyrgyzstan). Both will have a 50% stake in the authorised capital of the new venture.

Russia will provide \$11.7 billion in loans for construction within four years starting from 2009. The loans will be provided for 20 years with a grace period of 4 years. Moreover, the Finance Ministries of both countries

reached an agreement on providing gratuitous financial aid of \$150 million to Kyrgyzstan that will be transferred to the republic by April 30, 2009.

As of January 1, 2009 Kyrgyzstan's state debt to Russia was over \$193 million.

Kyrgyzstan will redeem part of the debt by selling a 48% stake in the OJSC Transnational Company Dastan to Russia for over \$19 million.

The remaining debt will be written off within the framework of measures for rendering official development assistance to the country.

Fergana.ru

Kazakhstan Suspends Nuclear Power Plant Project in Aktau

February 23, 2009

Kazakhstan has suspended the project for the construction of the nuclear power plant in Aktau until all the issues regarding the transfer of the intellectual property are settled. The funds allocated from the budget for the feasibility study for the project were handed back to the budget, as the project requires a complete legal base, in particular, the clause providing for the transfer of the intellectual property by Russia.

According to the officials, the parties first need to sign an intergovernmental agreement on the transfer of the intellectual property. As the agreement on the transfer of the intellectual property has not yet been signed, Kazakhstan, responsible for financing the project, finds it unreasonable to spend the budget funds.

The experts consider the current economic situation to be the key reason for suspending the project, because it is difficult to accumulate the necessary amount of funds under the current crisis conditions. Moreover, if the current world economy trend continues, the cost of energy production by the nuclear power plant may match or surpass the price for energy produced by simple thermal power plants but with a substantially higher level of initial investment.

Kursiv

Institute Hydroproject Completes Works at Sangtuda-1 HPP

March 3, 2009

Institute Hydroproject is implementing the completion stage at Sangtuda-1 HPP in Tajikistan. The commissioning of the last fourth unit of hydraulic plant was scheduled for late March. In the near future it is planned to build the dam up to the design elevation, raise the water storage basin to the standard top flood control level and install radial gates on terminal units.

The project was initiated on April 15, 2005 – HPP's construction was officially resumed after a long break with the assistance of the Russian participants. The project's originator is JSC Sangtuda-1 HPP, a joint stock company of Russia and Tajikistan. Inter RAO UES invested around \$600 million in the project. At present this is the largest project in the power engineering industry that is being implemented with Tajikistan's participation. It is supported at the top governmental level. Sangtuda-1 HPP with a capacity of 670 mW is located on the River Vakhsh near the settlement of Sangtuda, 170 km from Dushanbe. Commissioning Sangtuda-1 HPP is an important step in solving the problem of power supply in Tajikistan.

Institute Hydroproject, which is under the management of JSC Engineering Center UES, operated as General Designer and performed design and survey work, developed design documentation, provided field supervision during construction of the 670 mW Sangtuda-1 HPP. The hydraulic plant project was implemented under the control of the company's specialists. The plant includes a dam (earth fill embankment dam with a core), HPP facility, turbine waterways, HPP water intake, construction and service spillway (with two construction and service tunnels, water intake and terminal units), as well as 220 kW outdoor switchgear. Manufacture and delivery of the basic equipment was provided by OJSC Power Machines.

www.ruscable.ru

Inter RAO UES Plans to Purchase a 50% Stake in Ekibastuz GRES-1

November 26, 2009

Russian Inter RAO UES expected to purchase a 50% stake in the Ekibastuz GRES-1 power station in Pavlodar region of Kazakhstan from Kazakhmys before the end of 2009, or in the first quarter of 2010 at the latest. If the deal is closed Russia will own around 10% of Kazakhstan's total electric energy and by 2013 Russia will increase its share to 15%. Kazakhmys has already approved the deal.

Inter RAO UES also owns a 50% stake in Ekibastuz GRES-2, which produces 8% of Kazakhstan's total power, and a 76% stake in KazEnergoResurs LLC, bought in August 2009 for \$3.5 million. Ekibastuz GRES-1, located 20 km from Ekibastuz GRES-2, is the largest coal-fired power stations in the world. Ekibastuz GRES-1 has 4,000 mW of installed capacity, whilst the Balkhash Thermal Power Plant (TPP), which will be put into operation in 2018, will be capable of producing 2400 mW.

At present Ekibastuz GRES-1 produces only 2,450 mW, or 12% of Kazakhstan's total electric power, and is the only supplier of Kazakh power to Russia (300 mW). In three years the plants' current capacity will be increased by 500 mW within the framework of the project for the reconstruction of the plant's power unit No. 8, which has been out of service since 1995. The project's budget is more than \$160 million and the works are under way. Another two non-functioning power units (No. 1, 2) with a capacity of 500 mW each may be reconstructed much faster and at less cost because they are less dismantled.

Kursiv

Third Power Unit of Ekibastuz GRES-2

Inter RAO UES and Ekibastuz-2 State District Power Plant JSC signed an intergovernmental agreement on financing the construction of a third power unit with an installed capacity of 500 mW at Ekibastuz GRES-2. The project will be financed by Russia's Vnesheconombank, the Eurasian Development Bank and Samruk-Energo. Russia's VEB and EDB agreed to provide 15-year \$770 million multicurrency loan on a parity basis. It is expected that the project for expanding Ekibastuz GRES-2 will help reunite Russia's and Kazakhstan's power grids, boost integration between two countries.

Eurasian Development Bank

Financial Sector and Stock Markets

Vnesheconombank Purchases a 75% Stake in Ukrainian Prominvestbank

January 15, 2009

Vnesheconombank, the Russian state-run development bank known as VEB, bought a 75% stake in Ukraine's sixth biggest bank by assets, Prominvestbank, after buying new shares.

According to a financial recovery plan, aside from increasing the authorised capital of the bank the shareholders will also provide additional financing of an amount of over 7 billion hryvnias and attract clients with large cash flows.

In December the Ukrainian Antimonopoly Committee gave permission to Vnesheconombank to purchase over 50% of Prominvestbank's shares.

Reuters

Prominvestbank was established in 1992 on the basis of former Soviet Promstroybank. The bank was among the top ten banks and was mostly engaged in crediting industrial enterprises.

Sberbank is in Talks with Belarus over the Acquisition of BPS-Bank

March 11, 2009

Sberbank of Russia is studying the possibility of acquiring a 100% stake in Belarusian BPS-Bank. The National Bank of Belarus had earlier announced the possible sale of the controlling interest in BPS-Bank to a foreign investor. Sberbank of Russia expressed its interest in operating in the Belarusian market. In light of this, the government of Belarus and Sberbank of Russia signed an agreement on the conditions of interaction that included the possibility of gaining control over one of the existing banks or the establishment of a new bank.

Reuters

December 10, 2009

The President of Belarus signed a decree on selling BPS-Bank to Sberbank of Russia for \$280.73 million. According to conditions of the deal, the bank will pass into the ownership of Sberbank by late 2009. Sberbank will purchase 835.504 million BPS Bank shares for \$0.336 each in 2009. The proceeds from the sale of BPS Bank will be allocated to the National Development Budget Fund of Belarus.

BPS-Bank was ranked fourth by assets among the 31 Belarusian banks. The bank's capital is \$210 million. The bank's profit in the first half of 2009 amounted to \$13 million. The state owned over 95% of the bank's shares.

Sberbank will gain access to the Belarusian market and will be able to offer trade financing in Belarus to its corporate clients.

Ekspert Online

VTB Subsidiary Obtains a License in Kazakhstan

May 25, 2009

VTB's subsidiary bank in Kazakhstan, Bank VTB (Kazakhstan), was granted a banking licence, the Russian lending institution said in a press release. VTB already has subsidiary banks in Ukraine, Belarus, Armenia, Azerbaijan and in a number of European and Asian countries.

According to VTB management board chairman A. Kostin, "expanding VTB Group's presence in Kazakhstan will contribute to intensifying the interaction of the banking systems of the two countries. In launching the subsidiary bank VTB Kazakhstan aims to improve the operating efficiency of lending and settlement services as part of trade and economic cooperation activities for the benefit of Russian and Kazakh concerns".

VTB has conducted operations in the Kazakh market since early 2008. A representative office was launched in Almaty in early February 2008 and work was under way to establish a subsidiary bank. The lending institution obtained permission from the Bank of Russia to open a subsidiary bank in Kazakh territory on February 21, 2008. The legal entity (subsidiary company Bank VTB (Kazakhstan)) was registered by the Justice Ministry of the Republic of Kazakhstan on September 9, 2008.

RIA Novosti

BTA Arranges Debt Restructuring

December 10, 2009

Sberbank received an offer from Samruk-Kazyna to acquire a stake in BTA Bank in February 2009. Since then the parties have been in talks. First it was reported that Samruk-Kazyna is ready to sell half of its stake in BTA Bank, however later on the fund informed that it intends to sell the whole

controlling stake of 75% of shares. Samruk-Kazyna gained control over BTA Bank in early 2009 when the bank faced serious troubles with liquidity.

Sberbank is still negotiating the deal and asked for the settlement of the bank's accounts with creditors as a sine qua non condition. BTA Bank's leadership plans to sign a debt restructuring agreement with its creditors. The external debts of BTA Bank stand at \$13 billion. Meanwhile, the situation continues to deteriorate: Moody's Investors Service downgraded the bank's senior unsecured debt rating from Ca to C.

*RBK Daiy,
Vedomosti*

Eurasian Bank (Kazakhstan) Gains Control over Russian Troika Dialog

December 15, 2009

Eurasian Bank JSC (of Kazakhstan), ranked seventh by assets, has signed a sales and purchase agreement with Troika Dialog Investment Company CJSC and Troika Dialog Financial Consultant CJSC, for the acquisition of 100% of the shares in the commercial bank Troika Dialog. The parties did not disclose the amount of the transaction.

This marks an important transaction for the Eurasian Bank as it expands the bank's regional footprint and platform consistent with its strategy. The acquisition will enable the Bank to benefit from cross-border trade and investment flows between Russia and Kazakhstan. According to the strategic initiatives of the Bank's shareholders and management, the acquisition of Troika Dialog will allow the diversification of its loan portfolio as well as wider coverage through various banking services and products in Russia.

The structure of the transaction also includes the Eurasian Financial Corporation (owned by majority shareholders, the Kazakh Eurasian Natural Resources Corporation – ENRC), the 100% owner of Eurasian Bank, acting as nominee purchaser for the Bank in acquiring 1 share (100% of authorised capital) of Bank Troika Dialog. Completion of the transaction is planned for Q1 2010 subject to receipt of all regulatory approvals and authorisations in Kazakhstan and Russia, including changing the name of the bank to Eurasian Bank OJSC.

Ekspert Online

Belarus to Access Bond Market

December 14, 2009

Belarus is placing notes on the Russian market for a total sum of up to 15 billion roubles. Sberbank was appointed the lead manager for the placement. Belarus is undertaking a second attempt to raise funds on the Russian bond market. The market participants believe the placement to be successful.

This is the second time Belarus had tried to place notes on the Russian market. In 2007 Belarus held consultations with the Russian Federal Service on Financial Markets and signed an agreement on the information interoperability on the bond market. Belarus planned to float bonds for up to 10 billion roubles. VTB was the lead manager. However, in summer 2008 the placement was suspended due to instability of international financial markets and the global liquidity crisis.

On December 11, 2009 Sberbank and the government of Belarus signed an agreement, according to which the bank received a mandate to place Belarus Eurobonds for a total sum of \$2 billion and floating notes for up to 15 billion roubles on the Russian bond market. Sberbank will also organise syndicates for the issue of loans to Belarus for a sum of \$300 million and 5 billion roubles.

RBK Daily

ETS Begins Trading

March 30, 2009

On March 30, 2009 trading was opened on the Eurasian Trading System (ETS) headquartered in Almaty. The ETS is a joint project by the Regional Financial Centre of Almaty (RFCA) and the Russian Stock Exchange (RTS).

The launch of the ETS is seen as an event of high importance. The activity on the commodity stock market is low; the moderate sales volumes of Kazakhstan's stock exchanges have shrunk even further during the last few years. 10 regional commodity exchanges operated in Kazakhstan last year. In a twelve month period the exchanges sealed only 671 deals for a total sum of 13.7 billion tenge, while in 2007 eleven operating at that moment stock exchanges signed 1.852 agreements for 28 billion tenge.

The state had repeatedly shown its interest in establishing a marketable and modern stock exchange in order to secure transparency and introduce risk hedging instruments. Moreover, there was a long felt need for a sustainable way to guarantee trade settlements.

The establishment of an active stock exchange was tasked to the RFCA, which aims to develop Kazakhstan's stock market. The project benefited from the engaging of one of the leading Russian stock exchanges. The new Eurasian Trading System was established in a record time of three months on the basis of existing technologies and software support from the RTS. Trading and clearing is performed in the RTS electronic system, adapted to suit Kazakhstan's conditions. Being a strategic partner, RTS helps ETS not only by providing the software, but also servicing the trading and helping Russian sellers and buyers to access the ETS. The expansion of the trading system is an important step for RTS in implementing international projects. Apart from the one in Almaty, a similar trading project was launched in Ukraine.

Ekspert Kazakhstan

Metal and Machine Building Industry

Construction of the First Mining Facility in Turkmenistan

June 19, 2009

Presidents of Belarus and Turkmenistan laid the foundation for the mining and processing complex for production of potassium fertilisers. The cost of constructing the plant which may become the largest in Central Asia is estimated at around \$1 billion.

Belarusian company Belgorkhimprom won the bid for becoming the major partner in the project. According to Turkmen president G. Berdymuhamedov, the construction of this first mining plant means the creation of a new industry for Turkmenistan. Turkmenistan will now be able to find large consumers. According to the head of Belarus, the joint project will help support both countries in the conditions of the current financial crisis.

MGTRK "Mir"

Russian-Kazakh Railcars Production Plans

October 16, 2009

Kazakhstan Temir Zholy National Railway Company (KTZh) and Uralvagonzavod, a Russian railcar manufacturer, agreed to establish railcar production in Kazakhstan. The companies signed a memorandum of understanding after the 13th meeting of the Kazakh-Russian intergovernmental commission on October 16 in Astana. This is a rather large project: the production capacity of the plant will amount to 3,000 railcars during the first stage and 5,000 during the second stage. The parties were not available for comment on the size of the investment or other details of the project. The plant will be built in Stepnogorsk, in the north of Kazakhstan.

A year ago, Uralvagonzavod's rival, ICT Group, a Russian holding, announced plans to construct a railcar production plant in Kazakhstan that will cost over \$200 million.

Reuters

Mining

Consolidation of Russian Uranium Assets in Kazakhstan

March 12, 2009

On January 23, 2009, "Atomredmetzoloto" (ARMZ, operating under Rosatom corporation) Uranium Holding Co. signed an agreement with Effectivnaya Energia N.V. (Effective Energy N.V.), the owner of 50% of the Karatau Uranium Mine and 25% of Akbastau, on purchase of these assets

located in Kazakhstan. Experts price the deal at around \$560-580 million. Gazprombank provided a loan to ARMZ to finance the deal. Thus, ARMZ Uranium Holding Co. consolidated Russian uranium assets – 50% – in three joint ventures with Kazatomprom: Zarechnoye, Akbastau, and Karatau. Rosatom State Corporation was the final beneficiary of the agreement. The deal was closed after approvals had been granted by the relevant regulatory bodies in March 2009.

Rosatom has consolidated 100% of the uranium mining assets owned by Russia on the territory of Kazakhstan in the framework of the intergovernmental Russian-Kazakh program of cooperation in the field of peaceful use of nuclear energy, which is being implemented jointly with Kazatomprom on the instruction of the presidents of Russia and Kazakhstan. Moreover, the unique experience of ARMZ in uranium projects will have a positive impact on effective use of consolidated assets.

The purchase of the assets of Effective Energy N.V. has made Uranium Holding ARMZ the second biggest foreign uranium mining company operating in Kazakhstan in terms of uranium reserves.

Karatau and Akbastau develop the 2nd and the 1st, 3rd and 4th sections of Budyonovskoye deposit, respectively. The reserves and resources of the two companies total 49,800 tons and 84,000 tons of C1, C2 and P1 categories, respectively. The large amount of resources combined with the practice of stocking the greater part of them is a guarantee of the long-term operation of the deposits. The total capacity of the companies is 5,000 tons of uranium a year (2,000 and 3,000 tons at Karatau and Akbastau, respectively). This capacity is expected to be attained in 2015. Karatau is already mining uranium on a commercial basis: it produced 653 tons of uranium in 2008. Akbastau is in the pre-production phase and was due to start mining in 2009.

Russia and Kazakhstan have also formed the joint venture Zarechnoye, which mined 167 tons of uranium in 2008.

ARMZ, which is part of the Rosatom system, has said it plans to increase uranium production at its three Kazakhstan-based joint ventures to 6,000 tons by 2020. Just over 3,000 tons of uranium are being mined annually on Russian territory today.

Kursiv

Polyus Gold to Work out Development Strategy for KazakhGold

November 5, 2009

Management at Polyus Gold will discuss a strategic development model for KazakhGold, the Kazakhstan-based gold producer which the top Russian gold producer took over this year. Additional investment will, of course, be

needed. In 2010 the company may invest \$100 million to triple production at KazakhGold at the earliest possible date.

The development programme will be implemented in several stages. During the first stage the company needs to increase production output back up to the Soviet-era volumes of 7-7.5 tons per year, or approximately three times today's output. During the second stage the production output will be increased even more by adding new open pits and recovery plants. KazakhGold has two exploration projects in East Kazakhstan – Anzhal and Kaskabulak. The company might start producing gold at Anzhal in 2010 and at Kaskabulak in 2011. These aren't big projects, but quite advantageous ones.

On November 30, the mass media published information that Polyus Gold management is mulling over the reverse acquisition of KazakhGold. If the deal goes through and KazakhGold becomes the core company of the holding, it will be renamed Polyus Gold. A reverse acquisition is one option under consideration to bolster the company's share liquidity. Also, it would be more straightforward for a British company to use its own shares as acquisition currency and raise loans. Polyus Gold bought 50.1% of KazakhGold in August 2009. KazakhGold is registered in England and Wales and listed on the London Stock Exchange.

On December 3, KazakhGold Group Ltd. issued a Notification of Event of Default for its \$200-million Senior Notes due 2013. A breach of the terms and conditions of the Senior Notes had resulted from the non-publication by KazakhGold of interim financial statements for the first six months of 2009. The report stated that KazakhGold was informed that the trustee has notified the holders of notes of the coming event of default under the terms of issue of notes. The Trustee is awaiting instructions from Noteholders as to whether to take enforcement action in respect of this event of default, and the Trustee will be required to take such action if so directed by Noteholders holding an aggregate of 25% or more of the principal amount outstanding of the Senior Notes. In the event that the Trustee does take enforcement action, the Senior Notes, together with accrued interest, will become immediately due and payable.

RBK Daily

On August 3, 2009, Polyus subsidiary Jennington International Inc., which is officially buying back the shares, had received valid acceptances in respect of a total of 39.62 million KazakhGold Shares, which represents approximately 74.84% of KazakhGold's existing charter capital. This is one and a half times more than Polyus needed: Polyus Gold had planned to buy a 50.1% stake in the Kazakh company. Polyus Gold will pay \$7.18 and 0.064 Polyus shares for each share in KazakhGold (a 50.1% stake in KazakhGold is priced at \$269 million, as of June 11, 2009 quotation). Therefore, Polyus Gold's first international purchase will cost the company around \$187 million in cash and 0.9% of Polyus shares. The largest shareholder in KazakhGold is Gold Lion Holdings Ltd, which owns 41.7% of the company's shares. By purchasing KazakhGold Polyus will be able to increase its gold reserves by 20% to 86.8 million ounces, as well as production by 20% or by 200,000-250,000 ounces a year.

Polymetal Acquires Varvarinskoye Mine

November 26, 2009

Russia's top silver producer Polymetal announced that it has entered into a definitive sale and purchase agreement (SPA) to acquire a 100% interest in the Varvarinskoye Gold-Copper Mine in Kazakhstan from Orsu Metals Corporation for an aggregate purchase price of up to \$20 million (plus any deferral interest).

Under the terms of the SPA, Polymetal will acquire 100% of the shares in Three K Exploration and Mining Limited, a wholly-owned subsidiary of Orsu which currently owns Varvarinskoye (directly and indirectly). Polymetal itself said the total consideration payable to Orsu by Polymetal comprises of \$8 million in cash payable upon completion, and deferred consideration of up to a maximum of \$12 million (plus any deferral interest), contingent on and calculable in reference to future prices of gold and copper.

Prior to entering into the transaction, Orsu held certain debt and hedging obligations relating to Varvarinskoye with a syndicate of banks including Investec Bank, Nedbank Limited and Natixis Bank, specifically: debt obligations in the amount of approximately \$73 million, comprising of a \$35 million Export Credit Insurance Corporation, South Africa (ECIC) loan, a \$8 million convertible loan, a \$18 million commercial loan, and \$12 million of overdue hedging obligations; and gold forward contracts totaling 338,468 ounces at a strike price of \$574.25 per ounce with a total estimated value of approximately negative \$140 million (based on a spot gold price of \$950 per ounce).

As part of the transaction, Polymetal has reached preliminary agreement with the lenders to restructure current debt and hedging obligations, under which these obligations will be transferred to the Varvarinskoye asset level, with limited recourse to Polymetal. In addition, the lenders have agreed to restructure the existing hedging contracts (in a form acceptable to Polymetal) to allow Varvarinskoye to benefit from future gold price increases. The repayment schedule of the resulting debt and hedging liabilities will be rescheduled with final repayment becoming due in 2013 (35% of the total liabilities) and 2014 (65% of the total liabilities). In addition, a cash sweep mechanism will apply to all free cash flows generated from Varvarinskoye in the preceding years. Polymetal has agreed to provide the lenders with a corporate guarantee of \$90 million, which may be called upon in specific limited circumstances.

Polymetal views the asset as promising and intends to invest in it \$20 million next year to double the production.

Kazakhstan is ranked seventh in the world by gold reserves.

www.finam.ru, Kursiv

Agricultural Sector

Establishment of Grain Exporters Pool

June 8, 2009

Russia, Ukraine and Kazakhstan, which together supply around a quarter of the world's wheat export, are in talks over the possible establishment of a pool of Black Sea grain producers to coordinate policy on volumes and prices and share infrastructure such as ports, Russian president and Agriculture Ministers of Ukraine and Kazakhstan said at the World Grain Forum on June 6 in St. Petersburg.

Russia intends to increase the average grain harvest to 135 million tons during the next 10-15 years. Russia reaped a record 108.1 million tons of grain in 2008, the largest grain harvest in the Post-Soviet years. The annual exports in this case may rise to 40-50 million tons of grain, Russian Agriculture Minister Y. Skrynnik said. This is twice as much as grain exports in 2008, when Russia exported 22.25 million tons, according to Prozerno analytical company. Russia is ranked second by grain exports. According to Prozerno, Kazakhstan and Ukraine are sixth and seventh respectively in the list of the world's largest grain exporters.

A coordinated export policy by Russia, Kazakhstan and Ukraine may lower the volatility of prices on the world's market and their dependence on speculative activities, help jointly manage grain reserves, optimise the use of grain infrastructure across the three countries, as well as improve their competitiveness on international markets.

A working group to study the possibility of creating the pool of grain exporters was established several months ago. The possible scheme for the pool's operation is still being discussed. However, the possible increase in grain exports is limited by the peak capacity of the Russian infrastructure. At present Russia is capable of transshipping 25 million tons of grain a year. Therefore, in order to boost grain exports Russia needs to expand and modernise its infrastructure. Ukraine's port infrastructure is widening and the country will be able to transship up to 42 million tons of grain in the near future. According to the Ukrainian Agriculture Ministry, grain harvest in 2009 will reach 42-43 million tons and "Ukraine's ports will be free to transship not only domestic grain, but also grain produced by partner countries". Kazakhstan is actively widening its export infrastructure. The country plans to complete the construction of grain terminals in Beineu that will be engaged in grain exports to Uzbekistan and Turkmenistan, the grain terminal on the Black Sea, as well as the grain terminal on the border with China by 2013.

Vedomosti

Kazakhstan May Boost Flour Exports

December 10, 2009

In 2008 Kazakhstan became the top world flour exporter by exporting 1.8 million tons of flour. Meanwhile, Kazakhstan intends to raise annual flour exports to 2.5 million tons by 2014, according to experts from Kazagromarketing. Kazakhstan is capable of producing over 6 million tons of flour a year if its production facilities operate at their peak capacity. During the last few years Kazakhstan's flour production has improved significantly. The average annual growth reached 9% in the last five years. The sustainability of flour production is also explained by the annual growth in flour exports. Flour exports grew by 24% in 2008 compared to 2007; the average annual exports growth in the period from 2003 to 2008 was 32%. The largest flour producing companies are situated in the grain rich regions and the South Kazakhstan region due to its proximity to the Central Asian markets. Kazakhstan exports flour mainly to the Central Asian states, including Kyrgyzstan, Tajikistan, Turkmenistan, Afghanistan and Uzbekistan, which account for the bulk of flour exports (600,000-700,000 tons a year). Kazakhstan also ships flour to Iran, Georgia, Mongolia and Azerbaijan.

Kazakhstan's flour exports are limited only by import abilities of those countries which receive Kazakh flour. According to the Union of Grain Processors and Bakers of Kazakhstan, Kazakh flour market potential is 10 million tons. Flour exports are much more profitable than grain exports due to the fact that flour price has a substantial added value. Kazakhstan's flour leads the flour market due to its high competitiveness and quality, high bread-making potential based on the value of the protein complex, as well as the relatively low costs of transportation to the CIS member states.

According to experts from Kazagromarketing, Kazakhstan joining the Customs Union would not influence the flour price and may aid in boosting flour exports due to access to the sea and the opportunity to export flour to the European Union member states.

Kursiv

Food Industry

Unimilk Launches Two Production Units in Belarus

September 9, 2009

The second largest Russian dairy producer Unimilk invested in the establishment of two new production units in Belarus. Unimilk launched two joint ventures with Belarusian Pruzhansk Dairy Plant OJSC and Shklovsk Dairy Plant JSC.

The dairy plant in Shklovsk will be put into operation in the first quarter of 2010 with capacity of 50 tons of dairy products a day and a further increase in production to 100 tons a day. Unimilk will specify the details of operation of the second joint venture in Pruzhansk in late September, during a joint meeting of Agriculture Ministries of both countries. The parties intended to discuss the issue of deliveries of primary products to dairy plants. Unimilk is the first Russian dairy producer to gain access to the Belarusian market. Until this venture, Belarusian legislation prevented foreign investors from acquiring the country's milk plants. During the last five years Russian milk giants Wimm-Bill-Dann and Unimilk held talks on the implementation of projects in Belarus. However, positive results of these negotiations emerged only when Russia and Belarus ended the milk war that broke out in June this year after Russia introduced a ban on importing Belarusian dairy products.

Unimilk, the second largest Russian producer of milk products, controls 24 dairy plants in Russia and 2 in Ukraine.

Reuters

Security

Uzbek Parliament Ratifies Agreement on State Border with Tajikistan

March 12, 2009

On March 12, Uzbek parliament approved a 2002 Tajik-Uzbek border demarcation agreement. Tajikistan's lower chamber of parliament approved the border agreement with Uzbekistan in late February. The agreement settled 85% of the border line.

The intergovernmental commissions of both countries now have to complete the process of delimitation of the remaining 15% of the border line consisting of four places along the border, which are still disputed and open to discussion, by late 2009, as well as to perform the Uzbek-Tajik border demarcation procedure in accordance with standards of international law.

Tajik-Uzbek joint commissions on economic cooperation and border lineation met on February 18, in Dushanbe to discuss cooperation issues. The second session of the Tajik-Uzbek intergovernmental commission on trade and economic cooperation resulted in signing of an agreement establishing closer economic ties that are dedicated to ease the electricity shortage in Tajikistan.

Tajikistan and Uzbekistan disagree on the region's water management, as well as energy supplies. A notable fact is that according to the Tajik party the length of the border makes up 1.106 km where as the Uzbek government believes it to be 1.161 km.

The territorial issue is the key challenge in relationships between Uzbekistan and Kyrgyzstan. The countries performed delimitation of the major part of the joint Uzbek-Kyrgyz border that amounts to around 1.300 km. However, there are 58 disputed areas along the border that are still being discussed. The special intergovernmental commission on border issues faces many difficulties in its work, mostly due to the mutual contradictions. The Uzbek party advocates the use of a map dated 1924 to delineate boundary lines whereas Kyrgyzstan suggests using a map dated 1955.

The conflicts on the Kyrgyz-Uzbek border are regular in character. 21 border incidents, including one fatal case, took place in 2009. The clash between Uzbekistan and Kyrgyzstan has lasted for several years. At the same time Tashkent takes steps to "move" the border at its own convenience. The local population depends on the cross-border trade and in order to make their living people smuggle goods across the border. The conflict escalated in early June 2009 when Uzbekistan virtually blocked Kyrgyzstan by building 7-metre high concrete walls and closed the bulk of border checkpoints. In response the Kyrgyz border guard service accused Uzbekistan of violating bilateral agreements.

Uzbekistan Strengthens Border in Ferghana Valley

August 20, 2009

Tashkent continues strengthening the state border in the Ferghana Valley – the most densely populated area of Central Asia. In June Uzbek authorities began excavating trenches 3 m in depth and width, as well as building 7-metre high concrete walls along certain parts of the border.

This time the government aimed to creating a full-fledged isolation space along the border. In order to do so, all households within 50 m of the border were resettled to interior parts of the country. Uzbekistan's measures evoked criticism from Kyrgyz authorities that believe construction of fortifications along the border to be a breakaway from the border agreements that forbid all construction works until the completion of the border delimitation.

REGNUM, www.ca-news.org

Other news

Tajikistan Hosts SCO Anti-Terror Drill

April 6, 2009

A two-day joint anti-terror drill of member nations of the Shanghai Cooperation Organisation (SCO), dubbed Norak-Anti-terror 2009, was conducted at the Fakhrobod training ground in the Khatlon province, some 30 km to the south of Dushanbe.

The purpose of the exercise was to rehearse coordination and interaction in antiterrorist missions, boost vocational training, battle training, exchange of experience and practical skills, as well as improve tactical efficiency in the fight against international terrorism, political extremism and separatism.

The drill was conducted as part of a common plan and in accordance with an appropriate decision by the SCO anti-terror centre. The exercise was conducted in two stages and involved task forces and special action forces from the armed forces of Tajikistan, China, Kazakhstan, Kyrgyzstan, and

Russia. The drill involved military personnel along with armoured vehicles, combat helicopters, artillery and aircraft. Representatives of defence and civilian structures from the CIS and other countries observed the joint drill.

www.fergana.ru

CIS Member States Develop Military Cooperation

June 3, 2009

The CIS Defence Ministers' Council held a session in Moscow to discuss the prospects of military cooperation development. Given the importance of promoting integration processes in the military sphere, the defence ministers, among other issues, determined conceptual approaches to the development of military cooperation between CIS member countries for the period up to 2015 and approved a plan of joint actions of the CIS member states armed forces for 2010.

Particular attention was paid to the issues of establishing and modernising different unified military systems. The participants specified the terms and operations of the second stage of the establishment of a united system of communications and approved a list of facilities planned for joining the system.

The Defence Ministers analysed the safety of flights in the Armed Forces of the CIS member states and made the decision to set up a package of application programs securing the functioning of the uniform information and analytical system of safety flights and the CIS in-flight reliability. The participants of the session considered the aspects of improving the Air Defence unified system. The Defence Ministers discussed issues of cooperation between engineering troops of the CIS countries' armies, military science and military-technical cooperation, as well as the burning issues of training and retraining of military personnel, particularly, operational forces of the CIS air defence and specialists in the field of physical training and sports for the armies of the Commonwealth.

*Information and Analytical Department
of CIS Executive Committee*

Ukraine Calls Russia to Hand over the Black Sea Fleet Facilities

July 2, 2009

Ukrainian Foreign Ministry appealed to Russia with a request to hand over the hydrographic navigation facilities being used by the Russian Black Sea Fleet.

Earlier the courts of Ukraine ruled that the Black Sea Fleet facilities must be handed over to Ukrainian government, however, the Russian naval command

In May 2010, Ukraine and Russia signed an agreement on the extension of the lease.

refused to obey the ruling. In particular, on June 16, Russian sailors denied Ukrainian bailiffs entrance to the Mars-75 radio navigational station on the grounds that the Russian-Ukrainian relations on issues of hydrographic facilities are subject to international agreements and not the rulings of local courts. Attempts to seize the Black Sea Fleet facilities on the grounds of judicial decisions started in 2005. One of the most recent attempts took place in March this year.

According to Russian Black Sea Fleet command, Ukrainian efforts to seize the facilities upon local court orders are illegal and contradict the framework agreements on the status and conditions of the Russian Black Sea Fleet deployment on the territory of Ukraine dated 1997. According to the Fleet Commander-in-Chief Vice Admiral A. Kletskov, actions carried out by Ukraine are groundless without resolutions by the Russian government, which acts as the lease holder. All changes to the current status of the hydrographic navigation facilities being used by the Russian Black Sea Fleet can be introduced only on the intergovernmental level, because the Black Sea Fleet and Russian Defence Ministry are not the lease holders.

Kommersant-Online

Summary of CIS countries' Economic Development in 2009

3

YERZHAN
MOLDABEKOV

In 2009 CIS countries continued to suffer the fallout of the global financial crisis. In all countries except Azerbaijan and Uzbekistan, the pace of economic growth slowed dramatically throughout the CIS, and was negative in Armenia, Russia, Ukraine and Moldova.

The slowdown was especially acute in Ukraine (-15%), where the global economic crisis was exacerbated by a domestic political crisis. A fall in demand for Ukrainian exports accompanied by this political turmoil resulted in mass unemployment and a sharp decline in production. Russia's substantial economic decline in 2009 (-7.9%) has been attributed to the country's exposure to global commodity prices and large scale interaction with international markets. Kazakhstan, according to official statistics, posted 1.2% growth. This is due to the rebound in commodity prices as well as the robust anti-crisis policy which the Kazakh government put in place at the end of 2008. This anti-crisis package reached a record high in 2009, equivalent to 7% of GDP.

Dramatic recession in Belarus, Armenia, Tajikistan and Kyrgyzstan was linked to the crisis in Russia and Kazakhstan, the two countries on which their economies are highly dependent, in particular through trade flows and labour migration. The relatively limited slowdown in economic growth in Azerbaijan (from 10.8% to 9.3%) and Uzbekistan (from 10% to 9%) can be attributed to the stringent protectionist measures imposed in these closed economies. Turkmenistan experienced a slowdown of economic growth (from 10% to 6%) in 2009 after gas exports to Russia were halved following a conflict with Gazprom.

Table 3.1. Main macroeconomic indicators: Azerbaijan

| | 2008 | Q1 2009 | H1 2009 | 9 months of 2009 | 2009* | Forecast by the Ministry of the Economy and National Bank of Azerbaijan | | Forecast by the IMF | | Economist Intelligence Unit |
|--|---------|---------|---------|------------------|---------|---|------|---------------------|------|-----------------------------|
| | | | | | | 2010 | 2010 | 2010 | 2010 | |
| GDP growth by quarter (% of the same period of the previous year) | 10.8 | 4.1 | 2.7 | 6.1 | 9.3 | 5.9 | 7.4 | | | 4.5 |
| Industrial production growth (%) | 6 | -2.2 | 0.1 | 5 | 8.6 | 6 | | | | |
| Farm production growth (%) | 6.1 | 4.3 | 6.6 | 2.9 | 3.5 | 4 | | | | |
| Transportation growth (%) | 9.2 | 1.1 | 0.6 | 2.4 | 3.7 | | | | | |
| Growth of investment in fixed assets (% of the same period of the previous year) | 34.3 | 15.2 | -9.7 | -17.1 | -18.7 | | | | | |
| Export (\$ billion) | 47.76 | 2.5 | 5.8 | 10 | 14.7 | | 18.1 | | | 24.88 |
| Import (\$ billion) | 7.16 | 1.3 | 2.7 | 4.4 | 6.1 | | 6.3 | | | 7.45 |
| Average manat to dollar exchange rate | 0.8216 | 0.804 | 0.804 | 0.804 | 0.803 | 0.8 | | | | 0.84 |
| Inflation (% of the same period of the previous year) | 20.8 | 8.4 | 3.7 | 2.1 | 1.8 | 6 | 5.2 | | | 8.3 |
| Monetary stock (in % of the same period of the previous year) | -30.6 | 0.9 | -8.8 | -2.5 | -0.3 | | | | | 16.3 |
| National Bank of Azerbaijan reserves at the end of the period (\$ million) | 5180.2 | 4190.3 | 4233.4 | 4136 | 4307.6 | | | | | |
| Surplus / deficit of consolidated budget (% of GDP) | 2.9 | 5.3 | 2.4 | 3.3 | -0.7 | 2 | | | | -8.2 |
| Official unemployment (%) | 1 | 1 | 1 | 1 | 1 | | | | | 1 |
| Banking sector assets (million manats) | 10273.5 | 8815 | 9191.9 | 10769.7 | 11665.2 | | | | | |
| Banking sector equity capital (million manats) | 1704.7 | 1787.2 | 1859.7 | 1952.3 | 2005.0 | | | | | |
| Bank loans to the economy (million manats) | 7163.2 | 6221.3 | 6463.8 | 7780.8 | 8407.5 | | | | | |
| Bank deposits (million manats) | 4760.7 | 3554.2 | 3696.3 | 4220.1 | 4654.2 | | | | | |

Sources: State Statistics Committee of Azerbaijan, the National Bank of Azerbaijan, IMF, Economist Intelligence Unit.

Note: * preliminary estimate

Table 3.2. Main macroeconomic indicators: Armenia

| | 2008 | Q1 2009 | H1 2009 | 9 months of 2009 | 2009 * | Forecast by the IMF | |
|---|---------|---------|---------|------------------|--------|---------------------|--|
| | | | | | | 2010 | |
| GDP growth by quarter (% of the same period of the previous year) | 6.8 | -6.1 | -15.3 | -18.3 | -13.7 | 2-3 | |
| Industrial production growth (%) | 2 | -9.5 | -11.5 | -11.4 | -7.8 | | |
| Farm production growth (%) | 1.3 | -5.1 | -2.5 | -1.3 | -0.1 | | |
| Transportation growth (%) | 4.9 | -10.8 | -13.7 | -15.3 | -16.7 | | |
| Export (\$ million) | 1069.1 | 123.4 | 281.3 | 480.8 | 697.8 | 727 | |
| Import (\$ million) | 4411.7 | 658.5 | 1378.6 | 2251.6 | 3304.1 | 2836 | |
| Average dram to dollar exchange rate | 305.97 | 325.56 | 348.04 | 356.24 | 363.3 | 392.07 | |
| Inflation (%) | 9.0 | 0.7 | 2.2 | 3.7 | 6.5 | 3 | |
| Monetary stock (in % of the same period of the previous year) | 2.4 | -6.2 | -6.8 | -1.3 | 15.1 | 12.5 | |
| National Bank of Armenia reserves at the end of the period (\$ million) | 1406.81 | 1343.31 | 1963.06 | 2025.86 | 1938.1 | 1861 | |
| Surplus / deficit of consolidated budget (as % of GDP) | 0.8 | 5.3 | 3.0 | -7.4 | -7.6 | -5.8 | |
| Unemployment (by the ILO method, %) | 6.5 | 6.6 | 6.7 | 6.8 | 6.8 | 6 | |
| Banking sector assets (billion drams) | 1024.2 | 1065.7 | 1117.7 | 1230.5 | 1326.0 | | |
| Banking sector equity capital (billion drams) | 235.7 | 236.5 | 238.6 | 246.4 | 278.4 | | |
| Bank loans to the economy (billion drams) | 634.5 | 655.1 | 627.2 | 686 | 735.2 | | |
| Bank deposits (billion drams) | 465.9 | 546.8 | 553 | 642.8 | 657.0 | | |

Sources: National Statistics Service of Armenia, Central Bank of Armenia, IMF

Note: * preliminary estimate

Table 3.3. Main macroeconomic indicators: Belarus

| | 2008 | Q1 2009 | H1 2009 | 9 months of 2009 | 2009* | Forecast by the Ministry of the Economy and the National Bank of Belarus | | Forecast by the IMF | Forecast by the World Bank |
|--|---------|---------|---------|------------------|---------|--|-------|---------------------|----------------------------|
| | | | | | | 2010 ¹ | 2011 | | |
| GDP growth by quarter (% of the same period of the previous year) | 10 | 1.1 | 0.3 | -0.3 | 0.2 | | 10-11 | 2.6 | 3 |
| Industrial production growth (%) | 10.8 | -4.5 | -3.6 | -4.5 | -2.8 | | 11-12 | | |
| Farm production growth (%) | 8.9 | 6.3 | 6.6 | 2.4 | 1.3 | | 10-11 | | |
| Transportation growth (%) | 7 | -10 | -9.8 | -12.5 | -10.9 | | | | |
| Growth of investment in fixed assets (% of the same period of the previous year) | 23.5 | 20.4 | 17.6 | 14.5 | 8.6 | | 23-25 | | |
| Export (\$ billion) | 32.9 | 4.1 | 9.0 | 15 | 24.8 | | 27-28 | 29.2 | 30 |
| Import (\$ billion) | 39.5 | 6.0 | 13.0 | 20 | 30.4 | | 20-21 | 33.4 | 35 |
| Average rouble to dollar exchange rate | 2136.29 | 2771.98 | 2790.44 | 2800.7 | 2792.5 | | | 2200 | |
| Inflation (%) | 12.5 | 6.1 | 7.3 | 7.9 | 10.1 | | 9-10 | 8 | 8 |
| Monetary stock (in % of the same period of the previous year) | 26.1 | 25.9 | 17.3 | 14.5 | 23.1 | | | 21.5 | |
| National Bank of Belarus reserves at the end of the period (\$ billion) | 3.1 | 4.0 | 2.6 | 3.9 | 5.65 | | | 2.3 | |
| Surplus / deficit of consolidated budget (% of GDP) | 1.4 | 2.2 | -1.4 | 0.0 | 0.4 | | -1 | -0.7 | 0 |
| Banking sector assets (billion roubles) | 63379.8 | 68718.4 | 72802.9 | 76776.4 | 82943.0 | | | | |
| Banking sector equity capital (billion roubles) | 11773.4 | 12384.7 | 12614.2 | 12808.2 | 13852.1 | | | | |
| Bank loans to the economy (billion roubles) | 44765.3 | 50239.5 | 54275.7 | 58411.3 | 63639.9 | | | | |
| Bank deposits (billion roubles) | 26205.7 | 27703.3 | 28412.7 | 29123.9 | 32759.7 | | | | |

Sources: National Statistic Committee of Belarus, National Bank of Belarus, Ministry of Economics of Belarus, Ministry of Finance of Belarus, IMF, World Bank

Note: * preliminary estimate

¹ as % of the previous period

Table 3.4. Main macroeconomic indicators: Georgia

| | 2008 | Q1 2009 | H1 2009 | 9 months of 2009 | 2009 * | Forecast by the IMF | |
|---|--------|---------|---------|------------------|--------|---------------------|-------|
| | | | | | | 2010 | |
| GDP growth by quarter (as % of the same period of the previous year) | 2.3 | -5.1 | -10.1 | -1.2 | -4.5 | | 2 |
| Export (\$ million) | 2257.1 | 313.3 | 747.4 | 995.4 | 1135.0 | | 1915 |
| Import (\$ million) | 6212.2 | 952.3 | 1935.2 | 3012.2 | 4378.3 | | 4804 |
| Current balance (as % of GDP) | -22.8 | -17.8 | -14.7 | -17.5 | -16.0 | | -26.8 |
| Average quarterly lari to dollar exchange rate | 1.49 | 1.67 | 1.66 | 1.68 | 1.67 | | 1.67 |
| Inflation (%) | 5.5 | 5.1 | 6.9 | 6.3 | 3.0 | | 5 |
| National Bank of Georgia reserves at the end of the period (\$ million) | 1480.2 | 1493.1 | 1530.4 | 2010 | 1851.5 | | 2086 |
| Monetary stock (in % of the same period of the previous year) | 6.9 | -8.6 | -13.9 | 3.4 | 8.2 | | 13 |
| Surplus / deficit of consolidated budget (as % of GDP) | 2.3 | 1.1 | -1.1 | -5.0 | -4.0 | | -7.3 |
| Unemployment (by the ILO method, %) | 16.5 | | | | 16.0 | | 15 |
| Banking sector assets (million lari) | 8865.6 | 8240.7 | 7729.8 | 7877.1 | 8292.5 | | |
| Banking sector equity capital (million lari) | 1517.3 | 1495.6 | 1534.2 | 1511.0 | 1514.3 | | |
| Bank loans to the economy (million lari) | 5792.8 | 5390.8 | 5133.3 | 4959.0 | 4984.6 | | |
| Bank deposits (million lari) | 2830.2 | 2487.2 | 2248.4 | 2521.5 | 2872.8 | | |

Sources: Statistics Bureau of Georgia, National Bank of Georgia, IMF

Note: * preliminary estimate

Table 3.5. Main macroeconomic indicators: Kazakhstan

| | 2008 | Q1 2009 | H1 2009 | 9 months of 2009 | 2009* | Forecast by the Ministry of Economy and National Bank of PK | | Forecast by the World Bank | Economist Intelligence Unit |
|--|---------|---------|---------|------------------|---------|---|------|----------------------------|-----------------------------|
| | | | | | | 2010 | 2010 | | |
| GDP growth by quarter (% of the same period of the previous year) | 3.2 | -4.5 | -2.3 | -2.2 | 1.2 | 2.4 | 2 | 2-3 | 2 |
| Industrial production growth (%) | 2.1 | -4.6 | -2.7 | -2.2 | 1.7 | 3.9 | | | |
| Farm production growth (%) | -5.6 | 3.6 | 2.7 | 1.7 | 12.8 | 3.3 | | | |
| Transportation growth (%) | 3 | -5.6 | -10.9 | -11.4 | -8.9 | | | | |
| Growth of investment in fixed assets (% of the same period of the previous year) | 14.8 | 2.2 | 7.3 | 1.2 | 2.1 | 12-15 | | | |
| Export (\$ billion) | 71.2 | 8.0 | 17.5 | 29.4 | 43.2 | 45.4 | | | 50 |
| Import (\$ billion) | 37.9 | 6.0 | 13.4 | 20.5 | 28.4 | 33.3 | | | 30 |
| Current balance (as % of GDP) | 5.0 | -5.0 | -8.3 | -4.4 | -2.6 | -2.8 | 2 | -1 | -2 |
| Average tenge to dollar exchange rate | 120.2 | 139.0 | 144.7 | 147.0 | 147.5 | 147.5 | | | 148 |
| Inflation (%) | 9.5 | 2 | 3.9 | 4.8 | 6.4 | 6.5-7.5 | 6.3 | 7-8 | 7.5 |
| National Bank of Kazakhstan reserves at the end of the period (\$ billion) | 19.4 | 18.9 | 18.6 | 20.67 | 23.2 | 23 | 33.6 | | |
| Monetary stock (in % of the same period of the previous year) | 35.3 | 38.9 | 30.6 | 23.3 | 17.9 | 15 | 18 | | 12.7 |
| Surplus / deficit of consolidated budget (as % of GDP) | -2.6 | 2.8 | -1.5 | -2.1 | -3.1 | -4 | -0.7 | -2 | -2 |
| Unemployment (by the ILO method, %) | 6.5 | 6.4 | 6.5 | 6.4 | 6.3 | 7.5 | 6 | 5.5 | 6 |
| Banking sector assets (billion tenge) | 11889.6 | 14100.9 | 12149.7 | 12076.9 | 11554.9 | | | | |
| Banking sector equity capital (billion tenge) | 1947.8 | 1912.4 | -280 | -928.8 | -916 | | | | |
| Bank loans to the economy (billion tenge) | 7385.7 | 8089.1 | 8109.2 | 8026.3 | 7644.1 | 8441 | | | |
| Bank deposits (billion tenge) | 5409.4 | 5808.2 | 5967.5 | 6445.3 | 6473.0 | 6432 | | | |

Sources: Kazakhstan Statistics Agency, National Bank of Kazakhstan, Ministry of Finance of Kazakhstan, Ministry of the Economy of Kazakhstan, IMF, World Bank, Economist Intelligence Unit

Note: * preliminary estimate

Table 3.6. Main macroeconomic indicators: Kyrgyzstan

| | 2008 | Q1 2009 | H1 2009 | 9 months of 2009 | 2009* | Forecast by the IMF | |
|--|--------|---------|---------|------------------|--------|---------------------|-------|
| | | | | | | 2010 | |
| GDP growth by quarter (% of the same period of the previous year) | 7.6 | 0.2 | 0.3 | 2.9 | 2.3 | 2.9 | 2.9 |
| Industrial production growth (%) | 14.8 | -19.5 | -18.9 | -11.5 | -6.4 | | |
| Farm production growth (%) | 0.6 | 1.4 | 2.1 | 5 | 7.4 | | |
| Transportation growth (%) | 20.6 | 0.8 | -1.3 | 4.1 | 4.5 | | |
| Growth of investment in fixed assets (% of the same period of the previous year) | -5 | 31.9 | 35.2 | 27 | 19.7 | | 22 |
| Export (\$ million) | 1855.6 | 235.1 | 689.3 | 919.9 | 1439 | | 2066 |
| Import (\$ million) | 4072.4 | 639.5 | 1245.5 | 2141.4 | 3036.9 | | 3563 |
| Average quarterly som to dollar exchange rate | 36.57 | 40.85 | 43.18 | 43.72 | 42.88 | | 46.72 |
| Inflation (%) | 20 | 0.4 | 0.5 | -1.7 | 0.0 | | 8.2 |
| Monetary stock (in % of the same period of the previous year) | 12.6 | -0.4 | -0.1 | 3.4 | 12.4 | | 12.8 |
| National Bank of Kyrgyzstan reserves at the end of the period (\$ million) | 1222 | 1351 | 1400 | 1471.5 | 1588.2 | | 1459 |
| Surplus / deficit of consolidated budget (as % of GDP) | 0.8 | -1.1 | 0.7 | -0.9 | -0.6 | | -4.5 |
| Banking sector assets (billion soms) | 54.9 | 62.4 | 65.1 | 69.5 | 72.1 | | |
| Banking sector equity capital (billion soms) | 7.85 | 7.85 | 8.1 | 8.9 | 9.0 | | |
| Bank loans to the economy (billion soms) | 25.6 | 25.7 | 25.9 | 25.2 | 26.0 | | |
| Bank deposits (billion soms) | 28.1 | 27.8 | 27.6 | 35.7 | 38.8 | | |

Sources: Kyrgyzstan National Statistics Committee, National Bank of Kyrgyzstan, IMF

Note: * preliminary estimate

Table 3.7. Main macroeconomic indicators: Moldova

| | 2008 | Q1 2009 | H1 2009 | 9 months of 2009 | 2009* | Forecast by the IMF 2010 |
|--|--------|---------|---------|------------------|--------|--------------------------|
| GDP growth by quarter (% of the same period of the previous year) | 7.2 | -6.9 | -7.8 | -8 | -7.3 | 1-2 |
| Industrial production growth (%) | 0.7 | -24.2 | -24.9 | -24.3 | -22.2 | |
| Farm production growth (%) | 32.1 | 3.7 | 2.6 | -10.2 | -9.9 | |
| Transportation growth (%) | -4.8 | -64.4 | -63 | -59.2 | -42.2 | |
| Growth of investment in fixed assets (% of the same period of the previous year) | 1.7 | -40.6 | -38.4 | -42.5 | -34.9 | |
| Export (\$ million) | 1591.2 | 279.8 | 580.8 | 896.4 | 1297.7 | 1205.5 |
| Import (\$ million) | 4898.8 | 753.8 | 1497.8 | 2282.8 | 3278.3 | 3452.5 |
| Average quarterly lei to dollar exchange rate | 10.39 | 10.61 | 11.2 | 11.03 | 11.11 | |
| Inflation (%) | 7.3 | -2 | -1.8 | -2.9 | 0.0 | 7.7 |
| Monetary stock (in % of the same period of the previous year) | 15.9 | 1.3 | 3.8 | 9.4 | 9.3 | |
| National Bank of Moldova reserves at the end of the period (\$ billion) | 1.67 | 1.13 | 1.21 | 1.3 | 1.45 | |
| Surplus / deficit of consolidated budget (as % of GDP) | -2 | -7 | -3.7 | -5.2 | -6.2 | |
| Official unemployment (%) | 5 | 7.7 | 6.1 | 6.5 | 6.5 | 6 |
| Banking sector assets (billion lei) | 39.1 | 37.6 | 36.6 | 37.8 | 39.9 | |
| Banking sector equity capital (billion lei) | 7 | 7.1 | 6.8 | 6.5 | 6.5 | |
| Bank loans to the economy (billion lei) | 25.1 | 24.66 | 23.85 | 26.0 | 28.0 | |
| Bank deposits (billion lei) | 18.1 | 16.76 | 16.41 | 17.0 | 18.0 | |

Sources: National Statistics Bureau of Moldova, National Bank of Moldova, IMF

Note: * preliminary estimate

Table 3.8. Main macroeconomic indicators: Russia

| | 2008 | Q1 2009 | H1 2009 | 9 months of 2009 | 2009* | Forecast by the Ministry of Economic Development | | Forecast by the World Bank | | Economist Intelligence Unit | |
|--|---------|---------|---------|------------------|---------|--|--------|----------------------------|-------|-----------------------------|------|
| | | | | | | 2010 | 2010 | 2010 | 2010 | 2010 | 2010 |
| GDP growth by quarter (% of the same period of the previous year) | 5.6 | -9.8 | -10.9 | -9.9 | -7.9 | 3.1 | 1.5 | 5.5 | 3.5 | | |
| Industrial production growth (%) | 2.1 | -14.3 | -14.8 | -13.5 | -10.8 | 5 | | | | | |
| Farm production growth (%) | 9 | 2.1 | 0.9 | -0.8 | 1.2 | 2.4 | | | | | |
| Transportation growth (%) | 2 | -22.2 | -17.5 | -14 | -10.2 | | | | | | |
| Growth of investment in fixed assets (% of the same period of the previous year) | 9.8 | -15.6 | -18.2 | -18.9 | -17 | 2 | | | | | |
| Export (\$ billion) | 468.1 | 56.9 | 126 | 206.5 | 303.3 | 350 | 320.8 | | 338.3 | | |
| Import (\$ billion) | 266.9 | 33.5 | 82.3 | 114.8 | 192.7 | 226.4 | -210.4 | | 223.8 | | |
| Current balance (as % of GDP) | 6.1 | 3.8 | 3.2 | 3.7 | 4.1 | 3 | 2.9 | 2 | 2 | | |
| Average rouble to dollar exchange rate | 24.9 | 34 | 33.1 | 32.5 | 31.4 | 32 | | | 33.5 | | |
| Inflation (%) | 13.3 | 5.4 | 7.5 | 8.1 | 8.8 | 6.5-7.5 | 9 | 7-8 | 9.4 | | |
| Monetary stock (in % of the same period of the previous year) | 1.7 | -8 | -7.6 | -5 | 16.3 | 10 | 21.5 | | 18.2 | | |
| Central Bank of Russia Reserves at the end of the period (\$ billion) | 427 | 383.9 | 412.6 | 413.4 | 439.0 | | | | | | |
| Surplus / deficit of consolidated budget (as % of GDP) | 4.8 | 2.7 | -4.2 | -9.3 | -6.2 | -6.8 | -4.4 | -3 | -4 | | |
| Unemployment (by the ILO method, %) | 6.4 | 9.1 | 8.6 | 7.8 | 8.4 | 8.6 | 8.5 | 8 | 8 | | |
| Banking sector assets (billion roubles) | 28022.3 | 28527.1 | 27776.2 | 28022.6 | 29430.0 | | | | | | |
| Banking sector equity capital (billion roubles) | 3811.1 | 3900.3 | 3996.7 | 3811.1 | 3766.4 | | | | | | |
| Bank loans to the economy (billion roubles) | 19884.8 | 20561.3 | 19879.0 | 20178.0 | 19847.1 | | | | | | |
| Bank deposits (billion roubles) | 8774.6 | 8729.6 | 9114.5 | 9337.3 | 9557.2 | | | | | | |

Sources: Federal State Statistics Service of Russia, Central Bank of Russia, Ministry of Finance of Russia, Ministry of Economic Development of Russia, IMF, World Bank, Economist Intelligence Unit
Note: * preliminary estimate

Table 3.9. Main macroeconomic indicators: Tajikistan

| | 2008 | Q1 2009 | H1 2009 | 9 months of 2009 | 2009 * | Forecast by the IMF | |
|--|--------|---------|---------|------------------|--------|---------------------|--|
| | | | | | | 2010 | |
| GDP growth by quarter (% of the same period of the previous year) | 7.9 | 3.5 | 2.8 | 2.7 | 3.4 | 3 | |
| Industrial production growth (%) | -4 | -8.2 | -13.3 | -10 | -6.3 | | |
| Farm production growth (%) | 7.9 | 9.4 | 4.6 | 3.2 | 2.5 | | |
| Transportation growth (%) | 9.8 | 4.1 | -10.2 | -9.7 | 1.6 | | |
| Growth of investment in fixed assets (% of the same period of the previous year) | 12.5 | 7.9 | 5.7 | 4.7 | 4.0 | | |
| Export (\$ million) | 1468.1 | 174.4 | 411.4 | 712.7 | 1010.0 | 885 | |
| Import (\$ million) | 2547.2 | 626.8 | 1204.4 | 1821.4 | 2568.7 | 2266 | |
| Average quarterly somoni to dollar exchange rate | 3.43 | 3.67 | 4.4 | 4.38 | 4.37 | | |
| Inflation (%) | 20.0 | 1.2 | 2.8 | 4.5 | 6.5 | 10 | |
| Monetary stock (in % of the same period of the previous year) | 10.5 | 21.8 | 22.4 | 22.3 | 29.9 | | |
| National Bank of Tajikistan reserves at the end of the period (\$ million) | 250 | 231 | 221 | 224 | 230 | 297 | |
| Surplus / deficit of consolidated budget (as % of GDP) | 1.6 | 1.6 | 0.4 | 0.8 | 0.4 | -5.3 | |
| Banking sector assets (million somoni) | 6169.1 | | | | 6314.5 | | |
| Banking sector equity capital (million somoni) | 1087.2 | 933.2 | 800.5 | 939.88 | 1012.4 | | |
| Bank loans to the economy (million somoni) | 4860.1 | 5019.7 | 5437.7 | 5653.5 | 5331.4 | | |
| Bank deposits (million somoni) | 1914.4 | 1946.9 | 2006.6 | 2269.7 | 2614.3 | | |

Sources: State Statistics Committee of Tajikistan, National Bank of Tajikistan, IMF

Note: * preliminary estimate

Table 3.10. Main macroeconomic indicators: Turkmenistan

| | 2008 | Q1 2009 | H1 2009 | 9 months of 2009 | 2009* | Forecast by the IMF 2010 |
|--|-----------|---------|-----------|------------------|---------|--------------------------|
| GDP growth by quarter (% of the same period of the previous year) | 10.5 | 8.8 | 9.2 | 7.5 | 6 | 10.3 |
| Transportation growth (%) | 0.2 | -0.6 | -1 | -1.2 | 2 | |
| Growth of investment in fixed assets (% of the same period of the previous year) | 3.1 times | 2 times | 2.5 times | 2.6 times | 2 times | |
| Export (\$ billion) | 11.9 | 5.0 | 6.5 | 7.9 | 9.6 | 11.8 |
| Import (\$ billion) | 5.7 | 1.8 | 3.9 | 6.3 | 8.7 | 10.7 |
| Inflation (%) | 8.9 | | | | 6 | 3.5 |
| Monetary stock (in % of the same period of the previous year) | -7.6 | | | | 10 | 10 |

Sources: State Statistics Growth of Turkmenistan, National Bank of Turkmenistan, IMF

Note: * preliminary estimate

Table 3.11. Main macroeconomic indicators: Uzbekistan

| | 2008 | Q1 2009 | H1 2009 | 9 months of 2009 | 2009* | Forecast by the Uzbek Ministry of Economy and Central Bank of Uzbekistan | | Forecast by the IMF |
|--|---------|---------|---------|------------------|---------|--|------|---------------------|
| | | | | | | 2010 | 2010 | |
| GDP growth by quarter (% of the same period of the previous year) | 9 | 7.9 | 8.2 | 8 | 8.1 | 8 | 7 | |
| Industrial production growth (%) | 12.7 | 9.9 | 9.1 | 9.1 | 9 | 8 | | |
| Farm production growth (%) | 4.5 | 5.7 | 4.6 | 3.3 | 5.7 | 4-5 | | |
| Transportation growth (%) | 6.7 | 6.4 | -8.1 | -9 | -6.9 | | | |
| Growth of investment in fixed assets (% of the same period of the previous year) | 28.3 | 31.4 | 32.7 | 28.3 | 24.8 | 22.1 | | |
| Export (\$ billion) | 11572.9 | 2493.9 | 6034.1 | 9173.8 | 11771.3 | | | 11961 |
| Import (\$ billion) | 7504.1 | 2287.0 | 4462.9 | 6840.2 | 9438.3 | | | 10558 |
| Sum to dollar exchange rate at the end of the period | 1393 | 1432 | 1483.5 | 1499 | 1501.1 | 1450 | | |
| Inflation, as % of December of the previous year | 7.8 | 2.7 | 3.6 | 4.2 | 7.4 | 7-9 | 9.5 | |
| Monetary stock, as % of the previous year | | | | | | 12-15 | | |
| Surplus / deficit of consolidated budget (as % of GDP) | -1 | 0.7 | 0.4 | 0.2 | 0.4 | -1 | | |
| Banking sector assets (billion sums) | 10745 | 12885 | 14865 | 15341 | 15703.1 | | | |
| Banking sector equity capital (billion sums) | 2104.3 | 2268 | 2335 | 2497 | 3010.4 | | | |
| Bank loans to the economy (billion sums) | 6372 | 7089 | 8012 | 8411 | 8556.8 | 41-431 | | |
| Bank deposits (billion sums) | 1723.8 | 2027 | 2190 | 2565 | 3537.8 | | | |

Sources: State Statistics Committee of Uzbekistan, Central Bank of Uzbekistan, Ministry of Finance of Uzbekistan, Ministry of the Economy of Uzbekistan, IMF

Note: * preliminary estimate

Table 3.12. Main macroeconomic indicators: Ukraine

| | 2008 | Q1 2009 | H1 2009 | 9 months of 2009 | 2009 * | Forecast by the Ministry of the Economy of Ukraine | | Forecast by the IMF | Economist Intelligence Unit |
|--|-------|---------|---------|------------------|--------|--|------|---------------------|-----------------------------|
| | | | | | | 2010 | 2010 | | |
| GDP growth by quarter (% of the same period of the previous year) | 2.1 | -20.7 | -16.7 | -15.9 | -15 | 1.9 | 2-3 | | 1-2 |
| Industrial production growth (%) | -3.1 | -31.9 | -31.1 | -28.4 | -21.9 | | | | |
| Farm production growth (%) | 17.5 | 1.7 | 2.6 | 3.3 | 0.1 | | | | |
| Transportation growth (%) | -0.2 | -37.4 | -34.8 | -28.6 | -21.9 | | | | |
| Growth of investment in fixed assets (% of the same period of the previous year) | -2.3 | -39.5 | -43.3 | -43.7 | -37.4 | 3.7 | | | |
| Export (\$ billion) | 78.9 | 10.4 | 17.33 | 27.48 | 54.17 | 66.3 | 49.5 | | 44.2 |
| Import (\$ billion) | 92.2 | 10.8 | 19.77 | 31.57 | 56.9 | 67.5 | 53.9 | | 47.8 |
| Average quarterly hryvnia to dollar exchange rate | 7.7 | 7.7 | 7.63 | 8.01 | 7.9 | | 9 | | 8.04 |
| Inflation (%) | 22.3 | 5.9 | 8.6 | 9.1 | 12.3 | 7 | 9 | | 10 |
| Monetary stock (in % of the same period of the previous year) | 30.2 | 11.5 | 4.9 | -1.7 | -2.6 | 10.6 | 14.4 | | 15.3 |
| National Bank of Ukraine Reserves at the end of the period (\$ billion) | 31.54 | 25.4 | 27.3 | 28.7 | 26.5 | 31.6 | 32 | | |
| Surplus / deficit of consolidated budget (% of GDP) | -1.6 | -2.2 | -2 | -2.5 | -2.2 | 0 | -6.4 | | -4 |
| Unemployment (by the ILO method, %) | 9.5 | 9.5 | 9.1 | 9.3 | 9.2 | | 9.5 | | 5 |
| Banking sector assets (billion hryvnia) | 927.2 | 878.1 | 850.6 | 987.8 | 1001.6 | | | | |
| Banking sector equity capital (billion hryvnia) | 121.4 | 124.5 | 125.0 | 121.6 | 115.2 | | | | |
| Bank loans to the economy (billion hryvnia) | 734.0 | 716.5 | 715.8 | 729.5 | 723.3 | | | | |
| Bank deposits (billion hryvnia) | 359.7 | 316.9 | 321.7 | 327.1 | 335.0 | | | | |

Sources: State Statistics Committee of Ukraine, National Bank of Ukraine, IMF, Economist Intelligence Unit

Note: * preliminary estimate

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4 International and Regional Development Banks in Northern and Central Eurasia: Overview of Activities in 2009

This overview focuses on the activities of the main international financial institutions in eight states – the five Central Asian countries of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, together with Russia, Armenia, and Belarus. The countries selected include the members of the Eurasian Development Bank (EDB), i.e., Russia, Kazakhstan, Armenia, Belarus and Tajikistan. The wider analysis of other Central Asian states illustrates the EDB's ongoing interest in the development of this region. The overview covers the Asian Development Bank (ADB), the World Bank (WB), the European Bank for Reconstruction and Development (EBRD), the Eurasian Development Bank (EDB) and the Islamic Development Bank (IDB). These international and regional development banks play a significant role in the economic development of the region. In fact, their importance is increasing during these economically difficult times. They are also the key institutions promoting global and regional integration through large-scale investment in infrastructure, specialised technical assistance and research.

This report is based on information from public sources, including the websites and annual reports of these development banks. Direct comparison is not always possible. For example, the banks classify some of their activities differently, and their reporting format and periods vary. It is nevertheless possible to identify common trends and gain an insight into the focus and scope of operations of the international financial institutions (IFI) in the region.

1. The Main Activities of IFI in 2009

Asian Development Bank

The ADB's Board of Directors has approved a new energy policy to help Asia Pacific countries secure adequate energy supplies while cutting levels of greenhouse gas emissions. The 2009 Energy Policy will help developing member countries provide reliable, adequate and affordable energy supplies to all citizens, as an integral part of ADB's Strategy 2020 aimed at promoting inclusive and environmentally sustainable growth. It also

underpins ADB's programmes addressing the rising threat of climate change. ADB's investments in the sector will focus on energy efficiency and renewable energy projects, along with expanding access to energy, particularly in remote rural areas where coverage remains limited. It will also support sector reform, improved governance and the creation of new capacity. From 2013 onwards, ADB will increase its clean energy investment target to \$2 billion a year from a previous target of \$1 billion in a bid to accelerate the adoption of low-carbon technologies and reduce greenhouse gas emissions in the region. The new policy also promotes ADB's ongoing financial and technical support for the developers and sponsors of projects eligible for carbon credits under the Kyoto Protocol's Clean Development Mechanism. These have two sources of finance – the Asia Pacific Carbon Fund and the Future Carbon Fund.

In 2009 the ADB Board of Directors approved a Safeguard Policy Statement that will strengthen protection systems that are already in place to avert or minimize the adverse impact of ADB-supported projects on the environment and affected populations. An innovative feature of the policy is the selective application of country safeguard systems when borrowers have the capacities and requirements equivalent to ADB's.

The World Bank Group

In FY09 (July 1, 2008 – June 30, 2009) the World Bank Group (WBG) supported 767 projects to promote economic growth, fight poverty and assist private businesses. This support included \$20.7 billion for financing infrastructure, a sector that provides the critical foundations for job creation and rapid recovery from economic crisis. The financing was extended in the form of loans, grants, equity investments and guarantees to help countries and private-sector firms deal with the devastating effects of the global financial meltdown.

In FY09 the WBG devoted significant energy and resources responding to the needs of countries hit by the global financial crisis. It concentrated on initiatives aimed at protecting the most vulnerable in the poorest countries, i.e., long-term infrastructure investment programmes, strategies to support private sector economic growth and job creation. Support for contingency funds and social protection programmes totaled \$4.5 billion.

During FY09 the World Bank Group committed \$12.5 billion to the support of its members and private businesses in the Europe and Central Asia (ECA) Region. WBG commitments in ECA grew by 58% in FY09 compared with FY08, as financing was approved rapidly to help cushion the impact of the global economic crisis on the poor and to position countries for post-crisis recovery.

The IBRD/IDA recipients are using these funds for 53 projects across all sectors, to overcome the crisis and be better positioned for the post-crisis

period by focusing on productivity and innovation in the enterprise sector; establishing a healthy business and investment climate; creating a qualified and skilled workforce by targeting health and education projects; improving public administration; creating legal and judicial systems; and implementing economic infrastructure programmes, particularly transboundary programmes. In FY2009, IDA commitments in ECA totaled \$383 million and IBRD commitments totaled \$8.9 billion, more than double the \$4.2 billion of FY08. The top borrowers in ECA in FY09 by volume were Poland (\$2.55 billion), Kazakhstan (\$2.125 billion) and Turkey (\$2.075 billion).

Table 4.1.
WBG Commitments
in ECA region, FY09
and FY08 (\$ billion)

| WBG | FY09 | FY08* |
|-------|------|-------|
| IBRD | 8.9 | 3.7 |
| IDA | 0.4 | 0.5 |
| IFC | 2.1* | 2.7* |
| MIGA | 1.2 | 1.2 |
| TOTAL | 12.5 | 8 |

Note: *own account only. In FY09 excludes \$841 million mobilised through syndication and structured finance.

In a rapidly changing economic landscape, the World Bank continues to be a vital development partner and has responded to urgent demand for economic support from the poorest countries. The Bank has also played a crucial role in stabilising the financial sector by providing budget support for reform in almost half of the region's countries, and by acting as analyst/consultant to the banking sector and restructuring and recapitalising banks in client countries. In a joint initiative, the European Bank for Reconstruction and Development, the European Investment Bank (EIB) and the WBG pledged to provide up to \$31 billion to support the region's banking sector and to assist businesses hit by the global economic crisis. Support included equity and debt financing, credit lines and political risk insurance. In some countries, particularly Russia, the Bank forged partnerships at the subnational level to strengthen capacity in areas such as public administration, social services, education and public-private infrastructure financing partnerships.

An important element of the Bank's activities in ECA is knowledge generation and dissemination through extensive analytical work and capacity building. Flagship reports published in FY09 include *Adapting to Climate Change in Europe and Central Asia*. The ECA region launched Knowledge Briefs to share knowledge and good practice with its clients. Other analytical reports, such as the EU-10 and Russia Economic Reports, provided regular comprehensive analyses of recent economic developments and the impact of the ongoing crisis. The Bank is actively monitoring the human impact of the crisis in the region by monitoring labour markets and social benefits, and through rapid-

response surveys. There is also ongoing analysis of the effects of the crisis on social protection, welfare and pensions, and the extent to which the contingency provision that has been mobilised is a sufficient response to the crisis. The role of the Bank is also under constant review. The institution has facilitated policy dialogue on several pressing issues such as the food crisis, the financial crisis and its impact on migration and remittances.

The International Finance Corporation (IFC) continued its strategic investments in FY09, emphasising support for existing clients and financial markets. In FY09, IFC committed \$2.1 billion of its own resources and mobilised an additional \$841 million in financing for its clients. IFC supported 87 projects, of which 53% are in IDA countries and in the border regions of middle-income countries.

During FY09, MIGA supported ten projects, providing \$1.2 billion in political risk insurance or as guarantor funds in the region.

Eurasian Development Bank

In 2009, the EDB's portfolio of investments totaled more than \$1.3 billion. The Bank currently finances 22 projects which offer substantial support for development in Kazakhstan, Russia and Tajikistan. The technical assistance provided by EDB in 2009 totaled \$1.8 million, 98.8% of which went to projects focused on enhancing integration.

In April and July 2009, the EDB issued debut bonds worth 20 billion tenge (about \$133 million) in two tranches in Kazakhstan. In September, EDB issued \$500 million of international Eurobonds, ten times oversubscribed, as part of its Euro Medium Term Note (EMTN) Programme. On November 3, the EDB placed 5 billion roubles in debut rouble-denominated bonds on the Stock Exchange of the Moscow Interbank Currency Exchange (MICEX).

In October 2009 the EDB and the Government of Tajikistan signed an Agreement on the Terms of Bank's Presence in Tajikistan and the EDB opened an office in Dushanbe. The Bank's priority in Tajikistan is to finance investment projects that promote sustainable economic development and strongly enhance integration through increased trade, mutual investment and industrial cooperation with other member states. The EDB is expected to achieve structural change in Tajikistan's economy by assisting its diversification and boosting the output of competitive, high-value-added products. The Bank will implement a programme of technical assistance to Tajik companies and organisations as part of its efforts to promote international cooperation and regional integration in Eurasia.

In October 2009, the EDB hosted the 4th International Conference on Eurasian integration. The event was attended by representatives of

government agencies, researchers and specialists from EurAsEC and CIS member states, other countries and international development institutions. The participants discussed the problems and trends of, and prospects for future cooperation in Eurasian countries affected by global crisis and to recommend priority areas for such cooperation, particularly innovation and investment. Participants agreed that at the regional level, anti-crisis measures should include the implementation of priority investment projects and monitoring to ensure that government funds were used efficiently. The newly founded EurAsEC Anti-crisis Fund, whose assets will be managed by the EDB, is to play an important role in fostering integration and mitigating the effects of the crisis.

The EDB has completed its *System of Indicators of Eurasian Integration*, an instrument designed to measure Eurasian integration dynamics. The EDB has also published new industry reports entitled *The Impact of Climate Change on Water Resources in Central Asia*, *The Eurasian Development Bank's Investment Policy and the Environment*, and *EurAsEC Transport Corridors*.

European Bank for Reconstruction and Development

In 2009, the EBRD increased its investments to €8 billion. The Bank's Board of Directors agreed to increase annual investment by a further €1 billion, making its 2009 target 52% more than the Bank had invested in 2008. The additional funds will allow the Bank to respond robustly to the needs of its clients by supporting their banking sectors and ensuring that the flow of financing, particularly to small and medium sized enterprises continues. The increase in EBRD spending in 2009 was financed from the Bank's own reserves. Since its creation in 1991, the EBRD has invested a total of over €47 billion on its own account and nearly €150 billion with other public and private co-financiers. Last year sustainable energy investments increased by 34% to €1.3 billion. At the same time, the EBRD maintained funding of over €500 million to less advanced economies in the Caucasus and Central Asia.

In its 2009 Transition Report, the EBRD concluded that the benefits of integrating Eastern Europe's financial systems into the world economy outweigh the costs that the global economic crisis has highlighted. The report also says that the global crisis has disrupted economic reform in Eastern Europe, but that there have been no significant reversals. Governments remain committed to the process of economic reform. The 2009 report, entitled *Transition in Crisis?*, concludes that while the economies of the transition region have been dealt a severe blow, the transition process itself will survive the onslaught of the worst global economic downturn in generations. The report raises questions specifically about the growth model for countries in central and southeastern Europe, where rapid expansion was fuelled by financial integration, and for commodity rich countries further east whose growth has depended on income from natural

resources. The report stresses that the crisis has highlighted the urgent need for action to reduce dependency on foreign exchange lending and to manage the demand for credit more effectively. The EBRD report notes that resource-rich countries in the EBRD region are also vulnerable because of the challenges they are facing; policy management in countries such as Azerbaijan, Kazakhstan, Russia and Turkmenistan is made more complicated by the fluctuations in foreign currency income caused by the cyclical nature of commodity prices. Some countries have successfully built up reserves that help to mitigate the impact of economic setbacks but the long-term goal of economic diversification remains elusive. This is partly because dependence on wealth from such resources and the lack of diversification itself impedes the development of an institutional framework that would support the creation of a more diverse industrial base. Looking ahead to the impact of the crisis on future market reform in the transition region, the report says any new leap forward is unlikely, despite the fact that the financial sector will probably see both institutional change and policy adjustments, including initiatives to increase both the quality and the extent of government regulation.

Islamic Development Bank

The IDB Board of Executive Directors endorsed a Medium Term Programme for 2010–2012. Under this three-year programme the Bank will extend \$11.5 billion from its ordinary capital resources to finance development projects. The approval of this programme is a part of the nine-year Vision 2020 transformation roadmap, which was developed by a high commission composed of a number of senior figures in the Islamic world. The programme will focus on human capital development programmes, agriculture, education and infrastructure through a new strategy based on partnerships with member countries.

The Islamic Development Bank has launched an initiative to create an Islamic investment bank to promote the growth of the Islamic financial industry, global reach and liquidity management. The IDB envisages initial capital for this initiative at \$1 billion and current contributions stand at \$250 million. The new bank also aims to facilitate the establishment of an inter-Islamic banking market based on Shari'a principles. This new investment bank is seen as playing a role in enhancing the Islamic financial industry's support of economic and social development. It will also facilitate the growth of the Islamic financial services industry by creating the structures necessary for the development of Islamic banks and Islamic financial solutions to liquidity management problems.

The Bank successfully issued Sukuk, for which demand exceeded \$2 billion against a target of just \$500 million. It should be noted that global Islamic banking assets were estimated to total \$785 billion towards the end of 2008.

2. The Role of International Financial Institutions in Responding to the Global Economic Crisis

The **ADB's** Board of Directors has approved the allocation of \$3.4 billion in additional funds to help developing member countries (DMCs) respond to the global economic crisis. The ADB has established a \$3 billion Countercyclical Support Facility (CSF) that will provide short-term, rapidly deployed loans. It will support the ramping up of spending in DMCs aiming to mitigate the impact of the crisis but which lack the financial means to do so because of tight global credit markets and a sharp increase in funding costs. DMCs who qualify for loans from ADB's Ordinary Capital Resources (OCR) will be able to access the CSF, and allocation will be capped at \$500 million per country. The ADB will also make available a further \$400 million through its Asian Development Fund (ADF). This will benefit countries with no access to OCR. ADF resources are provided in the form of concessional loans and grants to low-income DMCs with limited debt repayment capacity. The additional ADF resources will be used to finance key development investments in low-income countries experiencing the greatest fiscal constraints in their response to the crisis. To be eligible for the CSF countries must be experiencing a significant slowdown in growth, exports and remittances; fiscal constraints; and be having difficulty sourcing finance from international capital markets on favourable terms. DMCs will also need to put in place a specific countercyclical development programme, to be supported by CSF, which includes investment in public infrastructure, or a social security scheme targeting the poor and vulnerable. Loans under the new facility will be for five years, with a three-year grace period, and will cost around 200 basis points over ADB's financing cost. This is lower than its special loans facility set up in the wake of the 1997–1998 Asian financial crisis.

ADB plans to increase its lending by more than \$10 billion in 2009–2010, bringing total ADB assistance for these two years to about \$32 billion. Of the proposed \$10 billion increase, \$1 billion is committed to supporting trade finance, \$3 billion to the CSF and \$6 billion in loans such as those for infrastructure investment. ADB will also expand its crisis-related support through grants for policy analysis and capacity building.

In April 2009, the **EDB** Council approved an anti-crisis programme of operations. The Bank's Council and Executive Board declared their intention to focus upon investment projects that have substantial multiplicative effect (indirectly increasing GDP and employment in other sectors of the economy) and promote industrial cooperation between member states. Thus, the projects considered by the Bank in 2009 had to be oriented towards overcoming the fallout of the world crisis in the economies of its founders – Russia and Kazakhstan – and new members, Armenia, Belarus and Tajikistan. Another important step for the EDB was the appointment of

the Eurasian Development Bank as the Implementing Agency for the EurAsEC Anti-Crisis Fund.

The **EBRD** responded robustly to the global economic crisis in 2009, investing a record €7.9 billion and preparing to support Eastern European recovery with further funding increases likely in the coming years. EBRD investments in 2009 were 55% higher than the previous year, with the largest share of funding dedicated to the financial sector as the Bank sought to bolster banks across the region and help them maintain their lending flows, especially to small businesses. The EBRD provided an injection of capital directly into the corporate sector and invested heavily in energy and infrastructure projects.

As anticipated, the EBRD reported a net loss of €746 million in 2009, compared with a loss of €602 million a year earlier. The loss primarily reflects an increase in provisions for future potential losses on the Bank's loan portfolio and revaluation losses in the Bank's equity holdings. Although there was a recovery in the value of the Bank's listed equity investments, these were offset by revaluation losses in the Bank's unlisted equity portfolio.

The Bank remains very well capitalised but in order to facilitate investments at this higher level over the coming years it has sought shareholder approval for an increase in capital. The increase in capital that is under consideration would allow the EBRD to continue to invest at similar enhanced levels over the next five years. The Bank expects investments in 2010 to be slightly higher than last year's record level. As well as maintaining support for the financial sector in coming years, the Bank is also increasing its corporate financing. The Bank has brought all its corporate activities under one umbrella with a view to boosting funding to enterprises and thus reaching out to the real economies of the region. A key aim of the new initiative is to drive further economic diversification and to add value to the production chain. Investments in sustainable energy projects will remain a core element of Bank activities.

The EBRD will also help countries learn the lessons of the global crisis, specifically by supporting the development of domestic and local currency capital markets and reducing their dependency on foreign exchange borrowing that made them so vulnerable during the crisis. The EBRD also demonstrated that it was willing to assume a greater burden of risk in order to support the economies of the region, increasing its equity investments and providing a significantly higher level of equity type funding, such as subordinated debt. While it was supporting both locally owned banks and subsidiaries of western financial institutions, the EBRD reached out to other sectors of the region's economies.

In 2009, to help developing countries weather the impacts of the crisis, the **World Bank** proposed the creation of a Vulnerability Fund, calling upon

developed countries to pledge the equivalent of 0.7% of their economic stimulus package as additional aid, be it through their own bilateral aid agencies, UN agencies such as the World Food Program, FAO, or UNICEF, the WBG and other multilateral development banks or non-governmental organisations (NGOs). Donors responded to the World Bank crisis initiative by pledging a total \$6.8 billion over and above previous commitments to the institution.

The WBG also has called for more resources and help for the millions of people around the globe who go hungry each day. For its part, the Bank has pledged to increase its annual lending to agriculture and food from \$4 billion to \$6 billion in 2010.

As the largest provider of multilateral financing to the private sector in the developing world, the Bank Group's **International Finance Corporation (IFC)** played an important role as the crisis deepened. IFC launched an array of crisis initiatives, including:

- A \$3 billion IFC Capitalisation Fund to strengthen systemically important banks, with a leveraged capacity of up to \$75 billion;
- A \$5 billion Global Trade Liquidity Programme to support as much as \$50 billion in trade and help reverse the decline in trade flows;
- A \$2.4 billion Infrastructure Crisis Facility to ensure completion of projects vital for development;
- A \$500 million Microfinance Enhancement Facility to provide credit to micro enterprises and expand advisory services to help clients manage risk and address non-performing loans.

In addition, IFC has taken the historic step of maximising its ability to mobilise capital to address the effects of the global financial crisis and serve longer-term development needs. For the first time it has set up a subsidiary fund manager of third-party capital. The new asset-management platform, which is wholly owned by IFC, will manage the \$3 billion IFC Capitalisation Fund, which is designed to protect important emerging-markets banks from the effects of the global financial crisis. It will also manage a new \$1 billion private equity fund that will allow national pension funds, sovereign funds and other sovereign investors in IFC shareholder countries to co-invest in IFC transactions in Africa, Latin America, and the Caribbean.

The **Multilateral Investment Guarantee Agency (MIGA)** announced a broadened initiative to support financial flows from banks to their subsidiaries in countries hit by the global financial crisis. The initiative will provide extended support to financial institutions requiring political risk insurance on cross-border investments recapitalising or extending liquidity for their subsidiaries in such markets. Under the initiative, MIGA will be able to offer such guarantees

globally, making up to \$3 billion available for investment in the worst affected economies of Europe and Central Asia. This builds on the commitment made by MIGA joining WBG member agencies and other multilateral investors and official lenders in the coordinated support they offer to Eastern European countries.

World Bank executives together with representatives of 45 donor and 12 beneficiary countries have conducted a review of the performance of the **International Development Association (IDA)**, the World Bank fund for the 79 poorest countries that has delivered record support during the global economic crisis. The World Bank's Board of Executive Directors approved a \$1.3 billion crisis response facility for the IDA. The bulk of this resource will help to scale up operations already in place or in preparation.

The largest multilateral investors and lenders in Central and Eastern Europe – the **EBRD**, the **EIB Group**, and the **World Bank Group** – have pledged to provide up to €24.5 billion to support the banking sector in the region and to fund loans to businesses hit by the global economic crisis. This initiative complements national crisis responses and will deploy rapid, large-scale and coordinated financial assistance from the IFI to support lending to the real economy, in particular to SMEs, through private sector banks. The financial support will include equity and debt finance, credit lines and political risk insurance. The response takes into account the different macroeconomic circumstances and financial pressures on countries in Eastern Europe, and the diverse challenges posed by the global financial retrenchment.

Under the two-year plan:

- The EBRD will provide up to €6 billion for the financial sector in 2009–2010 in the form of equity and debt finance, to banks and directly to SMEs, and trade finance.
- The EIB will provide some €11 billion in SME lending facilities in Central, Eastern, and Southern Europe, of which €5.7 billion is already available for rapid disbursement, with a further €2.8 billion set for approval by the end of April and further tranches expected to follow. The EIF, the EIB Group's venture capital and SME guarantee arm, is also aiming to increase its activity in the region over the next two years.
- The World Bank Group will provide support of about €7.5 billion:
 - IFC is expected to contribute up to €2 billion through its crisis response initiatives in sectors including banking, infrastructure and trade as well as through its traditional investment and advisory services;
 - IBRD intends to increase lending in Europe and Central Asia to €16 billion in 2009–2010 of which up to €3.5 billion will address banking sector problems in emerging Europe;

- MIGA will provide political risk insurance of up to €2 billion for bank lending, subject to Board approval.

The IFI response to Europe's integrated financial markets must be rapid and coordinated. It must come from parent banks which own a large proportion of the region's financial industry, from key local banks, from the home- and host-country heads of cross-border banking groups and from European institutions and the IFI. In jointly addressing urgent financial need, the three institutions involved in this initiative are drawing on their own mandates and specific capabilities to provide financial support.

The **IDB** decided to double its planned operational growth from 15% to 30% for the period 2009 to 2011, resulting in provision of additional \$2.5 billion in financing over and above the projected amount of \$8.5 billion over the same period. The additional financing will help to mitigate the impact of the financial crisis on member countries and will be allocated mainly for infrastructure projects.

The IDB has launched several programmes to help its member countries minimise the adverse impact of food, fuel and financial crises on their economies. These programmes include the Jeddah Declaration, allocating \$1.5 billion for a five-year period to support member countries worst hit by the food crisis; the \$4 billion, five-year Special Programme for the Development of Africa to alleviate poverty; and the \$10 billion Islamic Solidarity Fund for Development aimed at alleviating poverty, eliminating illiteracy and eradicating diseases and epidemics in member countries. The International Islamic Trade Finance Corporation (ITFC), the trade arm of the IDB Group, is scaling up its annual approval of trade financing operations over the next five years from \$2.5 billion to \$5 billion, and increasing trade finance leveraging with institutions such as the IFC, AfDB and the Arab Monetary Fund.

At the IDB Annual meeting, the Board of Governors of the Islamic Corporation for the Development of the Private Sector (ICD) approved an increase in the Corporation's authorised capital from \$1 billion to \$2 billion. It also sanctioned the increase in the Corporation's capital that is open for subscription from \$500 million to \$1 billion, in order to meet the Corporation's need to expand and strengthen its role developing the private sector in its member countries.

During the same Annual meeting, the IDB held its 20th Annual Symposium: "Shaping the Post-Crisis World: Regional Implications and a Coordinated Response". The Symposium saw the presentation of major reform agendas that would shape the post-crisis world and IDB member countries in regions including Central Asia and Sub-Saharan Africa. In addition, the Colloquium on Islamic Financial Architecture took place in London to discuss the role of Islamic finance in the context of the unfolding global economic crisis,

and ways of using Islamic financial tools to combat the global economic crisis. However, the Colloquium noted that the maturity of some funds and certain asset risks in Islamic financial institutions are different to the mainstream risk and therefore these institutions need to be more resilient.

3. The Priority Issues for IFI in the Eurasian Region in 2009

The next section of this overview discusses IFI initiatives and projects which are not presented elsewhere because they are regional rather than national in emphasis.

Energy

For the first time in decades, Kabul is receiving a steady supply of electricity thanks to a major new transmission line linking the Afghan capital with neighbouring Uzbekistan. The ADB is one of the largest partners in 420 km transmission corridor carrying electricity across some of the most challenging mountainous terrain on earth. The government of Uzbekistan contributed to the project, constructing a new transmission link on its side of the border to complete the line that now supplies power to its southern neighbour. The new transmission corridor is part of the massive North East Power System (NEPS) project that has been undertaken by a range of partners including the United States, Germany, Japan, India, the World Bank, and the Islamic Development Bank.

The presidents of Afghanistan and Pakistan issued a joint statement pledging their support for a proposed \$680 million regional electricity transmission project that would supply surplus power in summer from Tajikistan and the Kyrgyz Republic to Kabul and northwest Pakistan. The Central Asia South Asia Electricity Transmission and Trade Project (CASA 1000) is to develop the physical infrastructure and create the institutional and legal framework for transmitting surplus power from existing generation facilities in Tajikistan and the Kyrgyz Republic to Afghanistan and Pakistan. Several IFI including the IDB and the WBG are supporting this effort.

Transport and Infrastructure

The WBG has launched two multibillion dollar infrastructure investment initiatives to help developing countries withstand the global financial and economic crisis. The World Bank's Infrastructure Recovery and Assets (INFRA) programme and the Infrastructure Crisis Facility (ICF) – the private-sector investment facility set-up by IFC – will together mobilise more than \$55 billion over the next three years for infrastructure projects in developing countries. Of this total, \$45 billion is available as World Bank loans and \$10 billion is available via IFC. The two initiatives will help to create jobs and lay the foundations for future economic growth and the elimination of poverty.

The EBRD is investing up to \$100 million setting up the Macquarie Renaissance infrastructure fund to target projects mainly in Russia, Kazakhstan and Ukraine – three countries where the EBRD's cumulative investments in this particular sector of the economy already amount to nearly \$4.5 billion. The EBRD announcement at the annual St. Petersburg Economic Forum follows a decision by the supervisory board of Russia's state-owned Vneshekonombank (VEB) to invest \$200 million in the Macquarie Renaissance Infrastructure Fund. The other key stakeholders in this new fund are the IFC and Kazyna Capital Management JSC, a subsidiary of Kazakhstan's sustainable development fund. The EDB is considering possible involvement in this initiative. The fund's founding partners and future managers, Macquarie, a global leader in infrastructure finance, and Renaissance Group, a Russia-based financial services provider, are each contributing \$50 million. VEB is the other cornerstone investor. In the current crisis the fund will be crucial to the modernisation of vital infrastructure in the three largest economies of the former Soviet Union, as well as other countries of the CIS, by replacing dwindling credit from traditional sources of finance. Under the fund rules, at least 50% of total commitments will be in Russia. The fund's target is around \$1 billion. Its equity investments will be mainly in roads, airports, ports, electricity and gas distribution networks, heating networks, communications infrastructure, rail networks, water and sewerage utilities, as well as social infrastructure. Transport projects are expected to account for the bulk of the fund's investments.

Seven Multilateral Development Banks (MDBs) issued a joint statement outlining a broad package of measures that each would implement in order to reduce an anticipated and alarming rise in the number of road fatalities and casualties in developing countries. The participating MDBs are the AfDB, ADB, EBRD, EIB, IADB, IDB, and the WB. The measures to be carried out fall into four categories:

- strengthening road safety management capacity;
- implementing safety considerations in the planning, design, construction, operation and maintenance of road infrastructure projects;
- improving safety performance measures;
- mobilizing new and greater resources for road safety.

The Global Road Safety Facility (GRSF) estimates that reducing road fatalities and injuries in low and middle-income countries over the next decade would save five million lives and avoid 50 million serious injuries, bringing huge social benefits. Unsafe roads in ECA countries have a hugely adverse impact on their economic and social wellbeing, says a World Bank report. The report, *Confronting "Death on Wheels": Making Roads Safe in Europe and Central Asia*, released after the first Global Ministerial Conference on

Road Safety, reviews the size, characteristics and causes of the road safety problem in ECA countries. The report will help to enact agreements reached during the Time for Action conference held in Moscow in November, 2009. The report finds that road safety problems in countries of the CIS, Eastern and Central Europe, the Baltics and the Balkans are much worse than in Western Europe, even though their car fleet is smaller and the number of kilometers travelled by car is lower. In ECA, the highest estimated annual costs governments are facing are in the large economies that also have sizeable populations: Russia (\$34 billion per year), Turkey (\$14 billion), Poland (\$10 billion) and Ukraine (\$5 billion).

In the face of this mounting crisis there has been a concerted global call for action to promote a systematic, multisectoral response.

Trade

The ADB has expanded its Trade Finance Facilitation Programme (TFFP) to \$1 billion, a move that could generate up to \$15 billion in much-needed trade support by the end of 2013. The ADB has also increased the maximum maturity permitted under the programme from 2 to 3 years to support developing member countries' (DMC) efforts to boost their trade competitiveness. The greatest shortfall in private sector financing lies in the longer maturity loans.

The WBG launched a \$40 million multidonor trust fund to help countries improve their competitiveness and reduce trading costs by improving infrastructure, transport logistics and customs procedures.

In response to the financial crisis, the WBG is expanding its trade support by:

- increasing Trade facilitation services, including the TTF for low income countries;
- doubling IFC's existing Global Trade Finance Programme to \$3 billion over a three-year period.

The creation of IFC's Global Trade Liquidity Programme, which has targeted initial commitments of \$5 billion from public sector sources and will support up to \$50 billion of trade. The programme has funds of \$1 billion committed by IFC; a pledge of up to £300 million (\$440 million) from the UK; \$200 million from the Canadian government; and \$50 million from the Dutch government.

Agriculture

In recognition of the fact that the financial crisis is hitting the poorest the hardest, the WBG announced a new venture to support the expansion of rural finance in the developing world. Through a \$20 million contribution from the Bill & Melinda Gates Foundation, the World Bank has established

the Agriculture Finance Support Facility. While credit remains tight, the facility will support grants to bank and non-bank institutions to increase access to financial services such as savings, credit, payments and insurance to make these services profitable in rural areas in developing countries.

Leading grain market players at an EBRD meeting called on former Soviet Union governments to stimulate the private investment needed to unlock the region's huge agricultural potential through stable long-term policies and the use of land to raise finance. Consensus emerged among private sector operators attending the World Grain Forum in St. Petersburg that the key to increasing global food supplies lay in creating the conditions that would allow Russia, Ukraine, Kazakhstan and other CIS countries to realise their full potential. The EBRD and the UN FAO believe that at least 13 million ha of former farmland could be returned to production at no major cost to the environment in Russia, Ukraine and Kazakhstan. Of these, 6 million ha are in Russia alone. The grain sector's major local and international participants discussed ways of realising this potential and agreed this could only be done through increased investments by a private sector fully involved in the process. This would require action by the states involved. The EBRD for its part is ready to provide funding along the whole length of the food chain as well as for the vital infrastructure projects which are key to boosting the region's farm output.

The Climate Change Issue Becomes More Acute

At the Copenhagen conference, heads of the world's leading IFI called for a comprehensive agreement to combat climate change and agreed to coordinate their efforts to help achieve the meeting's ambitious goals. In a joint statement, the leaders pledged to use their own organisations' mandates, expertise and resources to help authorities combine with the private sector to confront the challenges of climate change and to make the best possible use of available financing. The heads of the AfDB, ADB, EBRD, EIB, IADB, WBG, and IMF also stated their organisations would deploy technical assistance and funds to support their environmental goals. They recognised the pre-eminence of the United Nations Framework Convention on Climate Change (UNFCCC) in setting the targets for dealing with global environmental challenges.

In Copenhagen, the WB launched a unique programme to support renewable energy in low-income countries. The new programme, *Scaling up Renewable Energy in Low Income Countries* (SREP), came into being with the announcement of financial support of \$50 million from the USA. Prior to Copenhagen, contributions to the SREP totalled \$210.7 million: \$82.4 million (equivalent) from the UK; \$81.8 million from the Netherlands; \$26.5 million from Norway and \$20 million from Switzerland. A minimum target of \$250 million was needed before the fund could be initiated. SREP is

designed to support low-income countries in their efforts to improve access to energy and stimulate economic growth through increased deployment of renewable energy technology. It provides impetus for the transformation of the renewables market in each target country by involving governments in market creation, private sector implementation and productive energy use.

The WB also launched a new Carbon Partnership Facility (CPF) at the UN Climate Change Conference in Copenhagen. This facility, the latest in panoply of carbon funds and facilities, is expected to reach an initial capitalisation of over €200 million in early 2010. The CPF will use carbon finance in an innovative way to support developing countries' policy and investment programmes and, in particular, to leverage capital for public and private sector investment in clean technologies. The CPF is a partnership between buyers and sellers of carbon credits, with both groups involved in key decisions.

The publication entitled *Ten Years of Experience in Carbon Finance – insights from working with carbon markets for development & global greenhouse gas mitigation* looks at the WB's experience of working with the Kyoto Protocol's Clean Development Mechanism and Joint Implementation. The WB's carbon finance operations have expanded from the pioneering Prototype Carbon Fund, which helped catalyse the nascent carbon market in 2000, to ten funds and facilities with a current capitalisation of more than \$2.5 billion. The funds and facilities are financed by public and private entities from industrialized countries to support CDM and JI projects and emission reductions. The initial insights gained from this work were presented at the UN climate change meetings in Copenhagen as a springboard for further discussion and analysis.

The WB warned that the impact of climate change in the ECA Region¹ would be more significant than expected due to the lingering post-Soviet legacy of environmental mismanagement and the poor state of much of the Region's infrastructure which weaken countries' ability to adapt. The history of poor environmental management across the region means that even countries and sectors that could be expected to benefit from climate change are now poorly positioned to do so. Over the next ten to twenty years, however, ECA's resistance to climate change could be strengthened if infrastructure and environmental management systems are improved. This would also have a positive effect on sustainable development. Regardless of climate change, ECA will gain from improved water resource management, pollution control, upgrades to neglected infrastructure and housing and robust disaster management. Adapting to the changing climate will also require climate-

¹ Europe and Central Asia Region economies: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kosovo, Kyrgyzstan, Latvia, Lithuania FYR Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, Tajikistan, Turkey, Turkmenistan, Ukraine, Uzbekistan.

specific activity: investment in weather and water monitoring; improved capacity to interpret and disseminate climate information; institutional support for adaptation efforts whether these are being undertaken by large firms or small farmers; and incentives for informed, proactive responses to the challenges of climate change. ECA countries will need to develop strategies to reduce vulnerability to future change.

The ADB is channelling around \$700 million from two new investment funds to its developing member countries as part of a broad global initiative to help developing countries meet the cost of adapting to climate change. Donor countries, including Australia, France, Germany, Japan, Netherlands, Norway, Spain, Sweden, Switzerland, UK and USA, have pledged over \$6.1 billion in 2008 to the Clean Technology Fund and Strategic Climate Fund. These climate investment funds (CIF) are being made available to multilateral development banks, including the ADB, for climate change-related investment. The Clean Technology Fund will support the deployment of low-carbon energy technologies, such as wind, solar, hydro and geothermal power, and energy efficiency measures for industry, commercial buildings and municipalities. The activities supported can be co-financed from ADB's regular operations, which are expected to mobilize additional financing from both the state and private sectors. The Strategic Climate Fund will support pilot programmes on climate resilience, investment in forestry and the scaling up of renewable energy use for low-income countries, with the goal of demonstrating effective climate mitigation and adaptation interventions that can be built on and replicated in future. The two funds are designed to be interim financing tools and will be discontinued once the UNFCCC completes deliberations on a new global programme to address climate change and the financial mechanisms needed to support it. The Strategic Climate Fund will allocate funds in the form of grants. The Clean Technology Fund will issue concessional loans with interest rates as low as 0.25% for up to 40 years. Risk mitigation instruments such as guarantees and equity will also be available. The money can be used for both public and private sector initiatives.

4. IFI Funding in the Eurasian Region in 2009: Summary

It has not always been possible to compare directly the operations of IFI in the countries under review. They may use different classifications for their operations, or disburse funds in different currencies. However, using the average annual exchange rate for various currencies for the review period January 1 – December 31, 2009, it has been possible to present funding trends in the region. Using this method, it has been calculated that total funding from the ADB was \$1.714 billion; EBRD' approved lending totalled \$5.137 billion, the EDB approved funding of \$812.1 million, IDB – \$866.5 million and the World Bank – \$3.066 billion.

| Country | ADB* | WB | EDB | EBRD | IDB** |
|--------------|------------|--------|-------|--------|-------|
| | \$ million | | | | |
| Armenia | 581.1 | 333.58 | 0 | 170.76 | – |
| Belarus | – | 325.0 | 0 | 40.0 | – |
| Kazakhstan | 687.83 | 2173.0 | 523.2 | 545.97 | 390.5 |
| Kyrgyzstan | 81.3 | 50.26 | – | 100.4 | 14.16 |
| Russia | – | 0 | 266.3 | 4228.5 | – |
| Tajikistan | 60.73 | 36.25 | 22.6 | 24.9 | 37.19 |
| Turkmenistan | 0 | 0 | – | 11.4 | 402.0 |
| Uzbekistan | 303.4 | 148.5 | – | 16.0 | 22.65 |

Table 4.2.
Approved² IFI
Funding³ in 2009

Source:
IFI press releases
and web sites

Note: * – Belarus and Russia are not ADB member states

** – Armenia, Belarus and Russia are not IDB member states

5. IFI Activity in Eurasian Countries: New Country Strategies and Joint Initiatives

Many countries in ECA were in a vulnerable position when the economic crisis struck. Their relatively high current account deficits, external debts, rapid credit growth and a consumption boom financed by foreign currency borrowing left Central and Eastern Europe, the Baltic and some CIS countries particularly exposed to the crisis. Sharp falls in commodity prices brought to an abrupt halt the growth of economic powerhouses in Russia and Kazakhstan and hit the less affluent parts of the CIS very hard.

ECA countries have therefore been hit earlier and more severely than other developing regions. The effects of the crisis are spreading in three key areas – financial, goods and labour markets. In the financial sector, foreign exchange volatility and the high risk faced by countries running high balance of payments deficits have created a highly uncertain environment. Industrial output is down with some countries experiencing double-digit declines in early 2009 compared to a year earlier. Unemployment is on the rise with unprecedented job losses in some countries and others poised for double-digit unemployment in the near future. This is particularly bad news for countries that are dependent on remittances (e.g., Tajikistan).

Republic of Armenia

The Armenian economy has been severely affected by the global crisis. The rapid return of migrant workers who lost jobs in Russia and Kazakhstan led

² The information presented in this table is from public sources. Certain projects for which financial information is not disclosed are mentioned in the overview but not included in totals.

³ All financial information in the overview is presented in U.S. dollars. The exchange rate used is the 2008–2009 average for various currencies in the 2008 EBRD Annual Report and at <http://www.x-rates.com>.

to a reduction in private cash transfers, consumption and state revenues. At the end of 2009, the **ADB** provided a total of \$381 million in financial assistance to Armenia. These resources have allowed the government of Armenia to invest in job preservation and creation as a means to offset the crisis. In 2009, the ADB approved the \$500 million North-South Transport Corridor investment programme and funding for four other projects totalling \$581.1 million.

The **WB** Board of Directors approved a new Country Partnership Strategy (CPS) with Armenia to structure World Bank assistance to Armenia in 2009–2012. The strategy aims to help Armenia return to growth and mitigate the impact of the global economic crisis on its poorer citizens. It is also designed to help Armenia lay the foundation for a more competitive economy – a key requirement for diversified and sustainable growth. Armenia is able to borrow from IBRD, which the strategy acknowledges, because the country has been successful in reducing poverty by 50% over the last 10 years. As well as lending money to Armenia, the WB will provide consultancy and advisory services to support the country's development programme. The new CPS is based on Armenia's Sustainable Development Programme, which in turn addresses the dual challenges of reducing vulnerability in the short term and boosting competitiveness to support post-crisis growth in the long-term. Under the CPS, the WBG will extend \$670–700 million in financing to Armenia, of which \$150 million will be in the form of low-interest IDA credits, \$395 million will be IBRD lending and some \$120–160 million will be injected into the private sector via the IFC.

In February 2009, the WB approved a grant for Armenia for the Geofund-2 geothermal, a project worth \$1.5 million, financed by the Global Environment Facility.

Armenia became one of the first countries to benefit from a special fast-track facility set up by the WBG to help the world's poorest countries cope with the impact of the financial crisis. The WB Board of Executive Directors approved three operations totalling \$35 million under the fast-track system, in response to clear signs that Armenia's poorest people are suffering from the crisis. In 2009 the WB provided funding for 12 new projects and initiatives in Armenia amounting to \$333.5 million.

The Republic of Armenia completed the process of joining the **Eurasian Development Bank**. It is now a full member of the EDB, having paid up its share capital into the Bank.

According to the latest **EBRD** strategy for Armenia, this institution is prepared to invest over €180 million in various sectors of the Armenian economy over the next two years. The EBRD's roadmap strategy for 2009–2010 focuses on alleviating the impact of the economic downturn. Although

Armenia is not directly exposed to global capital markets, their turmoil has affected the country through diminishing remittances and declining exports. Armenia's fledgling prosperity will come under severe pressure in the difficult years ahead, and the country's best hope for weathering the crisis lies in developing its SMEs. The EBRD is therefore committed to supporting private, micro enterprises and SMEs by providing financing for this sector through local partner banks. Simultaneously, EBRD will support Armenian banks by extending credit for on-lending, and by introducing new products such as energy efficiency loans. EBRD will selectively invest in equity in Armenia's leading banks and will promote consolidation in the banking sector. In the public sector, the EBRD will also support projects which promote transition and sector reform. The bank has identified a number of important issues that need to be addressed in Armenia, including diversification of the economy, improving the competitiveness of export-oriented production, promoting competition and restricting monopoly, tackling corruption, strengthening the financial sector and encouraging the commercialisation of public infrastructure. Over the past four years, the EBRD's investment in Armenia has more than quadrupled and totals €125 million in 43 projects. The EBRD's plans for the next two years cover more than 30 projects in Armenia, and account for investment in excess of €180 million. In 2009, the EBRD approved \$171 million of new funding for five projects in Armenia.

Republic of Belarus

In 2009 the **WB** approved two new loans totalling \$325 million to support an energy efficiency project and the Development Policy Loan. The Development Policy Loan was set up to assist the reform of social protection systems and support the government's liberalisation programme.

The Republic of Belarus completed the paperwork to join the **Eurasian Development Bank** and sent its ratification to the Russian Ministry of Foreign Affairs – depositary for the EDB Establishing Agreement.

The **EBRD's** new three-year strategy for Belarus will increase the Bank's engagement in this country, subject to the authorities implementing sector-specific reforms towards the creation of a market economy. As with previous strategies, the Bank's main priority for Belarus lies in supporting the private sector as a means of progressing towards the ultimate goals of political democracy and market economy. The EBRD has welcomed the country's willingness to work with the international community and recognises that there have been encouraging signs of progress on political and economic fronts. Further positive developments in these areas would contribute to the creation of a more favourable business environment. The Bank would then step up its activity in Belarus, working with state-owned entities on a limited and highly selective basis, provided they operate on commercial principles and meet the Bank's stringent lending criteria. Previous EBRD

Board policies restricted the Bank to financing only private-sector projects in Belarus. The new strategy would support the principles agreed between Belarus and the IMF and the IBRD, which place great significance on privatisation. The Bank will also consider expanding its dynamic small-business lending and trade-financing programmes to include, on a selective basis, state-owned banks for the first time, as long as they are commercially oriented and have credible privatisation prospects.

The EBRD has approved a ten-fold increase in the amount of foreign trade that the leading Belarusian bank Belgazprombank may finance. Under the EBRD's Trade Facilitation Programme (TFP), the maximum exposure to foreign trade deals it may have at any one time has been raised to \$10 million. The previous limit was \$1 million. Moreover, the EBRD bought more than 25% of the shares of the West Ost Union company, which owns 12 'Buslik' trademark children's stores.

In 2009, the EBRD approved financing for four projects. Financing for two of these for which information is available totals \$40 million.

Republic of Kazakhstan

In 2009, the **ADB** approved financing totalling \$687.6 million for three projects in Kazakhstan and a \$225,000 technical grant to boost project implementation in the country.

In 2009, the **WB** approved one of its largest projects, allocating \$2.125 billion to construct the Kazakhstan section of road as part of the West Europe-West China transport corridor. The WB also approved \$48 million of financing for the hydro energy sector in Kazakhstan.

In 2009, the **EDB** approved financing for four projects in Kazakhstan totaling \$523.2 million in areas of agriculture, energy and mining.

The **EBRD** and the Kazakh national rail company, Kazakhstan Temir Zholy (KTZh), have agreed to work together to support the country's efforts to reform its railway transport sector. A memorandum of understanding signed by EBRD and KTZh will facilitate the further development, financing and implementation of a Rail Reform Strategy over the next five years. The strategy is currently being developed by KTZh. The Bank will also seek to mobilise grant assistance for technical cooperation.

In 2009 the EBRD approved new financing for 12 projects in Kazakhstan totalling \$546 million.

In 2009, the **IDB Group** approved \$390.5 million for Kazakhstan in the form of technical assistance and investments in nine projects in transportation, education, agriculture, water and rural development. The group also opened credit lines to local banks.

Kyrgyz Republic

In 2009, the **ADB** approved investments totalling \$81.3 million for five projects in Kyrgyzstan. The **World Bank** approved financing for six new initiatives totalling \$50.26 million. The **EBRD** approved \$100.3 million for 10 projects. The **IDB** approved funding totalling \$14.2 million.

Russian Federation

The Russian Government secured a \$50 million grant from the WB to help finance its Rapid Social Response (RSR) Multi-Donor Trust-Fund Facility. The RSR helps low-income countries protect their poor and vulnerable citizens from the worst effects of economic crisis by providing social welfare and job creation programmes, and by maintaining key social services in education, health and nutrition. The RSR programme is part of the World Bank's Vulnerability Financing Facility (VFF) crisis response framework in addition to the Global Food Crisis Response Programme. In 2009 the **WB** did not approve projects for the Russian Federation.

In 2009 the **EDB** approved financing for four new projects in the Russian Federation for a total \$266.3 million in energy, mining and communications.

The EDB became the first bank authorised by the Russian government to implement priority projects in the Chechen Republic. The EDB signed a loan agreement on the project of Rehabilitation and Reconstruction of Thermal Power Plant-4 in Argun city of the Chechen Republic. This plant becomes the first restored power generation source in the Chechen Republic where four power plants existed before 1991. Also the EDB approved a loan to the Siberian Coal Energy Company (SCEC) for modernisation of the company's coal operations in Siberia. Another major project is aimed at construction of 15 gas-refuelling stations in various regions of Russian Federation and their further leasing to "Gasprom" JCS subsidiaries.

The **EBRD** has adopted a new strategy for the Russian Federation under which it will give priority over the next three years to economic diversification, supporting the real economy, promoting energy efficiency, strengthening domestic capital markets and funding infrastructure renewal. These priorities reflect the Bank's views on how it can best help Russia confront and mitigate the effects of the current crisis in the short term and support post-crisis recovery in the medium term. They reflect the EBRD's presence in all seven of Russia's Federal districts, the country's main administrative divisions.

The EBRD is helping Russia to speed up its privatisation programme, and to bring back into private ownership companies and banks in which the state has increased its ownership as a result of the economic crisis. The Bank will therefore consider pre-privatisation investment to restructure state companies in order to increase their attractiveness to investors and direct

participation in privatisation alongside strategic investors or to support Initial Private Offerings by such companies. As the crisis has made it more difficult for Russian companies to attract much-needed equity investment, the Bank will actively seek opportunities to provide risk capital to Russian companies and banks. The strategy commits the EBRD to reducing energy consumption in all sectors which the Bank finances, thus putting energy efficiency and climate change at the heart of its mandate. Of all the countries in which the EBRD operates, Russia is the most energy intensive. It therefore offers greater potential for energy efficiency improvements.

As part of efforts to strengthen the financial sector, the new strategy stresses the need to develop a robust capital market infrastructure able to provide the long-term rouble funding Russia needs for critical infrastructure projects and economic modernisation. Its overall aim, reflecting the government's priorities, is to make Russian industry more competitive and promote the shift to a knowledge-based economy, thus helping to diversify the economy and reduce dependence on natural resources. Micro, small and medium-sized enterprises (MSME's) hold the key to expanding Russia's productivity, creating new jobs and promoting economic diversification. Over three years, the EBRD strategy will seek new ways to support and finance the sector, including the development of a dedicated MSME facility with the Russian government and a joint programme with VEB to fund MSME's.

The EBRD has also launched the Russian Sustainable Energy and Carbon Finance Facility, providing a total of \$300 million for on-lending, particularly to the larger corporate clients of banks participating in the scheme. The facility will target projects that promote efficient energy use in Russia. Sub-borrowers will be able to take out loans of up to \$6.5 million (or rouble equivalent).

The EBRD and two other IFI signed an important agreement with the City of St. Petersburg and its water utility, Vodokanal, laying the foundations for the funding of key municipal environmental projects without financial guarantees. The other two institutions which signed the agreement were the Nordic Investment Bank (NIB) and the European Investment Bank (EIB). The agreement provides support for the Neva Discharge project to which the EBRD, NIB and EIB agreed to lend €60 million of a total €187.1 million project cost. The work aims to reduce the untreated sewage discharged into the Baltic Sea to just 6% of total effluent by 2012. The loans are made without financial guarantees being provided by the St. Petersburg. The project received a €24 million grant from the Northern Dimension Environmental Partnership (NDEP). The EBRD gave a grant of €6 million to the project from its Shareholders' Special Fund and the governments of Finland and Sweden also provided financial support in the form of grants.

The EBRD is joining forces with the international community to modernise the communal heating system in parts of Russia's westernmost city, Kaliningrad, through a €21.5 million financing programme, over half of which will come from the EBRD. The EBRD funding will take the form of a 15-year, €12 million loan to the Russian Federation, which will be loaned on to the Kaliningrad district heating company, Kaliningradteploset. In addition, the project is supported by grants from the NDEP Support Fund (€7.3 million), the Swedish International Development Cooperation Agency (€1.7 million) and the city of Kaliningrad (€500,000).

In the first such transaction in Russia, carbon credits generated by utilising by-product gas which would normally be flared in eastern Siberia are to be purchased through the Multilateral Carbon Credit Fund (MCCF) set up by the EBRD and the EIB. The MCCF, whose other participants are the governments of Finland, Belgium (Flanders), Ireland, Luxembourg, Spain and Sweden and six private-sector participants, is one of a small number of funds dedicated to countries in Central Europe and Central Asia. Russia is the single biggest gas flaring country in the world. To combat this, the government has set a 2012 deadline by which oil companies will have to utilise 95% of associated petroleum gas or face crippling fines.

The EBRD and the Russian government announced plans to cooperate in promoting energy efficiency, a major priority for a country that is an exceptionally intensive consumer of its vast energy resources. The parties signed an Energy Efficiency Action Plan defining the areas in which the Bank and the government could work together to cut waste. Bulgaria, Kazakhstan and Ukraine have already signed Energy Efficiency Action Plans with the EBRD. The EBRD said it would investigate the possibility of launching a carbon market facilitation programme in Russia to cover transactions involving the private sector and those between the Russian Federation and sovereign partners. The Bank said it would explore the possibility of implementing so-called Green Investment Schemes.

The EBRD would consider donor-funded grants for energy-efficiency audits related to potential projects. In 2009, the EBRD approved financing of more than \$4271 million for 43 new projects in the Russian Federation.

Republic of Tajikistan

The Government of Tajikistan and its development partners signed the Tajikistan Joint Country Partnership Strategy (JCPS) for 2010–2012. The JCPS represents the concerted efforts of the government of Tajikistan and a group of 12 development partners (the Aga Khan Foundation; ADB; EBRD; European Commission; Germany; OSCE; Swedish International Development Cooperation Agency; Swiss Cooperation Agency; UK Department for International Development; UN; USAID; and the WB) to develop a strategy

to enhance aid efficacy in Tajikistan in line with the Paris Declaration for Aid Effectiveness. The JCPS affirms its partners' shared goal of supporting Tajikistan's overall development, its National Development Strategy 2006–2015 and related Poverty Reduction Strategies. It paves the way for more effective coordination and management of JCPS resources coming into Tajikistan and defines desired development outcomes including aid effectiveness, monitoring and evaluation.

The **ADB** grant-based investment programme in Tajikistan is planned at \$102 million to 2010. The Tajik Government and the ADB have signed an agreement on \$3.5 million from the GEF to co-finance an ongoing rural development project. In 2009 the ADB approved four projects and technical assistance in Tajikistan totalling almost \$61 million.

The **WB** has committed funds to the Government of Tajikistan to carry out feasibility and impact studies on the government's proposed Rogun hydropower plant with particular emphasis on its potential regional impact. The studies include a Techno-Economic Assessment and an Environmental and Social Impact Assessment to be carried out by internationally recognised consultancy firms hired under World Bank procurement guidelines. The terms of reference of these studies include issues identified by riparian populations. In addition, as required by its safeguard policies, the Bank will select an International Panel of Experts to provide independent advice on the outcome of the studies. Parallel to the studies, to guarantee transparency and ensure that all stakeholders' concerns are addressed, the World Bank has initiated consultations in all riparian countries (Afghanistan, Kyrgyz Republic, Kazakhstan, Tajikistan, Turkmenistan, and Uzbekistan). These consultations will continue in 2009–2010 as the results of the studies and the views of the independent experts are published and reviewed by the affected populations. In 2009, the WB approved grants to four projects in Tajikistan totalling more than \$36 million.

In 2009, the Republic of Tajikistan paid up its share capital to become a full member of the **Eurasian Development Bank**. The EDB approved a \$22.6 million pilot project in Tajikistan to construct a yarn-spinning mill.

The **EBRD** Board of Directors has adopted a new strategy which identifies priorities in the country over the next three years. Despite strong average annual growth of 7.2% since 2005, the macroeconomic environment remains fragile. The economy is still heavily reliant on agriculture, aluminium and remittances and vulnerable to unexpected fluctuations. Over the next three years, the EBRD will focus its activities on:

- **Promoting the private sector:** the Bank will continue to concentrate on the private sector, in particular the development of MSMEs. In the

agribusiness sector, the Bank will step up its support for reform and provide credit lines to local commercial banks.

- **Reinforcing the financial sector:** the EBRD will increase the sector's capitalisation and enhance its capacity for financial intermediation. The Bank will also broaden its product range and consider the introduction of local currency funding. The Trade Facilitation Programme remains a core activity.
- **Supporting infrastructure development:** the Bank will continue working in sectors such as water and transport where it has already acquired substantial expertise. The EBRD will concentrate on basic need and affordability and combine these considerations with gradual commercialisation of the sector.

In 2009 the EBRD approved funding for six new projects in Tajikistan totalling \$24 million.

By August 2009, total **IDB Group** funding for the Republic of Tajikistan amounted to around \$190 million, including contributions to 34 development projects and foreign trade financing to help alleviate the impact of the financial crisis on the agricultural sector. Tajikistan is expected to join the 36 existing members of the Islamic Solidarity Fund for Development (ISFD) which was set up in 2007 to alleviate poverty. In 2009 the IDB approved more than \$37 million in funding for three projects in Tajikistan.

Republic of Turkmenistan

In 2009, the **WB** and the **ADB** approved no new projects in Turkmenistan. Since it began operating in Turkmenistan, the **EBRD** has invested €106 million in the country's corporative, infrastructure and energy and financial sectors, attracting additional investment of almost €390 million. In 2009, the EBRD allocated \$11.4 million to four projects in Turkmenistan. The **IDB** approved \$402 million for two new projects including construction of a length of the Kazakhstan-Iran railway.

Republic of Uzbekistan

In Uzbekistan, the **ADB** approved financing for four projects including the first tranche for the Water Supply and Sanitation Services Investment Programme. Total funding for Uzbekistan, including technical assistance, approved by the ADB in 2009 was \$303.4 million. The **WB** allocated a total of \$148.5 million to three projects in Uzbekistan. The **EBRD** approved \$16 million for four projects. The **IDB** allocated a total \$22.7 million, including technical assistance, to two projects in Uzbekistan.

5 The EDB System of Indicators of Eurasian Integration: General Findings

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Objectives of the System of Indicators of Eurasian Integration

Regional integration is a process of complex transformation characterised by the intensification of the relationships between countries. It produces new forms of governance that coexist with the traditional forms of state governmental institutions at the national level. Currently, regional integration is viewed as a multifactor process which includes, in addition to economic cooperation, the issues of politics, security, and social and cultural interaction. Trade and economic integration remain the foundation of the majority of the existing integration schemes.

For almost two decades, regional cooperation and integration has remained one of the most talked about issues of economic policy of the post-Soviet countries. There are hundreds of initiatives and projects that aim for deepened cooperation between countries in the region. At the same time, to determine the effectiveness of integration strategies a comprehensive system is needed to monitor and assess the current processes of economic, political and social interaction between countries. This can be done with the help of a system of quantitative and qualitative indicators of regional integration. A large scale research project by the Eurasian Development Bank, completed by the end of 2009, led to the creation of such a system. It is intended that the EDB's System of Indicators of Eurasian Integration (SIEI) should become an instrument to monitor and assess regional integration projects in the post-Soviet space (Vinokurov, 2010).

In the context of globalisation, the number of regional blocs, groups and associations tend to grow, and these are currently approaching two hundred. These associations help smaller economies strengthen their competitive positions with regard to large and major economies. As a result, the following questions arise: how does regional integration influence the position of those countries that are members of particular regional associations and those that are not? What are the real benefits and costs of integration processes? And what is the general vector of integration? What has been achieved? And where

have integration efforts not been successful? Answers to these questions can be given if regional integration is monitored and its effects are assessed with the help of special instruments. Today, globally, these instruments are the systems of regional integration indicators. Undeservingly, the CIS region did not possess any of these comprehensive studies and measurements. Although integration processes in the post-Soviet space are specific, there are some objective signs of integration such as the existence of regional organisations (the CIS, EurAsEC), the Customs Union, and visa-free entry between most member countries.

Integration includes money transfers, investment, technology, education and many other aspects. For various reasons, only a few of these factors can today be used to assess the real value and effect of this cooperation for the region as a whole, and for each country separately. The SIEI consists of nine general and two consolidated indices that are aimed at assessing integration in the region, and cover various aspects of the regional integration process. The SIEI is built around several sets of indicators, including the integration of trade and labour markets, and cooperation in key functional areas (agriculture, education, and energy); convergence of the main characteristics of the post-Soviet economies; and qualitative performance parameters of the CIS integration groupings developed based on an expert poll. The results are valuable for the assessment of both the integration process during the last decade and the potential for integrational interaction between the countries. The SIEI includes a broad range of indices that reflect both country-to-country interaction and integration in the post-Soviet space as a whole and in its sub-regions.

The data given in this first edition of the SIEI show the dynamics of integration processes in the decade 1999–2008. They help determine the “reference point” for the development of post-Soviet countries after the collapse of the Soviet Union in the 1990s. Have they simply followed a downward spiral of disintegration, or managed to reverse this trend by achieving a new level of interaction? By the beginning of the 2000s, most post-Soviet countries already had a basic structure of new economic order. Most important in the analysis of post-Soviet integration is to determine the potential effect of the existing institutional environment on the dynamics of interaction. Again, it is critical not only to demonstrate that an institutional “interregnum” and a lack of stability lead to disintegration, but to study how countries with already established (and existing to date) institutions can interact.

The SIEI will be useful for the systemic assessment of the integration effects on the CIS countries involved in the process as well as for the monitoring of the integration processes in dynamics. The SIEI should be viewed not only as a theoretical study, but also as an applied policy-making tool. It should be of interest to the public agencies in the CIS countries, regional integration

organisations, academia, and scholars of regional integration around the world.

SIEI Methodology

The EDB’s System of Indicators of Eurasian Integration consists of three sets of indices which correspond to the three main aspects of regional cooperation:

- (a) analysis of regional integration as the *integration of markets*. In this case, the integration of countries is assessed from the point of view of mutual flows of commodities, services and production factors. This set includes two groups of indices:
 - general indices: trade integration and labour migration integration;
 - functional integration: integration in the three key socioeconomic sectors of CIS countries (electric power, agriculture, and education).
- (b) analysis of regional integration as the *convergence of economic systems*. In this case, the subject of evaluation is the convergence of the countries’ main quantitative development characteristics in four key areas: macroeconomics (growth dynamics), financial policy, fiscal policy, and monetary policy;
- (c) analysis of *institutional cooperation*. In this case, the subject of evaluation is the countries’ performance in formal integration projects within the post-Soviet space, taking into account the broad range of goals of the respective structures.

Figure 5.1.
Composition of SIEI

Source:
Vinokurov, 2010

| Integration of markets | Convergence of economic systems | Institutional cooperation |
|--|--|--|
| Indicators of regional integration in trade, labour migration, electric power, agriculture, and education . <i>Assessment of the level and dynamics of the integration of markets</i> | Indicators of regional integration in macroeconomics and financial, fiscal and monetary policy . <i>Assessment of the level and dynamics of the convergence of economies</i> | Assessment of cooperation based on expert poll and data from integration organisations . <i>Cooperation of countries in formal integration projects within the post-Soviet space, taking into account their respective goals</i> |
| <ul style="list-style-type: none">• Consolidated index of integration of particular countries with the CIS-12 region• Consolidated index of integration within the five regions | | |

The integration of markets and the convergence of economies are assessed using a system of consolidated indices which are calculated using national statistics. The evaluation of institutional cooperation is based on an expert poll carried out by the EDB and data supplied by various organisations, and is less formalised. Where regional integration is being considered as the integration of markets or the convergence of economies, three types of indices are calculated: (i) integration of country pairs; (ii) integration of a country with a group of countries; and (iii) integration within a group of countries. Each of these indices needs to be interpreted separately. The integration of country pairs characterises the extent to which two particular post-Soviet countries are interconnected by means of cross-border trade or migration, or as a result of convergence of their economic indices.

The integration of a country and a group of countries characterises the convergence of any of the twelve post-Soviet states and any of the five large regions within the post-Soviet region; these regions may be of particular interest from the point of view of practical integration activity and each include several countries. The experience of implementing regional projects in the post-Soviet space (successful or less successful) has allowed us to define five of these regions:

1. CIS-12 (all post-Soviet countries);
2. EurAsEC-5 (the five members of EurAsEC: Russia, Kazakhstan, Kyrgyzstan, Belarus and Tajikistan);
3. EurAsEC-3 (the three largest EurAsEC countries that are making attempts at forming an "integration core" in the region: Russia, Kazakhstan and Belarus);
4. SES-4 (group of the four largest post-Soviet economies: Russia, Ukraine, Belarus and Kazakhstan, so called after the inconclusive project to form a Single Economic Space in the same format in 2003–2004);
5. CA-4 (the four Central Asian states participating in integration projects in the region: Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan. Turkmenistan is excluded as it does not take part in CIS and Central Asian integration).

Integration within a group of countries is viewed as a "mean" level of interdependence of countries belonging to any of the five regions, including any changes in the level of integration over time. Generally, the SIEI includes nine indices of regional integration: trade, labour migration, electric power, agriculture, education, macroeconomic convergence, monetary policy, fiscal policy, and financial policy, and a number of cooperation indices based on an expert poll. The first five indices characterise the level and dynamics of integration of markets, and the other four the level and dynamics of economic convergence.

Some aspects of integration cannot be mapped onto each other, and connections between them are not straightforward; therefore, for the purposes of the SIEI, the focus should be on separate indices rather than their aggregates. However, we have developed two types of consolidated indices that give a wider picture of regional integration in the post-Soviet space and include all the nine indices: the consolidated index of a country's integration with CIS-12, and the consolidated index of a country's integration within any of the five regions. The overall structure of the SIEI is shown in *Table 5.1*:

| | Integration of markets | | Economic convergence | Regional cooperation | Consolidated indices |
|-----------------------------|---|---|--|---|--|
| | General indices: trade and labour migration | Functional integration: education, agriculture and energy | Macroeconomic conversion, financial policy, fiscal policy, and monetary policy | Set of informal indices based on an expert poll | |
| Country to country | X | X | X | | |
| Country to region | X | X | X (weighted and non-weighted indices) | | Index of a country's integration with CIS-12 |
| Region | X | X | X | | Index of integration of five regions |
| Formal integration projects | | | | X | |

Table 5.1. The indices of market integration and economic convergence were calculated for 1999–2008 (where possible; some early data is missing). The evaluation of regional cooperation is provided as at the time of this report.

Source:
Vinokurov, 2010

General Findings

Our analysis of the dynamics of SIEI measurements over the past decade prompted the following four conclusions.

First, integration in the post-Soviet space progresses at an uneven pace, both geographically and structurally. In recent years, there was a sharp upturn in labour migration and student exchange, whilst integration in the trade, energy and agriculture sectors slowed down and the macroeconomic indices of post-Soviet countries were becoming increasingly divergent. It should be understood, however, that these negative trends are partially attributable to the rapid pace of growth of the post-Soviet economies, i.e. an economy's size grows faster than its ties with other economies. Second, the consolidated integration index for CIS-12 suggests that the level of integration has decreased; at the same time, EurAsEC-5 (and especially its core, EurAsEC-3) has become more integrated in the 2000s.

Third, leadership in integration ratings belongs to small countries – Kyrgyzstan, Armenia and Tajikistan. The consolidated index of integration for larger countries, especially Russia, is much lower. Again, the reason is the larger economy size which renders the relative role of economic ties with other post-Soviet countries less important.

With a few exceptions, the ratings of post-Soviet countries' involvement in regional integration remained stable over the decade. In parallel with that, the level of integration within some groups of post-Soviet countries, as the respective consolidated indices show, vary considerably, which is attributable primarily to the dynamics of economic convergence. The indices of integration of markets also remained stable during the last decade.

Forth, integration of markets in the CIS is characterised by the existence of distinct spatial clusters. Particularly, the level of integration in the energy, agriculture and education sectors is higher in Central Asia than in the rest of the post-Soviet space, although this difference shrinks over time. In terms of trade and labour migration, the most intensive interaction normally develops between neighbouring countries. Notably, Russia is not the sole "integration centre" in the post-Soviet space: for example, Kazakhstan has become a desirable destination for many migrant workers from other countries. There is no indication, however, that spatial clusters have any significance for the convergence of post-Soviet economies whose dynamics is determined principally by the evolution of their domestic economic policies.

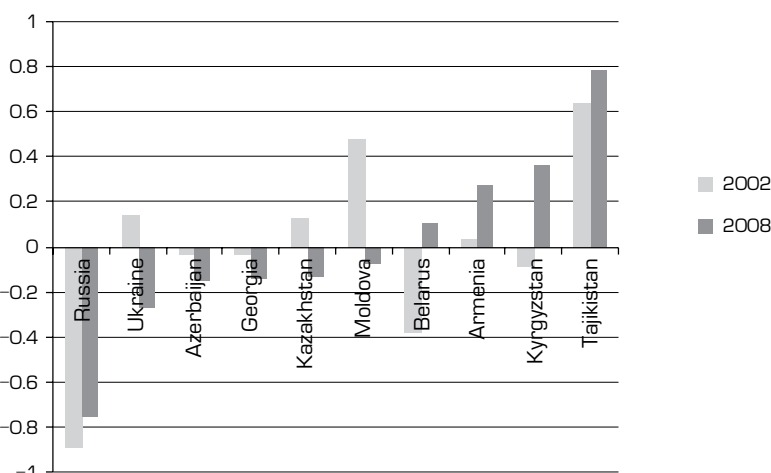
Leaders of Integration in the Post-Soviet Space

Figure 5.2 shows the consolidated indices of integration of individual countries with CIS-12. The indices are calculated for 2008 and 2002 (i.e. the present time and the first year of observation that data on all the nine integration aspects is available for), for ten post-Soviet countries. Uzbekistan and Turkmenistan were excluded due to a lack of data. Higher value of the index corresponds to higher level of integration. The values vary within a range of -1 to 1. The scale is calibrated so that the mean value corresponds to zero: accordingly, countries with a low level of integration have negative indices and highly integrated countries have positive indices. In the above chart we can easily identify three unquestionable leaders.

Tajikistan remains the country which is most integrated with the rest of the post-Soviet space. This can be explained by the exceptional importance of trade (first of all, with Russia) for Tajikistan and its active part in labour migration. Cooperation with other post-Soviet countries in the key sectors of functional integration, especially electric power, is critical to Tajikistan. Its high rating is due to its natural characteristics: small size, absence of any hydrocarbon export potential, and landlocked location. Tajikistan plays an active role in most integration groups in the post-Soviet space.

Figure 5.2.
Consolidated indices
of integration
of post-Soviet
countries with
CIS-12
(2002 and 2008)

Source:
Vinokurov, 2010



Kyrgyzstan and Armenia ranked second and third, respectively, in the 2008 rating. Integration of these small countries with the post-Soviet space was on the increase during the last six years. Kyrgyzstan is widely involved in trade and labour migration, and benefits considerably from integration in the education and agriculture sectors. Unlike Tajikistan or Armenia, Kyrgyzstan does not view Russia as the only principal partner, and integration with neighbouring Kazakhstan is just as beneficial to this country. Like Tajikistan, Kyrgyzstan is an active member of all key integration groups within the CIS. Armenia is primarily interested in trade integration, which has progressed remarkably in recent years. Armenia's part in formal integration projects is somewhat limited, partly due to the obligations imposed by the WTO; however, its interest in integration with other post-Soviet countries remains strong.

The countries in the fourth and fifth positions in the rating, Belarus and Moldova, demonstrate directly opposite integration dynamics. The level of Moldova's integration with the CIS countries dropped sharply, and the country fell from second to fifth position among the ten post-Soviet states. At the same time, this index grew considerably for Belarus. The latter, traditionally, has been one of the key players that determined the destiny of post-Soviet integration, and the Belarusian economy is closely connected with that of Russia. Moldova, by contrast, has always been sceptical of integration in the post-Soviet space, and has not participated in any large integration project (with the exception of GUUAM and the CIS proper).

Kazakhstan, Azerbaijan, Ukraine and Russia round out the rating. These are large economies with a diverse structure of foreign trade, in which economic ties with the post-Soviet space tend to become less important. These are fairly rich countries; three of them are exporters of fossil fuel (Kazakhstan, Azerbaijan and Russia). Only Kazakhstan and Russia play active roles in formal integration initiatives. Azerbaijan and Ukraine, by contrast, have always taken

a restrained stance towards integration projects within the CIS and have consented to very limited participation (e. g., for Ukraine, the limit of their participation is the free trade zone). That Russia occupies the last place in this rating should not be a surprise: this, the largest post-Soviet economy, stands on a par with the rest of the post-Soviet space in terms of population size, and outdoes it in terms of GDP. Georgia also belongs to this group of "lagging" countries, mainly due to political reasons.

General conclusion is that the distribution of post-Soviet countries by the consolidated index remains stable: the groups of leading and lagging countries have not changed much since 2002. This suggests, on the one hand, that the economic ties within the CIS are fairly stable, and on the other hand, that the lagging countries (i. e. the largest economies) do not make full use of their integration potential.

The second exercise was to calculate consolidated indices of integration within the five regions that we had selected for the purposes of our analysis. *Figure 5.3* shows the results of the calculations for 2002–2008 (i.e. the period for which data is available for all nine aspects of integration). Again, the index varies within a range of -1 to 1 and the mean value corresponds to zero. Negative indices correspond to low level of integration and vice versa. There are three main trends. First, the level of integration within CIS-12 has reduced compared with the other groups. Second, the level of integration of CA-4 and SES-4 remains unchanged. And, third, EurAsEC-3 and especially EurAsEC-5 demonstrate generally positive dynamics of regional integration and cooperation. By 2008 EurAsEC-3 surpassed all other groups, and this group is now the absolute leader in integration all over the post-Soviet space (which is not only attributable to the growth of the EurAsEC-3 index, but also to a decrease in the SES-4 index). EurAsEC-5 still occupies the lowest position in the rating, although its performance improved considerably.

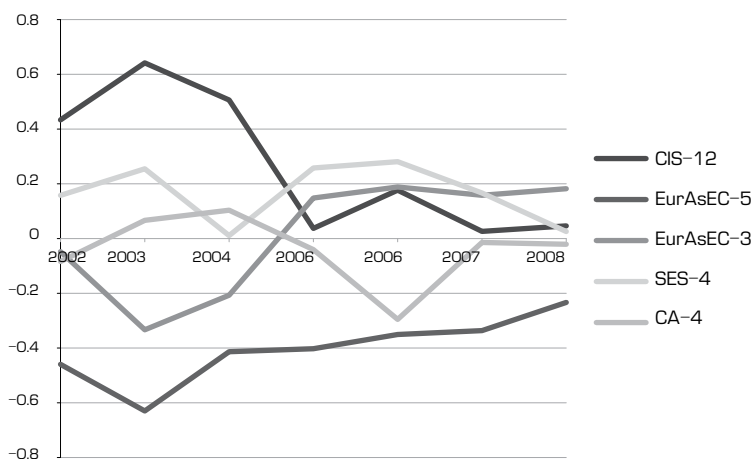


Figure 5.3. Consolidated indices of integration of five groups of countries within the post-Soviet space (2002–2008)

Source:
Vinokurov, 2010

Integration of Markets

The results of integration in particular areas are as follows. During the period under review, integration increased in labour migration and education; at the same time, there was a decrease in the trade, energy and agriculture indices. These results are partly due to the selected “basis for comparison”: population growth in the region is apparently slower than GDP growth. At the same time, this situation indirectly proves that the extensive social integration of post-Soviet countries has been preserved or has even increased – social integration creates potential catalysts for integration in other areas.

It was not possible to identify any unquestionable leaders in all aspects of integration among country pairs or groups. Moreover, the structure of mutual links varies greatly across different CIS markets. To some extent, this is illustrative of the diversity of interests and resources involved in integration in the CIS. The leaders in terms of integration with CIS-12 in various categories are Belarus, Kyrgyzstan and Tajikistan – the most active participants in post-Soviet integration projects. The countries showing the biggest increase in integration levels are Kyrgyzstan, Tajikistan and Ukraine.

In all the three areas of functional integration (energy, agriculture and education), integration levels are much higher in Central Asia than in the post-Soviet space in general, which can be explained by the existence of extensive infrastructural links and a common social space. However, the dynamics of regional integration was negative in all these cases.

Table 5.2.

The dynamics of integration of markets in the post-Soviet space

Source:

Vinokurov, 2010

As for trade and labour migration, the level of integration of markets in Central Asia is lower than in the CIS in general. With a few exceptions (e.g., in education), the dynamics of integration in large regions followed the overall trend dictated, apparently, by the largest post-Soviet economies. At the same time, the difference between integration levels in particular regions (again, with a few exceptions) remained stable during the last decade.

| Index | Leading country pair (2008 index) | Leading country pair (increase in index) | Leading country in integration with CIS-12 (2008 index) | Leading country in integration with CIS-12 (increase in index) | General dynamics of integration in CIS-12 |
|------------------|-----------------------------------|--|---|--|---|
| Trade | Russia–Ukraine | Kazakhstan–Ukraine | Belarus | Kyrgyzstan | ↓ |
| Labour migration | Kazakhstan–Kyrgyzstan | Kazakhstan–Kyrgyzstan | Tajikistan | Tajikistan | ↑ |
| Energy | Uzbekistan–Tajikistan | Russia–Ukraine | Tajikistan | Ukraine | ↓ |
| Agriculture | Kazakhstan–Azerbaijan | Kazakhstan–Turkmenistan | Kyrgyzstan | Turkmenistan | ↓ |
| Education | Kyrgyzstan–Uzbekistan | Uzbekistan–Kazakhstan | Kyrgyzstan | Kyrgyzstan | ↑ |

Note: an increase in the index (↑) is interpreted as an increase in integration

The geographic proximity of Central Asian countries does not directly influence trade integration, and the leaders in terms of trade integration with CIS-12 are Belarus, Kyrgyzstan, Tajikistan and Moldova – that is (except Belarus), comparatively small economies with no access to global markets. The reasons are obvious. Although the CIS-12 markets are priorities for Belarus, Tajikistan and Moldova, for the larger economies in this region, trade with these small countries is less important quantitatively than trade with other partners. And, since the SIEI focuses on symmetric integration, this automatically reduces the index. The lowest levels of integration with CIS-12 are demonstrated by Azerbaijan and Russia, whose main interests lie outside this region's markets.

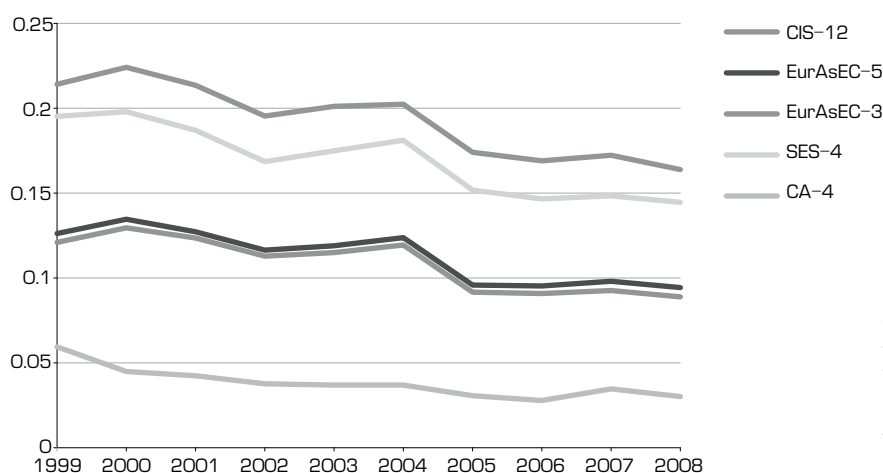
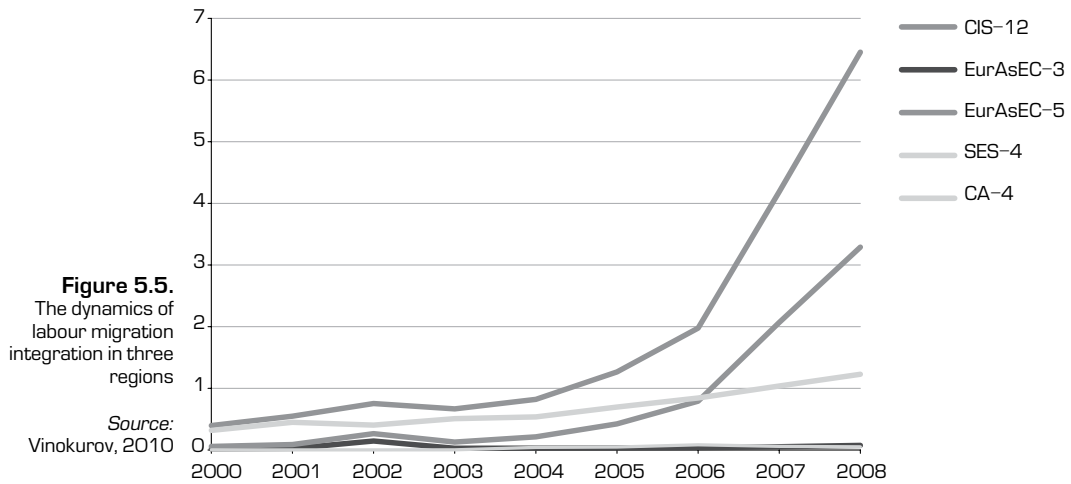


Figure 5.4.
The dynamics of
trade integration in
the five regions

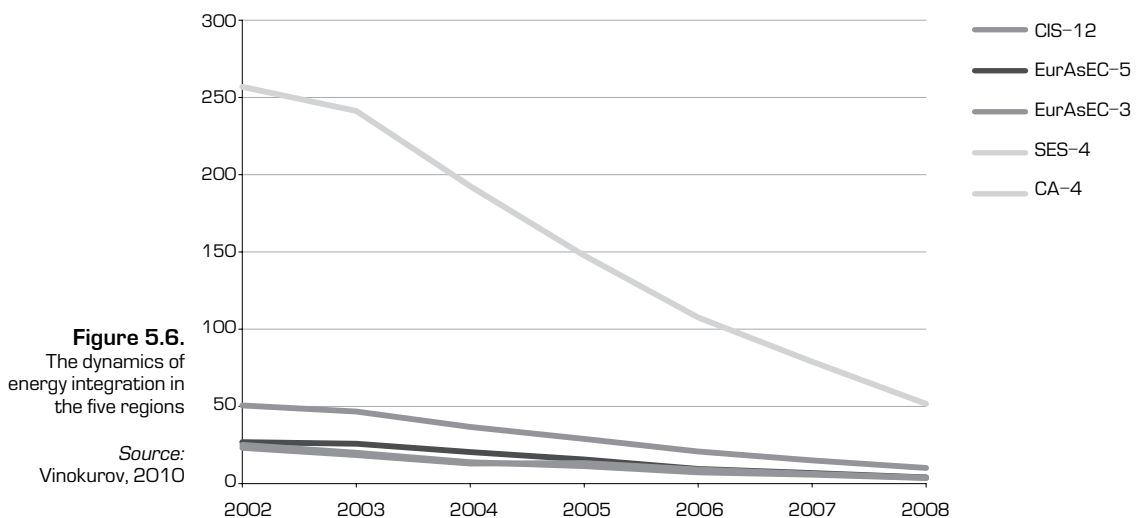
Source:
Vinokurov, 2010

Tajikistan is leading in labour migration indicator concerning CIS-12, which can be attributed to the large outflow of labour resources to Russia in relation to the country's own population. The next three positions are occupied by Kyrgyzstan, Moldova and Armenia. Notably, the lowest labour migration index belongs to Belarus. In other words, the integration of different post-Soviet markets is non-uniform, i.e. intensive commodity exchange does not necessarily lead to dynamic movement of factors of production.

The dynamics of trade in electric power in the post-Soviet space lags far behind the growth of CIS economies. In most country pairs, this index shrank during 2002–2008. The only exception was Ukraine whose integration with EurAsEC-5 and EurAsEC-3 progressed slightly, whereas its integration with CIS-12 slowed (this process is also driven by trade in electric power with Russia). The dynamics of integration in the regions also follows these trends. The energy integration index was decreasing in all five regions over the last seven years. This decrease was especially pronounced in CA-4 which,



nonetheless, remains a leader in integration of electric power markets. It should be stressed that we are speaking about integration of power markets lagging behind economic growth, not the shrinkage of trade in real terms. Paradoxically, the negative dynamics of this index, in our opinion, can be explained by the rapid economic growth of the region during the decade under review. The countries mainly used the generated power domestically, and reduced export volumes when necessary. The creation of a common electric power market in the CIS is expected to help overcome this trend.



The leader in agriculture integration (based on data on cross-border trade in cereals) in the post-Soviet space is Kazakhstan. This country is present in all three leading country pairs: Kazakhstan-Azerbaijan, Kazakhstan-Turkmenistan and Kazakhstan-Kyrgyzstan. In this case, integration of neighbouring Central Asian and Caspian states is presumably based on the export of cereals from Kazakhstan. Kyrgyzstan is the leader in integration with CIS-12, which appears to be caused by the large volume of cereals export in relation to the size of its economy. The lowest levels of integration with CIS-12 and other groups are demonstrated by Russia, due to its large economy and powerful agriculture sector. As with energy integration, trade in cereals in the post-Soviet space lags far behind the growth of national economies.

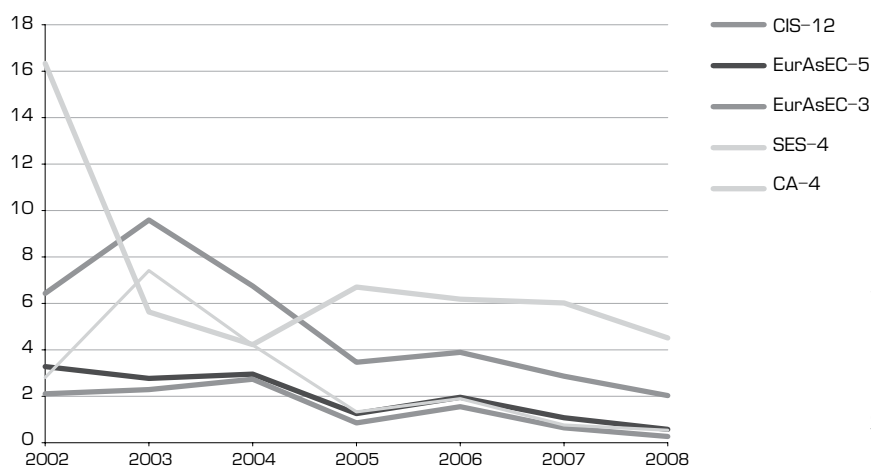


Figure 5.7.
The dynamics
of agriculture
integration
in the five regions

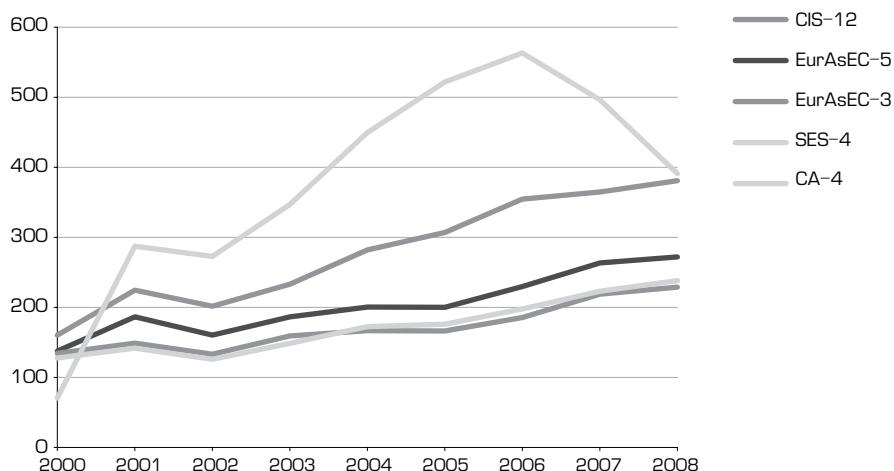
Source:
Vinokurov, 2010

For assessing education integration we used the number of students who study abroad. The most intensive student exchange is recorded between geographically and culturally close countries (Kyrgyzstan-Uzbekistan, Kazakhstan-Kyrgyzstan, Georgia-Armenia). Large countries like Russia or Ukraine traditionally attract students from all over the CIS, but their number remains insignificant relative to these countries' population. The highest index of integration with CIS-12 is demonstrated by Kyrgyzstan, and Kazakhstan ranks second. Belarus ranks third, and this appears to be due to student exchange with Russia. This exchange is rather negligible in relation to Russia's population size, yet it is important for Belarus. The same three countries (in reverse order) are leading in EurAsEC-5, EurAsEC-3 and SES-4 integration. The patterns of student exchange (as far as university education is concerned) varied greatly across the CIS in the last nine years, depending on particular country pairs. The largest increase in this index was recorded in the Uzbekistan-Kazakhstan country pair, followed by Kyrgyzstan-Kazakhstan. As for the index of integration of countries with the five regions, positive dynamics

was recorded in all country-region pairs. The biggest increase in integration with CIS-12 was demonstrated by Kyrgyzstan and Belarus. The same countries are leading in integration with SES-4, EurAsEC-3 and EurAsEC-5; and in CA-4 the leaders are Kyrgyzstan and Uzbekistan.

Figure 5.8.
The dynamics
of education
integration
in the five regions

Source:
Vinokurov, 2010



The analysis of integration dynamics in five regions also shows distinct positive trends. The only exception is CA-4, in which the integration index decreased significantly in recent years. Nevertheless, CA-4 remains the leader in education integration over other regions.

Economic Convergence

Unlike the integration of markets, the convergence of post-Soviet economies varies greatly depending on particular country pairs or country-region pairs. Convergence is largely not driven by any geographic factors, since the closeness of the parameters of the economic policies bears no relation to the geographic proximity of the converging countries. On the whole, we can conclude that the macroeconomic indices of post-Soviet states were diverging over the last decade, whereas their monetary policies converged.

In any case, the calculated results of economic convergence are somewhat less instrumental in identifying consistent and sustainable trends than in the case of the integration of markets. At the same time, the convergence of economies is an important characteristic, at least from the prospective of the potential for integration and cooperation, and therefore deserves scrutiny. The main results of our analysis are summarised in *Table 5.3*. It can clearly be seen that, unlike the integration of markets, the convergence of economies is principally associated with factors lying beyond the integration process itself. The key role belongs to reform strategies selected by particular countries, and macroeconomic regulation practices that make them become closer.

However, it should be stressed that, for example, without the synchronisation of business cycles or comparable parameters of the monetary system the development of a well-coordinated policy for economic integration is not really possible. Therefore, internal economic processes that assist the convergence of countries should be viewed as critical aspects of integration.

| Index | Leading country pair (2008 index) | Leading country pair (in terms of shortening the distance) | Leader in convergence with CIS-12 (minimum distance, 2008) | Leader in integration with CIS-12 (in terms of shortening the distance) | General dynamics of distance in CIS-12 |
|------------------|-----------------------------------|--|--|---|--|
| Macroeconomics | Kyrgyzstan–Tajikistan | Moldova–Turkmenistan | Armenia | Georgia | ↑ |
| Monetary policy | Belarus–Tajikistan | Belarus–Tajikistan | Russia | Belarus | ↓ |
| Financial policy | Kazakhstan–Armenia | Kazakhstan–Armenia | Ukraine | Kazakhstan | → |
| Fiscal policy | Armenia–Uzbekistan | Armenia–Azerbaijan | Azerbaijan | Armenia | → |

Note: increasing the distance {↑} means lowering the convergence level

From the point of view of macroeconomic convergence, calculations suggest that the macroeconomic indices of post-Soviet states tend to diverge rather than converge. The leaders in convergence are the comparatively small groups SES-4 and EurAsEC-3, and the maximum distances are demonstrated by CA-4 countries; therefore, the dynamics of growth in Central Asia, even without Turkmenistan, varies greatly from one state to another. CA-4 has also demonstrated the biggest decrease in the macroeconomic convergence index in the past decade. By contrast, in SES-4 and EurAsEC-3, after the initial “push” towards divergence in 1999 (probably a result of the consequences of the 1997–1998 crisis), the index has remained at practically the same level.

Our analysis of monetary convergence of country pairs, as with macroeconomic indices, suggests that the effect of internal economic changes prevails over that of cross-border cooperation. In 2008, the lowest distance was recorded in the Belarus-Tajikistan country pair. Kyrgyzstan-Azerbaijan ranked second. It is worth mentioning Ukraine-Moldova: this country pair has the highest level of divergence, yet it demonstrates a high level of integration in mutual trade. This can be explained by the differences in their monetary, credit and currency policies. At the country-to-region level, Russia has the least distance from CIS-12, followed by Belarus and Tajikistan. The greatest distance was recorded for Moldova. In EurAsEC-5 and SES-4, the least distance was recorded for Belarus, and in EurAsEC-3 and CA-4 for Tajikistan. In contrast to the growth dynamics, the second decade after the disintegration of the Soviet Union became a period of convergence of the

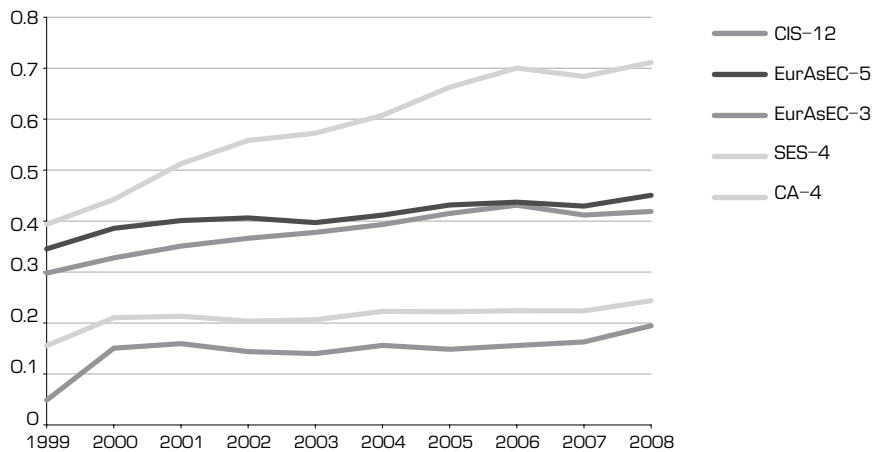
Table 5.3.

The dynamics of convergence of post-Soviet economies (data for non-weighted indices)

Source:
Vinokurov, 2010

Figure 5.9.
The dynamics of
macroeconomic
convergence
in the five regions

Source:
Vinokurov, 2010

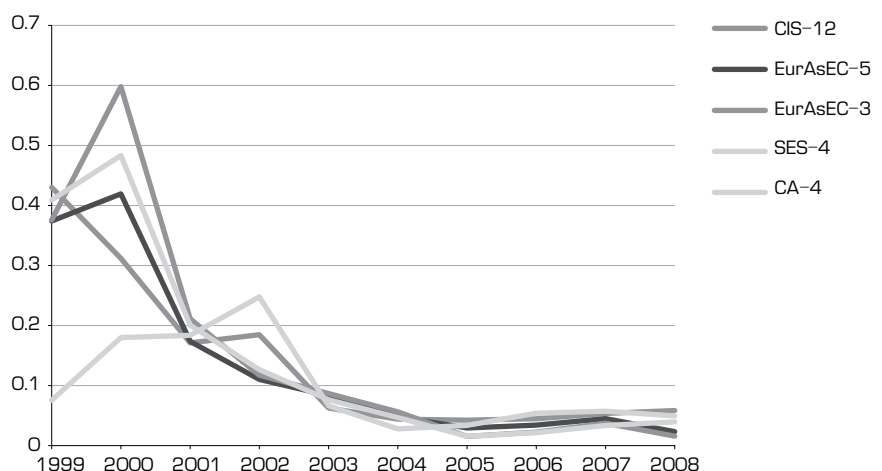


Note: an increase in the index is interpreted as a decrease in convergence

monetary policies of all the five post-Soviet regions. Whereas in the early 2000s there were considerable fluctuations in the indices of the five groups, since 2004 the indices have been practically identical and have stabilised at a very low level (the latter confirms the closeness of the indices). The dynamics can be explained by the convergence of the characteristics of the monetary and credit policies of all the countries and, to a lesser extent, the influence of global currency markets. It should be remembered that, in the beginning of the 2000s, CA-4 was far ahead of the other groups in terms of monetary policy convergence, but by 2002 demonstrated the highest level of divergence. At present, as we have mentioned, the differences between the regions are negligible.

Figure 5.10.
The dynamics of
monetary policy
convergence in the
five regions

Source:
Vinokurov, 2010



Note: an increase in the index is interpreted as a decrease in convergence

The characteristics of financial policies in the second half of the 2000s were converging in practically all the groups of countries. The only exception was CIS-12 whose divergence index remained practically unchanged. This scenario was determined by the development of national banking systems which resulted in their "qualitative breakthrough". The practice of cross-border investments by the banking institutions of Russia and Kazakhstan could have played a role in this, although this conclusion was not confirmed by a more detailed analysis. The results obtained for the fiscal policy sector also suggest that convergence or divergence of countries does not depend on their geographic position, the level of integration of their markets, or their participation in integration groups. The index does not allow us to identify a trend towards the convergence or divergence of fiscal policies. There are significant differences between the national fiscal systems of CIS countries which reflect the differences between their macroeconomic regulation and state administration systems. Moreover, these systems remain highly unstable, which has a negative influence on internal economic development and the potential for integration alike.

We additionally calculated some weighted indices (each calculation method is described in the respective section). Generally, the leadership in convergence is held by large countries: in CIS-12, these are Kazakhstan (macroeconomics), Belarus (monetary policy), Ukraine (financial policy) and Russia (fiscal policy). This is a logical result as these countries principally determine the mean index. To an extent, another modified index serves to measure the convergence of large countries "with themselves". However, Russia does not always become the leader in convergence, and this means that the results are not straightforward. The greatest distances from CIS-12 are demonstrated by Turkmenistan (macroeconomics), Moldova (monetary policy) and Kyrgyzstan (financial and fiscal policy). These are either small or closed economies. Both approaches (weighted and non-weighted indices) have their merits and demerits. Therefore, economic convergence should be assessed by both methods, and the results should be treated as complementary.

Expert Poll

We have also conducted an expert poll (August 2009) in an attempt to assess the efficiency of three integration structures, namely the CIS, EurAsEC and SCO, from the point of view of various aspects of interaction and integration. Based on the results of these enquiries, we have drawn the following conclusions.

First, the experts considered the CIS and SCO the most efficient organisations from the point of view of political cooperation and security. In the case of the CIS, political cooperation was highlighted by 51% and security by 22% of the experts. The same assessments for the SCO were 37% and 39%, respectively. The experts also noted the efficiency of the CIS in social

development (11%) and electric power (8%). Bearing in mind that political cooperation is a considerable part of activities of EurAsEC (as 16% of experts believed), this organisation demonstrated better results in promoting trade and investments (37%), energy (27%) and banking in the member states.

Second, the experts generally agreed that the CIS and SCO are more oriented towards developing common political approaches and decisions (and excel at that), whilst EurAsEC is more efficient in promoting the concerted efforts of member states in particular economic sectors. Notably, the resources available to the CIS are inadequate for the tasks it has to perform (over 60% of the experts assessed the availability of resources as “below average”). EurAsEC and SCO have adequate resources at their disposal.

The experts also commented on the adequacy of an organisation’s structure for its goals on the one hand, and the efficiency of its interaction with the respective bodies and organisations of its member states on the other. Interaction is more efficient in the case of those organisations whose structures are better suited to their goals (EurAsEC and SCO). The experts agree that integration organisations should specialise in particular areas in order to avoid doubling-up and competition, and be able to concentrate their resources and efforts on the aspects at which they excel. This kind of specialisation can be observed already, albeit in indirect forms.

The experts were also asked to point out the major challenges to integration in the CIS. In their opinion, the size of an economy or the level of development of business in a member state does not exert much influence on integration. On the other hand, integration is most sensitive to internal policies, foreign policy priorities, the quality of state administration, and the level of economic development of member states.

Further Development of the System of Indicators of Eurasian Integration

In accordance with EDB’s Charter, its mission is to contribute to economic growth in member states and to promote trade and economic integration among them. The Bank is to become a consolidating element of the financial infrastructure and a catalyst to facilitate integration processes in its member states (EDB Charter, available at www.eabr.org).

The EDB is the regional development and integration bank. The statutory objectives explain the Bank’s special interest in the analysis of integration processes with a natural focus on the post-Soviet space. It is our aim that the SIEI becomes the Bank’s flagship research project and an integral part of its analytical products dedicated to regional Eurasian integration.

The EDB has been working on this research project from the beginning of 2008, i.e. for two years. After a decision on the project had been made, an

international working group was formed comprising experts from EurAsEC, the CIS, the Bank, representatives of governmental agencies and research institutions, as well as leading international experts on regional integration measurement and monitoring. The working group included Sailau Baizakov (Deputy Director, Institute for Economic Research, Astana), Michael Emerson (Senior Researcher, Centre for European Policy Studies, Brussels), Alexander Libman (Associate Professor, Frankfurt School of Management and Finance, and Institute of Economy, Russian Academy of Science), Philippe De Lombaerde (Research Fellow, United Nations University, Bruges), Natalia Maqsimchuk (Chief Specialist, Economic Analysis Department, EDB, and coordinator of the working group), Yerzhan Moldabekov (Lead Specialist, Economic Analysis Department, EDB), Aleksandr Rudik (Deputy Head, Department for Social and Humanity Development, Secretariat for Integration Committee of EurAsEC, Almaty), Maria Shevchuk (Deputy Head, Department for Economic Policy, Secretariat for Integration Committee of EurAsEC, Moscow). Evgeny Vinokurov (Deputy Head of Strategy and Research Department / Head of Economic Analysis Unit at the EDB) led the project. The working group produced a comprehensive methodology for the System of Indicators, taking the global best practice into account.

This helped collect various statistical data and develop the SIEI database in 2009, and in the second six months of 2009 the system of indicators was calculated and this project report was prepared. The authors of this report are Evgeny Vinokurov (project leader), Alexander Libman, Philippe De Lombaerde, Natalia Maqsimchuk, and Yerzhan Moldabekov. In the future, the Eurasian Development Bank plans to collect data and compute the integration indicators on an annual basis. The respective report will then be prepared and presented to governmental agencies, international organisations, researchers, the mass media, and the general public. We hope that the comprehensive SIEI, which has been prepared based on an elaborate methodology of regional integration measurement and assessment, will be of interest not only as a theoretical product, but also as an applied instrument of foreign policy promoting integration processes in Eurasia.

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6 The Effect of External Shocks on CIS Economies During the Crisis of 2007–2009: the Global and Regional Aspects

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The Spread of the Global Crisis into the CIS

The current global economic crisis has its origins in the financial upheaval that occurred at the end of the summer of 2007. The shockwaves which first destabilised the U.S. mortgage market spread to the country's banking system and then to the interbank markets of developed and developing countries. Financial institutions in developed countries suffered losses resulting directly from their involvement in the "bubble" that had emerged in the mortgage market in the United States and other countries (the UK, Spain, Ireland, etc.). The crisis spread primarily through financial markets, and its impact was soon felt in many developed countries. However, the financial sector's malaise proved highly contagious, and soon other sectors of these developed economies were showing symptoms of a slowdown in economic growth and then decline in the second and third quarters of 2008.

At this stage, developing economies appeared to suffer the effects of the crisis to a lesser extent than developed economies. They soon came up against problems, however, especially due to the increased cost of borrowing on international financial markets. Interest rates for developing countries were much higher than for developed countries, whereas before the crisis the difference had been small. The group of countries considered "at risk" were those with a significant foreign debt and a balance of payments deficit (i.e., those strongly dependent on external borrowing).

In the CIS countries¹, financial institutions had eschewed investment in the complex financial products that in developed countries are considered the norm. Kazakhstan, however, whose banking system was among the most

¹ In this review we use the terms "CIS countries" or "the CIS" to refer to the twelve republics of the former Soviet Union (except the Baltic countries), although Georgia formally withdrew from the CIS and Ukraine and Turkmenistan did not sign the CIS Charter (though Turkmenistan has recently begun proceedings to formalise its associate membership).

advanced in the CIS² at that time, had accumulated a huge external debt. In 2007, this debt accounted for 93% of the country's GDP, with the banking sector responsible for nearly half of this. In addition, a dangerous "bubble" had developed in the country's property sector. Kazakhstan thus became the only CIS country to suffer badly in the first wave of the global crisis. The crisis mainly affected the country's banking system, property sector, small businesses, and retail trade (the latter as a result of decreased availability of credit). However, Kazakhstan's staple exports (fuel, energy and metals) enabled the economy to stay afloat.

The second wave of the crisis began in the second half of 2008 and affected most CIS countries. It spread in the following ways:

- capital outflow from developing markets. Foreign portfolio investors hurriedly repatriated funds in order to cover financial losses and ease liquidity problems in their home – i.e., developed – countries. CIS countries began to feel the effects of the outflow of capital from their stock markets in mid-2008, when their indices were caught in a downward spiral. In May 2008, the indices of the Russian Moscow Interbank Currency Exchange (MICEX) and the Ukrainian First Stock Trading System (FSTS) started to fall; the index of the Kazakhstan Stock Exchange (KASE) followed them in July 2008. Between early 2008 and early 2009, the MICEX index fell by 67%, the KASE index by 66% and the FSTS index by 74%³.

The shrinkage of portfolio investment, followed by reduced direct and other foreign investments, had a predictable impact upon the balance of payments (see Table 6.1). Direct investment flows were maintained during the crisis, but the influx of portfolio and other investments was turned into a net outflow (although previously assumed payment obligations were discharged).

- The contraction in demand for raw materials in developed countries led to a drop in prices. The price of West Texas Intermediate, for example, fell from \$147 per barrel in July 2008 to \$45 per barrel by the end of 2008⁴. Since the main exports of CIS countries are raw materials and low-value-added products, the drop in prices of these exports resulted in a dramatic decline in their foreign trade volumes. This decline was not apparent in 2008 annual statistics (due to the highly favourable market conditions in the first half of the year), but in the first half of 2009 it was pronounced (see Table 6.2). Total foreign trade volumes in the first half of 2009 fell by 51% in Ukraine, 45% in Russia, 42% in Kazakhstan, and by 40% in Belarus compared with the same

² The assets of Kazakhstan's banking system in 2007 accounted for 93% of its GDP—this is the highest figure in the CIS. See Interfax-1000: CIS Countries' Banks. The 2007 Performance.

³ Based on data from the websites of these stock exchanges.

⁴ <http://www.chevron.com/annualreport/2008/financials/managementdiscussionandanalysis/businessenvironmentoutlook.aspx>.

period a year earlier. Over the same comparison period, average export prices dropped by 41%⁵.

- The fall in production and exports in key industries led to salary and job cuts, which in turn reduced domestic consumer demand. This was exacerbated as migrant workers began losing their jobs as a result of the crisis and therefore stopped transferring money back to their own countries. In Ukraine, for example, current transfers as a proportion of the balance of payments was 9.3% lower in 2008 than in 2007. In other recipient countries (Moldova, Georgia, Tajikistan), however, the transfer balance continued to grow in 2008, as these countries escaped the first wave of the crisis. However, in late 2008—early 2009 the cut in remittances was felt in all these countries. Between the first half of 2008 and the first half of 2009, transfer credits shrank by 30% in Moldova and by 42% in Tajikistan. In Armenia, total transfers into the country by individuals through commercial banks in January–October 2009 shrank by 27%⁶ compared with the same period of the previous year. It should be noted that, before the crisis, transfers by migrant workers played a huge role in some countries and even critical in their economic growth. For example, in 2007 such transfers accounted for 49% of GDP in Tajikistan, 29% in Moldova, and 27% in Kyrgyzstan⁷.

- External factors and increased demand for foreign currency (fuelled by uncertainty) created pressure on national currency markets and exchange rates consequently fell. Countries with considerable currency reserves (Russia, Kazakhstan and Azerbaijan) were able to choose whether or not to support their currencies. Practically all countries attempted to intervene in currency markets, but eventually the exchange rates of all these currencies were lowered gradually or in a single cut. Domestic currency exchange rates fell rapidly in Ukraine between October and December 2008, and in Russia between November 2008 and February 2009; Belarus and Kazakhstan resorted to one-off devaluation in January 2009. On the one hand, devaluation spurred inflation and increased the burden of external debt. On the other hand, it boosted competitiveness, to a certain extent mitigating the impact of the contraction in foreign trade.

According to GDP and industrial production statistics (see Figures 6.1 and 6.2), the impact of the crisis was especially severe in Armenia, Kazakhstan, Moldova, Russia and Ukraine. An interesting situation developed in Kyrgyzstan: in 2008 the negative effects of the crisis were offset by increasing

⁵ *A Review of the Socioeconomic Development and Trade and Economic Relations of Members of the Commonwealth of Independent States in the First Half of 2009* (www.cis.minsk.by).

⁶ *Based on data from national payment balances published on the websites of national/central banks.*

⁷ *According to national payment balances provided by national statistics committees and the CIS Interstate Statistics Committee.*

| Russia | 2007 | 2008 | Q1 2008 | Q1 2009 |
|-------------------------------------|----------|---------|---------|---------|
| Direct investments to country | 55073 | 73053 | 20913 | 9993 |
| Direct investments from country | -45916 | -52629 | -15802 | -5794 |
| Portfolio investments (liabilities) | 15976 | -26832 | -4775 | -3744 |
| Portfolio investments (assets) | -9992 | -7860 | -476 | 1 |
| Other investments (liabilities) | 139319 | 56666 | 8385 | -17302 |
| Other investments (assets) | -59762 | -176674 | -34080 | 756 |
| Kazakhstan | 2007 | 2008 | H1 2008 | H1 2009 |
| Direct investments to country | 11126.2 | 14647.5 | 6193.5 | 5180.4 |
| Direct investments from country | -3153.3 | -3826.2 | -1119.8 | -900.4 |
| Portfolio investments (liabilities) | -481.8 | -2099.9 | -299.2 | -579.5 |
| Portfolio investments (assets) | -4101.3 | -7222.7 | -4495.8 | 2612.0 |
| Other investments (liabilities) | 17137.4 | 4686.1 | 1084.9 | -2047.2 |
| Other investments (assets) | -11758.7 | -3355.4 | -3176.3 | -308.7 |
| Ukraine | 2007 | 2008 | H1 2008 | H1 2009 |
| Direct investments to country | 9891 | 10913 | 6358 | 2110 |
| Direct investments from country | -673 | -1010 | -837 | -16 |
| Portfolio investments (liabilities) | 5782 | -1292 | 371 | -817 |
| Portfolio investments (assets) | -29 | 12 | 6 | 1 |
| Other investments (liabilities) | 22994 | 23328 | 13180 | -2716 |
| Other investments (assets) | -22838 | -22760 | -10360 | -5578 |

Table 6.1.
 Foreign investments
 to CIS countries
 (\$ million)

Source:
 International
 Financial Statistics,
 2009, November.
 Washington DC:
 International
 Monetary Fund,
 2009

revenue from the export of gold which had been in high demand since the outbreak of the crisis (*The EurAsEC+ Economic Review, 2008; The Eurasian Heritage, 2008*: 16). As a result, industrial production in the country had increased by 15% by the end of 2008. However, in the first half 2009 industrial production dropped by 19% compared with the same period of 2008.

In the third quarter of 2009, the world economy showed signs of revival, which, according to statistics, was also felt in CIS countries (in Figures 6.1 and 6.2, we compare data on the first half of 2009 and the first three quarters of 2009). However, in Belarus the downturn continued and became even more severe, although its effects were not of the scale seen in larger economies.

| | Export | | | | Import | | | |
|------------|--------|-------|-------|---------|--------|-------|-------|---------|
| | 2006 | 2007 | 2008 | H1 2009 | 2006 | 2007 | 2008 | H1 2009 |
| Azerbaijan | 146.6 | 95.1 | 788.3 | – | 125.1 | 108.5 | 125.4 | 88 |
| Armenia | 101.2 | 117.0 | 92.8 | 54 | 121.6 | 149.1 | 135.0 | 72 |
| Belarus | 123.5 | 123.0 | 135.5 | 52 | 133.8 | 128.4 | 137.6 | 67 |
| Georgia | 108.2 | 132.5 | 120.8 | 65 | 147.7 | 141.8 | 116.1 | 62 |
| Kazakhstan | 137.3 | 124.8 | 149.1 | 49 | 136.4 | 138.3 | 115.7 | 77 |
| Kyrgyzstan | 132.2 | 148.3 | 124.3 | 87 | 162.5 | 144.4 | 146.0 | 75 |
| Moldova | 96.4 | 127.6 | 119.1 | 79 | 117.5 | 137.0 | 132.8 | 64 |
| Russia | 124.8 | 116.8 | 133.0 | 53 | 139.6 | 145.0 | 133.6 | 57 |
| Tajikistan | 154.0 | 104.9 | 95.8 | 52 | 129.7 | 147.6 | 128.4 | 78 |
| Ukraine | 112.1 | 128.5 | 135.9 | 53 | 124.6 | 134.6 | 141.1 | 47 |
| Total CIS | 124.6 | 118.7 | 142.9 | 52 | 135.2 | 140.1 | 133.2 | 59 |

Table 6.2.

Growth of exports
and imports in CIS
countries
(year-on-year, %)

This can be explained by the fact that economic policy measures helped to limit the spread of the crisis into the Belarusian economy.

Source:
CIS Interstate
Statistics
Committee (www.cisstat.com)

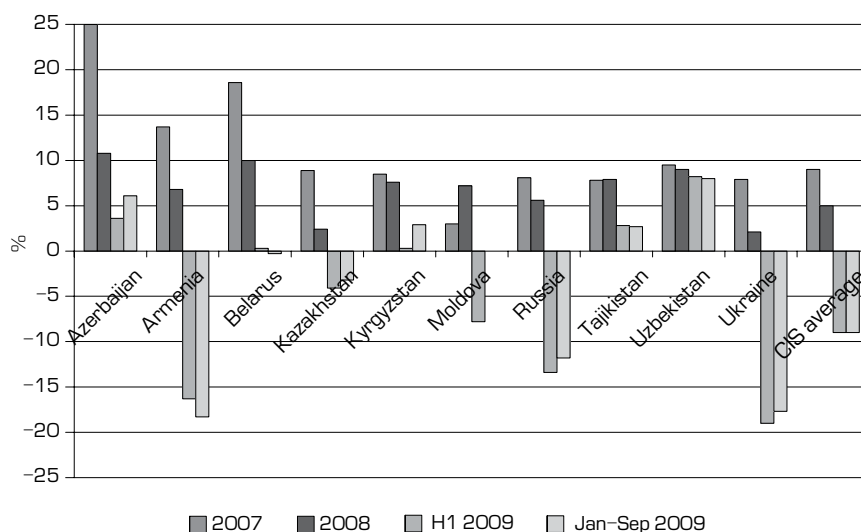


Figure 6.1.
Real GDP dynamics
in the CIS
in 2007-2009

Source:
CIS Interstate
Statistics
Committee and
national statistics

Such an economic dynamics is a result of many influences at the global, regional and national levels. In this article, we examine how the crisis spread throughout the CIS region, i.e., through the foreign trade links within this

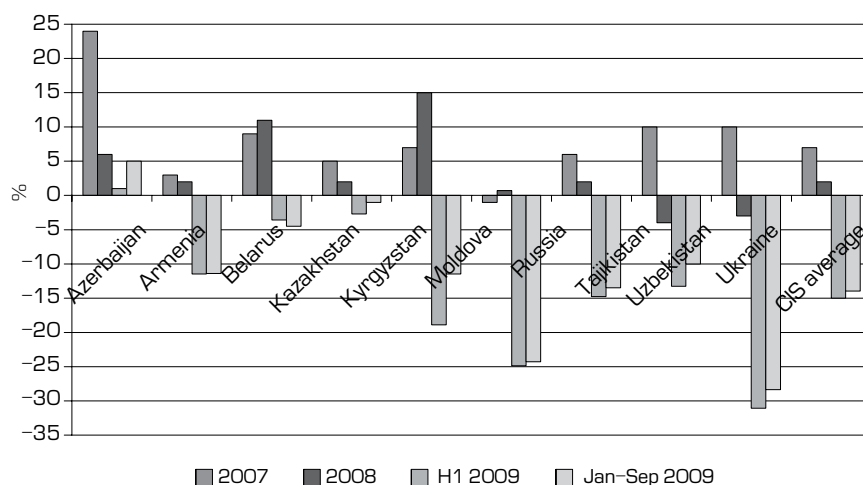


Figure 6.2.
 Industrial production
 in the CIS
 in 2007–2009

Source:
 CIS Interstate
 Statistics Com-
 mittee and national
 statistics

group of countries. One of the key questions we aim to answer is whether or not regional factors were catalysts of the crisis or, on the contrary, a buffer against the global upheaval. Since the majority of regional economic activity in CIS countries is driven by their links with Russia, we focus on Russia as the agent that has the potential to spread or check the crisis. We will therefore concentrate upon the main three channels of intraregional interaction: foreign trade, investment and monetary transfers.

The Foreign Trade Aspect of the Crisis

In 2007–2009, foreign trade in the CIS depended both on the world market (mainly western industrial powers) and intraregional markets (principally Russia). Accordingly, the crisis spread into this group of countries in two phases: initially, the production sector was hit by a fall in demand and prices on world markets; the situation was then exacerbated by a similar decline in local CIS and Russian markets. The contraction of the region's internal markets was accompanied by falling prices, reflecting global commodity market trends. Through the conduit of foreign trade, therefore, the global crisis had a double impact upon CIS economies, i.e., a direct impact and a ricochet effect from Russia and other large economies in the region. The impact of Russia's economic situation on post-Soviet countries was not uniform but relative to Russia's significance as a trade partner for each particular country and to the volumes of commodities traded bilaterally between countries.

In recent years, the significance of intraregional trade has varied greatly in different CIS countries. Most of them, however, have remained highly dependent on this trade. At the end of 2007, according to the CIS Interstate Statistics Committee, the CIS' share in total commodity turnover exceeded 25% in all CIS countries except Russia (see Table 6.3).

CIS countries can be divided into several groups according to the volume of intraregional trade as a proportion of their total exports and imports. Before the crisis, Kyrgyzstan and Belarus had the highest rates of involvement in intraregional trade (in 2007, intraregional trade exceeded 57% of their total commodity turnover; exports to, and imports from CIS countries accounted for 45% and 60% respectively of their total exports and imports). In a second group of countries, comprising Turkmenistan, Tajikistan, Uzbekistan and Moldova, intraregional trade accounted for between 40% and 50% of total commodity turnover prior to the crisis^a.

The third group comprised countries with average (though significant) levels of participation in intraregional trade: these were Armenia, Ukraine, Kazakhstan and Georgia (then a member of the CIS). The share of intraregional trade in the total commodity turnover of these countries varied from 29% to 35%. Azerbaijan and Russia had the lowest dependence on trade with the CIS – these two exporters of fuel and energy being oriented primarily towards more distant markets (see Tables 6.3-6.6).

| Country | 2006 | | 2007 | | 2008 | |
|--------------|---------------|-----------------------|---------------|-----------------------|---------------|-----------------------|
| | CIS countries | Other world countries | CIS countries | Other world countries | CIS countries | Other world countries |
| Azerbaijan | 26 | 74 | 25.5 | 74.5 | 7.2 | 92.8 |
| Armenia | 28.6 | 71.4 | 32.4 | 67.6 | 30 | 70 |
| Belarus | 54.9 | 45.1 | 57.1 | 42.9 | 55.9 | 44.1 |
| Georgia | 38.8 | 61.2 | 36 | 64 | 33.7 | 66.3 |
| Kazakhstan | 26.9 | 73.1 | 28 | 72 | 26.2 | 73.8 |
| Kyrgyzstan | 52.1 | 47.9 | 55.4 | 44.6 | 51.9 | 48.1 |
| Moldova | 38.6 | 61.4 | 37.4 | 62.6 | 36.4 | 63.6 |
| Russia | 14.7 | 85.3 | 15 | 85 | 14.5 | 85.5 |
| Tajikistan | 41.2 | 58.8 | 45.8 | 54.2 | 44.1 | 55.9 |
| Turkmenistan | – | – | – | – | – | – |
| Uzbekistan | – | – | – | – | 37.8 | 62.2 |
| Ukraine | 39.4 | 60.6 | 40.2 | 59.8 | 37.6 | 62.4 |
| CIS average | 22.5 | 77.5 | 23.1 | 76.9 | 21.5 | 78.5 |

Table 6.3.
Share of CIS
countries and other
world countries in
the total foreign
trade turnover
of individual CIS
countries

Source:
CIS Interstate
Statistics
Committee

^a Turkmenistan is a special case in that, in recent years, its exports to CIS countries exceeded 55% of its total exports, and its import from CIS countries accounted for just 30% of its total imports; Tajikistan is highly dependent on intraregional import, whilst exports to CIS countries play an almost negligible part in its total export structure.

| Country | 2007 | Q4 2007 | Q1 2008 | Q2 2008 | Q3 2008 | Q4 2008 | Q1 2009 |
|--------------|------|------------|------------|------------|------------|------------|------------|
| Azerbaijan | 25.5 | 23.1 | 11.9 | 13.7 | 12.7 | 17.2 | 16.0 |
| Armenia | 32.4 | 31.7 | 32.9 | 28.5 | 28 | 31.1 | 44.4 |
| Belarus | 57 | 57.8 | 58.3 | 57.4 | 56.5 | 50.3 | 69 |
| Georgia | 32.2 | 29.6 | 26.9 | 27.3 | 26.8 | 28.9 | 33.1 |
| Kazakhstan | 29.1 | 30.6 | 27.5 | 29.8 | 31.4 | 35.2 | 30.4 |
| Kyrgyzstan | 57.3 | 57 | 23.8 | 22.3 | 20.1 | 57.9 | 23.9 |
| Moldova | 41.8 | 42.9 | 45.5 | 44.5 | 45.9 | 46.8 | 52.3 |
| Russia | 15 | 14.1 | 14.5 | 16.1 | 14.6 | 13.9 | 17.7 |
| Tajikistan | 45.9 | 42 | 53.7 | 45.8 | 38.6 | 52.7 | 59.5 |
| Turkmenistan | 47.9 | 52.5 | 43.6 | 47.5 | 45.9 | 42.5 | 46.7 |
| Uzbekistan | 43.3 | 46.4 | 43.6 | 50.8 | 50.9 | 53.3 | 52.1 |
| Ukraine | 32.9 | 40.4 | 36.5 | 37.6 | 38 | 38.5 | 42.9 |

Table 6.4.
 Share of CIS
 countries in the
 total foreign trade
 turnover of individual
 CIS countries

Source:
 based on the data
 from Direction of
 Trade Statistics,
 2009

| Country | 2007 | Q4 2007 | Q1 2008 | Q2 2008 | Q3 2008 | Q4 2008 | Q1 2009 |
|--------------|------|------------|------------|------------|------------|------------|------------|
| Azerbaijan | 18.2 | 16.3 | 4 | 4.69 | 3.5 | 9.8 | 6.8 |
| Armenia | 30.6 | 32 | 28.7 | 29.77 | 31.8 | 35.5 | 43.9 |
| Belarus | 46.1 | 45.5 | 44.3 | 43.75 | 44.8 | 41.8 | 67.9 |
| Georgia | 26.6 | 22.1 | 18.1 | 20.73 | 17.8 | 21.6 | 23.5 |
| Kazakhstan | 16.3 | 18.7 | 17.1 | 19.70 | 21.8 | 21.9 | 23 |
| Kyrgyzstan | 50 | 49.2 | 45.3 | 71.54 | 70 | 65.4 | 47.4 |
| Moldova | 40.9 | 39.7 | 39.4 | 43.25 | 46.2 | 43.5 | 41.8 |
| Russia | 15 | 14.4 | 14.7 | 16.89 | 14.6 | 15.7 | 20 |
| Tajikistan | 15.6 | 15.2 | 30 | 26.36 | 35.9 | 40 | 44.7 |
| Turkmenistan | 56.8 | 61.8 | 51.6 | 53.23 | 50.8 | 48 | 61.1 |
| Uzbekistan | 41.1 | 47.3 | 53.3 | 59.30 | 60.1 | 63.2 | 65.9 |
| Ukraine | 33.2 | 38.8 | 34.4 | 35.93 | 36.4 | 35.2 | 38.8 |

Table 6.5.
 Share of CIS
 countries in the total
 export of individual
 CIS countries
 (by quarter)

Source:
 based on Direction
 of Trade Statistics,
 2009

Table 6.6.

Share of CIS
countries in the total
import of individual
CIS countries
(by quarter)

Source:
based on Direction
of Trade Statistics,
2009.

| Country | 2007 | Q4 2007 | Q1 2008 | Q2 2008 | Q3 2008 | Q4 2008 | Q1 2009 |
|--------------|------|------------|------------|------------|------------|------------|------------|
| Azerbaijan | 33.3 | 30.5 | 34 | 32.4 | 33.3 | 28.4 | 29.9 |
| Armenia | 33 | 31.7 | 34.1 | 28.1 | 27 | 30.3 | 44.5 |
| Belarus | 66.3 | 67.7 | 71.1 | 69.1 | 66.3 | 56.6 | 69.7 |
| Georgia | 33.8 | 31.6 | 29.6 | 29.6 | 30.2 | 31.2 | 35.8 |
| Kazakhstan | 42.2 | 43.4 | 43.1 | 42 | 43.2 | 48.5 | 38.2 |
| Kyrgyzstan | 60.6 | 60.3 | 20.9 | 16.8 | 15.4 | 55.6 | 20.9 |
| Moldova | 42.1 | 43.9 | 47.3 | 44.8 | 45.8 | 47.9 | 56 |
| Russia | 15 | 13.4 | 14.2 | 14.8 | 14.7 | 11.5 | 14.4 |
| Tajikistan | 63.5 | 56.1 | 61.6 | 52.4 | 39.2 | 55.2 | 62.9 |
| Turkmenistan | 30 | 33.1 | 27.3 | 33.9 | 33.3 | 31.8 | 22.8 |
| Uzbekistan | 45.3 | 45.6 | 35.9 | 43.5 | 43.5 | 45.6 | 41.7 |
| Ukraine | 32.7 | 41.7 | 38 | 38.9 | 39.3 | 41.1 | 46.2 |

The global crisis dramatically altered the development of foreign trade in CIS countries. In most of these countries, the crisis first began to affect foreign trade in the late summer of 2008. By the autumn of 2008, export volumes (in monetary terms) were caught in a sustained downward trend, and the fourth quarter of that year saw a disastrous drop in exports to CIS markets and beyond. The decline in exports to more remote markets in late 2008 – early 2009 was much more rapid than the decline of export to CIS countries, leading to intraregional exports accounting for a greater proportion of total exports in the CIS (see Table 6.4).

Generally speaking, the fall in exports resulting from demand and price cuts on world markets was experienced right across the CIS. With the exception of Belarus, Georgia, Kazakhstan and Tajikistan, whose exports beyond the CIS fell in the third quarter of 2008, the majority of CIS countries were affected only in the fourth quarter of that year. All CIS countries experienced a sharp decline in intraregional trade in the fourth quarter (except Russia and Azerbaijan, whose export to other CIS countries dropped earlier, in the third quarter, influenced by oil price dynamics). The decline in exports to CIS countries and beyond had similar causes: falling prices for energy and other resources (CIS Interstate Statistics Committee, 2009), weak demand and a sharp drop in the supply of machinery, equipment and means of transport⁹.

⁹ For example, in January–September 2009, Belarus' exports of machinery, equipment and means of transport declined by 60% in monetary terms compared with the same period of 2008.

Table 6.7.

Increases in exports to CIS and world markets, Q4 2008 –Q1 2009 (%)

| | | Q4 2008 compared with the Q4 2007 | Q4 2008 compared with the Q3 2008 | Q1 2009 compared with the Q1 2008 | Q1 2009 compared with the Q4 2008 | January–September 2009 compared with January–September 2008 |
|--------------|-------------------|--|--|--|--|---|
| Armenia | All countries | -26.9 | -24.4 | -42.1 | -42.7 | -42 |
| | CIS | -18.8 | -15.5 | -11.7 | -29.3 | -49 |
| | Non-CIS countries | -30.7 | -28.6 | -54.4 | -50.1 | -39 |
| Azerbaijan | All countries | 109.1 | -51.2 | -54.2 | -23.5 | – |
| | CIS | 26.8 | 38.9 | -21.2 | -47.17 | – |
| | Non-CIS countries | 126.2 | -54.4 | -55.5 | -20.9 | – |
| Belarus | All countries | -12.2 | -32.2 | -42.4 | -27 | -43 |
| | CIS | -19.4 | -36.8 | -11.7 | 18.7 | -44 |
| | Non-CIS countries | -6.1 | -28.5 | -66.8 | -59.7 | -43 |
| Georgia | All countries | 21 | -19.8 | -32 | -36.7 | – |
| | CIS | 18.3 | -2.9 | -11.7 | -31.1 | – |
| | Non-CIS countries | 21.8 | -23.5 | -36.5 | -38.2 | – |
| Kazakhstan | All countries | 5.4 | -21.5 | -43.5 | -38.3 | -48 |
| | CIS | 23.8 | -20.1 | -24 | -35.2 | -44 |
| | Non-CIS countries | 1.2 | -21.6 | -47.5 | -39.1 | -48 |
| Kyrgyzstan | All countries | -13.7 | -24 | -15.6 | -25.5 | -19 |
| | CIS | 14.7 | -29 | -11.7 | -46 | -37 |
| | Non-CIS countries | -41.2 | -12.3 | -18.8 | 13.3 | +0.4 |
| Moldova | All countries | -7.5 | -24 | -16.7 | -19.3 | -25 |
| | CIS | 1.3 | -28.5 | -11.7 | -22.5 | -28 |
| | Non-CIS countries | -13.3 | -20.2 | -20 | -16.9 | -23 |
| Russia | All countries | -14.1 | -30.6 | -38.2 | -28.1 | -44 |
| | CIS | -6.9 | -25.7 | -15.9 | -8.2 | -42 |
| | Non-CIS countries | -15.4 | -31.4 | -42.1 | -31.8 | -45 |
| Tajikistan | All countries | -56.5 | -32.1 | -40.7 | -14.8 | -38 |
| | CIS | 14.7 | -24.4 | -11.7 | -4.9 | -10 |
| | Non-CIS countries | -69.2 | -36.5 | -53.1 | -21.5 | -43 |
| Turkmenistan | All countries | 20.5 | -24.5 | -26.2 | -29.8 | – |
| | CIS | -6.5 | -28.7 | -12.6 | -10.7 | – |
| | Non-CIS countries | 63.9 | -20.3 | -40.6 | -47.5 | – |
| Uzbekistan | All countries | 7.9 | -14.2 | -28.6 | -32 | – |
| | CIS | 44.2 | -9.7 | -11.7 | -29 | – |
| | Non-CIS countries | -24.8 | -20.9 | -47.8 | -37 | – |
| Ukraine | All countries | 2.3 | -33.7 | -21.6 | -17.5 | -49 |
| | CIS | -7 | -35.8 | -11.7 | -9.2 | -49 |
| | Non-CIS countries | 8.3 | -32.6 | -26.8 | -22 | -48 |

Source: based on data from Direction of Trade Statistics, 2009 and the CIS Interstate Statistics Committee, 2009

The above table shows that in the fourth quarter of 2008, the decline in intraregional exports was particularly acute in Belarus, Ukraine, Kyrgyzstan, Turkmenistan, Moldova and Russia.

This decline in intraregional exports as a proportion of total exports was the most severe in Kyrgyzstan (down by 20% compared to the previous quarter), Belarus (down by 16%), Turkmenistan (down by 14.6%), Ukraine (down by 13%) and Moldova (also down by 13%). The countries least impacted by the decline of intraregional exports relative to total exports were Georgia (down by 0.5%), Azerbaijan (1.3%) and Russia (3.7%). The overall decline in intraregional export in the fourth quarter of 2008 resulted in a 5.5% decline in total CIS exports (IMF, 2009).

In 2009, the CIS intraregional trade situation remained critical. According to the CIS Interstate Statistics Committee, in January-September 2009, total intraregional exports fell by 44% compared with the same period of 2008. The decline in intraregional export was particularly acute in Ukraine (49%), Armenia (49%), Belarus (44%), Kazakhstan (44%) and Russia (42%). The smallest declines in intraregional exports were in Moldova (28%) and Tajikistan (10%).

In 2009, the decline in intraregional exports had its most severe impact on the total exports of Kyrgyzstan (down by 19.4% year on year), Belarus (19.6%) and Ukraine (16.7%). The smallest declines in total exports were in Tajikistan (1.5%), Russia (6.3%) and Kazakhstan (6.8%). Overall, the drop in intraregional exports resulted in a 7.8% fall in total CIS exports (CIS Interstate Statistics Committee, 2009).

Our analysis of the effects of the crisis on foreign trade in the CIS leads us to the following conclusions. From an export perspective, the direct effects of the global recession on the CIS in general were far more devastating than the secondary effects upon intraregional interaction (given that the decline in intraregional trade accounted only for a maximum 20% of the region's total exports). The impact of this was greatest upon the highly interdependent economies that dominate intraregional trade flows (Kyrgyzstan, Belarus, Turkmenistan, Ukraine and Moldova). For Kyrgyzstan, intraregional trade was the activity through which the crisis most affected its economy. For Turkmenistan, Belarus and Moldova, the effects of the crisis on their intraregional to total export ratios were in line with global trends. There was limited impact on the significance of intraregional trade in Georgia, Azerbaijan and Russia, although effects could not be described as negligible in actual terms.

The most significant consequence of the sharp fall in foreign trade volumes in CIS countries was the increase in intraregional exports and imports as a proportion of total foreign trade (CIS Interstate Statistics

Committee, 2009). This was the result of a combination of factors: the commoditised nature of exports to CIS and other countries; pricing practices on CIS intraregional markets; devaluation; measures taken by Russia and other CIS governments to protect domestic producers; etc.

The main reasons for the decline in the CIS exports were weak demand and falling prices on world markets, especially for low-value-added products (raw materials, metals and basic chemicals), but the share of these commodities in the CIS' intraregional exports was much smaller than their share of exports beyond the CIS.

Traditionally, mineral products are an important element of intraregional trade in the CIS (35.9% of all intraregional export in 2008; for comparison, machinery, equipment and means of transport accounted for 20.7%). Nevertheless, mineral products account for 70.5% of all exports to non-CIS markets; machinery, equipment and means of transport account for just 2.8%¹⁰ (see Table 6.8). At the peak of the crisis, Belarus and Armenia (countries whose intraregional trade patterns are not dominated by mineral products) achieved the biggest increases in exports to other CIS countries. Countries with relatively small mineral products exports outside the CIS (Moldova, Kyrgyzstan and Ukraine) saw the smallest decline in their exports to the CIS and beyond.

The pricing practices adopted in trade between CIS countries served to limit the decline of this type of trade at the height of the crisis: price changes on intraregional markets often lagged behind global trends.

At the peak of the crisis, the anti-crisis measures and currency devaluations implemented by Russia and other CIS governments were pivotal in increasing intraregional trade as a proportion of total CIS foreign trade. The measures were aimed at limiting imports from outside the CIS through tariff regulation. The tariff policy did not apply to commodities from CIS countries, which remained duty-free. As a result, commodities from within the CIS were more competitively priced than similar imports from outside the CIS, which, for most countries except Turkmenistan, Kazakhstan, Azerbaijan and Belarus¹¹ (see Table 6.6), led to a moderate increase in the proportion of their total imports coming from other CIS countries.

Overall, our analysis of intraregional trade in the CIS during the crisis suggests that, despite a significant decline, trade in goods originating in the CIS proved to be more resistant to the effects of the crisis than trade with non-CIS countries, due to the focus on commodities. However, this may mean that intraregional trade in the CIS suffers from greater inertia when the global market situation begins to improve.

¹⁰ Based on data from the CIS Interstate Statistics Committee.

¹¹ This was attributable to the particular focus on commodities in these countries' imports from the CIS and beyond

Table 6.8.
The commodity
structure of CIS
countries' export to
other CIS countries
and non-CIS markets
in 2008

Source:
CIS Interstate
Statistics Committee
(author's calculations)

| Country | Farm produce | | Minerals | | Chemicals | | Textile and leather | | Timber, rocks, metals and related products | | Machinery and equipment | | Vehicles | | Others | |
|-------------|--------------|-----------------------|----------|-----------------------|-----------|-----------------------|---------------------|-----------------------|--|-----------------------|-------------------------|-----------------------|----------|-----------------------|--------|-----------------------|
| | CIS | Other world countries | CIS | Other world countries | CIS | Other world countries | CIS | Other world countries | CIS | Other world countries | CIS | Other world countries | CIS | Other world countries | CIS | Other world countries |
| Azerbaijan | 31.1 | 0.1 | 36.7 | 99.2 | 7 | 0.3 | 2.6 | 0 | 11.6 | 0.4 | 2.3 | 0 | 7.9 | 0 | 0.8 | 0 |
| Armenia | 53.9 | 2.9 | 13.2 | 17.8 | 4.9 | 2.7 | 1.3 | 5.6 | 16.8 | 66.3 | 8 | 4.4 | 1.6 | 0.2 | 0.3 | 0 |
| Belarus | 14.6 | 0.7 | 11.5 | 58.5 | 9.6 | 24 | 7 | 2.3 | 15.9 | 8.8 | 17.9 | 1.9 | 19.2 | 2.4 | 4.4 | 0 |
| Kazakhstan | 12.5 | 2.7 | 52.5 | 76.8 | 10.1 | 2.3 | 0.6 | 1 | 19.1 | 16 | 3.1 | 0.2 | 2 | 1 | 0 | 0 |
| Kyrgyzstan | 17.1 | 5.5 | 42.6 | 16.7 | 2.6 | 14.3 | 16.8 | 2.8 | 10.5 | 58.1 | 6.6 | 0.6 | 3.1 | 1.8 | 0.7 | 0 |
| Moldova | 52.5 | 27.4 | 6.7 | 2.2 | 8.4 | 2 | 6.1 | 36.8 | 11.1 | 12.8 | 9.2 | 14.7 | 1 | 1 | 5.1 | 3 |
| Russia | 6.4 | 1.2 | 48.2 | 73.5 | 9.4 | 6 | 1 | 0.1 | 17.9 | 15.7 | 10.2 | 1.6 | 6 | 1.3 | 0.9 | 1 |
| Ukraine | 15.5 | 16.5 | 7.6 | 12.1 | 7.8 | 9.7 | 1 | 3 | 33.5 | 50.7 | 18.1 | 5.3 | 15 | 1.7 | 1.5 | 1 |
| CIS average | 10.4 | 2.5 | 35.9 | 70.5 | 9.1 | 6 | 1.8 | 0.6 | 20.6 | 17 | 11.8 | 1.6 | 8.9 | 1.2 | 1.5 | 0.6 |

| | 2006 | Q1 2007 | Q2 2007 | Q3 2007 | Q4 2007 | 2007 | Q1 2008 | Q2 2008 | Q3 2008 | Q4 2008 | 2008 | Q1 2009 | Q2 2009 |
|-----------------------|-------|------------|------------|------------|------------|-------|------------|------------|------------|------------|-------|------------|------------|
| Direct investments | -2058 | -219 | -1306 | -682 | -902 | -3109 | -1222 | -1083 | -857 | -349 | -3510 | -1894 | -580 |
| In Russia | 53 | 136 | 133 | 68 | 28 | 366 | 9 | 46 | 83 | 105 | 243 | 59 | 89 |
| Overseas | -2111 | -355 | -1439 | -751 | -930 | -3474 | -1231 | -1129 | -940 | -454 | -3754 | -1953 | -668 |
| Portfolio investments | -52 | 19 | -91 | 207 | -56 | 79 | 42 | 6 | 37 | 42 | 128 | 52 | -44 |
| Assets | -61 | -2 | -111 | 101 | -101 | -113 | 30 | -12 | -1 | -41 | -24 | 24 | -28 |
| Liabilities | 9 | 21 | 20 | 106 | 46 | 192 | 12 | 19 | 38 | 83 | 152 | 28 | -16 |
| Other investments | | | | | | | | | | | | | |
| Assets | -1955 | -231 | -1689 | -298 | -2526 | -4745 | -1742 | -577 | -803 | -1173 | -4295 | -3799 | -2063 |
| Liabilities | 2157 | 518 | 1374 | -163 | 460 | 2189 | 873 | 1774 | 542 | -1269 | 1920 | -142 | 906 |

Table 6.9.

Balance of payments
between Russia and
other CIS countries
(\$ million)

Source:
Central Bank of Russia
([http://www.cbr.ru/
statistics/?Prtid=svs](http://www.cbr.ru/statistics/?Prtid=svs))

Mutual Investment

During the pre-crisis period (2000–2007), two other modes of economic interaction in the CIS gained in significance: mutual investments and monetary transfers by migrants from other CIS countries. In both cases, Russia's role as an economic centre was even more prominent, with Kazakhstan in the second place.

Investment in the CIS countries had been on the upturn prior to the crisis, due to the countries' rapid economic growth and low rate of savings (Heifetz, Libman, 2008). Russia, however, was less interested in investing in CIS countries, at least according to official statistics. The share of Russia's direct overseas investments in CIS countries has accounted for 7-9% of total overseas direct investment during recent years. Since the outbreak of the crisis, this figure has shown a downward trend.

The assessment of investment flows in the post-Soviet space is made more complex by the significant discrepancies in statistics supplied by different countries and the fact that intraregional investment often comes via offshore agencies. For the purposes of this article, we have used figures for the balance of payments between Russia and other CIS countries.

The sustained growth of Russian investments in CIS countries (in real terms) continued until the second quarter of 2008 approximately.

In 2007, Russia's total direct investment in the CIS was up by 65% on the previous year, but in 2008 the increase was a mere 8%. In the first half of 2009, there was an increase of 11% over the same period of the previous year. In other words, the crisis did slow Russian investment but did not reverse it. Investment by CIS countries in the Russian economy decreased dramatically; however, these investments had never been significant prior to the crisis.

The dynamics of Russian portfolio investments in CIS countries is more illustrative of the effects of the crisis on these economies. In the third quarter of 2007, Russia's total overseas assets moved into the black – most probably as a result of Russian investors selling Kazakh securities during the financial turmoil in Kazakhstan. The first quarter of 2008 also saw the withdrawal of Russian investments from CIS countries; this process did slow down, and in the fourth quarter of that year Russian players rushed to buy CIS securities, which had fallen in value. In 2008, overall Russian portfolio assets in CIS countries shrank from \$113 million to \$24 million, and an outflow of investment was observed again in the first quarter of 2009. Russian liabilities also shrank, and in the second quarter of 2009 the Russian economy experienced for the first time a net outflow of portfolio investments held by investors elsewhere in the CIS.

Similar trends were observed with other Russian investments in CIS countries. In 2008 Russian assets in the region contracted, but in the first half of 2009 there was a significant upturn in other investments from Russia. The trend with regard to liabilities was still downward.

In the pre-crisis period, the main beneficiary of investment was the real economy. However, during the crisis, the flow of direct investment was increasingly redirected to the banking sector, which, by the end of 2008, accounted for more than half of all Russian investment. This is because Russian investors seized the opportunity to expand into the region's banking sector at a time when the CIS national banks were facing such huge problems. Russian financial institutions purchased a number of Ukrainian banks (e.g., Vneshekonombank acquired 75% of Prominvestbank for \$1.080 billion (Mergers and Acquisitions, 2009); VTB and Sberbank are also active in Ukraine, and Alfa Bank is weighing up a potential offer for crisis-stricken Ukrprombank (RBK, 2009)). As mentioned above, there has been an overall decline in foreign investments in Ukraine, but Russian players completed three major transactions there in 2008. These included the purchase of Prominvestbank, MirlInvest's acquisition of the ISTIL metal works, and Sinergiya's acquisition of vodka producer Myagkov (Financa.ua, 2009).

A similar situation was seen in Kazakhstan in 2009, when Russian investors moved into the country's gold-mining sector. Polyus Zoloto purchased 50% of KazakhGold; Atomredmetzoloto purchased 50% in Karatau LLP and 25% in Akbastau JV; and Polimetal is to purchase the Varvarinskoye gold and copper deposit (Vestnik zolotopromyshlennika, 2009). In the mechanical engineering sector, AvtoVAZ acquired Aziya Avto (Ma-online, 2009).

In the wake of the crisis, Russian players have continued to favour investing in CIS countries. The depreciation of assets and increased cost of borrowing makes it easier for Russian companies to access CIS markets, i.e., the crisis has indirectly promoted intraregional investment activity. Moreover, in December 2008, Ukrainian politicians voiced their concern that Russian businesses might take advantage of the critical situation to launch an aggressive expansion into the country's banking sector¹². We conclude, therefore, that investment did not play a significant role in exacerbating the crisis – on the contrary, it worked to mitigate its effects to some extent. Official Russian aid to some CIS countries in the form of loans should also be taken into account here.

Money Transfers

Another means by which the economic crisis has spread through the post-Soviet space is through money transfers made by migrant workers. The

¹² This concern was expressed by Arseny Yatsenyuk in particular. See *Ekonomicheskaya pravda*, December 9, 2009.

Table 6.10.
Increase in current
transfers (% of the
figure of same period in
the previous year)

Source:
balance of payments
of Russia, Moldova and
Kazakhstan (central
bank data)

| | Q1 2006 | Q2 2006 | Q3 2006 | Q4 2006 | 2006 | Q1 2007 | Q2 2007 | Q3 2007 | Q4 2007 | 2007 | Q1 2008 | Q2 2008 | Q3 2008 | Q4 2008 | 2008 r. | Q1 2009 | Q2 2009 |
|---|------------|------------|------------|------------|-------|------------|------------|------------|------------|-------|------------|------------|------------|------------|---------|------------|------------|
| | Paid | | | | | | | | | | | | | | | | |
| Russia (paid to CIS countries) | 158.5 | 156.2 | 160.8 | 176.8 | 164.4 | 160.6 | 153.8 | 153.8 | 151.8 | 154.1 | 141.8 | 135.3 | 113.3 | 80.8 | 111.6 | 78.2 | 72 |
| Russia (transfers by workers to CIS countries) | 155.5 | 156.6 | 162.3 | 180.5 | 165.7 | 159.1 | 154.4 | 153.4 | 149.5 | 153.1 | 138.3 | 133.2 | 106 | 74 | 105.9 | 69.4 | 70 |
| Kazakhstan (paid total) | 153.8 | 172.6 | 188.6 | 169.8 | 172.6 | 177.1 | 169.5 | 151.1 | 107.8 | 145.1 | 86 | 52.5 | 62.9 | 77.3 | 68.2 | 73 | 104 |
| Kazakhstan (transfers by workers) | 161.1 | 177.7 | 189.6 | 161.5 | 172.6 | 181.8 | 172.5 | 153.5 | 114.3 | 149.9 | 81.9 | 52.3 | 62 | 76.5 | 66.9 | 74.4 | 102 |
| | Got | | | | | | | | | | | | | | | | |
| Moldova (from CIS) | 178.6 | 191.1 | 202.3 | 211.7 | 198.4 | 129.1 | 176.2 | 222.5 | 233.2 | 201.1 | 254.2 | 225.3 | 177.2 | 118 | 172.7 | 88.9 | 72.6 |
| Moldova (from Russia) | 176.9 | 182.4 | 197.3 | 207.2 | 193.3 | 130.1 | 182 | 228.8 | 242.9 | 207.7 | 268.6 | 225.7 | 174.6 | 117.8 | 172.6 | 85.6 | 71.5 |

majority of such remittances are from Russia and Kazakhstan to Uzbekistan, Ukraine, Tajikistan, Armenia, Moldova, Kyrgyzstan and some other countries. Accordingly, through the decrease in such transfers, the crisis hit countries which traditionally supply workers to larger economies. It should be remembered that Russia and Kazakhstan themselves are also highly dependent on foreign workers.

For Russia and Kazakhstan, countries directly exposed to the crisis, its impact was especially devastating in industries which employ large numbers of workers from other CIS countries, i.e., construction, transport and retail commerce. A mass outflow of foreign workers from Russia and Kazakhstan began in the second half of 2008. However, those moving back to their home countries found their job prospects had become even worse owing to the deterioration in the economic situation.

Between 2000 and 2007, money transfers in the post-Soviet space increased by 25-35% annually (Kommersant-Dengi, 2009). The first slowdown occurred in 2008, and in the first half of 2009 a decrease was recorded in comparison with the first half of 2008. It is, of course, impossible to compile accurate statistics for the amounts remitted by migrant workers; however, national balance of payments data on incoming cash remittances can be used to assess overall dynamics.

According to balance of payments data held by the Central Bank of Russia, aggregate transfers from Russia to CIS countries had stopped increasing by the fourth quarter of 2008, and in the first half of 2009 they were down by 22% compared to the same period a year earlier, whereas in the same period, the share of transfers by migrant workers in the aggregate transfers dropped by 30%). The seasonal factor is significant here. Typically, the migrant workforce earns most of its pay during the third and fourth quarters of the year. Experience from previous years shows that in the first quarter, when most construction work is suspended until spring, current transfers come to a standstill.

Because Kazakhstan is more integrated into the world financial system, and has a more advanced banking sector, it was exposed to the global economic crisis quite early on. Cash transfers¹³ in the country began to fall in early 2008. The decline was at its steepest in the second quarter of that year and was halted only in mid-2009. Money remittances by migrant workers (mainly to Kyrgyzstan) mirrored this trend.

There was a sharp decline in the amounts of cash transferred to Moldova. Migrant workers from Moldova are mainly employed in Russia's construction

¹³ In Kazakhstan's statistics, transfers to CIS and other countries are not shown separately, but we assume that most transfers paid by Kazakhstan were destined for CIS countries.

industry. During individual years of the construction boom in Russia, the amount transferred by Moldovan workers increased by as much as 100% annually.

Year-end statistics for 2008 showed a considerable slowdown in remittances (in the third and fourth quarters especially) following which the actual volume of transfers began to decline. Aggregate transfers to Moldova declined even more sharply than transfers by migrant workers from Russia. The main cash flows were from Russia and Italy – the latter also attracts many Moldovan workers (Banki.ru, 2009).

As mentioned above, Moldova belongs to a group of countries which are highly dependent on money transfers from abroad. So, whereas a drop in such transfers would be difficult but not disastrous for Ukraine, for Moldova such decreases can put the entire economy at risk of destabilisation.

The amount of money taken out of Russia by migrant workers can also be assessed using data on instant transfers made via different payment systems. Unlike balance of payments data, information on instant transfers allows us to assess money transfers regionally.

According to the Central Bank of Russia, the vast majority of transfers made via Russian payment systems are destined for Ukraine (\$2.978 billion or 21.7% of all transfers to CIS countries in 2008), Uzbekistan (\$2.516 billion or 18.4%; these figures grew significantly by mid-2009) and Tajikistan (\$1.690 billion or 12.3%). In 2007–2008, the regional distribution of money transfers remained stable. During the crisis there was a decrease in actual amounts of transfers to CIS and non-CIS countries. The pace of growth of transfers to non-CIS countries in recent years has been somewhat slower than that of transfers to CIS countries, and the total volume of transactions has decreased year on year.

By mid-2009, Ukraine and Azerbaijan had been severely affected by a sharp decline in transfers from Russia – only Moldova found itself in a worse position in this regard, having begun to suffer this decline at the beginning of 2009. The fact that the decline in transfers varied between countries can be explained by the specialisation of migrant workers. The smallest decline was in transfers from Russia to Belarus: principally, these were private transfers by individuals who are not migrant workers, and the amount of their transfers was not significant (only Turkmenistan received smaller amounts).

The average amounts being transferred reflected cuts in the salaries of migrant workers employed in Russia: in early 2009 the average transaction was \$450, down from \$800 in mid-2008.

The fact that average transaction amounts decreased most significantly in remittances to Armenia, Tajikistan, Kyrgyzstan and, to a lesser extent,

Uzbekistan suggests that migrant workers from these countries were most exposed to the negative effects of recession in the Russian economy.

During the crisis, migrant workers' transfers to most recipient economies diminished to some degree. Thus, in the first half of 2009, current transfers accounted for 19.5% of Moldova's GDP (compared with 29% in 2007); likewise, in Tajikistan this share dropped from 49% to 36%. In Kyrgyzstan, by contrast, current transfers as a proportion of GDP increased from 27% at the end of 2007 to 30% in mid-2009¹⁴, but this would only indicate that the decline in transfers in this country was slower than the decline in GDP.

Conclusions

For the CIS, the economic crisis of 2007–2009 has differed from the 1998 crisis in a number of fundamental ways. During the latter crisis, Russia was the principal source of economic turmoil felt in other CIS countries. The crisis spread primarily through changes in foreign trade patterns. Just as importantly, foreign investors perceived the CIS to be a less than secure home for their investments and rushed to withdraw capital not only from Russia but also from the entire Commonwealth (Mir Peremen, 2008). However, the recent crisis did not just affect the CIS. Our preliminary analysis suggests that, for most countries, the global scale of the crisis was more significant than its intraregional effects. On the one hand, this is a reflection of how these countries have continued to diverge during the 2000s. On the other hand, it shows that there are many opportunities to promote integration based on concerted efforts to overcome the crisis. Progress in this regard includes the establishment of the EurAsEC Anti-crisis Fund, Russia extending loans to some CIS countries, etc. However, these measures have not played a decisive role in limiting the crisis and in many cases came too late. CIS economies have mainly relied on national anti-crisis measures, and some of them (Belarus, Kyrgyzstan, Moldova, Armenia) suffered severe losses as a result of a decline in demand for their commodities on the regional market and for their workers in Russia and Kazakhstan. Nonetheless, concerted action is still needed, at least to mitigate the effects of the crisis. The economic mechanisms by which the crisis has spread intra-regionally therefore warrant further scrutiny.

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The Emerging Regional Configuration in Central Asia: the Remaining Traces of Unipolarity, Unstable Multipolarity and Other Alternatives

1. Introduction

Since the Cold War, the development of the international community has been increasingly manipulated by regional powers. The core issue of international relations, i.e., conflicts and cooperation, are mainly found in various regional affairs. The end of the bipolar system and the construction of a new international order further highlight various regions' independent values for the international system in transition. The regional phenomenon has become a more obvious feature of the global economy and politics. In particular, under the possible significant changes of power distribution in international patterns, regional areas tend to be the major place for powers to game.

Taking this into account, more and more monographs and papers started to pay attention to these issues, including regions, regional players and their roles in international politics (Lake and Morgan, 1997; Buzan, Barry and Wæver Ole, 2003; Katzenstein, 2005 etc). Many scholars point out that the region's role can not be ignored in understanding the future international order. Few experts anticipate that emerging regional structures are critical to the future world pattern. It's quite possible that humans will live in a "multiregional system of international relations", which means that a shift towards a regional dimension in international relations studies has appeared in the post-Cold War era.

Generally speaking, there are mainly two paradigms for regional studies in the post-Cold War era: one with integration studies based on "cooperation" as the core concept; the other is regionalism studies with a core concept of "security", such as the regional security complex theory proposed by Buzan and Wæver.

Central Asia seems to have differed from other regions in the international political landscape from the beginning: it is not that the integration process is slow but that the disintegration process has not yet come to an end. The future is unforeseeable because of the complex interrelationships within Central Asian countries and with outside forces (Malashenko, 2007; Yarmolog, 2009; Libman, 2009a). On the other hand, due to the fact that external powers have infiltrated into this area and have strong military powers, temporarily the security complex theory does not seem to be able to explain the development pattern for trends in Central Asia.

We notice that the international community's discussion regarding Central Asian regional patterns usually slips into a new round of confined thinking in the context of "the Great Game" since the new century. Analysts are increasingly tending to consider Central Asian pattern as a new geopolitical game with more participators. In addition to the traditional power of Russia in Central Asia, the United States (great power outside the region) as well as the rising China are increasingly more integrated into Central Asian affairs, and other major countries and international organisations have also entered in order to together pursue dominance in Central Asia. One of the most popular explanation models takes Russia and China as one side and the United States and other Western countries as the other side in Central Asia. These two sides compete (zero-sum game) and even confront each other. China and Russia try to crowd the United States out of Central Asia in order to form their own exclusive control in Central Asia (Kempe, 2006).

The available literature tends to think that a key factor of "the Great Game" is any form of an external powers' military presence in Central Asia. This paper argues that currently the major powers are indeed seeking to add their presence in Central Asia and perhaps in the near future even very violent forms will appear. But this zero-sum confrontation model is clearly contrary to the development realities of international politics in Central Asia. At the very least, "The new Great Game" theory ignores the several following important factors.

Firstly, in history, the United Kingdom and Russia's "Great Game" in Central Asia was under circumstances without nation-states in Central Asia. Central Asian countries were passive objects during competition between great powers. Whereas now, after 20 years of transformation and development, Central Asian countries are no longer merely the objects of great power politics but are more and more involved and participating in the management of regional affairs. The main features of Central Asian countries in the regional pattern are increasingly evident (Trenin, 2004; Satbaev, 2006).

Secondly, the relations between Central Asian countries and the outside world are no longer hierarchical ones between great powers and client state

in the traditional sense. These relations depend more on how countries in the region define their own political, economic and security interests. It is possible that in some extreme cases, there indeed exists the phenomenon that a big country in Central Asia competes with another on the basis of getting help from powers outside the region. However, in Central Asia there are more relative "equidistance" balances of great power diplomacy. In other words, the Central Asian countries are not passively subject to great powers, but have significant initiative and flexibility in building foreign relations, which cannot simply be ignored.

Third, the current geopolitical game does not have an absolute sense of confrontation. On the one hand, there is obvious competition in Central Asia among the great powers and international organisations, but at the same time, the situation in the Central Asia is so complex that any one major power on its own cannot protect the peace, stability and development in Central Asia, and as a result they have to cooperate with each other in different fields to various degrees.

According to this paper, conflict and cooperation play a decisive role within the framework of the regional order, which is similar to the impetus of the entire international system. It is noteworthy that the regional order is not a miniature version of the international order and thus can not be simplified in understanding. Regions do not automatically follow the international system's functions, nor can world politics be interpreted as the sum of regional politics. Each region is not a new "polar" or "player" in the international order and can not be regarded as another expression of the "multipolar world". The pattern of regional order depends on the construction of relations among regions, regional powers and external power. Two or more opposite powers globally may cooperate unexpectedly at a particular level.

Given the fact that powers at different levels in the political reality in Central Asia can be either mutually compatible or form different alliances of convenience in line with their similar interests, this paper believes the pattern of the Central Asian region cannot be interpreted by the "Great Game" model and proposes that the complex power structure model may be more explanatory. The traditional hegemony of Russia, the rise of China, the global hegemony of the United States and the regional powers such as Kazakhstan and Uzbekistan, have composed the complicated geopolitical, geoeconomic and geocivil network in Central Asia. Within the framework of this complex system of power structures, each of the various participants cannot obtain access to absolute superiority in all fields of their mutual relations and thus form complex power interactions with other parties.

The main aim of this paper is to discuss the possible development patterns and scenes in Central Asia following the disintegration of the Soviet Union under the evolution of the progress of Central Asia. Following the brief review

and comments regarding the literature on “the Great Game” in Central Asia in the introduction, this paper will then analyse the current distribution of power in Central Asia and the trends of Russia, China and the United States in the region and describe the subjective features of Central Asian countries and finally predict the possible prospects for Central Asia.

2. The Political Dimension of the Power Structure in Central Asia: One Dominant in a Bipolar World

After the disintegration of the Soviet Union, Central Asian countries began to intensify their relations with the United States and the West; this relationship was largely achieved through mutual cooperation on counter-terrorism following the events of September 11, 2001, on the other hand, the United States thus expanded its presence in Russia's doorstep. Before 2003, for a long time, the Central Asian countries had been unwilling to abandon their foreign policy, which aimed at taking an advantage by making the West – especially the U.S. – conflict with China and Russia. However, this situation changed between 2004 and 2005: the successful regime change in Georgia, Ukraine, and, most importantly, Kyrgyzstan made the state leaders of this region realise the fragility of current regimes. Therefore, the states of Central Asia increased their dependence and demand for their regime's security on China and Russia more than ever before.

Theoretically, the need for “regime security” comes from the pressure on “regime threats”. The external threats to regime mainly have five display modes: military intervention; economic blockade; severance of diplomatic relations; utilising public opinion at home and abroad to attack the legitimacy of the regime in the ideological sphere; and/or assistance to the opposition (Shlapentokh, 2009: 306). As external threats are the most common reasons used to prove the existence of the regime and its legitimacy, some regimes are normally inclined to equate the reigning regime with the fate of the state, and exaggerate external threats, or even fabricate the sources of threats (Shlapentokh, 2009: 306). In line this theory, the leaders of one state are always trying to protect its predominant reigning regime, one which can reasonably assure the best interests of the state. For this reason, if the West continuously suppressed H. Chávez, A. Lukashenko, M. Ahmadinejad and I. Karimov, it would push them to pursue much stricter policies in order to consolidate their own regimes, which in turn would incur more criticism from the West, ultimately causing the tense relationship between the authoritarian regime and the West to spiral.

For the leaders of Central Asia, since 2003, their strategic concern has formed three key problems:

- 1) how to weaken the opposition and further consolidate their regime, and how to avoid the impact of “Colour Revolution”;

- 2) how to crack down on Islamic extremism and terrorism against the background of reviving Islam faiths and to maintain domestic security;
- 3) how to drive the national economy while preventing the lifelines of their national economy from being controlled by other states.

These three are the main parts of "regime security" in this area. Not only do external forces have a sharp dispute with the political elite of Central Asia on these three problems, but they also challenge their authority actively, which is regarded as a threat by the Central Asian countries, and this has also become an important factor when the states of this region deal with external relations.

The Central Asian countries that came from the Soviet era and the interests of the West form high-profile confrontations in this field. Not because China-Russia had natural appetency for the regimes of this area, but because the West is always seeking regime change, which pushes Central Asia to China and Russia politically.

While the United States of America was attempting to transform the authoritarian regime of this region by any means possible, Russia and China followed the principle of nonintervention in other nations' internal affairs, a stance welcomed by Central Asian countries as an umbrella against the pressure of "revolution".

The governments of Central Asia realised that Washington and Brussels were more willing to support western-oriented and market-oriented regimes, rather than the existing regime of their countries, which was authoritarian, nepotistic and sectarian. Perhaps for the states in this area multilateral diplomacy is still an unbearable luxury.

If the Tulip Revolution in Kyrgyzstan made the political elite of Central Asia become suspicious and anxious about the purpose of the West, then the Andijan massacre deepened the fear and rapidly pushed Central Asia to the embrace of Russia and China.

The president of Uzbekistan worried that the United States would threaten his regime, in order to protect his own political career, he returned in the relationship between Tashkent and Washington and began to reestablish alliance with Russia.

The other countries in Central Asia also have their own desire for China and Russia. Seeking support from China and Russia is one strategic choice for Kazakhstan. In 2002 and 2003, Tajikistan had a distant relationship with Russia; however, considering the risk of "Colour Revolution", it decided to return to the umbrella of Russia. For Kyrgyzstan, after the revolution, it

was still in domestic instability and faced the possibility of a “second revolution”. In this situation, Kyrgyzstan eagerly needed the support of China and Russia to stabilise the situation and get back on track, and, therefore, it actively improved its relations with Russia.

Russia was also worried that the West would advocate its own opposition carry out similar “revolutions”, and as Russia and Central Asia had a consensus on this point, this pulled their relations closer¹. As a challenge to the “Colour Revolution”, Russia promoted “sovereign democracy”, and gave full support to the regime of Central Asian countries. Against this background, when referring to external impact, Nursultan Nazarbayev acutely expressed: “Kazakhstan is no longer a country that could be ordered about and be told what to do; we know what we should do. We do not want to follow others’ advice while making a fool of ourselves.” (Pannier, 2006).

Certainly, it is not easy to take one’s regime apart from within, especially if the regime’s threats from outside are striving for a sudden change of regime, so actions will not have long-term spillover effect. According to this paper, this division will not prevent but rather help us to understand the changing relations between Central Asian countries and other powers outside this region.

There are two possible impetus:

- 1) Facing the pressure and threats from the external forces, the existing regime may lose its power. Therefore, it will be inclined to struggle with the foreign forces while seeking cooperation with others.
- 2) When the external threats are eliminated gradually and the previous external forces who are committed to “regime change” will temporally abandon this policy, meanwhile, the benefits which come from the cooperation with the other may be less than the cooperation with the opposition, in which case, the regime may tend to return to the past.

On the other hand, if it continues to benefit from cooperation, at a level which will surpass the benefit, if it undermines the relationship, then the country will maintain the cooperative relationship and seek more space. Here is a case in point, after the U.S. readjusted its policy towards Central Asia, the “regime security” of Uzbekistan and Kyrgyzstan were no longer threatened by the United States. However, they pursued a different policy towards Russia; the former returned to its old track of seeking more cooperation with the West (Allison, 2008), while the latter reinforced its relations with Russia and

¹ For more on the “Colour Revolution”, see also Cheterian, 2009; Zherebkin, 2009; Galbreath, 2009.

improved its relationship with the United States, in a word, the key lies in how the regime contemplates the benefits and influence of the changes.

3. The Economic Dimension of the Power Structure in Central Asia: Unstable Multipolarity

In order to make clear the distribution of power between China, Russia and the U.S. in Central Asia, it should be evaluated by three indexes: trade, investment and foreign assistance.

3.1. Trade Cooperation

The strong growth overall in Central Asia became the major motivation for the development of foreign trade, which in turn further boosted the volume of foreign trade in successive years (see Table 7.1). Central Asia's biggest trading partners are the European Union (EU), Russia and China.

Table 7.1.
Central Asian
countries 2000–
2008 Foreign Trade
Statistics (\$ million)

Source:
official statistics
of Central Asian
countries

| Country | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--------------|------|------|------|------|------|------|------|------|------|
| Kazakhstan | 138 | 151 | 162 | 213 | 329 | 452 | 619 | 805 | 1090 |
| Uzbekistan | 62 | 63 | 57 | 67 | 87 | 95 | 107 | 147 | 173 |
| Kyrgyzstan | 10 | 9 | 11 | 13 | 17 | 18 | 25 | 37 | 52 |
| Tajikistan | 12 | 14 | 15 | 16 | 23 | 22 | 31 | 44 | 47 |
| Turkmenistan | 42 | 49 | 50 | 61 | 72 | 86 | 94 | 116 | 176 |
| Afghanistan | 20 | 23 | 28 | 25 | 50 | 41 | 28 | 38 | 46 |
| Total | 284 | 309 | 323 | 395 | 578 | 680 | 912 | 1187 | 1584 |

The development of mutual trading between Central Asia and China has gone through the following stages:

- Initial period: from the independence of the states in this region until 1998, the trading between China and Central Asia had not been fully developed, and the total volume fluctuated between \$350 million and \$700 million;
- Developing period: after the 1998 financial crisis, the mutual trading stepped into a faster growing phase, especially between 2000 and 2003, and the total mutual trade volume increased from \$1 billion to \$3.3 billion and the scale expanded three times;
- Acceleration period: since 2004, the trade cooperation between this district and China has become much more stable. From 2004 to 2007, the total volume has skyrocketed from \$4.3 billion to \$16 billion, that is, 3.7 times (Paramonov, Strogov and Stolpovskii, 2008: 155). Comparing this to the 90s of last century, between 2000 and 2007 the amount of trading expanded by more than 15 times.

Table 7.2.

Trade between
China, Russia,
the United States
and Central Asian
countries 2001–
2008 (\$ million)

Source:
Statisticheskij
ezhegodnik SNG

| Year | Russia | China | USA * |
|------|--------|-------|-------|
| 2001 | 5924 | 1478 | 824 |
| 2002 | 5464 | 2798 | 1071 |
| 2003 | 7088 | 3305 | 965 |
| 2004 | 10463 | 4337 | 1430 |
| 2005 | 13227 | 8297 | 2124 |
| 2006 | 14869 | 10796 | 1929 |
| 2007 | 21800 | 16038 | 2185 |
| 2008 | 28800 | 20600 | 2681 |

Note: * Excluding trade with Turkmenistan

From the overall trend, the trading cooperation between Central Asia and the external great powers demonstrated that China and Russia were competing with each other, while the United States was left far behind (see Table 7.2). However, over the years the gap between China and Russia has been narrowing, and looks promising that China will soon replace Russia (Ibraimov, 2009; Paramonov, and Strogov, 2007). For instance, in 2000, the total trade volume between Central Asia and Russia was \$6.5 billion. However, for the same period, the volume with China was only \$1 billion. Yet by 2007, although the former increased to \$21.8 billion, the latter soared to more than \$16 billion.

Table 7.3.

China's trade with
Central Asian
countries from
2003 to 2007 (LUT)

Source:
Kazakhstanskaja
pravda,
14 ijulja 2009

What is worth mentioning here is that the actual total trade volume of Central Asian countries with China was probably far more than the official statistics published by the Central Statistics Agency (see Table 7.3). This is mainly due to the fact that the merchants of this area usually import Chinese goods through unofficial trade modes. This is normal practice nearly in every country in this region.

| Country | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | |
|--------------|-------|-------|-------|-------|-------|--------|--------|--------|--------|--------|
| | * | ** | * | ** | * | ** | * | ** | * | ** |
| Kazakhstan | 28.56 | 33.30 | 36.94 | 44.98 | 67.62 | 72.43 | 87.84 | 108.00 | 123.85 | 152.26 |
| Kyrgyzstan | 0.96 | 3.17 | 1.25 | 6.03 | 4.22 | 7.32 | 7.57 | 11.70 | 8.64 | 21.00 |
| Uzbekistan | 2.13 | 3.46 | 3.70 | 5.76 | 6.28 | 7.82 | 8.17 | 9.00 | 16.08 | 18.00 |
| Tajikistan | 0.15 | 0.38 | 0.32 | 0.69 | 2.29 | 2.85 | 3.13 | 3.5 | 6.84 | 10.50 |
| Turkmenistan | 1.22 | 1.00 | 1.17 | 1.02 | 1.05 | 1.14 | 1.25 | 1.33 | 3.77 | 4.00 |
| Total | 33.05 | 41.00 | 43.37 | 58.48 | 82.97 | 102.94 | 107.96 | 133.50 | 160.38 | 205.76 |

Note: * Official statistics from Central Asian countries; ** Statistics from the Chinese Ministry of Commerce

3.2. Investment Cooperation

The Russian economy has maintained a steady growth since 1999, and with the encouragement of and support from Russian government, it accelerated its overseas expansion, so that its overseas investment grew exponentially, with the Commonwealth of the Independent States (CIS) including the Central Asian countries having become its priority (For the Russian policy of external economic expansion, see also *Libman and Heifetz, 2006; Yang, 2006; Libman and Heifetz, 2008*). Thus the investment cooperation between Russia and this area has increasingly ascended. Based on the statistics published by Russian Federal State Statistics Service, the volume of investment by Russia in Central Asia increased from \$213 million in 2005 to \$631.3 million in 2008. From the 1990s to the beginning of the 21st century, European countries were the main investment targets for Russia; however, the focus of Russia has obviously shifted to Central Asia in the last few years. Kazakhstan and Uzbekistan are the largest recipients of Russian investment (see Table 7.4).

| Country | 2000 | 2005 | 2008 |
|--------------|--------------|--------------|--------------|
| | Total Volume | Total Volume | Total Volume |
| Kazakhstan | 3.5 | 204.3 | 174.3 |
| Kyrgyzstan | 0.0 | 1.2 | 39.8 |
| Tajikistan | – | 0.5 | 28.1 |
| Turkmenistan | 2.9 | – | 4.0 |
| Uzbekistan | 0.1 | 7.0 | 385.1 |
| Central Asia | 6.5 | 213 | 631.3 |
| CIS | 130.1 | 620.5 | 1097.9 |

Table 7.4.
Russian investment
in Central Asia
(\$ million)

Source:
Federal State
Statistics Service

It has to be pointed out that the statistics above are not a true reflection of Russia's investment in Central Asia. At least two types of "invisible" investment have not been included in this table: 1) reinvestment by various Financial Institutions, including stocks on the secondary market (Heifetz 2009, 43-44); 2) Investment such as outsourcing, which was placed in Central Asia via other foreign companies, as the Russian National Bureau of Statistics always regards those investments as foreign capital rather than Russian capital. Therefore, the percentage of the shadow economy is rather high in Central Asia. According to some investigations, this shadow economy roughly amounts to 44.6% in Kazakhstan, 40.6% in Kyrgyzstan, 35.4% in Turkmenistan (2004–2005) and 60% in Tajikistan (2007) (Libman, 2009b: 21). It has provided plenty of room for grey investment.

On the one hand, with the economic development of Central Asian countries, their domestic productive demand is increasing year by year, which has

created a favourable precondition for China to expand its investment in this area. On the other hand, the Chinese economy has developed quickly and its comprehensive national power is reinforcing, which has laid a benign material foundation for foreign investment, and the Chinese government encourages and supports competent enterprises under all types of ownership to actively participate in the process of globalisation. Therefore, China's investment in this area is increasing gradually every year.

According to the statistics jointly published by Chinese Ministry of Commerce, National Bureau of Statistics and State Administration of Foreign Exchange, by the end of 2007, China's non-financial direct investment in Central Asia was close to \$400 million, which surpassed the previous year by 362% (see Table 7.5). For example, China's non-financial direct investment stock in Kazakhstan was \$610 million, ranked 17th of the top 20, while Kazakhstan ranked 12th among the countries that received more than \$100 million from China's direct investment (China's Foreign Direct Investment Statistical Bulletin, 2007: 6-10).

Table 7.5.
2003–2007 Flow of
China's non-financial
direct investment in
Central Asia
(\$ million)

Source:
Collected by
the author based
on 2007 China's
Foreign Direct
Investment
Statistical Bulletin

| Country | 2003 | 2004 | 2005 | 2006 | 2007 |
|--------------|------|------|-------|------|-------|
| Kazakhstan | 294 | 231 | 9493 | 4600 | 27992 |
| Kyrgyzstan | 244 | 533 | 1374 | 2764 | 1499 |
| Tajikistan | – | 499 | 77 | 698 | 6793 |
| Turkmenistan | – | – | – | –4 | 126 |
| Uzbekistan | 72 | 108 | 9 | 107 | 1315 |
| Total | 610 | 1371 | 10953 | 8165 | 37725 |

Investment by the United States in this region mainly focused on the energy industry in Kazakhstan; compared to the accumulative total invests of China to Kazakhstan until 2007, which was \$8 billion, the United States had reached \$12.6 billion by 2006 (Report on the Investment Climate in Kazakhstan, 2007). Furthermore, the United States signed trade cooperation agreements with all Central Asian countries, and signed bilateral investment agreements with Kazakhstan and Kyrgyzstan. In June 2004, American trade representatives signed TIFA with the ambassadors of these countries and founded the USA-Central Asia Committee on Trade and Investment. This Committee holds one meeting every year and discusses the issues regarding United States trading and investment with Central Asia. In order to weaken the influence of China and Russia in this area, the Bush administration called for greater cooperation with Central Asia and in this Committee encouraged them to develop trade and traffic cooperation with Afghanistan and South Asia. During July 2007, the United States Assistant Secretary Boucher emphasised the importance of Central Asia cooperating with South Asia in spheres such as transportation and electric power (Boucher, 2007).

3.3. Foreign Assistance

Among the major great powers, the U.S. has become the biggest contributor to Central Asia. From the fiscal years of 1992 to 2006, the United States placed nearly \$4.1 billion in this region, followed by the EU with €1390 million (Lum, 2008: 108). Interestingly, the aid from the U.S. to this area was also being diverted by the 9/11 attacks, prior to that even, the main receiving states were Russia and Ukraine. Between 1992 and 2006, the U.S. aid in Central Asia amounted 14% of all eurasian countries; since 2002, this has obviously increased, and in 2008 to 2009, it rose to approximately 25% (see Table 7.6).

| Country | 1992–2006 | 2007 | 2008 | 2009 |
|--------------|-----------|--------|---------|---------|
| Kazakhstan | 1244.8 | 70.7 | 25.191 | 21.948 |
| Kyrgyzstan | 806.5 | 36.55 | 32.626 | 29.608 |
| Tajikistan | 679.7 | 35.86 | 31.914 | 28.582 |
| Turkmenistan | 255.4 | 12.48 | 9.149 | 11.504 |
| Uzbekistan | 760.9 | 18.99 | 10.19 | 7.94 |
| Central Asia | 73.2 | 34.6 | 2.976 | 6.607 |
| Total | 4053.4 | 178.04 | 112.046 | 106.189 |
| Share | 14% | 11% | 24% | 25% |

Table 7.6.
1992–2008 United States Aid to Central Asia (\$ million)

Source:
Collected by
the author using
the Congressional
Budget Justification
for Foreign
Operations

The United States promoted a foreign aid programme in this region, which focused on “trade capacity building” and was aimed at helping Central Asian countries to enhance material, human capital, and institution building, participate in global trade, which also included assisting Central Asian countries with their negotiations on accession to the WTO (Langton, 2007). From the implementation of this programme, it is said that the U.S. put more emphasis on institution building, such as pushing Central Asian countries to reform their Customs Services, strengthen border security, support organisation of their chambers of commerce, develop agriculture and improve the transparency of government. In October 2005, U.S. Trade and Development Agency announced the “Central Asian Infrastructure Integration Initiative” with a budget of \$100 million. At the beginning of 2006, a group of American consultants visited Afghanistan, Kazakhstan, Kyrgyzstan and Tajikistan; they then put forward a series of proposals. Meanwhile, the U.S. actively promoted the so-called “North-South Silk Road”, which will reach 1860 km from Almaty to Karachi, Pakistan and pass through Kyrgyzstan, Tajikistan and Afghanistan. Furthermore, the United States invested \$3 billion to build a bridge, which would connect Afghanistan and Tajikistan. In addition, from 2006, the United States began to implement a three-year “Regional electricity market assistance project” with a total budget of \$330 million, aimed at motivating Central Asia to share its electric power

market with Afghanistan, Pakistan and South Asia countries such as India (Kucera, 2006a; Kucera, 2006b) Besides the direct investment mentioned, the U.S. also provided indirect or “invisible” aid for this area through international financial organisations.

Since the independence of Central Asian countries, China has supplied this region with some economic aid; the initial aid amounted to from 1.5 million RMB (chinese currency – “renminbi”) to 3 million RMB. From the mid-1990s, China increased economic aid to this area, expanded the scale of preferential government loans, and free assistance was also increased from 10 million RMB to 20 million RMB. After the establishment of the Shanghai Cooperation Organisation (SCO), China continued increasing its aid to Central Asia through bilateral and multilateral means within the infrastructure of the SCO. The main form this aid takes is a large quantity of preferential buyer’s credits. In 2004, Chinese leaders provided \$900 million of preferential buyer’s credits at the Tashkent Summit of the SCO. And from 2004, China began to offer the members of the SCO with large scale credit aid for large infrastructure projects such as transportation, energy, telecommunication networks and so on, which became one of the important external support sources for the development of Central Asia (Shi Jing, 2009). However, this movement has raised doubts from the Russian public including the political elite. Russia is worried that Chinese geopolitical aspirations in Central Asia might lead to the deprivation of its own leadership in this area and it becoming a “little brother” to China. There were even some worries about China’s actions that would make Central Asian countries rely on China and eventually adhere themselves to its economy, which would further endanger Russian interests (Interfax, 2007). In Russian government circles, they even discussed the problem of “how to feedback carefully and properly to China’s financial threats inside the SCO” (Mikheev, 2008: 12-13).

4. The Military Dimension of the Power Structure in Central Asia: Oppositional Bipolarity

In this field, the power distribution of the great powers could be examined by their military presence in Central Asia. During the Cold War, Soviet forces had more than 100 naval bases, air bases and military installation abroad, including over 30 naval bases (harbours or facilities) and over 70 air bases (airports). After the Cold War, Russian overseas military presence was basically returned to the sub-districts of the CIS (Liu and Cui, 2007). Undoubtedly, Central Asia must be the area where Russian foreign troops have the largest scale and complete military services.

Table 7.7. shows that Russian ground forces in Central Asia were mainly concentrated in Tajikistan: this primarily due to the fact that Tajikistan burst into a large-scale civil war in the 1990s and is located on the border with Afghanistan. In 2004, Russia reached a new military cooperation agreement

with Tajikistan, the core content of which was that Russian border defense would transfer the Soviet border guards training centre to Tajik Army in 2006. And although Russia would transfer Tajikistan border defense, it would not give up its military presence in Tajikistan (according to unconfirmed reports, Russia utilised the high income of Tajik labour migrants as a lever to pressure Tajikistan. See also Niklasson, 2008: 30). At the same time, Russia took advantage of the debts which Tajikistan owed Russia, acquiring the right to use the Nurek radar for 49 years. The debts were cut and in return Russia only needed to pay a symbolic rent of 30 cents per annum (Johnson, 2006: 79).

Although Russia quickly improved its relationship with the U.S. and connived with the U.S. army as it entered into its own traditional sphere of influence – Central Asia, based on the principle of balance of power, Putin also expanded its military presence in this area. This has seen Kyrgyzstan, always swinging between the great powers and following a multidimensional foreign policy, rent Manas Airport to U.S. army and also quickly reach agreement with Russia on a new air base, which is also the only newly-established Russian military base in Central Asia. However, the size of the Russian garrison at Kant air base is considerably small: 10 planes, 500 pilots and 1000 service staff who cannot play a key role in military movements (Olcott, 2005: 188). Western scholars even viewed the military significance of Russian air base in Kyrgyzstan as less than its political importance – more than a strength demonstration towards the United States; it accommodated the need of Russian domestic politics (Hedenskog and Larsson, 2009: 92).

On July 31, 2009, the Collective Security Treaty Organisation, which is dominated by Russia, held its summit in Cholpon-Ata, a small town of Kyrgyzstan on the side of Issyk-Kul Lake. At this summit, Russia and Kyrgyzstan came to the agreement that Russia could set up another military base in Kyrgyzstan, which would meet the needs of Collective Rapid Reaction Force. D. Medvedev and K. Bakiev signed the relevant memorandum and decided to sign an agreement on the conditions and status of the military base which would be established in the south of Kyrgyzstan on November 1, 2009; the period of validity was 49 years and would be automatically renewed for a further 25 years. According to some Russian media, Russia would also send no more than a battalion to Kyrgyzstan, at the same time, a military training centre for two states would also be founded (Solov'ev and Orozaliev, 2009).

It is actually very difficult for the United States to extend its military antenna to Central Asia. However, after September 11, 2001, Russia rapidly adjusted its strategy towards the U.S. in order to seek cooperation, especially in Central Asia. Russia took full advantage of the anti-terrorist movement, and not only opened its territorial airspace to the United States, but also convinced

| no | Military Units | Type | Host countries |
|---------------------------------|---|------|----------------|
| Ground Forces | | | |
| 4 | Military base | B | Tajikistan |
| 201 | Motorised rifle division fifleinfantry division | C | Tajikistan |
| 149 | Motorised rifle division division | C | Tajikistan |
| 191 | Motorised rifle division division | C | Tajikistan |
| 92 | Motorised rifle division division | C | Tajikistan |
| Air Forces | | | |
| 171 | Air Force command | CC | Kazakhstan |
| x | Aviation training site | T | Kazakhstan |
| x | Aviation training site | T | Kazakhstan |
| x | Aviation training site | T | Kazakhstan |
| x | Transportation aviation division Division | C | Kazakhstan |
| x | Air Force base | C | Kyrgyzstan |
| 1098 | Air Force defense regiment | C | Tajikistan |
| 670 | Air Force unit | C | Tajikistan |
| Navy | | | |
| x | Naval communication center | R | Kyrgyzstan |
| x | Torpedo testing site | T | Kyrgyzstan |
| Strategic Weapons Forces | | | |
| 5 | State testing site | T | Kazakhstan |
| 7680 | Radar system | R | Kazakhstan |
| x | Early-warning-radar | R | Kazakhstan |
| x | Measuring spot 3 | T | Kazakhstan |
| x | Measuring spot 5 | T | Kazakhstan |

Table 7.7.
Russian military
presence
in Central Asia

Source:
Stukalin, Lukin, 2005

those countries to allow the “temporary residence” of the U.S. army. In the beginning, the USA still exercised self-control, coped with the problem of long-term military presence discreetly, and it emphasised that the U.S. shared common interests with Russia in Central Asia and that it respected Russian reasonable interests in this area and it had no intention to push Russia out of it. All of these made Russia show its significant tolerance towards the American military presence in Central Asia; instead of reacting drastically to the American expansion of military presence, it accepted it peacefully.

However, as the influence of the U.S. army became stable in Central Asia, the United States and Russia again began to compete with each other, and the fight for military bases became much fiercer (Lachowski, 2007). The importance of military presence in Central Asia for the United States can be told from the frequency of high-ranking officials visiting this region. From the

independence of Central Asian countries to 9/11, only the U.S. Vice President Gore visited Kyrgyzstan and Kazakhstan in December 1993; few U.S. high-ranking officials visited Central Asia. With the start of the Anti-terrorist War in Afghanistan, in order to gain support from Central Asia, it has become one of the most frequently-visited region by American officials.

In November 2001, immediately after the United States and Uzbekistan signed the military bases cooperation agreement, U.S. Secretary Powell quickly visited Kazakhstan and Uzbekistan. After Manas Air Base was launched, U.S. Defense Secretary Rumsfeld subsequently visited Kyrgyzstan in April 2002; he revisited Kyrgyzstan when its new regime was established in April 2005. In July 2005, after the Almaty Summit of the SCO, where the organisation published an announcement that demanded the withdrawal of the U.S. army from Central Asia at the right time, Rumsfeld hurriedly visited Bishkek to persuade Kyrgyzstan otherwise. Rice also visited Kazakhstan, Kyrgyzstan and Tajikistan in October 2005. Two months later, Rumsfeld came to Central Asia for the fourth time to exchange opinions with Tajikistan on the issue of cooperation in Afghanistan. In July 2007, Gates, who had replaced Rumsfeld as Defense Secretary, visited Bishkek to negotiate with Kyrgyzstan over the rent of Manas Airport. According to statistics from American scholars, from July 2007 to April 2008, American high-ranking officials above the deputy minister level visited Central Asia 27 times; during the same period, Chinese officials came to this region 18 times (Lum, 1997: 99).

After Andijan events Uzbekistan asked the U.S. to retreat from Karshi-Khanabad Base in six months. On the other hand, the vacillating stance of Kyrgyzstan on Manas Airport helped the United States keep this anti-terrorist key point. To secure this, the U.S. agreed to increase the cost from \$1.74 billion per year to \$6 billion per year from June 2009, and that it would further offer assistance in other forms amounting to more than \$100 million. In accordance with the new agreement, the new base was renamed "Transit Centre" (Nichol, 2009a; Nichol, 2009b). Perhaps it is a typical case in international politics to study in these new times. Both Russia and the United States reached agreements with Kyrgyzstan after it displayed sufficient autonomy.

It seemed that it was a "strategic mistake" of Putin to allow the U.S. army to enter Central Asia. U.S. military bases in this region have now become a big problem for Russia's security. Though the presence of the U.S. army is small in this area, it was not only used to fill the strategic gaps, but also satisfied a long-cherished wish of the Americans, which was to contain and decrease Russia's traditional status and influence in the CIS. However, with the confrontation of Russia and the USA in the sphere of military security, Central Asian countries can benefit from this situation.

5. The Cultural Dimension of the Power Structure in Central Asia: the Remaining Traces of Unipolarity

After the disintegration of the USSR, though Central Asia does not traditionally belong to the Russian sphere of influence, Russia still has a powerful strategic, economic and cultural impact in this region. The historical heritage of the Soviet Union ensured that Russia would be widely associated with Central Asian countries, which also provided Russia with soft powers to pressure this region (Nichol, 2009a; Niklasson, 2008: 28). After it regained its overall strength, Russia paid much more attention to soft power, especially in the construction of the post-Soviet national image (Kazancev, Merkushev, 2008). Compared to this, the influence of China and the United States is far behind Russia, however, one is the only super power, and the other is a rising power, therefore, to some extent, both of them have some influence in this area.

5.1. Cultural and Educational Exchange

With sharing language, culture and common history, unlike China and the U.S., Russia enjoyed unmatched priority in cultural and educational exchange activities. According to statistics from Russia's "Europe and Asia Heritage" Foundation, 63% of Kazakhs mastered Russian, 38% of Kyrgyz and 28% of Tajiks (Fond "Nasledie Evrazii", 2008). Russia went to Central Asia to develop its education market, especially the teaching of Russian. Similar to the Confucius Institute of China, Russia set up the "Russian World" Foundation on Putin's executive order, which is used to spread Russian education and culture. At present, this foundation has established a "Russian Centre" in Kazakhstan. And as for higher education, there is the Kyrgyz-Russian University in Bishkek, the capital of Kyrgyzstan and the Tajik-Russian University in Dushanbe, Tajikistan. In addition to this, other famous Russian universities have also founded branches in Central Asia. For instance, Moscow State University is planning to found a branch in Dushanbe (Rotar', 2009).

On the other hand, Russian universities also opened their door to Central Asian countries, and have become the priority for students in this region. With the exception of Kyrgyzstan, the number of students from other countries in this region studying in Russia has not decreased for a decade (see Table 7.8.).

Table 7.8.

Number of students coming from Central Asia who attended Russian State and Municipal colleges and universities

Source:
Statistics from
the Federal State
Statistics Service

| Country | 1995–1996 | | 2000–2001 | | 2006–2007 | | 2007–2008 | |
|--------------|-----------|-----------|-----------|-------|-----------|-------|-----------|-------|
| | Total | * Student | Total | * | Total | * | Total | * |
| Kazakhstan | 11644 | 8921 | 16665 | 11724 | 18036 | 12441 | 18970 | 11553 |
| Kyrgyzstan | 1700 | 1524 | 1230 | 519 | 712 | 583 | 830 | 634 |
| Tajikistan | 738 | 642 | 324 | 221 | 1135 | 647 | 1234 | 742 |
| Turkmenistan | 3176 | 2735 | 3221 | 1162 | 5287 | 2092 | 4614 | 2088 |

Note: * number of non-correspondence students

Though the total volume of students coming to Russia is rising, Russia still felt disturbed due to the fact that the number of students from Central Asia who were going to the U.S., Europe, Pakistan, Saudi Arabia, Turkey, Iran, Japan, China and other countries was continuously increasing. In other words, the Russian advantage was gradually being destroyed. For example, Kazakhstan began a Bolashak ("Future") Initiative special plan² aimed at sending overseas students in 1993, and most students who won the scholarship chose either Europe or the U.S.. Based on the statistics from the Education and Culture Departments of Kazakhstan's embassies in the USA and Canada, the U.S. has become the first choice for young students in Kazakhstan, with more than 1000 students per annum. However, for the 2007–2008 academic year, 46.6% of the students with Bolashak scholarships chose the member states of the EU, 29% chose the U.S., while only 9.5% chose Russia (Morozov, 2009: 164). According to the survey, among the optional states, the status of the EU and the U.S. are soaring. For instance, in Kazakhstan, 18% chose Russia, 17% chose the EU and 14%, the U.S.; the corresponding number in Kyrgyzstan and Tajikistan were 32%, 17%, 14% and 37%, 12% and 14% respectively. In other words, the attraction of Russia in the sphere of culture and education is gradually decreasing, which may provide some space for China and the U.S. to seek for cooperation with Central Asian countries in this area.

In addition to bilateral means, the educational and cultural exchange between China and Central Asia also progressed in the structure of the SCO. The China National Office for Teaching Chinese as a Foreign Language (NOCFL) has already set up two Confucius Institutes in Kazakhstan, one in Kyrgyzstan and one in Turkmenistan. At the 2007 SCO summit, China proposed to expand education exchanges and decided to fund a scholarship programme for students of the member states of SCO. It will offer scholarships to 20 students each year, which could promote language and cultural exchange. On November 17, 2009, a working conference of Chinese colleges and universities involved in this project and the China-Russia seminar were held in Beijing. The delegates from the two sides discussed the laws and regulations for the SCO University, its teaching and research, financial budget, organisation and management and so on. They reached extensive consensus, which marked the substantive beginning of the SCO University (Zhong Guo Jiao Yu Bao, 2009).

However, the cooperation between the United States and Central Asia in training and education also did an excellent job compared to Russia (see Table 7.9). From the latest statistics, in the fiscal year of 2006, 14 relevant government departments of the U.S. and 49 various committees and agencies obtained the approval and implemented 243 activities from the National Communications and Training Working Group, which is sponsored

² Nazarbayev announced in 2005 that the upper limit of this programme had been increased to 3000 students per year.

by the U.S. government. The activities included “Peace Corps”, International Defense Education and Training, the Edmund Muskie Graduate Fellowship, various types of Fulbright and Eurasian and South Asian Excellent Teaching Achievement Program and so on.

| | | Kazakhstan | Kyrgyzstan | Tajikistan | Turkmenistan | Uzbekistan | Total |
|------|----|------------|------------|------------|--------------|------------|-------|
| 1998 | * | 364 | 127 | 4 | 87 | 150 | 2686 |
| | ** | 674 | 460 | 129 | 210 | 481 | |
| 1999 | * | 249 | 169 | 8 | 107 | 176 | 3237 |
| | ** | 845 | 378 | 263 | 276 | 766 | |
| 2000 | * | 277 | 180 | 9 | 70 | 299 | 3986 |
| | ** | 1409 | 429 | 113 | 192 | 1008 | |
| 2001 | * | 291 | 168 | 34 | 96 | 293 | 11380 |
| | ** | 7859 | 1297 | 206 | 237 | 899 | |
| 2002 | * | 444 | 251 | 43 | 114 | 289 | 14036 |
| | ** | 10266 | 781 | 326 | 223 | 1299 | |
| 2003 | * | 299 | 282 | 50 | 112 | 258 | 34674 |
| | ** | 29837 | 1548 | 645 | 190 | 1453 | |
| 2004 | * | 261 | 270 | 62 | 137 | 286 | 37009 |
| | ** | 32870 | 921 | 696 | 393 | 1113 | |
| 2005 | * | 1247 | 1054 | 670 | 813 | 1092 | 74465 |
| | ** | 10508 | 10568 | 14548 | 4735 | 29230 | |
| 2006 | * | 288 | 262 | 85 | 97 | 106 | 42778 |
| | ** | 5941 | 9397 | 12232 | 3522 | 10849 | |
| 2007 | * | 299 | 282 | 85 | 152 | 48 | 11122 |
| | ** | 1502 | 2534 | 1905 | 2088 | 2227 | |

Note: the years above refer to the financial years, * indicates the U.S. citizens who went to Central Asia, ** indicates Central Asian countries' citizens who went to the U.S.

Table 7.9.

Participants in
Central Asia
International
Exchange and
Training Programmes
sponsored by the U.S.
Government

Source:
The author has
documented the
reports of the
Interagency Working
Groups (IAWG)
on U.S. Government-
Sponsored
International
Exchanges and
Training from
1999 to 2008

5.2. The Influence of Mass Media

After more than ten years of independence, the Russian media (including local Russian media) are still holding their advantage in the market of mass media in Central Asia. The majority of the 55 million people prefer Russian TV programmes, newspapers and websites. According to some analysis, one realistic reason for the current situation is that local public has “aesthetic fatigue” of its national media. Furthermore, the mass media of Central Asian countries is basically controlled by their own governments; information falls short of public needs, which may lead more and more people to garner information from Russian media. Some other commentators proposed that local media are so boring that they opened the door for Russia to regain its cultural influence in this region. Russia can take the advantage of this

condition and influence social conditioning and public opinion in the former Republics of Soviet Union (Eshanova, 2002).

In nearly all cases, the favourite TV station in Central Asia is a Russian TV station. Take Kazakhstan for example, 80% of the public watch ORT every day (Russian TV's first channel), and only around 40% watch their own TV channels (Eshanova, 2002). In addition, based on some statistics, 70% of print media and 80% of electronic media in Kazakhstan are Russian media (Shustov, 2009).

From independence, Turkmenistan began to control the Russian media. From 1992, Russian magazines could not be sold to the public. From 1997, Turkmenistan government has blocked subscription to Russian magazines by organisations and the public. Until July 2002, Russian publications were absolutely forbidden in Turkmenistan. Only two Russian publications still exist in Turkmenistan, one is the official newspaper "Neutral Turkmenistan", the other is literary reading "Renaissance". The TV Stations only play 15 minutes of Russian news every day and retransmit some entertainment programmes from ORT. In 2004, Mayak Radio, the last Russian media was forced to shut its branch in Turkmenistan. Despite this, Turkmenistan cannot stop the interest of its public in Russian media, and the citizens have usually secretly installed satellite TV to solve this problem.

In Uzbekistan, as it has a good relationship with Russia, nearly 1/6 newspaper and 1/5 magazines are published in Russian, and nearly all websites can be read both in Uzbek and Russian. Comparatively speaking, the influence of Russian media is rather strong in Uzbekistan, RTR TV channels overseas edition, Mayak Radio could be watched and listened to. Russian print media and electronic media account for 70% of the media market of Kyrgyzstan. Russian TV's first channel, RTR TV channels overseas edition, Russian Radio, Mayak and Echo of Moscow share a large market in Kyrgyzstan.

In December 2007, the famous TV Channel CTC of Russia began to enter the mass media market of Kazakhstan and Uzbekistan, planning to purchase the most popular TV Station and register a new TV Station Group.

In a conclusion, the influence of Russian media in Central Asia cannot be ignored. China and the U.S. have been left far behind by Russia in this sphere, and moreover, the dominant position of Russia may not be challenged and surpassed for quite some time.

5.3. Labour Migration

After the collapse of the Soviet Union, people living in Central Asia migrated to Russia. Most of the migrants were workers, and this phenomenon also became Russia's "soft" leverage to deepen relations with those states (see Table 7.10).

| Country | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--------------|--------|-------|-------|-------|-------|-------|-------|-------|-------|
| Kazakhstan | 124903 | 65226 | 55706 | 29552 | 40150 | 51945 | 38606 | 40258 | 40000 |
| Kyrgyzstan | 15536 | 10740 | 13139 | 6948 | 9511 | 15592 | 15669 | 24731 | 24000 |
| Tajikistan | 11043 | 6742 | 5967 | 5346 | 3339 | 4717 | 6523 | 17309 | 20700 |
| Turkmenistan | 6738 | 4402 | 4531 | 6299 | 3734 | 4104 | 4089 | 4846 | 4000 |
| Uzbekistan | 40810 | 24873 | 24951 | 21457 | 14948 | 30436 | 37126 | 52802 | 43500 |

Table 7.10. Number of migrants to Russia from Central Asia (2000–2008)

Source: Rossijskij statističeskij ezhegodnik, 2008:117

In 2008, Russia was still the biggest recipient of migrants from Central Asia; the economies of some Central Asian countries partly relied on the remittances. According to the statistics from the Russian Bank, in 2008, the total volume of immigrant remittances to the CIS was as high as \$12.6 billion, an increase of 29.9% on the previous year. In Tajikistan, immigrant remittances amounted to 49.3% of its GDP, 22.7% in Kyrgyzstan and 11.3% in Uzbekistan. In addition, according to the statistics of the World Bank, the amount of immigrant remittances accounted for 50% and 28% respectively of the GDP of Kyrgyzstan and Tajikistan, which rated 1st and 4th among all developing countries (Ratha, Mohapatra & Silwal, 2009: 3).

Central Asia's labour has brought a large amount of cash flows for their national economy (see Table 7.11), but it is still too early to recognise its contribution to the economic development of this area. According to an interview between a Swedish Scholar Niklasson and an official from the Kyrgyzstan National Bureau of Statistics, the official statistics estimated that the ratio was 2–3%; however, this official believed that it should be around 20–30% (Niklasson, 2008: 29). The global financial crisis, which swept Russia and Kazakhstan from the second half of 2008, was perceived to attack the service income of Kyrgyzstan and Tajikistan. At the beginning of 2009, the World Bank predicted that the personal remittances of Central Asia labour migrants would reduce by 40–50%, which might damage the economy of Uzbekistan, Kyrgyzstan and Tajikistan. Nevertheless, according to the latest report by the World Bank at the end of 2009, considering the exchange rate difference between dollar and rouble, the number of personal remittances would only fluctuate within a limited range. In terms of dollars, comparing the first half of 2009 with the same period of 2008, the personal remittances of labour migrants from Kyrgyzstan and Tajikistan decreased 15% and 34% respectively. However, if this is viewed in terms of the rouble, they actually increased 17% and 10% respectively (Ratha, Mohapatra & Silwal, 2009: 7).

For a decade, the continuous growth of Kazakhstan's economy offered a large amount of jobs for neighbouring Central Asian countries; however, if compared to Russia's siphon effect, the distance was still great. For example,

| Country | Sum (\$ mln) | | GDP (\$1000 mln) | | The proportion of GDP | |
|--------------|--------------|------|------------------|-------|-----------------------|-------|
| | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 |
| Kazakhstan | 195 | 187 | 103.9 | 132.2 | 0.2% | 0.1% |
| Kyrgyzstan | 771 | 1157 | 3.75 | 5.1 | 20.6% | 22.7% |
| Tajikistan | 1667 | 2516 | 3.75 | 5.1 | 44.5% | 49.3% |
| Uzbekistan | 1693 | 2978 | 21.8 | 26.4 | 7.8% | 11.3% |
| Turkmenistan | 30 | 48 | 20.93 | x | 0,1 | x |

Table 7.11.
Labour migrant
remittances
of Central Asia
(2007–2008)

Source:
www.economy.
gov.ru/wps/
wcm/.../statia_fed_
spravochnik_2009.
doc

in 2008, the number of workers from Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan to Kazakhstan was 1,864; 216; 34, and 791 respectively, correspondingly, the number to Russia was 184,600; 391,400; 3,100 and 642,700 (Sodruzhestvo Nezavisimyykh Gosudarstv v 2008 godu, 2009: 139).

6. From Object to Subject: the Political Comedy of the Small Countries in Central Asia

After the collapse of the Soviet Union, with the disintegration of the bipolar world, the relations between the great powers in Central Asia became rather complicated. The power distribution of China, Russia and the United States in this area seemed like a complex three-dimensional checkerboard, while, politics, economics, security and humanity were correlative different levers, these displayed unipolar, bipolar or multipolar trends. The data above has already depicted the various presences and the differences between China, Russia and the U.S., but what is the impetus for the present situation? This paper believes that Central Asian countries have become independent actors in international relations, something that is much more evident in the new era. This perspective is a key factor though seldom referred to in other documents.

In comparison with China, the U.S. and Russia, as small countries, Central Asia is congenitally deficient – high reliance on external powers, low resistance to external shocks, weak qualifications and ability in participating and negotiating bilateral and multilateral activities. All of these factors compelled them to take different means to protect their own interests. Therefore, nearly all Central Asian countries chose a relatively balanced diplomatic strategy, moving among several great powers, never rejecting opportunities to become member states of various international or regional organisations, playing an active role in the tide of "National Group" (Zheng, 2009) during the period of great change in international politics after the end of the Cold War.

In the first decade after their independence, Central Asian countries existed as objects rather than subjects. The principal reasons could be concluded to be as follows:

- 1) The CIS including Central Asian countries were the products of “civil divorce” at the very beginning. Russia pursued the strategy of “burden rejection”; it hoped that after giving up its old partners, Russia could accomplish magnificent political and economic transformation without burdens. But the reality was that Russia was frustrated and unable to manage Central Asia. Actually, Russia’s strategic concerns on Central Asia were no more than words, all of the integration programmes were put forward bit by bit after Russia recovered its strength.
- 2) The policy of the United States and the West toward Central Asia during this period was implemented within the framework of their policy towards Russia, subordinating to the needs of policy towards Russia, in other words, the U.S. had not regarded Central Asia as an independent unit of international politics. With respect to Russia and other areas in the world, Central Asia was only of “secondary importance” status in the United States’ grand strategy (Rumer, Trenin, and Zhao, 2007: 13). On the Unified command plan map of the U.S. Department of Defense, Central Asia was even not included in the 1996 edition (Sharshenova, 2009). One cannot fail to mention that the U.S. from the beginning only focused on Afghanistan, not Central Asia as a whole. This in turn appeared to cause the decision that the United States would not put too much effort into Central Asia during this period.
- 3) In the meantime, China’s policy towards Central Asia was aimed at domestic security, that is, the two domestic issues of Xinjiang, and Taiwan as well as historic boundary negotiations. Similar to the U.S., the policy of China towards Central Asia was also implemented within the framework of the policy towards Russia. Ambassador Zhang Deguang pointed out that after solving the boundary issue, China and Central Asian countries were stuck for some while as they had no idea of the next steps for cooperation. At that time, whether the summit of Shanghai Five (the predecessor to the SCO) was going to be held was questionable (Zhang, 2009). In this case, there was little room left for Central Asia to pursue the maximisation of national interests by taking advantage of competition between great powers. Therefore, in the period of the first decade, the needs of Russia, China and the U.S. for Central Asia and their mutual containment were far less than the second decade. This also determined that there was limited space for Central Asian countries to benefit from great power competitions. As a result, though these countries obtained their independence, they did not become real independent international actors, thus Central Asia was usually in a passive acceptance or attached to another when building relations with the outside world.

The key turning point for Central Asia from the object of international politics to the subject was in 2001. That year, the U.S. obtained access to this

region reasonably and legitimately following the 9/11 attacks, meanwhile, the establishment of the SCO also marked China obtaining a new platform to ensure its interests in this area in addition to existing bilateral relations³. These two big issues provided the original motivations for the reorganisation of the structure of great powers in Central Asia, and the region's nations also took the initiative. Facing the intervention of a large amount of external forces, how could they continue to exist? And what was the significance of this for them?

Theoretically, "the existence of small countries is caused by a balanced relationship between great powers; this balance theory was from the perspective of game strategy combination. The mutual containment between great powers will benefit the small ones on a whole; if the containment disappears, it will be detrimental to the survival of the small countries" (Zhou, 2005). Due to the competition among the great powers, the small countries become competing goals for the great powers to build their regional order. When a small country establishes politics, economics, and security bilateral agreements with several great powers or international organisations, there may be a "wheel – spokes" effect, that is to say, the small countries at the axle position may achieve additional benefits, but the great powers at the spoke position will contain each other due to their mutual competition, furthermore, they cannot acquire the public goods that the others provide for the small countries. If a small country would like to become an Axle State, it must meet the following conditions: 1) Compared with neighbouring countries of the same type, it must have a higher degree of openness, as to more easily become the object of contention. 2) No high degree of binding and exclusive institutional arrangements. In other words, it cannot limit cooperation to one particular country or organisation. 3) The great powers have significant interest for this area.

After 2001, Central Asian countries completely met the above factors, therefore, the situation in this area acquired the feature of "small country drives great power". The subjectivity of those countries can be observed in many cases.

Kazakhstan: in the framework of the SCO, Russia undoubtedly plays the role of "locomotive" and "subject", but the members from Central Asia are subjects as well as objects. Kazakhstan increasingly positioned itself as a "special member" of the SCO; it plays the role of bridge, on one hand, between Russia and China; on the other hand, between the "outsiders" of the SCO. This has also formed a three-layer power structure within the SCO (Mikheev, 2008: 12-13). After establishing the aforementioned position, Kazakhstan

³ For more about the independent value of the Shanghai Cooperation Organisation to Chinese Foreign Policy, especially its gradual phase spin-off the policy framework towards Russia, see Olcott, 2006.

eagerly reinforced its position in Central Asia, including weakening the competitive position of Russia and China. For instance, Kazakhstan has not abandoned its strategic intent, that is, “no major country should participate in regional organisations”. In taking over the rotating presidency of the OSCE in 2010, Kazakhstan increasingly emphasised the “European dimension” of its foreign policy.

Uzbekistan: it was once close to Russia and China, however, it does not mean that all Central Asian countries absolutely back China and Russia. In particular, the I. Karimov’s regime remains committed to the principle of no concession on sovereignty, therefore, once certain Russian proposals were considered to be challenges to the interests of Uzbekistan, it was also be regarded as an external realistic threat to Uzbekistan regime, which also displays the subjectivity of Central Asia. Recently, Uzbekistan again widened the gap between itself and Russia on a series of issues. For example, Uzbekistan began to ease relations with the West from 2008 – it even proposed the set up of a “6+3” special group to solve the problem of Afghanistan at 2008 summit of NATO. In addition, it refused to attend the SCO Afghanistan Special International Conference which was held in Moscow in March 2009.

Kyrgyzstan: in February 2009, after Russia promised to offer \$2 billion of loans and \$150 million of free aid, Kyrgyzstan “shut down” the American military base in return. As mentioned before, this base was continued to exist by changing its name in June.

Tajikistan: in March 2009, RTR TV channels overseas edition in Tajikistan was closed. At the beginning of October 2009, the leaders of Tajikistan Signed a new Language Act – one key item is that it removed the legal status of Russian as an inter-ethnic communication language. However, after communicating with Russia, Tajikistan announced that it would rebroadcast RTR TV programs and ensure the important position of the Russian language.

Turkmenistan: from 2006, Russia and Ukraine struggled for years on the issue of natural gas supply. Russia chose to increase the price of natural gas in Central Asia, trying to use high-priced natural gas to overpower Ukraine, which also benefited Turkmenistan. In other words, this has won some initiative for Turkmenistan to negotiate the price of natural gas with Russia. In April 2009, Turkmenistan even stopped its export of natural gas to Russia; finally, two countries signed an agreement to recommence the supply of natural gas.

There are many similar cases. After the United States entered Central Asia, irrespective of whether it was for anti-terrorist activities or consolidate its military presence, it could not neglect these small countries, which was also the key factor in the revitalised relationship between Uzbekistan and the USA after the Andijan massacre. Faced with the American military

presence, China's urgency over the Xinjiang issue has increased, and this, coupled with the breakthrough on energy cooperation, means the country cannot do without Central Asia. On one hand, Russia would have liked to be in alliance with China to balance the influence of the West in Central Asia, on the other hand, it worried that the rising of China would threaten its interests in this area; therefore, it also had to put more effort into Central Asia. Correspondingly, for one thing, as Central Asian countries worried that Russia's "imperial ambitions" might recover, they did not want to completely bind themselves to Russia; for another, Central Asia would like to develop its own economy by relying on China while also not wanting China to dominate the region's issues. For the same reason, the United States would not enjoy the dominant position in this area as it does not conform to the interests of the Central Asia; furthermore, its existence implies that the Chinese and Russian demand will not disappear. As a result, the demand by Russia, China and the United States cumulated, which is also difficult to reconcile. This never-ending struggle for power has been called the "Tragedy of Great Power Politics" by the U.S. scholar John Mearsheimer, but this also creates the comedy of the small countries in Central Asia in the aftermath of Cold War.

An important point is that the arrangement of a multilateral mechanism for Central Asia did not proceed well; therefore, while all main powers have reserved the multilateral framework, they are also gradually trying to amplify their regional influence through bilateral means. Limited by the principle of the Consensus of the Shanghai Cooperation Organisation, China and the Central Asian countries cannot reach an agreement on energy cooperation. The agreement between Russia and Kyrgyzstan on the Osh military base has been reached within the framework of the Collective Security Treaty Organisation. "Use the multilateral relationship to promote the bilateral relationship" or "promote bilateral cooperation in the name of multilateral cooperation" are not coincidences any more. The policy change by the great powers towards Central Asia released some external pressures for the small countries, making it easier for them to deal with the great powers.

Additionally, the subjectivity of Central Asia is improving through continuous learning. The small courtiers mainly are at the front of the confrontation between the main great powers, any changes to the balance pattern between the great powers will impact the small countries directly, and they might be the victims of the next reorganisation of relationships between the great powers. Georgia, after the Colour Revolution, has tried to use the "offshore great power" – U.S. to protect its security. However, it has resulted in fierce confrontation with Russia, incurring the counterstrike from Russia. Georgia had not acquired the support from the U.S. it expected, instead it was put aside when all parties were making the international agreement over the Russia – Georgia War, and finally it had to passively accept the 6 points of consensus from the French and Russian presidents. The Central Asian countries have

learned valuable lessons and experience from Georgia's case. From this point of view, after the Russia–Georgia conflict, those countries have not become closer to Russia because of its strength, instead they have reconstructed their relationships with the U.S.-led West, and it is absolutely a purposeful move. To bet on two sides and to drift with the tide are still the distinctive characteristics of the diplomacy of this region – for the temporary relief of the “Regime Security” question, these states have adopted the principle of “balance between great powers”.

7. Conclusion: Complex Regional Power Configuration in Central Asia and Its Prospects

From the analysis above we can see that the power structure in Central Asia is fairly complicated. Global hegemony – the U.S., the traditional leading country in the region – Russia, the rising regional power which has global influence – China, Kazakhstan and Uzbekistan, who are treating themselves as special members, Kyrgyzstan, Tajikistan and other small countries who are always moving between different great powers. All these parties together have formed a multidimensional complex power structure system in different spheres.

Politically, the priority of considering “Regime Security” has made China and Russia, especially Russia, receive the recognition and intimacy with which the U.S.-led West cannot draw a parallel. The binary mode of “Friendly – Hostile” still plays an important role. The regional recognition of China, Russia and other Central Asian countries still remains at an initial level, currently based on history, the variation of the world's political and economical environment and the consideration of self-interest, in substance, it's a positive political response to the changing situation at home and abroad that has no continuity. However, they still have some comparative advantage over the U.S.-led West.

Economically, the power structure in Central Asia is a more complicated multipolar region system: on trade cooperation – the influences of China and Russia are getting closer and closer. It is predicted that within a short period China would surpass Russia, one could say that this has a bipolar mode; on investment – the U.S. has already taken the lead, China is catching up with the U.S., and meanwhile Russia is also resurging; all three parties have their own advantages; on foreign aid – the U.S. holds the dominant position, although in recent years, China has also been increasing the scale of foreign aid. To sum up, in the triangle of trade, investment and foreign aid, Russia still has some leading advantages.

In military – Russia and the U.S. have formed a bipolar approach, China as a member state of the SCO has formed a united front with Russia, but all three countries and the Central Asian countries all hope that the region could

maintain peace and tranquility; resolving the issue of Afghanistan and combating the three forces have become the common interests of all parties.

In the humanities – the legacy of the USSR has granted the natural advantages for Russia which the U.S. and China cannot be compared with. In the sub-fields listed in this article, China and the U.S. cannot obtain the influence which Russia is enjoying; this has formed an existing residual unipolarity.

As a whole power structure of Central Asia, these countries themselves, the traditional hegemony – Russia, the outside super power – USA, the rising China are progressing the construction of a special power distribution network around the four schema: the competition in the economic area requires the support of the political regime; politics and humanities influence the economic activities and at the same time are also being influenced by the economic activities; military and politics, economics and social motion are always inseparable. On the geopolitical plate of Central Asia, we can see a scenario in which every participant in different areas has formed a change from conflict, competition to cooperation. Two opposing parties in one sphere could be the cooperating partners in another field. For example, Russia and China are obviously competing in the economic presence in Central Asia, but in political and security, they form a flexible union in order to resist the impact of the U.S.-led West.

Taking the long-term view, in the central zone of the European and Asian continents, the pattern in Central Asia depends not only on the short-term results of the confrontation between the great powers, but also on the policy changes of Central Asia. Different complex movements and a changing broad alliance and joint coalition may appear. Which countries will become a broad alliance and which countries will participate in the joint coalition varies from time to time and on a case by case basis. The parties will coexist; hedge each other, become winners or losers, which may become one fundamental feature.

If one makes the division according to the participants, the international order in Central Asia may appear to have different scenarios: the first is a cooperative multipolarity; the second is a conflicting multipolarity; the third is a new unipolarity, where one super power or an international organisation monopolises the affairs of Central Asia; the fourth is the mode of "Only Superpower plus X-Great powers" during a transitional period. If one makes the division according to the spheres, a multidimensional space which has plenty of levels will appear and one can see the remaining traces of unipolarity as well as opposing bipolarity, furthermore, the rise of combined forces. The modes mentioned cannot represent all possibilities; it is probable that some issues may mix and further develop.

As for China, taking the principle of cooperative multilateralism, encouraging all parties to cooperate openly in order to achieve the peaceful, stable and sustainable development of Central Asia, establish a harmonious Central Asia, and bring about a stable, cooperative, multipolar structure will be a better strategic choice for all. In this regional framework, Central Asian countries are independent equal actors as subjects like the great powers rather than objects.

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8 From Central Asian Regional Integration to Eurasian Integration Space? The Changing Dynamics of Post-Soviet Regionalism

Introduction¹

This article stems from a dialogue between contemporary regionalism theories and empirical developments of Post-Soviet regionalism. Regionalism as a discipline has produced an impressive literature, both in volume and quality, on how to conceptualise regional processes and tendencies in different parts of the world. It has also been engaged in positioning frameworks of regional governance as an adequate alternative vision in the ongoing quest for world order. On the other hand, regional processes in post-Soviet space have also been quite voluminous. It can be said that Interstate relations in this new region of the world have had a regional dimension since the beginning. It hosts today several regional organisations which are examples of both working and failing regional institutions. As such, this region could provide a valuable contribution to regionalism studies. However, regionalism studies and post-Soviet studies have been evolving in relatively mutual ignorance for some time. One of the main reasons for that has been the dominance of the geopolitical prism and traditional balance of power approach to the study of the post-Soviet space (Buzan and Wæver, 2003; Tolipov, 2004). Bringing regionalism theories and the post-Soviet space closer would benefit both sides. Regionalism studies will have an opportunity to be tested by the post-Soviet experience. The latter could also contribute to elaborating new theoretical and methodological tools for regionalism studies. The post-Soviet space would also gain a lot from regionalism studies because the overwhelming focus on geopolitical tools and great game narrative are

¹ This article has been prepared during my research stay at United Nations University – Institute for Comparative Regional Integration Studies (UNU-CRIS), located in Brugge, Belgium. I want to acknowledge gratefully valuable help and comments of Luk van Langenhove, Philippe de Lombaerde, Giovanni Molano Cruz, Sonja Schröder, Emmanuel Fanta and all the UNU-CRIS team during the realisation of the article. I also want to thank Evgeny Vinokurov, Gulnaz Imamniyazova, Octavian Rusu and the anonymous reviewer of the Eurasian Integration Yearbook for their comments and suggestions on the draft.

obstructing the analysis of many interesting regional processes. It is also perpetuating the power based approach and inhibiting any discussion on the normative premises of post-Soviet regionalism.

The first part of this article presents an analytical framework of regional order, which is build on contemporary regionalism studies. The second part starts with a brief account of how Central Asian regionalism was dealt with in the studied literature. The author then continues to re-evaluate contemporary post-Soviet regionalism by building on the concepts of the regional order framework outlined in the first part. In particular, he tries to highlight to what extent ideas about regional identity and regional order are experiencing significant shifts during the debate on Eurasian integration space. He also concludes by pointing to some elements which may push us to shift our focus from "Central Asian Regional Integration" to an "Eurasian Regional Order".

1. Regional Order: Analytical Framework for a Dynamic World of Regions

Regionalism as a Phenomenon and as a Discipline

In contemporary international scholarship, the focus on regional level stretches back to the post-War period which witnessed the initiation of different projects aiming at regional economic and security governance. The trajectories of regional initiatives were categorised into different waves according to their chronological and substantial occurrence². These projects became a basis for regionalism studies, a rich and theoretically innovating literature, situated at the crossroads of Law, International Relations and International Political Economy (Cerexhe, 2003, SFDI, 1976; Fawcett and Hurrell, 1995; Farrell, Hettne and Van Langenhove, 2005; Cooper, Hughes and De Lombaerde, 2008).

Regionalism was defined as "a state-led or states-led project designed to reorganise a particular regional space along defined economic and political lines" (Gamble and Payne, 1996). The main concepts for elaborating the account of this phenomenon were the concepts of regional integration and security community. Methodologically, these accounts were supported by a focus on quantitative analysis of economic and security interactions, flows and exchanges across borders (For early works, see: Balassa; Haas; Deutsch et al.). One of the prominent features of these studies was its reliance on European experience in order to produce generalisations and theories (De Lombaerde et al.). Regionalism studies have also known times of doubts, leading one of its main representatives to declare the obsolescence of regional integration theories (Haas, 1975).

² On waves of economic regionalism, see: Mansfeld and Milner, 1999; on security regionalism, see: Fawcett in Kössler and Zimmek, 2008. On different periods of regionalism studies, see Acharya and Johnston, 2007.

Since the end of Cold War, regionalism studies have been gaining interest once again. Recent scholarship on regionalism is trying to overcome the euro-centrism, by both questioning the tenets of the disciplines as well as by enlarging the focus to experiences of other regions of the world (De Lombaerde et al., forthcoming; Farrell and Langenhove, 2005; Acharya and Johnston, 2007). It has also been adopting more constructivist and qualitative approaches to the regional phenomenon. Contemporary regionalism studies consider regions as socially constructed phenomena. Regionalism processes are composed of different logics and rationalities (Hurrell, 2007). Regions should thus not be taken for granted. Terms like “region”, “security community”, and “regional integration” do not only refer to a static situation or an end result. They can also refer to a framework for studying the processes and tendencies leading to this situation (Acharya, 2000). Taking a dynamic and constructive view on regionalism enables the study of regionalist ideas and discourses, norms and institutions, historical and subjective dimensions of regions. The study of the possibility of constructing a region from within is an important focus. Regionalism scholarship sees endogenous factors as more important than exogenous factors. Endogenous region-building enables the possibility of a region without hegemonic construction (Acharya, 2007). The process leading to regional consolidation should not necessarily follow a unilinear progressive movement. There is no single pathway to successful regionalism. Neither should it always pursue the same objectives. The final objective, the desired end result of regionalism processes can vary and evolve over time and space (Van Langenhove and Marchesi, 2008).

Regionalism and Regional Order

The concept of order is defined as “a pattern that leads to a particular result, an arrangement of social life such that it promotes certain goals or values” (Bull, 1977) or as “a set of more or less coherent, more or less stable, principles, rules, practices, interiorised by concerned actors and the respect of which is guaranteed by a system of sanctions” (Moreau Defarges, 1998). As such it was usually analysed as a tripartite concept building on common references and values; an accepted distribution of positions and forces; and institutions (Moreau Defarges, 1998) or, on common interests; rules; and institutions (Bull, 1977). In regionalism studies, the question of regional order was studied as a mode of resolution of conflicts prevailing across different regions (Lake and Morgan, 1997) or for the consequences of different regional processes for world order and the relations between regionalism and the global scene (Gamble and Payne, 1996). Recent studies have tried to give more elaborate accounts of the regional order concept. Muthiah Alagappah and his colleagues have built on Hedley Bull’s concept of order to develop an analytical framework for international order. According to M. Alagappah, “international order is a formal and informal arrangement that sustains rule-governed interaction among sovereign states in their pursuit of individual and collective

goals" (Alagappah, 2003). Despite the use of the "international" adjective, this analytical framework has a regional flavour: it is applied to Asia. More recently, Amitav Acharya analysed how the states in a given region produce a regional order. Criticising pure outside-in approaches where weak states in one region acquiesce to regional designs coming from external powers, he identified several pathways through which regional order is produced endogenously (Acharya, 2007). Empirically, regional order perspective was used to study the south-east Asian and post-Soviet regions. Evelyn Goh studied Southeast Asian regional interactions based on a regional order approach: the study focused on 'the way in which interstate relations proceed along largely well known channels and patterns, which limit unpredictability and stabilise expectations between states'. In particular, it inquired 'how the roles and positions of states are negotiated' within regions (Goh, 2007). In the post-Soviet space, Andrei Kazantsev used a regional order concept to refer to a system connecting a set of states (Central Asian countries) to outside powers where the offer of regional order is initiated by outside actors (Kazantsev, 2008a).

Classical Agora Aspect of Institutions and Regionalism

The current situation of international order is creating an increasing interest in regionalism. The old order that commanded international politics throughout the second half of the 20th century was based on a bipolar foundation where two superpowers' conduct defined the state of world affairs. This situation came to an end with the end of Cold War and the dissolution of one of the two antagonising powers – the USSR. Since then, we have been living in a period qualified by some as an "interregnum". According to Georg Sorensen, an interregnum is a period where some elements of the old order still subsist, and we have yet to witness the emergence of a new stable order (Sorensen, 2006). The interregnum is not a satisfying status quo and is characterised by a quest for a new order. Regional organisations are playing an increasingly important role in this quest for order. The summits and meetings of regional organisations are creating opportunities for their members to discuss and formulate their visions on international and regional order and communicate them to the international community. Here, the classical agora aspect of regional institutions comes to the fore. Jan Klabbers observes that international organisations have always had two aspects: a managerial aspect and a classical agora aspect. The first embodied the vision of international organisations as centred on particular certain task, namely the management of common problems, which should lead to a better world. This 'management-oriented, functionalist and progressive' aspect has been predominant in the analysis of the phenomenon of international organisation. The second aspect is based on the vision of international institutions as 'a classical agora: a public realm in which international issues can be debated'. An international institution is seen as 'a fora where states can meet, exchange ideas, and discuss their

common future'. The two aspects of international organisations have always coexisted in a dialectical manner, both complementing and criticising each other (Klabbers, 2005).

The agora aspect of institutions is appearing prominently in regionalism studies, both from European and Asian perspectives. According to Amitav Acharya, the interesting thing about the Association of Southeast Asian Nations (ASEAN) is not its ability to create a management-oriented regional structure like the one existing in Europe. Rather, the ASEAN should be judged by the fact that it created a framework wherein Southeast Asian states have been able to come together to discuss both international and regional issues and to articulate their vision. It has permitted the debate of regional identities and regional order preferences (Acharya, 2000). In Europe, newly launched research programmes are studying the European institutions' perspectives to articulate new visions for both global and regional order, based on multilateral and normative premises (see: EU-GRASP and MERCURY projects). Normative debates within and around regional institutions thus help states to articulate their own vision of global and regional affairs, both by reflecting cultural and value diversity in the world, and by enabling normative change in international society (Hurrell, 2007).

Regionalism as an Institutionalised Quest for Order

These theoretical and empirical studies highlight the importance of ideas, principles and rules in producing and sustaining regional orders. In this perspective, regionalism can be seen as a set of institutionalised processes within the framework of which a quest for regional order is pursued³. Adopting the definition of regionalism as a quest for order implies to focus on ideas and representations concerning the identities and normative self-images of actors and regional organisations as well as on the discourse of regional belonging. It also underscores the diversity of norms and pathways leading to regional orders.

Telos and Regional Identity

Actual studies of regionalism highlight the complex and fluid nature of telos of regionalisms. Telos is used here to denote "an ideal end point of integration" to which should lead regional integration processes (Van Langenhove and Marchesi, 2008). Achieving economic integration within a set of states is not the only kind of end point pursued by regional initiatives. Assuring regional governance of public goods or attaining the status of an actor in

³ The term "institutions" in International Relations literature is used both to denote an international organisation (Schermers and Blokker, 2004)) and a set of habits and practices shaped towards the realisation of common goals (Bull, 1977). In this article, "institution" is used in its first, restricted meaning referring to international organisation.

international relations is also increasingly figuring among the objectives of regionalisms (Van Langenhove and Marchesi, 2008). Highlighting these differences is important for the analysis and comparison of regional processes around the world. In particular, focusing on regionalisms as international actors necessitates an elaboration on the concept of regional identity. The latter helps to account for regional actors trying both to articulate their own image in the international realm and to make sense of the nature of their counterparts. A descriptive approach to regions, focusing on their physical, social or cultural features, is not adequate for the explanation of the dynamics of the influence level of regional actors. Physical features of regions should not be confused with the normative image regions elaborate and circulate for themselves (Paasi, 2009). These normative self images and the long term development strategies of regional organisations play an important role shaping and defining the nature and behaviour of regional institutions and their member states at domestic, regional and global levels (Acharya, 1997; Beeson and Jayasuriya, 1998; Beeson, 2005; Paasi, 2009). Focus on regional identity also stimulates substantial debate concerning the politics of inclusion and exclusion within regional frameworks as well as the discourse of regional (non-) belonging.

Norms and Pathways of Regional Order

The idea of order presumes that the behaviour of actors follows more or less stable rules and principles. An extensive part of the debate on regional order concerns the identification of major norms which should guide the behaviour of regional organisation's members both vis-à-vis each other and towards the outside world. Regionalism initiatives are often seen as frameworks which go beyond the logic of power and hegemony. They enable the building of relations among a particular set of states on the basis of principles of democracy and equality (Hettne, 2008). However, the need be certain of coherent collective action necessitates negotiations concerning the distribution of roles and responsibilities among these states. These negotiations also concern the pathways leading to desired regional order preferences. Depending on the nature of the task, on the capacities and normative political visions of member states, the outcomes of these negotiations carry some elements of more or less differentiated hierarchy (Lake, 2009; Goh, 2007). The presence of hierarchy poses the question of agency. In a hierarchical setting, who holds the agency? One group attributes the agency to powerful actors and sees weaker states as receivers of roles and benefiteres of regional orders designed by major powers (Ikenberry, 2001; Lake, 2009). Others attribute weaker or smaller states with a greater agency role as these countries have the potential to resist, accommodate or even modify pressures originating from external powerful actors (Acharya, 2003; Acharya, 2007). The question of hierarchy is also closely linked to that authority and power. Does the hierarchical

standing of one powerful actor rest on power alone or whether its dominant position enjoys a greater or lesser degree of legitimacy and authority among other participating states (Acharya, 2007; Lake, 2009). Another important grouping of the literature concerns the pathways leading to regional order. The nature and the state of intraregional relations as well as prevailing principles of conduct across the region influences whether the quest for regional order proceeds along the lines of conflict, cooperation, or integration (Alagappah, 2003; Acharya, 2007).

2. Emerging Eurasian regional order: Dynamics of Post-Soviet Regionalism

Post-Soviet space is not an unexplored space to regionalism studies. This interest stems mainly from the creation of a number of regional organisations regrouping a number of post-Soviet republics. Among them are the Commonwealth of Independent States (CIS), the now defunct Central Asian Cooperation Organisation (CACO), GUAM (bringing together Georgia, Ukraine, Azerbaijan and Moldova), the Eurasian Economic Community (EurAsEC), the Collective Security Treaty Organisation (CSTO) and the Single Economic Space project. These are institutional attempts to (re)strengthen economic and political integration among countries which emerged after the dissolution of the Soviet Union in 1991. Post-Soviet countries are also involved in regional institution building with countries beyond the post-Soviet space. The most prominent example is the Shanghai Cooperation Organisation, bringing five post-Soviet states (Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan) and China together.

Discussions Around Central Asian Regional Integration

A substantial part of this regionalism debate is centred around the Central Asian region, which is defined as comprising five post-Soviet republics: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. From the early 1990s, when the leaders of above mentioned countries announced their intention to create a Central Asian regional integration institution, outside of the frameworks that included Russia or China, there have been substantial discussions around Central Asian regionalism. However, after a decade of political and academic discussions, the expected Central Asian Cooperation Organisation failed to take-off and subsequently disappeared. This led some observers of Central Asian regionalism to point to the existence of Central Asian “regional non-cooperation pathology” (Spechler, 2000). Combined with the description of “a region of almost triumphant authoritarianism” (Panarin, 2000), Central Asia thus seemed to be a regional space with thin chances of becoming an integral regional cluster of global governance. Following this assessment, subsequent studies increasingly focused on the involvement of external actors (mainly Russia, China, and USA)

as geopolitical contenders in Central Asian regional space and the impact of their relationships on the evolution of the region (Rumer et al., 2007; Flikke and Wilhelmsen, 2008). According to this perspective, the continuing existence of regional organisations other than CACO, namely the Eurasian Economic Community, Collective Security Treaty Organisation or Shanghai Cooperation Organisation does not contradict the idea of "non-cooperation pathology" of the Central Asian states because these regional structures are seen as lacking substance (Allison, 2008) and consisting of rhetoric for foreign policy purposes (Pomfret, 2009). They are also a function of the political alignments of Central Asian states with the great powers surrounding the region or their concerns for regime survival and protection (Allison, 2008; Collins, 2009). Russia and China are "other" to the Central Asian region (Tolipov, 2004) and these organisations are the products of outside-in agencies of external powers (Kazantsev, 2008a).

From Central Asian Regional Integration to Eurasian Regional Order?

Contrary to these affirmations, the thesis underlined by this article is that the existence of the EurAsEC and other organisations is a sign of more fundamental changes taking place in the level of 'regionness' and regional identity at the level of both post-Soviet and Central Asian spaces. Using the main elements of the regional order framework outlined in the first part, I will highlight some developments concerning identity, norms and pathways of post-Soviet regional order initiated by the creation and evolution of EurAsEC. The main idea is that the creation of EurAsEC has initiated a set of processes, sometimes referred to as the 'Eurasian integration space', which could lead to the emergence of new regional order in post-Soviet space. This regional order has not yet consolidated, but it is based on different ideas and underpinnings in comparison to other post-Soviet frameworks, like those of the CIS and Central Asia. Aside from the similarity of membership and geographical scope, Eurasian regional order is informed by the processes of the CIS and Central Asia, but it does not necessarily overlap with those two in all domains.

What is the Eurasian Integration Space?

First of all, there is a need for clarification of the term "Eurasian integration space" as these words can refer to different phenomena depending on the context. "Eurasian space" (Nazarbayev, 2009) or "Eurasian integration" (Vinokurov, 2008) is frequently used to denote political processes in post-Soviet space centred around the Eurasian Economic Community. As such it differs from the concept of wider Eurasian integration which is mainly used for establishing transcontinental linkages between infrastructure and transportation systems in the whole Eurasian continent (see for ex.: Emerson and Vinokurov, 2009). It is also distinct from "Eurasianist" discourses used

within identity debate for Russia of which the most passionate representative is Aleksandr Dugin. The latter has developed a complex geopolitical theory called “Eurasianism (Evraziystvo)” or “Neu-Eurasianism (Neo-Evraziystvo)”, the main idea of which is the quasi-eternal teleological confrontation between a Continental power (represented actually by Russia) and a Maritime power (represented by USA) (Shlapentokh, 2007; see also the personal website of Aleksandr Dugin www.dugin.ru). In this article the “Eurasian idea” is mentioned with respect to EurAsEC processes. Even if Dugin refers to EurAsEC as an instrument in geopolitical confrontation, his theses are not necessarily shared by the founders and participants of Eurasian Economic Community, which usually enjoy constructive relations with both Russia and the USA. Eurasianism for them stems from the need to build cooperative relationships rather than confrontation.

The Eurasian Economic Community and Central Asia

The Eurasian Economic Community has a clear mandate to create common customs borders among its member States (Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan), to elaborate on a common foreign economic policy, tariffs and price policy and other mechanisms needed for common market. The treaty on the establishment of Eurasian Economic Community was signed on October 10, 2000 in Astana. The treaty is heir to the Treaty on the Customs Union, involving all five members of EurAsEC, which was initiated in 1995. EurAsEC’s Central Asian component is substantial (Kazantsev, 2008b). Three out of five EurAsEC member states are Central Asian states. Russia itself had adhered to the Central Asian Cooperation Organisation in 2004 which led to the dissolution of CACO within EurAsEC in 2005. Importantly, N. Nazarbayev, the president of Kazakhstan, has been, perhaps, the most persistent and dynamic promoter of the idea of Eurasian integration since the early 1990s. It can be said that despite the similarities of causes of involvement of Belarus and Central Asian countries within Eurasian integration space, the dynamics of their involvement evolves rather independently. The future of each party’s involvement depends on their individual relations with Russia. Because of this, the involvement of Belarus will not be covered in this article. I will concentrate on Central Asian perspectives on Eurasian integration space⁴. Closer attention to discussions within and around EurAsEC helps us to highlight the main ideas and aspirations underwriting regional integration in post-Soviet space. It is also interesting to see which pathway post-Soviet integration is following.

⁴ The same differentiation is operated concerning the Collective Security Treaty Organisation (CSTO). CSTO is considered as having three distinct components united around Russia: Russia–Armenia; Russia–Belarus; and, Russia–Central Asia.

Eurasian Integration Space: A New Dynamic Region in World Politics

One of the advantageous aspects of EurAsEC compared to other post-Soviet regionalisms probably lies in the fact that it was able to formulate a coherent and specific objective and to articulate a relatively benign image. It gradually became associated with a clear final objective: the creation of a common market, beginning with the Customs Union. In comparison, the Commonwealth of Independent States has never been able to strike a balance between aspirations and hopes on the one side, and the realities on the other side. Despite official affirmations that the CIS would lead one day to reintegration of post-Soviet space, observers rightfully point to incoherencies existing in it since its creation. First of all, right from its creation, the CIS was identified for what it is not, not for what it is (Tolipov, 1999). As early as in 1994, U. Kasenov was noting that the CIS was in fact designed as a 'mechanism for civilised divorce' (Kasenov, file with the author). This point of view was reflected by V. Putin's remarks saying that the CIS has never been associated with grand projects and it has been designed to alleviate the consequences of separation of post-Soviet republics. In this, the CIS has realised its mission (Knyazev in The Proceedings of Khojand conference, 2007). It has also been harbouring too many contradictory, even conflicting dyads within its framework (Russia-Georgia, Russia-Ukraine, Armenia-Azerbaijan); centrifugal subgroups (the so-called GU(U)AM countries); as well as states with a restrictive and rigid approach to the idea of efficient integration (Turkmenistan, Ukraine and Uzbekistan). These factors could be at the origin of reputation the CIS processes has as an "ink on paper" integration (Libman, 2008).

As for the Central Asian Cooperation Organisation (CACO), its earlier precedents started with strong rhetoric about regional integration, but the evolution of its name shows that its member states hesitated between cooperation and integration. Many projects are associated with the CACO and its predecessors. However, leaders have never been able to reach accord on priorities among these projects as well as the implementation of agreed projects (Institute for Public Policy, 2007). Another incoherency within CACO and which led to difficulties with defining attainable objectives was that it was associated with too many ideas like balancing Russia, attaining unity among Central Asia, integrating world markets, security in Afghanistan, and the problem of Aral. CACO was a regional organisation mostly concentrated on presidential summits. And, during the summits of CACO, economic issues were sidelined by discussions of security challenges or the problems with the environment and energy (see for example, the record of Dushanbe summit of CACO in October, 2002: Press service of the President of the Republic of Uzbekistan, 2002). It was not able to differentiate between objectives and to rank them. This has diverted the institutional resources of the organisation which were already very scarce. Moreover,

after almost 20 years of discussions around Central Asia, its image remains still associated with problems and negative depictions. Additionally, Central Asia and other denominations (Greater Central Asia, etc) are all closely linked to security externalities emerging from Afghanistan. An alternative concept used to define the region: Greater Central Asia was usually mixed with that of the Greater Middle East. In other words, the term 'Central Asia' has become a synonym of potential source of threat for major countries in the West (Kazantsev, 2008a: 111; see also Golunov, 2003).

EurAsEC differed from both of them. First of all, its creation despite the presence of other regional organisations with overlapping memberships (CIS, CACO, and SCO) was explained by the necessity for real integration (Primbetov, 2004). In avoiding the path towards inefficiency taken by its peers in the post-Soviet space, reducing the scope of integration aims was determined as one of the main factors determining the success of the Eurasian integration space (Cherkasov, 2006). EurAsEC also inherited (but in a more coherent way) the idea of multispeed integration from the CIS. The concept of multispeed integration has been used to describe the CIS. However, this concept does not describe correctly the presence of different sub-groupings within the CIS (Bremmer and Bailes, 1998). The CIS was not a framework consisting of multispeed integrationist groups, but it consisted of several centrifugal groups as well as conflicting dyads. In the case of EurAsEC, the multispeed concept is more relevant where Kyrgyzstan and Tajikistan realistically harbour aspirations to join the Customs Union of Russia, Belarus and Kazakhstan created within EurAsEC framework whereas the latter group, at least officially, intends to help the former to realise this objective of adhesion to the Customs Union. EurAsEC also combines aspirations to modernisation (Euro-component) with concerns of stability (-Asian component) preoccupying the post-Soviet countries of Central Asia. It has been promoted by Nazarbayev as "a very serious concept for the post-Soviet era" with "its logical sources in world practice" and which "will in the end win over the minds of the people". (Nazarbayev quoted in Brzezinski and Sullivan, 1997: 354) As a result, EurAsEC is considered as the most promising among the regional integrationist structures in Eurasia. A longside governmental efforts, several civil structures have been created to advance the Eurasian idea. The Eurasian club of scientists, Eurasian Media Forum, Eurasian Academy of Television and Radio, and Eurasian Association of Universities are meant to work towards the creation of a common information space and to develop the cultural-humanitarian dimension of Eurasian integration. The Eurasian Community is based on equality, voluntary participation (*dobrovolnost*) and pragmatism (Nazarbayev, 2009). Eurasian integration is real while Central Asian integration still remains a myth (Deutsche Welle, 2009).

Shifting Regional Identities of Post-Soviet Countries

The inconsistencies of the CIS and CACO mentioned above led to the consolidation of regional identities associated with these two organisations. The CIS is seen in the literature as an inapt organisation lacking any implementation. It has also been described, from the outset, as a Russian attempt to rebuild the Soviet Union. Declarations and opinions of Russian officials and analysts attributing imperial, neoimperial or hegemonic grand designs to post-Soviet Russia consolidated this perspective (Tsimburski, 1993; Chubais, 2003; Trenin, 2006; Shlapentokh, 2007). The other aspect of regional identity of the CIS is that it is associated with actual and latent conflicts (Armenia-Azerbaijan, Georgia, Moldova, etc). The CACO has always been associated with the image of Central Asia as a region harbouring high conflict potential, or in the words of Z. Brzezinski, a candidate to become a "Eurasian Balkans" (Brzezinski, 1997). In the regionalism literature it was described as "a weak subcomplex of the Russian regional security complex" under high geopolitical pressure (Buzan and Wæver, 2003), or as a "preregional area in which the U.S. and Russia competes for influence" (see Björn Hettne in Telo, 2007). Both of these organisations were seen thus as incoherent blocks, lacking the opportunity to become regional and global actors, and embedded in a quasi-permanent conflicting and unstable environment.

EurAsEC suffers relatively less from these kind of stereotypes in world politics. The economies composing EurAsEC have all been registering dynamic economic performances (Kudrin's interview to *Izvestia*). From the perspective of Central Asian states, Eurasian integration space as finality represents a chance for modernisation and even Europeanisation. Some Kazakh representatives have clearly contrasted the modern and European nature of Eurasian integration to the underdeveloped and conflicting collection of 'stans' (see publications by the International Institute for Modern Politics of Kazakhstan www.iimp.kz). This helps them to craft an image of Eurasian duo, trio or quartets holding considerable assets which will permit them to become an important and influential bloc in world economy and also to aspire to become actors.

Who is "The Other" of Central Asian Countries?

A recent poll carried out by the Russian Centre for the Study of Public Opinion (WCIOM) inquired on the perceptions of friendliness vis-à-vis foreign countries among the populations of post-Soviet countries. According to its results, Russia was identified as friendly country by absolute majority of the population in Central Asian countries: Kazakhstan – 67%, Kyrgyzstan – 74%, Tajikistan – 89% and Uzbekistan – 74%. Major segments of populations had also favourable opinion concerning a union with Russia (WCIOM, 2008). This poll indicates that despite the Central Asian discourse, Russia is seen as a

part of the region. Another poll conducted among Central Asian experts tried to determine with which countries Central Asian states should develop regional projects. 50% of respondents identified regionalism with Russia (EurAsEC and CSTO) as a priority for countries of Central Asia in addition to exclusive Central Asian regionalism. Other regional groupings including China, Turkey or Muslim countries received 5% or less of experts' favourable opinions (Abdrakhmanova, file with the author). These findings highlight the need to question the established idea that Russia (and its promotion of Eurasianism) is considered as an external powerful element threatening the identity of the Central Asian region.

Kazakhstan does not consider itself an exclusively Central Asian country any more and increasingly asserts its Eurasian identity (Institute for Public Policy, 2007). Recent formulations emerging both from official and scholarly circles of Kazakhstan provide the following reading. Kazakhstan considers itself as a country bordering Central Asia, but not as a Central Asian state (Nazarbayeva, 2003). Central Asia is a region from which different kind of threats emanate that could eventually permeate Kazakhstan (Jukeev and Kasenova, 2007). The way to prevent this from happening is an orientation towards Europe (see programmes like Kazakhstan-2030, Path to Europe). For this, Kazakhstan needs Russia's support. The latter will also help Kazakhstan address the challenge of China (Jukeev and Kassenova, 2007). At the same time, Kazakhstan sees Central Asia as a platform where it can practice international leadership (Jukeev and Kasenova, 2007). According to observers, the will for regional leadership and the strategy to develop its international standing are the real motives behind Kazakhstan's recent proposals for Central Asian regional integration (Omarov, 2008). Thus, the 'Eurasian' label better describes Kazakhstan's position in the world than the 'Central Asia' denomination (see publications by the International Institute for Modern Politics of Kazakhstan www.iimp.kz). Moreover, Kazakhstan has played a key role in incorporating Eurasianism ideas to the debate over the Eurasian Economic Community (Kazantsev, 2008a: 48). This differentiation of Kazakhstan from Central Asia reminds one that the "Middle Asia and Kazakhstan" formula could still be relevant (For a similar conclusion, see Kazantsev, 2008a:50).

In Kyrgyzstan, Russia has a special place both in terms of economic, political interactions and in terms of the public imagination. Strategic interaction with Russia is identified as the main axis of foreign policy of Kyrgyzstan while the achievement of a common market with the EurAsEC framework is considered among the long term interests of the country (conception of the foreign policy of Kyrgyzstan, available at www.ia-centr.ru). Importantly, Russia is considered having played important role in the formation of Kyrgyz statehood. Kyrgyz tribes first sought the help of Russia in countering the Djungar expansion from China's territory to Central Asian

territories in the 18th century which led to the establishment of the Russian protectorate over Kyrgyz lands. Later, when Tzar Russian domination was replaced by Soviet rule, a republican level administrative unit was created around Kyrgyz ethnics. According to Askar Akayev, the first president of independent Kyrgyzstan, the creation of the Kyrgyz autonomous oblast within Russian Soviet republic 'prevented the ethnic assimilation (*pogloscheniye*) of Kyrgyz ethnics by other peoples' and became the basis for the independent Republic of Kyrgyzstan in the post-Soviet era. The Soviet period is also considered as an era of renaissance in the healthcare system, culture, education and science. Considering this, current geopolitical efforts to exclude Russia from the Central Asian region would be short-sighted and not respect the realities of the region (Akayev, 2003). Moreover, Kyrgyzstan is the only Central Asian country which still maintains, at an official level, the thesis of 'voluntary incorporation' of Kyrgyz ethnics to the Russian Empire during the 18–19th centuries (Kazantsev, 2008a).

The main attraction of the Eurasian integration concept for Tajikistan is twofold. The first reason is directly linked to questions of regional identity and belongingness. Tajik authors increasingly voice concerns about their country's uneasy and uncomfortable situation within an exclusively Central Asian framework (Abdulla, 2007). Beside Tajikistan's uneasy relationships with Uzbekistan, there are two more reasons of a more substantial nature for this stance. First, Tajikistan sees Central Asia in terms of "Turkestan" and cannot associate itself with this concept. Taking into account the wide circulation (sometimes with official support) of the 'genocide of Tajik ethnics by Uzbeks' thesis which sees the dynamics of Turkic peoples as a threat to its identity, this is a strong reason preventing Tajikistan's acceptance of the Central Asian regional identity (Masov and Djumaev, 1991). This perception led to the situation where it is Uzbekistan, not Russia as in the neighbouring countries, which plays the role of 'the other', that of the outside enemy (Khudoinazar, 2005; Kazantsev, 2008a). This constant preoccupation with the "ethnic security" of Tajiks largely predetermines Tajikistan's response to any further projects of Central Asian integration in a negative way (Regnum Agency, 2008). In parallel to Kyrgyzstan, Tajikistan also sees the Russian rule in Central Asia as the key factor which prevented the "real threat of physical destruction of Tajik people" (Masov, 2003). However, if the Soviet period is considered as a milestone in the history of Kyrgyz statehood, Tajikistan traces its statehood traditions to the Samanids state ruled by Tajik (Persian) elites which included some parts of Central Asia during the 9–10th centuries. According to Tajik historians, Central Asia had already established commercial relations with Kyiv Russia during the Samanide period, mainly due to exchanges between Russian and Tajik traders (Masov, 2003). The second reason leading to drawing Tajikistan closer to the Eurasianist idea is pragmatic. Tajikistan needs large scale

investments. However, due to the small scale of its national market and its disadvantageous geographic and geoeconomic position, as well as the civil war which shook the country early in the post-Soviet era, it was in a less advantageous position to attract foreign investments. Actually, none of its Central Asian neighbours can provide the needed capital. In this perspective, participation in Eurasian frameworks would help Tajikistan to address two issues at once: prevent itself from becoming a Tajik enclave in an overwhelmingly Turkic environment, and, secondly, to hope for Russian investments. These two factors are indeed being advanced as conditions of Tajikistan's active participation within the Eurasian integration space: Eurasian idea can be accepted by the Tajiks on the condition that it would not be limited to a Turco-Slavic Union and that Eurasianism would not consist of solely ideas and ideology but it would translate into real flows of investments and economic, technical and technological cooperation (Asadullayev, 2010).

Naturally, Russia's place in the imagination of other Central Asian countries outside the Eurasian integration project does not match the positive image Russia enjoys in Kazakhstan, Kyrgyzstan and Tajikistan. Turkmenistan has always been careful to not to irritate Russia but at the same time has remained outside Russian-dominated regional organisations. Russia is also attributed the image of coloniser and outside enemy (Kazantsev, 2008a). The case of the dynamics of relationships between Russia and Uzbekistan is more complex. In the early post-Soviet era, Uzbekistan was identified as a candidate to regional hegemony (Bzezinski, 1997; Bohr, 2004)) and as a rival to Russia in Central Asia (Kazantsev, 2008a). On the other hand, Russia is identified as the coloniser in the Uzbek public imagination. However, these factors should be weighed in comparison with other more rational factors. Russia is not depicted in exclusively negative terms. Russia is a source of investments, a direction for Uzbek labour migration, and a security provider in Central Asia. The favourable attitude of Uzbekistan's population towards Russia and Russians was reported in previous paragraphs. The reasons for difficult relationships between two countries lie more in the mixture of identity and realist perspectives. Uzbekistan does not consider itself as Eurasian country. It has always claimed its Asian and Eastern identity. Secondly, for Uzbekistan, Russia is a definite outsider in Central Asia. The involvement of Russia in Central Asian structures is seen as an anomaly and a strike against Central Asian 'regionness' (Tolipov, 2005). Thirdly, Uzbekistan sees Central Asian regional politics in pure realist terms and holds to the balance of power politics. It considers itself a necessary balancer of Central Asian region. In the words of Uzbek analysts, "careful position of I. Karimov is dictated by one main factor: a will to keep balance in an interdependent regional security system. The role of balancer profits all parties" (Azizova and Khasanov, 2001; Khasanov, 2005). For this reason, the involvement of Russia should be balanced by cherishing relationships with other powers. At the same time, Russia could

play the role of an element for the balance of power. This accounts for the temporary adhesion of Uzbekistan into EurAsEC as well as the intention of Uzbekistan to invite U.S. representatives as observers to the SCO summit planned later this year in Tashkent.

Post-Soviet Perspectives on Sovereignty, Cooperation and Multilateralism

The difference between the active participants of integrationist projects (Kazakhstan, Kyrgyzstan, and to some degree Tajikistan) and those who showed restrained reaction to regionalism projects (Turkmenistan and Uzbekistan) in the post-Soviet space in general and in Central Asia in particular was explained by either the personalities of the leaders of the republics or by the type of their regimes. However, a change of presidents in Kyrgyzstan and Turkmenistan in recent years did not introduce major corrections to positions of these countries vis-à-vis regional integration processes. On the other hand, recent observations point to increasing convergence of character between their political systems where the tendency towards strong presidential regimes is common to all Central Asian states (Torebayeva, 2009). What does account for the difference in approaches regarding regional cooperation and integration processes among them? The answer to this question may lie in subtle differences underlying the perspectives of these countries toward multilateralism combined with the presence of distinct perceptions regarding individual actors' positions within the regional order.

The choice between cooperation and integration pathways depends on the states' stance on the issue of sovereignty. Today, we have differentiated approaches to sovereignty among the countries in the Eurasian/Central Asian space. Uzbekistan and Turkmenistan hold a strict and even rigid approach to sovereignty while Kazakhstan, Kyrgyzstan and Tajikistan have a more or less flexible approach. It was Uzbekistan who played an important role in transforming the Central Asian Economic Union into the Central Asian Cooperation Organisation thus confirming its accent on sovereignty. Uzbekistan repeatedly declared its position regarding international relations which, according to its representatives, can only be built on a basis of cooperation that would leave the state's sovereignty intact. According to Uzbekistan, the first priority in Central Asian relations in the post-Soviet space should be on ensuring sovereignty (Press service of the President of the Republic of Uzbekistan, 2002). Thus, Uzbekistan chooses internationalisation rather than regionalisation (Katzenstein, 2005) in its political relations with neighbours. This leads Uzbekistan to rely mostly on bilateral relations with individual great powers. If Kyrgyzstan and Tajikistan's choice to engage in multilateral frameworks with substantial effects on state sovereignty is more or less substantiated by their weak capacity and reliance on donors, Kazakhstan's choice towards flexible sovereignty

is interesting. Kazakhstan is a major economic and financial player in the region. It also has substantial military and technological capacity. However, they seem to be going beyond purely realist thinking and willing to participate in multilateral cooperation frameworks with incidences on sovereignty. Kazakh representatives often voice the opinion that “in the contemporary world, the role of international organisations (communities) is greater than ever and it is impossible to be sure of the future without strengthening multilateral relations” (Kazakhstanskaya Pravda, 2002). In the post-Soviet space, Kazakhstan adopted a proactive stance on the issues of integration from the beginning. It is actively involved in the development of the Customs Union within EurAsEC with supranational prerogatives.

Perceptions on Hegemony and Hierarchy in the Eurasian Regional Order

Russian hegemony is an established fact in the post-Soviet area. The success of post integration from the outset depended on two interrelated factors: to what extent other states were willing to accommodate Russian hegemony and to what extent Russia was willing to carry the burden of being the motor of modernisation for small post-Soviet countries. Despite affirmations to the contrary, Central Asian states do not just see Russia as a threat. As explained in previous sections, for them Russia is an opportunity to continue the modernisation process that began during the Soviet period. They also associate Russia with the development of statehood and sovereignty in their countries. Kazakhstan's Eurasianism accords a special place to the relations between Kazakhstan and Russia. Russia is considered as Kazakhstan's key strategic partner and plays an essential role in fulfilling Kazakhstan's long-term development projects. More precisely, close cooperation and interactions with Russia are needed to realise Kazakhstan's aim of entering the ranks of fifty most competitive economies of the world (Asia Strategy). Kazakhstan's “path to Europe” also passes through Russia. By orienting itself towards Europe, Kazakhstan also intends to push Russia in the same direction (Jukeyev and Kasenova, 2007). As a result, Kazakhstan and Russia are becoming ‘mutually bound’ countries within the frameworks of both EurAsEC and the Central Asian region (Asia Strategy, 2007). In the case of Kyrgyzstan and Tajikistan, the positive image Russia plays in the (official) public imagination was noted in the section above. This factor, combined with the fact that Russia has until recently been the sole source of large scale investments and credit for these small states without natural resources, means that Russian hegemony is perceived less negatively. Both countries see Russia as the natural leader of Eurasia (Akayev, 2004; Asadullayev, 2010). As the small states in the region, both Kyrgyzstan and Tajikistan are more afraid of intraregional hegemony, in the example of Uzbekistan and Kazakhstan, than Russian hegemony (Bohr, 2004). It is the source of investment for economic development as well as the protective element against Uzbekistan and eventually Kazakhstan's hegemony. These are two elements necessary for

maintaining the sovereign statehood of these countries. Does this transform Russian hegemony into a hierarchy with elements of authority and legitimacy in Eurasian integration space (Lake, 2009)? One can answer positively to this question with some reservations. If the Russian presence still holds more positive outcomes for Central Asian countries, this does not equal complete hierarchy for Russia in the region. Their position can be explained as follows: they choose to accommodate Russian hegemony, but this does not mean that their choice is dictated by Russia or by the absence of alternatives. As noted in the work of Kazantsev, the Central Asian space is being offered different regional order designs by several external powers. In particular, the emergence of a new regional order around China is quite possible in coming years (Galamova, 2007). Moreover, they can develop greater or lesser effective resistance to outside-in regional projects as was the case with the reactions by Central Asian republics to the Greater Central Asia project put forward by the USA. Additionally, in siding with Russia in its regionalist projects, they also help Russia to secure itself from threats. There is a rational economic aspect in siding with Russia as trading with this country is considered more advantageous for the growth and structure of economies of Central Asia than trading with China (Paramonov and Stokov, 2007). Uzbekistan's perspective here also differs from its neighbours. For Uzbekistan, Russia is an outsider in Central Asia. Russia's presence should be necessarily balanced by other powers. In case intraregional balancing becomes impossible, Uzbekistan is actively involved in different regional organisations thus trying to develop a policy of institutional balancing. Incidentally, Eurasianism in this context is identified as Russian hegemony by Uzbek analysts (Tolipov, 2006).

Russia and Kazakhstan: Integration Tandem or Two Distinct Integration Centres?

According to regionalism theories, integration is more likely to occur when there is "a benevolent leading country within the region seeking integration" which is ready both to be motor and provider of resources for the advancement of integrationist projects (Mattli, 1999). This role model can be claimed either by an individual country or a set of states which would constitute the integration core or integration centre within a given region. In the case of the Eurasian integration space, the combination of Russia and Kazakhstan tends to fit this condition. Russia and Kazakhstan are increasingly identified as the integration core within EurAsEC. Kazakhstan and its President are perhaps the most consistent and staunch supporters of regional integration in the post-Soviet area. N. Nazarbayev has always promoted the idea of closer integration with Russia, first of all, and with other CIS countries. Materialisation of these expectations has depended largely on Russia (Nazarbayev in Brzezinski and Sullivan, 1997: 178-181). During the early 1990s, Russia did not actively respond to Kazakh president's repeated calls to play the role of core of effective integration. However, the situation

has changed since the early 2000s when Russia started to rationalise and consolidate its Central Asian policy (Kazantsev, 2008b). Since then Russia and Kazakhstan have been active supporters of and participants in several post-Soviet regional projects. These two 'mutually bound' partners are showing willingness to "go along the path of integration" by initiating innovative integration projects (Nazarbayev, 2001). According to observers, the "stable partnership between Russia and Kazakhstan is actually acting as a motor for the Customs Union" recently initiated within the framework of EurAsEC (Regnum Agency, 2010). The role of Kazakhstan in Eurasian integration processes is not however limited to its status as a privileged partner of Russia. It is emerging as the second independent centre of regional integration and regionalisation across Eurasia (Vinokurov et al. 2010). As a result of favourable macroeconomic performances, notably based on economic liberalisation and high rate of FDI flows, Kazakhstan has transformed into a major economic and financial player in the post-Soviet space (Libman, 2008). This is, in turn, attracting large numbers of migrant workers to Kazakhstan from neighbouring countries (Vinokurov et al., 2010; Libman, Vinokurov, 2010).

Conclusions

One of the dominant features in literature on Central Asia is its outside-in approach as well as the fact that it attributes little or no agency to Central Asian states. An example of these is the work of Troitskiy and Kazantsev. If Troitskiy calls for regional concert between the U.S. and Russia to manage Central Asian affairs (Troitskiy, 2006), Kazantsev represents Central Asian politics as the efforts of foreign powers to either control the totality of the region or to grab some piece of it (Kazantsev, 2008a). The choice between the different models presented to Central Asian countries will be determined either by the volume of the power of the offering side or the historic-geographical features of Central Asian states. Left to themselves, Central Asian countries are attained by a regional non-cooperation pathology. There is a need to re-evaluate this approach in the light of previous discussions. There have been real breakthroughs in the case of EurAsEC. And, as can be seen from the discussion, not all of these efforts were realised under or due to Russian hegemony. Central Asian countries are willing and able to cooperate within the frameworks which fit their vision and political rationalities. However, what I discussed above shows that Central Asian countries articulate and exercise agency in their foreign policy choices with regard to regionalism projects. The fact that they advance different and sometimes divergent positions and ideas in these processes should not lead one to conclude to incoherence or the failure of Central Asia as a region. Another apparition of the agency of Central Asian countries lies in their exercise of choice between competing regional projects. In the case of Kazakhstan, and to a lesser degree in the case of Kyrgyzstan, conscious choice to orient towards long

term regional projects with Russia is the most evident. Tajikistan's choice is to some degree dictated by the fact that it cannot orient towards the Persian-speaking countries of Afghanistan and Iran. If this direction was more open, Tajikistan's orientation towards both Russia and Central Asia could be re-evaluated (Abdulla, 2007)

Secondly, how can we conceptualise the shift from Central Asian regional integration to the Eurasian regional order? What accounts for the merger of the Central Asian Cooperation Organisation (CACO) with EurAsEC? Is it a change within the order or a change of the order itself (Alagappah, 2003)? There are two perspectives: if we consider the CIS framework still relevant then it can be viewed as a quality change within the order. But, if we consider that we go beyond the CIS perspective, then it could be interpreted as a change of the order. If we are to adhere to recent voices from analytical and policy-making circles about the necessities of going beyond 'post-Soviet' and related concepts, including the CIS, what we are witnessing today in the case of Eurasian integration space could well be announcing a change of the order and the emergence of new regional system.

First of all, these tendencies confirm that 'Central Asia' is not a static region with a set of weak states whose agency is predetermined by external factors exclusively. 'Central Asia' should rather be seen as a regional construct being constructed and de-constructed at the same time. As such, it coexists with other alternative concepts, in this case, the "Eurasian integration space". The choice before the concerned countries between these concepts is influenced not only by external factors but it is also conditioned by their ideas and perceptions regarding identity, norms and institutions. Positions of individual states can vary according to which concept is used for framing regional developments in the post-Soviet space. This can be observed in how to frame the Russian presence in these processes. Is Russian hegemony viewed in purely power-base and real political terms or is it associated with authority? There are also two perspectives: the Central Asian framework views Russia as an external hegemony while within the Eurasian framework Russian domination is coupled with authority. On the other hand, the 'Central Asia' perspective considers EurAsEC one of the contending external projects imposed on the small states of Central Asia. This conclusion however omits the substantial efforts by these small states to play an active, even proactive, role in the elaboration and development of EurAsEC. In order to avoid this caveat, there is a genuine need to frame some aspects of regional processes through a Eurasian regional order which acknowledges the internal aspects to Eurasian integration space developments.

Adopting a dynamic perspective helps to go beyond the static 'Central Asia' approach, to one which necessarily considers ongoing regional processes as full of incoherencies and pathologies. It also shows more understanding

and recognition to conscious choices of individual countries of the region in what regards visions of regional order, identity and pathways. The case of Uzbekistan helps to substantiate this idea. The lukewarm reactions by Uzbekistan to many regionalist ideas in the post-Soviet era, especially concerning the 'Central Asia' region were interpreted as a negative factor distorting Central Asian regionalism. As consequence, there is a tendency to try to involve Uzbekistan in regional projects built on principles which differ substantially from the political philosophy of Uzbek political elites. This is both undermining the efficiency of integration projects as well as introducing incoherency and uncertainty to regional processes. Firstly, this is interpreted by Uzbekistan and others as an attempt to maintain Russian hegemony. Secondly, Uzbekistan's political elite has always been sceptical toward organisational and integrationist ideas and methods (Sigov, 2009) and has constantly affirmed a bilateral approach in foreign policy (Saifullin, 2008).

These theses and arguments hence call for making a place for an "Eurasian integration space" in post-Soviet regionalism dynamics. Sticking to "Central Asian regional integration" does not help to account for the recent developments in the region. The Eurasian regional order should not be conflated with the sheer presence of Eurasian Economic Community. Regions and regional orders are not limited to regional organisations and cover wider ideas and perceptions concerning regional identity, norms and ideas. However, debates originated and elaborated around regional organisations could come to influence the evolution of regional identities and ideas. In the post-Soviet space, the creation and development of Eurasian Economic Community has initiated real debate and is leading to subtle shifts in what concerns regional identity and regional perceptions of post-Soviet and Central Asian countries.

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The Rouble as the Settlement Currency of the CIS

1. Background

In recent years there has been much debate over how to increase international trade in national currencies and expand the basket of reserve currencies. Increasing the share of settlements in roubles and enhancing the status of the rouble internationally have been important pillars of Russia's foreign trade policy. In his address to the 12th St. Petersburg International Economic Forum in June 2008, Russian President D. Medvedev set out the new domestic economic goal for Russia of "establishing Moscow as a powerful global financial centre and the rouble as leading regional reserve currency – this is the key to the competitiveness of our financial system" (Kremlin.ru, 2008).

Russian authorities have been looking at strengthening the international status of the rouble since the mid-2000s. The possibility of switching to the rouble as the settlement currency for Russian gas supplied to CIS countries was first raised by ex-President V. Putin in 2006 in his address to the Federal Assembly. Shortly thereafter, the Government began to examine the status of the rouble in official documents. For example, the *Concept of Long-term Socioeconomic Development until 2020* envisages "establishing the Russian rouble as a leading regional reserve currency in the Commonwealth of Independent States".

There are very important reasons for pursuing this goal. The CIS is a non-uniform regional bloc with a high degree of trade asymmetry caused by the presence of a large member (Russia) whose economy exceeds those of all the other members put together (Eurasian Economic Integration, 2009: 92). Trade with Russia accounts for 44% of total trade between CIS countries. The desire to increase foreign trade payment in roubles is being widely discussed because CIS countries other than Russia use this currency so heavily. For example, rouble settlements make up about one-third of total payments transacted between Belarus and Kazakhstan (The CIS Interstate Bank, 2009).

Reserve currencies enjoy the highest status in the global currency hierarchy. The lowest level in this hierarchy is made up of closed or non-convertible currencies. Transactions in such currencies are subject to numerous restrictions. Non-convertible currencies are mainly those of developing countries, and in many cases their non-convertibility is the result of strict state control over citizens' economic and commercial activity. Buying foreign currency in such countries is often difficult or impossible. According to the IMF, in early 2008 strict limitations on certain currency transactions existed in 35 countries including India, Bangladesh, Columbia and many African countries (IMF, 2008). Currency transactions are also restricted in China and some North African and CIS countries (Moiseyev, 2008).

The next level up in the currency hierarchy is local currencies. These may be partially or even fully convertible, but are not used in international transactions. The main feature of a local currency is that demand for it exists only on the internal market of the emitting country. There may only be limited demand for a local currency from non-residents who need it for transactions in border regions. Local currencies are not used in the issuing country's foreign trade or for forming private or public reserves in other countries. Local currencies form the largest category of currencies.

The next, relatively new layer in the currency hierarchy is made up of international currencies. An international currency can perform one or more monetary functions (measure of value, means of exchange or of saving) outside the issuer's jurisdiction. The Swedish krona, the Norwegian krone, the Canadian dollar and the Australian dollar are all examples of an international currency. These currencies may be used in foreign trade settlement or for citizens' savings. However, the extent to which these international functions are performed is rather limited.

Finally, the highest level in the currency hierarchy is reserve currencies, which perform most functions of money internationally and on a large scale (Butorina, 2003). To date, this category includes only the dollar and, to a lesser extent, the euro.

The Russian rouble moved from being a closed currency to a local currency in the 1990s, and in recent years is approaching the status of an international currency. This process may take several decades, subject to effective economic policy. Once the rouble is elevated to this level, which is a complex process in itself, this means that it will also have become a "regional reserve currency".

Until now the rouble has demonstrated only minimum potential to reach the status of a reserve currency. Progress towards this is hindered by rapid inflation (a much more significant factor from the point of view of investment than from the point of view of foreign trade payments) and reduced

liquidity in domestic financial markets. On international capital markets the rouble is a typical raw material currency – i. e., is influenced to a degree by oil prices. This was best illustrated in the autumn of 2008 when a drop of oil prices was followed by an exodus of capital. Despite a considerable export surplus, this capital outflow resulted in a substantial devaluation of the rouble. Therefore, demand for the rouble to create reserves will be very limited. The international debate on reserve currencies is principally focused on the need to restrict the prominence of the dollar in favour of other world currencies. China in particular has continued to call for an expansion in special drawing rights (SDR), which are linked to a basket of four currencies (U.S. dollar, euro, yen, and pound).

2. Trade Flows and Trade in Roubles

Increasing the use of national currencies, particularly the rouble, as a means of settlement in foreign trade between CIS countries is a fundamental precondition for the creation of regional currency. Empirical analysis shows that a key consideration when selecting a currency for foreign trade transactions is the long-term stability of the currency's basic macroeconomic indices and the currency risk associated with that (Donnenfeld, Haug, 2003). Undoubtedly, the global economic crisis has affected the perception of the rouble as stable currency. Devaluation of the rouble and other national currencies in the post-Soviet space caused a wave of partial dollarisation of national economies. However, this makes the task of creating a strong regional currency even more urgent and more complex. Increasing the use of the rouble in trade with non-CIS countries whose economies are largely orientated towards trading with the CIS is also clearly desirable.

Countries strongly oriented towards trade with Russia include the CIS countries, Mongolia, Finland and Turkey. Russia also trades intensively with the Baltic countries, Bulgaria, Syria and Poland. Accordingly, the policy of encouraging the use of rouble must be pursued primarily in respect of these countries. In countries which are highly dependent on trade turnover with Russia, any increase in rouble settlement may have tangible economic benefits, not least by reducing transaction costs. It was during the 2008–2009 crisis that the benefits of using national currencies in international trade became apparent to CIS countries. Reluctance to use CIS national currencies, relying instead on dollar and euro, results in higher transaction costs and less beneficial terms of settlement. It also persuades the trading parties to maintain additional foreign currency reserves, exposing them to further currency risk. The economic crisis highlighted the need to abandon such practices. The interdependence of CIS economies and their largely synchronous economic cycles means that their financial systems are similarly affected by external shocks. During the crisis, CIS currency fluctuations vis-à-vis one other were not nearly as significant as their fluctuations against dollar or euro. Whereas

Financial Integration and Common Currency

| | Export (total) | Import (total) | Commodity turnover (total) | Export from Russia | Import to Russia | Commodity turnover with Russia | Export surplus on trade with Russia | Share of commodity turnover with Russia in total commodity turnover (%) |
|------------|-------------------|-------------------|----------------------------------|--------------------------|------------------------|--------------------------------------|---|--|
| Belarus | 32.9 | 39.5 | 72.4 | 23.7 | 10.6 | 34.3 | 13.1 | 47.4 |
| Moldova | 1.6 | 4.9 | 6.5 | 1.1 | 0.7 | 1.8 | 0.5 | 27.7 |
| Ukraine | 67.0 | 85.5 | 152.5 | 23.6 | 16.2 | 39.8 | 7.3 | 26.1 |
| Tajikistan | 0.8 | 3.2 | 4.0 | 0.8 | 0.2 | 1.0 | 0.6 | 24.8 |
| Mongolia | 2.0 | 2.8 | 4.8 | 1.1 | 0.1 | 1.2 | 1.0 | 24.2 |
| Uzbekistan | 6.3 | 7.6 | 14.0 | 2.1 | 1.3 | 3.4 | 0.8 | 24.1 |
| Kazakhstan | 71.2 | 37.8 | 109.0 | 13.3 | 6.4 | 19.7 | 6.9 | 18.0 |
| Armenia | 1.1 | 4.1 | 5.2 | 0.7 | 0.2 | 0.9 | 0.5 | 17.4 |
| Kyrgyzstan | 0.9 | 11.8 | 12.7 | 1.3 | 0.5 | 1.8 | 0.8 | 14.2 |
| Finland | 96.9 | 92.2 | 189.1 | 15.8 | 6.6 | 22.4 | 9.1 | 11.9 |
| Turkey | 132.0 | 202.0 | 334.0 | 27.7 | 6.1 | 33.8 | 21.5 | 10.1 |
| Lithuania | 23.8 | 31.3 | 55.1 | 4.5 | 0.9 | 5.5 | 3.6 | 10.0 |
| Bulgaria | 22.5 | 33.8 | 56.3 | 4.8 | 0.6 | 5.4 | 4.1 | 9.6 |
| Latvia | 9.2 | 15.6 | 24.8 | 1.6 | 0.6 | 2.2 | 1.0 | 8.8 |
| Syria | 7.4 | 15.5 | 22.9 | 1.9 | 0.0 | 2.0 | 1.9 | 8.6 |
| Poland | 141.5 | 195.9 | 337.3 | 20.2 | 7.0 | 27.2 | 13.2 | 8.1 |
| Georgia | 1.5 | 6.1 | 7.6 | 0.5 | 0.1 | 0.6 | 0.5 | 8.0 |

Table 9.1. Countries oriented
towards trading
with Russia
(\$ billion, 2008)

Source:
UN Statistics
Division (Comtrade)

the rouble-tenge exchange rate fell by just 1% between August 2008 and August 2009, dollar and euro exchange rates against tenge grew by 26% and 23% respectively. Over the same period, rouble and dollar strengthened against Ukrainian hryvnia by 25% and 65% respectively. A similar situation developed with other CIS currencies. These observations would suggest that trade partners in CIS and EurAsEC countries could benefit from switching to national currencies for their transactions. Cooperation between regulated organised markets raises their liquidity, curbs the magnitude of exchange rate fluctuations and increases their resistance to destabilising influences (Mishina, 2010).

Rouble-based trading is gradually shifting from a political ambition into an economic reality. Using national currencies in foreign trade transactions applies not only to CIS countries but also to their most important non-CIS trading partners. Since 2003, Russia and China have been piloting a project to use national currencies in border trade. According to the People's Bank of China, 99% of all transactions in border regions are in roubles; border trade in national currencies as a proportion of total Russian-Chinese commodity turnover grew from 0.5% in 2003 to 7.3% in 2008. The economic crisis

and the rouble's fall against dollar caused border trade in national currencies to shrink to 2% of total turnover, but the stabilisation of rouble leads us to predict that the percentage of trade in national currencies will be restored.

In April 2009 one of Turkey's largest banks, Garanti, became the first bank in the country to switch to rouble settlements with Russia. Turkish President Abdullah Gül had proposed the move to national currency payments during his visit to Russia in February 2009. Russia and Turkey are major trading partners whose commodity turnover passed the \$34 billion mark in 2008. Therefore, the implementation of the above initiative is justifiably seen as a milestone in strengthening the status of the rouble. It is expected that initially about 7-15% of all bilateral trade settlements will be in national currencies. This may increase in the medium-to-long term.

In November 2008 the Ministers of Finance of Russia and Belarus agreed that the rouble would be adopted in oil and gas trading. "This will be our contribution to elevating the rouble to the status of regional reserve currency", said Belarusian Finance Minister Andrei Kharkovets¹.

Plans to pay for Russian energy in roubles has given rise to other initiatives. For example, the Russian Minister of Energy ordered Inter RAO UES to switch to invoicing electricity exports in roubles. A switch to rouble settlements is expected to be straightforward and beneficial for the electric power sector because, in contrast to the oil and gas sector, electricity prices are not dollar-pegged. However, electricity trading is a somewhat minor element of total commodity turnover and even switching fully to rouble transactions in this sector will have a very limited effect on overall demand for roubles. Nonetheless, these initiatives are positive and play a significant role in enhancing the status of the rouble.

Integration groups are expected to show great interest national currency payments. Several integration projects are being implemented simultaneously in the post-Soviet space with varying degrees of success: the CIS, GUAM, SCO and EurAsEC. GUAM and SCO are essentially political projects with economic issues only a secondary consideration. GUAM is notable as a project aimed principally at separation from one of the CIS countries, rather than integration, and was therefore doomed to fail. From the trade and economic point of view, the most successful integration project is EurAsEC: since January 1, 2010 its three member countries – Kazakhstan, Belarus and Russia – have operated a Customs Union.

According to national central banks, payments for commodities traded between Russia and other EurAsEC countries exceeded \$50.9 billion in 2008. Interestingly, over 50% of these payments were made in roubles. The U.S. dollar takes second place here: dollar settlements accounted for one-

¹ <http://www.minfin.ru/ru/official/printable.php?id4=6785>.

third of all payments. The euro's share is just 13% and the national currencies of other EurAsEC countries are practically never used in trade with Russia (except Kazakh tenge).

| | | Belarus | Kazakhstan | Kyrgyzstan | Tajikistan | Total | % |
|-------------|------------|---------|------------|------------|------------|-------|-----|
| From Russia | | 10777 | 4378 | 1439 | 129 | 16724 | 100 |
| Roubles | | 9507 | 1886 | 487 | 35 | 11915 | 71 |
| Dollars | | 828 | 2237 | 795 | 92 | 3952 | 24 |
| Euro | | 369 | 120 | 157 | 2 | 648 | 4 |
| Others | | 73 | 135 | 0 | 0 | 208 | 1 |
| To Russia | | 20647 | 11558 | 1375 | 618 | 34199 | 100 |
| Roubles | | 8007 | 6517 | 254 | 282 | 15060 | 44 |
| Dollars | \$ million | 6710 | 4743 | 1101 | 294 | 12848 | 38 |
| Euro | | 5892 | 228 | 21 | 42 | 6182 | 18 |
| Others | | 38 | 71 | 0 | 0 | 109 | 0 |
| Total | | 31424 | 15936 | 2815 | 747 | 50922 | 100 |
| Roubles | | 17514 | 8403 | 741 | 317 | 26976 | 53 |
| Dollars | | 7538 | 6980 | 1896 | 387 | 16800 | 33 |
| Euro | | 6260 | 348 | 178 | 43 | 6829 | 13 |
| Others | | 112 | 206 | 0 | 0 | 317 | 1 |
| Total | | 100 | 100 | 100 | 100 | 100 | |
| Roubles | | 56 | 53 | 26 | 42 | 53 | |
| Dollars | % | 24 | 44 | 67 | 52 | 33 | |
| Euro | | 20 | 2 | 6 | 6 | 13 | |
| Others | | 0 | 1 | 0 | 0 | 1 | |

Table 9.2.
Cash flows servicing
trade between
Russia and other
EurAsEC countries
in 2008

Rouble is the principal currency of payment for Russian imports, mainly from Belarus. More than 70% of Russian payments to Belarus are made in roubles. Roubles are used to pay for only 44% of Russian exports; the dollar and euro account for 38% and 18%, respectively.

Source:
CIS Interstate Bank

Our comparison of central bank data on foreign trade payments and total exports and imports allows us to assess the usage of such payments and how these are shared among different currencies. Calculations suggest that the central banks' data are fairly comprehensive. Payments recorded by the central banks cover over 90% of Russia's commodity turnover with Belarus, over 80% of turnover with Kazakhstan and 74% of turnover with Tajikistan. Recorded payments servicing trade with Kyrgyzstan largely exceed the volume of commodity turnover registered in Russia and Kyrgyzstan. It is possible that payments from Russia exceed official import volumes by more than three times because of unregistered imports from Kyrgyzstan (e. g., clothing made of Chinese fabric) or other categories of capital outflow.

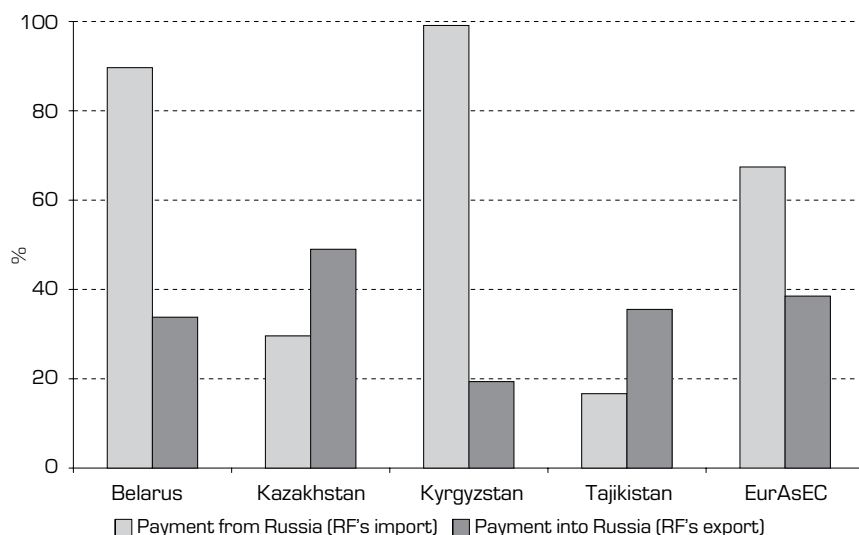


Figure 9.1.
Share of total export and import trade payments transacted in roubles between Russia and other EurAsEC countries in 2008 (%)

Source:
UN Statistics
Division (Comtrade);
CIS Interstate Bank;
IEF assessment

The smaller share of payments in roubles to Russia is partly attributable to the lack of this currency in the partner countries. Russia shows a positive trade balance with all CIS countries exceeding \$32 billion in total (the balance of services is also positive). Total rouble payments to Russia from other EurAsEC countries exceed \$15 billion, whereas payments from Russia to these countries is under \$12 billion, indicating that the shortfall is made up of rouble inflows under other balance of payments items. Therefore, increasing rouble trade payments requires that Russian buyers pay more often in roubles for their imports, which in turn will enable CIS countries to increase payments in roubles for Russian exports.

Rouble-denominated capital inflow to CIS countries (principally in the form of foreign investments) will also strengthen the rouble's status. However, the CIS region is not a very attractive proposition at the moment for Russian investment. In 2008, only 7% of direct investment and 2% of other investment from Russia were in CIS countries, and there are practically no Russian portfolio investments in these countries. The main forms of capital inflow to CIS countries (partly denominated in roubles) are wages (about \$15 billion in 2008) and cash transfers (a positive balance of \$5.9 billion).

Generally, we can conclude that significant progress has been achieved in expanding settlement in roubles. According to our estimates, some 67% of Russian imports from EurAsEC countries are paid for in roubles. Regarding trade with CIS countries, the Bank of Russia estimates that rouble payments now account for 60% of all Russian imports. Clearly, in the medium term, it is trade within the CIS which is the likeliest vehicle for expanding payments in roubles between Russia and other CIS countries.

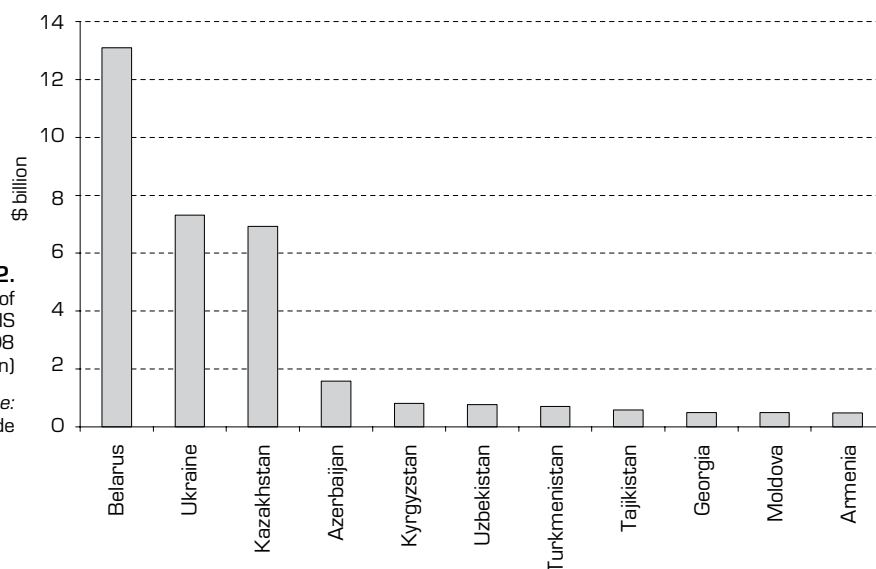


Figure 9.2.

Trade balance of
Russia and other CIS
countries in 2008
(\$ billion)

Source:
Comtrade

3. Obstacles and Opportunities

Our research leads us to conclude that short-term trade financing in roubles for importers offers the brightest prospects for expanding trade in roubles in the CIS. Because it is currently difficult to obtain such financing, the increased demand for it would promote the “external” circulation of the rouble. For example, Vneshekonombank would organise targeted project financing for private banks, including banks in CIS countries. The resources of the Eurasian Development Bank, which manages the EurAsEC Anti-crisis Fund, would also need to be called upon.

Increasing payment in roubles for Russian exports and in foreign trade could be made easier through the establishment of an export and import agency or bank (or by assigning the functions of such an agency to existing banks). This would help to provide financing for export contracts in roubles and is seen as a particularly urgent priority in the current climate. Many countries are experiencing difficulties obtaining loans to finance foreign trade and such services will be in huge demand, even when denominated in roubles. Loan financing for export transactions are widely used throughout the world, especially in the export of mechanical engineering products (often on preferential terms). Production processes in mechanical engineering are very capital-intensive and have relatively long payback periods, so lending on preferential terms is an important element in attracting potential customers.

There is a number of factors which militate against the use of rouble as the main currency for settlement within CIS. The key issues are those associated

with rapid and volatile inflation in Russia, which limit willingness to lend in roubles. Besides the macroeconomic factors, there are also legal and technical barriers arising from the poorly developed system of interbank settlement between Russian and other CIS banks and the stringent currency and tax controls imposed on rouble transactions. Therefore, financial regulation would benefit from a major overhaul, the ultimate goal being to create a unified clearing system in the CIS.

CIS strategic documents, in particular the *Economic Development Strategy of CIS Countries to 2020*, set ambitious targets for cooperation in financial and currency operations, including multilateral liberalisation of financial markets and financial services, harmonisation of currency laws and controls, and the increased use of national currencies in foreign trade. However, given the slow progress achieved in this sphere in recent years, the focus should perhaps remain on the initial steps towards creating an efficient interbank settlement system. Action should be targeted particularly on those areas in which member countries are most interested, namely payments transacted between CIS banking systems.

This makes it important to accelerate efforts to create a fully-fledged Interstate Bank clearing system. This would initially require a reorganisation of the Interstate Bank to increase its efficiency. In the current circumstances, the Bank's strategic goal should be to foster development of the market economies of its member states and help to increase regional trade and economic links by supporting investment and enhancing banking operations, including clearing.

The Interstate Bank should become a focus for the implementation of integration strategy, since it has a key role in improving clearing operations between CIS countries. In order to improve the efficiency of this Bank and other CIS commercial banks, favourable payment conditions need to be created; currency, tax and accounting regulations should be unified and all transaction processes must comply with these regulations. Interbank settlement procedures can be improved by adopting a single mechanism to combat money laundering and by simplifying currency controls applied to correspondent accounts set up by non-resident banks. CIS bank clearing forms should be brought into line with international standards, particularly ISO 20022². All these measures would promote the integration of clearing systems and simplify settlement procedures between CIS banks. They would also encourage the use of national currencies in foreign trade and reduce the cost of international cash transfers made by individuals.

Presently, the rouble displays only minimum potential to become a reserve currency. In our opinion, establishing the rouble as a "regional reserve

² *Financial Services – universal financial industry message scheme* (<http://www.iso.org>).

currency” would elevate its status to that of an international currency. This process may take many years. As well as the implementation of this strategy, economic measures should be taken which would bring instant and tangible benefits for CIS countries. Increasing the use of rouble and other national currencies may help to reduce currency risk and the need to create additional currency reserves in dollar or euro. Ultimately, all economic players will benefit from a more efficient clearing system in CIS.

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The Integration of Financial Markets and Interaction Between the Stock Exchanges of the CIS Member States

10

VICTORIA MISHINA

Notwithstanding the economic and political disputes that arise periodically between the countries of the post-Soviet space, the integration process has been gathering pace. The Eurasian Economic Community (EurAsEC) has established an Anti-Crisis Fund, and CIS member state authorities and economic institutions are taking a concerted approach in their attempts to mitigate the crisis. From this point of view at least, the global recession has given a boost to integration. Official agreements on a single customs tariff and the Customs Code were signed in 2009. The stock exchanges of Russia and Ukraine have launched new trading systems in Ukraine. Russia and Kazakhstan are implementing joint grain market infrastructure projects. This article analyses the macroeconomic prerequisites of financial integration and the increasingly important role being played by the Russian rouble in the post-Soviet space. The structural and legal foundations of integration are already in place in CIS and EurAsEC. However, the degree of integration of financial and foreign exchange markets in particular does not correspond to the level of interaction between CIS member state economies, capital flows and people. This article therefore focuses on the importance of stock market development, interaction between CIS stock exchanges and the prospects for trading national currencies.

Prerequisites for Financial Integration and the Use of National Currencies in Foreign Economic Operations

At the peak of the global financial crisis in 2008–2009, the similarities between the CIS and EurAsEC member states, where market integration has geographical, national, historical and economic contexts, came to the fore once again. Historic links and the comparability of market reforms undertaken in CIS member states became more apparent during the global crisis because of the simultaneous shift in macroeconomic indicators (i. e., GDP growth rates, inflation, capital flows) and financial market indicators (stock indices, exchange rates). According to the IMF, CIS member states' share of global GDP grew from 3.8% in 2006 to 4.6% in 2008; Russia's share

increased from 2.6% to 3.3% over the same period, leaving countries such as Italy and France in the shadows (World Economic Outlook, 2009: 162).

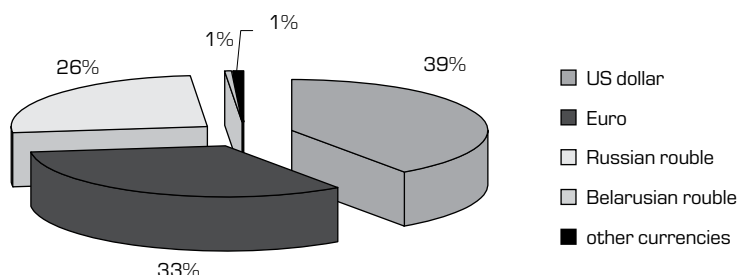
According to the Russian Academy of Sciences' Economic Forecasting Institute, the intensification of integration in the post-Soviet space has been highly effective in economic terms. Estimates show that if the current level of concerted integration activity is maintained within the unified economic space of Russia, Belarus, Kazakhstan and Ukraine, the overall GDP of these four countries would grow by 51% between 2005 and 2015. If the integration process accelerates, GDP would increase by 60%. Increasing economic interaction may serve as a robust defence against the negative consequences of global recession, and integration may lead Russia to gaining 7.4% of the current GDP level in 2015, Ukraine – 12.4%, Belarus – 14.3% and Kazakhstan – 4.5% (Klozov et al, 2009: 35).

Notwithstanding the crisis and an overall decline in external trade, CIS member states are maintaining their leading share of total foreign trade operations. In 2009 mutual trade grew to 22.1% of the external turnover of CIS member states, compared to 21.3% in 2008. Mutual foreign trade turnover made up \$157.6 billion in absolute figures (CIS Statistics Committee, 2010). Russia accounts for the majority of exports and imports (59.2% and 27.6% respectively). Russia is followed by Ukraine with 17.1% of exports and 24.9% of imports, Belarus (11.8% and 23.1% respectively), Kazakhstan (8.6% and 15.3%) and Azerbaijan (1.4% and 2.3%). In theory, foreign traders in these countries should have an interest in establishing soft currency markets.

Currently, Russian rouble is the currency used in foreign trade between CIS member states. Belarus' rouble revenues in 2009, for example, accounted for 26% of the country's total \$26.8 billion currency revenues. U.S. dollar accounted for 40% of the total currency export revenues, and European currency 33% (National Bank of Russia, 2010) (see Figure 10.1).

Figure 10.1.
Currency structure
of Belarus' proceeds
from exports
in 2009

Source:
The National Bank of
Russia, the Bulletin
of Banking Statistics



Belarus' proceeds from exports to Russia made up around 30% of the country's total export proceeds (or \$7.7 billion) in 2009. Around 86.5% of these export operations were settled in Russian roubles, while settlements in Euros and U.S. dollars accounted for 6.4% and 5.5% of the country's currency returns from Russia respectively.

It is not only Russia and Belarus which use Russian rouble in their foreign trade settlements. Commercial entities in other post-Soviet states also accept rouble payments. For EurAsEC in 2008, dollar denominated settlements decreased from 42% to 32% of total foreign trade turnover, euro denominated settlements grew from 3% to 13%, and settlements in Russian roubles accounted for around 54% (EurAsEC, 2009) (see Table 11.1).

| | 2008 | 2007 | 2006 |
|--------------------|------|------|------|
| Russian roubles | 53.6 | 53.8 | 53.4 |
| US dollars | 32.9 | 41.8 | 42.5 |
| Euro | 12.7 | 2.9 | 2.1 |
| Belarusian roubles | 0.3 | 0.5 | 1.6 |
| Tenge | 0.5 | 0.8 | 0.3 |
| other currencies | 0.1 | 0.1 | 0.1 |

Table 10.1.
EurAsEC member
state payment
structure (%)

Source:
Interstate Bank,
EurAsEC

Financial integration is likely to be stimulated by the establishment of single customs tariff, which is crucial to the Customs Union between Russia, Belarus and Kazakhstan. On November 27, 2009, heads of state participating in the EurAsEC Interstate Council adopted unified tariff and Customs Code of the Customs Union. The tariff came into force on January 1, 2010¹, and the Customs Code will come into effect on July 1, 2010 (EurAsEC, 2009).

Financial integration and use of national currencies in CIS member state settlements depend on more than foreign trade alone. Another important prerequisite for integration, for example, is the need for migrant workers from CIS states to convert rouble salaries earned in Russia into their own national currencies. This again enhances the status of the Russian rouble in the Post-Soviet space.

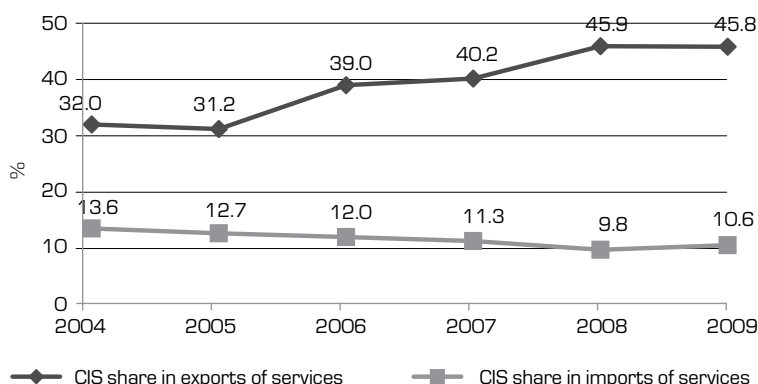
In 2008, 27.9 million foreign nationals visited Russia (including migrant workers). In the same year, 33.6 million Russians made trips abroad and another 13.5 million Russian citizens visited other CIS member state (Bulletin of the Bank of Russia, 2009). According to Russia's Federal Migration Service (FMS), migrant workers from the former Soviet republics repatriate over \$10 billion in cash annually.

¹ Various additional regulatory documents were adopted to govern the implementation of new procedure; all other procedures are being drawn up bilaterally.

International financial operations related to foreign travel² represent a sizeable component of Russia's balance of payments: in the first half of 2009, they accounted for 29% of total service-sector revenues. Citizens of other CIS member states spent \$1.912 billion during their visits to Russia in January–June 2009, while Russian citizens spent \$975 million in other CIS member states.

Figure 10.2.
CIS member states' service sector exports and imports classified under "travel" in Russia's balance of payments³

Source:
The Bank of Russia.
Russia's balance of payments and foreign debt



In the first half of 2009, CIS countries accounted for 10.6% of the services imported under the "travel" category. There was a significant increase in the export of services in 2008–2009: CIS residents visiting Russia increased the CIS share in Russia's balance of payments from 32% in 2004 to 46% (see Figure 10.2). Business trips (74%) dwarfed private visits (26%) in their contribution to the structure of service exports.

Cash transfers and the spot currency market reflected the main trends of Russian rouble denominated trans-border settlements in CIS member states.

In 1993–1995, Russia signed bilateral agreements with all CIS member states on non-commercial payments, including money remittances, which paved the way for settlement via commercial banks. A protocol was later signed under the framework of EurAsEC Customs Union to simplify procedures for private individuals transferring money.

Trans-border non-cash transfers from Russia to CIS by residents and non-residents amounted to \$14 billion (around 34% of all money transfers by private individuals from Russia) in 2008. Money transfers from CIS countries to Russia totalled around \$2 billion (over 18% of all money transfers to Russia).

² The export and import of services under the "travel" category means expenditure of residents of one country during visits to other countries. They include all goods and services purchased for a non-resident's personal use on the territory of the destination country.

³ Calculated using data for the first half of each year.

Total amount of all trans-border remittances by individuals within the EurAsEC member states totaled \$5.03 billion in 2008. Russia accounted for a bulk of transfers (83.6%), Kazakhstan for 7%, Tajikistan – 5.3%, Kyrgyzstan – 2.8% and Belarus – 1.2% (Money and Credit, 2009).

According to the 2003 federal law "On Currency Exchange Regulation and Currency Control", transborder money transfers in Russia can be executed without restrictions, except for international transfers by resident individuals (without opening a bank account), which are limited to the equivalent of \$5,000 according to the exchange rate set by the Central bank of Russia. Limits on private transfers are also used in other CIS/EurAsEC countries. For example, non-residents of Tajikistan have the right to remit up to \$10,000; banks in Kazakhstan have to report transfers of over \$50,000 per month and Kyrgyzstan monitors transfers of over 1 million som.

Alongside traditional interbank transfers, residents in CIS/EurAsEC member states can make transborder remittances using international wire systems such as Western Union and Money Gram, or they can use commercial banks' money transfer systems (offered by Russia's Sberbank, Russlavbank, KB Eurotrust, Uniastrium Bank and others). Moreover, competition between banks has led to commission charges on money transfers being reduced to an acceptable level of 1-3%.

Individuals make transborder money transfers within EurAsEC in three main currencies. Rouble-denominated transactions are almost equal to U.S. dollar-denominated transfers. The Euro is in a distant third place. On average, in EurAsEC countries money transfers in roubles accounted for 45% in 2008, 53% were in U.S. dollars and 2% in Euros. Information on the currencies used for remittances in various countries is provided in *Table 10.2*.

| | Roubles | Dollars | Euro |
|---------------|---------|---------|------|
| Russia | 47 | 52 | 1 |
| Kazakhstan | 42 | 52 | 5 |
| Tajikistan | 28 | 70 | 2 |
| Kyrgyzstan | 40 | 56 | 4 |
| Belarus | 58 | 35 | 7 |
| EurAsEC total | 45 | 53 | 2 |

Table 10.2.
Money transfers
from EurAsEC
member states by
currency in 2008
[%]

Source:
The Interstate Bank

The share of outgoing rouble denominated transfers in the total volume of transfers varied from 28% in Tajikistan to 58% in Belarus (Interstate Bank, 2009).

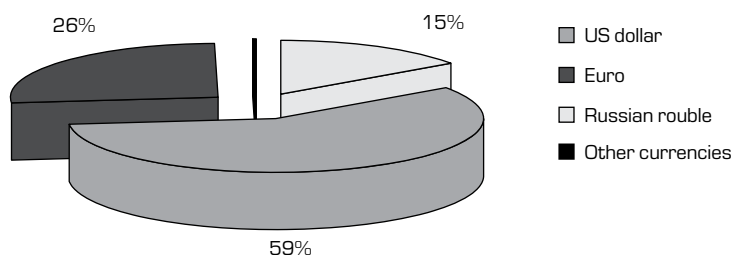
Russian statistics do not include information on Russian roubles imported to and exported to/from CIS states as cash. Information on amounts of cash being moved can be extracted from separate data provided by some of

the CIS countries' central banks, which disclose information on the structure of imports and exports of cash, including roubles. Thus, for example, cash exported as roubles by Belarusian banks accounted for 8.8% of total cash exports in 2008, increasing to 15.3% of total cash exports (7.7 billion roubles, equivalent to \$233.4 million) in 2009 (see Figure 10.3). Euro's share of total cash exports increased from 11.7% to 26.3% over the same period and the U.S. dollar share declined from 79% to 58.2%. There are no data on Russian roubles coming in to Belarus; presumably this currency enters the country via other channels (imported by individuals or Russian Banks).

Figure 10.3.

The structure of cash exports by Belarusian banks⁴ in 2009 (%)

Source:
The national Bank of Belarus, the Bulletin of Banking Statistics

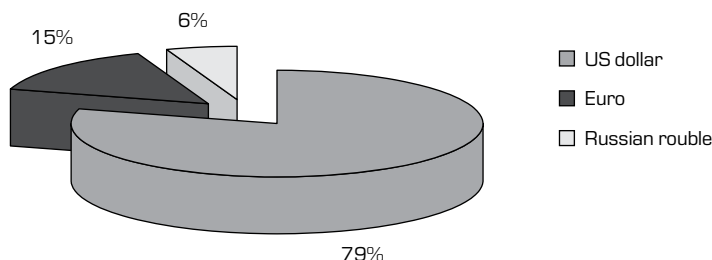


Statistics on the buying and selling of foreign currency provided by exchange bureaux give us an insight into the volume of rouble cash transactions in CIS member states. According to the National Bank of Kazakhstan for example, in 2008, exchange offices sold \$9.3 billion (79% of all net sales of foreign currency), 1.2 billion Euro (15%) and 5.7 billion Russian roubles (6%) (see Figure 10.4).

Figure 10.4.

The structure of the spot currency market in Kazakhstan in 2008 (%)⁵

Source:
The 2008 annual report of the National Bank of Kazakhstan



A similar situation was observed in Ukraine, where 71% of total currency sales were in U.S. dollars, Euro – 22% and Russian rouble – 5.4% or 134 billion roubles (see Figure 10.5). The total amount of cash traded (in all currencies) in Ukraine totalled a massive \$66.2 billion in 2008.

⁴ Including the National Bank of Belarus.

⁵ Calculated on the basis of data on net currency sales by exchange bureaux, provided by Kazakhstan's National Bank.

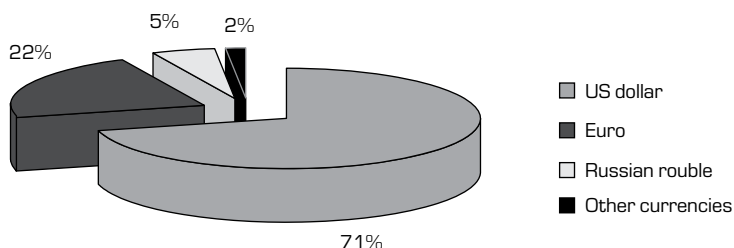


Figure 10.5.
The structure of the spot currency market in Ukraine in 2008 (%)

Source:
The annual report of the National Bank of Ukraine for 2008

In Azerbaijan, cash transactions in Russian roubles totalled around 1.3 billion roubles annually in 2008–2009. The sale and purchase of Russian roubles in forex transactions representing 1%–3% of the total spot currency market of Azerbaijan in 2008–2009 and totalled between \$7 and \$8 billion (Central Bank of Azerbaijan, 2010).

Before the outbreak of global crisis, increase in export-import operations and influx of foreign investment supported a 10% increase in activity on Kyrgyzstan's currency markets, though market liquidity is still somewhat low. The total amount of foreign currency transacted on domestic exchange markets was around \$4 billion (158.3 billion soms) in 2008. Most transactions were U.S. dollar denominated (66.8%). Russian rouble transactions amounted to 18.1% of the total and Euro transactions – 6.3%. Kazakh tenge operations fell considerably to 8.6% of the total. All other currencies accounted for 0.2% of operations. Fundamentals shifted significantly in the cash foreign currency market (75.7% of total foreign currency sales and purchases). In Kyrgyzstan and the majority of CIS countries, the proportion of rouble the interbank market transacted in roubles is substantially lower than the proportion traded on spot currency markets. In Kyrgyzstan, almost all non-cash forex operations executed by interbank currency trading were in U.S. dollars⁶, which rose 43% to 32.4 billion soms (\$0.9 billion).

The above statistics are evidence that despite differences in legislation and the way foreign exchange operations are regulated, there is potential for further integration of CIS financial markets.

The Development of CIS Financial Systems

CIS member states are moving gradually towards financial liberalisation and integration into global financial systems. However, this process has not been without its interruptions. The global crisis forced countries to tighten their regulation of financial markets temporarily in order to restrict the flight of capital and to stabilise stock indices and national currency exchange rates. Ukraine and Russia introduced certain restrictions on banks' foreign exchange operations, and conditions were imposed on Belarusian banks'

⁶ The trading is performed by National Bank of Kyrgyzstan, by traders and electronically.

fulfilment of client requests to purchase foreign currency on the exchange market. Individuals in Ukraine are temporarily not allowed to purchase foreign currency with the view of transferring it abroad for non-commercial operations for a sum exceeding 75,000 hryvnias per month. Moreover, restrictions on issuing foreign currency loans are in force till January 1, 2011. Russia lifted restrictions on increasing foreign assets and net currency position in mid 2009 due to the stabilization of situation in financial sphere.

Most CIS member states have built up a financial infrastructure and a corresponding regulatory framework. However, legislation in the region's countries is still weak. According to EBRD, in 2007 the legislation of four countries (Armenia, Russia, Kazakhstan and Kyrgyzstan) only partially met International Organisation of Securities Commissions (IOSCO) standards, while legislation in Belarus, Tajikistan and Turkmenistan failed to meet IOSCO standards at all. In other countries, compliance with IOSCO standards was very low (EBRD, 2008).

Table 10.3.

Development of
EurAsEC member
states' financial
systems as at
January 1, 2009

The domestic financial structures of CIS member states still do not have the prerequisites for substantial external financial liberalisation, primarily due to their banking asset to GDP ratios, which lag behind many developing economies (see Table 10.3).

Source:

The Interstate
bank, the Digest of
Thematic Materials,
Issue No.20; the
CIS Executive
Committee, "The
State and Trends
of Stock Market
Development in the
CIS Member States"
research and
information digest

| | Number of banks | Assets of banks / GDP (%) | Number of professional participants of securities market | Capitalisation / GDP (%) |
|------------|--------------------|------------------------------|---|-----------------------------|
| Belarus | 31 | 39.7 | 179 | 0.18 |
| Kazakhstan | 37 | 75.1 | 217 | 23.6 |
| Kyrgyzstan | 21 | 29.7 | 81 | 25.9 |
| Russia | 1058 | 67.5 | 3710 | 26.4 |
| Tajikistan | 12 | 22.2 | 7 | 8.4 |

According to Raiffeisen Bank, the level of financial intermediation in 2008 in Central Europe (viewed as the average ratio of bank assets to GDP) was 100%, in Southeast Europe – 80%, and in the CIS – 70%. These figures compare to an average financial intermediation level of over 260% in the Euro zone.

CIS member state banking systems, which are the foundations of financial market, are failing to perform their functions fully in terms of transforming savings into investments. Although their financial systems were maturing before the crisis, it has become clear that they are as yet insufficiently developed as a basis for sustained economic development. In 2008, the average ratio of real economy credit financing to GDP in the CIS was 45.2%, compared to 127.8% in the EU (Raiffeisen Research, 2009).

Foreign institutional investors are reluctant to participate in CIS stock markets, judging these developing markets to be too small and suitable mostly for short-term, speculative operations rather than investment (IAEx of CIS, 2009) (see Table 10.4).

| Indicators of CIS stock markets (except Russia) | 2007 | 2008 |
|--|---------------|-----------------|
| Equity market capitalisation (\$ billion), year-end | 0.1–53.8 | 0.1–31.1 |
| Number of companies admitted to trading, year-end | 28–430 | 22–1 749 |
| Volume of trading in shares (\$ million) | 3.2–8924.4 | 0.001–3803.5 |
| Velocity of circulation of national shares | 0.05–14.8 | 0.03–2.5 |
| Market concentration (top–10 by trading volume, % to total amount of trading) | 44–100% | 45–95% |
| The volume of shares placing on the stock exchange (\$ million) | 0–93.6 | 0–22.9 |
| Number of shares issues admitted to trad- ing, year-end | 17–437 | 12–506 |
| Volume of trading in corporate and regional bonds (\$ million) | 0.4–4302.7 | 4.5–3652.0 |
| Volume of trading on public securities market (\$ million) | 0.04–6722.4 | 2.59–8514.4 |
| Volume of trading on currency market (\$ million) | 842.3–91421.8 | 2005.5–138874.0 |

Table 10.4.

General
characteristics
of the CIS stock
markets

Source:
The CIS International
Association of
Exchanges (IAEx of
CIS), the Exchange
Statistics Bulletin

CIS stock markets typically display weak market capitalisation, limited share circulation, poor potential for developing investment (absence of domestic institutional investors, underfunded pension schemes, public reluctance to invest); poorly developed venture capital and direct investment markets; preference among domestic investors to take their capital overseas, CIS companies choosing to make their IPOs abroad; failure to stimulate interest among foreign investors; underdeveloped market trading and post-trading infrastructures (there is no system to enable partial fund pre-deposits and no central counterparty structure⁷; risk management systems are poor).

CIS member states' efforts to mitigate the impact of the global financial crisis depend to a great extent on the integration of their financial markets, the use of national currencies in transborder settlements, the development of their stock markets and increased inward investment. These are also prerequisites in any efforts to reflect the standards of global financial infrastructure.

⁷ Central Counterparty (CCP) is the legal counterparty to every trade, acting as buyer to every seller and seller to every buyer.

Current Trends in the Development of CIS National Currency Markets

Currently, the level of integration of CIS member states financial and particularly currency markets does not match the degree to which their economies, capital flows and populations are integrated.

The benefits of using national currencies in settlement and ways of increasing such payments have been under discussion for a long time. In practice, however, relations between Russia and other CIS states (except Belarus) are such that direct conversion of national currencies, with U.S. dollar and Euro acting as mediators, has not been possible on a large scale.

Russia

The volume of CIS national currency transactions on the Russian interbank market is insignificant. By December 2009, operations in Kazakhstan tenge totalled \$70 million a day and transactions using the Belarusian roubles totalled \$20 million a day of the total \$59.6 billion daily interbank conversion operations on Russia's market. Even these relatively insignificant amounts were not denominated in Russian roubles but paired with U.S. dollar (see Table 10.5).

Table 10.5.
Average daily
amount of CIS
currency operations
on the Russian
market (\$ million)

Source:
The Bank of Russia,
<http://www.cbr.ru>

| | Russian market (total) | Belarusian rouble (BYR) | Ukrainian hryvnia (UAH) | Kazakh tenge (KZT) |
|------|---------------------------|----------------------------|----------------------------|-----------------------|
| 2003 | 17420 | 28 | 1 | 1 |
| 2004 | 23223 | 46 | 1 | 3 |
| 2005 | 29549 | 37 | 1 | 15 |
| 2006 | 38196 | 6 | 1 | 42 |
| 2007 | 72969 | 5 | 1 | 221 |
| 2008 | 93526 | 10 | 3 | 303 |
| 2009 | 55217 | 5 | 1 | 33 |

Counterparties in CIS member states do not only use their national currencies for transactions in Russia. According to Bank of Russia data on the geographical structure of interbank transactions (based on Bank for International Settlement (BIS) methodology) CIS counterparties accounted for around 6-7% of cash transactions⁸ and 2-2.5% of swaps in U.S. dollar/Russian rouble currency pairings, and 3-4% of cash transactions and 6-8% of swaps in Euro/US dollar pairings in November-December 2009.

⁸ Interbank transactions with a settlement period of two bank working days were viewed as cash transactions for the purposes of calculating currency operations.

Belarus

The volume of operations Belarus' interbank currency market is significantly below the volumes seen in Russia. In December 2009, the average amount traded daily reached \$863 million, or 1.4% of the Russian figure. In 2009, average daily totals traded in interbank operations fell by over 20% even though the Belarusian market had seen a substantial increase in liquidity before the crisis (in 2008, the potential Belarusian interbank market had grown to \$81.5 billion per year). Non-cash operations increased from \$36.5 billion in 2007 to \$68 billion in 2008 and the cash market expanded from \$9.8 billion to \$13.5 billion (National Bank of Belarus, 2008). The majority of foreign currency transactions were in U.S. dollars, however the dollar's dominance decreased from 68% in 2008 to 58% in 2009. The Euro's share grew from 13.4% to 26.4% of transactions over the same period. The proportion of transactions in Russian roubles declined from 18% to 15%. Operations in Russian roubles totaled around \$12.2 billion for the whole year in 2009⁹.

Ukraine

Interbank currency operations in Ukraine decreased by over 30% to \$144.9 billion in 2009, from \$208.8 billion in 2008. U.S. dollar operations accounted for 77.7% of all transactions, the Euro – 14.2%. The share of Ukraine's interbank market operations settled in Russian roubles decreased from 6.9% in 2008 to 6% in 2009. However, Russian rouble operations on the spot currency market increased from 4.5% to 5.4% over the same period. Interbank operations in Russian roubles totalled 310 billion roubles (\$12.5 billion) in 2008 compared to 254 billion roubles (\$10.2 billion) a year earlier (National Bank of Ukraine, 2008).

Kazakhstan

Until recently, 99% of transactions on Kazakhstan's interbank market were denominated in U.S. dollars. Operations in Russian roubles and Euros accounted for an insignificant 1% of stock market and non-exchange currency transactions. The decrease in currency buying and selling in 2009 was mainly due to reduced foreign selling by Kazakh companies. Stock trading settled in U.S. dollars fell by 30% to \$46.5 billion in 2009, while similar operations settled in Russian roubles and Euros increased. The volume of stock market operations transacted in Russian roubles increased more than twofold to 1.21 billion roubles, while Euro operations grew by almost 48 times to €527 million. Conversion operations in roubles on the non-exchange currency market grew by 60% (to 3 billion roubles). Euro conversion operations increased by 2% to €600 million (National Bank of Kazakhstan, 2010).

⁹ Including cash market operations.

The number of settlements made using the national currencies of CIS member states is insignificant and the use of U.S. dollars and Euros as mediators leads to increased expenditure in foreign trade activities and a deterioration in two-way settlement for financial operations. It also forces CIS member state market players to keep additional funds in foreign currencies, which in its turn unnecessarily increases their exposure to foreign exchange risk.

The need to try and end this practice became even more urgent as the global economic crisis took hold. The interaction and similarity between CIS economies means that their economic cycles are also interdependent and affected in similar ways by external impact on their financial systems. Fluctuation in exchange rates between CIS national currencies were much milder during the crisis than fluctuations of their rates vis-à-vis the U.S. dollar or Euro. The Russian rouble to Kazakh tenge rate fell by only 1% between August 2008 and August 2009, while the U.S. dollar to tenge rate grew by 26% and the Euro to tenge rate by 23%. The Russian rouble to Ukrainian hryvnia rate increased by 25% and the rate of U.S. dollar to hryvnia increased by 65% during the same period. Similar trends were identified with regard to other CIS currencies (see Table 10.6).

Table 10.6.
Exchange rate
fluctuations between
Russian roubles, U.S.
dollars and Euros
and official rates
of CIS currencies
(August 2008–
August 2009), %

| | Russian rouble | US dollar | Euro |
|-------------------|----------------|-----------|------|
| Armenian dram | –4.3 | 23.6 | 19.9 |
| Belarusian rouble | 4.2 | 33.8 | 30.0 |
| Kazakh tenge | –1.4 | 26.2 | 22.9 |
| Kyrgyz som | –1.0 | 27.1 | 23.7 |
| Moldovan leu | –7.7 | 16.0 | 12.3 |
| Russian rouble | | 28.4 | 25.0 |
| Tajikistan somoni | 1.4 | 28.4 | 24.8 |
| Uzbek sum | –14.1 | 13.1 | 10.1 |
| Ukrainian hryvnia | 25.0 | 64.7 | 60.3 |

Source:
The Bank of Russia,
<http://www.cbr.ru>

The above information tends to suggest that trade partners from CIS and EurAsEC member states would benefit by conducting their operations in CIS national currencies. The desire among market participants to strengthen their links between one another is an important prerequisite for further integration of financial markets. The interaction of controlled organized markets raises their liquidity, mitigates sharp currency fluctuations and improves their resilience to destabilising influences.

Priorities for Financial Infrastructure Improvement

Two main processes have dominated the global securities trading industry in recent years. Firstly, mergers and acquisitions (M&A) between stock markets have been much more prevalent. The most high-profile of these were the

merger of America's NASDAQ with OMX Nordic Exchange and Borse Dubai in 2007 and, in 2008, the merger between the London Stock Exchange (LSE) and Borsa Italiana and the New York Stock Exchange (NYSE) and American stock exchange (Amex) with Euronext European exchanges (Amsterdam, Brussels, Lisbon and Paris). Another recent example is the establishment of a new coalition of Central and East European stock exchanges – the CEE Stock Exchange Group – being hosted by the Vienna Stock Exchange. It includes the stock exchanges of Vienna, Budapest, Ljubljana and Prague.

The second major phenomenon is the cooperation between stock exchanges with the aim of establishing and developing markets. One example of this is the cooperation between Singapore, Malaysia and Thailand in placing securities in different ASEAN member state jurisdictions. In addition to these changes, the commercialisation of technologies and establishment of joint ventures have also become more widespread.

The CIS stock exchanges need strategic investors who are able to provide improved trading and settlement technologies and boost management efficiency throughout the system. One of the first foreign investments in CIS stock exchanges was the acquisition of Armenia's stock exchange (Armex) by NASDAQ/OMX holding in 2008. However, western partners are not necessarily strategic investors and CIS stock exchanges are already exploring cooperation between themselves to ensure necessary improvements. For example, Ukraine's PFTS stock exchange¹⁰ implemented a new trading system in April 2009, which uses the information technology platform of MICEX Group stock markets.

This new system is capable of processing 1.5 million applications a day and can host 10,000 operations simultaneously. In December 2009, the PFTS decided to sell 50% of its equity plus one share to MICEX for \$10 million. PFTS and MICEX have signed a memorandum of understanding on PFTS' future development strategy and corresponding investment budget. Both exchanges plan to invest in the development of new technologies, diversification and marketing.

Joint projects have been established by the Russian Trading System (RTS) in Ukraine and Kazakhstan. OJSC Ukrainian Stock Exchange, which was set up jointly by Ukrainian market players and RTS, uses RTS' Plaza system and was launched in March 2009. During the same month, the Eurasian Trading System (ETS), a joint venture between the Regional Financial Center of Almaty (RFCA) and RTS, executed its first trade in wheat. By late 2009, ETS agricultural trades had topped 12 billion tenge (circa \$80 million).

¹⁰ OJSC PFTS Stock Exchange is the largest stock exchange in Ukraine.

The experience of Russia's largest stock exchanges suggests that, given the similarities between CIS markets, technological cooperation between them could bring significant benefits.

CIS member state stock exchanges have similar development priorities: improved corporate governance, implementation of modern risk management systems, launch of T+n payments, transition to partial pre-deposit of funds, enabling clearing via the central counterparty, etc.

Boosting investor access and allowing issuers of securities to use neighbouring country trading infrastructures are important early steps towards deeper integration of CIS financial markets.

Interaction between CIS Stock Exchanges and Plans to Boost Trading in National Currencies

Participants in the organised financial markets of Russia and other CIS member states make the assumption that economic interaction is steadily increasing. Stock exchanges are key elements of the financial infrastructure. Positioned between the financial authorities/regulators and market players, stock exchanges organise trade, execute settlements and act as the catalyst for long anticipated change and innovation.

Table 10.7.

Trade executed in foreign currency on the Belarusian currency and stock exchange (BCSE) (\$ million)

Source:
The Exchange
Statistics Bulletin,
CIS IAEEx

| | Total | Dollar | Euro | Rouble |
|------|---------|--------|--------|--------|
| 2006 | 10004.7 | 6593.7 | 940.6 | 2470.4 |
| 2007 | 10649.4 | 6167.6 | 1411.4 | 3070.4 |
| 2008 | 18674.2 | 9613.2 | 3925.8 | 5135.2 |
| 2009 | 14098.6 | 8109.9 | 3583.2 | 2405.5 |

Table 10.8.

Trade executed in foreign currency on the Kazakhstan Stock Exchange (KASE) (\$ million)

Source:
The Exchange
Statistics Bulletin,
CIS IAEEx

| | Total | Dollar | Euro | Rouble |
|------|---------|----------|-------|--------|
| 2006 | 41695.5 | 41688.6 | 0.3 | 6.6 |
| 2007 | 91421.8 | 91394.3 | 8.6 | 18.9 |
| 2008 | 138874 | 138832.9 | 17.8 | 23.3 |
| 2009 | 67725.7 | 66760 | 892.7 | 73 |

CIS stock markets were developing before the economic crisis. According to the CIS International Association of Exchanges (IAEx), total currency trade on the organisation's stock exchanges increased to \$2843 billion in 2008, an increase of 78% on the previous year. Nevertheless, even in periods of significant growth, the amount of Russian roubles traded on CIS member state stock markets was not large. The largest volume of rouble trading was in Belarus, where the Belarusian currency and stock exchange (BCSE) saw

| | Ukrainian hryvnia/ rouble | | Kazakh tenge/ rouble | | Belarusian rouble/ rouble | |
|------|------------------------------|--------------------|-------------------------|--------------------|------------------------------|--------------------|
| | Million UAH | Billion roubles | Million KZT | Billion roubles | Million BYR | Billion roubles |
| 1998 | 36.99 | 0.08 | 242.4 | 0.01 | 215.5 | 0.03 |
| 1999 | 50.66 | 0.11 | 41 | 0 | — | — |
| 2000 | 2.92 | 0.02 | 1.9 | 0 | — | — |
| 2001 | 0.7 | 0 | — | — | 0.85 | 0.02 |
| 2002 | 1.93 | 0 | — | — | 0.07 | 0 |
| 2003 | 0.37 | 0 | — | — | 0.27 | 0 |
| 2004 | 0.32 | 0.01 | — | — | — | — |
| 2005 | 0.29 | 0.002 | — | — | — | — |
| 2006 | 0.58 | 0.003 | — | — | — | — |
| 2007 | 0.6 | 0.003 | — | — | — | — |
| 2008 | — | — | — | — | 176 | 0.002 |
| 2009 | — | — | — | — | 178 | 0.002 |

Table 10.9.
Volume of trade
in CIS currencies
on MICEX

Source:
MICEX,
www.micex.ru

transactions totalling more than 124 billion Russian roubles (or over 27% of total currency trading) in 2008. Russian rouble operations had been 17% of total trade in 2009. The Kazakhstan Stock Exchange (KASE) has a much lower volume of rouble-based trading (see Tables 10.7, 10.8).

Transactions in CIS national currencies on MICEX, Russia's largest stock exchange, also vary quite considerably. In 2009, MICEX saw operations rouble totalling 178 million Belarusian roubles (2.1 million Russian roubles). The last single transactions using the Russian rouble/Ukrainian hryvnia pairing were executed in 2007 and in roubles/Kazakh tenge in 2000 (see Table 10.9). Other CIS currency pairs are traded extremely rarely, either through stock exchanges or in non-exchange markets.

Interaction between CIS stock exchanges is an important means of mitigating the current economic crisis in the context of financial market globalisation, especially given the sound structural and legal foundations for integration which are already in place.

In 2003–2008, EurAsEC leaders signed several important agreements on exchanging information, protecting investments, cooperating in securities markets and establishing an integrated currency market. The documents signed included: Agreement on information interchange between the agencies authorised to regulate the securities markets of EurAsEC member states (2003); Agreement on EurAsEC member state cooperation in securities markets (2004); Agreement on cooperation in establishing an integrated EurAsEC currency market (2006); and Agreement on encouraging and protecting investment in EurAsEC member states (2008).

Two new regulatory documents have been introduced governing the placing of overseas bonds on Russian markets. They are expected to provide new opportunities for interaction between CIS financial market participants. The law on issuing of Russian depositary receipts (RDR) was introduced in 2006. In 2009, a new law was signed regarding the circulation of foreign bonds. In early 2010, the Federal Financial Markets Service issued several decrees relating to foreign bonds and access to the Russian market. Once these decrees are enacted, foreign securities will be available for trading on Russian stock exchanges. Russian authorities are currently drafting measures to regulate the Russian market for bonds issued by private companies overseas (Kommersant, 2010).

CIS businesses are undoubtedly interested in placing bonds on the Russian market. Sberbank of Russia and the government of Belarus signed an agreement in December 2009 giving Sberbank a mandate to place \$2 billion of Eurobonds and up to 15 billion rouble bonds in Russia. Sberbank will also organize a syndicate to attract loans to Belarus totalling some \$300 million and 5 billion Russian roubles.

Leading international organisations are acknowledging the progress that Russian financial bodies are making towards integration into global structures. In late 2009, a joint-stock commercial bank, the European Association of Central Counterparty Clearing Houses (EACH) admitted Russia's National Clearing Centre as a member, and MICEX became the first Russian stock exchange to gain full membership of the World Federation of Exchanges (WFE), an organisation uniting over 100 of the world's stock exchanges. Membership of the WFE is generally acknowledged by international investors as a hallmark of the quality and reliability of a particular country's markets.

Given the potential global significance of an integrated currency market created according to the EurAsEC Agreement, MICEX has launched a project to boost trade in soft currencies (i.e. by enabling direct cash quotes without having to use the U.S. dollar as mediator). The project will give EurAsEC banks access to MICEX currency markets. On November 2, 2009, laws came into force allowing EurAsEC institutions to become members of the MICEX currency markets. Subject to agreement between the Bank of Russia and the corresponding national (central) banks of EurAsEC countries, EurAsEC banks will be able to participate in single trading sessions.

In November 2009, MICEX' Clearing House set up a correspondent account in tenge with the National Bank of Kazakhstan, a significant step towards the establishment of an integrated stock market envisaged as a key goal of the interbank and investment cooperation between Russia and Kazakhstan. The account will be used to guarantee settlements in CIS national currencies for traders on the MICEX stock market.

In December 2009, the Association of Eurasian Central Securities Depositories (AECSA) appealed to the Federal Financial Markets Service to consider allowing investors from CIS countries to open correspondent accounts with Russian settlement depositories. This would enable CIS investors to operate in the Russian market. The National Depository Centre (NDC) and Depository-Clearing Company (DCC) have now opened correspondent accounts with the central depositories of Kazakhstan, Azerbaijan and Belarus. The opening of correspondent accounts with Russian settlement depositories will allow AECSA depositories to trade Russian securities in their own countries. This in turn will help to lower the costs for CIS investors concluding transactions with Russian securities.

Conclusion

Globalisation and the current trend towards internationalisation of financial infrastructure have strongly influenced the activities of financial institutions in CIS member states. The increased use of modern electronic trading systems and the internet serve to simplify the integration process. The forging of new alliances in the securities trading infrastructure has helped to increase market liquidity and reduces costs, which, given the perceived benefits of interaction between CIS markets suggest that the effective development of these markets would receive a significant boost from a fundamental improvement of the trade and settlements infrastructure. However, stock exchanges' efforts to standardise trading technologies and unify the settlements procedure are not sufficient on their own. Coherent rules of access to transnational markets for non-resident participants are also required. Integration projects cannot be successfully executed without the active participation of central/national banks and other CIS financial market regulators and the introduction of accompanying legislation. The establishment of a common financial market will ultimately achieve the desired effects of promoting transborder settlements in national currencies, influencing national currency markets, developing stock markets and increasing investment in the CIS member states, assuming there is commitment from all sides – stock exchanges, market players and regulators.

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11

MURAT
JADRALIYEV

Economic Cooperation in Agricultural Sector of CIS Countries

EDB Industry Report No.7

Summary

Sectoral economic cooperation and integration are powerful tools that can enhance the competitiveness of farm produce. Mutual investment would support production, whereas integration initiatives (establishing the Grain pool and the Customs Union and joining the WTO in a coordinated manner) would help the agricultural sector to meet the challenges it faces.

Mutual investment in agribusiness is insignificant; the main source of investment is Russia. Foreign investment in agribusiness may efficiently replace public investment, but to date they make up a negligible percentage of the total investment in this sector. This can be explained, first of all, by the fact that agribusiness is not nearly as attractive to potential investors as other sectors, and secondly by the absence of a system stimulating FDI in agribusiness. Mutual investment in agribusiness by the countries under review are also insignificant; the main source of investment is Russia, whose main investment targets are Belarus, Ukraine and, to a lesser extent, Kazakhstan. Kazakh investors are also active in this sector. The major investors are large Kazakh and Russian cereals producers.

Agricultural and transport infrastructure, grain, meat and milk processing and farm machinery are all priority targets for mutual investment. In our opinion, the priority targets for investment are export infrastructure (i.e. developing optimal routes to target markets, raising the capacity of grain terminals, etc.), large international grain, meat and milk production assets (the notion of an "Eurasian Agricultural Transnational Company" and the manufacture of farm machinery in the countries under review.

The countries under review are net grain exporters and net meat importers. During 2000–2008s the aggregate share of Kazakhstan, Russia and Ukraine in global grain production increased from 6% to 24%. Most of their grain output is being exported to remote markets: South Asia, the Persian Gulf, North Africa and the EU. Belarus, despite its

extensive domestic production, imports 400,000-500,000 tons of cereals from other countries. All countries under review are highly dependent on meat import from remote markets (the Americas).

Kazakhstan is a leader in cereals trade integration. An analysis of export and import of cereals in the EDB's System of Indicators of Eurasian Integration (SIEI) suggests that Kazakhstan takes the lead among four countries under review. Mutual trade of cereals by these countries is declining over time, whilst export to remote markets is increasing.

All the stakeholders need the Grain Pool and will benefit from it.

The sound potential of the countries under review is weakened by competition with other grain exporting countries and, primarily, between themselves. This competition reduces the efficiency of their actions and deteriorates the outlook for better positions in the global markets. As a result of their mutual competition, Russia, Kazakhstan and Ukraine lose \$10-20 on each ton of grain. Realising their export potential and strengthening their positions on global grain markets will require concerted efforts, a common export policy, and a developed infrastructure. The initiative by Kazakhstan, Russia and Ukraine to establish the Grain pool will be an efficient vehicle to achieve this goal. Creating the Grain pool is a cumbersome process; this is likely to be a long drawn-out process. Kyiv's unclear stance on the Grain pool, shifting under political pressure from the EU, may undermine this initiative. Under a pessimistic scenario Kyiv will refuse to participate, and without Ukraine the economic benefits for Kazakhstan and Russia will be insignificant. Another scenario could be that the establishment of the Grain pool may take several years.

"In a coordinated manner, but not together": the optimal position for the Customs Union in negotiations over joining the WTO, as concerns agriculture. If the countries under review join the WTO making the maximum concessions possible, this will mean unrestricted access for imported products to their domestic markets whilst the developed countries' markets will remain closed. This in turn will undermine their efforts to develop competitive farm production. On the other hand, joining the WTO in coordination with a major political and economic player such as Russia will enable Kazakhstan and Belarus to secure themselves more beneficial terms of accession.

1. Introduction

The role of agribusiness in the region's economy could not be overstated. Agribusiness and, essentially, farm production make up a big share in CIS countries' GDP. Although this share is tending to decline due to the expansion of other industries and presently does not exceed 7-8% in some of these economies (see Table 11.1), agribusiness retains its vital role.

Table 11.1.

The share of agribusiness in GDP in some CIS countries

Source: the national statistics agencies of Belarus, Kazakhstan, Russia and Ukraine

| Share in GDP (%) | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|------------------|------|------|------|------|------|------|------|------|------|
| Russia | 7.1 | 6.9 | 6.7 | 6.8 | 6.0 | 5.2 | 4.9 | 4.9 | 4.5 |
| Kazakhstan | 8.1 | 8.7 | 8.0 | 7.9 | 7.1 | 6.4 | 5.5 | 5.7 | 5.6 |
| Belarus | 11.6 | 10.1 | 9.6 | 9.0 | 8.4 | 7.5 | 7.5 | 7.4 | 8.3 |
| Ukraine | 9.6 | 9.1 | 8.9 | 8.6 | 10.8 | 9.2 | 8.4 | 7.4 | 8.6 |

The agricultural sector is responsible for national food security, and self-sufficiency in the domestic supply of farm production (or, at least, its basic items) is a sign of a healthy economy. Just as importantly, agricultural sector is the main source of employment in many CIS countries: despite the global trend towards urbanisation (which is also pronounced in the post-Soviet world), the majority of the population still lives in rural areas.

Finally, agriculture and agribusiness have a multiplier effect on an economy. For example, according to the input-output balance of Russia, one rouble worth of farm produce generates 1.16 roubles in related industries: mechanical engineering, chemistry, extractive industries, transport and communications. Moreover, one million roubles worth of farm produce allows 23 new jobs to be created in related industries.¹ It can be safely said that, due to this multiplier effect, any measures to support agribusiness have a tangible anti-crisis effect.

The definition of agribusiness is complex, and it is not really possible to discuss all issues relating to cooperation in this sector within the CIS in a single paper. Therefore, we have reduced the number of countries under review to four: Belarus, Kazakhstan, Russia and Ukraine. The rationale for our selection is as follows:

- these four countries are the key players in agribusiness in the post-Soviet world, and account for over 85% of the area of the former Soviet Union;
- these countries are the CIS² leaders in terms of arable and farm land;
- the agricultural sector in these countries has largely the same structure (compared to other CIS countries), and these countries are major suppliers of farm produce.

¹ At the exchange rate as of 01.12.2009. The EDB's calculations are based on the input-output balance of Russia.

² Actually, the area of Turkmenistan or Uzbekistan (447,000 and 407,000 km respectively) is nearly double the area of Belarus. However, we excluded these countries from our review, because their statistics are largely incomplete or questionable. In addition, Belarus is a member of the EDB and takes an active part in all major post-Soviet integration initiatives.

Apart from this geographic limitation, we will further confine our discussion to cereals, meat and milk production, i.e. the segments which have strong potential for the development of mutual trade, investment and corporate integration.

Integration issues related to agriculture development will be discussed in three sections:

- 1) The investment policy is a key to sustainable development of agriculture in the countries under review; investment in our context includes government support to the sector (as part of national investment projects) and foreign direct and mutual investment. In this review we will elaborate on mutual investment as an important component of integration.
- 2) Expanding mutual trade at the regional level and developing efficient production chains and intraregional division of labour can help enhance the competitiveness and export potential of domestic farm produce in global markets; in the respective section we will assess the current status of and prospects for mutual trade in the region's agricultural sector.
- 3) The institutional component includes various joint initiatives by the countries in the region. Particularly, we will focus on the initiative by Kazakhstan, Russia and Ukraine to establish the Grain pool.

2. Mutual Investment in Agribusiness

2.1. Foreign Investment in Agribusiness

The current governmental agriculture development programmes envisage significant investment, yet in themselves they are not sufficient for the creation of a competitive and efficient agricultural sector. Foreign investment, in our opinion, should become an additional mechanism for the development of agribusiness, processing facilities and related infrastructure, and transferring technology.

Due to a number of factors, both domestic and foreign companies began to pay closer attention to the agricultural sector in developing countries in recent years.

The main factors that stimulate investment in agriculture are the availability of land and water in certain regions and the rapid increase in demand and import of crops to some countries, including Brazil, India, China, Russia, and South Korea. The international demand for investment in agriculture also increased as a result of new initiatives relating to eco-fuel, which resulted in an influx of capital into the production of cereals, sugar cane and oil-bearing crops. This trend was coupled with a rapid increase of food prices following an increase in consumption.

Globally, foreign investment in agriculture is on the rise, although the total amount remains relatively low – some \$32 billion in 2007 (UNCTAD, 2009). Whereas in the early 2000s foreign investment was principally in the production of food and drinks, at present transnational companies also invest in farm production, thus expanding their presence in this sector even further.

| Region | FDI flows | | | | Total | | | |
|--|-----------|-----------|-----------|-----------|------------------|-------|------------------|-------|
| | Inflow | | Outflow | | Imported capital | | Exported capital | |
| | 1989–1991 | 2005–2007 | 1989–1991 | 2005–2007 | 1990 | 2007 | 1990 | 2007 |
| Agriculture, forestry and fishery | | | | | | | | |
| All countries | 0.6 | 3.3 | 0.5 | 1.1 | 8.0 | 32.0 | 3.7 | 10.2 |
| Developed countries | –0.01 | 0.04 | 0.5 | 0.6 | 3.5 | 11.8 | 3.4 | 7.5 |
| Developing countries | 0.6 | 3.0 | 0.05 | 0.5 | 4.6 | 18.0 | 0.3 | 2.4 |
| Southeast Europe and the CIS | | 0.3 | | 0.05 | | 2.2 | | 0.3 |
| Production of foods and drinks | | | | | | | | |
| All countries | 7.2 | 40.5 | 12.5 | 48.3 | 80.3 | 450.0 | 73.4 | 461.9 |
| Developed countries | 4.8 | 34.1 | 12.2 | 45.7 | 69.9 | 390.7 | 73.1 | 458.1 |
| Developing countries | 2.4 | 5.1 | 0.3 | 2.6 | 10.4 | 46.9 | 0.3 | 3.5 |
| Southeast Europe and the CIS | | 1.4 | | –0.01 | | 12.4 | | 0.3 |

Table 11.2. Assessments of FDI in agriculture, forestry, fishery and the food industry (\$ billion)

Source: UNCTAD, 2009

The amount of foreign direct investments (FDI) in agriculture as part of the total FDI structure remains insignificant in most countries with the exception of some of the least developed ones (Cambodia, Laos, Malawi, etc.). At the same time in Indonesia, Malaysia and Ecuador the significant share of FDIs in agriculture is attributable to both external factors and the national policy aimed at encouraging investment in this sector. According to UNCTAD, Ukraine (4%) and Russia (1%) occupied the 10th and 21st positions, respectively, among the forty states which had the highest shares of FDI in agriculture in 2005–2007s (UNCTAD, 2009). Belarus and Kazakhstan were not listed.

In developed countries, most FDI in agriculture is intended for the production of food and export crops; interest in eco-fuel crops is also increasing. There is also a trend towards regional specialisation among recipient countries depending on their staple products. For example, in “transition economies” which include Belarus, Kazakhstan, Russia and Ukraine, foreign investors focus on milk products, although in recent years investments in wheat and other cereals were on the rise.

In Russia, the main sources of FDI in agribusiness are Cargill, Nestle, Bunge, Coca-Cola, Kraft, Mars, PepsiCo, Tetra Pak, British American Tobacco and Unilever. In 2005–2008s total direct investment by these companies in projects launched or completed in Russia exceeded \$1.8 billion. These investments were used to build new modern facilities or modernise and expand existing ones. Such newly built or modernised assets meet all environmental and quality standards (RMA, 2009).

In Kazakhstan, the percentage of FDI in agriculture has tended to decline in recent years, whereas the share of farms' investments in their own fixed assets increased. The level of FDI dropped from 13.4% in 2003 to mere 0.1% in 2007, and then increased to 0.6% in 2008 (see Table 11.3, Figure 11.1); despite the percentages involved this information remains within the range of statistical accuracy.

Table 11.3.
Sources of
investments in
privately and publicly
owned fixed assets
in agriculture
in Kazakhstan
(in actual prices,
million tenge)

Source:
The Statistics
Agency
of Kazakhstan

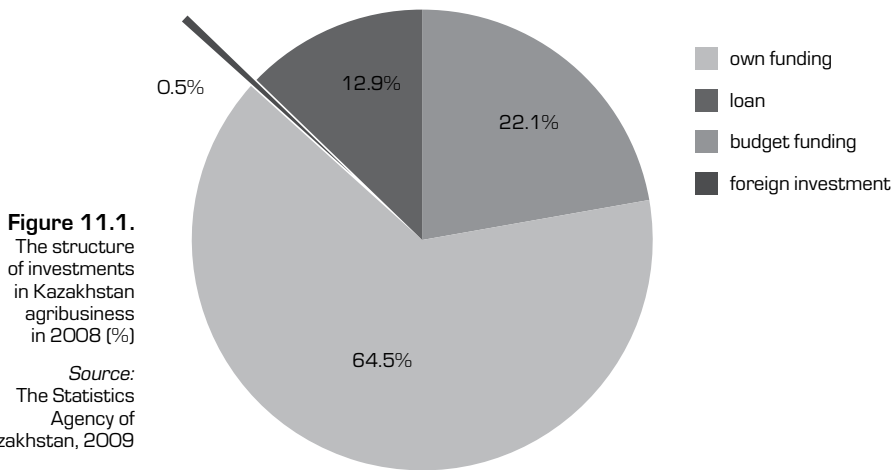
| Year | Investments in fixed assets | Sources | | | | |
|------|--------------------------------|-----------------|--------------|---------|---------------------|-----------------------|
| | | National budget | Local budget | Foreign | Other borrowings | Farms' own capital |
| 2003 | 25513 | 3192 | 197 | 3421 | 1778 | 16925 |
| 2004 | 43844 | 3789 | 347 | 4973 | 3012 | 31724 |
| 2005 | 47976 | 5396 | 1417 | 4378 | 6188 | 30598 |
| 2006 | 47144 | 11127 | 1453 | 1865 | 4446 | 28252 |
| 2007 | 55973 | 11078 | 3388 | 72 | 9928 | 31507 |
| 2008 | 77772 | 13231 | 4258 | 498 | 10754 | 49031 |

There were some isolated cases of investment activity in the meat and milk sector in Kazakhstan. For example, in 2009 Lactalis of France purchased the assets of FoodMaster International in Kazakhstan, Moldova and Ukraine. According to available information, 80% of the shares in FoodMaster were sold by Agribusiness Partners International, a U.S. investment fund which had been one of the founders of this holding company.

However, during the first four months of 2009 foreign investments in Kazakhstan's agricultural sector totalled mere 3 million tenge (about \$20,000) (see Figure 11.1) – a huge step backwards after an increase by 24% in the same period in 2008. In crisis conditions, the fact that agriculture holds little appeal as a potential target for investment and cannot offer a quick payback aggravates its situation, and this warrants efforts to secure alternative sources of capital.

In 2006–2008s *Ukraine* saw a dramatic increase in foreign investment in agribusiness. Thus, from June 2007 to June 2008 Ukrainian agribusiness

companies received in investment nearly half of the total amount generated by all share placements by the companies from all sectors of the economy (\$1.14 billion). From the end of 2006 to the present, Ukrainian agribusiness companies completed four IPOs, two SPOs and six private placements, generating a total of \$1.18 billion (Golubeva, 2008). These companies secured themselves favourable assessments from investors despite the global liquidity crisis – largely due to the generally high level of development of the national agricultural sector.



2.2. The Monitoring of Mutual Investment

An analysis of foreign investment in agriculture in recent years shows that these flows are not significant. What countries can be viewed as prospective sources of foreign investment? In our opinion, the emphasis should be made on mutual investment by the countries under review. Mutual investment means capital flows to or from Belarus, Kazakhstan, Russia and Ukraine driven by common interest in joint development of agribusiness and understanding of its prospects and specific features, and the close traditional economic ties.

Interregional cooperation and integration processes in agribusiness are stronger in border regions where joint processing ventures are located. For example, of the 27 regions of the Russian Federation bordering CIS countries, eleven border seven oblasts of Kazakhstan. Cross-border trade accounts for 70% of all trade between Kazakhstan and Russia.

The most important export item is grain; it is imported by the Russian regions. Kazakhstan is the second largest supplier of flour to the Russian market. On the whole, Kazakhstan's grain sector receives more than half of all investment in agricultural fixed assets. As a consequence of this, large Russian production

and trading companies that have assets in Ukraine, Belarus and other CIS countries have shown interest in buying Kazakh assets with a view to founding large intraregional agribusiness companies. Kazakh players, in turn, have shown considerable interest in Russian agribusinesses. Kazakhstan has accumulated some positive experience of this type of cooperation. Nastyusha, a Russian company which produces, stores, processes and sells grain in Russia, Belarus, Kazakhstan and Lithuania, now owns 16 grain elevators, 12 farms with a total sown area exceeding 200,000 ha, and a pig complex in Kazakhstan.

An example of similar Kazakh presence in Russian agribusiness is Ivolga Holding. This company is one of the top three Kazakh grain producers; it owns over 600,000 ha of farm land in Russia and produces some 500,000 tons of grain (mainly 4 and 5 class wheat) in this country (Business Resource Central Asia, 2008). Ivolga Holding also owns more than ten elevators in Russia, and most of its assets are concentrated in Orenburg, Chelyabinsk and Kursk oblasts.

Most investment is being made in new farm machinery. Ivolga Holding is planning to launch the assembly of tractors jointly with the St. Petersburg Tractor Factory on the basis of its own Agrotekh mash facility. Other Kazakh players on the Russian market are Korporatsiya APK-Invest, Agrotsentr Astana LLP, and Zernovaya Industriya LLP. Their shares in the overall production structure in Kazakhstan vary from 3% to 10%, and in Russia they mainly engage in grain storage, transshipment and processing.

Another promising target for investment in Kazakhstan is livestock production, especially pasture husbandry, which, given skilful use of the vast pasture areas, would allow competitive and environmentally safe meat to be produced at a low cost.

Wimm-Bill-Dann Foods of Russia also showed an interest in the Kazakh milk producer FoodMaster when considering expansion in Central Asia.³ However, preference was given to Bishkeksut of Kyrgyzstan, FoodMaster's main competitor in this market. Investing in Kyrgyzstan is clearly warranted by a number of the benefits that are offered by this country's investment climate, especially cheaper labour and raw materials in comparison with Kazakhstan. In addition, over 95% of Kazakh milk is produced by small farms and households; this production falls short of the demand and does not meet quality standards. These structural problems pose a serious barrier to foreign (e.g. from Russia) investment in the Kazakh milk and meat sector.

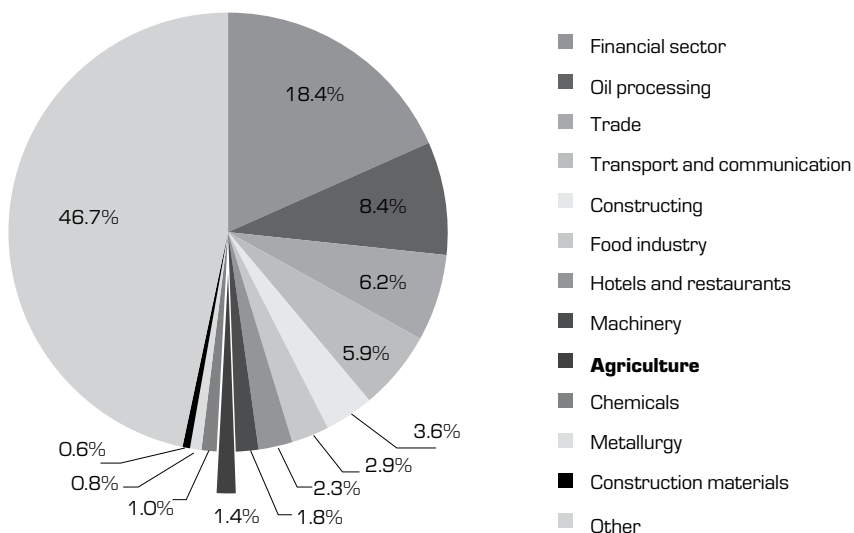
Our analysis of investment activities allows us to conclude that Russia is the main investor in the region. Large agribusiness holding companies from

³ Unimilk and Danone also considered entering Central Asian markets by acquiring FoodMaster.

Russia have assets in Ukraine and Belarus. These two countries are the main recipients of Russian investment in the agricultural sector. In Ukraine joint ventures were established in the farm machinery industry: for example, Agromashkholding and the Ukrainian corporation UPEK founded a JV to manufacture Yenisey combine harvesters at the Lozovsky Combine Harvester Works. Some joint projects are being implemented at the Kharkov Tractor Works (Kovalenko, 2009). It should be stressed, however, that agriculture accounts for mere 1.4% in the structure of Russian investment in Ukraine (see Figure 11.2).

Figure 11.2.
The structure of
Russian investment
in Ukraine

Source:
the Statistics
Agency of Ukraine



The Russian investment company Unimilk also intended to expand its business into post-Soviet countries, but recently there was a shift of emphasis from Kazakhstan and Ukraine to Belarus where the Russian presence is still weak. In the summer of 2008 the Belarusian Ministry of Agriculture declared that a framework agreement will be made with Russian investors (particularly, Unimilk) on establishing a number of JVs in the livestock sector in Belarus. First of all, these will include projects on building new livestock complexes and reconstructing existing ones. Unimilk agreed to build a modern dairy plant in the Shklov District, Mogilev Oblast. The investors will also build or modernise a number of dairy plants in other regions of the country.

These projects will be implemented over four years; some of them are being financed since 2008. A special working group was established, all required authorisations were obtained, and a list of target assets in Belarus was made (Nikolayeva, 2008). The main objective for the Russian investors is to boost

Belarusian livestock production and export it to Russia and other countries. According to the Belarusian Ministry of Agriculture, total Russian investment in the country's agricultural sector is estimated at hundreds of millions dollars.

According to official statistics, at present there are no significant investment flows from Russia to Kazakhstan. None of EurAsEC countries is on the list of the major sources of investment in Kazakhstan's agricultural sector (see Figure 11.3).

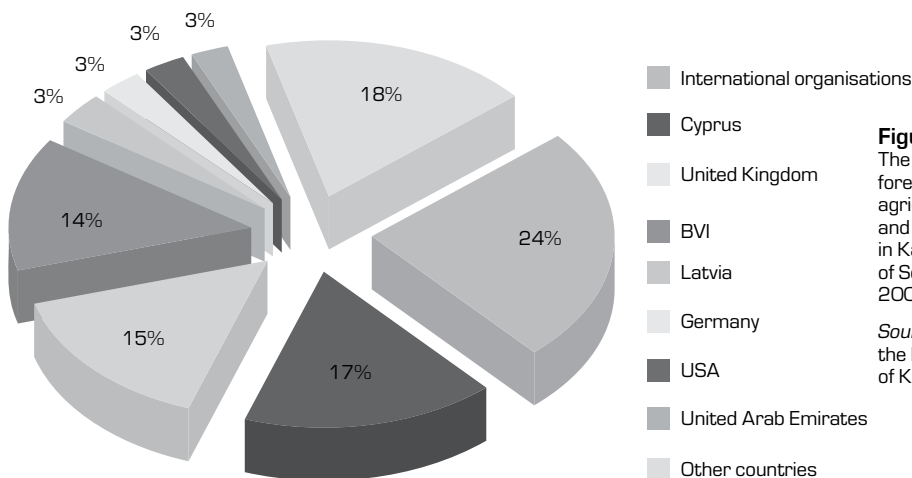


Figure 11.3.
The structure of foreign investment in agriculture, forestry, and fishing industry in Kazakhstan as of September 31, 2009

Source:
the National Bank
of Kazakhstan

However, unofficial data suggests that the country's agricultural sector receives significant Russian investment via offshore jurisdictions. Kazakhstan itself is an active player in the region: in 2008 Kazexportastyk purchased a grain terminal in Kherson, Ukraine, in order to improve grain export infrastructure. Kazakh investors were also active in Russia: in 2006 TuranAlem and its Russian subsidiary, Slavinvestbank, acquired the Izumrud, Girkubs, Pavlovsky and Kanevsky sugar plants in the Krasnodar Territory from Karavai Plus (Taganrog, Russia). In 2003 TuranAlem's subsidiaries acquired control over the assets of the International Sugar Company which included four sugar plants and ten agribusiness companies (Heifetz, 2009). Finally, in 2006 in Dzerzhinsk, Nizhny Novgorod Oblast, VitaRos (a subsidiary of Kazakh VITA) launched a soy facility. In 2007 this facility produced and sold 10,000 tons of products (VitaSoy.kz).

2.3. The Problems and Prospects

At present mutual investment by EurAsEC countries is scarce due to a number of reasons: the low capacity of assets inherited from the Soviet economic system which do not meet modern productivity, safety and quality

requirements; the increasing competition with producers from China, Turkey, South Korea, Japan, the UAE, the US, Canada and the EU which possess advanced technology and recognised brands; administrative interference; protectionist policies in foreign trade and investments; the problems associated with payments and cargo transportation, etc. The resolution of these problems is complicated by differences in the stakeholders' positions on some issues which require negotiations and the political will.

In crisis conditions, investing in agriculture appears to be a good choice because, unlike the products of any other industry, farm produce remains in demand at all times. On the whole, we can conclude that the current status of agribusiness in the countries under review is better than elsewhere, and foreign investment can provide an impetus for rapid development and modernisation of this sector.

The common tasks faced by the stakeholders will require joint organisational solutions, particularly:

- founding TNCs with assets located in several countries, which will serve as vehicles of mutually beneficial international cooperation. The creation of the Grain pool by Kazakhstan, Russia and Ukraine which will account for two-thirds of the total grain market would be an example of such cooperation (this initiative is discussed in more detail in section 4.1);
- exchange and co-ownership of valuable assets by member states;
- founding JVs with the participation of local public or private companies;
- launching production without merging assets (Heifetz, 2009: 42);
- creating strategic alliances in individual economic sectors;
- holding periodic business and investment forums in regions with developed agribusiness.

The tasks listed above will require the modernisation of all integrating countries. The shift of emphasis to priority projects capable of catalysing structural changes in the economy and boosting the production of safe, high-value-added goods will ensure qualitative changes in relations and cooperation between CIS and EurAsEC countries.

At present, one of the main objectives of agrarian strategy is the reintegration of agribusiness of Russia, Kazakhstan, Ukraine and Belarus, as a precondition for enhancing the efficiency of production, collective food security, and sustained supply of farm produce to the population.

In order to become competitive players in global markets, the countries under review need to create a fully competitive environment within the CIS and take consistent measures against monopolistic trends in the agricultural sector.

International experience shows that regional cooperation is more efficient and dynamic if it is driven by a powerful economic centre which promotes innovations: the United States in NAFTA, Germany and France in the EU, Brazil in MERCOSUR, Singapore in ASEAN, etc. The role of this centre in the CIS and EurAsEC belongs to Russia, as it is unmatched in terms of GDP, area, population number, and innovative and financial potential. An integration core may consist of a single country or a group of countries (e.g., the members of the Customs Union, as they have common economic and political interests).

2.4. Priority Targets for Mutual Investment

Apart from the development of the raw material base, modernisation and building of new, competitive processing facilities, there are some other targets for investment which are just as important for the creation of a healthy agricultural sector capable of providing real income for the state and the population.

In particular, the agricultural sector in Belarus, Kazakhstan, Russia and Ukraine offers the following investment opportunities:

- **Export infrastructure** for prompt response to changing conditions of agricultural markets and efficient product storage and delivery. Export infrastructure is a basic component of a competitive agricultural sector. The most cost-effective and fast delivery routes should be developed (especially for grain). The reduction of the transport component of export prices will help attract new customers and expedite product delivery to target markets; this, in turn, will allow proceeds to return to the sector quickly to replenish working capital. Therefore, although investing in transport infrastructure does not directly relate to agribusiness, in this paper we view transport infrastructure as an important element of agriculture development.

As we have mentioned above, the main importers of grain from the countries under review are European and Southeast Asian countries. The latter are the most promising markets, as they have no domestic grain production, whereas the increase in consumption forecast by FAO and other international organisations will be especially pronounced in this region. Despite the potential of this market, the transport routes to Southeast Asia and the Persian Gulf are far from perfect: to date there is no multimodal transport system. However, the countries under review are making an effort to improve the situation. Particular mention is due to the North-South international transport corridor – the decision to develop it was adopted in September 2000. This route connecting Russia and Ukraine with Southeast Asia (particularly, India) via Kazakhstan, Turkmenistan and Iran is the shortest and cheapest option for delivery of raw materials (grain, cotton from Tajikistan and oil products from Central Asia). However, at present this corridor is not used to its full capacity. In

2007 the port of Olya on the Caspian – the key cargo handling centre of the North-South corridor – shipped mere 435,000 tons of cargo, whereas the target set in 2000 was 3 million tons in five years (Vinokurov et al., 2009). This delay is attributable principally to the uneven pace of work to create the corridor. Iran and Russia have practically completed the construction or modernisation of their respective sections. Turkmenistan has built 150 km of the planned 477 km of railways; it is expected that the Turkmen section will be finalised by the end of 2011 (Emerson & Vinokurov, 2009). Kazakhstan lags far behind: the project has long been suspended at the feasibility study stage, and construction actually began in the 4th quarter of 2009. The efficient functioning of the corridor will require concerted efforts by all member states, and the latter have to accelerate the preparatory work.

Another important aspect of export infrastructure development is the creation of an extensive network of grain terminals. Uninterrupted delivery of exported products to end users should be secured despite the sharp market fluctuations. This can be achieved by building new grain elevators, terminals and storage facilities. These activities should not be confined to internal areas: the availability of grain terminals in the vicinity of sea ports is a precondition for fast and efficient shipment, as grain to Asian and European markets is delivered principally by sea. As we have mentioned above, Kazakhstan's Kazexportastyk acquired a grain terminal in Ukraine. This suggests that there is an understanding of the importance of investing in such assets. These efforts should be continued: grain terminals need to be constructed in other neighbouring (Turkmenistan, Georgia) and remote (Iran, the Baltic, India) countries.

- **Grain, meat and milk farms.** TNC investment in agriculture is especially important in the light of the need to modernise the sector. TNCs are in a position to introduce new technology, which can boost productivity and ensure compliance with applicable safety and quality standards. This in turn can improve the availability of products due to extensive production and distribution networks. TNCs also develop their own logistics systems which exclude their competitors and ensure optimal product distribution. To be able to compete with foreign companies on domestic (and, potentially, external) markets, CIS countries have to combine their efforts and make full use of the advantages provided by intergovernmental agreements within the CIS and EurAsEC frameworks for strengthening regional integration.

Eurasian TNCs successfully operate in other economic sectors in the countries under review and elsewhere. It is worth noting the telecommunications sector in which large TNCs (MTS, Vypelkom)

are active throughout the region. Likewise, in our opinion, large holding companies such as Nastyusha or Ivolga would act as a consolidating power in the grain sector. In Kazakhstan, projects were commenced to create milk clusters and meat and milk mega-farms. For example, Alatau Dairy LLP and the Kazkommertsbank group (Meridian Capital LLP) are preparing a breakthrough project to launch milk production in Almaty Oblast (Smirnov et al., 2008). In the livestock sector, TNCs could be founded by large milk producers from Russia (Wimm-Bill-Dann, Unimilk, etc.) and meat processing companies from Ukraine and Belarus. Finally, another important area of activity for Eurasian TNCs is the food industry which produces high-value-added foods. In this sector, the role of consolidation centres would be played by large companies from Russia (Cherkizovo Group, Mikoyanovsky Meat Processing Plant, Razgulyai Group), Ukraine (Mironovsky Khleboprodukt, Astarta Holding, Kernel) and Kazakhstan (Vita, etc.).

- **Manufacture of farm machinery.** Farms in all countries under review are poorly equipped, and creation of JVs to manufacture modern farm machinery is a precondition to raising the competitiveness of agribusiness. The launch of the Customs Union of Belarus, Kazakhstan and Russia in 2010 is expected to assist the revival of domestic mechanical engineering. Another priority is the provision of preferential loans and introduction of financial leasing for purchasing farm machinery during the crisis. The sector needs not only crop harvesting machines (combine harvesters, tractors, etc.), but also equipment for processing grain and fodder, livestock farm and slaughter equipment (which is especially important giving the fact that slaughter is generally being made at home in inappropriate conditions), and equipment for processing grain, meat and milk into the final products with high value added.

3. Trade Integration in Agribusiness

3.1. Export and Import of Farm Produce by the Countries Under Review

Cereals (particularly, wheat) are the staple export of Kazakhstan, Russia and Ukraine – this can be explained by the enormous level of production that exceeds domestic demand. Russia, Ukraine and Kazakhstan are the world's largest grain exporters (ranking 6th, 7th and 8th, respectively). In 2000–2008s these three countries boosted their common cereals export potential from 6% to 24% of the world market. Notably, most experts believe that each of these three countries has its own niche on the world wheat market: Ukraine mainly exports forage wheat; Russia exports 4th class wheat; and Kazakhstan's higher grade wheat is used to make blends. Grain is exported mainly to the EU, South Asia and North Africa. Producers from these three countries have developed close ties with their main buyers and trade of grain on global and regional commodity exchanges.

Grain export demonstrated sustained growth during the past decade, and so did the export of grain processing products. In 2008 Kazakhstan became the world's largest supplier of flour, an achievement that had a positive economic effect: the added value generated by grain processing was retained by the domestic economy. According to preliminary estimates for 2009, Kazakhstan retained its leading position (2.2 million tons of flour were exported in January-December 2009).

Table 11.4.

Import of cereals from CIS countries in 2008 according to importer country's statistics ('000 tons)

Source:
CIS Statistics
Committee

A portion of grain produced by the countries under review is supplied to other CIS countries. This can be explained by the geographic proximity and traditionally extensive trade ties of the region's countries inherited from the Soviet epoch. The largest importer of cereals in the CIS is Azerbaijan. Notably, in the CIS context, Belarus is one of the top three importers of cereals grown in Kazakhstan, Russia and Ukraine: its own production of 7 million tons falls short of domestic demand. As a result, Belarus imports 400,000-500,000 tons of cereals from other CIS countries annually (see Table 11.4).

| Importer countries | Import from CIS countries, total | Including importer countries | | | | | | | | | |
|--------------------|----------------------------------|------------------------------|---------|---------|---------|------------|------------|---------|--------|------------|---------|
| | | Azerbaijan | Armenia | Belarus | Georgia | Kazakhstan | Kyrgyzstan | Moldova | Russia | Tajikistan | Ukraine |
| Azerbaijan | 1406 | – | – | – | 0.0 | 484 | – | 2 | 767 | – | 154 |
| Armenia | 360 | – | – | – | 3 | 39 | – | – | 275 | – | 43 |
| Belarus | 409 | – | – | – | – | 64 | – | 3 | 101 | – | 242 |
| Georgia | – | – | – | – | – | – | – | – | – | – | – |
| Kazakhstan | 103 | 0.01 | 0.01 | – | – | – | – | 0.0 | 75 | – | 28 |
| Kyrgyzstan | 311 | – | – | – | – | 297 | – | – | 11 | – | 3 |
| Moldova | 39 | – | – | – | – | 14 | – | – | 7 | – | 18 |
| Russia | 583 | – | – | 0.8 | – | 261 | – | 0.02 | – | 0.0 | 321 |
| Tajikistan | 274 | – | – | – | – | 255 | 0.05 | – | 16 | – | 3 |
| Turkmenistan | – | – | – | – | – | – | – | – | – | – | – |
| Uzbekistan | – | – | – | – | – | – | – | – | – | – | – |
| Ukraine | 11 | – | – | 0.4 | – | 6 | – | – | 4 | 0.02 | – |

Trade in cereals in the region has great potential, but the trading process itself is inefficient due to the lack of transparency in pricing. In line with this, in the beginning of 2009 Kazakhstan and Russia – the largest cereals producers in the region – founded the Eurasian Trading System (ETS) in order to optimise grain trading operations. Almost 60% of the shares in ETS is owned by RCS of Russia and 40% by RFCA of Kazakhstan. The establishment of this Russian-

Kazakh commodity exchange exemplifies efficient integration of commodity markets. At present, the main products traded on ETS are grain and flour (90%).

It is expected that granting small and medium size farms access to the trading floor will enable them to sell grain directly to end users, and both parties will benefit from the direct sale mechanism. In addition, Kazakh commodity markets will become more attractive to international traders and investors. To date, ETS's customers include companies from Kyrgyzstan, Uzbekistan, Iran and Turkey, apart from Kazakh and Russian traders (Nurtazina, 2009). The first trading session on ETS took place on March 30, 2009.

Although trade in cereals was rather sluggish in the first months, by the end of 2009 ETS achieved good results. Sales on ETS from March 30 to December 31, 2009 totalled \$403.8 million⁴, or 2,650,246 tons of grain, which is 13.5% of Kazakhstan's total production (KazInform, 2009). In future, the development of commodity exchanges in Kazakhstan is expected to boost grain sales on ETS even further. This, however, will require a sound awareness policy aimed at grain producers and governmental support for civilised trade and transparent pricing.

The status of the meat and milk markets in four countries under review is the complete opposite. Almost all meat and meat processing products are imported (see Figure 11.4), the main suppliers being the Americas and the EU.

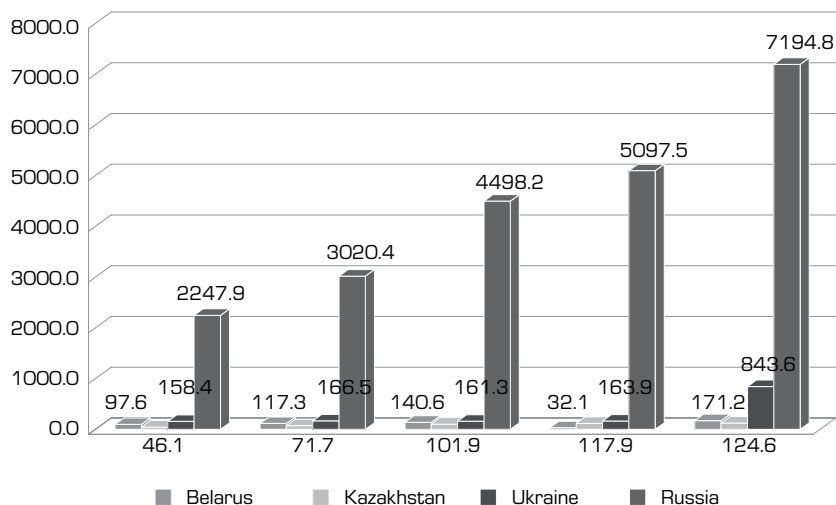


Figure 11.4.
Dynamics of imports
of meat to Belarus,
Kazakhstan, Russia
and Ukraine (\$ mln)

Source:
UNCTAD
international trade
database

⁴ At the exchange rate set by the National Bank of Kazakhstan on January 12, 2010.

In other words, Belarus, Russia, Kazakhstan and Ukraine are essentially net importers. Practically all exports from these countries enter CIS markets. Kazakhstan, Russia and Ukraine all demonstrate strong potential for the development of poultry export. For Belarus, the most promising exports are meat and by-products. To this end, concerted efforts need to be made and common conceptual approaches to the development of meat production and export need to be formulated in order to prevent mutual competition.

With the exception of Belarus, the countries under review are leading grain exporters. The strong competitive position of this product on the global market and favourable market conditions resulting from the population growth in China and India, improvements in living standards in these and other developing countries, and an increase in consumer demand have assisted the development of the grain sector globally. The export of livestock products from the countries under review is confined to CIS markets, which indicates that the meat and milk sector needs significant reforms. In the livestock sector, the most promising positions are held by Belarus (meat) and Ukraine (milk products), and this fact should be taken into account when formulating common conceptual approaches.

The export of poultry products is demonstrating rapid growth, as it offers quicker payback for investors. The pace of development of poultry export by Russia, Kazakhstan and Ukraine exceeds that of global import. At the same time, domestic demand in these countries is mainly satisfied by imported products. The fact that export is not diversified and is limited to CIS markets is the main barrier to the expansion of production: productivity in the sector is decreasing, the cost of the product is becoming higher, and its competitiveness is deteriorating. As a result, domestic markets have become flooded with cheaper imports. A lack of coordination in export and import and mutual competition negate the advantages of new technology adopted in the sector.

The grain market is adequately diversified, and three countries out of the four – Ukraine, Russia and Kazakhstan – are among the world's top grain exporters. The demand for farm produce resulting from population and consumption growth in India, China and other rapidly developing countries, as well as globalisation and urbanisation will increase. The consumption of cereals will also increase due to the spread of eco-fuel and new food preferences. According to the International Food Policy Research Institute (IFPRI), by 2015 global demand for grain will increase by 20% (von Braun, 2007). An increase in global consumer demand leads to an increase in export. The removal of barriers to mutual trade and transportation and a coordinated policy of entering external markets will enable Ukraine, Russia and Kazakhstan to boost their grain export.

The sales of organic (environmentally safe) products grew from \$19 billion in the EU, the U.S. and Japan in 2001 to \$35 billion in 2005. A particular feature of this market segment is its sustained growth (10-20% annually). Kazakhstan and Russia are potential exporters of some of these products, as they have better environmental conditions, large tracts of unused farmland and cheap workforce. These advantages coupled with high world prices make organic products lucrative exports with products that can be developed in crop and livestock production. However, to protect this market, environmental production standards and an accredited certification system need to be introduced. Therefore, these countries face the task of creating a harmonised legal framework for certification and marking and make it recognised by international trade partners, which will enable them to remove technical barriers to export in accordance with WTO requirements.

3.2. A Review of Trade in Cereals in the EDB's System of Indicators of Eurasian Integration

Since the objective of this paper is to provide an insight into sectoral cooperation of the countries under review, an analysis of integration in trade in grain – the basic farm product – is the logical continuation of the discussion of the agricultural markets in these countries. The EDB developed the System of Indicators of Eurasian Integration (SIEI), which is intended as a tool for monitoring and assessing regional integration in the post-Soviet world (Vinokurov et al, 2010). In the SIEI, trade in cereals is used among other indices. We will use this unique monitoring system to identify the main centres of agriculture integration in the countries under review.

The SIEI studies trade in cereals between CIS country pairs, between individual countries and integration groupings, and between integration groupings.

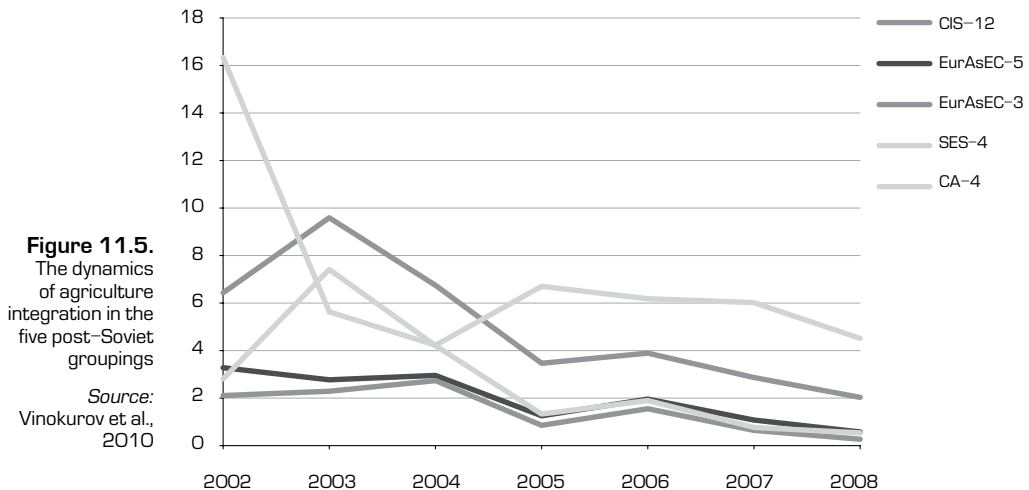
The analysis shows that the leader in agriculture integration of country pairs (based on data on cross-border trade in cereals, see Table 11.4) in the post-Soviet space is Kazakhstan. This country is present in all three leading country pairs: Kazakhstan–Azerbaijan, Kazakhstan–Turkmenistan and Kazakhstan–Kyrgyzstan. Trade in cereals by other CIS countries is not nearly as significant, in relation to their economy size. Most country pairs have no mutual trade in cereals at all.

Kyrgyzstan is the leader in integration with CIS-12, which appears to be caused by the large volume of cereals export in relation to its economic size. Tajikistan ranks second. A similar structure is observed in the other four integration cores. The lowest levels of integration with CIS-12 and other groups are demonstrated by Russia, due to its enormous economy and powerful agricultural sector.

As with energy integration, trade in cereals in the post-Soviet space lags far behind the growth of national economies. This trend persisted despite

the assumed improvement in the quality of statistics. In 2002–2008, the agriculture integration index increased only in the Kazakhstan-Turkmenistan country pair. Turkmenistan is also the only country that demonstrated an increase in the levels of agriculture integration with all the five groupings during the reporting period.

An analysis of integration within the frameworks of the five groupings (see Figure 11.5) also confirms that integration levels were declining during the seven-year period. At the same time, the development trends were less stable than those of other indices. For example, in CA-4 the integration index stabilised after a decline in 2003 at a fairly high level that exceeds the levels of the other groupings.



Therefore, we can conclude that among the countries under review Kazakhstan is the integration leader in terms of trade in cereals. Within time, four countries become less integrated as a result of the trade expansion to remote markets which are deficient in grain. However, it should be noted that CIS countries will remain permanent buyers of grain from Russia, Kazakhstan and Ukraine, due to their geographic, political and cultural proximity, hence, trade integration within the CIS is the long-term phenomenon.

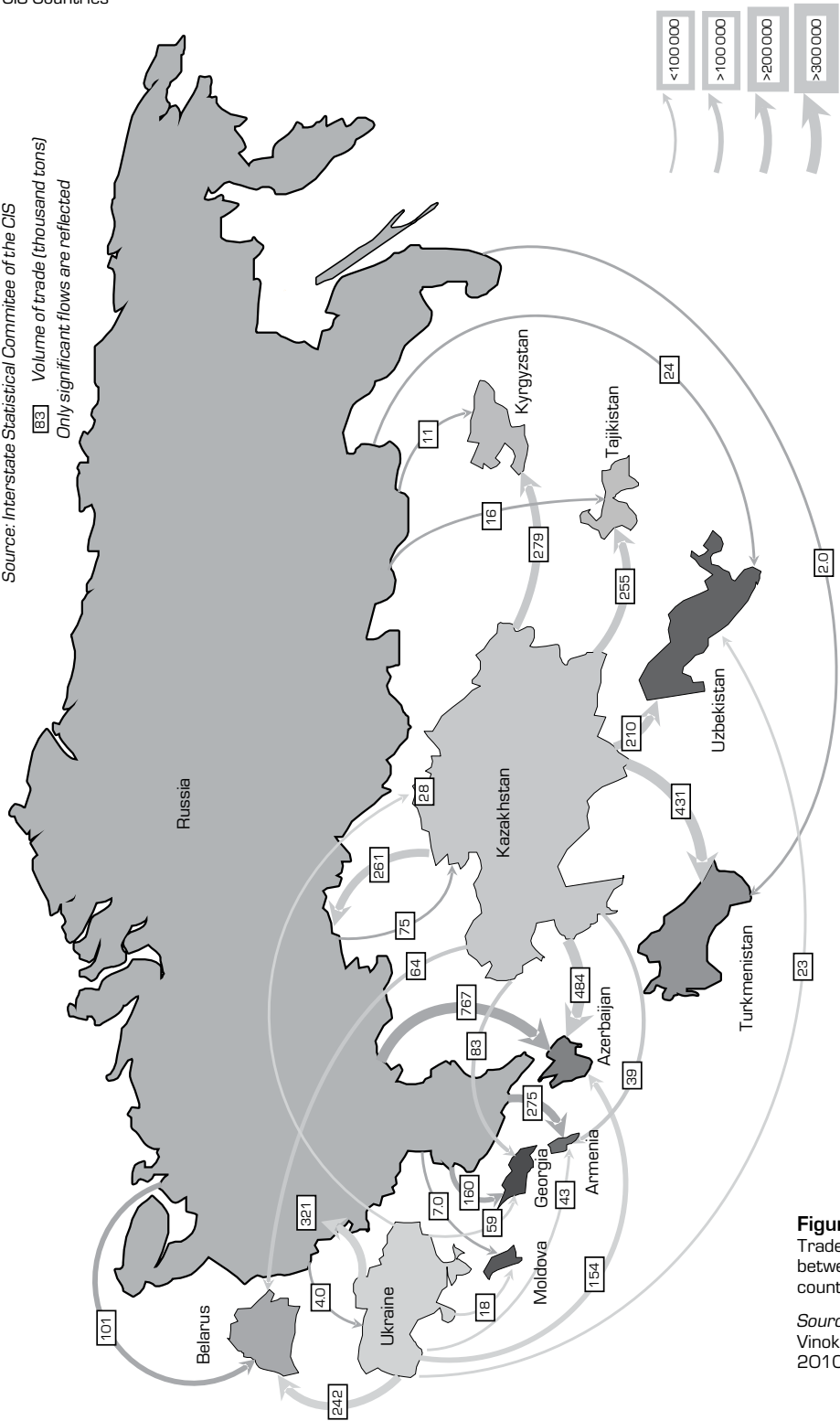


Figure 11.6.
Trade in cereals
between CIS
countries in 2008

Source:
Vinokurov et al,
2010

Sectors and Issues

Table 11.5.

Mutual trade in cereals in the CIS ('000 tons)

Source: CIS Statistics Committee

| Country pair | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---------------------------------|-------|---------|---------|-------|---------|-------|-------|
| From Russia to Azerbaijan | 188.0 | 191.0 | 532.0 | 853.0 | 679.0 | 507.0 | 767.0 |
| From Russia to Armenia | 259.0 | 54.0 | 272.0 | 302.0 | 298.0 | 385.0 | 275.0 |
| From Russia to Belarus | 494.0 | 360.0 | 207.0 | 64.0 | 67.0 | 118.0 | 101.0 |
| From Russia to Georgia | 111.0 | 132.0 | 151.0 | 290.0 | 403.0 | 446.0 | 160.0 |
| From Russia to Kazakhstan | 13.0 | 21.0 | 2.0 | 27.0 | 66.0 | 73.0 | 75.0 |
| From Russia to Kyrgyzstan | 0.2 | 0.0 | 0.8 | 0.0 | 0.1 | 3.0 | 11.0 |
| From Russia to Moldova | 0.8 | 97.0 | 0.7 | 0.7 | 0.2 | 10.0 | 7.0 |
| From Russia to Tajikistan | 8.0 | 3.0 | 0.3 | 5.0 | 8.0 | 3.0 | 16.0 |
| From Russia to Turkmenistan | 1.0 | 0.0 | 0.1 | 0.0 | 0.0 | 1.0 | 2.0 |
| From Russia to Uzbekistan | 2.0 | 0.9 | 0.2 | 0.2 | 2.0 | 4.0 | 24.0 |
| From Russia to Ukraine | 5.0 | 1 074.0 | 183.0 | 10.0 | 25.0 | 9.0 | 4.0 |
| From Kazakhstan to Azerbaijan | 462.0 | 650.0 | 446.0 | 109.0 | 367.0 | 955.0 | 484.0 |
| From Kazakhstan to Armenia | 4.0 | | 38.0 | | 3.0 | 48.0 | 39.0 |
| From Kazakhstan to Belarus | 40.0 | 12.0 | 41.0 | 21.0 | 110.0 | 213.0 | 64.0 |
| From Kazakhstan to Georgia | 20.0 | 8.0 | 79.0 | 27.0 | 103.0 | 198.0 | 83.0 |
| From Kazakhstan to Kyrgyzstan | 165.0 | 96.0 | 72.0 | 137.0 | 218.0 | 357.0 | 297.0 |
| From Kazakhstan to Moldova | | 49.0 | 18.0 | | 3.0 | | 14.0 |
| From Kazakhstan to Russia | 260.0 | 704.0 | 1 543.0 | 612.0 | 1 472.0 | 519.0 | 261.0 |
| From Kazakhstan to Tajikistan | 285.0 | 141.0 | 85.0 | 206.0 | 234.0 | 272.0 | 255.0 |
| From Kazakhstan to Turkmenistan | 6.0 | 1.0 | 0.4 | 0.0 | 2.0 | 133.0 | 431.0 |
| From Kazakhstan to Uzbekistan | 134.0 | 11.0 | 31.0 | 68.0 | 136.0 | 158.0 | 210.0 |
| From Kazakhstan to Ukraine | 37.0 | 1 536.0 | 395.0 | 0.7 | 0.8 | 10.0 | 6.0 |
| From Ukraine to Azerbaijan | 2.0 | 2.0 | 8.0 | 3.0 | 6.0 | 1.0 | 154.0 |
| From Ukraine to Armenia | 38.0 | 14.0 | 35.0 | 6.0 | 19.0 | 41.0 | 43.0 |
| From Ukraine to Belarus | 242.0 | 61.0 | 230.0 | 295.0 | 302.0 | 205.0 | 242.0 |
| From Ukraine to Georgia | 4.0 | 1.0 | 8.0 | 17.0 | 61.0 | 38.0 | 59.0 |
| From Ukraine to Kazakhstan | | | 0.6 | 3.0 | 0.5 | 0.2 | 28.0 |
| From Ukraine to Kyrgyzstan | 0.3 | | | | | | 3.0 |
| From Ukraine to Moldova | 2.0 | 4.0 | 4.0 | 1.0 | 3.0 | 2.0 | 18.0 |
| From Ukraine to Russia | 104.0 | 136.0 | 433.0 | 209.0 | 257.0 | 59.0 | 321.0 |
| From Ukraine to Tajikistan | 0.1 | | | | 0.0 | | 3.0 |
| From Ukraine to Turkmenistan | | | | | | | |
| From Ukraine to Uzbekistan | 0.3 | | | 0.3 | 0.1 | 0.3 | 23.0 |
| From Belarus to Azerbaijan | | | | | | | |
| From Belarus to Armenia | | | | | | | |
| From Belarus to Georgia | | | | | | | |
| From Belarus to Kazakhstan | | | | | | | |
| From Belarus to Kyrgyzstan | | | | | | | |
| From Belarus to Moldova | | 0.7 | | | | 0.1 | |
| From Belarus to Russia | 3.0 | 2.0 | 7.0 | 4.0 | 4.0 | 0.7 | 0.8 |

| Country pair | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---------------------------------|------|------|------|------|------|------|------|
| From Belarus to Tajikistan | | | | | | | |
| From Belarus to Turkmenistan | | | | | | | |
| From Belarus to Uzbekistan | | | | | | | |
| From Belarus to Ukraine | | 25.0 | 1.0 | 0.2 | | 0.1 | 0.4 |
| From Moldova to Azerbaijan | | | | | | 2.0 | |
| From Moldova to Armenia | 3.0 | 0.8 | 3.0 | | | 0.2 | |
| From Moldova to Belarus | 20.0 | 11.0 | 12.0 | 15.0 | 15.0 | 15.0 | |
| From Moldova to Georgia | | | | 3.0 | 5.0 | | |
| From Moldova to Kazakhstan | 0.0 | | | 0.0 | 0.0 | 0.0 | |
| From Moldova to Kyrgyzstan | 0.0 | 0.0 | | 0.0 | | | |
| From Moldova to Russia | 3.0 | 0.5 | 0.8 | 0.4 | | 0.0 | |
| From Moldova to Tajikistan | | | | | | | |
| From Moldova to Turkmenistan | | | | | | | |
| From Moldova to Uzbekistan | | | | 0.0 | 1.0 | 0.1 | |
| From Moldova to Ukraine | 2.0 | 2.0 | 22.0 | 53.0 | 45.0 | 34.0 | |
| From Kyrgyzstan to Azerbaijan | | | | | | | |
| From Kyrgyzstan to Armenia | | | | | | | |
| From Kyrgyzstan to Belarus | | | 0.2 | | | | |
| From Kyrgyzstan to Georgia | | | | | | 0.1 | |
| From Kyrgyzstan to Kazakhstan | 0.1 | 0.1 | | 0.0 | | | |
| From Kyrgyzstan to Moldova | | | | | | | |
| From Kyrgyzstan to Russia | 0.0 | 0.7 | | | 0.0 | 0.0 | |
| From Kyrgyzstan to Tajikistan | 1.0 | | | | | 0.0 | 0.1 |
| From Kyrgyzstan to Turkmenistan | 0.0 | | | | | 1.0 | |
| From Kyrgyzstan to Uzbekistan | 0.0 | | | | | | |
| From Kyrgyzstan to Ukraine | | | | | | | |
| From Azerbaijan to Armenia | | | | | | | |
| From Azerbaijan to Belarus | | | | | | | |
| From Azerbaijan to Georgia | 0.5 | 2.0 | | 4.0 | 1.0 | 0.6 | 1.0 |
| From Azerbaijan to Kazakhstan | | | | | 0.0 | 0.0 | 0.0 |
| From Azerbaijan to Kyrgyzstan | | | | | | | |
| From Azerbaijan to Moldova | | | | | | | |
| From Azerbaijan to Russia | | 1.0 | | | | | |
| From Azerbaijan to Tajikistan | | | | | | | |
| From Azerbaijan to Turkmenistan | | | | | | | |
| From Azerbaijan to Uzbekistan | | | | | | | |
| From Azerbaijan to Ukraine | | | | | | | |
| From Armenia to Azerbaijan | | | | | | | |
| From Armenia to Belarus | | | | | | | |
| From Armenia to Georgia | 0.0 | | | | 4.0 | | 0.0 |
| From Armenia to Kazakhstan | | | | | | | 0.0 |
| From Armenia to Kyrgyzstan | | | | | | | |

Sectors and Issues

| Country pair | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---------------------------------|------|------|-------|------|------|------|------|
| From Armenia to Moldova | | | | | | | |
| From Armenia to Russia | 0.0 | | | | | | 0.0 |
| From Armenia to Tajikistan | | | | | | | |
| From Armenia to Turkmenistan | | | | | | | |
| From Armenia to Uzbekistan | | | | | | | |
| From Armenia to Ukraine | | | | | | | |
| From Tajikistan to Azerbaijan | | | | | | | |
| From Tajikistan to Armenia | | | | | | | |
| From Tajikistan to Belarus | | | | | | | |
| From Tajikistan to Georgia | | | | | | | |
| From Tajikistan to Kazakhstan | | | | | | | 0.0 |
| From Tajikistan to Kyrgyzstan | | | | | | | |
| From Tajikistan to Moldova | | | | | | | |
| From Tajikistan to Russia | | | | 0.1 | 0.1 | | |
| From Tajikistan to Turkmenistan | | | | | | | |
| From Tajikistan to Uzbekistan | | | | | | | |
| From Tajikistan to Ukraine | | | | | | | 0.0 |
| From Uzbekistan to Azerbaijan | | | 163.0 | 0.0 | 3.0 | 3.0 | |
| From Uzbekistan to Armenia | | | 39.0 | 8.0 | | | |
| From Uzbekistan to Belarus | | | 3.0 | | | | |
| From Uzbekistan to Georgia | | | 68.0 | | | | |
| From Uzbekistan to Kazakhstan | | | 5.0 | 0.0 | | 0.0 | |
| From Uzbekistan to Kyrgyzstan | | | 18.0 | 25.0 | 9.0 | 8.0 | |
| From Uzbekistan to Moldova | | | 0.6 | | | | |
| From Uzbekistan to Russia | | | 13.0 | 0.3 | | | |
| From Uzbekistan to Tajikistan | 1.0 | 0.8 | 41.0 | 74.0 | 44.0 | 12.0 | |
| From Uzbekistan to Turkmenistan | | | | | | | |
| From Uzbekistan to Ukraine | | | 4.0 | 0.1 | | | |
| From Georgia to Azerbaijan | | | | | 0.0 | | |
| From Georgia to Armenia | 40.0 | 72.0 | 4.0 | 0.1 | 70.0 | | 3.0 |
| From Georgia to Belarus | | | | | | | |
| From Georgia to Kazakhstan | | | | | | | |
| From Georgia to Kyrgyzstan | | | | | | | |
| From Georgia to Moldova | | | | | | | |
| From Georgia to Russia | | 1.0 | | 11.0 | | | |
| From Georgia to Tajikistan | | | | | | | |
| From Georgia to Turkmenistan | | | | | | | |
| From Georgia to Uzbekistan | | | | | | | |
| From Georgia to Ukraine | | | | 8.0 | | | |

4. Regional Integration Initiatives in Agribusiness

The trade integration of Belarus, Kazakhstan, Russia and Ukraine is necessitated by the following reasons:

- Most importantly, agribusiness in these countries has strong competitive advantages in regional and global markets. At present, these advantages are more pronounced in grain production and less in the livestock and foods sectors. We believe that making full use of these advantages will require cooperation in production and transportation. In economic terms, isolated development of agribusiness in each of these countries is a sub-optimal solution.
- The historic specialisation of these countries in certain products (the competitive advantages of hard wheat production in Kazakhstan, Russia and Ukraine, sugar production in Ukraine, pork, beef and lint production in Belarus) offers great potential for trade within the sector.
- Common use of the transport infrastructure inherited from the Soviet Union which is capable of supporting intensive flows of farm production and foods will enable these countries to boost agribusiness output and raise living standards.
- The agricultural markets of Belarus, Kazakhstan, Russia and Ukraine are institutionally similar, which can be explained by their common economic and political past. This warrants mutual investment and institutional integration.

In our opinion, sectoral integration in agribusiness is an efficient tool for the removal of barriers to trade and the enhancement of the competitiveness of domestic farm produce. Realising this fact, Belarus, Kazakhstan, Russia and Ukraine signed a number of documents on joint development of agriculture. This applies to two agreements made in the first half of 2009: on establishing the Grain pool, and Customs Union countries' joining the WTO in a coordinated manner.

4.1. The Grain Pool

In recent years global commodity exchanges saw swift fluctuations in grain prices resulting from changes in production volumes. In 2008, a bumper harvest coupled with the economic crisis resulted in a dramatic drop in prices, occurring after a steady growth during the previous years. Ukraine, Russia and Kazakhstan responded to these fluctuations by organising government intervention and procurement which allowed adequate grain prices on regional markets to be maintained. However, these measures were poorly coordinated and could not halt the fall in prices. This indicates that a well-coordinated policy of these three large players on the grain market is essential for enhancing the competitiveness of their exports.

In addition, the strong potential of these grain exporters is undermined by the fact that, due to their geographic position, natural and climatic conditions, as well as historic and cultural ties their exports enter the same markets at the same time, and using the same transport infrastructure. As a result, national exporter companies compete toughly with each other rather than with foreign suppliers. This renders their efforts inefficient and reduces their chances of strengthening their positions on global markets. According to experts, Russia, Kazakhstan and Ukraine lose \$10-\$20 on each ton of grain as a result of mutual competition (Mosyakin, 2009). The intention of each of these states to create a separate export infrastructure reduces the efficiency of investment. Therefore, realising their export potential and strengthening their positions in global grain markets will require concerted efforts, a common export policy, and a vehicle for implementing it.

When exporting grain, Ukraine suffers from a lack of elevators, Russia and Kazakhstan face logistical problems, and all the three countries have a common problem in the obsolescence of their railway car fleet. Any future efforts to increase export will inevitably face the need to solve infrastructure problems which are already expected to complicate export transshipment in the near future. These problems require concerted efforts by and a coordinated investment policy from Ukraine, Russia and Kazakhstan aimed at developing infrastructure for the export of grain to the target markets. In other words, sectoral integration at the level of exporting countries will become an efficient mechanism for winning larger shares in global grain markets and increasing these countries' export revenue. In this context, establishing the Grain pool will be beneficial to all stakeholders, and its optimal functioning will only be possible if three states formulate a common export policy. Russia and Kazakhstan need the pool in order to enter global markets via Ukraine's ports, and the latter needs the pool to generate profit from transit.

At the World Grain Forum in St. Petersburg in June 2009 the representatives of the ministries of agriculture of Kazakhstan, Russia and Ukraine announced their intention to create a Grain (wheat) pool. This initiative had been discussed over the previous 2-3 years, and a working group was finally appointed and tasked with formulating the rules of the newly created organisation. The mass media hurriedly entitled this initiative "the grain OPEC". So, what are its underlying principles and prospects?

As we have stressed earlier, the three largest Eurasian grain exporters need to cooperate and jointly develop a common export policy. A large conglomerate having a considerable share in the global market will be in a position to control the pricing of grain, primarily wheat, and jointly use and develop the existing infrastructure. During the financial crisis the pool will function as a vehicle to merge the stakeholders' production and logistical potential and level the quality of their wheat, thus allowing them to save on expensive infrastructure projects.

In our opinion, the establishment of this "club" is a form of mutually beneficial cooperation: jointly these large players can multiply their export potential and make pricing predictable and controllable. In addition, the stakeholders will be able to implement their plans to raise joint cereals production to 225-250 million tons. According to experts, in 2-4 years the Ukrainian Black Sea ports alone will allow up to 42 million tons of Ukrainian and transit grain to be transhipped (Feofilov, 2009).

This initiative is an example of efficient integration at an industry level that could dramatically improve the position of certain Eurasian countries on grain markets. However, the Grain pool is yet to be created, and there are some serious doubts about Kyiv's stance: although the benefits of this initiative for Ukraine are obvious, it is strongly opposed by the EU. A week after the announcement of the establishment of the pool the EU Commissioner for Agriculture said that the EU disapproves of Ukraine's participation in these negotiations (Golubeva, 2009).

Therefore, it is not possible to forecast the start-up time of "the grain OPEC" (and whether it will be created at all). The process will be complicated by political pressure: the EU will not welcome the emergence of a new powerful and influential player and competitor. In addition, the Grain pool may face resistance from large grain importers concerned about cartelisation of supplies. In October 2009 the President of the Russian Grain Union even announced that Ukraine had abandoned its intentions declared in June 2009 under the EU's pressure (Mosyakin, 2009). Although the Ukrainian Ministry of Agriculture disavowed this statement, the unclear position of Kyiv appears to be the main obstacle to the creation of the Grain pool. As we have stressed above, the optimal functioning of the pool will require participation of all the three countries; should Ukraine withdraw, the benefits for Kazakhstan and Russia will be negated.

On the whole, there are three possible scenarios, and each of them essentially depends on Ukraine's behaviour. Under the optimistic scenario, Kyiv will realise that, despite its aspiration to assimilate into Europe, it should prioritise national interests and benefits. In this case the process will be smooth and "the grain OPEC" would be launched as early as 2010.

The opposite (pessimistic) scenario is also very likely. If Kyiv's pro-European sentiment and continued pressure from the EU outweigh the desire to fully benefit from Ukraine's staple export, the process may be frozen, and the Grain pool may well remain another good idea on paper. There is also the moderate scenario, however: Ukraine's contradictory desire to secure its national interests (which are in line with those of its Eastern partners) and please the EU will delay the creation of the pool for years.

At this stage it is difficult to say which scenario is more likely. The course of events will depend on political factors, and these can change swiftly. Judging by the recent revival of discussions about the prospects of the Grain pool, the fate of this integration initiative can be decided in the next few months.

4.2. A Coordinated Policy for Joining the WTO

The most important barrier to agriculture development in the CIS is government support to the sector in developed countries. This problem is especially pronounced in livestock and milk production. The agricultural lobby in the U.S. and Europe is very influential. As a result of government subsidies in various forms, the prices of farm produce from the U.S. and the EU are much lower – despite the fact that the actual cost of this produce is much higher.

Annual government spending to support agriculture in the U.S. and the EU is \$65 billion and €124 billion, respectively. Similar allocations in Russia, even given the comparable production volumes, are no match for these figures: mere \$170 million (Soyuz.By, 2008). In Belarus, Kazakhstan and Ukraine these figures are even smaller.

In addition to direct support for agribusiness in the form of export subsidies and numerous preferences, the EU and the Americas apply various protectionist policies. For example, in order to restrict access to the domestic market for producers from developing countries (which so far include the countries under review), the government may introduce quality standards which the latter cannot meet. The mechanism of restricting import on account of anti-dumping investigations is also widely used. In many cases developed countries simply impose direct barriers. This situation may become even worse after CIS countries join the WTO. For example, in October 2008 the European Commission introduced high customs duties on grain import from Ukraine (a WTO member since 2008) for two years, which is effectively a ban on grain import to the EU.

Issues relating to support for agriculture are hotly discussed during negotiations with the main trading partners including the U.S. and the EU. One of the preconditions to joining the WTO for the region's countries is the reduction of direct government support to agriculture and total transition to the "green basket".⁵ Another debated issue is the protection of domestic producers in the form of quotas on products supported by Western countries. These negotiations are characterised by pressure from developed countries and the wide application of the policy of unilateral concessions as a measure to accelerate joining the WTO. As a result, "small" economies such as Belarus

⁵ "Green basket" means spending on programmes that do not directly relate to production or trade. These may include crop insurance, consulting and information support in rural areas, modernisation of rural infrastructure, research, investment subsidies, veterinarian services, etc.

and Kazakhstan are often forced to accept terms which can cost them irreparable damage to their domestic agricultural sector.

If a country joins the WTO on these terms, it must open its internal market for imports, whilst the developed countries do not do the same. This may put an end to that country's efforts to make its domestic production competitive. Therefore, it is critical to secure national interests at the negotiations stage and make full use of coordinated joining of the WTO, applying common approaches and securing support from major economic and political players; in our region that player is Russia. This will improve the chances of achieving satisfactory results and mutually beneficial liberalisation of trade.

In June 2009 *Belarus, Kazakhstan and Russia* announced their decision to suspend all negotiations over joining the WTO as individual countries and join that organisation as a *single customs territory* – integration initiative that directly influences agribusiness.

The integration process in EurAsEC is steadily moving towards its basic goal – the Customs Union of Belarus, Kazakhstan and Russia with prospective expansion by admitting other EurAsEC countries (Kyrgyzstan and Tajikistan). The unification work was officially started on January 1, 2010. Belarus and Russia had been negotiating joining the WTO individually since 1993 and Kazakhstan since 1996. Their decision to join the WTO as an integration grouping will set a precedent (this is the first such case in the history of the WTO and GATT) and provide a number of tangible advantages to the members of the Customs Union, especially Belarus and Kazakhstan. Joining the WTO together with a major economic and political player such as Russia will enable Astana and Minsk to secure more beneficial terms and fair mutual concessions during negotiations. The developed countries will have to deal with a regional grouping which accounts for 3.7% of global GDP, 3.1% of global exports and 2% of global imports.

In addition, given a fair balance of national interests within the Customs Union, this grouping will be able to make a positive effect on those economic sectors in its member states which especially need governments support – primarily, agribusiness.

However, the advisability of this joint step by Belarus, Kazakhstan and Russia must be carefully weighed, as it will delay the process of admitting each of these individual countries for several more years. According to Belarusian authorities, repeating the entire negotiation process may take twelve or more years (Manenok, 2009). This is a serious consideration, as Russia has practically completed its individual negotiation process (to 95%), and Kazakhstan was nearing completion (70%). This could be too high price for these three countries for an attempt to receive maximum advantages from WTO membership.

In any case, concerted efforts by Belarus, Russia and Kazakhstan as members of a large trading grouping with common interests will not be in vain: even at the current stage of joining the WTO individually, they have to develop common approaches towards agribusiness and other sensitive sectors. In this context, the official statement in October 2009 that Belarus, Kazakhstan and Russia will recommence negotiations over joining the WTO as individual countries, but in close coordination with each other (RIAN, 2009) indicates an optimal scenario that will allow them to accelerate the joining process while protecting their common interests.

5. Conclusion

This sector report focuses on challenges faced by agribusiness in Belarus, Kazakhstan, Russia and Ukraine and the ability of regional integration to mitigate the most urgent of them.

Mutual investment in agriculture can assist the transfer of technology, substitute government support (which is not always desirable in the context of global liberalisation), promote infrastructure and production development, and eventually provide benefits for all stakeholders.

Any regional initiatives of sectoral integration (the Grain pool, the Customs Union or joining the WTO in a coordinated manner) also assist the development of competitive agribusiness in the countries under review.

The integration aspect of agriculture development, particularly, encouraging mutual investment in this sector, is a new and poorly understood facet of the problem. This lack of understanding is largely attributable to the difficulty in obtaining reliable statistics on mutual investment and related trends. This report merely brings to light some facts relating to sectoral integration, which deserves further scrutiny.

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The Impact of Climate Change on Water Resources in Central Asia

12

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EDB Industry Report No.6

Summary

Water shortages are considered to represent the main impediment to the development of Central Asian countries both under present-day conditions and for the future. The expected increase in water consumption is bound to stiffen competition for water both on regional and national levels between irrigation for farms, hydropower generation and other sectors of the Central Asian economy. Irrigation accounts for more than 90% of all water intake from the region's rivers. The pressing need to preserve food and energy security is set to boost water consumption even further, thereby aggravating frictions between the states in the region.

The problems associated with the exposure of the economy and the population to climate change are receiving increasingly close attention all over the world. Various scenarios regarding the consequences of climate change are being developed and scrutinised, and various methods are being proposed where it comes to addressing those consequences.

Intensive climate warming is being recorded throughout Central Asia, and the forecast for the region's water resources as a result of that warming suggests that none of the aforementioned scenarios envisages an increase in water resources. Calculations show that by 2050 the water runoff in the basins of the Amu Darya and the Syr Darya will dry up by 10% to 15% and by 6% to 10% respectively.

Central Asian states are seeking ways to prevent or mitigate economic loss as a result of contamination and depletion of water resources.

The states of the Aral Sea basin all face the task of enhancing more effective and economical use of water, management of water demand, and finding a compromise between the interests of upstream and downstream states. Moreover, there is the need to serve the requirements of both water users and ecosystems.

A key purpose of a common integrated water resources management (IWRM) in the Aral Sea basin is a prerequisite to successful adaptation to climate change, efficient use and protection of water resources, switching to water-saving technology first and foremost in the irrigation of farmland, as well as expansion of international cooperation in the use of hydropower resources on both regional and national levels.

The development and implementation of IWRM as a key tool is expected to ensure reliable and efficient national and regional water resources management in relation to current and pending climatic changes. It will help improve the mechanisms of rationalising the distribution of water resources, controlling demand for water, environmental protection, the quality of water and handling crisis situations.

1. Introduction

The world community has posted significant progress in dealing with a new global problem which is climate change. The initial studies and joint measures to implement as a response to this global challenge have received international legal support with the adoption of the UN Framework Convention on Climate Change. It was first open to signatories at the Earth Summit in Rio de Janeiro on May 9, 1992, and 154 countries including the entire European Union joined it. On March 21, 1994, the Convention came into force and at present 189 countries are participating in it.

The objective of the Convention is to control anthropogenic emissions in the form of greenhouse gases (GHG). The Convention imposes different obligations for its member countries depending on their potential, their economic structure and their available resources.

Measures aimed at mitigating the consequences of climate change include adaptation to an increase in the average temperature, a seasonal cycle shift, and an increase in the frequency of extreme meteorological incidents. The question is not whether it is necessary to adapt to climate change, but how to adapt. In order to comprehend long-term scenarios, climate model projections have been built. Although these scenarios have not yet been conceived in adequate detail or on national levels, they have proven to be instrumental to identify the main consequences of climate change, to determine forecasts and to set priorities in terms of needs for adaptation.

The Convention has provided a solid basis for coordinated international initiatives. However, until the Kyoto Protocol of 1997 came into force, obligations for parties to the Convention were not defined in the form of clear targets within clearly indicated periods of time. The Protocol has not only formulated such goals but it also offers innovative mechanisms in order to achieve them in the form of joint projects, «clean» development policies

and technologies and a regulated market for trade in emission quotas. To some extent, such mechanisms had been applied before the Protocol came into effect. But this document is a pivotal step towards a global system of response to climate change. What is just as important is that can promote new technology, in particular in the domains of energy and transportation, and help many countries to transform their economies into models that can cope with the 20th century and secure their sustainable development. In this sense, the Protocol can be seen as a powerful tool. Bearing in mind that the Convention calls for consistent steps in the direction of the ultimate goal, the Protocol provides obligations for parties that can be periodically revised.

Climate change poses a serious threat to the environment. Its most immediate impact is the so-called greenhouse effect. The main consequence of climate change is an increase in global surface temperature, triggering changes in precipitation levels and the hydrological composure of water bodies, and thereby in the quantity and quality of water resources. Compared with the second half of the 19th century, the global surface temperature has increased by 0.3-0.6°C. As a result, just to name one example, glaciers in mountainous areas are set to shrink, which in turn will result in the lowering of the snow line. This is also bound to affect the water intake and outflow of rivers.

The effect of climate change on water resources is particularly manifest in Central Asia. In this region, water resources are crucial for a wide range of issues related to national and regional security, since water is being consumed by all sectors of the regional economy. The biggest consumer of water is farming irrigation which accounts for one-third of gross domestic product and for over two-thirds of employment. Irrigation consumes more than 90% of the available water resources in the Aral Sea basin. Water resources are also of utmost importance to energy supplies to the region and account for 27.3% of its power generating capacity. In Tajikistan and Kyrgyzstan, this percentage exceeds 90%, thereby indicating that their economies all but entirely depend on the availability of water resources for their daily life. Therefore, any change affecting water resources in Central Asia is bound to have a profound impact on these countries' economies and their social and socioeconomic development.

Central Asian countries share rivers that cross their borders and any change in the use of water inevitably cuts into the interests of others. Tajikistan and Kyrgyzstan, on the territories of which originates more than 80% of the water that ultimately flows into the Aral Sea, are more interested in using the available water resources for hydroelectric generation, whereas countries further downstream, meaning Kazakhstan, Turkmenistan and Uzbekistan, demand those resources for irrigation. Upstream countries have interest in

discharging maximum volumes of water in winter time, when power shortages occur, while downstream countries need an optimal discharge in summer for irrigation.

This situation is even further aggravated by increasing water consumption due to growth in population and rapid economic development of the countries in the region, combined with declining inflows of water in the near future.

The melting of glaciers is poised to bring additional risks for the region's sustainable development and food security. Rapid glacier retreat threatens Central Asian countries with floods in the short run and with water shortages in the longer run.

Assessing the current state of the region's water resources taking the ongoing climate change into account, while identifying the underlying trends, provides a theoretical and practical outline for sustainable water resources management in Central Asia. The task of developing a modern, integrated system of water resources management in Central Asia calls for cooperation based on a common approach.

Considering the special role of water resources in socioeconomic development of Central Asian countries, EC IFAS and the Regional Hydrology Centre with the technical assistance of the EDB prepared a report on the core consequences of climate change on the region's water resources. These institutions also provided an assessment of the exposure of water resources to the effects of their cross-border use.

The Bank aims to support states interested in addressing cross-border environmental problems and offers technical assistance in this domain. Related information can be found in this publication and on the Bank's official website www.eabr.org.

2. Changes in the Hydrological Cycle of the Aral Sea Basin

The Earth's climatic changes, and the threats associated with this change are being discussed in a number of international reports. Climate change is a complex problem stretching over a number of different disciplines. It requires an integrated approach based on the principles of sustainable development with an emphasis on changes in consumption and supply patterns. The effect on climatic change on communities and on natural ecosystems is becoming more and more dramatic. While it is widely accepted that certain climatic changes are inevitable, there grows recognition that joint efforts could help preventing many of its negative effects. Such efforts must be undertaken first of all in key areas, including energy efficiency, transportation, protection of water resources and biodiversity and renewable energy resources.

One of the most imposing problems in Central Asia is the increasing shortage of water caused by desertification and the rapid melting of glaciers in the

mountains. The melting glaciers aggravate a large number of problems including the threat to food security. As S. Aslov, the representative of Tajikistan in the United Nations, comments: «Glaciers are melting, desertification is on the increase, rivers vanish, and the Aral Sea degrades. This is an environmental crisis – not of a regional but of a global order». Losses in the order of billions of dollars each year are the result of the region's ecosystem's overall degradation.

The Aral Sea is a major-size inland water body. It is located in one of Central Asia's desert zones, which consists of the Turanskaya plain on the eastern edge of the Ustyurt plateau. The Aral Sea is fed by two main Central Asian rivers, the Amu Darya and the Syr Darya. Their use for irrigation goes back to a long tradition. Virtually all rivers that flow into the Aral Sea and supply it with water cross international borders.

The Amu Darya flows through the basins of Surkhan Darya, Sherabad, Kashka Darya and Zarafshan. The basins of Kashka Darya and Sherabad are within the borders of Uzbekistan. The Amu Darya has most of its sources in Tajikistan.

The basin of the Syr Darya stretches over Kyrgyzstan, Uzbekistan, Tajikistan and Kazakhstan. The river's water feed comes mainly from Kyrgyzstan, where its tributary the Naryn contributes more than 74% to its water, whereas 14% of the water comes from Uzbekistan, 3% from Tajikistan and 9% from the Arys and Keles tributaries which originate on the territory of Kazakhstan.

The main watersheds of the Amu Darya and the Syr Darya are located in mountainous areas. The main origin of the water for the rivers and most of their tributaries comes from melting snow, while lesser volumes are provided from glaciers and rain. Depending on the level of which the watershed is situated, and the quantity and timing of precipitation, its share in water provisions for the river can significantly vary, thereby affecting runoff conditions.

The Syr Darya's runoff is located in Kyrgyzstan. It roughly consists of two phases, which are characteristic to conditions in the type of mountainscape the main range, Tien Shan, consists of: a sequence of seasonal floods which take place in spring and summer and lowering water levels during the autumn and the winter. Floods are at their peaks from April to June due to melting mountain snow and from July to September due to melting glaciers and patches of snow.

The hydrographic curve in the rivers that flow down from the mountains bear a feature which is special in regard to runoff fluctuations over the year and even within a single day. Thus, during the grain growing season, the river's water runoff accounts for 74% of the annual volume, while the remaining 26% is discharged during the autumn and the winter through to early spring.

Kyrgyzstan consumes 20 to 25% of its river water supplies while the remaining volume flows into other countries further downstream. Studies on the conditions of runoff peaks of Kyrgyzstan's rivers demonstrate that they can exceed average volumes to the following extents:

- a) by 2 to 3 times in the event of unusually high temperatures or of heavy precipitation;
- b) by 5 times in cases of mudflows caused by a combination of melting snow and heavy rainfall;
- c) by 7 to 10 times in the event of a lake burst, which can go up to 100 times when the Adygine basin breaks through its barriers and up to 500 times when it concerns the Yaschinkul or the Isfairam Say reservoir.

In all of Kyrgyzstan's rivers, water levels are down during the colder season when melting volumes are on the decline and the water runoff is mainly fed by groundwater. Low water levels are characterised by steady runoff declines until the seasonal floods start, as reflected in a groundwater depletion curve. The lowest runoff is registered just before the seasonal floods which take place in March and April.

Kyrgyzstan has 1923 lakes with a total water surface of 6840 km². The largest lakes are Issyk Kul, Son Kul and Chatyr Kul. Freshwater reserves held by these lakes amount to an estimated 1.745 km³. Kyrgyzstan's main lakes account for more than 55% of the total water surface of all the lakes in Central Asia. In the middle of the 19th century, the water level of Issyk Kul dropped by about 12 m and the water basin became locked. According to data from measurements, since 1927 the water level dropped by another 3.2 m. The decline of the water level took place at high speed in particular between the 1950s and 1970s, during which the coast line advanced at a rate of 20 m per annum. Water supply calculations for periods varying from one year to several decades all show a negative balance, meaning that the water level has kept dropping. The decline is mainly due to increased evaporation of the lake's surface waters as a result of increased temperatures. The average annual runoff of Kyrgyzstan's rivers between 1973 and 2000 increased from 48.9 to 59.9 km³.

The western and northwestern parts of the Syr Darya and Amu Darya basins, from the foothills of the Pamir-Alay and the Tien Shan into the plains, are located in Uzbekistan. This explains the relatively thin river water flows in Uzbekistan as compared to those in Tajikistan and Kyrgyzstan. Uzbekistan has more than 17,700 natural waterways, most of which have a length of less than 10 km. Uzbekistan also has in the order of 505 lakes, mainly small ones with a water surface of less than 1 km². To date, 53 water storage reservoirs have been built in the country, mainly for irrigation purposes. Uzbekistan and

other Central Asian countries are confronted with the need to find solutions to the problems of water shortages and the depletion and pollution of water resources. Measures are required to prevent and/or mitigate the impact of such problems.

Water shortages are seen as the main prohibiting factor to both the present-day and the future development of Uzbekistan. Uzbekistan has 525 small glaciers covering a total area of 154.2 km², the average surface of one glacier being 0.293 km². They are located upstream the Surkhan Darya, the Kashka Darya and the Pskem. Virtually all water resources of the region are fed by snow and glaciers located in Kyrgyzstan and Tajikistan, while irrigated farmland is concentrated in the densely populated valleys where the Amu Darya and the Syr Darya flow into Uzbekistan, Kazakhstan and Turkmenistan. The countries located downstream the Syr Darya and the Amu Darya face water shortages which affect their socioeconomic development. To date, many periodical measurements of water supplies in Uzbekistan fail to show an overall trend indicating depletion. Any expected changes in natural water supplies will mainly be determined by changes in the climate pattern.

The average year-on-year runoff in the Syr Darya–Aral basin in Kazakhstan, measured in terms of total water resources in natural conditions, used to be 26.1 km³ per annum, consisting of 3.5 km³ supplied from Kazakh territory and 22.6 km³ coming from Uzbekistan and Kyrgyzstan.

Between 1965 and 1985, a number of reservoirs were built in the Syr Darya basin with the purpose to regulate water supplies over periods of several years. They included the Toktogulskoye reservoir in Kyrgyzstan, the Shardarinskoye reservoir in Kazakhstan, the Kairakkuumskoye reservoir in Tajikistan and the Charvakskoye and Andizhanskoye reservoirs in Uzbekistan. The Kyzylordinskaya, Kyzylkumskaya and Kazalinskaya irrigation systems were built to ensure regular runoff water use in Kazakhstan.

As a result of these measures, the runoff of the Syr Darya is now entirely under control. Downstream the river, excessive water intake has resulted in a dramatic decrease in water flows with disastrous consequences for the Aral region. Under sustainable water consumption conditions, the Syr Darya inflow into Kazakhstan amounts to 14.5 km³ per annum on total resources of 18 km³ per annum. This means that the natural pattern of river flows in Kazakhstan is completely out of balance.

Until 1990, the Toktogulskoye reservoir was mainly used for irrigation. Water used from Toktogulskoye in spring and summer represented 75% of its total annual discharge. In the mid-1990s, the pattern of discharging water from Toktogulskoye was drastically changed. Over the last decade, main water discharges of up to 60% of the annual amount took place in winter in order to keep domestic power supplies going. As a result, the annual

breakdown of water runoff in the Syr Darya has changed dramatically: instead of low water levels during the winter, winter floods occur, accompanied by ice jams. These in turn cause floods further downstream the Syr Darya, in the vicinity of Kyzylorda. The largest discharges from Toktogulskoye took place in the early 2000s.

Water supplies through the rivers that run into the Aral Sea heavily fluctuate within periods of two to five years. For example, the year 1969 was particularly wet in the Syr Darya basin in Kazakhstan.

Studies demonstrate that there is little difference between annual water throughflows in the first and the second half of the 20th century. The sole exception is Lake Balkash, the inflow of which through its tributary rivers during the second half increased by 8%, mainly due to additional inflow of melting water from degrading glaciers.

The upstream part of the Amu Darya is located in the utmost southeast of the Central Asian region. Tajikistan's massive mountain ranges divide the country into several hydrographic basins in which the rivers Pyandzh, Vakhsh, Kafirnigan and Zeravshan originate.

The Amu Darya basin plays an exceptional role in solving the region's socioeconomic problems, as it contains about 60% of all its water resources and 70% of all its hydropower resources.

The watersheds of the country's rivers are located high up in the mountains, and their main sources are snow which accounts for 60-70%, glacier and ground water which together make 10-30%, and rainfall which contributes another 5%. In foothill watersheds, the share of snow drops to 40-50%, and the shares of ground water and rainfall increase to 40 and 15% respectively.

A higher water content is observed in rivers the watersheds of which are exposed to moisture-bearing airflows. The largest annual runoff of about 45 to 50 litres per second per km² has been recorded in the basins of the tributaries of the Vakhsh, Ikaratag, Sherkent and Kafirnigan rivers.

The annual runoff of river basins in the east of the Pamir varies from 2 litres/second km² in the Bartang river to 10 litres/second km² in the case of the Lyangar river.

The rivers that flow from the western slopes of the Academy of Sciences mountain range, the Yzagulem, the Vanch, the Obikhumband the Obikhingov and their respective tributaries, are more exposed to moisture-bearing airflows than others. The annual runoff of medium and small rivers on that location may be as high as 20-30 litres/second km². Small rivers in the foothills are essentially temporary streams originating from mudflows.

During a relatively long observation period of more than 50 years, no significant on-year or period-on-period for several years were noticed in

the runoff of those rivers that were fed from glaciers and melting snow – meaning that there has been no change in the hydrological conditions of the main rivers in the Amu Darya basin.

Fluctuations of high and low volumes of river water distribute evenly across the territory in time series of two to three years.

Uninterrupted periods of highs and lows in terms of water volumes of 4 to 6 years were registered three times between the 1930s and 1960s, while the longest period of low water levels lasted 8 years.

A review of decade-to-decade runoff dynamics allows to identify an overall trend of decline in throughflows in rivers fed by glaciers and snow (11-14%) and in rivers fed by snow and rain (8-21%) between 1971 and 1980. Between 1981 and 1990, runoff decreased in rivers fed by glaciers and snow (1-11%) while it increased in rivers fed by snow and rain (6-25%).

An urgent task is set by the need for research, which is also of major practical importance to the region, after the effects of climatic factors on the generation of water resources in Central Asia and on the consequences for their annual distribution. As part of such an effort, corrective measures aimed at ensuring sustainable use of water given changes in the climate should be proposed.

3. Atmospheric Precipitation and Temperature Changes in the Aral Sea Basin

With an immense surface stretching from 35-55 degrees in northern latitude and 50-85 degrees in eastern longitude and orographic complexity featuring vast plains in the north and west and high mountain ridges to the southeast and the east. Climatic conditions vary from region to region, even though they have one thing in common: the climate is highly continental with extremely varying temperatures, and scant precipitation throughout the area. Steppes dominate the northern plains of Central Asia, while the southern ones mainly consist of desert land.

Three basic types of climate zones occur in the region:

- 1) temperate climate zone north of 41-42 degrees latitude;
- 2) arid subtropical climate zone south of 41-42 degrees latitude;
- 3) mountain climate zones in the Tien Shan, Pamir-Alay and Kopetdag zones, subdivided into:
 - a) foothill zones of 0.2 to 1.2 km above sea level;
 - b) mid-mountain zones of 1.2 to 2.2 km above sea level;
 - c) mountain zones of 2.2 to 3.5 km above sea level;
 - d) eternal snow zones above 3.5 km above sea level.

Systematic climate monitoring has been carried out in Central Asia since the end of the 19th century. However, most stations located in the mountains were opened at a later stage, in the first half of the 20th century. The largest number of stations worked in the 1980s, after which their overall number was reduced by one-third for economic reasons while the number of mountain stations was cut three times.

According to data resulting from observations, the main reason for the climate change in Central Asia is a considerable increase in air temperature close to the surface. Country-wise, increases in average temperatures over ten-year periods in various Central Asian states over varying periods of time have been the following:

Uzbekistan (1950–2005): 0.29°C;

Kazakhstan (1936–2005): 0.26°C;

Turkmenistan (1961–1995): 0.18°C;

Tajikistan (1940–2005): 0.10°C;

Kyrgyzstan (1883–2005): 0.08°C;

The table shows that the increase in temperature on the territory of Central Asia was uneven. A more rapid pace of annual rise in air temperature was registered in the plains, whereas in mountainous areas the increase was less, and in some cases even cooling was registered. Thus, in Kyrgyzstan the entire territory of which is classified as mountain land, the average pace of warming has been the slowest in all of Central Asia. In high mountain zones in Tajikistan at heights exceeding 2500 m, temperatures rose only in April, November and December. Cooling was also observed in some lowland districts such as the valley of lake Bulinkul, in Tajikistan, where the average temperature between 1940 and 2005 dropped by 1.1°C, which can be explained by special climatic conditions in the eastern Pamir.

In most parts of Central Asia the pace of warming has been faster in winter than in summer. Thus, in Kazakhstan winter temperature has risen by 0.44°C over each period of 10 years whereas summer temperatures rose by 0.14°C per decade on average. In Kyrgyzstan, winter temperatures have increased by 0.03°C per ten years. In Tajikistan, winter temperatures have risen by 1.3 to 3°C between 1940 and 2005. In Turkmenistan, by contrast, warming during winters has stood at 0.1°C each 10 years as compared with a rise of 0.2°C in other seasons.

The overall increase in minimum temperature was larger than the increase in maximum temperatures. Thus, in Uzbekistan since 1951 decade-wise rise in maximum temperatures stood at 0.22°C against minimum temperatures at 0.36 degrees. The only exception has been the Aral Sea retreat zone

where the pace of increase in maximum temperatures has been very fast, while minimum temperatures have been left unchanged, all due to the sea's shrinking waterbed.

Changes in precipitation in Central Asia have shown uneven territorial and seasonal distribution as well. Thus, winter precipitation has increased in most parts of Kazakhstan. The higher increases were noted in the southern part of the Urals, the Yesil valley, the Kazakh highlands and the foothills of the mountains in southern Kazakhstan. A slight decrease in average annual precipitation was registered in Moyinkum desert and nearby Lake Zaysan. On the whole, the spatial division of winter precipitation is in line with annual precipitation trends. Changes in summer precipitation, in terms of both increases and decreases, have been insignificant throughout the country.

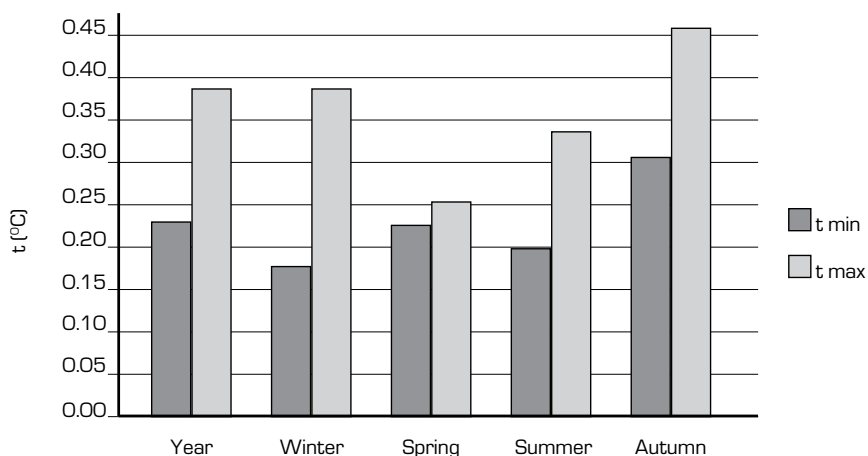


Figure 12.1.
 Average pace
 of increase in
 maximum and
 minimum air
 temperatures in
 Uzbekistan ($\Delta T/10$
 years) since 1951

In northern regions in which an increase in winter precipitation was observed, precipitation reduced in summer.

The landscape of Kyrgyzstan with its complex orography has seen changes in precipitation have been diverse. In the northwest of the country, most annual precipitation trends were positive within the range of 0.05-1.7 mm/year, but highland areas showed negative trends in the order of 3 mm/year. Plains and foothills showed a slightly upward trend of 0.01-1.7 mm/year. In the southwest, all mountain ranges showed both positive and negative changes in precipitation, with the former reaching maximums of 3 mm/year in foothill zones against maximum negative extents of 3.2 mm in the high mountains such as the area where the Chaar Tash meteorological station is located, on the western slope of the Ferghana range. To the northeast, only the Chon-Ashuu avalanche registration station has registered a negative trend of 1.1 mm/year. All other meteorological stations have registered positive trends with the range between 0.2-3.3 mm/annum. In the central parts of the Tien

Shan, most meteorological stations in both foothill and high mountain zones have registered negative trends within the range between 0.9 and 1.5 mm per year.

Considerable fluctuations of annual precipitation have been registered in Uzbekistan, with a slight overall upward trend.

Figure 12.2.
Changes in annual
precipitation in
Uzbekistan

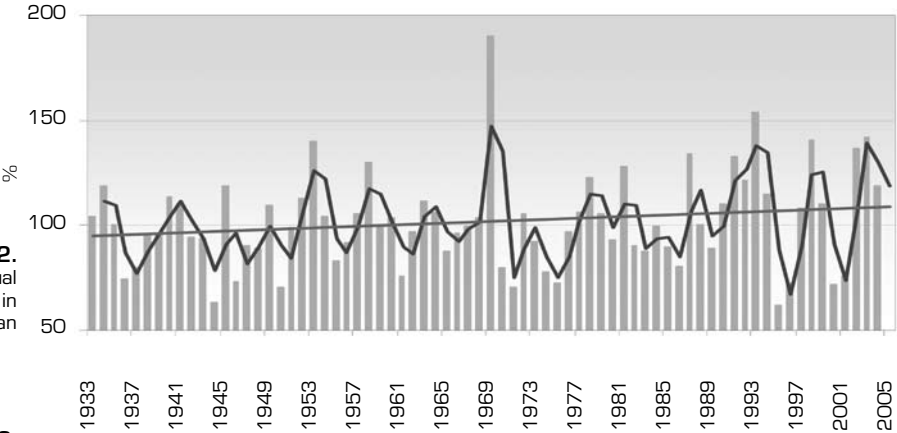
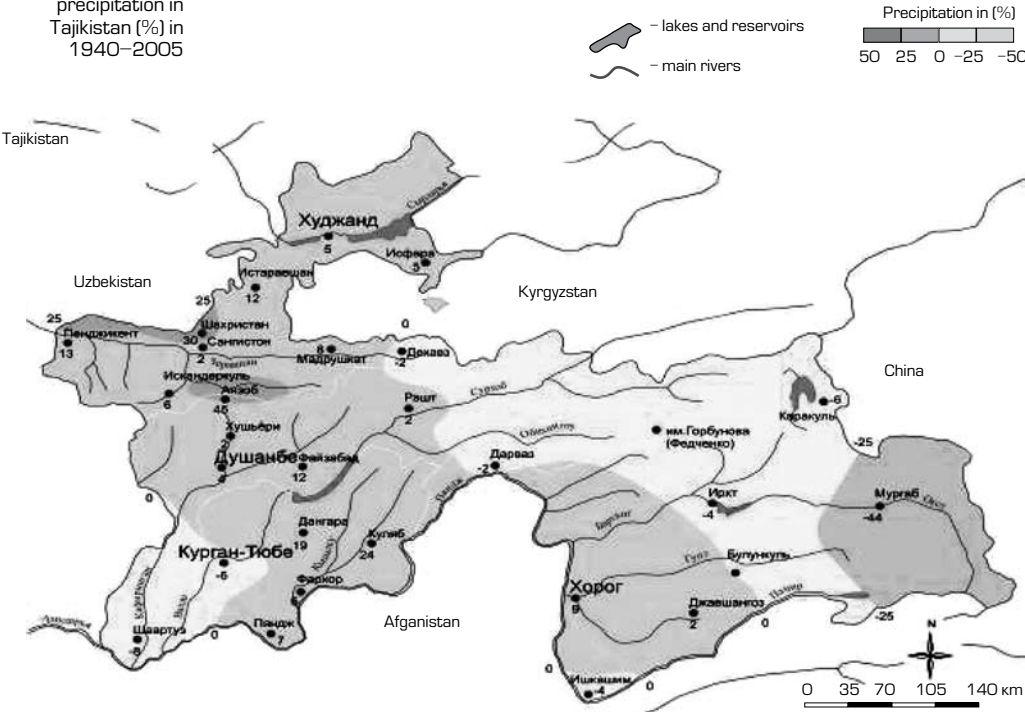


Figure 12.3.
Changes in annual
precipitation in
Tajikistan (%) in
1940–2005



Most parts of Tajikistan consist of mountainous areas showing very diverse patterns of precipitation division and long-term trends (see Figure 12.3). Thus, in the eastern Pamir, situated on a plateau of between 4000 and 6000 m above sea level, overall precipitation dropped by 5 to 10%, with the sharpest decrease of 44% having been registered in Murgab. A similar downward trend was observed in the country's southern lowlands such as Kurgan-Tyube and Shaartuz.

Annual precipitation has increased slightly by 8% in all parts of Tajikistan located at heights less than 2500 m above sea level, but has decreased by 3% in higher mountain zones. Precipitation tends to increase by 37 to up to 90% especially in summer and autumn in zones up to 2500 m above sea level, mainly due to heavy rains (see Figure 12.4).

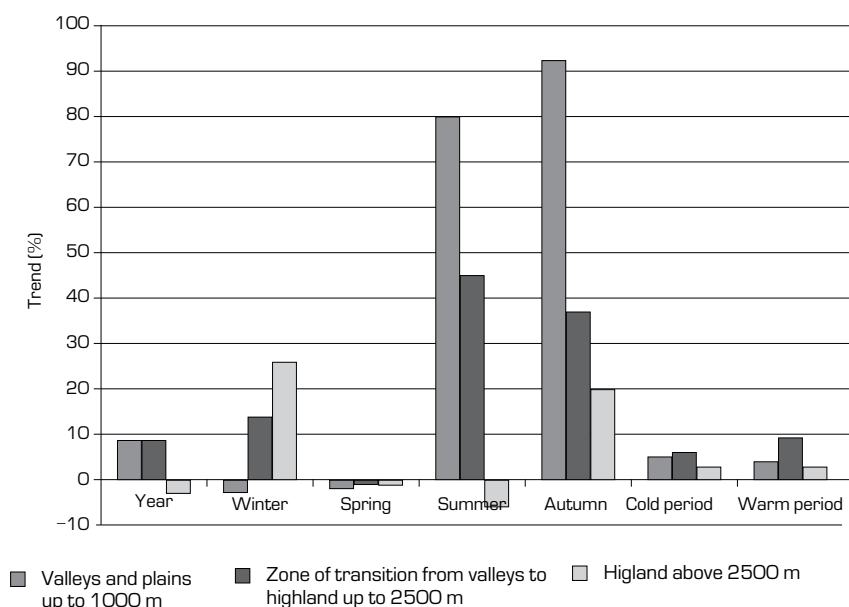
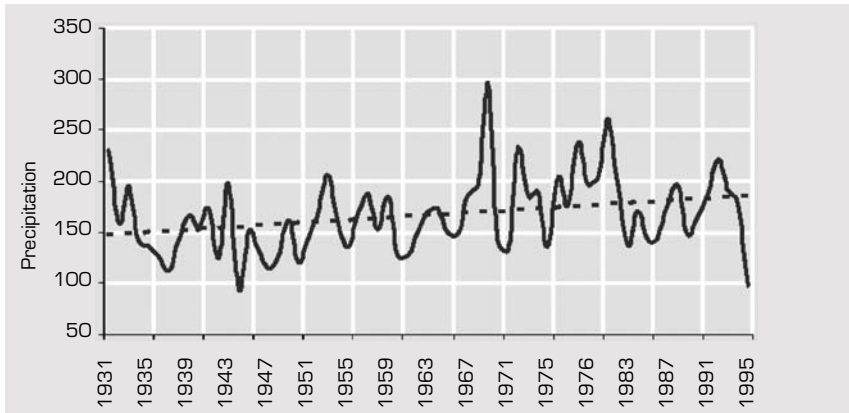


Figure 12.4.
 Changes in precipitation by season (%) in Tajikistan in 1940–2005

In Turkmenistan, an increase in precipitation throughout the year was recorded in 1931–1995, especially in winter and spring (by 1.6 and 1.3 mm/10 years, respectively). In summer time there was little or no change in precipitation. On average, annual precipitation in the country was increasing by 12 mm/10 year (see Figure 12.5).

Figure 12.5.
Average multiannual
changes
in precipitation
in Turkmenistan
(solid line)
and the linear trend
in 1931–1995



In many parts of Central Asia, fluctuations in intensity of precipitation are on the increase. This increasing irregularity with heavy rains being followed by droughts can worsen soil erosion in Central Asia. In summer, such precipitation patterns fail to wet the soil sufficiently, as it cannot absorb water quickly enough, and it evaporates partially as a result.

Considerable warming of the atmosphere in combination with a decrease or insufficient increase in precipitation results in increased aridity in desert and semi-desert areas in Central Asia. These trends have been confirmed by 60% of the monitoring stations in Kazakhstan. A study of adverse agrometeorological phenomena observed on affected farms in Kazakhstan has shown that the most common adverse trends between 2005 and 2007 were drought in the atmosphere and underground drought (60 and 10% respectively). A minor decrease in aridity is being observed only in certain foothill and mountain areas in which the increase in temperature has been insignificant.

4. The Condition of Glaciers

Warming in the Pamir, the Tien Shan, the Gissar-Alay and other mountain ranges has been following regional and global trends. Glaciers in the mountainous areas of Central Asia and Kazakhstan are the key long-term reserves of fresh water. They produce melting water in the hottest period of the year, when the reserves of seasonal snow are depleted, thereby compensating for shortages of irrigation water. However, these ice reserves are unstable. At present, retreating glaciers are being reported by experts all over the world. Whereas smaller glaciers disappear entirely, larger ones disintegrate.

Glaciers in Tajikistan play a key role in the water runoff of the Amu Darya and the Syr Darya, the largest rivers of Central Asia and the Aral Sea basin. In this arid region, any future consequences of climate change will tend to directly

affect the volume of glaciers, the supplies of water to the rivers, and eventually the availability of water in countries and regions downstream.

Melting water from glaciers in Tajikistan contributes between 10 and 20% of the runoff in large rivers, and in particularly hot and dry years their contribution may rise to 70% (see Figure 12.6). Water is a key resource for agriculture, hydropower and the industries depending on them in Tajikistan. Moreover, the bulk of the water resources originating from Tajikistan is being consumed in countries further downstream.

An assessment of the effect of climate change on the glaciers in the Pamir-Alay shows that since 1930 when measurements started to provide the first data, the total area of glaciers in Tajikistan has shrunk by about one-third.

The decline has been particularly dramatic in basins where large glaciers are located, such as the Bartang, the Muksu and the Fedchenko systems) in the central and southern parts of the area, and to lesser extents in basins containing smaller glaciers such as the Surkhan Darya and the Kashka Darya in the southern part of the Ferghana valley, in the north and the west.

During the 20th century, glaciers in Tajikistan on the left bank of the Pyandzh river in Afghanistan dry up by 20 to 30 and by 50 to 70% respectively. In

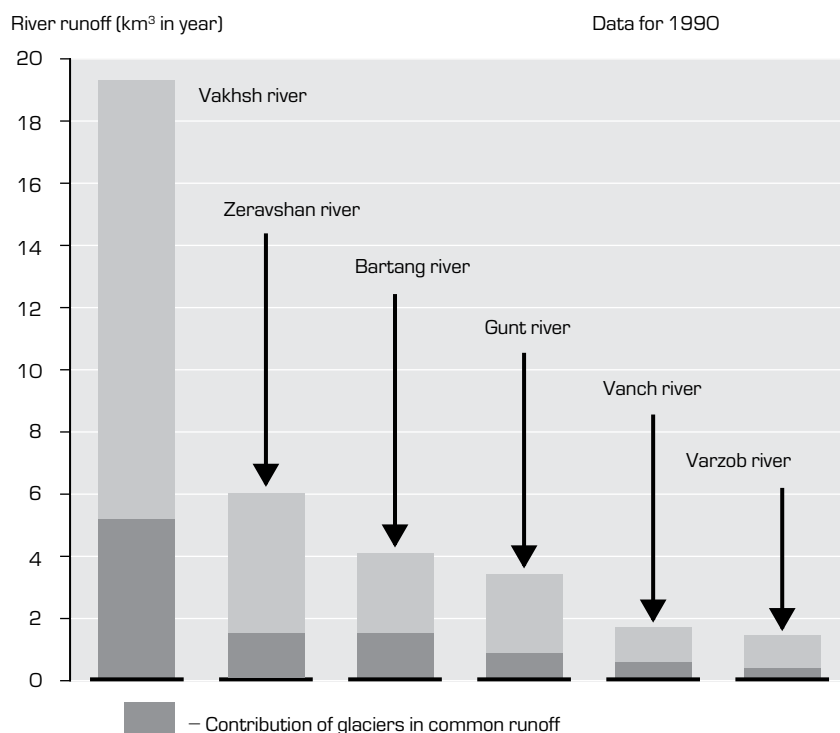
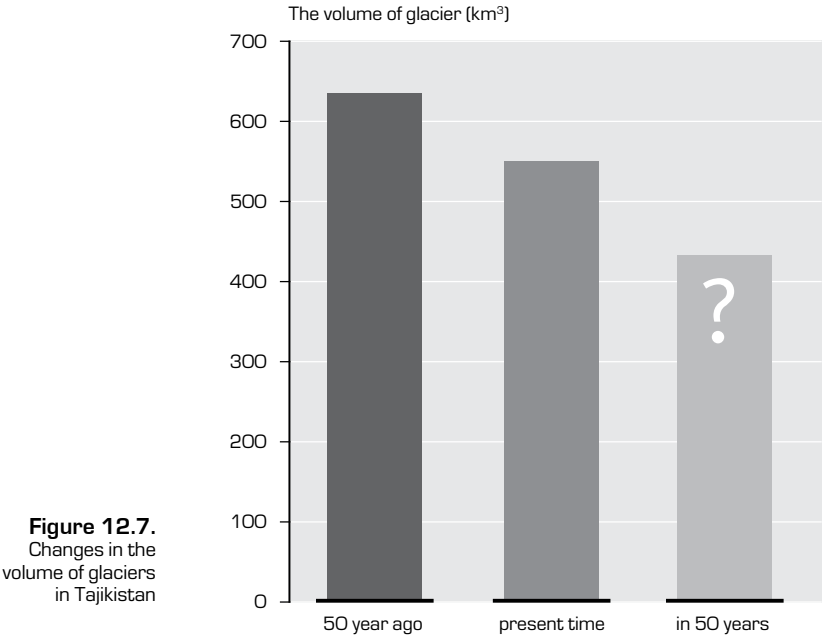


Figure 12.6.
 River runoff in
 a medium-water-
 content year and
 a share contributed
 by glaciers

recent years, due to an increase in air temperature, surging glaciers have become more active.

While the total area covered by, and water reserves held by glaciers in Tajikistan may decrease by 15 to 20% and 80 to 100 km² respectively, from the condition they are in today, large glaciers and glacier systems will survive. The glacier-fed runoff of the Pyandzh, the Vaksh and the Amu Darya could initially increase as a result of intensified glacier melting, but this will be followed by a decline as a result of dwindling ice reserves. Any adverse change in the hydrological conditions of these rivers could pose a serious threat to certain exposed communities in particular and to the region in general (see Figure 12.7).



Given the current pace of deglaciation, many small glaciers in Tajikistan are poised to disappear altogether in Tajikistan within the next 30 to 40 years to come. First of all, glacier degradation will affect the hydrological conditions of the Kafirnigan, the Karatag and the Obikhingov. During the next stage, a decrease in atmospheric precipitation may result in a decrease in surface runoff and thereby in the size of lakes' surfaces.

An assessment of changes in the glaciers of the Pskemsky range in the western Tien Shan has allowed to determine the current pace of deglaciation. During the past twenty years, glaciers in this area have been shrinking by 16.8%.

The calculation of the reaction by glaciers to climate change in the Gissar-Alay mountains in Uzbekistan that with a 50% decline in precipitation and a temperature rise of 3°C, the firn line is set to rise by 700 m and the area of glaciers and glacier-fed runoff is bound to decrease by 86 and 96% respectively.

Between 1957 and 1980, glaciers in the Aral Sea basin have lost 115.5 km³ of ice, or in the order of 104 km³ of water, which was nearly 20% of all ice reserves as of 1957.

The rivers that feed Lake Balkash originate from the glaciers of the northern and eastern Tien Shan and the Dzhungar Alatau.

In the Ili basin, glaciers dry up by 1254 km², or 36.6%, over the entire period, or by 25.1 km² on average per annum. In the entire Balkash basin, the decline amounted to 1498 km² over the period, or 30 km² (0.74%) per annum. Calculations show that this decrease in long-lasting reserves of ice and water may result in an increase of water inflow from rivers in excess of 10%.

To the opinion of experts, based on assessments of deglaciation during the second half of the 20th century, global warming will result in the total disappearance of glaciers by the end of the 21st century. The studies also suggest that as consequence of deglaciation the Ili's runoff will decline at the rhythm of 2.26 km³ (11.6%) per annum, resulting in a decline of 2.54 km³ of water (10.5%) per annum into the Balkash basin.

Decreases in the water runoff in the Ili and Balkash basins take place at a pace determined by deglaciation. This decrease is in part offset by melting water from long lasting ice reserves. The overall decrease in river runoff is the result of two interconnected processes: loss of river runoff due to deglaciation and additional inflow of melt water from long-lasting ice reserves.

Deglaciation is set to reduce the river runoff in years when water contents are low by 25.4-27.9% and increase it in years when contents are high by 31.4-42.4%. Seasonal patterns of water distribution will also change significantly. The runoff is set to drop by two times in the months of July, August and September and subsequently all but double in April, May and June. This assessment of changes in the runoff and its annual time pattern was carried out through comparing the respective values in basins feeding on glacier water and those filled from other sources.

Calculations show that the global rise in air temperatures and continuing deglaciation are poised to pose additional threats. Reservoirs should be designed and constructed on mountain rivers, mainly for seasonal regulation of runoffs, together with protective hydraulic engineering installations.

Mountains and their foothills account for 15% of Kazakhstan's territory, and the areas they are located in are prone to excessive mudflows. In terms

of mudflow activity, the Zailiysky Alatau ranks first in the Commonwealth of Independent States. According to Kazselezaschita, mudflows threaten 156 towns, including Almaty, and over 6,000 industrial facilities. Mudflows originate from bursts in the surface releasing subterranean reserves under glaciers, as well as from heavy rainfall, powerful earthquakes, or human negligence. About 100 mudflows of varying origin were registered in less than 100 years, most of which had catastrophic dimensions and caused casualties.

Mudflows are basically triggered by geomorphologic, geological and climatic factors. A breakdown of the respective importance of those factors shows that the geomorphological factors which lead to the descendance of mudflows can be expected to subsist for some four million years to come, while geological factors are to remain in place for another century. However, mudflow activity on the northern slopes of the Zailiysky Alatau is determined by climatic factors.

Studies on climate in southern Kazakhstan as well as the geological structure of debris cones on the northern slopes of the Zailiysky Alatau demonstrate that during the Ice Age there was no mudflow activity whatsoever. Mudflow activity used to reach its peak at times air temperatures exceeded those in the time we live in by 2-3°C. It is most likely that a majority of the mudflow that have thrust billions of cubic m in rock debris down into the lowlands have taken decades to develop.

In the region under view, mudflows caused by heavy rainfall tend to occur at relatively high air temperatures. If the climate warms by 2-3°C, the upper boundaries of watersheds will rise above 4,000 m, and the watershed surfaces will increase by several times, meaning that all surfaces will become potential sources of mudflows. The frequency of rains causing mudflows, the duration of mudflow risk time-spans, and the stretch of mudflow-generating areas will all increase. The catastrophic rain mudflows which used to occur in the 20th century once in a hundred years will become annual routine.

Climate warming during the 20th century has resulted in rapid deglaciation in the Tien Shan. This process was accompanied by the development of both surface and subterranean reservoirs in glacier systems. Each burst of such a reservoir resulted in catastrophic mudflows, such as the one on the northern slopes of the Zailiysky Alatau, which caused severe damage. At present, the most serious threat to Almaty is represented by a potential burst of Lake no.6 of the Manshuk Mametova glacier. A mudflow originating from it can cause damage in the order of \$100 million.

If the increase in temperature reaches 2-3°C, the steppe climate of the upper foothill zone of the Zailiysky Alatau will transform into a desert climate. These

areas, currently covered with grass and bushes, will lose their loess cover and turn into wastelands (see Figure 12.3).

Virtually all liquid precipitation is due to result in mudflows, and mudflow sediments will cover the most productive soils in the plains under the mountain. A sharp increase in solid runoff of rivers flowing into the Ili will accelerate the silting process of the Kapchagay reservoir, and change the hydrological conditions in the Ili's delta and Lake Balkash. Farms subsisting on irrigation water will face serious problems, as the water is going to be unfit for irrigation and irrigation systems will be filled with debris.

The concept of protecting Almaty and other towns has so far relied on the notion that mudflows of disastrous proportions have been extremely rare. However, the catastrophic mudflows that occurred in the second half of the 20th century have belied that notion. The outlook of a dramatic increase in mudflows through the first decades of the 21st century requires efforts to develop a new mudflow protection strategy.

A sharp increase in mudflow activity should be expected in mountainous areas of Central Asia in which glacier formation is still being observed these days. Sustainable development of Central Asia in the course of the 21st century will largely depend on whether or not adequate measures to prevent mudflows or at least mitigate their consequences will be carried out in a timely manner.

5. Changes in Climate Forecasting

Climate forecasting is one of the key tasks in developing climate change scenarios and taking the appropriate responsive measures to adapt to the new situation. It is in line with this general concept that statistical outlines of future climatic conditions and their variables over different periods of time is considered the crucial phase in a series of measures aimed at fending the exposure of various economic sectors to climate changes. In order to determine the level of that exposure, climate change scenarios have been developed.

The greenhouse gas emission scenarios included in the Special Report on Emissions Scenarios (SRES) offer a variety of different socioeconomic consequences resulting from various levels of future emissions of gases and aerosols. These SRES scenarios disregard any particular initiative relating to climate change or the probability of certain events. Each scenario is a quantitative assessment of one of the four "families" of different scenarios. Examples of illustrative descriptions of socioeconomic impacts among the six SRES scenarios are the following:

The **A1-scenario family** is characterised by rapid economic growth, a quick proliferation of new and efficient technologies, and a global population growth to 9 billion as of 2050 from where it gradually declines. This type of

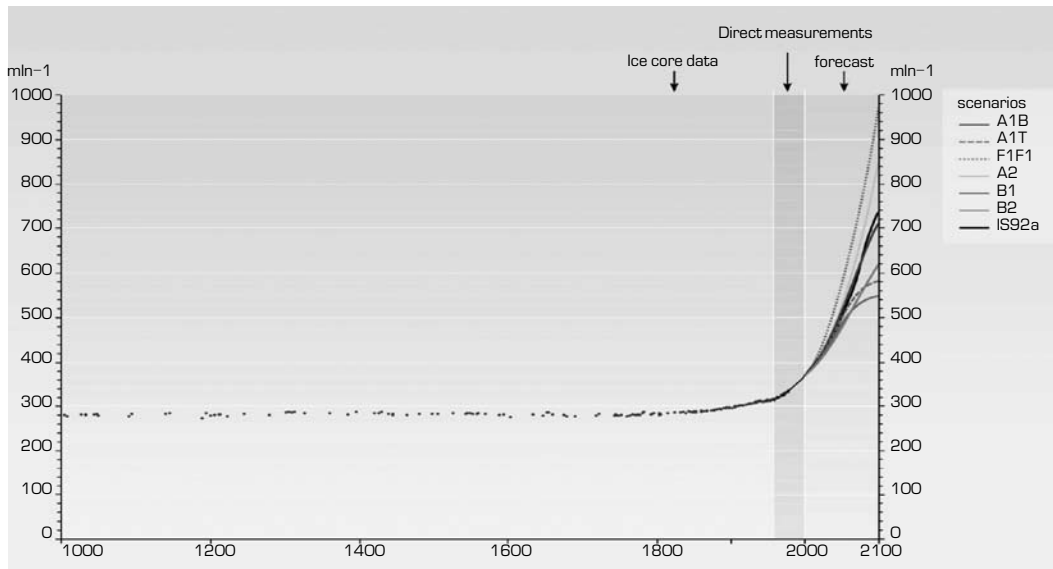


Figure 12.8.

Atmospheric concentration of CO₂ in 1000–2000, calculated based on ice core analysis and direct atmospheric measurements done in the past decades. Forecasted CO₂ concentrations for 2000–2100 are based on the six illustrative scenarios given in SRES and IS92a (for comparison with the Second Assessment Report)

development is that of a more integrating world, in which income and life-style converge between regions, as extensive social and cultural interactions develop on a global level. There are three subdivisions to the scenarios based on their energy resources' main applications: fossil fuel (A1F1), non-fossil energy resources (A1T) and a spread of different energy resources (A1B). A spread would mean the end of overdependence on any single energy resource, provided energy saving technologies among industrial and end users will be applied at the same time and pace.

The **A2 scenario family** is that of a more divided world consisting of independently developing, self-reliant nations. Birth rates in various regions converge at a slow pace, and populations remain on the increase. Economic development is confined to regions, and technological changes and improvements in income per capita vary to larger proportions.

The **B1 scenario family** is characterised by a more integrated world with, as in the A1 model, a population reaching its peak by 2050 and from there on declining, and rapid economic growth with changes towards a service and information economy with the introduction of clean and resource-saving technologies. An emphasis is being laid on global solutions to economic, social and ecological safety and «justice», nonetheless in the absence of any specific initiatives regarding climatic conditions.

Like the A2 family, the **B2 scenario family** is characterised by an emphasis on local-scale rather than global solutions to economic, social and ecological safety. Global populations continue to increase but at slower pace than in the

A2 model. B2 scenarios envisage intermediate levels of economic development and less rapid and more fragmented technological shifts than in A1 and B1. Like in B1, these scenarios have an emphasis on environmental protection and social justice, but with local and regional levels playing a key role.

According to the six scenarios given in the SRES, the forecasted CO₂ concentration in the atmosphere by 2100 will be 540 to 970 million⁻¹, as compared with 280 million⁻¹ in the pre-industrial era and 368 million⁻¹ in 2000 (see Figure 12.8).

6. Assessment of Changes in Water Resources of the Main Cross-Border Rivers in Central Asia

The combination of rapid urban development, growing water consumption in agriculture and industry and contamination of water resources has resulted in a decrease of water provisions per capita. These problems are further aggravated by climate change and extreme weather conditions. Land and water are critical resources, and lack of availability of either of them can lead to social conflicts. Water balance models suggest that supplies of water in terms of both quantity and quality are set to deteriorate. Higher temperatures result in the depletion of surface water resources and droughts. Changes in river and lake runoffs affect the productivity of hydropower plants. Droughts, floods and other extremities may damage water distribution infrastructure, while excessive precipitation may wash away nutrients from soils and cause erosion.

To study the sensitivity of water resources in Central Asia to anthropogenic climate change, existing forecast models for water runoffs have been used.

The main input data for hydrogenic runoff modelling are daily precipitation and average daily air temperatures measured by meteorological stations located within or close to the basin.

In addition, in order to assess changes in water resources in certain countries, the water balance equation method was used. This equation uses air temperature and precipitation data calculated in global and regional climate models, and evaporation data calculated through increases in air temperature. The models have been primarily adapted for assessing sensitivity of water resources with the use of potential anthropogenic climate change scenarios.

Anthropogenic climate change has been used as a parameter according to scenarios A2 and B2 in the aforementioned series, to build these scenarios. Versions 2.4 (Turkmenistan) and 4.1 (Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan) from the complex applications from the Model of the Assessment of Greenhouse-gas Induced Climate Change / Scenario Generator (MAGICC/SCHENGEN) were used. The designs for these applications were commissioned by the IPCC with the purpose, among others, of assessing sensitivity levels.

Both scenarios have been built in since their levels of probability are equal and the effect of climate change on water resources should be forecasted implying both of them.

In **Kazakhstan**, runoff modelling was done for all major rivers, with results indicating that:

1. If anthropogenic climate change as a result of greenhouse gas emissions through the upcoming 30 years follows scenario A2, the water resources in the mountain areas' basins are to increase within the range between 0.8-4.5% to one between 14-22.5%, while at the same time the water resources in the lowlands will decrease by 7-10.3%.
2. According to scenario B2, during the upcoming 30 years the runoff in mountain areas will decrease within the range between 2.5-9.3% and 12.3%. In the Arys basin, the decrease by 2%. Scenario B2 is more «pessimistic» in regard to mountainous areas but more «optimistic» in respect to the lowlands where a decrease in resources will be limited to the range between 6 and 6.8%.
3. If the climate change pattern is to follow scenario A2 over the upcoming 50 years, water resources in Kazakhstan's mountainous basins will increase by 1.3-12.7% on average. In the river basins in the lowlands, resources are set to decrease by between 4.4 and 7.8%.
4. Scenario B2 is more "pessimistic" on the whole, as in the next 50 years runoff in mountainous areas are poised to drop by 7.2-19.3%, while a 3.2 increase is set to occur in the western Altay. Water resources in lowland river basins will increase by 8-8.5%.
5. An assessment of sensitivity of water resources over various years suggests that, irrespectively of the water content over the year, changes in water resources tend to follow the same trend as the one they follow over the entire periods of time.
6. All scenarios envisage an increase in both precipitation and temperature. In mountain areas, due to an increase in winter precipitation in particular in zones from where the runoff to river basins originates, snow reserves provide additional runoff in spring. The increase in air temperature will not be strong enough to cause early slides among soil layers which thereby boosts the loss of runoff during spring floods. In lowland basins, though, the situation is different. An increase in precipitation does not significantly influence the runoff volume as a consequence of major losses in watershed zones. Lowland basins are more sensitive to rises in air temperature which reduces the depth of permafrost, thereby increasing losses in runoff due to infiltration.

As for **Kyrgyzstan**, surface runoff in the assessment and modelling of the process of climate change is calculated as the difference between annual precipitation and annual evaporation. The results of this calculation show that substantial decrease in surface runoff can be expected under any of the most probable scenarios. At the same time, surface runoff is expected to increase during a period that lasts until some point between 2020 and 2025 due to an increase in glacier melting. After that, it is set to decrease to 20.4-42.4 km³, or in the range 43.6-88.4% of the level in 2000. Evaporation is mainly responsible for the decrease in runoff following an immediate increase in the beginning of the 21st century.

In **Uzbekistan**, forecasted climate change is to be determined by greenhouse gas emissions scenarios, the condition of the global climate system and the various models allowing assessments of perspectives in runoffs. The effect of the climate on runoff varies depending on any specific scenario, and is by and large being determined by differences in precipitation under various scenarios. Bearing in mind the high natural variability of precipitation observed by the region's meteorological stations, the absence of any clear pattern in them and a high degree of uncertainty accompanying each scenario, there have been two options:

- 1) to calculate changes in precipitation and temperature for each scenario;
- 2) to calculate changes in temperature per scenario under current precipitation patterns.

In order to assess the effects of climate change on river runoff, a mathematical model was used in respect to the runoff of mountain rivers. This model has been applied in the form of an automated information system for hydrological forecasts and calculations.

The assessment of the Aral Sea basin runoff within Uzbekistan's territory based on various climate change scenarios indicates that:

- 1) in the event of a climate scenario envisaging changes in both precipitation and temperature, no significant changes in the Syr Darya basin will occur through to the year 2030. In the event of scenario B2, an insignificant increase in runoff in the upstream course can be expected, but on the whole any deviations will not exceed those within the natural fluctuations of runoff. In the Amu Darya basin, a mild downward trend can be observed;
- 2) in the event of an increase in air temperature and stable precipitation, by 2030 water resources in the Amu Darya basin could decrease by 5 to 8% as compared to their current level, while any deviations in the Syr Darya basin are expected to be within the natural runoff fluctuations;
- 3) a long-term change of temperature stretching over a period that lasts until 2050 alone may reduce the runoff of both the Syr Darya and the Amu

Darya, in which the former's runoff is to decrease by 6-10% and the latter's by 10-5%;

- 4) a similar situation is set to develop by 2050 in the Amu Darya basin under scenario A2, while in that case the Syr Darya basin's water resources could drop by 2 to 5% as compared to their current level.

While using both temperature and precipitation as parameters, in Tajikistan we can identify the following trend in its major rivers' runoffs depending on the share of glaciers in water supplies to them.

Calculation show that as compared with runoff levels during the second half of the 20th century, as of 2020 river runoff in the Amu Darya basin will decrease by 3%, as of 2035 by 5% and as of 2050 by 6%.

An increase in runoff following a 14% increase in annual precipitation under scenario HadCM2 is expected to remain insignificant. A 6% decrease of the total runoff of the Amu Darya by 2050 can also be viewed as minor.

The temperature and precipitation scenarios allow forecasting runoff trends for the major rivers depending on the share of glaciers in their water supplies, as shown in *Table 12.1*.

| River station | Average annual runoff (km ³) | | | |
|--------------------------|--|------|------|------|
| | 1990 (standard) | 2020 | 2035 | 2050 |
| the Kafirnigan, Tartki | 5.11 | 5.01 | 4.98 | 4.94 |
| the Vakhsh, Darband | 19.1 | 18.3 | 17.9 | 17.6 |
| the Pyandzh, New Pyandzh | 31.9 | 30.7 | 30.2 | 29.7 |
| Total | 56.1 | 54.0 | 53.1 | 52.2 |
| Decrease in 1990–2050 | – | 2.1 | 3.0 | 3.9 |
| % of standard | – | 3 | 5 | 6 |

Table 12.1.
Decrease in glacier
and total runoff
(%) after warming
by +20°C and
depending on the
share of glaciers in
river feeding (%)

The forecasted warming process is due to cause shifts in the data that apply to the start, peak and ending of spring floods. Calculations show that the most significant changes are due for the beginning and further development of spring floods. Their time span is supposed to increase as a result of warming in the run-up to their beginning and as they draw to a close:

- by 30 to 50 days in rivers fed mainly by glacier and to lesser extents by snow melt water;
- by 15 to 20 days in rivers fed mainly by snow and to lesser extents by glacier melt water;
- by 8 to 10 days in rivers fed by snow melt water and rain.

The peak of spring floods may be reached at anticipated stages:

- by 15 to 25 days in rivers fed mainly by glacier and to lesser extents by snow melt water;
- by 7 to 10 days in rivers fed mainly by snow and to lesser extents by glacier melt water;
- by 25 to 30 days in rivers fed by snow melt water and rain.

In this way, due to the forthcoming anthropogenic climate change the water resources of the northern plains of Central Asia are set to decrease by 6 to 10% by 2030 and by 4 to 8% as of 2050.

These decreases will be due as warming in lowland river basins reduces the depth of permafrost, thereby increasing losses in runoff due to infiltration and, of similar importance, reduces the period of snow accumulation in the run-up of spring floods.

In mountainous areas, runoff is set to change within the natural fluctuation range until 2030, from where it may decrease by 7-17% through to 2050.

During the first half of the 21st century, runoff is poised to be strongly affected by the melting of glaciers which goes back to the early 18th century, which marked the end of the so-called Minor Ice Age during which they developed as the air temperature lowered and precipitation levels increased. The melting process started in the second half of the 20th century and persists into the first half of the 21st century. This process has led to an increase of river runoff by 4-6% in the southern mountain areas and by 10-15% further to the north, in the Naryn and Balkash basins.

At a later stage, as water reserves in glaciers deplete and the draining of water resources in the river basins downstream the deglaciated areas intensifies, the inflow of melt water through rivers is bound to dwindle.

As a result of total deglaciation, which experts expect to occur during the last decades of the

21st century, the water resources of mountainous regions will shrink by 10-12%. Deglaciation is also set to increase the volatility of runoff fluctuations both year-on-year and over subsequent periods of several years. In particular, runoffs in the period from July to September are due to diminish while runoffs in spring and autumn are poised to rise.

The current and upcoming climate change is to be accompanied by an increase in volatility, frequency and intensity of hydrological droughts.

7. Modern Regional Climate Change Models

In order to review climate changes in Central Asia, data from the Tyndall Centre for Climate Change Reserve at the University of East England have been used. Calculations in respect to temperature and precipitation during

the last decades of the 21st century, from 2071 to 2100, have been based on two greenhouse gas concentration scenarios, A2 and B2, and four global climate models: Australia's CSIRO2, Canada's CGCM2, the United Kingdom's HAD3 and the United States' PCM. These models have been approved by the Intergovernmental Panel on Climate Change (IPCC).

All these models and scenarios envisage that by the end of the 21st century, average annual and seasonal temperatures will have risen throughout Central Asia. Precipitation is expected to decrease during summer and increase during winter, while trends in spring and autumn tend to vary.

Under scenario A2, by the end of the 21st century the increase in average annual air temperature as compared with the base period (1960–1990) will vary from 4.7°C in Turkmenistan to 5.6°C in Kyrgyzstan in all models. Different models give varying numbers in terms of temperature changes: from 3.3–6.7°C in Kazakhstan, from 3.3–7.1°C in Kyrgyzstan, from 3.4–7°C in Tajikistan, from 2.8–5.9°C in Turkmenistan and from 3–6.7°C in Uzbekistan. Annual precipitation will increase in all countries except for Turkmenistan: by 46% in Kyrgyzstan, by 27% in Kazakhstan, by 18% in Tajikistan and by 7% in Uzbekistan.

Under scenario B2, which should be seen as more «optimistic», the expected rise in annual air temperatures will be 1–1.5°C lower than under scenario A2, while changes in precipitation will be the same.

Season-wise changes in air temperature and precipitation can be described as follows:

Winter. Under scenario A2, change in winter air temperatures by the end of the 21st century in all models is poised to vary from +4.1°C in Turkmenistan to +5.6°C in Kyrgyzstan. The expected average seasonal temperature increase will be limited to 3.3–6.7°C in Kazakhstan, 3.7–7.7°C in Kyrgyzstan, 3.6–7.6°C in Tajikistan, 2.3–5.8°C in Turkmenistan and 2.7–7.2°C in Uzbekistan. Winter precipitation will increase throughout Central Asia, varying from a 29% high in Tajikistan to a 6% low in Turkmenistan. The increase in precipitation will vary 6–20% in Kazakhstan, 15–46% in Kyrgyzstan, 16–53% in Tajikistan, 3–10% in Turkmenistan and 3–14% in Uzbekistan.

Under scenario B2, winter air temperature will increase by 4°C in Kazakhstan, Kyrgyzstan and Tajikistan, by 3°C in Turkmenistan and by 3.7°C in Uzbekistan. Precipitation in these countries is set to increase by 14, 21, 28, 5 and 12% respectively.

Summer. Under scenario A2, average air temperature can be expected to increase throughout Central Asia by 5.1–5.5°C on average. Precipitation will dwindle by 4–21%, with extremes occurring in Tajikistan.

Under scenario B2, summer air temperature is poised to increase by 3.8–4°C, while precipitation can either be seen decreasing by 10% or unchanged.

Spring. Under scenario A2, spring air temperatures will increase by 6.2°C in Kazakhstan, by 6.3°C in Kyrgyzstan, by 5.6°C in Tajikistan, by 5.2°C in Turkmenistan and by 5.8°C in Uzbekistan. All models indicate that precipitation is bound to increase both in Kazakhstan and in Kyrgyzstan by 19–33% respectively. In Turkmenistan it can be expected to decrease by 11%, whereas Tajikistan and Uzbekistan fail to show a clear pattern.

Under scenario B2, spring air temperature is due to increase by 4.2°C in Kazakhstan, by 4.1°C in Kyrgyzstan, by 3.8°C in Tajikistan, by 3.6°C in Turkmenistan and by 3.9°C in Uzbekistan. Precipitation changes are expected to occur to the same ratios as under scenario A2.

Autumn. Under scenario A2, average air temperatures are set to increase by 4.4°C (+2.9 +5.3°C) in Kazakhstan, by 5.0°C (+2.8 +6.3°C) in Kyrgyzstan, by 4.7°C (+3.0 +6.1°C) in Tajikistan, by 4.4°C (+2.8 +5.1°C) in Turkmenistan, and by 4.5°C (+2.9 +5.4°C) in Uzbekistan. Precipitation trends vary according to different models, from minus 2 to plus 6% in Kazakhstan, from minus 9 to plus 4% in Kyrgyzstan, from minus 7 to plus 7% in Tajikistan, from minus 3 to plus 3% in Turkmenistan and from minus 2 to plus 5% in Uzbekistan.

Under scenario B2, autumn air temperature is bound to increase by 3.4°C (+2.8 +3.9°C) in Kazakhstan, by 3.7°C (+2.6 +4.5°C) in Kyrgyzstan, by 3.6°C (+2.7 +4.6°C) in Tajikistan, by 3.4°C (+2.7 +4.1°C) in Turkmenistan and by 3.5°C (+2.8 +4.2°C) in Uzbekistan. Precipitation changes are expected to occur to the same ratios as under scenario A2.

8. Recommendations Concerning the Efficient Use of Water Resources in the Region Including Hydropower Potential

Bearing in mind the sensitivity of water resources to the potential anthropogenic climate change, adaptation to the new conditions becomes a task that should be on top of the list of priorities. Measures necessary to adapt will mainly be determined by specific need for water among its users. In all southern countries, agriculture is the most demanding user of water as it consumes up to 90% of the resources supplied through rivers. While determining adaptation measures, it should be taken into account that the expected decrease in surface water runoff is doomed to be aggravated by extreme climatic conditions, a phenomenon for which no reliable long-term forecast can be made at the present stage. Nevertheless, it can be considered fairly certain that floods are to become more destructive and lengthy, while droughts are set to occur more frequently and last over longer periods of time as well.

Inclusion of compulsory provisions on climate change in various regional and national plans and programmes is an adaptation measure in itself. In the cases of Kyrgyzstan and Tajikistan, such provisions are required to be included in the plans for all hydropower development projects.

An optimal approach would be to implement several regional pilot projects aimed at adaptation to climate change and share their results across the region.

Furthermore, adaptation to expected changes in supplies from water resources should include the following priorities:

at a regional level:

- the most drastic possible measures to be taken in terms of projects of re-routing portions of runoff within the region or from neighbouring regions;
- priorities to be given to water saving and environmentally protective measures;
- an emulation system to be developed with the purpose of detailed assessment and management of water resources;

at national levels:

- water saving technologies to be implemented in agriculture, industry and utility sectors;
- responses to the threats represented by deglaciation in the form of reservoirs to be designed and constructed on mountain rivers, basically for the purpose of seasonal runoff regulation, along with protective hydraulic engineering structures.

Given these priorities along with the multiethnic populations in the basins of the Syr Darya and the Amu Darya, the following range of measures should be taken in the future for the management of crucial water resources in Central Asia. These measures serve the interests of the entire region and are meant to build and develop a mechanism of cooperation between countries based on a common approach.

Measures to support water-consuming economic sectors:

- strategic economic development with an emphasis on “dry” or water-economical technology;
- introduction of water-saving technology in irrigated farming;
- increase in the use of water from subterranean deposits;
- a system which regulates surface water runoff and accumulation of water in reservoirs;

- campaigns to incite users to economise on water consumption through the introduction of fees;
- a shift towards drought-resistant varieties of crops which are more fit to adapt to climate change;
- the rerouting of a portion of river runoffs within the region or from outside the region.

Measures to mitigate the negative consequences of the deterioration of water resources:

- minimising water losses by improving management of water supply systems and refurbishing their infrastructures;
- replacing hygrophilous crops in irrigable areas by drought-resistant ones;
- introducing advanced technology in irrigated farming;
- using modern, more efficient water distribution systems and conditions with the aim to reduce losses of water;
- introducing new technologies and building water supply systems aimed at reducing losses of water in the industry and utilities sectors;
- recycling wastewater;
- reducing the share of HPP in overall power supplies and consumption in areas generating river runoffs, by switching to nuclear, solar and wind energy resources, in order to save water in winter to be saved for irrigation in summer;
- dredging river beds and providing navigable rivers with berths;
- replacing existing river transport and fishing vessels with boats that have less draught.

Measures to optimise the condition of aquatic ecosystems and ecological protection:

- creating favourable water and thermal conditions to sustain and cultivate fish and other animals through population control;
- building installations for chemical and biological treatment of wastewater;
- taking measures to reclaim vegetation and forest land and using agro-technical tools to ensure environmental safety;
- establishing protective zones near surface water sources and groundwater intake points;
- limiting economic activity in the most arid areas and transferring them to other districts;

- determining defined zones for core production sectors of agriculture;
- imposing compulsory EIA of new projects connected with the use of water resources.

Measures to streamline decision making:

- synchronising legislation and concluding international agreements that regulate relations in regard to the use of water in connection with projected changes to water resources;
- strengthening the competence and legal framework of international organisations;
- improving the timeliness and accuracy of hydrological forecasts;
- developing models and scientific recommendations in order to assess varieties of situations related to the generation and use of water resources;
- ensuring that respective authorities are ready to implement urgent decisions;
- assessing surface water resources and their characteristics in statistics under changed conditions with the purpose to develop programmes for the efficient use of water resources and to design hydraulic engineering structures;
- elaborating runoff registration and monitoring systems within the framework of cross-border water resources, and strengthening hydrological monitoring in order to determine forecasts of water resources and their changes due to climate change;
- improving awareness and skills related to sustainable water resources management;
- developing an overall system of hydrological forecasting;
- developing a timely prevention system of hydrological droughts;
- developing mechanisms of comprehensive water resources management in the Aral Sea basin.

These measures could facilitate a regional approach to water distribution challenges in the Aral Sea basin. Problems in particular involve the unequal positions of upstream and downstream countries.

In addition to the regional measures proposed in the previous paragraphs, national measures are on the agenda for Kazakhstan, Kyrgyzstan, Tajikistan and some parts of Uzbekistan which are under threat of increased mudflow activity due to changes in the climate.

Under changing climate conditions, as mudflow activity can increase in terms of frequency and intensity by dozens of times, protective measures are required of both political and economic character.

Protection against mudflow includes measures regarding territorial management and economic development. Examples are the prevention of reservoir bursts which can cause mudflow, draining hazardous reservoirs within glacier structures, amelioration of zones from where mudflow caused by rainfall originate, rehabilitation of vegetation on the mid-level slopes of mountains and foothills, terracing of foothill slopes, constructing basins in which debris from mudflow that result from outbursts from underground water deposits or from heavy precipitation occurring at heights above the common sources of mudflows, as well as influencing the intensity, lengths and phasing of precipitation.

Measures in territorial management and of economic character are aimed at minimising the threat of mudflow and mitigating potential damage.

These measures impose limits on economic activity in areas prone to mudflow, by preserving the vegetating that covers watershed areas, recultivation of natural landscapes, locating leisure resorts in safe places, introducing a warning system for mudflow threats, an improving safety awareness in areas prone to mudflows.

Protective measures, starting with hydraulic engineering, ensure the safety of utility sites threatened by mudflow through mudflow retention, redirecting the slides away from protected areas, make them circumvent exposed facilities, etc. To date, there are no commonly accepted or approved methods of protection against mudflow. It should be taken into account that no preventive measures can grant total protection, which is the reason why e.g. debris collection basins should be established in mountain valleys. If the location of such basins counts few inhabitants and the costs of preventive measures largely exceeds the value of the infrastructure under protection, and in case lands are being claimed for protection purposes, it will be more economical to redirect mudflow through protected areas or to allow them to accumulate debris in the basin.

Each of the mudflow that originate from high mountain levels and create havoc in river valleys and debris basins has its own specific characteristics, and it is therefore that each basin under the threat of mudflow requires its own specific protective strategy.

A preliminary assessment of the hydropower potential of Kyrgyzstan and Tajikistan indicates that protective and adaptive measures need to be implemented in the region. Water, just to mention one factor, is an energy resource for these two countries which receive 90 to 94% of all their energy from HPP. When in the last century the hydropower potential of the

two countries was assessed, it was done without taking climate change into account, and therefore now the assessment needs to be revised. An assessment, based on the lake Issyk Kul, as an example, indicates that the impact of climate change is very tangible indeed. Under the most favourable climate scenario, the total hydropower potential of the rivers flowing into Issyk Kul may drop to hardly more than half of its previous level by 2100. On the whole, comprehensive studies should be carried out in the region in order to compose an unbiased assessment of the condition of its water resources, including the hydropower potential of cross-border rivers.

9. Recommendations Regarding Food Security in the Context of the Impact of Climate Change on Agriculture

Among the various economic sectors, close attention is being given to issues relating to agriculture and food security in studies on the effect of climate sectors. Many countries have started to look at possibilities to grow varieties of crops such as wheat, maize, rice and other cereals, cotton, vegetables, vines, fodder grass, under different climatic conditions and assess their potential advantages and disadvantages. On one hand, crop cultivation may benefit from longer growing seasons and higher atmospheric concentrations of CO₂. On the other hand, higher temperatures may reduce soil humidity; facilitate the spread of weeds, pests and infectious crop diseases, apart from reducing biodiversity. On the whole, negative consequences will prevail, resulting in an overall decrease in productivity in the range of 15 to 50%.

Similar scenarios have also been conceived for livestock productivity. Some countries pin their hopes on higher CO₂ concentrations since they will give longer pasturing seasons. However, scenarios indicate that livestock productivity will drop as a result of dwindling areas of pasture land and a 30% decrease in the fertility of existing pastures.

In addition to the effect of climate change, there are risks involved in the variability of changes in climatic conditions, which most of all regard agriculture. Although most scenarios include an increase of the productivity of steppe land due to higher CO₂ concentrations in the atmosphere, productivity is also bound to be affected by negative phenomena such as excessive precipitation, floods and droughts.

Farms and rural populations are facing more and more difficulties due to climate change and the need to adapt to its negative consequences. Therefore, a clear adaptation strategy should be developed for agricultural and rural areas. This is bound to include certain issues such as the question whether which options in terms of adaptation are economically and technically feasible, which alternative crops can be cultivated in various areas in an economically viable manner as climate change advances, how timing for this can be conceived in the best possible way. Questions also regard factors that impede adaptation,

whether or not it is possible to secure synergetic benefits, and how issues concerning adaptation can be integrated into overall management strategies and policies in respect to agricultural and rural development.

A higher level of understanding of regional impacts of climate change and its effect on agriculture will pave the way to define regional strategies in order to respond to negative consequences or to use positive ones by adapting existing conditions. Close attention should be paid to reducing the emissions of greenhouse gases in agriculture and to increasing carbon sequestration, e.g. by defining proper agricultural and management methods and through well-programmed interventions. Any reliable and successful climate change response policy should be comprehensive. Therefore, agriculture should be integrated into the overall program strategy of GHG emission prevention. Agriculture has a good potential for reducing GHG emissions at low cost.

Central Asian countries are increasingly exposed to droughts. Shortages of precipitation therefore directly affect those sectors of the economy that subsist on water consumption such as industry, energy and transport. In addition, inadequate distribution of water among different sectors of the economy tends to tilt the balance between water supply needs and available water resources. Shortage of water intake and droughts strongly affect natural resources' availability as a whole, resulting in the loss of biodiversity, deterioration of water quality, increased risk of wildfires and loss of soil fertility.

The urgency of the problems caused by droughts in Central Asian countries depends on its effect on the population, the economy and the environment, along with the available potential for response and rehabilitation. Therefore, in order to address this problem at subregional and local levels, a comprehensive approach should be opted for, including a system of monitoring droughts and preparing preventive and responsive measures. In recent decades, droughts in Central Asia have increased poverty, undermined food security, and caused migration waves. It is also expected that water resources in the region will become increasingly stressed alongside by deglaciation and climate change. Areas prone to drought will expand, and it is therefore that a shift from crisis management towards drought risk management should become a regional-level priority. Accordingly, a wide range of programme options needs to be taken under consideration. Since water is vital for human physical, economic and social life, switching to efficient water-saving economic activity is an integrated part of overall challenges for the future.

Despite the increasing exposure of Central Asia's community to droughts, the ability to assess the problem through monitoring and forecasting is not yet up to a level that would allow to design proper expectation patterns and base adequate response strategies on them. Therefore, establishing regional

centres for drought control in Central Asia with the participation of end users is a difficult task even though it is imperative as a condition to get prepared for setbacks on both regional and local levels. Central Asian countries should also finance and/or raise funds for the transfer, acquisition, adaptation and development of environmentally friendly, economically viable and socially acceptable response devices to drought.

Efforts to create such efficient and sustainable devices require long-term investments. But although the costs of creating and maintaining land and water resources management systems are relatively high, the benefits of such systems, given that they function in an adequate manner, provide a basis for sound economic development and national social progress.

The achievement of the goals described above will largely depend on the respective countries' institutional readiness. Considerable efforts and investments should be made to create and maintain institutional support for an efficient land and water management system, with environmental considerations being an integral part of them. There is a need for the build-up of a legal framework that allows control over decision making and implementing concerning land and water management. Central Asian countries should consider raising additional funds from national and international sources, in order to be able to adopt adequate practices of the use and monitoring of land and water resources in developed countries.

10. International Recommendations for Measures to Strengthen Regional Cooperation in the Basins of Cross-Border Rivers in the Context of the Impact of Climate Change on Water Resources

The international community is paying close attention to issues relating to climate change and its effect on sustainable development. Risks associated with climate change cause growing concern, and therefore UN regional committees have developed approaches in respect to the assessment of economic and social consequences of climate change, in addition to analyses of its environmental aspects and its consequences for regional development.

The efforts by the international community are aimed at slowing down changes in climate or at mitigating their negative consequences. The Intergovernmental Panel on Climate Change has published a report under the title *Climate Change 2007*. This paper provides a review of research, technical and socioeconomic data needed to comprehend the climate change process and its potential effect, as well as methods of adaptation and of mitigating its negative consequences. The report includes a comprehensive summary of all currently available data on climate change.

The results of the observations conducted on all continents and in most of the oceanic zones suggest that climate change, and global warming in particular,

affects virtually all environmental systems. The overall trend indicates that the faster the temperature rises, the higher the risks of negative consequences becomes. Warming has already speeded up the hydrological cycle. A warmer atmosphere retains more moisture and becomes less stable. As a result, precipitation increases, especially in the form of heavy rainfall. Warming also intensifies evaporation. This eventually results in changes to water circulation, triggering depletion and deterioration of fresh water reserves in all regions at large, as well as changes in the patterns of winds and the direction of cyclones.

Due to extreme weather conditions, the incidence rate of natural disasters between 2000 and 2006 around the globe increased by 187% as compared to the previous decade. It is expected that these adverse changes will affect many countries, causing either extreme increases or extreme decreases in air temperature, affecting people's health. Climate change also causes floods and droughts, accelerates depletion and contamination of water sources, thereby worsening sanitary conditions. Ecosystems are already being affected by transformations associated with water circulation conditions: sources of surface water are drying up, temperatures change, algae are spreading and certain species are extinguishing. All these factors reduce the stability of ecosystems, including those in river basins.

Some of the phenomena mentioned above, such as floods, erosion and deglaciation, are already being observed in northern Europe. In central and eastern Europe, summer precipitation is expected to drop. High temperature and drought are being registered in Central Asia, the Caucasus and southern Europe, and right now they already affect the availability of water resources, hydropower capacity and crop productivity.

The ability to adapt to climate change is crucial for economies which depend on water resources, and it is therefore that taking measures to do so should become both a national and a regional priority. The negative effect of climate change hits developing countries hard since their economic resources remain insufficient to implement adaptation measures. These countries need international assistance. Where water resources are used jointly by various countries, all interested parties should develop coordinated initiatives and mobilise their financial resources. The report mentioned above indicates that political and economic incentives may help to develop new production technology with low GHG discharges. Therefore, the IPCC proposes political and economic initiatives aimed at reducing the emissions of GHG into the atmosphere, thereby adapting to climate change. The report concludes that:

- governments can play a key role in encouraging private sectors to invest in advance technology by providing transparent, predictable and stable incentives;

- political initiatives should be multilayered, with governments deploying a wide variety of political instruments such as standard requirements, taxes, duties, trade permits, voluntary agreements, subsidies, financial compensations, research and development programmes and information. An optimised approach regarding political initiatives may vary depending on a country's economic situation;
- public investments in energy infrastructure are an important factor in exercising a long-term influence on GHG discharge levels;
- governments should identify and eliminate barriers to efficient policy innovation and its implementation. Such barriers include market prices which stand in no relation to contamination and other factors, inappropriate incentives, property rights, lack of inefficient management and incomplete information;
- no single technology can provide an overall decrease in negative consequences of climate change. The best approach is to deploy all possible political initiatives addressing the core areas of concern.

In cooperation with the executive committee of the Protocol for Water and Health Problems, water resource experts of the UNECE prepared a draft manual on adaptation of water resource management to climate change in the east- and central Europe region and beyond. This manual describes how countries can implement the Convention on the Protection and Use of Transboundary Water Resources and International Lakes in relation to climate change. This document provides a step-by-step approach towards the assessment of the effect of climate change, policy formulation, and strategic and practical adaptation measures. It is essentially a plan of action which needs to be adapted to conditions on local levels.

The manual describes:

- the basic principles, general policy and institutional and legal framework of efficient planning and implementation of adaptation measures;
- information gaps and requirements relating to the assessment of the effect of climate change on the availability of water resources and services according to the various climate models and scenarios, as well as hydrological models of water levels in basins;
- the assessment of sensitivity on local and national levels in order to designate areas, population segments and ecosystems most exposed to risks, and means and methods to be used in order to eliminate or reduce those risks.

The adaptation phases include:

- prevention, including an action plan and a concept legal framework, and elimination of the worst consequences of natural disasters such as drought and floods;
- improvement of the viability and sustainability of water circulation systems by upgrading irrigation, desalination, water level control, safety of dams, land use planning, etc.;
- preparation for extreme weather conditions by enhancing awareness, fair distribution of water resources and joint management;
- response to extreme weather conditions, including evacuation, medical emergency assistance, distribution of safe drinking water, management of hazardous substances, institutional development, personnel training and divulging information;
- preparation for rehabilitation, reconstruction, legal measures, collecting and circulation of information in case of emergencies.

The ministerial declaration adopted by the V World Water Forum in March 2009 stresses the need to comprehend the effect of global climate changes on water resources, natural hydrological processes and ecosystems. The declaration contains a call for changing the attitude towards forecasts, climatic and hydrological information support for agriculture, and joint access to and use of the climate change and hydrological process database.

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The Ecological Efficiency of Russian and Kazakh Businesses: a Comparative Analysis

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ALEKSANDR
MARTYNOV

In this paper we provide data on the environmental monitoring of Russian and Kazakh businesses by segment, industry and type of activity. This data is used as a basis for comparative analysis of ecological efficiency issues in the two countries. This subject is especially relevant in the context of the Customs Union of Russia, Kazakhstan and Belarus.

Assessment of the Energy, Ecological and Technology Efficiency of Russian and Kazakh Businesses

In 2001 the International Social and Environmental Union (ISEU) carried out an assessment of ecological production costs in Russia and published the environmental ratings of 13 companies, 13 industries and 13 regions. As a follow-up, in 2003 the ISEU co-founded the independent non-profit organisation *Independent Environmental Rating Agency* (IERA).

In 2005 the IERA published its first handbook entitled *Social and Environmental Responsibility and Ratings of Russian Businesses*, which contained information on 75 companies and over 500 assets. Since 2006 ratings have been assigned using economic indices. By 2009 the handbook covered over 2,900 companies and assets from all the regions of the Russian Federation. In 2007 the Centre of Sustainable Production and Consumption (CSPC) of Kazakhstan joined the project, and in early 2008 this organisation issued its first handbook *Environmental Ratings: an Unbiased Tool of Appraising the Social and Environmental Responsibility of Kazakh Businesses*. This publication was prepared with the methodological support of the IERA and contained information on 46 companies from Kazakhstan. In 2009 the third issue of the handbook was prepared; it contained 2008 data on 187 Kazakh companies.

In 2007 the IERA and the CSPC agreed to collect information on energy consumption. Their concerted efforts enabled the direct comparison of Russian and Kazakh businesses by **ecological, energy and technology efficiency**. The first issue of the handbook *Ecological, Energy and Economic Efficiency of Businesses in Russia and Kazakhstan* contained the results of an assessment of 400 companies which had disclosed the required information.

The comparison of efficiency of Russian and Kazakh companies are based on the results of joint work carried out in 2009.

The information required to compare the ecological, energy and technology efficiency of Russian and Kazakh businesses was collected by means of a poll. We circulated a special questionnaire by mail and also used information from the companies' websites and social reports. On the whole, the IERA and the CSPC collected and processed information on 599 businesses (437 from Russia and 162 from Kazakhstan).

What is special about our method is that we use only quantitative data. We assess general energy consumption (E1) based on data on electric power, heat and primary fuel consumption. Electric power and heat are converted into the primary fuel required for producing them (TFOE). The economic potential of each business (E2) is assessed by production output in kind, personnel number and revenue (in roubles or tenge with recalculation based on the respective year's exchange rate). Environmental impact (E3) of each business is assessed by water consumption (m³), use of land (ha), discharge of sewage (m³), atmospheric emission of pollutants by stationary sources (ton), automotive pollutants (ton), and waste generation (ton, 1-4 danger class).

Energy efficiency is assessed as the ratio of economic potential to the unit of consumed energy. Any direct comparison of energy efficiency of different types of activity based on production in kind (in tons, units, m³, m², kWh, etc.) is impossible. One cannot compare production of beer and oil, even if the former is measured in barrels and the latter in dekalitres. Therefore, there are two options of calculating energy efficiency index $E2/E1$ for each business: the numerator may be either revenue or personnel number. Based on these two assessment options, we determined an average for all the Russian and Kazakh businesses studied which was taken as the standard or 100%. The level of energy efficiency of a business is the ratio of its $E2/E1$ to this standard value. Accordingly, a business whose individual $E2/E1$ is double the average has the efficiency of 200%, and a business whose index is one half as high as the average has the efficiency of 50%.

The use of in-kind indices for assessing the dynamics of energy efficiency (2008–2000 and 2008–2007) appears to be correct. Since changes in output can be expressed in percent (be it beer or steel), linking them to changes in energy consumption does not preclude a comparison of different industries. The ratio $(E2/E1)_{2008}/(E2/E1)_{2000}$ (2007) is a relative value and does not depend on the unit in which production is measured (ton, unit, m³, m², kWh, etc.).

The **ecological efficiency** of a business is assessed by six indices of human impact on the environment. To obtain an integral value of E3 we standardised

each type of impact by revenue or number of personnel. Then we calculated the average value of each type of impact for all the studied businesses, and made it a standard equal to 100%. Accordingly, each of the six types of impact of a business can be expressed in percent of the standard (100%); then the six values can be totalled and divided by six. The resulting ratio of environmental impact to economic potential ($E3/E2$) is essentially a value inverse to ecological efficiency which is calculated by the respective generation procedure. The dynamics of ecological efficiency is assessed as the ratio of ecological efficiency levels in different years (2008/2000 and 2008/2007).

Technology efficiency is calculated by the same procedure as ecological efficiency, but instead of standardising by economic potential indices (revenue and personnel number) we standardised six human impact types by total energy consumption. Technology efficiency is a value inverse to the quantity of adverse effects resulting from the operation of energy-consuming technical complexes.

The values of the main indices that are taken as the average or standard (100%) for Russia and Kazakhstan are summarised in *Table 13.1*. In order to compare Russian and Kazakh businesses in different years we recalculated costs in roubles and tenge at the respective exchange rates, taking into account the inflation rate.

| Index / unit | Value |
|---|-------|
| Water consumption (m ³ /TFOE) | 34.0 |
| Sewage discharge (m ³ /TFOE) | 12.3 |
| Atmospheric emission from stationary sources (kg/TFOE) | 12.2 |
| Atmospheric emission from mobile sources (kg/TFOE) | 3.80 |
| Dangerous waste generation (kg/TFOE) | 197 |
| Energy consumption (TFOE/person employed in the real sector) | 82.5 |
| Energy consumption (TFOE/1 million roubles of revenue in the real sector) | 39.2 |
| Energy consumption (TFOE/1 million tenge of revenue in the real sector) | 8.08 |
| Revenue ('000 roubles/person employed in the real sector) | 2198 |
| Revenue ('000 roubles/person employed in the real sector) | 10644 |

Table 13.1.
Indices taken as
100% in efficiency
calculations

Today, we see our task as familiarising business community, the state authorities and general public with the new system of development monitoring and convincing them of the need to implement it on a large scale. The limited sample size and some errors in the source material may distort the picture of the two countries' economic development or conceal certain nuances. As more data becomes available, the nature and phases of development of production in Russia, Kazakhstan and other countries implementing this system will be reflected more precisely. Application of the system on a larger scale will enable

more detailed analysis and the comparison of the development of different industries, segments, regions and particular companies.

Provided below are the results of our assessment and comparison of the efficiency of Russian and Kazakh businesses. Data on specific companies are published in the handbook *Ecological, Energy and Economic Efficiency of Businesses in Russia and Kazakhstan*. In this paper we present results by industry, segment, and type of activity. Data on groups of businesses of different sizes, segments and industries are also presented individually for each country. Assessments by type of activity are only provided for two countries due to a lack of data.

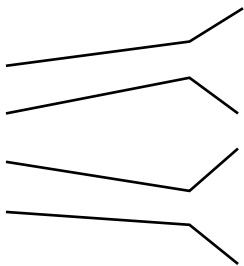
For the convenience of comparison of average long-term dynamics and the first crisis year dynamics we recalculated the index of efficiency change in eight years into the index of average annual change of efficiency, and replaced the index of efficiency change in 2008 with the difference between last year's trend and the average annual change of efficiency. If efficiency increased by 5% a year and in 2008 this increase was a mere 2%, the value in the last column will be -3%.

To make comparison easier, positive values in the trend are marked green and negative values red, as is the custom in publications of stock exchange quotations. Each table is accompanied by a chart illustrating trends before and after the crisis and the long-term dynamics in 2000–2007 and 2008. Medium-term dynamics of efficiency is shown in the charts as a section corresponding to eight years. It should be stressed that we discard any fluctuations and show only smoothed trends for the studied years. Deviations from long-term trends are shown only for 2008, because in that year the global crisis started to impact on the studied countries' development, and it is important to reflect these turning points. In addition, the data was collected during the last two years, and data for 2007–2008 is more complete and reliable than the data for interim periods. As we have used the year 2000 as a benchmark for consequent years, the data for that year is also more reliable.

This description of the development dynamics can be reduced to four basic scenarios, which in turn can be interpreted using theoretically substantiated "keys".

In a crisis year:

- A:** medium-term rise in efficiency accelerated
- B:** medium-term rise in efficiency turned into a decline
- C:** medium-term decline in efficiency turned into a rise
- D:** medium-term decline in efficiency accelerated



From the perspective of the General Systems Theory (Artyukhov, 2009), a consistent growth of efficiency in a self-developing system (scenarios A and B) indicates that a core is emerging—that is, a group of elements featuring higher efficiency. This means that the structural transformation preceding this phase has been completed; a group of elements that have adapted well to the existing conditions has developed; the selection process on one of the efficiency axes is underway; and the next transformation is not yet ready to commence.

An accelerated rise of efficiency following a long period of growth (scenario A) reflects the maturity of a system, its internal structuring and self-contained nature ("we are fine; everything's under control"). It is difficult for innovations to emerge in this system or to be adopted by it from outside. Any ongoing development is essentially fine tuning of the internal functioning mechanisms of existing elements.

A slowdown of rise of efficiency or even a decline following a long period of growth (scenario B) indicates the beginning of the phase of transformation of old elements and the mature system which has been successful in the utilitarian sense. It is at this point that the inefficient, competition-stricken periphery begins to revive. For unknown reasons, what used to be a guarantee of success does not seem to work anymore.

A long period of decline or stagnation in self-developing systems (scenarios C and D) indicates an ongoing transformation phase. The former leading elements (in terms of efficiency) gradually lose their prominent positions in the system. Typically, during these periods new structures emerge (often from the remnants of the former efficient elements) which, however, have not yet identified optimum development strategies which would bring them maximum benefits from an energy and technology efficiency perspective.

If a protracted decline slows down or turns into a rise (scenario C), this most probably indicates that a small group of leaders have emerged in the system with the potential to become the core of a new system. A weakened system with these "growth zones" is an ideal target for investments necessary for nourishing innovations. Targeted investing in "growth zones" is the best investment strategy during a crisis.

An accelerated decline in efficiency which has long been declining or stagnated at the same level (scenario D) indicates the highest degree of system disintegration possible: the weakening of ties between elements and the absence of any selection by efficiency. In principle, at this point evolution can once again start from the very beginning. Any new process will not face resistance, nor will it enjoy any internal support.

The above "keys" allow us to compare economic development in different business size segments. We should stress that the categories of "small",

“medium” or “large” businesses used for the purposes of our interpretation do not correspond to those adopted in the official statistics of the two countries under review. We group businesses by personnel number, revenue, and energy consumption. Our three size groups are formed so as to represent a sufficient number of businesses and, given the limited sample size, minimise statistical error.

Monitoring the Efficiency of Russian and Kazakh Businesses by Size

In Kazakhstan, the system of small businesses had fully developed and structured itself by 2007, as indicated by the sustained growth of ecological and energy efficiency in this segment. In Russia, the small business system cannot be called complete despite a comparable level of energy efficiency and a higher level of ecological efficiency. In this real segment of the Russian economy efficiency is declining on all axes, and this decline is accelerating on the energy intensity and technology axes. The failures in the Russian policy support for small businesses are well known, and they are especially striking against a background of the fairly good progress in this sector in Kazakhstan.

At an early stage of the global crisis the small businesses segment in Kazakhstan showed signs of beginning transformation. These signs were especially pronounced in ecological and energy efficiency, but not as obvious in technology efficiency. Apparently, the shocks of the crisis year not only hit the segment but also undermined the viability of those businesses which had formed the very core of the small businesses system during the period of the “raw material” upturn.

| | Energy efficiency [%] | Dynamics in eight years (+/-% per year) | Change of dynamics in 2008 (+/-%) |
|---------------------------------|--------------------------|--|--------------------------------------|
| Business from the two countries | | | |
| small | 658.0 | -0.82 | -1.76 |
| medium | 104.2 | -0.5 | +2.25 |
| large | 119.2 | +2.03 | +0.56 |
| Business from Russia | | | |
| small | 596.4 | -0.23 | -2.59 |
| medium | 102.0 | -0.21 | +0.53 |
| large | 112.0 | +2.13 | -0.33 |
| Business from Kazakhstan | | | |
| small | 726.7 | +3.7 | -0.16 |
| medium | 114.8 | -1.47 | +3.24 |
| large | 181.5 | +1.02 | +10.7 |

Table 13.2.
Energy efficiency
of production
(average = 100%)
and its dynamics
in businesses of
different sizes

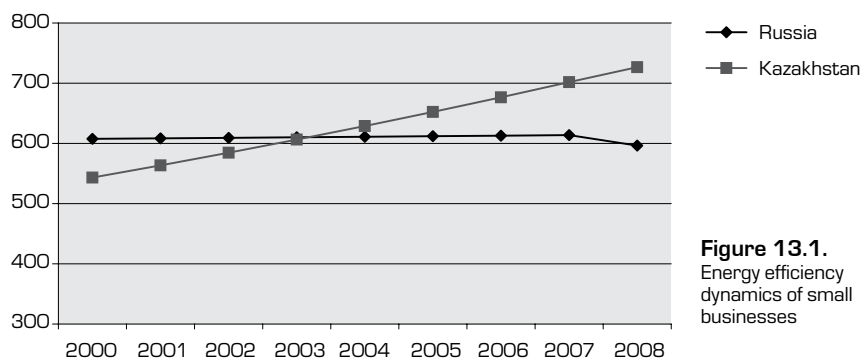


Figure 13.1.
Energy efficiency
dynamics of small
businesses

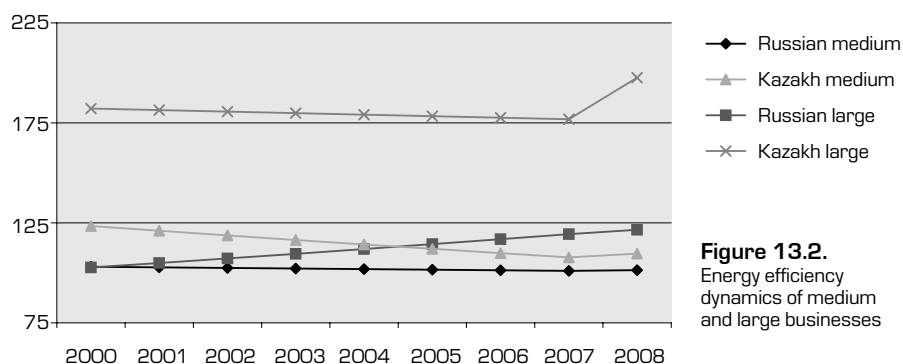


Figure 13.2.
Energy efficiency
dynamics of medium
and large businesses

| | Ecological efficiency (%) | Dynamics in eight years (+/- % per year) | Change of dynamics in 2008 (+/- %) |
|---------------------------------|---------------------------|--|------------------------------------|
| Business from the two countries | | | |
| small | 153.1 | -0.1 | -1.0 |
| medium | 122.5 | -2.1 | +1.8 |
| large | 100.7 | -0.1 | +5.0 |
| Business from Russia | | | |
| small | 183.6 | -4.5 | +1.8 |
| medium | 157.8 | -3.2 | -0.3 |
| large | 106.8 | +0.1 | +4.5 |
| Business from Kazakhstan | | | |
| small | 136.4 | +3.3 | -5.8 |
| medium | 104.0 | +0.1 | +2.1 |
| large | 76.8 | -4.7 | +14.0 |

Table 13.3.
Ecological efficiency
of production
(average = 100%)
and its dynamics
in businesses of
different sizes

Table 13.4.
Technology efficiency
of production
(average = 100%)
and its dynamics
in businesses of
different sizes

| | Technology efficiency (%) | Dynamics in eight years (+/- % per year) | Change of dynamics in 2008 (+/- %) |
|---------------------------------|---------------------------|--|------------------------------------|
| Business from the two countries | | | |
| small | 52.4 | -2.2 | +2.1 |
| medium | 217.1 | -1.8 | +1.5 |
| large | 136.0 | -2.2 | +4.5 |
| Business from Russia | | | |
| small | 73.3 | -4.7 | +2.4 |
| medium | 132.8 | -3.4 | +1.8 |
| large | 143.5 | -1.8 | +4.5 |
| Business from Kazakhstan | | | |
| small | 72.1 | -0.1 | -0.6 |
| medium | 158.1 | +3.1 | -2.7 |
| large | 97.1 | -6.4 | +5.6 |

Figure 13.3.
Ecological efficiency
dynamics of Russian
businesses

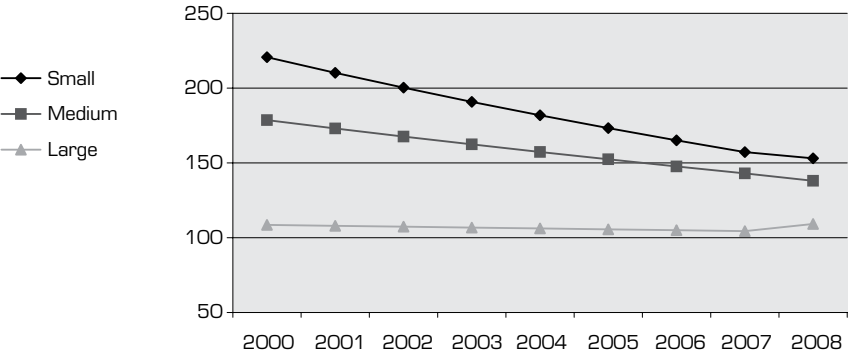
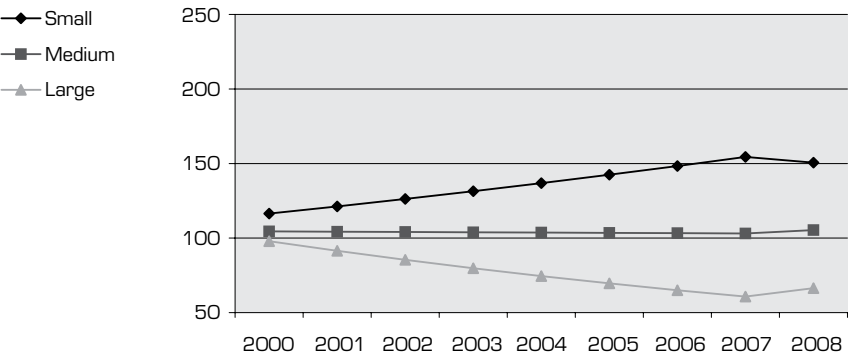


Figure 13.4.
Ecological efficiency
dynamics of Kazakh
businesses



| | Energy efficiency % | Dynamics in eight years (+/- % per year) | Change of dynamics in 2008 (+/- %) |
|---------------------------------|---------------------|--|------------------------------------|
| Business from the two countries | | | |
| Electric power | 179.7 | +1.2 | -0.2 |
| Oil production | 520.9 | -2.3 | +3.0 |
| Oil refining | 105.0 | -3.6 | +5.6 |
| Coal | 298.8 | +1.6 | +6.8 |
| Ferrous metallurgy | 137.8 | +0.3 | +2.1 |
| Non-ferrous metallurgy | 273.9 | -0.4 | -0.3 |
| Chemicals | 156.5 | +2.8 | +5.8 |
| Mechanical engineering | 539.4 | +4.4 | -4.1 |
| Wood working | 165.8 | +5.0 | +2.2 |
| Food | 432.7 | +4.1 | -4.3 |
| Others | 244.8 | +1.0 | -5.6 |
| Agriculture | 391.2 | -1.8 | +4.0 |
| Construction | 947.2 | -6.2 | -4.5 |
| Transport | 262.2 | +0.4 | +2.1 |
| Housing and public utilities | 245.5 | +0.0 | -3.6 |
| Business from Russia | | | |
| Electric power | 163.9 | +1.5 | -1.5 |
| Oil production | 295.5 | -3.1 | +4.5 |
| Oil refining | 113.6 | -2.7 | +5.0 |
| Coal | 280.1 | +3.9 | -1.0 |
| Ferrous metallurgy | 114.7 | +0.9 | +1.4 |
| Non-ferrous metallurgy | 327.7 | +1.4 | -6.6 |
| Chemicals | 158.0 | +0.5 | +2.9 |
| Mechanical engineering | 434.4 | +2.7 | -2.7 |
| Wood working | 165.8 | +5.0 | +2.2 |
| Food | 521.1 | +0.7 | -2.7 |
| Others | 219.1 | +4.0 | -1.3 |
| Agriculture | 159.7 | +5.7 | -0.9 |
| Construction | 690.6 | -33.9 | +7.5 |
| Transport | 235.4 | +1.1 | +2.1 |
| Housing and public utilities | 230.0 | +0.0 | -4.6 |
| Business from Kazakhstan | | | |
| Electric power | 286.2 | -0.3 | +6.0 |
| Oil production | 804.2 | -1.6 | +1.9 |
| Oil refining | 37.0 | -11.5 | +10.9 |
| Coal | 339.0 | -2.3 | +22.6 |
| Ferrous metallurgy | 172.4 | -0.1 | +2.7 |
| Non-ferrous metallurgy | 190.3 | -4.3 | +10.8 |
| Chemicals | 154.9 | +9.6 | +15.1 |
| Mechanical engineering | 881.4 | +8.3 | -2.7 |
| Food | 324.0 | +10.0 | -6.8 |
| Others | 259.5 | -0.2 | -10.5 |
| Agriculture | 1022 | -9.3 | +8.9 |
| Construction | 1109 | +6.5 | -9.4 |
| Transport | 1046 | -6.4 | +0.7 |
| Housing and public utilities | 273.7 | +0.1 | -2.2 |

Table 13.5.
Energy efficiency of production (average = 100%) and its dynamics in different industries

Figure 13.5.
Technology efficiency
dynamics of Russian
businesses

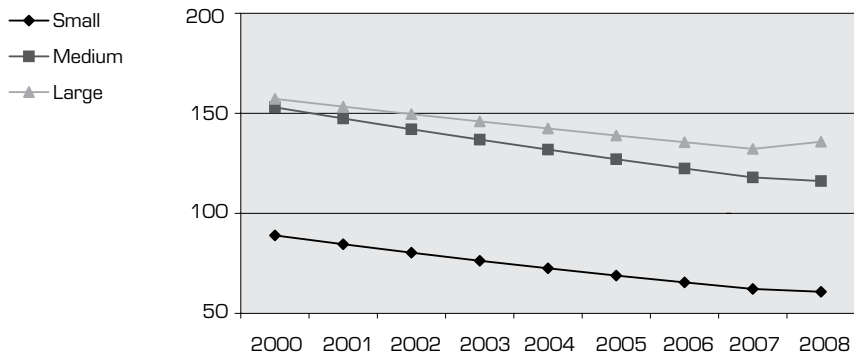
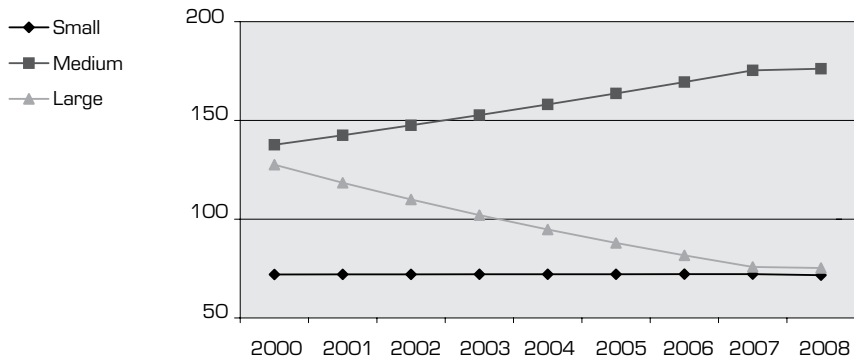


Figure 13.6.
Technology efficiency
dynamics of Kazakh
businesses



Judging by the technology and energy efficiency indicators, the system of small businesses in Russia has weakened extremely. The segment appears to be left to the mercy of fate: no competitive selection, no leaders, no control and no support. An upturn can only be observed on the ecological efficiency axis, and this is after many years of decline. Notably, Russia has demonstrated a decline on the ecological efficiency axis not only in small businesses but also in most segments. This may be attributable to the relaxation of state control over environmental issues following the abolition of the State Committee on the Environment on May 17, 2000. Since then, environmental issues have been increasingly neglected in the small businesses segment, and it was only in 2008 that the situation started to change.

The medium size businesses segment in Kazakhstan demonstrated a decline in ecological and energy efficiency until 2007, which indicated the prevalence of the disintegration process in the existing old system. Energy efficiency was dropping faster than in Russia, but state environmental control remained strict – it is probable that this allowed technology efficiency to be maintained and even enhanced. In 2008, the phase of transformation of the old system

began. New niches for less successful players appeared around the established technology leaders.

In Russia, the development of the medium size businesses segment cannot be considered complete – the same is true as with the small businesses segment. It would appear that this development phase is nearing completion. In the first crisis year, the decline in energy and technology efficiency slowed, and environmental efficiency remained at practically the same level.

The large business segment in Kazakhstan saw powerful structural transformation, and until 2007 there were no signs of an emerging core: all the three efficiency indices were declining (especially ecological and technology efficiency). However, it seems that internal potential for the development of a structural core was accumulated during that period. After the outbreak of the crisis in 2008, all three efficiency indices of large businesses turned positive and began to rise. A lack of financial resources triggered the selection mechanism in this segment, and strong leaders appeared. As we have mentioned above, this is the optimum time for investment.

The Russian large businesses segment as a system with distinct leaders developed earlier than in Kazakhstan (this is best illustrated by the energy efficiency indices). Large businesses failed to use the relaxation of state environmental control to the maximum extent possible. The outbreak of the crisis in 2008 showed that the system of large business may soon enter the phase of transformation of old elements (in this context, the example of AvtoVAZ is very typical). At an early stage of the crisis the ecological and technology indices of large businesses turned negative and the rise of their energy efficiency slowed slightly. On the whole, the system of large businesses in Russia demonstrates the ability to survive the crisis in practically the same shape that existed prior to 2008.

At this point we finalise our analysis of efficiency indices in the different segments of the two countries. Those who wish to study the situation in more detail can do so using the above system of "keys". Tables and figures illustrating the monitoring of efficiency by industry, segment and type of activity are provided below. We should stress, however, that the existing sample size is not sufficient for some grouping options. This may complicate interpretation of development phases of particular business groupings, but is not likely to preclude any other uses of the monitoring results.

Monitoring of the Efficiency of Russian and Kazakh Businesses by Industry

Figure 13.7.
Energy efficiency
dynamics in some
industries in Russia

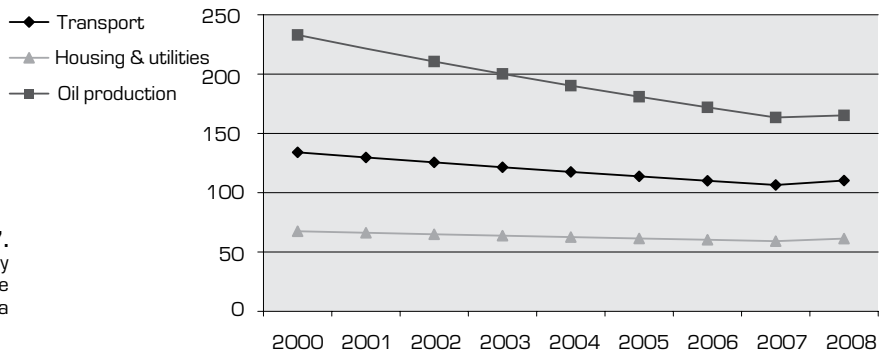


Figure 13.8.
Energy efficiency
dynamics in some
industries in
Kazakhstan

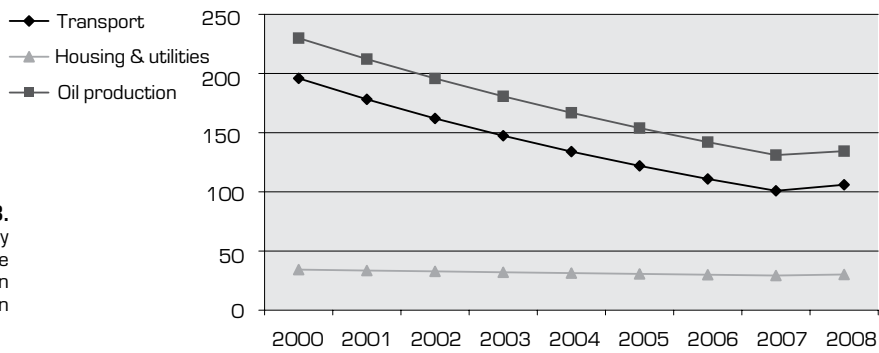


Figure 13.9.
Ecological efficiency
dynamics in some
industries in Russia

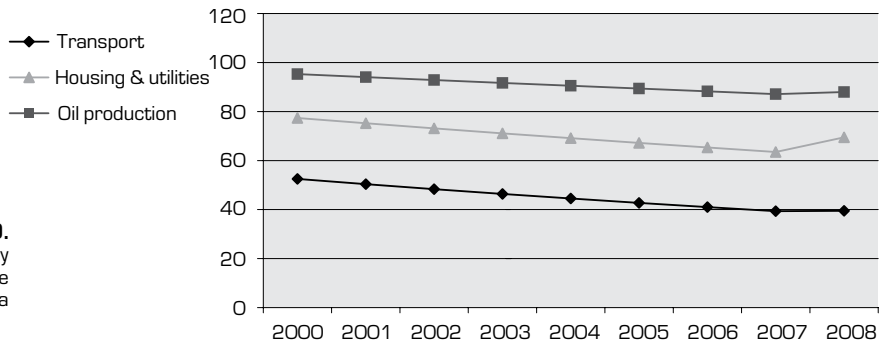
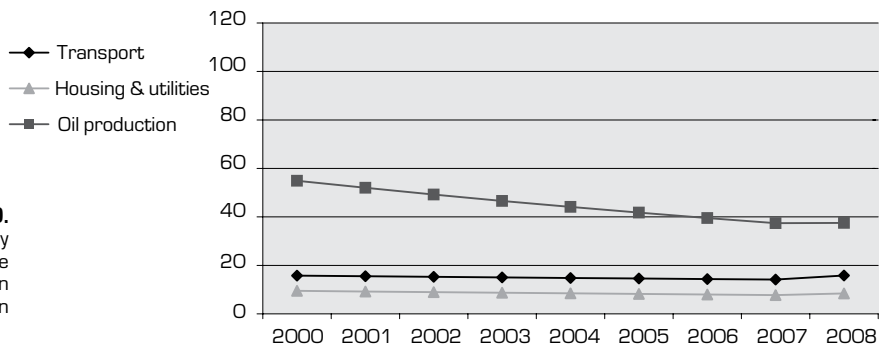


Figure 13.10.
Ecological efficiency
dynamics in some
industries in
Kazakhstan



| | Ecological efficiency (%) | Dynamics in eight years (+/- % per year) | Change of dynamics in 2008 (+/- %) |
|---------------------------------|---------------------------|--|------------------------------------|
| Business from the two countries | | | |
| Electric power | 82.4 | +0.2 | +1.3 |
| Oil production | 147.4 | -5.5 | +8.3 |
| Oil refining | 156.8 | -0.3 | +23.9 |
| Coal | 78.7 | +2.7 | +5.5 |
| Ferrous metallurgy | 134.3 | -1.0 | +1.4 |
| Non-ferrous metallurgy | 179.2 | -5.7 | +5.6 |
| Chemicals | 185.7 | +1.5 | +8.6 |
| Mechanical engineering | 528.4 | +0.2 | -4.4 |
| Wood working | 87.7 | -0.5 | -4.9 |
| Food | 267.5 | +0.7 | +0.1 |
| Others | 196.5 | -1.0 | -4.6 |
| Agriculture | 122.8 | -2.5 | -0.4 |
| Construction | 386.1 | -6.0 | -17.4 |
| Transport | 120.7 | -2.8 | +6.4 |
| Housing and public utilities | 51.5 | -1.3 | +4.7 |
| Business from Russia | | | |
| Electric power | 88.3 | +0.3 | +2.1 |
| Oil production | 193.0 | -4.2 | +5.2 |
| Oil refining | 184.9 | -1.1 | +27.4 |
| Coal | 99.5 | +1.1 | +9.7 |
| Ferrous metallurgy | 139.0 | -4.5 | +1.9 |
| Non-ferrous metallurgy | 223.0 | -4.9 | +1.8 |
| Chemicals | 260.4 | -0.7 | +2.8 |
| Mechanical engineering | 665.6 | -1.4 | -3.0 |
| Wood working | 87.7 | -0.5 | -4.9 |
| Food | 361.1 | -4.1 | +1.5 |
| Others | 306.8 | -6.0 | +3.1 |
| Agriculture | 117.0 | -2.4 | -2.6 |
| Construction | 295.85 | -34.9 | -3.2 |
| Transport | 118.8 | -2.4 | +5.9 |
| Housing and public utilities | 63.0 | -1.2 | +4.8 |
| Business from Kazakhstan | | | |
| Electric power | 89.1 | +0.01 | -0.8 |
| Oil production | 171.9 | -6.5 | +9.0 |
| Oil refining | 37.0 | +6.8 | -5.0 |
| Coal | 27.6 | +6.0 | -2.8 |
| Ferrous metallurgy | 130.6 | +3.4 | +3.4 |
| Non-ferrous metallurgy | 91.7 | -7.7 | +11.5 |
| Chemicals | 65.5 | +12.7 | +22.5 |
| Mechanical engineering | 291.1 | +6.1 | -9.6 |
| Food | 166.2 | +9.5 | -2.0 |
| Others | 149.1 | +0.1 | +0.6 |
| Agriculture | 200.4 | -2.6 | +1.8 |
| Construction | 222.8 | +7.9 | -23.9 |
| Transport | 139.7 | -7.4 | +12.5 |
| Housing and public utilities | 31.6 | -1.6 | +4.7 |

Table 13.6.
Ecological efficiency of production (average = 100%) and its dynamics in different industries

| | Technology efficiency (%) | Dynamics in eight years (+/- % per year) | Change of dynamics in 2008 (+/- %) |
|---------------------------------|---------------------------|--|------------------------------------|
| Business from the two countries | | | |
| Electric power | 172.2 | -0.3 | +0.9 |
| Oil production | 101.7 | -3.1 | +3.6 |
| Oil refining | 158.7 | +3.3 | +17.8 |
| Coal | 24.9 | +1.1 | -0.9 |
| Ferrous metallurgy | 280.4 | -2.2 | +2.2 |
| Non-ferrous metallurgy | 93.9 | -5.5 | +5.8 |
| Chemicals | 129.7 | -0.8 | +2.1 |
| Mechanical engineering | 121.8 | -3.5 | -2.3 |
| Wood working | 117.2 | -6.1 | -1.4 |
| Food | 76.8 | -3.1 | +4.4 |
| Others | 102.9 | -3.2 | +2.4 |
| Agriculture | 61.8 | +0.5 | -5.4 |
| Construction | 153.3 | -2.3 | -11.8 |
| Transport | 42.5 | -3.2 | +4.3 |
| Housing and public utilities | 47.5 | -1.4 | +10.5 |
| Business from Russia | | | |
| Electric power | 112.7 | -0.6 | +3.0 |
| Oil production | 90.8 | -1.0 | +2.0 |
| Oil refining | 171.1 | +1.5 | +21.9 |
| Coal | 37.5 | -2.6 | +10.3 |
| Ferrous metallurgy | 132.1 | -7.1 | +1.7 |
| Non-ferrous metallurgy | 118.9 | -6.2 | +7.7 |
| Chemicals | 145.0 | -2.2 | +1.9 |
| Mechanical engineering | 136.2 | -4.3 | -0.1 |
| Wood working | 117.2 | -6.1 | -1.4 |
| Food | 88.0 | -4.9 | +4.7 |
| Others | 150.4 | -9.9 | +3.5 |
| Agriculture | 123.3 | -7.6 | -1.7 |
| Construction | 326.2 | -10.3 | -11.3 |
| Transport | 45.0 | -3.5 | +3.9 |
| Housing and public utilities | 70.2 | -1.3 | +10.7 |
| Business from Kazakhstan | | | |
| Electric power | 94.0 | +0.3 | -3.7 |
| Oil production | 44.8 | -4.7 | +4.9 |
| Oil refining | 90.4 | +20.7 | -18.3 |
| Coal | 6.0 | +9.1 | -23.2 |
| Ferrous metallurgy | 316.5 | +3.9 | +0.1 |
| Non-ferrous metallurgy | 42.5 | -3.9 | +1.9 |
| Chemicals | 53.7 | +2.8 | +5.6 |
| Mechanical engineering | 67.9 | -1.8 | -7.2 |
| Food | 61.2 | -0.1 | +4.5 |
| Others | 77.9 | +1.4 | +10.1 |
| Agriculture | 19.1 | +9.7 | -10.1 |
| Construction | 105.5 | +1.3 | -11.7 |
| Transport | 15.0 | +0.04 | +11.9 |
| Housing and public utilities | 8.6 | -1.5 | +10.1 |

Table 13.7.
Technology efficiency
of production
(average = 100%)
and its dynamics in
different industries

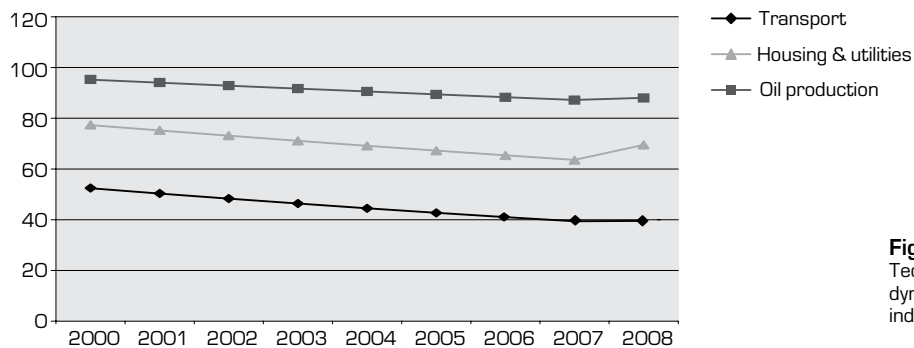


Figure 13.11.
Technology efficiency
dynamics in some
industries in Russia

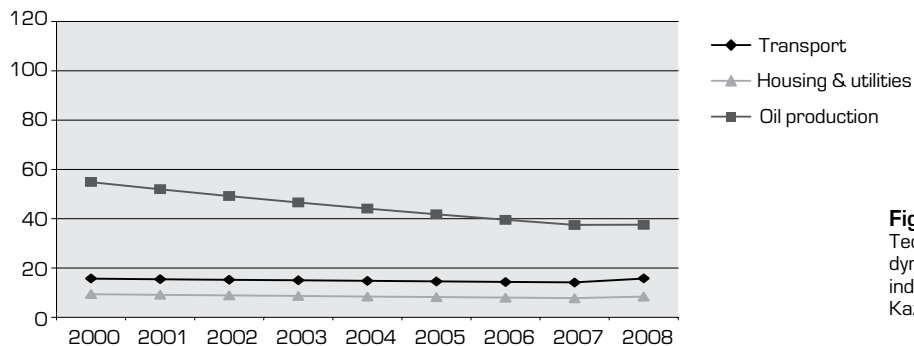


Figure 13.12.
Technology efficiency
dynamics in some
industries in
Kazakhstan

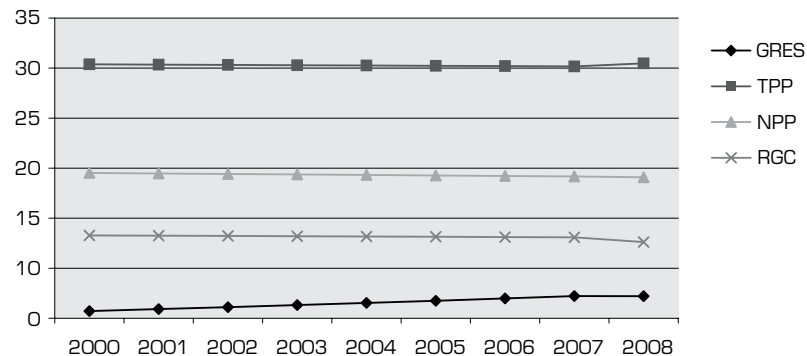


Figure 13.13.
Efficiency dynamics
by power generation
type

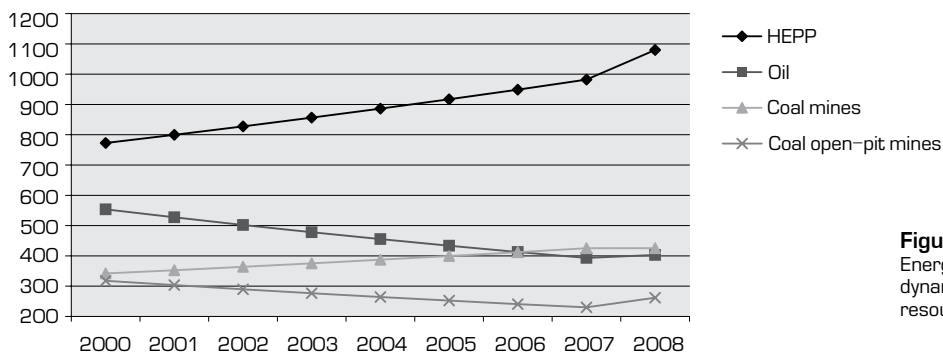


Figure 13.14.
Energy efficiency
dynamics by
resource type

Figure 13.15.
Energy efficiency
dynamics of basic
processing

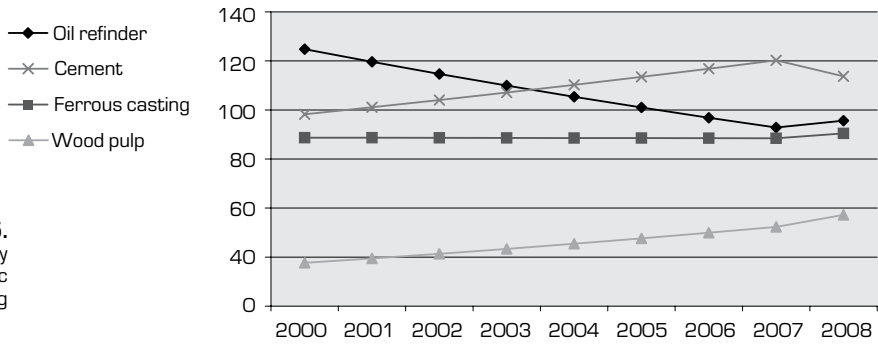


Figure 13.16.
Energy efficiency
dynamics in
infrastructure

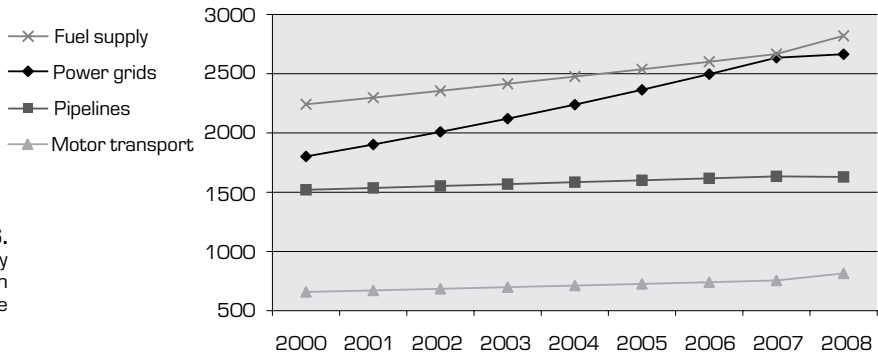


Figure 13.17.
Ecological efficiency
dynamics by power
generation type

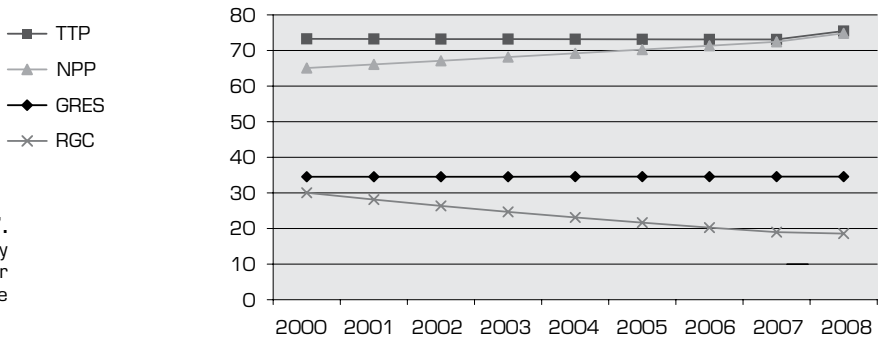
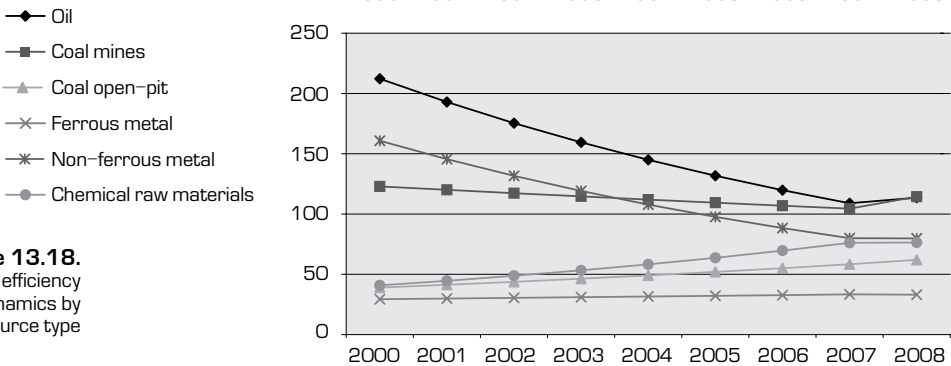


Figure 13.18.
Ecological efficiency
dynamics by
resource type



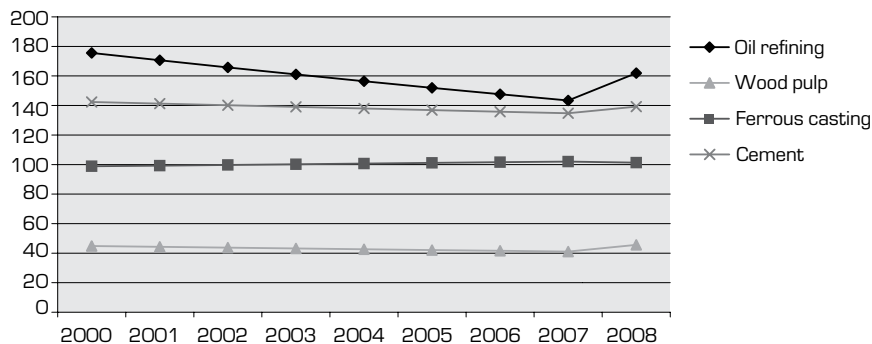


Figure 13.19.
Ecological efficiency
dynamics of basic
processing

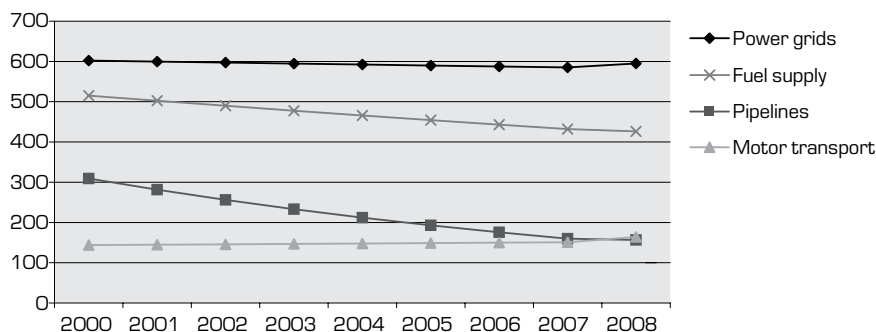


Figure 13.20.
Ecological efficiency
dynamics in
infrastructure

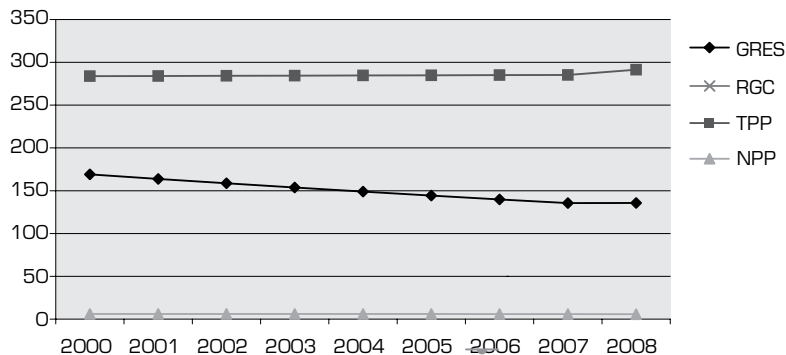


Figure 13.21.
Technology efficiency
dynamics by power
generation type

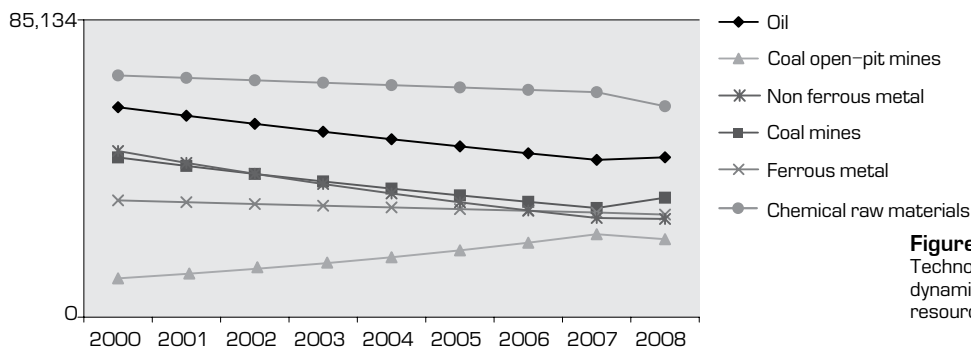


Figure 13.22.
Technology efficiency
dynamics by
resource type

| | Energy efficiency (%) | Dynamics in eight years (+/- % per year) | Change of dynamics in 2008 (+/- %) |
|---|-----------------------|--|------------------------------------|
| Power generation companies from the two countries | | | |
| State district power plants (GRES) | 6.5 | +2.9 | -3.0 |
| Thermal power plants (TPP) | 30.3 | +0.04 | +1.0 |
| Hydropower plants (HPP) | 896.7 | +4.3 | +5.7 |
| Nuclear power plants (NPP) | 19.3 | -0.3 | -0.2 |
| Regional grid companies (RGC) | 13.1 | -0.6 | -2.9 |
| Extractive companies from the two countries | | | |
| Oil | 462.2 | -3.9 | +6.4 |
| Drilling | 361.0 | +6.2 | -14.1 |
| Gas | 755.0 | +10.7 | +24.3 |
| Coal mines | 387.0 | +2.8 | -2.7 |
| Open-pits coal mines | 270.8 | -2.4 | +16.3 |
| Ferrous metal ores | 54.3 | +3.2 | -1.9 |
| Non-ferrous metal ores | 144.2 | -2.2 | +2.8 |
| Gold | 1330 | -20.4 | +31.3 |
| Chemical raw materials | 144.7 | +10.2 | -2.0 |
| Wood | 442.2 | +3.1 | -3.3 |
| Limestone and ballast stone | 383.4 | -1.3 | +3.7 |
| Construction in the oil & gas industry | 1095 | -1.4 | -4.2 |
| Pipelines | 1582 | +0.9 | -1.2 |
| Value-added production in the two countries | | | |
| Refineries | 106.7 | -3.3 | +6.3 |
| Coal dressing | 253.6 | +5.2 | +6.6 |
| Coke and refractory products | 87.8 | +2.3 | +3.9 |
| Ferrous casting | 88.8 | +0.2 | +2.0 |
| Steel and wire products | 483.2 | -0.3 | +2.2 |
| Non-ferrous casting | 252.8 | +0.6 | -2.9 |
| Basic chemicals | 46.4 | +5.7 | +5.5 |
| Wood pulp | 46.0 | +5.4 | +4.0 |
| Cement | 109.4 | +1.8 | -7.3 |
| Bricks | 802.7 | -6.7 | -2.5 |
| Processing companies from the two companies | | | |
| Piping and rolled steel | 71.0 | +0.9 | +1.8 |
| Rare-earth metals | 160.1 | +7.7 | -5.7 |
| Non-ferrous metals processing | 432.0 | +1.7 | -8.0 |
| Petrochemistry | 100.4 | +3.1 | +0.04 |
| Rubber and tyres | 280.9 | -13.2 | +16.7 |
| Fertiliser | 76.3 | +2.1 | +45.9 |
| Lacquer and paints | 322.5 | +3.8 | +2.1 |
| Chemicals | 251.7 | +2.6 | -13.0 |
| Pharmaceuticals | 284.3 | -0.2 | +8.3 |
| Plastics articles | 472.6 | +13.8 | -3.6 |

Table 13.8.
Energy efficiency of production (average = 100%) and its dynamics in businesses engaging in different types of activity

| | Energy efficiency (%) | Dynamics in eight years (+/- % per year) | Change of dynamics in 2008 (+/- %) |
|---|-----------------------------|--|--|
| Instrument-making | 797.7 | +6.3 | -1.9 |
| Aircraft | 728.5 | -0.1 | -5.3 |
| Cars | 478.0 | +6.1 | -8.5 |
| Tractors | 377.1 | +6.8 | -7.0 |
| Vessels | 281.9 | +2.6 | +7.1 |
| Machine tools and special equipment | 516.5 | +3.3 | +1.9 |
| Heavy equipment | 508.2 | +2.5 | -8.8 |
| Railway engineering | 214.0 | +5.8 | -1.4 |
| Wood working | 25.9 | +15.4 | -11.4 |
| Paper and cardboard | 96.6 | +3.8 | +4.8 |
| Plywood | 17.3 | +2.6 | +10.5 |
| Grain storage | 833.7 | +2.3 | -8.5 |
| Sugar | 98.7 | +3.2 | 2.8 |
| Milk | 242.1 | +25.1 | -19.0 |
| Meat | 703.8 | -8.3 | +6.5 |
| Alcohol | 432.4 | -1.1 | +3.0 |
| Beer and beverages | 364.4 | +7.3 | -5.7 |
| Bakery | 918.7 | +1.6 | -5.1 |
| Tobacco | 2024.8 | -3.1 | -6.1 |
| Finishing materials | 386.7 | +7.9 | -26.8 |
| Glass and ceramics | 99.0 | +3.3 | -3.2 |
| Textile | 762.0 | -3.1 | -0.3 |
| Concrete goods | 202.3 | +6.1 | -12.8 |
| Infrastructure companies from the two countries | | | |
| Power grids | 2248.4 | +5.0 | -3.9 |
| Heat networks | 154.9 | -3.2 | -5.3 |
| Roads | 700.2 | +7.6 | -3.4 |
| Construction in the electric power sector | 779.5 | -44.7 | +9.8 |
| Civil construction | 786.7 | +9.0 | -10.7 |
| Air transport | 816.4 | -0.9 | -4.9 |
| Motor transport | 717.9 | +2.7 | +5.2 |
| Railway transport | 161.1 | +0.9 | +1.7 |
| Water transport | 397.0 | -20.7 | +12.6 |
| Fuel supply | 2490.1 | +2.9 | +2.9 |
| Water treatment | 306.7 | -0.9 | -4.1 |
| Waste removal | 605.4 | -4.0 | +11.4 |
| Sewage treatment | 221.1 | +5.4 | -2.3 |
| Housing | 124.4 | +3.7 | -11.8 |
| Office premises | 183.7 | -1.7 | +0.7 |
| Printing trade | 487.2 | +2.8 | +35.7 |
| Telecommunications | 9.4 | -2.8 | +3.6 |

| | Ecological efficiency (%) | Dynamics in eight years (+/-% per year) | Change of dynamics in 2008 (+/-%) |
|---|---------------------------|---|-----------------------------------|
| Power generation companies from the two countries | | | |
| State district power plants (GRES) | 34.6 | +0.02 | -0.02 |
| Thermal power plants (TPP) | 73.4 | +0.4 | +2.9 |
| Hydropower plants (HPP) | 69.4 | +1.8 | +1.5 |
| Nuclear power plants (NPP) | 9.1 | +3.0 | -6.0 |
| Regional grid companies (RGC) | 23.5 | -5.8 | +3.7 |
| Extractive companies from the two countries | | | |
| Oil | 151.0 | -7.5 | +11.7 |
| Drilling | 176.0 | +13.1 | -22.8 |
| Gas | 149.6 | +7.8 | -2.9 |
| Coal mines | 113.6 | -0.9 | +10.4 |
| Open-pits coal mines | 49.7 | +6.0 | +0.3 |
| Ferrous metal ores | 31.5 | +1.5 | -2.1 |
| Non-ferrous metal ores | 112.3 | -8.4 | +8.1 |
| Gold | 45.1 | -29.8 | +33.3 |
| Chemical raw materials | 59.1 | +8.2 | -7.7 |
| Wood | 163.7 | -8.3 | -37.7 |
| Limestone and ballast stone | 123.5 | -1.4 | +13.2 |
| Construction in the oil & gas industry | 438.4 | +2.8 | -21.4 |
| Pipelines | 219.6 | -8.2 | +6.2 |
| Value-added production in the two countries | | | |
| Refineries | 159.4 | -1.0 | +13.9 |
| Coal dressing | 75.0 | +3.3 | +5.6 |
| Coke and refractory products | 150.1 | +5.7 | +12.3 |
| Ferrous casting | 100.5 | +0.3 | -1.0 |
| Steel and wire products | 246.7 | -4.7 | +4.0 |
| Non-ferrous casting | 93.8 | -4.3 | +2.8 |
| Basic chemicals | 78.0 | +7.7 | +15.4 |
| Wood pulp | 43.2 | +0.2 | +10.8 |
| Cement | 138.6 | -0.3 | +3.6 |
| Bricks | 181.3 | +25.7 | -29.8 |
| Processing companies from the two companies | | | |
| Piping and rolled steel | 277.6 | +2.1 | -0.3 |
| Rare-earth metals | 204.0 | +10.1 | +0.4 |
| Non-ferrous metals processing | 553.7 | -7.2 | +1.7 |
| Petrochemistry | 296.2 | -3.5 | +8.6 |
| Rubber and tyres | 552.7 | -15.3 | +9.2 |
| Fertiliser | 76.9 | +5.8 | +67.9 |
| Lacquer and paints | 246.9 | +2.9 | +7.2 |
| Chemicals | 122.3 | +3.2 | -4.0 |
| Pharmaceuticals | 332.4 | +2.5 | -2.7 |
| Plastics articles | 813.6 | +11.7 | -5.2 |

Table 13.9.
Ecological efficiency of production (average = 100%) and its dynamics in businesses engaging in different types of activity

| | Ecological efficiency (%) | Dynamics in eight years (+/- % per year) | Change of dynamics in 2008 (+/- %) |
|---|---------------------------------|--|--|
| Instrument-making | 469.4 | +5.1 | -4.8 |
| Aircraft | 1114.9 | -10.1 | +7.5 |
| Cars | 780.1 | +1.3 | -11.1 |
| Tractors | 535.8 | -0.3 | -9.2 |
| Vessels | 1146.6 | -9.8 | -26.7 |
| Machine tools and special equipment | 258.9 | +3.3 | -2.4 |
| Heavy equipment | 695.2 | -4.7 | -4.5 |
| Railway engineering | 506.1 | +7.0 | -10.8 |
| Wood working | 16.1 | +4.9 | +5.6 |
| Paper and cardboard | 169.6 | +4.4 | +5.1 |
| Plywood | 234.8 | -7.9 | +18.6 |
| Grain storage | 471.4 | +0.01 | -2.8 |
| Sugar | 86.8 | +1.0 | -3.0 |
| Milk | 115.9 | +20.0 | -9.3 |
| Meat | 143.4 | -15.1 | +7.8 |
| Alcohol | 249.3 | -5.0 | +10.9 |
| Beer and beverages | 198.6 | +6.8 | -6.6 |
| Bakery | 894.1 | -4.8 | +6.0 |
| Tobacco | 4098.9 | -6.8 | +5.5 |
| Finishing materials | 134.6 | -0.5 | -23.6 |
| Glass and ceramics | 175.9 | -0.8 | +18.1 |
| Textile | 788.7 | -15.6 | -19.1 |
| Concrete goods | 267.2 | -1.3 | -1.0 |
| Infrastructure companies from the two countries | | | |
| Power grids | 593.7 | -0.2 | 1.8 |
| Heat networks | 119.8 | -1.0 | -3.1 |
| Roads | 96.2 | +13.8 | -15.5 |
| Construction in the electric power sector | 188.17 | -45.3 | -6.3 |
| Civil construction | 262.8 | +8.2 | -21.3 |
| Air transport | 138.0 | -8.3 | +13.2 |
| Motor transport | 149.2 | +1.7 | +7.1 |
| Railway transport | 90.7 | -1.8 | +6.4 |
| Water transport | 285.4 | -14.6 | +16.7 |
| Fuel supply | 467.4 | -2.3 | +1.0 |
| Water treatment | 49.3 | -5.5 | +6.0 |
| Waste removal | 83.6 | -1.1 | +4.3 |
| Sewage treatment | 29.4 | +0.8 | -3.9 |
| Housing | 47.4 | +7.8 | +8.5 |
| Office premises | 5355.4 | +0.3 | +6.6 |
| Printing trade | 1126.0 | -1.4 | -10.4 |
| Telecommunications | 1367.1 | -3.2 | +6.1 |

| | Technology efficiency (%) | Dynamics in eight years (+/- % per year) | Change of dynamics in 2008 (+/- %) |
|---|---------------------------|--|------------------------------------|
| Power generation companies from the two countries | | | |
| State district power plants (GRES) | 150.0 | -2.7 | +2.9 |
| Thermal power plants (TPP) | 285.3 | +0.3 | +1.9 |
| Hydroelectric power plants (HEPP) | 6.0 | -0.6 | -2.1 |
| Nuclear power plants (NPP) | 41.2 | +3.3 | -5.8 |
| Regional grid companies (RGC) | 126.6 | -5.3 | +6.7 |
| Extractive companies from the two countries | | | |
| Oil | 51.5 | -3.3 | +5.0 |
| Drilling | 45.6 | +6.5 | -8.5 |
| Gas | 19.8 | -2.0 | -16.5 |
| Coal mines | 37.7 | -3.6 | +13.0 |
| Open-pits coal mines | 17.4 | +9.1 | -15.1 |
| Ferrous metal ores | 31.4 | -1.6 | -0.4 |
| Non-ferrous metal ores | 36.3 | -6.4 | +5.4 |
| Gold | 1.9 | -11.2 | +4.2 |
| Chemical raw materials | 66.1 | -1.7 | -4.6 |
| Wood | 65.2 | -15.7 | -30.6 |
| Limestone and ballast stone | 44.9 | -0.9 | +10.1 |
| Construction in the oil & gas industry | 87.1 | +4.9 | -18.8 |
| Pipelines | 39.7 | -9.1 | +9.5 |
| Value-added production in the two countries | | | |
| Refineries | 175.4 | +2.3 | +7.3 |
| Coal dressing | 22.6 | -1.8 | -0.4 |
| Coke and refractory products | 153.5 | +3.3 | +7.8 |
| Ferrous casting | 126.2 | +0.4 | -2.8 |
| Steel and wire products | 71.9 | -6.2 | +6.1 |
| Non-ferrous casting | 55.1 | -4.7 | +5.1 |
| Basic chemicals | 164.3 | +1.9 | +8.8 |
| Wood pulp | 81.3 | -4.7 | +6.2 |
| Cement | 151.3 | -1.7 | +11.1 |
| Bricks | 16.7 | +34.8 | -29.1 |
| Processing companies from the two companies | | | |
| Piping and rolled steel | 460.4 | +1.2 | -2.1 |
| Rare-earth metals | 108.4 | +2.2 | +6.1 |
| Non-ferrous metals processing | 140.2 | -8.8 | +8.5 |
| Petrochemistry | 320.4 | -6.5 | +8.4 |
| Rubber and tyres | 190.2 | -2.6 | -6.8 |
| Fertiliser | 116.3 | +3.6 | +13.7 |
| Lacquer and paints | 64.6 | -0.8 | +4.8 |
| Chemicals | 41.1 | +0.7 | +7.3 |
| Pharmaceuticals | 106.7 | +2.8 | -10.2 |
| Plastics articles | 151.3 | -1.8 | +0.9 |

Table 13.10.
Technology efficiency of production (average = 100%) and its dynamics in businesses engaging in different types of activity

| | Technology efficiency (%) | Dynamics in eight years (+/- % per year) | Change of dynamics in 2008 (+/- %) |
|---|---------------------------------|--|--|
| Instrument-making | 75.5 | -1.0 | -2.7 |
| Aircraft | 208.4 | -10.0 | +12.9 |
| Cars | 143.1 | -4.3 | -2.8 |
| Tractors | 136.5 | -7.0 | -2.2 |
| Vessels | 170.2 | -12.3 | -29.3 |
| Machine tools and special equipment | 77.2 | +0.1 | -0.2 |
| Heavy equipment | 132.4 | -7.1 | +4.1 |
| Railway engineering | 196.2 | +1.1 | -9.0 |
| Wood working | 56.8 | -9.1 | +15.4 |
| Paper and cardboard | 149.8 | +0.6 | +0.2 |
| Plywood | 815.3 | -10.2 | +8.1 |
| Grain storage | 85.9 | -2.0 | +6.3 |
| Sugar | 105.7 | -2.0 | -5.9 |
| Milk | 49.2 | -3.8 | +8.0 |
| Meat | 10.6 | -7.4 | +1.8 |
| Alcohol | 71.1 | -4.1 | +8.0 |
| Beer and beverages | 45.4 | -0.4 | -1.0 |
| Bakery | 98.3 | -6.4 | +11.8 |
| Tobacco | 159.2 | -3.8 | +12.6 |
| Finishing materials | 34.9 | -7.6 | +0.4 |
| Glass and ceramics | 177.4 | -4.7 | +22.0 |
| Textile | 214.5 | -13.3 | -23.7 |
| Concrete goods | 173.7 | -7.0 | +11.6 |
| Infrastructure companies from the two countries | | | |
| Power grids | 110.8 | -5.0 | +4.6 |
| Heat networks | 124.6 | +1.9 | +6.5 |
| Roads | 11.1 | +5.8 | -11.6 |
| Construction in the electric power sector | 154.5 | -12.1 | -16.7 |
| Civil construction | 141.8 | -0.4 | -7.5 |
| Air transport | 33.8 | -7.0 | +18.6 |
| Motor transport | 17.9 | -0.8 | +1.6 |
| Railway transport | 46.0 | -2.7 | +4.7 |
| Water transport | 26.4 | +9.5 | +2.1 |
| Fuel supply | 18.7 | -5.2 | -0.4 |
| Water treatment | 9.9 | -4.5 | +10.1 |
| Waste removal | 23.4 | +3.3 | -5.9 |
| Sewage treatment | 8.0 | -4.4 | -1.6 |
| Housing | 67.6 | +4.0 | +26.7 |
| Office premises | 2563.7 | +2.1 | +6.0 |
| Printing trade | 193.5 | -5.0 | -22.2 |
| Telecommunications | 13797.2 | -0.5 | +2.5 |

Figure 13.23.
Technology efficiency
dynamics of basic
processing

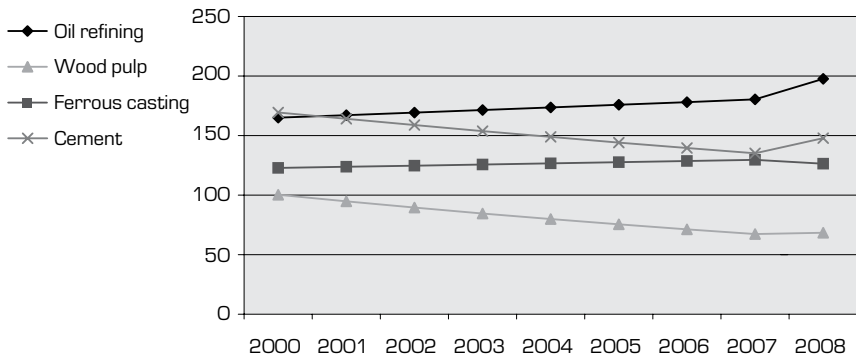
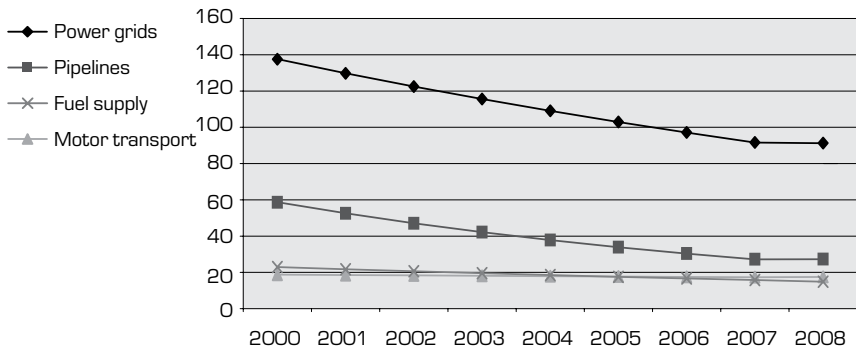


Figure 13.24.
Technology efficiency
dynamics in
infrastructure



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