

Regional Trade and Trade Integration in the CIS¹

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Having emerged from the disintegration of the Soviet Union, the former Soviet republics are once again moving towards integration. This trend is demonstrated with a number of integration initiatives in the post-Soviet states: the Commonwealth of Independent States (CIS), established in 1991; GUJAM² (1997); the Eurasian Economic Community (EurAsEC) (2000); the Central Asia Economic Cooperation Programme (CAREC) (2002); and the Common Economic Space (CES) (2003). However, of all these projects, only the CIS has been notified a free economic zone (1994) in the list of regional trade agreements (RTA) maintained under the World Trade Organisation's General Agreement on Trade and Tariffs (GATT). The list also includes bilateral agreements between the former Soviet republics³.

These multi-lateral and bilateral agreements have helped partners to break down some of the trade barriers between them; however, certain major obstacles and disagreements continue to exist with regard to integration projects. According to a UN Economic Commission for Europe (UNECE) paper entitled *Building Trade Partnership in the CIS Region*, "this has led to scepticism as to the participants' genuine commitment to regional integration and the debate continues on what form and direction this could take" (ECE, 2005b: 1).

At the end of 2006, there were 367 RTAs in existence worldwide. The rapid growth of regional economic integration in the world began in the 1990s. In the last decade, 243 new ones were notified, compared with 124 in 1948-1995 (Fiorentino, Verdeja and Toqueboeuf, 2007: 3). Economic integration has the potential to improve the economic efficiency and welfare of countries which elect to create regional blocs, but not all these countries succeed in realising this potential fully: only 214 RTAs are actually effective.

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² According to the names of the countries: Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova.

³ Armenia-Russia, Kyrgyzstan-Russia (1993), Georgia-Russia (1994), Kyrgyzstan-Armenia, Kyrgyzstan-Kazakhstan, Armenia-Moldova (1995), Georgia-Ukraine, Armenia-Turkmenistan, Georgia-Azerbaijan, Kyrgyzstan-Moldova, Armenia-Ukraine (1996), Kyrgyzstan-Ukraine, Kyrgyzstan-Uzbekistan (1998), Georgia-Kazakhstan (1999), Georgia-Turkmenistan (2000).

The progress of regional integration is influenced by political and economic forces. The aim of this article is to provide an insight into the economic characteristics of regional trade in the CIS, to highlight changes in the geographic and commodity composition of foreign trade engaged in by these countries and to identify trends in the trade integration of the CIS⁴.

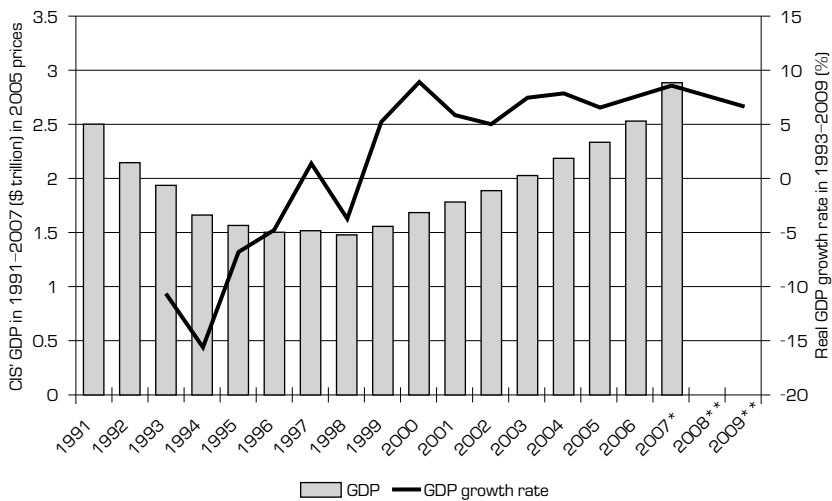
Although the relationships between the former Soviet republics are complex and varied, the international community recognises the CIS as an organisation of nations which takes its place in the global economy alongside regional blocs such as the European Union (EU), the North American Free Trade Agreement, the Common Market of the South (MERCOSUR), the Association of South East Asian Nations (ASEAN), and others.

The CIS has overcome its severe transformational crisis of the 1990s. A steady growth of GDP has been recorded since 1999 (see Figure 6.1). At present, the CIS' GDP, compared by purchasing power parity (PPP), exceeds the pre-crisis level of 1991 (see Figure 6.1). At 2006 exchange rates and prices, it exceeds the GDP of the former Soviet Union, which was \$928,352 million in 1980 and \$776,920 million in 1990 (UNCTAD, 2007a: 398) (see Figure 6.1).

Figure 6.1.
The CIS' GDP in
1991–2009

Source:
UNECE (2008),
UN (2008b: 142),
UN (1999: 51), UN
(2008a), World
Bank (2008a).

Note:
* calculation based
on World Bank data;
** UN forecast.



Socioeconomic indicators also show positive changes: unemployment rates fell and *per capita* income increased in practically all CIS countries (see Table 6.1). In 2006, average *per capita* income in the CIS (PPP at 2005 prices), was \$9122, compared with \$8871 in 1991 (UNECE, 2008). However, after a period of systemic economic crisis, not all the republics have reached the

⁴ Sale of services is not discussed in this paper.

per capita income levels of the former Soviet Union, which were \$3498 in 1980 and \$2685 in 1990 (at current exchange rates and prices) (UNCTAD, 2007a: 399).

The socioeconomic picture varies across the CIS. According to World Bank country classification, Armenia, Azerbaijan, Belarus, Georgia, Moldova, Turkmenistan and Ukraine are lower middle income countries. Three countries – Kyrgyzstan, Tajikistan and Uzbekistan – remain in the low-income group of countries. The socioeconomic situation is somewhat better in Russia and Kazakhstan. These two countries have considerably improved their position in the world economy in the last two or three years, moving into the upper middle income group (World Bank, 2007: 333).

The most notable feature of the CIS economy is the presence of a major player whose national economy dwarfs those of its partners: Russia accounts for 77-78% of the Commonwealth's GDP. This explains the heavy influence Russia exerts on the CIS economy, and particularly on foreign trade.

Table 6. 1.
Macroeconomic indicators of CIS countries

Source:
UNCTAD (2007a: 398-399, 408-409), UN (2007: 135), World Bank (2008a), UN (2009: 139)

Note:
* calculation based on World Bank data;
** 2000 data.

| | GDP (\$ million) | | Population (thousand people) | Per capita GDP (\$) | | GDP growth rate (%) | Per capita GDP growth rate (%) | Unemployment rate (%) | |
|--------------|------------------|-----------|------------------------------|---------------------|------|---------------------|--------------------------------|-----------------------|-----------|
| | 1995 | 2007 | | 2007 | 1995 | | | 2007* | 1995-2005 |
| Armenia | 1287 | 9177 | 3001 | 399 | 3058 | 8.5 | 9.1 | 11.0 | 6.6 |
| Azerbaijan | 3079 | 31248 | 8571 | 395 | 3646 | 10.7 | 9.9 | 1.3 | 1.2 |
| Belarus | 13845 | 44771 | 9702 | 1349 | 4615 | 6.6 | 7.1 | 2.8 | 1.0 |
| Georgia | 2721 | 10176 | 4396 | 541 | 2315 | 5.7 | 7.0 | 7.6 | 13.3 |
| Kazakhstan | 20547 | 103,840 | 15481 | 1291 | 6708 | 6.8 | 7.4 | 12.8** | 7.3 |
| Kyrgyzstan | 1492 | 3505 | 5243 | 325 | 669 | 4.6 | 3.2 | 3.1 | 3.2 |
| Moldova | 1766 | 4396 | 3792 | 403 | 1159 | 2.4 | 3.7 | 8.5** | 5.1 |
| Russia | 399,166 | 1,291,011 | 141,636 | 2677 | 9115 | 4.4 | 4.8 | 10.8 | 6.1 |
| Tajikistan | 1230 | 3712 | 6740 | 213 | 551 | 6.3 | 5.0 | 2.8 | 2.5 |
| Turkmenistan | 2188 | 12933 | 4963 | 522 | 2606 | 4.6 | 3.2 | - | - |
| Uzbekistan | 13465 | 22308 | 26868 | 588 | 830 | 4.5 | 3.0 | 0.3 | 0.2 |
| Ukraine | 48608 | 140,484 | 46383 | 953 | 3029 | 3.8 | 4.7 | 11.6** | 6.4 |

The collapse in the former Soviet republics' foreign trade in the early 1990s was followed by steady growth of both imports and exports. This positive dynamic allowed the CIS to increase its share in world commodity exports and imports from 1.5% to 3.6% and from 1.2% to 2.3% respectively in 1993-2006 (WTO, 2007: 10-11). By comparison, in 1983, the former Soviet Union's share of world exports and imports was 5% and 4.3% respectively (WTO, 2007: 10-11). It had been expected that by 2009, the CIS' foreign

trade including merchandise exports and imports, would total \$1.4 trillion, thus accounting for 4.2 % of the world's trade in value terms (UN, 2008a). However, the global crisis has necessitated an adjustment to this forecast: in 2009, the CIS' share in world exports may drop by 4.2%, whilst global exports may fall by 4.4% (UN, 2009: 37).

The CIS as a regional bloc has a high degree of variation and imbalance in its trade patterns, which can be explained by the inclusion of a member country the size of whose economy vastly exceeds that of all the other members. As a rule, the share in regional trade of large economies is relatively small. Trade with other CIS countries accounts for only 14-15% of Russia's total foreign trade revenues, whereas in countries such as Belarus, Georgia, Moldova and Kyrgyzstan the ratio may be about 40% (CIS Executive Board, 2008). This situation is typical of other RTAs which include a large economy, for example, NAFTA: regional trade accounts for about 30% of total foreign trade in the United States, compared with over 70% in Canada and Mexico.

Intra-regional trade is more balanced in blocs which have no distinct leader, for example, the EU.

The uniformity of trade in a bloc is measured by comparing two indices, namely the total share of intra-regional trade in the bloc's total foreign trade, and its average share, which is calculated as an arithmetic mean of the foreign trade of the member states. If the first index exceeds the second one, this suggests that the trading bloc includes economies of different sizes. Again, this may be explained by the presence of a large member. In 2007, the average share of intra-regional trade in the CIS' total foreign trade was 36%, whereas the total share was 24%.

The CIS has chosen to integrate itself into the global economy. Member states' economies have been liberalised and as a result are opened up to world trade. The most commonly used indicator of an economy's integration into international trade and the global economy is the ratio of the country's (or region's) foreign trade to its GDP. All CIS countries have seen a considerable increase in the openness indicator (see Figure 6.2). At present, it averages 50% across the CIS, i.e., in line with the average world index and even exceeding that of some regional blocs (see Table 6.2).

During the period of economic recovery, the rapid growth of foreign trade in CIS member states was accompanied by an increase in intra-regional trade. Merchandise trade in the bloc increased from \$60 billion in 1995 to \$192 billion in 2007 (CIS Executive Board, 2008). However, although volumes increased, there was a steady relative decrease, i.e., a decline in intra-regional trade's share of total CIS foreign trade. In 1990, merchandise trade between the former Soviet republics accounted for 77% of all trade, falling to 34% in 1994 (UNCTAD, 2007b: 101) and 24% in 2007. This may be the result

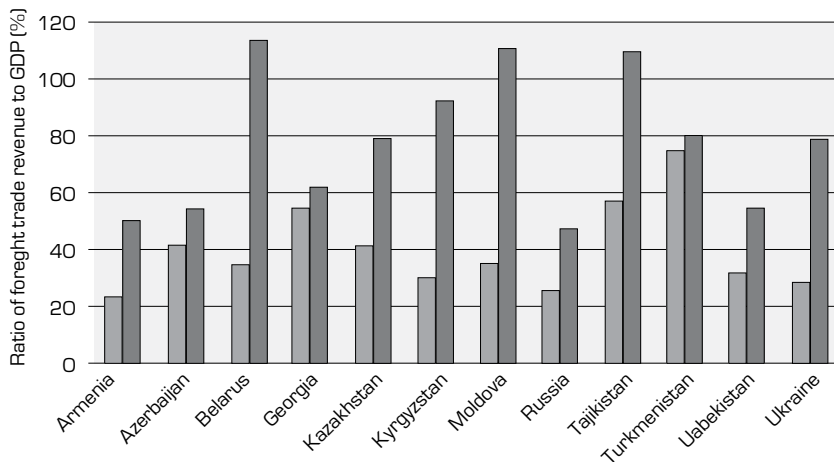


Figure 6.2. Openness of CIS economies in 1994 and 2006

Source: calculation based on data from the UN ECE (2005a: 104–105), World Bank (1996: 210–211, 216–217), World Bank (1997: 218–219) and World Bank (2007: 340–343).

of changes in the geographic structure of the foreign trade of CIS member countries. Many of them are playing a more active role in international trade and establish trading relations outside the CIS. Regional imports remain important for most of them (see Figure 6.3), whereas markets beyond the CIS are taking a greater share of exports. The EU is becoming the main trading partner for most CIS countries, accounting for a major share of exports from Armenia (45%), Azerbaijan (57%), Belarus (46%), Kazakhstan (45%), Moldova (51%), Russia (59%) and Ukraine (32%) (WTO, 2008b).

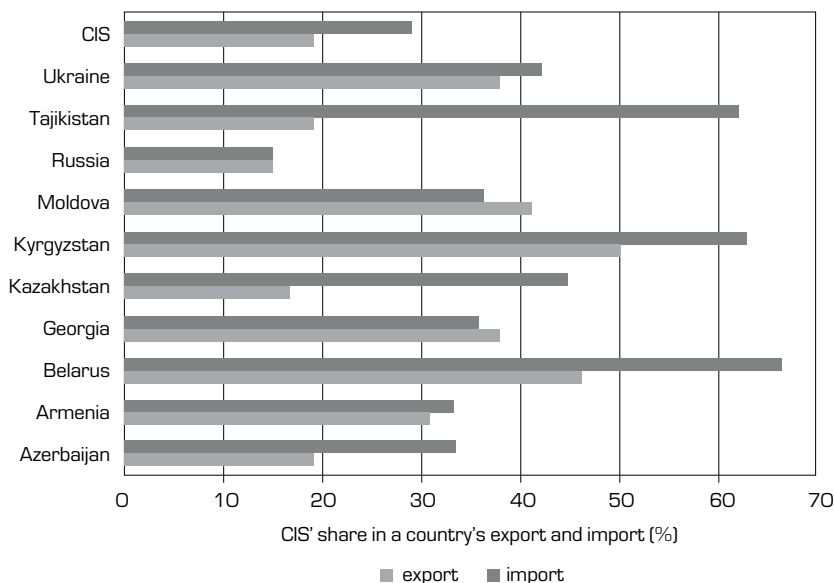


Figure 6.3. Trade between CIS countries* in 2007

Source: calculation based on CIS Executive Board data (2008).

Note: * no data on Turkmenistan and Uzbekistan available.

The expansion and diversification of CIS countries' export markets is reflected in changes in the export market concentration index, which is calculated as:

$$EMC = 100 * \left[\sqrt{\sum_j \left(\frac{X_{ij}}{X_i} \right)^2} \right]$$

where:

EMCij = export market concentration index;

Xij = exports of country 'i' to country 'j';

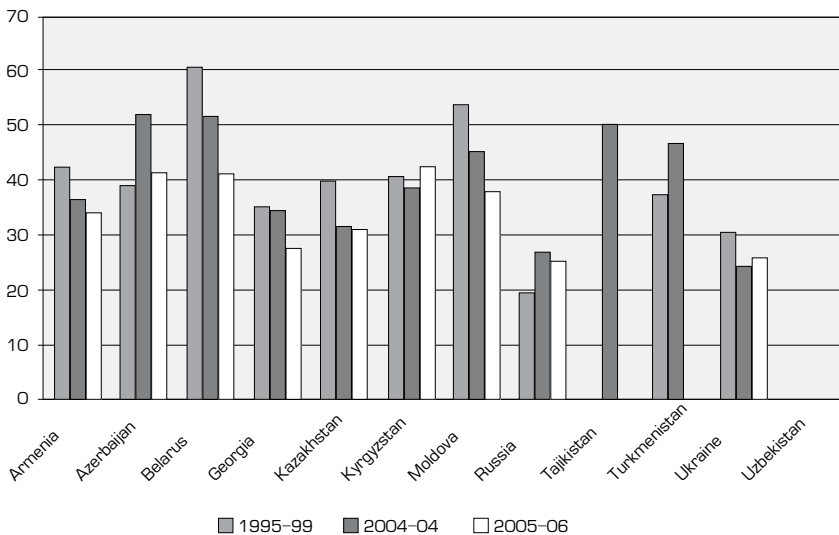
Xi = total exports of country 'i'.

The value of this index can vary from 0 to 100 – the maximum indicating that only one trading partner exists. This index is influenced by cyclical fluctuations and changes of relative prices on international markets. Therefore, in order to understand the dynamics of this index, average values for a given period are normally used. During the period of economic reform, export market concentration decreased considerably in most CIS countries except Azerbaijan, Kyrgyzstan, Russia and Uzbekistan (see Figure 6.4).

Figure 6.4.
CIS export market
concentration in
1995–2006*

Source:
World Bank (2008b)

Note: data on
Tajikistan and
Turkmenistan
incomplete; no
data on Uzbekistan
available.



Intra-regional trade as a share of total foreign trade is an important indicator of trade integration on a regional level, but not the only one. Another quantitative indicator is the regional trade intensity index, i.e., the ratio of intra-regional trade's share of the region's total foreign trade to the region's share of total world trade (UNCTAD, 2007b: 93). This index is calculated as:

$$RTI = \frac{X_A + M_A}{X_A + M_A} \bigg/ \frac{X_A + M_A}{X_W + M_W - (X_A + M_A)}$$

where:

RTI = regional trade intensity index;

X_{AA} and M_{AA} = intra-regional exports and imports of region A;

X_A and M_A = total exports and imports of region A;

X_W and M_W = world export and import.

The value of this index is 1 where the countries of a regional grouping trade with each other at the same intensity as with other world markets. If the threshold value is exceeded, this indicates that some regional preferences exist within the geographic structure of foreign trade. In 2007, trade between CIS countries accounted for 24% of the CIS' total foreign trade, and the CIS' share in the world trade was 3.6%. Although it has decreased to some extent, intra-regional trade in the CIS is of a high intensity comparable to that of other regional blocs (see Table 6.2).

Table 6. 2.

Trade integration of regional blocs in 2006

Source: calculated using data from the CIS Executive Board (2008), WTO (2007: 24–25, 212–213), UNCTAD (2007a: 48–49), WTO (2008a) and Eurostat (2008: 160, 188).

| | CIS* | ASEAN | EU | MERCOSUR | NAFTA |
|--|------|-------|------|----------|-------|
| Share of total foreign trade to GDP (%) | 50 | 139 | 63 | 22 | 28 |
| Share of total foreign trade in the world trade** (%) | 3.6 | 6.5 | 51.9 | 1.4 | 21.5 |
| Share of intra-regional trade in total foreign trade (%) | 23.1 | 24.2 | 58.2 | 15.8 | 41.6 |
| Regional trade intensity index | 6.4 | 3.7 | 1.12 | 11.2 | 1.9 |

Note:

* 2007 data;

** excluding total foreign trade

The nature of the goods being sold abroad by CIS countries is also changing. The range of products manufactured in the CIS which can compete on world markets is shrinking. This is reflected in the growth of the export product concentration index. Based on the Herfindahl-Hirschmann index, the following index can be calculated:

$$EPC = 100 * \left[\frac{\sqrt{\sum_i \left(\frac{X_i}{X_j}\right)^2} - \sqrt{\frac{1}{n}}}{1 - \sqrt{\frac{1}{n}}} \right]$$

where:

EPC = export product concentration index;

X_{ij} = export of product 'i' by country 'j';

X_j = total exports of country 'j';

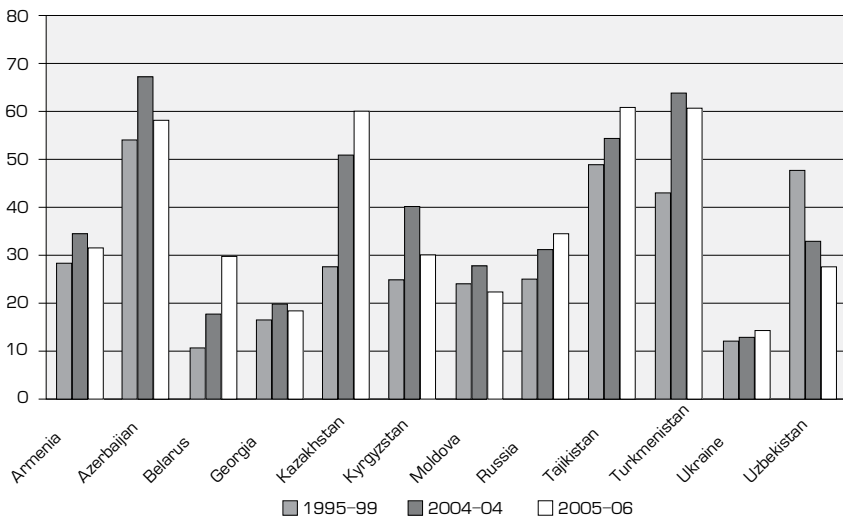
n = total number of exports, which may not exceed 261 according to three-digit Standard International Trade Classification (SITC) system. For any one country, the goods taken into account are those which account for at least 0.3% of its total exports (not less than \$100,000).

A maximum value of 100 indicates that a country exports only one product. Like the export market concentration index, this index is affected by cyclical fluctuations; therefore, calculations are based on average values for several years.

During the period of economic reform, export product concentration increased considerably in all the CIS countries except Moldova and Uzbekistan (see Figure 6.5). The concentration is especially strong in Azerbaijan, Kazakhstan, Tajikistan and Turkmenistan.

Figure 6.5.
CIS export product concentration in 1995–2006

Source:
World Bank
(2008b).



Another unfavourable trend is that CIS exports are dominated by raw materials and low-value-added products. The major exports for CIS countries are:

- Armenia: ferroalloys (31%), diamonds (27%), alcohol (10%), copper (6%) and jewellery (4%);
- Azerbaijan: oil (82%), nuts (2%), fruit (1%), cotton (1%) and polyethylene (1%);
- Belarus: fertiliser (19%), tractors (5%), wood (4%), lorries (3%) and iron bars (3%);

- Georgia: scrap iron (15%), oil (11%), vine (8%), soft drinks (7%) and ferroalloys (6%);
- Kazakhstan: oil (56%), copper (6%), ferroalloys (5%), coal (2%) and iron ore (2%);
- Kyrgyzstan: iron scrap (11%), cotton (9%), glass (7%), electric power (7%), non-ferrous metals (4%);
- Moldova: vine (20%), iron bars (13%), iron wire (8%), shoes (4%) and alcohol (3%);
- Russia: oil (44%), gas (6%), aluminium (3%), coal (3%) and steel ware (2%);
- Tajikistan: aluminium (64%), cotton (19%), fruit (3%), men's cloths (2%) and cotton fabric (2%);
- Turkmenistan: gas (84%), oil (5%), cotton (2%), cotton yarn (2%) and polypropylene (1%);
- Uzbekistan: cotton (20%), gas (16%), cars (9%), copper (9%) and gold (6%);
- Ukraine: steel blanks (10%), steel-rolled stock (5%), sheet steel (4%), ferroalloys (3%) and fertiliser (3%) (World Bank, 2008b).

The product composition of the CIS' foreign trade is uneven: exports are dominated by raw materials and imports by finished goods (see Figure 6.6). The structure of exports, of which fuel accounts for about 56%, differs significantly from global trade structure, where both exports and imports are dominated by manufactures (70%), with fuel accounting for 15%. This indicates that fuel is the CIS' niche in world markets, and that the CIS has a comparative advantage in this niche (according to the Balassa approach) (Gurova I.P., 2008: 25).

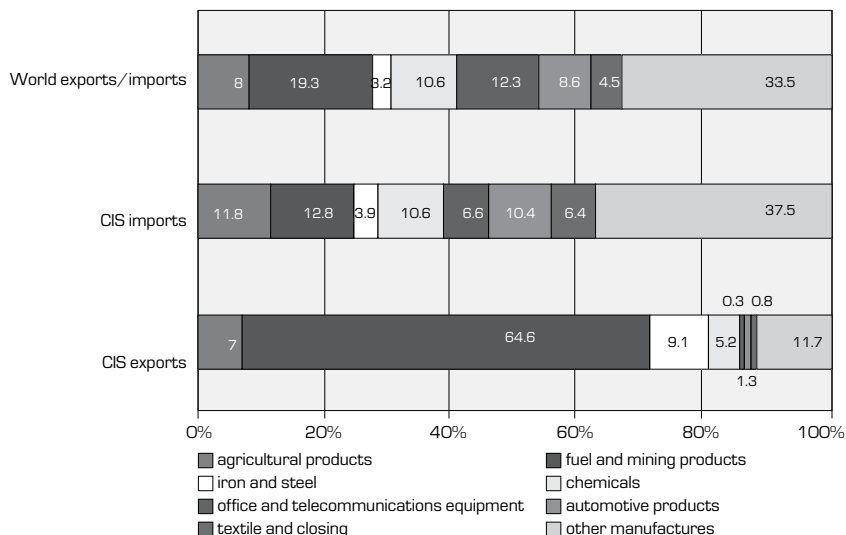


Figure 6.6. World and CIS trade product structure in 2006

Source: WTO (2007: 44-47).

CIS countries can be divided in two groups: net oil exporters (Azerbaijan, Kazakhstan, Russia, Turkmenistan and Uzbekistan) and net oil importers (Armenia, Belarus, Georgia, Kyrgyzstan, Moldova, Tajikistan and Ukraine) (UN, 2008b:142). The first group has a stable positive trade balance, whereas most net oil importers have a persistent trade deficit (see Figure 6.7). On the whole, the CIS has a stable export surplus, which totalled \$141.7 billion in 2007, or 43% of total CIS imports (CIS Executive Board, 2008). This creates favourable conditions for advance of regional integration and, in particular, for establishing a regional reserve currency zone.

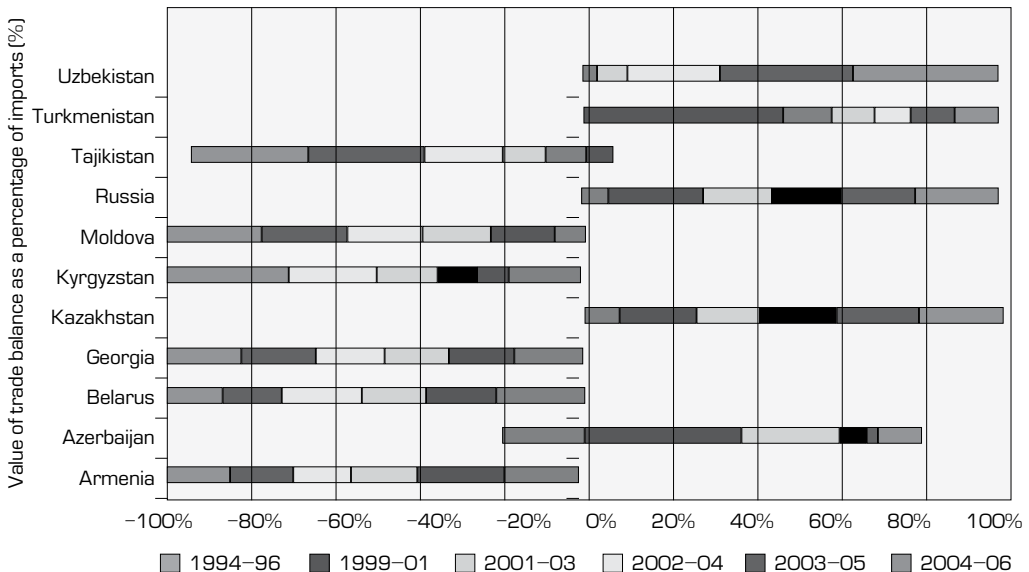


Figure 6.7.
CIS trade balance
in 1994-2006

Source:
UNCTAD
(2007a:45).

Prior to the global financial crisis, the CIS had emerged from the economic recession caused by economic reforms and had managed to restore its main macroeconomic indicators (GDD and *per capita* GDP) and regain its position in world trade. Following the reforms, the CIS opened up to world markets, and CIS countries were integrated into world trade. They expanded their trading relationships outside the Commonwealth, diversifying the geographic structure of their foreign trade. The relative decrease in intra-regional trade has not resulted in any decrease in trade volumes. Intra-regional trade remains strong, which has helped the CIS establish itself as a trading bloc of nations aiming towards regional and global integration. However, this bloc has its peculiarities, above all, the differing size of its constituent economies, and the effect that Russia's vast economy has on the macroeconomic and trade indicators of the Commonwealth. During a period of economic recovery, Russia's heavyweight influence is to be welcomed, since it supports a stable

export surplus and strengthens the bloc's position in the global economy. However, in crisis conditions, the slowing down of Russia's economic growth may trigger recession in other CIS countries. Despite the success achieved by the former Soviet republics in regaining their pre-reform economic status, the global crisis has now revealed the key weakness of this trading bloc – its reliance on raw materials for export trade.

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